AVIVA AND COAL
A VERY LONG ENGAGEMENT

May 2018

Unfriend COAL

EXECUTIVE SUMMARY

Europe's fifth biggest insurer recognises the risk that climate change poses and has committed to supporting the development of a low-carbon economy. It has declared its support for the 2015 Paris Climate Agreement including its goal of keeping global warming "well below" 2°C above pre-industrial levels. However, Aviva still actively supports coal and tar sands companies whose activities are fueling dangerous global warming.

Thermal coal is the largest single source of carbon emissions. Last year the UN called for no new coal-fired plants worldwide and an accelerated phase-out of existing plants as key steps to achieve international climate goals[2]. In order to meet the Paris target, 100 GW of worldwide coal capacity must be retired every year[3].

Yet at this time, Aviva has $621 million invested in 31 coal plant developers, including 11 which plan to build more than 90 GW of new coal power. Among them are five companies planning new coal plants within the European Union, starting in Poland. Aviva has increased its holdings in Polish coal companies, which plan more than 8 GW of new coal plants, from €310 million in 2015 to €422 in 2017.

On top of this, Aviva also has over $634 million invested in companies operating in Canadian tar sands or currently planning to build major tar sands pipelines. This industry is highly carbon-intensive, environmentally destructive and threatens the health and lifestyles of Indigenous communities, yet there are plans to expand production by 70% by 2040. Research by Oil Change International found that investment in new tar sands production is inconsistent with the Paris Agreement[4].

Global warming has reached 1.1°C and is already causing severe disruption. In 2017, natural catastrophes such as hurricanes Harvey, Irma and Maria, wildfires and other weather-related events cost the world $330 billion, leaving insurers with record losses of $144 billion according to Swiss Re. The company warned that global warming was increasing the frequency of these events and that future losses to insurers could top $250 billion in a single year[5].

The Paris Agreement recognizes that a crucial step for achieving its goals is to "shift the trillions" from fossil fuels to energy efficiency and renewable energy.

More than 850 institutions, including major insurance companies, have supported this effort by divesting assets from coal and other fossil fuel companies[6]. Insurers Allianz and AXA have specifically announced that they will divest from companies which plan to develop new coal projects, and AXA also committed to divest from major pipelines and tar sands production companies.

In 2015, Aviva "identified 40 companies (C40) with more than 30% of their business revenue associated with thermal coal mining or coal power generation and undertook focused engagement with them, including 51 in-depth conversations ". **Up to now, Aviva has divested from only two of them, the Japanese utility J-Power and the Polish PGE, and is in the process of divesting assets totalling £11 million from an additional 15 companies,** including six from China and nine from other countries[7].

Unlike Zurich, AXA and other investment managers, Aviva does not include any of the assets it manages for third parties in its divestment. This is another limitation of the insurer's approach to coal companies and may explain why the amount covered by its new round of divestments is so small.

Engaging fossil fuel companies can be a useful strategy to accelerate the transition to a low-carbon economy. Yet any such engagement needs to be intense, time-bound and linked to clear consequences in the absence of positive results. It is time for Aviva to speed up its transition away from coal and tar sands and expand its divestment from respective companies.

As Helena Morrissey, the head of personal investing at Legal and General Investment Management, one of Europe's biggest investment managers, recently said: "The reason we are shaming [the worst performers] is that we gave them a number of years and they did not take any notice. There comes a time when we should vote with our feet. We will be divesting from those companies." [8]

Engagement is inherently non-transparent and Aviva has not been able to report any substantive progress through its engagement strategy. Going forward, the **insurer should focus its engagement on a small number of fossil fuel companies, selected because of their real potential to transition away from coal and tar sands within one year, in line with the Paris Agreement. Because companies still planning new carbon-intensive projects are unlikely to align with Paris climate targets, Aviva should automatically divest from them.**

Left unchecked, climate change will render significant portions of the economy uninsurable, shrinking our addressable market.

Aviva warned in its 2015 strategic response to climate change[1]

AVIVA'S BROKEN APPROACH TO CLIMATE CHANGE

Known for its bold statements on climate change, British insurer Aviva is widely considered a climate leader in the finance industry. **The multiline insurer has taken several meaningful steps, notably by enhancing its climate-related financial disclosure and taking public positions against disastrous projects such as the Carmichael coal mine in Australia. However, when it comes to coal, Aviva's generally strong climate policy is flawed.**

Burning coal is the top contributor to climate change. If the goals of the Paris Agreement are to be met, no new coal power plants can be built and existing plants must be retired over the coming decades.

> **Aviva is no friend of coal, but we know that engagement can be a more powerful tool for change than simply walking away.**
>
> ***Steve Waygood, Chief Responsible Investment Officer, Aviva Investors[9]***

The Paris Agreement recognizes the crucial role of "shifting the trillions" from fossil fuels to energy efficiency and renewable energies in addressing the climate challenge. As part of this effort, at least 851 institutions, including major insurance companies such as Allianz, AXA, SCOR and Zurich, have in recent years divested their assets from coal and other fossil fuel companies[10]. Aviva stands out within this trend, as the main focus of its investment strategy is to engage with coal companies rather than to divest from them.

In July 2015, Aviva began engagement with 40 companies which derive over 30% of their revenue from thermal coal[11]. Aviva argues that rather than "just divesting", it can use its leverage as investor to influence these companies. The insurer states that it is also prepared to divest if a coal company does not demonstrate sufficient progress[12].

Combining both engagement and divestment makes sense, as the two approaches can complement and reinforce each other. However, the following analysis raises serious questions regarding the effectiveness of Aviva's engagement strategy.

In its 2017 climate-related disclosure[13], Aviva revealed that it had added PGE and J-Power to an Investment Stoplist, had divested from these utilities and was also in the process of divesting £11 million from an additional 15 companies, including six from China and two from India[14]. Aviva claims that disclosing the names of companies to be divested from would be counterproductive for the engagement process, but said that it would "disclose the names of the companies post divestment".

Aviva claims to divest from companies that still plan to expand their coal generating capacity[15]. Yet in November 2017, Aviva held investments of $621 million in shares and bonds of no less than 31 companies planning new coal plants. Six companies in which Aviva continued to invest planned to build more new coal capacity than J-Power, one of the utilities Aviva divested from. As the following sections demonstrate, other companies in which Aviva continues to invest score very low on ESG criteria, for example by planning new coal projects adjacent to World Heritage Sites.

In 2017, Aviva still held $22 million of investments in China's Huaneng Group and $26 million in India's National Thermal Power Corporation investees are NTPC. Both plan to build new coal plants totalling more capacity than the entire UK coal fleet. NTPC plans to build 38 GW of new coal power, making it the world's biggest coal plant developer. NTPC is developing the 1.3 GW Rampal coal plant, threatening the Sunderbans in southern Bangladesh, the world's largest mangrove forest, which supports the livelihood of 500,000 people and is a UNESCO World Heritage Site.

As mentioned Aviva is currently divesting £11 million ($15 million) from 15 coal companies, including six unnamed Chinese and two unnamed Indian companies. These figures suggest that Aviva is either not divesting from NTPC and Huaneng, two companies in which it holds no less than $48 million, or is only divesting a small part of its holding, possibly because it manages other investments in these coal companies for third parties and doesn't cover them by its divestment decisions.

Continuing to finance coal and tar sands might be justified, provided that Aviva's engagement produced clear progress towards an exit from these fuels. Yet so far Aviva has not been able to produce meaningful successes through its engagement strategy. In its climate-related financial disclosure 2017[17], the insurer reported that five of the 40 coal companies it engaged with have committed to Science Based Targets following their discussions. As ExxonMobil's 2018 Energy and Carbon Summary shows, such aspirational targets and reports can easily turn into empty public relations exercises. At a time when massive reductions in greenhouse gas emissions are required, they are completely insufficient.

If the process is selective, well-resourced, time-bound and linked to consequences, engaging fossil fuel companies can be a useful strategy to accelerate the transition to a low-carbon economy. However, Aviva should acknowledge the fact that with its limited ESG capacity it cannot effectively engage with all the coal companies it is exposed to, or even with the 40 companies it has selected for engagement. Other large insurers such as AXA have adopted sector-wide divestment criteria which led to the exclusion of hundreds of companies from their investment universe.

In conclusion, Aviva should not abandon its engagement approach, but should complement it with a consequential divestment approach. Aviva should focus its engagement on a small number of companies, selected because of their real potential to transition away from coal and tar sands within one year, in line with the Paris Agreement. If companies still plan new carbon-intensive projects, Aviva should automatically divest from them.

> **Next month we will be naming and faming, and naming and shaming. The reason we are shaming [the worst performers] is that we gave them a number of years and they did not take any notice. There comes a time when we should vote with our feet. We will be divesting from those companies.**
>
> ***Helena Morrissey, Head of Personal Investing,Legal and General Investment Management[16]***

DEEPENING THE WORLD'S COAL ADDICTION

The UN recently called for a halt to new coal power plants and an accelerated phase-out of existing plants as important steps to achieving international climate goals[18]. According to Climate Analytics, OECD countries must exit the coal sector by 2030, while other countries need to phase out their coal fleets by 2050[19]. This requires the world to retire a minimum of 100 GW of coal power capacity every year if the goals of the Paris Agreement are to be met[20].

While a growing number of countries and subnational entities have committed to phasing out coal plants and have placed a moratorium on new coal plants that lack carbon capture and storage, over 630 GW of new coal capacity currently remain in planning or under construction[21].

In 2017, 120 companies were planning to build over 550 GW of new coal plant capacity – equal to the combined coal fleets of India, the United States and Germany[22]. These companies are the world's most aggressive coal plant developers and should be at the top of every divestment list.

Coal plant developers in which Aviva held more than US $20 million investments in bonds and shares at the most recent filing date (research from November 2017)

COMPANY	HEAD-QUARTERS	COUNTRIES OF EXPANSION	COAL SHARE OF POWER PRODUCTION	COAL POWER EXPANSION PLANS[27]	TOTAL INVESTMENTS
PGE	Poland	Poland	> 95%	5,260 MW	198
Tauron	Poland	Poland	> 90%	910 MW	78
Enea	Poland	Poland	94%	1575 MW[28]	59
CEZ	Czech Republic	Czech Republic	47%	1410 MW	55
Energa	Poland	Poland	57%	500 MW	54
KEPCO	South Korea	South Korea, Botswana, Indonesia, Philippines, Swaziland, Vietnam, South Africa	39%	10,795 MW	43
AES Corporation	USA	India, Philippines	34%	818 MW	27
NTPC	India	India, Bangladesh	94%	38,372 MW	26
China Huaneng Group	China	China, Pakistan	71%	20,750 MW	22
Aboitiz Power Corporation	Philippines	Philippines	52%	1344 MW	22
PLN Persero	Indonesia	Indonesia	68%	10,880MW	21
Total				**92,614 MW**	**605**

© Torsten Kellermann

Further investments in these companies are an entry ticket to a 4°C world. Yet, in 2017 Aviva was found to have invested $621 million in 31 of them for its own account and for third parties, $528 million in shares and $93 million in bonds[24]. This makes Aviva the world's 54th biggest investor in the most aggressive coal plant developers[25].

In 2017, 11 companies, which attracted 97% of Aviva's investments in the top coal plant developers, still planned more than 90 GW of new coal capacity, six times the British coal fleet. The five coal plant developers in which Aviva invested the most are all European, in particular Polish. Together, they attracted $444 million or 70% of Aviva's total investments in coal plant developers. Aviva figures among the four biggest investors in PGE, Enea, Energa and Tauron, four Polish companies planning 8,245 MW of new coal capacity.

In addition, Aviva holds smaller investments in five other Polish coal companies, for example ZEPAK, a company which plans to create new open-pit mines holding more than 1 billion tonnes of lignite, the dirtiest form of coal[26]. Three Aviva asset managers are estimated to hold at least €513 million of shares and bonds in nine Polish coal companies in their portfolio, for Aviva's own account and for third parties.

The strong holdings in Polish coal developers indicate that Aviva's investment decisions play an important role in supporting or blocking the European coal phase-out, with immense implications for climate change and public health.

"Coal is the most polluting industry and the most damaging for world temperature... for us it is critical to stop production of new coal capacity.

Jad Ariss, AXA's head of public affairs and corporate responsibility[23]

PGE, THE DIRTY DARLING OF THE POLISH COAL SECTOR

Poland's PGE is Europe's second biggest CO2 emitter and plans to build 5,260 MW of new coal power capacity, making it the largest coal power developer in Europe[29].

PGE is currently building two 900 MW hard coal units at its Opole power plant and adding 460 MW of capacity to its lignite power plant at Turów. PGE also plans to expand its Turów mine and constructs huge new greenfield mines. PGE also recently finalised the acquisition of the Rybnik hard coal power plant from French utility EDF. Coal comprises more than 90% of PGE's power capacity. In 2017, PGE invested €127 into conventional energy for every Euro invested in renewable energies.

Based on the 2013 emissions of all EU coal power plants, PGE's coal fleet is the dirtiest in Europe, causing the most premature deaths due to air pollution. Polish coal plants are estimated to cause 5,830 premature deaths a year, including 1,140 in Poland, 110 in the UK and 4,580 in other countries[30]. PGE operates two of the continent's most polluting coal plants: Belchatów and Turów. Belchatów alone is estimated to cause almost 1,300 premature deaths each year.

Aviva held PGE shares worth $198 million at the last filing date in November 2017, which made it the second biggest investor in the company. A briefing paper by the Unfriend Coal campaign found that Aviva holds €122 million in PGE through its Polish pension fund (OFE).

In its latest climate-related financial disclosure, Aviva stated that it had added PGE to its Investment Stoplist and had divested its "active beneficial holdings wherever possible". Aviva added that, "due to regulatory restrictions around pension provision in Poland in respect of the investment strategy and independent governance arrangements, we are not able to influence the exposure of portfolios to companies we have chosen to divest from elsewhere[31] ". **This means that the bulk of Aviva's investment in PGE might not be affected by its decision to put PGE on a Stoplist and divest from the company. Aviva will certainly maintain its investment in the company through its OFE and might hold onto its investments through other channels as well.**

FORCED TO INVEST IN POLISH COAL ?

In February 2018, a briefing paper by the Unfriend Coal campaign discovered that Aviva held €422 million of investments in nine Polish coal companies through its local pension fund (OFE)[32]. This makes Aviva the second biggest insurance investor in Polish coal companies through its OFE. The Polish NGO Foundation "Development YES - Open-Pit Mines NO" and ShareAction asked Aviva to divest from these companies at its 2017 annual general meeting.

In response to the Unfriend Coal briefing, Aviva stated that it was "no friend of coal" but favoured engagement over divestment. The insurer also referred to a legal obligation which, it claimed, requires local pension providers in Poland to invest 70% of their pension customers' assets in "stocks on the Warsaw Stock Exchange[33]". In other words, Aviva claimed to have no choice but to invest in Polish coal companies.

In fact, article 141 of Poland's Act Concerning the Organisation and Functions of the Retirement Funds[34] requires Aviva and other pension funds to invest at least 70% of the OFE's assets in assets denominated in Polish currency. This requirement does not however determine the level of investment in companies listed on the Warsaw Stock Exchange, even less in coal companies. As an example indicating this flexibility, **the Polish pension fund of Allianz has invested 1.94% of its pension customers' assets in Polish coal companies compared with 4.42% for Aviva.**

The value of Polish coal companies shares in Aviva's Polish pension fund portfolio amounted to €310 million at the end of 2015, €319 million at the end of 2016, and €422 million at the end of 2017. **The 2017 increase of Aviva's investments into Polish coal companies is due to a raising share value of several companies, but also to purchases of new shares in Energa, JSW and Famur. All of this indicates that investors are flexible in how to implement the pension funds law, while unlike other insurers, Aviva isn't making use of this flexibility.**

Finally, Aviva has a second asset manager based in Poland called Aviva Investors Poland SA, which does not fall under the legal obligation to invest in companies listed on the Warsaw Stock Exchange. Aviva Investors Poland SA were found to hold €91 million of assets in PGE, Enea, Energa and Tauron at the most recent filing date in November 2017.

©Belchatow kopalnia

INVESTING IN TAR SANDS AND INDIGENOUS RIGHTS VIOLATIONS

Phasing out coal will not be enough to keep global warming well below 2°C. Tar sands should also be phased out quickly, as they are one of the most carbon-intensive, environmentally destructive and financially risky fossil fuel sectors. Nevertheless, the tar sands industry still has plans for new projects which would increase production to over 70% by 2040[35].

In 2017, Aviva held more than $634 million of investments in corporations operating in Canadian tar sands or planning to build major tar sands pipelines[36]. For example, Aviva held close to $7 million in investments in the Canadian mining company Teck Resources, which is currently planning a huge new open-pit tar sands mine producing 260,000 barrels of bitumen per day.

New and expanded projects continue to be proposed on the recognised traditional territories of Indigenous peoples in spite of their clear, stated opposition. The Frontier Project, which has been proposed by Teck Resources, is located in the traditional territory of the Athabasca Chipewyan First Nation. The Indigenous community is already experiencing high cancer rates linked to industrial pollution. They have rejected the project because it would devastate forests and muskeg areas crucial for wild bison, threaten traditional hunting and fishing practices and pose severe risks of water and air contamination[37].

In November 2017, **Indigenous Climate Action (ICA) won the CDN$150,000 Aviva Canada Community Legacy Award through the Aviva Community Fund competition. In a stark demonstration of protest, ICA decided to turn down the award,** "because of a direct contradiction between Aviva's financial relationship with oil and gas projects and ICA's vision, mission, and values". The organization's Executive Director Eriel Deranger stated: "Our organization is working to support Indigenous rights and address the climate crisis while Aviva is investing in corporations proposing or operating tar sands projects that threaten water, land, the climate and Indigenous rights.[38]"

We cannot in good conscience accept an award from a corporation that is financially associated with fossil fuel energy projects that violate the rights of Indigenous peoples and contribute to global climate change.

Eriel Deranger, Indigenous Climate Action's Executive Director

©priceofoil.org

CONCLUSION

In December 2018, delegates from nearly 200 countries will meet in Katowice, Poland, to agree on next steps to implement the Paris Agreement. The UN's COP24 conference will focus global attention on the role played by Polish companies, including their investors and financiers, in undermining the transition from coal to clean energy sources.

In May 2018, the Paris city council passed a motion calling on the international insurers "to commit to opposing air pollution and to withdraw their support from projects and companies in the coal sector, notably in the European Union and more particularly in Poland." [39]

Aviva should take immediate action to demonstrate that it is serious about its commitments to the goals of the Paris Agreement. It should divest from the companies that years after the adoption of the Paris Agreement continue to develop new coal and tar sands projects, and in so doing, avoid facing escalating pressure from grassroots movements and civil society organizations.

Aviva should focus its engagement on a small number of companies which have promising potential to adopt a strategy to transition away from coal and tar sands within one year, in line with the goals of the Paris Agreement. The insurer should divest from other companies, starting with those which plan investments in new coal or tar sands infrastructure, or have significant exposure to the coal and tar sands sector. Divestment should cover both the insurer's own assets and assets managed on behalf of third parties.

This briefing is part of the Unfriend Coal campaign which holds insurers to account for their action and inaction on climate change.

SOURCES AND CREDITS

Dirty Business: Aviva and Coal: a Very Long Engagement

Published by 350.org, Association Workshop for All Beings, EcoUnia, Foundation "Development YES - Open-Pit Mines NO", The Sunrise Project

Author: Lucie Pinson

Design: Edouard Marchal - edwarden.fr

All images : Pixabay ; Belchatow kopalnia ; Torsten Kellermann ; Priceofoil ; Getty Image

May 2018

This briefing paper and further materials on coal insurance and investment are available at www.unfriendcoal.com. For any additional information or feedback, contact European Unfriend Coal coordinator Lucie Pinson at: lucie@sunriseproject.org.au

1 - **Aviva's strategic response to climate change**, 2016 update, p. 14.
2 - UNEP, The Emissions Gap Report, October 2017.
3 - Reuters, March 22, 2018, "**New coal plants falling but not enough to meet Paris target: study**", viewed on April 19, 2018.
4 - Oil Change International, September 2016, "**The Sky's Limit**", p. 5.
5 - The Independent, April 10, 2018, "**Hurricanes Harvey, Irma and Maria pushed natural catastrophe insurance to record high last year, study shows**", viewed on April 19, 2018.
6 - See gofossilfree.org/divestment/commitments, viewed on April 19, 2018 and Unfriend Coal, November 2017, **Insuring Coal No More: An Insurance Scorecard on Coal and Climate Change.**
7 - **Aviva's climate-related financial disclosure** 2017, p.4 and according to information given to the author by Aviva.
8 - Helena Morrissey quoted in The Telegraph, "**Hit climate target or we will ditch your shares: LGIM's threat to dirty companies**", viewed on April 23, 2018.
9 - Aviva, Medium, February 9, 2018, "**We are no friend of coal**", viewed on April 19, 2018.
10 - See gofossilfree.org/divestment/commitments, viewed on April 19, 2018 and Unfriend Coal, November 2017, **Insuring Coal No More: An Insurance Scorecard on Coal and Climate Change.**
11 - **Aviva's strategic response to climate change**, July 2015, p. 11.
12 - Aviva, Medium, February 9, 2019, "**We are no friend of coal**", viewed on April 19th, 2018.
13- **Aviva's climate-related financial disclosure** 2017, p.4.
14 - According to information given to the author by Aviva.
15 - **Aviva's climate-related financial disclosure** 2017, p.4.
16 - Helena Morrissey quoted in The Telegraph, "**Hit climate target or we will ditch your shares: LGIM's threat to dirty companies**", viewed on April 23, 2018.
17 - **Aviva's climate-related financial disclosure** 2017, p.4.
18 - UNEP, The Emissions Gap Report, 2017.
19 - See **Climate Analytics**, viewed on April 19, 2018.
20 - Reuters, March 22, 2018, "**New coal plants falling but not enough to meet Paris target: study**", viewed on April 19, 2018.
21 - CoalSwarm, Sierra Club, Greenpeace, **Boom and Bust 2018**, p. 7.
22- See coalexit.org, viewed on April 18, 2018.
23 - The Financial Times, January 8, 2018, "**Insurers go cold on coal industry**", viewed on April 19th, 2018.
24 - Financial data for this briefing was compiled by the research consultancy Profundo. Profundo was mandated to identify the institutional bond-and shareholders of the 2017 120 top coal plant developers as identified by urgewald in the Coal Plant Developers list - see coalexit.org. Profundo used financial databases such as Thomson EIKON and Bloomberg. Available data is generally far from complete and it is therefore likely that Aviva's investments in the bonds and shares of coal plant developers are in fact significantly higher than the$ 621 million that was identified.
25 - For comparison, AXA, which manages 1.6 times more assets than Aviva, is ranked 32th with holdings of $894 million in these companies, 1.4 times bigger than Aviva's. At the end of 2017 AXA divested from these holdings.
26 - Polish Geological Service, December 12, 2016, Bilans zasobów złóż kopalin w Polsce. Stan na 31 2016, p.33/36.
27 - Coal power expansion plans include projects that are announced, pre-permitted, permitted and under construction. As stated in the Global Coal Exit List, the numbers of Megawatt planned are prorated, calculated according to the company's ownership of the project or the number of companies involved.
28 - The 1075 hard-coal unit at Kozienice TPP has been operational since December 2017.
29 - See coalexit.org, viewed on April 19, 2018.
30 - WWF European Office, CAN Europe, Sandbag, HEAL in Brussels, June 2016, **Europe's Dark Cloud**.
31 - **Aviva's climate-related financial disclosure** 2017, p.4.
32 - Unfriend Coal, **Dirty Business**, February 2018, p. 6.
33 - Aviva, Medium, February 9, 2019, "**We are no friend of coal**", viewed on April 19th, 2018.
34 - Ustawa o organizacji i funkcjonowaniu funduszy emerytalnych from 28 August 1997. **www.mf.gov.pl/ko/ministry-of-finance/financial-market-in-poland/pension-funds.**
35 - Claudia Cattaneo, Financial Post, September 28, 2017 "**Alberta's Patch: Solving the World's Big Environmental Challenges or a Sunset Industry?**", viewed on April 19, 2018.
36 - According to Aviva PLC's **most recent 13-F filing to the Securities and Exchange Commission.**
37 - Rainforest Action Network, November 2017, **Funding Tar Sands.**
38 - Indigenous Climate Action, December 6, 2017, "**Indigenous Climate Action rejects $150,000 award from Aviva Canada due to moral conflict with Aviva investments**", viewed on April 19, 2018.
39 - Groupe Ecologiste de Paris, May 2, 2018, **Vœu relatif à la responsabilité du secteur de l'assurance dans la pollution de l'air**, viewed on May 3, 2018.

AVIVA AND COAL
A VERY LONG ENGAGEMENT

MAY 2018

Unfriend COAL