Institute for Energy Economics
and Financial Analysis

RBC: Falling Short on Climate Change

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Key Findings

RBC's climate and sustainable finance program fails to address ending fossil fuel expansion and excludes significant segments of its business from climate targets.

RBC's 2030 interim emission reduction goals are focused on intensity rather than absolute emissions, meaning RBC could achieve its targets without any reduction in the actual amount of financed emissions.

The bank's goal of achieving net-zero emissions in lending by 2050 conflicts with Canada's goal of achieving net-zero emissions in the economy by 2050, because investments must precede implementation.

RBC's Sustainable Finance Framework and Net-Zero Plan are not based on climate policy, but rather on the demands of a client base—an oil and gas industry that is increasingly speculative in its character.

Executive Summary

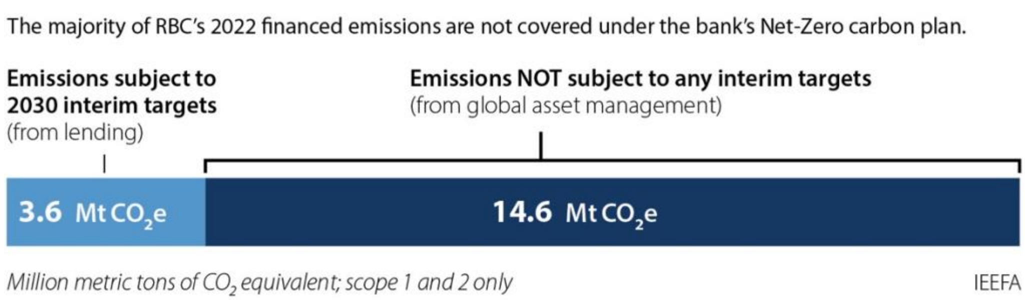
The Royal Bank of Canada (RBC) has a sustainable finance credibility problem. Policy documents released by RBC in recent years set forth its climate and sustainable financing program. RBC's plans, however, fail to update its strategy to end fossil fuel expansion, lack meaningful target dates, and exclude significant segments of its business from its climate targets. These plans represent a lackluster commitment to achieving its net-zero financing goals.

RBC is a leader in fossil fuel financing. According to recent data, the bank has been responsible for the fifth-largest total amount of fossil fuel financing in the world—almost $254 billion U.S. dollars—since the 2015 Paris Agreement, surpassed only by JPMorgan Chase, Citi, Wells Fargo and Bank of America. RBC ranked first in 2022, and the bank is widely recognized as the largest Canada-based financier of fossil fuels.[1]

Given RBC's outsized role in funding the fossil fuel industry and its apex position in the Canadian banking industry, it is reasonable to expect RBC to set and meet high standards. The bank should be a policy leader.[2]

Although RBC has set interim emission reduction goals by 2030, these targets are focused on emission intensity and not absolute emissions. This key difference means RBC could end up achieving its targets without any reduction—and even with increases—in the overall level of emissions it finances.

Figure 1: Royal Bank of Canada's Financed Emissions[3]



Source: RBC 2022 Climate Reports.

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[1] Data compiled by Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change, Reclaim Finance, Sierra Club and Urgewald. Banking on Climate Chaos 2023. The seven-year period analyzed spanned from 2016 through 2022, p. 10-11. Data is based on Bloomberg and IJGlobal data sets.

[2] RBC recognizes that it faces a reputational risk with regard to climate issues, acknowledging the bank "may be impacted by our ability to meet our climate commitments or balance stakeholder expectations. RBC. Climate Report 2022. 2023, p. 32.

[3] RBC. Climate Report 2022, p. 41. Also see: RBC. Global Asset Management Climate report 2022, p. 31 and p. 44. Financed emissions might be understated as RBC disclosure is limited to lending to three target sectors and is restricted by data availability for certain asset classes.

This paper shows that RBC's targets are inadequate and its policies and practices are not aligned with its climate goals. Further deductions include:

- RBC has failed to align its lending policies with a robust plan to reduce investment in fossil fuel projects. The policies lack a coherent "Divest-Invest" framework.
- RBC's failure to consider expanding divestment assumes it can meet emission reduction goals by supporting further oil and gas development. RBC essentially relies on its client base to take action. The client base, however, includes the fossil fuel industry, which has demonstrated weak performance in greenhouse gas emissions reduction and remains unprepared for a low-carbon future.
- RBC has effectively exempted its asset management arms from policies to reduce financial commitments to fossil fuels. RBC states approximately 14% of assets under management in its Global Asset Management unit are invested in companies with Paris-aligned targets,[4] which indicates a weak commitment.
- The bank's goal of achieving net-zero emissions in lending by 2050 conflicts with the goal of achieving net-zero emissions in the economy by 2050, because investments must precede implementation.
- Even the 2050 target is hedged with a series of qualifications that suggest a future lackluster commitment driven by commercial interests and not climate solutions.

This policy briefing, the first in a series of commentaries by IEEFA on RBC's role in the energy transition, considers the bank's policy statements regarding financing fossil fuel projects and companies that sponsor them, and questions its goals and the firmness of its commitments.

Background: RBC's Climate Strategy

RBC talks the talk. In a series of documents published on its website, the bank lays out its climate strategy.

In RBC's Climate Blueprint, CEO Dave McKay confirms the bank is well aware of the magnitude of climate change and implies that financial institutions have a duty to be proactive. He states:

> "Global plans to drastically reduce greenhouse gas emissions to net-zero by 2050 require the largest change to our economies in our lifetime… The financial system needs to be leading efforts to accelerate clean economic growth and the transition to the net-zero economy..."[5]

The Climate Blueprint lays out the foundation for RBC's transition plans by listing its strategic climate priorities. Fundamentally, RBC's approach is to walk alongside its clients as they transition and to

[4] Royal Bank of Canada. Task Force on Climate-related Financial Disclosures. August 2021, p.16.
[5] RBC. Climate Blueprint. December 2022.

support their plans with products and services. RBC is essentially hinging its future climate outcomes on the will of its client base—including the fossil fuel industry, which has shown enduring resistance and unpreparedness for a low-carbon future.[6]

In its October 2022 Net-Zero Report, RBC sets forth interim targets for emission intensity reductions to be met by 2030.[7]

Figure 2: RBC Emission Intensity Reduction Targets for the Year 2030

	Emission Scope[4] Inclusion	2030 Target (as % reduction from 2019 baseline)	2030 Target (as the portfolio measurement)	RBC 2019 Baseline	Sub-Sector Inclusions & Exclusions	Metric Used	Unit
Oil & Gas	Scopes 1, 2	**35% reduction**	**4.9** g CO_2e/MJ	**7.6** g CO_2e/MJ	**Include:** Upstream, downstream, integrated **Exclude:** Midstream, services	Physical Emissions Intensity	g CO_2e/MJ
	Scope 3	**11 - 27% reduction**	**61.1 - 50.2** g CO_2e/MJ	**68.6** g CO_2e/MJ			g CO_2e/MJ
Power Generation	Scope 1	**54% reduction**	**156** g CO_2e/kWh	**340** g CO_2e/kWh	**Include:** Electricity generation **Exclude:** Clients involved in transmission, distribution, non-generation	Physical Emissions Intensity	g CO_2e/kWh
Automotive	Combined target for Scope 1, Scope 2 & Scope 3 tank-to-wheel	**47% reduction**	**102** g CO_2e/km	**192** g CO_2e/km	**Include:** Manufacturing,[9] financing **Exclude:** Retail motor vehicle loan, new vehicle dealer, trucking rental and leasing, railway, and other[10]	Physical Emissions Intensity	g CO_2e/km

Source: RBC. Net-Zero Report. October 2022, p. 7

Focusing on emission intensity rather than absolute emissions allows for a scenario in which fossil fuel investments are expanded and total emissions increase, even though emissions ratios per unit of

[6] IEEFA. Two Economies Collide. October 2022, p.25. Also see: The Globe and Mail. Canada's oil sands are undermining climate policy despite net-zero pledges, think tank claims. February 2023.
[7] RBC. Net-Zero Report. October 2022, p. 7. The oil & gas emissions intensity reductions include Scope 1 (direct emissions) and Scope 2 (indirect emissions from generation of purchased energy) emissions. The target for Scope 3 emissions (indirect emissions not included in Scope 2 that occur in the reporting company's value chain) is lower, from 22-27%. The emission intensity reductions are from a 2019 baseline. *Ibid.*

energy decrease. Intensity-focused goals are generally regarded as substandard,[8] and are inconsistent with Canada's broader reduction targets.[9]

RBC's targets are also not applicable on an enterprise-wide basis: They are limited to its lending business and three sectors—Oil and Gas, Power Generation and Automotive. As discussed below, its investment management arms (RBC Wealth Management and RBC Global Asset Management, which are collectively responsible for approximately $1 trillion[10] in investor assets), are exempt from emission reduction targets.[11, 12]

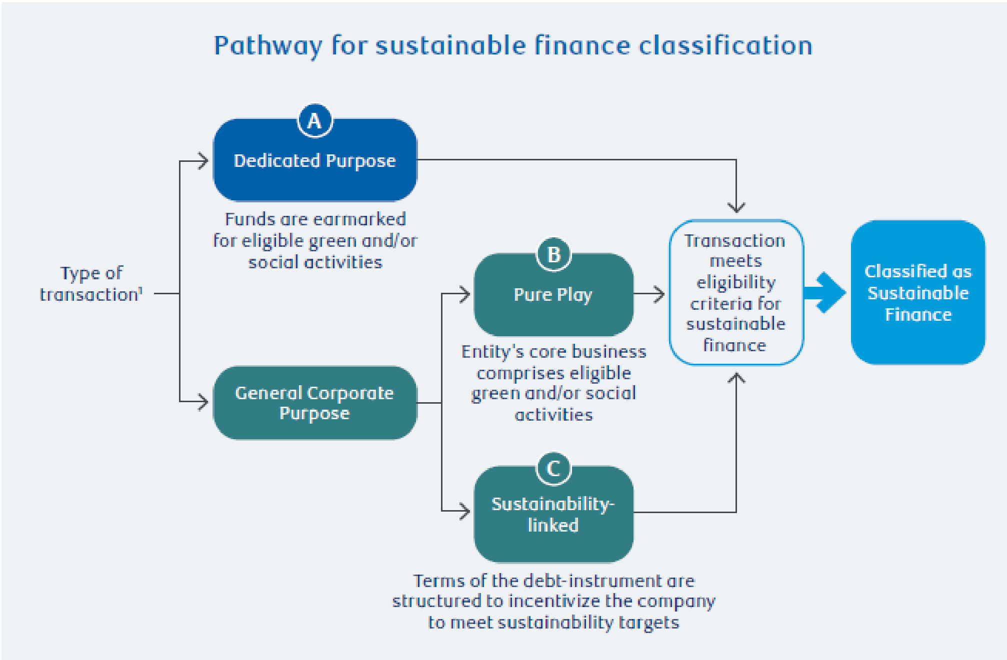
RBC issued a 2022 paper that the bank states is intended to serve as the basis for classifying, tracking and disclosing performance toward its commitment to provide $500 billion in sustainable finance by 2025.[13] The paper is also intended to be a "tool for identifying new opportunities and driving growth, in line with our belief that sustainable finance represents a growth opportunity for our clients and our business."[14]

The $500 billion commitment does not apply solely to energy-related activities. It also includes other social investments such as affordable housing and affordable education.[15]

The bank's Sustainable Finance Framework offers some context (although not formal guidance) for RBC's plans to implement the $500 billion sustainable finance commitment. Its framework focuses on three types of financing illustrated in Figure 3 below:

[8] See, e.g., Investors for Paris Compliance. Banks 2023 Net Zero Report Card. July 25, 2023, p. 3.
[9] Canada seeks to reduce emissions by 40% to 45% from 2005 levels by 2030. Also see: Government of Canada. Net-Zero Emissions by 2050. Emissions by 2050. July 11, 2023.
[10] All money figures provided herein are in Canadian dollars unless otherwise noted.
[11] Royal Bank of Canada. Annual Report – 2022, p.37.
[12] RBC's Net-Zero Report states with regard to the 2030 emissions intensity targets: "This goal refers to RBC's lending activities only and is not inclusive of assets under management by RBC Wealth Management (RBC WM) and RBC Global Asset Management (RBC GAM)." RBC. Net-Zero Report. October 2022, p.7, note 1. Many banks and investment houses participate in other voluntary collaborations, such as the Net-Zero Asset Managers Initiative. The initiative supports a more robust set of measures and dialogue on financed corporate emissions. RBC is not a participant. Its enterprise-wide commitment is limited.
[13] Royal Bank of Canada. Sustainable Finance Framework: Our approach and methodology for sustainable finance. October 26, 2022 (hereafter, RBC Sustainable Finance Framework). RBC notes the Framework is applicable from November 1, 2022 onward but may be updated or modified. *Ibid.*, p. 6.
[14] *Ibid.*, p. 5. The $500 billion commitment was first declared in 2021, as an expansion of a $100 billion commitment made in 2019. *Ibid.*
[15] *Ibid.*, p. 6.

Figure 3: RBC Sustainable Finance Framework – Pathway for Classification



Source: RBC. Sustainable Finance Framework.

The list of energy projects considered eligible for sustainable financing will be the topic of future IEEFA commentary. As a policy matter, areas for future consideration will include the viability of hydrogen-based transportation and its use of natural gas as feedstock, and the technical effectiveness and financial practicality of carbon capture and sequestration (CCS).

The most important weakness of RBC's framework is that it does not integrate its sustainable investments as part of the bank's fossil fuel investment policies.

RBC's Climate Strategy Fails to Provide a Plan to End Financing of New or Expanded Fossil Fuel Projects

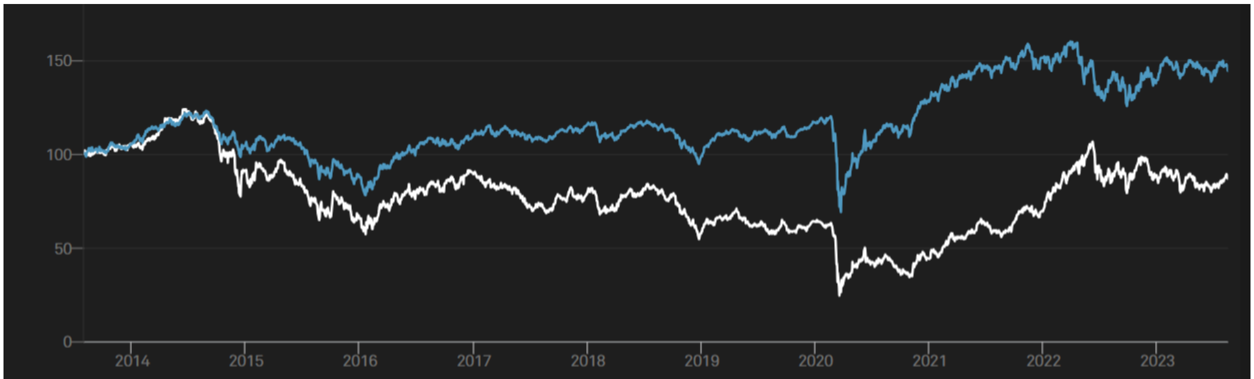
RBC's Sustainable Finance Framework discusses the energy transition, but it only describes the bank's planned approach to selecting financing transactions within the $500 billion goal. The document ignores the bank's prior outline of restrictive lending practices in various areas of the economy, particularly those related to fossil fuel expansion.[16] In particular, RBC's 2020 Policy Guidelines for Sensitive Sectors and Activities excluded certain coal mining and power generation transactions as well as drilling in the Arctic.[17] The framework does not discuss limited exclusions to fossil fuel funding or offer any analysis of the implementation or impact of this policy. It does not include any analysis of RBC's prior commitments to exclude coal and Arctic investments or offer any analysis of the impact of this decision.

While many banks, insurance companies and lending institutions are broadening the size and scope of their exclusionary practices,[18] RBC's sustainability plan offers no discussion of how exclusionary policies relate to either environmental, social and governance (ESG) principles or actual lending standards and practices.

This is a risky financial strategy. Over the last decade, the oil and gas industry has continued to lose value and market share. With the exception of the aftermath of the February 2022 Russian invasion of Ukraine, the oil and gas industry has demonstrated weak market performance. In Canada, the S&P/TSX Equal Weight Oil & Gas Index has underperformed the broader market index on a one-year, five-year and 10-year time frame.[19]

[16] RBC. Policy Guidelines for Sensitive Sectors and Activities. 2020. Also see: ESG Today. RBC issues policy guidelines with new restrictions on coal, artic development. October 5, 2020.
[17] The actual impact of the exclusion should be examined to determine the extent to which RBC's broader corporate-level financing may facilitate projects that, if proposed individually, would have been excluded from project-level financing.
[18] IEEFA. 200 and Counting: Global Financial Institutions are Exiting Coal. May 2023, p.8
[19] S&P Dow Jones Indices. S&P/TSX Equal Weight Oil & Gas Index vs. S&P/TSX Composite Equal Weight Index. Accessed August 2023.

Figure 4: S&P/TSX Equal Weight Composite vs. Oil & Gas Index



Index Name	Index Level	10 Yr Return Annualized
S&P/TSX Equal Weight Oil & Gas Index Launch Date: Oct 19, 2009	267.20	-1.47%
S&P/TSX Composite Equal Weight Index Launch Date: Oct 24, 2011	155.85	3.42%

Source: S&P Dow Jones Indices.

IEEFA's analysis has shown that unless oil prices are high, generally exceeding US $100 per barrel, the industry's financial performance is unstable.[20] The assumption that an industry is back in the money based on a military intervention is not an investable business model.[21]

In particular, RBC's climate strategy is silent on setting a target for eliminating funding of fossil fuel expansion projects. The International Energy Agency's plan for how to achieve a 1.5^{0}C scenario by 2050 includes no new approvals of oil or gas expansion.[22] RBC appears to hold the view that it can meet its sustainability commitments while continuing to fund new or expanded projects that increase or extend the use of fossil fuels.

[20] IEEFA. Taking stock of the oil and gas sector as the transition to sustainable finance proceeds apace. August 2023.
[21] IEEFA. Declining supermajors profits reveal flaws in the oil and gas business model. August 2023.
[22] International Energy Agency. Net Zero by 2050. May 2021. Also see: Reuters. End new oil, gas and coal funding to reach net zero, says IEA. May 18, 2021.

RBC's Decision to Exclude Its Asset Management Arm From Emission Reduction Targets Raises Concerns About Its Commitment to Sustainability

As a notable steward of capital, RBC wields substantial influence over capital allocation decisions. By failing to hold its asset management business accountable for any emission reduction targets, the bank may be signaling a lack of commitment to prioritizing environmentally responsible investments.

By not integrating emission reduction targets into its asset management strategies, RBC may be missing opportunities to drive change and support a low-carbon transition. This contradicts a growing trend among institutional investors to limit exposure to fossil fuels and other unsustainable industries.[23]

In its most recent disclosure of this data, RBC states that only 14% of assets under management at RBC Global Asset Management are invested in companies with Paris-aligned net-zero targets.[24, 25] This level of investment suggests that its 2030 interim and 2050 final targets will be difficult to meet.

Maintaining the status quo in providing capital to issuers that are not aligned with emission reduction targets or its sustainable financing framework creates dissonance between RBC's climate plans and its role as a portfolio manager.

RBC's fossil fuel reduction goals also are not aligned with any lending policies identified in its sustainability framework. The bank's ability to achieve its goals depends highly on the wishes of the bank's clients. RBC states its desire to work with high-emitting, capital-intensive businesses to finance plans to reduce or eliminate emissions. The bank also expresses a willingness to assist clients in the power business to move into the renewable space as well as reduce reliance on fossil fuel generation.[26] It takes a similar stand toward electric vehicles and non-fossil-fuel modes of transportation.[27] This approach is likely to allow the bank to serve the growth of the sustainable economy in some ways.

However, RBC's strategy falls short when it comes to the oil and gas sector, a very important component of RBC's client base. The oil and gas industry is showing signs of walking back many of its climate commitments. Suncor, an RBC client, recently said it had been too focused on the energy

[23] Divestment Database. Global Fossil Fuel Divestment Commitment Database. Accessed August 2023.
[24] Royal Bank of Canada. Task Force on Climate-related Financial Disclosures. August 2021, p.16. The RBC report covers the Bank's Global Asset Management portfolio ($484 billion). The bank uses the Science-Based Targets Initiatives participant list to determine whether or not a company has a net-zero policy.
[25] Metrics used to measure progress toward sustainable finance are not uniform. International Organization for Standardization (ISO). Debunking the climate change data myth: How standards can help catch climate change cheats. December 1, 2021. Current metrics also are vague and in need of refinement. IEEFA. Asian hopes for sustainable finance will rest on more credible taxonomies. September 1, 2021. Pending such improvements, IEEFA reviews current levels of achievement, the need for more progress and the likelihood that the bank can achieve its targets given the low numbers it has achieved to date.
[26] RBC. RBCs commitment to sustainable finance. Accessed August 2023.
[27] *Ibid.*

transition and now intends to refocus its energy on its oil sands production. The announcement followed recent restructuring at Suncor that reduced the role of its independent sustainability unit and the role of its chief sustainability officer.[28] Shell plc, another RBC client, trimmed back spending on renewables this year and announced its intention to channel more investment into fossil fuel production, which it deems more profitable.[29]

RBC's client-directed lending is neither a climate policy nor a financially wise strategy. At some point, many oil and gas reserves considered proven and probable will not be economically viable to extract.[30] RBC's policy, and that of the fossil fuel sector in general, run counter to the plain signals of the changing energy market.

RBC's climate policies are not effectively designed to further the transition or to protect investment dollars. RBC's strategy is designed to service a clientele. But its clients are part of an industry that has demonstrated weak performance and has not articulated a transition-ready business model with a positive outlook.[31]

The 2050 Target Date for Achieving Net-Zero Financing Is Too Late to Achieve a Net-Zero Economy in Canada by 2050

The Sustainable Finance Framework and Net-Zero Report declare a goal of "achieving net-zero in our lending by 2050."[32] That is a recipe for failure. As a financial strategy, the 2050 date assumes the bank can predict the manageability of climate events, and that the oil and gas markets will remain economically viable. While net-zero target dates have been set by many countries (including Canada) for 2050,[33] investment action must come much sooner to help meet the goal. Interim emission targets must immediately be applicable on an enterprise-wide basis. Sustainable projects must be financed and built—and unsustainable projects must be rejected—well in advance of the target net-zero date. In this respect, RBC's plans lack a sense of urgency or practicality.

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28 Suncor. 2023 second quarter analyst call. August 2023. Also see: The Globe and Mail. Suncor should return to its production roots, focus on fundamentals over energy transition, says CEO. August 2023.
29 Shell plc. Fourth Quarter 2022 Results Presentations – Analyst Q&A session. Also see: Los Angeles Times. Big oil companies are already reneging on their global warming goals. February 2023.
30 IEEFA. Declining supermajors profits reveal flaws in the oil and gas business model. August 2023.
31 IEEFA. Two Economies Collide: Competition, conflict, and the financial case for fossil fuel divestment. October 2022, p.50.
32 RBC Sustainable Finance Framework, p. 4.
33 Government of Canada. Net-Zero Emissions by 2050. July 11, 2023.

RBC Does Not Commit to Follow the Guidance in Its Sustainable Finance Framework or Net-Zero Report

RBC's Sustainable Finance Framework opens with a "caution regarding forward-looking statements," a densely-packed statement squeezed onto a single page before the table of contents. The Net-Zero plan also sports a "caution regarding forward-looking statements" on its first page. Both notices are full of caveats.

RBC states the framework "is provided for informational purposes only and is subject to change without notice."[34] RBC cautions:

> "The information contained in this Framework has not been independently verified and no representation or warranty, express or implied, is or will be made in relation to the accuracy, reliability or completeness of the information contained herein."[35]

While RBC may have included the statement to avoid any potential liability, it should certainly take steps to establish independent verification.[36]

The statement goes on to warn about the uncertainties of forward-looking statements generally and this statement in particular:

> "By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, vision, commitments, goals, targets and strategies and our economic, environmental (including climate), social and governance-related impacts and objectives, including our Sustainable Finance Commitment of $500 billion by 2025, will not be achieved."[37]

Forward-looking statements typically contain such warnings about uncertainties, but the statement fails to discuss what steps RBC will take to assure achievement of its stated goals.

RBC also does not believe it is responsible for achieving the targets set in its own plans. Its Net-Zero Report states:

> "The achievement of our interim targets set forth in this report, any of our future emission reduction targets and our ultimate goal of net-zero in our lending by 2050 will depend on the

[34] *Ibid.*, p. 2.
[35] *Ibid.*, p. 2.
[36] For example, Vancity, a Vancouver, B.C-based credit union, makes provisions for internal and external verification of data in its climate and emissions methodology. Vancity. 2022 Climate Report. Accessed August 2023, p. 52.
[37] *Ibid.*, p. 2.

> collective efforts and actions across a wide range of stakeholders outside our control, and there can be no assurance that they will be achieved.[38]

Perhaps most importantly, in both the Sustainable Finance Report and the Net-Zero Report, RBC declares:

> "Nothing in this document shall form the basis of or be relied upon in connection with any contract, commitment, or investment decision whatsoever."[39]

The best one can conclude from these statements is that RBC *thinks* about the information in the Sustainable Finance Framework and Net-Zero Plan—but is not bound by their parameters.

Conclusion

RBC's Sustainable Finance Framework and Net-Zero Plan are highly tentative. This is due to the fact that they are not based on climate policy. They are based on the demands of a client base—an oil and gas industry that is increasingly speculative in its character. The oil and gas industry was once a stable source of value, job and taxes, robust cash flows, and a generator of local and national economic growth—all critical contributors to banking's bottom line. But conditions are changing. RBC cannot offer an integrated climate policy under which lending activities are driven by a set of meaningful transition metrics because it is directing its continued line of services and products to an industry that is increasingly volatile.

RBC must come to terms with the fact that the energy transition is already having an impact, and the fortunes of the fossil fuel industry have begun to wane. The bank is looking to lend to high-carbon industries as its short- and long-term needs present themselves—this is an unstable and risky scenario.

[38] RBC. Net-Zero Report. October 2022, p. 3.
[39] RBC Sustainable Finance Framework, p. 2. Also see: Net-Zero Report, p. 3.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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Working for close to a decade as a finance professional in the upstream E&P space, Mark garnered firsthand insight into the intersection of community, environmental, government and private business interests in the global oil and gas industry. He has authored and contributed to numerous published reports as an equity research analyst and advised HNW and institutional clients on investment recommendations and portfolio optimization. Mark holds a Bachelor of commerce and an MBA with specialization in Investment Management.

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