Bank exposure to coal projects drowning in greenwash

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The development of black coal mines in Australia continues to attract controversy, with divestment campaigns gaining momentum. The role of banks in financing such projects has come under scrutiny.

But to what extent are Australian banks lending to coal mine projects?

When asked about its support for the sector recently, a Commonwealth Bank spokesperson used rhetoric akin to that of a politician, saying:

“CBA’s role is to support the Australian economy.”

The bank provided finance to facilitate 940 kilotonnes of coal extraction during the 2014 financial year.

How can it be in the interests of the Australian economy, not to mention the bank’s long term investors, to fund new development of carbon intensive energy sources with risky futures? At odds with such statements of economic benefits is the tendency of banks to downplay such “investments” and disclose the small percentage make up of emissions intensive energy financing to their total credit exposure.

**Soft approach**

Disclosure by banks on exposure to coal projects tend to be reactive, with bank websites and annual reports revealing very little hard information about their approach to investment in carbon intensive sectors.

Indeed a long standing criticism of the sustainability disclosures of the world’s big banks is that, while they report often quite detailed information on the environmental impact of their operations or their community work, they say little about the social and environmental impact of their lending portfolio. Financing the arts is nice, but a distraction from the main issue. The balance is all wrong and, arguably, deceptive.

Not much has changed and where disclosures exist they lack detail or a convincing commitment. For example, ANZ’s quantified environmental targets relate to its own operations, not its lending practices. Targets concerning its energy consumption and greenhouse gas emissions of its operations and the environmental impact of paper consumed on behalf of its customers are trivial by comparison.

NAB’s ESG Risk Principles involve looking “for opportunities to minimise both the direct and indirect negative environmental risk and impacts from our operations, products and services”. Without data on the environmental impacts of products and services, statements such as these are unconvincing.

Likewise, HSBC’s Energy Sector Policy “adopts a cautious approach to activities which contribute significantly to climate change and which have a long asset life inconsistent with the transition to a low carbon economy” and “will increasingly support only new CFPPs which have lower carbon intensities”. Not really a commitment to addressing what is increasingly seen as a key business risk – climate risk.

In 2013 the RBS Group did report hard facts on its lending to the UK energy and power sectors. Since then its reporting against the Equator Principles shows that in 2014 it was invested in one class A project defined as “Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented”. Further details were not to be found.

**Customers vs investors**

Pressure on the big banks is coming from customers as well as environmental groups. The growth of
sustainable banks demonstrates the shift in society's (and customers’) views on the matter.

Investors in the big banks should be more concerned. While the long term risk to the environment is a key concern, the loss of customers through wishy-washy commitments and lack of information is an immediate concern. Customers and investors are increasingly seeking information about exposure to carbon, for example, details of the emissions produced by power generators to which funding is provided. There is no doubt questions at AGMs will continue to put pressure on banks to increase disclosures on the emissions intensity of their energy lending.

In the meantime, banks seem more focused on setting targets for paper consumption and the carbon emissions of running their offices and branches, than the more important issue of carbon intensity of the projects they lend to.

The inevitable switch to focusing on the financial risk of lending to a challenged sector will be driven by pressure groups, employees and perhaps, most importantly, a new generation of customers.