

ONE YEAR ON:

BlackRock still addicted to fossil fuels









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Authors:

Lara Cuvelier, Reclaim Finance Lucie Pinson, Reclaim Finance

Contributions:

Angus Satow, Reclaim Finance Ryan Cooper, Reclaim Finance Katrin Ganswindt, Urgewald Jacey Bingler, Urgewald

Page editing:

Jordan Jeandon, Graphic designer

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EXECUTIVE SUMMARY

ith the COVID-19 crisis and its health, social and economic consequences, 2020 has demonstrated the urgent need to act to support the development of more just, united and sustainable societies. Unfortunately, the long-awaited leap has yet to come. As the world will need to decrease fossil fuel production by roughly 6% per year between 2020 and 2030 to follow a 1.5°C consistent pathway¹, it is crucial that financial players put an end to their support to fossil fuel companies. They should both stop any support to coal and act with zero tolerance towards the companies expanding the most climate-damaging sectors², such as shale oil and gas.

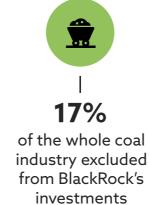
One year ago, on January 14th, Larry Fink announced BlackRock was finally on its way to investing sustainably. The largest investor in the world, with \$7.8tn in assets under management, also published a coal policy³, aiming at "exiting thermal coal producers" but only excluding mining companies with more than 25% of revenues from coal production. To this day, BlackRock still has no policy regarding its investments in other fossil fuels. Reclaim Finance has conducted research on BlackRock's holdings (as of October 2020) to verify the real-world consequences of these announcements and assess the investor's exposure to the coal sector⁴.

Unfortunately, results show that even with this new policy, BlackRock remains a massive investor in coal companies and even in companies planning new coal projects, despite research showing that such projects are incompatible with any serious climate commitment. BlackRock has a major problem with its passively managed investments, which make it widely exposed to coal assets likely to become stranded. They also massively expose it to other fossil fuels, as even the most polluting companies are not excluded from BlackRock's investments.

BlackRock's half-hearted steps in 2020 to invest more sustainably have proven to be superficial. Our analysis shows that the action taken is utterly insufficient to truly curb investments in the sector most problematic when it comes to climate change: fossil fuels.

2021 is a critical year for climate action, with new commitments to reduce greenhouse gas emissions expected by private and state actors ahead of COP 26 in Glasgow. As a first step towards the necessary phase-out of fossil fuels investments⁵, BlackRock must immediately step up the ambition of its global coal exclusion policy, by extending its scope to the entire coal value chain⁶ and to all its assets.

The fossil fuel industry lover





<1/3
of its assets covered
by the coal exclusion
policy



still invested in the coal industry as of October 2020



exclusion criteria on oil and gas

BLACKROCK CAN'T KICK COAL

espite BlackRock's pledge to "exit investments" in thermal coal, at least \$85bn of assets managed by BlackRock are still invested in coal companies. Furthermore, investments in coal companies with expansion plans, such as Sumitomo or KEPCO, are over \$24bn. Among these, BlackRock supports companies with plans to build new power plants which would increase capacity by 241 GW cumulatively, or over three times Germany's and Poland's coal power capacities combined.

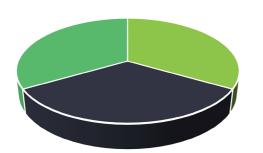
Any new coal plant is inconsistent with a carbon budget compatible with a 1.5°C and even a 2°C target¹⁰, and most coal reserves must remain underground to reach the Paris Agreement's climate targets¹¹.

The analysis of BlackRock's investments illustrates the ineffectiveness of its current coal policy. The main loopholes of the policy are the following:

1. Gaping Holes

BlackRock's global coal policy affects only 17% of the entire coal industry and ignores the most carbon-intensive part of the industry. As a result, BlackRock could still invest in 333 publicly listed companies along the coal value chain while complying with its policy¹². Why is that?

 The policy only excludes a small part of the coal value chain from its investments.
 As outlined in Global Coal Exit List¹³,



excluding coal means considering power generation or infrastructure companies and not only mining. Because of this loophole, companies such as AES or RWE are not excluded by BlackRock.

- The policy does not exclude companies with expansion plans, meaning that a company developing new thermal coal mines, power plants or infrastructure can be supported by BlackRock.
- BlackRock excludes companies that have more than 25% of their revenues from coal mining. Thus, companies with diversified activities and revenues are still supported by BlackRock, even if they have expansion plans or are among the world's biggest coal producers (like BHP Group or Glencore).

Furthermore, BlackRock does not have a global exclusion policy for other fossil fuels and climate-harming commodities, especially tar sands, shale oil and gas, Arctic drilling and Amazon oil. The exclusion criteria should exclude companies that expand in these sectors as well.

2. Missing Assets

Most importantly, BlackRock's policy only applies to its actively-managed portfolio. This means that the more than two-thirds of BlackRock's total assets that are passively managed are not covered. Concretely, this means that BlackRock can still invest in every single coal company in the world via its index funds.

Less than a third of BlackRock's assets is covered by its coal exclusion policy (as of Sept. 2020)

- BlackRock actively managed assets
- BlackRock index fund assets
- BackRock ETF assets

BlackRock's coal policy rated against other asset managers¹⁴

▼ Country ◆	▼ Type ♦	▼ Financial institution	Y Projects ♦	▼ Developers ◆	Relative threshold	Absolute threshold	▼ Phase-out ♦
France	Asset manager	+ AG2R La Mondiale Gestion d'actifs 🕯	NA	8	8	7	10
United States	Asset manager	+ BlackRock	NA	0	1	0	0
France	Asset manager	+ Credit Agricole - Amundi	NA	9	6	1	9
France	Asset manager	+ Credit Mutuel AM 😕	NA	9	10	10	10
Canada	Asset manager	+ Desjardins Global AM	NA	8	10	9	10
France	Asset manager	+ Natixis - NIM - Ostrum AM ☑	NA	6	6	0	8

Case studies

Glencore

Glencore is one of the biggest coal producers in the world, with an annual coal production of around 123Mt. Mainly an exporter and trader of coal, Glencore has been also involved in multiple scandals, ranging from alleged money laundering¹⁵ and corruption in Nigeria, Venezuela and the Democratic Republic of Congo, to expanding a mine¹⁶ in Australia where Glencore has already dumped 63 truckloads of toxic waste near a river, to human rights and labor violations in Columbia¹⁷.

As of October 2020, BlackRock holds \$806m in shares and \$100m in bonds issued by Glencore. The bondholding is linked to Glencore subsidiaries, Glencore Funding Llc, and Glencore Finance (Europe) Limited.

RWE

German utility giant RWE is Europe's largest CO2 emitter. RWE is the world's biggest lignite miner and its coal capacity is almost double the entire UK's coal plant fleet. The company's plan to start closing its power plants only in 2028 (and until 2038) is so dangerous that French investor Amundi has expressed its concerns

in June 2020¹⁸ that the company is not aligned with the objectives of the Paris Agreement. RWE is also known for displacing entire villages in its lignite mining areas in West Germany. Despite its coal phase out plan, seven villages are still set to be destroyed.

As of October 2020, BlackRock's holdings in RWE reached \$2.5bn, mainly in shares.

BHP Group

The Anglo Australian mining company, among the top 100 greenhouse gas emitting companies of all time, still has coal expansion plans. The mining group has not committed to closing its coal mines but rather to sell them. It also plans to rely on its metallurgical coal business to support "attractive returns". The group is involved in multiple scandals, including threatening Aboriginal heritage sites with projects that it only abandoned due to shareholder pressure¹⁹.

BlackRock holds a total of \$6bn in BHP Group, including bondholdings in BHP subsidiaries, BHP Billiton Finance Ltd, BHP Billiton Finance USA Ltd, and BHP Finance Ltd.

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STANDING BY: BLACKROCK'S PASSIVE INVESTING PROBLEM

s previously noted, BlackRock's coal policy is only applicable to one-third of its total assets. Unsurprisingly, this translates into BlackRock maintaining significant involvement in companies that are excluded otherwise by its own coal policy. Examples of companies that can be found in BlackRock index funds include PGE, Coal India, Arch Resources Inc. or New Hope Corporation, all major coal players that BlackRock does not consider acceptable for its active funds.

BlackRock's investments flow to the most polluting companies

BlackRock is structurally exposed to coal because of its passively-managed funds, which constitute most of its assets. The asset manager uses this blind spot to avoid climate action. BlackRock manages around 65% of its assets passively. With this strategy, investments flow to the most polluting companies as if they were normal players²⁰.

Funding the next crisis: Passive investing is a threat to climate action

Big asset managers such as BlackRock that mostly rely on passive management are becoming the holders of last resort for coal and other fossil fuels²¹.

Following a trend set by Vanguard in the early 1970s, BlackRock has built its market leadership mainly by focusing its strategy on passive index investing. This type of investing is said to be responsible for the skyrocketing growth of mega managers such as BlackRock²². Approximately 5.1 out of the \$7.8 trillion assets under management at BlackRock are now invested in index funds.

This investment trend is very problematic for climate action. As with Blackrock's coal exclusion policy, investors often do not apply their fossil fuel policies to passively managed funds. Consequently, the growth of passive management means that a growing share

Passive index investing means that the asset manager is aiming at generating the same return as a given market index through an investment fund or product. This can be done physically, by buying the securities in the index, or synthetically, through derivatives that provide the investor with the performance of the index.

of assets will fall outside the scope of asset managers' commitments. The impact of the decarbonization of actively managed funds will be greatly undermined as long as passively managed funds are growing without coal and fossil fuels exclusion criteria.

In addition to other dangers posed by this trend²³, not only do index investors tend to rarely challenge the management²⁴ of the companies in which they're invested, but they also increase systemic financial risk from climate change²⁵ and can artificially raise the valuation of carbonintensive companies.

BlackRock & the Coal Pandemic

Because index funds are cheap funds, compared to actively-managed "traditional" funds,

they are popular. Passively-managed assets, which represent \$12tn globally, are expected to grow²⁶ even more. BlackRock bet it all on this type of investing. Its index funds are growing exponentially, driving up its support to coal companies.

The asset manager is strengthening its foothold on Europe²⁷, and was responsible for almost 50% of ETF inflows in the European market in 2020. As his presence will encourage the development of passive strategies by competing asset management firms, index funds will play an increasingly important role in supporting polluting companies. It is therefore crucial that all of Blackrock's funds fall under strict coal exclusions in 2021, including on the passive side.

Exchange traded funds (ETF), the most popular type of passive funds, are soaring with more than \$7tn of ETF assets globally. BlackRock holds approximately \$2.8tn through ETFs²⁸, or 40% of the global ETF market.

Case studies

PGE

PGE, Poland's largest energy sector company, is investing in coal. It is even building a new lignite unit, Turow 11, scheduled to be completed in March 2021. In March 2020, PGE also obtained the prolongation of the Turów lignite mine until 2026, causing a legal dispute with the Czech Republic. PGE has not announced a closure date for its coal plants, with over 85% of its coal capacity not covered by any retirement plan.

BlackRock nonetheless still invests \$37m in PGE.

Coal India

Named by the Guardian as one of the 20 worst fossil fuel companies, Coal India has a lot on its plate. One of the largest coal miners, the company has been accused of neglecting human rights during an eviction and land

acquisition process for the expansion of mining operations²⁹ and of violations of Adivasi rights in India.

BlackRock holds almost \$60m in Coal India Ltd shares

Ameren Corp

The American electric utility company, highly reliant on its coal plants, has inadequate plans for reducing its carbon emissions³⁰. Even though the company recently accelerated the retirement dates of two coal plants, its biggest plant, Labadie, will only close in 2042. Furthermore, a judge ruled³¹ in 2019 that Ameren operated its Rush Island coal plant in violation of the Clean Air Act for more than a decade. Ameren is also a big lobbying spender, with more than \$32m since 1998³².

BlackRock's holds a total of \$4.3bn in Ameren Corporation.

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SLICK, FALSE SOLUTIONS

BlackRock's past climate announcements have focused on creating new sustainable options for its clients, launching more sustainable index funds and more funds that screen out fossil fuels. A majority of BlackRock's ESG funds now seem to include a specific coal screening. This "baseline screen³³" goes a lot further than the previously analyzed BlackRock global coal policy and sets a 5% revenue threshold that applies not only to coal extraction but also to coal-based power generation. It is both unclear how and to what

this screen actually applies, and why it has not replaced the less ambitious global coal policy.

Butonething is clear: increasing the sustainable fund offering does not offset the impact of the bulk of BlackRock's assets which continue to support even the worst climate offenders. Currently, assets in "sustainable" ETFs account for a tiny fraction of all iShares³⁴ ETFs. They represent approximately 3% of iShares total assets under management and the increase of their share in iShares funds is too slow.

Share of sustainable assets within iShare funds



3% - iShares sustainable assets (available in the UK market)

97% - other iShares assets under management (available in the UK market)

OUT OF TIME: BLACKROCK'S FAILED ENGAGEMENT STRATEGY

BlackRock's claim regarding its passive index funds is that divesting from specific companies is not possible because of the "rules" of such funds, which are supposed to track an index. As focusing on passive strategies has been a deliberate choice of Blackrock, it is now responsible for solving the problem it helped create if it really wants to get serious to limit global warming or reduce climate and financial risks³⁵. Nonetheless, BlackRock's climate strategy is increasingly focusing on engagement and proxy voting, and even there, results are long overdue.

Empty handed: engagement's failure to deliver

Until now BlackRock's engagement with companies has not shown any significant results³⁶.

Engaging

BlackRock's 2021 Stewardship expectations³⁷ remain too general and focused on the long term. A robust engagement policy should clearly link requests made to companies with consequences in case of non-compliance, including divestment. In the case of coal, it should be coupled with the condition for the company to adopt a full coal phase-out strategy, as already enacted by several French financial actors such as AXA, BNP Paribas and Unicredit.

Votino

In 2020, BlackRock voted against 88% of climate resolutions³⁸ and this voting record is

worse than 2019. Given that proxy voting impact has widely been demonstrated, BlackRock's claim that private engagement with companies should be preferred over negative voting does not stand up. Nonetheless, the last months of 2020 have shown slight positive changes in BlackRock's voting practices. In October, it called on AGL to hasten the closure of its coal plants and voted for a resolution related to BHP advocacy activities inconsistent with the Paris agreement goals. In December, the asset manager also recognized the impact of shareholders votes on companies' behavior.

2021 will be the defining year for the credibility of BlackRock's engagement strategy. But the asset manager also needs to step up its ambition with a robust coal exit strategy. It also must tackle its passive investment problem.

Voting against climate

- BlackRock voted for only 12% of Climate Action 100+ members' climate resolutions in 2020 and voted against the Total resolution led by a coalition of investors in May 2020.
- BlackRock supported less than 10% of the climate-critical resolutions put to a shareholders' vote in S&P500 companies³⁹. Itvoted, for example, against the shareholder resolution⁴⁰ asking Duke Energy to end its anti-climate lobbying activity, while holding \$5bn in the company⁴¹.

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- 6. Including mining, electricity, infrastructure, and services
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Credits

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Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to to bend existing practices to ecological imperatives.

contact@reclaimfinance.org

