Banco Santander white paper on private climate finance

The purpose of this white paper is to analyze the impact that the global agreement on climate change has on privately-owned banks. Thus, it details the main driving forces behind the development of a low-carbon economy and explains Banco Santander’s approach regarding its own contribution.

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Banco Santander is a leading retail and commercial bank, based in Spain, with a meaningful market share in 10 core countries in Europe and the Americas. Santander is the largest bank in the euro zone by market capitalization and among the top 12 banks on a global basis. Founded in 1857, Santander had EUR 1.51 trillion in managed funds, 12,910 branches and 190,000 employees at the close of June 2015. In the first half of 2015, Santander made ordinary attributable profit of EUR 3,426 million, a 24% increase.
0. Preamble

Achieving an agreement to limit the global temperature increase to two degrees Celsius is certainly what the international community expects from the Paris Climate Change Summit. But, beyond the agreement, the COP21 has already put the fight against climate change high on the international agenda. Currently, the level of scientific certainty about the impact of human activity on climate change through CO₂ emissions is virtually unquestionable. And so is the responsibility of all governments, individuals and businesses to act to mitigate that impact.

Companies have to accept the challenge of contributing to a more sustainable development by promoting initiatives and projects that help preserve and protect natural resources and mitigating the environmental impacts generated from its activity. They must act not only out of a sense of responsibility, but because their stakeholders demand it.

The path towards a low carbon economy will be defined in Paris by the challenges and opportunities it poses to companies. For financial companies such as Banco Santander there are, for example, challenges associated with the adoption of internal policies and procedures to restrict or prohibit funding of projects with high environmental risk. Not to mention challenges associated with the contribution of the entity to reduce its CO₂ emissions (reduction of its environmental footprint).

But this anticipated low carbon economy also presents new opportunities. A study by the IPCC (Intergovernmental Panel on Climate Change), claims that investment will be needed of between 190 and 900 billion dollars annually in the energy sector alone to achieve the global objective of 2°C. The role of the financial sector will therefore be key to channeling capital flows which are needed for this transformation of the economy, at affordable costs. The public-private partnership appears as an attractive way to reduce the risk and therefore the cost of financing.

I) The importance of the global agreement

Reaching a consensus on a global climate policy that includes ambitious goals to control and reduce emissions is a daunting task. Against this background, it will be paramount to clearly establish standards for designating responsibilities within the agreement and determine the role of each country involved in the talks.

Far beyond a purely environmental issue, climate change is now recognized as a truly global problem, of systemic proportions, that directly affects the dynamics of the world economy and will result in profound changes within our society in the coming years. A real agreement between nations will require industries and society itself to focus efforts on transitioning towards a low-carbon economic model. In this scenario, new mitigation
and adaptation technologies are expected to arise within a stable regulatory environment, leading companies and governments to invest more in strategic areas.

II) Banco Santander’s view on Climate Change.

The world is going through major changes which represent a challenge, and society wants the financial system to be actively engaged. Santander sees itself as an agent of change in this sense. More than a bank providing society with access to financial products and services, Santander acts as a driving force for social and financial inclusion, providing solutions to promote society’s progress. Our mission is to help people and business prosper and we need to do so in a way that is Simple, Personal and Fair.

The issue of climate change stands out as an important aspect of Santander's strategy. As a global bank and one of the largest in the Eurozone, Santander is at the centre of discussion and participates actively in efforts to promote a low-carbon economy. Our work focuses on supporting our customers’ businesses, as well as managing the impact of our own operations. In recent years, Banco Santander has committed to increasing its activity in this matter by taking part in international discussions and developing solutions together with its customers, especially in the areas of renewable energy and energy efficiency projects.

Furthermore, it also aims to minimize the impact of its operations and to promote products and services that respect the environment and increase general awareness about social and environmental issues.

Santander’s Climate Change Policy was approved in 2014 to provide a framework of actions and initiatives to protect the environment and mitigate the effects of climate change, focusing on international best practices with the aim of:

- Minimising pollution generated by its activities.
- Considering and evaluating the impacts on climate change of funding projects and the measures to be adopted to reduce or eliminate polluting emissions.
- Promoting products and services that are environmentally-friendly. Raising awareness among its employees to adopt measures to protect the environment within the organisation’s environmental activity.
Since 2013, Santander Brazil supports the Reduza & Compense (Reduce and Offset) programme, designed to foster the development of low-carbon business by promoting small and medium enterprises in the certified reductions market and by engaging individuals to understand and act upon their individual contribution to climate change.  

It offers an online personal emissions calculator that can be used by any person to calculate, learn to reduce and eventually offset his own personal emissions. The offsets are done using voluntary carbon credits from projects, which show not only environmental, but also social benefits for their communities. Over 122,000 people accessed the site, and over 1.1 million watched the campaign video on the internet.  

The programme also includes initiatives to involve specific audiences, such as employees and clients. For example, since 2013 part of the carbon emitted by the vehicles financed by the Bank is compensated and in 2014 the transportation emissions of the bank’s employees who participated in one of the Bank’s sustainability engagement campaigns was compensated as well.

The Climate Change Committee, made up of representatives from several areas of the bank, proposes the strategy and activities to be implemented within the organization.

Santander’s commitment towards the environment has allowed the bank to be a part of two of the most influential sustainability indexes, Dow Jones Sustainability Index (DJSI) and Carbon Disclosure Project (CDP) Climate Change, starting from 2000 and 2007 respectively. This year the DJSI identified Banco Santander as the best financial entity in Spain, thanks to its sustainable performance, its social and environmental policies, as well as the commitment made and measures carried out towards the management of the risks and opportunities arising from the fight against climate change. Santander also responds the CDP Water since 2013 and was recognized among Bloomberg’s World’s Greenest Bank in 2011(1st), 2012(1st), 2013(2nd) and 2014(1st).

Santander has stood out in fostering industries that involve low-carbon solutions, particularly as a leader in the area of renewable energies. In 2014 the Bank obtained impressive results:

Financing of renewable energies and energy efficiency

• **Project finance.** Involvement in the funding of wind farms, solar thermal power stations, hydro facilities and photovoltaic plants in Brazil, the United States, Ireland, Portugal, Canada, Italy, the United Kingdom and Mexico, totaling 5,197 MW (megawatts).

• **Seed capital investment and private equity.**
  During 2014, Santander has invested in wind power, photovoltaic, solar thermal, mini-hydro and biomass plants which, once built, will have a total installed capacity of 2,960 MW.
**Leasing and renting**

*Portugal:* Approximately €340 million was awarded to finance a total of 23 new energy micro-producers to install renewable technologies.

*Spain:* Banco Santander has over 1,000 photovoltaic leasing arrangements in effect, with total risk exposure of €300 million. Over €14 million in funding was granted in Spain and Holland, involving energy efficiency, biomass boilers, LED technology and waste treatment, among others.

**Sale and lease back.** Santander has continued to finance four wind power plants for a total of 475.5 MW, plus a 25-MW photovoltaic plant, all located in the United States and Puerto Rico.

**Bridge equity.** Santander remains a financing partner at a solar thermal power plant in Spain with an installed capacity of 50 MW.

**Financing electrical, hybrid and low-emission vehicles**

• The Bank currently finances 16,235 low CO2- emission vehicles in Spain for a total sum of €212 million a sizeable increase compared to 2014, when 4,765 such loans were signed for a total of €63.6 million.

• In Germany, the Bank has financed over 350 low emissions vehicles for a total investment of €11.9 million.

**Products and services intended for agriculture, livestock farming and water and waste treatment**

• In Portugal, Santander Totta has continued to finance agro-food companies and industries through its Solução Agricultura scheme, by channeling €6.2 million into the sector.

• Santander Brasil provides funding to businesses and individuals to help them develop environmental projects relating to energy efficiency in the agricultural sector. A total of €7.6 million was invested in 48 key projects in the country.

**Low-carbon industries**

Santander also stood out in 2014 in several low-carbon initiatives. Among them is a partnership between the European Investment Bank and Santander Chile in 2014, which involved investing €150 million in renewable energy projects such as wind farms, solar power towers, and biomass plants. Furthermore, €200 million will be invested in the coming years in clean and efficient infrastructures and education and projects designed to raise awareness.
• **Progress and innovation are possible**

The world economy needs to shift towards a low carbon growth model, and the countries that will lead this transformation will fully benefit from the wide range of opportunities and products available. But in order to establish the green economy as a factor leading to prosperity and value creation, it is necessary to guarantee a stable, predictable and transparent regulatory framework, as well as the elimination of administrative barriers while ensuring institutional coordination.

Based on each country's commitment at the Paris summit, a turnover is expected to come from a growth in business with new products resulting from the following measures:

1. **EU Emission Targets and Renewable energy regulation**: goals are ambitious. In Europe, The 2030 climate and energy framework has set three key targets for the year 2030, thus creating demand for financing and investment in mitigation technologies.(1)

2. **Carbon Pricing**: according to the World Bank, the combined value of the regional, national, and sub-national carbon pricing instruments in 2015 is estimated at just under $50 billion globally, of which almost 70% (about $34 billion) is attributed to Emission Trading Schemes and the remainder (about 30%) to carbon taxes. This volume is expected to rise significantly after Paris. The World Bank indicates that Carbon prices currently range from about US$1 to US$130/tCO\(_2\)e with 85% priced at less than US$10/tCO\(_2\)e. To limit global warming to 2°C, most scenarios point to an average carbon price of between US$80/tCO\(_2\)e and US$120/tCO\(_2\)e in 2030. (2)

3. **Emission Trading Schemes (ETS)**: with 17 ETS running around the world and another 15 being implemented, this market instrument is still one of the most important means of reducing global emissions. The roll-out of China's national market in 2016 should strengthen Cap and Trade schemes even more. (4)

4. **Product efficiency standards**: growth in the renewable energy market forecasts for the next few years is directly related to Santander's strategy in the energy sector.

II) **The role of private banks in the economy after Paris**

For further economic development after COP 21, one of the main discussion points worldwide will be climate finance. There is a clear sign that businesses promoting sustainable low-carbon development will attract investment. Over the next 35 years, approximately US$40 trillion will be needed (2) just to finance the transition to a low-emission energy system worldwide. This is where public and private financial institutions will play an increasingly important role. As funding requires increased scalability, a new vision on current economic patterns is necessary.

Until 2013, the private sector was responsible for 58% of the resources used to finance mitigation and adaptation measures for climate change (4); with growing demand, the global financial sector will thus have an even greater role in developing new financial mechanisms driving new business models that will address new economic needs. Similarly, as the economic effects of climate change become more and more visible, governments, business and society will come under pressure, to change attitudes.
Each and every one of these players will be challenged to develop strategies to reduce vulnerabilities and increase the resilience of their operations.

**Banks should play an active role in the growing debate on climate change.** In this sense, it will become more and more important to analyze social and environmental risks as well as the opportunities that arise, while serving as a driving force within a more regulated setting.

Therefore, there must be greater awareness of how the Paris agreement will affect market dynamics. Moreover, strategic decisions must be taken about systemic risk management, pricing, and capital allocation, taking into account:

- **Impacts on country risk**

In a recent study, *Standard & Poor’s* (5) indicates that the impacts of climate change and country risk assessments are interrelated. According to this study, less developed economies will be more negatively affected. On the one hand, they depend heavily on agriculture and employment, which might be vulnerable to changes in climate patterns and extreme weather. On the other hand, they are less capable to absorb the financial costs associated with mitigation and adaptation initiatives.

- **Portfolio management**

Issues like climate change leave both society and the market at risk. Customers who suffer losses due to climate-related events are directly affected. A portfolio problem may become systemic when a specific scenario extends to an entire sector. Therefore, understanding the "carbon risk" and possible effect on asset and portfolio management (on a short, medium, and long-term basis) using **stress testing** tools can help financial institutions improve decision making regarding capital allocation, and provide guidance on investing in sectors that are better prepared to confront climate change. In addition, managing investments from a climate change perspective would lead to improved credit exposure planning.

Santander Brasil leads the analysis of social and environmental risk. Wholesale banking customers with a credit limit or risk greater than R$1,000,000 (around €370,000) are assessed every year. The Bank is proactive helping customers to comply with all applicable laws and regulations while improving their social and environmental performance, which includes matters related to climate change. In 2014, Santander Brazil analysed the social and environmental risks of 1,763 customers.

A recent discussion in Brazil regarding the implementation of the National Monetary Council (CMN) Resolution No. 4327/14 brought to light a debate on banks' registering social and environmental losses and provisioning capital. Santander Brazil, recently started identifying social and environmental events in already registered operational losses. This was a means of avoiding new losses due to double counting and capital provisioning.
IV) Low-carbon economy drivers

- **Regulatory stability**

Following the agreements adopted in Paris, it will be essential that all parties and in particular governments and regulators lead an orderly transition towards a more sustainable development and specifically a low carbon economy in support of both national and international environmental priorities.

Clear signs given by regulators based on local policies may encourage the market to invest in necessary solutions if reduced risk is perceived. Such policies could also promote minimum standards for financial institutions, maintaining elements of competition.

**Opportunities and Innovation**

- Considering that low emissions has become an important feature of new products and services, it is a great opportunity to introduce new business models.

- Business models must consider scarcity of materials, energy, water, avoiding or minimising waste generation as well as its appropriate final destination, and thus need to address the entire product life cycle.

- Technologies that can address the replacement of high emissions products or services, will promote new ways to offer to society a benefit of wealth with low carbon emissions, such as renewable energy, biofuels, leveraging of reuse and recycling.

- One of the challenges is how encourage the education, research in order to use the intellectual capital to think in new models.

V) Banco Santander’s commitment towards low-carbon economy

The financial sector has a fundamental role in achieving the scale required by the transition into a new low-carbon economy. Co-operation and alignment efforts will be fundamental to ensure that what were once externalities are incorporated into the market to better reflect risks as well as opportunities.

As supporters of the 2015 Sustainable Innovation Forum, Santander is committed to focusing its efforts on businesses that promote development and prosperity and to sharing its best practices through participation in key discussions for a new, dynamic and inclusive economy that understands the palpable connection between society and the environment.

Following our Climate Change Policy and in order to be consistent with this position in carrying out our own activities, the Group has a corporate energy efficiency plan to manage its environmental footprint, achieving reductions in greenhouse gas emissions as well as electricity and paper consumption.
Growth of the entire financial sector in this area will strengthen the new economy. Finance has the potential to become a fundamental agent in the fight against climate change and to the success of the agreement signed in Paris.

- Santander will continue creating financial products and services to fight against climate change.
- One of our sustainability goals for 2017 is to remain one of the top investors in renewable energy in the financial sector. Santander will continue to finance renewable energies.
- Santander will continue to engage and encourage employees, clients and suppliers to broaden their knowledge of the global issue of climate change.
- Santander will encourage governments to achieve a robust methodology for the pricing of carbon and to provide long-term regulatory stability for low carbon investment.

Santander is signatory to various international commitments, such as Banking Environment Initiatives’ Soft Commodities Compact, that has been drawn up in conjunction with the Consumer Goods Forum (CGF) and outlines the banking industry’s contribution to achieving the CGF’s commitment of zero net deforestation by 2020. UNEP Financial Initiative, Equator Principles and World Business Council for Sustainable Development (WBCSD). It recently signed a statement in support of a strong, ambitious response to climate change with the European Financial Services Round Table (EFR), among others.

(1) European Commission, 2015
(4) Climate Finance Landscape 2015
(5) IPCC, Climate Change 2014: Mitigation of Climate Change - Summary for Policy Makers, 2014

More information: