



# Why investors should back the 2020 climate change resolution at Barclays

This briefing makes the case for the climate change resolution filed by ShareAction, 11 institutions and over 100 investors at Europe's largest fossil fuel financier, Barclays. We recommend that investors vote for the resolution at its May 2020 AGM.



**ShareAction»**

# About ShareAction

About ShareAction: ShareAction is a UK registered charity working globally to lay the tracks for responsible investment across the investment system. Its vision is a world where ordinary savers and institutional investors work together to ensure our communities and environment are safe and sustainable for all. In particular, ShareAction encourages institutional investors to be active owners and responsible providers of financial capital to investee companies, while engaging meaningfully with the individual savers whose money they manage. Since 2005, ShareAction has ranked the largest UK asset owners and asset managers on their responsible investment performance. The views expressed are those of ShareAction. More information is available on request.

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# Executive Summary

## Resolution

- **Key Ask:** This resolution, filed by investors representing £130 billion, calls on Barclays to set and disclose targets to phase out the provision of financial services to energy and utilities companies that are not Paris aligned. The timelines for phase out must be aligned with the Paris climate goals.
- **Scope:** This includes, but is not limited to, project finance, corporate finance, and underwriting.
- **Timeline:** Barclays should report on progress on an annual basis, starting from 2021 onwards.

## Key points

- **A long history of engagement:** ShareAction has engaged with Barclays on climate change since 2016. In May 2019, ShareAction coordinated a letter with investors representing £750 billion, asking for Barclays to restrict its tar sands and coal financing.
- **Largest European provider of fossil fuel financing:** In 2016-2018, Barclays' fossil fuel financing totalled US\$85.2 billion, the highest in Europe and the sixth highest globally.
- **A weak energy policy:** In both coal power and tar sands, Barclays is the largest financier in Europe and seventh globally. In both sectors, Barclays' current lending policy is far weaker than European peers.
- **An exposed investment bank:** Barclays' Corporate & Investment Bank is heavily exposed to carbon-related activities. In 2019, 17 per cent of syndicated loans and eight per cent of debt capital market transactions occurred in the energy and utilities sector.
- **Doubling down on project finance:** In 2019, Barclays' increased bond project and infrastructure finance by 85 per cent in power (ex. renewables) and by 83 per cent in oil and gas.
- **Global player in fossil fuels M&A:** Across 2018 and 2019, Barclays ranked third in terms of M&A volume for energy and power in the Americas. In 2019, the bank advised clients building new coal capacity.
- **Profitable retail bank faces reputational risks:** Barclays' fossil fuel financing dwarfs that of other UK retail banks. A Divest Barclays campaign has started at UK universities, echoing the Boycott Barclays campaign. In 2019, the UK retail bank accounted for 27 per cent of Barclays' income, while the international retail bank accounted for 20 per cent.
- **Green finance targets are not enough:** Barclays has a target to deliver £150 billion of social and environmental financing by 2025. This has been used to defend Barclays' climate record. However, in 2019, out of £34.8 billion of sustainable financing, just 22 per cent was environmental.
- **An opportunity to show leadership:** Barclays is a founding signatory of the Principles for Responsible Banking (PRB), committing to align its strategy with the Paris goals. Ahead of COP26, this resolution offers Barclays the opportunity to jump into a leadership position by implementing its PRB commitment in a way that is robust, transparent, and in line with science.

## Next steps for investors

- Vote for the resolution and notify Barclays of your voting intention as soon as possible. Barclays will publish its voting recommendation in March 2020.
- Consider pre-declaring voting intention.
- Engage with the bank on its Energy and Climate Change Statement, as well as its wider approach to managing climate risk. Engage robustly with the banking sector on climate risk and fossil fuel financing.

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# Introduction

## Background

The financial sector both reflects and shapes the real economy. In the context of the low-carbon transition, banks have a critical role to play. According to the International Energy Agency (IEA), to meet the goals of the Paris Agreement, investment in low-carbon energy needs to double by 2030 from 2018 levels<sup>1</sup>. However, at present, the banking sector is part of the problem, not the solution.

Fossil fuel financing has increased year-on-year since the Paris Agreement was signed in 2015<sup>2</sup>. If global temperatures continue to rise at the current rate, the Intergovernmental Panel for Climate Change (IPCC) predicts with high confidence that 1.5°C of warming will be reached between 2030 and 2052. To avoid this, a 45 per cent reduction in global greenhouse gas (GHG) emissions is needed by 2030 relative to 2010. Achieving this will require an “unprecedented” level of action, from both private and public actors<sup>3</sup>.

This briefing sets out ShareAction’s rationale behind co-filing and coordinating a resolution that targets Barclays PLC (BARC), asking the bank to set and disclose targets that phase out the provision of financial services, including but not limited to project finance, corporate finance, and underwriting, to the energy sector<sup>4</sup> and electric and gas utility companies that are not aligned with Articles 2.1a and 4 of the Paris Agreement (‘the Paris goals’). The timeline for this phase out must be aligned with the Paris goals, and the company should report on progress on an annual basis from 2021 onwards.

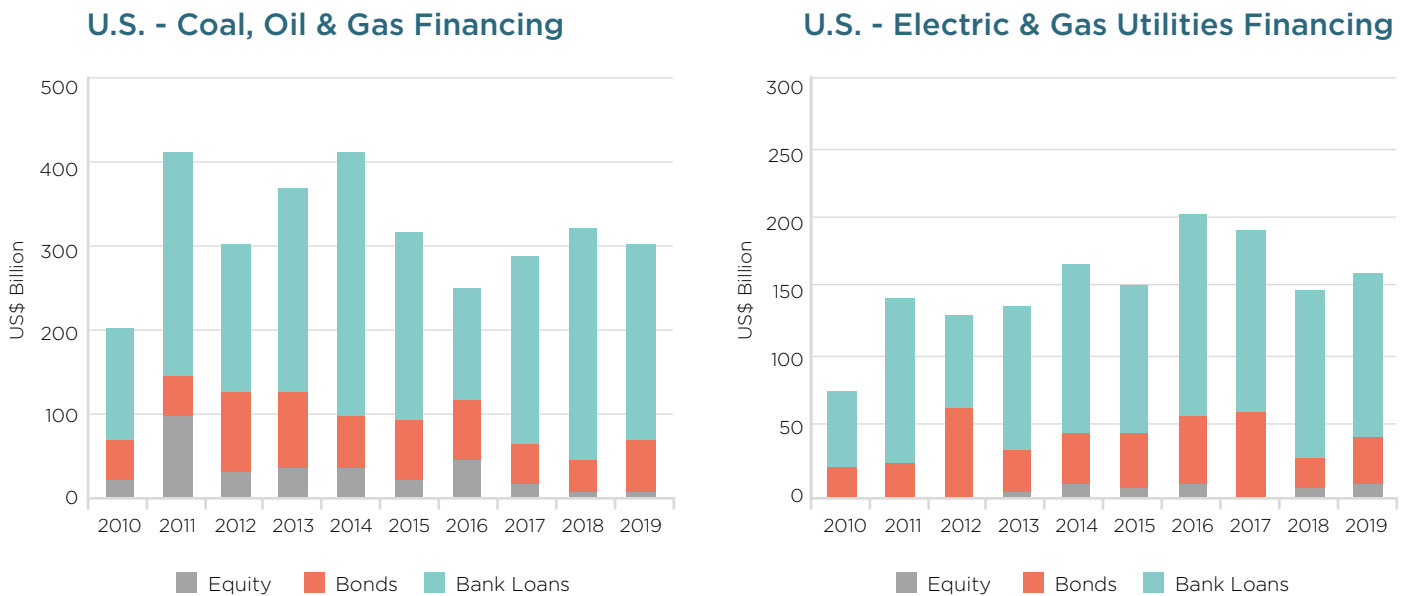
The full resolution wording and supporting statement are available on ShareAction’s website<sup>5</sup>.

## Climate Change and the Banking Sector

Climate change poses significant financial risk to the banking sector. The UK-based Prudential Regulation Authority identifies two types of climate-related risks faced by banks: transition risk, arising from climate-related changes in policy, technology and sentiment, and physical risk, arising from weather-related events<sup>6</sup>. These could manifest as credit, market and operational risks<sup>7</sup>.

Physical risks are already increasing economic losses. However, Governor of the Bank of England (BoE) Mark Carney has noted that the majority of climate impacts will be felt beyond the traditional horizons of most banks, investors, and governments, imposing costs on future generations<sup>8</sup>. Climate-related impacts could cost the global economy an extra US\$50 trillion in damages and lost productivity by 2060, according to Citi Group<sup>9</sup>. However, if banks wait for climate change to affect short-term profits, the sector could be acting too late to avert climate change’s most serious financial impacts<sup>10</sup>. This market failure is a systemic risk for institutional investors. This is recognised by the BoE in its April 2019 draft supervisory statement. Failure to act could result in long-term, severe financial risks for the banking sector<sup>11</sup>.

Figure 1: Banks provide a significant proportion of coal, oil and gas, and utilities financing

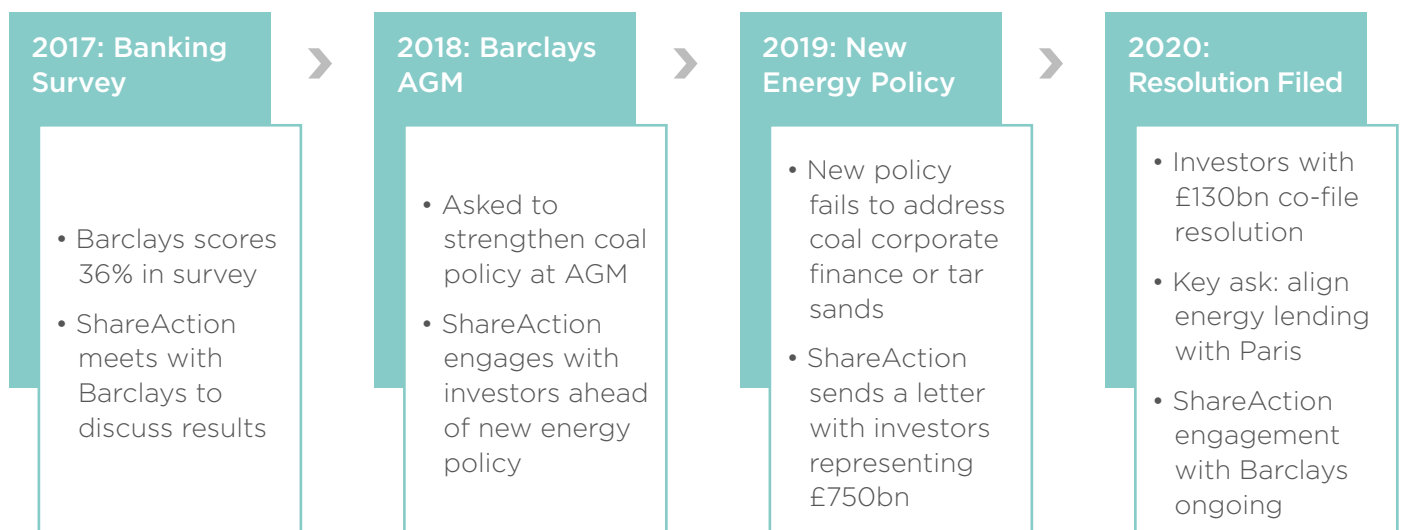


Source: Eikon

Banks provide a significant proportion of financing for coal, oil and gas, and utilities, with syndicated loans dwarfing equity and bond finance (Figure 1). From 2016 to 2018, 35 global banks provided US\$600 billion via lending and underwriting to 100 fossil fuel expanding companies<sup>12</sup>. This poses significant risk to the financial system, as highlighted by BoE’s Prudential Regulation Authority.

## ShareAction’s Engagement History with Barclays

Figure 2: A summary of ShareAction’s engagement history with Barclays



Since 2016, ShareAction's engagement with Barclays has focused on their approach to climate risk. The publication of ShareAction's 2017 survey, which ranked how Europe's 15 largest banks were responding to climate-related risks, informed early engagement<sup>13</sup>. Barclays scored just 36 per cent of available points. Follow-up meetings were organised with various teams within the bank. These meetings indicated that Barclays was not pursuing a strategy aligned with the Paris goals of the Paris Agreement<sup>14</sup>.

In late 2018, ShareAction supported investors to engage with Barclays' on its Energy and Climate Change Statement, which was under review. In January 2019, the bank published an updated energy policy. This policy restricted project finance for the expansion of thermal coal mines and the construction or material expansion of coal-fired power stations<sup>15</sup>. However, the policy failed to restrict financing for unconventional fossil fuels such as tar sands, or corporate financing for coal-heavy companies, amongst other things.

In May 2019, ShareAction coordinated a letter to Barclays signed by investors representing £750 billion<sup>16</sup>. This letter asked the bank to adopt robust restrictions on the provision of financial services to tar sands and coal-related projects and companies, as well as a clear, time-bound plan to phase out existing exposures. The bank is yet to respond to the letter.

## Actions for Investors

We recommend that investors who are supportive of the resolution take the following actions:

- Vote for the resolution at the bank's May 2020 AGM.
- Notify Barclays that they will be voting for the resolution as soon as possible, and explain why. Barclays will be publishing its official recommendation on the resolution in March 2020, alongside the publication of their AGM notice.
- Start a process of engagement with Barclays on its Energy and Climate Change Statement, and its wider approach to managing climate risk.
- Consider pre-declaring their intention to vote for the resolution ahead of the AGM.
- Begin or continue to robustly engage with other banks on climate risk. ShareAction will be publishing a ranking of Europe's largest 20 banks on climate change in April, which will help inform investor engagement.

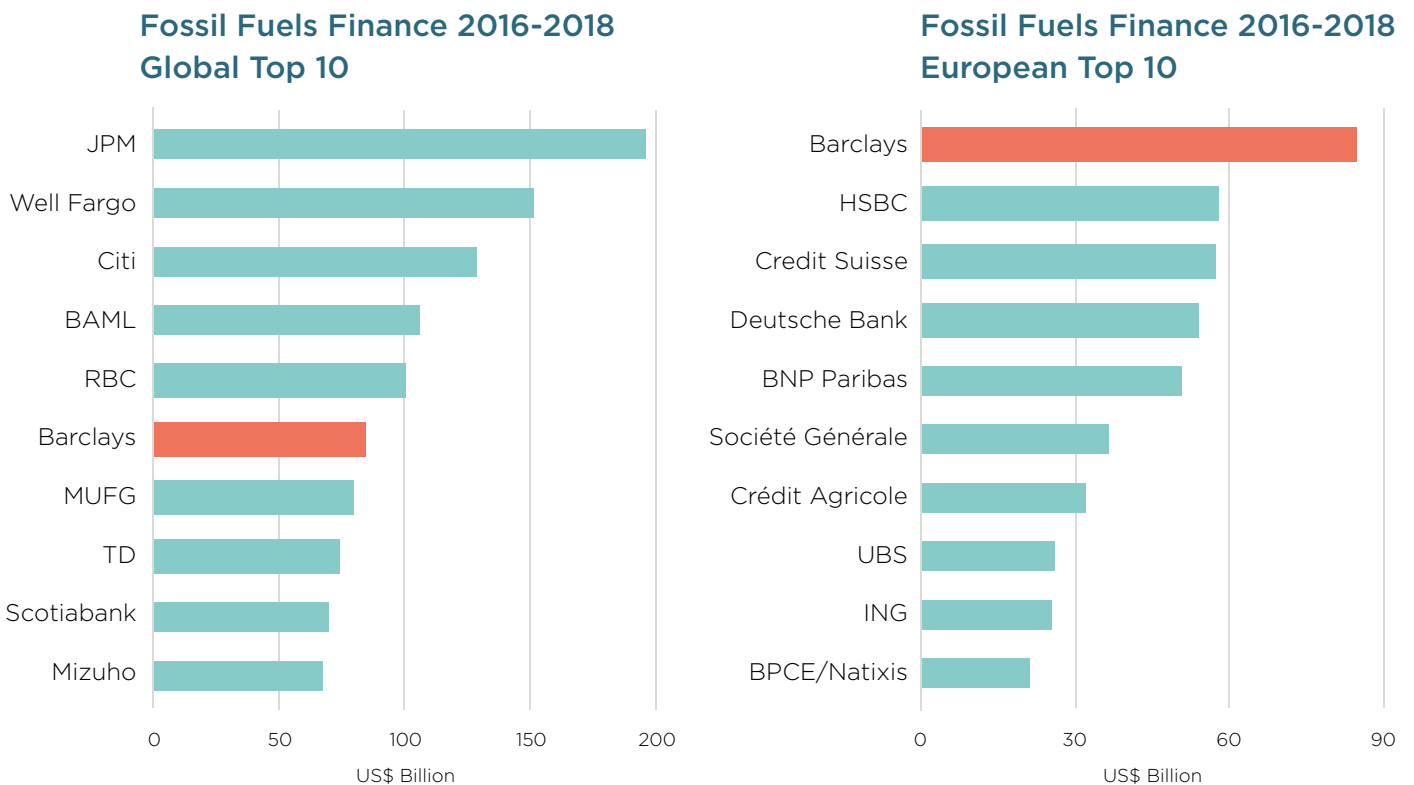
# Barclays' Fossil Fuel Activities

This section outlines the extent to which Barclays is a global player in the energy and utilities sectors.

## Fossil fuel financing – Barclays is the largest in Europe

Since the signing of the Paris Agreement in 2015, fossil fuel financing by Barclays has totalled US\$85.2 billion, which covers corporate lending, underwriting, and project finance<sup>17</sup>. This is the highest in Europe and the sixth highest globally (Figure 3), making Barclays a leader when it comes to fossil fuel financing.

Figure 3: Barclays is 6th largest fossil fuel financier globally and 1st in Europe



Source: Rainforest Action Network

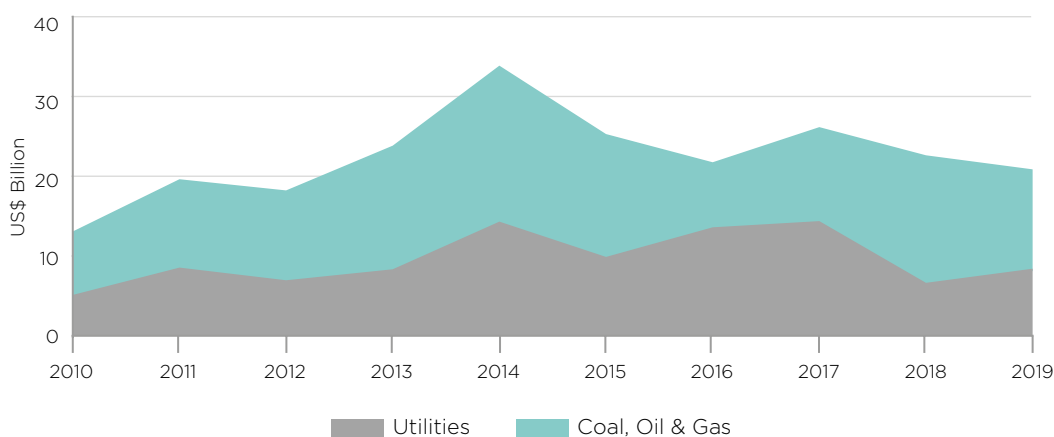
## Carbon-related lending has remained high

Financing for carbon-related assets has remained largely unchanged since the signing of the Paris Agreement (Figure 4). In the first half of 2019, figures indicated a year-on-year fall in Barclays' financing of companies aggressively expanding fossil fuel operations<sup>18</sup>. However, in the absence of a clear strategy to phase out fossil fuels, it is uncertain that this trend will continue.



Figure 4: Barclays carbon-related financing has remained high since the signing of the Paris agreement in 2015

### Barclays Carbon-related Financing - US & Europe Syndicated Loans - Mandated Arranger



Source: Eikon

## The Corporate & Investment Bank is heavily exposed

At the group level, according to the 2019 Annual Report, the energy and water sectors accounted for three per cent of Barclays' credit risk. However, in the Corporate & Investment Bank (CIB), in 2019 the energy and utilities sectors accounted for eight per cent of transactions in debt capital markets<sup>19</sup> and 17% of syndicated loans<sup>20</sup>. Out of 43 leading global banks analysed by Autonomous Research, Barclays ranked in the top 10 based on their exposure to energy and utilities in outstanding syndicated loans<sup>21</sup>.

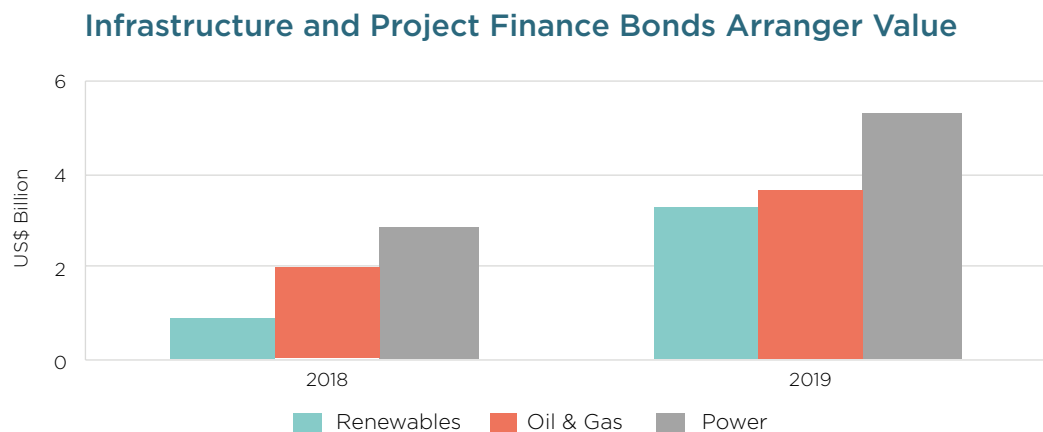
## Despite changes in policy, Barclays doubles down on bond project finance

In addition to general corporate finance, Barclays is also a major player in project and infrastructure finance. Currently, Barclays has a policy to exclude direct project finance for the expansion of coal mines and coal power plants<sup>22</sup>. This policy was introduced in January 2019. Analysis of IJGlobal league tables indicate that between 2018 and 2019, Barclays increased bond project and infrastructure finance in the power sector (excluding renewables) by 85 per cent and in the oil and gas industry by 83 per cent (Figure 5)<sup>23</sup>. In the bond market, Barclays is the second largest provider of project and infrastructure finance to the power sector. To be Paris aligned, Barclays must curb its financing of fossil fuel infrastructure.

### Case Study: Banten 1 Power Plant

On 30 January 2019, Barclays was the joint global coordinator and joint bookrunner of a US\$775 million bond issuance for a 660MW supercritical coal power plant in West Java, Indonesia. Through an inter-company loan, proceeds from the refinancing were lent to the project company Banten 1 by the issuer LLPL Capital<sup>24</sup>.

Figure 5: Barclays doubles down on project finance, despite changes in policy



Source: IJGlobal

## Barclays is a global leader in fossil fuel M&A

Through mergers and acquisitions (M&A), companies grow their operations, sell assets, and raise capital. Barclays is a global leader when it comes to carbon-related M&A. Across 2018 and 2019, Barclays ranked third in the Americas in terms of deal value in energy and power (Figure 6)<sup>25</sup>. Barclays must ensure that M&A advances the low-carbon transition.

Figure 6: Barclays ranks third in the Americas in terms of deal value in energy and power M&A

Energy and Power M&A League Table 2018-2019		
Rank	Bank	Value (US\$bn)
1	Goldman Sachs & Co	274
2	Citi	257
3	Barclays	215
4	JP Morgan	178
5	Bank of America Merrill Lynch	161
6	Evercore Partners	153
7	Morgan Stanley	126
8	Jefferies LLC	103
9	Lazard	82
10	Credit Suisse	77

Source: Eikon

### Case Study: Sinar Mas Group

In November 2019, Sinar Mas Group, an Indonesian conglomerate, appointed Barclays as the financial advisor for the sale of a 75 per cent equity stake in a holding company controlling coal three power plants. The transaction aims to generate additional capital for the company. The portfolio includes power plants that are currently under construction<sup>26</sup>.

# Barclays Energy Policy - a Cause for Concern

This section details the extent to which Barclays' energy policy lags behind European peers, focusing on coal power, tar sands and fracking.

## Coal Power - Barclays is a laggard compared to peers

Figure 7: Barclays' coal financing is largest in Europe

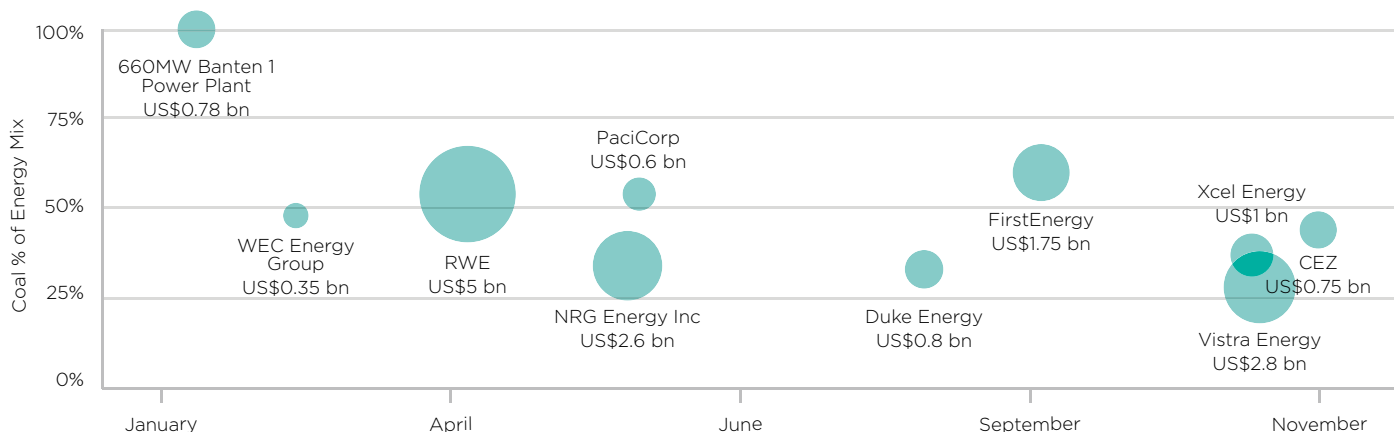
2016-2018	Barclays
Coal Financing (bn)	US\$3.2
Europe Rank	1st
Global Rank	7th

Source: Rainforest Action Network

Barclays' current coal policy excludes direct project finance for the expansion of coal mines and power plants. However, at present, the bank has no restriction or exclusion on general corporate financing and underwriting for companies heavily reliant on coal. Figure 8 highlights a number of coal-related transactions that Barclays participated in during 2019. Barclays says it will engage with heavily exposed clients but has yet to disclose clear targets or timelines<sup>27</sup>.

Figure 8: Selection of Barclays' 2019 coal-related transactions

### Coal-Related Transactions Bonds and Syndicated Loans - 2019



Bubbles represent the size of the transaction. Source: Eikon, company data

The previous sections on project finance and M&A highlighted that Barclays continues to finance coal and provide financial services to clients building new coal capacity. Barclays is a key player in both the European and American utilities sectors, yet its policy is significantly weaker than that of its peers (Figure 9). Barclays is one of four European banks with significant ties to some of the EU's largest GHG emitters and coal-dependent utilities, namely Enel, Fortum, Uniper, and RWE<sup>28</sup>. It is clear that Barclays' coal policy is inadequate and misaligned with the Paris goals. Examples of current leading practice are shown in Figure 10. Barclays must amend its energy policy to ensure that coal finance is phased out in line with the Paris Agreement.

Figure 9: European banks' coal policies compared

Policy Grade	Policy	European Banks
A	Exclusion	-
B	Project finance exclusion and corporate finance restriction/phase-out	ABN AMRO, BBVA, BNP Paribas, BPCE/Natixis, Commerzbank, Crédit Agricole, Credit Suisse, ING, Lloyds Banking Group, Nordea, RBS, Société Générale, Standard Chartered, UBS, UniCredit
C	Project finance exclusion/restriction	<b>Barclays</b> , Deutsche Bank, HSBC, Santander
D	Due diligence	-
E	No policy	Intesa Sanpaolo

Source: Company Data

Figure 10: Best practice coal policies

	Crédit Agricole	ING
Client Criteria	No new clients with a reliance on coal above 25%. No support for clients expanding coal operations. All clients must have by 2021 a detailed plan in line with this timeline.	No new clients with a reliance on coal above 10%.
Phase out	Coal phase out by 2030 in EU / OECD countries, 2040 in China and 2050 elsewhere. For clients in breach of the 25 per cent threshold, only loans dedicated to renewable energy or GHG reduction projects will be authorised.	By 2025, no financing for new or existing clients with a coal exposure above 5%. ING will continue to finance non-coal energy projects for these clients.

Source: Credit Agricole and ING

## Case Study: The Adani Group

The Carmichael mine is set to be the largest coal mine in Australia and one of the largest globally, producing up to 2.3 billion tonnes over 60 years<sup>29</sup>. The Adani Group, the developer behind the Carmichael mine, has planned to expand its coal export capacity by building terminals in the Great Barrier Reef World Heritage Area<sup>30</sup>. A large number of institutions - including, Goldman Sachs, CitiGroup, JPMorgan Chase and Barclays - have sought to distance themselves from the reputational, financial, and environmental risks associated with directly funding the mine<sup>31</sup>. As wildfires and flooding have hit Australia, public opposition has grown<sup>32</sup>. The world's largest asset manager, BlackRock, recently rebuked Siemens over its role in the project<sup>33</sup>.

In 2019, a business within the Adani Group that is involved in the importation of coal raised US\$1 billion from two bond issuances. Barclays was involved in both transactions<sup>34</sup>. Standard Chartered, Barclays and other banks involved have denied that funds will be used for Adani's Australian expansion. However, research into Adani's corporate structure has found that the group redistributes finance amongst its businesses via "related party transactions" - i.e. loan transactions between businesses within the group<sup>35</sup>. Any money provided to the Adani Group could finance the Carmichael mining project. Given Adani's prior use of internal transactions to finance businesses and projects within the Group, Barclays should disclose what precautions it has taken to restrict Adani from using finance for the Carmichael project.

## Tar sands - a policy in name only

Figure 11: Barclays is one of the world's largest provider of tar sands financing

2016-2018	Barclays
Tar Sands Financing (bn)	US\$2.6
Europe Rank	1st
Global Rank	7th

Source: Rainforest Action Network

Tar sands, or oil sands, are amongst the most carbon-intensive and environmentally destructive fossil fuels. However, Barclays continues to provide both project and corporate finance to the tar sands industry (Figure 11), while committing to practice 'Enhanced Due Diligence' (Figure 12). A weak tar sands policy has enabled Barclays to be a top ten financier of the fuel globally, demonstrating that it is clearly inadequate and needs to be strengthened. An example of a more appropriate policy is detailed in Figure 13.

Figure 12: European banks' tar sands policies, compared

Policy Grade	Policy	European Banks
A	Exclusion	-
B	Project finance exclusion and corporate finance restriction/phase-out	BNP Paribas, BPCE/Natixis, ING, Nordea, Rabobank, RBS
C	Project finance exclusion/restriction	ABN AMRO, BBVA, Commerzbank, Crédit, Agricole, HSBC, Lloyds Bank Group, Société Générale, Standard Chartered, UniCredit
D	Due diligence	<b>Barclays</b> , Credit Suisse, Santander, UBS
E	No policy	Deutsche Bank, Intesa Sanpaolo

Source: Company Data

Figure 13: Best practice tar sands policy

BNP Paribas – Unconventional Oil & Gas Policy	
Project Finance	No project finance for unconventional oil & gas (including tar sands) and pipelines transporting a significant volume of unconventional oil & gas.
Corporate Finance	No provision of financial products or services for companies where unconventional oil & gas accounts for a significant proportion of reserves, revenues trading, or supply to pipelines and export terminals.

Source: BNP Paribas

### Case Study: Teck Resources

In 2018, Teck Resources, a diversified Canadian mining company, opened the C\$17 billion Fort Hills oil sands mine as a joint venture. The company has proposed a second oil sands project, the Frontier Mine, which would cost C\$20 billion<sup>36</sup>. It has been called the “largest oil sands mine ever proposed in Alberta”<sup>37</sup> and has faced resistance from local communities<sup>38</sup>. On 24 February 2020, Teck Resources announced it was withdrawing its application for the new mine. The company says that ‘investors’ worried about climate make it impossible to proceed. Along with other banks, Barclays worked as a mandated arranger on syndicated loans in 2017, 2018, and 2019. The total value of these loans was US\$11 billion, equivalent to US\$0.94 billion per mandated arranger<sup>39</sup>.

## Fracking - Barclays is a major player

Figure 14: Barclays is a major player in the fracking industry

2016-2018	Barclays
Financing (bn)	US\$13
Europe Rank	1st
Global Rank	6th

Source: Rainforest Action Network

Hydraulic fracturing, or fracking, is a nonconventional method of oil and gas extraction. The process of fracking involves injecting millions of gallons of water, which has been infused with a wide range of toxic chemicals, into fractious rock that contains pockets of oil or gas. The pressure from this injection forces open the cracks, releasing the pockets of oil or gas for extraction. The fracking industry is booming in the USA, where it has been linked to higher incidences of earthquakes<sup>40</sup> and polluted water supplies<sup>41</sup>. Barclays currently has no policy to restrict finance for fracking companies or projects (Figure 15).

Figure 15: European banks' policies on fracking, compared

Policy Grade	Policy	European Banks
A	Exclusion	-
B	Project finance exclusion and corporate finance restriction/phase-out	BNP Paribas
C	Project finance exclusion/restriction	Commerzbank, ING, Lloyds Banking Group, Nordea, UniCredit
D	Due diligence	ABN AMRO, BBVA, BPCE/Natixis, Crédit Agricole, Credit Suisse, Deutsche Bank, HSBC, Santander, Société Générale, Standard Chartered, UBS
E	No policy	<b>Barclays</b> , Intesa Sanpaolo

Source: Rainforest Action Network and ShareAction

### Case Study: Gulfport Energy

Barclays provided Gulfport Energy with around US\$1.3 billion since 2016, while Gulfport was suing the small town of Barnesville, Ohio for restricting its access to the water reserves of the Slope Creek Reservoir. The challenge came once residents of the town pressed local authorities to restrict Gulfport's access when water levels were particularly low<sup>42</sup>. If gas prices return to 2010 levels, water use and wastewater production could multiply 50-fold for gas drilling and 20-fold for oil extraction by 2030, putting extreme pressure on USA water supply<sup>43</sup> and creating serious water risks for local communities.

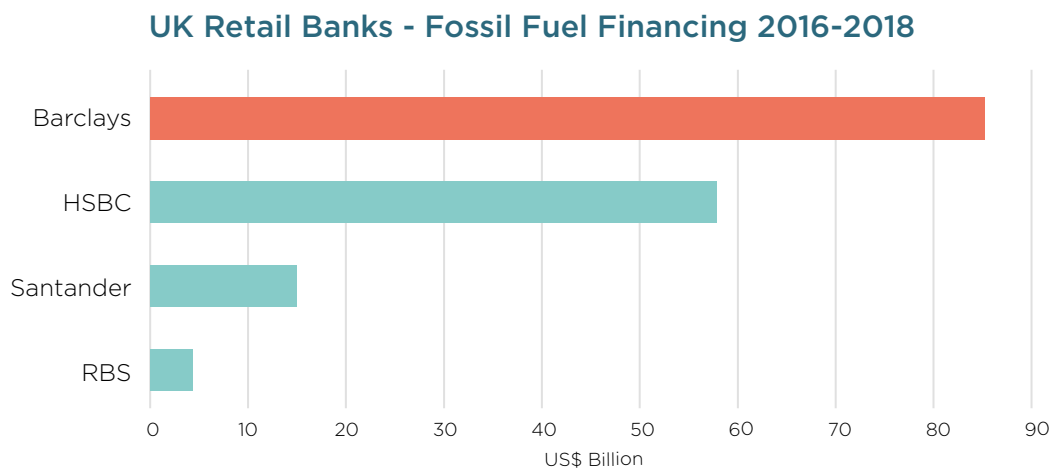
## Risks & Opportunities

This section outlines the reputational risk faced by Barclays under their current energy policy, as well as the green finance opportunities available.

### Barclays retail bank faces reputational risks

Retail banking is a slow-moving business. Each year, three per cent of customers switch accounts, while over half have remained with their bank for more than a decade<sup>44</sup>. In such a market, reputation management is crucial. Relative to other UK banks, Barclays faces a significant reputational risk, due to its financing of fossil fuels. As shown in Figure 16, Barclays' fossil fuel financing is significantly larger than its retail banking competitors. In 2014, the CMA reported that Barclays had an 18 per cent market share in UK current account market, equal to RBS and less than Lloyds Banking Group<sup>45</sup>.

Figure 16: UK retail banks fossil fuel financing (2016-2018)



No data on Lloyds Banking Group. Source: Rainforest Action Network

According to Greenpeace, over 138,000 people (including more than 30,000 Barclays Bank customers) called on Barclays to commit to not fund TransCanada's Keystone XL or Enbridge's Line 3 tar sands pipelines in 2018. Of those 30,000 Barclays UK customers, approximately 20 per cent have pledged to switch banks should Barclays continue to fund such projects<sup>46</sup>.

To date, 50 per cent of UK universities have divested from fossil fuels. Campaigners are now calling on universities to divest from Barclays<sup>47</sup>. It is not the first time that Barclays has been faced with a divestment campaign. In response to the South African apartheid, the Boycott Barclays campaign of the 1970s and 1980s saw Barclays' market share in student accounts fall from over 40 per cent to 15 per cent<sup>48</sup>. Research analysts at Barclays highlighted that in 2020 Generation Z will account for 40 per cent of consumers in the US, Europe, Brazil, Russia, India and China. The analysis claimed that companies which "don't engage with Gen Z successfully could rapidly lose market share"<sup>49</sup> Barclays is therefore at risk of losing these consumers.



Retail banking accounts for a significant share of income at Barclays. In 2019, 27 per cent of income came from the UK retail bank, while a further 20 per cent came from the international retail bank<sup>50</sup>. Furthermore, in 2019, Barclays UK, which encompasses UK retail banking, had a return on tangible equity (RoTE) of 17.5 per cent compared to a RoTE of eight per cent in the corporate and investment bank<sup>51</sup>.

## Green finance targets are not enough

The transition to a low-carbon economy brings opportunities, as well as risks. Decarbonisation will require significant investment. According to the IEA, spending on low-carbon energy will have to double from 2018 levels by 2030<sup>52</sup>. By using both their own balance sheets and capital markets, banks are well positioned to mobilise the capital required.

Figure 17: Barclays' green and social financing (2018-2019)



Source: Barclays

In 2019, Barclays announced a target to provide £150 billion of social and environmental financing between 2018-2025. Environmental financing includes activities related to renewable energy and energy efficiency, while social financing covers infrastructure, healthcare, education and housing. In 2019, the bank facilitated £34.8 billion of financing towards this target (Figure 17)<sup>53</sup>. This has been used to defend Barclays' record on climate, but when broken down, only 22 per cent was "green". Other banks have similarly sized funding targets. Yet many are focused exclusively on climate and the low-carbon transition. For example, Societe Generale committed to raising US\$130 billion for the energy transition between 2019 and 2023<sup>54</sup>. While this is a welcome step, for banks to truly accelerate the low-carbon transition, green financing targets should be combined with ones that reduce the financing of brown assets.

## Conclusion and Next Steps

Barclays is Europe's largest fossil fuel financier and the sixth largest globally. Correspondingly, the bank has some of the weakest energy policies of the European banks. Barclays' energy policy contains no restriction or exclusion for general corporate financing and underwriting for companies heavily reliant on coal. Barclays says it will engage with clients whose revenues or power generation from coal exceeds 50 per cent but has failed to disclose clear targets or timelines.

Barclays also continues to provide both project and corporate finance to the tar sands industry, while committing to practice 'Enhanced Due Diligence'. This weak tar sands policy has enabled Barclays to be a top 10 financier of tar sands globally, despite it being one of the most carbon-intensive and environmentally destructive sources of energy in the world. Indeed, Carbon Tracker recently found that no new oil sands project fit within a Paris compliant world<sup>55</sup>. Many banks have now introduced some limit on the financing of tar sands, including BNP Paribas, Rabobank, ING, and others. In relation to its European peers, Barclays is also the largest financier of the fracking industry (see Section 3). Barclays' continued support for fossil fuels companies and projects increases the systemic financial risks associated with a failure to meet the Paris goals.

Following extensive engagement with the bank, ShareAction, a group of 11 institutional investors and more than 100 investors filed a shareholder resolution asking Barclays to set phase out targets for the provision of financial services to the energy industry and utilities that are not in line with the Paris goals. This resolution provides the opportunity for Barclays to demonstrate leadership by aligning its provision of financial services to the energy and utility sectors with the Paris goals. This fits with the bank's commitment to the Principles of Responsible Banking (PRB), which will see some 150 banks across the world set targets and report on Paris alignment.

RBS has recently committed to stop lending and underwriting to companies with more than 15% of activities related to coal, unless they have a credible transition plan in line with the Paris goals by 2021, and stop lending and underwriting to major O&G producers without a credible transition plan in line with the Paris goals by end of 2021<sup>56</sup>. This presents a good template from which Barclays can build its own Paris aligned energy and utilities strategy.

We recommend that investors vote for this climate resolution, which could lead to the first global bank aligning its energy policy with the Paris goals. We recommend that investors notify Barclays of their support for the resolution and their reasons behind this. The more Barclays hears from its investors early, the greater the chances that the bank will take the resolution asks seriously and will take meaningful action on climate change by tightening its energy policy.

## FAQ

### Geographic split

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#### *Barclays has a large investment banking presence in America, should it be compared to European peers?*

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A ‘person briefed on Barclays’ climate policy’ told the Financial Times that it was unfair to compare Barclays “with other European banks because it has a large US investment bank”, arguing that shareholders should instead consider it alongside its Wall Street peers<sup>57</sup>. We disagree. All banks, especially those that are founding signatories of the PRB (additional info below), need to align with the Paris Agreement regardless of location.

Barclays’ CEO Jes Staley stated at Davos in January 2020: “We’re British”<sup>58</sup>.

In terms of geographic split, at the group level 33 per cent of income comes from the Americas<sup>59</sup>. In Barclays International, which contains the CIB, this figure is 51 per cent. However, Europe and the UK also account for 41 per cent of income. Furthermore, in Europe, Barclays ranks in the top five for debt capital market issuance. It is also one of four European banks with significant ties to coal exposed European utilities, namely Enel, Fortum, Uniper, and RWE<sup>xv</sup>.

In addition to being a climate laggard in Europe, Barclays does not even lead in the US. Along with Citi, JPMorgan, Bank of America, and Wells Fargo, Barclays only apply due diligence to unconventional oil and gas transactions, including tar sands<sup>60</sup>. Finally, Barclays’ main listing is on the London Stock Exchange, and given its sizeable European operations, the bank should be viewed alongside European peers<sup>61</sup>.

### Just Transition

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#### *Will this policy negatively impact communities and workers?*

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Averting the climate crisis will require a rapid move away from the fossil fuels. However, if this transition occurs without the consideration of workers, it could create unemployment and public opposition to climate policy. Industries such as coal would benefit from a just transition plan to protect workers<sup>62</sup>. Investors representing over US\$8 trillion recognise this and publicly support the principles and objectives of the just transition<sup>63</sup>.

The supporting statement of the resolution calls on Barclays to consider the just transition when developing targets to phase out fossil fuel financing. The bank should engage with clients to ensure that as they transition to low-carbon business models, workers are considered. This could include retraining workers in new technologies and methods of production<sup>64</sup>.

## Paris Alignment

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### *What does Paris Alignment mean in practice?*

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The shareholder resolution requests that Barclays phases out financial services to fossil fuel companies within the confines of a Paris-aligned scenario. The resolution is not intended to be unduly prescriptive, permitting Barclays flexibility in how it achieves this ask in light of client relationships and commercial interests – as long as it is compliant with the Paris goals.

The resolution does not ask for an immediate end to all fossil fuel financing. Instead, it asks Barclays to develop and implement a plan to align its fossil fuel lending with the Paris goals. As outlined in Article 4 of the Paris agreement, this should reflect the latest available science. For example, the 2018 Special Report on 1.5°C Global Warming by the IPCC<sup>65</sup>.

In terms of implementation, a number of approaches are currently being explored by the banking sector. For example, Credit Agricole is using a timeline to phase out coal financing in line with a 1.5°C scenario<sup>66</sup>, BNP Paribas has committed to align the carbon intensity of energy lending with the 2°C IEA scenario<sup>67</sup>, and ING have used the PACTA tool to measure and disclose alignment in carbon-intensive sectors<sup>68</sup>.

It is up to Barclays to decide and develop its approach. This resolution gives the bank until 2021 to start reporting on its progress. Barclays is a founding signatory of the Principle for Responsible Banking, which requires banks to align its business strategy with the Paris Agreement. As a result, it is expected that Barclays is already actively working to implement Paris Alignment.

## Principles for Responsible Banking (PRB)

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### *Isn't Barclays' membership of the PRB enough?*

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The PRB is a voluntary initiative providing a “framework for a sustainable banking system.” Over 150 banks representing over US\$47 trillion in assets are signatories, publicly committing to align their businesses with the Paris agreement and the Sustainable Development Goals<sup>69</sup>. However, the PRB only requires members to set two targets that align with a relevant national/international framework - e.g. the Paris framework or the SDGs. A day after launch, 30 banks launched of Collective Commitment to Climate Action<sup>70</sup>, committing to lay out concrete actions within one year that would see portfolio alignment with well below 2 °C, striving for 1.5°C . Barclays did not sign up. This resolution provides an opportunity for Barclays to implement its commitment under the PRB and to develop a strategy that enables the bank to become a climate leader.

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## About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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