



## ANALYSIS OF CERES' PAPER ON A NET ZERO TRANSITION AT OIL AND GAS EXPLORATION & PRODUCTION COMPANIES

13 June 2023

US non-profit Ceres has produced a paper aimed at explaining actions that oil and gas exploration and production companies (E&Ps) can take to reduce their emissions. It is also supposed to provide useful information on climate alignment to the sector's investors and bankers. The paper suffers from a number of alarming weaknesses which threaten to reverse progress on setting standards for net-zero finance.

The Ceres document, "[Key Elements for a Net Zero Transition at Oil and Gas Exploration and Production Companies](#)" (referred to in this paper as "Key Elements") was published on 8 March, 2023. Ceres describes it as a "suite of common yet strategically flexible actions that can facilitate emissions reductions for E&Ps and may ultimately influence investment decisions." It is the result of a series of roundtables facilitated by Ceres with E&Ps, banks, and investment managers.<sup>1</sup>

The names of the entities involved in the roundtables have not been published but both [ConocoPhillips](#) and major fracking company [Pioneer Natural Resources](#) disclose on their websites that they were involved with the initiative. A comparison of the language in ConocoPhillips's 2022 proxy statement with that in the Key Elements suggests the company strongly influenced the content of the Ceres document.<sup>2</sup>

---

<sup>1</sup> Ceres, [The case for collaboration: A framework for meaningful emissions reductions at oil and gas exploration and production companies](#), 8 March 2023

<sup>2</sup> ConocoPhillips, [Proxy Statement 2022](#), 28 March 2022 (see e.g. "ConocoPhillips **does not control how the commodities we sell** are converted into different products or ultimately used, creating a **limited scope of actions** available to the company" (p. 128); "A Scope 3 target for an exploration and production (E&P) company represents a **prescribed curtailment of production**" (p. 17); "have the effect of **shifting capital away from responsible operators** and production that offers low-cost, low GHG intensity, **toward less accountable producers and jurisdictions**" (p. 128) (emphasis added)).

ConocoPhillips was the second biggest producer of hydrocarbons in the US in 2021<sup>3</sup> and is the developer of the highly controversial Willow oil-drilling project in the Alaskan Arctic. It is listed in the [Global Oil and Gas Exit List](#) as the world's 14<sup>th</sup> largest developer of new oil and gas fields.

Ceres' mission is to advance sustainability issues within finance. It claims to aim to “move capital, influence systems and strengthen policy to drive large-scale economic transformation.”<sup>4</sup> It plays a leading role in the governance of two of the GFANZ sectoral alliances, the [Net Zero Asset Manager initiative](#) (NZAM) and the [Paris Aligned Investment Initiative](#) (PAII). It is also an advisor to GFANZ's workstreams on mobilizing private capital and financial institution transition plans.

Ceres should therefore be expected to work to ensure that the GFANZ alliances' protocols and guidelines are adequate to meeting GFANZ's “overarching goal” of supporting “the global ambition to limit warming to 1.5°C.”<sup>5</sup> Fulfilling its mandate within GFANZ would require Ceres to push for these criteria to be in line with what the IPCC and standard-setting and policy bodies like the UN's [Race to Zero Campaign](#) (to which all the sectoral alliances belong), the [UN High-Level Expert Group on net zero](#) (HLEG), and the [IEA](#) indicate is necessary to keep 1.5°C alive.

Yet the actions for E&Ps laid out in the Key Elements paper are grossly inadequate for financial institutions to use to ensure that their support for these companies is aligned with 1.5°C. In various respects, the actions are far weaker than those recommended by GFANZ and its sectoral alliances, as well as by the Race to Zero Campaign and HLEG.

The Ceres paper's recommendations are biased toward favoring business as usual for E&Ps – and against meaningful action on climate. Among the paper's key weaknesses are:

- A failure to require 1.5°C-aligned targets or comprehensive net-zero transition plans based on credible 1.5°C scenarios
- A failure to require Scope 3 targets and/or any reductions in oil and gas production
- A failure to require absolute targets
- A failure to specify years and percentage reductions for interim (pre-2050) targets
- Unambitious and unclear methane targets
- A lack of any restrictions on offsets
- A naïve position on E&P involvement in government lobbying

## THE FIVE KEY ELEMENTS – AND SEVEN KEY WEAKNESSES

The Ceres document is arranged around five “key” elements:

- Scope 1 and 2 targets and disclosure of methodology and progress;
- Operational net-zero transition plans with financial assumptions;
- Use and disclosure of offsets;
- Scope 3 emissions reporting; and
- Climate-aligned lobbying.

---

<sup>3</sup> CATF/Ceres, [Benchmarking Methane and Other GHG Emissions Of Oil & Natural Gas Production in the United States](#), p.33, May 2023. Pioneer was the 10th largest producer in the US in 2021.

<sup>4</sup> Ceres, [Our Unique Theory of Change](#), accessed 12 May, 2023

<sup>5</sup> GFANZ, [Progress Report 2022](#), p.2, October 2022

Each of these key elements is accompanied by “foundational” sub-elements with a smaller number of “advanced” sub-elements. The document does not clarify the intention of the breakdown into the two different types of sub-elements. Presumably compliance with the foundational sub-elements would be considered by many financial institutions as sufficient to continue their support of E&Ps, whereas meeting the advanced ones would be a type of “best practice” – nice if they are followed, maybe even deserving of some additional favorable terms, but not essential. In any case, the relevance of the distinction should be clarified.

The key weaknesses of the document are explained below.

### 1) Failure to require 1.5°C-aligned targets or comprehensive net-zero transition plans based on credible 1.5°C scenarios

The Ceres document proposes “operational net zero transition plans” as one of the key elements, but does not specify any need or requirement for such plans to align with limiting global warming to 1.5°C. The suggestions for what E&Ps should include in their transition plans are vague and incoherent, and not tied to any particular warming limit. The document seems to say that E&Ps should explain how their long-term business plans, including their proposed capital expenditure, align with their climate commitments and explain how these commitments align with external climate scenarios.

Transition plans, however, should not be just one of the elements in the climate commitment of an E&P or other company, but should be the overall container in which all of their commitments are listed and explained. Credible 1.5°C transition plans should, as explained by GFANZ, include information on “climate objectives, targets, actions, progress and accountability mechanisms” and should include ambitious near-term actions.<sup>6</sup> It is the *pathway* to net zero, not the net zero end date, that is the crucial determinant of whether a company’s net zero transition plan is consistent with a 1.5°C limit or not.

GFANZ notes that “a net-zero transition plan must be consistent with achieving net zero by 2050, at the latest, in line with global efforts to limit warming to 1.5°C, above pre-industrial levels, with low or no-overshoot.”<sup>7</sup> The use of such scenarios is also recommended by several of the GFANZ sectoral alliances (the Net-Zero Asset Owner Alliance (AOA),<sup>8</sup> Net-Zero Banking Alliance (NZBA),<sup>9</sup> and Net-Zero Insurance Alliance (NZIA)<sup>10</sup>), as well as by the Race to Zero Campaign<sup>11</sup> and HLEG.<sup>12</sup> The AOA, NZIA and Race to Zero,<sup>13</sup> furthermore, specify that these scenarios should be based on realistic assumptions on the use of negative emissions.

A serious failing of the Key Elements paper is that rather than specifying a 1.5°C low or no-overshoot scenario, it says only that an E&P strategy “should be informed by a range of climate

---

<sup>6</sup> GFANZ, [Expectations for Real-Economy Transition Plans](#), pp.ii-iv, September 2022

<sup>7</sup> GFANZ, [Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations and Guidance](#), pp.14, November 2022

<sup>8</sup> NZAOA, [Target Setting Protocol Third Edition](#), p.xiii fn.8, January 2023

<sup>9</sup> NZBA, [Guidelines for Climate Target Setting for Banks](#), p.12, April 2021

<sup>10</sup> NZIA, [Target Setting Protocol Version 1.0](#), p.5 fn.2, January 2023

<sup>11</sup> Race to Zero Expert Peer Review Group, [Interpretation Guide, Version 2.0](#), June 2022, Section 4.b.ii, accessed 23 March 2023

<sup>12</sup> HLEG, [Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions](#), p.16, November 2023

<sup>13</sup> Race to Zero Expert Peer Review Group, [Interpretation Guide, Version 2.0](#), June 2022, Section 4.b.iv, accessed 23 March 2023

scenarios that reference assumptions used in recognized external models for comparability.” This could refer to a huge number of different climate scenarios, including any of the 1,202 pathways assessed for the IPCC’s Sixth Assessment Report, some of which result in more than 4°C warming by 2100.<sup>14</sup>

The Ceres document proposes that “advanced” sub-elements of transition plans should include measures such as identifying key metrics for measuring progress; explicitly linking executive compensation to such progress; explaining how capital expenditure plans support emission reduction targets; and demonstrating that climate commitments “have been considered in the approval of acquisitions, new projects, and infrastructure.” These should all instead be considered minimum criteria for credible transition plans.

Another supposedly “advanced” element for E&P transition plans, according to the Ceres document, is that they should provide “justification for any projects that are not in alignment with the company’s transition plan, and how capital expenditure fits into the overall climate goals.” This implies first that it would be acceptable, if not “advanced,” to, without any justification, develop projects and otherwise spend capital in ways that are not in alignment with the company’s transition plan. Second, it sends a message to E&Ps that despite the broad consensus that climate science shows that no new fossil supply projects are consistent with 1.5°C budgets, it would be considered “advanced” if they were to develop new projects as long as they can offer what they consider to be a justification.

**Financial institutions must insist that E&Ps adopt comprehensive net-zero transition plans with emission reduction pathways based on credible low/no overshoot 1.5°C scenarios that do not rely on unrealistic and unsafe levels of CDR or CCS. Such transition plans need to include ambitious immediate and near-term actions including a halt to new oil and gas supply projects and absolute reductions in production, as well as reporting and accountability mechanisms.**

## 2) Failure to require Scope 3 targets and/or any reductions in oil and gas production

**The Ceres document calls on E&Ps to “establish an ambition” for net zero emissions by 2050, but only for their Scope 1 and 2 emissions from operated assets.** This covers as little as 5-15% of oil and gas companies’ total emissions.<sup>15</sup> It is a “foundational element” for E&Ps to *report on* their Scope 3 emissions – mainly those from the end uses of oil and gas – but not to set targets for reducing them.

GFANZ by contrast, calls for companies to set Scope 3 targets “if Scope 3 emissions are material.”<sup>16</sup> GFANZ does not define “material,” but given that E&P companies’ Scope 3 emissions are the great majority of their overall climate footprint, they are certainly material for this sector. The AOA expects oil and gas companies to set targets covering Scope 1, 2, and 3

---

<sup>14</sup> IPCC, [Synthesis Report of AR6: Longer Report](#), p.30, March 2023. Of these AR6 scenarios, only 97 are classified as 1.5°C no/low overshoot. Furthermore, all but 26 of those 1.5°C low/no overshoot scenarios rely on levels of carbon dioxide removal (CDR) and carbon capture and sequestration (CCS) beyond what the IPCC’s own assessment considers safe or feasible (IISD, [Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments](#), June 2022)

<sup>15</sup> Wood Mackenzie, [Few oil and gas companies commit to Scope 3 net zero emissions as significant challenges remain](#), 28 October 2022

<sup>16</sup> GFANZ, [Expectations for Real-Economy Transition Plans](#), p.39, September 2022. The report states that financial institutions should include Scope 3 targets of their clients and portfolio companies in high-emitting sectors, including oil and gas (p.39, fn.87).

emissions.<sup>17</sup> The Science-Based Targets Initiative (SBTi) specifies in its Corporate Net Zero Standard that any company for which Scope 3 emissions account for at least 40% of total emissions must set near- and long-term Scope 3 targets.<sup>18</sup> HLEG also states that company net-zero targets must include emission reductions across their full value chain, including Scope 1, 2 and 3 emissions.<sup>19</sup>

The Race to Zero requires targets to include Scope 3 emissions “where data availability allows them to be measured sufficiently.”<sup>20</sup> The NZBA uses similar language on including Scope 3 “where data allows”.<sup>21</sup> E&Ps know how much oil and gas they are selling, and can track the carbon intensity of their different products, so data availability is not a significant problem for Scope 3 emissions in this sector.<sup>22</sup> End-use emissions are primarily determined by the fuel being burned, in this case, whether it is oil or fossil gas, not how or where it is burned.

The Ceres paper attempts several justifications for the failure to require Scope 3 targets. One is that “E&Ps have limited control over, or visibility into, end-use emissions as the business model is at the upstream edge of the value chain.” But this is akin to claiming that illegal drug dealers have no responsibility if anyone uses their products. Exploration and production companies have direct control over how much carbon they are extracting from the ground and putting onto the market to sell. Once constructed, a new oil and gas field is typically expected to operate for several decades to recoup invested capital and maximize profits. These companies’ upstream investment decisions “lock in” new carbon pollution, incentivize new demand, and siphon money away from sustainable alternatives, making it more difficult to reduce fossil fuel demand and transition away from oil and gas. The producers of oil and gas cannot so easily be freed from accountability for the negative consequences of their use.

The Ceres paper claims that Scope 3 reduction targets:

*“would not address end-use emissions but instead represent a prescribed curtailment of hydrocarbon production and would not be economically rational or supported by investors.”*

Scope 3 targets are essential precisely because they would require companies to reduce their oil and gas production. End-use emissions from oil and gas are a direct function of how much oil and gas is being produced – once extracted, the oil or gas will be burned, apart from the

---

<sup>17</sup> NZAOA, [Position on the Oil and Gas Sector](#), p.7, March 2023

<sup>18</sup> SBTi, [SBTi Corporate Net Zero Standard](#), pp. 32-33, updated April 2023

<sup>19</sup> HLEG, [Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions](#), p.17, November 2023

<sup>20</sup> Race to Zero Expert Peer Review Group, [Interpretation Guide, Version 2.0](#), June 2022, Section 2.a, accessed 23 March 2023

<sup>21</sup> NZBA, [Guidelines for Climate Target Setting for Banks](#), p.3, April 2021

<sup>22</sup> E&Ps in the US may soon face a legal requirement to disclose their Scope 3 emissions under upcoming regulations from the Securities and Exchange Commission (SEC, [SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#), 21 March 2022). The International Sustainability Standards Board will also require Scope 3 disclosures in its upcoming standards (IFRS, “[ISSB unanimously confirms Scope 3 GHG emission disclosure requirements with strong application support, among key decisions](#),” 21 October 2022). These are expected to become increasingly incorporated into national accounting regulations over time (Thomson Reuters, [New Climate and Sustainability Disclosure Rules On Track for Issuance by June](#), 26 January, 2023).

small portion turned into other products like plastics.<sup>23</sup> All feasible 1.5°C pathways see oil and gas production falling significantly by 2030.<sup>24</sup>

It is an odd Alice-in-Wonderland argument to imply that only decreasing the carbon-intensity (see below) of operational emissions would somehow effectively address end-use emissions – while claiming that requiring producers to reduce their Scope 3 (i.e. end use) emissions would not address end-use emissions. It is also unclear why a “prescribed curtailment” of the production of oil and gas – which every serious scientist and policy analyst working on the issue agrees must be curtailed – should be seen as undesirable. Even BP has in effect admitted that such a curtailment is necessary with its target to cut oil and gas production by 25% between 2019 and 2030.<sup>25</sup>

It is furthermore extremely unpersuasive to attempt to justify not requiring E&Ps to address end-use emissions with the argument that this would be unpopular with investors. The point of this Ceres document is to present credible expectations for investors to reduce emissions from E&Ps, not to produce a list of recommendations that investors might find popular. In any case, large numbers of investors already accept the need to cut oil and gas production. The Institutional Investors Group on Climate Change, with more than 400 asset owner and manager members with US\$60 trillion in assets, has noted that meeting the 1.5°C target “requires oil and gas companies to substantially reduce their production.”<sup>26</sup> Likewise the AOA (80 investors owning US\$11 trillion) stated in March 2023 that “oil and gas companies must begin reducing supply as called for by science-based, 1.5°C-aligned pathways.”<sup>27</sup>

Key Elements also states that:

*“Placing a requirement on leading E&P companies to meet a Scope 3 target could have the effect of shifting capital away from responsible operators towards less-accountable producers and jurisdictions, and ultimately not effectively address end-use emissions.”*

The Ceres document argues that pressure on “responsible” companies to decrease production would only result in irresponsible companies producing more. This argument would seem to rest on the assumption that financial institutions should put pressure only on some E&Ps and leave the rest of the oil and gas industry untouched. This would indeed be an unsatisfactory situation. But the answer is not to say that investors should be happy to help E&Ps blow past the 1.5° budget by failing to reduce production. It is instead to ensure that investors – as well as banks and insurers – should be addressing the overproduction and overconsumption of oil and gas globally.

The Ceres document does not define or give examples of “responsible” and more accountable producers or jurisdictions. However, given the only two E&Ps who have publicly associated

---

<sup>23</sup> The production of petrochemicals and their transformation into plastics are themselves emissions-intensive, toxic processes that contribute to both the climate and the plastic pollution crises, and put communities at risk (see e.g. CIEL et al., [Plastics and Climate: The Hidden Costs of a Plastic Planet](#), May 2019; CIEL et al., [Plastics and Health: The Hidden Costs of a Plastic Planet](#), February 2019; Break Free From Plastic/CIEL, [Winter is Coming, Plastic Has to Go: A case for decreasing plastic production to reduce the EU’s dependence on fossil fuels and Russia](#), September 2022)

<sup>24</sup> See e.g. IPCC, [Synthesis Report of AR6: Longer Report](#), Figure 3.2, p.38., March 2023

<sup>25</sup> Before February 2023 this target was for a 40% reduction (excluding its now divested stake in Rosneft), and that the current target would still result in its production being 25% higher than what is required to align with the IEA’s net-zero scenario (Reclaim Finance, [Assessment of BP’s Climate Strategy](#), p.13, April 2023).

<sup>26</sup> IIGCC, [Net Zero Standard for Oil and Gas](#), p.13, September 2021

<sup>27</sup> NZAOA, [Position on the Oil and Gas Sector](#), p.32, March 2023



themselves with the process that developed this document are ConocoPhillips and Pioneer it is reasonable to assume that they are referring here to the large US producers. But to call the US E&P sector “responsible” on climate would be to stretch credulity for many reasons, not least because of the sector’s years of cynical climate denial, lobbying against climate and other types of environmental regulations, local environmental impacts, and high methane intensity.<sup>28</sup> Air pollution due to oil and gas production in the US is estimated to cause 7,500 excess deaths a year and a total of \$77 billion in annual health costs.<sup>29</sup> No oil and gas producer can be considered climate-responsible if it is opening up new fields and lacks a plan to phase out its production at this stage of the climate crisis.

Investors, banks and insurers need to complement supply- and demand-side government emission reduction policies by withholding financial services of all types from all oil and gas companies that are not 1.5°C compliant. This must include private E&Ps, but also oil majors, the national oil companies (NOCs), services companies, traders and major consumers.<sup>30</sup>

The document admits that “global climate goals will not be achieved without real reductions in oil and gas demand” but avoids any recognition that these reductions must be not just “real” but also immediate and steep, and that they will require parallel immediate and steep reductions in oil and gas supply. If reductions in demand are not coupled with reductions in supply, the world will become awash with cheap oil and gas, making further demand reductions more difficult.

**Financial institutions must insist that E&Ps set emission reduction targets based on Scope 1, 2 and 3 emissions. Banks, investors and insurers should be clear that these targets will require decreases in oil and gas production globally and should apply their restriction and engagement policies to all the oil and gas companies with which they do business.**

### 3) Failure to require absolute targets

The Ceres document states that while E&Ps should report progress at meeting their targets “in the context of absolute contributions”, operational Scope 1 and 2 targets may be set on an intensity basis only. Under this framework, not only would E&P companies’ targets address only their operational emissions, but they would not even require absolute reductions in those emissions. Intensity targets measure emissions per unit of production, while global warming is determined by cumulative, absolute levels of emissions.

---

<sup>28</sup> See e.g. Associated Press, [Climate disinformation leaves lasting mark as world heats](#), 27 July 2022; Financial Times, [Methane pollution soars in US as shale drilling resumes](#), 30 March 2021; Reuters, [US says more than half of states will seek oil well cleanup funds](#), 5 January 2022; Financial Times, [US regulator vows ‘aggressive’ crackdown on oil and gas methane leaks](#), 21 March 2023; NRDC, [Fossil Fuels: The Dirty Facts](#), 1 June, 2022

<sup>29</sup> Boston University School of Public Health, [Air Pollution from Oil and Gas Production Contributes to Thousands of Early Deaths, Childhood Asthma Cases Nationwide](#), May 8 2023. Methane intensity of US oil and gas production is higher than in many other countries including Bahrain, Egypt, Iran, Kuwait, Saudi Arabia and Qatar (Chen et al., [Satellite quantification of methane emissions and oil/gas methane intensities from individual countries in the Middle East and North Africa: implications for climate action](#), EGU sphere [preprint], p.37, 9 Jan 2023).

<sup>30</sup> In 2021, the ten NOCs then listed on international exchanges – including Ecopetrol, Equinor Gazprom, Petrobras and Petrochina – produced about 35% of global oil (NRGI/IISD, [National Oil Companies and Climate Change: Insights for Advocates](#), p.8, November 2021). Between 2016 and 2022 the fossil fuel company to receive the largest volume of finance from HSBC was Saudi Aramco. Over the same period the Saudi NOC was the second biggest fossil fuel recipient of financing from Citi, JPMorgan Chase, Crédit Agricole and Goldman Sachs (data downloaded from Sankey diagram at [www.bankingonclimatechaos.com](#)).

As is recognized in another Ceres report, with intensity targets alone companies can appear to have reduced their emissions while in reality increasing them.<sup>31</sup> An E&P company could install solar panels to power its oil rigs, reducing the emissions per barrel produced, whilst increasing its overall production and absolute emissions. The emissions intensity of Canada's oil and gas sector, for example, fell by 13% between 2005 and 2020, while the sector's emissions to the atmosphere climbed by eight per cent.<sup>32</sup>

The AOA states that oil and gas companies "need to set absolute- and intensity-based emissions targets".<sup>33</sup> While the NZBA allows its members to set decarbonization targets on either an absolute or intensity basis, of the 33 banks who had set oil and gas financed emissions targets as of early 2023, 19 had set absolute targets.<sup>34</sup> This indicates that there are no major obstacles for large financial institutions setting these targets; indeed it is logical that this would not be the case as it is not possible to calculate emissions intensity without first knowing absolute emissions. As the Race to Zero's expert group states, in most cases "absolute emission targets are necessary for ensuring real-world reductions."<sup>35</sup> GFANZ notes that "getting absolute emissions to zero is the end goal, and both absolute and intensity metrics should be considered together to measure progress of different pathways to net zero."<sup>36</sup>

**Transition targets based only on the intensity of operational emissions cannot be considered remotely credible as a response to the climate crisis. Financial institutions must require decarbonization targets to be based on both intensity and absolute metrics.**

#### 4) Failure to specify years and percentage reductions for interim (pre-2050) targets

The Ceres document calls on E&Ps to include "near- and mid-term" targets on the way to net zero Scope 1 and 2 emissions by 2050. But no direction is given on the temporal spacing or numerical/percentage levels of interim targets. This contrasts with the approach of, for example, the AOA, NZBA and PAII which require 2030 targets and then targets to be set for every five years after that (the AOA also requires 2025 targets).

**Financial institutions must require E&Ps to set interim targets for 2025 and then at least every subsequent five year period until reaching zero emissions by 2050 at latest, following pathways that are aligned with low or no overshoot 1.5°C scenarios that do not rely on unrealistic and unsafe levels CDR and CCS.**

#### 5) Unambitious and unclear methane targets

IEA Executive Director Fatih Birol has said that methane emissions "are avoidable, the solutions are proven and even profitable in many cases. And the benefits in terms of avoided near-term

---

<sup>31</sup> "While intensity metrics provide a straightforward way to compare the performance of operators of different sizes, it is important to note that absolute emissions can increase even as emissions intensity declines" (CATF/Ceres, [Benchmarking Methane and Other GHG Emissions Of Oil & Natural Gas Production in the United States](#), p.13, May 2023).

<sup>32</sup> Greenpeace, [Racing to Zero: Canadian Banks' Dubious Net Zero Commitments](#), p.16, August 2022

<sup>33</sup> NZAOA, [Position on the Oil and Gas Sector](#), p.18, March 2023

<sup>34</sup> Autonomous, [Global Banks: Climate Risk: Progressing Despite a Tough 2022](#), p.14, 24 February 2023

<sup>35</sup> Race to Zero Expert Peer Review Group, [Interpretation Guide, Version 2.0](#), June 2022, Section 7, accessed 23 March 2023

<sup>36</sup> GFANZ, [Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations and Guidance](#), p.79, November 2022



warming are huge.” Yet the Ceres document sets targets based only on methane intensity and which are lower in ambition than what many industry actors have already met.

The Ceres document calls on E&Ps to reach a methane intensity of  $\leq 0.25\%$  by 2030, measured in volume of methane emitted per volume of gas produced. This definition of methane intensity is problematic as it can be interpreted to indicate the need to measure emissions only from the fossil gas sector, and to allow the exclusion of the even larger emissions from oil production.<sup>37</sup> Methane intensity targets should be set for both fossil gas and oil sectors separately, as well as given using a combined metric such as kilograms of methane emissions per gigajoule of energy produced.<sup>38</sup>

The definition of methane intensity as being based on upstream emissions per unit of gas production was set by the Oil and Gas Climate Initiative (OGCI), which is made up of 12 of the world’s largest oil and gas companies.<sup>39</sup> These companies have committed to “near zero” methane emissions by 2030. OGCI claims that its members had already reduced their methane intensity to 0.17% in 2021, well below the Key Elements’ 2030 target.<sup>40</sup>

The Ceres document does not specify if methane targets should be set only for upstream emissions (as it recommends for overall emissions targets) or also for mid- and downstream emissions. Only counting upstream methane emissions from the gas industry would miss the emissions from pipelines and LNG infrastructure. According to the IEA these midstream gas sector emissions are equal to over half the methane emissions from upstream gas production.<sup>41</sup>

The call in the Ceres document for E&Ps to eliminate routine flaring of methane by 2030 is also unambitious.<sup>42</sup> There is an “advanced element” to bring this Ceres target forward to 2025, but this should be considered a minimum requirement for E&P action on methane, especially as it is behind what some companies have already achieved, and what is already legally required in Colorado and New Mexico.<sup>43</sup>

The third quantitative methane target in the “foundational elements” is to achieve  $\leq 1.0\%$  flaring intensity by 2030 again measured in relation to the volume of gas produced. The use of a metric based on gas production is particularly confusing in this case as flaring is essentially an issue

---

<sup>37</sup> IEA, [Emissions from Oil and Gas Operations in Net Zero Transitions: A World Energy Outlook Special Report on the Oil and Gas Industry and COP28](#), p.16, May 2023

<sup>38</sup> This metric is used by the IEA to express methane intensity for oil and gas see <https://www.iea.org/reports/methane-emissions-from-oil-and-gas-operations> accessed 15 May 2023.

<sup>39</sup> Chen et al., [Satellite quantification of methane emissions and oil/gas methane intensities from individual countries in the Middle East and North Africa: implications for climate action](#), EGU sphere [preprint], 9 Jan 2023

<sup>40</sup> OGCI, [Leadership With Impact: Annual Progress Report from the Oil and Gas Climate Initiative](#), p.9, December 2022. A study of satellite data shows that Kuwait, Saudi Arabia and Qatar all had methane intensities from oil and gas production (using the OGCI definition) below 0.15% in 2019 (Chen et al., [Satellite quantification of methane emissions and oil/gas methane intensities from individual countries in the Middle East and North Africa: implications for climate action](#), EGU sphere [preprint], 9 Jan 2023). Saudi Arabia’s upstream methane intensity is even lower than the 0.14% reported in this study as this includes large emissions from fossil gas transmission and distribution.

<sup>41</sup> Calculated from IEA, [Methane Tracker](#), accessed 15 May 2023.

<sup>42</sup> Thirty-five countries have already committed to this goal under a World Bank initiative (<https://www.worldbank.org/en/programs/zero-routine-flaring-by-2030>)

<sup>43</sup> Five US E&Ps had eliminated routine flaring by 2022 (Kimmeridge, [Why Net Zero Should Be the Standard for the E&P Sector](#), July 2022); S&P Global, [New Mexico regulator puts in place rule requiring operators to eliminate gas flaring](#), 26 March 2021

only for oil producers.<sup>44</sup> Flaring intensity should therefore be based on an oil production metric, as is the case for the World Bank's Global Gas Flaring Reduction Partnership.<sup>45</sup>

Given that this document separately calls for routine flaring to be eliminated at the end of this decade, this flaring intensity target for 2030 is presumably to cover non-routine flaring (typically for reasons of safety or maintenance, or because of accidents). Non-routine flaring can be higher than routine flaring in some cases.<sup>46</sup> The non-routine gas flaring target in the Ceres document again appears unambitious: four of the large producers in the Permian Basin – Pioneer, EOG, Chevron and Occidental – all reported flaring intensities of 1% or lower in 2019.<sup>47</sup> An “advanced element” calls for achieving  $\leq 0.5\%$  flaring intensity by 2025. This should be reclassified as a foundational element.

**Financial institutions must require E&Ps to adopt strong methane intensity targets, in addition to targets to reduce their absolute methane emissions by 75% between 2020 and 2030 in alignment with the IEA's Net Zero Emission scenario.**<sup>48</sup>

## 6) Lack of any restrictions on offsets

The Key Elements paper notes the existence of the debate over the validity of using offsets and that there are “limits to the natural, physical, and financial capacity to offset emissions, and offsetting should play a limited role in achieving net zero goals.” Both the foundational and advanced elements on offsets, however, are extremely weak and would do little to discourage E&Ps purchasing large volumes of cheap, spurious offsets to meet their already inadequate Scope 1 and 2 intensity-based climate targets.<sup>49</sup>

The paper makes no mention of the clear positions of the UN HLEG and Race to Zero, or of the Science-Based Targets initiative, that offsets/carbon credits should not be used to meet interim (pre-2050 or other net-zero year) emission reduction goals.<sup>50</sup> And despite Ceres's important role within the GFANZ ecosystem, it also does not mention the GFANZ recommendation that “carbon credits should not be incorporated into reaching transition plan target GHG emissions.”<sup>51</sup>

<sup>44</sup> See e.g. “World methane emissions from energy sources, IEA estimate,” at <https://www.iea.org/data-and-statistics/data-tools/methane-tracker>, accessed 15 May 2023

<sup>45</sup> See e.g. [GGFRP, Global Gas Flaring Tracker Report](#), March 2023

<sup>46</sup> Two-thirds of flaring in the Permian Basin in 2019 was non-routine (EDF, [The Burning Question: How to Fix Flaring](#), p.11, 21 October, 2021).

<sup>47</sup> Gaffney Cline, [Tackling Flaring: Learnings from leading Permian operators](#), p.6, June 2020

<sup>48</sup> IEA, [Curtailling Methane Emissions from Fossil Fuel Operations: Pathways to a 75% Cut by 2030](#), October 2021

<sup>49</sup> There is an extensive literature on the repeated and ongoing failures of the last two decades of offsetting (see e.g. International Rivers, [Failed Mechanism: Hundreds of Hydros Expose Serious Flaws in the CDM](#), December 2007; B. Haya, [Measuring Emissions Against an Alternative Future: Fundamental Flaws in the Structure of the Kyoto Protocol's Clean Development Mechanism](#), UC Berkeley School of Public Policy, December 2009; New York Times, [A Carbon Trading System Draws Environmental Skeptics](#), 12 October 2010; Öko-Institut, [How additional is the Clean Development Mechanism](#), March 2016; Financial Times, [Carbon offset gold rush is distracting us from climate change](#), 22 November 2019; West et al., [Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon](#), PNAS, 29 September 2020; Bloomberg, [How to Sell 'Carbon Neutral' Fossil Fuel that Doesn't Exist](#), 10 August 2021; Carbon Direct, [Assessing the State of the Voluntary Carbon Market in 2022](#), 6 May 2022; Guardian, [Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows](#), 18 January 2023).

<sup>50</sup> Race to Zero Expert Peer Review Group, Interpretation Guide, Version 2.0 June 2022, accessed 23 March 2023; HLEG, [Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions](#), p.19, November 2023; [SBTi Criteria and Recommendations for Near-Term Targets: Version 5.1](#), p.10, April 2023

<sup>51</sup> GFANZ, [Expectations for Real-Economy Transition Plans](#), p.40, September 2022

The Ceres paper does not recommend any limits to E&P use of offsets or require them to follow *any* criteria on offset quality or types. Its approach is based merely on “disclosing” and “explaining” which offsets are used and planned to be used, and in what quantity. Even just disclosing whether offsets have received social and environmental certification is listed as an “advanced element”.

**Financial institutions must insist that their clients’ and investees’ interim decarbonization targets on the way to net zero are met through actual emission reductions and not through the purchase of offsets, which regardless of the efforts of verification bodies are unlikely to represent real emission reductions.**

### 7) Naïve position on E&P involvement in government lobbying

The Ceres document states that policy engagement by the E&P industry “can play a vital role in shaping the societal actions needed to meet climate goals” and that their political lobbying should “align with their operational net zero transition commitment.”

However the long history of oil and gas industry promotion of climate denialism and of lobbying against meaningful policies to address climate change<sup>52</sup> means that it is dangerously naïve to encourage E&Ps to engage in policy discussions. The only sensible position in light of the industry’s history would be for investors to insist that E&Ps do not engage in any policy advocacy on climate-related issues.

The Ceres paper lists as an advanced element for E&Ps to advocate “for a price on carbon or other market-based policy solutions.” This recommendation seems to have been made in ignorance of the extremely troubling history of oil and gas companies pushing for a carbon tax as a way of avoiding effective policies that might reduce production, and as quid pro quo for scrapping existing environmental laws.

ExxonMobil, for example, has pushed for a carbon tax solely as a “public relations ploy intended to stall more serious measures to combat the climate crisis.”<sup>53</sup> An ExxonMobil lobbyist was filmed in May 2021 boasting that the company backs a carbon tax “as an easy talking point” and an “advocacy tool” while believing that Republican legislators would never let such a tax be implemented.<sup>54</sup> ConocoPhillips also lobbies for a carbon tax – and insists that in return for the oil and gas industry accepting the tax the US government “should replace all environmental laws and regulations that are intended to reduce or control carbon and other GHG emissions.”<sup>55</sup>

**Oil and gas companies must be prevented from lobbying on climate and energy policy. Given their role in causing climate change, lying about its causes and impacts, and pushing against any meaningful policies to address it, it is clear that oil and gas companies should not be allowed to decide the future of oil and gas.**

---

<sup>52</sup> See e.g. The Harvard Gazette, [Tracing Big Oil’s PR war to delay action on climate change](#), 23 September 2021

<sup>53</sup> The Guardian, [ExxonMobil lobbyists filmed saying oil giant’s support for carbon tax a PR ploy](#), 30 June 2021

<sup>54</sup> The Guardian, [ExxonMobil lobbyists filmed saying oil giant’s support for carbon tax a PR ploy](#), 30 June 2021

<sup>55</sup> ConocoPhillips, [Carbon Pricing](#), accessed 24 May 2023. It should also be noted that Influence Map gives ConocoPhillips a “D-” for its obstructive policy engagement (InfluenceMap, [ConocoPhillips company profile](#), accessed 1 June, 2023).