TOTALENERGIES SUSTAINABILITY AND CLIMATE PROGRES REPORT: INCOMPLETE TARGETS AND MISALIGNED AMBITION

Executive summary:

On March 24th, TotalEnergies released its 2022 "Sustainability and Climate Progress Report", that will be subject to an advisory vote from shareholders at the General Meeting on May 25th. While TotalEnergies announced additional commitments on climate, none aims to significantly reduce its greenhouse gas (GHG) emissions. The major remains far from aligned with a 1.5°C pathway.

Ahead of TotalEnergies' 2022 announcements, the strategy and operations of the French oil and gas were already incompatible with a 1.5°C pathway. Its short-term strategic choices (+20% oil & gas production between 2016 and 2024, first developer of new oil & gas field among European majors, >75% of near-term CAPEX dedicated to oil & gas) led it to overshoot its carbon budget to 2050 as soon as 2035, with 32% of emissions emitted in excess in 2050 compared to what would be required to keep global warming at +1.5°C.

Neither the progress on existing targets, nor the new commitments made in TotalEnergies' 2022 Sustainability and Climate Report are sufficient to get back on track:

- **Decarbonization targets are still focused on long-term GHG reductions and improperly address short-term (2025 and 2030) group-level Scope 3 emissions**. TotalEnergies maintains and amplifies its strategy of carving out ad-hoc perimeters (Scope 3 in Europe only, Scope 3 on oil products only, methane, etc.) to make new commitments that look ambitious on paper but have no material impact on overall emissions. Those incomplete and unambitious targets include unrealistic hypotheses on carbon offsets and carbon capture, utilization and storage (CCUS).
- **Under this "climate plan", TotalEnergies' emissions will decrease by a mere 5.8% to 6.7% between 2015 and 2030**. This contrasts sharply with the imperative of halving global emissions by 2030 required to stay on a 1.5°C pathway. Compared to 2021 emissions (including the impact of COVID), the major could even increase its emissions by 0.5% per year and still meet its target.
- **TotalEnergies' fossil-first capital allocation strategy remains unchanged**. While windfall profits from record-high commodity prices could have been a major opportunity for a massive investment effort in renewables, the company still plans to allocate more than 70% of its CAPEX to fossil fuels until 2030.

- **TotalEnergies' analysis of the IEA's Net Zero scenario dangerously transfers the responsibility to curb emissions to its customers**. The French major accepts the "normative" role of this scenario but contests its short-term implications on supply (no new oil & gas projects) and condition its carbon neutrality to a change in consumption patterns ("together with society"). Hence, TotalEnergies does not position itself as a climate leader, but merely as a follower – or at best a shy supporter – of the natural evolution of the demand for fossil fuels.

Reclaim Finance calls on shareholders to oppose this flawed climate plan and to demand comprehensive, detailed, and ambitious climate targets. This briefing presents a critical analysis of TotalEnergies' sustainability report. It underlines the most problematic points that investors must raise in their dialogue with TotalEnergies and use to motivate a vote against the management-sponsored resolution at the 2022 AGM.

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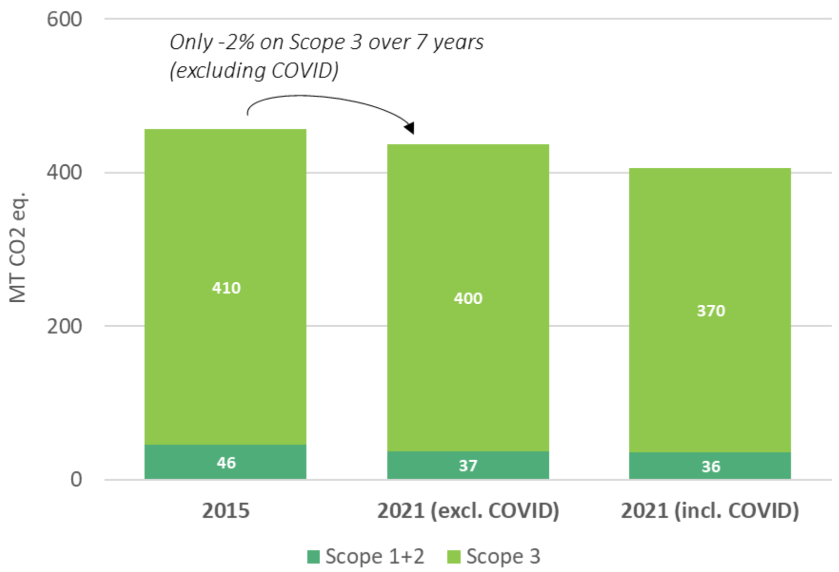
1. Starting point: TotalEnergies' 2021 (insufficient) climate ambition and (lack of) progress so far

TotalEnergie's 2022 Sustainability and Climate Report builds on the climate ambition and targets it presented at its 2021 AGM. Thus, it is important to recall **i)** that this ambition was incomplete and incompatible with a 1.5°C pathway; **ii)** that is implementation over 2015 – 2021 did not lead to any material reduction in TotalEnergies' GHG emissions.

On the one hand, the targets set in TotalEnergies' 2021 climate ambition were not sufficient to limit global warming to 1.5°C[1]. Even under the conservative assumption[2], this "climate ambition" led the company to emit at least 31.8% GHG in excess compared to its 1.5°C-compatible carbon budget. Indeed, its short-term strategic choices (+20% oil & gas production between 2016 and 2024, first developer of new oil & gas field among European majors, >75% of near-term CAPEX dedicated to oil & gas) led it to overshoot its carbon budget to 2050 as soon as 2035 (see Box n°1 below). The limitations of TotalEnergies' plan have been recognized by 34 investors, through a public statement issued ahead of the 2021 AGM[3].

On the other hand, excluding the impact of COVID, TotalEnergies did not manage to substantially decrease its emissions from 2015 to 2021 (see Figure 1). Across all scopes, the company emitted 456 Mt CO_2 eq. in 2015 and 437 Mt CO_2 eq. in 2021, representing a mere -4% decrease over 7 years. The decrease on Scope 3 emissions was even more modest, only -2% over the same period. This is worrying since Scope 3 emissions represent the overwhelming majority of the company's emissions (90% in 2015) and constitute the most crucial lever to achieve its long-term climate goal (carbon neutrality in 2050).

Figure 1: Change in GHG emissions, 2015 - 2021



Source: TotalEnergies, Sustainability and Climate Progress Report, p. 45

[1] For a detailed analysis, see: https://reclaimfinance.org/site/wp-content/uploads/2022/03/TotalEnergies-company-briefing-March-2022.pdf

[2] Namely, **i)** TotalEnergies does reach its emissions targets by 2050, and **ii)** it reduces its production in line with the IEA's Net Zero-based 1.5°C scenario

[3] IIGCC, 2021

2. New decarbonization targets: Limited scope with no material impact on global emissions.

Compared to its 2021 climate plan, TotalEnergies' 2022 announcement contains several new commitments: **i)** a phased target for reducing methane emissions (50% from 2020 levels by 2025 and 80% from 2020 levels by 2030), to move towards net zero methane; **ii)** an objective to reduce GHG emissions related to sales of petroleum products (Scope 3 oil) by 30% from in 2030, compared to 2015 levels. **All other targets remain unchanged** (see Fig. 2 for a summary table), even some additional details are provided regarding the operationalization of the company's commitment to reduce its global scope 3 emissions in 2030 below 2015 levels (<400 Mt CO_2 eq.). It is worth noting that **TotalEnergies still has no target for 2025 regarding absolute Scope 3 emissions:** 2020-2030 is the critical decade that will make or break the Paris Agreement, but the French major does not offer any intermediary targets and intermediary milestones to ensure that its distant targets will translate into real, short-term action.

Figure 2: Summary of GHG reduction targets

Scope	Target	New commitment?
Scope 1+2, absolute, 2015 baseline	-15% in 2025, -40% in 2030	No
Scope 1+2+3, absolute, 2015 baseline	Lower in 2030	No*
Scope 1+2+3, carbon intensity of sold energy products, 2015 baseline	-20% in 2030	No
Scope 1+2+3, absolute, 2015 baseline, **only in Europe**	-30% in 2030	No
Scope 1+2+3, absolute, **only on the sale of oil products**	-30% in 2030	Yes
Scope 1+2, absolute, 2020 baseline, **only on methane**	-50% in 2025, -80% in 2030	Yes

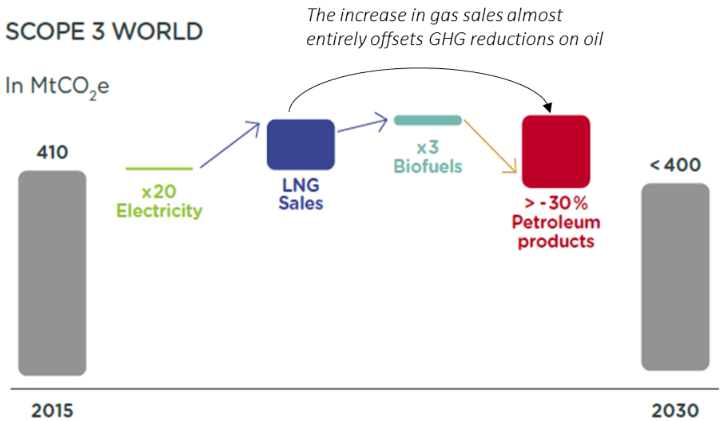
** Even if this is partially quantified in the new plan (<400 Mt CO2 eq.) but TotalEnergies explicitly mention this is not a new target (p. 45 of the report)*
***Red** = limited perimeters*
Source: TotalEnergies, Sustainability and Climate Progress Report, p. 45

TotalEnergies pursues its strategy of announcing micro-commitments on limited perimeters to avoid taking ambitious steps on the overall reduction of emissions across all scopes:

- At a first glance, the company's new -30% target on Scope 3 oil seems ambitious. This objective is less impressive than it sounds since TotalEnergie's plans to ramp-up fossil gas production will cancel out its efforts on oil. Over the 2015-2021 period, the decrease in oil emissions was almost matched the increase in gas emissions (which almost doubled over the period, see Fig. 3). The same is set to happen from 2015 to 2030: TotalEnergies plans to increase its LNG sales by 362% while its oil production will only decrease by 42%. In addition, TotalEnergies' oil production is set to increase until 2025 and remain high until 2030 (1.4 Mb/day). Reducing emissions from oil therefore does not significantly reduce the group's total emissions.

- TotalEnergies announces an ambitious target to reduce its methane emissions by 80% between 2021 and 2030, consistent with the IEA recommendations and European targets. However, this effort should be put into perspective because methane emissions linked to operations and equities represent less than 1% of the company's total emissions.

Figure 3: Changes in emissions from various energy sources



Source: TotalEnergies, Sustainability and Climate Progress Report, p. 39

The same rebalancing trick with no material impact over global emissions also concerns emissions by geography. Reduced Scope 3 emissions in Europe are met with an almost identical increase in the emissions produced in the rest of the world[4]. This underlines that TotalEnergies plans to decarbonize only were the decarbonization becomes a mandatory or quasi-mandatory step, through increased regulation and oversight.

All in all, for all scope 1, 2 and 3 emissions, **TotalEnergies' emissions will decrease by a mere 5.8% to 6.7% over a 15-year period** (2015 – 2030). This contrasts sharply with the imperative of halving global emissions by 2030 in order to stay on a 1.5°C pathway. On an annualized basis, the French company's decarbonization effort appear even more anecdotic: -0.5% per annum from 2015 to 2030 and -0.3% p.a. from 2021 onwards (excluding the impact of COVID). **Accounting for the impact of COVID, TotalEnergies could even increase its absolute emissions by 0.5% each year and still meet its unambitious targets** (from 406 Mt CO_2 to 425 Mt CO_2).

Why is TPI considering that TotalEnergies is aligned on 1.5°C and why investors should not take it for granted.

In its Sustainability and Climate Report, TotalEnergies' CEO claims that "*the Transition Pathway Initiative (TPI) announced that TotalEnergies is one of three oil and gas firms that have set emissions reduction targets that are ambitious enough to reach net zero by 2050 and to align with TPI's 1.5°C benchmark*". Indeed, TPI does consider that the company's carbon intensity is predicted to converge with a 1.5°C pathway in 2047.

However, this finding must be met with extreme caution as TotalEnergie's communication around it is misleading and TPI's analysis suffers from several methodological limitations:

- TPI declares a company aligned as soon as the carbon intensity of the company falls below the carbon intensity level allowed by the IEA scenario that same year. As opposed to stock-based methodologies, TPI's approach, centered only on carbon intensity, does not consider excess GHG emissions and fossil production stocks built up by Total between today and 2047.

[4] Cf. p. 39 of TotalEnergies' report.

- TPI's own analysis shows that TotalEnergies projects to reach net zero carbon intensity only by 2047. Until 2047, TPI's data clearly indicate that carbon intensity levels remain high. This is part of the reason why TotalEnergies cannot be deemed "aligned" in our methodology.

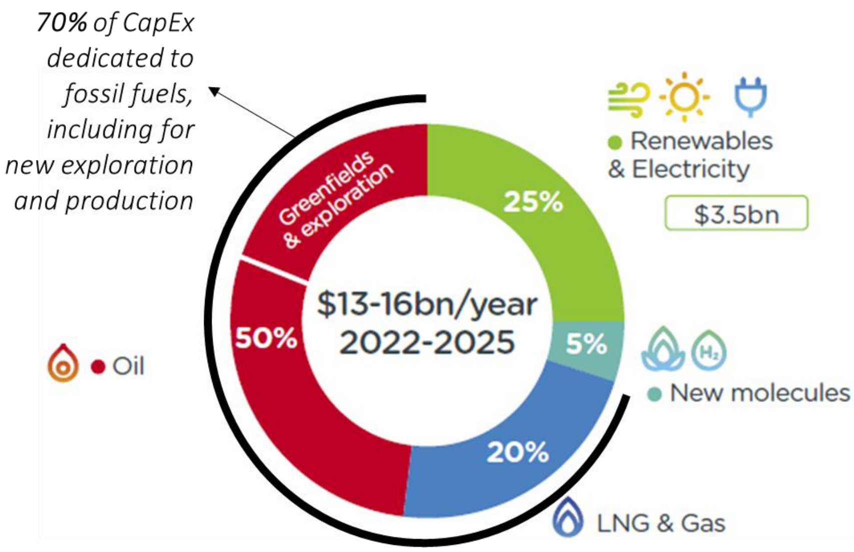
See our full analysis of TPI's assessment here.

Finally, it is worth noting that **TotalEnergies increases the share of Carbon Capture and Storage and offsetting in its climate plan**. By 2030, the major plans to capture 10 Mt p.a. via technological solutions and 5 Mt via "nature-based" solutions. The company also plans to develop CCS for its gas power plants. By 2050, TotalEnergies' CCS would reach 110 Mt per year, the equivalent of 25% of its current CO_2 emission (447 Mt in 2020 and 2021). This massive volume of negative emissions also relies on highly criticized "avoided emissions": between 25 and 50 Mt of the total amount of carbon captured by 2050 would be used to produce new fuel that will release as much carbon into the atmosphere but is nonetheless considered as offset by TotalEnergies.

3. A fossil-first capital allocation strategy

Compared to 2021, TotalEnergies' investment strategy remains unchanged. 70% of capital expenditures remain focused on oil & gas (see Fig. 4)**, of which 20% dedicated to exploration and investments in new projects**, in clear contradiction with the IEA's Net Zero scenario findings that no new oil & gas projects are needed to stay on a 1.5°C pathway.

Figure 4: Breakdown of capital expenditure from 2022 to 2050



Source: TotalEnergies, Sustainability and Climate Progress Report, p. 24

Consequently, the 2030 energy mix does not improve and will rely at 80% on fossil sources (50% gas and 30% oil)**. The company keeps massively investing in gas**. It will increase gas production by 50% by 2030 from 2015 levels and plans to double gas sales between 2019 and 2030. TotalEnergies also plans to increase "low carbon" LNG production by 22% by 2025. Gas will also play an important role in TotalEnergie's electricity production – gas-fired power plants are described as being an integral part of the transition to clean energies – as well as hydrogen production. The company stresses that gas will contribute to one third of the projected reduction in carbon intensity by 2030. However, this does not mean TotalEnergies is moving away from fossil fuels and aligning with 1.5°C.

Beyond CapEx, the overall capital allocation strategy and the breakdown between investment, shareholder return (dividends, share buybacks), and the balance sheet remain unchanged. Despite windfall profits derived from sky-high commodity prices, TotalEnergies does not plan to expand its investment in renewables. This directly contradicts the company's narrative that cash flows from fossil fuels are vital to invest in renewables. As a matter of fact, share buybacks stand to be the winners of the current energy landscape, with TotalEnergies planning to dedicate 40% of surplus cashflows above $60/b to buybacks (with current prices being well above $100/b).

EACOP/Tilenga: Investing against climate, biodiversity, and human rights.

TotalEnergies' East African Crude Oil Pipeline (EACOP) through Uganda and Tanzania is the perfect illustration of the French major's misguided and unsustainable investment strategy. While the company dedicates two pages of its 2022 Sustainability and Climate Report to extol this project's (and the related Tilenga production project in Uganda) "net positive" impact on the economy, jobs, and biodiversity, EACOP raise red flags on all sustainability- and climate-related issues.

- On **climate**, the project is fundamentally incompatible with a 1.5°C scenario. It reached a final investment decision in 2022, which means that EACOP/Tilenga is a new production and transport project and does not fit in IEA's Net Zero Scenario. EACOP/Tilenga will result in 34 million extra tons of carbon emissions each year (> 1,5x the cumulated reductions in GHG emissions from operations planned by TotalEnergies from 2015 to 2030).
- As regards **biodiversity**, the pipeline will disturb nearly 2,000 sq. km² of protected wildlife habitats, including multiple reserves critical to the preservation of vulnerable species such as the Eastern Chimpanzee and African Elephant.
- The **human rights** situation is even more worrying in the short-term. Over 100,000 people will lose the land they rely on for farming and animal raising, and many will be forcibly removed from their homes. Compensation payments have suffered considerable delays and farming limitations imposed on households (requiring them to only grow seasonal crops – have already decreased their income and standard of living.

Finally, **the project raises significant legal and reputational risks for both the firm and its shareholders**. Legal action is ongoing both in France and Uganda and pressure from civil society is mounting ahead of TotalEnergies' AGM[5].

To follow suit on 18 banks' and insurers' commitment not to provide financial services to EACOP, **investors must step up and challenge this project** using all available means (private letters, public statements, written questions at the AGM, vote against TotalEnergie's climate resolution or against other items, etc.).

See a full analysis of EACOP's impact on the StopEACOP website.

[5] In March 2022, a delegation of Ugandan activists has toured France, Switzerland and Italy and raised awareness about the projects disastrous impact among a variety of high-level stakeholders (Elysée and Ministry of Foreign Affairs, Pope Francis, UN Human Rights Commission and Special Rapporteurs, etc.).

4. Using IEA's Net Zero Scenario as a fig leaf for inaction

TotalEnergies downplays its capacity and responsibility to reduce emissions. The major acknowledges the "normative" role of the IEA's Net Zero Emissions by 2050 (NZE) scenario but refuses to draw the concrete, short-term strategic and operational lessons implied by the NZE, particularly when it comes to stopping the development of new fossil fuel production projects. This is an especially problematic issue for shareholders since **i)** it departs from the investor consensus that engagement efforts on climate must be based on a 1.5°C-compatible pathway[6]; **ii)** it underlines a fundamental inconsistency between the firm's long-term pledge (carbon neutrality in 2050) and its short-term vision. Indeed, TotalEnergies currently ranks among the 10 biggest oil and gas developers worldwide according to the Global Oil and Gas Exit List[7] but has not demonstrated willingness to give up on any of those developments.

By stressing that the IEA scenario does not reflect current and business as usual levels of oil and gas demand. Total also makes clear that its carbon neutrality target by 2050 will be achieved "together with society", **deflecting responsibility on consumers**. Hence, TotalEnergies does not position itself as a climate leader, but as a passive observer of the evolution of the demand for fossil fuels.

TotalEnergies is hiding behind the current context of rising energy prices to justify its continued production of oil and gas not aligned with the NZE. However, a drop in oil and gas production would not necessarily result in higher prices if fossil production were replaced by green alternatives and/or if activities that reduce energy demand are developed. **TotalEnergies' claim that the current level of investment in fossil fuels is already lower than the NZE over the 2022-2030 period is also misleading**. Before the COVID crisis triggered a significant drop in investment in 2020/2021, the level of investment in the oil and gas upstream in 2019 was still 30% ($110bn) higher than the NZE forecast for 2022-2030.

TotalEnergies' concrete integration of science-based climate scenarios in its climate plan is problematic:

- Assumptions from climate scenarios are not systematically and transparently integrated in the company's investment decisions and accounting. It is stated that "*the Company uses an oil price trajectory that converges in 2040 with the price in the IEA's SDS scenario ($50/b) and that converges after 2040 with the price retained for 2050 in the IEA's NZE scenario ($25/b)*" and that gas price "*stabilize between now and 2025 and until 2040 at lower levels than today and converge with the IEA's NZE scenario in 2050*" but TotalEnergies does not provide granular price curves nor systematic explanations regarding how its assumptions (on CCS, offsets, production, etc.) are science-based, let alone aligned with the NZE.
- Even if the French major "agrees [with the NZE] on the endpoint", its 2050 targeted energy mix is far from being aligned with this scenario. In 2050, its fossil fuel production and sales are 6 percentage points higher than the NZE's. Conversely, its production of decarbonized electricity is 9 percentage point lower.

[6] Cf. for example the Climate Action 100+ benchmark, which is directly based on the NZE.
[7] https://gogel.org/

5. Implications for shareholders

TotalEnergies' disappointing Sustainability and Climate report has **three implications for investors** committed to credible and effective shareholder engagement:

1) **Voting against the management-sponsored resolution asking to approve TotalEnergie's Sustainability and Climate Report at the 2022 AGM**. This report lacks in both form (no short-term – 2025 – GHG reduction target in absolute terms and across all scopes, very few information for the same scope on 2030, many imprecisions regarding other key criteria such as offsets, CCS, CAPEX, and climate hypotheses, etc.) and substance (marginal new announcements on limited scopes, no increased ambition on existing targets). Investors have expressed concerns over the shortcomings of TotalEnergie's plan last year, but most of them approved it anyway to encourage the company to consult them on its climate strategy. This is no longer admissible in 2022: investors must not vote to reward a "positive signal", they should base their decision on the actual content and level of ambition of TotalEnergie's plan, which is clearly insufficient and does not match its claim to reach carbon neutrality in 2050.

2) **Supporting shareholder resolutions, especially the ones aimed at establishing a complete and credible consultation of shareholders on a complete and detailed climate plan (Say on Climate)**. TotalEnergies' recent Sustainability and Climate Report reinforces the need to ask for a detailed and rigorous climate plan built on a comprehensive list of criteria and targets. In place of TotalEnergies' green communication and its profusion of misleading targets based on complex and limited scopes, investors should require transparent information about : **i)** short- (2025) and medium-term (2030) GHG reduction targets in both absolute and intensity terms; **ii)** detailed information about short- and medium-term capital expenditure plans; **iii)** granular data about the use of offsets and CCS to achieve each GHG reduction target; **iv)** transparent explanations about the underlying climate scenario and assumption used by the company to set its targets. Despite having improved the coverage and granularity of the information and targets it discloses, TotalEnergies still falls very short of complying with the items described. **Some investors are planning to propose a shareholder resolution at TotalEnergies' May 25th AGM to address these gaps: all investors seriously committed to engaging TotalEnergies should consider co-filing this resolution and supporting it with their votes.**

3) **Initiating targeted engagement and vote-based escalation strategies on key climate-related topics, especially on oil and gas expansion**. Say on Climate votes are not – and must not become – the only form of engagement towards fossil fuel companies. One crucial short-term issue is oil & gas expansion: TotalEnergies is the first developer of new projects among its European peers and each new sanctioned project widens the gap between its 2050 pledge and its actual pathway. Therefore, investors must urgently include in their engagement strategy a demand for companies to commit to stop developing new oil and gas projects and make this their priority ask for fossil fuel companies.

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