Make it Happen:

From Oyal Bank of Scotland to Royal Bank of Sustainability

Turning Climate Change Funders into Green Economy Financiers

Here for who?

RBS

Contents

This booklet is based on and provides a summary of the following reports:

- 'Oil & Gas Bank: RBS and the financing of climate change', Platform, 2007
- 'Cashing in on Coal: RBS, UK Banks and the Global Coal Industry', Platform, 2008
- 'Towards a Royal Bank of Sustainability: protecting taxpayers' interests; cutting carbon risk', Nick Silver, 2009
- 'Cashing in on Tar Sands: RBS, UK banks and Canada's "blood oil"', Platform, 2010
- A Bank for the Future: Maximising public investment in a low carbon economy, James Leaton, Platform, 2010

Compiled by Melinda Denes and Mary Church

Summary

The impacts of rising global temperatures, both now and in the future have been widely documented. Science tells us that human activity is changing the climate, and that emissions from burning fossil fuels are the largest contributor to climate change.

At the same time as we acknowledge this environmental crisis, we also face a financial crisis. We have exploited finite resources and the system we used to value them has failed.

Climate change is just one symptom of a malfunctioning economic system. In order to tackle it, we need a major paradigm shift in the way we organise our economy and society. But this doesn't have to mean impossible sacrifices. By making a transition to a low-carbon economy we can build more convivial ways of living and rediscover our common humanity. Part of that transition must be sustained investment in energy conservation and renewable energy generation.

One of the best routes for Scotland and the UK to achieve a truly sustainable future is to move towards a new investment model which champions clean, green, ethical choices, and does not perpetuate the sort of environmentally catastrophic choices that are the result of much of our banks' investment portfolio. Action to mitigate climate change must include dealing with the money behind damaging energy production.

Royal Bank of Scotland (RBS) is Scotland's largest bank, and the largest UK bank investing in climate trashing fossil fuels. Continuing to invest in the exploitation of fossil fuels and other finite resources, when the disastrous implications of such activity are clear, is ethically and environmentally irresponsible.

Of course, RBS is not just Scotland's largest bank, but also the peoples' bank, being over 80% UK taxpayer owned since 2008's bailout. As such, the Chancellor, as the representative of the majority shareholder (us, the UK public), has more opportunity – and responsibility – than ever before to direct RBS' investment strategy with a view to the bank becoming a model for a Green Investment Bank.

A Royal Bank of Sustainability could benefit both Scotland's environment and our economy.

> "The investment that takes place in the next 10-20 years could lock in very high greenhouse gas emissions for the next half century, or help move the world onto a more sustainable path."
> Lord Stern

RBS – Funding climate change

As a leading investor in the fossil fuel industry RBS takes centre stage in financing environmentally devastating projects around the world. While RBS deny any responsibility for the environmentally destructive impacts of the energy companies they finance, they are keen to promote their small investment in renewables as a 'green credential'.

We hardly ever think about what the relationship is between banks and climate change and yet RBS, an 83% publicly owned bank, is one of the most significant and influential investors in climate change and environmentally damaging projects around the world.

At first glance, high street banks' impacts on climate change might look minor. Carbon emissions appear comparatively low, primarily caused by office-based activities and business trips. Yet RBS' products are not only bank statements and analysts' reports; banks are providers of financial services including loans, investment and accounts. These services play a central role in the exploration, production and transportation of coal, tar sands, oil and gas. While "internal" emissions from the bank's own energy use are relatively low, the carbon emissions embedded within its financial products are staggering.

RBS takes centre stage in financing environmentally devastating projects around the world: pipelines, oilrigs, oil production, coal mining and tar sand extraction. In order to secure its fierce leading position as the self titled `oil and gas bank` RBS has been known to undercut its competitors and offer cheap business loans for companies, such as Shell, BP, ConcoPhilips, E.ON and Exxon.

An investigation by The Guardian showed that in the first six months following the banks initial recapitalisation in October 2008, RBS had been involved in loans worth nearly £10 billion to oil, coal and gas companies – a quarter of the total amount of public funds put into RBS at that point.

The growing demand for energy has resulted in as many as 50 new coal fired power stations being planned in Europe alone. Once a fossil fuelled energy plant is built it continues to emit for years, until it is eventually decommissioned, generally 20-30 years after financing. Banks provide vital support to fossil fuel industries by providing the financial backing to projects that are often controversial in terms of their impact on local communities and on the environment.

RBS argues that responsibility lies with the borrower not the lender and if banks are held responsible for carbon emissions associated with lending decisions then by implication they could be held responsible for just about every activity involving money at some stage or other. However, RBS is keen to highlight the level of investment it makes in renewable energy projects, and promotes this investment as an environmental 'credential'.

RBS is the second largest bank in Europe and ranks as the 6th most influential financial institution globally. Its brand name includes Churchill, Direct Line and NatWest. We hear these names and deal with them in our everyday life and yet know very little about what goes on behind the shiny façade of the high street branches.

RBS presents itself as society's fairy godmother by sponsoring high-profile events such as the 6 Nations Rugby and the Edinburgh Fringe and to our sporting heroes like Andy Murray. But where do the funds for that sponsorship come from? With an investment portfolio that stinks of carbon emissions, has RBS made a commitment to sponsor climate change too?

There is a contradiction between taking credit for the positive environmental impacts of its investments while disowning responsibility for any negative ones. Emissions for a coal-fired power station, for instance, are clearly not the entire responsibility of a bank. Including these emissions in a carbon footprint for the financing bank, the power generation company and all of its customers will lead to serious double or triple-counting of emissions. While a bank's responsibility may not include all emissions from financed activities, at a minimum there exists a responsibility on the banks' part to understand, assess and disclose these emissions.

It's not so surprising that the banking sector seems to have been in bed with the fossil fuel industries when one learns that many of the RBS board members have interests in the energy business. In recent years a previous RBS Chairman, Sir Tom McKillop, (RBS Chairman until February 2009) was also known to serve as the director of BP. The current Chairman, Sir Philip Hampton (since February 2009) used to work for British Gas.

The resurgence of fossil fuels

Our appetite for energy appears insatiable even in the face of runaway climate change. Energy companies and the banks that fund them continue to invest billions in polluting fossil fuels, despite the vast potential of clean, green, renewable energy. Recent years have seen a resurgence of coal, the dirtiest and least efficient fuel, while monumentally damaging tar sands extraction is featuring with alarming regularity in the industry's portfolio.

In the 1990s the abundant availability of cheap natural gas encouraged a significant shift from more expensive coal and oil. As gas is significantly less carbon intensive than other fossil fuels, the UK's carbon emissions dropped, despite our increase in energy consumption. However, the 21st century has seen gas prices on the rise and concerns over security of supply from volatile regions increase, leading to another shift in the energy sector. The global energy industry is reverting to traditional (and not so traditional) sources of coal and oil.

This resurgence of fossil fuels led to a proposal to build a new coal fired power station at Kingsnorth – the first in the UK for 30 years. The 2006 Government proposal also suggested the building of another 6 similar power stations around the country. While the development at Kingsnorth has been temporarily halted, a proposal for new coal at Hunterston in Ayrshire remains a very live threat.

The development of any new coal fired power stations in the UK will seriously jeopardise the government's legal commitment and aim to combat climate change. In the UK the power generating industry produces a third of the country's carbon emissions. This means that we have to think very carefully now about how we produce energy in the future, because investing in a particular resource will effectively lock us into using that source of energy for many years to come. Investing in dirty fossil fuels now does not make economic sense when we will have to pay billions to deal with the impacts of climate change later, especially because we already have plenty of less harmful alternatives at our disposal. Fossil fuels, like coal and oil, represent environmentally harmful and socially devastating sources of energy and instead of these options we should focus on greener and sustainable technologies to power into the new decade of renewable energies.

The UK government has signed various agreements on the international political platform to express its commitment to take climate change issues seriously. These signatures alone will not do the job. The energy industry is crying out for a complete revamp: we must start investing in developments now that will allow renewable and green technologies to reach their full potential in years to come.

In investment terms, traditional energy production from fossil fuels carries low risks as technologies and methods have been in use for a long time. However, as easily accessible oil wells dry up, the industry is forced to drill deeper under dangerous conditions to feed our ever-increasing oil addiction. These risks have been dragged into the spotlight following the recent BP Deep Water Horizon disaster. The growing difficulties with conventional oil extraction has led the industry to look to tar sands as the answer to the 21st centuries energy needs. Tar sands extraction was previously considered inefficient, as the process is extremely capital and resource intensive, but in the current climate it is beginning to look like an attractive option for investors.

Compared to fossil fuel industries the low carbon and green technology sector is relatively new and thus labeled as a risky financial investment. The UK is one of the most suitable countries in Europe to build on its renewable resources. Still, in 2009 Vestas, a wind turbine manufacturer, closed its plant due to lack of business. The UK seems to lag behind other European countries in developing and investing in sustainable energy alternatives of the low carbon economy.

Coal

Coal is so harmful to the environment that a recent UK parliamentary report recommended that it should be the last resort for energy production. However, coal mining and combustion is booming both on a global scale, and here in the UK. The banking sector provides enormous financial support for these environmentally devastating projects, seeing it as a safe investment in terms of return. But the impacts on the environment and climate are far from safe.


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Coal is recognised as the most inefficient and most environmentally harmful way of producing energy today. In 2008, the UK Parliamentary Environmental Audit Committee declared that coal should be seen as a last resort in the energy mix.

Use of coal has soared, in both the Global South and the North. New coal plants are rapidly being commissioned in the US, India and China, at a rate of over one new plant each week. From 2003-2005, coal demand increased by 15% in China, 7% in Russia and 5% in Japan. The resulting rise in the price of coal has created financial incentives for the development of new mines and expansion of existing production in Indonesia, Australia, India and the US.

There are plans to put over 50 coal fired plants into operation across Europe over the next five years, while in July 2008, Rio Tinto announced plans to double its mined output in Australia by 2015. Opening new mines and commissioning new coal plants requires large sums of capital and banks have readily stepped in to provide the money to make this coal boom possible. In the two years prior to April 2008, UK banks were involved in over $108 billion of lending to corporations involved in the coal sector.

Banks with a background in financing oil and gas and large infrastructure projects have actively supported the rise of coal in recent years by providing the financial means needed for rapid expansion. Between May 2006 and April 2008, RBS participated in 27 different loans with a total value of $95.83 billion. In addition to providing and arranging loans, bonds and credit, RBS plays an increasingly key role acting as financial advisers and structuring the loan agreements that make new projects possible.

Compared to other UK banks, RBS is the clear leader in providing financing to coal mining and power plants, including some of the most controversial in terms of environmental destruction and human rights abuses. The Bank has been involved in the most and the largest loans financing coal operations from Indonesia to Kazakhstan, from Australia to Portugal.

In order to counteract the dirty image that coal has accrued in recent decades, the coal industry is developing and promoting a number of technological processes to allow industry promoters to attach the adjective 'clean' before the word 'coal'.

The process of Carbon Capture and Storage (CCS), whereby carbon dioxide is captured pre or post combustion and stored underground, has yet to be demonstrated in an integrated, commercial scale pilot project. This technology may generate significant carbon emissions reductions, however, the cost of doing so is relatively high. At present, none of the coal plant proposals funded by banks like RBS involve more than small scale testing of CCS, nor do the plans for new coal at Hunterston. While the price of carbon remains low, companies have little incentive to invest in the development of CCS opting instead to pay for their emissions and await government subsidies to make CCS worthwhile.

If CCS were to ever be proven as a commercially viable technology, it may well prove to be a necessary interim technology for industrialising countries such as China and India. However, its development must not be allowed to distract government and industry from investing in energy saving and renewable power developments.

Scotland's carbon dinosaurs were on the verge of dying out, with Cockenzie due for decommissioning and Longannet proposing to clean up its act with CCS. However, plans for a brand new coal fired power station at Hunterston have seen the threat from coal back on the agenda, in a move that would seriously jeopardize Scotland's climate change targets.

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Oil

Oil is one of the most influential economical, political and environmental factors in the world. Used for everything from heating our homes to food packaging and textile production, it is hard to imagine a world without it. But oil is getting harder to find and extract. Disasters like the Deepwater Horizon spill in the Gulf of Mexico highlight the awful risks associated with our addiction to oil.

Oil is often referred to as black gold simply because it is still one of the most influential economical, political and environmental factors in the world today.

RBS has made itself integral to every stage of oil and gas exploration, production and development. Exploration of new regions is financed by general credit and overdraft facilities that give the oil and gas corporation flexibility in spending. Construction of platforms to produce oil and gas is paid for with dollars from project finance and loans backed by reserves in the ground. The crude is shipped from oil-rich areas to consumer regions via pipelines and tankers – constructed with project finance loans. Receiving terminals in consumer countries are the last stage in an integrated system of production, transport and delivery – requiring immensely complex loan agreements and financial advice.

RBS is not a distant investor but a hands-on partner, providing project and risk analysis, structuring loan agreements and bringing other banks on board. Since oil and gas extraction projects usually last for 20-40 years, financing decisions made today risk locking in decades of high carbon emissions.

RBS claims to have been involved in financing North Sea oil exploration and production "since the beginning". With the oil and gas majors (BP, Shell, Exxon) providing less of the new investment since production peaked, the RBS team has specialised in servicing smaller, independent companies. These tend to be less experienced, and thus rely on RBS for hands-on support, including financial modeling, risk analysis and project advice.

Demand for oil is growing in spite of the decrease in global oil reserves. The rapid development of technology enables the oil industry to exploit resources uncompromisingly. Oil is transported via longer than ever pipelines: RBS part funded BP`s Baku-Tibilis-Ceyhan oil pipe which runs from Azerbaijan to Turkey and carries oil to be used in Western countries.

Technological pioneering has opened up new ways to access oil reserves that are buried in the deeper geological layers underwater. However, deepwater oil exploitation carries great risks. BP`s oil activities led to the devastation of the Gulf of Mexico in 2010 due to faulty equipment. The multinational oil company's Deepwater Horizon is responsible for what has turned out to be one of the most destructive natural disasters in the history of the oil industry.

BP claims to be supporting the transition to a low carbon economy and improving energy efficiency in the company's operations. However, in addition to cutting corners when drilling in the deep, BP has also been actively involved with the exploitation of the Canadian tar sands, one of the most environmentally devastating projects in the world.

Tar Sands

Tar sands exploitation is the industry's answer to our conventional sources of oil drying up. However, the extraction of oil from tar sands in Canada has been labeled the most devastating project on the planet. The methods used in tar sand extraction destroy the local environment and violate human rights, while burning the final product will cause irreversible damage to our climate.

Tar sands are seen as the 21st century's goldmine. This oil rich layer of soil that lies beneath the Canadian boreal forest promises new development opportunities for the industry and a welcome addition to the investment portfolio of UK banks. Until recently, oil production by means of tar sand excavation was considered simply too expensive, however with conventional sources drying up, they are looking ever more attractive to investors.

RBS is the UK bank that has been the most heavily involved in financing companies involved in tar sands extraction in Canada. From 2007 to 2009, RBS underwrote loans worth over $7.5bn to companies exploiting tar sands in Canada. Since 2008's bail out, RBS has underwritten corporate debt and equity worth


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nearly $2.5 billion for tar sands related companies. This use of public money is counter to growing public expectations and political demands that RBS operate to a different standard than simply the pursuit of the financial bottom line.

Extracting oil from tar sands is more expensive and more carbon intensive than other kinds of oil production because of the extra energy involved in the mining process. During the excavation process bitumen is extracted and upgraded into crude. Once the bitumen is extracted it still needs additional treatments to create a lighter product to enable transportation via pipeline. Huge efforts yield small results: approximately 2 tonnes of tar sand has to be processed in order to gain 1 barrel of oil. There are significant disagreements in estimating the increased emissions intensity when compared with traditional oil extraction: pro tar sand sources claim a 10-15% increase, while environmentalists highlight a 300% increase.

Tar sands exploitation has boomed in the past decade in spite of its devastating effect on local ecosystems, the global climate and on indigenous communities. Canada's tar sands are deemed to be the global `test site` for the oil industry's tar sand ambitions and there is a realistic fear that the further development of this unconventional source of oil in less regulated countries may cause even worse damage for the environment and result in greater damage to local communities and human rights abuses. Such deposits of unconventional oil are found in many other countries such as Jordan, the Democratic Republic of Congo and Madagascar.

All fossil fuel infrastructures are capital intensive but tar sands are more costly because there is additional processing required to extract the oil. Large international financial institutions see the Canadian tar sand reservoir as a new investment opportunity. In spite of the environmental and social devastation caused by coal and oil exploitation the financial sector still considers these energy sources less risky compared to new, green and sustainable energy technologies.

Greenwashing

Banks are keener than ever to demonstrate their environmental credentials in a world where climate change is constantly in the news. While RBS and others have made efforts to green their branches with office energy efficiency measures and such like, the fact remains that the damage caused by their investments in the fossil fuel industry renders these activities meaningless.

RBS has now accepted the need to calculate and publish its "internal" carbon emissions resulting from its computer screens, heating of buildings and travel. However, it refuses to accept responsibility for its "embedded emissions" – those resulting from its core business of providing loans, advice and financial transactions – which RBS argues lie entirely with the borrower.

The bank has issued thousands of glossy leaflets to all its branches entitled 'RBS and the Environment', in which it talks about its renewables financing and the fact that they "achieved the highest possible rating (AAA) for environmental and social management, by the Innovest ratings agency in 2007." RBS chooses not to mention Innovest's October 2007 Carbon Beta Rating which specifically assesses climate risk management. RBS scored only BBB. Out of 15 banks reported on in Innovest's Carbon Disclosure Project report, RBS was the only bank to score less than A.

The climate-related policies an institution has in place are a central driver in promoting good climate risk governance internally and with clients. However, the finance provided to high-carbon and low-carbon activities has the most direct impact on actual greenhouse gas emissions. An institution may have excellent policies but if it continues to heavily invest in high-carbon activities its environmental impact is high and its climate performance must be rated lower.

The banking bail out – what next?

The short-term, profit-maximising attitude of banks contributed to the financial mess the global economy found itself in. However, if suitable steps are taken the banking sector can also lead the way to economic recovery.

In 2010 UK taxpayers own a staggering 83% share in RBS. This gives the new government an unprecedented opportunity to redefine the banks and their role in the UK. The "special relationship" between the taxpayers and RBS opens up new avenues for the government to step in and set ethical investment standards for the financial sector that will benefit both the economy and society.

In the UK there are no overarching legal requirements that require banks to invest ethically and operate in a sustainable manner. Therefore, UK banks or financial institutions are not required to provide a full public inventory of their fossil fuel investments, nor have ethical investment standards. While many banks – including RBS – sign up to voluntary standards such as the Equator Principles and the Climate Principles, continued commitment to projects such as the Canadian tar sand excavation demonstrate that these commitments to environment and human rights are not worth the paper they are written on.

RBS is one of the largest banks in the world and a significant investor in Canada's massively destructive tar sand operation. The majority of RBS shares are owned by UK taxpayers following the Government bailout. As a result, it's your money that RBS is using to finance some of the most environmentally harmful projects around the globe.

The Government has taken a hands-off approach to the running of the bailed out banks, allowing them to practice business as usual, with the intention to return them to private hands as soon as possible. The idea is that this will see the best return on taxpayers' involuntary investment. But would any UK taxpayer want this at the cost of environmental destruction, runaway climate change and human rights abuses?

The political and economic incentive to move on

Global oil reserves are declining and North Sea oil and gas production is decreasing. Power stations are ageing and coming to the end of their expected lifespan. This is an opportunity to embark on a new era of clean, green energy production instead of burying our heads in the sand and reverting to dirty, damaging traditional methods.

Scotland has 25% of Europe's renewable energy potential, and with this the opportunity to become a world leader in renewable energy technology and provision. But in order to realise this potential the right investment decisions must made.

At the same time, the government must deal with the devastating effect of the financial crisis by introducing strict banking regulations, setting up lending targets and developing a framework that will allow banks to play a role in moving towards a low carbon economy.

If society as a whole is to take action against climate change, banks, like other institutions must play their part, and those that do not will suffer loss of market share by comparison with those that do. Prospering in the new climate will depend on being seen to take a lead.

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A Green Investment Bank

The financial crisis left its mark on the UK economy. It is up to us how we recover from it. RBS, one of the biggest banks in the UK and in the world, is now owned by us, the taxpayers and managed by the government on our behalf. The UK government has the power and the opportunity to turn RBS into a Green Investment Bank that will not only help pull the country out of recession, but also help us to fight the biggest challenge we face today – climate change.

Switching to a low carbon economy will require rapid development of renewables and energy efficiency projects. RBS can carve out a responsible and profitable role in achieving this, if it chooses to. It still has the chance to alter its identity from "the oil and gas bank" to "the low carbon bank". However, financing renewable energy must be an alternative, not an additional, target for loans: financing renewable energy does not reduce the embedded emissions RBS causes through financing fossil fuels.

It is essential that a wider responsibility to consider influenced emissions be fostered in the financial sector. An institution's decision to finance a high-carbon activity will contribute to the impacts of climate change on people and societies around the world. A responsibility must exist for this decision, coupled with the institution's duty to shareholders to consider increasingly significant climate risks to business.

Any measure of climate performance for a financial institution must consider the influence financial institutions hold and the significant opportunities that exist to promote emission reductions in portfolios. Finance is key to a low-carbon future; clearly the financial sector has a critical role to play.

A Green Investment Bank (GIB) could play a vital role in the Government's legal obligation to decrease the country's carbon emissions and could provide a platform to rationalise various financial support mechanisms. It could take the opportunity to focus on renewable energy targets and the proposed expansion of offshore wind industries. It could kick start the low carbon industries development and growth.

The new coalition government is planning to play a long-term role in RBS as its majority shareholder. Could a Green Investment Bank be the way forward?

By creating a GIB the UK will benefit from:

- Green jobs created
- Stabilized energy costs
- Greater energy security
- Improved international competitiveness

The Green Investment Bank should support the businesses that are developing new, green and sustainable technologies and shifting the British economy and energy sector into a brighter future. The UK Government can use RBS as a means of delivering its obligations to tackle climate change and also to move the economy out of troubled waters.

What should happen?

The Government should scrap its commitment to returning RBS to private ownership as soon as is financially viable, and retain it as a nationalised Green Investment Bank. This will enable the Government to have a long-term view when making green investment decisions.

RBS should:

- Recognise the full implications of its operations on climate change, including the core business of financial services.
- Introduce a comprehensive climate change policy addressing and reducing these impacts.
- Calculate, publish and cap embedded carbon emissions.
- Introduce reporting mechanisms that include provision of financial advice and arranging loans.
- Announce a target for annual reductions and the strategy to achieve this.
- Replace the Oil and Gas Team with a Sustainable Energy Team, the majority of whose investments are in renewable energy and energy conservation.

The Chancellor should ensure that all bailed-out banks, including RBS:

- Immediately stop investing in projects and companies that destroy fragile and irreplaceable eco-systems.
- Refuse to finance businesses or ventures that fail to uphold human rights or have close links to oppressive regimes.
- Set and publish annual reduction targets for the emissions resulting from lending to fossil fuel projects and companies, and,
- Prioritise lending to low-carbon companies, technologies and infrastructure.
- Transform RBS into a precedent setting Green Investment Bank.

What can you do?

Write to The Chancellor of the Exchequer, George Osborne, calling on him to use his powers over RBS, and the other bailed-out banks, to switch their investments away from climate wrecking fossil fuels and into renewable energy and energy efficiency.

You can write to him at:
Rt Hon George Osborne MP
The Chancellor of the Exchequer
HM Treasury, Horse Guards Road
London, SW1A 2HQ

Join the facebook page "Stop RBS using Public Money to finance Climate Change"

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