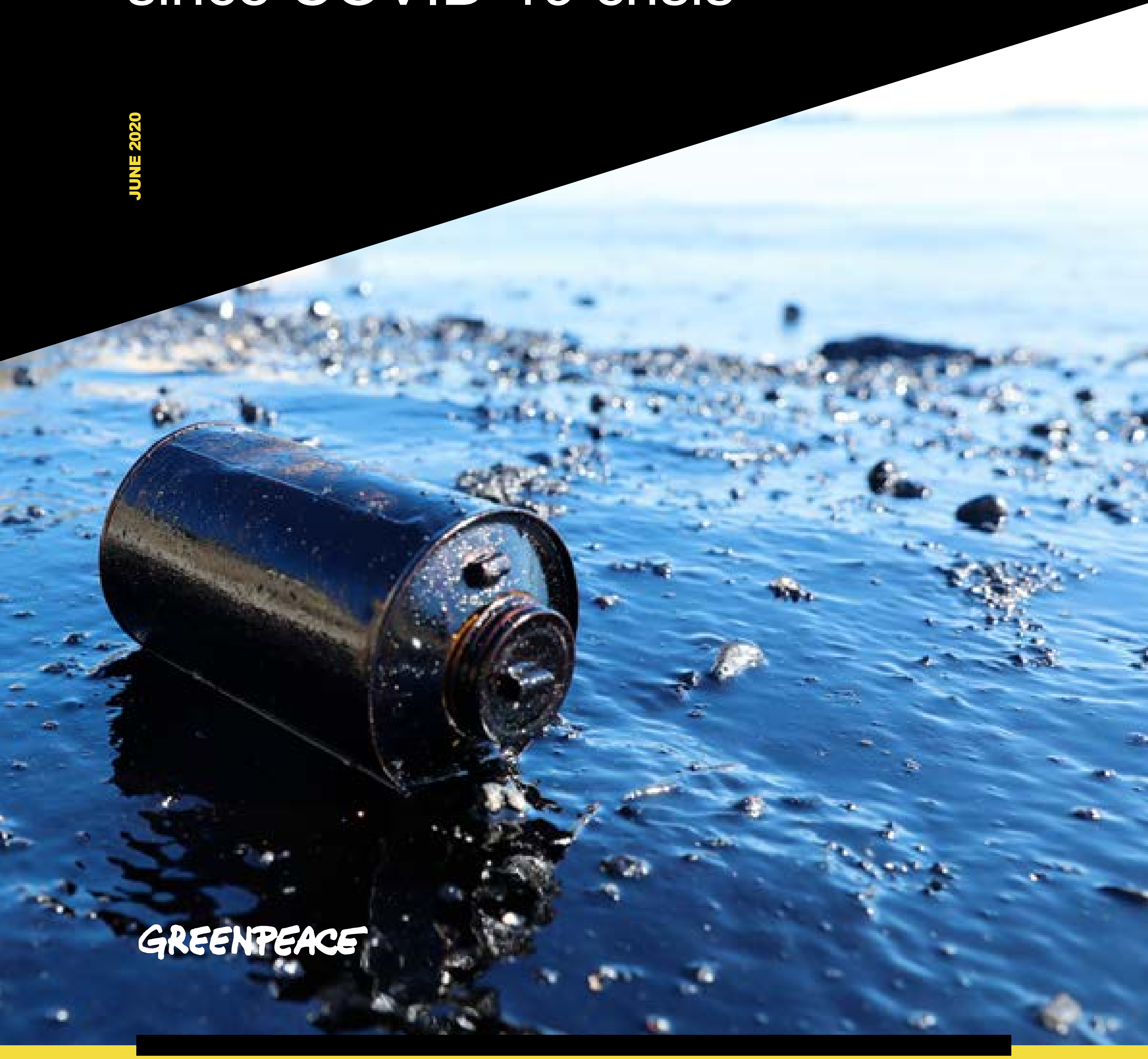
BANKROLLING THE CLIMATE CRISIS

European Central Bank injects over €7 billion into fossil fuels since COVID-19 crisis

JUNE 2020



GREENPEACE

KEY FINDINGS

- Greenpeace analysis and estimations show that between mid-March and mid-May 2020, as part of its response to the coronavirus pandemic, the European Central Bank (ECB) has **purchased corporate bonds to the tune of almost €30 billion**

- €2.4 billion went into bonds of integrated, upstream and downstream oil and gas companies. The estimated carbon footprint of bond purchases of **Shell** - one of the most polluting companies on earth - **Total, Eni, Repsol and OMV is almost 8 million tons of CO2.**

- A total of **€4.4 billion** went to utilities, with the bond purchases of prominent polluters **Engie and EON alone contributing an estimated 3.2 million tons of CO2**

- A further **€5.6 billion** went into industries such as aerospace, automobiles, cement, and other environmentally damaging companies, such as Airbus, Daimler or Peugeot.

GREENPEACE ANALYSIS: THE ECB CORPORATE BOND PURCHASES DURING THE PANDEMIC[1]

This analysis is based on lists of corporate bonds purchased between mid-March and mid-May 2020 and financial statements published by the ECB, and assumes a) that purchases of corporate bonds within the pandemic emergency purchasing programme are similar in size to historical purchases under the corporate sector purchase programme and b) a diversified bond portfolio.

[1] We would like to thank, without implicating, Dr. Ulrich Volz, Founding Director, SOAS Centre for Sustainable Finance & Reader in Economics, Department of Economics for helpful comments and suggestions.

AT A GLANCE:

Sector	Number of bonds purchased	Issue value (€)	Estimated ECB Purchases (€)	Percentage of total issue value purchased
Integrated Oil and Gas companies	15	12,000 M	2,438 M	20%
Utilities	23	14,550 M	4,415 M	30%
Other	122	89,159 M	22,936 M	26%
Total	**160**	**115,709 M**	**29,789 M**	**26%**

INTEGRATED OIL AND GAS COMPANIES IN DETAIL:

Company	Issue value (€)	Estimated ECB Purchases (€)	Tons of CO2 attributed to purchase
ENI S.p.A.	750 M	316 M	1.15 M
Shell International Finance BV	5,000 M	1,128 M	2.33 M
OMV AG	1,750 M	246 M	1.63 M
Total Capital International S.A.	3,000 M	422 M	1.16 M
Repsol Intl Finance B.V.	1,500 M	326 M	1.65 M
Total	**12,000 M**	**2,438 M**	**7.93 M**

SELECTED UTILITIES IN DETAIL:

Company	Issue value (€)	Estimated ECB Purchases (€)	Tons of CO2 attributed to purchase
E.ON SE	2,250 M	750 M	1.22 M
Engie S.A.	2,500 M	806 M	2.05 M
Total	**4,750 M**	**1,556 M**	**3.27 M**

THE ROLE OF THE ECB IN COVID-19 RECOVERY AND THE CLIMATE CRISIS

The European Central Bank (ECB) is the central bank of the 19 EU countries which have adopted the Euro. The ECB is responsible for the monetary policy of all the Eurozone countries, which involves achieving balanced inflation as well as economic and financial stability. The ECB is one of the biggest bond purchasers in the world and any asset purchases it makes in this process have a substantial impact on both Europe's green recovery and the climate crisis.

2020 offers significant opportunities to make groundbreaking changes. With Christine Lagarde, the ECB now has a president who claims to be committed to the climate agenda. In January the ECB announced a review of its monetary policy strategy to be completed by mid 2021. The climate agenda and the green recovery from the health and economic crisis have to be high on the priority list in the new monetary strategy. Whilst the coronavirus has pushed the timeline back, it also presents a unique opportunity: It is time to implement systematic change and stop doing 'business as usual', which is leading us down a path to climate disaster. The ECB has to stop supporting fossil fuel companies through asset purchases and instead ensure Europe's green recovery.

ASSET PURCHASES OF THE EUROPEAN CENTRAL BANK

Since 2014 the ECB has been purchasing securities (largely bonds) as a means of increasing the money supply to, and lowering interest rates in the Eurozone - this is an approach known as quantitative easing. These purchasing programs take various forms, with the overwhelming majority of the €2.7 trillion on the ECB's books at the end of April 2020 in the form of government bonds (debt).[2] One part of the program involves the purchase of corporate bonds, which began in 2016, and makes up around 7.5% of current ECB holdings, at a little over €200 billion.

For most of the period from early 2015 until late 2018 - when asset purchases were halted for a while - the ECB has spent upwards of €50 billion per month on asset purchases. In November 2019 the asset purchases were resumed, and then massively increased in response to the coronavirus and the fallout for the European economy. Initially, on March 12th, the ECB decided to add 120 billion to its asset purchase programs[3]. This was criticised for being far too soft and shortly thereafter the ECB reacted with its 750 billion strong, so-called "pandemic emergency purchase program" (PEPP). On May 15th, less than two months after the PEPP's inception, €180 billion had been spent.[4]

The ECB has been buying corporate bonds since 2016 as part of its corporate sector purchasing program and has many highly polluting companies on its books - above and beyond those purchased as part of the pandemic response and subject to analysis here - such as Volkswagen and Ryanair or the utilities Fortum and Enel, both still operating coal fired power stations.

FUELING CLIMATE CHANGE - THE ECB'S CORPORATE SECTOR PURCHASE PROGRAM

The corporate sector purchase program of the ECB has always been skewed toward fossil fuels and other high carbon sectors. Analysis by the London School of Economics[5] in 2017 demonstrated, for instance, that the eligibility criteria applied by the ECB to bond purchases, massively favors polluting companies. Whilst coal-heavy utilities made[6] up only 5% of all Euro denominated corporate bonds on the market, they made up close to 25% of ECB purchases. Energy - essentially oil and gas - accounted for 2.5% of the Euro bond universe, but 9.5% of ECB purchases. Both of these examples demonstrate that the ECB is clearly purchasing a larger than market share of fossil fuel bonds. Whilst the criteria on rating and maturity made many renewable energy companies ineligible for purchase, a number of companies that were eligible, were not purchased[7].

Both the NGO community and the European Parliament have been calling for increased transparency on the make up and volume of purchases and for the bank to align monetary policy with the climate targets of the EU for many years[8]. Whilst transparency has improved a little - however still leaving much to be desired - the makeup of corporate bond purchases remains a climate disaster.

THE ECB CAN AND MUST CHANGE ITS WAYS

Arguments for greening central banks in general[9] and the ECB in particular[10] have been made. Whilst proponents of bond purchases in their current form argue that the role of the ECB is to ensure balanced inflation and economic and financial stability and otherwise be neutral, it is clear that the climate crisis will pose massive issues to the latter. Indeed the climate crisis, if not stopped, will in all likelihood render macroeconomic and financial stability impossible. As such, the ECB would do much to support its mandate, if it were to refrain from purchasing bonds from the most polluting companies.

Market neutrality, the other argument against excluding particular assets, does not hold up to close inspection. Both Solana[11] and van 't Klooster and Fontan[12] have shown that asset purchasing programs of central banks benefit the eligible asset classes more than the rest and hence are not neutral. A summary of arguments against "market neutrality" have been compiled by Positive Money.[13]

Furthermore, Solana has made compelling arguments about the binding nature of the Paris Agreement on the ECB and that "the Eurosystem is bound by Art. 11 TFEU, which integrates environmental objectives into the mandate of the Eurosystem and requires it to take those objectives into account when designing and implementing monetary policy"[14].

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5 http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2017/05/ClimateImpactQuantEasing_Matikainen-et-al-1.pdf

6 At the time of the LSE report in 2017

7 The authors list Innogy SE, Vela Energy, WindMW and Breeze Finance SA.

8 https://corporateeurope.org/en/economy-finance/2016/12/ecb-quantitative-easing-funds-multinationals-and-climate-change
https://reclaimfinance.org/site/en/2020/05/18/quantitative-easing-and-climate-the-ecbs-dirty-secret/
https://www.positivemoney.eu/2019/01/eu-parliament-pushes-for-more-ecb-transparency-and-better-governance/
https://www.positivemoney.eu/2019/04/report-aligning-ecb-monetary-policy-climate/

9 https://www.adb.org/sites/default/files/publication/452676/adbi-wp867.pdf

10 http://eprints.gla.ac.uk/168312/7/168312.pdf

11 http://eprints.gla.ac.uk/168312/7/168312.pdf

12 https://www.tandfonline.com/doi/full/10.1080/13563467.2019.1657077

13 https://www.positivemoney.eu/2019/09/ecb-market-neutrality-doctrine/

14 http://eprints.gla.ac.uk/168312/7/168312.pdf

CONCLUSION AND GREENPEACE DEMANDS OF THE ECB

The ECB has already shown during this crisis that they are ready and able to diverge from their own rules, for example by purchasing sovereign bonds on the primary market. Other examples, such as the Swiss National Bank, which does not buy assets of arms manufacturers, show that central banks can and do make exclusions.

The ECB has responded to the coronavirus crisis by injecting an estimated **€7 billion** into fossil fuel industries. Through the purchase of bonds of just seven fossil fuels companies[15], it contributed an **estimated 11.2 millions tons of carbon emissions** into the atmosphere, further fueling the climate crisis we are facing. To respond to the climate emergency and to align with the goals of the Paris Agreement, the ECB must exclude fossil fuels and other emission-intensive assets from future purchases.

[15] The ECB has purchased bonds from numerous other fossil fuel companies. The seven companies referred to have been subject to extra analysis in the context of this report.

GREENPEACE DEMANDS THAT THE ECB:

- » Exclude fossil fuel companies from quantitative easing programs.
- » Include climate risks in its collateral framework, significantly increasing haircuts for fossil fuels and other high-carbon assets.
- » Accounts for fossil fuel risks in setting micro-prudential reserve requirements.
- » Introduces macroprudential capital buffers for fossil fuel exposures.
- » Ensures that stress tests are conducted with the risks of fossil fuel asset stranding adequately reflected.

ANNEX: METHODOLOGY

1. First we accessed the corporate bonds purchased through the corporate sector purchase programme (CSPP) and pandemic emergency purchase programme (PEPP) via weekly announcements on the ECB homepage, comparing end of week holdings with the end of week holdings the previous week, to derive the bonds purchased in a given week.[16]
2. Then we accessed the total weekly expenditure on the CSPP and PEPP (as a whole) via the ECB homepage.[17]
3. Next we assumed the percentage spent on PEPP on corporate bonds to be equivalent to the percentage of corporate bonds held as part of total bonds purchased in the APP as of March 2020 - 7.56 percent.[18]
4. We then derived the percentage of the total issue value of all the corporate bonds purchased in a given week by the ECB (CSPP purchases + assumed PEPP purchases / total issue value of the bonds purchased).
5. We next applied the weekly percentage evenly across all corporate bonds purchased in the week in question to arrive at an estimated purchase amount for each bond.
6. For our case study of integrated oil and gas companies and selected utilities, we then divided the 2019[19] scope 1-3 emissions[20] of the company in question, by the total debt and equity in the 2019 balance sheet[21], to arrive at a tCO2e/Euro[22] financing value.
7. Finally, we applied these tCO2e/EUR figures to the bonds of the companies in question purchased by the ECB to arrive at a carbon footprint of each bond purchased.

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16 https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html#cspp

17 https://www.ecb.europa.eu/press/pr/wfs/2020/html/index.en.html

18 https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html, see heading “Eurosystem holdings under the asset purchase programme”

19 In the case of Total SA we took 2018 emissions and 2018 debt and equity figures.

20 Taken from the annual reports of the analysed companies

21 Taken from the Financial Times database (https://markets.ft.com/data/equities)

22 In the case of Royal Dutch Shell PLC, we converted 2019 debt and equity figures from USD into EUR, using the 2019 year end exchange rate of 1:1.1213 (https://www.exchange-rates.org/Rate/EUR/USD/12-31-2019)

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