Think the Big Banks Have Abandoned Coal? Think Again

An environmental group’s analysis shows the five largest United States banks have started lending to coal companies again now that they’re out of bankruptcy.

By Emily Flitter
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Starting three years ago, the largest American banks vowed to cut back on lending to the coal industry.

“The bank has a responsibility to help mitigate climate change by leveraging our scale and resources to accelerate the transition from a high-carbon to a low-carbon society,” Bank of America said in its coal policy in May 2015.

Their pledges seemed so dramatic that Paul Argenti, a professor of corporate communication at Dartmouth's Tuck School of Business, began citing them in lectures as a rare example of a corporate principle’s trumping profits. “I read it as: They were done,” he said.

But the banks, it turns out, never actually promised to walk away from coal completely. And now, with coal companies enjoying a small resurgence under the Trump administration, banks are again embracing the industry.

At the time of the pledges, the three biggest coal mining companies were in bankruptcy, the United States was signing a pact to reduce carbon emissions, and cheap natural gas was forcing coal-fired power plants out of business. There were few coal loans to make.

But Peabody Energy, Arch Coal and Alpha Natural Resources have emerged from bankruptcy, their balance sheets scrubbed clean. President Trump has vowed to support the industry.
Five of the country’s biggest banks are lending tens or hundreds of millions of dollars to coal companies again, in one case eclipsing what they lent in 2014, before the industry entered a nose dive, according to an analysis by Rainforest Action Network, a liberal environmental group.

JPMorgan’s coal lending increased to $654 million in 2017 from $32 million in 2015, according to the analysis. That was more than the $570 million the bank lent to coal interests in 2014. The vast majority of JPMorgan’s coal loans in 2017 were to Peabody, which emerged from bankruptcy that April.

Morgan Stanley’s coal loans, though well below their 2014 levels, more than doubled from 2015 to 2017. And though their loans to coal companies haven’t quite reached earlier levels, Goldman Sachs and Bank of America each added new coal loans last year, the analysis shows. Citigroup made more such loans in 2016 and 2017 than it did in 2015, though well below its 2014 figure.

Combined, the five banks issued about $1.5 billion in new coal-related loans last year, according to Rainforest Action Network.
The analysis includes loans to companies like Glencore and BHP Billiton, which produce commodities like copper and oil in addition to coal. It weights each loan based on the percentage of the company’s business that comes from coal. Fifteen percent of Glencore’s assets are in coal, for example, so a $229 million loan that Bank of America made to Glencore last year was given a value of $34 million.

The analysis looked only at new loans, not at the banks’ overall exposure to the coal industry.

The banks made their pledges around the time that world leaders negotiated the Paris agreement to reduce carbon emissions. Some of the banks vowed to curb lending to new coal-fired power plants in wealthy countries and to plants that did not use pollution-mitigating technology.

In November 2015, for example, Morgan Stanley said it would reduce financing for projects using “mountaintop removal,” in which mountains are dynamited to reveal coal seams. In March 2016, JPMorgan said it would eliminate such financing, as well as stop lending to new coal mines.

The promises generated a flood of publicity. “Here’s Another Big Sign the Coal Industry Is Burning Out,” Fortune reported. “Wall Street checks out of coal mines,” CNBC announced. The New York Times quoted a historian who suggested that John Pierpont Morgan himself might not have lent to coal companies in the current environment.

Banks used the pledges as part of a broader effort to project a green corporate image. Citigroup listed its reduced lending as the first item in the environmental section of its 2016 report on its “citizenship” initiatives. Bank of America and JPMorgan were lead sponsors of Climate Week NYC 2016, a gathering of world leaders and corporate executives who discussed ways to fulfill the Paris accord’s goals.

Even experts got the impression that banks were abandoning coal.

“A few years ago when a lot of these major banks came out and said that they would no longer be supporting the sector, I think, a lot of people generalized in a major way,” said Chiza Vitta, an analyst at Standard & Poor’s. “The sector is in decline, but it remains a very important component of electricity generation.”

The banks left themselves plenty of room to respond if the coal industry recovered.

Few coal mining companies still use mountaintop removal. And it is far more common for companies to expand existing mines than to break ground for new ones.

Environmental groups are crying foul.

“It wasn’t an environmental policy,” said Alex Bozmoski, managing director of RepublicEn, a conservative environmental activism group. “It was financial and risk management policy that was used by communications departments.”
Alison Kirsch, a spokeswoman for Rainforest Action Network, said the banks' initial pledges had left “huge loopholes,” which she said JPMorgan in particular was “shamelessly exploiting.”

“We disagree with the report’s conclusions,” said Brian Marchiony, a JPMorgan spokesman. “Over the last two years, we have declined to participate in dozens of transactions related to coal-fired power plants and coal mining, and our credit exposure to companies deriving the majority of their revenues from coal has declined by about a third.”

While some banks prohibit loans to projects like Poplar Grove, the five largest United States banks issued about $1.5 billion in new coal-related loans last year, according to one analysis. Luke Sharrett for The New York Times

Kelly Sapp, a spokeswoman for Bank of America, said the company was adhering to its 2015 pledge. “We have been reducing our credit exposure over the past several years to companies focused on coal mining while growing our financing of renewables,” she said. “Our policy is not changing.”

Representatives of Citigroup, Goldman Sachs and Morgan Stanley declined to comment.
Part of the reason that coal has been resurgent is that it is used to fuel blast furnaces in which steel is made. The Rainforest Action Network analysis doesn’t differentiate between loans for so-called metallurgical coal and coal used in power plants.

Randall Atkins, who briefly worked as a JPMorgan investment banker specializing in the coal industry and now runs Ramaco Resources, a small coal producer based in Kentucky, said the banks’ rapprochement with coal companies was “Banking 101.” Coal producers appear financially healthier now, he said, so banks think they can make money lending to them.

“The banks are receptive to come back in and do normal lending in the space,” he said.

Not every coal company is having an easy time getting a loan. Grant Quasha, the chief executive of Paringa Resources, said his company had no loans from major United States banks. Some of their policies prohibit loans to projects like the new Poplar Grove mine, which Paringa is developing in Kentucky.

“For smaller companies such as ourselves, it’s still very difficult to obtain financing,” Mr. Quasha said. “It exists, it’s just very expensive.”

Mr. Argenti, the Dartmouth professor, said he would no longer cite the banks’ coal pledges in his classroom lectures on corporate responsibility.

“A lot of what passes for sustainability is actually nothing more than public relations,” he said.

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