



## RECOMMENDATIONS FOR ASSET MANAGERS | OIL & GAS SECTOR

February 2023

**This document is part of a set of recommendations for asset managers to develop their climate policies. To be found [HERE](#).**

### General sector overview

Over half of global emissions are related to the production or use of oil and gas

Instead of aligning with the 1.5 °C, oil and gas companies are continuing to develop massive new capacity for oil and gas production and transport. In 2022, investment in upstream increased by 13% compared to 2021.<sup>1</sup> According to the IPCC, cumulative capex/opex for the exploration and extraction of oil and gas in new fields is expected to reach more than US\$4.2 trillion in total between 2020 and 2030 and climb to US\$570 billion annually by the end of the decade.<sup>2</sup>

The massive gap between industry projections of oil and gas production trajectories and a 1.5°C scenario increases related financial risks: over \$1 trillion of oil and gas assets risk becoming stranded if climate actions are taken and alternative energy sources are developed.<sup>3</sup>

### Overall Objectives

According to the IPCC, UNEP and the IEA, for the oil and gas sector to be aligned with a 1.5°C scenario, the expansion of oil and gas production must stop immediately. No exploration for new resources is required, and no new oil fields are necessary, beyond those already committed as of 2021. No new fossil gas fields are needed beyond those already under development. Many of the LNG facilities currently under construction or at the planning stage are not needed.

According to the IEA's World Energy Outlook 2022, declining demand for oil and gas in their NZE scenario can be met "through continued investment in existing production assets without the need for any new long lead-time projects."<sup>4</sup> In the NZE, fossil gas demand drops from 4,200 billion cubic meters (bcm) in 2021 to 3,300 bcm in 2030, and 1,200 bcm in 2050. Oil demand drops from 95 million barrels per day (mb/d) in 2021 to 75 mb/d in 2030, and to less than 25 mb/d in 2050.<sup>5</sup>

Investments in oil and gas decline even faster than demand in the NZE, falling by around 50% from the 2017-21 average through 2030 for both oil and fossil gas.<sup>6</sup> Continued investment in existing fossil fuel operations is needed to reduce their emissions-intensity, especially of methane. Energy-related methane emissions drop by 75% by 2030 in the NZE through reducing leakage and venting and decreasing fossil fuel extraction.<sup>7</sup>

## What to expect from companies

Asset managers shall expect oil and gas companies operating in upstream and midstream sectors to commit to cease their expansion plans and to meet, in the short-term, the following minimal criteria:

- ✓ Immediately commit to a 2050 net-zero objective based on a 1.5°C scenario.
- ✓ Meet milestones, including:
  - End of new upstream and midstream oil and gas projects.
  - Adoption of oil AND gas production reduction targets by 2030.
  - Allocation of most of capex to sustainable power.<sup>8</sup>
- ✓ Adopt a comprehensive climate transition plan that allows investors to assess its alignment with a 1.5°C with low or no overshoot and a limited volume of negative GHG emissions.
- ✓ Commit to submit the above-mentioned plan and an assessment of its ongoing implementation in recent years to an annual vote ("Say on Climate") at the AGM.

A comprehensive climate transition plan shall include, at least, the following indicators:

- ✓ Short- and medium-term GHG emissions reduction targets on Scopes 1, 2 and 3, expressed in both absolute and intensity terms, encompassing all its activities.
- ✓ Possible contribution of captured GHG volumes to achieving emissions reduction targets.
- ✓ Any carbon offsetting approaches that may be implemented to complement the reduction targets.
- ✓ Targeted energy mix evolution for short- and medium-term.
- ✓ Short- and medium-term capex plans disaggregated by activity and by allocation between maintenance and development of the Company's assets.
- ✓ Short- and medium-term opex disaggregated by activity and by cost item.
- ✓ Explanation of baseline scenario used to set decarbonization targets and how this takes into account the best available ce.

- ✓ Envisaged actions to reduce methane emissions along the value chain, including flaring, leakage control and venting.<sup>9</sup>

## Recommendations on targeted restrictions

Asset managers shall adopt time-bound restrictions on a growing number of oil and gas companies, with a focus on halting expansion, as well as initiating a controlled decline in oil and gas production. Achieving these measures will require the asset manager to:

- ✓ Make public its expectations from oil and gas companies and associated exclusions.
- ✓ Implement an engagement policy towards the relevant companies to induce them to meet expectations.
- ✓ Implement a progressive escalation strategy that would ultimately lead to investment restrictions and exclusions in case the expectations are not met.

Asset managers shall adopt restrictive measures over time to induce oil and gas companies to stop their oil and gas expansion plans:

- ✓ Immediate commitment to exclude by 2025 all companies that are still involved in new upstream and midstream oil and gas projects. In the meantime, the engagement policy must be sufficiently robust to ensure that companies adopt a plan to cease fossil fuel expansion and adopt a plan to reduce fossil fuel production.
- ✓ Immediate commitment not to make any new investment in companies still involved in new upstream and midstream oil and gas projects.

Asset managers shall commit to reducing their portfolio exposure to oil and gas companies to close to zero by 2050 worldwide.

Asset managers shall adopt restrictive measures over time to gradually reduce their exposure to oil and gas companies and to induce these companies to undertake a managed decline in oil and gas production and operation by:

- ✓ Immediately making new investments conditional on a commitment by the oil and gas companies to a net zero target by 2050 aligned with a 1.5 °C scenario.
- ✓ From 2024, making new investments conditional on a commitment by the oil and gas companies to adopt:
  - Reduction targets by 2030 in oil AND gas production.
  - A comprehensive climate transition plan that allows investors to assess it against a 1.5 °C scenario as a benchmark.
  - This climate transition plan is submitted to an annual vote at the AGM (See ["Say on Climate"](#))

An exception to the above measures may be made for the financing of activities or subsidiaries dedicated to the energy transition (e.g. the deployment of renewable energy). Dedicated funding (for example via use of proceeds bonds) must be explicitly earmarked and must not be used for other activities. More specifically, an exception could be tolerated for green bonds or other sustainable use of proceeds bonds if the issuer's definition of green is rigorously verified. A Second Party Opinion on the issuer's framework alone does not guarantee the sustainable attributes of these debt instruments. It is recommended for asset managers to have a public framework that clearly defines the projects they may finance with sustainable debt market instruments and to verify the compatibility of the overall strategy of the issuer with their own commitments.

Any exception must remain temporary, and only apply for the time needed for the company to align its corporate strategy with a 1.5°C scenario. SLBs cannot be subject to such an exception because they benefit the whole company, including its dirty activities. In the case when a policy is adopted on unconventional fossil fuels, asset managers shall apply it to the activities and products listed in the comprehensive definition given in the "[General Recommendations](#)", and they shall stop investing in companies that:

- ✓ Produce more than 25% of their oil and gas from unconventional resources, and commit to lowering this threshold to 5% by 2030.
- ✓ Are still involved in new unconventional oil and gas projects.

Specific recommendations for **passive funds**:

- ✓ Stop the launch of any new passive funds if they contain companies covered by the exclusion criteria mentioned above.
- ✓ For existing passive funds, change, in the short-term, the underlying indexes to use only those indexes that exclude companies developing new upstream and midstream oil and gas projects.
- ✓ Publish the progress of this conversion and the expected date from which all passive funds shall be converted.
- ✓ Publicly engage the index providers to facilitate the identification of developing companies within their standard indexes, and to offer alternatives.

N.B.: These recommendations are specific to oil and gas upstream and midstream activities and shall be read and implemented in addition to other sets of recommendations, including the those given in "[Engagement & voting policies](#)".

N.B.: Asset managers shall disclose the database used to evaluate the companies exposed to the coal sector. It is recommended to use the [GOGEL](#) (For more information, see "[Companies database to be used](#)" above).

<sup>1</sup> Les Echos, [Les investissements repartent à la hausse dans l'exploration et l'extraction pétrolière](#), January 2023

<sup>2</sup> IISD, [Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments](#), June 2022

<sup>3</sup> Carbon Tracker, [Unburnable Carbon: Ten Years On](#), June 2022

<sup>4</sup> International Energy Agency, [World Energy Outlook 2022](#), p.164, November 2022

<sup>5</sup> International Energy Agency, [World Energy Outlook 2022](#), p.133-134, November 2022

<sup>6</sup> International Energy Agency, [World Energy Outlook 2022](#), Figure 3.22, November 2022

<sup>7</sup> International Energy Agency, [World Energy Outlook 2022](#), p.64, November 2022

<sup>8</sup> According the [Net-Zero-by-2050 scenario](#) of the IEA, for every US\$ 1 spent globally on fossil fuels in 2030, more than US\$ 9 is spent on clean energy in the NZE. For more information : Reclaim Finance, [WEO 2022 – From the fossil fuel age to the clean energy era](#), October 2022.

<sup>9</sup> International Energy Agency, [Curtailing Methane Emissions from Fossil Fuel Operations Pathways to a 75% cut by 2030](#), October 2021