A Practical Toolkit for Banks

Towards an Effective Climate Policy

Friends of the Earth Netherlands

MILIEU DEFENSIE

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PHOTO: RICK KEUS

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Introduction

Climate change affects us all. Citizens, companies, governments and other organisations must all work to find solutions for this problem. Banks and financial institutions share this responsibility, as their loans and investments can have a strong influence on the development of polluting and clean industries, on climate friendly products and on other possibilities to reduce climate change.

The good news is that more and more banks are acknowledging their responsibility. Several banks in the Netherlands and elsewhere have been trying to reduce their contribution to climate change in the past few years. Milieudefensie (Friends of the Earth Netherlands) urges Dutch banks to learn from these experiences and to take rapid and profound action in all the fields described in this climate policy toolkit. It is possible to sufficiently slow down climate change, but only if all concerned parties act fast.

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1 - Measure financed emissions

A bank's clients cause much more greenhouse gas (GHG) emissions than the bank itself. Through their loans and investments, banks finance all kinds of companies which use this capital to expand their production or develop new products. This causes GHG emissions in the production and consumption phase, for which the bank, as a capital supplier, carries a joint responsibility. For this reason it is important that a bank tries to determine the amount of GHG emissions its customers cause and which part of the emissions is attributable to the financing bank.

Measuring these emissions is not as simple as it sounds. The direct energy use of a client is measurable, but what to do with the energy which a subcontractor needs to produce a component that the client uses in its process? And how to assign the emissions that the product that the client produces, causes in the consumption phase? To answer these and other questions, the *Greenhouse Gas Protocol* was developed in a cooperative effort by scientists, companies and civil society organisations. Besides general methods of measurement, the *Greenhouse Gas Protocol* has also developed sector-specific guidelines. Several consultancies, such as Trucost and Centre Info, work with the *Greenhouse Gas Protocol* to determine the GHG emissions of specific companies.

GHG Protocol: www.ghgprotocol.org
Trucost: www.trucost.com
Centre Info: www.centreinfo.ch

The next step is for a bank to determine for which part of the emissions of its customers it is responsible. This responsibility is equal to the contribution of the bank to the total financing of the company. How this share should be calculated exactly is still being debated, but the most consistent method has been developed by the French consultancy Utopies.
To finance investments, a company can use its own equity and forms of external financing (loans and bonds). Utopies therefore assumes that the share of a bank in the financing of a company is calculated by dividing the capital which the bank has supplied to a company, by the sum of the equity and all loans and bonds attracted by the company. The bank is responsible for this percentage of the GHG emissions of its customer.

Methodology Utopies: www.utopies.com/docs/Methodo-general-juin2008light.pdf

In the past two years several banks and civil society organisations have tried to estimate the GHG emissions financed by specific banks. Although the methodologies used in these attempts slightly differ, they offer starting points for the development of a commonly accepted methodology which makes mutual comparison of banks possible.

- *The British organisation Platform published an analysis of the GHG emissions of Royal Bank of Scotland in March 2007: www.carbonweb.org/showitem.asp?article=258&parent=39*
- *Milieudefensie (Friends of the Earth Netherlands) published an analysis of the emissions of greenhouse gases financed by Dutch banks in June 2007: www.milieudefensie.nl/klimaat/publicaties/reporten/investinginclimatechange2007.pdf*
- *In 2007, Rabobank started an investigation into its indirect greenhouse gas emissions. The research takes into account national and international loans in all sectors and investments in shares and bonds of listed companies: www.maatschappelijkjaarverslag2007rabobank.nl/downloads/Maatschappelijk_jaarverslag_Rabobank_Groep_2007.pdf#page=41*
- *In May 2008 the Dutch ASN Bank had the financed GHG emissions of its investment funds examined: www.trucost.com/pressreleases/ASN.html*

2 - Set ambitious climate goals

In order to keep the global temperature increase to a maximum of 2 to 2.4 °C in 2050 – a level that can already cause significant social, environmental and economical problems – annual global emissions of greenhouse gases must decrease by 50 to 85% in comparison to the year 2000, according to the Intergovernmental Panel on Climate Change (IPCC) of the United Nations. Taking the necessary economic growth in developing countries into account, an even larger reduction is necessary in industrialised countries.

If a bank wants to pursue a credible climate policy, it must set objectives which are consistent with these reduction targets. The objective for the banking sector as a whole must be a reduction of the financed annual GHG emissions by 50 to 85%. What this means for an individual bank depends on the current amount of GHG emissions it finances: if its financed emissions per euro are already lower than the average for the banking sector, the bank can set a lower reduction objective. But if its financed emissions are higher than average, then a higher reduction objective is necessary.

After a bank has set a reduction objective for its complete portfolio, this must be translated further into specific sector objectives. Not only for financing the energy sector, but also for other sectors such as transport, the steel industry and the construction industry.

- *In June 2007, the American Private Investment Corporation (OPIC) announced it will reduce the annual CO_2-emissions of the projects it finances by 20% in ten years time: www.opic.gov/documents/ghg_fact_sheet110807.pdf*

3 - Financing the energy sector

Fossil fuel consumption is the most important contributor to climate change worldwide. For this reason banks should avoid and reduce their investments in extraction and transport of fossil fuels (oil, gas and coal) and non-sustainable electricity plants as much as possible. Energy technologies which produce relatively high quantities of CO_2 per energy unit, such as traditional coal power plants, must be entirely excluded from financing.

However, this policy shift should not lead banks to finance controversial alternative energy sources such as nuclear power, large hydropower dams and non-sustainable biofuels. Banks should invest in real green solutions such as solar energy, wind energy, small hydropower and sustainable biomass.

According to the recent WWF-study *Climate Solution*, existing alternative energy sources and -technologies can be adapted to meet the predicted doubling of global energy demand between now and 2050. Further development of these technologies could ensure a reduction of 60 to 80% compare to current CO_2-emissions. This reduction can be achieved without the use of nuclear power, non-sustainable biomass and non-sustainable forms of hydropower: assets. panda.org/downloads/climatesolutionweb.pdf

- *In 2004, Bank of America set an aim to reduce the CO_2-emissions of its loan-portfolio in the electricity sector by 7% before the end of 2008: environment.bankofamerica.com/article.jsp?articleId=Climate-Change*

- *In February 2008 The Carbon Principles were published by three American banks: Citi, JPMorgan Chase en Morgan Stanley. In The Carbon Principles, the banks declare that they want to invest more in energy saving and renewable energy. Investing in fossil fuels is not excluded entirely, but is subjected to a tight risk evaluation. Soon after Bank of America, Wells Fargo and Credit Suisse followed suite. www.carbonprinciples.org*

4 - Financing other economic sectors

A bank's climate policy should also address other sectors which emit a lot of greenhouse gases in the production or consumption phase. Companies in these sectors must be stimulated to contribute to the transition to a low-carbon economy. The financial expertise of banks could for instance help to make investments possible in technological innovations which restrict GHG emissions in the production process in the cement, aluminium and steel industries.
There are not the only sectors in which large transitions are necessary and in which banks can play a stimulating role.

Some examples:

- *Producers of cars and other means of transport, as well as transport companies, should be stimulated to develop new products and services, which can drastically reduce the CO_2 emission of the sector. New types of engines (for example electric engines), new means of transport and new transport concepts, are needed to make the transport sector more CO_2-extensive.*

- *Heat insulation and adapting existing houses, offices and other buildings, is of crucial importance, as well as the construction of sustainable, climate-friendly buildings. Banks that are directly or indirectly (via mortgages) active in financing real estate, can base their policy on several instruments and initiatives, such as the UNEP Sustainable Buildings and Construction Initiative and the Dutch Green Building Council - where the real estate departments of ABN Amro, Fortis, ING, Rabobank and SNS are involved in.*

- *UNEP Sustainable Buildings and Construction Initiative: www.unepsbci.org*

- *Dutch Green Building Council: www.dgbc.nl*

- *In February 2008, the Investor Network on Climate Risk, a coalition of pension funds and portfolio managers, announced they would aim for a reduction of the energy consumption of their real estate investments by 20% in three years: www.ceres.org/Document.Doc?id=279*

- *According to a FAO-report, the worldwide production of milk, meat and eggs contributes to 18% to global human-induced greenhouse gas emissions.
Use of fertilizers and the drainage of peat areas and deforestation are two of the factors that cause these emissons.*

- *Moreover, small farmers in developing countries – especially women – suffer most from the impacts of climate change. In South Africa for example, reduced and less reliable rainfall is forcing farmers to sell their cows and to plant fast growing crops. In May 2007, development organization Oxfam International estimated that at least 50 billion dollars a year is needed for adaptation in developing countries. Banks can play a vital role in ensuring the necessary adaptations in the agriculture sector are financed, e.g. by providing micro credits to women in developing countries and by financing more sustainable agricultural techniques in industrialised countries.*

- *Report FAO: ftp.fao.org/docrep/fao/010/a0701e/a0701e.pdf*

- *Report Oxfam: www.oxfam.org.uk/resources/policy/climate_change/bp104_climate_change.html*

5 - Investment management

Most banks also manage investments in the shares and bonds of companies. They do this with their own resources and on behalf of the investment funds they manage for their customers. As shareholders, banks can stimulate companies to make their products and production processes climate-friendly. This can be done in different ways.

PHOTO: INSADCO/HELMA SPONA

- *Banks can give preference to investments in companies with the lowest CO_2-emissions within each sector. In October 2008 the stock exchange company NYSE Euronext launched the Low Carbon 100 Europe index, developed with scientists and a number of civil society organizations. The companies in the index have on average 42% lower GHG emissions than what is normal in their sector: www.trucost.com/pressreleases/Euronext.html*
- *Banks can participate in the Carbon Disclosure Project, a coalition of institutional investors, which demands that the largest companies in the world publish their annual GHG emissions and their climate policy: www.cdproject.net*
- *Banks can insist on tighter climate policies in discussions with companies and by supporting shareholder motions with this intent at annual shareholder meetings. In 2008, climate motions were submitted during annual shareholder meetings of 54 American companies. In 14 cases this led to a direct policy change, according to Ceres: www.ceres.org/Page.aspx?pid=854&srcid=227*
- *Based on an analysis of their voting policies, Milieudefensie (Friends of the Earth Netherlands) concluded that Dutch banks more and more are supporting climate motions, but that their voting policies are unclear and that they report too little on their considerations.*
- *There are banks that claim they cannot influence companies as described above using the shares they manage in investment funds on behalf of their customers, because they do not own the shares. A legal report of the UNEP Finance Initiative published in October 2005 invalidates this argument, as the fiduciary responsibility of asset managers does demand them to take into account non-financial factors which might have a large impact on the future of the company: www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf*
- *Moreover, when launching a new investment fund, banks are free to determine the policies of this fund.*

PHOTO: RALPH KERPA

6 - The private market

Private individuals seek ways to reduce their contribution to climate change. Banks can help them by supplying insight in the climate impacts of their financial products and by offering climate friendly products.

- *Since June 2008, the French bank Caisse d'Epargne applies a sustainable development label to all financial products on its internet site and in its folders. The label explains to customers if the product is risky, if the money has been invested in a socially responsible way and how much CO_2-emissions are financed by each euro invested. The label was developed by the bank in collaboration with the consultancy Utopies and critically reviewed by several environmental organisations. The method can be used freely by other banks.*
- *Website Caisse d'Epargne: www.caisse-epargne.com*
- *Labeling methodology www.utopies.com/docs/Methodo-general-juin2008light.pdf*
- *Rabobank offers consumers a climate mortgage with a lower interest on investments in energy saving and renewable energy in existing and new houses. Rabobank also supplies their customers with information on how to limit their GHG emissions: www.rabobank.nl/particulieren/producten/hypotheken/overzicht_hypotheken/rabo_klimaathypotheek*
- *Many banks offer their customers investment funds for producers of sustainable energy and other companies looking for solutions for the climate change problem. The Dutch government stimulates such investments with tax incentives in the so-called Green Investment Regulation, which is used by the Greenfunds and Green-banks several banks offer. An overview of all products on the Dutch market can be found in De Duurzaam Geld Gids 2008 (Sustainable Money Guide 2008): www.duurzaam-ondernemen.nl/detail_page.phtml?act_id=6828*
- *The number of saving products which contribute to the prevention of climate change is more limited. The Dutch ethical banks ASN Bank and Triodos Bank require all companies in which they invest funds from saving accounts in to meet strict climate change criteria www.asnbank.nl/index.asp?NID=9436 www.triodos.nl*
- *According to a recent inventory of Ceres, 22 of the 40 largest banks in the world now offer credit cards for which a part of the management fee is invested in climate change solutions: www.ceres.org/Document.Doc?id=269*

7 - Internal climate policy

Compared to many of their business clients, banks themselves are modest energy consumers. Still, their direct climate impact can be reduced. Existing office buildings can be made more sustainable by heat insulation, electricity-saving bulbs, economical heating systems and other measures. Considerable energy savings can be achieved in new office buildings by applying sustainable construction techniques. Indirect CO_2-emissions caused by deforestation can by prevented by choosing FSC-timber. For their remaining office energy consumption, banks can switch to sustainable energy either e.g. produced by solar cells on the roof of their office or obtained elsewhere.

PHOTO: GEOLUTION.NL

- *The new head office of Bank of America, which will be opened at the end of 2008 in Manahattan, will meet the highest sustainability requirements: newsroom.bankofamerica.com/index.php?s=press_releases&item=7957*

- *ABN Amro Bank, Rabobank and ING have signed an agreement with FSC Netherlands to use FSC-timber as much as possible in their office buildings: www.fscnl.org*

- *24 of the 40 largest banks in the world have CO_2-reduction goals for their own internal organisation. 10 of them aim to become climate neutral: www.ceres.org/Document.Doc?id=269*

- *In addition banks can invest in collective commuting, homeworkers and teleworking. GHG emisisons caused by business trips can by reduced by investing in video-conferencing and energy efficient company cars.*

- *Compensating CO_2-emissions should be considered a last resort. Many so-called CO_2 compensation projects do not lead to concrete greenhouse gas reductions, and have other negative sustainability consequences. The Gold Standard for CO_2 compensating investments identifies projects which dó contribute to sustainable*

8 - Consultation with other financial institutions

To learn from the experiences of others and to work on common objectives, it is useful for banks and other financial institutions to link up to existing networks of financial institutions in this area.

- *UNEP FI's Climate Change Working Group: www.unepfi.org/work_streams/climate_change/working_group/index.html*
- *Investor Network on Climate Risk: www.incr.com*
- *Institutional Investors Group on Climate Change: www.iigcc.org*
- *Global Business Leadership Platform on Climate Change: www.unglobalcompact.org/Issues/Environment/Climate_Change/index.html*
- *Global Roundtable on Climate Change: www.earthinstitute.columbia.edu/grocc/index.html*

These kind of platforms can lead to initiatives which stimulate governments to adopt far-reaching climate policies. Such policies would create the long term policy security that can help banks and other financial institutions to pursue ambitious climate policies.

- *In June 2007 a large group of financial institutions linked to the UNEP Finance Initiative pleaded for reduction objectives for GHG emissions in industrialised countries of 20 to 30% in 2020, and 60 to 80% in 2050: www.unep.org/Documents.Multilingual/Default.asp?DocumentID=512&ArticleID=5603&l=en*

- *In May 2008 the Dutch Ministry for the Environment (VROM) published the results of an intensive dialogue with the Dutch banking sector on the possibilities for banks to adopt more pro-active climate policies with support from the government: www.vrom.nl/get.asp?file=docs/kamerstukken/Thu26Jun20081242150200/IZ2008056423.pdf*

- *In July 2008 a large group of international companies – including banks such as Citibank, Credit Suisse, Deutsche Bank, HSBC and Standard Chartered – advised leaders of the G8-countries to adopt more progressive climate policies. The companies referred to the IPCC-conclusion that the annual global emission of greenhouse gases must be reduced by 50 to 85% in 2050, in comparison with the year 2000: www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MzA0MjU*

- *In October 2008, 14 large American institutional investors asked the American stock exchange supervisor, the Securities and Exchange Commission (SEC), for stronger reporting requirements on climate risks for listed companies: www.incr.com/Page.aspx?pid=952*

9 - Report on climate policy

Clients and other interested parties are entitled to information about a bank's climate policy and the results of this policy. The general guidelines of the Global Reporting Initiative and on its Financial Sector supplement, published in October 2008 offer banks a tool to base their report on:
www.globalreporting.org/ReportingFramework/SectorSupplements/FinancialServices/

PHOTO: SXC

Conclusion

All the policy elements described in this toolkit deserve a place in the climate policy of every bank. The different examples show that they are feasible, as there are a lot of banks and financial institutions that have already adopted one or more of these elements in their climate policies.

Milieudefensie (Friends of the Earth Netherlands) calls on all Dutch banks to follow these examples and to develop climate policies that truly answer the urgent need to prevent further climate change.

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