Sector Framework - Fossil energy

February 2025

Handelsbanken’s climate and sustainability work

Climate change is quite possibly the biggest challenge of our time and its consequences are increasingly severe and felt worldwide. The joint efforts of all stakeholders, including governments, the private and the financial sector, will be crucial to minimise the impact. The good news is that we know how to transform our economy into a cleaner, healthier, more efficient and more resilient system for the benefit of both people and our planet.

At Handelsbanken, we are determined to do our part in this, where responsible behaviour is a basic prerequisite for long-term value creation at Handelsbanken. Long-term business relationships, low risk tolerance and cost awareness are cornerstones of Handelsbanken's business culture and lay the foundation for successful banking operations to be conducted in a responsible and sustainable manner. We are convinced that a rapid and orderly transition in line with the 1.5-degree target is the best for the community in which we operate, our customers and thus also for Handelsbanken.

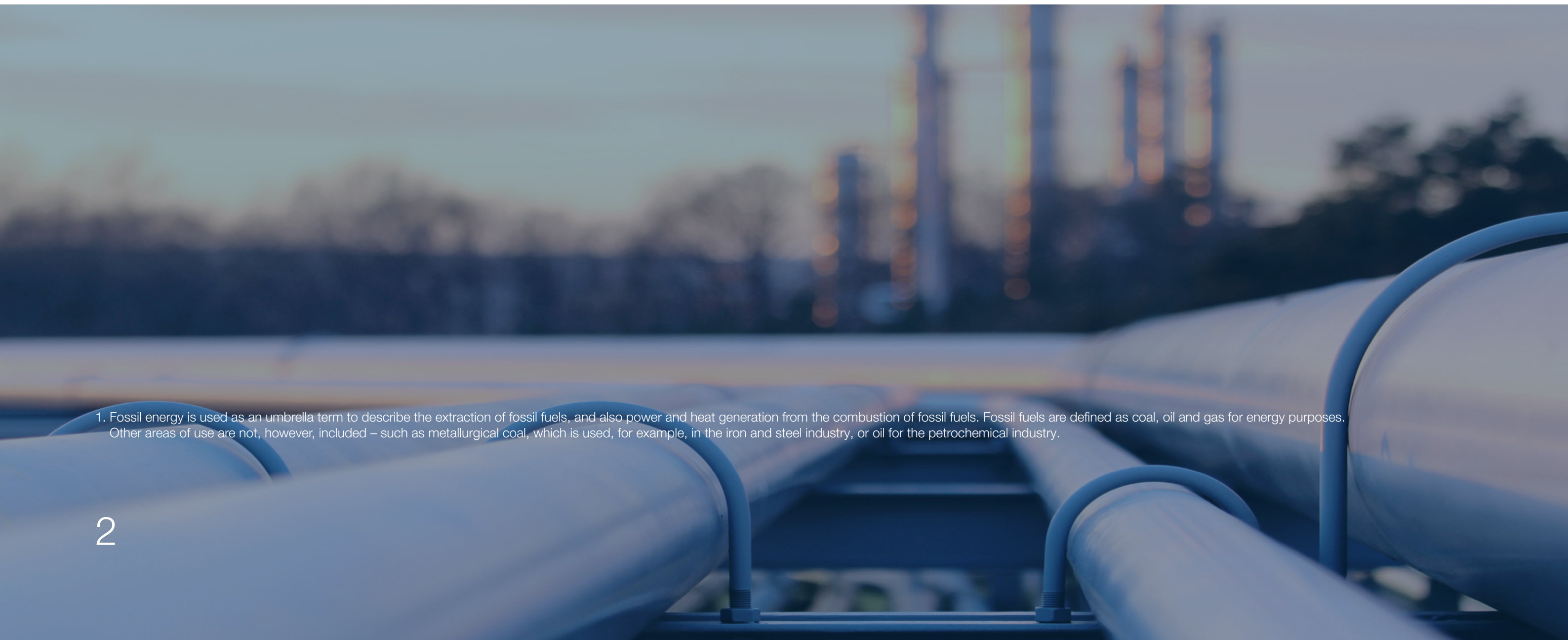
Handelsbanken is well aware that environmental, social and governance issues can lead to a significant increase in credit risk, investment risk and reputational risk. This is why sustainability risk is integrated into normal processes and procedures. The transition to a sustainable society also represents a business opportunity, meaning that Handelsbanken has plenty of opportunities to support customers in their sustainability transition.

Purpose

Through this sector framework, Handelsbanken aims to describe its assessment of activities related to Fossil energy[1] for lending purposes, in accordance with the Bank’s guidelines on Environment and Climate Change. It also includes the Bank’s criteria for assessing when a company can be considered a transition company, when providing credit and applying the same guidelines.

The purpose of the framework is to support the Bank in its work to align its business operations to the 1.5°C target by describing which activities within Fossil Energy can be considered to be in line with the 1.5-degree target and the transition that the target requires. In addition to the various reports that this framework refers to, the Bank has also consulted external stakeholders in the drafting of this document.

The energy sector is developing rapidly; an increasing number of companies in the area of fossil energy are opting to make the transition to renewable energy production. Developments are also being made in climate research and in raising the awareness of the role that banks play in the transition. This sector framework will therefore be updated regularly to reflect developments in the world at large, in the energy market, in regulations and also in Handelsbanken’s business operations, its commitments and its sustainability ambitions.



1. Fossil energy is used as an umbrella term to describe the extraction of fossil fuels, and also power and heat generation from the combustion of fossil fuels. Fossil fuels are defined as coal, oil and gas for energy purposes. Other areas of use are not, however, included – such as metallurgical coal, which is used, for example, in the iron and steel industry, or oil for the petrochemical industry.

Scope of the sector framework

This sector framework applies to the Handelsbanken Group's lending and applies in addition to the Bank's other guidelines, for example its guidelines on Environment and Climate Change. For more information about how Handelsbanken Fonder works with fossil energy, please refer to Follow our work and for more on Handelsbanken's other climate-related work, please refer to Our climate impact.

Transition in line with the 1.5°C target

According to the UN's panel on climate change (IPCC), the world is at a crossroads. For the 1.5°C target to remain a realistic possibility, emissions will have to be cut drastically across all sectors until 2030. In all relevant sectors, the necessary technological solutions to halve global emissions by 2030 exist. In order to limit the effects of climate change, the energy system will need to undergo a significant transition, involving reductions in fossil fuel usage, increased electrification and improved energy efficiency.[2]

How to reach the 1.5°C target?

According to the UN, fossil fuels in the form of coal, oil and gas are by far the main cause of climate change, accounting for about 75 per cent of all global emissions of greenhouse gases .[3] Reducing emissions from fossil fuels is therefore crucial to avert the worst effects of climate change.

The International Energy Agency (IEA) is an intergovernmental organisation providing policy advice to its members on energy issues and a Paris-aligned energy system, with the mission of shaping a secure and sustainable energy future for all.[4] In 2021, the IEA published its report *Net Zero by 2050: A Roadmap for the Global Energy Sector.* The report presents a forward-looking transition scenario called Net Zero Energy (NZE), which is perhaps the most comprehensive scenario to date for a transition of the global energy system. It lays out what is required, and when, in order to transition the global energy system and reach net zero emissions by 2050, and thus have a chance of limiting global warming to 1.5°C without jeopardising the global energy supply.

According to NZE, power generation is one of the first areas that needs to achieve net zero emissions, as the conditions for doing so are favourable, not least in the form of low costs and tried and tested technologies. According to NZE, all coal power generation facilities in OECD countries without Carbon Capture Usage and Storage (CCUS)[5] should be decommissioned by 2030 at the latest, while overall power generation needs to achieve net zero emissions by 2035.

According to the report, fossil fuels accounted for about 80 per cent of global energy consumption in 2020. All signs point to fossil fuels continuing to play an important role in the global energy supply for a long time to come, and ongoing investments in the maintenance of existing infrastructure will be required to secure the continued availability of energy before alternatives are sufficiently expanded. However, in order to reach the 1.5°C target, the use of fossil fuels must be reduced over time. In concrete terms, this means that no new oil or gas fields neither needs to or should opened, and that no new coal mines are opened, or existing ones expanded. Between 2020 and 2030, the use of coal, oil and gas needs to be reduced by about 50 per cent, 20 per cent and 5 per cent respectively and by 2050, the reductions need to be about 90 per cent, 75 per cent and 55 per cent for coal, oil and gas respectively. Investments in fossil fuels need to be reduced at the same time as investments in renewable energy production, improved energy efficiency and electrification need to increase.[6]

"Our Roadmap shows that there are still pathways to reach net zero by 2050. The one on which we focus is – in our analysis – the most technically feasible, cost-effective and socially acceptable."
Dr Fatih Birol, Executive Director IEA

2. https://www.ipcc.ch/2022/04/04/ipcc-ar6-wgiii-pressrelease/
3. https://www.un.org/en/climatechange/science/causes-effects-climate-change
4. https://www.iea.org/about/mission
5. Carbon Capture Utilisation and Storage
6. Net Zero by 2050 - A Roadmap for the Global Energy Sector, IEA

The necessary production cuts for fossil fuels stipulated by NZE are in stark contrast to global production plans - instead of cutting back on production, there are plans to increase it. *The Production Gap 2021* report describes countries' planned extraction of fossil fuels and the potential consequences this will have for average global temperatures. If these plans go ahead, the global production of fossil fuels would be twice as high in 2030 than the levels needed to reach the 1.5°C target.[7]

The energy sector is complex, not least in Europe, where there are conflicting objectives related to issues of energy security, affordability, political stability and climate change mitigation. All fossil fuels are not equally harmful to the environment and the climate. Coal combustion results in the highest levels of greenhouse gas emissions per unit of energy produced, as well as leading to significant emissions of hazardous particles and adverse environmental impacts in the mining process. Coal is therefore the first fossil fuel that should be phased out, according to NZE. There is also variation between fossil fuels and their extraction in terms of their impact on the environment and climate, such as emissions of methane, which are also of significance to the transition. The chances of a successful transition to a sustainable energy system are improved if the transition take place in the spirit of a "just transition",[8] in other words, in a fair and inclusive manner so that people in the energy sector that are affected receive the necessary support.

Unless there are substantial changes in global climate policies and the expansion plans of countries and corporations alike with regard to fossil fuels are revised, the conditions will not be in place for the 1.5°C target to be met. According to the UN, current climate policies will result in global warming of around 2.8°C this century.[9] Handelsbanken will continue to work to align its business operations with the 1.5°C target and the scenarios that describe such a transition and the required pace. Handelsbanken will work to ensure that the business can fully support its customers in their transition in line with current science and the regulatory climate targets in the Bank's home markets and the EU, as well as the Paris Agreement's goal of limiting warming to close to 1.5° C. It is the Bank's conviction that a rapid and orderly transition in line with the 1.5-degree target is of the best benefit to our customers, the communities in which we operate and thus to Handelsbanken.

Guidelines - Fossil energy

The majority of the criteria and commitments below are aligned with the Bank's guidelines on Environment and Climate Change. In addition, Handelsbanken's criteria for classification of transition companies within the Fossil energy sector are defined, when applying the guidelines on Environment and Climate Change for lending.

Extraction of fossil fuels

Handelsbanken's guidelines on Environment and Climate Change stipulate that the Bank's overall ambition is to continue to reduce its financing of the extraction of fossil fuels, in line with the 1.5°C target.

Coal mining

If the world is to reach the 1.5°C target, NZE establishes that no new coal mines can be opened, nor should there be any expansion of existing coal mines from 2021 onwards.

In view of the above, Handelsbanken will not:

- directly finance (for example via project financing) new coal mines, the expansion of existing coal mines or related infrastructure
- enter into new business relationships with or finance companies that operate within coal mining.

Extraction of oil and gas

According to IEA and NZE, no new oil or gas fields can be opened if the world is to reach the 1.5°C target. In this context, new oil and gas fields refer to fields that were not already approved for development by 31 December 2021.

In view of the above, Handelsbanken will not:

- directly finance (for example via project financing) new extraction of oil or gas, or the expansion of existing facilities for the extraction of oil or gas, or any infrastructure directly linked thereto. This applies to the extraction of both conventional and unconventional oil and gas

- initiate any new business relationships with or provide financing to companies or groups that are actively involved[10] in the extraction of oil or gas, or companies actively involved in the construction of infrastructure directly linked thereto. Exemptions from this provision may be made if the company is a *Transition Company - Oil and Gas.*

7. SEI, IISD, ODI, E3G, and UNEP. (2021). The Production Gap Report 2021. http://productiongap.org/2021report
8. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en
9. United Nations Environment Programme (2022). Emissions Gap Report 2022: The Closing Window — Climate crisis calls for rapid transformation of societies — Executive Summary
10. In order to manage unknown or insignificant extraction of oil and gas, this would normally mean that a maximum of five per cent of a company's total turnover may be related to the extraction of oil and gas. To ensure that the risk of indirect financing or support for companies engaged in new or expanded oil and gas extraction, Groups are also covered by this requirement. For a Group that operates in several different sectors, completely separate from one another, for example an investment company, the permitted proportion of turnover linked to the extraction of oil and gas would normally be a maximum of 15 per cent of the Group's total turnover. However, exemptions from this provision may be permissible if the Bank, following consultation with Group Sustainability, makes the overall assessment that the risk of indirect financing or support for such extraction is negligible.
This overall assessment takes into account the group structure, availability of financing and cash flows between the companies in question, and other such matters. The direct financing of this type of extraction, or credit facilities aimed at developing that part of the group which is actively involved in the extraction of oil and gas, is never consistent with these guidelines.

A company is deemed to be a *Transition Company - Oil and Gas* if it fulfils all of the following criteria:

- Has committed not to open new oil or gas fields.
- Has committed not to explore for new oil or gas fields.
- Has a science-based transition plan to align its business operations with the 1.5°C target, including scope 1, 2 and 3.
- Is not involved in the extraction of unconventional oil and gas.[11]

Fossil energy production

Fossil energy production refers to power generation and/or heat generation derived from the burning of fossil fuels.
If the 1.5°C target is to be achieved, all coal power plants without carbon capture, utilisation and storage (CCUS) must be decommissioned by no later than 2030 in OECD countries. Handelsbanken is of the opinion that this also applies to the production of coal-based district heating. OECD countries must achieve net zero emissions of greenhouse gases from power generation[12] by no later than 2035.

In view of the above, Handelsbanken will not:

- directly finance new coal power plants or the expansion of existing coal power plants
- enter into new business relationships with or finance companies that operate coal power plants, or companies that are actively involved in the construction of coal power plants. Exemptions from this provision may be made if the company is a *Transition Company - Energy Production.*

A company is deemed to be a *Transition Company - Energy Production* if it fulfils all of the following criteria:

- Has committed not to build new coal power plants.
- Has committed not to expand existing coal power plants.
- Has a decommissioning plan to ensure that all coal power plants without CCUS are closed by no later than 2030. The plan must include specific dates for the closure of all coal power plants.
- Coal power plants shall be decommissioned, not sold to third parties.
- Preferentially replaces coal power with fossil free energy production, not fossil gases or fossil-based hydrogen gas.
- Has a science-based transition plan, including emissions reduction targets, for power production in line with the 1.5°C target.

Process for identification

The commitments laid out in this sector framework will be appropriately integrated into the Bank's ordinary processes. Group Sustainability will support, when relevant, in the assessment of a business transaction's alignment with this sector framework. In such an assessment, the Bank may turn to external data suppliers for input.

11. Unconventional oil and gas refers to the extraction of Arctic oil or gas, deep sea mining of oil or gas, oil sands, oil shale, heavy crude oil, shale oil, shale gas, and extraction through hydraulic fracturing (i.e. fracking).
12. Net Zero by 2050 - A Roadmap for the Global Energy Sector, IEA

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