Banks still investing heavily in fossil fuels despite net zero pledges – study

Financial institutions signed up to GFANZ initiative accused of acting as 'climate arsonists'

An oil rig anchored in the Cromarty Firth, Invergordon. Banks still investing heavily in fossil fuels despite net zero pledges. Photograph: Jane Barlow/PA

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Banks and finance institutions that have signed up to net zero pledges are still investing heavily in fossil fuels, research has shown, leading to accusations they are acting as "climate arsonists".

The Glasgow Financial Alliance for Net Zero (GFANZ) initiative was launched by the former Bank of England governor Mark Carney, as one of the main UK achievements in hosting the Cop26 UN climate summit at Glasgow in 2021.

The UK boasted at Cop26 that 450 organisations in 45 countries with assets of more than $130tn had signed up to GFANZ, to align their investments with the goal of limiting global temperature rises to 1.5C above pre-industrial levels.

But its members have poured hundreds of billions into fossil fuels since then, according to data compiled by the pressure group Reclaim Finance.

GFANZ is made up of numerous smaller groupings that require members to reduce their exposure to fossil fuels. But at least 56 of the biggest banks in the net-zero banking alliance grouping (NZBA) have provided $270bn to 102 fossil fuel companies for their expansion, through 134 loans and 215 underwriting arrangements, according to Reclaim Finance.

Paddy McCully, senior analyst at Reclaim Finance, said: "GFANZ members are acting as climate arsonists. They've pledged to achieve net zero but are continuing to pour hundreds of billions of dollars into fossil fuel developers. GFANZ and its member alliances will only be credible once they up their game and insist that their members help bring a rapid end to the era of coal, oil and fossil gas expansion."

GFANZ companies are also failing to divest from fossil fuels. In the net zero asset managers grouping (NZAM), another part of GFANZ, at least $847bn in assets in more than 200 fossil fuel companies were held by the 58 largest members, as of last September, according to the report published on Tuesday.

The report also found that few of the GFANZ members had put in place watertight investment polices that would stop them financing new fossil fuel projects, even though all are supposed to be shifting their portfolios to be in line with the 1.5C goal, confirmed at Cop26.

Lucie Pinson, executive director and founder of Reclaim Finance, accused the alliance of greenwashing. "It is business as usual for most banks and investors [involved in GFANZ], who continue to support fossil fuel developers without any restrictions, despite their high-profile commitments to carbon neutrality," she said. "Their greenwashing is all the more damaging as it casts doubt on the sincerity of all net zero commitments, and undermines the efforts of those who are truly acting for the climate."

One of the biggest banks involved in GFANZ is HSBC, which announced restrictions on oil and gas financing last month. But it has approved 58 transactions worth $12bn in capital to fossil fuel developers, since joining a GFANZ grouping in April 2021, according to the Reclaim Finance report.

A spokesperson for HSBC told the Guardian: “HSBC’s aim is to reduce emissions in line with a 1.5C pathway, promote energy security, and ensure energy affordability and access, as part of our commitment to a net zero future. In line with our 1.5C-aligned 2030 financed emissions targets and updated energy policy we will no longer provide new finance or advisory for the specific purposes of new oil and gas fields or related infrastructure, or for the most carbon-intensive oil assets. To accelerate an orderly transition to net zero, we continue to support clients who are playing an active role in the energy transition, including through regular engagement on their transition plans.”

The spokesperson added that fossil fuels were still likely to be necessary for a transition period. “The International Energy Agency’s seminal Net Zero 2050 report outlines that an orderly transition requires continued financing and investment in existing oil and gas fields to maintain the necessary output and security of supply – with 2020 financing levels maintained through 2030 and declining to half thereafter,” they said.

However, Reclaim Finance pointed out that the IEA has also made clear that no new fossil fuel development can take place if the world is to remain within the limit of 1.5C of heating, above pre-industrial levels. It has identified the fossil fuel developers in the report as those engaged in expansion of their assets, such as new drilling and new mining.

LGIM is the biggest UK company in the NZAM initiative, yet in September it held at least $13bn of assets in fossil fuel developers, the report found.

A spokesperson for LGIM told the Guardian: “LGIM is one of the founder members of the Net Zero Asset Managers Initiative established as part of the Glasgow Financial Alliance for Net Zero (GFANZ) and as part of our commitment to the Net Zero Asset Managers Initiative and in partnership with and on behalf of our clients, LGIM has set its own interim net zero AUM [assets under management] target of 70% by 2030, and continues to make progress towards this climate transition. Financing the transition is vitally important and certain fossil fuels will need to be part of the transition to renewable alternatives. By divesting from entire sectors like oil and gas, we won't achieve any real world outcome and investors lose their ability to exert a positive influence via active engagement."

A spokeswoman for GFANZ said: "This report focuses on an important aspect of the energy transition. It's clear a lot of work needs to be done to ensure the world is deploying capital consistent with a 1.5C pathway, which is exactly why GFANZ was created. Based on research GFANZ commissioned last year, we know that investment in renewables needs to be four times the levels going into fossil fuels by 2030 to restrict climate change consistent with the aims of the Paris agreement."

She added: "GFANZ members will detail how they are financing the transition of the energy sector when they publish their interim targets and transition plans. This will allow government, investors and civil society organisations to track progress. We call on financial institutions not in GFANZ to join the alliances that comprise GFANZ to provide transparency and become part of the solution."