

Open letter regarding BlackRock's investments in biomass and Drax Plc

21st March 2020

To: Michelle Edkins, Head of Responsible Investing, BlackRock

Dear Ms Edkins,

We represent 32 environmental organizations based in over 17 countries worldwide with expertise in biomass power. Consistent with your new focus on climate change and your policy on coal, we urge you to divest from Drax Plc, owner of the world's largest biomass power station, and to clarify your position on biomass power. Some of us previously shared with you a [position statement on biomass energy](#) now signed by 145 NGOs worldwide as well as a background briefing, "[Risky Biomass Business The reputational and financial risks of investing in forest biomass energy](#)", without getting a response.

We are aware that BlackRock plans to remove companies that generate more than 25 percent of their revenue from thermal coal production from your actively managed portfolios. It would make sense to follow up this modest though laudable step with a similar withdrawal from biomass investments. Drax would be a good place to start.

According to Drax, BlackRock holds five percent of the company's stock and is one of Drax's largest shareholders. We are aware that those shares are held in BlackRock's passive Index Funds, however we believe that your company needs to accept accountability for all the shares it manages. This must involve taking immediate steps to remove holdings in Drax Plc from your portfolio. We believe that this investment is incompatible with BlackRock's current stance on the climate crisis, and comes with significant financial and reputational risk because of Drax's dependence on government subsidies and consequent vulnerability to policy changes.

Drax Plc owns the world's largest biomass power station (and formerly the UK's largest coal burner), Drax Power Station in Yorkshire, and the company is an enthusiastic promoter of biomass electricity as an alternative to coal.

Burning biomass is not a climate solution. Wood burning power plants emit more CO₂ per MWh than coal fired plants, while reducing forest stocks that are the world's largest carbon sink. Current UK policy treats bioenergy as having zero emissions in the power sector, but this does not reflect the actual CO₂ emissions, which may be eventually offset by forest regrowth, but only after multiple decades.

In 2018, Drax burned over 7 million tonnes of compressed wood pellets, sourced from forests in the USA, Canada, and other countries. Manufacturing these pellets required around 16 million tonnes of wood¹ – more than the UK can produce in a year – to ultimately generate just 0.83% of the UK’s final energy consumption.² Processing, transporting, and burning this wood created over 13 million tonnes of CO₂, but Drax is only responsible for reporting that fraction that is derived from fossil fuels. In 2018, 800 scientists wrote to the European government with the warning:

“Even if forests are allowed to regrow, using wood deliberately harvested for burning will increase carbon in the atmosphere and warming for decades to centuries – as many studies have shown – even when wood replaces coal, oil or natural gas. The reasons are fundamental and occur regardless of whether forest management is ‘sustainable’.”³

Biomass in the UK is dependent on subsidies, and Drax would not stay afloat without over 2 million pounds⁴ every day in the public’s money. The company’s Annual Report from 2018 confirms that government subsidies in the form of “ROCs (Renewable Obligation Certificates) continue to form a key component of financial performance.”⁵ Several of our groups are campaigning for this money – which comes from a surcharge on energy bills – to be redirected to genuinely renewable energy such as wind or solar power.

This campaign is already having an impact: in 2018, the government changed the greenhouse gas emission and efficiency criteria for future biomass subsidies, effectively ruling out large import-reliant biomass power stations such as Drax.⁶ Under these rules, Drax would not have been

1 <https://www.drax.com/wp-content/uploads/2019/03/Drax-Annual-report-accounts-2018.pdf> One tonne of pellets = approximately 2.25 tonnes of green roundwood.

2 Drax generated 13.8 TWh of electricity from burning wood in 2018 (<https://www.drax.com/wp-content/uploads/2019/03/Drax-Annual-report-accounts-2018.pdf>). The UK’s total energy demand that year was 154 million toe, which is 1,663.09 Twh. (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820843/Energy_Consumption_in_the_UK_ECUK_MASTER_COPY.pdf)

3 https://www.dropbox.com/s/l8sx5bl0h02x395/UPDATE%20800%20signatures_Scientist%20Letter%20on%20EU%20Forest%20Biomass.pdf?dl=0

4 £789.2 million in 2018, from Renewable Obligation Certificates and Contracts for Difference.

5 <https://www.drax.com/wp-content/uploads/2019/03/Drax-Annual-report-accounts-2018.pdf> p36.

6 See <https://www.biofuelwatch.org.uk/2018/more-info-subsidy-changes/> for a more detailed explanation of these changes.

awarded the subsidies it currently enjoys. This policy echoes the state of Massachusetts' (USA) decision in 2012 to end renewable energy subsidies for utility-scale bioenergy plants. The investment in Drax is vulnerable to such changes in policy – which are becoming more likely with the current increase in awareness of and concern over the climate crisis. Indeed, BlackRock CEO Larry Fink's recent letter to CEOs⁷ states that:

“Companies, investors, and governments must prepare for a significant reallocation of capital.”

In announcing your climate change-focused investment strategy, BlackRock and CEO Fink made other statements with implications for biomass investments. The company's 2020 letter to clients⁸ states that:

“BlackRock currently manages \$50 billion in solutions that support the transition to a low-carbon economy,” and “We have a responsibility to engage with companies to understand if they are adequately disclosing and managing sustainability-related risks, and to hold them to account through proxy voting if they are not.”

We would like to know whether BlackRock currently considers biomass as one of the solutions that support the transition to a low-carbon economy, and if so, how you reached this decision. We would also like to point out that Drax is clearly not adequately disclosing or managing its sustainability-related risks, and ask whether you have any plans to engage with the company on this issue.

CEO Fink's letter to CEOs⁹ asks them to disclose

“your plan for operating under a scenario where the Paris Agreement's goal of limiting global warming to less than two degrees is fully realized, as expressed by the TCFD guidelines.”

We would like to know whether you have received such a plan from Drax, and if so, whether you think it is adequate.

In general, we would appreciate it if you could let us know whether BlackRock has a position on biomass. If not, we urge you to draft one based on the latest science that acknowledges the

7 <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

8 <https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter>

9 <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

climate impacts of burning forest wood for energy. We would be pleased to assist you in this effort by providing you with additional information. As well as divesting from Drax, we hope that BlackRock will ensure that woody biomass energy plays no role in BlackRock's actively managed and sustainability funds.

To help you consider these issues, we are here including a briefing¹⁰ written by colleagues at Biofuelwatch and the Environmental Paper Network that discusses the reputational and financial risks of investing in biomass in more depth. This is one of the two documents previously shared with yourselves. Additionally, we have attached a petition to the U.S. Securities and Exchange Commission, signed by more than two dozen U.S. investment groups, asking the SEC to require better disclosures related to climate change from companies that make or use biomass-based products. The petition shows inadequate disclosures from ten different companies in this sector, including Enviva, Drax's major supplier of wood pellets.

We appreciate your consideration of these issues and look forward to hearing from you. We would be very interested in arranging a meeting or call with yourselves and some of the signatories of this letter. Many thanks in advance.

Sincerely,

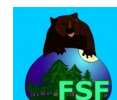
Frances Howe, Biofuelwatch, UK/USA



Jeff Conant, Friends of the Earth US, USA



Andrey Laletin, Friends of the Siberian Forests, Russia



Fiu Mataese Elisara, O Le Samoa (OLSSI), Samoa



Johan Frijns, BankTrack, International/Netherlands



Tyson Miller, Stand.earth, International/USA/Canada



10 <https://environmentalpaper.org/wp-content/uploads/2019/04/Risky-Biomass-Business.pdf>

Coraina de la Plaza, Global Forest Coalition, International



Jan Willem van Gelder, Profundo, International/Netherlands



Martin Luiga, Estonian Forest Aid (Eesti Metsa Abiks), Estonia



Evelyn Schönheit, Forum Ökologie & Papier, Germany



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David Hillman, Robin Hood Tax Campaign, UK



Julian Klein, Protect the Forest, Sweden



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Peter Riggs, Pivot Point, International/USA



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