

Policy Coal



Consistent exit from
financing the coal industry

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Raiffeisen Capital Management stands for Raiffeisen Kapitalanlage GmbH (or short) Raiffeisen KAG.

Objective of the policy

Exit from financing the coal industry

Raiffeisen Kapitalanlage-Gesellschaft m.b.H. (hereinafter referred to as Raiffeisen KAG) has implemented its exit from financing the coal industry. Raiffeisen KAG's Coal Policy covers all investable companies active in coal exploration, coal mining, coal extraction, coal distribution and coal refining. Raiffeisen KAG's decision to withdraw is closely linked to the international targets set out in the Paris Climate Agreement to limit global warming to below two degrees Celsius.¹

Scope of application

All mutual funds and portfolios managed by Raiffeisen KAG are in scope of this obligation. When selecting investment funds that are managed by other investment companies, this obligation is complied with as far as possible. The same principle holds in case of management of special funds by Raiffeisen KAG, taking into account any individual agreements concluded with the investor.

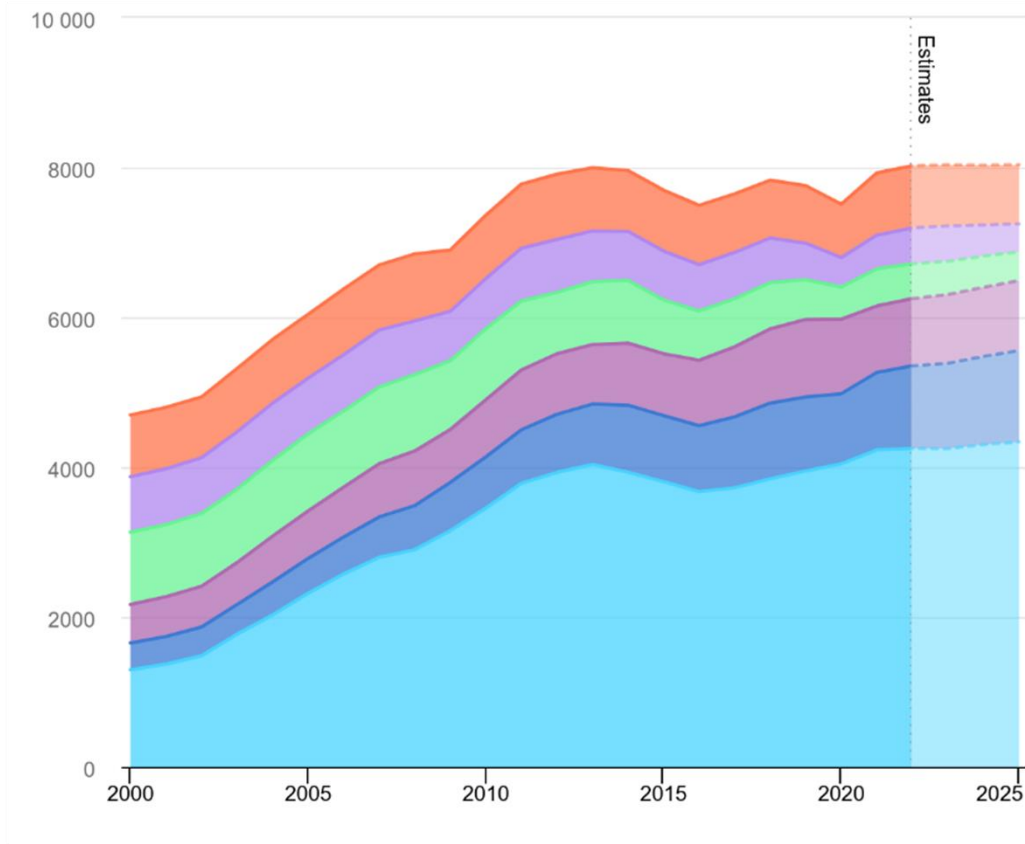
Overview of the coal industry

Coal at a glance

Due to the predicted increase in energy demand, many countries are still using coal to generate energy, even though it is the most CO₂ intensive type of fossil fuel. This also means that a third of global energy is still generated by burning coal. Although many countries are already moving away from this energy source, coal will continue to account for a large proportion of the energy mix in the near to medium term. According to estimates from 2022, there are 1.161 trillion tons of known coal reserves worldwide. The majority of these reserves are concentrated in just five countries. Among these, the largest deposits can be found in the USA (22%), followed by Russia (15%), Australia (14%), China (14%), and India (11%).

1 | Source: United Nations Treaty Collections, https://treaties.un.org/Pages/ViewDetails.aspx?src=IND&mtdsg_no=XXVII-7-d&chapter=27&clang=_en

Graph 1: Global coal consumption 2000 – 2025 in Mt.



Source: IEA. Licence: CC BY 4.0

Despite its originally stable growth the global coal market has experienced several shocks in recent years. One of the most significant was the sharp drop in demand during the Covid-19 pandemic. Following this global crisis, however, there was a rapid increase in the use of coal. This effect was further intensified by the Russian war of aggression on Ukraine and the resulting economic consequences, leading to record levels of coal demand of 8.42 billion tons in total in 2022. However, the 2026 forecasts indicate a decline in global consumption.

When it comes to coal consumption in absolute and relative terms, China shows by far the highest figures in a global comparison. More than 50% of global consumption can be attributed to China. In 2022, this figure rose by 4.6% to 4,520 Mt. Far further behind, with around 14% of global demand, is India with a total coal consumption of 1,162 Mt. However, a growth rate of no less than 9% was recorded for this country. According to forecasts, the European Union and the United States will continue to be responsible for most of the positive developments in coal in 2023, with declines of 23% and 21% respectively.



Impact on sustainability and climate protection

The production and use of coal directly and indirectly impacts the health of all living creatures. According to the European Pollutant Release and Transfer Register, coal-fired power stations emit a total of 53 pollutants into air, water and soil. Hard coal releases more pollutants during combustion than lignite. However, three times more lignite is required to generate the same amount of energy, which is why lignite is considered to be the dirtier coal.

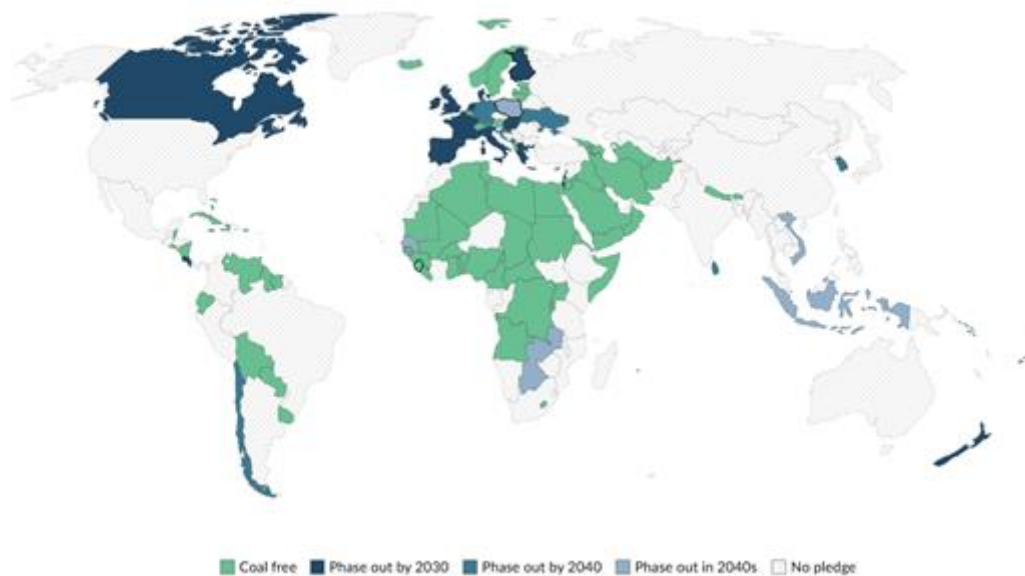
In 2019, air pollution and climate change itself were declared by the WHO as one of the 10 most serious health risks of the world's population. According to the WHO, it leads to the premature death of around 7 million people annually.

The estimated number of global deaths caused by coal power varies greatly from source to source. In the EU alone around 23,000 people are said to die every year due to the effects of coal use. In China, the figure is almost 16 times as high, with estimates of around 366,000 premature deaths per year. In addition, the costs resulting from the effects of air pollution in the EU alone totaled between 2.7 and 4.3 trillion euros in the period from 2012 to 2021.

Children are particularly affected by heavy metal emissions. If their lungs are damaged at a young age, a variety of possible health impairments can be the consequence. For unborn children, an exposure to increased concentrations of lead or mercury can lead to a higher risk of developing cognitive disorders, i.e. losing mental capacity, at a later age. Unborn children can also suffer from irreversible organ damages.

In addition to coal power, coal mining is also associated with health risks. People living near open-cast lignite mines are exposed to substantial particulate matter emissions that can cause respiratory diseases and allergies. Heavy metals and other toxins, which accumulate in spoil heaps of the mines, are released into the groundwater and the air. Radioactivity is another problem: lignite naturally contains uranium, thorium and potassium-40. According to Friends of the Earth Germany (BUND), the annual 100 million tons of lignite and 460 million tons of excavation material produced at the open-cast mines in Rhineland alone contain approx. 388 tons of uranium. Radioactive substances accumulate in the particulate matter and enter the human body - with incalculable consequences for health.

Graph 2: When will countries phase out coal power?



Source: Our World in Data, Licence CC BY

On top of the various health risks associated with the use of coal, its catastrophic impact on climate change also plays a particularly important role. In addition to the numerous negative health aspects of coal use, the considerable impact on climate change plays a crucial role. Figure 2 illustrates the difficulties involved in phasing out the coal sector. It shows the global phase-out plans, if present, at country level. According to the current status, around 75% of emissions from coal would have to be reduced by 2030, starting from the base year 2020. This turns to be even more difficult considering the figures for 2022. According to reports, even more energy was generated from coal in 2022 than in 2020, namely 10,440 TWh. This calls for an even more drastic cut in the expansion and maintenance of the coal industry in order to shrink. To support this turnaround, Raiffeisen KAG has set out the measures below.

Exit – Climate policy guidelines in the coal sector

Raiffeisen KAG is implementing its exit from financing the coal industry. The previous chapter illustrates the importance and urgency of phasing out coal. Financial institutions play an important role in the area of financing and capitalization.

Raiffeisen KAG's coal policy is based on two main aspects in order to achieve the aforementioned goal. On the one hand, there are absolute quantitative exclusion criteria (share of turnover) and, on the other hand, qualitative criteria, which together represent the coal phase-out. For instance, the revenue share of coal-related activities of investee companies is analysed. In order to set maximum revenue thresholds, the role of different players within the coal industry has to be defined. Consequently, relevant conclusions can be derived from their position along the value chain (see the following chapter "Definitions").

Definitions

Raiffeisen KAG's Coal Policy relates to the following segments:

Companies directly involved in the products:

- Coal exploration
- Coal mining
- Coal extraction

Companies involved in downstream areas:

- Coal distribution
- Coal refinement

Raiffeisen KAG's coal phase-out

The revenue share of coal related activities of investee companies is a suitable indicator for the successive exclusion of coal mining companies.

The following table illustrates Raiffeisen KAG's phase-out of coal investments based on the current criteria.

The current criteria regarding coal

Corporates	
➤ Mining and extraction	0 %
➤ Exploration, distribution and refining	1 %*
Sovereigns	reflected in the indicator model

Source: Raiffeisen KAG, own concept

*meets the criteria for investments in companies pursuant to Article 12(1)(a) to (g) of Commission Delegated Regulation (EU) 2020/2018 (minimum standards for so-called "EU Paris-aligned Benchmarks").

Innovative approach: RaiffeisenESG² Sovereign Indicator to determine the coal exposure of sovereigns

As part of the responsible investment process, an innovative aspect of Raiffeisen KAG's Coal Policy consists of the introduction of minimum criteria for investments in sovereigns (for instance government bonds). Since there is no revenue share, Raiffeisen KAG has adopted a different approach: The coal exposure of the sovereign is integrated into the investment process via various ecological factors which are summarized in one dedicated indicator developed by Raiffeisen KAG (Raiffeisen ESG Sovereign Indicator).

2 | ESG stands for environment (E), social (S) and governance (G).

Conclusion

With its updated Coal Policy, Raiffeisen KAG confirms its target to exit the financing of the coal sector. The policy covers not only the areas of coal exploration, coal mining and coal extraction, but also distribution and refining of coal. Moreover, criteria are applied to sovereigns in order to combat the trend towards continued coal-fired power generation. The Policy will have a significant positive impact on the carbon footprint of Raiffeisen KAG products.

In addition, Raiffeisen KAG joined the Net Zero Asset Managers Initiative (NZAM) in 2022, an association of asset managers pursuing the goal of achieving net zero emissions by 2050. The resulting commitments for Raiffeisen KAG include, in addition to achieving net zero GHG emissions in 2050 for 100% of AuM, setting interim targets, the regular revision of these targets and the assets-in-scope every five years and the embedding of climate targets in the engagement policy. Furthermore, as part of NZAM reporting the publication of an annual climate report in accordance with the TCFD recommendations is conducted. This is embedded in the PRI reporting.

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