BNP Paribas policy excluding new oil and gas flags capital shift to decarbonisation

Nishtha Aggarwal, Financed Emissions Analyst, Climate Energy Finance

16 May 2023

Last week, BNP Paribas (BNPP) released its oil and gas financing policy committing the bank to excluding the financing of new oil and gas fields, and making it the second largest bank in the world, after HSBC, to make such a commitment.

The move places the bank within European best practice on oil and gas climate commitments and demonstrates the momentum of major financial institutions moving into step with global decarbonisation objectives.

The new policy disclosed additional detail on how it intends to achieve its positive scope 3 emissions reduction commitments for oil and gas – 80% reduction on upstream oil and 30% reduction on upstream gas by 2030.[1] This builds on BNPP's target from January 2023 that by 2030, low-carbon energies would account for 4/5 (80%) of the Group's financing for energy production.

To achieve its oil target, BNPP commits to "the end of financing purely dedicated to the development of new oil fields regardless of the financing methods" and "the phasing out of financing for non-diversified oil upstream players..and [financing] intended to support oil production." The policy also commits to "the reduction of general purpose lending allocated to oil upstream."

We note that BNPP's intention to "rapidly withdraw from [oil] exploration and production" is not fully aligned with its 2030 timeframe, i.e. it allows for a six year window in which short maturity loans might still facilitate oil and gas production beyond the International Energy Agency's (IEA) 1.5 degree roadmap, but be repaid and off the books by 2030.

---

[1] Baseline date September 2022

To achieve its gas target, BNPP announced its exclusion of "all financing dedicated to the development of new [gas] capacities," which implies a restriction on direct financing of greenfield gas projects. While midstream, in the name of energy security BNPP's policy allows for "the financing of new-generation thermal power plants with low emission rates as well as, if necessary, of the infrastructure needed for security of supply (gas terminals, gas transportation fleet, etc)."

The new measures certainly go a long way to restricting finance where use of proceeds is intended for new oil and gas production. But there remain gaps which allow for financing of major diversified oil and gas projects – such as those by BNPP's biggest customers BP, Shell and ENi and TotalEnergies, all of whom have made ambitious Net Zero targets, but whose actions are still not aligned with the trajectory needed –, general purpose (corporate) lending into gas companies with expansion plans, short-maturity corporate loans as detailed above, and the underwriting and/or structuring of corporate bonds.

Nonetheless, the new policy represents mounting evidence that, in line with the climate science and the IEA's modeling of the global energy transition, financing appetite for new oil and gas is rapidly drying up, as Share Action has argued – a statement with which BNPP's Head of Company Engagement, Antoine Sire, wholeheartedly agrees.

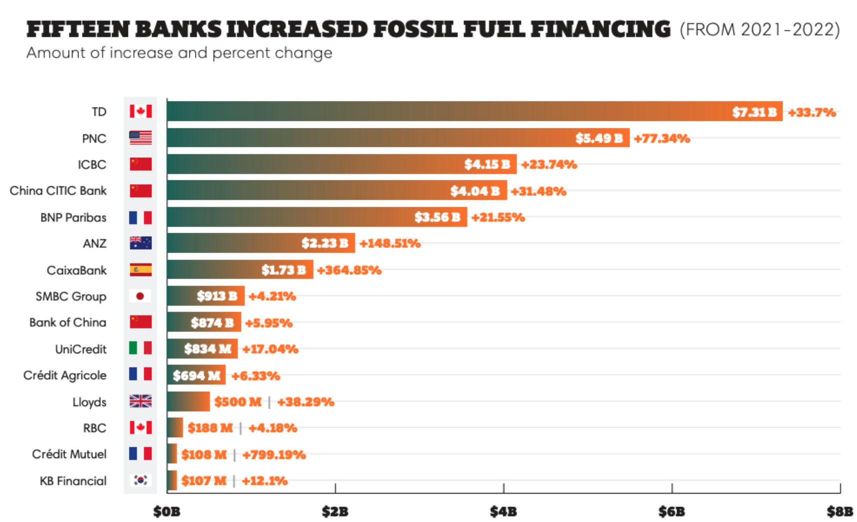

Image source: BNPP increases its share of funding by US$3.5bn (~20%) from 2021 - 2022.

In response to the identified gaps in the policy, Antoine says, "Decarbonizing our balance sheet may not cover the full range of our activities, but it is a milestone step. Credit to major oil companies will indeed be affected by our measures since they amount for a very significant part of the upstream oil portfolio we committed to divide by 5 (i.e. 80% reduction). And our history shows that we usually take swift action when we commit. Ruling out project finance for new oil and gas fields may have a smaller concrete impact than our other measures, but it is a clear signal that we consider such projects are not welcome."

Lucie Pinson of Reclaim Finance, a climate finance eNGO, notes that since 2016, the bank has provided US$45bn (A$67bn) of financing to the 9 biggest US and EU oil and gas majors – so to say that the money tap is drying up could be quite a big anticipation of what's to come.

This financing policy shift complements evidence of credible actions towards net zero in major oil and gas companies. ExxonMobil announced a 10% or US$17bn (A$25bn) pivot of its capex to 2027 into low emissions technologies like biofuels, CCS and hydrogen (60% of this to reduce Exxon's own emissions).

While 90% of Exxon's total capex is still going into fossil fuels, this small investment decision indicates a first step in a overdue strategic pivot to act in tandem with the energy transition and the massive incentives under the US Inflation Reduction Act, as well as starting to align with the climate science.

There is plenty of room to remain hugely skeptical of these climate laggards, but when considered together with Chevron's US$75bn stock repurchase program, and Exxon's own US$50bn program, i.e. buying back their stock more than investing in their core business, indicates a really important capital shift that could prove to be the first steps away from their collective position of climate denialism that has lasted decades.

As with coal divestment policies, where divestment has clearly been seen to permanently reduce the debt and equity financing, insurance and operation of coal mining assets, the recently strengthened oil and gas exclusion policies by major financiers could herald a massive new source of momentum for the decarbonisation transition. And as capital momentum away from financing these historically important fossil fuel sectors continues to build, that should assist in building the financing capacity into zero emissions solutions for the world's energy, transport and industry needs.

Contributing editors: Tim Buckley and Annemarie Jonson, CEF