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ShareAction analysis of Barclays' financing of pureplay upstream oil & gas

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In February 2024, Barclays updated its climate change statement and released a new energy policy (its 'Climate Change statement'), following engagement with ShareAction and investors. A full analysis of the bank's February 2024 energy policy can be found here. This brief analyses the impact that the bank's new stance on pureplay companies can have on its client base, based on data sourced from Banking on Climate Chaos (2023), the Global Oil & Gas Exist List (2023), and Refinitiv Eikon.

What has the bank pledged to do in its February 2024 update?

The bank pledged it would only provide financing to companies that specialise in oil & gas exploration and/or production ('pureplay companies' or 'non-diversified companies') by exception from January 2025. However, this commitment only applies to those companies that are engaged in new long-term projects. It does not apply to companies that are involved in new short-lead time projects, such as fracking projects. Barclays will implement a mandatory review process for all non-diversified private oil & gas companies to determine its financing appetite, regardless of planned capex and lead time for expansion projects. However, the stringency of this mandatory review process is unclear. Because of these caveats, Barclays' new commitment falls short of European leading practice as the bank retains discretion over what pureplay companies it will finance.

Overall, the bank's financing restrictions for fracking remain weak despite being Europe's largest financier of this sector over the period 2016-2022. It will not directly finance projects involving fracking but only those located in the UK and Europe. The narrow scope of this commitment is in part mitigated by Barclays' commitment to exclude project finance for new expansion projects and related infrastructure. In terms of corporate finance restrictions, the bank has committed not to provide financing to Energy Groups whose aggregate share of production in Oil Sands, Extra Heavy Oil, Hydraulic Fracturing (fracking) in the UK/EU, and Arctic Circle oil & gas exceeds 20% of their total oil & gas production, from 30 June 2024 onwards.

What impact can Barclays' commitment on pureplay companies have on the bank's client base?

ShareAction analysed Barclays' financing to the oil & gas sector and found that pureplay companies represent a significant portion of Barclays' financing to companies involved in upstream oil & gas between 2016 and 2022. As shown on Figure 1, pureplay companies represent 34% of financing provided over the period. This is equivalent to 57% of its clients with upstream operations.

Barclays' financing to companies involved in upstream oil and gas has decreased significantly since 2016, with a steep decrease from US$17.6 billion in 2020 to US$2.4 billion in 2022. This trend, however, needs to be assessed with care due to the volatility of fossil fuel financing volumes during the COVID-19 pandemic (where fossil fuel companies needed extra financial support) and subsequent energy crisis (where fossil fuel companies were flooded with cash).

Barclays' financing to pureplay upstream companies has also been on the decline since 2016, but it has reduced at a slower pace than its financing for companies involved in upstream oil and gas between 2020 and 2022 (from US$2.2 billion in 2020 to US$1.1 billion in 2022, a 48% decrease), and its financing to those specialising in fracking has remained fairly constant (US$842 million in 2020 and US$902 million in 2022). Figure 2 shows that proportionally the majority (57% on average between 2016 and 2022) of this financing has gone to companies specialising in fracking. This rises to 80%, or US$902 million, the latest year for which figures are available.

By carving out pureplay companies engaging in short-lead time projects from the policy, Barclays could therefore exempt a significant number of clients and a material share of financing to upstream oil & gas companies.

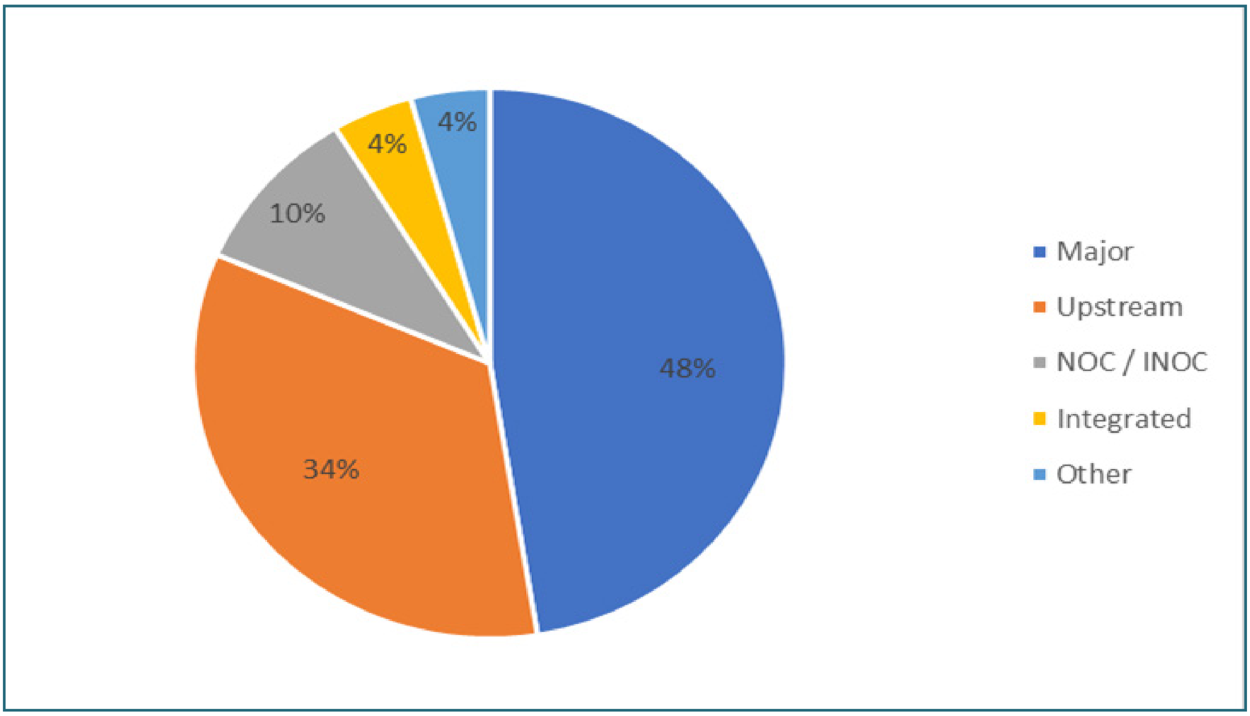

Figure 1: Barclays' financing to companies involved in upstream oil & gas by segment over 2016-2022

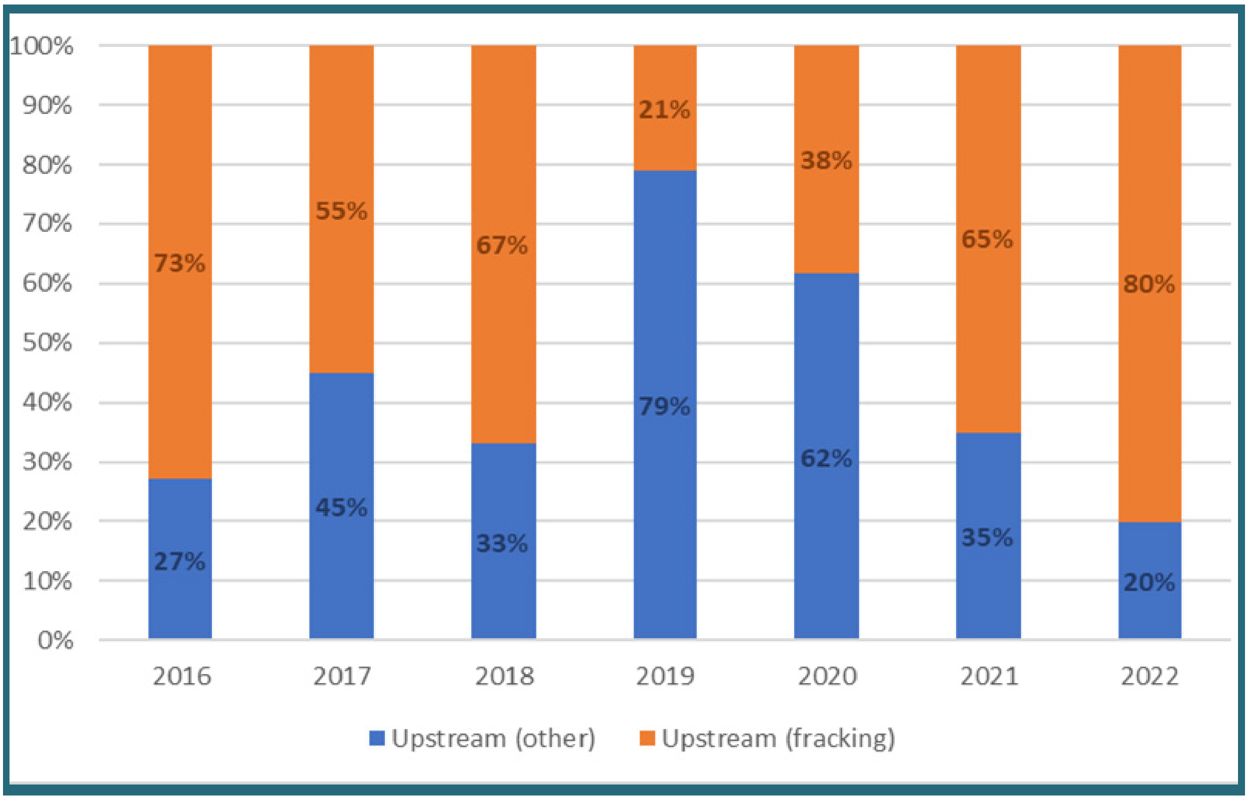

Figure 2: Barclays' financing to pureplay upstream companies by segment over 2016-2022

Source: Data from Banking on Climate Chaos and the Global Oil & Gas Exit List (GOGEL), analysed by ShareAction. Financing to companies categorised as 'Exploration', 'Exploration & Production', and 'Independent' in the GOGEL has been aggregated under 'upstream' companies. Barclays' definition of non-diversified companies might not align with the GOGEL methodology. We defined upstream fracking companies as companies for which fracking represents at least 90% of production.

Barclays justifies making a distinction between long-lead time and short-lead time expansion based on the IEA's Net Zero Emissions (NZE) scenario. The NZE finds that 'no new long lead time conventional oil and gas projects need to be approved for development' and that there is limited investment in short-lead time projects for a 50 per cent chance of meeting net-zero by 2050. The space for investment in short-lead time expansion in the NZE is strictly limited and companies involved in expansion, regardless of project development lead times, are exposed to rapidly shifting patterns of demand in a 1.5C-aligned scenario.

In addition, the limited supply gap in the NZE relies on the assumption that oil & gas producers cut output to levels compatible with a 1.5°C pathway. However, investments in new oil & gas projects are currently more aligned with the Stated Policies Scenario (STEPS). Pureplay fracking companies would still need to compete with other producers including more diversified companies and national oil companies as the sector heads towards a supply glut at the end of this decade. The speed at which fracking can be ramped up, pay back costs, and ramp down should make fracking theoretically less exposed to the risk of stranded assets. But this responsiveness makes fracking volatile in the face of oil price swings. Overall, the financial risk profile of companies within this group would depend on whether their asset base is competitive. On the other hand, pureplay fracking companies are an important source of climate-related financial risks for banks and their investors. These companies are responsible for a significant portion of oil & gas capacity expansion[1], contributing to systemic risks. Fracking also has important impacts on the environment and human health, which have led to regulatory exposure and may, in future, drive litigation risk and reputational risk.

It would therefore be right to expect the bank's mandatory review process to lead to a dramatic reduction in finance for pureplay companies involved in short lead time expansion projects, but this is not guaranteed.

We also note that the bank has not proposed a clear definition of a company engaged in 'long-lead time' expansion, which raises questions about its ability to monitor & classify clients and implement its commitments in line with the spirit with which it was developed. For example, would a company that engages in both short- and long-lead time expansion be covered by the bank's commitment to only provide financing to non-diversified companies engaged in long-lead expansion by exception?

While not explicit in Barclays' policy wording, as we have shown in the analysis the companies that Barclays is carving out from its case-by-case approach are mostly pureplay companies engaged in fracking. Fracking projects tend to have much shorter development times than conventional oil & gas projects. While the bank has introduced restrictions linked to the financing of fracking projects and companies, these only apply to the UK and Europe, where fracking is mostly banned or under moratorium. Fracking activity, and Barclays' financing of this segment, is concentrated in North America.

It therefore would appear that the bank's commitments are designed to protect Barclays' U.S. fracking client base. In comparison, BNP Paribas "has not been financing players specialising in non-conventional hydrocarbons since 2017".

Recommendations for investors:

The bank has committed to review its energy policy on an annual basis. We therefore encourage investors to make their expectations to the bank ahead of the next review. This should include asking the bank to:

- Adopt a clearer and stricter policy that would explicitly exclude financing for all pureplay companies, including those that engage in short-lead expansion. This would align the bank with leading practice identified in the sector.

- Make the scope of its fracking policy global.

A longer list of recommendations can be found in ShareAction's analysis of Barclays' February 2024 energy policy.

Methodology

We sourced our financing data from Banking on Climate Chaos (2023) – a report published by the Rainforest Action Network which maps financing from 60 of the world's largest banks to large fossil fuel companies over the period 2016 to 2022. We then mapped this dataset against company data in the Global Oil & Gas Exit List (GOGEL). As some companies included in the BOCC are not covered in the GOGEL, we collected additional data for the companies from public sources. Several companies included in this analysis have merged, changed names, or ceased to exist since Barclays last provided financing to them.

We relied on the client categories provided by the GOGEL to define companies (majors, integrated companies, NOCS and INOCS, independent, exploration and production companies, exploration companies). These definitions are derived from the energy market advisory and data firm Rystad. For this analysis, we defined private upstream companies (or private 'non-diversified' or 'pureplay') companies as Independents, Exploration and Production companies, and Exploration companies. Barclays' definition of 'private non-diversified companies' might not exactly match this definition. We also defined pureplay upstream companies specialising in fracking as private upstream companies for which fracking represents at least 90% of their production. Barclays' definition of private non-diversified engaged in short-lead time expansion might not exactly match this definition.

Contact us

Please don't hesitate to get in touch with bankingteam@shareaction.org should you want to know more about our analysis.

References:

1. Based on an analysis of Urgewald's Global Oil & Gas Exit List, pureplay upstream oil & gas companies specialising in fracking (companies for which fracking represents at least 90% of production) are responsible for 15% of resources under development and field evaluation as of September 2023.

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