



Evaluation of the NCP Final Statement dated 19 April 2019 regarding the notification Oxfam Novib, Greenpeace, BankTrack, Milieudéfensie vs. ING

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Evaluation by the Netherlands National Contact Point (NCP) for the OECD Guidelines for Multinational Enterprises ('the Guidelines') further to the final statement' on the dialogue facilitated by the NCP.

Introduction

On 19 April 2019 the Netherlands National Contact Point for the OECD Guidelines for Multinational Enterprises ('the Guidelines') published a final statement further to a specific instance submitted by Oxfam Novib, Greenpeace, BankTrack, Milieudéfensie concerning an alleged breach of the Guidelines by ING. The NCP recommended that in the second quarter of 2020 an evaluation should be conducted of the outcome of the dialogue, namely the agreements made by the parties and the NCP's recommendations. The NCP held a joint evaluation meeting with Oxfam Novib, Greenpeace, BankTrack, Milieudéfensie and ING at the end of June 2020.

Evaluation of the agreements and recommendations

Oxfam Novib, Greenpeace, BankTrack, Milieudéfensie and ING welcomed the opportunity to jointly evaluate the agreements and recommendations made in the final statement.

In its final statement, the NCP stated that: *'the NCP observes that the OECD Guidelines demand that ING, and other commercial banks, put effort into defining, where appropriate, concrete targets to manage its impact towards alignment with relevant national policies and international*

environmental commitments. Regarding climate change, the Paris Agreement is currently the most relevant international agreement between states, a landmark for climate change, signed by the State of the Netherlands.'

In September 2019, ING published its first Terra Report, on its approach to climate action². Parties agreed to complete this complaints procedure after the evaluation meeting on June 23, and agreed to continue their dialogue after the publication of the next ING Terra climate report in mid-autumn 2020.

Both parties qualified the evaluation meeting as constructive and substantive. The NGO's consider the steps taken on climate issues by ING in recent years to be very relevant. However, they still have concerns about a few important aspects where ING is not (yet) taking steps, or where ING is not yet leading in the banking sector. Although the NCP procedure ends with this Evaluation, developments in the field of climate change, climate action and the role of financial institutions go on. Since June 2020 the parties have informed the NCP of new developments, new studies and reports. This new information has not been taken into account in this Evaluation. References to recent new studies, reports and developments are provided in various footnotes, for information only.

¹ <https://www.oesorichtlijnen.nl/meldingen/documenten/publicatie/2019/04/19/ncp-eindverklaring-melding-van-ngos-versus-ing>

² <https://www.ing.com/Sustainability/Sustainable-business/Terra-approach.htm>

Application of the PACTA methodology and PCAF methodology for mortgages

In the final statement was recorded: The parties agree that the adoption by ING of the Terra approach, with the underlying PACTA and PCAF methodologies, as an innovative approach towards measuring, target setting and steering the bank's climate impact is a positive development. PACTA for lending is an open source tool and will be used by multiple banks. ING is implementing PACTA by assessing seven of the most carbon-intensive sectors it finances (energy, including oil, gas, and conventional power, automotive, shipping & aviation, steel, cement, and commercial real estate).

Furthermore, the notifying parties welcome ING's decision to use the PCAF methodology for measuring the climate impact of its mortgages in the Netherlands.

In the evaluation, ING noted that in follow-up to their commitment, they chose to use the PCAF methodology for measuring the climate impact of their mortgage portfolio in the Netherlands. ING extended the scope to Germany as well and plans to include other local portfolios over time; 2019 Terra progress report, page 31: "ING's Dutch and German mortgage portfolio includes combined outstandings of roughly €177 billion (60% of total mortgage outstandings) and more than one million financed homes. Other countries will be included at a later stage. In line with the recommendations of the Partnership for Carbon Accounting Financials (PCAF), we used energy labels as a proxy for actual energy performance of the properties because of limited data availability.

ING uses PACTA to measure the climate impact of the other (non-mortgage-) sectors in its lending portfolio³. The NGO's are of the opinion that PACTA is potentially very valuable for specific sectors in which banks invest. Nevertheless, great doubts about its usefulness in relation to precisely the oil and gas sector remain. In the evaluation meeting NGO's referred to the traders who are kept out of the current approach of ING for the oil and gas sector and the fact that according to, amongst others, Follow This⁴, 5 years after "Paris" no or hardly no oil company, has announced adequate measures to achieve the Paris goals in time⁵. The fact is also that years after "Paris" the vast majority of ING's loans to energy companies still go to fossil energy companies. This is in contrast to, for example, Rabobank, which has been at a 50-50 ratio for fossil sustainability for a few years now. In its lending activities, a bank like RBS, expects oil majors to have a plan by the end of 2021 on how their activities can be aligned with the goals of 'Paris'. ING responded that PACTA defines its scope⁶

looking at the part of the value chain that generates most of the climate impact. For fossil fuels the driver of emissions is the production of fossil fuels, not its trade or shift in ownership. ING plans to include a Paris-aligned pathway for oil and gas in its second Terra progress report.⁷

Continued dialogue between the Parties & (in between-) target setting (including feedback from notifying parties on the first Terra Report)

Final Statement: "ING has committed itself to steer its lending portfolio towards meeting the Paris Agreement's well below 2 degrees goal. ING intends to set and publish intermediate targets. ING also states that, while its ultimate goal is clear (to steer its lending portfolio towards meeting the Paris Agreement's well-below 2 degrees goal), it has not been able yet to establish intermediate targets for the sectors covered by the Terra approach, given the phase of development of the Terra Approach. ING states it will report on the progress of the Terra approach, starting in its 2019 annual report.

The notifying parties state that, in order to fully appreciate the merits of ING's efforts, they need to understand the impact of the banks' efforts on its lending portfolio over the course of time by clear intermediate targets for f.e. 2020, 2025 and 2030. ING responded that with the further development and implementation of its Terra approach, ING fully intends to set intermediate targets.

(...) The NCP is sensitive to the argument that financed emissions are indirect and thus more difficult to measure and control. The NCP considers that impact measurement of financed emissions is a new field of expertise, and recognizes the fact that ING, and banks like ING, face considerable challenges in developing an appropriate methodology, including the setting of intermediate targets.

As the Guidelines ask for periodically reviewing the relevance of objectives or targets, and given the long term objectives of the climate debate, the NCP encourages ING to set intermediate targets as well."

September 19th 2019, seven months before the agreed date of publication (the 2019 annual report was published April 2020), ING started to report on the progress of the Terra approach as it published its first "Terra Progress Report".

The first report covered sectors power generation, automotive, commercial real estate, residential real estate and cement. The other sectors covered under the Terra approach (steel, fossil fuels, shipping, aviation) will, according to ING, be reported upon in the second Terra update report, which is due in Q4 2020, well ahead of ING's 2020 annual report.⁸

³ On 8 October 2020, ING published its second progress report on Terra. The report provides a status update on the alignment of its lending portfolio with the well-below two-degree goal of the Paris Agreement. It includes sector targets and timelines, as well as quantitative results for the remaining four sectors in scope, which were not yet included last year.

⁴ <https://follow-this.org/>

⁵ https://www.banktrack.org/article/big_oil_reality_check_new_paper_finds_failure_across_the_board_in_oil_industry_climate_plans

⁶ [PACTA for Banks Methodology Document](#), pages 23 and 59

⁷ Most recently, following the Paris-aligned pathway for oil and gas, ING announced it aims to reduce financing to upstream oil & gas by 19% by 2040 from 2019 levels.

⁸ ING published its [second Terra progress report on climate alignment](#) on 8 October 2020.

For most sectors, targets set refer to 2040 or 2050 targets. As the notifying parties indicated that they would seek to obtain clarity in in-between targets set as well, ING states it will continue to look into this. For commercial real estate in-between targets have been set and published (page 28 of the report):

- By 2023, 100% green energy label lending portfolio.²⁸
- By 2030, 50% completion of the kWh/m² Paris Proof goals per sector.
- By 2040, achieve the Paris Proof objectives (ten years earlier than the NL Delta Plan target).

ING seeks to provide more clarity on in-between targets for other sectors in our next update as well.

In the final statement *“The NCP calls upon all parties to continue their constructive dialogue and to consider the feasibility of a joint roadmap for the future process on setting intermediate targets and disclosure.”*

- The notifying parties kindly provided their input to ING’s first Terra report. Inputs have been taken along in the further development of the second Terra report, to be published in Q4.
- ING reached out to the notifying parties to obtain their insights in response to other climate impact reports published in the market (AA) to discuss potential best practices and learnings.

ING refers to relevant developments since April 2019:

In joint co-operation with 2Dii, ING continued to (help) develop the PACTA (Terra) approach, sharing its insights with the broader banking community and allowing other banks to copy this methodology for their climate impact measurement objectives. September 16th 2019, 2Dii announced the following⁹:

Ahead of New York Climate Week 2019, the 2° Investing Initiative (2°ii) is delighted to announce the international banks that are road testing the Paris Agreement Capital Transition Assessment (PACTA) methodology for climate scenario analysis of corporate lending portfolios. (...) Since the initial launch of the PACTA methodology for climate scenario analysis in September 2018, which we co-developed with ING, in February 2019 we began working with an initial pilot group of 17 international banks that will be road testing the methodology over the course of one year. Following the end of the pilot phase in Q1 2020, the finalised IP rights-free, open source software will be released, enabling any bank to carry out the analysis entirely autonomously.

Our engagement with these banks represents a significant development in our efforts to help measure lending portfolios against climate goals – and eventually, to help assess if the methodology could become more broadly used in the banking industry. The following banks are among the pilot members: ABN Amro, Bancolombia, Barclays, BBVA, BNP Paribas,

Groupe BPCE, Citi, Credit Suisse, ING, Itaú Unibanco, KBC, Nordea, Santander, Société Générale, Standard Chartered, UBS and UniCredit.

- Over the coming months 2Dii seeks to publish a PACTA methodology paper by 2Dii, reviewed by ING and the other Katowice banks¹⁰ including tutorial¹¹. This means that any organisation would be able to access and use the tool, and any consultancy can pick it up and offer support in the implementation. This information will also be shared with NGO’s, including the notifying Parties.
- 11 June 2020, in an open letter sent to the European Commission and to the heads of government for each EU member state¹²: 50 corporates make a string of recommendations on how policy can support business to develop and expand the renewable energy sector in line with the bloc’s 2050 net-zero ambitions. (...) RE-Source Platform – a European alliance of stakeholders from across the supply and demand sides of the renewable energy market – has co-ordinated the letter. The Platform’s non-business members include The Climate Group, CDP and WBCSD, while its corporate backers hail from a range of sectors. Heavily represented among the signatories are the food and beverage sector (AB Inbev, Mars, Nestle, Diageo, Heineken), digital and communications technologies (BT, Virgin Media, Konica Minolta), retail (H&M Group, IKEA, VF Corporation), finance (Visa, ING, Zurich, Refinitiv, BBVA, Barclays) and energy (Iberdrola, Orsted, RWE and Lightsource BP). Many of these businesses have either set 100% renewable energy goals or are already sourcing 100% renewable energy.
- ING published its Build Back Better statement re-confirming its commitment to steer its lending portfolio to the goals of the Paris Agreement, even so under Covid-19¹³.

The NGO’s state they very much appreciate ING’s September 2019 publication on the climate impact of loans, and ING’s commitment to steering towards achieving reduction targets. They are positive about ING playing a proactive role in the publicly available development of PACTA with 2DI, involving other banks in this, and working with PCAF on mortgages.

¹⁰ On 15 September 2020, 2Dii launched PACTA for Banks, a free, open-source climate scenario analysis toolkit based on the Paris Agreement Capital Transition Assessment (PACTA) methodology. The methodology, data, and software are available at <https://www.transitionmonitor.com/pacta-for-banks-2020/>

¹¹ On 21 September 2020 the International banks BBVA, BNP Paribas, ING, Société Générale and Standard Chartered published a report on the application of the PACTA methodology, designed to steer their credit portfolios towards the objective of the Paris Climate Agreement. <https://2degrees-investing.org/wp-content/uploads/2020/09/Katowice-Banks-2020-Credit-Portfolio-Alignment.pdf>

¹² <https://www.edie.net/news/10/Corporate-clean-energy-sourcing-must-form-part-of-green-Covid-19-recovery--dozens-of-businesses-tell-policymakers/>

¹³ <https://www.ing.com/Newsroom/News/How-ING-can-help-build-back-better.htm>

⁹ <https://2degrees-investing.org/17-international-banks-now-piloting-the-2-investing-initiatives-flagship-climate-scenario-analysis-methodology/>

In addition, the NGO's state they support ING's tightened coal policy of December 2017, as previously reported, and they welcome ING's public support for a full 1.5 degree IEA scenario. It is also positive that ING indicated that the next report will include interim targets for, for example, mortgages and the cement sector.

The NGO's expressed their concern that in various sub-topics related to climate, ING does not yet play a leading role compared to various peers (shale gas, plastics, biomass, oil companies active in the fragile Arctic region).

The NGO's recommend and would welcome ING's commitment to using a full 1.5 degree scenario as soon as it is available.

Finally, the NGO's mention that their doubts have not been allayed as to whether it is justified that investments on the balance sheet and asset management investments are left aside by ING. For this category of investments, PCAF appears to be a suitable method. ING reiterated that it has focused on the area where it has the biggest impact. For ING this is its lending across many sectors. Developing and testing the PACTA approach, together with 2Dii took significant time and effort. ING believes all banks would benefit from having an industry-wide standard, increasing transparency and therefore their collective effectiveness in fighting climate change. For this reason, ING was joined in December 2018 by other global banks in signing the Katowice Commitment – a pledge to steer their portfolios toward the well-below two degree goal of the Paris Climate Agreement and work together to further refine the metrics and tools needed to do this. In September 2019, the Katowice Commitment formed the groundwork for the UN-backed Collective Commitment to Climate Action, signed by ING and 30 other banks that together represent \$13 trillion in loans.

The NGO's encourage ING to make progress on these points in the coming years. The NGO's are willing to advise ING on these matters, for example by providing input on concept policies.

A joint call by the Parties on the Dutch government for a 1.5 degrees IEA scenario

In the dialogue parties reached an agreement on calling directly upon the Dutch Government to request the International Energy Agency (IEA) to develop as soon as possible two scenarios (one with and one without CCS) that provide a 66% chance to limit global warming to below 1.5 degrees.

The notifying parties and ING publicly made reference to this commitment – as did the NCP – at their respective websites¹⁴. July 1st 2019, the parties jointly discussed their call for the development of a 1.5 degrees scenario with representatives of the government. The NGO's are of the opinion that this has

¹⁴ <https://www.oxfamnovib.nl/persberichten/oced-guidelines-banks-must-publish-climate-targets-in-line-with-paris-climate-agreement>; <https://www.ing.com/Newsroom/News/NCP-appreciates-INGs-efforts-to-fight-climate-change.htm>

not led to concrete follow-up by the government and asked the NCP to address this matter to the attention of the government.

In response to the NCP, the Ministry of Economic Affairs and Climate Policy said that this issue has been addressed in several letters to Parliament and has been discussed with ING and the NGO's; The IEA is already addressing the challenge of the 1.5 degree scenario and the World Energy Outlook 2019¹⁵ indicates the consequences and limitations of the 1.5 degree objective. The World Energy Outlook was presented to the Parliament on November 14, 2019 by the Executive Director of the IEA. The ministry refers to the letter to Parliament of 3 July 2020 in which can be read how the government has dealt with the request to insist on a 1.5 degree scenario at IEA¹⁶. The government's continued commitment to climate and energy policy is also expressed in the letter to Parliament of 19 June 2020¹⁷.

The NGO's and ING jointly re-emphasize the importance of developing as soon as possible a 1.5 degrees Scenario with a 66% probability to limit the rise in the average global temperature to a maximum of 1.5 °C.^{18 19}

Conclusion

In the final statement, the NCP expressed confidence in the continuation of the constructive dialogue between the parties after the closing of the procedure. The NCP is very pleased that during the evaluation process both parties expressed their appreciation for the constructive and open conversations during the last year, in which ING's commitment to steer its portfolio towards the goals of the Paris Agreement was further discussed.

The NCP welcomes ING's commitment and climate ambition to align ING's lending portfolio with the goals of the Paris Agreement. The NCP encourages ING and the banking sector in general to move forward on climate issues. A forward-looking approach is needed in order to solve the complicated issues raised. Financial institutions should make a joint effort in close cooperation with their clients to do what is necessary to make further steps towards a better climate. A lot of information and tools on how to tackle climate change are yet available.

¹⁵ <https://www.iea.org/reports/world-energy-outlook-2019>

¹⁶ <https://www.rijksoverheid.nl/actueel/nieuws/2020/07/03/kabinet-zet-in-op-verdere-verduurzaming-financiele-sector>

¹⁷ <https://www.rijksoverheid.nl/documenten/kamerstukken/2020/06/19/kamerbrief-over-gevolgen-crisis-rondom-coronavirus-voor-klimaat--en-energiebeleid-en-taakopdracht-ambtelijke-studiegroep-invulling-klimaatop-gave-green-deal>

¹⁸ IPCC Special Report on Global warming of 1.5 degrees, October 2018, <https://www.ipcc.ch/sr15/>; Energy Outlook of November 2019: <https://www.iea.org/reports/world-energy-outlook-2019>; and <https://www.iea.org/commentaries/what-would-it-take-to-limit-the-global-temperature-rise-to-15c>

¹⁹ In October 2020, the IEA published its first scenario limiting warming to 1.5 degrees Celsius (°C): Net Zero Emissions 2050 (NZE2050). <https://www.iea.org/reports/world-energy-outlook-2020/achieving-net-zero-emissions-by-2050#abstract>

This information and scientific standards help financial institutions in taking balanced decisions in order to decrease their portfolio's carbon footprint, including the necessary decisions on financing fossil fuels.

It is beyond question that NGO's have an important role in drawing attention to the problems in and challenges for the financial sector with regard to climate issues. The NCP encourages not only Oxfam Novib, Greenpeace, BankTrack and Milieudefensie, but all NGO's committed to climate issues, to continue their work as this contributes to awareness and policy improvements of banks and their clients.

The NCP supports the efforts of both parties to maintain a constructive dialogue to jointly achieve improvements in the banking sector with regard to climate change, an extremely serious and urgent matter that affects the whole world.

Furthermore, the NCP will closely follow the developments at national and international level in in the financial sector as a whole, and will bring points as discussed to the attention of multinational enterprises and other stakeholders when relevant to promote further discussion and steps to be taken in the sector. The NCP would appreciate to be kept informed of further developments in INGs climate policies and steps taken in the sector by all parties.

The NCP concludes by emphasizing once again that companies should put effort into defining, where appropriate, concrete targets to manage its impact towards alignment with relevant national policies and international environmental commitments. Regarding climate change, the Paris Agreement is currently the most relevant international agreement between states, a landmark for climate change, signed by the State of the Netherlands.'

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