

Carbon Ratchets “Now Routine” in E&P Lending Contracts

Media Mentions

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“Margin ratchet” clauses, linking the interest rate on a loan to CO₂ emissions and continuous improvement, are becoming “almost routine” on bank financing contracts to independent oil and gas companies, **Jason Fox** tells *Digital Energy Journal*.

“We’re seeing, almost as a routine, margin ratchets being included in bank financing,” he said.

A “margin ratchet” is a technical term for a contractual clause in bank lending, where the price of debt, or the “margin” the lender makes, depends on the E&P company’s carbon performance.

“We see loan agreements that require specific action plans on how the assets will be improved,” Fox said. “It is definitely a feature of most deals now.”

These margin ratchets “haven’t been around for very long, I saw the first a couple of years ago.”

They are contractually binding and usually require independent certification.

It is hard to know what level they are driving behaviour, but “my guess is they would have bitten,” he said.

Read more in the July-August 2022 issue of *[Digital Energy Journal](#)* (subscription required).

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