ShareAction's analysis of Barclays' February 2023 energy policy

Barclays published a new energy policy (its "Climate Change Statement") on 15 February 2023 for the first time in three years. This briefing identifies key changes that were made to the bank's policy, and how these compare to policies adopted by Barclays' direct peers and by leading practice identified in the European banking sector. A history of engagement between ShareAction and Barclays is also available in the appendix.

1. A note on methodology

ShareAction assesses banks' coal and oil & gas policies across five key pillars:

- Asset finance restrictions: excluding dedicated financing for specific assets or projects;
- Corporate finance thresholds: restrictions on general corporate purpose funding (not tied to an asset) delivered to a company, designed to exclude companies that are overly exposed to, or are large players in, coal or oil & gas activities;
- Expansion: restrictions on companies that are expanding their activities in thermal coal or oil & gas by exploring for and/or developing new projects;
- Phase-out: a commitment to end financing to the sector or activity by a set date; and
- Client transition plans: requirements placed on clients not excluded by the above pillars to publish a transition plan by a set date that includes:
    - Coal: A thermal coal phase-out plan in line with the bank's own phase-out dates.
    - Oil & gas: A commitment to no exploration for or development of new oil & gas fields.

2. Barclays' unconventional oil & gas policy

2.1 Arctic oil & gas

According to RAN, Barclays ranks 6th globally and 4th in Europe on Arctic oil & gas financing between 2016-2021 (US$2 billion). Other studies also found that Barclays was among the largest bankers of companies expanding production in the Arctic.

Barclays currently excludes direct financing for projects located in the Arctic. The bank has also committed not to provide financing to companies "primarily" engaged in oil & gas exploration and production operations or plan in the Arctic. While these are steps in the right direction, Barclays' policy remains weak compared to peers and presents significant weaknesses, including:

- Most companies active in the Arctic fall below the corporate threshold set by Barclays (deemed to be 50 per cent revenue or more).
- Barclays' definition of the Arctic is narrow and fails to capture many oil & gas projects in the region. ShareAction advocates for banks to adopt the definition developed by the Arctic Monitoring and Assessment Programme (AMAP).

Previous commitment (March 2020)	New commitment (February 2023)
"In 2020, we introduced tightened restrictions with a commitment not to directly finance oil & gas projects in the Arctic Circle nor to provide finance to companies we consider to be primarily engaged* in these activities. We will also not provide financing to ancillary Arctic oil & gas businesses where proceeds are known to be for supporting new oil & gas exploration, production, or new pipeline transportation projects in the Arctic Circle." * Primarily engaged is not defined in the policy.	Barclays has not updated its Arctic oil & gas position.

2.2 Barclays does not update its fracking policy, despite being Europe's number one financier of fracked oil & gas financing between 2016-2021

According to RAN, Barclays ranks 5th globally and 1st in Europe on fracked oil & gas financing between 2016-2021. It has provided almost twice as much financing to the sector than the second largest European banker for fracking, Credit Suisse.

Barclays' existing fracking restrictions focus on projects and companies involved in fracking in the UK and Europe, whereas its exposure to the sector is concentrated in the US. Our data shows that many of Barclays' top oil & gas clients have a large exposure to the US fracking sector and that its client base includes fracking pure plays like EQT Corporation, Diamondback Energy, and Pioneer Natural Resources.

This should raise alarm bells for investors. Carbon Tracker has shown that shale companies are most at risk from the energy transition. Most of them see production fall by over 80 per cent by the 2030s in the IEA NZE, with some of Barclays' clients – such as Pioneer Natural Resources and Diamondback - being among those most at risk. This analysis also shows that asset stranded risk is severe even in a less ambitious "well below 2C" scenario (IEA's SDS). Carbon Tracker has also looked at the implications of an alternative scenario that sees a delayed but more abrupt transition (Inevitable Policy Response commissioned by the PRI). While this scenario could initially allow shale companies to continue investing, many of these companies would still face significant stranded asset risk depending on where they are on the cost curve.

Previous commitment (March 2020)	New commitment (February 2023)
"Barclays does not directly finance projects involving fracking in the UK and Europe, nor do we provide any financing to companies primarily engaged in fracking activities in the UK and Europe. Any financing of fracking outside of these regions is subject to enhanced due diligence, requiring clients and transactions to demonstrate consideration of environmental and social impacts and risks."	Barclays has not updated its fracking position.

2.3 Barclays radically reduces its oil sands financing and issues a new oil sands position

According to RAN, Barclays ranks 7th globally and 1st in Europe on oil sands financing between 2016-2021. On 15 February 2023, Barclays announced that it had reduced its lending exposure to oil sands exploration and production companies to zero at the end of 2022. It also introduced new corporate financing restrictions for oil sands exploration and production companies, and new asset level exclusions for oil sands exploration, production and/or processing assets or oil sands pipelines.

Barclays' decision to radically reduce its oil sands financing is a welcome and positive step forward by the bank. It follows years of engagement with shareholders. ShareAction has co-ordinated engagement from investors on Barclays' financing of oil sands since 2019. Following a resolution in 2020 which led the bank to issue a new oil sands policy, a group of 17 investors worth $4.3 trillion in assets under management called on the bank to tighten its policy in 2021.

Previous commitment (March 2020)	New commitment (February 2023)
"We will only provide financing to clients who have projects to reduce materially their overall emissions intensity, and a plan for the company as a whole to have lower emissions intensity than the level of the median global oil producer by the end of the decade. Any financing for a company involved in the exploration, extraction, transportation (including the construction of pipelines to carry oil sands), or processing of oil sands is subject to Enhanced Due Diligence."	From 1 July 2023, Barclays will not provide financing to: • To oil sands exploration and production companies* ; or • For the construction of new (i) oil sands exploration, production and/or processing assets; or (ii) oil sands pipelines** (p72) * Oil sands exploration and production companies are those that majority own (>50%) or operate oil sands exploration, production and processing assets, other than companies that generate less than 10% of revenue from these activities. ** Oil sands pipelines are pipelines whose primary use is for the transportation of crude oil extracted from oil sands.

2.4 Ultradeep water

According to RAN, Barclays is Europe's second largest provider of financing to top offshore oil & gas companies, after HSBC. RAN's definition of offshore oil & gas is broader than just ultradeep water. However, it can reasonably be assumed that through its financing of offshore oil & gas Barclays has substantial exposure to ultradeep. Yet, the bank does not cover ultradeep water or offshore oil & gas in its energy policy.

Previous commitment (March 2020)	New commitment (February 2023)
Barclays does not have a position on ultradeep water / offshore oil & gas.	Barclays does not have a position on ultradeep water / offshore oil & gas.

2.5 Case study: Financing of Enbridge, a pipeline company transporting unconventional oil & gas such as oil sands and fracked oil & gas

Enbridge is a multinational unconventional oil & gas pipeline company that is heavily involved in pipelines for fracked gas as well as oil sands. Between 2016-2021 Barclays provided US $1.68 billion to Enbridge, making it Europe's second largest financier of the company. Barclays energy policy doesn't include restrictions that apply to midstream companies such as pipeline companies. Enbridge is listed on the Global Oil & gas Exit List as having multiple expansion projects, and its pipelines facilitate the expansion of unconventional oil & gas from other companies. Furthermore, the company has been involved in controversial projects such as Line 3, which has documented abuses of indigenous people, prompting the UN to write to the US government in 2021 about its concerns of the project. Enbridge is also involved in pipelines in Texas and Mexico, which have been opposed by local indigenous groups. ShareAction helped facilitate a meeting between representatives these groups and Barclays so they could raise their concerns about the environmental and social risks posed by these projects, including air pollution and human rights violations. You can read more about this in our recent investor briefing 'Let's talk about fracking'.

2.6 Comparison of Barclays' unconventional oil & gas policy against its direct peers and leading practice identified in the European banking sector

Bank	Country	UNCONVENTIONAL OIL & GAS (oil sands (O), fracking (F), Arctic (A), Ultra-deepwater (D))						
		Asset finance		Corporate finance			Phase-out	Arctic Definition
		Upstream	Transport	Relative threshold		Transport	Bank	
Barclays	**United Kingdom**	**(O,F**,A)**	**(O*,A)**	**(O*,F**,A)**	**10-50% revenues (1)**	**N**	**N**	**Y****
BNP Paribas	France	(O,F,A)	(O,F*,A)	(O,F,A)**	10% res or rev	N	N	Y
Danske Bank	Denmark	(O,F,A,D)	N	(O,F,A,D)**	5% revenues	N	N (2)	Y*
HSBC	United Kingdom	(A) (O,F,D)**	(O,A,F,D)*	(F,A,D)**	"substantial"	N	N	Y*
Intesa Sanpaolo	Italy	(O,F,A**)	(O,F,A)*	(O,F,A)**	"significant"	(O,F,A)*	(O,F,A)	Y*

Key

Assessment
No Exceptions
Exceptions
Material Exceptions

Notes:

1 Barclays' threshold for Arctic oil & gas and fracking (primarily engaged) are assumed to be equivalent to 50 per cent or more for the purpose of this analysis. Barclays' restrictions on fracking only apply to UK and European clients.

2 Danske Bank retains relationships with clients who have less than 5 per cent revenues from oil sands, fracking, Arctic or ultra-deep water oil & gas.

3. General oil & gas and oil & gas expansion

3.1 Barclays' engagement with clients

According to research published by ShareAction, Barclays is Europe's second largest provider of financing to top oil & gas expanders. The bank provided US$13 billion in financing to the top 50 upstream oil & gas expanders since committing to net-zero by 2050 in March 2020 – with no strings attached. Barclays is in the core relationship group of companies like ExxonMobil and Shell, respectively the companies with the 4th and 9th largest upstream expansion plans worldwide.

While the bank uses the IEA NZE as a basis for most of its sectoral targets, it has so far failed to act on one of its main conclusions: that there is no room for new oil & gas fields for a 50 per cent chance of reaching net-zero by 2050. This is despite eleven of Europe's largest 25 banks – including most recently HSBC – having committed to cease direct financing of new oil & gas fields.

In February 2023, a group of 30 investors representing US$1.4 trillion sent letters to 5 European banks including Barclays asking them to cease financing for new oil & gas fields – and to take action against the companies behind those fields. Recognising that asset financing for new oil & gas is only a fraction of the total financing flowing to top oil & gas expanders each year, a growing number of banks is introducing corporate restrictions linked to oil & gas expansion. ShareAction's latest banking survey found that three of Europe's largest 25 banks have introduced corporate finance restrictions to oil & gas expansion, and four require transition plans from their oil & gas clients by a set date.

Alongside its new energy policy, Barclays introduced a Client Transition Framework (CTF). This means that all of the UK's five biggest banks now have a CTF in place. Barclays' CTF is "primarily a benchmarking tool" that "supports its evaluation of its corporate clients' current and expected future progress as they transition to a low-carbon business model." It includes quantitative and qualitative elements. The quantitative element assesses a client's alignment with Barclays' emissions targets and sector benchmarks, while the qualitative element seeks to assess the credibility of a client's transition plan. However, Barclays does not publish a complete list of sector-agnostic and sector-specific elements it looks for in clients' transition plans, other than a few illustrative examples. The qualitative and quantitative assessments are combined to arrive at an overall CTF score from T1 (best) to T5 (worst). These categories remain undefined: it is unclear what distinguishes between T4 and T5, for example.

Over time, Barclays' CTF will be integrated into key processes across the bank and capital allocation and inform client engagement. Clients in the T4 and T5 categories will be prioritised for engagement. However, few details are provided about how this engagement will take place. At present its energy clients are not required or expected to provide the bank with transition plans by a specific date, as Lloyds Banking Group and HSBC do with their own clients, respectively. It also does not explain under which circumstances engagement would cease and clients be denied financing.

3.2 Comparison of Barclays' policy on general oil & gas and oil & gas expansion against its direct peers and leading practice identified in the European banking sector

Bank	Country	OIL & GAS EXPANSION (all sources)						
		Asset Finance		Corporate Finance		Phase-out	Client transition plans	
		Upstream	Transport	Upstream	Transport		Required	By
Barclays	**United Kingdom**	**N**	**N**	**N**	**N**	**N**	**N**	**-**
BNP Paribas	France	Y**	N	N	N	N	N (3)	-
Danske Bank	Denmark	Y	N	Y**	N	N	Y	2023
HSBC	United Kingdom	Y*	Y*	N (1)	N	N	N (1)	-
La Banque Postale	France	Y	Y	Y*	Y*	Y*	Y	2021
Lloyds Banking Group	United Kingdom	Y	N	Y** (2)	N	N	Y	2023

Assessment
No Exceptions
Exceptions
Material Exceptions
No commitment

Notes:

1 HSBC will not start new relationships with clients where >10 per cent of planned capex is in exploraton. HSBC expects clients to formulate transition plans compatible with its targets by 2023 in the OECD and 2024 in other markets.

2 Lloyds Banking Group will not provide financing to new clients in the oil & gas sector unless it is for viable projects in renewable energies and transition technologies and clients have credible transition plans at the point of onboarding.

3 BNP Paribas assesses the transition plans of all energy companies but has only disclosed criteria for a subset of oil & gas companies with exposure to unconventional oil & gas.

4. Recommendations for investors

We recommend that investors use this briefing to inform their private and public engagements with Barclays. This could include:

- Writing a private or public letter encouraging Barclays to strengthen key pillars of its energy policy, such as Arctic oil & gas, fracking, oil & gas expansion, client transition plan assessments, and ultradeep water.
- Asking Barclays for a meeting to discuss the next iteration of the bank's energy policy.
- Embedding the findings of this analysis in their voting decisions for this year's AGM.

Appendix: ShareAction's engagement with Barclays

ShareAction has been engaging with Barclays on climate-related issues since 2016. This has included:

- Private one to one engagements with the bank's sustainability, risk, and executive teams;
- Private engagements with the bank and a group of concerned shareholders;
- Submitting AGM statements at the bank's 2017, 2018, 2019, 2020, 2021, and 2022 AGMs, some of which were backed by institutional investors;
- Coordinating investor-backed letters to the bank on topics directly relevant to its energy policy, such as coal and oil sands;
- Filing an investor-backed resolution at the bank in 2020;
- Engaging with Barclays and its shareholders on the bank's 2022 Say on Climate plan.

For a fuller description of ShareAction's engagement with Barclays, please see pages 8-9 of this investor briefing or get in touch with Jeanne Martin, Head of Banking Programme at Jeanne.martin@shareaction.org

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