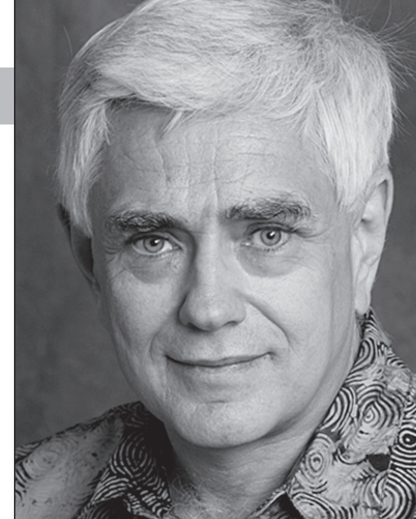
Of Big Bank Net-Zero Lending And Phantom Carbon Offsets



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Governments and companies in many nations are fumbling in a growing disconnect from the findings of reputable studies on what works, and what doesn't work, in reducing greenhouse gas emissions. The evidence grows that some approaches are even counterproductive in that they create the impression that something is being achieved when next to nothing is actually happening to reduce emissions. Let's examine two recent examples from the finance and carbon offset sectors.

We now have credible feedback on the effectiveness of 138 of the biggest international banks—accounting for some 40 percent of global banking assets—in changing their lending practices to achieve "net zero" GHG emissions by 2050. This effort, known as the United Nations Net Zero Banking Alliance, or NZBA, emerged in late 2021 from the Glasgow Financial Alliance for Net Zero at the 26th Conference of the Parties to the climate convention, held in Scotland.

Some approaches to reducing emissions are failing or are rife with fraud

In April researchers from MIT, the Columbia University Business School, and the European Central Bank evaluated the results of the NZBA in a paper that received widespread attention in the financial press. The authors note that high expectations accompanied NZBA, namely that big international banks would "help bridge the large financing gap for the net-zero transition." The *New York Times* headlined, "Global finance industry says it has $130 trillion to invest in efforts to tackle climate change."

The European Central Bank provided the researchers with information on every bank loan made in the Euro Zone above 25,000 euros. They also received input from the U.S. Federal Reserve and the Central Bank of Sweden. The researchers' analysis examined two approaches of the NZBA lenders: decarbonization of lending and investment portfolios through divestment, and engagement with high-emitting borrowers to encourage them to undertake decarbonization measures.

The conclusions are devastating: green rhetoric notwithstanding, the 138 international net-zero banks in aggregate have not reduced lending "to the sectors they target for decarbonization, nor do they increase financing for renewables projects." Moreover, "we find no evidence of reduced financed emissions through engagement." NZBA borrowers "are not more likely to set decarbonization targets or reduce their verified emissions" than borrowers from banks with no climate commitments.

The banks can argue they have had only two and a half years to reorient their portfolios, a complex task which may take much longer. Moreover, a few have begun to deliver on NZBA pledges. BNP Paribas and Credit Agricole—the 8th and 10th largest banks in the world, respectively—declared in May that they would no longer support or sell loans by companies in the oil-and-gas sector. In past years both banks have financed fossil fuel producers like Shell and Total. But the overall picture remains disquieting, since numerous banks are ready to take their place.

Other scandals continue to emerge as the world faces a climate emergency—for instance, from the proliferation of fraudulent carbon offsets. An enormous offset fraud has come to light involving as much as $5 billion in a German government program allowing oil companies to meet GHG emission reductions in transportation by paying for carbon-offsetting projects in China. The oil companies met their required reductions without paying a cent: they collected an extra fee added to the bill for gas purchases at German filling stations and passed it on to the Chinese offset schemes, known as UERs, which stands for "upstream emission reduction" projects.

Investigations by the major German TV network ZDF, and Germany's leading business newspaper, the *Handelsblatt*, revealed that as many as 40 of the 60 UER projects may be worthless. The newspaper reported last year that at least 27 projects are rife with "massive irregularities" and "even clear fraud." Satellite images revealed that 13 UER projects don't even physically exist.

These fake offsets undermined the domestic German biofuel industry, since oil companies use the UERs instead of buying biofuel. Fraud allegations involve two German offset auditing firms tasked with independently certifying the UERs. When a ZDF journalist visited one of the projects the German firms claimed to have been inspected, she found an abandoned chicken farm. This carbon offset scheme cum chicken coop ruin received 80 million euros, paid out of the pockets of German motorists.

The German parliament issued a statement that "the evidence suggests we are dealing with a fraud system. The independent certifiers and validators on site obviously play a crucial role in this." The center right Christian Democrat party characterized the fraud as one of the biggest environmental scandals in many years, with as much as 4.5 billion euros stolen.