Operation Private Markets: A Bridge CO2 Far

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As 2021 draws to a close, we opine that bridge loan providers in public-to-private transactions should “carry” the underlying assets’ carbon footprint in the YE-21 snapshots, in cases where the transactions have not been fully consummated/investor (re)-financed.

Along these lines and in our view, bond and equity investors in HSBC, Citi and JPMorgan should consider what impact the banks’ bridge transactions have on investors’ own carbon footprint. For example, we estimate recent Aramco lease-lease-back transaction bridges of around USD27bn to have annualised footprints of several hundred million tonnes of CO_2 equivalent Scope 3 emissions in aggregate.

Two key transactions in terms of fossil-related funding in 2021 have been the lease-lease[1] back transaction on behalf of Saudi Aramco and the company’s domestic oil- and fossil-gas networks. Both transactions are, according to sources, being funded by bridge loans until other funding (suggested to go via public bond markets) are put in place. Bridge loans are in real risks for the firms that provide them. They are generally provided by the banks being mandated for the actual transactions. Going back to the Great Financial Crisis and 2008, hung LBO bridges were a bit of a headache for some global banks, to put it mildly. **As significant carriers of the risks that the deals fall through, bridge loan providers should own the carbon footprint of the underlying assets if one applies a snapshot method of carbon accounting.**

The oil pipeline transaction was to the tune of USD12.4bn with Washington D.C. based EIG Energy Partners leading a consortium straddling public and private investors from China, Saudi, Korea, UAE and the US.[2] The USD15.5bn fossil gas pipeline transaction was in final negotiations during COP26 and it was announced in early December that a BlackRock-led consortium won.[3]

Reuters indicate that HSBC, Citi and JPM are involved in the oil pipeline bridge facility consortium, see "[Saudi Aramco taps banks for $12-14 bln gas pipeline loan - sources]", Reuters, 11 Oct 2021. **Back-of-the-envelope, in our view, this would mean an estimated 158 megatonnes of CO_2 emissions to be split across the bank consortium just for the oil transaction.**[4]

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[1] Effectively, investors lease Aramaco’s pipelines and leases them back to Aramco. Aramco assumes the right and responsibility to repurchase the pipelines.The oil pipeline deal has maturity of 25 years, putting it well inside any investor’s net-zero 2050 commitments. The transactions release cash for Aramco that can e.g. be paid as dividends to the Kingdom.
[2] “EIG signs $12.4 Billion Infrastructure Deal with Aramco”, Company web, 9 Apr 2021, accessed 16 Dec 2021.
[3] “BlackRock Co-Leads $15.5 Billion Aramco Gas Pipelines Deal”, Bloomberg, 6 Dec 2021.
[4] We estimate Aramco 2021 oil production to be 3.6bn barrels, use a conversion factor of 0.431 along the lines of EPA and assume a 10% “burden” of the pipeline network in the total Aramco per oil barrel emissions.

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