RF - Answer to the Consultation on NZAOA's draft setting protocol 2025

1. ***Do you agree with the role of the asset owner as described above? Please offer any additional suggestions on action points an asset owner should consider taking when contributing to the net-zero transition***

As the NZAOA does, we think that it is crucial to « understand the difference between reducing emissions in an investment portfolio and reducing emissions in the real economy ». However, achieving this goal requires making several changes to the role of asset owner as presented in the current protocol:

1) Engagement should always be used with the clear threat of divestment:

Meaningful engagement goes hand in hand with the definition of time-bound specific demands and – if they are not met - a public escalation process that leads to divestment by a precise date. NZAOA members cannot engage with companies without clearly stating how and when the failure to implement their demands will have consequences for the companies. If we understand that AOA wants to favor engagement, it cannot adopt an "engagement only" strategy but should always use an "engagement before divestment" strategy.

2) Divestment is a powerful tool:

We would like to point out that divestment already contributed to increasing the cost of capital for oil and gas companies, thus participating in the shift to a low carbon economy. (See https://www.iea.org/reports/world-energy-investment-2019/financing-and-funding-trends). Divestment is one of the key drive of the move away from coal (see https://www.goldmansachs.com/insights/pages/reports/re-imagining-big-oils-f/re-imagining-big-oils-report-pdf.pdf). Amounts divested from high-carbon activities could allow for increased funding for climate solutions. Furthermore, Alliance members - like all financial and economic players - have responsibility in front of the climate emergency and need to act on it. They cannot avoid action by hiding behind a "it won't change anything argument". NZAOA members are influential and their decision matter.

They should acknowledge that following Paris-aligned principles requires ceasing the financing of all fossil fuel projects and adopting a plan to eliminate all financed emissions by 2050. Therefore, divestment should be the first solution for companies with fossil fuel expansion plans.

3) Best-in class approaches are largely insufficient:

Best-in class strategies have not been effective in curbing overall GHG emissions. By only limiting investments into the "worst" companies in a specific activity/sector, they do not tackle the issue of reducing high-carbon activities. There is an urgent need to replace these strategies with a 1.5°C aligned approach, where companies would be required to adopt Paris-aligned strategies and the level of climate commitments required by NZAOA members from them should be regularly raised to follow a 1.5°C alignment path.

For fossil fuel companies, this means stopping any development of fossil fuel projects and adopting Paris-aligned fossil fuel exit strategies to phase-out coal by 2030 in the OECD and Europe and 2040 elsewhere and oil and gas ten years later. As previously mentioned, companies with new fossil fuel projects in their investment plans should be excluded immediately.

2. ***Are you aware of alignment methodologies for the asset classes listed above which are not already identified in this chapter?***

The Net Zero Asset Owner Alliance members have pledged to transition their investment portfolios to net-zero emissions by 2050 and align them with a 1.5°C scenario and therefore should live up to the expectations of being part of an ambitious initiative.

The RAN principles display what environmental NGOs are expecting from leading financial institutions and especially the members of your coalition. It provides a clear pathway to an ambitious Paris-Aligned management of assets.

The Protocol should notably support members to:

- Immediately cease the financing for any company that is expanding fossil extraction or infrastructure, or exploring for new reserves
- Adopt an actionable plan to eliminate all financed emissions by 2050.

3. ***Do you agree with the inclusion of an additional -5% per annum for members who set targets on earlier base years?***

While we accept the inclusion of an additional -5% per annum, we underline that, if members set targets on an earlier base year and already reached annual emission reduction above 5% per annum during these previous years, this could reduce the ambition of members' new targets. When possible, members should report the emission reduction already achieved during previous years – if any – and, when this reduction exceeds 5% per annum, raise their GHG reduction objective accordingly.

4. ***Do you have suggestions for different methods of applying scientific scenarios to portfolios and deriving a reductions target than those presented above?***

To derive reduction targets, the NZAOA looked at IPCC 1.5°C scenarios from pathway 1 to 4. Pathway 4 contains high overshoot scenarios, allowing members to set a far less ambitious CO2 reduction target (-16% 2020-2025). High overshoot scenarios are effectively aiming above 1.5°C, while IPCC reports have shown that the human and economic damages of global warming exceeding 1.5°C would be catastrophic.

To be coherent and to really respect Paris Agreement pledges, NZAOA's targets should only be based on Pathway 1 to 3, low/no overshoot scenarios with low CDR/BECCS. This entails that the CO2 reduction target could not be lower than 24% from 2020 to 2025.

We highlight that the mass deployment of carbon removal solutions – CDR and BECCS – is highly unlikely and that the IPCC itself stressed that robust 1.5°C scenarios should not rely on this unproven assumption. Therefore, **we urge the NZAOA to require its member adopt assumptions with very low CDR/BECCS, like in pathway 1.**

Furthermore, **we highlight that methane leaks are chronically underestimated and its accounting in CO2 equivalent should factor this well-known problem** (see https://advances.sciencemag.org/content/6/17/eaaz5120).

5. ***Are you aware of 1.5°C sector pathways which are not noted above?***

According to Oil Change International, based on the IPCC 1.5°C report and scenarios, **coal should be phased out by 2030 in the OECD and Europe and 2040 worldwide to keep global warming under 1.5°C. Oil and gas should follow, by 2040 in the OECD and Europe and 2050 worldwide** (see http://priceofoil.org/2018/10/17/the-skys-limit-ipcc-report-15-degrees-of-warming/).

These phase-out dates are clear 1.5°C pathways to follow when considering fossil fuel development. They account for a precautionary approach to CDR/BECCS and a low/no overshoot ambition.

7. ***Do you agree with the preference of absolute targets over intensity targets?***

Yes we agree with this preference for absolute targets. Thus, setting absolute targets should be mandatory and intensity target encouraged, and not the opposite. **Intensity targets can enable carbon intensive companies - like fossil fuel majors - to maintain or even increase absolute emissions.** Total has previously reduced its emission intensity but increased its overall emissions, through an increased production of fossil fuels.

14. Sector pathways can be defined based solely on modelled pathways from scientific providers within a low to no overshoot carbon budget or can be complemented with ‚bottom-up' technology development pathways from industry insight that may rely on substantial negative emissions technologies, what is your opinion on the application/applicability of the two?

We do not agree with the use of "bottom-up" technology development pathways from industry insight that may rely on substantial negative emissions technologies". **As we mentioned in our response to question 4, high overshoot pathways – that often rely on negative emissions - are not aligned with Paris Agreement goals and effectively give up on keeping global warming at 1.5°C. A substantial level of negative emissions imply a highly unlikely mass and the IPCC has clearly warned the international community about the risk of betting on such unproven technologies.**

To date, CDR remains limited to 19 operational projects worldwide, and many uncertainties remain regarding its deployment on a local as well as a global scale. The technology is extremely costly; the storage process is not always accepted locally and raises many questions, especially since suitable reservoirs are not necessarily available nearby; one can also question the final objective of its deployment as it is currently mainly used by oil companies to boost the yield of their wells.

Moreover, industrials from the energy sector do not hesitate to use fanciful assumptions. The scenario Equinor Renewal requires the implementation of 1100 industrial CO2 projects the size of the largest project currently in operation; while the scenario Shell Sky predicts the capture of 100% of fossil fuel generated emission by 2070.

Finally, the development potential of biomass solutions is also very limited, and their benefits are challenged. In addition to the difficulties specific to the CO2 capture and storage technologies - high cost and uncertain deployment capacity – there are considerable difficulties specific to the biomass sector – notably a highly questionable carbon footprint and significant effects on biodiversity.

Taking all of these into account, the NZAOA should only allow the use of no/low overshoot 1.5°C scenarios that take a precautionary approach to CDR/BECCS.

17. Are there any sectors for which you believe the Alliance should not set targets? Why?

No, we believe Alliance members should set targets for all sectors, as the ultimate goal is to put in place a process to measure and disclose the member's climate impact and to phase out financed emissions.

19. Do you have further suggestions on the Alliance's engagement target setting approach?

Engagement can be an effective tool for change when based on time-bound specific demands and associated with an escalation process leading to divestment by a clear date. **The Protocol should request members to publish engagement strategies clearly stating their escalation strategy and including governance structure, mitigation measures and sanctions in case of non-compliance.** The escalation path should define which strategy has been chosen by the member (tabling resolutions, voting against directors, divestment). The Protocol should also be clearer about how members will seek to support each other in engagement where possible in order to ensure effectiveness.

20. Do you agree with the definition of Climate Solution Investments? If not, please suggest an alternative.

No, we stress the definition of Climate Solution Investments should include a « Do Not Significant Harm » principle, as the European taxonomy does. In fact, the current definition can include so-called "solutions" that contribute to climate adaptation while hurting the mitigation objective. Such activities cannot be considered in the Alliance Financing Transition Track.

26. Note, the Alliance has solicited advice from Green Bond Principles and PCAF on the treatment emission account ing for green bonds (which aim to finance net-zero projects). The Alliance aims to include guidance on emissions accounting for such bonds in future versions of the Protocol. Please provide any guidance you would have the Alliance consider.

Reclaim Finance stresses that the emission of green bonds is not correlated with a higher reduction of GHG emissions (see https://www.bis.org/publ/qtrpdf/r_qt2009c.htm). Therefore, when looking at green bonds, the NZAOA should consider the climate pledges of its emitters and suggest that its members buy green bonds from emitters that adopted science-based 1.5°C targets.

As of today, the best available standards for "use of proceeds" for green bonds have been established by the Climate Bond Initiative. **In order to ensure that quality of the projects financed by the green bonds, the NZAOA should use the Climate Bond Standards (see https://www.climatebonds.net/climate-bonds-standard-v3)**. While, as we previously mentioned, this does not mean that emitters are transitioning, this standard is at least ambitious enough to prevent green bonds from financing any non-green projects.

27. General comments accepted.

In their policy engagement, NZAOA members should support strong financial regulation, above enhanced reporting. They should, for example, support all legislation that requires or pushes companies and financial players to adopt 1.5°C science-based targets. They should also support a fossil-free world by 2050 – with a coal phase-out by 2030 in OECD and Europe and 2040 elsewhere and ten years later for oil and gas - and ask the IEA for full-fledged 1.5°C scenario that adopts a precautionary approach to CDR.

Furthermore, NZAOA members should ensure that their investee companies or the lobby groups they are sitting in do not engage in anti-climate lobbying. They should pledge to divest from these companies and exit these groups if they do not cease their climate destructive lobbying, after a one-year engagement period. The NZAOA should define key KPIs to monitor this aspect of their engagement and policy engagement strategies. To be coherent, anti-climate lobbying can be defined as any lobbying that pushes legislation to not align on pathways 1 to 3 scenarios.