

Royal Bank of Canada

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Proposal: Avoiding Bank Participation in Pollution-Intensive Asset Privatizations

Filed by: British Columbia General Employees' Union (BCGEU)

Public companies with pollution-intensive assets such as coal, oil and gas projects are coming under increasing pressure from institutional investors with ESG concerns. As a response to such pressure, certain issuers have sold off these polluting assets, or are contemplating doing so.

In many cases, the only potential buyers for such polluting and often aging assets are private enterprises, since they are not subject to the same disclosure requirements of public companies, and as such they may be immune to pressure from institutional investors and other public market participants on ESG matters.

Commenting on the offloading of polluting assets to private enterprises in November 2021, a Globe and Mail columnist writes¹:

Expelling a dirty business such as a coal mine may reduce the carbon footprint of the company doing the selling, making it more attractive to investors who follow environmental, social and governance (ESG) guidelines. But it does precisely zero to reduce overall carbon emissions, since the buyer keeps operating the mine.

The Private Equity Stakeholders Project has found that fundraising by private equity firms is accelerating rapidly, with US\$460 billion raised in the first half of 2021 alone. The report examined the energy holdings of top private equity firms and found that 80% of their energy assets are in fossil fuels. These private firms have invested US\$1.1 trillion in energy assets since 2010.²

The 2021 Oil & Gas Benchmarking report notes that BP and ConocoPhillips are among the companies that have begun selling off polluting assets to private buyers^{3,4}. According to the report, when ConocoPhillips sold off aging and heavily polluting oil and gas wells to Hilcorp Energy in 2017, ConocoPhillips reported a company-wide reduction in GHG emissions of 20 percent. But the overall climate implications were the same – the company had merely offloaded a heavily polluting asset to Hilcorp, which was named top polluter by the EPA.⁵

Offloading riskier, less desirable assets means some of the most polluting and inefficient properties remain in operation. Globally, banks are starting to move away from financing polluting assets; RBC has already announced that it will not lend money to new coal-fired power generators, thermal coal mines or coal mines that require mountaintop removal. But while banks make these important changes, they may still be variously enabling pollution-intensive asset privatizations, exposing investors to risk.

RESOLVED THAT so as to not facilitate adverse environmental impacts in connection with the sale of coal, oil or gas assets from public companies to private enterprises (pollution-intensive asset privatization), shareholders request RBC and its business units not participate in or enable pollution-intensive asset privatization transactions, specifically by not accepting any new mandates to provide either financing/lending or M&A advisory services to such transactions.

¹ <https://www.theglobeandmail.com/business/commentary/article-greenwashing-is-real-as-companies-and-funds-ride-the-esg-express-the/>

² https://pestakeholder.org/wp-content/uploads/2021/10/PESP_SpecialReport_ClimateCrisis_Oct2021_Final.pdf

³ <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-to-sell-alaska-business-to-hilcorp.html>

⁴ <https://www.offshore-technology.com/news/contango-conocophillips-us/>

⁵ <https://www.catf.us/resource/benchmarking-methane-emissions/>