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‘High time’ banks dumped fossil fuels, former NAB economist says

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National Australia Bank is being pushed by one of its highest profile former economists to stop lending for “redundant” gas, coal and other fossil fuel industries, as an activist group challenged the big four banks to overhaul boardrooms.

“It’s high time that banks like NAB decided not to lend any more to new projects in fossil fuels,” Rob Henderson, the bank’s long-serving markets division chief economist until his retirement in 2014, said.

"Bankers don't want to be investing in old dying industries. They want to be investing in new industries," economist Rob Henderson said of his old bank. **Fairfax Media**

Mr Henderson said he was particularly opposed to funding gas projects, whose supporters argue that it remains vital for the shift towards a renewable energy future, as they are better replaced by batteries.

"I think the government's idea of having gas as a bridge and transition fuel, we're past that basically," he said. "It's a bone being tossed to the fossil fuel sector in Australia."

The economist's remarks come at a critical time for the banks, whose activities are coming under ever-greater scrutiny from regulators and global investors and as the world's leaders prepare for the United Nations' November climate summit in November.

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NAB is in the process of reviewing its fossil fuel lending policy and will announce its decision in coming months, a spokeswoman said on Tuesday, less than a week after Commonwealth Bank of Australia came under fire from environmental group Market Forces.

The organisation accused CBA of backpedalling in its new climate plan published last week in the bank's annual report on commitments to limit climate change in line with the goals of the Paris Agreement.

While all four big lenders, including ANZ Bank and Westpac, have climate change policies, the ground has been shifting as assumptions about carbon emissions and warming trajectories are updated.

The first blow was a bombshell report in May by the International Energy Agency that called for an immediate halt to all new oil and gas, and coal projects, beyond those already committed.

Failure to stop such investment would prevent the world's economies from keeping the average global temperature rise to no more than 1.5 per cent, a key threshold according to scientists.

Next was last week's sixth UN Intergovernmental Panel on Climate Change assessment, which has underscored the need for more drastic action given the 1.5 degree threshold could be breached early next decade.

NAB, which said in early June that it was reviewing its oil and gas financing, should adopt the strongest approach possible on oil and gas lending, Lucy Manne, chief executive of 350.org Australia, an environmental group, said.

"We'd like to see them rule out all expansionary oil and gas projects in their lending policy and phase out all existing relationships with oil and gas projects by 2030," Ms Manne said.

"All four need to take a similar approach, but NAB is updating their policy right now. They've got an opportunity to take a leadership approach, and we know all four move together.

"They're not the best and not the worst, but they're putting billions into oil and

gas."

Ties to the fossil fuel sector

A separate report to be released on Wednesday by DeSmog, a UK-based research group that specialises in climate change, found more than one in five of the directors of Australia's big four banks have "past or current ties to the fossil fuel sector, through ties to oil, gas, infrastructure and electricity companies".

That rate, 21 per cent, is higher than across European Union and US banks, and second only to Britain's 23 per cent.

"The fact of the matter is we know boards do tend to push their history," said Mr Henderson, who was NAB's head of market economics from 2001 to 2014, when he retired after a career that included stints at Dresdner Bank in Australia and the departments of Finance and Prime Minister and Cabinet.

"NAB's in the focus because they're apparently going to be bringing out this new policy on oil and gas, so it's fair enough they look at the people involved," he said of the DeSmog findings.

Mr Henderson said he was "agnostic" about whether those board members should stay on but said he hoped they were on top of the shift now under way.

"We're at the point in Australia where banks should say 'no more lending for gas, coal and other fossil fuels'. They're the industries of the past. Bankers don't want to be investing in old dying industries. They want to be investing in new industries."

Sectors such as lithium and green steel should be top priority to executives managing the project finance divisions at the big four, he added.

"If we're going to get to carbon-neutral by 2050, we have to stop burning things. NAB's certainly committed to carbon abatement. They're already there, but they have to get their lending there as well.

“The other reason is simple economics. Renewables are so much cheaper than gas.”

May’s International Energy Agency report was a “real ‘oh what?’ moment” for the energy industry, Mr Henderson said.

“From 2000 to 2012 they were known as the energy industry’s lobby group, all staffed by fossil fuel experts, and now they’re coming out saying the days of fossil fuels are over.

“That is a big acknowledgement of the evidence becoming overwhelming. These people have rolled over because they can see the data, so that’s why I hope the bank boards are the same.

”And let’s face it – they’re the leaders in doing lots of things for the green energy future.

“It would be a terrible shame if NAB came out and say we’ll continue lending to gas and gas exploration. It would show they’re a laggard instead of a leader as they have in the past.”

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Areas on 350.org Australia’s watch lists as those for NAB and others to avoid include the Beetaloo Basin in the Northern Territory, the Barossa project beneath the Timor Sea and Western Australia’s Scarborough gas field, Ms Manne said.

“Expansionary” projects that NAB should avoid include lending for new LNG trains or funding drilling of new wells in existing gas fields, she said.

"It's important for NAB to work with their existing customers on the transition, so have a phase out by 2030."

Jacob Greber writes about politics, economics and business from Canberra. He has been a Washington correspondent and economics correspondent. *Connect with Jacob on Twitter. Email Jacob at jgreber@afr.com*

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