Barclays PLC Notice of Annual General Meeting 2021, Appendix 5 – A Rebuttal

The 2021 Notice of Annual General Meeting includes a statement from the board on why shareholders should vote against resolution 29. The statement – quoted in full below, with interleaved commentary – presents a significantly flawed and questionable argument. The commentary provides a rebuttal to the argument, which shareholders may find informative.

Board statement on why you should vote against resolution 29

"Last year, Barclays took decisive action to make a real contribution to tackling climate change.

Following extensive engagement with our shareholders, non-governmental organisations and stakeholders from across society, and with the benefit of the valuable feedback we received, we committed to align all of our financing to the goals and timelines of the Paris Agreement, and set an ambition to be a net zero bank by 2050."

It is easy for an organisation to make a commitment. What counts is the execution. With regard to climate change in particular, rapid action this decade is vital. Barclays' current strategy does not constitute 'decisive action', as will be shown in more detail below.

"At the 2020 AGM, shareholders gave their overwhelming support to our climate resolution and, at the same time, we created a new Executive Committee role to oversee the execution and evolution of our approach."

The overwhelming support for the climate resolution supported by the board last year is an indication of the importance shareholders rightly assign to the issue of climate change. The resolution promised action, without details. Shareholders voted for action, awaiting the details.

"Having set our ambition and formalised our commitments, we then worked to develop detailed metrics for setting targets and measuring our progress. We promised to keep shareholders updated on this work and provided an update in November, which is available online."

The details provided in the November update proved to fall very short of the level of ambition needed, using metrics and yardsticks allowing for close to 'business as usual' for as long as possible, rather than the 'real contribution to tackling climate change' referred to above.

Resolution 29

"Resolution 29, proposed by Market Forces, is similar to the ShareAction resolution that shareholders rejected last year, with its emphasis on 'phasing out' rather than on transition."

Despite the board's opposition to the ShareAction resolution, and its questionable sleight-of-hand in proposing a resolution promising action, but without providing details, nearly a quarter of shareholders supported the ShareAction resolution. Since the detail of the bank's planned execution of its professed climate commitments has proved to be very disappointing, there is all the more reason for voting in support of a resolution calling on the bank to go further. To imply that phasing out is somehow an unpalatable alternative to 'transition' is to misunderstand the nature of the required transition away from fossil fuels. By definition, no such 'transition' is possible without phasing out finance for fossil fuels. For so long as fossil fuel extraction, use and even expansion is financed, CO_2 levels will continue to rise, bringing the world closer to climate breakdown.

"The Board asks shareholders to vote against resolution 29 for three principal reasons.

First, we have a new strategy, adopted only last year, to align us to the goals of the Paris agreement without universally phasing out fossil fuel clients. It sets us on an operationally deliverable path, with specific targets and regular reporting, to reduce the financed emissions of our portfolio on the way to becoming a net zero bank by 2050."

It is certainly true that the strategy concerned is operationally deliverable, and involves targets and reporting. These are necessary but not sufficient conditions for an acceptable strategy, which must also involve adequate action to make the professed 'real contribution to tackling climate change'. It is misleading to claim that the strategy sets a course for net zero financed emissions by 2050, as discussed further below.

"Secondly, we have already made meaningful progress over the last 12 months to design, refine and embed our detailed approach across Barclays. As the frontier of what constitutes effective action to tackle climate change moves forward, our approach will naturally evolve with it, but we do not believe we should radically change course now from the path we have only just taken."

Rather than presenting a radical change of course, the resolution proposed by Market Forces proposes a course correction to steer the bank towards an adequate execution of its professed commitments. Yardsticks for "what constitutes effective action to tackle climate change" include the reduction rates found in the IPCC's special report, as mentioned in the supporting statement for the resolution, against which the bank's current strategy does not even begin to measure up.

"Thirdly, the Board continues to believe that Barclays can make the greatest difference by supporting the transition to a low carbon economy, rather than by simply phasing out support for some of the clients who are most engaged in it. We believe that banks, especially those like Barclays with a large capital markets business, are in a unique position to help accelerate the transition by working with companies that are in the process of moving away from fossil fuels to renewables, as many of our clients have already begun to do."

It is disingenuous to present 'working with companies' and phasing out fossil fuel finance as two mutually exclusive alternatives. The Market Forces resolutions does not suggest immediately withdrawing all finance from all clients engaged in fossil fuel activity. There is every reason for Barclays to help companies move away from fossil fuels to renewables. There is also every reason for Barclays to set targets for phasing out fossil fuel finance, both as an additional motivation for encouraging that move, and to ensure that the bank does not indefinitely continue financing companies that persist with fossil fuels.

"We are therefore committed to continuing this work with clients in key sectors, believing it is better to be an active agent of change in the transition, rather than simply walking away from financing for individual companies and leaving other financiers that may not hold the same expectations of their companies to fill that gap."

An argument formulated as "if we don't do it, someone else will" is no more of a justification for indefinitely financing fossil fuels than it is for rigging the LIBOR rate. In addition, the suggestion that Barclays' expectations of its clients set a high bar does not stand up to scrutiny when compared with the positions of other major banks, as explained in the supporting statement for the resolution. Neither is it true to suggest that alternative finance will always flow into a vacuum left by other banks. Barclays was among the banks that declined involvement in Adani's proposed massive new coal field in Queensland, Australia, helping stop the project in its tracks.[1] Since then, Adani has eventually been able to finance a smaller version of the project, obliged to use only Adani Group resources – an outcome that is an argument for banks also refusing general corporate finance to companies such as Adani, which could be achieved by just the kind of phase-out that the resolution is proposing.[2]

"It was on this basis that we formulated the approach we put to shareholders last year, and for which we received overwhelming support."

That approach was put to shareholders in outline. The details subsequently released do not constitute an effective strategy, as will be discussed further below. Many shareholders supportive of the successful resolution last year may be disappointed by this strategy and may now wish to support the proposal from Market Forces.

Key features of our approach

"It may be helpful for shareholders, when considering the comments made by Market Forces, to be reminded of certain elements of our approach and why we adopted them. In particular, we would like to comment on the benchmarks and targets that we have chosen and on our approach to the coal sector.

Aligning our financing to the goals of the Paris Agreement requires us to reduce the client emissions that we finance. To help us do that, we have developed BlueTrack, our methodology for measuring financed emissions and tracking them over time against a decreasing 'carbon limit'."

BlueTrack focusses on the idea of reducing emissions 'intensity': roughly speaking, the amount of CO_2 produced per unit of output. This is a curious and questionable measure to use. If a gigaton of CO_2 is released into the atmosphere, it has the same worsening effect on global warming regardless of how many MWh of electricity were produced by the process emitting it. The only measure that matters for combatting global warming is total CO_2 emissions. If a power portfolio including coal-fired power stations is extended by adding gas-fired power stations, the 'intensity' is lowered, but the total CO_2 emissions from it *increase*. The possible motivation for using such a misleading measure is discussed below.

"We have already used BlueTrack to assess the financed emissions of our client portfolios in the Energy and Power sectors. We prioritised these two sectors because they are responsible for up to three quarters of all Greenhouse Gas ('GHG') emissions globally, and because Barclays has meaningful exposure to them; therefore they represent the most appropriate starting place from which to make a significant difference. In November, we set a target for a 30% reduction in the CO_2 intensity of our Power portfolio and a 15% reduction in absolute emissions of our Energy portfolio by 2025."

A 15% reduction in absolute emissions *may* represent good progress, depending on just what is being counted, which Barclays' reports do not make clear (even the third-party figures from Dealogic included for 'transparency' are presented with the caveat that "this data is subject to further analysis and methodological enhancements, before it is included in BlueTrack".[3]) However, as noted above, a 30% 'intensity' reduction tells us nothing about overall CO_2 emissions. This makes it an ideal measure for a bank wishing to profit from financing an expansion of the use of gas in power generation and elsewhere, alongside a possible reduction in the use of coal – a wish reflected by the plans presented at conferences it hosts for fossil fuel companies, which envisage burning only around 20% less oil and gas in 2040 as in 2018.[4] Funnelling capital into gas infrastructure would tie countries into fossil fuel use for many years to come, over a period when it must instead be drastically reduced, and is predicated on the myth that gas is a suitable ‘bridge fuel’. For numerous reasons, gas “cannot form a bridge to a clean energy future”, as recognized in the EU's sustainable finance drafting.[5] Plans for continued gas use contrast starkly with the prescriptions of the IPCC, but can be made to appear credible with reference to a non-neutral third party, as explained below.

“We derived Paris-Agreement-aligned benchmarks for both the Energy and Power sectors using the International Energy Agency’s Sustainable Development Scenario (‘SDS’) to limit warming to ~ 1.8°C. We have always been clear that the IEA SDS is an imperfect benchmark, not least because it extends to 2070.”

By Barclays own admission, it is misleading to claim that its strategy now charts a course to becoming a net-zero bank by 2050, since its chosen benchmark – the IEA SDS – targets net-zero emissions by 2070.[6] Since it does not feature the rapid reductions required this decade, and involves a further 20 years of emissions beyond 2050, it is a disastrous scenario for the climate – unless highly-speculative, unproven negative-emissions technologies are deployed at colossal scale. The alternative would be a genuine transition to renewable energy, but the IEA has for years repeatedly underestimated growth in renewable energy by a huge margin, as might be expected from an organisation originally set up to ensure security of fossil fuel supply.[7]

“However, it is the best available option because it is the only scenario that offers a sufficiently high-resolution dataset to meet our analytical needs. That means we can start work now, making the necessary calculations to put us on a path to achieve our portfolio alignment commitment.

As part of our selection process, we conducted a comprehensive review of alternative benchmarks, including those put forward by the Intergovernmental Panel on Climate Change (‘IPCC’) and referenced by Market Forces in its statement supporting resolution 29. These IPCC benchmarks are physical models reviewing impacts resulting in changes in temperature and do not offer the same datasets, whereas the IEA produce an energy transition scenario that is currently most appropriate to aligning our Energy and Power portfolios. As other useable scenarios develop in line with climate science, we will look to add them to BlueTrack.”

Following sustained criticism, the IEA has now introduced a new Net-Zero Emissions by 2050 (NZE2050) scenario in its World Energy Outlook 2020.[8] If Barclays insists on using an IEA scenario to guide its strategy, this is the one it should now use. As the IEA correctly notes, “Decisions over the next decade will play a critical role in determining the pathway to 2050”, with a much steeper reduction in emissions than that seen in Barclays’ current strategy.

“We believe that it is imperative to set near-term targets like the ones we have set for Energy and Power, because that is the best way to ensure we are making sufficiently rapid and meaningful progress on alignment, while also allowing us to keep pace with best practice and adjust according to climate science. As we progress, we fully expect to set ourselves new targets, both in the near and medium term, to ensure our journey towards alignment is continuing on track. We will ensure all our targets are set in a manner that means we will reach net zero by 2050 if not earlier.”

Barclays’ current strategy is demonstrably not in accordance with current climate science, since it does not target the rate of reduction this decade prescribed by the IPCC, and demonstrably not set in a manner that will reach net zero by 2050, as noted above.

“We are confident that our approach to supporting clients to reduce their coal portfolios, where they exist, is having a positive impact. We have applied thresholds to enable us to continue

engaging with clients who are committed to the goals of the Paris Agreement through their transition where a small, legacy element of their overall portfolio is taking longer to phase out. We have already seen significant reductions in coal exposures from many of these clients, reflecting the momentum in the economy to move away from this fuel source. We will continue to keep our position on coal under review."

Barclays' position on thermal coal financing is that "By 2025, we will no longer provide any financing to clients that generate more than 30% of revenue from thermal coal activities. [This] applies to the entity being financed, whether transacting with a group parent, subsidiary or joint venture."[9] However, applying this threshold to a parent entity excludes very few of Barclays' existing mining and power clients – applicable to only 2 out of the 45 bond transactions undertaken in 2019, and only 9 of the 38 syndicated loans made in 2019.[10] Unlike some other banks, Barclays has set no final exit date for coal; in fact, between 2018 and 2020, it was the fifth largest lender in the world to the coal industry.[11] Barclays' threshold-based restrictions - which amount to hardly any restriction at all - stand in stark contrast to the call to action from UN secretary-general António Guterres:

> Today, I am calling on all governments, private companies and local authorities to take three steps [...] First, cancel all global coal projects in the pipeline and end the deadly addiction to coal. Second, end the international financing of coal plants and [...] third, jump-start a global effort to finally organise a just transition [for coal industry workers], going plant by plant if necessary.[12]

Barclays' board claims the bank will set new targets "to ensure our journey towards alignment is continuing on track". Coal is a stand-out case of where Barclays' journey is in dire need of directions – in no way aligned with the 78% reduction this decade prescribed by the IPCC – and the observations above highlight how far the strategy is overall from "rapid and meaningful progress". If the board does not understand this, nor that indefinitely financing fossil fuels is an untenable position, it is incumbent upon shareholders to make it clear by voting for the Market Forces resolution.

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