Credit Benchmark

# Top Polluters Have More Credit Risk – and Are Mainly State-Owned

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Environmental awareness is having a significant effect on the way we consume and invest. Plans to phase out petrol-driven cars, outlawing of gas boilers, massive investment in alternative energy sources, elimination of peat-based compost; these are just a few of a rapidly growing list of measures intended to halt and even reverse the impact of human activity on the environment.

While climate change remains a controversial and partisan topic, the private sector cannot ignore it in the face of vocal public opinion and a strong trend towards ESG-driven investment. Investible companies need to be able to show a credible plan for reductions in $CO_2$ emissions to meet internationally agreed targets.

Twenty organisations – all in the resource extraction industry – have been responsible for a third of all $CO_2$ emissions over the past 50 years. Consensus credit ratings are available for 19 of these[1], and 16 of these provide credible projections for their intended $CO_2$ emissions for the next ten years. Nine of these are majority state-owned.

Figures 1 shows the average projected $CO_2$ emissions in billions of tons per billion dollars of revenue, for Private and State-owned firms. Figure 2 shows the average consensus credit rating on a 21-category scale (1=**aaa**), also split into Private and State-owned firms.

**Figure 1: Average Projected Emissions**

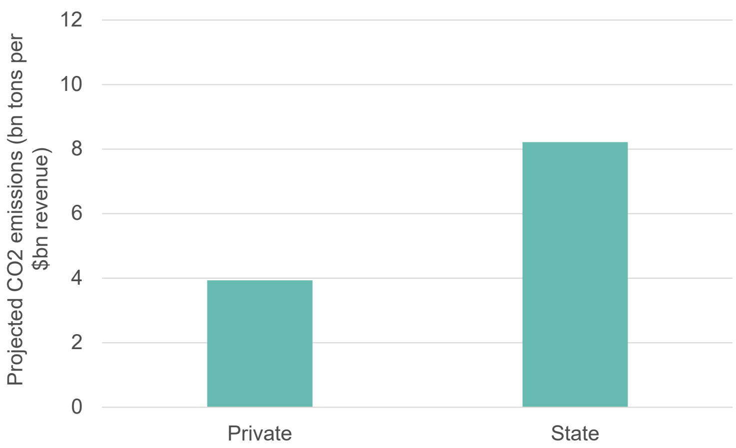
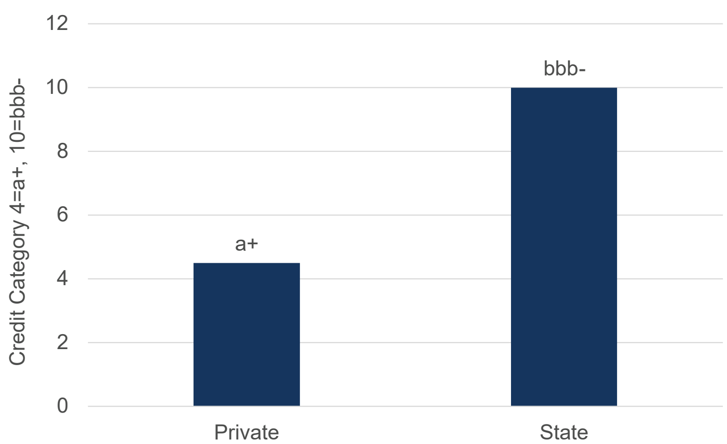



**Figure 2: Average Consensus Credit Rating**




[1]No consensus is available for the National Iranian Oil Company due to international sanctions.

Even if they meet their stated targets, state-owned company emissions per $ of revenue will be about 100% higher than private firms.  Addressing this inefficiency is hampered by a significantly worse average credit rating, making investment in environmentally-friendly infrastructure more expensive for state-owned firms.

There are some exceptions in the private group: Peabody Energy does not publish emission targets (so is not included in these averages) and has a very poor credit rating; but its inclusion would only increase the private average credit risk by slightly more than one notch.

ESG equity investment is focused on changing the behaviour of private companies, and the environmental message is clearly getting through.  But it is more challenging for ESG-driven bond investors to change the polluting habits of state-owned firms at a time when their Governments need as much income as possible.  Until recently, environmental issues were a lower priority for ESG investors when assessing Sovereign bonds , but increased use of "Green Bonds" (such as those announced by the UK late last year) may provide an incentive for some of the most polluting state-owned resource companies in the world to clean up.

Companies from the Top 20 Polluters included in this study:

| | |
|---|---|
| Included, with consensus rating and published emission targets | Chevron |
| | Abu Dhabi National Oil Co |
| | BP |
| | Conoco Phillips |
| | Exxon Mobil |
| | Gazprom |
| | Kuwait Petroleum Corporation |
| | Pemex |
| | Petrobras |
| | PetroChina |
| | Petroleos de Venezuela (PDVSA) |
| | Royal Dutch Shell |
| | Saudi Aramco |
| | Sonatrach |
| | Total |
| Excluded, with consensus rating but no published emission targets | Iraq National Oil Co |
| | BHP Billiton |
| | Coal India |
| | Peabody Energy |
| Excluded, no consensus rating due to sanctions | National Iranian Oil Co |

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Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 57,000+ financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 90% of the entities covered are otherwise unrated.

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