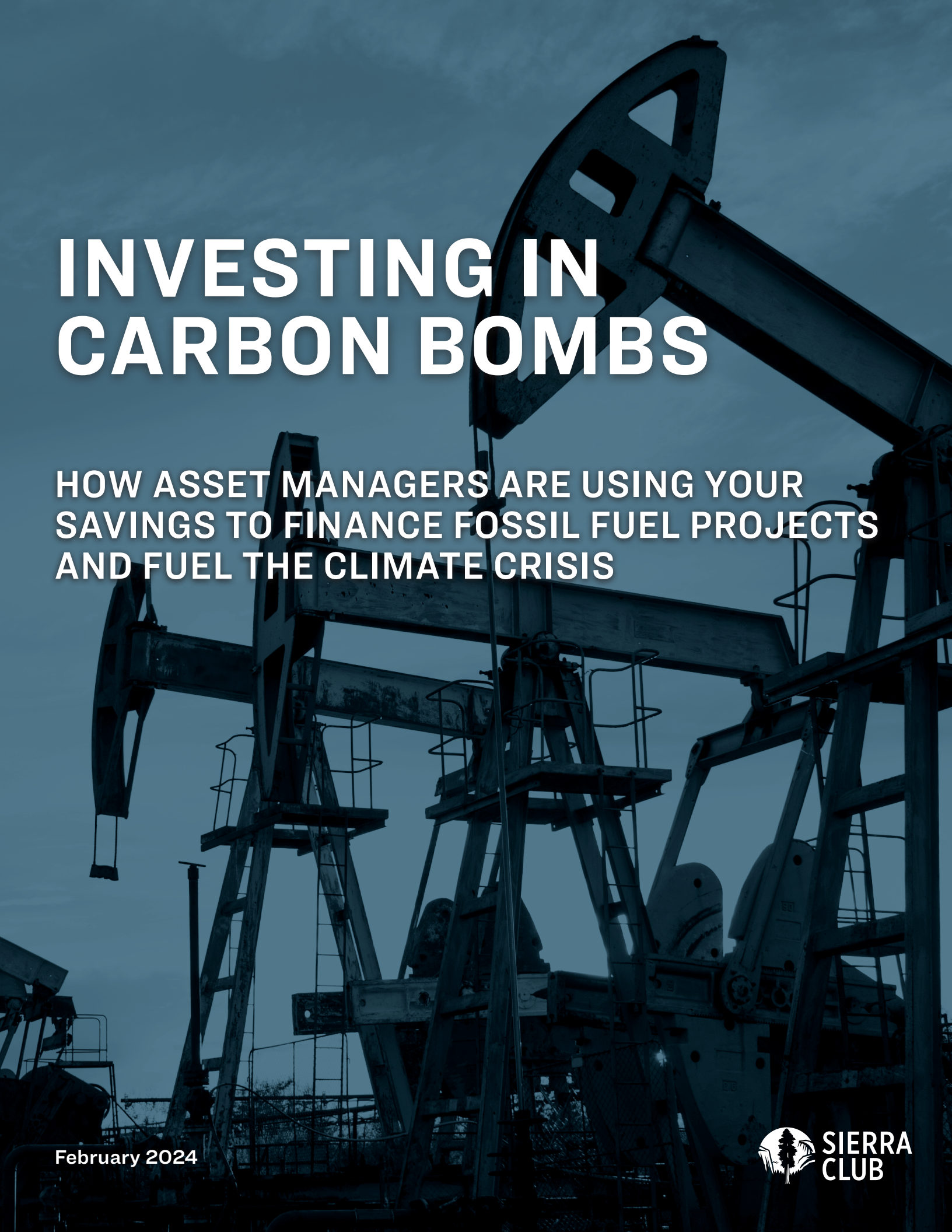

INVESTING IN CARBON BOMBS

HOW ASSET MANAGERS ARE USING YOUR SAVINGS TO FINANCE FOSSIL FUEL PROJECTS AND FUEL THE CLIMATE CRISIS

February 2024

SIERRA CLUB

ACKNOWLEDGEMENTS

Authors

Lead author: Jessye Waxman, Senior Campaign Strategist, Sierra Club

Lead researcher: Mahima Dave, Senior Finance Analyst, Sierra Club

Contact: jessye.waxman@sierraclub.org

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INTRODUCTION

The climate crisis is primarily fueled by the burning of coal, oil, and gas. Despite the desperate need to slow fossil fuel production and consumption, the world keeps drilling new oil wells, building new pipelines, and approving new projects that will keep burning fossil fuels. These catastrophic expansion projects collectively require trillions of dollars to be built, which is still abundantly provided by some of the world's largest financial institutions — including many that have nominally committed to align with global climate goals. Some of the biggest perpetrators are asset managers, which are some of the biggest institutional investors in the world. In contradiction to their own climate commitments, these asset managers continue to funnel billions of dollars to fossil fuel companies, enabling the construction of more climate bombs. To stop the climate crisis, this funding needs to stop.

This report will highlight some of the worst new fossil fuel projects in the U.S. being undertaken right now that have been made possible by Wall Street financing, and will point out how some of the largest U.S. asset managers are using our savings and investments to fund the climate crisis by buying new bonds from fossil fuel companies behind these types of projects.

The Science is Clear: No More Fossil Fuel Expansion

Climate science is very clear on two points: the climate crisis is driven primarily by the production and combustion of fossil fuels, and fossil fuel expansion is fundamentally incompatible with the Paris Agreement's goal of limiting warming to 1.5°C.

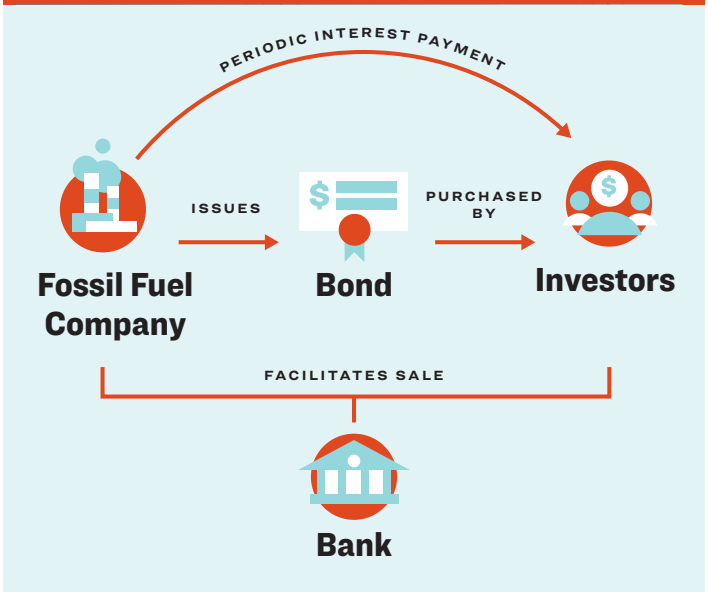
Despite clear warnings that current practices will lead to catastrophic and irreparable damage to society, the economy, and global ecosystems, the fossil fuel industry is full steam ahead, with major companies stalling on meaningful action and, in some cases, rolling back previous commitments. As of 2023, no coal company is projected to phase down production in line with credible net-zero scenarios[1], and oil and gas companies have made almost no progress toward 1.5°C pathways in the last two years.[2] What's worse, these industries still have plans to expand production further.

But fossil fuel expansion doesn't happen on its own; it requires billions of dollars from banks and investors to fund new exploration and build new infrastructure. Without this financing, fossil fuel companies would be hamstrung from building new projects. **Stopping the flow of money from banks and investors to fossil fuel companies is critical to keeping the world on track with the goals of the Paris Agreement.**

Fossil Fuel Financing 101: The Role of Bonds

Fossil fuel companies get most of their money from four sources: the sale of fossil fuels, loans they get from banks, the sale of bonds to investors, and the sale of new shares to investors. In most years, fossil fuel companies are reliant on the money that comes from banks and investors in order both to maintain their ongoing operations and to pursue new projects — like building new pipelines, facilities, or oil wells.

Figure 1: What is Bond Financing?



SOURCE: Sierra Club

Bonds provide an important source of funding, as companies can raise billions of dollars in a bond sale. Bonds get to the market through a process called underwriting. Simply put, bond underwriting is a service that banks offer to companies, in which the banks help create and price bonds, which are then sold to investors. While investors may be the ones to ultimately provide money to companies when they buy these bonds, this fundraising would not be possible without the banks playing their part. In the case of fossil fuel bonds, both banks that underwrite bonds and the investors that buy the bonds are culpable in funding fossil fuel expansion.

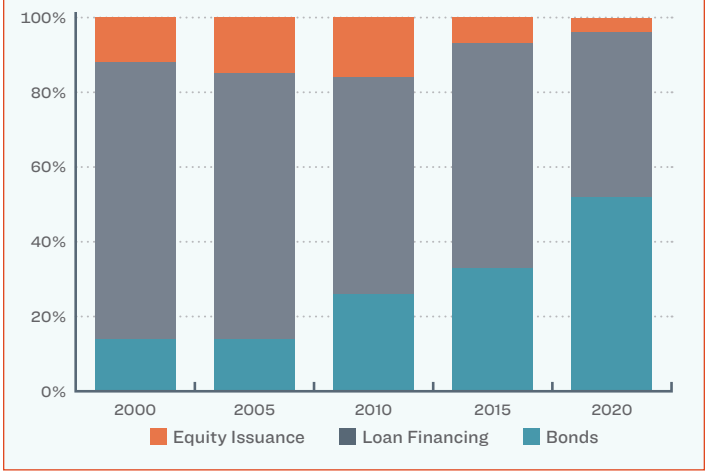
Bonds work a lot like loans, but instead of going to a bank to get money, companies can issue new bonds and sell them to hundreds or thousands of different investors. These investors could be individuals, but typically, large institutional investors — like asset managers and pensions — are the primary buyers of new bonds.

The funds a company raises from a new bond issuance either can be earmarked for a specific project — like the construction of a new pipeline or coal power plant — or can be used for general operations — including the acquisition of a new company, payroll expenses, or exploration for new fossil fuels. Even if a bond is not earmarked for a fossil fuel expansion project, this new capital can offset or free up money to be spent on fossil fuel expansion. In other words, even if investors are not buying bonds explicitly targeted for fossil fuel expansion projects, their money will be used in a way that either directly or indirectly makes that expansion possible.

Investors have always played an important role in the financing of new fossil fuel projects, but that role has been increasing, as bonds have constituted a growing share of financing for fossil fuel companies. While banks are still a critical source of funding for fossil fuel companies via loans, large institutional investors spend billions every year buying bonds (and, to a lesser extent, new shares) from fossil fuel expanders.

In short, bond financing is a critical input for fossil fuel expansion. **In order for fossil fuel expansion to stop, investors must stop buying bonds from companies expanding fossil fuel production and building new fossil fuel infrastructure.**

Figure 2: Funding for Fossil Fuel Companies by Type of Financing



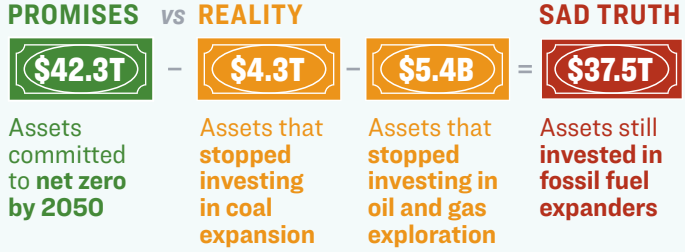
SOURCE: Chart reproduced from "Bond Villains" report by Commonwealth, 2022. Data from "The city never sleeps: but when will investment banks wake up to the climate crisis?" article by Theodor F. Cojoianu, 2021.

Asset Managers are Fueling the Climate Crisis with Our Savings

The climate crisis isn't being financed by a rogue group of unknown actors. It's being funded by some of the largest institutions on Wall Street — asset managers. These large institutional investors are responsible for handling the investments and retirement savings for individual investors, corporate 401(k)s, foundations, public pension funds, and more.

As climate change has worsened, many asset managers have started to incorporate climate strategies into their investment approaches — or, at least, many have claimed to do so. Since 2020, hundreds of the world's largest asset managers have pledged, either through their own commitments or through joining groups like the Net Zero Asset Managers Initiative (NZAM), to align their investments with helping to achieve the goals of the Paris Agreement. Despite these public pledges, not much progress has been made, with the overwhelming majority of asset managers continuing to invest trillions of dollars in companies undertaking fossil fuel expansion. Essentially, asset managers are using our savings to fuel the climate crisis.

Figure 3: Promises vs Reality



SOURCE: "The Asset Managers Fueling Climate Chaos" report by Reclaim Finance, 2022.

As the climate crisis worsens, the need for asset managers to adopt serious climate policies is more important than ever. Key among such policies must be both a commitment to stop new investments in companies engaging in fossil fuel expansion, and to increase investment in companies that are developing real climate solutions and are credibly aligning their operations with the goals of the Paris Agreement. Failure to do so will contribute further to accelerating the climate crisis.

BlackRock, Vanguard, State Street Global Advisors (State Street), Invesco, and JPMorgan Asset Management (JPMorgan AM) are some of the biggest asset managers in the world. All of these asset managers have, in recent years, made public climate commitments, including signing on to NZAM[3] (though Vanguard dropped out in December 2022).[4] As of September 2023, these asset managers collectively manage over $25 trillion, which is more than the GDP of the entire U.S. Together, these five firms hold over $741 billion in shares and bonds of fossil fuel companies,[5] and they have continued to pour billions into fossil fuel companies — even after making climate commitments for their investments.

No fossil fuel company is on track to align its operations with global climate goals. In fact, some are building extremely controversial projects that, in addition to contributing to the climate crisis, create serious harm to the communities in which these projects are located. Despite these harms, controversies, and the greenhouse gas emissions these fossil fuel projects will emit, these five asset managers (and many of their peers) continue to buy billions of dollars in new bonds from these fossil fuel companies, providing money they need to build these destructive projects.

These projects are not only bad climate decisions and risky investments from a financial standpoint, but they also

BONDS VS SHARES

While this report is focused mostly on bond financing, equity financing (issuing new shares) is another source of funding for companies. Shares (or stocks) are units of ownership in a company that grant the shareholders certain rights (for more on this, see the section on "Asset Managers and Proxy Voting"). Buying newly issued shares from a company helps the company raise funds, however, fossil fuel companies tend not to issue new shares and don't fundraise nearly as much via equity. Buying and selling of these previously issued shares between investors does not supply new money to fossil fuel companies.

contribute to the systemic financial risk of climate change. Systemic risks could lead to financial losses not just at one company, but for an entire sector, or even the economy as a whole.

Climate change is, perhaps, the biggest emerging systemic risk, and will likely impact every company across the globe. Because of this, asset managers will not be able to build broadly diversified portfolios for their clients that aren't negatively affected by market downturns due to climate change. It's not merely that fossil fuel companies are bad investments, but that continued investment in these companies and their expansion projects contributes to growing risk for every single company in an investment portfolio. As the clients of many large asset managers are invested in long-term and broadly diversified portfolios,[6] asset managers must consider how the externalities from one company or sector impacts their overall portfolio returns, and not just focus on risks to an individual company.

While the impacts of climate change are systemic, the causes of climate change are largely confined to a narrow set of sectors and companies doing the most damage. Some of the biggest culprits are new fossil fuel projects, and any investor enabling these projects is responsible not only for increasing harm to people and the planet, but for increasing risk for their clients and their retirement savings.

This report dives into five of the most controversial and harmful fossil fuel expansion projects taking place in the U.S. today. It highlights how, through the purchase of bonds, these asset managers are making these fossil fuel projects possible, and what they can do to stop funding the climate crisis.

PHOTO: ISTOCK/FREEZEFRAMES

PHOTO: ALASKAFISHANDWILDLIFE

THE WILLOW PROJECT

ConocoPhillips' Latest Blunder

The Willow Project in Alaska is ConocoPhillips' latest dive into climate denialism. The Alaska-based project will be one of the largest oil developments on public land in U.S. history.[7] The roughly $8 billion dollar project will finance the construction not only of three new oil wells, but also hundreds of miles of roads and pipelines to support the project.

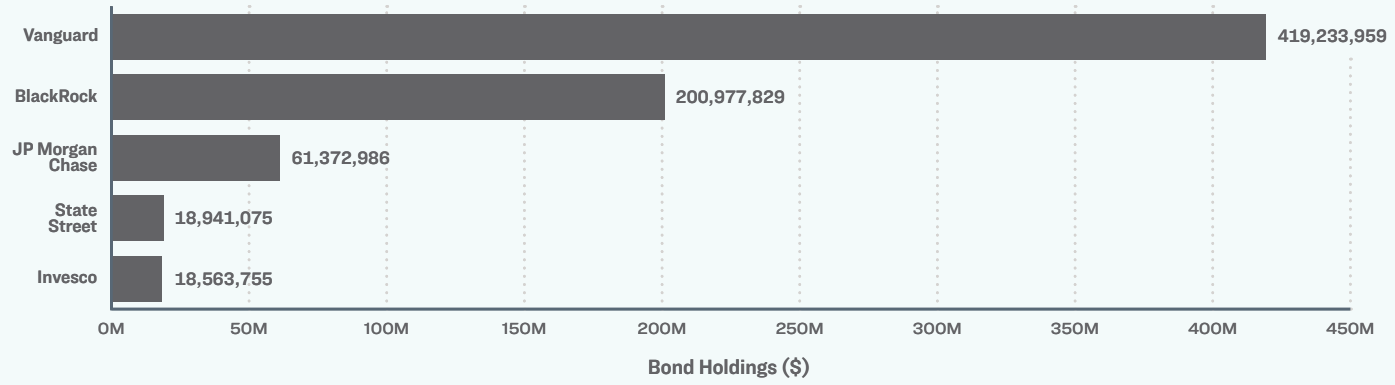
The Willow Project is a potential carbon bomb. If completed, the Willow Project will release an additional 250 million metric tons of carbon emissions to the atmosphere over the next 30 years, equivalent to the annual emissions of 66 coal plants.[8] As many have pointed out, this project is incompatible with US climate commitments. In an era where the emphasis must be on reducing carbon emissions, the advancement of the Willow Project is a gravely negligent act.

This project is slated to have more consequences than just carbon emissions. All of the infrastructure needed to support the new wells will disrupt critical habitat for caribou, polar bears, and millions of migratory birds, and disrupt the single-largest tract of undisturbed public land in the country. Beyond the environmental repercussions, the Willow Project is a threat to public health and safety from methane leaks, increased local emissions, and oil spills that are likely to come with the project's construction and operation. The project's pollutants can cause serious cardiovascular, kidney, and chronic respiratory problems. A nearby Iñupiat village has already seen respiratory illnesses increase almost 20%[9] as oil wells in the area increased.

Unsurprisingly, the Willow Project has faced intense opposition from both environmental and Indigenous groups. For years, Iñupiat peoples have warned that further oil and gas drilling threatens both the local environment and their community's subsistence way of life.[10] Local Indigenous groups called the project a "betrayal" that puts "corporate interests above those of local communities."[11] Their concerns are echoed by environmental groups, which have spent years trying to prevent the approval of the Willow Project, a movement which gained widespread public support on social media through the hashtag #StopWillow in the lead-up to the project's approval.

The Asset Managers Making It Possible

Figure 4: Purchase of Newly Issued ConocoPhillips Bonds



Bonds issued between January 1, 2022 and May 19, 2023. Holdings as of May 19, 2023. SOURCE: Bloomberg L.P. and Reclaim Finance

The buildout of the Willow Project wouldn't be possible without the financial support of Wall Street, including the purchase of newly issued ConocoPhillips' bonds by some of the world's largest asset managers. The money raised through the sale of these bonds will help provide critical capital for the buildout.

ConocoPhillips has been mentioning their plans for the Willow Project — and several other expansion projects — in financial documents for years. Despite clear evidence of intent to explore and develop new drilling sites, asset managers with climate commitments have continued to provide staggering amounts of new capital to ConocoPhillips.

Five of the largest asset managers on Wall Street — Vanguard, BlackRock, State Street, JPMorgan AM, and Invesco — are some of the largest holders of ConocoPhillips' debt. Even after joining the NZAM and pledging to support the goals of the Paris Agreement, these five firms alone bought over $715 million in newly issued bonds from ConocoPhillips in just 17 months, between January 2022 and May 2023. Vanguard and BlackRock were far and away the biggest investors, with Vanguard buying more than the other four firms combined.

In that short span, these five firms alone provided ConocoPhillips with new funding equivalent to roughly 9% of the Willow Project cost. (Given the opacity of data on bond procurement, it is possible that these firms bought more ConocoPhillips bonds in this period than is reported here.) While none of the bonds specifically earmarked the funds for the Willow Project, funds raised through unrestricted corporate bonds can be used as the company sees fit. As this kind of corporate capital is fungible and can be used to offset other operational costs, the money raised from these five firms is clearly helping to enable the Willow Project.

PHOTO: USCG

DEEPWATER OIL DRILLING

BP's Deep Sea Debacle

BP made headlines worldwide in 2010 when its Deepwater Horizon well exploded and spilled over 130 million gallons of oil into the Gulf of Mexico for months on end. Oil spread across 1,300 miles of shoreline in five states, creating long-term and wide-ranging impacts, including a toll of $4.5 billion in economic damage,[12] enormous and lasting public health impacts, disruption of the region's fishing industry, and a deadly toll on the wildlife of the Gulf. This was the largest marine oil spill in history, and 14 years later, restoration efforts are still underway.

Despite this unprecedented disaster, BP has continued deepwater drilling in the Gulf, and started up a new drilling platform in 2022. The Argos platform, a $9 billion project[13] which started operating in April 2023, is now one of five massive production platforms BP operates in the Gulf. The new platform will produce 140,000 barrels of oil every day, increasing BP's production in the region by almost 54%. Its construction will help extend the life of the already "supergiant" oil field beyond 2050.[14] Such production flies in the face of climate science.

The Argos platform was built despite a long history of opposition to drilling in the Gulf of Mexico from local and national groups. There have been numerous bipartisan efforts in Congress in recent years to stop offshore drilling[15] and a bipartisan coalition of lawmakers across the country are petitioning to end drilling along the Gulf.[16] Millions of people have signed petitions, spoken up in public hearings, and supported efforts to end oil and gas development in the Gulf, and several environmental groups are suing to prevent the government from selling more drilling rights.[17]

"When you drill, you will eventually inevitably spill."[18] This sentiment seems especially true for BP. On top of its historic oil spill, BP has a track record of environmental catastrophe. BP's Whiting Refinery in Indiana is one of the worst polluters in the country, every day spilling 500 million gallons of wastewater laden with toxic pollutants like cyanide and arsenic, among many others.[19] Elsewhere, BP operations near Louisiana's Gulf Coast are settling litigation that could cost the company billions of dollars for violating coastal protections that resulted in extensive erosion and excessive damages to the community of Cameron Parish.[20] In short, BP's track record does not instill confidence that its Argos platform will operate without a hitch.

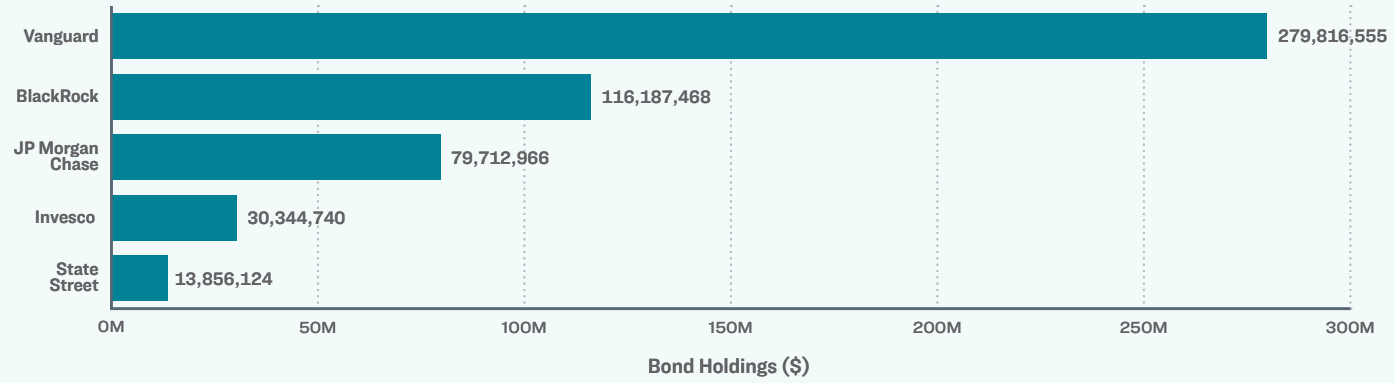
Many Gulf communities are still recovering from the impacts of the last major oil spill, and continued drilling in the region makes these communities susceptible to compounding impacts from the next one. Furthermore, these communities are some of the most vulnerable to the

impacts of the climate crisis: in addition to being hit by more intense hurricanes, they are facing unprecedented wildfires[21] and more frequent tornadoes.[22]

Even if BP's Argos platform manages to avoid oil spills or other local harms, it's still a disastrous project for the climate. New drilling projects like Argos lock us into decades more of dirty energy and climate-warming pollution, elevating levels of toxic emissions and driving up rates of asthma, lung cancer, and other diseases for local communities. Such expansion projects show a blatant disregard for the communities that have, for decades, borne the brunt of fallout from oil and gas drilling.

The Asset Managers Making It Possible

Figure 5: Purchase of Newly Issued BP Bonds



Bonds issued between January 1, 2022 and May 19, 2023. Holdings as of May 19, 2023. SOURCE: Bloomberg L.P. and Reclaim Finance

The Argos project is not only a climate disaster in the works, but a truly questionable investment. Argos is majority owned by a highly controversial company with a disastrous environmental track record, and is at disproportionately high risk of becoming a stranded asset. This means it could very likely lose significant value or have to shut down prematurely, causing investors to lose money. In the case of the Argos project, this could mean reducing or shutting down production before the well runs dry, due to market shifts away from fossil fuels and/or stronger policies to combat climate change.

The Argos platform was meant not only to expand near-term production, but also to extend the life of the oil field where it's located. Argos is expected to enable BP to continue to pump oil from the Gulf past 2050.[23] Essentially, BP is building out new infrastructure it plans to operate well past the point by which the world needs to reach net-zero emissions. As the rate of decarbonization accelerates around the world, the project is at high risk of becoming an increasingly bad investment or even a stranded asset.

In short, Argos is not only terrible for the climate, but is also a highly flawed financial investment. Despite this, asset managers, including those with net-zero climate commitments of their own, have poured millions of additional dollars into BP, helping to enable the Argos project.

In less than two years, asset managers BlackRock, State Street, Vanguard, JPMorgan AM, and Invesco bought almost $520 million in BP bonds, during a period when they knew of BP's plans for the Argos platform (along with other expansion projects around the world). While none of the bonds issued in this period were specifically targeted to finance the Argos platform, BP could use the funds raised as it sees fit. Even if the money from these bonds isn't going directly to the Argos project, it could be used to free up capital elsewhere in the company's budget, thus contributing to the project's construction and further exacerbating the climate crisis.

PHOTO: POWHR

MOUNTAIN VALLEY PIPELINE

EQT Corporation's Egregious Enterprise

Fracked gas can't go anywhere without pipelines. The network of pipelines that crosses the country moves fracked gas from wells to refineries, and from refineries to power plants, industrial facilities and more. But pipelines are prone to leaks and explosions, they fragment intact habitats, and they can cause toxic spills due to floods or landslides nearby. As more pipelines are built, the world is more likely to be locked into a future system powered by fossil fuels instead of clean energy.

The Mountain Valley Pipeline (MVP) is yet another unwanted pipeline that promises to lock the world into a fossil-fueled future. MVP is a 303-mile proposed pipeline that cuts across Virginia, West Virginia, and North Carolina. It poses dangers to water bodies, wildlife, forest landscapes, and communities.[24] Two-thirds of the pipeline passes over areas with high risk of landslides, threatening the safety of residential homes and increasing the risks of pipeline explosions.[25]

Even though no gas is yet flowing through it, MVP already has a troublesome history. The pipeline was proposed in 2014 with an anticipated construction timeline of 4 years, but a series of lawsuits, community pushback, and regulatory hurdles have delayed the project by more than 5 years. The Commonwealth of Virginia sued Mountain Valley Pipeline, LLC for over 300 water quality violations after only one year of construction.[26] Unsurprisingly, the pipeline project has faced strong opposition from local communities and national organizations for threatening sensitive ecosystems and drinking water, and for impeding a clean energy transition.[27] The project's construction has been delayed repeatedly due to legal challenges raised due to concerns about the pipeline's negative environmental impact[28] as courts keep ruling to overturn permits granted for its construction.[29]

MVP is owned by Mountain Valley Pipeline, LLC, a joint venture between five companies, including Equitrans Midstream, a pipeline company that was spun off of EQT Corporation in 2018. MVP makes money by selling the rights to move gas through the pipeline. EQT Corporation is both the largest producer of methane gas in the U.S.[30] and is the anchor client for MVP, having bought the rights to use 64.5% of the pipeline's capacity.[31] The company plans to use the majority of the pipeline's capacity to send 1.2 billion cubic feet of fracked gas from the Marcellus Shale down the eastern seaboard *every day* once the pipeline opens.

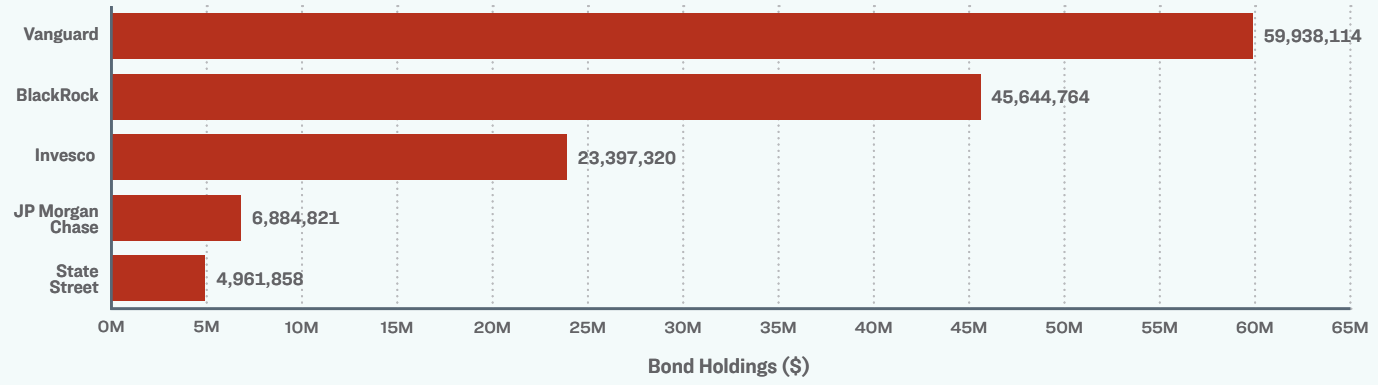
But it's not clear there's ever been a real market for EQT's gas. Instead, MVP seems like a project in search of a purpose — namely to help create a market for EQT's gas. The pipeline was originally proposed to help move EQT Corporation's fracked gas to the Southeast U.S., but

regional demand for gas has declined as renewables have taken off.[32] As early as 2018, the Transcontinental Gas Pipeline (Transco), a behemoth of a pipeline that spans from Texas to New York City, stated it could handle the region's gas needs.[33] It was furthermore projected that there was no need for the additional capacity that MVP would provide,[34] a calculation bolstered by the fact that it took EQT until October 2023 — 5 years after the project was supposed to be completed — to secure agreements with utilities to buy the gas sent through the pipeline.

In short, it's hard to see how MVP is being constructed for reasons other than helping to prop up demand for the fossil fuel industry's — and specifically EQT's — benefit. Unfortunately, this makes MVP just another project that will lock the U.S. into reliance on burning fossil fuels, delaying a transition to a clean energy economy. Any company or financial institution contributing to its future success is a climate villain.

The Asset Managers Making It Possible

Figure 6: Purchase of Newly Issued EQT Bonds



Bonds issued between January 1, 2022 and May 19, 2023. Holdings as of May 19, 2023. SOURCE: Bloomberg L.P. and Reclaim Finance

Wall Street's largest asset managers continue to pour money into fracking and the infrastructure that transports dangerous fossil fuels. In addition to financing EQT's new and expanding fracked gas operations, purchases of new EQT bonds are also propping up MVP. In a sense, EQT is a pipeline for money to flow from investors to MVP.

In addition (and in part due) to its controversy, MVP has been a questionable proposition from the get-go. Project delays have more than doubled the cost of construction since the project was first announced (now estimated to be $7.2 billion),[35] contractors have been difficult to find, courts have ordered delays on construction,[36] and end-use purchasers of the gas have been difficult to find.

Nonetheless, asset managers have, for some reason, decided that EQT and its investments in MVP show promise. Over the course of 17 months (January 2022 – May 2023), State Street, Vanguard, BlackRock, Invesco, and JPMorgan AM collectively piped more than $140 million directly into EQT, helping to finance the company's fracking operations in Pennsylvania, West Virginia, and Ohio, and its contract with MVP. While none of the EQT bonds issued in the period surveyed were designated for specific projects, the money raised from corporate bonds are fungible and can be used in any number of ways. In other words, this $140 million dollars is helping, either directly or indirectly, to finance EQT's agreements with MVP.

In addition to purchasing tens of millions in EQT bonds, these five asset managers are among the biggest shareholders in EQT, together holding 26.69% of all outstanding shares in the corporation. Such a high degree of ownership nominally enables these investors to leverage outsized influence in EQT's decision-making. Yet these asset managers are doing little to encourage EQT's transition to a low-carbon economy. Continued procurement of new bonds, which help finance more fracking, and minimal evidence of accountability through shareholder proxy voting, shows that these asset managers support the continued fossil fuel expansion and the destruction that comes with it. (For more information on proxy voting, see the section on "Asset Managers and Proxy Voting.")

PHOTO: FLICKR/USCG

LNG EXPORTS

TotalEnergies' Total Error

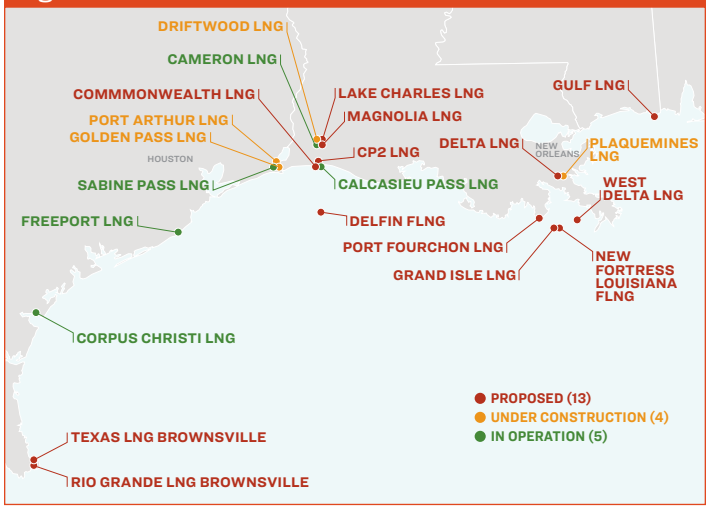
Despite the need to ratchet down global fossil fuel use, U.S. companies are continuing to build out fossil fuel infrastructure. Nowhere is that more prominent than in the Gulf South, where there is an extensive buildout of liquefied natural gas (LNG) export terminals underway. Based on Sierra Club tracking of US LNG exports, there are currently five operational export terminals in and along the Gulf, with an additional 31 new terminals or expansion projects planned or under construction.[37]

The amount of capacity being developed is, simply put, excessive. The proposed new terminals would double or triple U.S. capacity to export fracked gas, a level of production that well exceeds global demand under 1.5°C pathways,[38] and goes well beyond the recent temporary demand surge in Europe triggered by the war in Ukraine.[39] These projects are not only climate bombs, but unnecessary projects that will likely become stranded assets.

Beyond the climate risks, LNG buildout has turned much of the Gulf South into a sacrifice zone. The region is dotted with heavy industry like refineries, petrochemical plants, and pipelines, which expose nearby communities to toxic air and water pollution and a constant threat of industrial explosions. The emission of sulfur dioxide, volatile organic compounds (VOCs), and other pollutants increase risks of respiratory illness, heart disease, cancer, and reproductive impacts.[40] Effluents and leaks contaminate waterways and industrial processing spews toxins into the air, poisoning regional food supplies and destroying communities.[41] These facilities have disrupted some of the most biodiverse ecosystems in the country, including the marshes and wetlands that protect coastal communities during climate events like major hurricanes. In regions like Cameron Parish, Louisiana, which is considered the heart of the LNG buildout, LNG facilities are displacing the fishing economy that has sustained families for generations.[42]

The impacts of LNG in the region not only make it among the most highly polluted in the country, but also constitute a striking example of environmental injustice. The majority of existing and planned terminals are in black and brown and low-income communities, which have seen property values plummet due to flooding and pollution[43] and skyrocketing rates of cancer risk and respiratory hazard due to pollution.[44] For example, Rio Grande LNG and Texas LNG are proposed near the Port Isabel-Brownsville region in Texas, a majority Latino community along the U.S.-Mexico border known for being one of the most low-income regions in the country. Already facing a disproportionate amount of adversity due to these circumstances and the militarization of the border, the community's health will now be more at risk thanks to the harmful pollution from these facilities.

Figure 7: LNG Buildout in the Gulf Coast



SOURCE: Naomi Yoder/Healthy Gulf, January 2024

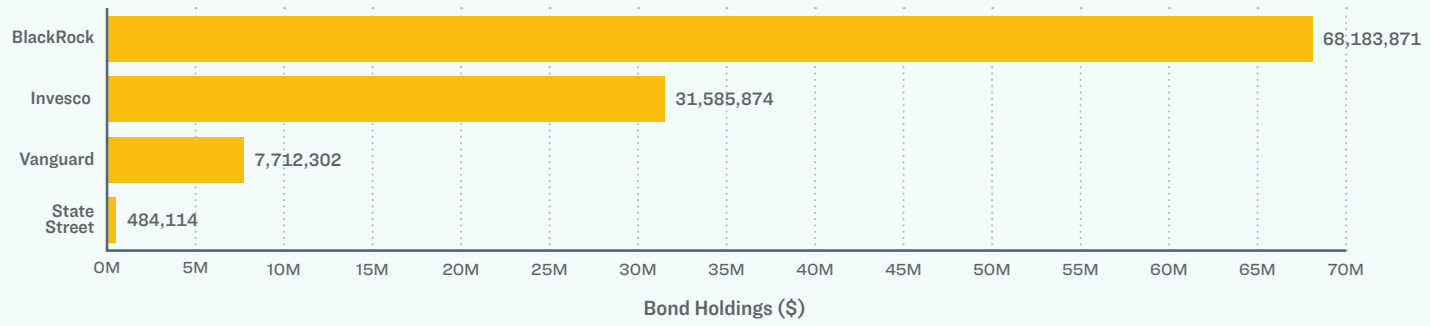
TotalEnergies is a major player in the LNG buildout. In the Gulf Coast alone, it is a partial owner in Cameron LNG in Louisiana (the fourth largest export facility) and Rio Grande LNG in Texas, and has confirmed and potential offtake agreements with these two terminals, as well as Sabine Pass LNG in Louisiana and Freeport LNG in Texas.[45] With these projects, Total will have an export capacity of about 96 million metric tons of CO_2e (carbon dioxide equivalent) per year.[46] That is equivalent to the annual emissions of 26 coal plants or over 21 million gasoline-powered vehicles.[47]

On top of this, Total is also the operator of the Valero Port Arthur Refinery in Texas, one of the largest oil refineries in North America, with a daily capacity of 200,000 barrels.[48]

Total's footprint is large and growing, ignoring the impacts on both the environment and local communities, making the company not only culpable in accelerating the climate crisis, but in amplifying systems of environmental injustice as well.

The Asset Managers Making It Possible

Figure 8: Purchase of Newly Issued TotalEnergies Bonds



Bonds issued between January 1, 2022 and May 19, 2023. Holdings as of May 19, 2023. SOURCE: Bloomberg L.P. and Reclaim Finance

Both banks and asset managers on Wall Street have been instrumental in bankrolling the glut of LNG production and exports. Like many asset managers, all of Wall Street's largest banks have made lofty climate commitments, but these also come with a lot of greenwashing.

For example, most major banks committed to achieve net zero do not have any restrictions on financing LNG projects, creating an egregious loophole that has enabled banks to continue providing loans and underwriting new bonds to LNG companies. From 2016-2022, just 20 banks issued loans and underwrote bonds worth more than $110 billion, financing the majority of construction costs for LNG along the Gulf Coast.[49]

Asset managers have done their part as well, pouring billions into companies pursuing new fossil fuel construction in the Gulf South. The six biggest US banks helped issue $11.9 billion in new bonds and shares for Total alone,[50] which were purchased in large part by global asset managers. As of August 2023, 1,318 institutional investors held nearly $89.4 billion in Total bonds and shares.[51] Between January 2022 and May 2023, just four asset managers funneled over $108 million dollars to Total through the purchase of new bonds.

With Total, in particular, asset managers should be well aware of the risks it poses, as many investors have already begun to raise alarms over the company's contributions to the climate crisis. In 2023, 17 investors filed a shareholder resolution at Total asking the company to slash its greenhouse gas emissions by 2030, a commitment which would push the company to significantly cut back on its gas expansion plans.[52] Over 30% of the company's shareholders backed the call and voted in favor of the resolution.[53] BlackRock, State Street, Vanguard, JPMorgan AM, and some of Invesco's funds were not among them.

The serious concerns raised by investors at Total do not yet seem to have changed these four asset managers' approach to accountability on the climate risks that the company poses. In addition to rejecting the shareholder resolution in 2023, the concerns have not stopped these asset managers from providing new funds to Total, as demonstrated by their continued purchasing of newly issued bonds. While none of these newly issued bonds were specifically designated for a given project, these millions have been critical to helping Total to build out or plan for expansions at plants like Cameron LNG and Rio Grande LNG, among others.

PHOTO: FLICKR/FORMULANONE

PERMIAN BASIN DRILLING

Pioneer Natural Resources' Precarious Problem

The LNG buildout on the Gulf Coast is one of the biggest climate disasters in the U.S. Dozens of export terminals are being built along the Gulf Coast, creating the infrastructure to ship out trillions of cubic feet of methane gas. But that methane gas has to come from somewhere, and the majority of it comes from fracking in the Permian Basin, an oil- and gas-rich field between New Mexico and Texas roughly the size of Great Britain.[54]

Fracking can be used for both oil and gas. The operations for both require drilling thousands of wells and piping a highly pressurized slurry into pipes to break apart the bedrock. A single well can use over 11 million gallons of water. Every barrel of fracked oil produces up to 7 barrels of "produced water," a toxic slurry that's often disposed of in pits, which can leak, or injected underground, which can leach into groundwater and has caused thousands of earthquakes in the region.[55] Excess gas is either flared (burnt off) or simply released (vented) into the atmosphere. Leaks from wells and pipes drive up greenhouse gas emissions even further. Combined, these activities make fracking's climate impact worse than coal.[56]

The extent of fracking in the Permian Basin is enormous, with barely an acre left untouched.[57] The landscape is dotted with tanks, processing plants, flares, and ponds of toxic wastewater. Corridors have been cleared entirely of vegetation, following the extensive network of pipelines underground.

Aside from the impacts on the landscape and on the climate, the toll on local communities has also been devastating. Fossil fuel expansion in the region has destroyed historic and Indigenous sacred sites and bulldozed critical wildlife habitat.[58] Constant flaring pollutes the air with smoke and other air pollution,[59] and roaring flames mean constant noise and air pollution. Heavy trucks create severe traffic accidents and destroy local infrastructure.[60] Leaks and explosions from pipes and refineries leak water laden with heavy metals and highly flammable compounds, which end up on farms, in homes, and on playgrounds.[61] Ongoing fracking and refining activities in the region dramatically increases the risk of rare cancers, low birth weights, disruptions of the endocrine system, and chronic headaches, among other health impacts.[62]

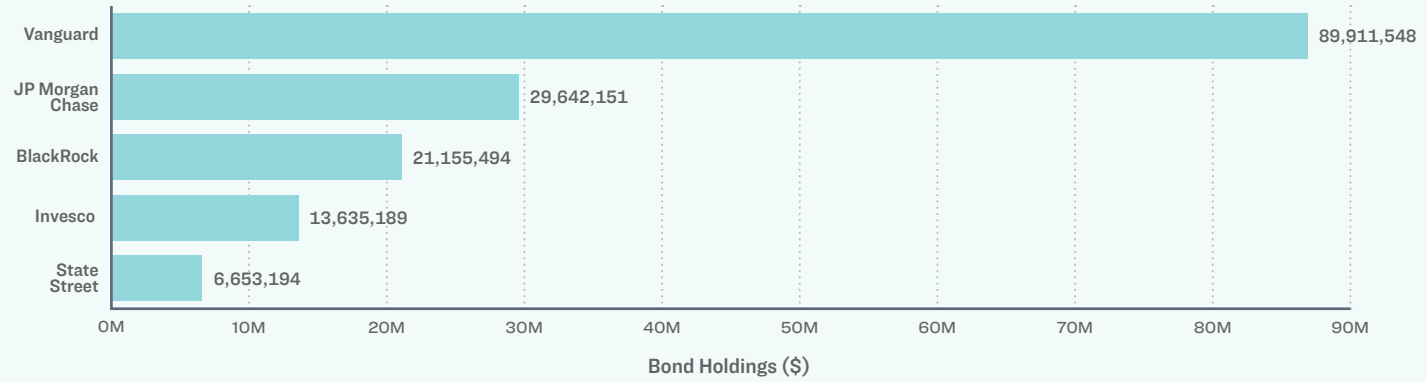
As one resident has put it, the Permian Basin has become a sacrifice zone: "The sacrifice zone is basically when you allow the fossil fuel industry to pretty much do what they want and take over a community at the benefit of those corporations and not the people. The people are the ones that are sacrificed. The health issues and the lowering of the economy once they're finished with that community, they never leave it better than the way that they found it. And again that's why they're considered a sacrifice zone because it's about the fossil fuel industry rather than the people."[63]

Pioneer Natural Resources is the largest oil and fracked gas producer in the Permian Basin, making it the biggest contributor to the fractured landscape and toxic fumes that plague the area. Beyond the pollution, health impacts, and disruption that comes from regular operations, Pioneer was responsible for over 1,500 hydrocarbon spills in 2022 alone.[64] Despite this, the company has extensive plans for expansion in the region, with more than 1,000 future locations mapped out in its drilling inventory.[65]

In October 2023, ExxonMobil announced a deal to acquire Pioneer. This merger will more than double Exxon's footprint in the region, doubling its production capacity to more than 1.3 million barrels of oil per day.[66] This merger is a prime example of the ways in which major oil and gas companies are greenwashing their climate commitments. Rather than pivoting to focus on renewables, Exxon is doubling down on fossil fuels. This merger will make Exxon the largest oil producer in the Permian Basin.[67]

The Asset Managers Making It Possible

Figure 9: Purchase of Newly Issued Pioneer Natural Resources Bonds



Bonds issued between January 1, 2022 and May 19, 2023. Holdings as of May 1, 2023. SOURCE: Bloomberg L.P. and Reclaim Finance

In 2019, Pioneer decided to become a pure-play company in the Permian Basin,[68] meaning it narrowed its operations to focus on one product or activity. Essentially, Pioneer took a bet on fracking and decided to focus exclusively on exploration and production of fracked oil and gas in the Permian Basin. At a time when companies should be stopping new fossil fuel expansion plans, planning for a managed phase-out of existing production, and diversifying their business with cleaner technologies, Pioneer (and now Exxon) have taken the opposite approach.

This doubling down on fossil fuel expansion, however, seems not to have deterred investors from financing these operations. Between January 2022 and May 2023, 30 global investors bought $294 million in newly issued bonds from Pioneer.[69] Over $157 million of that came from just five Wall Street giants: State Street, BlackRock, Vanguard, Invesco, and JPMorgan AM. This has helped supply the capital the company has used to open up production on hundreds of new fracking wells over the past couple years.[70]

The destructive impact of fracking in the Permian Basin — from the local communities' air and water, to the natural landscapes, to the global reverberations on the climate and energy transition — is tragic and alarming. Yet asset managers have continued to pour hundreds of millions into Pioneer and other companies most responsible for these harmful impacts.

PHOTO: CREATIVECOMMONS/NOAA

ASSET MANAGERS AND PROXY VOTING

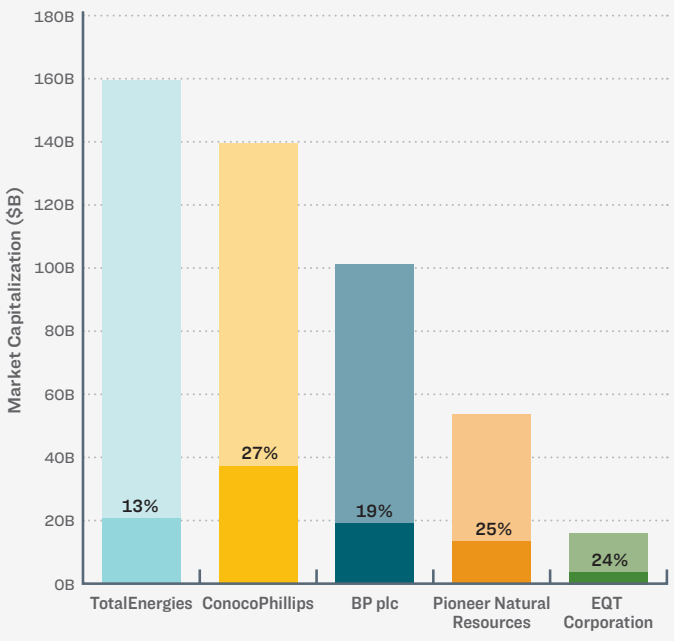
Further Failures of Accountability

This report has largely focused on asset managers' financing role in fossil fuel expansion. As investors, asset managers can decide which companies they invest in and how much they allocate to new bond purchases. Over the past couple of years, BlackRock, Vanguard, State Street, Invesco, and JPMorgan AM have poured billions of dollars through bond purchases into fossil fuel companies that are trying to develop some of the most notorious fossil projects across the U.S., and many more.

But buying bonds isn't the only way these asset managers have influenced the expansion plans of these fossil fuel companies. These five firms are also consistently some of the largest shareholders in the companies profiled in this report, which gives them the opportunity to have an outsized voice to weigh in on company decisions, including expansion plans and climate strategies.

One of the ways asset managers exert this influence is through proxy voting, which refers to the practice of shareholders casting a ballot to weigh in on various matters at a company, including who sits on the board and a range of environmental or social matters brought by other shareholders. Anyone who owns shares can

Figure 7: Investor Influence by Percent of Ownership



The percentage and shaded area shown represents the collective ownership of five asset managers (BlackRock, Vanguard, State Street, Invesco, and JPMorgan) in these companies as of September 30, 2023, signifying the extent of influence of these five investors. SOURCE: Sierra Club

vote — whether an individual investor with a couple shares or an institutional investor with millions of shares. The more shares you hold, the more voting power you have.

As some of the largest shareholders of these fossil fuel companies (and many others), BlackRock, Vanguard, State Street, Invesco, and JPMorgan AM have an outsized influence with these companies, which partially shapes whether and how the energy sector evolves to meet the goals of the Paris Agreement.

In defending their continued investment in fossil fuel companies, asset managers will often cite the importance of staying invested in companies in order to exert influence through engagement and proxy voting. These asset managers argue it is better that they hold the shares rather than an investor that cares less about climate change. This assertion would be more credible if these asset managers actually used their proxy voting power to encourage companies to take serious climate action. However, more often than not, this is mostly just greenwashing.

The voting record of these asset managers reveals they are doing very little to promote accountability on climate change at high-emitting companies. Given the opportunity to weigh in on how these companies were handling their impacts on the climate and communities, none of these asset managers have acted in favor of change. In some instances, they even explicitly showed support for the companies' fossil fuel expansion plans that fly in the face of their own climate pledges.

- At BP, BlackRock, Vanguard, and JPMorgan AM voted against resolutions encouraging the company to adopt climate targets in both 2022 and 2023. Invesco and State Street voted against these resolutions in 2022, but split their votes in 2023, meaning a portion of their funds voted against these matters, as well.
- At ConocoPhillips, four of the five asset managers voted against a 2022 resolution calling on the company to set greenhouse gas emission reduction targets; Invesco split its votes.
- At TotalEnergies, the five asset managers voted against resolutions pushing the company to set climate targets in line with the goals of the Paris Agreement in both 2020 and 2023, when the resolutions were last filed. (Invesco's vote was split.) In the same period, all five asset managers voted to approve the company's climate progress reports.
- At EQT, where no climate resolutions were filed in the last few years, all five firms voted to reelect the Board Member Dr. Kathryn Jackson, Chair of the Public Policy and Corporate Responsibility Committee, signaling approval of the board's fossil fuel expansion strategy.

Rather than use their proxy voting influence to encourage decarbonization, these asset managers are supporting management decisions to continue to build out fossil fuel projects. They continue to condone and incentivize this behavior through both their shareholder voting and their bond buying power, making these asset managers complicit in locking us into a fossil-fueled future and accelerating the climate crisis.

PHOTO: ISTOCK/TOMLW

PHOTO: SIERRACLUB/RICHREINHARD

CONCLUSION

Asset Managers Must Stop Financing Fossil Fuel Expansion

Fossil fuel expansion, like the Willow Project or the Rio Grande LNG terminal, can't happen without the help of the money that is raised through the sale of bonds. And bond sales can't be successful without investors, including the world's largest asset managers, agreeing to buy them.

When asset managers continue to purchase newly issued bonds, it tells fossil fuel companies that investors approve of their current plans and support a longer future for fossil fuels — which enables companies to continue expanding unsustainably instead of prioritizing decarbonization and phasing out fossil fuels. This funding, therefore, helps create a vicious feedback loop that ends in climate destruction: new money to fossil fuel companies makes expansion projects possible, which locks us into continued use of fossil fuels as a society. This, in turn, makes investors more confident that fossil fuels are a safe, long-term investment, and the cycle continues.

But we can — and must — break the cycle. Asset managers need to understand the risks fossil fuel expansion poses not just to society, but to their investments and clients as well. If asset managers are serious about helping companies adjust and succeed in the clean energy transition and about reducing the many climate risks that society and their own clients face, they must stop buying bonds from companies undertaking new fossil fuel expansion.

To put asset managers on the right track, we must demand that they stop funding fossil fuels. Join us in calling on the CEOs of some of Wall Street's biggest asset managers to stop funding the climate crisis. Take action at sc.org/AM.

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Sierra Club National
2101 Webster Street, Suite 1300
Oakland, CA 94612
(415) 977-5500

Sierra Club Legislative
50 F Street, NW, Eighth Floor
Washington, DC 20001
(202) 547-1141

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