Analysis of Standard Bank Group's March 2022 Climate Policy

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JUST SHARE

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1. Introduction

In May 2021, instead of tabling a non-binding advisory resolution co-filed by Just Share, Aeon Investment Management, Abax Investments and Visio Fund Management, Standard Bank Group (SBG) agreed to do what that resolution requested: i.e., to publish, in the first half of 2022, a climate strategy and short-, medium-, and long-term targets to reduce its exposure to fossil fuels on a timeline aligned with the goals of the Paris Agreement.

On 16 March 2022, SBG released a new Climate Policy. Just Share's view is that the 2022 Climate Policy does not meet that 2021 commitment. While SBG commits to net zero carbon emissions from its portfolio of financed emissions by 2050, the policy does not contain a strategy or short- and medium-term targets to reduce SBG's fossil fuel exposure in line with the goals of the Paris Agreement, including the goal of limiting the global temperature increase to well-below 2 degrees Celsius (°C), and preferably to 1.5°C, above pre-industrial levels.

The Intergovernmental Panel on Climate Change (IPCC) has made clear that achieving this goal is only possible with immediate, rapid, and large-scale reductions in greenhouse gas (GHG) emissions.[1]

In contrast, the 2022 Climate Policy allows SBG to increase its financing of fossil fuels until at least 2040.

The policy also addresses commitments relating to SBG's direct carbon footprint, sustainable finance, renewable energy, and agriculture. This analysis focuses on SBG's policy as it relates to "non-renewable energy" – i.e., fossil fuels. Increasing sustainable finance is important, but it must be matched with urgent and dramatic reductions in financing to fossil fuels.

Although, on the face of it, the release of a climate policy appears to be positive progress, policies which in fact serve to justify a continuation of the status quo run the risk of undermining real and consequential progress on climate change. Of particular concern in the Climate Policy are the following, each of which is addressed in this analysis:

- SBG's selective use of a single climate scenario as "evidence" to support its view that gas is a crucial "transition fuel" for Africa. Climate scenarios are hypothetical constructs; they are not evidence of how the future is going to unfold, and the scenario chosen by SGB is one which has been criticised for failing to provide a realistic and low risk 1.5°C pathway.

- SBG's failure to acknowledge the wealth of evidence that shows, in contradiction to the bank's "view" of gas as an important transition fuel, that gas is not clean nor climate or environmentally "friendly"; that it does not bring economic prosperity; and that the power sector does not require significant quantities of gas for energy security.

[1] https://www.ipcc.ch/2021/08/09/ar6-wg1-20210809-pr/

- SBG's reliance on the misleading narrative that the just transition to a low-carbon economy requires trade-offs with, or "balancing" against, poverty alleviation, energy security, jobs, or economic growth - which is not supported by the evidence, and its failure to account for the very concrete and devastating consequences of climate change that the world is already experiencing, and which will be especially severe for Africa unless urgent action is taken to reduce GHGs.

2. Targets not aligned with the Paris Agreement

The Climate Policy defines "short-term" as zero to five years; "medium-term" as five to ten years; and "long-term" as more than ten years.

The United Nations Environment Programme Finance Initiative's 2021 *Recommendations for Credible Net-Zero Commitments* state that "net-zero commitments which are not explicitly tied to, or do not follow specifically 1.5°C IPCC carbon budget (as derived from the consensus of IPCC 1.5°C scenarios) should not qualify as credible."

SBG's net zero commitment does not follow the IPCC's 1.5⁰C carbon budget. The bank cannot therefore claim that its policy is "Paris-aligned".

Most notably absent from the policy are any targets for absolute emission reductions in the bank's financed emissions.

Financed emissions are the emissions that banks and investors finance through their loans and investments – in other words, the GHG emissions associated with the projects and entities to which they lend. Absolute emission reduction targets are targets which reduce the physical amount of GHGs emitted into the atmosphere over time. By contrast, emissions intensity targets measure emissions relative to something else.

SBG relies, for its coal, oil and gas financing, on an emissions intensity measurement, i.e., one that expresses GHG impact per unit of physical activity or unit of economic output, so that reducing emissions intensity means reducing the ratio of emissions relative to a business metric over time. Reducing emissions intensity does not guarantee that the physical amount of GHGs emitted into the atmosphere will be reduced: absolute emissions may rise if intensity goes down and output increases.

Reducing absolute emissions is essential for limiting the physical amount of climate-changing GHGs that enter the atmosphere.

In addition, the Climate Policy sets out circumstances in which SBG will reduce its financing of fossil fuels as a percentage of overall loans and advances (using 2020 as a baseline). Simply put, the bank commits to decreasing its percentage of overall lending to what it calls "non-renewable energy". However, SBG can achieve this target even while increasing its lending to fossil fuel projects, until at least 2040,[2] because increases in financing to renewable energy projects will mean that the

[2] The policy states that "[b]etween 2040-45, [the bank] aims for an accelerated phase out from non-renewable energy".

growing percentage of fossil fuel finance becomes a smaller part of SBG's overall energy lending portfolio.

3. Shareholder resolution on financed emissions (2022)

In March 2022, and in response to the absence of absolute emission reduction targets for financed emissions in SBG's Climate Policy, Just Share and Aeon Investment Management shared a draft resolution with SBG, asking that it update the 2022 Climate Policy, by March 2023, to set short-term and medium-term absolute contraction targets for the bank's GHG emissions from its exposure to oil and gas.

Following further engagement, which included the bank's views regarding feasible timeframes for obtaining financed GHG emissions data from its clients, the co-filers and the bank agreed on the wording for a resolution, which was formally filed on 29 March.

The non-binding, advisory resolution requests that SBG, over a three-year timeframe, provides shareholders with increasingly detailed information about its financed emissions from oil and gas.

The resolution also requests that Standard Bank, by 31 March 2025, updates its March 2022 Climate Policy to include short-, medium-, and long-term targets for reducing these financed emissions, aligned with the Paris Agreement goal of limiting the global temperature increase to 1.5 degrees Celsius above pre-industrial levels. Crucially, for that policy to be credibly Paris-aligned, it cannot allow for increased financing to oil and gas.

4. Fossil fuel financing exclusions

SBG has set out some circumstances in which it will no longer provide funding to certain types of fossil fuel projects.[3] For example, it has excluded funding for the construction of new coal-fired power plants, and for expanding coal-fired power generation capacity.

SBG confirms its commitment not to fund "mountain top removal" or activities in the Arctic Circle or the Amazon Basin. However, SBG also concedes that its "geographies of activities limit any potential involvement outside of the Africa continent".

The policy also states that SBG will only finance new coal mines "when there is an overall positive environmental impact". Although the bank provides an example of its interpretation of "overall positive environmental impact",[4] this is a proviso which any new coal mine developer could exploit and opens up a potentially significant loophole in the policy as it relates to coal mining.

[3] The Bank will not fund: companies with unrestricted flaring; "the extraction of tar sands or construction of associated export facilities, exploration and production of tight oil resources, and pipelines transporting a significant volume of tight oil and export terminals supplied by a significant volume of tight oil"; new coal-fired power plants or "the expansion in generating capacity of existing coal-fired plants"; and mountain-top removal.

[4] "If the mine is located next to an existing coal-fired power station and therefore reduces emissions generated by fuel transportation; or provides higher-quality coal producing lower emissions with a higher calorific content or lower ash than existing mines".

Climate science makes clear that the world needs to drastically cut all GHG emissions: decreasing emissions exposure from one fossil fuel source (coal, for example) is of limited impact if SBG plans to increase its exposure to another (such as gas).

SBG commits to an “accelerated phase out from non-renewable energy” only between 2040-2045, and even then, the rate of transition will “be informed” by developments in technology such as carbon capture, usage, and storage. Currently these are still highly experimental and/or prohibitively expensive and should only be relied upon as an absolute last resort for dealing with so-called “un-abatable” carbon emissions.

5. Reliance on Network for Greening the Financial System scenario

SBG uses the Net Zero 2050 (1.5°C) scenario of the Network for Greening the Financial System (NGFS) (“NGFS 2050 scenario”) “to assess the likely impact of climate-related and environmental risks at a sector level”.

Climate scenarios are hypothetical constructs; they are not evidence of how the future is going to unfold. It is therefore misleading for SBG to treat the NGFS 2050 scenario as *evidence* for the robustness of its strategies and commitments.

The Climate Policy states, for example, that “evidentiary support is provided by the NGFS Net Zero 2050 scenario, which shows gas demand continuing to grow until 2050”, and then uses that *potential outcome* as a key justification for the need for significant amounts of gas as a transition fuel in Africa.

Scenarios describe how a hypothetical path of development might lead to a particular outcome; they are plausible representations of the future, and do not provide proof of any particular pathway or outcome. Scenario analysis is meant to be used to develop strategic plans that are more flexible or robust to a range of plausible future states, exploring how different combinations of the same key factors can lead to very different outcomes.

Using a single scenario, as SBG has done, is not an effective or robust approach. SBG also does not explain why it selected the NGFS scenario and not others - such as, for example, the International Energy Agency (IEA)’s Net Zero Emissions by 2050 scenario. The NGFS scenarios have been criticised for failing to provide realistic and low risk 1.5°C pathways, and notably for failing to acknowledge the need for a sharp reduction of fossil fuel production, with an immediate end to investment in fossil fuel projects.[5] Although the IEA Net Zero Scenario is not without flaws,[6] it is used widely among energy experts, governments, and intergovernmental institutions. The scenario confirms that, in order to achieve the 1.5°C goal, “there is no need for investment in new fossil fuel supply”.

In the absence of any credible explanation to the contrary, it appears that SBG selected the scenario that could most usefully support its predetermined intention to finance oil and gas for the foreseeable future.

[5] See, for example: https://reclaimfinance.org/site/en/2021/08/04/ngfs-climate-scenarios-are-pushing-financial-players-into-risky-gambles/

[6] See, for example: https://reclaimfinance.org/site/en/2021/05/18/iea-stops-investments-in-fossil-fuel-supply-but-still-bets-on-false-solutions/

6. Gas as a transition fuel

Limiting human-induced global warming to 1.5°C will require rapid, extremely ambitious emission cuts – including strong, rapid and sustained cuts to methane emissions from the extraction, production and burning of fossil gas.[7]

Climate science demonstrates that oil and gas production needs to fall by 3% each year until 2050 to meet the goals of the Paris Agreement.[8]

Contrary to climate science, SBG's policy states that the group views gas "as a transition fuel in Africa". SBG states that it "will continue to finance gas responsibly over the medium to long term as a transition fuel", and will "seek to reduce emissions intensity while managing its gas exposure".

There is a wealth of evidence that demonstrates:

- that **gas is not clean nor climate or environmentally "friendly"**;
- that it **does not bring economic prosperity**; and
- the **power sector does not require significant quantities of gas for energy security**.[9]

SBG does not explain whether, and if so how, it has assessed and incorporated this evidence into its fossil fuel financing strategy. As described above, reliance on an emissions intensity measure is an inadequate approach to target-setting, because it is possible for emissions intensity to decrease, while absolute emissions increase.

7. Misleading development narrative

The Paris Agreement recognises "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities". Rapid and extensive scaling up of renewable energy generation is the most cost-optimal energy pathway for Africa, and presents significant economic benefits and job-creation opportunities. Expanding fossil fuel production runs counter to the urgent need to transition to a low-carbon, climate-resilient economy that will create new and better jobs, grow the economy, help protect the environment, and improve human health.[10]

[7] https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/
[8] https://www.nature.com/articles/s41586-021-03821-8
[9] See, for example: https://justshare.org.za/media/news/just-shares-comments-on-the-dmres-gas-masterplan-basecase-report and the references therein; https://www.e3g.org/publications/the-failure-of-gas-for-development-mozambique-case-study/; https://www.iisd.org/publications/natural-gas-finance-clean-alternatives-global-south; https://www.iisd.org/publications/report/south-africa-no-need-for-gas; https://researchspace.csir.co.za/dspace/handle/10204/11483; https://meridianeconomics.co.za/wp-content/uploads/2020/07/Ambition.pdf
[10] See, for example:

- http://priceofoil.org/content/uploads/2021/10/Skys-Limit-Africa-Report-2021.pdf
- https://www.foei.org/wp-content/uploads/2021/08/Friends-of-the-Earth-Just-Recovery-Renewable-Energy-Plan-for-Africa-2021.pdf
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- https://www.irena.org/publications/2021/March/The-Renewable-Energy-Transition-in-Africa
- https://meridianeconomics.co.za/our-publications/

The climate commitments made in SBG's Climate Policy are repeatedly followed by caveats such as "giving due consideration to the energy security of the markets in which the group operates" or that the bank "acknowledges the pressing need to balance all these realities as part of ensuring a just transition away from GHG-emitting energy sources."

SBG's view that sustainable development and the just transition require trade-offs with, or "balancing" against, poverty alleviation, energy security, jobs, or economic growth, is not supported by the evidence. Furthermore, the policy fails to account for the very concrete and devastating consequences of climate change that the world is already experiencing, and which will be especially severe for Africa unless urgent action is taken to reduce GHGs.

8. Conclusion

Keeping the global average temperature rise to 1.5°C is essential to limit the worst impacts of global heating. Every fraction of a degree of warming will result in more dangerous and costly consequences.[11] Overshooting 1.5ºC will mean that "human and natural systems will face additional severe risks", including some that are "irreversible".[12] Exceeding a 1.5°C scenario jeopardizes the global economy: under current emission trajectories, it is estimated that 10% of total global economic value could be lost by 2050.[13]

Net carbon dioxide emissions must **fall by 48% by 2030** to avoid the worst impacts of climate change.[14] In other words, the world needs to **rapidly decarbonise in less than 8 years** if there is any hope of meeting the Paris goals and avoiding the worst impacts of the climate crisis. This is not controversial. Therefore, a climate policy that allows for lending to fossil fuel assets to increase until at least 2040, and that leaves room for financing highly controversial projects such as the East African Crude Oil Pipeline, is not aligned with climate science.

Furthermore, annual climate finance flows have to "increase by between three and six times to meet average annual needs until 2030".[15] As the largest African bank by assets,[16] and Africa's biggest lender to the oil and gas industry, SBG's lending, investing and other financial intermediary activities in Africa will influence whether or not the global temperature increase is kept to 1.5ºC, and whether or not a just transition is achieved.

By failing to set credible, Paris and 1.5ºC-aligned targets to reduce its exposure to fossil fuels, and instead adopting a climate policy which allows it to increase financing to oil and gas, SBG is exposing itself to significant financial, reputational and litigation risks.

- https://www.tips.org.za/research-archive/sustainable-growth/green-economy-3/itemlist/tag/Renewable%20energy
- https://www.sacreee.org/sites/default/files/documents/files/GDP_SADC_Report_EN_Nov_16.pdf
- https://cer.org.za/wp-content/uploads/2021/09/Annexure-A_ESRG_New-coal-plants-South-Africa.pdf
- https://www.sciencedirect.com/science/article/abs/pii/S0038092X19309144

[11] https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/
[12] https://www.ipcc.ch/working-group/wg2/
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[15] https://www.carbonbrief.org/in-depth-qa-the-ipccs-sixth-assessment-on-how-to-tackle-climate-change
[16] Standard Bank Group Environmental Social and Governance Report 2021, available at https://justshare.org.za/wp-content/uploads/2022/04/ESG-Report-2021.pdf, at page 5.