Media note

EXITING COAL

IS THE FRENCH FINANCIAL INDUSTRY ON ITS WAY?

NOVEMBER 2019

Unfriend COAL

BANKTRACK

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Les Amis de la Terre France

At last, getting out of coal to contain global warming is no longer a matter of debate among the players in the Paris financial centre. On July 2 this year they committed to adopt by mid-2020 a timetable for *"total disengagement from the coal sector"*, which still accounts for nearly one-third of global emissions.

However, it still remains necessary to not only exit the coal sector, but to do so on time and in order to meet the objectives of the Paris Agreement.

After repeated calls to this effect by scientists, the International Energy Agency and UN agencies, it was none other than the **United Nations Secretary-General himself, Antonio Guterres, who called in September 2019 for a phase-out of coal and for no further building of any new coal-fired power plants from 2020 onwards[1].**

This is because, despite a cost that is now higher than renewable energy, coal continues to grow. More than 1100 new coal-fired power plant projects could be developed, enough to increase the global coal plant fleet by 25%[2].

A FEW YEARS TO GET OUT OF COAL

Incompatible with the objectives of the Paris Agreement, each new power plant absorbs a share of the meagre remaining carbon budget to limit global warming to a maximum of 1.5°C and forces us to plan for a faster coal exit from the more than 6,000 plants currently in operation around the world. According to the latest research from the Climate Analytics research centre, which is a benchmark for many investors and the Powering Past Coal Alliance, we have only ten years left to stop producing electricity from coal in the EU and OECD countries and 20 years elsewhere in the world[3].

And if time is short, **it is what we do in the next few years that will determine the success or failure of leaving the coal sector.** Indeed, according to the latest report of the Intergovernmental Panel on Climate Change (IPCC) on the consequences of 1.5°C warming, nearly 80% of coal-fired electricity generation capacity must be shut down by 2030[4].

COMPREHENSIVE REVIEW REQUIRED

In 2015, French financial actors began to restrict their support to the coal sector. For investors, the aim was to exclude companies on the basis of the share of coal in their revenues or in their electricity production. For banks, the main initial focus was on ending their direct financing of new mining and coal-fired power plant projects – a process that began in 2015 and was completed in 2017. Then, like investors, the French banks began to exclude certain companies from their financing. Finally, on the insurance side, AXA and SCOR joined the banks by committing in 2017 and 2019 to no longer insure new coal projects.

But, contrary to popular belief, French financial players are far from finished with coal. **While almost all French financial actors have adopted a coal policy, they remain exposed to companies active in the sector and a majority of them still support the development of coal.**

According to financial research conducted by the Dutch consultancy firm Profundo, between January 2016 and September 2018 the top French banks, led by BNP Paribas, provided more than €10 billion in financing to the 120 most aggressive companies involved in the construction of new coal-fired power plants. **New financial data, extended to September 2019 and covering a wider range of new coal project developers, reinforces BNP Paribas' position as one of the leading western financiers of coal expansion, including even growing support for some of the largest developers in the sector.** Among these beneficiaries is the Indonesian utility PLN Persero, which plans to build nearly 10 gigawatts of new coal-fired electricity generation capacity despite the fact that the sector has already caused the premature deaths of 6,000 people in Indonesia in 2015[5].

The lack of transparency attached to insurers' underwriting activities does not allow AXA and SCOR's exposure to coal developers to be assessed. But one thing is certain – their policies do not prevent them from covering risks, other than those related to the construction of new mines and coal-fired power plants, for all companies in the sector, including the 417 companies developing new projects. Consequently, **AXA still supports the expansion of the coal sector. This is an indication of inconsistency and/or hypocrisy from AXA, which has been repeating since the Planet Summit in 2017 that it has taken a stand against the development of coal[6].**

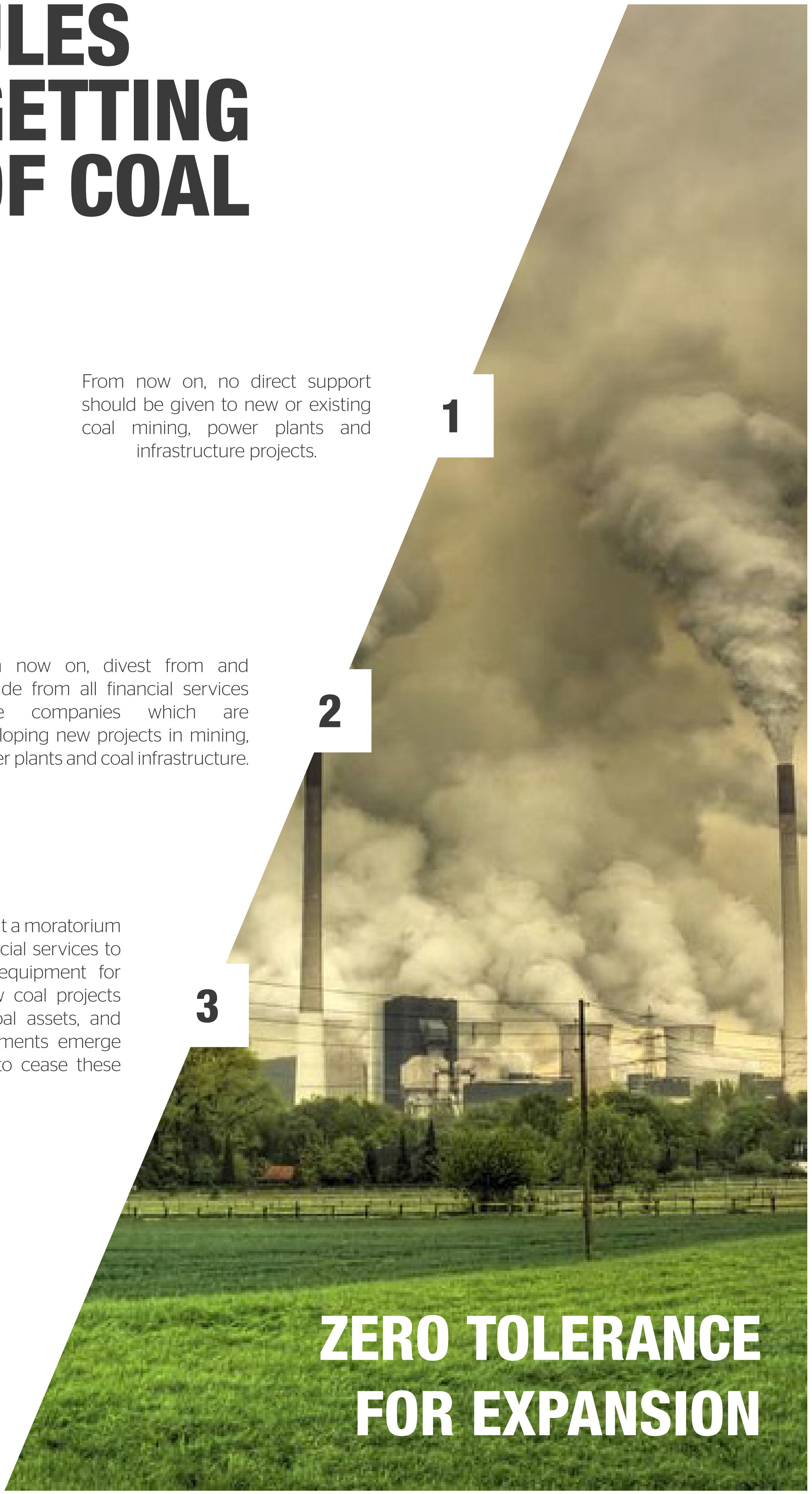
RISKS & OPPORTUNITIES OF THE JULY 2 COMMITMENT

The July 2 commitment is therefore excellent news. If applied, it will be a landmark on the international stage where it could have a powerful ripple effect.

However, it remains non-binding and the implementation of the measures announced will be evaluated by committees composed in part by financial actors themselves. It can therefore be expected that many coal exit plans will not be aligned with the objective of limiting global warming to a maximum of 1.5°C. This is already the case with the new policy published by Société Générale a few days after the July 2 commitment.

This briefing presents the elements that must be categorically included in the exit plans of financial actors and the challenges related to them with regard to policies already in place and the financial services currently provided to the coal sector by French financial actors.

10 RULES FOR GETTING OUT OF COAL

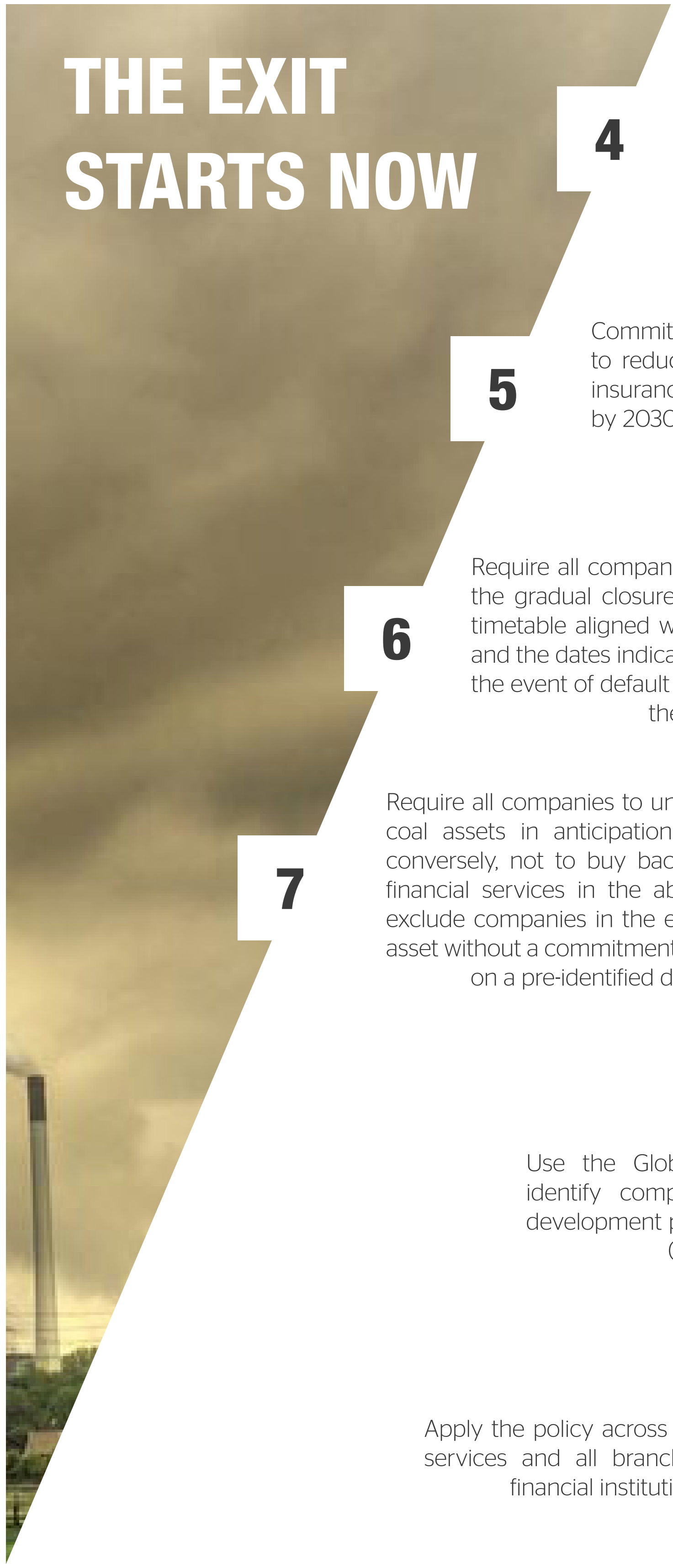


ZERO TOLERANCE FOR EXPANSION

1 From now on, no direct support should be given to new or existing coal mining, power plants and infrastructure projects.

2 From now on, divest from and exclude from all financial services those companies which are developing new projects in mining, power plants and coal infrastructure.

3 With immediate effect, put a moratorium on the provision of financial services to companies which sell equipment for the construction of new coal projects or purchase existing coal assets, and lift it only after commitments emerge from these companies to cease these activities.



THE EXIT STARTS NOW

4 Divestment from and exclusion from all financial services of companies which derive more than 20% of their revenues or electricity production from coal, which produce more than 10 million tonnes of coal per year or which operate coal-fired power plants with a capacity exceeding 5 gigawatts.

5 Commit to no further provision of financial services and to reducing the exposure of financing, investment and insurance portfolios to the thermal coal industry to zero by 2030 at the latest in EU/OECD countries and by 2040 elsewhere.

6 Require all companies to adopt, by 1 January 2021, a plan for the gradual closure of their coal assets, including a detailed timetable aligned with the objectives of the Paris Agreement and the dates indicated above. Suspend all financial services in the event of default and exclude the company one year later if the problem is not resolved.

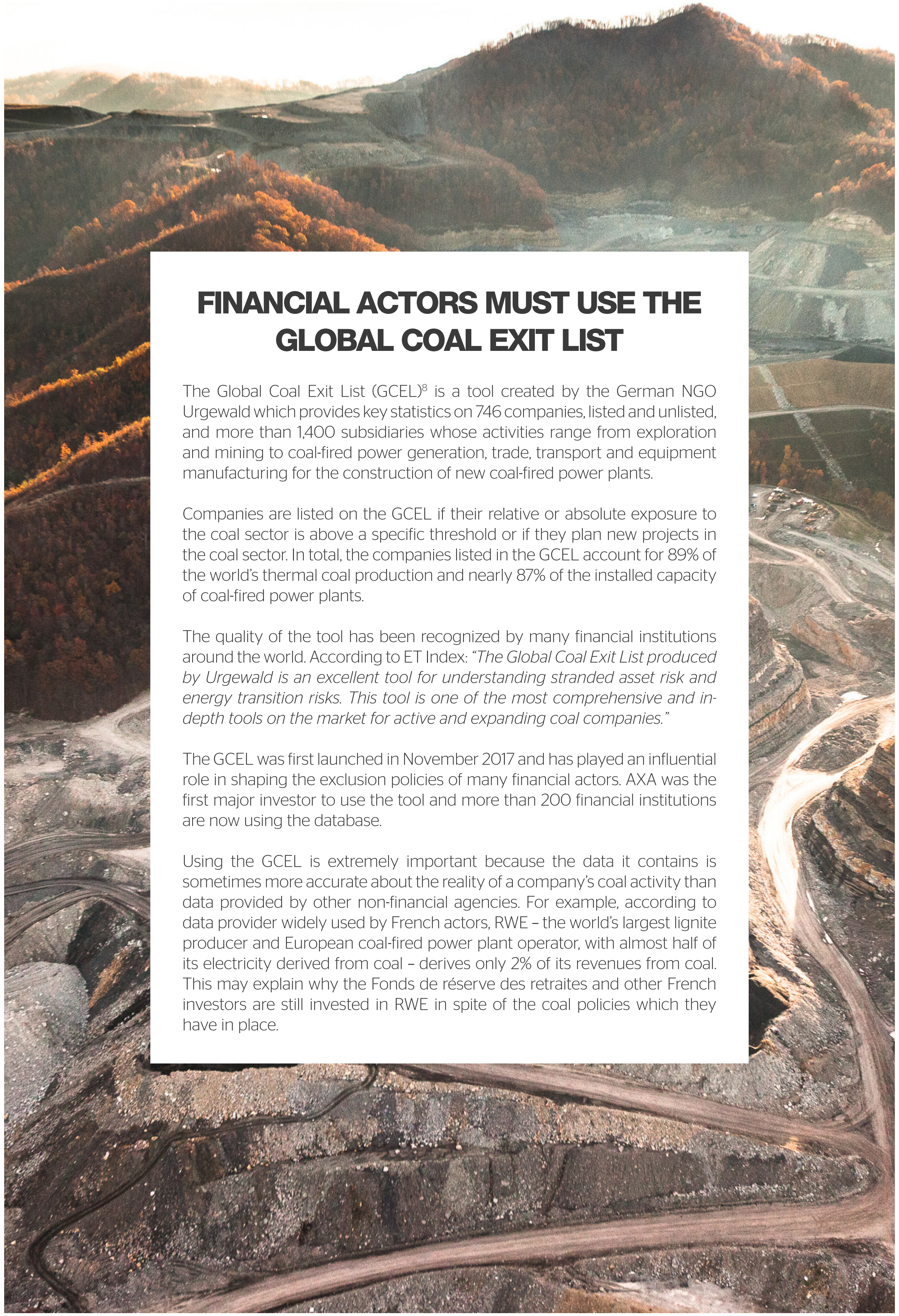
7 Require all companies to undertake to close (not sell) their coal assets in anticipation of employee retraining and, conversely, not to buy back existing assets[7]. Suspend all financial services in the absence of a commitment and exclude companies in the event of a transaction of a coal asset without a commitment by the buyer to close the asset on a pre-identified date, as indicated above.

THE RIGHT TOOLS, THE RIGHT APPROACH

8 Use the Global Coal Exit List to identify companies' exposure and development plans in the coal sector (see box).

9 Apply the policy across all financial services and all branches of the financial institution.

10 Do not compromise the policy with exceptions. Only companies meeting the criteria indicated in point 6 could be exempted and receive services that are signposted and traceable to renewable energy infrastructure. The number of companies subject to such an exception must be publicly disclosed.



FINANCIAL ACTORS MUST USE THE GLOBAL COAL EXIT LIST

The Global Coal Exit List (GCEL)[8] is a tool created by the German NGO Urgewald which provides key statistics on 746 companies, listed and unlisted, and more than 1,400 subsidiaries whose activities range from exploration and mining to coal-fired power generation, trade, transport and equipment manufacturing for the construction of new coal-fired power plants.

Companies are listed on the GCEL if their relative or absolute exposure to the coal sector is above a specific threshold or if they plan new projects in the coal sector. In total, the companies listed in the GCEL account for 89% of the world's thermal coal production and nearly 87% of the installed capacity of coal-fired power plants.

The quality of the tool has been recognized by many financial institutions around the world. According to ET Index: *"The Global Coal Exit List produced by Urgewald is an excellent tool for understanding stranded asset risk and energy transition risks. This tool is one of the most comprehensive and in-depth tools on the market for active and expanding coal companies."*

The GCEL was first launched in November 2017 and has played an influential role in shaping the exclusion policies of many financial actors. AXA was the first major investor to use the tool and more than 200 financial institutions are now using the database.

Using the GCEL is extremely important because the data it contains is sometimes more accurate about the reality of a company's coal activity than data provided by other non-financial agencies. For example, according to data provider widely used by French actors, RWE – the world's largest lignite producer and European coal-fired power plant operator, with almost half of its electricity derived from coal – derives only 2% of its revenues from coal. This may explain why the Fonds de réserve des retraites and other French investors are still invested in RWE in spite of the coal policies which they have in place.

THE PATH TOWARD THE JULY 2 COMMITMENT

THE ROOTS OF COMMITMENT

On 26 November 2018, France's Minister of Economy and Finance told the United Nations Roundtable on Sustainable Finance: *"I call on French banks, insurers and asset managers to make commitments to stop financing mines and coal-fired power plants. If these commitments are not respected, we will make them binding.[9]"*

It took Le Monde's coverage of two reports published by Oxfam France and Les Amis de la Terre to get the government to react. The first report showed the over-exposure of French actors to fossil fuels compared to renewables, the other showed that they are aggravating the problem by continuing to support companies which are developing new coal projects. This was awkward news as France was preparing to hold three days of international conferences on climate finance: the United Nations Roundtable on Sustainable Finance followed by Climate Finance Day. Held every year since 2015, it usually serves as a showcase event presenting the ambition of French actors in the field of climate change.

The Minister of Economy and Finance could not ignore this headline. Instead of applauding French financiers, he had to react and publicly call on French banks, insurers and asset managers to make commitments to stop their support for the most polluting sectors, starting with coal.

On 2 July, choosing action over restraint, the Paris financial centre, through the professional federations[10], announced that, by mid-2020, its members, banks, insurers and investors would define *"a global exit timetable for coal financing"*. If followed by action, the July 2 commitment from the Paris financial centre will be a landmark and an example on the international scene. Yet nothing could be less certain.

A RIGGED EVALUATION PROCESS

Financial actors in the Paris financial centre have been asked to report on their coal exit strategy in their non-financial reporting from financial year 2020 onwards. The AMF (Autorité des Marchés Financiers)[11] and the ACPR (Autorité de Contrôle Prudentiel et de Résolution)[12] will be supported by two committees to monitor and evaluate the implementation of the commitments. **However, two newly appointed commissions, known as the Climate and Sustainable Finance Commissions, reveal serious conflicts of interest; more than a quarter of their members are representatives from financial actors: BNP Paribas, Amundi, AXA, Natixis, etc.** In other words, the heavyweights of the French political and financial ecosystem.

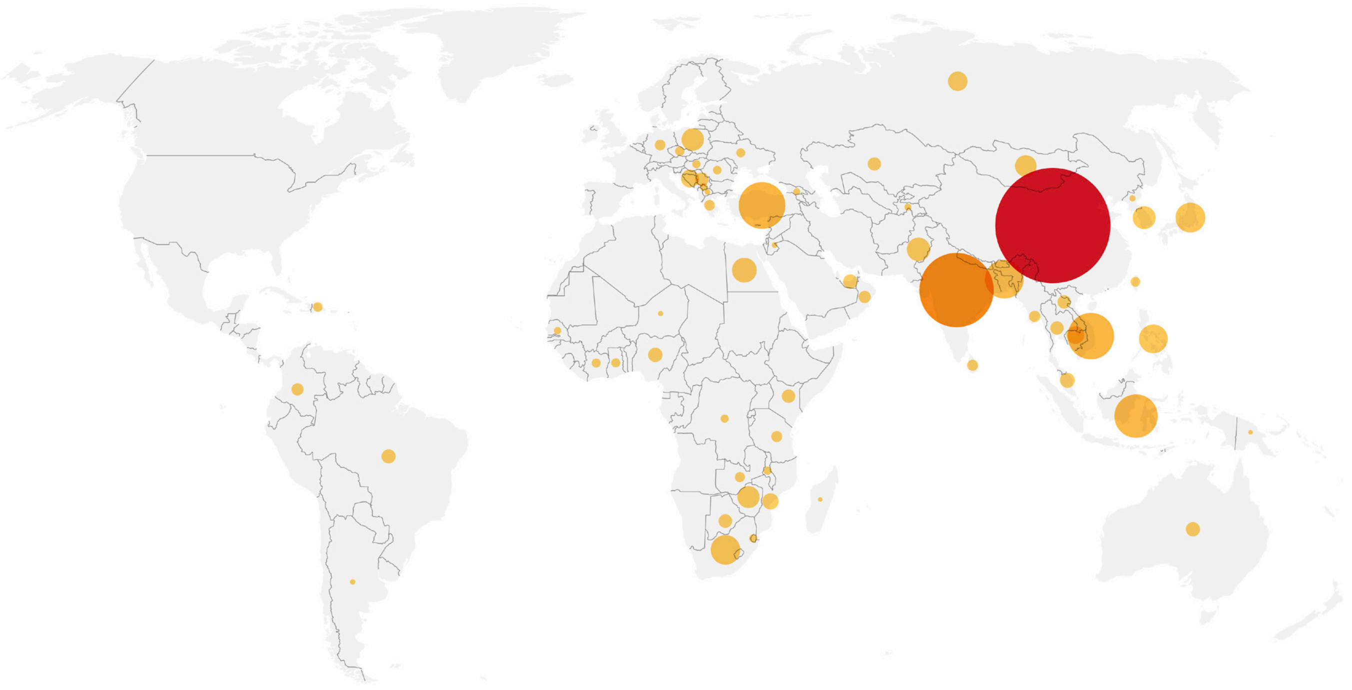
It is therefore difficult to be confident that these commissions will have the necessary independence to judge the quality of the plans in terms of the only criterion that must prevail: their alignment with the undeniable climate science. Even more uncertain are the measures that will be taken to reprimand those financial actors which do not have a coal strategy, including a 1.5°C exit plan, in place and those which may not even bother to adopt a coal policy or review their existing policy.

ALL RESPONSIBLE, YET NO ONE GUILTY?

Last December, the French minister announced that he wanted to compel banks, insurers and investors to get out of coal. It therefore fall on the government to intervene in the event of any failures from financial actors to honour the commitment they have now made. However, **the ministerial declaration of December 2018 and the commitment of the financial centre on 2 July do not in any way state that it is a question of getting out of coal in line with the climate objectives adopted in the Paris Agreement.** The market statement does indeed refer to the commitment of members to contribute to the objective of carbon neutrality by 2050, but this does not constitute a commitment to aligning with this objective.

The simple adoption of a so-called 'coal exit plan' could therefore be enough for the French state to exonerate itself from any responsibility and for financial actors to show their support, whatever the criteria of these plans. In other words, if these actors fail to get out of the coal, they will all be responsible, but none will be held responsible.

ZERO TOLERANCE TO EXPANSION



New electricity generation capacity from coal, data compiled by Urgewald[13]

If French financial actors intend to adopt coal exit plans, the exclusion of all companies which choose to take the opposite course by continuing to develop in the coal sector has to follow. The stakes are as much related to climate distress as financial distress.

THE THREAT IS IMMENSE

On the climate front, Fatih Birol, the Executive Director of the International Energy Agency (IEA) stated in November 2018 that *"We have no place to build anything that emits CO2[14]"*. However, we have not even finished with coal. Not only does coal still account for a third of the emissions from the energy sector, it also continues to grow..

Since COP21 in Paris, nearly 100 gigawatts of new electricity generation capacity has been built, twice the existing capacity in Germany. Today, 417 companies plan to build new coal mines, power plants and infrastructure. Of these companies, 258 are planning more than 1100 new coal-fired power plants in 60 countries. If these projects were to become a reality, they would add more than 579 gigawatts to the world's coal-fired electricity generation capacity, an increase of nearly 29%. While every effort should be made to close down existing coal infrastructure, there is an urgent need also to apply zero tolerance to these coal expansionists.

On the financial side, while a large part of the existing infrastructure will have to be closed before its intended lifespan, some well before it becomes profitable, new power plants are very likely going to become stranded assets. The companies which develop them and the financial actors which support them are therefore exposed to significant financial risks.

COMPANIES TO BE EXCLUDED IMMEDIATELY

If the diagnosis is clear, so is the prescription. In September 2019, the Secretary General of the United Nations called for the umpteenth time on political, economic and financial actors gathered in New York for Climate Week to get out of coal and to stop building every single new coal-fired power plant from 2020 onwards. **For financial actors, this should mean immediately and systematically excluding from all financial services companies which help build new coal projects, all of which are incompatible with a warming trajectory below +1.5°C.**

In particular, **companies building or planning to build new mines, power plants or other coal infrastructure should be excluded.** Among these are many clients of French financial players: ČEZ, PLN Persero, Adani, KEPCO, etc.

Coal development is possible through the sale of equipment for the construction of new infrastructure. This is one of the activities which General Electric is trying to build on through aggressive lobbying for the development of new power plants[15]. **While it is not a question of immediately excluding equipment suppliers, it is important to make any new financial services conditional on their commitment to cease these activities.**

THE BLIND SPOT IN CURRENT POLICIES

The majority of financial actors with coal policies which exclude companies according to the share of coal in their revenues or electricity production, exclude those exposed with more than 25% or 30% deriving from coal.

However, **according to the GCEL, companies generating less than 30% of their electricity from coal have 202 gigawatts of new coal-fired electricity generation capacity** – this represents more than one third of the new projects on the table. Even the 25% threshold used by Natixis does not cover 165 gigawatts of planned new coal capacity, i.e. 4 times Germany's capacity. Similarly, nearly 30 companies planning to expand or build new coal mines derive less than 20% of their revenues from coal.

The lack of criteria that take particular account of business investment plans explains the continued provision of financial services to coal expansionist companies. This in turn makes it impossible for now to stop the development of coal.

INSUFFICIENT AWARENESS OF THE PROBLEM

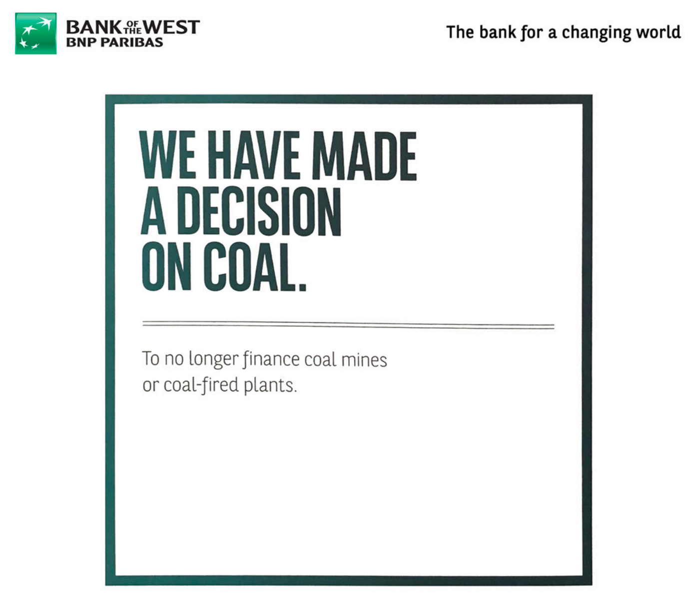
It was in 2017 that financial players, and in particular insurers, became aware of this problem. In December 2017, the French Insurance Federation stated that it *"acknowledges the willingness of its members to no longer invest in companies that do not abandon their plans to develop new coal-fired power plants[16]"*. A few days later, AXA excluded from its investments companies which plan to build more than 3 gigawatts of new coal-fired power plants. This was to be followed by similar measures, more or less ambitious, by SCOR, AG2R La Mondiale, Macif, Groupama, CNP Assurances, MAIF, BNP Paribas Cardif and Covéa.

Two major problems remain. The first is that for a long time the commitments made concerned only a part of the companies planning the development of new coal power plants. The developers of mines and coal infrastructure have been completely ignored. The second, perhaps even more fundamental, is that these commitments apply only to investments. Other, more fundamental financial services – financing and insurance coverage – are not covered by these commitments.

Even AXA, which was the first major financial player to divest from some developers because of their growth plans in the sector, has never applied the same approach to its insurance activities (see box). This inconsistency can also be found today between BNP Paribas Cardif and BNP Paribas Group (CIB), and at the level of the SCOR Group. The reason is simple: divesting from coal costs nothing or is even profitable, while stopping financing or insuring a customer, especially in diversified activities, means losing a customer and market share.

OVER HERE LIES THE EXIT

The real turning point, at least in theory, came on June 6, 2019. It was when Crédit Agricole announced its commitment to no longer work with companies which are developing or planning to develop their activities in the thermal coal sector across the whole value chain – from coal mining to coal-fired power generation, including transport and coal trading activities. This new measure, which covers all the group's activities – the giant Amundi being also involved – has the potential to be a vital landmark. All that remains is for Crédit Agricole to apply it.



Panneau publicitaire de Bank or the West / BNP Paribas à San Francisco en 2018

BNP Paribas is proud: the bank has *"made a decision on coal, no longer financing new coal mines and power plants"*. Except that what BNP Paribas no longer wants to finance directly, it finances indirectly.

According to financial data on global financing and investment for companies developing new coal-fired power plants, which will be published in a few weeks' time, BNP Paribas is by some distance the leading French bank financing the expansion of the coal sector since COP21.

The year 2019 is not yet over, but between January and September 2019 it granted €2.2 billion through loans and equity and bond issues to companies which together plan to build more than 37 gigawatts of new coal-fired power generation capacity, almost 1.3 times the installed capacity in Poland.

WILL CRÉDIT AGRICOLE STICK TO ITS COMMITMENTS?

On 6 June 2019, Crédit Agricole, the second largest French funder of coal-fired power plant developers since COP21, announced an ambitious climate strategy[17] that must now be translated into specific sectoral policies for each of its core business lines: financing, asset management and insurance. **If politics sets an example at the international level, there is a high risk that the bank's apparent ambition will be compromised.**

EXIT PROCESS ALREADY TO BE REVIEWED

Crédit Agricole has committed to reducing the exposure of its financing and investment portfolios to coal to zero by 2030 in European and OECD countries, by 2040 in China and by 2050 in the rest of the world. Crédit Agricole based this approach on work carried out by Climate Analytics in 2016. However, the research institute has just updated these scenarios and published a new study indicating the need for coal to end in China and in all non-OECD/EU countries by 2040. If these commitments are sincere, Crédit Agricole must align itself with these new dates.

Crédit Agricole also became the first major financial player to ask its customers for detailed coal withdrawal plans. This will be a major parameter of a transition note that will determine whether the group should continue, freeze, or terminate its relationship with a given company. The system does not mention the necessary closure (and not the sale) of the infrastructure and remains too vague to likely change the course of some companies. It also leaves too much room for arbitrary decisions which are more dependent on the customer relationship with a company than on its efforts to get out of the coal.

417 EXPANSIONISTS TO BE EXCLUDED, NOT ONE LESS

But it is also on the application of the other criteria that Friends of the Earth France and their partners will be vigilant. In June, Crédit Agricole undertook to *"no longer work with companies developing or planning to develop new thermal coal capacity throughout the value chain (producers, extractors, power plants, transport infrastructure)"*. **While the GCEL lists the 417 companies that meet these criteria, the bank has told Friends of the Earth France that it is working on its own list. Only the publication of the criteria used to identify this list and the final list itself will make it possible to assess the scope, and therefore the value, of this commitment.**

THE DEVIL IN THE DETAILS

A further problematic issue is that Crédit Agricole has undertaken to ensure that the policy covers all of its financial services, but it will be necessary to ensure that equity and bond issues on the Crédit Agricole investment banking side and the passive management on the Amundi side are included in the policies specific to the two businesses.

Finally, it should be noted that Crédit Agricole currently only defines an electricity producer's exposure to the coal sector on the basis of the share of this energy in its revenues. As mentioned above, this can lead to the omission of many companies that actually produce well over 25% of their electricity from coal.

AXA'S ABORTED AMBITION

AXA is recognised as the first major investor to adopt a coal policy that not only excludes companies based on the share of coal in their activities. Applying a 30% threshold, AXA added in 2017 the exclusion of companies which produce more than 20 million tonnes of coal per year and those that plan to produce more than 3 gigawatts of new coal-fired power generation capacity.

DIVEST A LITTLE BUT NOT TOO MUCH

This first step, very welcome at the time, was very quickly overtaken by other French insurers and especially by Allianz, which decided in 2018 to divest all companies with more than 500 MW of new coal capacity. Today, AXA's policy is more than outdated and difficult to justify: it allows the insurer to **still invest in companies with more than 118 gigawatts of new coal production capacity, more than twice the capacity of Germany's coal-fired power plants.**

At its Annual General Meeting in April 2019, AXA undertook to review this exclusion threshold for developers of new coal-fired power plants. But nothing has been said about the 159 companies that are developing mining or coal infrastructure projects. And, above all, its commitment only concerns investments and not underwriting activities. Inconsistency or hypocrisy, one thing is certain: we are a long way from the *"no new coal"* mantra uttered by the company's Executive Director Thomas Buberl at the 2017 One Planet Summit.

ENSURE COAL EXPANSION

Above all, the April 2019 commitment only concerns investments and not underwriting activities. **As of now, AXA no longer directly insures new coal mine and coal-fired power plant projects. But the insurance giant can still provide insurance coverage, including non-life insurance, to companies that develop these same projects, even if AXA has excluded them from its investments.** It's another inconsistency with the 2017 commitment to not only control the impact of climate change on AXA but also the impact of AXA's activities on the climate.

AXA INSURES ADANI

Last December, AXA made a commitment not to directly insure the huge Carmichael coal mine project in Australia, led by the Indian conglomerate Adani. The project would produce enough coal over its lifetime to emit the equivalent of more than eight years of Australia's greenhouse gas emissions and would open a coal basin to development – a basin that is currently untapped. **But according to sources in the insurance industry, AXA is one of the insurers of Adani Mining, the Australian subsidiary responsible for the mine project.** The coal would be transported to the coast via a railway that AXA is insuring through a contract it has undertaken not to renew. Then it would be exported through the Great Barrier Reef. In addition to being a carbon bomb, Adani's project is therefore a major threat to this extremely fragile ecosystem which is classified as a UNESCO World Heritage Site. Supporting this company is therefore an asset for AXA, which added biodiversity commitments to its climate commitments in 2019.

AXA would therefore do well to take inspiration from Chubb, Swiss Re and Zurich, which have already undertaken to no longer cover the risks of coal companies, and in particular Zurich, which has undertaken to no longer provide any insurance coverage to companies developing new power plants or coal mines.

SOCIÉTÉ GÉNÉRALE MINES RUSSIA

Société Générale announced a new coal policy on 18 July 2019[18]. Already adopted, everything needs to be reviewed because the new criteria do not meet the commitments of the Paris financial centre, even though they were made a few days earlier. Although **Société Générale undertakes to *"gradually reduce its exposure to the thermal coal sector to zero by 2030 at the latest for companies with assets in EU and OECD countries, and 2040 elsewhere"*, this commitment only concerns loans and ignores other financial services provided to the coal sector, starting with equity and bond issues.**

Moreover, Société Générale is a long way short of blacklisting the 417 companies which are developing new coal projects. Only developers exposed to more than 30% coal are already excluded. This is far from the position adopted by Crédit Agricole, which excludes any expansionist by nature. In other words, in Société Générale's world, a company can continue to build coal-fired power plants, mines and infrastructure as long as it remains relatively *"little exposed"* to coal.

As mentioned above, companies generating less than 30% of their electricity from coal are planning 202 gigawatts of new coal-fired power generation capacity, almost as much as the coal fleets of Germany, Poland, South Africa and Russia combined. But many mining companies could still benefit from Société Générale's support despite their coal development plans.

This is particularly the case in Russia, where Société Générale is among the top four global financiers of four mining companies: Alltech, SUEK, Ural Mining Metallurgical and EN+, which collectively produce more than 178.5 million tonnes of coal per year.

With more than 110 million tonnes of coal produced per year in its 27 mines, 19 of which are open-pit mines, SUEK is the largest coal producer in Russia and the ninth largest coal producer in the world. **Yet the company that wins the scandal prize is Ural**: indictments and convictions for violations of industrial safety laws, lack of soil remediation and money laundering. Asked about the latest money laundering cases that broke out in March 2019, a Spanish prosecutor said about the tycoon at the head of the company, said to be linked to organised crime: *"Makhmudov mainly used two different methods to create a successful business: corruption and violence"*. **Société Générale is the world's leading funder of Ural, with 166 million euros in financing granted since 2016.**

Société Générale granted more than 1.6 billion euros in financing to these four companies between January 2016 and June 2019, including 84% of its support delivered from 2017, i.e. after the adoption of its previous coal policy in autumn 2016. However, **while the commitment made in 2016 to reduce its exposure to coal mining by 14% by the end of 2020 did not prevent Société Générale from increasing its financing to these four companies, the new policy of July 2019 may not change anything either.** First of all, with 7% of its income from coal, EN+ does not fall within the bank's scope of exclusion. In addition, the GCEL does not provide data for Alltech and Ural, and finally only indicates that SUEK derives more than 20% of its revenues from coal. If the GCEL does not provide data, it is difficult to define and it is unlikely that other data providers will be able to do so. Thus, only a commitment by Société Générale to no longer finance companies that develop new coal projects regardless of their exposure to coal would guarantee their exclusion from the group's support.

BNP PARIBAS IS HELPING TO TORCH INDONESIA

Currently, BNP Paribas undoubtedly has the worst policy adopted by the major French banks. While the bank finally acknowledged the end of its direct support for new coal-fired power plant projects around the world in January 2017, it has not revised its corporate commitments since … December 2015. Three years. And in fact, the bank still supports not only those companies which are highly exposed to coal but also those which continue to build new coal-fired power plants and mines.

Among these is Indonesia's national electricity production and distribution operator **PLN Persero. Its existing 20 gigawatt coal-fired power plants already emit 74 million tonnes of CO2 per year, or about 14% of the country's total CO2 emissions[19], but PLN plans to develop nearly 10 additional gigawatts[20]. This represents a major threat to the climate but also to the health of communities. Pollution from coal-fired power plants has been estimated to have caused the premature deaths of 6,000 people in Indonesia in 2015[21]** and the massive development of new power plants around Jakarta could well result in the premature deaths of 10,000 people per year[22].

Yet between February 2017 and July 2018, BNP Paribas granted no less than €270 million in financing to the company. And, with 62% of its electricity produced from coal and more than 50% of its income from coal, it is clearly identifiable as a company very much in the coal industry.

It is, therefore, difficult to understand how BNP Paribas can still be financing PLN Persero. First of all, it should be noted that its policy only applies to companies which have more than 30% of their electricity production capacity in the coal sector (those below this threshold are not even affected, even though they plan to increase global coal-fired electricity production capacity by 11%). In addition, the funding criteria are extremely weak and leave far too much room for arbitrariness.

BNP Paribas has undertaken to finance only companies that have *"a diversification strategy that results in a reduction in the share of coal in their electricity production mix"*. The key words? 'The share of coal', which implies that companies which develop their capacity to produce non-coal electricity without reducing that linked to coal or that develop the former faster than the latter can always benefit from the bank's support. In other words, **BNP Paribas' policy does not take into account the physical limits of the world at all: it is not enough to reduce coal in a relative metric but to close coal-fired power plants that are operational in the real world.**

However, this alone does not explain the financing provided to PLN Persero or the nearly €4 billion in financing provided by BNP Paribas to 120 companies involved in the development of new coal-fired power plants between January 2016 and September 2018[23].

The explanation may lie in the fact that *"this diversification policy should be at least as ambitious as the national commitment to limit GHG emissions in the country in which it carries out most of its activities"*. However, **national commitments are notoriously insufficient to achieve the objectives of the Paris Agreement and the bank should only refer to the 1.5°C target:** if current national commitments are met, average global warming would be between 2.7°C and 3.2°C. In addition, PLN Persero has been involved on several occasions in corruption scandals aimed at obtaining public decisions in favour of the development of new coal-fired power plants. This type of 'lobbying' has worked because the country has developed very little in the renewable energy sector despite its immense potential.

Thus, **a comprehensive review of BNP Paribas' policy is urgently required. The exclusion of expansionists is the priority, but the elements indicated on pages 4 and 5 of this report should also be heeded.**

20 YEARS TO GET OUT OF COAL

The number of years to get out of coal is counting down. According to the latest research by the Climate Analytics Research Centre, which is a benchmark for many investors and the Powering Past Coal Alliance, **we must no longer produce electricity from coal by 2030 in the EU and OECD countries, and by 2040 elsewhere[24].**

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20 YEARS TO CLOSE 6700 PRODUCTION UNITS

The challenge is enormous. We have more than 6700 coal-fired power generation units in operation around the world[25]. According to the latest report of the Intergovernmental Panel on Climate Change (IPCC) on the consequences of 1.5°C warming, nearly 80% of coal-fired electricity generation capacity must be shut down by 2030[26]. **In other words, what we do in the next few years will determine the success or failure of leaving the coal sector[27].**

The first step for financial actors must be to commit to gradually reducing all financial services to zero for the coal sector and to have zero exposure to the sector by 2030 at the latest in EU and OECD countries, and by 2040 elsewhere. Société Générale has adopted the right dates, but its commitment only affects its loan portfolios: investments and other financial support such as equity and bond issues are not covered. This is a blind spot suggesting that this particular exit plan may not avoid a crash.

EXCLUDE, OR ENGAGE COMPANIES TOWARDS EXIT

The debates and uncertainties about the fate of the four French power plants whose closure was announced under the previous government demonstrate how important it is to think, plan and organise well in advance the closure of existing coal assets.

Requiring companies to publish a plan to close their coal assets is an essential step, crucial for our ability to get out of coal in the time available to stay below 1.5°C of warming. It is also a prerequisite for anticipating the social and economic consequences of a rapid exit from coal and for integrating as effectively as possible the issues of just transition and the rights of workers in the sector.

Financial institutions should require from their clients the publication of a detailed plan to close their coal assets in order to exit the coal sector by 2030 and 2040 at the latest. In the absence of a plan, all new financial services must be frozen and companies must be excluded, as of 1 January 2022, if they still do not have such a plan in place. **Financial actors who do not have the will and resources to engage companies and push them to publish a detailed plan to close their coal assets must exit the coal sector well before the dates of 2030 and 2040.**

Crédit Agricole now excludes all coal-fired power plant developers, restricts its support to customers exposed to more than 25% coal and asks others to publish a withdrawal plan by 2021. However, the best policy to follow is that adopted by Banque Postale Asset Management: the investor committed to make no new investments in any company that owns coal-fired power plants until it has a plan to close its assets. On the other hand, an example to not follow is that set by Société Générale: the bank has committed to an exit by 2030 and 2040, yet it continues to finance coal developers and has no demands on coal companies it maintains as clients.

CLOSE RATHER THAN SELL

Requesting a coal exit plan is not enough. Companies must be required to submit a closure plan. **This is a major point at a time when many companies, including the French company Engie, tend to favour the sale of their assets in order to quickly decarbonise their portfolios without having to manage employee retraining or environmental clean-up and natural restoration.**

Compared to 2015, Engie has reduced its coal-fired power generation capacity by more than 75%, from 20,872 megawatts in 2015 to 4,700.8 megawatts in 2019. But so far, Engie has closed only 23% of its coal-fired power generation capacity. 14 coal-fired power plants, representing 54% of its coal production capacity (11,356 megawatts), were sold to other power producers. Most, if not all of them, are still in operation. This is a clear example that decarbonising a specific portfolio does not necessarily lead to decarbonisation in the real world. Engie is currently selling two coal-fired power plants in Brazil.

Financial institutions – investors, insurers and banks – can play an important role in ensuring the fair and equitable closure of Engie's coal-fired power plants. They must require Engie to adopt, by January 2021, a clearly defined and detailed implementation plan for the phase-out (without sale) of its existing coal-fired power plants, by 2030 at the latest in the OECD and Europe, and by 2040 in the rest of the world.

CONCLUSION

The commitment made by the Paris financial centre on 2 July marks a key step for exiting the coal sector. However, as indicated in this briefing, the risks of greenwashing are high. With time running out, Friends of the Earth France and partners will closely monitor how French banks, insurers and investors translate this commitment into sectoral policies that may – or may not – be aligned with the objective of limiting global warming to below 1.5°C.

Two major requirements must be followed. First, exclude the 417 companies that develop new coal mines, power plants and infrastructure. Second, require all companies to adopt by 1 January 2021 a plan for the gradual closure of their coal assets, with a detailed timetable aligned with the objectives of the Paris Agreement and the dates indicated above; and suspend all financial services in the event of default, if necessary excluding the company one year later if the problem is not resolved.

NOTES

[1] https://www.un.org/sg/en/content/sg/statement/2019-09-23/secretary-generals-remarks-closing-of-climate-action-summit-delivered
[2] https://docs.google.com/spreadsheets/d/1JKJJa-jwK6YpkEQKP2bcENHR2yoS40ur8baQnIXHtIU/edit#gid=0
[3] https://climateanalytics.org/publications/2019/coal-phase-out-insights-from-the-ipcc-special-report-on-15c-and-global-trends-since-2015/
[4] https://www.ipcc.ch/sr15/
[5] https://issuu.com/greenpeacesea-indonesia/docs/full-report-human-cost-of-coal-powe
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[7] Without a commitment to close them on the date decided by the authorities or in any case at the latest on a date aligned with the 1.5°C scenarios
[8] coalexit.org
[9] https://www.latribune.fr/entreprises-finance/banques-finance/charbon-le-maire-enjoint-aux-banques-de-cesser-de-financer-mines-et-centrales-798806.html
[10] ASF-Association Française des Sociétés Financières, AFG-Association Française de la Gestion Financière, FBF-Fédération Bancaire Française, FFA-Fédération Française de l'Assurance, France Invest-Association des Investisseurs pour la croissance, Paris EUROPLACE et Finance for Tomorrow)
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[23] https://www.amisdelaterre.org/IMG/pdf/notebanquescharbon261118.pdf
[24] https://climateanalytics.org/publications/2019/coal-phase-out-insights-from-the-ipcc-special-report-on-15c-and-global-trends-since-2015/
[25] https://docs.google.com/spreadsheets/d/1JKJJa-jwK6YpkEQKP2bcENHR2yoS40ur8baQnIXHtIU/edit#gid=0
[26] https://www.ipcc.ch/sr15/
[27] https://climateanalytics.org/media/eu_coal_stress_test_report_2017.pdf

The financial data come from research conducted by the Dutch firm Profundo. Coal project financing as well as loans and issues of shares and bonds for the companies named in the report were collected. The data come from databases of Bloomberg, Thomson EIKON and IJGlobal. These databases do not allow access to all transactions from financial institutions. The amounts indicated in this report are certainly under-representative of reality…

French financial institutions' policies on coal

	Exclusion of coal plant/ mine/ infrastructure developers	Exclusion of companies with a relatively high exposure to coal	Exclusion of the biggest coal miners and power producers	Detailed coal phase-out strategy
They finance the coal industry				
Crédit Agricole	Good policy	Insufficient policy	No policy	Insufficient policy
BNP Paribas	Very insufficient policy	Very insufficient policy	No policy	No policy
Société Générale	Very insufficient policy	Very insufficient policy	No policy	Very insufficient policy
Natixis	No policy	Good policy	No policy	No policy
Crédit Mutuel	No policy	Very insufficient policy	No policy	No policy
They provide coverage for the coal industry				
AXA	No policy	No policy	No policy	No policy
SCOR	No policy	No policy	No policy	No policy
They invest in the coal industry				
Amundi / Crédit Agricole Assurances	Good policy	Insufficient policy	No policy	Insufficient policy
AXA	No policy	Good policy	Very insufficient policy	No policy
BNP Paribas Asset Management	No policy	Good policy	Very insufficient policy	No policy
BNP Paribas Cardif	Very insufficient policy	Very insufficient policy	No policy	No policy
Natixis Asset management / Assurances	No policy	Good policy	No policy	No policy
Banque Postale Asset Management	N/A	N/A	N/A	Good policy
Lyxor Asset Management / Sogécap	No policy	No policy	No policy	No policy
Groupama	Very insufficient policy	Good policy	No policy	No policy
Covéa	Very insufficient policy	Very insufficient policy	No policy	No policy
AG2R La Mondiale	Insufficient policy	Insufficient policy	No policy	No policy
Ofi / Macif	Very insufficient policy	Good policy	No policy	No policy
Rothschild & co	No policy	No policy	No policy	No policy
Oddo	No policy	Very insufficient policy	No policy	No policy
Crédit Mutuel Investissement	No policy	Very insufficient policy	No policy	No policy
Assurances du Crédit Mutuel	No policy	Good policy	No policy	No policy

Good policy — Insufficient policy — Very insufficient policy — No policy

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