

# Still Wrecking The Climate

**How Credit Suisse And UBS Continue  
to Finance CO<sub>2</sub>-Emissions 2016 to 2019**



# Introduction

**T**he Swiss finance industry has considerable influence over the speed at which climate change is abated since the sector provides financing - investing in companies around the globe - and moves billions of Swiss francs in the process. **The larger banks like UBS and Credit Suisse have an even greater role to play, because with today's loans they determine tomorrow's economy.** If one believes their promotional materials, they have long recognised and fulfilled this responsibility, but unfortunately the reality is far removed from the rhetoric.

Corporations should have good reason to make sustainability a fundamental component of their core business and put it at the heart of every single investment and financing decision. You would think they would want to stop climate change out of sheer self-interest because the Earth will verge on uninhabitable if it warms up by 4 - 6°C - a global scenario that is currently supported by the Swiss finance sector.

Apart from the long-term rise in sea levels, extreme weather events will also continue to increase dramatically in both frequency and ferocity in this scenario. Droughts, heavy rains, and storms have enormous potential for destruction. They disrupt value chains and will cause mounting economic losses from which banks are by no means immune. These are **physical risks** for the Swiss finance industry.

And in the short term, so-called **transformational risks** could also negatively impact banks that continue to finance yesterday's business models. Falling demand for oil due to a rapid adoption of alternative energy sources; the closure of coal-fired power plants due to increasingly cheaper renewable energy sources and/or the introduction of a 1.5°C-compatible CO<sub>2</sub> price. These constitute just a few of the risks that now threaten companies, and the banks that finance them.

As a result, some banks have started to define criteria for the investment of their own funds which they apply in order to stop investments in companies from problematic sectors. Others award no credits to businesses that generate a significant share of their revenues in such sectors. The scope and ambition of investment and financing guidelines vary significantly from bank to bank.

Leading banks like Credit Suisse and UBS, however, still mostly fear **reputational risks** from investments in problematic industry sectors.

The previous study released in 2019 already showed a high level of involvement of these two banks in the fossil fuels sector. The capital they provided to 47 companies alone financed the equivalent of twice the annual amount of all greenhouse gas emissions generated in Switzerland. Even then, in that first analysis, it was already pointed out that this was only the 'tip of the iceberg'. **In truth the problem is far bigger.**

**“If we don't change course by 2020, we risk missing the point where we can avoid runaway climate change, with disastrous consequences for people and all the natural systems that sustain us.”**

**Antonio Guterres – Secretary-General of the UN 2019**

**Front page: Switzerland's dirtiest square - headquarters of UBS and Credit Suisse in Zurich.**

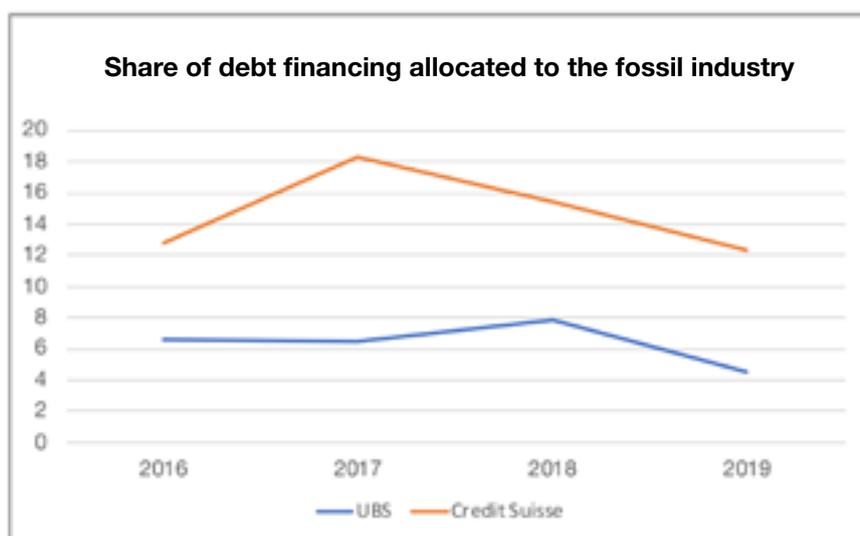
**Top right: Flooding in Texas after Hurricane Harvey.**

**Lower right: Flooding in South Yorkshire, England, where the River Don burst its banks after heavy rains.**



# Analysis of financed emissions 2016–2019

The financing of companies in the fossil fuel sector is actually far more extensive than was shown in the last report.



There it was reported that - from 2015 to 2017 - the two banks provided financing to 47 companies in the fossil fuels sector amounting to USD 12.3 billion. However, data published in the newest There it was reported that - from 2015 to 2017 - the two banks provided financing to 47 companies in the fossil fuels sector amounting to USD 12.3 billion. However, data published in the newest Banking on Climate Change (BoCC) report<sup>1</sup> shows that in 2017 Credit Suisse alone was involved in the fossil fuel sector to the tune of USD 23.6 billion.

**From 2016–2019, based on current figures, the banks were involved in transactions worth USD 114 billion, benefitting more than 260 corporations<sup>2</sup>, which collectively constitute a significant portion of all fossil fuel-related industries.**

Even if one takes into account that some of these corporations are conglomerates and that just part of this financing went to the fossil fuel related industry

element of the business, that still leaves a transaction volume of more than USD 84 billion. An analysis of these transactions shows that **Credit Suisse, as the smaller of the two banks, is responsible for some 70% of them.**

**Moreover, it's entirely possible that the transaction volume identified in the BoCC report represents, once again, just the tip of the iceberg.** For one thing, numerous financing transactions likely involve small and medium sized companies in the fossil fuel sector which are not included in the available data set. Furthermore, transactions of more than USD 31.2 billion are identified as 'investments' in the BoCC report and are not included in this analysis, even though they may also of course be related to fossil fuel activity.

<sup>1</sup> [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf)

<sup>2</sup> Companies that belong to the same group of companies are counted under the name of the parent company.

**The oil sands tailings ponds in Canada discharge toxic waste into the environment and poison the local water systems.**



### **Focus: financing**

This analysis is based on the assumption that a financial institution provides capital to a company to enable it to cover costs associated with its own business activities.

In principle, companies can obtain fresh capital in three ways: They can sell goods and use the revenue generated to cover costs. They can also use the financial markets to initiate debt financing - including both loans and bonds. Or they can raise equity, for example by issuing shares. And here the question arises, who is responsible for the environmental harm caused by a company - the owner or the bank that provides the owner with capital to knowingly facilitate environmentally damaging activities?

Banks like to say the responsibility lies with the owners but in reality it is not that simple. The party that finances the exploitation of fossil fuels obviously bears part of the responsibility because the tons of coal would have remained in the ground if the coal producer had lacked the funds to operate the mine; and the fracking operations would not have been carried out if a bank hadn't agreed to provide the necessary financing. **In order to quantify the responsibility of the banks it was necessary to calculate the**

### **amount of fossil fuels that can be extracted with the help of external financing.**

The level of emissions associated with a loan is directly related to the type of fossil fuel extracted and the cost of extraction. Corporate loans were allocated according to the share of sales that a company generates with this fuel. The extraction costs for coal, oil and gas were determined by means of a value chain analysis.<sup>3</sup> In addition to the capital expenditures (CAPEX) for the exploration of sources and the construction of production facilities our analysis also includes the cost of operating (OPEX) these facilities and transport costs. The higher the cost for the extraction of one unit of fuel the lower the amount of emissions associated with financing, because less fuel can be extracted with a given amount of capital.

**This study makes very conservative assumptions in calculation of funding costs.** The actual costs of extraction are likely lower, and the amount of emissions financed by banks therefore significantly higher than the values calculated here. But even these conservative calculations highlight the seriousness of the problem.

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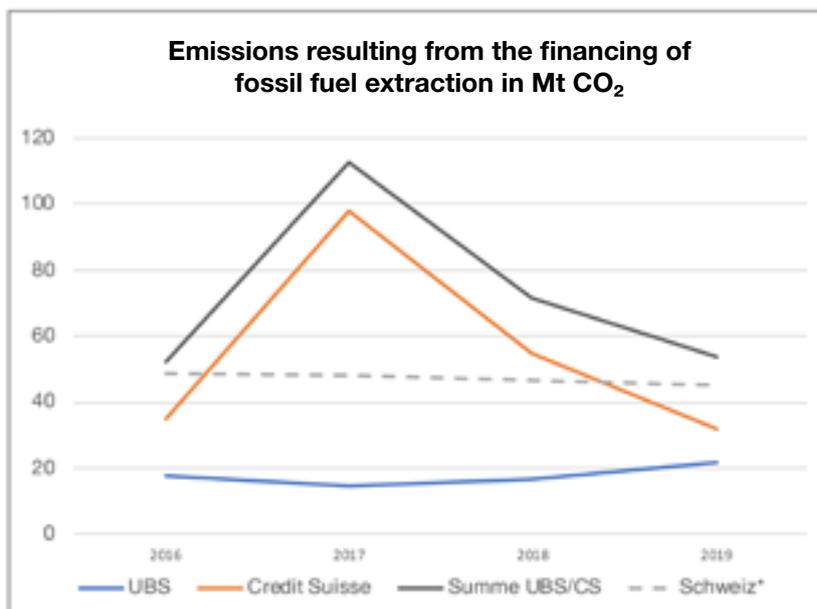
<sup>3</sup> For a detailed description of the methodology see Appendix.

## The emissions associated with the transactions analysed exceed Switzerland's carbon footprint many times over.

Like in the previous study, full sets of data are not available for all externally financed companies. **Still, there is enough data for a detailed analysis of financed emissions to include 101 companies (versus 47 last year).**

Together, these 101 companies have coal reserves of over 41 billion tons. According to the International Energy Agency annual global coal production hovers around 8 gigatons.<sup>4</sup> The reserves of these 101 companies are thus sufficient for about 5.2 years. The oil reserves of 301.9 billion barrels, on the other hand, would be enough to keep the world supplied with oil for 8 years, given a daily consumption of 100 billion barrels (pre-crisis level). These numbers indicate that our analysis covers most of the industry's heavyweights.

**For the 101 companies that can be more accurately analysed, there is a transaction volume of almost USD 70 billion for the period 2016-2019 according to the BoCC data.** Again, it turns out that Credit Suisse is responsible for about 70% of the external financing related to these 101 companies. If all the fossil fuels extracted with the financing of the two banks had been burned then the banks would have a shared responsibility for 290.1 tons of CO<sub>2</sub> released into the atmosphere. This corresponds to 1.54 times the amount of Switzerland's entire emissions output



\* 2019 emissions of Switzerland estimated

for the same four-year period. And in the peak year of 2017 Credit Suisse alone financed the equivalent of twice the entire emissions output of Switzerland.

As shown in the chart below, the emissions financed by the two banks exceeded Switzerland's carbon footprint in each of the last four years.

This calculation does not reflect the fact that the two banks, from 2016 to 2019, also provided significant amounts of financing to companies involved in **coal-based power generation**. A transaction volume of USD 7.9 billion was allocated to this sector. When fully utilised, the funds will result in the burning of an additional 40 million tons of coal.

<sup>4</sup> See <https://www.iea.org/reports/coal-information-2019>

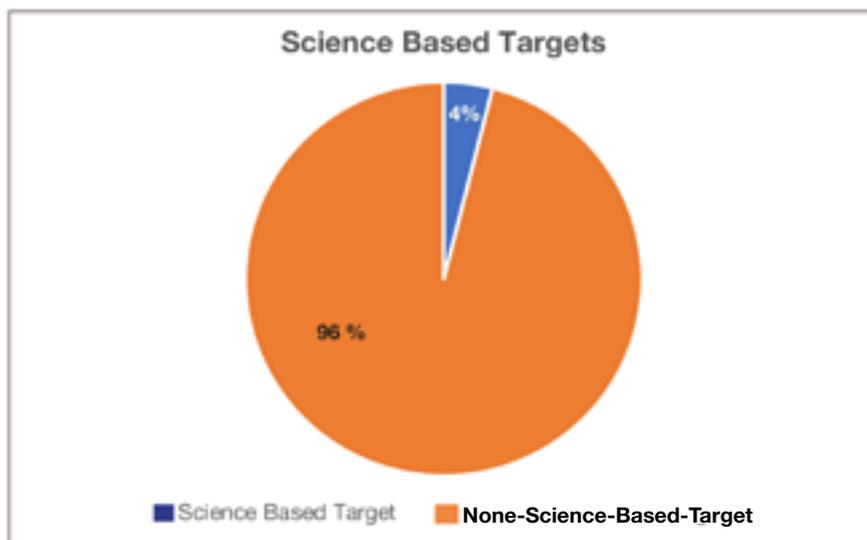
## The banks' activities contradict their stated ambition to limit global warming.

**E**ven though the annual volume of transactions has dropped from the peak in 2017 to 2019, **it seems clear, after evaluating the data, that the banks' own financing guidelines are not having the desired effect.**

This is hardly surprising as long as banks – while no longer providing project financing for the construction of coal-fired power plants – extend project-independent corporate loans to the same companies.

Drawing up limited guidelines presents banks with an opportunity to improve the public perception of their activities, while leaving open a backdoor to continue to benefit from the financing needs of the industry.

Banks often argue in this context that companies should not be cut off from capital markets but should be accompanied and supported in their gradual transformation towards greater sustainability. And so bank financing continues to flow from UBS and Credit Suisse to some of the worst polluters, even though hardly any of these companies have yet acknowledged that they bear a special responsibility to limit global warming. **Of the companies that analysed not even one in twenty has yet formulated a science-based climate target<sup>5</sup>.**



By contrast, research by Influencemap<sup>6</sup> shows that some of the companies analysed in detail are active lobbyists against political action on climate change. **In other words, the banks are also financing companies that actively resist the search for solutions to the climate crisis, by lobbying for the repeal, or softening, of existing or planned climate protection laws.**

<sup>5</sup> A so-called science based target is defined as a company-specific <2°C-climate target complete with a transformation plan for the company based on the findings of climate science and a coherent methodology. (See <https://sciencebasedtargets.org/>)

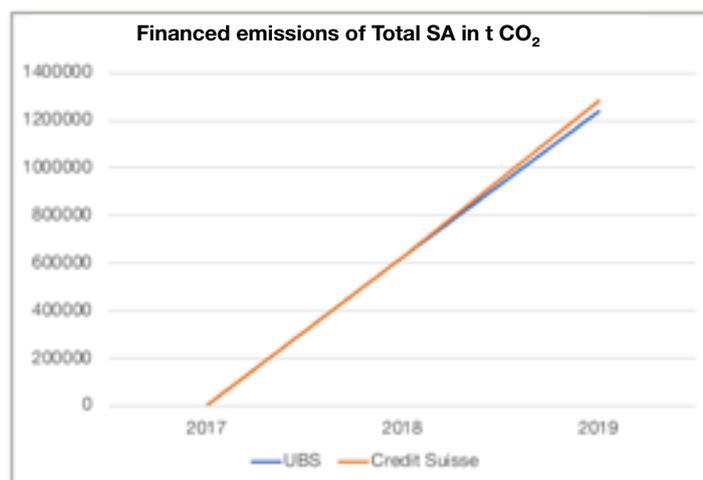
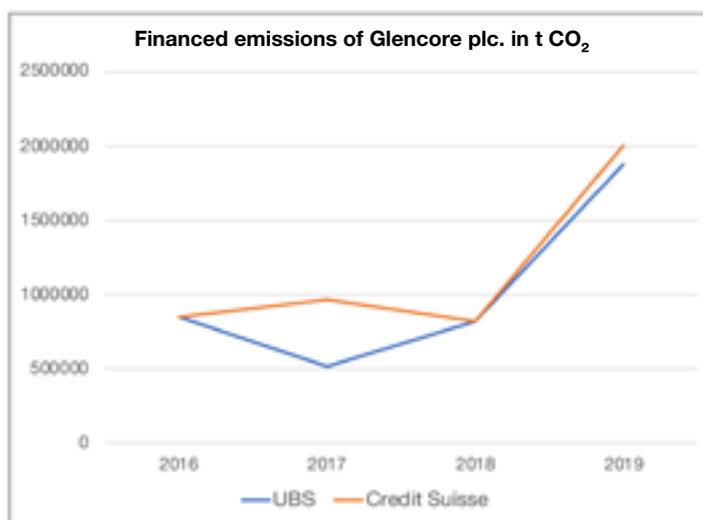
<sup>6</sup> Influencemap is a not-for-profit organisation that specialises in the analysis of lobbying activities (see [influencemap.org](https://influencemap.org))

## Some companies are actually accelerating their environmentally destructive activities with help from Credit Suisse and UBS.

**A** glance at the fuel reserves of companies that received financing reveals that some have actually increased their reserves since our last analysis. Especially with regard to coal reserves, this indicates a lack of action that still prevails in companies. **With today's known coal reserves already sufficient to meet the demand of the next 130 years<sup>7</sup>, and A glance at the fuel reserves of companies that received financing reveals that some have actually increased their reserves since our last analysis. Especially with regard to coal reserves, this indicates a lack of action that still prevails in companies. With today's known coal reserves already sufficient to meet the demand of the next 130 years, and the rapid phase-out of coal being essential to limiting global warming, banks with a serious interest in preserving the planet cannot provide financing to companies that continue to expand their coal reserves.**

And yet this is exactly what happened in the case of **Glencore plc.**, a conglomerate that generates a mere 5% (USD 10 billion) of its profits in the coal industry, but is one of the world's largest coal producers and exporters, and ranks 10th in the world in terms of coal reserves. Burning these reserves would generate almost 11 gigatons of CO<sub>2</sub> emissions, equaling the total emissions of Germany - the world's 4th largest economy - over a period of roughly 13.5 years. Since 2018, the company has been expanding its coal reserves further, clearly signaling that for Glencore the necessity of a coal phase-out is not a topic, yet last year both UBS and Credit Suisse handled a significantly larger volume of transactions that involved Glencore than in previous years.

Another example of troublesome financing is provided by **Total SA**. This corporation is one of the world's largest oil and gas producers. In fact, measured by newly exploited oil and gas reserves since the start of the Paris climate agreement, Total is the worst in class on a global scale. According to the BoCC re-



port the company is also the 8th largest oil sand producer based on current production and is poised to develop further significant reserves in this sector. Despite these expansion plans in a particularly dirty sector of the fossil fuel industry, which is responsible for the massive destruction of Canadian flora and fauna, UBS and Credit Suisse have provided loans totaling more than USD 600 Mio. to the company over the last two years.

<sup>7</sup> IEA Coal Report 2019



**Lake Curuai during one of the worst periods of drought in the Amazon, Brazil**

**Hambach open-pit brown coal mine, Germany.**





**Huge wildfires destroy the Amazon rainforest..**

**In addition to causing environmental and climate damage, the financing of such ventures involves considerable economic risks that threaten shareholder value.**

**T**he financing of companies in the fossil fuel industry is particularly problematic when the actors involved doggedly pursue their core business and have no appetite to adopt a more sustainable business model. As a result these companies are at risk of either being squeezed out of the market by increasingly cheaper renewables or will see their business undermined by a calamitous drop in demand driven by regulation implemented to avoid catastrophic climate change.

What a glut of fossil fuels does to global oil markets already became evident in 2016, and most recently in April 2020. Although the aforementioned risks will not lead to a massive, sudden drop in demand like in Spring 2020, fuel prices will remain low

in the ambitious transformation scenario of the Paris agreements, and this will especially affect companies involved in cost-intensive and particularly dirty oil production projects in tar sands or drilling in the deep-seas and the Arctic. Many companies in the coal industry also face massive depreciation and insolvencies if plants cannot be operated for decades as planned.

Even the widely diversified Glencore conglomerate was recently pushed into the red by depreciations on coal installations<sup>8</sup> of almost USD 1 billion and the company's share value took a hit when the loss was announced. Sooner or later losses like that will impact the balances of banks that finance companies in problematic industries.

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<sup>8</sup> See Glencore annual report 2019, S. 49.



**In Australia too, bushfires are becoming increasingly frequent and intense due to global warming.**

In summary, Credit Suisse and UBS have conducted extensive business with the fossil fuel industry in recent years, far more than our last analysis indicated.

**Despite their own policies for engaging in fossil fuel projects, the flow of financing to highly problematic companies continues.**

**It is not enough to rule out project financing e.g. for coal-fired power plants, while offering the same company's loans that are not tied to specific projects.**

Neither will it do to point out engagement approaches aimed at a gradual transformation, if companies have non-transformable business models or engage in negative climate lobbying.

**In such cases, the only solutions, in the interest of required global climate protection and the company's own shareholders, is the permanent cessation of business relations.**

For companies that show a willingness to transform and whose business model is suitable for transformation the banks need much clearer rules of engagement.



An oil sands tailings pond in Alberta, Canada. The extraction of tar sands oil produces a lot of liquid toxic waste that pollutes the local water system.

## Standards for Climate Engagement

- ▶ Companies must create public transparency about the actual climate impact of their products and manufacturing processes
- ▶ Companies must commit to a 1.5°C-compatible transformation.
- ▶ Companies must develop a science-based transformation path subject to external audits.
- ▶ Companies must regularly disclose compliance with the requirements of the 1.5°C-compatible transformation path.

## The engagement excuse

Financial market actors regularly point out that disruption, i.e. the complete and immediate transformation of high emissions sectors, is not feasible. Instead, they argue, a gradual transformation and engagement by the banks to the companies in these sectors would be necessary in order to generate insight and understanding and eventually support them in their transformation with the necessary capital.

This is taking the easy way out. Nobody doubts that engagement takes time and success takes years to achieve and then might be hard to quantify. At the same time the substance of the engagement is often nebulous. Discussions between the financing bank and the company are, at best, briefly recorded and routinely subject to non-disclosure agreements - i.e. they cannot be verified by independent observers. and the company are, at best, briefly recorded and routinely subject to non-disclosure agreements - i.e. they cannot be verified by independent observers.

# Appendix - calculation of financed emissions

Calculating financed emissions is complex and the methodologies applied are hotly debated and cause controversy even today. In a time when, say, hundreds of companies may be involved in the production of a passenger car, it is quite difficult to determine each participant's 'fair share' of the emissions generated by this product, both in production and during its intended usage, especially as two value chains - of the car and of the fuel - converge here. With regard to fossil fuels this analysis opted for a stringent logic that takes into account both the fact that different companies are involved in the extraction, transport and refining of fossil fuels and that these companies are crucial to limiting global warming.

The emission intensity of one dollar provided by banks and used for the extraction of fossil fuels was calculated by means of a supply chain logic. In this way, all companies involved in the process chain of the oil, gas, and coal sectors are seen as participants in the generation of emissions resulting from combustion, based on a fair share approach. The distribution key reflects each company's share of the total cost of the value chain.

The value chain taken into consideration in the different sectors ranges from exploration and extraction, to transport and an eventual processing (refining) of the products. This analysis takes into account both investment expenditure (CAPEX) and operating costs (OPEX). Not included are industries down the line where the fuels are actually burned since the emissions associated with combustion can be attributed as direct or indirect emissions to the oil, gas, or coal sector.

One advantage of the fair share approach is that it reduces the risk of counting emissions twice in the value chain under consideration. This way it is possible to avoid attributing all emissions first to the extractor, then the transporter and finally to the refiner. This matches the conservative approach used to calculate "financed emissions".

For the oil sector, the value chain steps included in calculations and the assumptions associated with the calculations are explained in more detail below:

The oil value chain can be divided into upstream, midstream and downstream processes. While the upstream processes for the most part cover the exploration and extraction of oil from oil wells, the midstream process covers the transport and the downstream process the refining of crude. Based on the calculations in this analysis, the overall costs along the oil value chain come to 67.85 USD/BOE<sup>9</sup>. Dividing the emissions from the combustion of one BOE (0.45 t<sub>CO2e</sub>) by the total costs of the oil value chain results in an emission intensity of 0.0066 t<sub>CO2e</sub>/USD. If a bank extends a company in the oil value chain a credit of USD 67.85, it finances the extraction of a barrel oil and thus acquires a shared responsibility for 450 kg CO2e from the combustion of the oil. The cost estimate of the oil value chain is based on the following assumptions: Based on a study by Rystad Energy<sup>10</sup> it was determined the global break-even price of oil should reflect production volumes and operating costs—i.e. the oil price that just covers these costs. It stands at 37.72 USD/BOE.

The pipeline transport costs of 6.25 USD/BOE are based on a study of the Canadian Energy Research Institute. Even though costs can vary considerably depending on the location of the oil field this number is considered to be generally representative.

The calculation of refining costs is based on a study of the US Energy Information Administration.<sup>11</sup> The refinery products that can be produced from one BOE were determined based on their share and the refining charges for some of these refinery products. Adding up the various products resulted in refining charges of 23.88 USD/BOE which again may vary from case to case depending on the location and size of the refinery. Adding up the three value chain steps determined the overall costs mentioned earlier of 67.85 USD/BOE.

A similar approach was used to calculate the gas and coal value chains. For gas, the process steps for both conventional CNG gas and liquified LNG gas were considered according to their share on the global market. The resulting costs came to 6.19 USD/MMBTU<sup>12</sup> and an emission intensity of 0.00958 t<sub>CO2e</sub>/USD.

9 BOE (Barrel of oil equivalent) is a unit used by gas and oil companies to describe output volumes. One BOE is 159l crude oil.

10 The company operates one of the world's most comprehensive databases on oil production and provides data for every oil field

For coal, the study determined average costs of 56.42 USD/t and an emission intensity of 0.04018 t<sub>CO2e</sub>/USD. Since the two banks are also deeply involved in coal-based power generation, the costs of that process were also determined; they come to 196.55 USD/t. The emission intensity is 0.01153 t<sub>CO2e</sub>/USD.

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11 <https://www.eia.gov/energyexplained/oil-and-petroleum-products/refining-crude-oil.php>

12 MMBTU (Million British thermal units) is a unit used to describe gas extraction volumes; it is equivalent to 26,4 m<sup>3</sup> Gas.

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## Imprint

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[schweiz@greenpeace.org](mailto:schweiz@greenpeace.org), [www.greenpeace.ch](http://www.greenpeace.ch)

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## Analysis by Nextra Consulting commissioned by Greenpeace Switzerland

Nextra Consulting

Dr. Martin Granzow

Lutterothstr. 91

20255 Hamburg

[info@nextra-consulting.com](mailto:info@nextra-consulting.com), [www.nextra-consulting.com](http://www.nextra-consulting.com)