Energy

Sector Policy

Introduction

The energy sector plays an important role in economic growth and the improvement of living standards. Rising global energy needs have presented significant challenges to communities and the environment. This is exacerbated by the continued depletion of existing energy resources and the extraction of more unconventional oil and gas resources which could impact biodiversity and ecosystems and worsen environmental pollution, resulting in the displacement of indigenous communities.

As fossil fuels are a major feedstock for global energy production, the continued release of greenhouse gases (GHGs) adds to the risk of climate change. According to the International Energy Agency (IEA), energy production and use contribute to two-thirds of the world's GHG emissions. Other potential impact resulting from energy sector activities includes oil spills, acid rain from the release of nitrogen oxides and sulphur dioxides, generation of hazardous wastes, and loss of biodiversity from land clearing to build operation facilities.

To address climate change and to intensify the actions and investments needed for a sustainable, low carbon future, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement on 12 December 2015. As part of the agreement, countries made commitments to reduce their carbon footprint in order to restrict global warming to well below two degrees Celsius above pre-industrial levels and to pursue efforts to limit further the increase to 1.5 degrees Celsius. These commitments are expected to drive the energy mix of individual countries towards less carbon-intensive and renewable sources, which may cause transition risks for fossil fuel-related energy companies.

Scope

UOB's Energy Policy applies to:

(i) the exploration, production and processing of oil and gas;

(ii) the storage, distribution and trading of oil, gas and refined products;

(iii) oil and gas service companies;

(iv) the construction, operation and decommissioning of thermal power plants (i.e., coal-, oil-, liquid fuel, biomass, and gas-powered plants); and
(v) renewable energy activities.

Principles

UOB will not knowingly provide financing to:

- new coal-fired power plant projects;
- nuclear power plant projects;
- companies where their operations or projects threaten the outstanding universal value or special characteristics of UNESCO World Heritage Sites, RAMSAR wetlands, forests of high conservation value or sites with critical natural habitats;
- companies that are known to be in breach of GHG regulations within their respective jurisdictions (where applicable);
- companies without measures in place to manage or to mitigate the risk of air, soil and water pollution;
- companies involved in the exploitation of labour (including forced labour and child labour);
- companies in violation of the rights of local communities or without measures in place to avoid or to manage adverse impact on local communities; and
- companies without measures in place to manage occupation health and safety risks.

In addition, in line with UOB's net zero commitment, we commit to no new project financing for upstream oil and gas projects approved for development after 2022.

We require that our customers:

- comply fully with local environmental, social and governance related laws and regulations;
- put in place clear policies and systems to ensure risks associated with unconventional oil and gas extraction are appropriately mitigated;
- implement a diversification strategy towards less carbon-intensive sources (applicable to corporate financing of customers in coal power generation);
- put in place emergency response and preparedness plans which are appropriate to the nature of their operating activities and in accordance with the requirements of local regulations;
- put in place measures to prevent and/or to control discretionary gas flaring and venting;
- implement or work towards implementing an appropriate Environmental and Social Management System (ESMS) to address key environmental and social risks in their operations and/or projects; and
- commit to implementing a sustainable sourcing policy and/or processes to exclude purchases from sources that generate significant negative environmental and social impact.

Nuclear power plants

UOB will not knowingly finance nuclear power projects in view of elevated environmental, health and safety concerns posed by the risk of nuclear accidents and the disposal of radioactive wastes.

Coal-fired power plants

Carbon-intensive fossil fuels, particularly coal, will likely remain part of the regional energy mix for the foreseeable future. However, UOB recognises that coal-fired power plants are one of the most significant sources of greenhouse gas emissions contributing to climate change.

In view of the impact on climate change and the global transition towards a low carbon economy, UOB prohibits new project or corporate financing of coal-fired power plants. In line with UOB's net zero commitment, the Bank is committed to exiting thermal coal financing completely by 2039.

UOB also prohibits new corporate financing (general purpose) for the power generation business of a borrower whereby coal-fired power plants account for the majority (≥50 per cent) of its total power generation capacity. Due consideration for any corporate financing exceptions will however be given on a case-by-case basis to clients who have credible, time-bound transitions or diversification plans towards less carbon-intensive sources and/or technology. Exceptions must be approved by the Group Credit Committee.

Unconventional oil and gas sources

Unconventional oil are sources of oil and gas that are obtained through extraction methods other than those used in the conventional extraction of oil and gas, and include shale oil, shale gas and oil sands.

Shale oil and gas extraction requires hydraulic fracturing which involves pumping fluid (comprised of water, sand and chemical additives) at high pressure to enable hydrocarbons to flow to the wellbore. Mismanagement during this process can lead to soil erosion, as well as surface and groundwater pollution. In areas of water scarcity, the extraction of water for drilling and hydraulic fracturing can potentially lower the water table, affecting biodiversity and local ecosystems.

Oil sands extraction is energy intensive and can potentially release comparatively more GHGs into the atmosphere than conventional oil and gas extraction. It can also potentially impact biodiversity and local communities through its surface mining activities.

In view of these elevated environmental and social risks, UOB takes a very cautious approach to financing upstream unconventional oil and gas activities. Borrowers are expected to put in place clear policies and systems to ensure such risks are appropriately mitigated. Borrowers are strongly encouraged to implement best environmental and social practices in line with the International Energy Agency (IEA) Golden Rules on unconventional gas activities, which are applicable to hydraulic fracturing operations performed in the exploration and production phases on shale resources.

We also recommend that our customers:

- adopt the relevant established industry standards in respect of environmental, health and safety (EHS) guidelines specified by organisations such as the International Petroleum Industry Environmental Conservation Association (IPIECA), the International Finance Corporation (IFC) Performance Standards, or the IFC EHS Guidelines pertaining to Oil and Gas, and Power;
- align venting and flaring practices with the Global Gas Flaring and Venting Reduction Voluntary Standard (part of the World Bank Group Gas Flaring Reduction Partnership);

- adopt environmental and social best practices in line with the IEA Golden Rules on unconventional gas activities, especially those relating to hydraulic fracturing operations performed in the exploration and production phases on shale resources;
- adopt best environmental practices in relation to:
  - reducing greenhouse gas emissions;
  - proper waste management;
  - efficient water management and/or water stewardship, particularly for projects that are located in water stressed areas; and
  - adapting to and managing climate-related risks which may include developing a strategy to assess the potential financial impact of climate-related risks through climate scenario analysis and adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- put in place adequate controls and/or systems (e.g. contractor management plans) to manage the environmental, social and governance performance of their direct service providers and contractors; and
- implement the Free, Prior and Informed Consent (FPIC) process in their engagement with affected local communities, where applicable.

Where we deem that our customers are unable or unwilling to manage the potential adverse impact of their operations, the Bank may choose to exit the relationship.