THE EQUATOR PRINCIPLES AND CLIMATE CHANGE

WHAT DO EQUATOR PRINCIPLES COMMIT ON CLIMATE?

It took over 10 years for the very word "climate", a major risk factor to take into account in almost every investment decision, to finally appear in the third version of the Equator Principles, which consider themselves a crucial risk management tool for banks. 'Climate' appears in EP III (emphasis in italics added here):

- In the preambule: aspirational, non binding language that says "We recognise the importance of climate change, .. and believe negative impacts on .. the climate should be avoided *where possible*. If these impacts are unavoidable they should be minimised, mitigated, and/or offset."
- In Principle 2 on Environmental and Social Assessment: for projects expected to emit more than 100,000 tonnes of CO_2 equivalent annually, clients should conduct a mandatory alternatives analysis to evaluate less Greenhouse Gas (GHG) intensive alternatives.
- In Principle 10 on Reporting and Transparency: "The client will publicly report GHG emission levels .. during the operational phase for Projects emitting over 100,000 tonnes of CO_2 equivalent annually"
- In Annex A: Further qualification on mandatory alternative analysis, which should assess "technically and *financially feasible and cost effective* options available to reduce project-related GHG emissions during the design, construction and operation of the Project".
- In Annex A; "Clients will be *encouraged* to report publicly on Projects emitting over 25,000 tonnes"

ISSUES WITH CURRENT COMMITMENT

Too little, too late
The requirements on clients and banks contained in the EPs fail to reflect the magnitude of the climate crisis, also as a risk factor for banks. BankTrack already considered these requirements wholly inadequate before the Paris COP21. After Paris this is even more the case. While the world has now adopted the official public target to stay "well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C", current 'requirements' on banks and project sponsors are not at all aligned with this globally agreed goal.

Too aspirational
There are too many loopholes even in the current requirements, which effectively still allow banks to finance any project they like, provided alternatives have been *assessed*. EPIII also does not prevent adopting banks to finance fossil fuel projects with a deep negative and avoidable impact on climate and they do not reflect the scientific consensus that more than 75% of fossil fuels reserves must stay in the ground to meet the Paris goals.

Costs for whom?
It remains unclear what is meant by a *financially feasible and cost effective* option when assessing alternatives. Costs for whom, feasible for whom? It seems this refers solely to the project sponsor, not taking into account wider costs for other stakeholders, or the impact and associated costs caused by all alternatives on climate change in general.

Effectiveness unknown
It remains completely unclear what difference the current EP requirements for banks and project sponsors have made on the ground. There is no understanding of how or whether the alternatives analysis have indeed led to the selection of least GHG intensive options. As a result there exists also no understanding at all of the effectiveness, or perhaps irrelevance of the EPs in contributing to combating climate change.

Way forward for Equator Principles

A radical update of the climate commitments contained in the EPs is required

In the lead up to COP21, BankTrack last year coordinated the “Paris Pledge” campaign, supported by 168 organisations and more than 10 000 individuals worldwide, asking banks to publicly commit to quit coal. Partly as a result of this and other public pressure campaigns, an increasing number of EPFIs now exclude coal project finance, with 5 EPFIs formally and totally excluding project finance for coal mines, 2 EPFIs (ING and Natixis) also excluding project finance for coal power plants, and many other EPFIs also applying different levels of exclusion criteria for such coal deals. As a result of these developments there now no longer exists a level playing field amongst EPFIs for investments with a large impact on climate, which was one of the key objectives of the EPs.

The EPA should acknowledge that the global consensus on the 2/1.5°C objective in the Paris Agreement must have consequences for the EPs and seek to reestablish a new and common approach on investments with a severe impact on climate change. To start with, and in recognition of the severe risk for the climate associated with financing the coal sector the EPA should urgently seek to reach an agreement amongst EPFIs to end all financing for the coal sector, this to be followed in due time by the categorical exclusion of all oil and gas exploration projects.

While awaiting such a commitment We wish to understand from the EP steering committee how it sees the effectiveness of the current climate requirements in the EPs, in light of the Paris outcomes, and what plans are in place to improve on this effectiveness.