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KENFO: How Germany's state-owned nuclear fund fuels climate change

The state-owned foundation KENFO („Fonds zur Finanzierung der kerntechnischen Entsorgung" or "German Nuclear Waste Management Fund") was established in 2017. Its purpose: to finance the interim and final storage of radioactive waste from German nuclear power plants. The operators of the 25 German nuclear power plants paid their dues – a total 24.1 billion Euro – making KENFO Germany's largest foundation under public law. The foundation is subject to the legal supervision of the Federal Ministry for Economic Affairs and Climate Action (BMWK). KENFO prides itself on its green investment strategy and is a member of the UN-convened Net Zero Asset Owner Alliance (NZAOA).

However, KENFO's fossil fuel investments have drawn recurring criticism. The freedom of information platform FragDenStaat already identified investments in oil and gas companies to the tune of 757.9 million Euro for the portfolio as of December 31, 2020.[1] Last year, German daily Handelsblatt covered an analysis of the KENFO portfolio as of December 31, 2021, which included investments in the fossil fuel companies BP, Shell and the Chinese state-owned China Petroleum & Chemical Corporation (Sinopec Corp).[2]

KENFO's fossil fuel trend remains constant, as Urgewald's analysis of the latest published portfolio as of December 31, 2022 shows.[3] It is based on a recent update of Urgewald's company databases on the fossil fuel industry, Global Coal Exit List (GCEL)[4] and Global Oil & Gas Exit List (GOGEL)[5]. GCEL and GOGEL are the most comprehensive public databases to date on the global activities of the coal, oil and gas industry.

Urgewald is responsible for this research and analysis. The initiative Fossil Free Berlin which works on divestment of public funds is co-editor of this briefing. Urgewald and Fossil Free Berlin call on KENFO to give up its fossil fuel investments. Specifically, KENFO should divest from all oil and gas companies that, according to GOGEL, are planning to develop new oil and gas fields or build new pipelines, LNG terminals or gas-fired power plants. This means: Selling and future exclusion of corresponding share investments, as well as no purchase of new bonds of these companies. In addition, investments in all coal companies listed on Urgewald's GCEL database should be sold and all respective companies be placed on an exclusion list.

Consistently high volume of fossil fuel investments

Checking KENFO's 2022 portfolio against GCEL and GOGEL revealed investments of around **771 million Euro in shares and bonds of 107 fossil fuel companies.** The details at a glance:

The largest slice by far, at about **723 million Euro, goes back to 98 oil and gas companies** on GOGEL.

- **53 companies are listed on GOGEL because of their oil and gas upstream activities. They all have fossil expansion plans that are not compatible with the 1.5°C scenario of the International Energy Agency (IEA)[6].** This means that they continue to develop new oil and gas fields which were approved for development after 2021. These oil and gas producers are planning to bring 75,220 million barrels of oil equivalent (mmboe) of new, previously untapped resources into production. More than half of this amount (40,530 mmboe) exceeds the modeled oil and gas supply of the IEA's 1.5°C scenario.

- **45 companies are currently planning new midstream infrastructure, namely pipelines and LNG terminals. Combined, these companies' pipeline projects would be 16,890 km long. The planned additional LNG capacity (liquefaction as well as regasification) of companies in KENFO's portfolio amounts to a total of 278 million tonnes per year (Mtpa).** According to the IEA's 1.5°C scenario, most of the LNG terminals currently under construction or in planning will not be needed in a world where global heating is limited to 1.5°C.

- **30 companies are planning new gas-fired power plants with a total capacity of 32.1 GW.** The projects are moving ahead even though the planned power plants have a lifespan of over 25 years. However, according to the IEA, we need to achieve net-zero emissions in the electricity sector by 2040.

KENFO's three largest investments in GOGEL companies are in the oil and gas majors **TotalEnergies** (81 million Euro), **Shell** (55 million Euro) and **BP** (45 million Euro). The portfolio also includes lesser-known but still significant oil and gas companies, such as:

- US LNG companies **Venture Global, Sempra** and **Cheniere Energy**. According to GOGEL they are among the companies with the largest LNG expansion plans worldwide, they occupy 1st, 4th and 11th place.

- Canadian company **Enbridge**, which owns extensive pipeline infrastructure in North America, including the controversial Line 3 pipeline that transports tar sands oil from Alberta to the USA.[7]

- **Kinder Morgan**, whose pipelines in the Permian Basin (USA) play a vital role in the fracking industry.[8]

- Australian company **Woodside Energy** which is developing the Scarborough gas field in north-western Australia. The gas is to be liquefied and transported to Asia and Europe, with serious impacts on whale, dolphin and sea turtle habitats.[9]

- Austrian company **OMV** which plans to develop the new Neptun Deep gas field in the Black Sea, threatening the local biodiversity as well as the climate.[10]

KENFO also invested **60 million Euro in 13 coal companies** listed on GCEL. US-based companies such as **CenterPoint Energy** and **MDU Resources Group** show little intent to make their business less harmful to the climate and whose share of coal in the energy mix is 82% and 62%, respectively. Chinese company **CITIC** is listed on the GCEL due to its high installed coal capacity of 8 gigawatts.

KENFO's investment criteria do not match its climate ambition

KENFO's investment guidelines[11] stipulate that so-called ESG criteria (ESG stands for "environmental, social and governance") must play a role in the investment strategy. KENFO specified this in greater detail in 2019 in its "ESG principles"[12] in which, among other things, it commits to meeting the Paris climate targets and the goal of "limiting global warming to below 2° – preferably 1.5°". It goes on to say, "The vast majority of the CO_2 bound up in today's known fossil resources must not be released into the atmosphere if the targets are to be achieved".

KENFO got more specific in its Sustainability Report 2022[13], which mentions the exclusion of investments in companies engaging in coal mining and coal-fired power generation[14]. In the oil and gas sector, there are also exclusions for the unconventional extraction methods of fracking and tar sands. For the entire portfolio, the target of a 20% reduction in emissions by 2025 compared to 2020 is also specified. Recently, in response to a parliamentary question[15], BMWK provided information on exclusions for new project-based infrastructure investments in new oil and gas fields that have received a final investment decision after 2021.[16] KENFO told Investments & Pensions Europe that it will further exclude new oil and gas pipelines, refineries and other petrochemical plants, with some exceptions.[17]

However, such direct project infrastructure investments only account for a portion of the funding needed for the development and construction of new fossil fuel projects. An important starting point is the exclusion of investments in shares and bonds in the companies behind the expansion projects. Unfortunately, KENFO's exclusions do not apply here. Instead, the fund's website states that, with regard to oil and gas companies, it wants to "constructively accompany the industry, and thus the portfolio companies, in the transition of their business models to climate neutrality"[18]. KENFO reaffirms this so-called engagement strategy in its response to the aforementioned parliamentary question.

The limits of engagement: Continuous expansion plans in the oil and gas industry

KENFO's lack of exclusion criteria in the oil and gas sector is apparent in the fund's large and numerous investments in the industry. Especially investments in companies planning to develop new oil and gas fields should be stopped immediately. The massive expansion plans of the oil and gas companies which KENFO supports make it clear that they are nowhere near a 1.5°C-compatible transition path.

None of the four oil and gas majors in KENFO's portfolio intends to end their fossil expansion projects. TotalEnergies, Shell, BP and Eni still want to produce more oil and gas in 2030 than humanity can afford according to the IEA's 1.5°C scenario. In addition, the companies' investments in renewable energies have to date been far below those in fossil energies.[19]

TotalEnergies, the oil and gas company with the highest KENFO investment, is the sixth largest developer of new oil and gas fields in the world. In May 2023, the company made clear what it thinks of criticism of its fossil fuel business model: the oil and gas multinational sued Greenpeace over a report in which the environmental organization accused the company of underestimating its greenhouse gas emissions for 2019.[20] Another negative example: In 2023, BP lowered its emissions reduction targets for 2030 from 40% to 25%.[21]

The unwillingness to transition away from the fossil business model applies not only to the oil and gas majors mentioned above but to all GOGEL-listed companies in which KENFO was invested. The current Global Oil & Gas Exit List paints a frightening picture of the entire industry: 96% of all 700 oil- and gas-producing companies listed in the database have expansion plans.[22]

Only divestment guarantees a long-term investment strategy in the interest of the next generations

It is thus unlikely that KENFO's engagement strategy will be effective in the foreseeable future. After all, asset and fund managers have been claiming for years that they want to support the fossil fuel industry in its transition through engagement. If the strategy worked, at least a few oil and gas companies would be close to a serious transition course today. Instead, the engagement argument merely delays the urgently needed withdrawal of investments from oil and gas companies that will not stop expanding.

Almost all construction of new oil and gas infrastructure is inevitably linked to the development of new fossil fuel resources. In the worst case, it leads to decades of fossil lock-in. Therefore, KENFO should not only withdraw investments from companies with upstream oil and gas expansion plans but also divest from all companies listed on GOGEL that are planning new pipelines, LNG terminals or gas-fired power plants.

This is the only way KENFO can live up to its self-styled image of "increasing the positive, long-term contribution to society and the environment" and its commitment to the Paris climate targets.[23] Instead of continuing to support the fossil fuel industry, KENFO must focus entirely on clean investments and renewable energies. It should put its long-term investment strategy in the service of future generations and contribute to leaving them a planet worth living on – with a clean atmosphere and thriving ecosystems.

Endnotes

1 https://fragdenstaat.de/blog/2022/05/05/kenfo-divest-oel-gas-russland-investitionen/
2 https://www.handelsblatt.com/finanzen/anlagestrategie/trends/atomfonds-kenfo-auf-diese-umstrittenen-investments-laesst-sich-deutschlands-erster-staatsfonds-ein/28851052.html
3 Every summer, KENFO publishes its portfolio as of December 31 of the previous year. For the sake of transparency and recency, KENFO should disclose its investment numbers more regularly.
4 GCEL includes all coal developers, the biggest coal mine and coal-fired power plant operators as well as companies whose coal-fired power generation or coal share of revenue exceed 10%: https://www.coalexit.org/
5 GOGEL covers 1,623 companies that produce oil and gas or develop new LNG terminals, pipelines or gas-fired power plants. The companies listed on GOGEL are responsible for 95% of global oil and gas production: https://gogel.org/
6 https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroby2050-ARoadmapfortheGlobalEnergySector_CORR.pdf
7 https://gogel.org/line-3-pipeline
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13 https://www.kenfo.de/fileadmin/user_upload/nachhaltigkeitsberichte/kenfo_nachhaltigkeitsbericht_2022.pdf
14 The fact we found investments in coal companies despite the exclusions could be due to undisclosed thresholds, such as particular coal share of revenue or power generation. This lack of clarity necessitates that KENFO disclose more about its exclusion criteria.
15 https://dserver.bundestag.de/btd/20/099/2009902.pdf, p. 6
16 https://www.ipe.com/news/kenfo-excludes-infrastructure-assets-in-oil-and-gas-sector/10070971.article
17 See note 16.
18 https://www.kenfo.de/en/en-kapitalanlagen/how-we-invest
19 https://reclaimfinance.org/site/en/assessment-of-oil-and-gas-companies-climate-strategy/
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