ANALYZING MORGAN STANLEY'S 2019 ENVIRONMENTAL AND SOCIAL POLICY

> **"If we don't have a planet, we're not going to have a very good financial system."**
> – **James Gorman**, CEO, MORGAN STANLEY
> Testimony to the U.S. House Financial Services Committee, April 10, 2019

October 2019

Background

On August 7, 2019, Morgan Stanley published minor updates to its Environmental & Social Policy Statement and Statement on Human Rights.[1] In the three years since the Paris Climate Agreement, Morgan Stanley ranks as the 11th largest bank funder of fossil fuels in the world, with $66.9 billion in financing over those three years.[2]

Morgan Stanley's Responsibility

If Morgan Stanley is in any way serious about aligning bank policy and practice with a just transition to a world in which climate change is limited to 1.5° Celsius and human rights are fully respected, it must adopt and implement meaningful policies to restrict financing for fossil fuels and deforestation worldwide:

Stop financing fossil fuel expansion.

- Potential emissions from the coal, oil, and gas reserves already in production would take the world well beyond 2°C of warming, let alone 1.5°C.[3] This means that financing any new coal mines or power plants, or any new oil and gas infrastructure, is incompatible with the goals of the Paris Agreement. Morgan Stanley must stop financing expansion of fossil fuel extraction or infrastructure, whether via direct financing for new fossil fuel assets (project finance) or through general corporate finance to companies that are expanding fossil fuel production and use.

Commit to phasing out fossil fuel financing on a timeline aligned with 1.5°C.

- In addition to stopping fossil fuel expansion, Morgan Stanley should commit to aligning its overall fossil fuel policies and practices with the most prudent emissions pathway detailed in the Intergovernmental Panel on Climate Change's special report on global warming of 1.5°C, which calls for emissions to be almost halved by 2030 and effectively reduced to zero by 2050.[4] To achieve this pathway, Morgan Stanley must phase out its financing of existing coal, oil, and gas extraction and infrastructure in the next few decades.

Commit to No Deforestation, No Peatland, No Exploitation.

- Regarding its forest sector policy, Morgan Stanley should align with the No Deforestation, No Peatland, No Exploitation (NDPE) model that is becoming standard among global agribusiness companies and increasingly banks.

Respect human rights.

- Stop financing projects and companies that abuse human rights, especially Indigenous rights.

Coal Power

This policy revision did not strengthen Morgan Stanley's coal power policy, published in late 2015, on the day that the Paris climate talks began.[5] Morgan Stanley continues to prohibit direct finance for coal plants in OECD countries, but has no restrictions on coal plant finance in the rest of the world, and no restrictions on corporate finance for coal power companies, including the worst developers of new coal power.

The gap between Morgan Stanley and current global best policy is stark. French banking giant Crédit Agricole excludes companies that are expanding coal operations, including coal power operations, and requires that all clients adopt plans by 2021 to exit coal by 2030 in EU and OECD countries, 2040 in China, and 2050 worldwide.[6]

Morgan Stanley saw a significant increase in coal power financing from 2017 to 2018, above even 2016 levels. All told, Morgan Stanley financed the top 30 global coal power companies to the tune of almost $2 billion between 2016 and 2018.

Coal Mining

This policy revision did not provide any update to Morgan Stanley's 2015 thermal coal mining policy.

Morgan Stanley has committed to reduce its credit exposure (a stock metric) to thermal coal mining globally, stating that this exposure has already been reduced. And yet, *Banking on Climate Change: Fossil Fuel Finance Report Card 2019* found that Morgan Stanley's coal mining financing (a flow metric) has been on the rise each year.[7] Previous analysis has shown that a credit exposure reduction is compatible with increases in financing, meaning that a credit exposure reduction approach alone has limited impact on lessening climate and environmental damages from coal mining.[8] That Morgan Stanley states it is reducing its credit exposure, while at the same time research shows it is increasing its financing, shows how much the policy needs to be strengthened. Crédit Agricole represents current global best practice on coal mining as well as coal power.[9]

Oil and Gas

This revision does not strengthen Morgan Stanley's existing oil and gas policy. The statement affirms that Morgan Stanley conducts enhanced due diligence on tar sands oil, Arctic oil and gas, ultra-deepwater oil and gas, shale oil and gas, oil and gas pipelines, and liquefied natural gas (LNG) export infrastructure, signaling that the bank recognizes that these sectors pose particular risks. But the bank does not restrict financing for any of these sectors, falling far short of global best practice. For example, 18 global banks restrict tar sands oil financing,[10] and 16 global banks restrict Arctic oil and gas financing.[11] In particular, BNP Paribas prohibits project finance for tar sands oil, Arctic oil and gas, fracked oil and gas, and fracked-gas LNG terminals, and excludes many companies in these sectors.

Despite Morgan Stanley's recognition of the risks of these subsectors, and its support for the Paris agreement, its LNG, Arctic oil and gas, and fracked oil and gas financing were at about the same level in 2018 as compared to 2016, with its LNG financing even slightly higher (its tar sands oil and ultra-deepwater oil and gas financing did fall significantly, however).[12]

Forestry and Palm Oil

Morgan Stanley's policy does not meet best practice in the industry. In particular, the policy makes no mention of protecting High Carbon Stock forests or peatlands, which are becoming standard requirements among global banks — with leadership coming from European banks such as Standard Chartered, BNP Paribas, HSBC, ABN AMRO and Rabobank. Emerging best practice is to refer to the No Deforestation, No Peatland, No Exploitation commitment that is becoming standard among global agribusiness companies and increasingly banks.

Moreover, Morgan Stanley's policy expects its palm oil clients to "have achieved or are working toward Roundtable on Sustainable Palm Oil (RSPO) certification or a comparable certification."[13] This vague acceptance of "comparable certification" systems represents a significant weakening of the policy as the Malaysian and Indonesian palm oil certification standards are not sufficient.

Lastly, Morgan Stanley holds numerous shares in palm oil companies, including those involved in social conflicts and environmentally destructive behavior.[14] It would therefore be prudent for Morgan Stanley to strengthen its investment policy in order to avoid both financial and reputational risk.

Rights

While Morgan Stanley's environmental and social policy invokes the internationally recognized standard of Indigenous people's free, prior and informed consent (FPIC), it falls short in two key ways.[15] First, scope of application: the most detailed stipulations apply only to "financing projects in Indigenous territories". Without further specification, this leaves the bank unprotected from involvement in abuses of Indigenous rights via general corporate finance — such as is the case currently with Morgan Stanley's client Enbridge, which has failed to secure FPIC for its Line 3 tar sands pipeline, which is being funded from general corporate coffers.[16] Second, the policy does not require FPIC as a precondition for financing — it only requires that project sponsors "are engaged with the affected Indigenous peoples to achieve FPIC."

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Conclusion

On the investment and wealth management side of the business, Morgan Stanley's Institute for Sustainable Investing helps investors channel their capital toward sustainability. As the firm's Chairman and CEO put it, "For us at Morgan Stanley, it is abundantly clear that the solutions to global challenges can only achieve the required scale if they can attract a critical mass of private capital."[17] It is problematic, then, that the investment banking arm of the same company is undercutting this solutions-oriented asset management strategy by facilitating enormous volumes of capital for a key climate problem: fossil fuels. Moreover, the firm falls short in its policy regarding deforestation and the commodities that drive it.

It is encouraging that Morgan Stanley has committed to review this Environmental and Social Policy Statement annually.[18] To live up to its word and bring about the transition to a low-carbon economy it purports to support, in the next annual update Morgan Stanley must commit to stop funding deforestation and the expansion of fossil fuels, and phase out finance for carbon-intensive energy — including oil and gas — in line with 1.5ºC.

ENDNOTES

1. "Environmental & Social Policy Statement," Morgan Stanley, 7 August 2019; "Statement on Human Rights," Morgan Stanley, 7 August 2019.
2. "Banking on Climate Change: Fossil Fuel Finance Report Card 2019," Rainforest Action Network, Indigenous Environmental Network, BankTrack, Oil Change International, Sierra Club, and Honor the Earth, 20 March 2019.
3. Greg Muttitt, "The Sky's Limit: Why the Paris Climate Goals Require a Managed Decline of Fossil Fuel Production," Oil Change International, September 2016.
4. IPCC, 2018, "Summary for Policymakers." In "Global Warming of 1.5°C: An IPCC Special Report on the Impacts of Global Warming of 1.5°C Above Pre-Industrial Levels and Related Global Greenhouse Gas Emission Pathways, in the Context of Strengthening the Global Response to the Threat of Climate Change, Sustainable Development, and Efforts to Eradicate Poverty," edited by Valérie Masson-Delmotte et al. World Meteorological Organization, Geneva, Switzerland, p. 16.
5. "Morgan Stanley and Wells Fargo Cut Coal Financing, Join Growing Movement by Banks in U.S. and Europe," Rainforest Action Network, 30 November 2015.
6. "Phasing Out Coal: Crédit Agricole Leads by Example, Other Financial Institutions Lag Behind," Les Amis de la Terre France, June 2019.
7. "Banking on Climate Change: Fossil Fuel Finance Report Card 2019," Rainforest Action Network, Indigenous Environmental Network, BankTrack, Oil Change International, Sierra Club, and Honor the Earth, 20 March 2019.
8. "Banking on Coal Mining: U.S. Banks' Performance Against Their Policies Since 2015," Rainforest Action Network, August 2018.
9. "Phasing Out Coal: Crédit Agricole Leads by Example, Other Financial Institutions Lag Behind," Les Amis de la Terre France, June 2019.
10. "Banks that Ended Direct Finance for Tar Sands," BankTrack, 27 August 2019.
11. "Banks that Ended Direct Finance for Arctic Oil and/or Gas Projects," BankTrack, 27 August 2019.
12. "Banking on Climate Change: Fossil Fuel Finance Report Card 2019," Rainforest Action Network, Indigenous Environmental Network, BankTrack, Oil Change International, Sierra Club, and Honor the Earth, 20 March 2019.
13. "Environmental and Social Policy Statement," Morgan Stanley, 7 August 2019, p. 6.
14. "Morgan Stanley," Forests & Finance, Rainforest Action Network, TuK INDONESIA and Profundo, accessed August 2019.
15. "Environmental and Social Policy Statement," Morgan Stanley, 7 August 2019, p. 7
16. "Who's Banking Enbridge?," Rainforest Action Network, 18 May 2019.
17. Institute for Sustainable Investing, Morgan Stanley, accessed August 2019.
18. "Environmental and Social Policy Statement," Morgan Stanley, 7 August 2019, p. 11

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