

La Tribune – "The future of BNP Paribas is necessarily one that is post energy-transition" (Jean-Laurent Bonnafé)



By Eric Benhamou et Philippe Mabile | 11/12/2020

On the fifth anniversary of the Paris Agreement on Climate, this Saturday, 12 December, exclusive interview with Jean Laurent Bonnafé, Chairman of *Entreprises pour l'Environnement* (*) and Chief Executive Officer of BNP Paribas. He says companies are accelerating their shift towards a decarbonised economy by 2050, and that banks and large investors are amplifying this transition.

Jean Laurent Bonnafé, as chairman of the Entreprises pour l'Environnement, five years after the Paris agreement, what stock are you taking regarding actions taken by companies on climate?

Clearly, at the risk of surprising some, it is corporations that have made the most progress since 2015 towards the zero carbon target by 2050. The past five years have been characterised by their acceleration towards energy transition. Across all sectors, and through successive waves rather than linear progression, companies have committed themselves to these goals. Transitions are being implemented, sector by sector and subject by subject. Whilst they were not at the heart of the original commitments, they are now at the centre of these achievements.

Delivering on energy transition, means offering services, techniques, technologies that only companies can design. It is in the company's own interest to set milestones and stick to them. It is in fact, in their corporate DNA. This may sometimes seem imperfect or insufficiently rapid, but the result is real progress. If a Tesla emerges in the US, it is because investors express a need to finance an electric car, otherwise they would not have supported, taking so many seemingly endless risks. Innovation is a fact of life for companies and private capital entrepreneurs.

Business stakeholders, particularly employees, are actively contributing to these changes. In a world where private and professional spaces are increasingly intertwined, no one plans to work in a company that would act contrary to their personal values.

Those that are lagging behind are the states. They are aware that action is needed, but this requires unpopular political decisions...

Governments pursue or conduct public policies that may be based on financial, tax or sector regulation incentives. They can also mobilise levers such as public education from the youngest ages to specialised sectors, or support for public research or innovation. It is also important to highlight the sometimes decisive commitment by local authorities, particularly cities and urban areas.

COP21 saw the defection of some countries, such as the United States of America. Do you believe in their return in the Paris agreement?

Yes, that seems to be confirmed and it is excellent news.

Is the Covid crisis of 2020 a turning point, the turning point on the issue of climate urgency?

You can use Covid-19 to explain away many things, but I do not think we can credit it to a rise in awareness on the issue of climate change. We were already aware of the technological and industrial trajectory needed for energy transition by 2050 to achieve the zero carbon target. In its ZEN 50 study, the EpE explains how France could become carbon neutral with growth similar to that experienced in the past, i.e. 2% on average. This must be achieved simultaneously across all areas, including education, energy, mobility, housing and advertising. On the other hand, Covid-19 is in my view linked to another major challenge for our society, biodiversity. Our modes of development have clearly undermined it leading to its impoverishment and degradation. The current health crisis seems to be one of the consequences of this development. Biodiversity is a complex issue, with many dimensions and interactions. This is the next big topic for our society. In this context, companies will have no choice but to meet each other.

You are making a proactive and optimistic speech about the ability to deliver on carbon neutrality commitments. But scientists or environmentalists believe that our economies are not at all the path defined in 2015...

It is a substantive race that will last a generation: From 2015 to 2050. We are facing 35 years of mutations, and an accelerating changing in behaviours. Five years ago, 80% of companies considered that they had little or no interest in the energy transition. Today 100% feel fully involved.

Yet a target date of 2050 is not very inspiring for decisions to be taken today...

Do not deceive yourselves! Companies' strategic inflexions are commensurate with goals. And it is moving very quickly. Large French banks have already exited many sectors and have set coal exit targets at 2030 in OECD, and 2040 for the rest of the world. As far as we are concerned, BNP Paribas is ceasing to provide any new financial services to electricity companies and mining companies that do not make the necessary industrial choices to allow them to exit coal at the set deadlines.

In the automotive sector, the proportion of electric motors is moving in the right direction whilst not everything is yet available, particularly recyclable batteries. The ecosystem is gradually being built, as it generates new uses and profits that can be reinvested. Likewise in air transport, who would have believed five years ago the announced rollout of hydrogen fueled planes by 2035?

Large European oil companies have also made commitments that would have been unimaginable five years ago. So we are seeing an acceleration by all players, an entire generation is now basing itself on this new world.

How can the banker reconcile commitments to exit the carbon sector and support the financing of this transition, including the most polluting companies?

The exclusion phase was a natural first step. We have excluded non conventional hydrocarbons, shale gas and oil or oil sands sectors. We have determined a timetable to accompany the transition and cessation coal. Our job as a banker is not to stop energy production but to support the financing of projects that enable producers to transform themselves.

To do so, new financing techniques need to be invented, such as green bonds for companies or infrastructure, or credit solutions for electric cars or home renovation that are more attractive than conventional ones. The role of banks is to make exclusion decisions, but above all it is to provide financing solutions dedicated to the transition, thus accelerating investment for responsible growth.

There are more and more banks around the world that are fully committed to this dynamic. I have a lot of faith in leadership and exemplary behaviour. Five years ago, at the time of the Paris Agreement, very few banks were involved, and today the majority of European ones are committed to doing so soon.

But how do you measure in concrete terms the progress made, the commitments made?

We have made a lot of progress on the issue of the measurements crucial to achieving the goals of the Paris agreement. In particular, we have developed, together with other banks, valuation instruments such as the PACTA method. An approach that verifies whether a credit portfolio is aligned with the objectives of the Paris agreement. We have shared it with large European banks and we should be able to export it globally. Many commitments have been made by a few large banks, mostly European ones. The other regions are expected to accelerate, they have no other choice.

At BNP Paribas, our strategic plan for 2025, beyond commercial and financial targets, will incorporate carbon neutrality commitments based on accessible, verifiable and public indicators and methodologies.

What do you respond to the criticisms of NGOs that, like Oxfam, believe that the banking sector is lagging behind in the challenges of transition?

We are bankers who provide day to day support to companies, local authorities and individuals. It is as bankers that we are an essential player in a health crisis situation or in accompanying change. That being said, everyone has a role to play. Over and above the debates on methods, NGOs are pushing to go even further and as commitments are ever stronger, we ourselves need to make progress and accelerate continuously.

At BNP Paribas, we pay close attention to everything that is said or written. We try to find, including in critiques, good ideas and approaches. Our interest is to finance companies that have a future and not those that belong to the past. It is nonetheless important to accompany the shift from one world to another and not to decide everything overnight otherwise the world we live in today would falter. It is important to find the best path, which is a balance between speed and safety.

Opinion is often sceptical about the reality of corporate engagement. How do you explain this mistrust?

The most important word in 'energy transition' is the word "transition". You have to be realistic, in several sectors we are still in the early stages of implementing this transition. This is a gradual approach that will experience the necessary accelerations on a sector by sector basis.

What makes you so optimistic about this transition path?

The scale of the investments! It is massive, even if viewed against the backdrop of the scale of the global economy, that fractions. It is incremental: The more you increase your goals, the more resources stakeholders devote to more sustainable solutions that replace outdated value chain elements. This ranges from the use of plastics to any form of carbon based or carbon based energy. We are in a system where targets rise in a reasonable way, but also in a determined and irreversible way.

The ZEN 2050 study shows that energy transformation is the answer to a quarter of the problem; another quarter comes from housing and buildings, while the rest relates to other topics to be addressed, such as education and training, and advertising. This is the fight of a generation.

Asset managers are becoming increasingly involved in the companies in which they invest. Total voted a climate resolution with the support of BNPP AM. Does this first in France aim to generalise?

You mentioned NGOs but the investor world also plays a key role. We are investors ourselves with our asset management business. ESG criteria have become the rule and they are demanding for investors as we are for our clients. Investors increasingly express, and increasingly constraining, to the companies in which they invest what the guidelines and expectations of their savers are.

The decarbonised world also requires a change in consumption habits. Is the new sobriety championed by youth compatible with maintaining growth?

It is excellent news for our societies that younger generations want to move faster and that they see the degradation of the planet more clearly than their elders. We all need to ensure that this awareness integrates well the energy and societal impact of new uses including digital, smartphones, more intense mobility and further afield. Faced with this, all generations are more or less consistent. We are still a long way from energy efficiency, but there is a strong desire to do things differently among younger people, while respecting the planet better.

How is a bank like yours preparing for these technological and industrial changes?

The future of BNP Paribas is necessarily one that is post energy-transition. Companies that did not understand the need for change no longer have a future and we see no interest in continuing our relationship with them. Moreover, we note that, sector by sector, companies are pivotal even if only out of survival instinct. In the future, companies will find it increasingly difficult to finance themselves at a market price if bonds are not indexed to environmental performance targets. For example, the latest Green Bond issue we led for Vinci came at a better price than the conventional bond issue. As for investors, they will obviously find it increasingly difficult to attract savings if they are not fully focused on ESG issues.

So, at the end of the day, capitalism is reinventing itself as 'Green'?

There will be no future for companies without a successful energy transition over the long term. This is what leads them to devote ever greater resources to this purpose. We need to remain humble and lucid about the work done so far, and also very conscious and mobilised in the face of the scale of the task we need to accomplish collectively.

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