

# COAL-FIRED POWER GENERATION – SECTOR POLICY



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# Structure

Preamble	3
Sectorial Policy	4
1 Objective	4
2 Scope	4
2.1 Geographical	4
2.2 Business	4
2.3 BNP Paribas Activities	4
3 Rules and standards of the policy	5
3.1 Financial services for coal-fired power plant projects	5
3.2 Financial services for coal-fired power generation companies	5
3.2.1 Mandatory requirements related to financial products and services	6
3.2.2 Mandatory requirements related to our Asset Management activities	6
3.2.3 Evaluation criteria related to financial products and services	7
3.2.4 Specific case of new clients	7
4 Group-Level Implementation Mechanisms	8
5 Policy disclosure and follow-up	8
6 Disclaimer	9

## Preamble

As part of its commitment to corporate social responsibility, BNP Paribas has developed consistent policies regarding its financial products and services for the energy sector, including the coal-fired power generation industry.

BNP Paribas acknowledges that coal-fired power generation, as a large CO<sub>2</sub> emitter, is a key contributor to climate change. In order to meet the objectives set by the Paris Agreement and in line with the associated pathways published by the IPCC, OECD countries and the rest of the world have to gradually eliminate coal from their generating capacities. In this context, BNP Paribas seeks to support power companies in their coal exit strategy.

BNP Paribas has strengthened its policy with regard to general purpose financings granted to electricity producers, some of whose production is still based on coal. After ceasing its support to new coal-fired power plant (CFPP) projects and requiring its clients to adopt a diversification strategy towards CO<sub>2</sub> emissions reduction, the Group now defines its ambition to stop supporting thermal coal power by differentiated deadlines depending on the geographical area of the client's assets. More precisely, BNP Paribas targets zero exposure to thermal coal power capacities by 2030 in the European Union and OECD countries and by 2040 in the rest of the world through engaging its clients and actively monitoring its portfolio.

To do so, the Group will pursue dialogue with clients which generate electricity from coal in order to assess the compatibility of their coal exit strategy with the Group's objectives by geographic area.

An exit process will be led in 2020 for power clients planning new coal capacities or having no exit strategy. Portfolio assessment will be completed in 2021 based on active client dialogue and engagement, leading to the end of banking relationship with clients assessed as not in line with the bank's set deadlines. Strategy assessment towards coal power exit will thus be part of a global monitoring process reviewed annually thereafter.

In addition to the above, BNP Paribas considers it also very important that any power company meets essential requirements regarding health, safety and the protection of the environment for future generations.



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# Sectorial Policy

## 1 Objective

This policy defines a set of rules and procedures regarding financial products and services provided by BNP Paribas entities and aims at establishing guidelines for conducting business in a responsible manner.

## 2 Scope

### 2.1 Geographical

Worldwide.

### 2.2 Business

This policy covers:

- Coal-Fired Power Plant (CFPP) projects: construction of a Coal-Fired Power Plant<sup>1</sup>, as well as expansion and/or upgrading of existing CFPP seeking lifetime extension or capacity increase.
- Power Generation (PG) Companies: companies involved in the power generation sector that own or operate one or more coal fired power plants (CFPPs), including subsidiaries of diversified business groups.

### 2.3 BNP Paribas Activities

**BNP Paribas Group entities:** this policy applies to all business lines, branches, subsidiaries and joint ventures of which BNP Paribas has the operational control. When BNP Paribas establishes new joint ventures in which it has a minority stake, it strives to include its standards as part of the joint venture agreement.

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<sup>1</sup> Heat and power co-generation projects relying on thermal coal are included in the scope



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**Financial products & services:** this policy applies to all advisory and financing activities provided by BNP Paribas (lending, debt and equity capital markets, guarantees and advisory work, etc.). It covers all new CFPP projects and PG Companies. For financing agreements with PG Companies that predate this policy, the rules and standards set out below will be applied as such agreements are due for review.

**Asset management:** this policy applies to all BNP Paribas entities managing proprietary assets and third-party assets, with the exception of index-linked products and mandates where clients have chosen to opt out of our Responsible Business Conduct Policy. External asset managers are actively monitored and encouraged to adhere to BNP Paribas standards.

### 3 Rules and standards of the policy

The coal-fired power generation sector is highly regulated at both national and international levels, particularly on air emissions. BNP Paribas requires PG Companies to comply with applicable laws and regulations as well as with international conventions ratified by their operating countries. This policy also sets additional criteria to be respected by PG companies.

These criteria were identified to address the main issues highlighted in the preamble. Such criteria are split in two categories: mandatory requirements and evaluation criteria. Mandatory requirements are to be understood as sine qua non: those have to be met without exception before BNP Paribas considers providing financial products or services to a PG company. In addition to these mandatory requirements, evaluation criteria have been identified to develop the analysis performed by BNP Paribas. Based on the results of such complementary due diligence, BNP Paribas reserves its right to request additional requirements or decline its involvement even if the mandatory requirements are met.

#### 3.1 Financial services for coal-fired power plant projects

BNP Paribas does not provide financial products and services to new CFPP projects wherever they are located, as well as to brownfield retrofit CFPP projects seeking lifetime extension or capacity increase.

#### 3.2 Financial services for coal-fired power generation companies

The overall objective of this policy is to align our financing and investment activities with the goals of the Paris Agreement so that we can limit global warming to well below 2 degrees Celsius. This requires a gradual exiting of thermal coal power and we employ different means to achieve this based on the two main activities of our business.



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### 3.2.1 Mandatory requirements related to financial products and services

BNP Paribas will only provide financial products and services to PG companies that meet the following requirements:

- The company has a strategy to reduce coal power generation in its mix under a regularly monitored plan including a timeline, which will result in no longer owning or operating coal fired power generation capacities by 2030 in European Union and OECD countries, and by 2040 in the rest of the world;
- The PG company will not add operational CFBG capacity to its power portfolio, and irrespective of other capacity that could be dismantled and/ or sold ; this includes development or commissioning of coal-fired power plants ;
- The PG company discloses or can provide on demand its safety track record (work accidents, fatalities...);
- The PG company discloses or can provide on demand the following environmental data: atmospheric emissions of sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), particulate matter (PM), and carbon dioxide (CO<sub>2</sub>), as well as water consumption, ash generation and disposal methods.

### 3.2.2 Mandatory requirements related to our Asset Management activities

As per BNP Paribas Asset Management's exclusion of activities related to coal detailed in its Responsible Conduct Policy, BNP Paribas will only invest in PG companies that meet the following requirements:

- PG companies whose carbon intensity from power generation is below the 2017 global average of 491 gCO<sub>2</sub>/kWh;
- PG companies who follow a Paris-compliant trajectory for the sector as determined by the International Energy Agency ('IEA') in its Sustainable Development Scenario ('SDS'). The IEA's SDS requires power generators' carbon intensity to fall to 327 gCO<sub>2</sub>/kWh by 2025, and BNP Paribas will therefore demand that companies reduce their carbon intensity between 2020 and 2025 at a rate consistent with this, excluding those that fail to do so.

BNP Paribas Asset Management may consider exceptions for power generators that make credible commitments to reducing their coal-based activities to levels consistent with the Paris Agreement within a two year timeframe, to be monitored on a half-year basis.



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### 3.2.3 Evaluation criteria related to financial products and services

BNP Paribas will also carry out an analysis of the PG company, based on the following evaluation criteria:

- The PG company is not subject to regular and repeated criticism about its environmental, social and governance performance on material issues<sup>2</sup>, or is taking actions to address such issues if they have occurred;
- The PG company has a health and safety policy to protect its workers (risk reduction policy, training program);
- The PG company has put in place an information and consultation process for local communities impacted by new project development;
- The PG company has a convincing environmental, social, health and safety track record.

BNP Paribas regular client acceptance policies constitute the basis of any engagement. For any transaction, BNP Paribas requires PG companies to have a transparent attitude regarding its activities, group structure and shareholding up to the ultimate level of control.

BNP Paribas also expects from its PG clients to follow and develop industry best practices, such as biodiversity protection, industry standards reporting and contribution to the achievement of Paris agreement as illustrated by a preference for coal power generation assets closure rather than selling.

### 3.2.4 Specific case of new clients

From the date of release of this policy, BNP Paribas will not accept any new client:

- who derives more than 25% of its revenues from coal-fired power generation;
- who has not planned a strategy to exit from its coal power generation capacities in line with BNPP deadline; and/or

<sup>2</sup> Such as severe controversies and incidents related to violations of any UN Global Compact Principles:  
<http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>



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- who is planning to add CFPG capacity to its power portfolio.

Moreover, any new client should respect requirements in this policy as defined in 3.2.1 and 3.2.3.

## 4 Group-Level Implementation Mechanisms

Results of the evaluation according to the present policy will provide elements for decision making by BNP Paribas. As and when necessary, an ad hoc senior management committee shall examine these results.

As a consequence, BNP Paribas may monitor the relationship with the company and propose a restricted set of financial products. Operational tools and awareness workshops are rolled out to ensure that Group's staff is able to implement this CSR sector policy.

As BNP Paribas' purpose is to support the energy transition, banking products and services (including advisory) strictly focused on green power assets will remain permitted with clients who do not comply with the mandatory requirements of this policy.

## 5 Policy disclosure and follow-up

BNP Paribas' stakeholders will be informed of the existence and the content of this policy. Such policy will be posted on BNP Paribas' website. Furthermore a copy will be systematically provided to our clients and potential clients as part of the due diligence process or upon discussion of any financial services to be provided subsequent to the official release date of this policy.

BNP Paribas will review this policy regularly and in the light of the prevailing circumstances it may update it to make sure it is in continued alliance with national and international regulations and best practices.

BNP Paribas welcomes any constructive feedback and comments on this policy.



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## 6 Disclaimer

In order to comply with regulations and to implement the principles defined in its internal procedures and sector policies, BNP Paribas does its best to get information, particularly from coal-fired power companies, on their sustainability policies and practices. BNP Paribas bases its policy on the information gathered from coal-fired power companies and from its partners. However, it is dependent on the quality, accuracy and up-to-datedness of information.

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