



“Net-Zero” Promises Ring Hollow Without “Zero Fossil Fuel” Pledges

“Net-zero” promises abound across the financial sector today, but without firm commitments to zero out all fossil fuel finance, they are full of holes. Several banks and other financial institutions have made public commitments to pursue a “net-zero” pathway in accordance with the conclusions of the Intergovernmental Panel on Climate Change (IPCC). Many more are likely to do so in the lead-up to the 26th Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) this fall in Glasgow, Scotland. Some of these plans or commitments may look ambitious but actually do little to address the principal driver of the climate emergency: fossil fuels. This document briefly explains what net-zero financing commitments are and why they must include a phaseout of fossil fuel financing.

Background

Following the Paris Agreement in 2015, the IPCC, the scientific body convened by the United Nations to provide updates on climate science, released a report on achieving Paris targets.¹ It determined that for the world to have a good shot at keeping temperature rise to 1.5°C above pre-industrial levels, emissions would need to be cut in half by 2030 and reach net zero by 2050. The “net” in net zero refers to the fact that some emissions can exist while other natural or artificial sinks absorb

carbon dioxide from the atmosphere, resulting in zero overall emissions. However, as many have noted,²

corporations are abusing the concept of “netting” emissions to justify business-as-usual operations or additional fossil fuel production. In the case of financial institutions, this primarily means continued fossil fuel financing.

Fossil fuels are the key drivers of the climate crisis, and fossil fuel production must be phased out to achieve the Paris goals. As outlined in Article 2 of the Paris Agreement, achieving the ultimate objective of the UNFCCC to halt dangerous anthropogenic climate change requires an alignment of financial flows,³ and therefore a phaseout of fossil fuel financing. Companies ignore this imperative when they claim in their net-zero plans that strategies premised on the myth of “carbon-free” fossil fuels can cancel out continued fossil fuel emissions or that reduction of emissions in one place can indefinitely offset continued pollution in another. These strategies appear in plans as carbon capture and storage, technological carbon dioxide removal, and other carbon offsets. Each of these approaches has significant problems, drawbacks, and limitations and should not be used to justify continued fossil fuel financing.

CCS, CDR, and the Myth of Carbon-Free Fossil Fuels

Carbon capture and storage (CCS) and technological carbon dioxide removal (CDR) are two distinct but related strategies that companies may rely on to claim net-zero alignment despite continued fossil fuel financing. Carbon capture and storage refers to capturing carbon dioxide from an emissions source (e.g., a gas- or coal-fired power plant) and storing it underground. Critically, CCS does not remove carbon from the atmosphere, nor does it capture all carbon emissions from the underlying source; it merely reduces them. CCS itself then adds back carbon emissions from the energy used in capturing, transporting, and storing carbon dioxide. What’s more, it prolongs the operation of the underlying emitting facilities, delaying their replacement and the transition to cleaner alternatives.

Moreover, CCS is extremely costly. There are no significant end markets for captured carbon dioxide other than the fossil fuel industry, which uses it to pump more oil through “enhanced oil recovery” — driving the very climate crisis that CCS purports to solve. Scaling up CCS is not economically viable absent massive subsidies that prop up the fossil fuel industry — and even with subsidies, its deployment at scale remains unproven.

The development of carbon capture and storage and its associated infrastructure also present dangers to frontline

communities that exacerbate environmental injustice. In any net-zero scenario that includes widespread deployment of CCS, significant emissions remain from underlying sources, including particulate emissions that have devastating health impacts on the communities into which they are released.⁴ Moreover, an enormous system of pipelines and storage facilities would be required to transport and store carbon dioxide at scale,⁵ presenting additional risks to communities. Fossil fuel power plants and petrochemical facilities are more likely to be located in marginalized communities that already bear a disproportionate toxic burden and suffer from heightened vulnerability to the impacts of climate change. Adding CCS infrastructure, including carbon dioxide pipelines and storage areas, onto these facilities will exacerbate these effects and heighten environmental racism.

Technological carbon dioxide removal (CDR) refers to a set of approaches that theoretically take carbon dioxide out of the atmosphere and store it underground. Two forms are commonly discussed: Direct air capture (DAC), which uses large machines to pull ambient carbon dioxide out of the atmosphere for use or storage, and bioenergy with carbon capture and storage (BECCS), which purports to make the combustion of bioenergy emissions negative by capturing and storing the carbon dioxide produced through CCS. Both DAC and BECCS require large amounts of land, water, and energy to function as envisioned by proponents. This input intensity has potentially devastating consequences for food security, livelihoods, and health of those affected, as well as significant opportunity costs in terms of the other uses of energy and resources poured into DAC and BECCS. As such, neither is viable at scale without threatening human rights. Finally, because DAC, with storage of the captured carbon, and BECCS require the use of CCS, they present many of the same problems as CCS.

Ultimately, CCS and technological CDR approaches simply do not work at scale and do not justify continued fossil fuel production. Given the significant risks and uncertainties associated with CCS and technological CDR,

net-zero plans must explicitly phase out fossil fuel financing, rather than relying on technologies to “fix” fossil fuel emissions.

Sleight of hand: Shaky Accounting of Carbon Offsets

In addition to relying on purported technological fixes to offset continued emissions from fossil fuel combustion, some companies may also premise their net-zero commitments on the notion that fossil fuel emissions in one place can be balanced out by emissions avoided or removed elsewhere. However, there are simply not enough “other” emissions reductions available to offset significant continued fossil fuel emissions, nor is there a guarantee of their reliability or permanence. Moreover, the activities that generate emissions reductions “credits” used for offsetting schemes can threaten human rights, particularly when they require large areas of land or restrict local communities’ access to or use of their resources. Activities that remove carbon dioxide from the atmosphere, such as restoring wetlands or recovering forests, are important as climate solutions but can only remove limited amounts of carbon dioxide. Any scheme that deploys such reductions to “offset” emissions elsewhere faces significant challenges to ensure the permanence of reductions and prevent double-counting of “credits.”

In addition to these problems of using offsets from a climate perspective, offset projects frequently exacerbate environmental injustice and routinely violate the rights of local communities and Indigenous Peoples. Because offsets typically involve land-based carbon sequestration, they necessarily require land and sometimes quite a lot of it. Projects can result in land grabs or other encroachment, which threatens local communities’ right to consultation and the right of Indigenous Peoples’ to free, prior, and informed consent. While ecosystem-based approaches have a clear role to play in combating the climate crisis, those directly affected by such projects should be involved in their design and implementation, consent to, and benefit from such projects. However, encouraging and allowing corporate actors to seek and claim unlimited offsets is anathema to such rights and is a direct threat to marginalized communities in the Global South, especially Indigenous Peoples.

Ultimately, achieving the Paris goals will require a complete emissions reduction in every country as quickly as possible in line with equity, not forgoing reductions in one place in favor of enacting them elsewhere. Offsets in one form or another should not be used to justify busi-

ness-as-usual production and combustion of fossil fuels. Responding to the climate emergency requires a “both/and” not an “either/or” approach. As such,

financial company net-zero plans must explicitly phase out fossil fuel financing rather than relying on offsets.

Net-Zero Policies Must Address Fossil Fuels

Reliance on CCS, CDR, and offsets is not the only way financial companies’ net-zero plans may avoid grappling with the need to address fossil fuels. Policies can be vague or have large gaps in coverage. They can ignore the true scale of their financed emissions by focusing on emissions intensity rather than total emissions⁶ or ignoring indirect emissions in their value chain (so-called Scope 3 emissions) altogether.⁷ Finally, net-zero policies can simply fail to incorporate actionable, near-term goals by which adherence to such plans can be evaluated. The Glasgow Financial Alliance for Net Zero has developed principles for groups including banks, insurers, asset managers, and asset owners to deal with these and other issues.⁸ Science Based Targets is also producing standards for businesses.⁹ And while the details of different plans, policies, and principles can make a great difference, they should not distract from the core requirements of net-zero plans and, more fundamentally, the global response to climate change: the phase-out of fossil fuels.

Continuing current levels of fossil fuel production, let alone expanding production, is inconsistent with meeting Paris warming targets. Avoiding even more dangerous levels of climate change requires phasing out fossil fuels.

Financial institutions’ net-zero policies must not use CCS, CDR, or offsets to justify continued financing for oil, gas, or coal. Policies that do so are out of step with the goals of the Paris Agreement and undermine efforts to address the climate emergency.



Endnotes

1. See IPCC, [Global Warming of 1.5°C](#), An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty (Masson-Delmotte, V. et al. eds., 2019).
2. See, e.g., Friends of the Earth International et al., [Chasing Carbon Unicorns: The Deception of Carbon Markets and “Net Zero”](#) (2021); Corporate Accountability et al., [The Big Con: How Big Polluters are advancing a “net zero” climate agenda to delay, deceive, and deny](#) (2021).
3. [Paris Agreement](#), Art. 2.1(c).
4. Karn Vohra et al., [Global mortality from outdoor fine particle pollution generated by fossil fuel combustion: Results from GEOS-Chem](#), 195 Env'tl. Res. 110754 (2021).
5. Princeton University, [Net-Zero America: Potential Pathways, Infrastructure, and Impacts](#) (2020), at 231.
6. Rainforest Action Network, [A Fig Leaf for Fossil Expansion: Assessing JPMorgan Chase's 2030 Climate Targets](#) (2021).
7. News release, Sumitomo Mitsui Financial Group, [Reinforcing Efforts against Climate Change](#), 3 (May 12, 2021) (SMFG acknowledges that Scope 3 emissions exist but does not set targets for their reduction).
8. Press Release, United Nations Framework Convention on Climate Change, [New Financial Alliance for Net Zero Emissions Launches](#) (Apr. 21, 2021).
9. *Net-Zero*, Science Based Targets, <https://sciencebasedtargets.org/net-zero> (last visited July 23, 2021).



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