Progress report and recommendations for financial institutions to adopt coal exit policies aligned with the 1.5°C objective

Introductory note

20 years to exit coal.

The IPCC report on the consequences of a rise in temperatures of 1.5°C has demonstrated that limiting global warming to 1.5°C above preindustrial levels is necessary to mitigate climate change's irreversible consequences and serious impacts on millions of people worldwide. According to scientists, this goal is still achievable, but it requires some fast, profound, and unprecedented changes in all aspects of society.

The failure by states to mitigate emissions over the past ten years has been described by the United Nations Environment Programme (UNEP) as a 'lost decade'. According to UNEP Emissions Gap report 2019, Greenhouse gases (GHG's) should have already reached their peak in 2020 and be reduced by 7.6% per year between 2020 and 2030. According to the 2020 Production Gap report, the world will need to decrease fossil fuel production by roughly 6% per year between 2020 and 2030 to follow a 1.5°C consistent pathway.

Yet, despite these hard constraints, plans for fossil fuel production by 2030 will break Paris commitments, blowing the carbon budget by 50% for a 2°C world and 120% for 1.5°C. The gap is currently widest for coal, whose production would have to decline annually by 11% between 2020 and 2030 to be consistent with a 1.5°C pathway, and is growing fast for oil and gas. Not only does the carbon budget still available make it impossible to push the frontier of fossil fuels further adrift, but achieving the objective of zero greenhouse gas emissions by 2050 requires the immediate programming of gradual and total exit plans from coal, oil and gas.

Regarding coal, different scenarios converge on stressing that all assets must be closed by 2030 in European and OECD countries and by 2040 in the rest of the world.

Financial players must initiate an exit from coal now.

A growing number of private and public institutions have adopted financing, insurance, and investment policies specific to the coal sector to contribute to achieving the above-mentioned goals. Reclaim Finance has identified at least 275 financial institutions worldwide with policies relating to the coal sector.

Best practices consist of balancing exclusion criteria with an engagement process: companies unable or unwilling to meet sector exit targets are excluded from portfolios – this includes among others companies with coal expansion plans. Other companies are already engaged, but their continued inclusion in portfolios and the reception of new financial services depends on the achievement of specific, time-bound targets supporting their gradual exit from the sector. The complementarity of these criteria leads to policies that proactively support coal phase-out to contribute to achieving the Paris Agreement's goals.

Today, and despite the urgency, a still too limited number of actors have adopted such a policy. Our analysis of financial institutions' current strategies, with the help of the Coal Policy Tool, has allowed us to identify only 25 financial institutions worldwide with a solid coal exit policy.

Our recommendations to financial players.

The present note details 7 main steps to take to adopt a coal exit policy:

- The first one relates to the general objective to be attained;
- The next four deal with exclusion criteria to be adopted immediately;
- The sixth relates to the main requests to be made to companies active in the coal sector and remaining in portfolio;
- The last one deals with the policy's scope of application and the general approach to be followed.

Names of financial institutions having adopted satisfactory criteria are provided as examples in some of the recommendations. However, the quality of a policy does not only depend solely on the criteria it is composed of. Its scope of application and how it is concretely implemented significantly influence its impact and, therefore, its quality. Thus, the name of each financial institution mentioned in the note should be taken with caution. For an exhaustive analysis of the quality of the policies adopted by other financial institutions, we recommend that you refer to the Coal Policy Tool.

This briefing covers "all business lines" of financial institutions providing financial services, including:

- Financial support at the project level: project finance or any kind of dedicated financing or underwriting, advisory services.
- Financial support at the corporate level: general corporate financing through lending or the issuance of new shares or bonds for a company, advisory services, or any kind of insurance provided to coal companies.
- Investments: the buying and selling of shares and bonds on the primary and secondary markets.

1. Commit to fully exit coal

Meeting the Paris Climate Agreement's goals requires planning for a full coal phase-out over the next few years. According to recent research conducted by Climate Analytics based on the latest IPCC report, all coal plants must be closed by 2030 in European and OECD countries, with the deadline extending to 2040 at the global level. As UN Secretary-General Antonio Guterres summarized, "The single most effective step we can take to limit temperature rise is phasing out coal.I call on private finance, from commercial banks to asset managers, to stop financing coal power".

A growing number of financial institutions have recognized the need to exit the coal sector. This is reflected in the emergence of increasingly sophisticated coal policies and international financial institutions' positions favouring the closure of existing infrastructure.[1]

- Throughout the world, 65 financial institutions have committed to fully exit the coal sector (mining and power), in Europe and OECD countries by 2030 and by 2040 for the rest of the world, or earlier. This is the case of Crédit Agricole / Amundi, BNP Paribas, Société Générale, and AXA, among others.
- Some financial institutions committed to a faster exit from the coal sector, such as Crédit Mutuel, NN, and Nest, which have adopted a 2030 deadline, or UniCredit and ING, which adopted 2028 and 2025 deadlines, respectively.
- Some financial institutions explain how they intend to achieve their zero-coal objective in detail, like Allianz. Many, including Crédit Mutuel, have also committed to lowering their exclusion thresholds regularly. As a result, companies remaining in the portfolio are given a strong signal through long-term objectives and are encouraged to gradually reduce their coal activities to continue to benefit from new financial services.
- Other actors such as KLP or AIA have adopted restrictive exclusion criteria that imply an almost immediate coal mining and coal power phase-out.

Recommendations:

- Commit to reducing to zero the exposure to coal of all business lines at the very latest by 2030 in European and OECD countries, and by 2040 in the rest of the world.
- Adopt a coal phase-out strategy that articulates a robust engagement process with immediate exclusion criteria. Commit to strengthening the exclusion criteria and thresholds regularly to end all support to companies active in the coal sector by the above-mentioned dates.

These criteria are detailed below.

[1] See, for example, the "2019 Global Investor Statement to Governments on Climate Change."

2. No longer support coal projects

From the former head of the UNFCCC, Christiana Figueres, warning that 'there is no room for new coal' to Antonio Guterres's call to decision-makers to make 2020 the year in which the expansion of the coal industry would have come to a halt, there have been countless reports by the United Nations, the IPCC, and the IEA on the incompatibility of any new coal power plant with the 1.5 or even 2°C targets. However, the global fleet of coal power plants continues to grow. Since the signing of the Paris Agreement, the world's installed coal production capacity has increased by 157 GW, an amount equal to the operating coal plant fleets of Germany, Russia, and Japan and Turkey combined.

On top of its impact on the climate, coal pollution is responsible for over 800,000 premature deaths per year globally and many millions more serious and minor illnesses, whilst many studies show that coal is not necessary for countries' development. Further, a recent report from Carbon Tracker revealed that coal developers risk wasting more than $600 billion because it is already cheaper to generate electricity from new renewables than from new coal plants in all major markets.

The implications of the UN Paris Climate Agreement for the coal sector are clear. Considering existing coal assets will have to be phased out over the next few years, in most cases before the end of their lifespan, it is absurd to keep building new ones.

This is why financial institutions must stop any kind of financial support to new coal mines, new coal plants or new coal infrastructure worldwide.

Banks should also refrain from providing advisory services and acquisition financing to companies planning to buy existing coal assets, sometimes to delay their closure as much as possible to optimize their investments. Nor should they finance the retrofit of existing coal plants in operation that have the same objective.

Some financial players have begun to stop providing such financial support:

- 55 banks and insurers worldwide have adopted policies ending their direct support for new coal mines and new coal plants.
- 14 of these financial players have also ceased to provide financial support to all coal infrastructures projects, including AXA, Allianz, BNP Paribas, Crédit Agricole, Société Générale, Natixis and UniCredit.
- AXA and BNP Paribas explicitly exclude any financial support to the retrofit of existing coal plants.
- Natixis has also explicitly ruled out any acquisition financing for existing coal mines and coal plants.

Recommendations:

- Cease direct project and dedicated financing, insurance coverage, and other specialized financial support like advisory mandates and direct investments to any type of coal-related projects.
- This should apply to any new or renewal of any type of support for coal projects, including the retrofit of existing coal plants.
- Commit to exclude advisory services and acquisition financing for the buying/selling of existing coal assets.

3. No longer support companies with coal expansion plans

Building new fossil fuel projects, starting with new coal production or power production projects, is incompatible with the 1.5°C target. Actually, the majority of coal reserves, including those already in operation, must remain in the ground to limit warming below the 2°C threshold.

A growing number of financial institutions acknowledge that companies with coal expansion plans are not interested in transitioning out of coal and consequently exclude such companies from their financial services.

This is particularly relevant as financial services to coal projects only cover a small part of all the financing flows fuelling the coal sector. Since more and more banks and insurers refuse to directly support coal projects, coal companies rely increasingly on general corporate financing, such as general corporate loans or the issuance of shares and especially bonds, to develop new coal assets.

Financial institutions must cease all financial services to all companies with new investment plans in the coal sector (mining, electricity, infrastructure, and services) to contribute to stopping its expansion. This must first cover companies that plan to be involved in the construction of new projects, but it must also cover companies that purchase existing infrastructures without a commitment to close them by some pre-established date - always by 2030 in European and OECD countries and 2040 elsewhere[2]. Companies that extend the lives of existing coal power plants following modernization or sell services and equipment supporting the sector's expansion should also be excluded.

- 73 financial players - including Allianz, ATP, Natixis, and Zurich - exclude some companies explicitly based on their coal development plans.
- 36 players have ended financial support to companies planning to build any new coal assets (mines, plants, and infrastructures). BNP Paribas, Société Générale, Crédit Agricole / Amundi, UniCredit, AXA Insurance and SCOR's investment arms (among others) have all committed to excluding coal mine/plant/infrastructure developers from their respective activities.
- Crédit Agricole / Amundi went even further, and is one of the few financial institutions to also exclude companies purchasing coal assets that are not earmarked for closure by 2030 in EU/OECD countries and 2040 worldwide.
- Some financial institutions say to be reluctant to exclude companies planning new coal-related infrastructure besides mines and power plants because there would not be available data on these activities. This is not correct, and many other financial institutions use the free database made available by the NGO Urgewald: The Global Coal Exit List to identify and exclude companies planning new coal-related infrastructures.[3]

Recommendations:

- Commit to stop providing financial services to companies with expansion plans in the coal sector, including:
  a) The construction, development, or expansion of coal mines, coal power stations, or infrastructure;
  b) The extension of the life of existing coal power stations through modernization or the acquisition of existing coal assets;
  c) The selling of services and equipment supporting the expansion of the sector.

[2] It is worth noting that a company that would reduce its electricity production capacity from coal but building a new coal plant is considered a developer and must be excluded.

[3] Coalexit.org

4. No longer support companies with high exposure to coal

The exclusion of companies deriving more than a certain part of their activities from the coal sector is one of the most common methods used by financial institutions to filter out companies. Used pre-COP21 by investors, before being adopted by banks and insurers, it allows those institutions to exclude companies considered to carry risks because of their high degree of dependence on coal.

The percentage of exposure is calculated based on the share of coal in revenues, electricity generated, or installed coal power generation capacity. The best metrics to analyse a company's climate impact is to measure the % share of coal in electricity generation for electricity producers and the % share of coal in a company's revenues for all other companies - including mining and service provision. If the share of coal in electricity generation is not available, the next most relevant metric for coal power companies is the share of the total power capacity based on coal.

The data provider's choice for these metrics can have an important impact on the number of coal companies excluded. From our own experience and from our comparison of both the Global Coal Exit List and Trucost, we highly recommend using the GCEL, updated regularly by our German partners at Urgewald. The GCEL is the most comprehensive and the most reliable data source regarding coal companies.

Initially, most financial institutions applied a high exclusion threshold, generally set at 50%. This threshold has been steadily lowered. While the most widely used internationally is the one set at 30% of revenues and/or electricity generation from coal, there has been an accelerating downward trend. Many institutions have adopted a 10% or 20% threshold in recent months.

- 226 financial institutions around the world have adopted some kind of relative exclusion threshold for some coal companies.
- 39 financial institutions have adopted a threshold equal to or less than 20%. Crédit Mutuel, AP4, or Nest use a 20% threshold.
- Other players went further. Caisse des Dépôts, SCOR, or Candriam adopted a 10% exclusion threshold while KLP and Storebrand are amongst the few financial institutions to exclude companies based on a very restrictive threshold: companies that derive more than 5% of revenues from the coal sector.
- More globally focused financial institutions have an exclusion threshold of 25%: UniCredit, Crédit Agricole, Natixis, Liberty Mutual, The Hartford, Robeco, or Talanx.
- In addition, many actors worldwide have committed to regularly lowering these thresholds.

Recommendations:

- Commit to excluding all companies that generate more than 20% of their revenues from coal or more than 20% of their electricity production from coal from any financial services.
- Commit to bringing these exclusion thresholds to zero and indicate the pathway planned with the intermediary thresholds and deadlines to support an exit from coal before 2030 at the latest in European and OECD countries and by 2040 worldwide.

5. No longer support companies that are very active in the coal sector

Adopting an exclusion threshold based on the relative share of coal in a company's activities does not consider the real impact on climate and health nor its ability to withdraw from coal in time to achieve the objectives of the Paris Agreement.

Indeed, some companies do not reach the relative exclusion threshold, whether it is 20% or more, even though their coal activities' size makes them significant coal producers and operators of coal power stations. Moreover, the data is not always available to find the specific share of coal in a companies' activities. For these reasons, the Global Coal Exit List also lists companies with annual coal production of more than 10 Mt and companies with an installed coal power capacity of more than 5 GW.

Our comparison of the GCEL and Trucost databases clearly shows that many coal companies are not covered when only a relative exclusion threshold is used. With an annual coal production of 94 million tons in 2020, Glencore exceeds the 10 Mt threshold despite a coal share of revenue of less than 7%. This is also the case for BHP Billiton Group, with more than 23 million tons of annual coal production despite a coal share of revenue of only 2%.

Absolute criteria are also useful in cases where the share of coal in electricity generation or the share of coal in revenues is not easily calculable/estimable (e. g., the Adani Group in India). It is also useful in a context where coal prices or revenues from coal power generation fluctuate. The share of coal in revenues can be much lower than the share of coal in power generation.

- 56 financial institutions have adopted a meaningful absolute threshold, including AXA Insurance, AXA IM, Swiss Re, Lloyd's, KLP, and DNB AM.
- 17 financial institutions exclude companies above 10 Mt of annual coal production or 5 GW of coal power capacity: Crédit Mutuel, CNP Assurances, Aviva France and Desjardins / DGAM.
- Société Générale and BNP Paribas also exclude mining companies that produce more than 10MT of coal a year.

Recommendations:

- Commit to excluding all companies that produce more than 10 million tons of coal per year or hold more than 5 GW of coal capacity from any financial services.
- Commit to bringing these exclusion thresholds to zero to support an exit from coal by 2030 in European and OECD countries and 2040 worldwide at the latest.

6. Adopt a robust strategy to support the closure of existing coal infrastructure

Meeting the Paris Climate Agreement's objectives requires the phasing out of coal over the next few years. According to research by Climate Analytics, based on the IPCC report, all coal power plants must be closed by 2030 in European and OECD countries and by 2040 elsewhere. Additionally, the P1 scenario of the IPCC report on warming limited to 1.5°C has shown that the coal sector's emissions must fall by 78% by 2030. Almost 6600 power generation units are operating around the world. The challenge is, therefore, huge, and the next few years will be crucial.

Carbon Tracker's research shows that in 2018, 42% of the global thermal coal operating fleet were unprofitable. By 2030, about half of the global thermal coal capacity could be loss-making, and by 2040, 72% will be unprofitable. With a 2°C scenario, investors and governments will likely face over USD 267 billion in negative-stranded assets. This number will be much higher under a 1.5°C scenario.

Companies with coal expansion plans or that are too active or exposed to the coal sector should immediately be excluded. Others must immediately work towards the closure of all their coal assets.

By way of consequence, financial institutions must call on companies remaining in their investment and/or financing portfolio to adopt before the 1st of January 2022 a plan for the closure of their coal assets allowing an exit by 2030 or 2040, depending on the geographical area.

It is imperative to request the closure and not the sale of the assets in operation and to require the adoption of such a plan before a certain date. Such a plan should include a specific deadline and a precise date for each coal power unit's closure in the relevant timeframe. Several other elements must also be found in such exit plans They are described in this report.

Failure to act should lead to sanctions, such as the suspension of all new investments after 1st January , 2022 and the opening of a new commitment period also limited in time. Failure to adopt such a closure plan before the 1st of January 2023 for all coal assets must result in the company's definitive exclusion.

- 30 financial institutions are now requesting companies to publish a coal phase-out plan by specific deadlines, and 13 financial institutions have made the adoption of such a plan mandatory to continue their financing/investments.
- Crédit Agricole / Amundi, AXA, CNP Assurances, Crédit Mutuel, BNP Paribas, Société Générale and La Banque Postale Asset Management are calling on companies to adopt a detailed plan for phasing out coal aligned with the dates of 2030 and 2040.
- All except Crédit Agricole / Amundi are calling for the closure and not for the sale of assets.
- BNP Paribas, Crédit Mutuel, and La Banque Postale Asset Management make the adoption of such a plan a condition for granting new support and maintaining existing support for companies.
- Some players went further. UniCredit requires companies to adopt a coal exit plan by 2028.

Recommendations:

- Call on all companies remaining in the portfolio to adopt, before the 1st of January 2022, a clear and detailed strategy for the progressive closure (and not the selling) of their existing coal assets, at the latest by 2030 in European and OECD countries and by 2040 worldwide.
- Commit to suspending all new financial services to companies that would fail to adhere to these demands before 1st January, 2022, and exclude them from all financial services if they fail to adhere by 1st January, 2023.

7. Do not introduce exceptions emptying the policy of its substance.

While financial institutions – banks, insurers, and investors – must adopt a policy articulating the various elements presented in this note, they must not empty the policy of its substance through large exceptions. In the event of an exception, only services that can clearly be linked back to renewable energy infrastructures should be authorized and companies should be subject to close monitoring. Companies highly exposed to coal (above the thresholds of 20%, 10MT and 5GW) or developing new projects should in no case be the object of exceptions. The number of businesses subject to an exception must be publicly disclosed.

While we recommend adopting all the criteria mentioned in this note, their effectiveness also depends on their scope of application.

Recommendations:

- Cover all financial services without exception.
- Notably, this should include passive investments for investors.
- Apply the policy by default in the case of mandates, with the possibility for customers to refuse its implementation (opt-out). Work must also be done to convince external management companies and other financial partners to apply similar criteria so as to extend the application of the policy to all investments.
- Cease specific asset management methods that do not allow the implementation of the policy.
- Indicate in the policy the assets covered and those not covered and which respective share of total assets (without real estate) they represent. Transparency regarding this issue is indeed crucial.

Concluding remarks

While exiting the coal sector within the timeframe set by climate science is a condition for achieving the Paris Agreement's goals, it will not be enough on its own. Limiting global warming to a maximum of 1.5 °C means reducing carbon emissions by almost half over the next decade and reaching zero emissions by 2050. Given how risky it is to bet on the development of negative emissions technologies, we must aim for an exit from fossil fuels before 2050. Achieving this objective implies reducing oil and gas production by around 6% per year between 2020 and 2030.

Financial institutions should commit to aligning all their services with the 1.5 °C target and immediately adopt policies to prevent the expansion of fossil fuels and support its exit. It also means ensuring that companies moving out of coal do not turn to other fossil or unsustainable energies such as biomass but turn only to renewable energies. For more information, please read the Principles for Paris-Aligned financial institutions.

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ANNEXE 1 – The Coal Policy Tool

The Coal Policy Tool is a tool initially developed by Reclaim Finance to score, evaluate, and compare French financial institutions' coal policies (commercial banks, insurers, and investors). Published in May 2020 in France, the tool was extended to all international financial institutions in September 2020.

Coal policies are rated according to 5 criteria:

- The first criteria covers the exclusion of coal mines, coal plants, and coal infrastructure;
- The second criteria addresses the exclusion of all financial services to companies with coal investment plans;
- The third criteria covers the exclusion of companies, which are most exposed to the coal sector, based on their share of revenues or electricity production from coal;
- The fourth criteria covers the exclusion of the largest coal producers and largest coal plant operators;
- The fifth criteria addresses the quality of the coal phase-out strategy.

The scoring system is simple: It is based on a score from 0 to 10 and a traditional colour code (red, orange, yellow, green) to quickly identify the quality of the policies along the assessed criteria.

For the first four criteria, the scoring logic is simple: the more projects and companies in the coal sector, the financial institution excludes, the better a score it receives. For the fifth criteria, the more elements the financial institutions adopt to detail a good overall strategy for phasing out coal, the higher its score.

More information on https://coalpolicytool.org/

ANNEXE 2 – The Global Coal Exit List

The Global Coal Exit List (GCEL)[4] is a tool created by the German NGO Urgewald that provides key statistics on 1,030 companies, listed and unlisted, and around 1,800 subsidiaries whose activities range from mining or electricity production from coal to trading, transportation, and manufacturing of equipment for the construction of new coal power plants.

Companies are listed in the GCEL if their relative or absolute exposure to the coal sector is above a specific threshold or they are planning new projects in the coal sector.

Many financial institutions throughout the world have recognized the quality of the tool. According to Peter Cashion, Head of Climate Finance at the International Finance Corporation (IFC): “The Global Coal Exit List is a one-of-a-kind resource for investors and financial institutions that want to understand and manage climate risks in their portfolios.”

The Global Coal Exit List (GCEL), first launched in November 2017, has since then played a key role in shaping exclusion policies for many financial institutions. AXA was the first large investor to use the tool, and more than 400 financial institutions now use the database.

Using the GCEL is extremely important as the data it contains is often a more precise and reliable indicator of the reality of a company's coal activity than that provided by other extra-financial agencies.

More information on https://coalexit.org/

[4] coalexit.org