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High Risk, Low Reward

An overview of European Banks' position on oil sands.

ShareAction»

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About ShareAction

ShareAction is a campaigning organisation pushing the global investment system to take responsibility for its impacts on people and planet, and use its power to create a green, fair, and healthy society.

We want a future where all finance powers social progress. For 15 years, ShareAction has driven responsibility into the heart of mainstream investment through research, campaigning, policy advocacy and public mobilisation. Using our tools and expertise, we influence major investors and the companies they invest in to improve labour standards, tackle the climate crisis and address inequality and public health issues.

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Executive Summary

The unconventional methods involved in the extraction and production of Canadian oil sands, as well as the unique geographical position of oil sands deposits, trigger important environmental and social challenges reaching far beyond Canada's borders (page 9, "ESG Challenges"). These operations also carry financial risk. On average, oil sands operations are more capital-intensive and involve higher production costs compared to other types of fuel, with historical pipeline capacity constraints further weighing on oil sands economics (page 12, "Economic Challenges"). As a result, oil sands operations are on a collision course with the goals of the Paris Agreement and new developments are uneconomic in a carbon-constrained world, which implies a structurally lower level of demand. The lack of economic rationale to expand oil sands capacity was already apparent in the lower oil price environment and was further exacerbated by the drop in demand induced by the Covid-19 pandemic. A number of projects have already been delayed or cancelled, including ExxonMobil's CA$2.6 billion Aspen project in 2019 and Teck Resources' CA$20 billion Frontier mine in 2020. Investors and international oil and gas players alike are reducing their exposure to oil sands or bracing for the impact of lower than expected oil prices. In July 2020, Total announced it would write down US$7 billion worth of oil sands assets, adding that it was now considering these assets as stranded. Meanwhile, Canadian players overexposed to oil sands battle with higher operating costs in the midst of weak demand.

Despite compelling reasons to rein in financial support to oil sands operations, banks have channelled around US$102 billion[1] of funding to the sector since the Paris Agreement was signed. Data further shows that since 2016, Barclays, HSBC, and Credit Suisse are the only European banks taking leading roles on debt financing deals with Canadian upstream players. The involvement of other European banks is mainly related to transactions with infrastructure players and an indirect exposure through funding of international integrated and diversified companies (page 17, "European Banks' involvement in the oil sands sector"). The implications for the banking industry are numerous but most notable is an increased credit and reputational risk. Whilst credit risk is mainly attributable to oil sands' poor economics, banks involved in the oil sands sector face increased reputational risk as a result of being associated with the ESG challenges discussed in this report. In particular, the large group of banks (including European banks) currently funding companies involved in the controversial development of additional pipeline capacity, face increased public and media scrutiny (page 15, "Implications for banks").

Some European banks have argued that their exposure to oil sands is minimal, implying that it could be ignored in the absence of materiality in their portfolio or because the implied support to the sector is marginal. This is the case for Barclays, which has channelled US$3.2 billion of funding to oil sands since 2016. Whilst the bulk of oil sands funding comes from North American banks, European banks' involvement is far from negligible, with an aggregated total of US$11 billion (10 per cent of total oil sands funding). Banks disputing this data, which is based on information available in the public domain, should disclose their exposure to the oil sands including the average maturity of their portfolio.

Between 2019-2020, we have seen a flurry of announcements from banks tightening their unconventional oil and gas policies. Despite this communications effort, most policies remain weak and ineffective to tackle the specific challenges posed by oil sands (page 22 "European Banks' oil sands policy analysis").

1 Source: Rainforest Action Network (see section "European Banks' involvement in the oil sands sector")

Our in-depth analysis of 24 of the largest European banks' policies shows that:

- No bank has defined specific steps to phase out oil sands;
- Even the most robust policies allow for international integrated or diversified players to retain investments indefinitely and even materially increase exposure in the event they regain interest in oil sands;
- Many announcements have focused on exclusions at project level, a particularly shy move from European banks mainly funding the sector at corporate level;
- Some alleged exclusions are in fact merely restrictions, as an in-depth analysis reveals a number of caveats in banks' policies; and
- Barclays, HSBC, and Credit Suisse's policies seem very accommodating of Canada's political agenda and energy transition plans largely relying on revenues from oil sands.

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Policy profile	Banks (year of policy publication)
Full phase-out	
Asset-level exclusion / Corporate-level restriction	BNP Paribas (2017), CaixaBank (2019), Danske Bank (2019), ING (2019), Natixis (2018), Nordea (2019), Rabobank (2018), Societe Generale (2018), UBS (2020), UniCredit (2019)
Asset-level exclusion	ABN AMRO (2018), BBVA (2019), Crédit Agricole (2017), Lloyds Banking Group, Crédit Mutuel (2019), Deutsche Bank (2020), Commerzbank (2020), HSBC (2020), NatWest (2020), Santander (2020), Standard Chartered (2019)
Enhanced Due Diligence (EDD)	Barclays (2020), Credit Suisse (2020)
No policy	Intesa Sanpaolo (2014)

Recommendations for banks

Banks that have either set 'net zero by 2050' ambitions or committed to aligning their business models with the Paris climate goals, should publish robust oil sands policies and commit to exiting the oil sands sector on a timeline aligned with the Paris climate goals. These oil sands policies should be articulated around the following pillars:

- Immediate prohibition of project finance related to new oil sands, including related infrastructure such as pipelines, and of project finance related to the material expansion of existing projects;
- A timebound, measurable plan to phase out exposure to companies that are highly dependent on oil sands, including related infrastructure such as pipelines, and companies working to expand the oil sands infrastructure, including pipelines, in line with the objectives of the Paris Agreement;
- Exclusions for both expansions and new developments;
- Restrictions at both asset and corporate level, with restrictions on use of proceeds;
- Restrictions throughout the value chain (including upstream and infrastructure/transportation activities); and
- Restrictions applying to all financial services including advisory and asset management.

Banks should immediately phase out their financing to companies heavily reliant on oil sands and/or working to build new oil sands infrastructure. In cases where oil sands are a small percentage of a company's total revenues and/or operating activities, such as in the case of diversified oil and gas companies, banks should ask their clients to publish credible transition plans by a specific date. These plans should outline how the clients plan to exit the oil sands industry and close their remaining oil sands assets on a timeline aligned with the Paris climate goals.

Recommendations for investors

Investors should encourage banks to:

- Disclose their exposure to oil sands including the average maturity of their portfolio; and
- Publish oil sands policies articulated around the six pillars outlined above.

Background

Oil sands, also known as tar sands, are deposits of sand, clay and water saturated with a highly viscous form of oil referred to as bitumen. The world's largest and most developed oil sands deposits are found in Canada, holding around 165 billion barrels of proven reserves and producing around 3.1 million barrels a day (mmbbl/day)[i]. Canada's oil sands deposits are mainly located in Alberta and cover an area of more than 140,000km2 stretching across the country's boreal forest. Whilst oil sands deposits have been reported in other jurisdictions, they have not attracted the same level of investment[ii] and support from the European banking sector and are not specifically discussed in this report. Nevertheless, recommendations contained in this report apply to oil sands globally.

Making oil sands' output commercially viable requires unconventional extraction and processing methods. Deposits located near the surface are directly mined from underneath the boreal forest, forming an open cast mine, while bitumen from deeper reservoirs (around 80 per cent of Alberta's reserves) are extracted in-situ, i.e. injecting steam into the oil sands deposit to reduce viscosity of the bitumen and pumping it out of the ground. Crude bitumen recovered from oil sands cannot naturally flow through a pipeline and typically needs to be upgraded into synthetic crude oil or blended with a lighter hydrocarbon before it is transported to refineries, usually via pipeline or rail[iii].

There are around 120 active upstream oil sands projects in Alberta (including mining, in-situ, and upgraders). These are owned and/or operated by more than 30 companies varying in size and breadth of operations. These range from small domestic upstream players to international integrated companies including ExxonMobil, Chevron, ConocoPhillips, Total and BP. Five midstream companies manage eight pipelines carrying Alberta's production across Canada and the United States. Historical growth of oil sands operations has prompted the industry to push for additional pipeline capacity leading to three major expansion projects being proposed[iv,v].

Figure 1 – Largest oil sands producers and pipeline operators

10 Largest Oil Sands Producers

Company	Country	Production (mboe/d)	2P Reserves (mmboe)
Suncor Energy	Canada	12,126	7,257
Canadian Natural Resources	Canada	11,003	7,192
Cenovus Energy	Canada	6,296	3,921
ExxonMobil	USA	6,255	4,975
Husky Energy	Canada	2,616	1,091
Imperial Oil *	Canada	2,238	1,590
ConocoPhillips	USA	1,910	670
MEG Energy	Canada	1,793	1,659
Total	France	1,635	1,239
CNOOC	Hong-Kong	1,530	1,515

*majority owned by Exxonmobil

Source: Rystad (2019 figures)

Pipeline Operators

Company	Country	Capacity (bbl/day)	Planned Expansion
Enbridge	Canada	3,280,000	370,000 (1)
TC Energy	Canada	590,000	830,000 (2)
Trans Mountain Corporation*	Canada	300,000	590,000 (3)
Pembina Pipeline	Canada	123,000	
Plains All American Pipelines	USA	108,900	

*Government owned

Source: Oil Sands Magazine

Proposed pipeline expansion projects

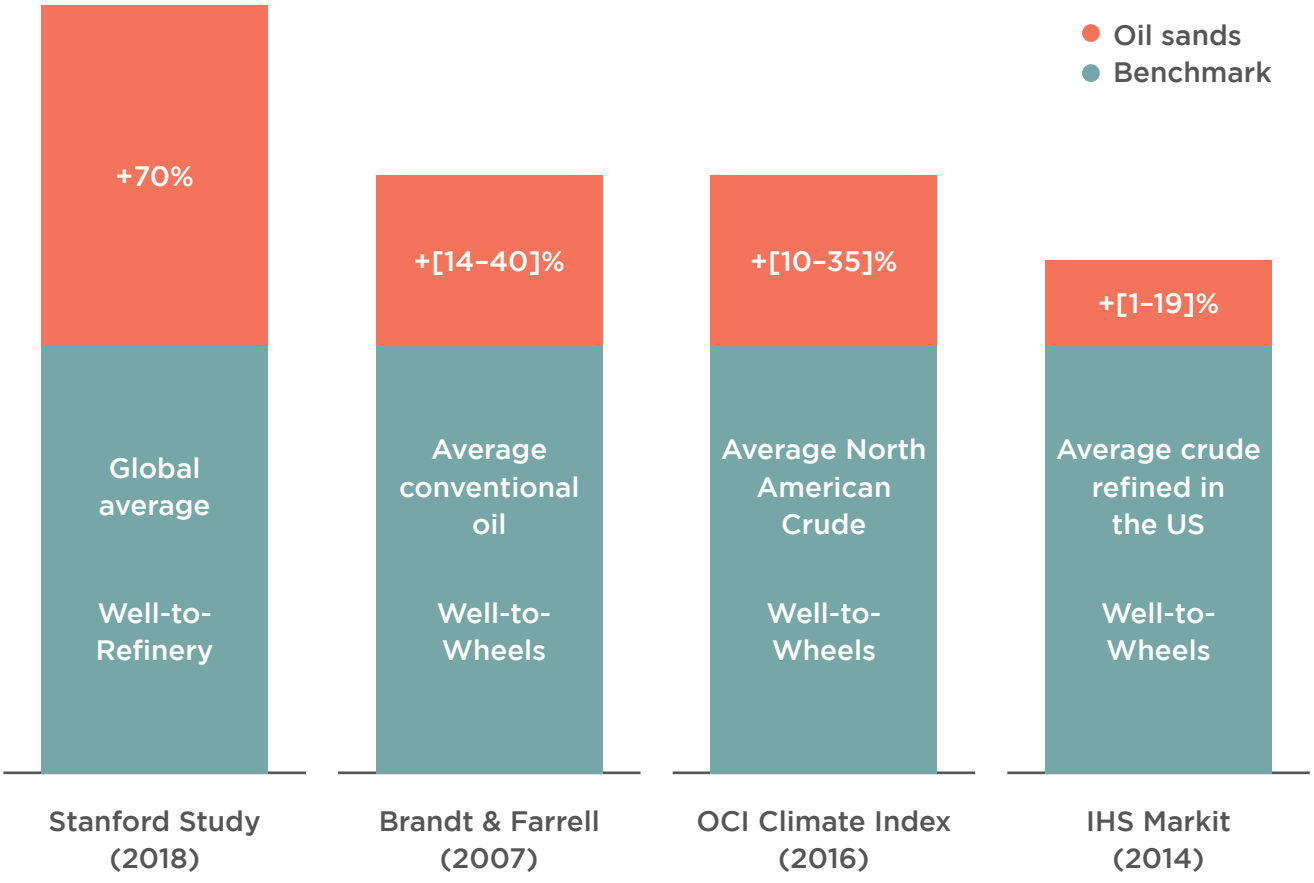
1. Line 3 Replacement
2. Keystone XL
3. Trans Mountain Expansion

ESG Challenges

Carbon emissions

Oil sands' extraction and upgrading operations accounted for 11 per cent (81 Megatons CO2 equivalent (Mt CO2e)) of Canada's total greenhouse gas (GHG) emissions in 2017 and are projected to increase to 110 Mt CO2e by 2030, i.e. 22 per cent of Canada's target budget[vi]. This high percentage reflects not only the scale of Alberta's oil sands operations, but also the large carbon footprint of oil sands. Estimates of the carbon intensity of oil sands projects vary according to differences in bitumen quality and extraction technologies (mining and in-situ). In addition, studies compare oil sands performance against conventional crude using different definitions and at different stages of the value chain. Studies focusing on production only would find oil sands emit as much as three to five times more GHG per barrel compared to conventional oil produced in North America[vii], while this difference would be of lower magnitude in studies including GHG emissions throughout the value chain ("well-to-wheels")[viii]. Nevertheless, most studies find that on average, oil sands emit considerably more GHG than other types of oil whether on a partial or full life cycle basis. The studies included in Figure 2 highlight a range of assumptions that nevertheless leads to the same conclusion.

Figure 2 – Carbon-intensity of oil sands compared to other types of oil



Sources: Stanford Study, OCI Climate Index, and IHS Markit[ix], Brandt & Farrell[x]

The industry has aimed to highlight the technological improvements to reduce the carbon intensity of oil sands, including increased energy efficiency of operations, the switch to relatively lower-carbon fuels and the deployment of Carbon Capture and Storage (CCS). A study conducted by IHS Markit[xi] indicates that average GHG emissions per barrel dropped by 21 per cent between 2009–2017. The oil sands industry has reported similar improvements[xii]. However, irrespective of the exact scale of reductions achieved, further contractions in oil sands emissions are increasingly hard to achieve as many of the easiest reductions, mainly energy efficiency and fuel-switching, have already been done. The biggest hope for the industry now lies with the deployment of CCS, However, this technology has, to date, only been made possible through public subsidies[xiii] and it's impact remains uncertain[xiv], as it is not readily available at scale and would have to be rolled out in harder-to-abate sectors as a priority.

A study published by *Nature* indicates that CO2 emission intensities for oil sands facilities are 13–123 per cent larger than those estimated using publicly available data, leading to unaccounted emissions representing an annual increase of nearly 64 per cent over that reported for mining operations and 30 per cent for the entire sector[xv].

Water intensity and risk of water contamination

The water footprint of bitumen production differs greatly depending on the extraction method and bitumen quality. Open cast mining techniques require on average ten times more water per litre of bitumen than in-situ extraction[xvi] and three times more water than conventional oil[xvii]. Whilst approximately 80 per cent of the water is recycled in both extraction methods, the resulting wastewater from mining operations ends up in toxic storage ponds, referred to as tailing ponds. There are approximately 20 oil sands tailing ponds in Alberta and their size is unprecedented for any industry in the world. Since oil sands mining operations started in 1967, enough toxic waste has accumulated in these open ponds to fill 400,000 Olympic swimming pools[xviii]. Although some companies have invested significantly in technology to address the tailings problem, the overall volume of these tailings ponds has grown for more than 50 years. Some such ponds are located in close proximity to the Athabasca river, and are at risk of leaking. If this were to happen, it could have disastrous consequences, particularly in winter when ice would hinder any clean-up operation[xix]. In September 2020, a report from the Commission for Environmental Cooperation found that there was scientifically valid evidence of oil sands process-water seeping into near-field groundwater around Alberta's tailings ponds[xx].

Air and landscape pollution

Research has identified oil sands operations as a leading source of air pollution on a continental scale, and linked operations to acid rains in western Canada[xxi]. It has further demonstrated that oil sands extraction, processing, and transportation release carcinogenic and toxic pollutants such as heavy metals and polycyclic aromatic compounds – thought to have local and atmospheric impacts – into the environment.

Deforestation and loss of biodiversity

Alberta's oil sands operations occur in complex ecosystems within Canada's boreal forest. These ecosystems support wildlife and harbour a significant amount of biodiversity[xxii]. The boreal forest (also referred to as taiga) is one of the earth's major biomes of vegetation, composed primarily of

cone-bearing, needle-leaved or scale-leaved evergreen trees, which are mainly found in the high northern latitudes[xxiii]. Because of their large potential for carbon sequestration and storage, boreal forests play a critical role in curbing climate change at a global level[xxiv].

According to a study conducted by the Alberta Biodiversity Monitoring Institute, the total area of native ecosystems converted for human activities in Alberta's oil sands region increased by 20 per cent between 1999 to 2012, mostly driven by forestry and energy footprints[xxv]. The study further assesses the status of 425 species in the oil sands region and establishes a Biodiversity Intactness Index.[2] The average 'intactness' for the region stood at 88 per cent in 2012, but this dropped to close to 0 per cent in areas of active mining. Global Forest Watch finds that Canada's oil sands region has cleared or degraded 775,500 hectares of boreal forest over the same period, with a forest loss in the mineable area of about 20 per cent[xxvi]. While in-situ extraction is deemed to result in a lower net forest loss than mining operations, it greatly contributes to forest fragmentation and disruption of habitat. In that respect, the number of deforested areas has increased by at least 81 per cent between 2000 and 2014[xxvii].

The Government of Alberta requires all oil sands operators to have plans in place to convert tailings to reclaimable landscapes (referred to as "reclamation") within 10 years of the end of the mine's life, which can span over decades[xxviii]. Only a small fraction of the land has been certified as reclaimed so far, mainly due to a lack of financial incentives for oil sands companies to comply with this condition and vague reclamation guidelines[xxix]. In addition, a number of experts estimate that reclaimed landscape would not sequester carbon as effectively nor provide the same level of biodiversity[xxx] [xxxi].

Human rights controversies

The boreal forests within Alberta's oil sands region are also vital sources of livelihoods and culture for Indigenous peoples, including First Nations and Métis communities[xxxii]. Indigenous' rights to subsistence activities such as hunting, fishing and gathering are guaranteed by treaties or the Canadian Constitution, known as the Treaty or Aboriginal Rights. In this context, Aboriginal and Treaty rights, as well as Indigenous cultures, are harmed by threats posed by oil sands development to the land, water, air, plants, and animals as discussed in this section.

Where it is deemed the expansion of oil sands activities, and the development of new infrastructure to accommodate such expansion, would affect Indigenous communities, they are subject to the Free, Prior and Informed Consent (FPIC) of those communities – a principle defined by the United Nations and protected by international human rights standards[xxxiii]. They are also subject to a duty to consult and accommodate Indigenous communities under Canadian Constitutional requirements[xxxiv]. Over 150 First Nations and Tribes across Canada and the US have signed the Treaty Alliance Against Tar Sands Expansion, opposing the use of Indigenous territories and coasts for new or expanded pipeline infrastructure projects that would facilitate the expansion of oil sands. Despite this opposition, planning and construction of new pipelines is still underway[xxxv].

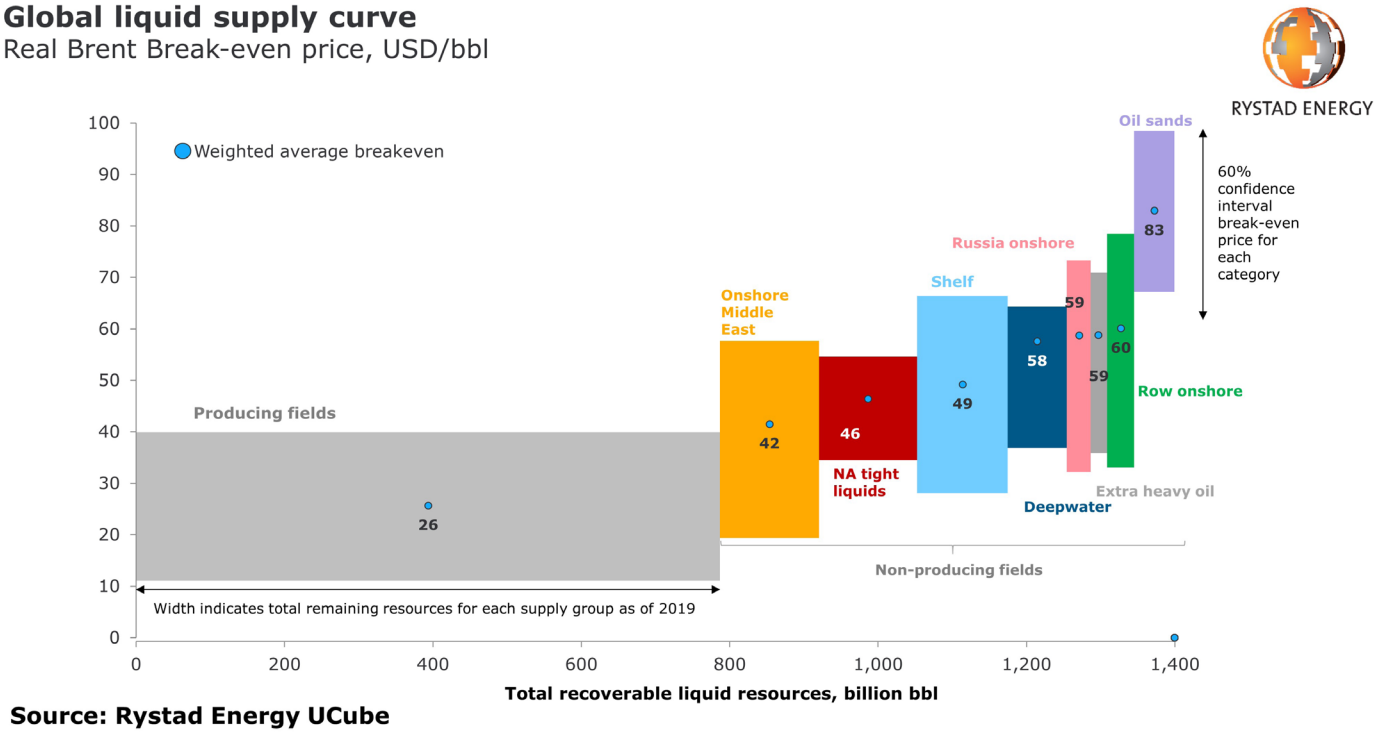
2 Measure of how much more or less common a species is relative to its abundance if there were no human footprint present. The index ranges from 100% intact to 0% intact.

Economic Challenges

Oil sands are uneconomic and at risk of becoming stranded in a Paris-compliant world…

Oil sands operations involve high production costs and require sustained high oil prices to be profitable. In addition, Canadian heavy oil historically trades below other benchmarks on average due to its lower quality and transportation costs. As shown in the cost of supply curve in Figure 3, Rystad Energy estimates that the average breakeven price for undeveloped oil sands reserves (highlighted on the right-hand side of the chart) is above US$80 per barrel on average, almost twice as much as the Middle East onshore market and North American tight liquids[xxxvi].

Figure 3 – Oil sands' break-even price compared to other types of oil



Source: Rystad Energy UCube

Carbon Tracker has compared the break-even requirements of unsanctioned oil projects to the oil price environment implied by carbon-constrained scenarios[3], namely the IEA's Sustainable Development Scenario (SDS) and Beyond 2 Degrees Scenario (B2DS), with results given relative to the New Policies Scenario (NPS)[xxxvii]. Assuming an economic hurdle rate of 15 per cent (Internal Rate of Return or IRR), Carbon Tracker estimates that demand would be satisfied by oil projects with a breakeven price in the high-US$40s under the SDS, high-US$30s under the B2DS and mid-US$70s

3 Carbon Tracker assumptions as follows:
SDS: noted by the IEA to be comparable to other published scenarios in the range 1.7- 1.8°C in terms of trajectory over the period to 2040.
B2DS: we estimate that our interpretation is approximately consistent with a 50% chance of warming being limited to 1.6°C.
NPS: considered by the IEA to be consistent with a 50% chance of 2.7oC warming.

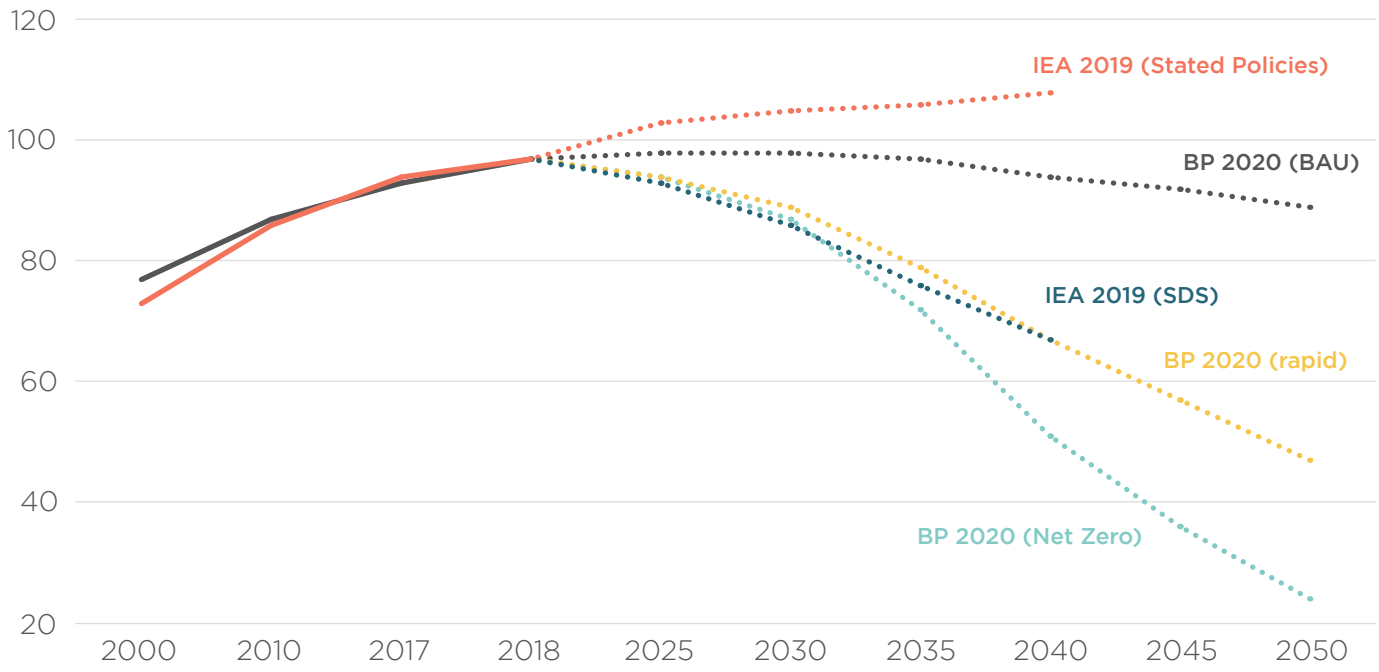
under the NPS. Provided that demand is met with lowest cost supply options, Carbon Tracker finds that effectively no new oil sands projects fit within either a B2DS or SDS budget and just a handful would go ahead under the NPS by 2040. In other words, any new oil sands development would run the risk of becoming stranded in a Paris-compliant world. This conclusion is reached purely on the grounds of production costs relative to other supply sources with no further regulation, such as higher carbon prices, that would further penalise oil sands for their carbon intensity. Taking a similar approach, Carbon Tracker finds that the proposed new pipeline projects are surplus to requirements in a Paris-compliant world[xxxviii]. Additional pipeline capacity wouldn't rescue upstream development economics either despite a potential narrowing of Canadian heavy oil spread versus other benchmarks.

...as already apparent in the lower demand environment

Industry forecasts remain optimistic about future oil demand levels, making an implicit assumption over the failure of the Paris Agreement. The Canadian Association of Petroleum Producers (CAPP) forecasts that Canadian crude oil production will rise to 5.9mbbl/d by 2035 from 4.8mbbl/d in 2019[xxxix]. The effects of the decline in oil prices since 2014, further exacerbated by geopolitical uncertainty in 2020 and the compression of demand resulting of the Covid-19 pandemic, could nevertheless be giving the oil sands industry a hint of what a lower-carbon environment could look like. The lower consumption and fuel demand arising from economic shutdowns worldwide have led to production cuts by oil producers around the globe. Canada reportedly cut down production by 644mbbl/d earlier this
year, among the biggest shut-ins in the world[xl]. Crude by rail, used by Alberta's producers to circumvent overwhelmed pipeline capacity, has dropped to 39mbbl/d in July 2020 from 347mbbl/d in December 2019[xli].

In September 2020, BP released its annual energy outlook modelling three scenarios that all see oil demand falling over the next 30 years. In two of these scenarios ("rapid" and "net zero"), demand is already peaking in 2019[xlii]. In its Energy Transition Outlook 2020, DNV GL also sees global oil demand peaking in 2019[xliii].

Figure 4 – Comparison of oil demand scenarios



Sources: BP, Resources for the future

With crude prices currently around US$40 per barrel[xliv], new oil sands developments are well out of the money and would carry an significant financial risk. As a result of the lower price environment, several projects have been delayed and it is unclear whether they will ever go ahead. ExxonMobil, through its majority-owned subsidiary Imperial Oil, was the last oil major to approve a sizeable oil sands project. Aspen, a CA$2.6 billion project requiring US$80/bbl to hit a 15 per cent IRR and the first greenfield project approved in around five years, was given the green light in November 2018 and put on hold in March 2019[xlv]. In February 2020, Teck Resources, a diversified mining company, announced it was withdrawing its application for the new CA$20 billion Frontier Mine and writing down the CA$1.13 billion carrying value of the project[xlvi]. Whilst multi-billion projects are unlikely to go ahead in the near future on purely economic grounds and excluding support from the government of Canada, smaller projects and expansions on the lower side of the oil sands cost curve having already secured approval are more likely[xlvii].

Investors and international producers alike are reducing their exposure to oil sands

A number of international players have offloaded their oil sands assets to domestic producers over the past few years, resulting in increasingly concentrated risks. Between 2016 and 2017, Statoil, Shell and ConocoPhillips all sold their stake in certain oil sands assets to Athabasca Oil Corporation, Canadian Natural Resources, and Cenovus Energy[xlviii]. While this trend was partly driven by the pipeline bottleneck weighing on Canadian heavy oil prices, supermajors continue sending strong signals to the market that oil sands are becoming increasingly unprofitable. In July 2020, Total announced it was revising its price assumptions and writing down US$7 billion worth of oil sands assets as a result, adding it was now considering these assets as stranded[xlix]. The announcement also stated that Total wouldn't approve any increase of capacity on its existing oil sands assets and that it was withdrawing from the Canadian Association of Petroleum Producers (CAPP) considering the misalignment with their public positions. Total's announcement followed similar warnings from BP and Shell who indicated they could write down around US$40 billion in the second quarter[l]

It has been reported that investors might be using the lower IRR argument as a window of opportunity to pull out from oil sands over environmental reasons[li]. Earlier this year, BlackRock announced its "iShares ESG Aware Growth Allocation" ETF would no longer put money into companies that get revenue from Alberta's oil sands for environmental reasons.

Implications For Banks

Credit risk

Given the oil and gas sector's sensitivity to consumer demand and oil prices, credit risk has increased across the board, leading to more than 200 oil producers filing for bankruptcy protection in the past five years[lii]. While similar factors are driving credit risk in the oil sands sector, credit deterioration is particularly acute due to the poorer economics of Alberta's oil sands operations[liii]. In March 2020, Standard & Poor's (S&P) downgraded the credit ratings of Suncor Energy (A- to BBB+), Canadian Natural Resources (BBB+ to BBB) and Cenovus Energy (BBB to BBB-), the three largest Canadian oil sands players, leaving Cenovus one step away from non-investing grade territory[liv]. Whilst the rating action was precipitated by S&P's reduction of its outlook for benchmark oil prices through 2022, S&P cited a lack of flexibility in the companies' upstream operating costs compared to conventional producers. Moody's maintained ratings of Suncor (Baa1) and Canadian Natural Resources (Baa2) in March 2020, taking a dovish stance that sees both companies in a good position to weather the downturn in oil prices, but pointing out that their ratings were constrained by asset concentration in Western Canada[lv]. A number of Canadian oil sands players posted losses for two consecutive quarters in 2020 and face weak demand while managing high levels of debt[lvi]. Companies have focused on freeing up liquidity and have drawn on their credit lines, with smaller non-investment grade players such as Athabasca Oil Corporation seeing their reserves-based funding[4] scaled back as a result of their borrowing base redetermination[5]. Canadian banks have reported a doubling of non-performing loans in their energy portfolio and are relaxing lending standards for energy firms to avert a wave of bankruptcies[lvii]. Pipeline operators are also under pressure, with Enbridge posting a CA$1.4 billion loss in Q1 2020. Whilst oil sands exposure would not weigh as much on international integrated or diversified players' credit profile, Alberta's operations would certainly be a drag on their balance sheet. Total reported an increase of its gearing ratio by 1.3 per cent as a result of the asset impairment it recorded in July 2020[lviii].

Reputational risk

Whilst credit risk is mainly attributable to the economics of oil sands, banks involved in the sector face increased reputational risk as a result of being associated with the ESG challenges discussed above. In particular, continued support to the oil sands sector would undermine commitments from banks who have pledged to curb carbon emissions in their portfolio in line with the Paris Agreement. Banks willing to support the proposed additional pipeline capacity despite opposition from Indigenous communities could also face similar negative publicity as those who participated in the Dakota Access Pipeline project[lix]. These reputational risks are linked to the corporate and investment activities of banks but could cascade down to their retail business. Thousands of Barclays customers have threatened to switch to another bank unless it pledges not to finance pipelines for oil sands[lx]. Banks providing reclamation guarantees as required by the government of Alberta face the risk of being associated with any environmental degradation if and when their clients' financial standing forces them to abandon infrastructure. As the government is stepping in to rescue the oil sands sector, banks also face serious reputational issues linked to being bought out of their funding commitments with taxpayer money[lxi]. Another important reputational risk to consider is the socioeconomic implications of a disorderly exit by banks delaying the implementation of a more

4 Bank lending secured by undeveloped reserves referred to as a "borrowing base".

5 Scheduled adjustments to the loan amount based on updated oil prices, demand and production forecasts for assets in scope.

gradual exit strategy. Banks have generated interest margins and fees out of their oil sands clients for decades, funding a sector that employed over 140,000 people in 2017[lxii]. In the context of a just transition[lxiii], banks have a role to play in reallocating capital to support the net-zero economy and deliver positive social impact in Alberta as they exit the sector.

Regulatory risk

The introduction of a penalty targeting assets considered harmful for the environment, or brown penalising factor, by the European Banking Authority[lxiv] could trigger higher costs of capital for European banks exposed to the oil sands sector. Penalties have been discussed among central banks alongside green supporting factors, the former currently seen as having substantially more impact than the latter. Whilst penalties would not specifically target oil sands and the EU taxonomy is yet to be confirmed, it is reasonable to assume that oil sands would fall into that category considering the ESG implications highlighted above.

European Banks' Involvement In The Oil Sands Sector

Banking support to the oil sands in recent years

European banks do not currently disclose their exposure to the oil sands sector. Therefore, analysis of the European banking sector's involvement is limited to deal execution data available in the public domain. Data[6] collected by the Rainforest Action Network (RAN) suggests that out of the around US$102 billion of funding channelled to the oil sands by the banking industry since the Paris Agreement was signed, US$11 billion (10 per cent) comes from European banks. Barclays, HSBC, Deutsche Bank and Credit Suisse are amongst the 15 largest funders to the sector, which mostly includes North American banks.

Figure 5 – Oil sands financing league table (figures expressed in US$)

Rank	Bank	2016	2017	2018	2019	Total
1	TD	3.476 bn	9.260 bn	4.109 bn	5.665 bn	22.509 bn
2	RBC	2.976 bn	8.903 bn	3.700 bn	6.201 bn	21.780 bn
3	JPMorgan Chase	2.246 bn	4.800 bn	1.267 bn	2.086 bn	10.399 bn
4	CIBC	2.151 bn	3.810 bn	589 m	3.215 bn	9.765 bn
5	Bank of Montreal	2.342 bn	2.855 bn	1.577 bn	1.731 bn	8.505 bn
6	Scotiabank	1.268 bn	3.057 bn	1.356 bn	1.562 bn	7.244 bn
7	Barclays	566 m	2.018 bn	84 m	576 m	3.244 bn
8	Citi	810 m	1.007 bn	348 m	550 m	2.716bn
9	HSBC	857 m	1.302 bn	197 m	231 m	2.587 bn
10	Bank of America	743 m	1.165 bn	262 m	321 m	2.491 bn
11	Deutsche Bank	641 m	378 m	410 m	136 m	1.565 bn
...						

6 Banking on climate change (2020), https://www.ran.org/bankingonclimatechange2020/. RAN primarily sourced data from Bloomberg Finance L.P., where the value of a transaction is split between leading banks. Figures might not reflect final commitments allocated to each bank. RAN defines a perimeter of 30 top oil sands production companies and 5 key oil sands pipeline companies. For upstream companies, transactions are adjusted based on a company's oil sands reserves in a given year. For pipeline companies, transactions are adjusted based on an estimation of the company's assets or revenue in oil sands.

Figure 5 (continued)

Rank	Bank	2016	2017	2018	2019	Total
14	Credit Suisse	155 m	556 m	148 m	83 m	941 m
16	BNP Paribas	378 m	161 m	76 m	89 m	0.705 bn
...						
20	Société Générale	155 m	66 m	120 m	153 m	493 m
21	Crédit Agricole	183 m	68 m	80 m	135 m	466 m
22	UBS	81 m	37 m	89 m	70 m	278 m
...						
26	Santander	19 m	30 m	13 m	30 m	0.091 bn
...						
28	RBS	8 m	14 m	20 m	3 m	45 m
29	BBVA	7 m	13 m	-	24 m	44 m
30	Standard Chartered	9 m	11 m	7 m	13 m	40 m
31	BPCE/Natixis	3 m	18 m	9 m	2 m	32 m
32	Commerzbank	-	8 m	13 m	10 m	30 m
33	UniCredit	25 m	-	-	-	25 m
33	Intesa Sanpaolo	25 m	-	-	-	25 m
35	ING	4 m	13 m	-	7 m	24 m
	Grand Total	**21.190 bn**	**41.329 bn**	**15.261 bn**	**23.992 bn**	**101.772 bn**

Source: Rainforest Action Network

Data from RAN further shows that Barclays, HSBC, and Credit Suisse are the only European banks taking leading roles on deals with Canadian oil sands upstream players since 2016 (only Barclays in 2019) while other European banks' involvement is related to leading roles on deals with infrastructure players and an indirect exposure through deals with international integrated or diversified players. Data sourced from Eikon suggests that a certain number of European banks have also taken participant roles in deals with Canadian infrastructure and upstream players over the past two years.

Figure 6 – Corporate transactions[7] with involvement of European Banks in 2019 and 2020

Company		Date	Type	US$ bn eq	Bank reported as "Participant"
Canadian Natural Resources	E&P	Jun-19	Loan	1.8	Barclays
		Nov-19	Loan	1.8	Barclays
		Jun-20	Bond	1.1	Barclays
Cenovus Energy	Integrated	Jul-20	Bond	1.0	Barclays, Credit Suisse
Enbridge	Infrastructure	Feb-19	Loan	2.3	Societe Generale, Deutsche Bank, HSBC
		Feb-19	Loan	1.9	Barclays Credit Agricole, Deutsche Bank, HSBC, Credit Suisse, Societe Generale
		Feb-19	Loan	1.8	Credit Suisse, Credit Agricole, Barclays, Deutsche Bank
		Nov-19	Bond	2.0	Deutsche Bank, Barclays, Credit Suisse, Credit Agricole
		Feb-20	Bond	0.8	Deutsche Bank
		Mar-20	Loan	2.1	Credit Suisse, Societe Generale, Deutsche Bank, HSBC, Barclays
		May-20	Bond	0.9	HSBC
		Jul-20	Bond	1.0	Deutsche Bank, Credit Agricole, Barclays, HSBC, Credit Suisse
		Jul-20	Loan	1.9	Credit Suisse, Deutsche Bank, Societe Generale, Credit Agricole, Barclays, HSBC
		Jul-20	Loan	1.8	Deutsche Bank, Credit Agricole, Credit Suisse, Barclays
Husky Energy	Integrated	Mar-19	Bond	0.7	Barclays
		Jun-19	Loan	3.1	Barclays, HSBC
		Aug-20	Bond	0.9	Barclays

7 General corporate purpose funding. Deals do not reflect direct funding of specific oil sands assets. Notes issued on the same date have been aggregated. Loans closed on the same date may refer to different tranches of the same transaction. Banks are reported as "participants" by Eikon with no data on each bank's commitment or details on their role within the bank syndicate.

Figure 6 (continued)

Company		Date	Type	Bn USD eq.	Bank reported as "Participant"
MEG Energy	E&P	Jul-19	Loan	0.6	Barclays
		Jan-20	Bond	1.2	Barclays
Osum Oil sands	E&P	Jul-20	Loan	0.2	Barclays
Plains All American Pipeline	Infrastructure	Aug-19	Loan	1.6	ING
		Sep-19	Bond	1.0	BBVA, ING
		Sep-19	Equity (Follow-on)	0.3	Barclays
		Jun-20	Bond	0.7	Barclays, BBVA, ING
Suncor Energy	Integrated	Mar-19	Loan	5.1	Lloyds
Teck Resources	Mining	Oct-19	Loan	4.0	Barclays, ABN AMRO, ING, BNP Paribas
		Jun-20	Loan	1.0	ABN AMRO, BNP Paribas, Barclays
TC Energy	Infrastructure	Dec-19	Loan	2.3	HSBC, Deutsche Bank, Credit Suisse
		Dec-19	Loan	5.5	Deutsche Bank, Credit Suisse, Barclays, HSBC
		Apr-20	Bond	1.2	Barclays, Credit Suisse, Deutsche Bank

Source: Eikon (data extracted as of 24/09/2020) and Company data (Cenovus Energy)

Case study: Cancelled and delayed projects supported by European banks

- **Aspen (Imperial Oil/ExxonMobil, project cost: CA$2.6 billion:** The project was given the green light in November 2018 and put on hold in March 2019 over oil price considerations resulting from pipeline constraints. According to data from RAN, Barclays, HSBC and Societe Generale are among ExxonMobil's main financiers relative to its oil sands exposure.

- **Frontier (Teck Resources, project cost: CAD20bn):** In February 2020, Teck Resources announced it was withdrawing its application for the Frontier mine, saying that global capital markets were changing rapidly and investors and customers were increasingly looking for jurisdictions to have a framework in place that reconciles resource development and climate change. Data from Eikon suggests that Barclays, ABN AMRO, ING and BNP Paribas participated in corporate loans extended to Teck Resources in 2019 and 2020.

Looking ahead

Although multi-billion dollar projects are unlikely to be sanctioned in the current market environment, smaller projects and expansions on the lower side of the oil sands cost curve which have already secured approval are more likely (see previous sections). There are currently six mining projects representing approximately 850mbbl/d and 30 in-situ projects representing around 1,900mbbl/d approved and yet to be developed, involving Canadian players as well as Chevron, Shell, ExxonMobil and ConocoPhillips[lxv]. Whilst a limited number of banks have been directly financing Canadian players (e.g. Barclays), other banks need to be aware that the general corporate funding they channel to international integrated or diversified companies, including oil majors, indirectly funds their interests in oil sands provided that they do not require a covenant or side letter instructing them otherwise. Whilst they have suffered different setbacks, the proposed pipelines are still underway at different phases of development. TC Energy and Enbridge, the two companies building the Keystone XL Pipeline and Line 3 Replacement, are funded by a number of European banks (Barclays, HSBC, Deutsche Bank, Credit Suisse, Societe Generale) as shown in the table above.

Discussion: Scale and materiality of European bank's exposure to the oil sands sector

Some European banks argue that their exposure to the oil sands is minimal, implying that it could be ignored in the absence of materiality within their portfolio or because their support to the sector is marginal. For example, Barclays has described its exposure to oil sands as a "very small business" with just £20 million of revenue generated in 2019, representing approximately 0.1 per cent of its total revenue[lxvi]. While this is certainly an important measure for investors, it does not give an idea of the underlying credit risk nor the magnitude of the bank's historical support to the oil sands sector. According to RAN's data, Barclays has provided US$3.2 billion of oil sands financing since the signing of the Paris Agreement, a significant source of support for an otherwise flailing sector. Furthermore, the rationale to maintain an exposure to a sector that represents a marginal part of its revenues is unclear considering the potential downside in terms of reputational risk, giving the impression the bank is picking up pennies in front of a steamroller.

Feedback from banks on RAN's analysis is usually that this data is an unreliable approximation of their financing activities. At the same time, banks often decline to disclose their fossil fuel books. Banks willing to give investors the possibility to make an informed assessment of their involvement in the oil sands sector should disclose their exposure to the oil sands including the outstanding amount and average maturity of their portfolio.

Disclosures alone, however, do not preclude banks' involvement in the sector. Financial products and services provided to the oil sands sector in any form and proportion, if not subordinated to stringent policies paving the way for a gradual phase-out, undermine banks' net zero ambitions and commitment to decarbonise their books.

European Banks' Oil Sands Policy Analysis

In 2019/2020, we have seen flurry of announcements from banks tightening their unconventional oil and gas policies. Despite this communications effort, most policies remain weak and ineffective to tackle the specific challenges posed by oil sands. The following analysis was conducted based on information available as of 9th October 2020 and does not reflect any update since then.
The analysis covers the 20 banks screened in ShareAction's 2020 "Banking on low carbon future survey"[lxvii] as well as four other banks (Rabobank, BPCE/Natixis, CaixaBank, Crédit Mutuel) that have updated their oil sands policies since 2018, all selected among the 50 largest banks by assets according to Business Insider[lxviii].

Key findings

- No bank has defined specific steps to phase out oil sands;
- Even the most robust policies allow for international integrated or diversified players to retain investments indefinitely and even materially increase exposure in the event they regain interest in oil sands;
- Many announcements have focused on exclusions at project level, a particularly shy move from European banks mainly funding the sector at corporate level;
- Some alleged exclusions are in fact merely restrictions, as an in-depth analysis reveals a number of caveats in banks' policies; and
- Barclays, HSBC, and Credit Suisse's policies seem very accommodating of Canada's political agenda and energy transition plans largely relying on revenues from oil sands.

Pillars of a best practice policy

Based on what has been discussed in previous sections, best practice policies specific to oil sands should be articulated around the following pillars:

▶ Phase-out aligned with the Paris Agreement

Banks, especially those pledging to be net zero by 2050 at the latest and/or halving their emissions by 2030, need to set a pathway to align their lending portfolios with the requirements set under the Paris Agreement. Oil sands are one of the most carbon-intensive fossil fuels, and as such banks' policies should aim to establish a clear timeframe to phase out financial support to the sector. Some banks have already committed to a full phase-out of thermal coal (e.g. Crédit Agricole, BNP Paribas) with clear, concrete milestones to promote the transition to a production model with the lowest possible CO_2 emissions. This should be replicated for oil sands across the industry, applying meaningful thresholds calibrated towards a complete and timely phase-out.

▶ Restrictions at both asset and corporate level

Excluding solely asset or project-level support to oil sands is a welcome yet rather weak commitment when it comes to phasing out financial support for the sector. In fact, policies excluding or restricting solely asset-specific transactions (often referred to as "project finance") fail to capture most funding delivered to the oil sands sector by European banks whose clients are mostly integrated, investment grade players able to rely on general corporate purpose funding and their own balance

sheet. In addition, banks specifically referring to "project finance" should be aware that they are not necessarily capturing upstream oil and gas sector-specific asset-based financing, i.e. reserve-based lending[8]. Project finance, as defined by banks (non-recourse financing extended to a special purpose vehicle created by sponsors for the sole purpose of the project and repaid through the cash-flow generated by the project), has been less widely used by the upstream oil and gas industry compared to other infrastructure-intensive sectors (such as power and utilities) mainly due to the higher capital requirements and less reliable cash flow from operations[lxix]. To avoid any confusion, banks could base their policy on "use of finance proceeds" (i.e. differentiating funds used to primarily develop an asset/project versus funds used for general corporate purposes).

▶ Restrictions throughout the value chain

Considering the oil sands sector's lobbying efforts to develop additional pipeline capacity, policies should reference both upstream and transportation/infrastructure segments. Including integrated and trading activities would further strengthen banks' commitment to discontinue financial services throughout the entire value chain.

▶ Restrictions for both expansions and new developments

Large, greenfield oil sands developments are less likely to occur in the depressed oil market, but smaller expansions are being considered by oil sands companies. To prevent any further increase in upstream or pipeline capacity, policies should clearly reference expansions in addition to new projects to ensure these are captured.

▶ Restrictions applying to all financial services including advisory and asset management

Bank support to the oil sands sector can take various forms and be assessed at different levels. Policies should contemplate both balance sheet and non-balance sheet services, i.e. funding and advisory (for project finance, debt capital markets, equity capital markets, and M&A) as well as other ancillary services (e.g. trade finance). Policies should also be looking to align asset management with corporate and investment banking activities of the bank.

Summary

Policy profile	Banks (year of policy publication)
Full phase-out	
Asset-level exclusion / Corporate-level restriction	BNP Paribas (2017), CaixaBank (2019), Danske Bank (2019), ING (2019), Natixis (2018), Nordea (2019), Rabobank (2018), Societe Generale (2018), UBS (2020), UniCredit (2019)
Asset-level exclusion	ABN AMRO (2018), BBVA (2019), Crédit Agricole (2017), Lloyds Banking Group, Crédit Mutuel (2019), Deutsche Bank (2020), Commerzbank (2020), HSBC (2020), NatWest (2020), Santander (2020), Standard Chartered (2019)
Enhanced Due Diligence (EDD)	Barclays (2020), Credit Suisse (2020)
No policy	Intesa Sanpaolo (2014)

8 Bank lending secured by undeveloped reserves

Whilst this analysis focuses on European banks' policies, we note that American banks and Asian banks are still relatively unconcerned. Their policies either contain EDD language only (TD, RBC, Bank of America, Citi, Goldman Sachs, Morgan Stanley, Wells Fargo, MUFG, SMBC) or they do not have a policy in place (CIBC, Bank of Montreal, Scotiabank, Mizuho, ICBC, Bank of China).

Leading practice example: BNP Paribas and Natixis

BNP Paribas and Natixis' policies capture upstream/infrastructure and specifically mention brownfield and greenfield developments, which leaves no room for interpretation. BNP Paribas takes a step further by extending corporate level restrictions to integrated and trading players. Both banks have implemented corporate restrictions using thresholds relative to the companies' exposure to oil sands, with Natixis' threshold applying at both borrowing entity and parent level. Both BNP Paribas and Natixis' policies cover all banks' products and services (funding, advisory, ancillary) and include their asset management arm.

Whilst these policies are viewed as leading practice, none of them consider phasing out oil sands and both allow for international integrated or diversified players to retain investments indefinitely and even materially increase exposure in the event they regain interest (see effectiveness of restriction thresholds below).

Caveats: in-depth analysis of policy exclusions

An in-depth analysis of banks' oil sands policies reveals that a number of alleged asset-level exclusions are in fact merely restrictions. It also highlights some weaknesses of corporate-level restrictions taking into account the oil sands landscape.

BNP Paribas	Infrastructure exclusion at asset level applies to pipelines transporting a significant volume of oil sands.
CaixaBank	Infrastructure exclusion at asset level applies to pipelines transporting a significant volume of oil sands. No infrastructure restriction at corporate level. Lending at corporate level is covered by the policy only if the maturity of the loan is above two years.
Commerzbank	No exclusion of infrastructure activities at asset level.
Crédit Agricole	Infrastructure exclusion at asset level applies to pipelines projects mainly dedicated to the transportation of oil produced from oil sands projects.
Danske Bank	No infrastructure restriction at corporate level.
Deutsche Bank	Exclusion at asset-level applies to new projects only (i.e. greenfield).
HSBC	Exclusion at asset-level applies to new projects only (i.e. greenfield).
ING	Infrastructure exclusion at asset level applies to pipelines transporting only oil sands.
Lloyds	Infrastructure exclusion at asset level applies to pipelines exclusively dedicated to the transport or storage of oil from oil sands.

Natixis	Infrastructure exclusion at asset level applies to pipelines supplied at 30% or more with oil sands
NatWest	No exclusion of infrastructure activities at asset level.
Nordea	Infrastructure activities are not excluded at asset level and not restricted at corporate level.
Santander	Exclusion at asset level only applies to non-Designated Countries[9] and Canada is therefore out of scope.
Standard Chartered	Exclusion at asset level applies to new projects only (i.e. greenfield).
Societe Generale	Infrastructure exclusion at asset level applies to pipelines exclusively dedicated to the transport of oil from oil sands. Corporate-level restriction does not apply to infrastructure.
Rabobank	No infrastructure restriction at corporate level.
UBS	Exclusion at asset-level applies to new projects only (i.e. greenfield). No exclusion of infrastructure activities at both asset level and corporate level.
UniCredit	Infrastructure exclusion at asset level applies to pipelines transporting only oil sands. No infrastructure restriction at corporate level.

Effectiveness of restriction thresholds

Banks restricting finance to oil sands at the corporate level have so far implemented thresholds relative to companies' exposure to oil sands, either on a qualitative or quantitative basis.

Figure 7 – Scope of corporate-level thresholds compared to companies' profile

Oil sands share of activity	Production	Reserves	Revenues
Canada E&P / Integrated			
Average	76.3%	88.1%	87.1%
Min	34.9%	54.1%	44.9%
Max	100.0%	100.0%	100.0%
Oil majors			
Average	3.0%	6.7%	2.7%
Min	0.6%	1.0%	0.6%
Max	6.1%	16.1%	6.8%
other international players			
Average	6.8%	20.7%	6.5%
Min	0.3%	0.9%	0.1%
Max	17.2%	37.1%	17.1%

Source: Rystad Energy, 2019 data

9 Designated Countries are those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. https://equator-principles.com/designated-countries/

Figure 7 (continued)

	Corporate-level threshold
BNPP	Significant production, volume, reserves or revenue
SocGen	Primary revenues or reserves
Nordea	Main business
Rabobank	Majority tar sands companies
Natixis	>30% activity
Danske	>30% revenue
ING	>30% activity
UBS	>30% reserves or production
Unicredit	>25% reserves or production
Caixabank	>10% revenue

Source: Rystad Energy, 2019 data

The above thresholds would prevent Banks from financing Canadian upstream players. However, most international and diversifed companies would slip through the net and none of the supermajors would be captured (even ExxonMobil with around seven per cent revenues and 16 per cent reserves from oil sands). Of note, BNP Paribas leaves its threshold up to interpretation as it does not define "significant". In the (unlikely) scenario of international players regaining interest in the Canadian oil sands, these thresholds would leave them substantial room to increase activities in this segment. A parallel can be drawn with Teck Resources in this regard. With approximately eight per cent revenue from oil sands in 2019, Teck Resources is not excluded by European banks' policies (reserves and production thresholds would not necessary be relevant as Teck Resources is a diversified mining company) and managed to secure funding to develop what could have been the world's largest oil sands project. To avoid similar situations, banks should also set absolute thresholds. In the absence of plans to tighten these thresholds over time, banks would be in a position to indefinitely finance oil sands through general corporate purpose funding. The only banks defining corporate thresholds for the infrastructure segment at corporate level are BNP Paribas, ING and Natixis. However, none of the main pipeline companies is likely to be excluded except Transmountain Corporation based on available data.

While setting thresholds at a corporate level is a positive move, it is not sufficient to ensure a responsible transition away from oil sands. As discussed, a number of international players have divested their oil sands assets to domestic companies or are recording impairments. In the context of a just transition, banks should push their clients to publish credible plans to ensure these assets are decommissioned by a specific date, rather than merely divesting, which would not contribute as much to tackling the ESG challenges posed by oil sands.

Leading practice example: ING's corporate threshold enhanced with a restriction on loan proceeds

ING defines a 30 per cent activity threshold on corporate clients, potentially lower for new clients (stating it would have less leverage on a new client to agree on a strategy to reduce its restricted activities in the future). In addition to the threshold, ING may require a loan covenant or side letter stating that ING funds or services are not directly used to facilitate the restricted activity.

Buying time: A closer look at Barclays, HSBC and Credit Suisse.

HSBC	**Asset-level restriction**	"Will take into account the trade-offs made by governments between different energy sub-sectors in meeting their overall country-specific, climate change objectives." "Any future technological developments which improve environmental performance will be taken into account in future reviews of our Energy Policy with regards to this sector."
Barclays	**EDD**	"We will only provide financing to clients who have projects to reduce materially their overall emissions intensity, and a plan for the company as a whole to have lower emissions intensity than the level of the median global oil producer by the end of the decade."
Credit Suisse	**EDD**	"particular scrutiny will be applied to ensure the Company employs technologies and best practices to reduce its impacts on natural habitat, water resources, and the energy and carbon intensity of its operations."

Barclays, HSBC and Credit Suisse's oil sands policies can be assessed in the context of the political support the Canadian oil sands sector has secured in the past and Canada's energy transition strategy. Canada's natural resources minister considers revenues from bitumen developments in Alberta as critical to funding the country's energy transition. It has declared it cannot reach its 2050 net zero target without Alberta's oil sands and that Canada's prosperity and economy are highly dependent on it[lxx]. In order to reconcile economic growth with climate commitments, Canada is encouraging investment in new technologies to reduce the carbon intensity of oil sands assets. In 2016, the Government of Alberta passed the Oil Sands Emissions Limit Act, which establishes a firm limit for oil sands emissions. The act aims to encourage innovation in technologies that can drastically cut oils ands' emission intensity, allowing the sector to increase production if emissions stay under a certain limit[lxxi].

Oil and gas companies, investors and banks concerned by this direction of travel have met harsh criticism from the government, which has attempted to embarrass some financial services companies for pulling out of the oil sands and threatened them with the discontinuation of any other business. After being singled out by Canada's Premier, HSBC reportedly ended up softening the language in its policy in 2019, removing wording suggesting its exposure to the oil sands industry would diminish. It is thought that the financial community is taking cautious steps to avoid similar publicity[lxxii]. Echoing similar destabilisation efforts, Suncor Energy wrote an open letter criticising HSBC's stance[lxxiii] and Total was publicly criticised by the CAPP and Alberta Energy minister following the write down of its oil sands assets[lxxiv].

A strategy solely aligning with Canada's energy transition plan presents important risks. Firstly, as discussed in the report, relying on companies' emissions data alone (e.g. Barclays) can lead to flawed assumptions and increased reputational risk. Most importantly, such a strategy is not compatible with the goals of the Paris Agreement. With the oil sands being one of the most carbon intensive fossil fuels, banks should not promote the expansion of these assets but rather aim to reduce capacity.

Recommendations

Recommendations For Banks

Banks that have set net zero by 2050 ambitions or committed to aligning their business models with the Paris climate goals, should publish robust oil sands policies and commit to exiting the oil sands sector on a timeline aligned with the Paris climate goals. These oil sands policies should be articulated around the following pillars:

- Immediate prohibition of project finance related to new oil sands, including related infrastructure such as pipelines, and of project finance related to the material expansion of existing projects;
- A timebound, measurable plan to phase out exposure to companies that are highly dependent on oil sands, including related infrastructure such as pipelines, and companies working to expand the oil sands infrastructure, including pipelines, in line with the objectives of the Paris agreement;
- Exclusions for both expansions and new developments;
- Restrictions at both asset and corporate level, with restrictions on use of proceeds;
- Restrictions throughout the value chain (including upstream and infrastructure/transportation activities); and
- Restrictions applying to all financial services including advisory and asset management.

Banks should immediately phase out their financing to companies heavily reliant on oil sands and/or working to build new oil sands infrastructure. In cases where oil sands are a small percentage of a company's total revenues and/or operating activities, such as in the case of diversified oil and gas companies, banks should ask their clients to publish credible transition plans by a specific date. These plans should outline how the clients plan to exit the oil sands industry and close their remaining oil sands assets on a timeline aligned with the Paris climate goals.

Recommendations For Investors

Investors should encourage banks to:

- Disclose their exposure to oil sands including the average maturity of their portfolio; and
- Publish oil sands policies articulated around the six pillars outlined above.

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