SOCIÉTÉ GÉNÉRALE: QUIT COAL!

May 2015

SOCIÉTÉ GÉNÉRALE STILL CLINGING TO COAL IN SPITE OF POLICIES AND PROJECT CALAMITIES

Société Générale announced in March that it has ruled out financing for huge coal mining projects in Australia’s Galilee Basin, as well as associated coal export infrastructure that would have serious impacts for the Great Barrier Reef. Taken together with its commitment to deny finance for major mountaintop removal mining companies and its ‘above average’ coal mining and coal power policies, Société Générale is not among the worst of the banking sector field when it comes to coal finance – but is still very much in it, as its recent consistent coal financing figures suggest.

BankTrack research into the global private banking sector’s coal financing, covering project finance, corporate loans and revolving credit facilities, and share and bond issues for coal mining and coal power companies alike, has revealed that between 2005 and April 2014 Société Générale extended almost €5.5 billion to the most climate-damaging fossil fuel sector.

The bank’s coal portfolio remains heavily skewed towards coal power – this in spite of a sector policy that restricts it to more ‘efficient’ coal plant financing. Will Société Générale however be tempted, despite some recent calamitous projects described in this briefing, to finance the Batang project in Indonesia or the Plomin C project in Croatia? The merits of these projects are highly dubious and are sure to present high risks for the bank’s reputation and the world’s climate. Given the bank’s recent coal plant experiences, and the state of the industry as a whole, we’d recommend a swift and total pull-out from coal finance, while the going is good.
TWO COAL PLANTS WITH HUGE ENVIRONMENTAL, SOCIAL AND CLIMATE COSTS IN SOUTH AFRICA

In 2009, Société Générale, in the company of a string of other international private banks as well as the World Bank, has been integral in supporting South Africa’s troubled state-owned power utility Eskom in its plans to further deepen the South African power sector’s reliance on climate-busting coal power. In the face of national and international opposition, Eskom is proceeding with the development of two huge 4,800 megawatt coal-fired power plants at Medupi and Kusile.

The projects have been controversial from the beginning, with Kusile set to be built in a region that already exceeded South African air pollution limits. The Medupi plant alone will add an estimated 2 million metric tons of CO2 emissions per year, and the South African power sector is already one of the most carbon intensive in the world. Firing up these two plants – Medupi is reported to be running four years behind schedule and projected to be fully on line by 2013 at the earliest – will involve additional demand for coal, and that means the inevitable opening or expansion of coal mines in South Africa. This will likely lead to severe local environmental impacts, including strains on already scarce water resources. If all of Eskom’s plans go ahead – at Medupi, Kusile and a range of life-extensions and expansions at other plants – the company’s own consultants anticipate that 35 new mines will be required to support them.

With construction delays in fact being experienced at both plants, Eskom has relied on rate increases to cover its mounting costs. The company is asking to raise commercial power prices generally being maintained – and inevitably following from this are the bank’s negative impacts on the global climate and local communities that also continue to stack up.

Policy progress still not enough to prevent damaging projects

Both Société Générale’s mining policy and its coal-fired power sector policy have recently been rated above average by BankTrack, Rainforest Action Network and the Sierra Club, when compared to the policy coverage of other leading international banks. At issue, however, is how effective these policies are proving to be when the bank’s support for the coal industry is generally being maintained – and thereby allowing for 43% thermal efficiency for projects in high-income countries. One key limitation, however, to this efficiency threshold guideline is that it does not apply to Société Générale’s financing of coal power companies tended to haunt you”.

The 600 megawatt new TES 6 lignite-fired power plant at Šoštanj in north-west Slovenia is replacing five expiring units in the same complex and is intended to operate for 40 years. When the project emerged and a range of public and private European banks – including Société Générale – chose to provide financing, TES 6 was estimated to cost €602 million, create 3,500 jobs and generate a profit. Now already constructed, TES 6 costs have spiralled to €1.43 billion, it employs around 450 people (half of whom are expected to be fired in the near future because of the plant’s woeful economics), and will result in estimated annual losses of at least €50 million.

In Slovenia, the project has become a source of embarrassment and anger, and has seen corruption investigations launched by Slovenia’s anti-corruption office and the European Anti-Fraud Office (OLAF) into how the project promoter awarded the contract for the project to the French engineering company Alstom.

As it will be fuelled by lignite, the most polluting form of coal, TES6 is storing up further problems for Slovenia and beyond. By 2050, together with all other EU members, Slovenia will have to reduce its overall CO2 emissions by at least 80 percent. Yet studies estimate that the new unit at Šoštanj will account for almost all of the country’s emissions allowance if the required reduction is to be achieved. A source at the European Investment Bank, one of the project’s principal financial backers, has gone on the record to describe TES 6 as “one of those projects that tend to haunt you”.

The bank’s coal power policy requires it to report on the implementation of its due diligence practices, includes commendable environmental oversight, and sets a minimum efficiency threshold for new power plant financing of 43% thermal efficiency for projects in high-income countries. One key limitation, however, to this efficiency threshold guideline is that it does not apply to Société Générale’s financing of coal power companies through general corporate loans or underwriting. In the case of the Medupi and Kusile power plants in South Africa, Société Générale’s coal power policy structures would not have prevented financing if they had been in place in 2009.

For the mining sector, where the bank extended finance in 2014 to BHP Billiton and Glencore, concerns remain over how well equipped Société Générale is in policy terms to address all of the human rights risks involved in coal mining.

THE SLOVENIAN POWER PLANT SHAMBLES: A CAUTIONARY TALE

As ever with such major coal plant investments, the cumulative environmental, economic and climate impacts will be immense, and their effects are likely to be felt for decades to come.

As part of the lender consortium, Société Générale should be prepared to address and solve such impacts. And the bank must now resist becoming implicated in other developing world coal dodgy deals in the future.
The world over, responsible financiers concerned about climate change and focused on enhancing their support for clean energy projects and initiatives will be very much aware of the fast approaching UN Climate Summit in Paris, taking place at the end of this year.

This meeting, being billed by many as ‘make-or-break’, is aimed at deciding on an international follow up Treaty to the Kyoto Protocol, committing all countries in the world to emission reduction targets that will keep the global temperature rise within 2 degrees, the assumed threshold beyond which already ongoing climate change will become outright catastrophic for people and planet.

In the run-up to Paris, BankTrack – in collaboration with our civil society organisation allies around the world – is launching the Paris Pledge campaign. The aim of this campaign is clear: to invite the world’s private banks that are still investing in coal sector companies and projects to publicly pledge to terminate their financing for the coal industry. Here’s why.

**COAL: CLIMATE AND PUBLIC ENEMY NUMBER ONE**

The continued exploration and burning of coal is a major threat to the climate. Coal is the single greatest source of man-made carbon dioxide emissions – 44 % of all global emissions from fossil fuels come from coal. Since the year 2000, global coal production has grown by 69%, to a staggering 7.9 billion tons annually. The installed capacity of coal-fired power plants has grown 35% since the year 2000. We are clearly on the road to disaster if we do not manage to stop coal – and quickly.

**THE ROLE OF BANKS**

Private sector (commercial) banks continue to play a major role in bankrolling the coal industry. As BankTrack research (available at www.coalbanks.org) has revealed, total bank support for the coal sector amounted to at least $500 billion between 2005 and April 2014. To date, there is no sign of declining support from banks, with a clear upward trend and a +360% rise in these coal finance figures between 2005 and 2013.

**WE, AND THE PLANET, ARE COUNTING ON YOU, SOCIÉTÉ GÉNÉRALE!**

As a prominent ‘coal bank’, Société Générale (you’re currently number 24 in our Coal Bank rankings), we hereby invite you to consider and take the Paris Pledge prior to the Paris Summit. You’ll be hearing from us – and thousands of others – again about this in the weeks and months ahead. All the best, BankTrack.

**PARIS PLEDGE TEXT — FOR BANKS INVOLVED IN COAL FINANCING**

In recognition of the grave threat to the world’s’ climate posed by ongoing mining and use of coal, as well as the urgent need to transition towards a low/no carbon economy, we hereby pledge to fully phase out our finance for coal mining and coal power.

This phase-out will cover all our banking activities and services, including lending, share and bond underwriting, asset management and advisory services, and will start with an immediate end to any new coal project finance. It will be accompanied by a shift in our energy lending towards the financing of energy efficiency and renewable energy.

We commit to publish a detailed ‘coal phase-out plan’ within six months after the Paris Summit, which will include a clear time path and targets for each of our products and services. We also commit to regularly and publicly report on the implementation of our coal phase-out plan.

Signed: Société Générale?

**COMING SOON, THE PARIS PLEDGE RESOURCE WEBSITE: DOTHEPARISPLEDGE.ORG**