How big polluters are profiting from European public aid

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The European Central Bank and the European Investment Bank support big corporations through non-transparent processes, without taking into account social, environmental or climate criteria and without having binding criteria to stop corporate tax evasion and dividend distributions.

Today, the Governing Council of the European Central Bank (ECB) is meeting and will probably announce the extension of it's Pandemic Emergency Purchase Program (PEPP). It is a good moment to reflect on how EU public aid has been channelled so far to some of the most powerful players of our economy in the context of the COVID-19 crisis, the big corporations.

The spread of COVID-19 and its resulting health emergency have brought an unprecedented economic slowdown. Consequently, public institutions have activated plans, mechanisms and instruments that ostensibly aim to stop the shock, reactivate the economy and restore pre-pandemic normality. In this context, large corporations are playing a central role similar to that of the banking system during the 2008 financial crisis: at a time of high uncertainty, a few powerful actors benefit from public support, while the huge majority is put in second place.

In order to not repeat history, it is necessary to analyse the public-private agreements that are being forged at this moment and demand a truly democratic management of the crisis. We need transparency and accountability of our public institutions and demand crisis management that is socially and environmentally fair and sustainable.

What is Europe doing for the big polluting corporations?

In 2014, the ECB created an asset purchase program, known as Quantitative Easing (QE), to buy sovereign debt from national governments in the eurozone. Shortly thereafter, the bank expanded the program to purchase corporate bond debt, which has only benefited a select club of 300 corporations, including ACS, Adecco, Allianz, Arcelor Mittal, AXA, BASF, Bayer, Coca Cola, Danone, Deutsche Telekom, Enagás, ENEL, ENI, Heineken, Michelin, Nestlé, Novartis, Peugeot, Renault, Ryanair, Siemens, Unilever, Volkswagen, and a long etcetera.

On March 24, 2020, due to the impacts of COVID-19, the ECB authorized an expansion of the program for the purchase of sovereign and corporate bonds up to €750,000 million, called the Pandemic Emergency Purchase Program (PEPP). With this move, the ECB aims to further facilitate access to credit for states and corporations. Since March 27, the ECB has conducted a special program through PEPP dedicated to corporations, the Corporate Sector Purchase Program-CSPP, making 167 new transactions for corporate bond purchases, benefiting 94 European transnationals. Most of these corporations have been part of the ECB's selected club of 300 for QE, and are now benefiting from the COVID-19 emergency. This list includes: Repsol, Shell, Total Capital, E.ON, Airbus and BMW. These are some of the most polluting corporations in the European Union.

> The ECB is creating a financial alliance with the fossil sector

Other central banks have adopted similar measures. For example, the United States Federal Reserve has just announced $750 billion in corporate debt-buying as part of funding made available through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Friends of the Earth claims that this could prop up failing polluters like

ExxonMobil, Chevron and Conoco. The Central Bank of Brazil is also adopting quantitative easing through the purchase of corporate bonds to mitigate the COVID-19 impact on big corporations.

How are big corporations benefitting?

The very concept of PEPP makes it available only to large companies: bond issues have costly procedures and are only realized in amounts ranging from hundreds to billions of euros. In addition, big corporations obtain cheap and long-term financing in a context of extreme uncertainty.

In this logic, the role of a public institution is to put its credibility at the service of the largest corporations, so that investors have confidence that buying debt from a company is safe because an entity like the ECB guarantees it. This fact becomes even more relevant if we consider that, within the PEPP, the ECB for the first time is buying "non-financial commercial paper", that is, short-term company debt (less than eighteen months) because investors were ceasing to buy them. In this way, the range of corporate debt products including less quality debt is expanded, favouring the private entity but leaving the public institution to deal with the higher risk of not recovering our money.

At a time of pandemic, it is curious to see how the ECB has carried out operations to purchase bonds from one of the world's most polluting corporations. In spite of the historical decline of oil prices, the ECB bought bonds from Shell, the Dutch-British oil and gas company which suffered a drop in its market value of 45% since the beginning of the year. The rate of return on Shell's bonds upon expiration after 4, 8 and 12 years will depend on the company's' resilience. That means the ECB is creating a risk-sharing relationship, or financial alliance with the fossil sector and needs the companies to perform well enough for a sufficient time to repay the bonds' face value plus interest.

How, and under what criteria, do the bond purchases operate?

The ECB delegates the task of choosing which companies to finance to the central banks of Germany, France, Spain, Italy, Belgium and Finland, which employ financial staff that propose and operate the purchase of the bonds both in primary and secondary markets. The central banks of Germany, France, Spain and Italy only purchase corporate bonds from their own transnationals, while the central bank of Belgium and Finland buy also bonds from other European corporations. The criteria which the staff of the central banks use are the financial stability of the companies and the quality of their debt. The ECB does not oblige them to select bonds according to social, environmental or climate criteria.

In fact, to the question asked on its website, "will any 'green criteria' be included in the PEPP?", the ECB refers to the criteria established by the 2014 asset purchase programme and says that they "take into account financial risks but do not discriminate in positive or negative by the economic activity of the issuing entities". In the next paragraph, the ECB tries to justify itself through the purchase of green bonds, but right afterwards it recognizes that there is a lack of guarantees in the standardization and requirements for these bonds and that, in total, they represent less than 1% of all purchases.

What is the role of the European Investment Bank?

The European Investment Bank (EIB), the public investment bank of the EU, will play an important role within the pandemic recovery plans. However, its operations are, similarly to the ECB, lacking transparency, public scrutiny and operating without binding environmental and social criteria. The EIB has created a €40 billion emergency package that is already operational and EU governments have approved the creation of a guarantee fund of €25 billion that should mobilize capital up to €200 billion; the details of the set-up are still being worked out. In principle, these two EIB COVID-19 crisis mechanisms will be used to facilitate loans and guarantees to help small and medium-sized enterprises (SMEs) via public and private banks. The EIB does not provide direct loans to SMEs, as its usual minimum loan size is € 25 million.

> Private banks decide on their own criteria which companies get public support and which do not.

However, the EIB has gained a reputation for financing huge infrastructure projects (see former Juncker Plan) and pushing for the privatization of public services, like health, transport, and energy, through promoting public-private partnerships. So we might expect that SMEs will not necessarily be the ones to profit from the EIB coronavirus emergency money.

Which corporations are benefiting from the EIB's COVID-19 emergency programs?

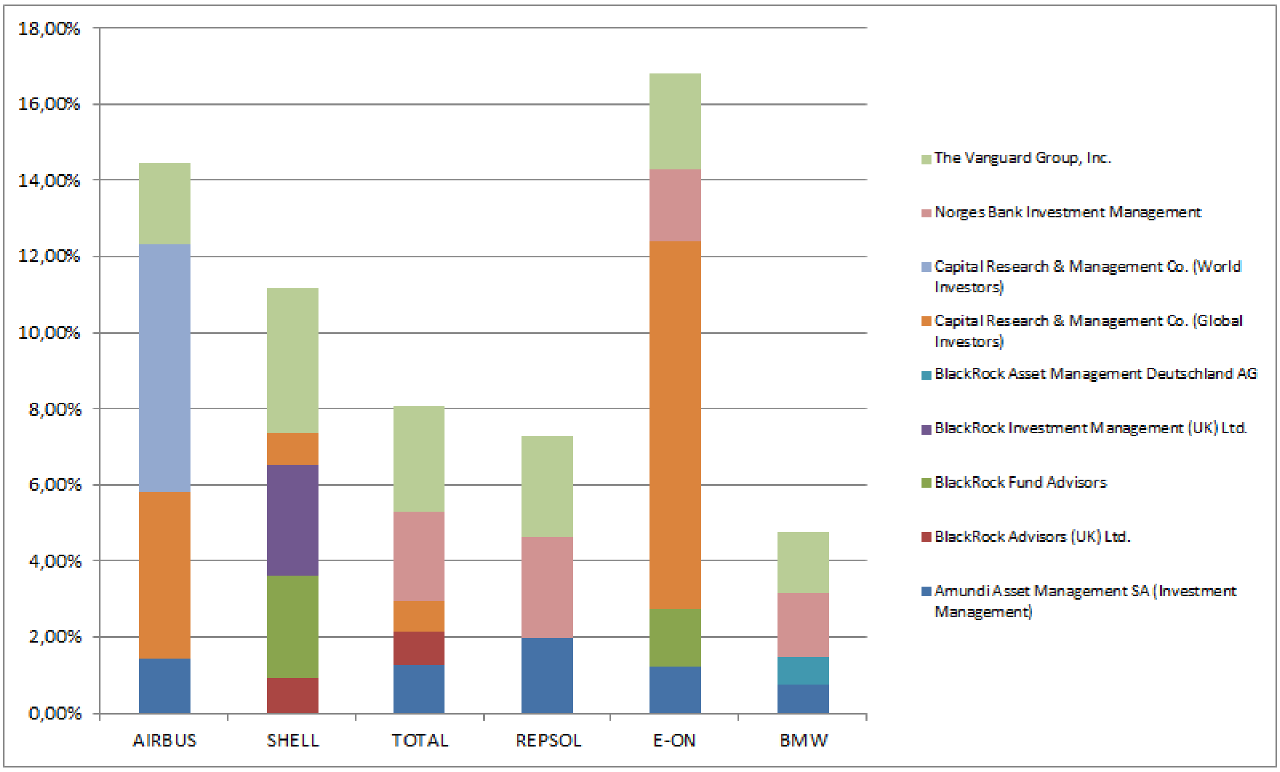
In accordance with its policy, the EIB only provides detailed information on the corporations selected if the project promoter has not presented legal objections for its confidentiality. With the information provided, however, the list of projects financed since the announcement of the EIB emergency package the on 16th March 2020, gives us an idea of what sectors our money goes to: since the start of the pandemic the EIB approved and signed 30 projects for credit lines for banks, 16 projects for the energy sector, 12 for transport but only 4 for health projects.

Under its COVID-19 recovery plans, the majority of EIB operations will be intermediated, meaning that the EIB will provide credit lines or guarantees to other financial institutions (commercial banks or national public banks). In these cases, the EIB is delegating the decision on which companies access the loans and guarantee programs to the intermediary banks without strong and binding social, environmental and climate criteria. That means an entity like a commercial private bank, out of public reach, decides on its own criteria, which companies get public support and which do not.

Are we rescuing corporations?

First of all, 'rescue' means that the company, without public support, would probably go bankrupt. If people and SMEs can go bankrupt, why not let down the big polluters in our economy? Because rescuing the big corporations means in reality rescuing the shareholders. And in many cases, the shareholders of the huge corporations are powerful banks and investment funds, such as the US fund BlackRock. This fund is the world's largest investor in fossil fuels, involved in the arms industry and has surprisingly become the new advisor to the European Commission on Environmental, Social and Governance (ESG) issues for the banking supervision process.

In fact, of the EU's 6 polluters (Repsol, Shell, Total Capital, E.ON, Airbus and BMW), Black Rock is a shareholder in 4 of them, as are the Norwegian Norges Bank Investment Management and the US investment fund Capital Research & Management Co. (Global Investors). The French asset management company, Amundi Asset Management SA (Investment Management), holds shares in 5 of these corporations and the US investment fund, The Vanguard Group, in all of them. Of course, these global players are interested in receiving their share of the corporation's benefits, despite the fact that the world is suffering a global pandemic.



Graphic: Shares of BlackRock, Norges Bank Investment Management, Capital Research & Management, Chamundi Asset Management, The Vanguard Group in Repsol, Shell, Total Capital, E.ON, Airbus and BMW | Source: ODG elaboration based on MarketScreener data

Here's another of many problems: dividends. Although the ECB has advised all entities under its supervision to compel banks not to pay dividends until October 2020, this obligation does not apply to companies which are receiving public funds. For our 6 polluters, this means they can keep paying dividends to their shareholders, while applying for public emergency funds. Indeed, Shell paid out dividends for the 4th quarter of 2019 amid the COVID emergency on 23 March and will pay out the next dividends on 22 June. The same goes for Total, paying the next dividends on 29 June, Repsol on 8 July, BMW on 19 May and E.ON on 28 May.

Nor should we forget that Chief Executive Officers (CEOs) often possess an important amount of shares of a company and benefit directly from the proper functioning of the company and the distribution of dividends. For example, Antonio Brufau, President of Repsol, owns 566,803 shares. Ben van Beurden, the CEO of Shell, earned €1,3 million through dividend payments by Shell in the year 2017. In this way, CEOs can earn 100 to 300 times more than the average salary of the company. Therefore, there is a real risk of transferring public money, aimed at mitigating the effects of the pandemic, to investors' pockets through the distribution of dividends.

Finally, another problem is that public emergency funds are going to corporations that have their subsidiaries in tax havens. France, Denmark and Poland have made a good start to push for restricting companies that keep large sums of money overseas in tax havens from accessing stimulus funds. The European institutions, like the ECB and the EIB, should follow this example and prohibit these corporations from benefitting from any public funds or aid. Indeed, according to the organization Tax Justice, Shell has 8 subsidiaries in Switzerland. According to Total’s Registration Document 2019, the company has 166 subsidiaries in tax havens, out of a total of 1191. And according to a recent Intermon Oxfam report, Repsol has 81 subsidiaries in tax havens. The same report indicates that since 2004 the total of Spanish corporation taxes has decreased 11% while corporation dividends have increased by 83%.

Towards a democratic, transparent and fair management of the crisis

The experience of managing the 2008 crisis is still very present. Unfortunately, the path taken by public institutions in 2020 is very similar. To guarantee democratic management of this current crisis, we must insist on transparency and disclosure of public financial aid mechanisms. European citizens should be able to discuss and know where the aid is directed to. Lacking information is only worsening the reputation of European institutions and their role in crisis management.

The European Parliament declared a climate emergency on 28 November 2019, but how are their statements reflected in the COVID-19 policies towards big polluting corporations? It is important to keep in mind the time dimension of the decisions being made right now. By committing to support big polluting corporations by buying their corporate debt, EU institutions will need to push for policies that enable these corporations to perform well for at least a decade more in order to get the money back. But this is totally incoherent with any policy to fight the climate emergency. In this sense, we need clear and binding environmental and social criteria, in order to stop big polluters profiting from public aid.

In addition, according to a leaked document from April 2020, the European Commission is preparing a proposal on restrictions of dividend distribution for corporations receiving public aid. Pending the details that determine the scope and effectiveness of the proposal, it is necessary to denounce and demand that there should be no distribution of dividends in times of crisis. The same goes for corporations with subsidiaries in tax havens: public money should not go to tax-evading companies but instead benefit the people that most need the money.