A CALL TO ACTION ON THE PRINCIPLES FOR RESPONSIBLE BANKING: END CLIMATE-DESTRUCTIVE FINANCING NOW

October 2020

On September 22, 2019, the United Nations Environment Programme Finance Initiative (UNEP FI) and 30 ''founding" banks launched the Principles for Responsible Banking (PRBs) during the United Nations General Assembly in New York. Starting out with 132 signatories, 193 banks and counting have now adopted the six principles that comprise the PRBs. This includes a commitment to align the bank's business strategy with the goals set out in the Paris Climate Agreement and the Sustainable Development Goals (SDGs).

Civil society organizations welcomed the initiative at its launch, but cautioned against the risk of greenwashing in the absence of clear criteria for PRB implementation and robust transparency and accountability by the PRB banks. One year later, this analysis shows that at least 20 PRB banks continue to be on a trajectory of climate destruction, and continue to finance projects that are in blatant disregard of climate, biodiversity and human rights impacts.

A commitment from banks to align their business with the goals of the Paris Climate Agreement and the SDGs is of fundamental importance, though long overdue. In order to have even a 50% chance of limiting global heating to 1.5°C - which the Paris Climate Agreement aims for - global emissions must be reduced by roughly half of 2010 levels by 2030 and further reduced to effectively zero by 2050. The world already crossed the 1°C level above pre-industrial levels in 2017, and with each year's delay in reducing global emissions, the task will get more difficult.

In the meantime the impact of the climate crisis on communities and nature continues to grow, as exemplified by the devastating forest fires that have ravaged every corner of the world. It has never been more urgent for banks to make serious changes to their climate-wrecking business operations.

This is a call to action for signatory banks to set meaningful targets that genuinely align the bank with the Paris Climate Agreement and SDGs, to take measures to facilitate stakeholder engagement and respect all human rights and the specific rights of Indigenous People, and to be as transparent as possible about their progress in implementing the Principles (See Recommendations below).

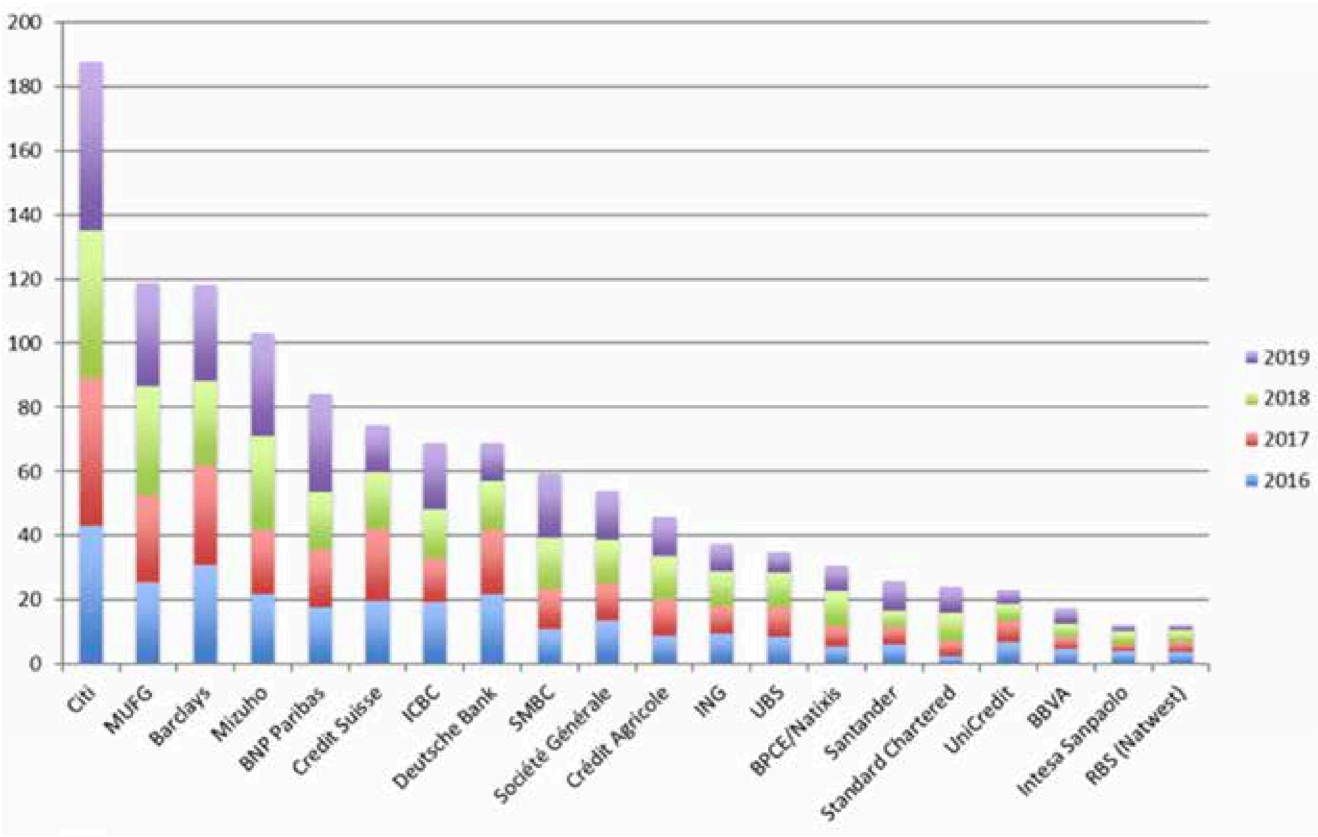
PHOTO: Paul Hilton

1. PRB Banks are Far From Sustainable

Analysis of PRB bank portfolios up to 2020 reveals that PRB banks are far from aligning their financing with the Paris Climate Agreement and the SDGs.

Just 20 PRB signatories have been responsible for over US$1.2 trillion in loans and underwriting to fossil fuels between 2016 and 2019, with total financing by this group on the rise in recent years. Some of the largest financiers have been PRB members US-based Citigroup, UK-based Barclays, and Japanese megabanks Mitsubishi UFJ Financial Group (MUFG) and Mizuho Financial Group.

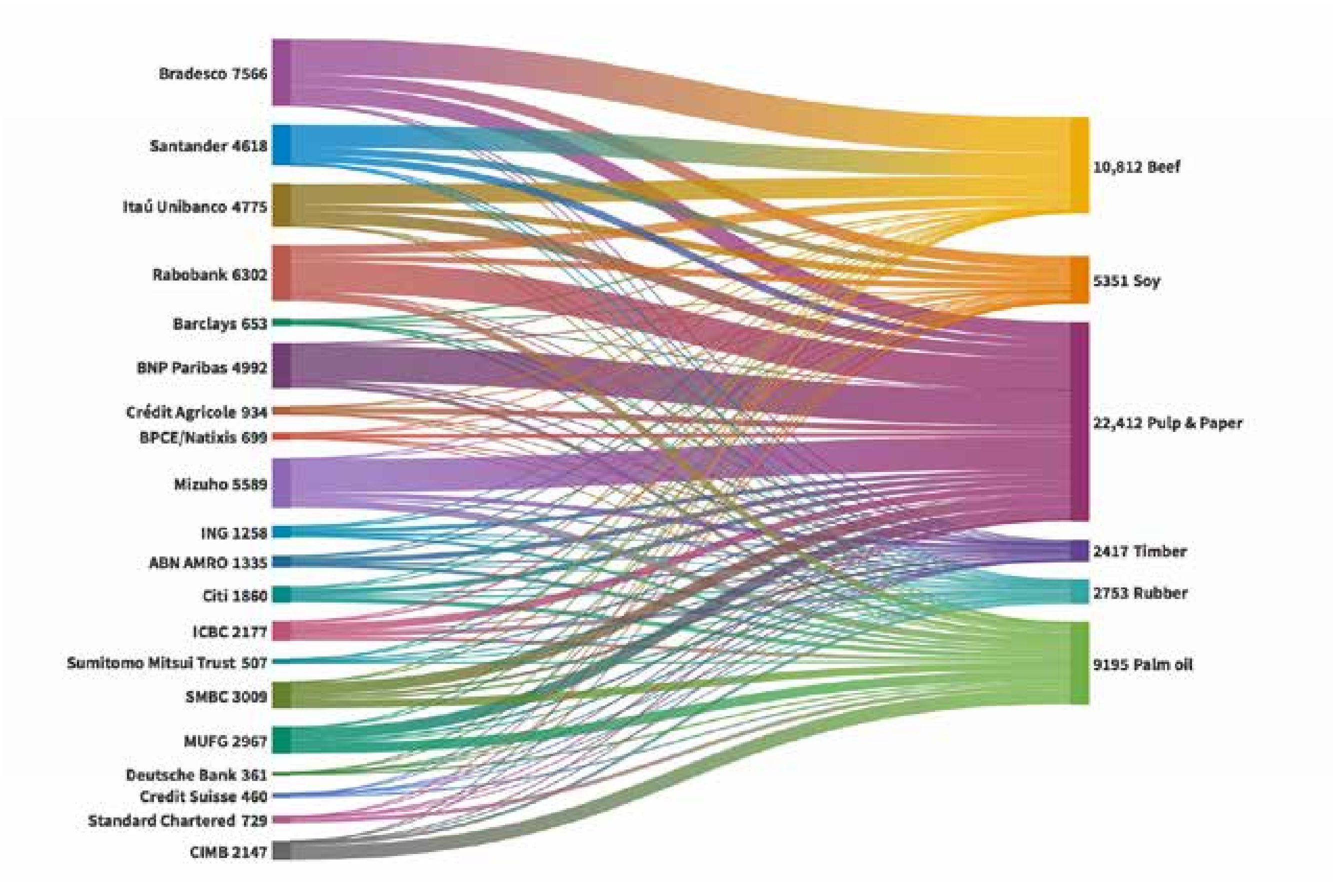
Loans & underwriting to all fossil fuels by 20 PRB banks (2016-2019, US$ Bln)



SOURCE: Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance, Sierra Club, *Banking on Climate Change 2020*

On top of this, just 20 signatories have provided over US$52 billion in loans and underwriting (2016-2020Q1) and investments (2020Q1) to forest-risk commodities that are driving deforestation and land degradation in the tropical forest regions of Brazil, Southeast Asia, and Central and West Africa. As fires are intentionally lit to clear land for agriculture, such as for beef and palm oil, PRB banks such as Bradesco, Itaú Unibanco, Santander and Rabobank serve as some of the largest backers of the beef sector in Brazil, while CIMB and MUFG rank among the largest backers of the global palm oil sector.

Loans, underwriting & investment in forest-risk commodity sectors by 20 PRB banks
(2016-2020Q1, USD Mln)



SOURCE: ForestsandFinance.org

Since the launch of the Principles last year, UNEP FI has taken several steps to try to ensure that banks adopt and implement the PRBs in good faith. These include developing a Portfolio Impact Analysis Tool that banks can use to identify their significant impact areas, announcing a civil society advisory body, and installing a mechanism for banks to be delisted if they fail to properly implement the Principles.

Still, whether or not the PRBs will lead to concrete change in the banking sector largely comes down to the level of ambition with which banks will implement the Principles. If the PRBs are to show any meaningful impact, the current trajectory of greater climate-destructive financing by PRB banks must be reversed immediately.

2. Case Studies on PRB Bank Financing Impacts

Under Principle 2 of the PRBs, signatory banks have committed to: 1) analyse their current (positive and negative) impacts on people and planet; and 2) set and publish targets where they have the most significant impact.

The following case studies profile roughly 20 PRB banks and the negative impacts resulting from their financing. These case studies provide stark illustrations of how the PRB banks are currently failing to implement the full range of the Principles.

Case Study 1: Tar Sands Oil

The tar sands (also known as oil sands) of Alberta, Canada are infamously dirty oil reserves, whose resource-intensive extraction and transportation causes harm to the climate, ecosystems, and health of local communities, and violates Indigenous rights. In fact, Canadian tar sands emit about 31% more greenhouse gases over their life cycle than average North American crude. The industry has encountered severe setbacks over the last year. Teck Resource canceled its Frontier Mine in February 2020 and the pandemic has dropped the price of oil beyond usual cycles. Tar sands production has long been restricted by a pipeline bottleneck, meaning the fate of increased tar sands extraction effectively lives or dies with two proposed pipelines that would run from Canada to the United States: Line 3 and Keystone XL (in addition to the Canadian government's Trans Mountain pipeline).

Financing to these two projects is flowing in the form of corporate loans and bonds to the pipeline operators, namely Line 3's Enbridge and Keystone XL's TC Energy, formerly known as TransCanada. TC Energy currently has three active general corporate purpose loans totaling close to US$7.8 billion and US$2.75 billion in bonds issued just this year. TC Energy will seek a project-specific loan for Keystone XL, which PRB banks absolutely must decline. Enbridge and its relevant subsidiaries currently have over US$13.3 billion in corporate-level loans, and an additional US$2.1 billion in bonds issued this year.

While both operators have an extensive history of leaks and face widespread opposition from local and Indigenous communities, where even US Presidential candidate Joe Biden has pledged to end Keystone XL, 13 PRB banks continue to finance these controversial pipeline projects.

PRB Banks Actively Financing Line 3 or KXL: Barclays, Citigroup, Crédit Agricole, Credit Suisse, Desjardins, Deutsche Bank, DNB, ICBC, Mizuho, MUFG, National Bank of Canada, SMBC, Société Générale

Tar Sands Extraction in Alberta, Canada.
PHOTO: Jiri Rezac / Greenpeace

Deforestation in Sumatra, Indonesia.
PHOTO: Rainforest Action Network

Case Study 2: Pulp & Palm oil giant Sinar Mas Group

The Sinar Mas Group (SMG) is one of the largest conglomerates in Indonesia, and its pulp and paper business (known as Asia Pulp and Paper or APP) and palm oil business (listed in Singapore as Golden Agri Resources or GAR SGX:E5H) are Indonesia's biggest pulp and paper and palm oil producers. Despite APP and GAR publishing sustainability policies over five years ago, the group has deep-rooted environmental, social and governance risks associated with its operations.

In recent years, the company has been in the spotlight over its extensive culpability for Indonesia's annual fire and haze crisis, connected to its high dependence on Indonesia's carbon-rich peatlands to grow acacia and oil palms for its pulpwood and palm oil mills, both through its own operations and those of its suppliers. Since 2015, fires in APP pulp concessions and those of its partners and affiliated suppliers have resulted in the largest burned area among any corporate group in Indonesia, totaling over 250,000 hectares between 2015-2018 alone. But the company has continued to flout measures necessary to avoid the fires. Last year saw thousands of fire alerts in several of the same APP partner concessions, concentrated within peatland areas. SMG's palm oil division under GAR has also been linked to the fires, as well as illegal harvesting, land rights violations and the destruction of critical habitat for Sumatran orangutans and elephants.

Yet, SMG has been the largest beneficiary of bank financing to forest-risk commodities in Southeast Asia, receiving US$15.5 billion of loans & underwriting since 2016 (2016-20Q1). 8 PRB Banks have participated in financing this Group since 2016.

PRB Banks Financing SMG (2016-20Q1): ABN AMRO, CIMB, Citigroup, ICBC, Itaú Unibanco, Mizuho, MUFG, Rabobank

Case Study 3: Amazon rainforest oil extraction by GeoPark

GeoPark (GPRK) is a Chile-based petroleum and gas explorer, operator, and consolidator with projects in Argentina, Brazil, Chile, Colombia, and Peru, with plans to expand to Ecuador.

Their flagship project in Peru includes Block 64, located in the Amazonian province of Loreto, in the heart of a region where Achuar, Wampis, and Kichwa Indigenous peoples have historically resisted the oil industry. Throughout the region these peoples have opposed new activities, protesting existing operations by occupying wells, and demanded compensation for decades of contamination. Since Block 64's creation in 1995, multiple oil companies have purchased leases for the block, and all have subsequently withdrawn after fierce local opposition. The Federation of the Achuar Nationality of Peru (FENAP) also filed a legal complaint calling on the Peruvian government to nullify Block 64, arguing it was created without any consultation or consent of impacted indigenous peoples. GeoPark ignored the opposition and poured nearly US$20 million into the project – money it lost when in July 2020 it invalidated its contract for the block, citing force majeure.

GeoPark also appears to ignore the staunch opposition of the Siona Indigenous People of the Colombian Amazon. In November 2019, Geopark announced its planned acquisition of Amerisur for US$313 million in an all-cash buyout, financed by Citigroup and Itaú in the form of a $315 million bridge-loan. The acquisition was finalized in January 2020, as was a $350 million bond issuance, also underwritten by Citigroup and Itaú.

The Siona have long opposed Amerisur's operations in their territory, both due to lack of proper FPIC processes as well as public health concerns from untreated wastewater contamination in local wetlands and rivers. The Siona, who use local rivers for bathing and other survival activities, have reported a dramatic increase of welts and rashes following contact with the river in the years since Amerisur began operations. In December 2019, the Siona of Buenavista issued a statement to GeoPark in relation to its acquisition of Amerisur, warning: "the business acquisition includes the obligations and liabilities for serious violations of human rights, socio-environmental damages and other impacts pending restitution for the Siona people that were caused by Amerisur."

PRB Banks Financing GPRK (2019-20Q1): Citigroup and Itaú Unibanco

Achuar families demonstrate in 2017 against oil extraction activities by GeoPark. In 2020, GeoPark canceled its contract for an oil lease overlapping Achuar territory.
PHOTO: Amazon Watch

Case Study 4: East African Crude Oil Pipeline

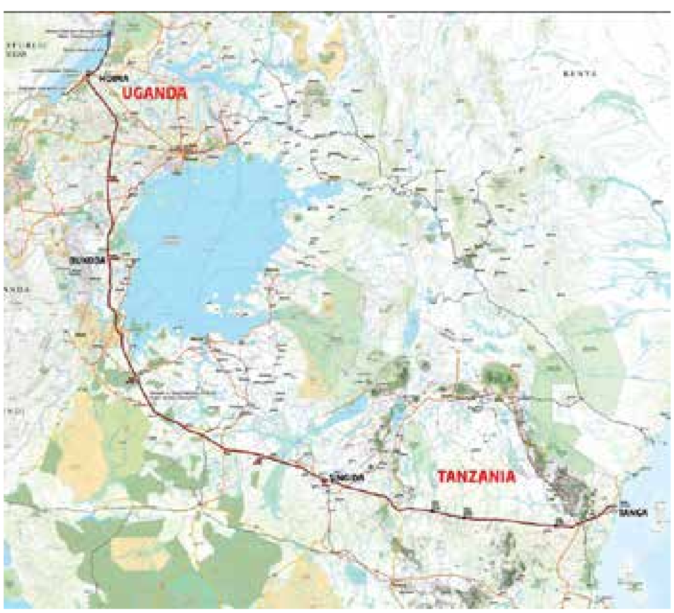
The East African Crude Oil Pipeline (EACOP) is a proposed 1,445-kilometer pipeline that, if completed, will transport 216,000 barrels of oil a day from the oil fields of western Uganda to the Tanzanian coast. Its development is being led by French oil company TOTAL together with China's CNOOC. The project is yet to be financed, although a trio of PRB-signatory banks are acting as advisors for the US$2.5 billion project loan being sought to finance the pipeline's construction.

The EACOP stands to facilitate a massive expansion of the oil industry in East Africa, providing an export route for oil that for now remains underground, much of it beneath critical ecosystems including Uganda's Murchison Falls National Park. The oil carried through the pipeline, when burned, will add an estimated 34 million tonnes of carbon to the atmosphere each year – equivalent to the annual emissions of Denmark.

Nearly 2,000 square kilometers of protected wildlife habitats will be negatively impacted by the EACOP project. These include Bugoma Forest and the Taala Forest Reserve in Uganda and Tanzania's Biharamulo Game Reserve and Wembere Steppe Biodiversity Area. It will also run near or through a number of Ramsar sites west of Lake Victoria. Moreover, EACOP threatens water and food access for millions of people, with 460km of the pipeline traversing the freshwater basin of Lake Victoria, Africa's largest lake.

In total, 5,300 hectares of land will be needed for construction and operation of the pipeline, and around 14,000 households will lose land. For these communities, whose land was gazetted as the right of way for the EACOP, the wait for compensation is painful. Communities have been stopped from growing perennial crops from which they make a living and are forced to wait for the project's Final Investment Decision (FID) before they will receive compensation.

PRB Banks acting as financial advisors to EACOP: ICBC (advising CNOOC), Standard Bank (advising Uganda and Tanzania), SMBC (advising Total)



Activists from 350.org Africa hand over a petition at the Johannesburg offices of Standard Bank on the day before the bank's Annual General Meeting June 2020.
PHOTO: 350.org / Zaheer Cassim
MAP: www.eacop.com

3. Recommendations to the UNEP FI Secretariat and Banking Board:

For the PRBs to deliver with the urgency required to solve the world's most pressing crises, the PRB initiative must undertake the following reforms:

Recommendation 1:

Adopt a clear definition of what it means for a PRB bank to be aligned with the Paris Climate Agreement and the Sustainable Development Goals (SDGs), and have banks reflect this in their setting of targets. The definition should be in accordance with the Principles for Paris-Aligned Financial Institutions, a civil society statement endorsed by 60 organizations which calls on banks to end the financing of fossil fuels and deforestation. Such a definition should also include an explicit commitment to respect human rights, including Indigenous rights, in accordance with the UN Guiding Principles on Business and Human Rights and the UN Declaration on the Rights of Indigenous Peoples.

Explanation: While we welcome the ambitious goals of the PRB framework to align banks with the Paris Climate Agreement and the SDGs, the Principles for Responsible Banking do not define what this means in practice.

As the world has already crossed the 1°C of global warming, and the impacts of the climate crisis on communities and nature continue to grow, we cannot afford flexibility in defining what Paris alignment means. Allowing such flexibility creates a risk that banks will set weak targets in order to give the appearance of progress. Such targets will not lead to the outcomes that the initiative aims for, and more importantly, that the world so urgently needs.

Recommendation 2:

Maximize transparency and accountability of PRB banks. This should include a publicly available and reliable contact for each PRB bank, detailed reporting on the bank's progress towards meeting the PRB goals, and escalating measures to enforce the Principles, with an initial focus on reporting and stakeholder engagement.

Explanation: In order for the Principles to be effective, transparency and accountability are critical. While it is good that PRB banks are required to publicly report on their progress following the reporting and self-assessment template, with the first report due within 18 months of signing, the majority of banks who have signed onto the PRBs do not have an easily accessible contact that external stakeholders can use to engage with the banks on the content of their reporting as well as inconsistencies with their commitments under the PRBs. If it is not possible for external stakeholders to scrutinize bank progress in implementing the PRBs, it will not be possible to hold banks accountable when they are not living up to their commitments.

We also welcome the delisting mechanism put in place by the PRBs; but its scope should be broadened from simply reporting failures to violations of other PRB principles. Having an established escalation list of enforcement measures, from a warning, to an inactive status and ultimately to disqualification would incentivize banks to treat the Principles with the seriousness it deserves.

Recommendation 3:

Require banks to take measures to facilitate stakeholder engagement, irrespective of the to-be-established PRB civil society advisory body. This should include a requirement for banks to establish a grievance mechanism that is accessible to impacted communities and other concerned stakeholders.

Explanation: We welcome the decision by the PRBs to install a civil society advisory body. However, the creation of this body cannot substitute for individual banks' stakeholder engagement efforts (as covered in Principle 4). In practice, civil society organizations often reach an impasse trying to engage with banks - as illustrated by the case studies. It is in the interest of both banks and stakeholders that robust channels of communications are available. In order to fully live up to their commitments under the PRBs, banks should be required to establish a grievance mechanism that is accessible to all.

Recommendation 4:

Incentivize banks to adopt a shorter timeline for implementation, prioritizing high risk sectors and adverse impacts based on the severity and likelihood of the impact on climate change, biodiversity and human rights, especially Indigenous rights.

Explanation: As the Principles have received broad support from the banking sector, it has the potential to become a sector wide norm. It is therefore important that the framework delivers and actually addresses the multiple crises that we face today. However, the framework uses an unambitious implementation period that fails to respond effectively to the ongoing crises. For this reason, the PRBs should incentivize banks to adopt a shorter timeline for implementation.

Recommendation 5:

Establish clearer thresholds for banks that join the initiative going forward. This should include a requirement for banks to make a public commitment to align with the Paris Climate Agreement and the SDGs and publish its overarching strategy for doing so prior to joining the PRBs.

Explanation: While we recognize the attempt of the initiative to be accessible to all types of banks - irrespective of their size, current level of sustainability practices and business strategy - the fact that there is no threshold for banks to become a PRB bank risks rendering the initiative unreliable and being used as a greenwashing tool.

As the case studies in this briefing so clearly illustrate, banks become PRB banks while continuing business as usual; financing projects and companies that are anything but aligned with the goals of the Principles. Without a threshold for banks to join the Principles, being a PRB bank does not mean anything and, at its worst, gives cover to banks that are not fulfilling basic international obligations, such as those established by the UN Guiding Principles on Business and Human Rights. It is therefore of paramount importance that the initiative adapts the framework for new banks, and requires such banks to make specific and time-bound commitments prior to joining that matches the urgency of the climate, biodiversity, and human rights crises.

This briefing has been endorsed by: Rainforest Action Network, BankTrack, Accountability Counsel, Amazon Watch, Divest Invest Protect, First Peoples Worldwide, Friends of the Earth US, Indigenous Environmental Network, Japan Center for a Sustainable Environment and Society (JACSES), London Mining Network, Reclaim Finance, Sierra Club and Women's Earth and Climate Action Network (WECAN).

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