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Headline: DBS' net-zero plan wins praise but faces challenges

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Banks are one of the most vital and influential tools in cutting carbon emissions as they will be the major source of the trillions of dollars needed to re-engineer and rewire the global economy, and they can deploy carrots, and sticks, to encourage their clients to change. ST FILE PHOTO

Banks' financed emissions are a major driver of climate change. Setting tough net-zero emissions, reduction targets and working with clients are vital to drive the green transition.

Reclaim Finance noted that in March, DBS Bank participated in a loan to Glencore, the ninth-biggest global coal mine developer, whose Mount Owen coal mine in Ravensworth, Australia, is seen above. A spokesman for DBS said the bank is committed to phasing out financing the oil and gas sector unless a company shows it is pivoting enough away from its existing model. PHOTO: REUTERS

David Fogarty
Climate Change Editor

DBS last week took a major step towards tackling climate change, becoming the first regional bank to set clear targets to cut carbon emissions across a number of major polluting industrial sectors that it lends to.

The bank announced a clear road map to reach net-zero financed emissions by 2050, and will use its financial heft to work with its clients to drive them towards low-carbon investments and away from reliance on fossil fuels.

Banks are one of the most vital and influential tools in cutting carbon emissions that are heating up the planet and causing more extreme and deadly weather events.

To fight climate change, people need to reduce planet-warming carbon emissions in everything they do, from the cars they drive to the products they buy to the food they consume. Banks will be the major source of the trillions of dollars needed to re-engineer and rewire the global economy and they can deploy carrots, and sticks, to encourage their clients to change.

But banks are also highly exposed because of the emissions from the clients they finance. So what DBS has done is to announce targets that reduce emissions from clients in a number of sectors. This is ambitious and success will depend on customers supporting the bank's climate plans.

"There is a lot to applaud in the DBS announcement, including how comprehensive the sector targets are. These detailed commitments are key to finance the transition to a low-carbon future," Professor Dave Fernandez, director of the Sim Kee Boon Institute for Financial Economics at the Singapore Management University, told The Straits Times.

DBS chief executive Piyush Gupta, during last Tuesday's presentation launching the bank's net-zero decarbonisation pathway, said DBS has had one-to-one discussions with more than 3,000 clients and found that many are supportive of the bank setting decarbonisation targets for 2030 and 2050.

But not all clients are ready – or know where to begin – to cut their emissions across their businesses and supply chains and will need advisory support, something Mr Gupta said the bank is keen to offer in the transition to greener activities.

Setting decarbonisation targets for polluting sectors is a new thing for banks, but it is a process the finance industry and most companies will have to go through if the world is to achieve net-zero emissions and limit global warming to 1.5 deg C above pre-industrial levels, a level climate scientists say should not be breached.

A growing number of governments, banks and other companies have made net-zero pledges but getting there is tough, experts say.

Mr Gupta spoke of the steep learning curve during the past year as DBS and consultants looked at individual business sectors to figure out realistic targets to reduce financed emissions and if there would be any material impact on the bank's bottom line.

He said the decarbonisation plan will be a strong business opportunity, with the green transition representing a trillion-dollar opportunity for the banking sector.

SO WHAT DID DBS ANNOUNCE?

The net-zero plan covers the most carbon-intensive segments of DBS' lending book and capital market activities.

It covers nine sectors, seven of which have emissions reduction targets up to 2050. These are power, oil and gas, automotive, aviation, shipping, steel and real estate.

Of these, oil and gas has arguably the most ambitious target: an absolute emissions reduction of 92 per cent between 2020 and 2050.

Financed emissions from this sector stood at 38.6 million tonnes of CO_2 equivalent in 2020 and will fall to 27.7 million tonnes by 2030, and three million tonnes in 2050.

Data coverage targets were set for food and agribusiness and chemicals because there is not yet enough data to set clear reduction targets.

"The inclusion of these carbon-intensive sectors indicates DBS' goal to support companies in reducing emissions rather than exiting those client relationships," Fitch Ratings said in a research note.

"Such banking services could help catalyse the development of Singapore's sustainable and transition finance sector, in particular sustainability-linked bonds and loans."

Fitch added that the targets were likely to improve the quantity and quality of data disclosures on greenhouse gas emissions by South-east Asian companies.

CHALLENGES REMAIN FOR DBS

Mr Timothy Colyer of management consultancy Oliver Wyman, which helped DBS with the net-zero target exercise, said banks can struggle to know where to start for some sectors.

For example, for some clients and their subsidiaries, there is little or no emissions data because they have never had to report it.

Second, banks need to understand the green transition plans of customers, factoring in government policies, and then assess how much additional financing needs to be directed to low-carbon companies and away from high emitters.

DBS, which has faced greenwashing accusations in the recent past, deserves praise for setting clear decarbonisation targets. Being the first in the region to do so, it will attract intense scrutiny, but the bank is confident it is doing the right thing and that customers will join it on the green transition journey.

"Achieving net-zero targets requires a more subtle set of actions. The task now is to meaningfully engage with and then finance existing clients to transition. Or transition faster – in our research on companies' decarbonisation plans, we frequently find these plans are not ambitious enough," said Mr Colyer, who is Oliver Colman's head of climate and sustainability for the Asia-Pacific.

Others said DBS needs to speed up its exit from all fossil fuel financing.

"The problem DBS now has is the inconsistency between its commitments to net-zero emissions by 2050, and its financing of companies and projects undermining that goal," said Mr Julien Vincent, executive director of Market Forces, a campaign group that tracks fossil fuel finance globally.

For example, in Australia, DBS has in recent months financed three of the biggest oil and gas producers, all of which have plans to massively expand the scale of oil and gas production, he said.

"DBS should be encouraged for its policy updates, but only if it is now prepared to rule out finance to any new fossil fuel expansion project or companies pursuing them," he added, in views echoed by Reclaim Finance, a Paris-based non-governmental organisation that tracks fossil fuel finance.

In comments to ST, Reclaim Finance said "DBS' targets cover the most high-emitting sectors, as well as underwriting activities, and not only lending, which are important requirements".

But Reclaim Finance noted that in March, DBS participated in a loan to Glencore, which is the ninth-biggest global coal mine developer, and in the same month participated in another loan to San Miguel Corp, which is still planning coal-powered generating capacity of 1,300MW in the Philippines.

In response, a DBS spokesman told ST: "Our oil and gas targets, measured in absolute terms and covering both loans and capital markets activities, denote our commitment to phase out financing the industry unless the company shows it is pivoting enough away from its existing business model.

"Companies' foray into new projects will be reflected in their emissions performance, which in turn informs our financing decision as we seek to stay within the carbon budget assigned to this industry as a share of DBS' responsibility."

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But the challenge in achieving rapid and deep emissions cuts remains. Global carbon emissions have reached dangerous levels in the atmosphere and the deadline for achieving net zero is less than 30 years away.

All banks and businesses must stay on the green transition path no matter how rocky it gets. There can be no turning back.

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UOB, OCBC working on net-zero emissions plans

OCBC and UOB say they are developing net-zero pathway plans with emissions reduction targets for polluting sectors as Singapore aims to become a regional green finance hub.

DBS announced in September the region's first comprehensive plan to reach net-zero emissions by 2050 involving nine polluting sectors it finances, including oil and gas, aviation and shipping.

The plan is part of DBS' commitment under the global Net-Zero Banking Alliance (NZBA), a United Nations-convened initiative in which 116 banks covering 40 per cent of global banking assets have pledged to reach net-zero emissions by 2050.

DBS joined the alliance in October 2021. Within 18 months of joining, members must set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every five years from 2030.

The alliance, which was launched in April 2021, would not tell The Straits Times how many members have announced their net zero plans, citing a report to be released in November. But it expects the number to grow significantly before the end of 2022.

UOB told ST it plans to release its net-zero pathway plan by the end of 2022.

"We will join NZBA when we announce our net-zero commitment," Mr Eric Lim, its chief sustainability officer, said.

OCBC said it is working on targets to cut emissions from industrial sectors it finances, but gave no timeline.

"We are committed to transition our lending portfolio, in order to align the attributable carbon emissions with pathways to net-zero," said Mr Mike Ng, head, sustainability office, global wholesale banking, OCBC.

"We are currently working on setting decarbonisation targets and strategies for key carbon-intensive sectors in our lending portfolio."

David Fogarty