

# Oil & gas expansion

A lose-lose bet for banks and their investors

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# Executive Summary

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# Executive Summary

This report aims to prompt commitments from banks to stop supporting oil & gas expansion in line with credible net-zero pathways. It includes an analysis of the largest 25 European banks' oil & gas policies and gives an overview of financing provided in recent years to a selection of 50 companies with large upstream oil & gas expansion plans.

ShareAction recommends that banks benchmark their position against peers and align with leading practice as soon as possible. Investors are encouraged to actively engage with banks on oil & gas expansion during the 2022 AGM season and beyond, by making clear, ambitious, and timebound requests where possible.

## **Oil & gas expansion is incompatible with net-zero by 2050. Banks committing to align with net-zero should see investment guidance from the IEA as an absolute minimum level of ambition**

- **The world's most influential energy body has closed the door to new oil & gas fields.** The International Energy Agency (IEA) says there is no room for new oil & gas fields in its Net-Zero Emissions by 2050 pathway (NZE), now a central scenario of the World Energy Outlook. While they don't spell out investment implications as explicitly as the IEA, other widely recognised 1.5C scenarios require similar or higher average rates of decline for oil and/or gas supply from 2020-2050. These also include some of the net-zero scenarios produced by the Network for Greening the Financial System (NGFS), despite their high reliance on unproven or high-risk technologies to balance emissions.
- **'No new oil & gas fields' likely underestimates what needs to happen in the sector to achieve net-zero emissions by 2050.** The NZE makes unrealistic assumptions about the prospects for Carbon Capture and Storage (CCS). If more realistic assumptions are made on CCS, more existing fields will need to be retired early. In addition, the IEA pathway gives just a 50 per cent chance of keeping warming to 1.5C. A precautionary approach to net-zero alignment would require more aggressive reductions in oil & gas supply.

## **Financing oil & gas expansion is a risky bet for banks. Every field that gets developed increases transition risks and physical risks for the sector and other parts of the economy**

- **The oil & gas sector shows no willingness to stop investing in additional capacity.** Most oil & gas companies are still expanding production. However modest budgets might currently be relative to the recent increase of oil & gas prices, their projected growth is significant, with sanctioning of new projects forecasted to be around US\$150 billion in 2022.

The nature of the expansion pipeline is also a cause of great concern. Fifty per cent of planned expansion comes from ‘unconventional’ sources (e.g. shale and Arctic oil & gas), which have higher financial and environmental costs.

- **Current oil & gas expansion plans lead to a lose-lose scenario.** If demand decreases in line with 1.5C scenarios, prices will fall and assets that don’t earn their initially promised return will become stranded (the US\$145 billion in write downs in 2020 could be a foretaste of greater losses to come in an era of permanently lower demand). On the other hand, if consumption of fossil fuels does not wane to the extent necessary to limit global warming to 1.5C, the economy will suffer from severe physical impacts of climate change. Either way, value will be destroyed for companies and their financiers. The energy transition is already underway and will inevitably lead to lower oil & gas demand at some point in the future. This would translate into lower prices, greater competition for market share and lower revenues.
- **Banks supporting clients with no specific red lines on expansion also face high reputational risks.** As energy companies go to riskier lengths to expand their operations, the stakes become higher. Legal challenges are becoming a popular means to try to stop projects but also put media pressure on companies. This, coupled with the ever-growing divestment movement, mean reputational risks are increasing for banks.

## The European banking sector supports the largest upstream oil & gas expanders

- **European banks have financed upstream oil & gas expanders to the tune of over US\$400 billion since 2016 – and show no sign of stopping.** After an increase in 2020, financing activity dropped significantly in 2021 but remains consistent with pre-pandemic levels (2016-2019 average). Volumes were estimated based on financing to the top 50 upstream oil & gas expanders in scope of this analysis. HSBC comes at the top of the ranking, followed by Barclays, BNP Paribas, Crédit Agricole, and Société Générale. Barclays and HSBC – two banks which argue that they should not be compared to European banks due to their strong North American (Barclays) and Asian (HSBC) presence, come second and fourth respectively if ranked based solely on their financing to European upstream oil & gas expanders.
- **Net-zero commitments are yet to curb financing to oil & gas expanders.** NZBA members in scope of this analysis provided at least US\$38 billion in financing to the top 50 upstream oil & gas expanders since the launch of the alliance. Half of that amount was provided by four of the founding signatories: Barclays, BNP Paribas, Deutsche Bank, and HSBC. NZBA members have committed to set emission reduction targets for their energy portfolios, but the alliance’s guidelines are silent on fossil fuel expansion.

- **European banks' support to upstream oil & gas expanders is much broader than direct lending to oil & gas projects.** Our data shows that 92 per cent of the financing to the top 50 upstream oil & gas expanders in scope was in the form of general corporate purpose finance, with only eight per cent of the financing being in the form of dedicated financing. Banks' support to companies expanding upstream operations is not limited to lending either. We find that 57 per cent of the financing provided was in the form of capital markets underwriting. This clearly illustrates the need for banks to restrict financing at both asset and corporate level, and to cover all relevant financing activities in their sectoral policies and portfolio targets.



Figure 1: Financing volumes from the largest 25 European banks to 50 upstream oil &amp; gas expanders between 2016 and 2021

All amounts are in million US\$		NZBA member	2016	2017	2018	2019	2020	2021	TOTAL	Top 3 companies financed
1	HSBC	Yes	6,591	9,668	5,097	10,941	18,161	8,664	<b>59,121</b>	Exxon Mobil, Pemex, Saudi Aramco
2	Barclays	Yes	9,660	3,787	6,132	9,021	15,193	4,527	<b>48,319</b>	Exxon Mobil, Shell, BP
3	BNP Paribas	Yes	5,746	4,028	5,304	8,948	15,359	6,992	<b>46,379</b>	Shell, Saudi Aramco, BP
4	Crédit Agricole	Yes	3,809	4,795	4,782	8,047	8,772	4,573	<b>34,778</b>	Petrobras, BP, Saudi Aramco
5	Société Générale	Yes	4,448	3,073	4,117	7,537	10,859	4,321	<b>34,353</b>	Exxon Mobil, BP, Saudi Aramco
6	Deutsche Bank	Yes	7,491	3,807	1,833	2,880	6,566	5,747	<b>28,325</b>	Shell, Exxon Mobil, Qatar Petroleum
7	Santander	Yes	4,923	2,898	2,663	5,795	5,901	1,219	<b>23,399</b>	Petrobras, Pemex, BP
8	Credit Suisse	Yes	4,440	2,502	1,399	4,153	2,333	3,272	<b>18,099</b>	Diamondback Energy, BP, Pioneer Nat. Resources
9	Standard Chartered	Yes	1,572	1,255	1,957	5,181	3,341	3,096	<b>16,402</b>	Saudi Aramco, Occidental Petroleum, Chevron
10	UniCredit	Yes	2,022	1,345	1,798	2,530	4,344	1,555	<b>13,594</b>	Eni, OMV, Gazprom
11	ING	Yes	1,902	1,868	1,802	3,319	1,651	2,054	<b>12,596</b>	Eni, Harbour Energy, Aker BP
12	Intesa Sanpaolo	Yes	3,101	597	2,181	2,616	1,350	1,989	<b>11,835</b>	Gazprom, Eni, Novatek
13	UBS	Yes	2,072	2,634	3,234	2,360	441	466	<b>11,208</b>	Woodside Petroleum, BP, Pemex
14	BPCE	Yes	1,316	989	1,437	2,369	2,668	2,281	<b>11,060</b>	Energear, Shell, TotalEnergies
15	BBVA	Yes	2,251	1,780	1,744	2,078	2,551	399	<b>10,803</b>	Pemex, Repsol, TotalEnergies
16	Lloyds Banking Group	Yes	1,005	655	863	649	2,374	373	<b>5,918</b>	BP, Shell, Harbour Energy
17	Commerzbank	Yes	164	1,009	783	1,451	1,521	906	<b>5,835</b>	BP, Wintershall Dea, OMV
18	NatWest	Yes	318	936	493	550	1,139	938	<b>4,373</b>	BP, Eni, Harbour Energy
19	Nordea	Yes	790	927	222	751	685	796	<b>4,171</b>	Aker BP, Lundin Energy, Eni
20	Danske Bank	Yes	546	533	207	1,066	570	613	<b>3,536</b>	Aker BP, Lundin Energy, DNO
21	DZ Bank	Yes <sup>(1)</sup>	31	11	415	878	-	66	<b>1,402</b>	OMV, Gazprom, Pemex
22	CaixaBank	Yes	-	170	-	93	135	89	<b>487</b>	Gazprom, TotalEnergies
23	Crédit Mutuel	Yes	9	86	100	102	-	-	<b>297</b>	Petronas, Eni, Woodside Petroleum
24	Rabobank	Yes	11	113	9	22	-	-	<b>156</b>	Saudi Aramco, Gazprom, Lukoil
25	La Banque Postale	Yes	-	48	-	-	-	-	<b>48</b>	TotalEnergies
<b>TOTAL</b>			<b>64,217</b>	<b>49,516</b>	<b>48,573</b>	<b>83,337</b>	<b>105,914</b>	<b>54,937</b>	<b>406,494</b>	

Data provided by [Profundo](#) who relied on Refinitiv, Bloomberg, Trade Finance Analytics, IJGlobal, company disclosures and media archives to identify financing transactions (see methodology in Appendix 1)

(1) DZ Bank is a member of the Net-Zero Banking Alliance Germany<sup>1</sup>



## Explicit references to oil & gas expansion in banks' policies are rare, but leading practice is rapidly emerging

- **Only a handful of banks restrict financing to oil & gas projects and even fewer restrict financing to companies expanding oil & gas capacity.** Out of the 25 banks in the scope of this analysis, only Commerzbank, Crédit Mutuel, Danske Bank, La Banque Postale and NatWest have started restricting financing for oil & gas projects. Commerzbank, Crédit Mutuel, and La Banque Postale have also committed to restrict financing at the corporate level, although this only applies to new clients in the case of Commerzbank. La Banque Postale created an important precedent by announcing it will exit the oil & gas sector by 2030. The French bank will no longer finance oil & gas projects and companies if they have not committed to a) a phase-out of their oil & gas activities by 2040, and b) not develop new oil & gas projects, in line with the IEA's guidance. The French lender's exposure to fossil fuels is arguably much lower than some of its counterparts, but these commitments send a strong signal to the market and show that sentiment is shifting.
  - **Banks say they want to help clients transition, but they are not asking for transition plans.** Banks often frame their sectoral policy objectives in terms of supporting clients' transition rather than imposing financing restrictions. Yet almost none of them are publicly requesting their clients to publish transition plans by a specific date, let alone clarifying that **there should be no room for oil & gas expansion in these plans.** La Banque Postale has made its expectations clear. Danske Bank and NatWest are also asking for transition plans, but they are yet to clarify what their red lines are and whether expansion is one of them.
  - **Unconventional oil & gas: some progress but still a long way to go.** All 25 banks in scope of this analysis are now restricting project finance for at least one unconventional segment. However, the policies remain full of loopholes and often seem to be tailored to protect banks' client base rather than limit exposure to a sector. For example, Barclays' fracking policy only applies to the UK and Europe but not to North America where most of the fracking activity occurs. Fifteen banks have implemented corporate thresholds for the segments they cover. These thresholds vary greatly among banks, which invites suspicions of cherry picking. BBVA, Danske Bank, Nordea, UBS and UniCredit have the most stringent thresholds, ranging from five to 25 per cent reliance on a specific segment. Yet even these thresholds are insufficient to affect companies with a diversified asset base, some of which are very large unconventional producers or have large unconventional development plans. And without a planned reduction of these thresholds over time, banks would retain open-ended exposure to these segments. So far, only Intesa Sanpaolo, La Banque Postale, and Nordea have committed to phase-out financing to the unconventional activities they cover.
- ▶ **A comparison of the 25 largest European banks' oil & gas policies is available on page 27.**

## Engagement questions for investors

The following questions are intended to guide investor engagement with banks on their approach to oil & gas expansion and unconventional oil & gas. Investors are encouraged to make full use of their shareholder rights and actively engage with banks on this important topic during the 2022 AGM season and beyond.

### Has the bank implemented financing restrictions in relation to oil & gas expansion?

- Are these restrictions based on the findings of the IEA Net-Zero Emissions by 2050 roadmap ('no room for new oil & gas fields') at a minimum?
- Are these restrictions implemented at both asset and corporate level?
- Do these restrictions apply across lending and capital markets activities?
- Does the bank consider the climate and financial impact of existing fields under development or expansion of already producing fields?

### Has the bank requested its oil & gas clients to publish transition plans?

- Does the bank require clients to publish these plans by a specific date, failing what they would be excluded from their client universe?
- Do these plans include a commitment not to invest in further expansion of oil & gas capacity in line with credible 1.5C pathways?

### Has the bank implemented financing restrictions in relation to unconventional oil & gas?

- Do these restrictions apply at both asset and corporate level?
- Is the bank planning to reduce corporate thresholds overtime and ultimately phase out financing to these activities?
- Has the bank adopted a definition of the Arctic region aligned with the area considered by the Arctic Monitoring and Assessment Programme (AMAP)?

# Introduction

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# Introduction

Depending on who is judging, COP26 was either a remarkable success or a catastrophic failure. By some estimates, the global temperature rise implied by national climate pledges (if met in full and on time), decreased from 2.1C to 1.8C in the run-up to the conference.<sup>ii</sup> While this improvement is insufficient to prevent severe impacts of climate change, according to the Intergovernmental Panel on Climate Change (IPCC),<sup>iii</sup> all countries agreed to revisit and strengthen their emissions targets in 2022 to “keep 1.5C alive”.<sup>iv</sup>

COP26 also saw 20 countries, including the US and the UK, pledge to stop public financing for fossil fuel projects overseas.<sup>v</sup> And 11 countries and subnational jurisdictions formed the Beyond Oil & Gas Alliance.<sup>vi</sup> These announcements followed the IEA’s declaration that oil & gas expansion is incompatible with a net-zero pathway. This was coined a watershed moment for climate action by some, while others noted that the energy watchdog was simply stating the obvious. They are both right, and while some banks resist this challenging fact,<sup>vii</sup> others have started to realise what net-zero emissions by 2050 means in practice.

This split is reflected in the range of targets set by banks for their oil & gas portfolios in recent months. These include laudable attempts to track absolute emissions in some instances and sophisticated means to continue business-as-usual in others. More importantly, some banks have gone beyond targets and have begun restricting financing in relation to oil & gas expansion, or even decided to exit the sector in the coming years.

The energy transition is clearly underway. Regardless of its pace, it will have a considerable impact on the oil & gas sector. If banks don’t act now, it will create significant financial risks that investors will not be able to diversify away from. Investors must therefore make full use of their shareholder rights to prevent these risks from becoming a reality.

Oil & gas  
expansion is  
incompatible  
with net-zero  
emissions  
by 2050

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# Oil & gas expansion is incompatible with net-zero emissions by 2050

This section discusses recent guidance issued by the IEA, which states that there is no room to develop new oil & gas fields in a net-zero pathway. It also illustrates why other widely recognised 1.5C scenarios would lead to a similar conclusion and argues that the IEA's guidance may even underestimate what needs to happen in the oil & gas sector if emissions are to remain within a 1.5C carbon budget. ShareAction thus recommends that banks see the IEA's guidance as a minimum level of ambition in their climate strategies.

## There is no room for new oil & gas fields in credible 1.5C scenarios

Climate scenarios are central to financial institutions' climate strategies. They have led to the emergence of the 'net-zero emissions by 2050' concept now adopted by almost 100 banks representing 45 per cent of global banking assets.<sup>viii</sup> They also shape how banks and the sectors they finance should deliver on this objective over the next three decades. But until recently, scenarios providing explicit guidance on how to align investment in oil & gas supply to 1.5C aligned pathways were scarce.

## The world's most influential energy body has closed the door to new oil & gas fields

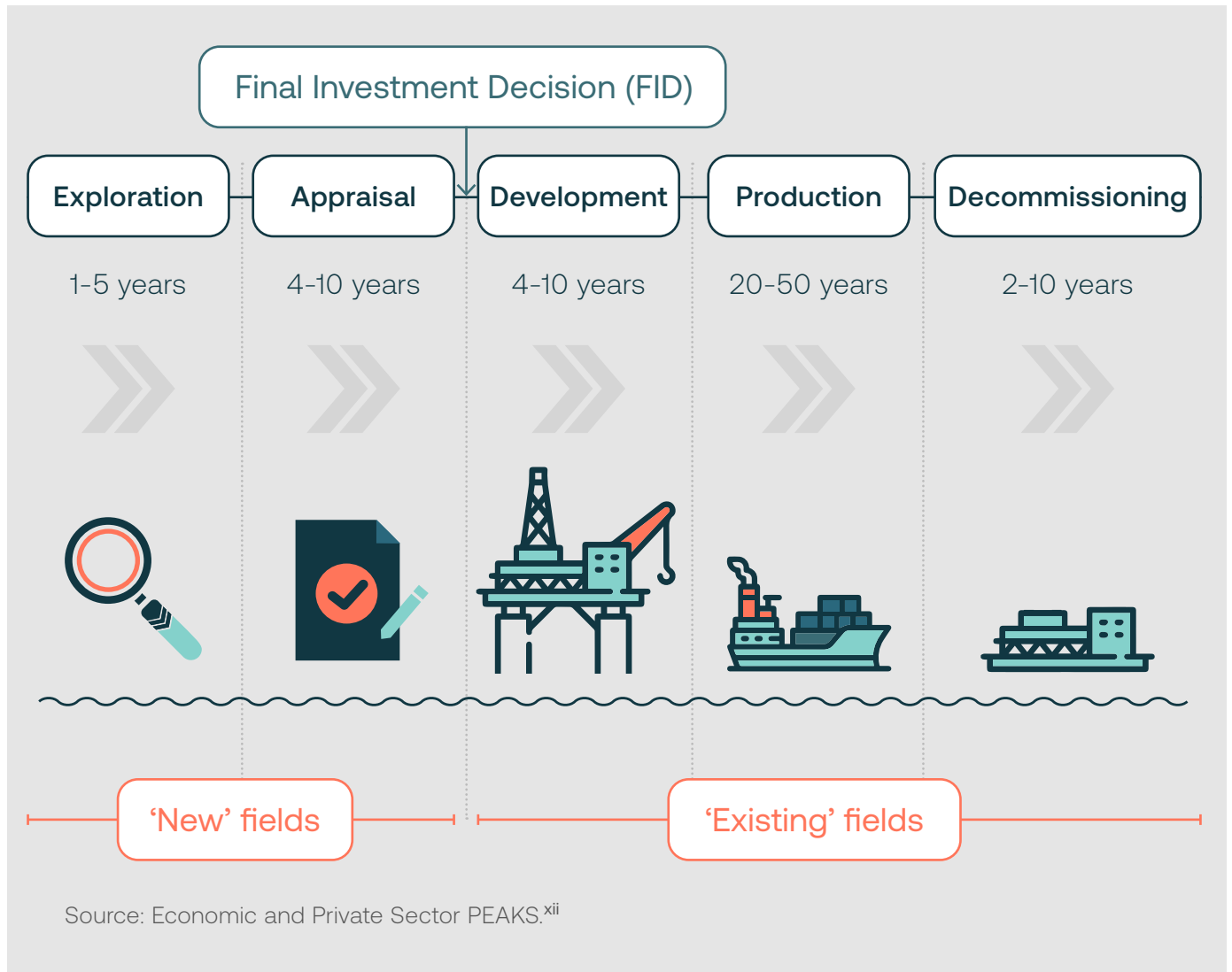
In March 2021, the IEA released its first fully fledged scenario aligned with a 1.5C warming limit: Net-Zero Emissions by 2050 (NZE). A few months later, the NZE was among the three main scenarios discussed in the World Energy Outlook (WEO), the IEA's flagship annual publication guiding energy investments worldwide, often considered the basis for national energy policies. This marks a clear shift for the IEA. The agency has traditionally sidelined climate-oriented scenarios, such as the Sustainable Development Scenario (SDS), in its annual publication.

One of the NZE's headline findings is that "beyond projects already committed as of 2021, there are no new oil & gas fields approved for development in [this] pathway".<sup>ix</sup> The IEA specifies that "no fossil fuel exploration is required"<sup>x</sup> and that "once fields under development start production, all of the upstream investment in the NZE is to support operations in existing fields."<sup>xi</sup> In the oil & gas industry, 'approved for development' is synonymous with a project having received a Final Investment Decision (FID). When considering the lifecycle of the average conventional oil & gas field (see Figure 2), the IEA's guidance is straightforward: **fields that did not receive FID before the end of 2021 should not be developed.**

Some uncertainty remains as to the exact interpretation of this guidance in relation to shale oil & gas, where FIDs occur on a well-by-well basis rather than at the field level. But the overall

conclusion is clear: existing oil & gas fields contain enough reserves to meet 1.5C-aligned demand, while developing new projects will only increase the volume of stranded assets. Investment in oil & gas supply should thus be constrained to existing fields, i.e. fields already producing or under construction.

Figure 2: Main phases of upstream oil & gas industry cycle



The IEA’s guidance on oil & gas investment is the result of supply and demand assumptions in the NZE. In this scenario, oil demand falls by more than four per cent per year on average between 2020 and 2050. The IEA concludes that existing fields contain adequate supply to match that decline in demand.<sup>xiii</sup> Assuming some continued investment in these fields, the rate of decline of producing and under construction projects can be managed to avoid a more abrupt drop in supply.

A similar rationale applies to natural gas where, during the 2030s, “demand declines by more than five per cent on average, meaning that some fields may be closed prematurely or shut in temporarily”.<sup>xiv</sup> Given that existing gas fields hold enough supply to match demand, investing in new gas projects now would only increase the need to shut in fields later.



### **Discussion: Regional disaggregation of the IEA’s Net-Zero Emissions by 2050 scenario**

The WEO 2021 provides limited regional data for the NZE. Further regional disaggregation might be provided at a later stage, which would be helpful to fine-tune sectoral climate policies across geographies, especially on the consumption side. However, this shouldn’t be a hurdle for banks to start implementing the IEA’s guidance in their oil & gas policies (supply side) as regional disaggregation should not contradict it. The global energy roadmap published by the IEA in March and the WEO published in October 2021 indicate that supply declines across all regions<sup>xv</sup>, while it becomes more concentrated in a small number of low-cost producers. According to the IEA, the oil price in the NZE would theoretically allow the development of new fields for the lowest cost producers, including those in the Middle East, but it assumes that these investments would not go ahead to avoid additional downward pressure on prices.

### **Other widely recognised 1.5C scenarios would necessarily lead to a similar conclusion**

The NZE is not the first or the only scenario deemed to be compatible with a 1.5C warming outcome. In 2018 the IPCC presented four 1.5C illustrative pathways for mitigating emissions in line with 1.5C, based on a range of peer-reviewed scenarios derived from Integrated Assessment Models (IAMs). Two of these illustrative pathways – P1 and P2 – are generally viewed as credible based on their low temperature overshoot and limited reliance on Carbon Dioxide Removal (CDR),<sup>xvi</sup> which remains unproven at scale.

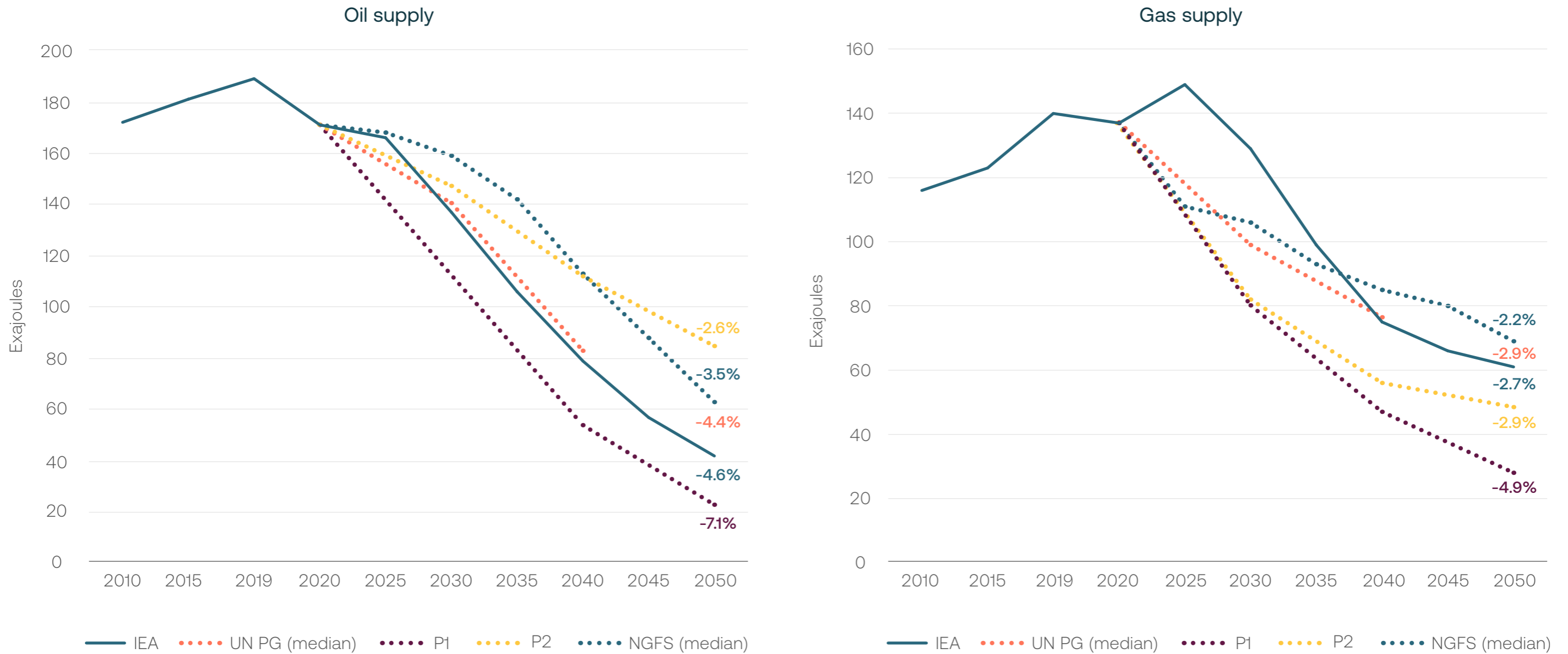
The UN Production Gap Report, published annually since 2019, also provides a pathway of global fossil fuel production that would be consistent with limiting warming to 1.5C based on the scenarios compiled by the IPCC.<sup>xvii</sup> Among other scenarios likely to be used by banks, the Network for Greening the Financial System (NGFS), a network of central banks and financial supervisors, recently published two sets of net-zero scenarios (“Net Zero 2050” and “Divergent Net Zero”) based on three IAMs.<sup>xviii</sup>

None of these scenarios spell out the implications of a 1.5C pathway for oil & gas expansion as explicitly as the NZE. This is because the IEA’s main purpose is to guide energy policy and investment decisions. IAMs aim to explore mitigation options or different socioeconomic pathways. They tend to have less granularity in terms of economic sectors and are not



necessarily prescriptive in terms of how investments are distributed. However, when looking at supply decline rates implied by these scenarios, one can't avoid reaching a similar conclusion. The UN Production Gap Report sees global oil production declining by over four per cent and gas production declining by nearly three per cent on average per year between 2020 and 2040. IPCC's P1 illustrative pathway sees oil and gas supply respectively declining by over seven per cent and nearly five per cent on average between 2020 and 2050. The less ambitious P2 scenario and some of the NGFS scenarios see more modest declines on average for oil supply, but as discussed below they make even more aggressive assumptions than the NZE regarding the deployment of CDR and/or CCS. IPCC pathways are also much older, which explains their slower rates of decline on average. The IPCC is due to discuss updated pathways in 2022.<sup>xix</sup>

Figure 3: Oil & gas supply to 2050 and average rates of decline (2020 – 2050) in various 1.5C climate scenarios



Source: IEA, IASA scenario explorer. 2010-2020 based on historical data from the IEA. Average annual rates of decline were calculated based on each scenario's 2020 baseline. Average rate of decline was calculated between 2020 and 2040 for the UN Production Gap pathway as data for 2050 was not available.

## **‘No new oil & gas fields’ likely underestimates what needs to happen in the sector to achieve net-zero emissions by 2050**

While the NZE has faced some pushback and prompted many questions around its practical implications, this section argues that it should rather be seen as an absolute minimum level of ambition for decarbonising the energy sector. In fact, it’s likely that not only new fields would be surplus in a 1.5C-compliant world, but existing fields might have to wind down production on an accelerated timeline to limit warming at 1.5C.

**Unabated emissions from the burning of oil & gas reserves in existing fields alone will exhaust the remaining carbon budget associated with a 1.5C warming outcome. As a result, some existing fields might have to be retired early.**

What determines the temperature outcome for the planet is the cumulative level of CO<sub>2</sub> emissions. The question of how much oil & gas expansion is possible in a 1.5C pathway can thus be addressed from the perspective of the carbon budget associated with this temperature outcome. It is estimated that for a 50 per cent chance to keep warming to 1.5C, the amount of CO<sub>2</sub> emissions that can be released into the atmosphere is around 500 Gigatonnes (Gt) of CO<sub>2</sub> (400Gt of CO<sub>2</sub> with a 67 per cent probability).<sup>xx</sup>

Analysis conducted by Oil Change International has shown that emissions from reserves in existing oil & gas fields would already exceed 500Gt of CO<sub>2</sub> should they be operated through their full economic life and without any major change in the prospects of CCS.<sup>xxi</sup> These estimates show that existing fields alone would take us past the 1.5C carbon budget even before considering emissions from coal and other sources. As a result, no new fields can be developed anywhere in the world and in fact some fields might have to be closed before fully exploiting their resources. Other research reports have reached the same conclusion.<sup>xxii xxiii</sup>

**The IEA’s Net-Zero Emissions scenario relies excessively on unproven technologies to balance emissions, in particular Carbon Capture and Storage. This enables more investments in oil & gas supply while limiting investment in clean energy.**

The only way to avoid asset stranding if unabated oil & gas supply expands beyond the remaining 1.5C carbon budget in a climate scenario is to add more CDR, CCS, or a combination of both to balance the excess emissions in the energy system. CCS is meant to prevent emissions from entering the atmosphere while CDR (also known as Negative Emission Technologies or NETs) are designed to remove emissions from the atmosphere to offset those that are released. The latter solution involves several existing and theoretical measures, such as afforestation and reforestation, land restoration and soil carbon sequestration, Bioenergy with Carbon Capture and Storage (BECCS), Direct Air Capture (DAC), enhanced weathering and ocean alkalization. When the IPCC published the SR1.5 in 2018, it identified only a few pathways with CDR measures other than afforestation and BECCS.<sup>xxiv</sup>

Relying excessively on either CDR or CCS is an extremely risky strategy due to important uncertainties around their cost, availability, governance, measurability, and environmental and social impacts. The IPCC stated that “CDR deployed at scale is unproven and reliance on such technology is a major risk in the ability to limit warming to 1.5C”.<sup>xxv</sup> It added that “Afforestation and bioenergy may compete with other land uses and may have significant impacts on agricultural and food systems, biodiversity, and other ecosystem functions and services”.

Equally, betting on CCS to maintain the status-quo in the oil & gas sector seems overly optimistic considering the poor track record of the technology to date and the limited pipeline of projects identified (see below). CCS might have a role to play in decarbonising industries outside the energy sector (e.g. chemicals, steel) where low-carbon technologies are more limited. But for decarbonising the energy sector, its cost appears uncompetitive compared to replacing oil & gas with renewable sources.<sup>xxvi</sup>

As shown in Figure 4, the NZE does not entail more BECCS and afforestation than the P2 pathway and some of the NGFS scenarios (although it should be noted that the IEA also considers approximately 1Gt of CO<sub>2</sub> to be captured from DAC in 2050). However, the NZE makes aggressive assumptions around the deployment of CCS. The IEA assumes that CCS would capture 1.6 Gt of CO<sub>2</sub> emissions as soon as 2030, growing to 7.6 Gt per year by 2050.

According to the Global CCS Institute, there are currently 27 operational facilities capturing 37 million tonnes per year (Mtpa) and 106 facilities at different stages of development expected to capture an additional 111 Mtpa (of which only 4 currently under construction, representing 3.1 Mtpa).<sup>xxvii</sup> The total identified potential equates to less than 10 per cent of the IEA proposed capture rate in 2030. Another study has also shown that many past CCS projects have ended in failure.<sup>xxviii</sup>

The IEA’s optimistic assumption leaves excessive room in its scenario for production and consumption of fossil fuels – gas in particular – creating greater risks of stranded assets. The IEA itself recognises that “the prospects for the rapid scaling up of CCUS are very uncertain for economic, political and technical reasons”.<sup>xxix</sup> Recognising these challenges, the IEA has constructed a Low CCUS case scenario<sup>1</sup> (CO<sub>2</sub> emissions captured from fossil fuels are only around 150 Mt in 2050) which finds that faster, direct reductions in fossil fuel emissions can be achieved with greater investment in clean energy sources, removing the need to expand fossil fuel CCS.

The extent to which more capital would need to be mobilised in this case is debatable. The IEA estimates additional cumulative investment to reach net-zero emissions in 2050 to be US\$15 trillion higher in the low-CCUS case than in the NZE. However, the IEA is likely to be underestimating the growth potential and cost declines of renewable energy while overestimating those of CCS.<sup>xxx</sup>

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1 The IEA has not published full data on the Low CCUS scenario.

Figure 4 also illustrates how several net-zero pathways produced by the NGFS make even more aggressive assumptions than the NZE on the deployment of CDR and/or CCS, allowing for even more capital investment in oil & gas. Some of these scenarios exceed the maximum sustainable potential for BECCS (5Gt of CO<sub>2</sub>) and afforestation (3.6Gt of CO<sub>2</sub>) deployment by mid-century considered by the IPCC.<sup>xxxii</sup>

Higher reliance on CDR post-2050 compared to P1 and P2 scenarios in particular poses serious risk of high temperature overshoot. It is therefore worrying that NGFS scenarios are considered credible by the NZBA for banks' use in target setting. If these assumptions are not reviewed to allow for a more robust 1.5C pathway, ShareAction recommends using NGFS scenarios for explorative scenario analysis purposes only.

Figure 4: Carbon captured and removed in various 1.5C climate scenarios

Gt CO <sub>2</sub>	Carbon Dioxide Removal						Carbon Capture and Storage					
	BECCS			Afforestation			Global CCS			Fossil CCS		
	2030	2050	2100	2030	2050	2100	2030	2050	2100	2030	2050	2100
<b>IEA NZE</b>	0.3	1.4	NQ	NQ	NQ	NQ	1.7	7.6	NQ	1.2	3.6	NQ
<b>NGFS</b>												
GCAM- Net Zero	0.3	5.1	4.5	NQ	NQ	NQ	0.4	10.6	7.1	0.1	2.2	1.2
GCAM - Divergent Net Zero	0.7	4.0	7.5	NQ	NQ	NQ	1.1	10.0	12.4	0.4	2.5	3.0
MESSAGE - Net Zero	0.0	1.0	6.1	0.9	2.1	4.8	0.9	4.0	13.4	0.7	2.2	5.9
MESSAGE - Divergent Net Zero	0.0	0.9	7.3	0.9	2.0	4.6	0.8	3.0	9.6	0.6	1.3	0.9
REMIND - Net Zero	0.6	5.3	4.6	0.4	0.2	0.3	1.3	8.5	7.4	0.5	2.1	1.9
REMIND - Divergent Net Zero	0.4	3.8	4.8	0.4	0.2	0.4	1.0	6.0	7.6	0.6	1.3	1.4
<b>IPCC</b>												
P1	0.0	0.0	0.0	NQ	NQ	NQ	0.0	0.0	0.0	0.0	0.0	0.0
P2	0.0	1.4	3.2	NQ	NQ	NQ	0.5	6.3	5.3	0.5	4.9	2.0

Source: IEA, IASA scenario explorer. NQ: not quantified.

Where to draw the line between required and unrequired supply could be the result of arbitrary economic considerations in the IEA's Net-Zero Emissions scenario. The cut-off date for investment in new oil & gas fields could have been earlier had the IEA published the scenario earlier.

One of the core principles underpinning the NZE is “an orderly transition across the energy sector [...], minimising stranded assets where possible”.<sup>xxxii</sup> According to [a recent report by Greenpeace, IISD, and Oil Change International](#), this could explain why the investment guidance focuses on ‘new’ fields, with the 2021 cut-off date being “an artefact of the modelling process”.<sup>xxxiii</sup> The development phase of ‘existing’ fields, which entails the construction of wells and related infrastructure, involves high amounts of capital expenditure and extending the guidance to these assets would limit cost recovery.

In other words, it is not because existing fields fully fit in a 1.5C-aligned carbon budget that they are allowed in the NZE. Socio-economic considerations come into play beyond what is possible to achieve under a 1.5C-aligned carbon budget. Had the IEA published the NZE earlier, it is likely that it would have recommended no further investment in the then ‘new’ fields that are currently being developed. So while the NZE might artificially minimise stranded asset risk for oil & gas in the scenario today thanks to optimistic CCS assumptions, this risk might materialise down the road should demand decline quickly enough to limit global warming at 1.5C.

**As with all climate scenarios, the probability of achieving a 1.5C temperature outcome in the IEA's Net-Zero Emissions scenario is no more than a flip of a coin. This calls for a precautionary approach.**

When assessing the implications of the IEA's guidance for the oil & gas sector, it is important to remember that, as with all climate scenarios, it entails a high-level of uncertainty. The carbon budget associated with the 1.5C warming outcome is given with a 50 per cent probability. In other words, the chances that this budget would allow the world to keep global warming within the 1.5C limit is no more than the flip of a coin. ShareAction therefore advocates for a precautionary approach to target setting and portfolio alignment.<sup>xxxiv</sup> This means treating the NZE's guidance for the oil & gas sector as an absolute minimum level of ambition.

# Financing oil & gas expanders is a risky bet for banks

4



# Financing oil & gas expanders is a risky bet for banks

## The oil & gas sector shows no willingness to stop investing in additional capacity

While the oil & gas sector is never the most predictable and stable business, it has faced exceptionally high volatility in the past few years. Over (and under) supply, weak economic growth outlook, geopolitical uncertainty, and the Covid-19 pandemic have all put the sector on a seemingly endless rollercoaster. After plunging to historic lows in 2020, the oil price is now skyrocketing above 2018 levels.

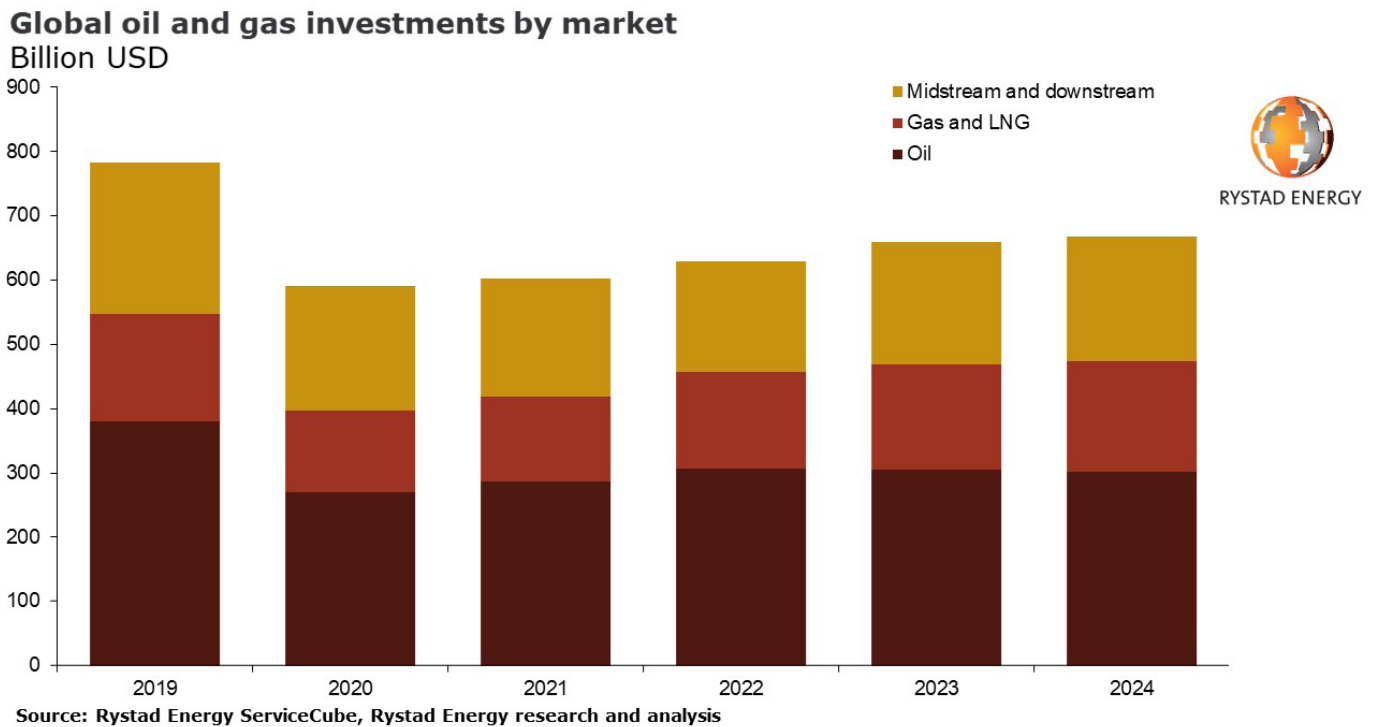
Meanwhile, oil & gas companies face an existential choice in the face of the looming climate crisis: continue investing in fossil fuel reserves; diversify into renewable and low-carbon energy; and/or focus on returning value to shareholders and shrink operations. Investors and financiers committing to align their portfolios with net-zero by 2050 cannot support companies adopting the former approach.

## Although they might be cautiously assessing the situation, most oil & gas companies are still significantly expanding fossil fuel production

Despite the rebound in oil prices, global capital expenditure registered mixed growth in 2021 compared to 2020.<sup>xxxv</sup> Many companies are reportedly taking a cautious approach as the price outlook remains uncertain.<sup>xxxvi</sup> Guidance across the board has been dominated by a focus on capital and production discipline as well as debt reduction, with moderate increases in capital budgets in part driven by inflation, with little room for upstream growth. Deloitte also finds that over 75 per cent of oil & gas executives believe that oil prices above US\$60 per barrel (over US\$80 at the time of writing) will most likely boost or complement their energy transition in the near term.<sup>xxxvii</sup>

However, while budgets might be modest relative to the recent increase in oil & gas prices, projected investment growth is significant. Rystad Energy estimates that global oil & gas investment will increase by US\$26 billion this year to hit US\$628 billion in 2022. This will be mainly driven by a 14 per cent increase in upstream gas and LNG investments while oil investments are expected to rise by 'only' seven per cent.<sup>xxxviii</sup> Rystad also notes that growth in 2022 is 'pre-programmed' by the US\$150 billion worth of greenfield projects sanctioned in 2021 (up from US\$80 billion in 2020), and that "sanctioning activity in 2022 is likely to closely match 2021 levels, with a similar amount of project spending to be unleashed over the short to medium term."

Figure 5: Global oil & gas investment by market



Source: Rystad Energy

According to the [Global Oil & Gas Exist List](#) (GOGEL) launched by Urgewald in November 2021, nearly all<sup>2</sup> upstream oil & gas companies are still exploring or preparing to develop new oil & gas reserves.<sup>xxxix</sup> Upstream companies listed on the GOGEL have spent nearly US\$170 billion on exploration for new oil & gas resources over the past three years and 80 per cent of them are planning to increase capacity of their production portfolios within one to seven years, in total contradiction with the NZE guidance.

The bulk of this expansion is concentrated in the hands of a few companies. Over half of the exploration capex was spent by 16 companies, and 14 companies are responsible for over half of the near-term additional capacity. These companies include the likes of BP, Chevron, Equinor, ExxonMobil, Gazprom, TotalEnergies, and Shell.<sup>xi</sup> Net-zero plans and acknowledgements of the need to reduce production by some of these leading companies therefore seem hollow. And targets to reduce carbon intensity are meaningless if production increases or is maintained at levels incompatible with a 1.5C warming outcome.

2 95 per cent of companies listed in the GOGEL (887 companies of which 692 are active across upstream operations), which covers 94.6 per cent of oil & gas production, 96 per cent of ‘short-term expansion’ (defined on page X), and 91 per cent of capital expenditures for exploration activities.



## Many companies are still looking to expand production from unconventional oil & gas assets despite their higher financial and environmental costs

Not only are oil & gas companies' expansion plans dangerously misaligned with credible 1.5C scenarios, but the nature of the expansion pipeline is a cause of great concern. According to the GOGEL, 50 per cent of the industry's planned expansion comes from 'unconventional' sources, i.e. oil sands, extra-heavy oil, fracking, Arctic oil & gas, ultra-deepwater, and coalbed methane.

These supply segments carry significant environmental and social risks<sup>xii</sup> and can be more costly to develop than conventional types of oil.<sup>xiii</sup> But this didn't deter Equinor, Vår Energi and OMV (later replaced by Lundin Energy) from acquiring stakes in the Barents Sea in 2021 (see case study in section 3).

European majors' appetite for some of these risky assets could be dwindling as they show more willingness to transition compared to US counterparts. Shell completed a US\$9.5 billion sale of shale fields in the Permian basin to ConocoPhillips in 2021<sup>xiii</sup> and TotalEnergies wrote down US\$7 billion worth of oil sands assets in 2020.<sup>xiv</sup> This does not, however, contribute to mitigating climate risk unless assets are managed and retired in line with 1.5C pathways.





## Discussion: Are current tensions in energy markets due to climate policies, and do they justify increasing investments in new fossil fuel capacity?

The sharp increase of prices for key fuels in 2021 is putting significant pressure on household energy bills and businesses. Increases in natural gas prices prompted substantial switching to the use of coal to generate electricity in key markets across the United States, Europe and Asia. Higher gas and coal prices, combined with rising European carbon prices, have resulted in higher electricity prices. Prices at the pump in many countries are at or near their highest levels in years.<sup>lxxxii</sup> This situation has led to wide promotion of the idea that climate action is to blame for the current energy crisis.<sup>lxxxiii</sup> At the same time, concerns from parts of the industry about underinvestment could lead companies to justify approving new projects to profit from what they see as a new commodities supercycle.

The IEA has made clear that this argument is not accurate and in fact, quite the opposite is true – it is the insufficiency of current clean energies policies that is exacerbating pricing challenges. While acknowledging the impact of subdued investment in recent years due to the 2015 and 2020 oil price crashes, the energy watchdog stated again<sup>lxxxiv</sup> and again<sup>lxxxv</sup> that current high fuel prices are the result of a combination of supply and demand factors.

These include the strong rebound of the global economy from covid-related contractions (the largest economic rebound in the last 50 years), weather-related impacts (including cold winters in the northern hemisphere, droughts in emerging markets, and extremely low average windspeeds in Europe), supply outages due to maintenance (LNG-related outages were 30 per cent higher in 2021 than the 2015–2020 average), and the strategies of some major energy producers that appear to be causing “artificial tightness” in markets.

While hiccups are to be expected considering the transformative nature of the low-carbon transition, the factors driving the current energy crisis seem to be of exceptional severity. The IEA recognises that it is “legitimate for countries to take emergency measures such as temporary relief from some taxes or charges to ease the burden on consumers, especially the most vulnerable”, but notes that these measures should not “worsen the investment environment for low-carbon energy sources and technologies which are vital for the transition to cleaner and more resilient energy systems.” The IEA’s Executive Director Fatih Birol recently said that “Much stronger investment in low-carbon energy technologies [...] is the way out of this impasse. But this needs to happen quickly or global energy markets will face a turbulent and volatile period ahead.”<sup>lxxxvi</sup>

## Short-term profits will come at a high cost for companies and their financiers

Oil & gas expansion, particularly high-cost projects, expose companies and their financiers to severe financial risks. They also expose them to reputational risks.

**Current oil & gas expansion plans lead to a lose-lose scenario: assets become stranded because of a decline in demand, or value is destroyed because of the long-term effects of climate change.**

Oil & gas expansion plans can only have two outcomes if they are not urgently scaled down. If demand decreases in line with 1.5C scenarios, prices will fall and assets that don't meet the promised rate of return will become stranded. If continued use of fossil fuels doesn't wane to the extent necessary to limit global warming to 1.5C, the economy will suffer from severe physical impacts of climate change. Capital at risk<sup>xlv</sup> and reductions in global economic output<sup>xlvi</sup> are estimated in the trillions. Physical risks will not spare the oil & gas industry either – the IEA estimates that 25 per cent of onshore LNG facilities and 10 per cent of coastal oil refineries are already “at risk of experiencing severe coastal floods”, adding that “these levels of risk will increase as sea levels rise.”<sup>xlvii</sup> Either way, value will be destroyed for companies and their financiers.

Even if the low-carbon transition turns out to be slower than expected by the NZE, the status quo is unsustainable. A survey of 250 institutional investors conducted by BCG recently found that two-thirds of investors think peak oil demand will occur by 2030.<sup>xlviii</sup> The transition will inevitably lead to lower oil & gas demand and this will translate into lower prices, greater competition for market share and lower revenues. Transition risk thus increases with each new field that gets approved.

Using a least-cost approach that assumes that any supply gap is satisfied by the cheapest unsanctioned project options, Carbon Tracker has estimated the percentage of unsanctioned capex compatible with a range of IEA scenarios for the 60 largest listed companies.<sup>xlix</sup> It finds that most companies would see at least half of their unsanctioned assets at risk of stranding under a slower, well-below 2C pathway (SDS). Among the most exposed companies are those that have significant exposure to high-cost and unconventional segments, such as shale, which is expected to register the sharpest production declines (total capex falling by at least 70 per cent under the SDS).

The oil industry wrote down US\$145 billion in assets in 2020<sup>i</sup>, and this could be a foretaste of the challenges companies will face in an era of permanently lower demand. Yet despite the growing awareness of these risks, companies like ExxonMobil, Petrobras, Shell, TotalEnergies, and Woodside Petroleum sanctioned multi-billion-dollar projects in 2020 that are not even aligned with the SDS.<sup>ii</sup> Carbon Tracker's analysis also shows that some players are still

considering approving large projects that are not even consistent with pathways implied by previous national commitments (IEA's Stated Policies Scenario, estimated at 2.7C warming) and at very high-risk of becoming stranded.

Oil & gas companies won't be able to ignore emerging policy action much longer. At COP26, 20 countries, including the US and the UK, pledged to stop public financing for fossil fuel projects overseas.<sup>liii</sup> Costa Rica and Denmark also launched the Beyond Oil & gas Alliance (BOGA), now counting 11 countries and subnational jurisdictions, in an effort to bring together countries and subnational jurisdictions that have committed to ending new licensing for oil & gas exploration and production, or have taken steps towards that goal.<sup>liiii</sup> BOGA members also recognise the need to phase out fossil fuel extraction to tackle the climate crisis.

### Banks supporting oil & gas expansion face significant reputational risks

With the effects of climate change becoming more visible each day, the reputational risks for fossil fuel companies and their financiers are increasing rapidly. UNEP FI notes that "One key way that reputational impacts tend to differ from policy or market and economic impacts is that they have the capacity to occur very suddenly."<sup>liv</sup> This creates a volatile environment where the economic potential of a project can quickly be outweighed by the reputational damage occurring (see cases studies below).

As energy companies go to riskier lengths to expand their operations, the stakes become higher. Unconventional oil & gas projects often cause greater environmental destruction and social harm, for example by expanding into Indigenous people's territories. In addition, legal challenges are becoming a popular means for activists to try to stop projects but also put media pressure on companies (see case study on the Barents Sea case in section 3). Global environmental movements such as Fridays for Future and Extinction Rebellion are increasingly putting the spotlight on expansion projects and are targeting not only energy companies but also their financiers. This, coupled with the ever-growing divestment movement,<sup>lv</sup> mean that banks supporting clients with no specific red lines on expansion face high reputational risks.



## Case study: Cambo oil field – Expansion too risky an investment?

**Status:** Paused

**Largest European financiers of companies in scope:** Shell (BNP Paribas, Barclays, HSBC)

The Cambo oil field in the North Sea would significantly expand the UK offshore oil industry. Cambo's total greenhouse gas emissions are calculated to be 75 Mt of CO<sub>2</sub>e, which is equivalent to the annual emissions of 18 coal-fired power plants.<sup>lvi</sup> If the full project is approved, Cambo could be producing oil well past 2050, the date by which the UK government as well as the majority of banks analysed have pledged to achieve net zero emissions.<sup>lvii</sup>

In December 2021, Shell withdrew from the project, saying there wasn't a strong enough 'economic case' for the investment, also noting the 'potential for delays.'<sup>lviii</sup> Contributing to these delays could be the huge backlash from civil society, including the Stop Cambo campaign and a legal challenge led by Greenpeace against the UK government.<sup>lix</sup>

The retreat of Shell is seen by one energy industry source as the 'death knell' for major new developments in the North Sea, and Cambo is now paused indefinitely.<sup>lx</sup> Despite this, on the horizon is a lesser-known mega-expansion project which is expected to produce double the emissions of Cambo. Rosebank oil field, operated by Equinor, is set for a Final Investment Decision in 2022.<sup>lxi</sup>



## Case study: Cabo Delgado – Expanding natural gas supply at the cost of poverty and violence

**Status:** Golfinho–Atum field (Area 1) – in development; Coral field (Area 4) – in development; Mamba field (Area 4) appraisal

**Largest European financiers of companies in scope:** China National Petroleum Corporation (UBS, HSBC, Standard Chartered); Eni (UniCredit, BNP Paribas, Intesa Sanpaolo); ExxonMobil (Barclays, HSBC, Société Générale); Galp Energia (Société Générale, UniCredit, Santander); TotalEnergies (Crédit Agricole, Barclays, Société Générale)

Natural gas supply is being expanded at a high cost in the Cabo Delgado province in Mozambique, with the TotalEnergies-led consortium in offshore Area 1 and the Rovuma Venture (CNPC, ExxonMobil, Eni) and its partners conducting ultra-deepwater activities in offshore Area 4. These developments are still underway despite the significant challenges the LNG industry is facing in the region, driven by the development of three major LNG projects: Mozambique LNG (linked to Area 1 developments), and Rovuma LNG and Coral South FLNG projects (linked to Area 4 developments). Taken together, the projects would constitute the largest industrial investment in Africa, as fossil fuel expanders and their backers intend to invest US\$50bn.<sup>lxxxviii</sup>

The FID for Mozambique LNG's project was taken in June 2019, but all activities were paused indefinitely in March 2021 due to outbreaks of violence. Data collected for this analysis shows that Crédit Agricole, Société Générale, and Standard Chartered are directly financing the project. The FID for the Rovuma LNG project was delayed to 2022, due to financial concerns.<sup>lxxxix</sup> Delays and lower than expected revenues indicate that projects of this nature are a poor investment, even before considering the climate and human rights impacts of continued development,<sup>xc</sup> posing a significant reputational risk to banks funding these projects.

It has been reported that gas companies have contributed to destabilising the region. By bulldozing villages, displacing people and breaking compensation agreements they have pushed the region into greater poverty and civil unrest.<sup>xcii</sup> The promise of 'gas for development' has not materialised as, despite years of extracting fossil fuels, annual GDP growth rates in Mozambique have progressively fallen.<sup>xciii</sup> Just 30 per cent of the country has access to electricity and 95 per cent of the gas from these projects will be exported.<sup>xciii</sup> A district mayor in Cabo Delgado wished the gas had never been discovered, saying "The environment has been destroyed and law and order has collapsed. Nowhere in Africa, have oil & gas been good for the people."<sup>xciv</sup>

# The European banking sector supports the largest upstream oil & gas expanders

5



# The European banking sector supports the largest upstream oil & gas expanders

This section looks at the financing provided by the largest 25 European banks to 50 upstream oil & gas expanders between 2016 and 2021. The companies in scope of this analysis include the top 20 European and 30 non-European expanders. Financing activities include lending and capital markets activities (see methodology in Appendix 1 and 2).

Figure 1: Financing volumes from the largest 25 European banks to 50 upstream oil & gas expanders between 2016 and 2021

All amounts are in million US\$		NZBA member	2016	2017	2018	2019	2020	2021	TOTAL	Top 3 companies financed
1	<b>HSBC</b>	Yes	6,591	9,668	5,097	10,941	18,161	8,664	<b>59,121</b>	Exxon Mobil, Pemex, Saudi Aramco
2	<b>Barclays</b>	Yes	9,660	3,787	6,132	9,021	15,193	4,527	<b>48,319</b>	Exxon Mobil, Shell, BP
3	<b>BNP Paribas</b>	Yes	5,746	4,028	5,304	8,948	15,359	6,992	<b>46,379</b>	Shell, Saudi Aramco, BP
4	<b>Crédit Agricole</b>	Yes	3,809	4,795	4,782	8,047	8,772	4,573	<b>34,778</b>	Petrobras, BP, Saudi Aramco
5	<b>Société Générale</b>	Yes	4,448	3,073	4,117	7,537	10,859	4,321	<b>34,353</b>	Exxon Mobil, BP, Saudi Aramco
6	<b>Deutsche Bank</b>	Yes	7,491	3,807	1,833	2,880	6,566	5,747	<b>28,325</b>	Shell, Exxon Mobil, Qatar Petroleum
7	<b>Santander</b>	Yes	4,923	2,898	2,663	5,795	5,901	1,219	<b>23,399</b>	Petrobras, Pemex, BP
8	<b>Credit Suisse</b>	Yes	4,440	2,502	1,399	4,153	2,333	3,272	<b>18,099</b>	Diamondback Energy, BP, Pioneer Nat. Resources
9	<b>Standard Chartered</b>	Yes	1,572	1,255	1,957	5,181	3,341	3,096	<b>16,402</b>	Saudi Aramco, Occidental Petroleum, Chevron
10	<b>UniCredit</b>	Yes	2,022	1,345	1,798	2,530	4,344	1,555	<b>13,594</b>	Eni, OMV, Gazprom
11	<b>ING</b>	Yes	1,902	1,868	1,802	3,319	1,651	2,054	<b>12,596</b>	Eni, Harbour Energy, Aker BP
12	<b>Intesa Sanpaolo</b>	Yes	3,101	597	2,181	2,616	1,350	1,989	<b>11,835</b>	Gazprom, Eni, Novatek
13	<b>UBS</b>	Yes	2,072	2,634	3,234	2,360	441	466	<b>11,208</b>	Woodside Petroleum, BP, Pemex
14	<b>BPCE</b>	Yes	1,316	989	1,437	2,369	2,668	2,281	<b>11,060</b>	Energear, Shell, TotalEnergies
15	<b>BBVA</b>	Yes	2,251	1,780	1,744	2,078	2,551	399	<b>10,803</b>	Pemex, Repsol, TotalEnergies
16	<b>Lloyds Banking Group</b>	Yes	1,005	655	863	649	2,374	373	<b>5,918</b>	BP, Shell, Harbour Energy
17	<b>Commerzbank</b>	Yes	164	1,009	783	1,451	1,521	906	<b>5,835</b>	BP, Wintershall Dea, OMV
18	<b>NatWest</b>	Yes	318	936	493	550	1,139	938	<b>4,373</b>	BP, Eni, Harbour Energy
19	<b>Nordea</b>	Yes	790	927	222	751	685	796	<b>4,171</b>	Aker BP, Lundin Energy, Eni
20	<b>Danske Bank</b>	Yes	546	533	207	1,066	570	613	<b>3,536</b>	Aker BP, Lundin Energy, DNO
21	<b>DZ Bank</b>	Yes (1)	31	11	415	878	-	66	<b>1,402</b>	OMV, Gazprom, Pemex
22	<b>CaixaBank</b>	Yes	-	170	-	93	135	89	<b>487</b>	Gazprom, TotalEnergies
23	<b>Crédit Mutuel</b>	Yes	9	86	100	102	-	-	<b>297</b>	Petronas, Eni, Woodside Petroleum
24	<b>Rabobank</b>	Yes	11	113	9	22	-	-	<b>156</b>	Saudi Aramco, Gazprom, Lukoil
25	<b>La Banque Postale</b>	Yes	-	48	-	-	-	-	<b>48</b>	TotalEnergies
	<b>TOTAL</b>		<b>64,217</b>	<b>49,516</b>	<b>48,573</b>	<b>83,337</b>	<b>105,914</b>	<b>54,937</b>	<b>406,494</b>	

Data provided by [Profundo](#) who relied on Refinitiv, Bloomberg, Trade Finance Analytics, IJGlobal, company disclosures and media archives to identify financing transactions (see methodology in Appendix 1)

(1) DZ Bank is a member of the Net-Zero Banking Alliance Germany<sup>lxii</sup>



## European banks have financed upstream oil & gas expanders to the tune of US\$406.5 billion since 2016 – and show no sign of stopping

European banks are often said to lead the industry pack on climate change. But this has not prevented Europe's largest 25 banks, all of which have committed to net-zero, from pouring US\$406.5 billion into upstream oil & gas expanders since the Paris agreement was signed (2016–2021). HSBC comes at the top of the ranking, followed by Barclays, BNP Paribas, Crédit Agricole, and Société Générale.

On average, European banks' annual financing of the top 50 upstream oil & gas expanders in scope has increased between 2016 and 2021. After an increase in 2020 – which can be partly explained by increasing liquidity needs from companies suffering from the effects of economic lockdowns<sup>lxiii</sup> – financing activity dropped significantly in 2021 but remains consistent with pre-pandemic levels (2016–2019 average).

BNP Paribas (+ 16 per cent), BPCE (+ 49 per cent), Deutsche Bank (+ 44 per cent), NatWest (+ 63 per cent), Nordea (+ 18 per cent) and Standard Chartered (+ 24 per cent) all saw significant increases of their financing to the top 50 upstream oil & gas expanders in 2021 compared to their 2016–2019 average.

As this report focuses on European banks, we looked at whether narrowing the analysis to European-based upstream oil & gas expanders had any impact on the overall ranking. On this analysis, Barclays and HSBC – two banks who argue that they should not be compared to European banks due to their strong North American and Asian presence – rank second and fourth, respectively.

HSBC's financing of European-based upstream oil & gas expanders is 27.5 per cent of its financing to the 50 companies in scope, but its average annual financing of European-based upstream oil & gas expanders has increased steadily since 2016. Barclays's European share is 54 per cent. This confirms that despite their geographical footprint, on absolute terms, HSBC and Barclays have a material influence on the financing that goes to new oil & gas projects built and operated by European companies. Rankings focusing on European and non-European expanders are included in Appendix 3.

## Net-zero commitments are yet to curb financing to oil & gas expanders

NZBA members in scope of this analysis provided at least US\$38 billion in financing to the top 50 upstream oil & gas expanders since the launch of the alliance. Half of that amount was provided by four of the founding signatories: Barclays, BNP Paribas, Deutsche Bank, and HSBC. NZBA members have committed to set emission reduction targets for their energy portfolios, but the alliance's guidelines are silent on fossil fuel expansion.

Since Barclays and HSBC committed to align with net-zero by 2050 (in March and October 2020 respectively), they provided US\$13 billion and US\$10.2 billion in financing to the top 50 upstream oil & gas expanders, respectively. HSBC was the most active bank in the European group from the date of its net-zero commitment until the end of 2021 and increased financing by seven per cent in 2021 compared to its 2016-2019 average. While Barclays remains one of the largest financiers of upstream oil & gas expanders in 2021 (5th largest), the bank saw its financing of the top 50 expanders decrease by 37 per cent compared to its 2016-2019 average.

## European banks' support to upstream oil & gas expanders is much broader than direct lending to oil & gas projects

Our data also shows that, between 2016 and 2021, 92 per cent of financing to the top 50 upstream oil & gas expanders was in the form of general purpose corporate finance, with only eight per cent of finance coming in the form of project finance or dedicated financing. This corroborates other findings showing that most energy investments are financed primarily from company balance sheets,<sup>lxiv</sup> and illustrates the importance of banks to restrict financing to both fossil fuel projects and to the companies building and operating them.

Banks' support to companies expanding upstream operations is not limited to lending either. We find that between 2016 and 2021, 57 per cent of the financing provided to the top 50 upstream oil & gas expanders was in the form of capital markets underwriting. This clearly illustrates the need for banks to cover capital markets activities in their sectoral policies and portfolio targets.

Over the last couple of years, BNP Paribas, ING, Société Générale, and Standard Chartered set decarbonisation targets for their lending to oil & gas clients, excluding capital markets activities. This exclusion is problematic, considering that capital markets activities were responsible for a significant portion of their total financing to the top oil & gas expanders in 2020: 59 per cent for BNP Paribas, 17 per cent for ING, 62 per cent for Société Générale, and 44 per cent for Standard Chartered.

Credit Agricole also set a target covering its oil portfolio in 2021 but didn't specify the financing activities covered. Its capital markets underwriting to the top 50 upstream oil & gas expanders in scope represented 65 per cent of its total financing in 2020 and 27 per cent in 2021.



## Discussion: Portfolio targets are no substitute for robust sectoral policies

Regardless of the methodology, targets and portfolio alignment metrics allow for offsetting between high-carbon and low-carbon activities and do not differentiate carbon intensive assets from a broader ESG perspective.<sup>lxv</sup> For example, a barrel of oil sourced from the Arctic Circle or the Canadian oil sands would be treated as equivalent to any other barrel of oil. Similarly, targets and alignment disclosures could lead to a reduction of exposure to the oil & gas sector without necessarily reducing exposure to oil & gas clients with expansion plans.

Robust sectoral policies with clear and timebound requirements are more effective than target-setting methodologies for banks seeking to align financing with the goals of the Paris Agreement. They set clear expectations for clients and incentivise them to transition, while signalling that their cost of capital might increase if they do not.

## European banks are supporting companies expanding unconventional oil & gas production

In 2021, 22 out of the 25 European banks financed at least one company whose expansion plans mainly focus on unconventional oil & gas, i.e. the share of unconventional oil & gas in their expansion plans is above 50 per cent. Barclays (US\$3.2 billion) was the largest financier of such companies in 2021, reflecting its poor performance on unconventional oil & gas policies more generally (see section 4). The second and third largest financiers of these unconventional upstream expanders were Société Générale (US\$2.9 billion), and BNP Paribas (US\$2.5 billion), despite the steps they have taken to address this issue. This reinforces ShareAction's assessment that these policies remain incomplete, especially as they do not explicitly refer to companies' expansion plans (see section 4)

And on 11 November 2021, as COP26 was unfolding, a syndicate of banks including BNP Paribas, Credit Agricole, ING, Intesa Sanpaolo, BPCE, Société Générale, and UniCredit provided a US\$6 billion loan to Vår Energi. The company is one of the largest upstream oil & gas expanders in the Arctic region,<sup>lxvi</sup> where it produced more than half of its total oil & gas production in 2020, according to the GOGEL.



## Case study: Barents Sea – European expansion in the Arctic

**Status:** Johan Castberg oil field – in development; Wisting oil field – appraisal

**Largest European financiers of companies in scope:** Equinor (Barclays, BNP Paribas, Deutsche Bank), OMV<sup>3</sup> (UniCredit, Crédit Agricole, Barclays), Lundin Energy (BNP Paribas, Nordea, Danske Bank), Vår Energi (BNP Paribas, ING, UniCredit)

Oil was first discovered in the Barents Sea, north of Norway, in the 1980's but has rarely been brought to production due to the extreme conditions and risks of Arctic drilling. However, the last few years have seen an explosion of expansion, with the Johan Castberg field set to start production in 2023 and the Wisting project under appraisal and intended for an FID by the end of 2022.<sup>lxvii</sup>

In their quest for expansion, Equinor, Lundin Energy and ten more of the companies we have analysed are pushing further into the Arctic wilderness than ever before. The lives of millions of Arctic animals are at risk, with the effects of climate change heating the Arctic twice as fast of as the rest of the world and the black soot released by Arctic oil production causing ice to melt.<sup>lxviii</sup> Nearby Bear Island, a nature reserve home to some of the largest bird colonies in the world, would be devastated by even the smallest oil spill, and so would the delicate Arctic marine ecosystem home to white-beaked dolphins, minke whales and walrus.<sup>lxix</sup>

In addition to environmental destruction, expanders in the Barents Sea face reputational and legal risks, with the European Court of Human Rights set to decide this year if Arctic Drilling in Norway violates human rights due to its climate impacts.<sup>lxx</sup>

3 OMV AG had been involved in developing the Wisting oil field but announced in October 2021 it was selling its 25 per cent stake to Lundin Energy AB. <https://www.omv.com/en/news/211028-omv-sells-its-stake-in-the-norwegian-oil-field-wisting-to-lundin-energy-ab>

Oil & gas  
expansion  
policies are  
rare among  
European  
banks

6



# Oil & gas expansion policies are rare among European banks

This section reviews the policies implemented by the 25 largest European banks to restrict oil & gas financing. It includes a comparison of policies in relation to:

- **General oil & gas (regardless of the source):** project finance restrictions, financing criteria for companies expanding oil & gas activities, and requirements for oil & gas clients to produce transition plans
- **Four unconventional oil & gas segments (Arctic oil & gas, fracking, oil sands, and ultra-deepwater oil & gas):** project finance restrictions, corporate thresholds for companies involved in unconventional oil & gas activities, and phase-out commitments

As discussed in section 2, unconventional activities pose serious environmental and/or social risks and should be prioritised for restriction before being phased out on an accelerated timeline. It is important to note, however, that current restrictions and phase-out commitments in relation to unconventional oil & gas do not necessarily have a direct link to upstream expansion, especially on the corporate side. For example, a bank could phase-out financing to a company with exposure to oil sands by 2030 but continue financing its expansion activities in the meanwhile. Or a bank could restrict financing for companies deriving more than 30 per cent revenues from Arctic oil & gas, while continuing to finance Arctic expansion activities of companies whose revenues remain within that limit. These restrictions and phase-out measures are a step in the right direction, but **banks should urgently publish explicit expansion criteria for the oil & gas sector.**

While this report focuses on upstream oil & gas, the analysis includes an overview of restrictions in relation to midstream activities for reference, due to the enabling role they play in oil & gas expansion. Midstream activities reviewed focus on transportation (e.g. pipelines) and do not cover other types of infrastructure (e.g. LNG terminals). Assets on the consumption side (e.g. gas-fired plants) are also beyond the scope of this analysis. ShareAction will consider reviewing restrictions in relation to these activities in future research.

## Overview of European banks' policies for the oil & gas sector

Increasingly banks are taking steps to restrict financing to companies expanding thermal coal. When ShareAction published its ['leading practice' report](#) in September 2021, roughly a third of the 25 European banks covered in the report had implemented restrictions for companies developing thermal coal mining and/or power capacity. Others are following suit. Less than six months later, nearly half of these banks are taking measures to rein in coal expansion. Thanks to investor pressure, banks like HSBC have started to tackle this issue,<sup>lxxi</sup> albeit with significant room for improvement.<sup>lxxii</sup>

However, while many banks have now committed to align with net-zero emissions by 2050 at the latest, progress on oil & gas remains modest (see Figure 6). With less than 9 years to make or break the 1.5C goal, it is time for banks to send strong signals to oil & gas expanders and implement the findings of the NZE as a minimum level of ambition in their policies.

Figure 6: Oil & gas policies analysis - summary table

Bank	UNCONVENTIONAL OIL & GAS (oil sands (O), fracking (F), Arctic (A), ultra-deepwater (D))						GENERAL OIL & GAS							
	Asset finance		Corporate finance			Phase-out	Arctic Definition	Asset Finance		Oil and gas expanders		Phase-out	Client Transition Plans	
	Upstream	Midstream	Relative threshold		Midstream			Upstream	Midstream	Upstream	Midstream		Required	By
Barclays	(F**,A)	N	(F**,A)	50% revenues <sup>(1)</sup>	N	N	Y**	N	N	N	N	N	-	
BBVA	(O,A)	(O,A)	(O*)	10% production	(O)	N	N	N	N	N	N	N	-	
BNP Paribas	(O,F,A)	(O,F,A)*	(O,F,A)	30% prod, vol, res, rev <sup>(2)</sup>	(O,F,A)*	N	Y**	N	N	N	N	N	-	
BPCE	(O,F,A)	(O*)	(O,F)	25% activity	(O*)	N	Y*	N	N	N	N	N	-	
CaixaBank	(O,F,A)	(O*)	(O*)	10% revenues	N	N	N	N	N	N	N	N	-	
Commerzbank	(O,F,A,D)**	N	N <sup>(5)</sup>	-	N	N	N	Y**	N	Y**	N	N	-	
Crédit Agricole	(O*,F,A)	(O,A)*	(O*,F)	30% activity	N	N	Y*	N	N	N	N	N	-	
Crédit Mutuel	(O,F,A,D)	(O,F,A,D)*	(O,F) <sup>(3)</sup>	30% activity <sup>(3)</sup>	N	N	Y*	Y	Y	N <sup>(3)</sup>	N	N	-	
Credit Suisse	(A)	(A)	N	-	N	N <sup>(4)</sup>	Y*	N	N	N	N	N	-	
Danske Bank	(O,F,A,D)	N	(O,F,A,D)**	5% revenues	N	N	Y*	Y	N	N	N	Y**	2023	
Deutsche Bank	(O*,F**,A*)	(O)	N	-	N	N	Y*	N	N	N	N	N	-	
DZ Bank	(O,F)**	N	(O,F)**	5% revenues	-	N	N	N	N	N	N	N	-	
HSBC	(O,A)**	(O*)	N	-	N	N	Y**	N	N	N	N	N	-	
ING	(O**,F**,A)	(O*)	(O,F,A)**	30% reliance	(O*)	N	Y**	N	N	N	N	N	-	
Intesa SanPaolo	(O,F,A**)	(O,F,A)*	(O,F,A)**	30% revenues <sup>(2)</sup>	(O,F,A)**	(O,F,A)*	Y*	N	N	N	N	N	-	
La Banque Postale	(O,F,A,D)	(O,F,A,D)	N/A	No tolerance	(O,F,A,D)	(O,F,A,D)	Y	Y	Y	Y*	Y*	Y	2021 <sup>(6)</sup>	
Lloyds Banking Group	(O,F,A)	(O*)	N	-	N	N	Y**	N	N	N	N	N	-	
NatWest	(O,F,A)	N	N	-	N	N	N	Y**	N	N	N	Y*	2021	
Nordea	(O,F)**	(O,F)	(O,F,A)**	5% revenues	(O,F)*	(O,F,A)**	Y**	N	N	N	N	N	-	
Rabobank	(O,F,A)	(O,F,A)*	N	-	N	N	Y**	N	N	N	N	N	-	
Santander	(O,F,A)	N	(O,F,A)	30% activity	N	N	Y*	N	N	N	N	N	-	
Société Générale	(O,F,A**)	(O,A)*	(O,F,A**)	30% prod or revenue	N	N	Y*	N	N	N	N	N	-	
Standard Chartered	(O,A)	N	N	N	N	N	N	N	N	N	N	N	-	
UBS	(O*,A**)	N	(O,A**)	20% res or prod	N	N	Y**	N	N	N	N	N	-	
UniCredit <sup>(7)</sup>	(O,F,A**,D)	(O,F,A,D)*	(O*,F**,A**,D*)	25% revenues	N	N	Y*	N	N	N	N	N	-	

\*indicate exceptions; \*\* indicates material exceptions; (\*) and (\*\* indicate exceptions or material exceptions that apply to all segments in brackets. For the definition of the Arctic region specifically, Y indicates a definition aligned with the AMAP, Y\* indicates a narrower definition including onshore and offshore activities, \*\* indicates a narrower definition with limited coverage of offshore and/or onshore activities

Examples of material exceptions: restrictions applying only to a certain category of clients (e.g. new clients), to a certain region or country, or to a specific activity (e.g. oil but not gas)

(1) Barclays' threshold (primarily engaged) is assumed to be equivalent to 50 per cent or more for the purpose of this analysis.

(2) BNP Paribas' threshold ("significant" production, volume, reserves or revenue) and Intesa Sanpaolo's threshold ("significant revenues") are assumed to be equivalent to 30 per cent or less for the purpose of this analysis.

(3) Credit Mutuel has committed to restrict corporate financing for clients who undertake explorations of new oil & gas fields and for clients deriving a significant portion of revenues from unconventional activities, pending thresholds to be defined by Urgewald, but is yet to spell out this restriction in its policy. In parallel, the bank committed not to provide financing to companies whose activity was reliant to oil sands and shale oil & gas for 30 per cent or more.

(4) Credit Suisse has developed a Client Energy Transition Framework that can eventually exclude clients under certain conditions. Not enough details are available in the public domain to confirm if the restrictions meet the requirements of this analysis.

(5) Commerzbank has committed not to establish new relationships with companies with expansion plans in the oil & gas sector

(6) In October 2021, La Banque Postale committed to only provide financing services to companies that have published transition plans going forward

(7) UniCredit has published an updated oil & gas policy in January 2022. New commitments could not be taken into account as they were made after the research cut-off date (see methodology).

## Only a handful of banks restrict financing to oil & gas projects and even fewer restrict financing to companies expanding upstream oil & gas capacity

Commerzbank, Crédit Mutuel, Danske Bank, La Banque Postale, and NatWest have started restricting financing for oil & gas projects. Crédit Mutuel and Danske Bank's asset-level restrictions apply to both exploration and production, while NatWest only restricts exploration and Commerzbank only extraction projects. On the other hand, Commerzbank and La Banque Postale are the only banks in the group to have implemented restrictions at the corporate level. Commerzbank will not finance companies with expansion plans, although this only applies to new clients. La Banque Postale announced it would exit the oil & gas sector by 2030 and will no longer finance oil & gas companies unless they commit to phase-out oil & gas activities by 2040 and not to undertake the development of new oil & gas projects. Crédit Mutuel will refrain from financing groups undertaking exploration of new fields once Urgewald publishes the relevant corporate thresholds.



### Discussion: Oil & gas expansion should be restricted at both asset and corporate levels

Restricting asset or project-level support to oil & gas expansion is a rather weak commitment and could be seen as greenwash if not accompanied by commitments on the corporate side. As discussed in section 3, asset finance represents only a small fraction of the financing to the energy sector. Headlines suggesting that a bank is no longer financing oil & gas expansion (or any unconventional segment) based solely on a project financing exclusion are therefore not credible.

In addition, banks should clarify whether their asset-level restrictions apply to reserve-based lending considering their hybrid nature (financing is made available against a pool of assets but proceeds can be general corporate purpose).

## Banks say they want to help clients transition, but they are not asking for transition plans

Banks often frame their sectoral policy objectives in terms of supporting clients' transition rather than imposing financing restrictions. Yet almost none of them are (publicly) requesting that their oil & gas clients publish transition plans by a specific date, let alone clarifying what these plans should entail.

Among the 25 banks in scope of this report, only three have included this requirement in their policies. La Banque Postale is the only bank that explicitly conditions financing to a transition



plan leaving no room for the development of new oil & gas fields. Danske Bank will exclude oil & gas exploration and production companies that do not set a credible transition plan in line with the Paris Agreement by 2023. NatWest has identified oil & gas majors as requiring a Paris-aligned and credible transition plan by the end of 2021. However, neither bank has yet clarified what their red lines are for these plans and whether expansion is one of them.

So far, NatWest has only indicated its methodology will be based on quantitative (alignment with climate scenarios) and qualitative (credibility of the transition plan) assessments. Other banks like Credit Suisse have developed a Client Energy Transition Framework with a view to reducing exposure and/or excluding clients not willing to transition. However, few details on the underlying criteria are available in the public domain.<sup>lxxiii</sup>

## Unconventional oil & gas: some progress but still a long way to go

All 25 banks in scope are now restricting project finance for at least one unconventional segment. However, the policies remain full of loopholes and often seem to be tailored to protect client bases rather than limit exposure to a sector (see exceptions highlighted in Figure 6). For example, Barclays' fracking policy only applies to the UK and Europe, while most fracking activity occurs in North America. Intesa Sanpaolo's policy does not apply to onshore gas, while HSBC's Arctic and oil sands' restrictions only apply to greenfield projects.

The breath of these policies also remains poor overall. Only Commerzbank, Crédit Mutuel, Danske Bank, La Banque Postale, and UniCredit restrict financing for ultra-deepwater activities, while a few others have started looking at this segment through non-restrictive Enhanced Due Diligence processes (e.g. UBS, Santander). Only eight banks have implemented corporate finance restrictions for at least three unconventional oil & gas segments in their policies. Barclays' and Credit Suisse's policies do not cover North American fracking and oil sands, which is of particular concern considering their exposure to North American markets.

Banks have heeded previous calls to restrict corporate financing on top of project financing.<sup>lxxiv</sup> Fifteen banks have implemented corporate thresholds for the segments they cover. But these thresholds vary greatly among banks, inviting suspicions of cherry picking. For example, a group of French banks (BNP Paribas, Crédit Agricole, Crédit Mutuel, Groupe BPCE, La Banque Postale, Société Générale) recently committed to restrict the provision of corporate finance to clients for whom fracking and oil sands represents more than 30 per cent of their activities.<sup>lxxv</sup> While a welcome step, the impact of these thresholds is debatable – six out of the 20 largest fracking producers and 10 out of the 20 largest oil sands producers worldwide operate below these thresholds, even considered cumulatively across both segments<sup>4</sup>. France's Minister

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4 Based on GOGEL data which estimates 2020 production including oil, gas condensate and NGL. Some of these banks use revenues as a metric and production is used as a proxy to compare thresholds.

of the Economy and Finance said these measures are not sufficient and called for credible, transparent and timebound commitments to align financed emissions with the goals of the Paris Agreement.<sup>lxxvi</sup>

BBVA, CaixaBank, Danske Bank, DZ Bank, Nordea, UBS and UniCredit have implemented more stringent thresholds (ranging from 5 to 25 per cent). Yet even these more stringent thresholds are unlikely to incentivise companies with a diversified asset base. And without a planned reduction of these thresholds over time, banks would retain open-ended exposure to the segments they are restricting – a questionable strategy considering the associated risks. So far, only Intesa Sanpaolo, La Banque Postale, and Nordea have committed to phase-out financing to the unconventional activities they cover.

Banks' approach to Arctic oil & gas is also of concern. Five banks restrict financing in the Arctic region without even defining this area and the 18 banks who do define it have adopted narrow definitions that seem arbitrary. Eight of them have adopted extremely narrow definitions as they only focus on offshore Arctic oil & gas or include only a very limited portion of onshore activities. Only La Banque Postale has adopted the definition used by the Arctic Monitoring and Assessment Programme (AMAP), more suitable to minimise environmental and social impacts in the region.<sup>lxxvii</sup>

Finally, while some progress has been achieved across the board on unconventional oil & gas, only Crédit Mutuel, Commerzbank, and La Banque Postale explicitly restrict financing to corporates expanding unconventional oil & gas.



## Leading practice case studies

The following case studies highlight current leading practice among the 25 European banks in scope of this report. ‘Leading practice’ refers to the most ambitious commitments to date. These are often far from ‘best practice’, which refers to the desired end goal. Best practice is itself a moving target, as science and understanding of policy impacts evolve, and is sometimes yet to be defined.

### La Banque Postale – Calling for the banking sector to wake up to climate realities

La Banque Postale recently announced it will be exiting the oil & gas sector by 2030.<sup>lxxxvii</sup> The bank committed to no longer finance oil & gas projects and companies listed in the GOGEL, except where financing is tied to the development of renewable energy (or provided to renewable energy subsidiaries) or where the company has published credible phase-out by 2040 plans. The bank specifies that these plans must leave no room for the development of new oil & gas projects (in line with IEA guidance) and that any developments should not have a residual life beyond 2030. La Banque Postale’s exposure to fossil fuels is arguably much lower than many of its counterparts, but these commitments send a strong signal to the market and show that sentiment is shifting.

### Commerzbank – Restricting financing for oil & gas expansion at asset and corporate level

Commerzbank explicitly excludes financing of oil & gas extraction projects (conventional and unconventional) and has committed not to start new business relationships with companies planning to expand oil & gas activities. Commerzbank is the first bank to restrict financing for both projects and corporates together with La Banque Postale (excluding Crédit Mutuel’s promise to do so – see below). However, not including exploration activities and existing clients constitute material exceptions.

### Crédit Mutuel – Project finance exclusions targeting exploration, production, and infrastructure

Crédit Mutuel will no longer finance oil & gas exploration, production, and infrastructure projects (except those in scope of its shipping policy). The bank has also committed to restrict financing for companies that undertake explorations of new oil fields (conventional or unconventional) once relevant thresholds become available.

This is an ambitious first step but focusing on exploration and not including development of new fields constitutes a material exception.

### Danske Bank and NatWest – first movers on oil & gas projects and requiring oil & gas companies to publish transition plans

In July 2020, NatWest committed not to finance projects involving exploration for new oil & gas reserves well ahead of any of its peers. Unlike Danske Bank, the policy doesn't cover development of new reserves. In March 2021, the Danish bank committed not to provide any project finance for the expansion of oil & gas exploration and production.

Danske Bank will also exclude exploration and production companies that do not set a credible transition plan in line with the Paris Agreement by 2023, subject to several exceptions. NatWest will stop lending and underwriting to major oil & gas producers unless they have a credible transition plan aligned with the Paris Agreement in place by the end of 2021. However, both banks are yet to clarify what they expect to see in these transition plans and whether ceasing oil & gas expansion would be a requirement for the plan to be considered 'credible'. NatWest is also due to publish the results of its review of client's transition plans.

### Intesa Sanpaolo and Nordea – phasing out exposure to unconventional oil & gas activities

Last year Intesa Sanpaolo announced that the Group was seeking to terminate its exposure in relation to Arctic oil & gas, fracking, and oil sands activities by 2030 (excluding contractual commitments already underway until their natural expiry). Nordea also announced that it will phase out customers that have not exited fracking and oil sands extraction by 2026, and that it will seek to phase out financing relationships with customers that are drilling in the Arctic by 2023. Whilst a welcome signal, none of these banks have requested their clients to commit to a wind down of these activities by a specific date, which means that they could terminate their exposure without having much impact on their clients' transition plans.

# Engagement questions for investors

7



# Engagement questions for investors

Investors are increasingly prioritising engaging with the banking sector on climate, with a specific focus on fossil fuels. Leading up to COP26, 115 investors worth US\$4.2 trillion wrote letters to 63 banks calling on them to fully embed the findings of the IEA's NZE scenario into their climate strategies, including their sectoral policies.<sup>lxxviii</sup> Recent resolutions filed at US banks have called on them stop financing fossil fuel expansion.

The following questions are intended to guide investor engagement with banks on their approach to oil & gas expansion and unconventional oil & gas. Investors are encouraged to make full use of their shareholder rights and actively engage with banks on this important topic during the 2022 AGM season and beyond.

## Has the bank implemented financing restrictions in relation to oil & gas expansion?

- Are these restrictions based on the findings of the IEA Net-Zero Emissions by 2050 roadmap ('no room for new oil & gas fields') at a minimum?
- Are these restrictions implemented at both asset and corporate level?
- Do these restrictions apply across lending and capital markets activities?
- Does the bank consider the climate and financial impact of existing fields under development or expansion of already producing fields?

## Has the bank requested its oil & gas clients to publish transition plans?

- Does the bank require clients to publish these plans by a specific date, failing what they would be excluded from their client universe?
- Do these plans include a commitment not to invest in further expansion of oil & gas capacity in line with credible 1.5C pathways?

## Has the bank implemented financing restrictions in relation to unconventional oil & gas?

- Do these restrictions apply at both asset and corporate level?
- Is the bank planning to reduce corporate thresholds overtime and ultimately phase out financing to these activities?
- Has the bank adopted a definition of the Arctic region aligned with the area considered by the Arctic Monitoring and Assessment Programme (AMAP)?

# Appendices

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# Appendix 1 – Methodology

## Selecting the 25 largest European banks by assets featuring in this report

Banks were selected based on their size from the S&P Global list of the world's largest banks, published in April 2021.<sup>lxxix</sup> The list includes publicly listed and cooperative banks.

## Estimating financing flows to oil & gas expanders

Financing data used in this report was provided by [Profundo](#). Profundo relied on Refinitiv, Bloomberg, Trade Finance Analytics, IJGlobal, annual reports, company websites and other company publications, company registry entries where available, and media archives, to identify the financial institutions providing loans and issuance underwriting services to the selected oil & gas companies. All 'green', 'sustainability-linked', and 'transition' use of proceeds, and non-fossil fuel related subsidiaries are excluded from the analysis. This is deemed a conservative assumption considering the various controversies surrounding the sustainability credentials of these instruments<sup>lxxx</sup> and potential risk of leakage through intercompany loans.<sup>lxxxi</sup> Where individual bank's contributions were not available, Profundo estimated them based on fees earned by participants and the number of banks in the syndicate. Financing was not adjusted based on companies' oil & gas revenues or assets. Non-upstream subsidiaries in the oil & gas value chain were included in the analysis as it aims to quantify financial support provided by banks to companies expanding oil & gas production rather than estimating financing used for oil & gas expansion. Both approaches lead to an approximation of financing, but the former is expected to result in higher volumes.

Financing transactions could not be found for seven of the 50 companies in scope: Basra Oil Company, National Iranian Oil Company, Petoro AS, QatarEnergy, Sonatrach SpA, Sunny Hill Energy Ltd, and Turkmengaz State Concern.

## Selecting the top 50 upstream oil & gas expanders in scope of this analysis

Companies were selected from Urgewald's [Global Oil & Gas Exist List](#) (GOGEL) based on 'short-term expansion' of their upstream activities as well as their average exploration capex over 2019-2021. Short-term expansion is defined as Estimate Ultimate Recovery volumes associated with 'assets under field evaluation' (a plan for development and operation has been finalized and Front-End Engineering and Design has been confirmed) and 'assets under development' (all necessary permits are in place and a Final Investment Decision has been made). These assets are expected to be producing within one to seven years.



To better reflect the geographical footprint of banks in scope, the list of 50 companies was established based on 20 top European and 30 top non-European companies (by country of headquarters). Top 20 European companies: top 15 companies based on short-term expansion and top 15 companies based on exploration capex, resulting in 20 companies due to overlap. Top 30 non-European companies: top 20 companies based on short-term expansion and top 20 companies based on exploration capex, resulting in 30 companies due to overlap. The aggregated list of 50 companies represents nearly 70 per cent of GOGEL's short-term expansion and exploration capex.

## **Assessing banks' oil & gas policies**

Bank's financing restrictions in relation to the oil & gas sector were assessed based on publicly available sectoral policies and disclosures. The cut-off date for information collected from public sources was 13 January 2022. Commitments made after that date could not be taken into account. Policies specifically applying to the asset management arm of the banks in scope were not assessed.

## Appendix 2 - Top 50 oil & gas expanders with associated short-term expansion volumes and exploration capex

### Top 20 European expansion companies

Company Name	Short -term expansion		Exploration CAPEX
	mmboe	% unconventional	million US\$
Aker BP ASA	588.9	0.0%	381.0
BP plc	3,189.2	57.3%	939.2
Cairn Energy PLC <sup>(1)</sup>	1.2	0.0%	101.2
DNO ASA	8.7	67.1%	109.6
Energiean plc	485.5	77.9%	66.3
Eni SpA	1,893.8	42.1%	618.8
Equinor ASA	2,676.7	65.0%	1168.4
Galp Energia SGPS SA	399.7	100.0%	48.2
Harbour Energy plc	27.3	0.0%	109.0
Indus Gas Ltd	216.7	0.0%	0.1
Lundin Energy AB	130.5	0.0%	245.0
OMV AG	146.9	0.0%	174.8
Petoro AS	530.4	68.5%	154.0
Premier Oil plc <sup>(2)</sup>	325.6	0.0%	43.7
Repsol SA	547.0	64.9%	371.6
Royal Dutch Shell plc	3,779.0	40.2%	2436.7
Sunny Hill Energy Ltd	183.5	0.0%	0.1
TotalEnergies SE	4,305.6	32.1%	837.2
Vår Energi AS <sup>(3)</sup>	439.1	59.6%	100.7
Wintershall Dea GmbH	476.9	26.1%	160.4

### Top 30 non-European expansion companies

Company Name	Short -term expansion		Exploration CAPEX
	mmboe	% unconventional	million US\$
Abu Dhabi National Oil Company (ADNOC)	2,887.9	0.6%	42.8
Basra Oil Company (BOC)	2,006.6	0.0%	0.0
Chevron Corporation	4,006.3	68.9%	942.3
China National Petroleum Corporation (CNPC) <sup>(4)</sup>	1,496.6	80.4%	38.4
China Petroleum & Chemical Corporation (Sinopec Corp)	738.4	95.3%	2291.0
CNOOC Ltd	2,556.5	54.9%	2826.9
Concho Resources Inc <sup>(5)</sup>	659.5	100.0%	614.2
ConocoPhillips	1,906.7	94.7%	766.8
Diamondback Energy Inc	619.2	100.0%	1058.0
EOG Resources Inc	1,921.3	100.0%	314.1
EQT Corporation	2,387.3	100.0%	26.1
Exxon Mobil Corporation	7,387.8	73.0%	1615.6
Hess Corporation	1,258.2	95.3%	422.0
Marathon Oil Corporation	491.2	100.0%	412.8
National Iranian Oil Company (NIOC)	2,938.6	1.9%	21.3
Occidental Petroleum Corporation	1,237.2	92.6%	469.0
Oil and Natural Gas Corporation Ltd (ONGC)	1,643.7	5.9%	676.0
PAO NOVATEK	1,793.6	100.0%	213.6
Petróleo Brasileiro SA – Petrobras	7,196.3	79.9%	372.4
Petróleos Mexicanos (PEMEX)	399.9	36.2%	1912.4
Petrolia Nasional Berhad (Petronas)	1,390.5	9.3%	492.4
Pioneer Natural Resources Company	796.5	100.0%	1227.5
PJSC Gazprom	16,656.0	52.5%	1174.2
PJSC LUKOIL	523.2	12.9%	499.4
PJSC Rosneft Oil Company	1,441.7	24.0%	847.2
QatarEnergy	20,116.7	0.1%	172.0
Saudi Arabian Oil Company (Saudi Aramco)	15,186.9	2.6%	1881.1
Sonatrach SpA	1,415.0	13.6%	862.2
Turkmengaz State Concern	5,403.4	0.0%	0.0
Woodside Petroleum Ltd	1,461.3	0.0%	162.5

Source: [Global Oil and Gas List](#)

(1) Cairn Energy Plc changed its company name to Capricorn Energy Plc in December 2021

(2) Premier Oil Plc merged with Harbour Energy Plc in March 2021

(3) Vår Energi is 69 per cent owned by Eni SpA

(4) PetroChina Company Ltd was selected based on its short-term expansion volume (1,567 mmboe) and exploration capex (US\$5,986 million) identified by the GOGEL but was eventually removed as it is a subsidiary of China National Petroleum Corporation (CNPC)

(5) Concho Resources was acquired by ConocoPhillips in January 2021

## Appendix 3 – Financing volumes from the largest 25 European banks to the top 20 European upstream oil & gas expanders and the top 30 upstream oil & gas expanders between 2016 and 2021

All amounts are in million US\$		Financing to top 20 European upstream oil & gas expanders	Financing to top 30 non-European upstream oil & gas expanders	TOTAL	Percentage of financing to top European expanders
1	BNP Paribas	29,247	17,132	46,379	63.1
2	Barclays	26,086	22,232	48,319	54
3	Crédit Agricole	16,540	18,238	34,778	47.6
4	HSBC	16,278	42,843	59,121	27.5
5	Société Générale	13,647	20,706	34,353	39.7
6	Deutsche Bank	13,548	14,776	28,325	47.8
7	UniCredit	10,753	2,841	13,594	79.1
8	Santander	9,526	13,874	23,399	40.7
9	ING Group	7,716	4,880	12,596	61.3
10	Groupe BPCE	7,168	3,892	11,060	64.8
11	Lloyds Banking Group	5,774	143	5,918	97.6
12	Credit Suisse	5,512	12,586	18,099	30.5
13	Commerzbank	5,005	829	5,835	85.8
14	Intesa Sanpaolo	4,435	7,400	11,835	37.5
15	NatWest	4,373	-	4,373	100
16	Nordea	4,171	-	4,171	100
17	Standard Chartered	4,056	12,346	16,402	24.7
18	Danske Bank	3,536	-	3,536	100
19	BBVA	2,998	7,805	10,803	27.8
20	UBS	2,817	8,391	11,208	25.1
21	CaixaBank	487	-	487	100
22	DZ Bank	406	996	1,402	29
23	Crédit Mutuel	120	177	297	40.5
24	La Banque Postale	48	-	48	100
25	Rabobank	-	156	156	0
	<b>TOTAL</b>	<b>194,250</b>	<b>212,244</b>	<b>406,494</b>	<b>47.8</b>

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