# THE WORST FOSSIL FUEL BONDS IN 2023

## And the banks and investors behind these shady deals

RECLAIM Finance

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# INTRODUCTION

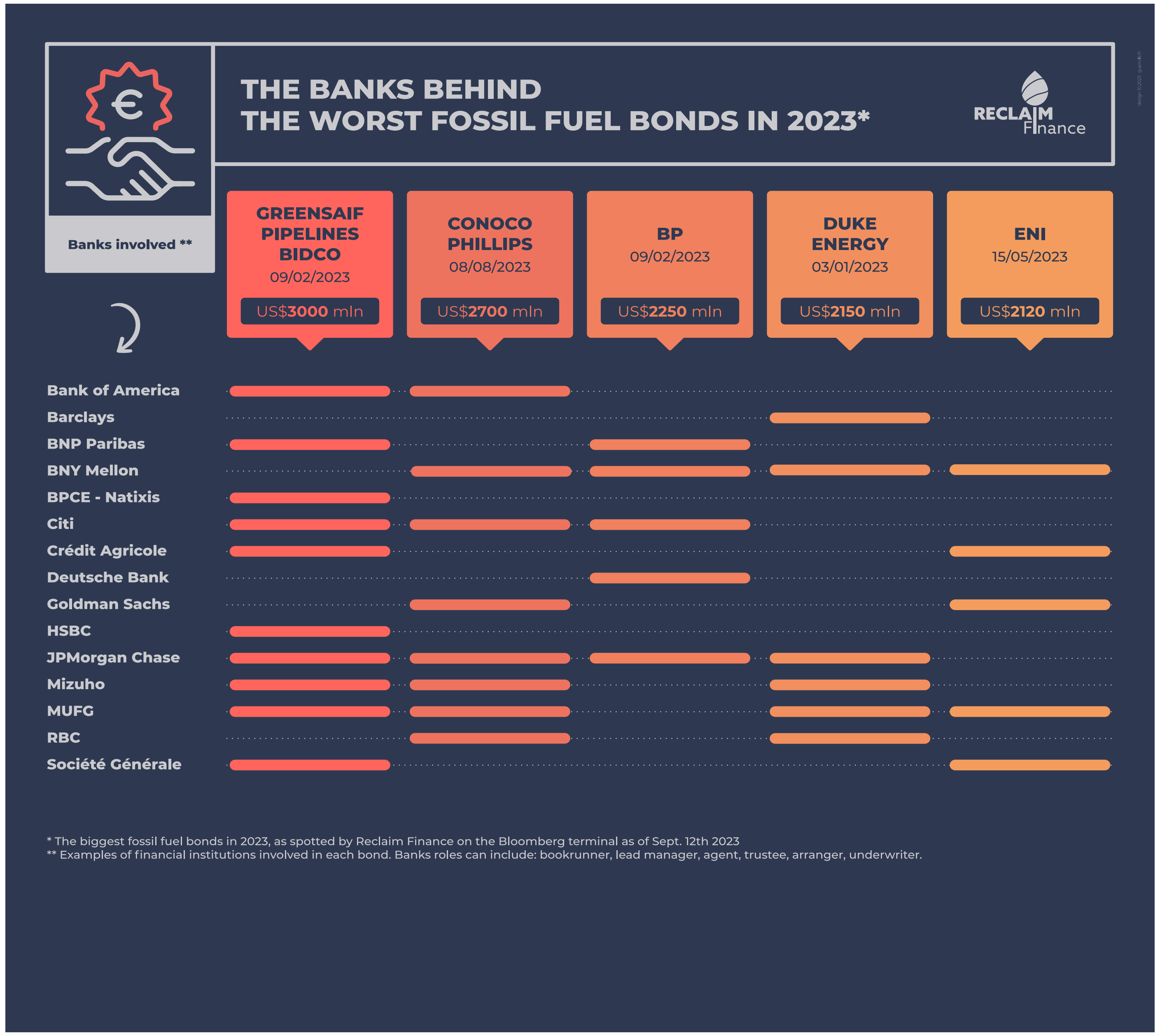
As a cornerstone of global finance, the bond market has a profound impact on the direction of industries and economies. Mobilizing it to fight climate change is essential; first and foremost so bonds are no longer used as piggy banks for the world's most polluting companies. In 2023, Reclaim Finance tracked down the new bonds being issued by some of the biggest fossil fuel developers to raise capital, discovering which financial institutions were involved and, therefore, contributing to the worsening climate crisis. This briefing exposes some of these toxic deals and explores why banks and investors are still structuring and buying such bonds, using a comparison of bond financing policies.

# 1. THE FINANCIAL INSTITUTIONS BEHIND THE LATEST FOSSIL FUEL BONDS

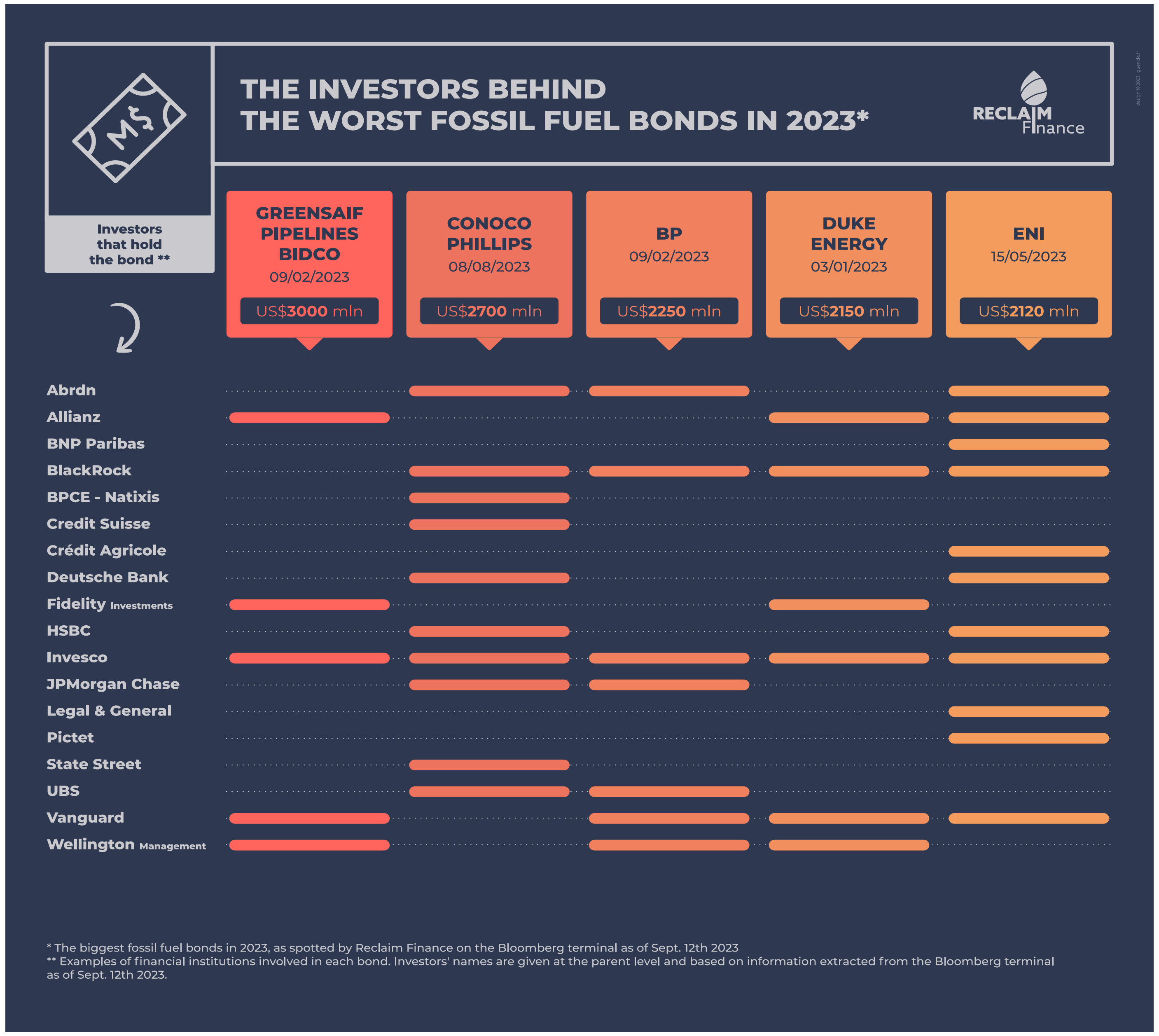
Companies involved in fossil fuel expansion raised more than €1 trillion from the global bond markets since the Paris climate agreement,[1] despite climate experts stressing the urgency to immediately stop developing new fossil fuel projects. **In 2023,[2] Reclaim Finance used the Bloomberg terminal to track down on some of the worst bond transactions of the year.[3] In total, we analyzed 40 bond packages[4] issued by 13 fossil fuel companies[5] that helped raise a total of US$45 billion[6] on the bond market alone and over the course of 2023.**

After identifying the 40 toxic fossil fuel bonds, we also tracked down the financiers behind these deals. **More than a hundred banks[7] were involved in the structuring of at least one of the fossil fuel bonds issued in 2023 and several dozens of investors currently[8] hold at least one of these bonds. Featured below are the five biggest deals we identified and some of the financial institutions involved in them.**

The information provided is based on information extracted from the Bloomberg Terminal as of September 2023.






These cases show that many investors with net zero commitments are granting new money to fossil fuel developers. But worse still, this money sometimes comes from funds that are presented as sustainable by these investors. For example, a Bloomberg investigation[9] revealed that some of these new fossil fuel bonds – issued by Greensaif Pipelines, an entity linked to Saudi Aramco[10] – ended up in ESG funds from asset managers like UBS Asset Management, Legal & General Investment Management and HSBC Asset Management. As another example, part of the Eni bond shown above was sold to investors as a «sustainability-linked bond», despite Eni being one of the biggest fossil fuel developers in Europe. As EU regulators are studying how they can extend their power to tackle greenwashing concerns, investors will have to step up their efforts to offer truly green products.

**Facilitating or investing in fossil fuel bonds without any conditions is incompatible with the net zero commitments of any financial institution.** Therefore, the participation of the banks and investors in the transactions listed above reveals the absence of policies to achieve their net zero commitments, or the flaws in their existing policies. It also reduces the credibility of their engagement claims with the fossil fuel sector; for their engagement strategies to be effective, **banks and investors should refrain from providing fresh and unconditional money to companies that are still developing new fossil fuel projects.**

# 2. WHY DO BONDS MATTER?

## What are bonds?

Bonds are essentially loans or debt securities[11] issued on the capital markets by organizations, including energy companies, to raise capital. **Banks often play a significant role in underwriting and facilitating bond issuances,** connecting issuers with investors and structuring the transaction process. They are also key in giving investors confidence that a given bond is a safe deal, with a bank's signature on a bond having value for investors.Therefore, bonds are a way for banks to support companies without granting loans and without taking significant risks.[12] **Investors, such as asset managers, purchase these bonds – effectively lending money to the issuer.** In return, the issuer promises to repay the borrowed amount with interest at a specified future date. Unlike shares, the purchase of bonds by investors does not make them partial owners of the company that issued the bonds. Investors simply lend money to the company and then receive regular interest payments, and can sell the bond at any time.

## Bonds are key in fossil fuel companies' funding strategies

The overall importance of bonds in the funding strategies of fossil fuel companies is growing, with bonds representing more than 52% of the funding sources for energy companies[13] in 2020, compared to only 26% in 2010. The other main funding source is lending, representing around 45% in 2020, compared to 58% in 2010.

While the importance of bonds in funding strategies varies for each fossil fuel company, **many of the biggest fossil fuel developers worldwide find the bond market attractive, for a mix of reasons.[14]** For instance, in the coal sector, the Adani Group, one of the world's biggest coal plant and coal mine developers,[15] has been a big user of the bond market in the past years16. In 2019, it stated that "global capital market is among the largest sources of funding for the group which has been part of a focused effort to reduce reliance on the banking sector".[17] The financing needs of companies in the oil and gas sector vary, but some years can see large bond repayments for certain companies, which may then want to multiply new bond issuances to meet them. In 2024, TotalEnergies and BP will have four and five bonds arriving at maturity respectively, which means they will have to pay the borrowed amount back to their investors and may want to issue new bonds on the financial markets.

## Banks and investors, a co-responsability

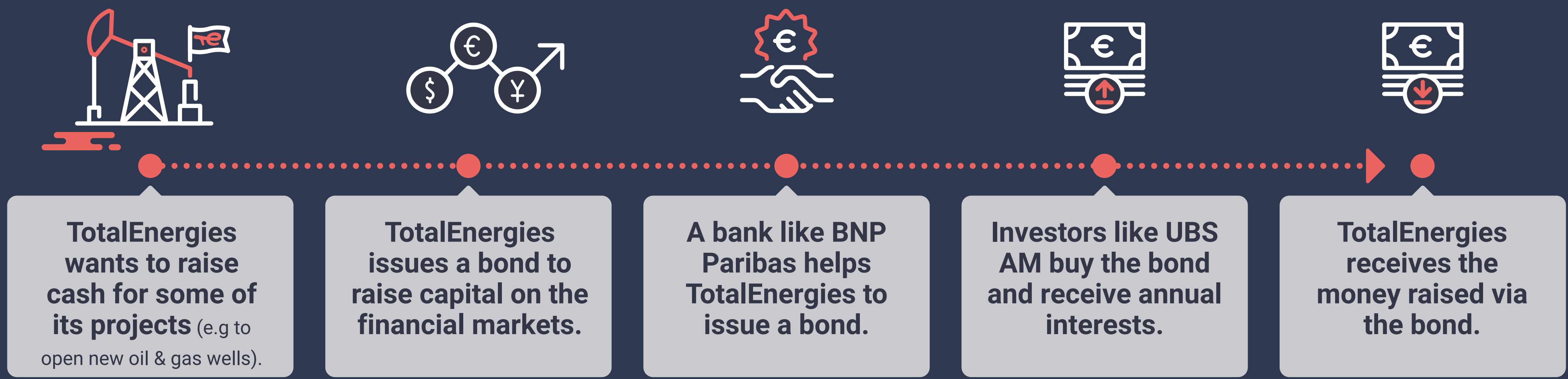
**By either structuring fossil fuel bonds or investing in them, financial institutions play a substantial role in the financing of new projects and activities within the coal, oil and gas sectors.** Indeed, bonds are often used by companies for their general corporate needs, providing them with more flexibility than specific project financing[18] to support their overall business strategy. As such and according to their capital allocation choices, the capital raised via these bonds can be used by fossil fuel companies to expand their activities.[19]

- **Between 2016 and 2022, nearly 44% of financial support[20] from banks to fossil fuel companies took place through bonds structuring.[21]**
- **As of January 2023, investors held bonds in coal, oil and gas companies worth a total of US$393 billion.[22]**

Bond structuring should not be overlooked when it comes to banks' responsibility in climate change. While bond structuring does not appear on the balance sheets of banks, their role in the bond issuance process is key, making banks directly responsible for the consequences of the issuance, i.e. what the company can afford thanks to the bond.

Investors also play a significant role in the fossil fuel bond market. By buying new bonds issued without any conditions, they provide fresh money to the companies that are behind most of the world's greenhouse gas emissions.

## HOW ARE BONDS LINKED TO FOSSIL FUEL EXPANSION?



# 3. POLICIES MUST COVER CORPORATE FINANCING

**Banks and investors must have robust sector policies that restrict their support for fossil fuel companies, especially for bonds issued by fossil fuel developers.**

In the banking sector, oil and gas bonds are a huge blind spot of climate policies. **While a dozen big banks have today stopped facilitating issuances of bonds for all or many coal developers,[23] only two have stopped for oil and gas developers** (La Banque Postale and Danske Bank). This reveals a general lack of robust policies restricting corporate financial services for the oil and gas sector. Several major banks have committed to restrict project-level financing in the sector, including stopping the structuring of bonds dedicated to some fossil fuel projects. **But the vast majority of these banks' policies ignore financial services for general purposes, including the structuring of bonds for general corporate purposes.** This is despite project-specific finance accounting for only about 4% of total fossil fuel companies' debt on average.[24] This loophole is even more significant for bank sectoral decarbonization targets, as most banks have set decarbonization targets based only on their lending.[25]

**Investors are also far from restricting their bond investments in fossil fuels, with only a handful[26] having stopped new investments in the bonds of oil and gas developers (more details below).**

## Reclaim Finance's bond policy analysis

| Thermal coal: who has committed to stop structuring or investing in new bonds from coal developers? Examples of best practices and laggards | | |
|---|---|---|
| Banks | ✓ | Crédit Mutuel, Desjardins, La Banque Postale, Nordea, UniCredit |
| | ✗ | JPMorgan Chase, Bank of America, MUFJ, HSBC, CitiGroup |
| Asset managers | ✓ | Axa IM, Crédit Mutuel AM, Ostrum, ODDO, AG2R La Mondiale |
| | ✗ | BlackRock, Vanguard, Abrdn, State Street GA, JP Morgan AM |

| Oil & gas: who has committed to stop structuring or investing in new bonds from oil and gas developers? Examples of best practices and laggards | | |
|---|---|---|
| Banks | ✓ | La Banque Postale Danske Bank (upstream developers only) |
| | ✗ | JPMorgan Chase, Bank of America, CitiGroup, Crédit Agricole, BNP Paribas |
| Asset managers | ✓ | Ofi Invest, Anaxis,[29] Ecofi,[30] Tikehau |
| | ✗ | BlackRock, Vanguard, Amundi, AXA IM, DWS, UBS AM, State Street GA, JP Morgan AM |



## BNP Paribas and its toxic fossil fuel deals in 2023

**BNP Paribas, the biggest French bank, was the world's fourth largest financier of fossil fuel expansion** between 2016 and 2022.[31] While the bank made several announcements regarding its financing of the oil and gas sector in 2023, **it still allows itself to finance the biggest oil and gas developers worldwide.**

While BNP Paribas has stopped providing project financing for new oil and gas fields, it does not have any specific criteria excluding finance for oil and gas expansion at the corporate level. In contrast, its coal policy does exclude companies with coal expansion plans. BNP Paribas has ruled out some loans for new oil fields, as well as excluding companies specialized in the upstream oil sector, but none of these measures would impact its major clients, who are integrated oil and gas companies.

BNP Paribas' fossil fuel decarbonization targets could lead to the exclusion of most of the bank's clients over time. However, the European oil and gas majors, such as BP, Shell, ENI and TotalEnergies, would not necessarily be excluded, despite having significant oil and gas expansion plans. BNP Paribas was indeed one of the leading bankers for these companies between 2016 and 2022. During the same period, BNP Paribas was the fourth biggest banker for Saudi Aramco, which again would not necessarily be excluded. In the short term, BNP Paribas could continue to structure new bonds and provide other financial services to these companies and to many other oil and gas developers, yet meet its 2030 targets. This is partly because its targets only cover part of its financial services[32] and because they allow short maturity loans that will be repaid before 2030.

| Fossil fuels companies for which the bank has structured bonds in 2023 (examples) |
|---|
| Greensaif Pipelines Bidco Sarl (linked to Saudi Aramco[33]), BP, Eni, Sumitomo, Enel, Duke Energy. |

## References


1. See How banks helped the fossil fuel industry raise more than a trillion euros, an investigation led by Follow the Money and Investico, in collaboration with ten international media, including The Guardian and Le Monde, September 26th, 2023
2. From January 1st, 2023 to September 12th, 2023
3. Reclaim Finance used the Bloomberg platform to research bonds issued after January 1st (in USD, GBP, EUR, CAD or CHF) by a list of fossil fuel companies. These companies were selected because of their massive fossil fuel expansion plans according to the Global Coal Exit List and Global Oil and Gas Exit List databases, or because of their weak coal exit plans. Due to the lack of transparency of the bond market, the amount of transactions we were able to identify is likely to be an underestimate of the actual number.
4. We define a bond package as one or several bond securities issued by a unique company, in a unique currency and with a unique pricing date.
5. At the parent level these companies are: Duke Energy, Enel, Gazprom, CEZ, Eni, BP, Greensaif Pipelines (linked to Saudi Aramco), Sumitomo, Glencore, ConocoPhillips, Petrobras, KEPCO, Engie.
6. Amounts were converted by Reclaim Finance from the original currency to USD (as of September 27th, 2023)
7. Banks and other institutions such as law firms that can also appear as structurers/arrangers for the bond.
8. As of September 12, 2023. Data at the investor parent level.
9. See the full article here.
10. GreenSaif Pipelines was created to generate cash to repay bank loans that were used to finance the acquisition of two Aramco pipeline subsidiaries by investors such as BlackRock.
11. Debt securities are financial instruments that represent a form of borrowing.
12. With bonds, banks do not have to be exposed to the underlying assets and associated risks through their balance sheets. Bonds make the financial risks easily manageable for banks and they can also allow them to (artificially) reduce their carbon footprint because this activity does not appear on their balance sheet.
13. Fossil fuel fundraising across asset classes. Source: Cojoianu et al. (2022) and Cojoianu, T.F. et al., (2021). Regional Studies. The city never sleeps: but when will investment banks wake up to the climate crisis? These figures are also detailed in The Guardian's recent investigation on fossil fuel bonds.
14. Issuing bonds is attractive to fossil fuel companies because: they can offer less scrutiny than direct project financing like bank loans; large sums of money can be borrowed at cheaper rates compared to loans; and they don't involve handing over any control of the company to investors, unlike shares.
15. Adani is involved in 12 GW of new coal power plants in India and in 8 coal mining expansion plans, according to the Global Coal Exit List.
16. According to the Toxic Bonds coalition, Adani Group currently has 16 USD or EUR denominated bonds outstanding.
17. See article by The Wire, January 28th, 2023
18. Where the money raised is earmarked for a particular project or venture
19. Including for instance opening new oil and gas fields or developing new LNG projects. The Intergovernmental Panel on Climate Change (IPCC) indicates that putting an end to new fossil fuel projects is essential to avoid the worst effects of climate change.
20. Top 60 biggest banks worldwide, according to the Banking on Climate Chaos methodology.
21. Source: Rainforest Action Network et al. (2023). Banking on Climate Chaos.
22. Source: Urgewald (2023). Investing in Climate Chaos.
23. See the Reclaim Finance Coal Policy Tool. Banks with a score of or above 6 (out of 10) in the "developers" column have been counted, with the exception of OP's policy that covers only lending activities.
24. Source: Banking on Climate Chaos, 2023. Between 2016 and 2022.
25. The guidelines of the Net Zero Banking Alliance (NZBA) do not yet require its members to include underwriting-related capital markets activities in their targets; a loophole banks are taking advantage of. Out of 50 large NZBA members that had set decarbonization targets by April 2023, only eight included capital markets activities.
26. The asset managers that have committed to stop investing in new bonds from most oil and gas developers are Ofi Invest AM and Tikehau. Anaxis and Ecofi Investissements have stopped for unconventional oil and gas developers. On the asset owner side, examples of quite robust policies include Ircantec, MAIF and CNP Assurances, that also restrict investments in bonds from most oil & gas developers.
27. Only two banks among those analyzed by Reclaim Finance have committed to stop structuring new bonds for oil and gas developers.
28. Only four asset managers among those analyzed by Reclaim Finance have committed to stop investing in new bonds for oil and gas developers as of now. Other asset managers have committed to stop investing in new bonds for oil & gas developers at a future date (e.g. 2025 or 2027) and are not listed here. They can be found on the Oil and Gas Policy Tracker.
29. Only for unconventional developers
30. Only for unconventional developers
31. Source: Banking on Climate Chaos, 2023. Between 2016 and 2022.
32. Loans, not equity and bond issuances
33. Reclaim Finance (2023). Role of major French banks highlighted in Saudi Aramco bond issue.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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of financial players, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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