MEDIA BRIEFER

Additional Context and Analysis on Goldman Sachs's Environmental Policy Update

December 2019

BACKGROUND

On December 15, 2019, Goldman Sachs revised its Environmental Policy Framework for the first time since 2015. This most recent revision includes significant new restrictions on fossil finance.

Goldman Sachs's fossil finance policy is now the strongest among the big six U.S. banks (the others being Bank of America, Citigroup, JPMorgan Chase, Morgan Stanley, and Wells Fargo). Goldman Sachs now has the strongest coal policy, and is the only bank in this group with any restrictions on any area of oil and gas financing.

This policy revision does not, however, make Goldman Sachs a leader among major global banks; currently, the strongest policies among the bank's global peers are from Crédit Agricole (France) on coal, and BNP Paribas (France) and UniCredit (Italy) on oil and gas.

This note summarizes Goldman Sachs's new policy and offers brief initial analysis.

Additional statements:

- Rainforest Action Network
- Sierra Club (also including a quote from Bernadette Demientieff of the Gwich'in Steering Committee)

COAL

Coal Power Projects

Previous commitment:
"We will decline any financing transaction that directly supports the development of new coal fired power generation in the U.S. and other developed economies unless it has carbon capture and storage or equivalent carbon emissions reduction technology."[1]

Updated commitment:
"We will decline any financings that directly support the development of new coal fired power generation unless it has carbon capture and storage or equivalent carbon emissions reduction technology ('CCS'). This applies globally in both developed and developing economies. ...*

"'Directly' defined as project specific financings or general corporate financings where there is dedicated capital expenditure that is specified in the use of proceeds for the activity (i.e., new coal-fired power plant development without CCS…)"*[2]

Key strengths:
- ***Prohibits coal plant financing worldwide.*** Many banks' policies contain problematic loopholes that allow financing of coal plants in developing countries; Goldman Sachs's new policy applies worldwide.
- ***Covers new plants and expansions.*** "New coal fired power generation" covers both new plants and expansions of existing plants.
- ***Exceeds commitments made by major U.S. banks.*** In comparison, for example, JPMorgan Chase allows financing for ultra-supercritical plants outside of the high-income OECD countries,[3] while Wells Fargo allows financing of any and all coal plants worldwide.[4]

Key weakness:
- ***Carbon capture and storage (CCS) carve-out.*** Goldman Sachs's policy allows financing of coal plants if CCS is employed. Such carbon capture and storage technology has yet to be proven at scale and is extremely expensive — meaning that coal with CCS cannot compete on price with solar or wind power.[5] Furthermore, CCS does not address coal's other public health and environmental concerns, in particular those associated with mining.

<u>Coal Power Companies</u>

Previous commitment:
None.

Updated commitment:
"For financings involving any power sector companies that derive a significant portion of their generation from coal, we will engage with the companies to understand their strategy to diversify away from coal and reduce overall carbon emissions, with the goal of supporting their low carbon transition in line with the Paris Climate Agreement...*

*"*Coal power that has CCS or equivalent carbon reduction technology is excluded."*[6]

Key weaknesses:
- ***Nontransparent engagement process.*** Goldman Sachs does not detail criteria it expects clients to meet, nor does it specify plans to report on this engagement or its clients' progress along a Paris-aligned timeline.
- ***No end date for support.*** For this engagement to be meaningful in the current climate crisis, Goldman Sachs must state a date by which, if a client has not properly planned for or executed its transition, Goldman Sachs will exit the relationship.
- ***Only covers companies generating a "significant" portion of their power from coal.*** Goldman Sachs narrows the scope of this engagement to clients that generate a "significant portion" of their power from coal, without specifying where this threshold lies. Additionally, this does not commit Goldman Sachs to engaging with companies where coal generation might be a less than significant portion of their portfolio, and yet still significant in climate terms due to the absolute amount of coal-fired power generated.

Coal Mining Projects

Previous commitment:
"For financings directly supporting new coal mine development, we will be selective in the transactions we undertake and where the sensitivities are too high, we will forgo the opportunity…"

"For financings where the specified use of proceeds would be directed towards mountaintop removal mining, we will decline participation."[7]

Updated commitment:
"For transactions directly financing new thermal coal mine development or any mountaintop removal mining, we will decline the opportunity."[8]

Key strengths:
- ***Prohibits coal mine financing worldwide.*** The policy does not have any geographic loopholes.
- ***Covers new mines and expansions.*** "New thermal coal mine development" covers both new mines and expansions of existing mines.
- ***Covers both greenfield and brownfield sites.*** In contrast, JPMorgan Chase's policy prohibits financing the development of greenfield coal mines only. This means that if a site is defined as previously developed, JPMorgan Chase's policy allows the bank to finance a new coal mine there.

Key weaknesses:
- ***Thermal coal only.*** The policy only covers mining for thermal coal, which is primarily used to generate electricity. It does not exclude financing for mining metallurgical coal, which is used to make iron and steel. This type of mining is just as environmentally destructive and threatening to local community health.

Coal Mining Companies

Previous commitment:
"For transactions involving coal mining globally, we apply enhanced due diligence…"[9]

Updated commitment:
"For financings involving any companies that derive a significant portion of their revenue from thermal coal mining production, we will engage with them to understand their strategy to diversify away from thermal coal mining and reduce overall carbon emissions from their operations and products. Companies' diversification strategy and carbon emissions reduction initiatives will be a key consideration in our evaluation of future financings with the goal of helping their transition strategy. We will phase out our financing of thermal coal mining companies that do not have a diversification strategy within a reasonable timeframe."[10]

Key strengths:

- ***Commits to phase out.*** Rather than simply commit to reduce financing for coal mining, Goldman Sachs commits to phase it out — implying that its financing for coal mining companies will eventually reach zero.
- ***Covers financing, not exposure.*** The other five major U.S. banks have policies in place to reduce their *credit exposure* to coal mining companies (a stock metric, covering only lending). Analysis has shown that compliance with this type of credit exposure policy is compatible with increases in *financing* for coal mining companies (a flow metric, covering both lending and underwriting).[11] Goldman Sachs's policy is significantly stronger because it covers the flow of capital into coal mining companies via lending and underwriting of stock and bond issuances.

Key weaknesses:

- ***Covers coal mining companies only.*** In order to align its business with the goal to limit climate change to 1.5° Celsius, Goldman Sachs must expand this phase-out commitment to cover financing for companies active not only in coal mining, but also in coal-fired power generation, and coal transport and services.
- ***No phase-out deadline.*** Goldman Sachs does not say by *when* it will have completed its exit from financing coal mining companies. Research showing that coal must be completely phased out by 2030 in the European Union and in OECD countries, and one or two decades later in the rest of the world, is increasingly being recognized and adapted by significant financial institutions.
- ***No transparency around the exception for companies with diversification plans.*** Goldman Sachs will not phase out financing for clients that develop a strategy "within a reasonable timeframe" to diversify away from coal mining. The policy does not detail what is a reasonable timeframe, nor are there plans to report on this engagement. Without transparency around these diversification plans, it cannot be known whether the

coal companies' diversification plans align with the Paris Agreement, nor whether they are being thoroughly and rapidly implemented.

- ***Only covers companies generating a "significant" portion of their revenue from coal mining.*** Goldman Sachs narrows the scope of this engagement to clients that generate a "significant portion" of their revenue from coal mining, without specifying where this threshold lies. Additionally, this does not commit Goldman Sachs to engaging with companies where coal mining might be a less than significant portion of their revenue stream, and yet still significant in climate terms due to the absolute amount of coal being mined.

Other Coal Notes

This policy's overall approach to coal financing presents other weaknesses, including:

- ***Does not cover coal transport and services.*** The letter of the policy allows financing of coal transport and service projects, such as railways and terminals. These projects make up a key part of the coal value chain and financing them must be immediately prohibited in order to keep the Paris Agreement's goals within reach.
- ***Allows financing for companies expanding coal.*** This policy allows Goldman Sachs to continue financing companies that are expanding coal — whether in terms of mining, power, or transport and services. Emissions from oil, gas, and coal already in development blow through the carbon budget for a 2°C temperature rise, underscoring that the world cannot afford buildout of new coal mines, plants, railways, or terminals.[12] Any company with these sort of expansion plans should be immediately ineligible for receiving financing from Goldman Sachs if the bank is truly serious on climate. This is pressing because on coal power in particular, given that Goldman Sachs has provided $4.12 billion in financing since 2017 to companies developing new coal plants identified on urgewald's Global Coal Exit List.[13]

Best practice:
Best practice among major banks' coal policies comes from the French bank Crédit Agricole, the third largest bank in Europe.[14] Crédit Agricole has committed to:[15]

- Prohibit financing for the construction or expansion of all coal mines and plants.
- Prohibit financing for companies expanding or planning expansion in any part of the thermal coal value chain.
- Prohibit taking on new clients where more than 25% of their revenue comes from coal.
    - For existing clients above the 25% threshold, support will only be provided in the form of dedicated project financing to non-coal projects.
- Fully phase out coal financing by 2030 in European and OECD countries, and 2040 in the rest of the world.
    - Require all companies by 2021 to produce detailed plans for shutting down their coal assets along this timeline.

OIL AND GAS

Arctic Oil

Previous commitment:
None.

Updated commitment:
"For transactions relating to Arctic oil, we apply enhanced due diligence including understanding companies' strategy and commitment to reducing overall GHG emissions…"

We will decline any financing transaction that directly supports new upstream Arctic oil exploration or development. This includes but is not limited to the Arctic National Wildlife Refuge."[16]

Key strengths:

- ***Applies to activities onshore and offshore.*** The policy applies to onshore and offshore areas in the Arctic Circle.
- ***Covers exploration and production.*** In addition to covering the extraction of oil in the Arctic, Goldman Sachs also rules out direct financing for *exploration* for oil in the Arctic.
- ***Explicit mention of the Arctic Refuge.*** By explicitly stating that Goldman Sachs will not provide financing for oil exploration and production in the Arctic Refuge, Goldman Sachs joins a growing group of banks moving to protect this sensitive ecosystem. The Arctic Refuge sustains a diverse wildlife population, as well as the lives and culture of the Gwich'in people, who have depended on the land for thousands of years.[17]

Key weaknesses:

- ***Applies to direct financing only.*** The policy does not place any explicit restrictions on financing *companies* involved in Arctic oil exploration and production, unless the use of proceeds for a given transaction is known. Fossil fuel companies often do not seek direct financing for their projects, meaning that it is critical for banks like Goldman Sachs to restrict funding for the companies involved in Arctic oil.
- ***Allows financing of services and transport.*** By not explicitly excluding financing for Arctic oil services and transport projects, Goldman Sachs allows financing of infrastructure such as pipelines in the Arctic region.
- ***Allows financing of gas in the Arctic.*** By limiting the policy to only Arctic oil, Goldman Sachs allows financing of gas exploration and production in the Arctic. Gas is *not* a climate solution, and its exploration and production would have just as much of a detrimental impact on the sensitive Arctic ecosystem as would oil exploration and production.[18]

Other Oil and Gas

There are 17 major banks worldwide with policies restricting financing for Arctic oil and/or gas. Fifteen of them also have policies restricting financing for tar sands oil, and four restrict financing for fracking and/or liquefied natural gas (LNG).[19] Goldman Sachs should take the next step to expand its policy to cover oil and gas more broadly.

CONCLUSION

If Goldman Sachs is 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 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. 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. Goldman Sachs must stop financing expansion of fossil fuel extraction or infrastructure, whether via direct financing for new fossil fuel assets or through general corporate finance to companies that are expanding fossil fuel production and use.

  Goldman Sachs's new policy is an advance on ending financing for coal expansion, with the biggest remaining gap being corporate finance for companies expanding coal power. It makes a crucial first step, among U.S. banks, on ending financing expansion of oil and gas, by ruling out Arctic oil projects. Going forward, it should strengthen these commitments on all fossil fuels.

- **Commit to phasing out fossil fuel financing on a timeline aligned with 1.5°C.** In addition to stopping fossil fuel expansion, Goldman Sachs 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.[20] To achieve this pathway, Goldman Sachs must phase out its financing of existing coal, oil, and gas extraction and infrastructure.

  Goldman Sachs's new policy is an advance on phasing out finance for coal mining. Going forward, a 1.5°C-compatible exit date should be specified. The policy should also be expanded to include coal power and services as well as coal mining, and then extended to all fossil fuels.

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

  Goldman Sachs's new policy does not revise its provisions on rights, which were updated recently. It should ensure that this policy covers all forms of finance, including general corporate finance.

Overall, this policy revision from what its peers consider the most prestigious investment bank on Wall Street underlines that coal is an industry with no future. The policy also sets precedent on oil and gas, in that it is the first policy to preemptively restrict financing for any part of the oil and gas sector by a major U.S. bank.

In May 2015, Bank of America established a first-of-its-kind policy to reduce credit exposure to coal mining. By March 2016, the other big five U.S. banks had all responded with new coal policies.

Now, in December 2019, Goldman Sachs's updated fossil policy is the most significant new policy by any of these banks since 2016. The other big five banks should respond by improving on Goldman's commitment, in particular in the runup to the Paris+5 climate conference in Glasgow in November 2020.

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ENDNOTES

[1] The previous version of Goldman Sachs's Environmental Policy Framework, updated in 2015, p. 11. https://drive.google.com/file/d/1s_attVCevnEyHAZMk3napMZfDmjfwriE/view
[2] The most current version of Goldman Sachs's Environmental Policy Framework, updated in December 2019 and quoted here and below, pp. 10 and 20. https://www.goldmansachs.com/citizenship/environmental-stewardship/epf-pdf.pdf
[3] https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/jpmc-environmental-and-social-policy-framework.pdf
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[6] P. 10. https://www.goldmansachs.com/citizenship/environmental-stewardship/epf-pdf.pdf
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