RBS and Fossil Fuel Finance – 6/5/09

1) Before the recapitalisation
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Appendix: Selection of recent articles and op/ed pieces on RBS and fossil fuel finance

1) Before the recapitalisation

RBS has been one of the most significant funders of the oil and gas sector in the UK. Between 2001 and 2006, RBS provided over $10 billion in oil and gas loans, and structured the loan agreements and acted as financial adviser on over $30 billion of oil and gas projects, according to a report published by BankTrack, Friends of the Earth – Scotland, nef (new economicsfoundation), People & Planet and PLATFORM.[i]

The carbon emissions "embedded" within RBS project finance to oil and gas projects exceeded 36.9 million tonnes in 2005, equivalent to those of 6.2 million homes (one quarter of UK households).[ii] Embedded emissions are the emissions that will result from fossil fuels produced or brought to the market from operations financed through project finance. The bank's proportion is calculated according to the proportion of the project funded.

A report published in August 2008 detailing the involvement of UK banks in the global coal industry, found that RBS, Barclays and HSBC were all heavily implicated in providing funding to coal projects and companies. Of these three banks, RBS had the highest involvement with the coal industry. Between May 2006 and April 2008, HSBC was involved three times in coal loans, Barclays 17 times and RBS 27 times. The total value of the loans was $38 billion for Barclays, $71 billion for HSBC and $96 billion for RBS.[iii]

Some of the particularly fossil fuel operations that RBS financed in this period include"

- In 2004 and 2006, RBS-NatWest acted as the lead arranger of loans totalling US$800 million to Canadian oil company Opti Canada for their Long Lake tar sands project south of Fort McMurray in the Athabasca region of Alberta in Canada.[iv] Tar sands are a source of increasing international controversy for both the high rate of emissions involved in the extraction process and their impact on the local environment and indigenous communities in the region.
- In October 2006, RBS participated in an $800 million revolving credit facility for Arch Coal,[v] the second largest coal producer in the US. Arch Coal owns a number of mountain top mines in the Appalachia region,[vi] and utilises the controversial Mountain Top Removal method, using explosives to remove up to 1,000 feet of vertical rock to extract coal. The practice produces vast quantities of coal sludge that is dumped in neighbouring valleys and threatens local communities. Bank of America has recently committed to phase out financing of Mountain Top Removal coal mining because of its impact on the environment and on local communities.[vii]
- In October 2007, RBS underwrote loans of $1 billion for Lundin Petroleum. The Sudan Divestment Task Force (SDTF) classifies Lundin in its Top 5

"Highest Offenders", for its direct support for the Sudanese government during the continued ethnic cleansing in Darfur. Lundin was exploring for oil in Block 5B in south Sudan, together with Sudapet, the Sudanese national oil company, which is part of the regime. Human Rights Watch and Christian Aid asserted that, if not complicit, the company enabled Sudanese military operations against local civilians, including the clearing of villages and widespread rape.

2) After the Recapitalisation

On 2 March 2009, the Guardian reported that in the 6 months following the initial bail out of the banks, RBS had been involved in financing loans to coal, oil and gas companies worth nearly £10bn (£9,941m) — over a quarter the amount the bank had received from the tax payers at that point.[viii]

The corporate and project finance that RBS have been involved in after the recapitalisation include:

- An extension of £6.66bn worth of credit to controversial energy giant E.ON in November 2008 (on top of the $70 billion worth of loans to E.ON it was involved in the 2 years prior to the bail out).[ix]
- In March 2009, RBS was part of a consortium of 14 banks that lent $1,890 million to the Irish company Tullow Oil - providing in the region of $100 million itself.[x] The bank had already helped raise £402 million by placing shares for Tullow in January 2009.[xi] Tullow's expansion plans are exacerbating conflict in Central Africa and South Asia. In early 2009, the company announced a major discovery of 400-1000 million barrels by Lake Albert in Uganda, just on the border with the Democratic Republic of Congo (DRC). Tullow also holds oil exploration rights across the border in North Kivu in the DRC, which continues to be torn by strife after more than a decade of resource-driven civil war. The border area has seen some of the fiercest fighting take place as rival armies and militias have struggled for control. An additional 30,000 refugees were displaced in North Kivu during two weeks of fighting in March, adding to the existing 1.4 million internally displaced people in the region. Tullow also owns a significant stake in offshore oilfields on the Bangladeshi-Burmese border, which have led to recent naval escalation over maritime boundaries.[xii] The company has further been criticised for re-using single-hull tankers (which are widely phased out under environmental safety regulations) as floating production and storage vessels in its Ghana offshore operations.[xiii]
- In March 2009 RBS financed exploration work in previously untouched regions of Greenland's Arctic. Acting as joint bookrunner with Merrill Lynch on March 11, RBS placed shares worth £116 million for Cairn Energy, a Scottish oil company.[xiv] Although Cairn's main existing production lies on the Indian-Pakistani border, the placing statement made clear that money raised would go towards "accelerated drilling" in Greenland. With the Exploration Director describing Greenland as "a true frontier country where oil and gas exploration is at an embryonic stage", the company has built up licences covering 72,000 square kilometres of acreage off the country's west coast, covering an area half the size of England. Cairn has described its Arctic exploration plans as high-risk but potentially "transformational" – stating that "costs will be large

so the size of the prize needs to be big" and "There's going to need to be a lot of wells drilled before you're successful."[xv]

3) Public Pressure on the Bank

There is mounting pressure on RBS over its record of fossil fuel financing. In August 2008, the Guardian newspaper ran a front-page story with a headline that warned that 'High street banks face consumer boycott over investment in coal projects'.[xvi] In the last two years, student groups and climate activists across the country have protested more than a hundred times at various RBS branches and offices.[xvii] Many Student Unions across the country have passed motions threatening to call a boycott on RBS in the near future should they fail to take more substantive action on climate change. In January 2009. RBS featured in the weekly 'greenwash' column on the Guardian website over its fossil fuel financing in an article that raised questions over the fact that the bank was now majority public owned.[xviii]

Civil society groups that have been involved in pressuring RBS to address the issue of it's fossil fuel financing include Friends of the Earth Scotland, the New Economics Foundation, World Development Movement, People & Planet, PLATFORM, Scottish Education and Action for Development, London Mining Network, BankTrack and Indigenous Peoples Links.

4) Political Pressure on the bank

Recommendation from the Environmental Audit Committee

In a report published published on 16 March, ***Pre-Budget Report 2008: Green fiscal policy in a recession***, the Environmental Audit Committee made the following recommendations to the Treasury on green finance.

"The Committee wants the Treasury to ensure that vital low carbon energy projects receive the finance they need even when there is a shortage of capital for investment in low carbon infrastructure.

The Committee also calls on the Treasury to look at the benefits and practicalities of imposing some form of environmental criteria on the investment strategies of those banks in which the state had a controlling stake."[xix]

Early Day Motion

On 25 February 2009, EDM 880 was tabled by Martin Horwood

Royal Bank of Scotland and Climate Change

That this House notes that one of the most significant outcomes of the recent financial crisis has been the Government's acquisition of a majority stake in the Royal Bank of Scotland (RBS); further notes that RBS has been identified by campaign groups People and Planet and Platform as the UK bank that is the most heavily involved in financing the expansion of fossil fuel projects around the world, and that the carbon dioxide emissions embedded in RBS's project finance in 2006 were calculated to be greater than the carbon dioxide emissions of Scotland itself; believes that the fact that banks play such a large role in providing finance to projects that are exacerbating climate change has been wholly unaddressed in Government policy; further believes that there is an urgent need for the Government's new banking regulations to include environmental concerns as well as financial concerns; calls on the Government to use its majority share in RBS to prioritise climate change as a principal concern in RBS's lending decisions; further calls on the Government to require RBS to calculate, publish and cap embedded emissions resulting from its lending to fossil fuel projects, and to set annual targets for reducing these emissions; and further calls on the Government to promote RBS investments in renewable energy, new green jobs and the infrastructure needed to decarbonise the economy.[xx]

The EDM has received 45 signatures.

More Information and Contact

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[ii] Ibid p4
[iii] Cashing in on Coal: RBS, UK Banks and the Global Coal Industry, August 2008, p13. Published by BankTrack, Friends of the Earth Scotland, People & Planet, PLATFORM, Scottish Education and Action for Development, http://www.carbonweb.org/showitem.asp?article=338&parent=39
[iv] The Oil & Gas Bank, p14
[v] Ibid p17
[vi] Arch Coal website: www.archcoal.com
[vii] see http://www.banktrack.org/show/news/bank_of_america_stops_funding_mountain_top_removal

[viii] A Stratton, The Guardian, 2 March 2009, 'New banking rules should reveal emissions from investment, campaigners say', http://www.guardian.co.uk/environment/2009/mar/02/rbs-environmental-regulations

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[xv] T Bergin, Reuters, 6 June 2008, 'Cairn bets on big Greenland oil find', http://www.reuters.com/article/GlobalEnergy08/idUSL0667911220080606

[xvi] 11 August 2008 – Guardian Newspaper – 'High street banks face consumer boycott over investment in coal projects' - http://www.guardian.co.uk/business/2008/aug/11/banking.ethicalbusiness

[xvii] see for instance http://risingtide.org.uk/node/230

[xviii] 8 January 2009 – Guardian website – 'We own RBS, so are we now greenwashing ourselves?' -

[xix] EAC Press Release, 16 March 2009, 'MPs tell Chancellor 'to green' economic stimulus plans', http://www.parliament.uk/parliamentary_committees/environmental_audit_committee/eac160309.cfm

[xx] Early Day Motion EDM 880, ROYAL BANK OF SCOTLAND AND CLIMATE CHANGE, 25.02.2009, http://edmi.parliament.uk/EDMi/EDMDetails.aspx?EDMID=37959&SESSION=899