

# Notable fixed income fossil funding deals 2022

*Anthropocene Fixed Income Institute<sup>(\*)</sup>*

In time-honoured tradition, this is the Anthropocene Fixed Income Institute's second (subjective) list of notable fixed income fossil funding deals of the year.<sup>1</sup> This non-exhaustive list does not rank the deals but highlights how and when bond market funding has fixed capital into fossil fuel value chains, and the inherent risks, as global economic growth decouples from increases in GHG emissions (see Figure 1).<sup>2</sup>

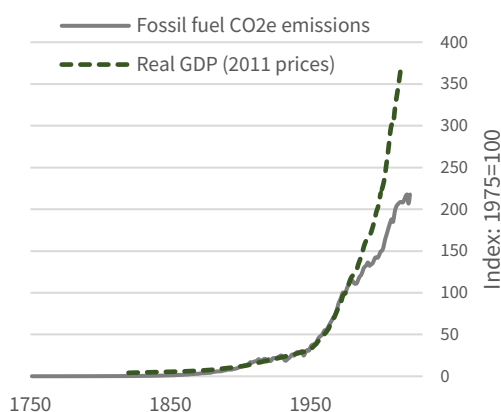
What these deals generally have in common is that they are not well-described to end-investors in related fixed income instruments. The Anthropocene Fixed Income Institute has sought to broaden understanding and transparency, and provide alternative perspectives on how to interpret the deals.

Investors should be given the opportunity to make funding decisions based on full information. For example, full disclosure on the SUEK Russian thermal coal deal (featured in 2021's "notables" list) would have helped investors with exposure to the deal to consider index exclusions.<sup>3</sup>

Click each deal to go directly to a short explainer:

- **Sembcorp GHG footprint arbitrage:** Bond issuer provides financing for buyers of its coal
- **ECB's Glencore investments:** Biggest bond buyer in town had no carbon policy
- **Lightstone CLO coal refinancing:** Private credit to the rescue of coal
- **EIG/Aramco pipeline funding:** An SPV for circumventing ESG guidelines?
- **KfW bailout of Uniper:** SSA issuance exposed to failed Russian supply bets
- **RBC upping fossil funding game:** Bank activities focused on fossil financing provisioning
- **JBIC Russian petrochemical plant:** SSA financing of downstream fossils
- **New Queensland coal mines:** Future targets versus current realities
- **Mitsubishi Heavy Industries:** Financing coal/ammonia co-firing as transition

Figure 1. Global GDP and CO<sub>2</sub> emissions. Source: Our World in Data, AFII.



<sup>1</sup> See "[Notable fixed income fossil funding deals 2021](#)", AFII, 21 Dec 2021.

<sup>2</sup> This does not discount the fall-out from the current energy crisis, created by policy mis-steps: "[Global coal use set to reach fresh record](#)", Financial Times, 16 Dec 2022.

<sup>3</sup> See "[ESG Bond ETFs: Passive aggressive investing?](#)" AFII, 17 May 2022 and "[Russia's largest coal miner in index with thermal coal exclusions](#)", Responsible Investor, 19 May 2022.

### Sembcorp GHG footprint arbitrage: Bond issuer provides financing for buyers of its coal

Reference security: SGXF52048042; SCISP SGD2.66 04/32

Sembcorp shifted operational coal assets into a quasi-financed asset with the explicit aim of reducing its carbon intensity metrics connected to the pay-out of sustainability-linked bonds. Even more surprising was the 99.5% yes vote among shareholders, many of them blue-chip ESG engagement names.<sup>4</sup>

[“Sembcorp: Carbon footprint arbitrage of a lifetime”](#), 6 Nov 2022.

### ECB’s Glencore investments: Biggest bond buyer in town had no carbon policy

Reference security: XS2228892860; GLENLN €1.125 03/28

Just a few months after the European Central Bank announced that they would stop buying bonds through the CSPP program, they also announced that they would stop buying heavily carbon-exposed bonds.<sup>5</sup> A back-of-the-envelope calculation indicates a very significant investment in UK/global thermal coal company Glencore<sup>6</sup> as well [as new Saudi petrochemical investments](#) through Total Energies loans.

[“Wind Down \(of CSPP\) is Coming”](#), 8 Jun 2022; [“What if...the ECB had decarbonised its portfolio from the start?”](#), 20 Sep 2022.

### Lightstone CLO coal refinancing: Private credit to the rescue of coal

Reference security: BBG01750KC26; LGHTGN TL 1L USD (TSFRM1M+575)

Blackstone and Arlight refinanced their leverage in the unimaginatively-named Lightstone coal private equity (PE) deal, replacing earlier bank debt finance. This highlights not only the role of investors in PE funds but also those in high yield bond and leveraged loan funds in providing leverage to fossil deals in the private markets.

See IEEFA’s: [“Private equity's losing bet on PJM coal plants”](#), 2 Jun 2022.

### EIG/Aramco pipeline funding: An SPV for circumventing ESG guidelines?

Reference security: XS2400630187; EIGPRL \$4.387 11/46

2022 started off with bond issuance of EIG Pearl, a Special Purpose Vehicle (SPV) financing a Saudi Aramco pipeline lease-lease-back subsidiary. The investment, together with the gas pipeline deal between Aramco and BlackRock Real Investments<sup>7</sup>, are spearheading the search for funding of the USD110bn [Jafurah development](#).

[“New EIG/Aramco bonds in ESG indices: EOM flow risks”](#), 15 Feb 2022.

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<sup>4</sup> [“Investors urged to vote against Sembcorp coal plant deal”](#), Environmental Finance, 7 Nov 2022.

<sup>5</sup> [“ECB’s new green shift: a ‘distraction’ or just ‘peanuts’?”](#), Financial Times, 6 Jul 2022; [“ECB Climate Plan Seen Hitting Debt Costs as Polluters Targeted”](#), Bloomberg, 4 Jul 2022.

<sup>6</sup> [“Glencore Expands Coal Mining in an Australian Methane Hotspot”](#), Bloomberg, 13 Jul 2022.

<sup>7</sup> The related bond deal(s) appears to still be in the pipeline, see [“BlackRock courts investors ahead of Aramco gas pipelines bond sale - sources”](#), Reuters, 14 Sep 2022.

### KfW bailout of Uniper: SSA issuance exposed to failed Russian supply bets

Reference security: DE000A30VUG3, XS2563353957; KfW €2.5 11/25, KfW NOK3.367 12/27

The persistent German bet on Russian fossil fuel supplies unfolded in 2022 and one of the main casualties was Uniper, which was divested from Fortum/the Finnish government and into the hands of the German government with the unfortunate nomenclature, “[one of the biggest losses in corporate history](#).” SSA issuer Kreditanstalt für Wiederaufbau was used as the funding vehicle for the bailout.<sup>8</sup>

“[The Reformed SSA Trader: Kreditanstalt Fossil Wiederaufbau](#)”, 1 Jul 2022.

### RBC upping fossil funding game: Bank activities focused on fossil financing provisioning

Reference security: [BBG012BCZVK6; CVECN REV SR CAD \(CDOR01+145\)](#)

AFL's tool for measuring the fossil funding activities of investment banks has been running for two years now. Given that 2020 was the biggest ever year for major oil and gas funding, it is even more remarkable that RBC managed an increase versus that year, coming last place in the green vs. fossil funding league table at the close of 2022.<sup>9</sup>

“[Net green/fossil syndication fee league table – Dec22](#)”, 8 Dec 2022.

### JBIC Russian petrochemical plant: SSA financing of downstream fossils

Reference security: US471048CP14; JBIC \$1.625 01/27

As troops were amassing at the Ukrainian border (and after publication of our 2021 “Notables” piece), the Japan Bank for International Co-operation announced a massive investment in a Russian petrochemical plant, swiftly followed by bond issuances.

“[SSA carbon exposures: JBIC New Year's announcement](#)”, 11 Jan 2022.

### New Queensland coal mines: Future targets versus current realities

Reference security: XS1523189790, AU3SG0002561; QTC €1.64 11/46, QTC AUD1.5 03/32

Australian state Queensland is home to some of the world's major new coal developments. 2022 marked the first year of production in the controversial Carmichael project, but also the approval of other new sites. This should be especially relevant to the bond investors who have opted to hold overweight in QIC bonds versus other Australian states.

“[Bond investors and new Queensland thermal coal mines](#)”, 29 Aug 2022.

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<sup>8</sup> “[KfW's quiet fossil bailouts leave green bond investors mute](#)”, Global Capital, 5 Aug 2022.

<sup>9</sup> The bifurcations between the last quintile of that league table and the rest was notable in the context of how many banks appeared to be pushing forward during the year. For a discussion, see “[Energy crisis jeopardizes – and galvanizes – Europe's sustainability leaders](#)”, Euromoney, 2 Nov 2022. “[Banks build net green fees](#)”, IFR Refinitiv, 24 Jun 2022, discusses how banks in general have gone toward more net green funding. “[Buy-side traders start to cool on ESG-deficient dealers](#)”, Risk.net, 11 Jan 2022, discusses how such lists can be operationalized.

## Mitsubishi Heavy Industries: Financing coal/ammonia co-firing as transition

Reference security: JP390000AN97; MITHI 0.31 09/27

As a bluechip leading issuer in the domestic corporate bond market, the MHI transition deal was significant in terms of understanding Japan's transition plans. MHI was looking to use bond proceeds to build coal-ammonia cofiring capacity, where one could raise questions around coal infrastructure lock-in effects, and the hue of the hydrogen/ammonia.

[“MHI: The wrong kind of transition”](#), 6 Sep 2022.

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