RECOMMENDATIONS FOR BANKS
OIL & GAS SECTOR
AUGUST 2023

SUMMARY

OIL & GAS SECTOR

GENERAL SECTOR OVERVIEW

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

Instead of aligning with 1.5°C, oil and gas companies are continuing to develop massive new capacity for oil and gas production and transport. In 2022, upstream investment increased by 13% compared to 2021.[1] 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.[2]

The massive gap between industry projections of oil and gas production trajectories and a 1.5°C scenario increases related financial risks: over US$1 trillion of oil and gas assets risk becoming stranded when climate action will be strengthened and with the development of alternative energy sources.[3]

OVERALL OBJECTIVES

According to the IPCC, UNEP, and 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.[4]

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."[5] 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.[6]

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.[7] 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.[8]

RECOMMENDATIONS FOR RULES AND STANDARDS

Banks shall commit to reduce to close to zero their exposure and not to further provide financial services to the upstream and midstream oil and gas sector by 2050 worldwide.

1. Recommendations on targeted restrictions at project level

Banks shall immediately end financial services, including advisory services, project and dedicated financing to new upstream and midstream oil and gas projects, and to their expansion.

2. Recommendations on targeted restrictions at corporate level

What to expect from companies

Banks 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.[9]
- ✓ Adopt a comprehensive climate transition plan that allows investors to assess its alignment with a 1.5°C scenario 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 Annual General Meetings (AGM).

A comprehensive NZTP 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 removal approaches that may be implemented shall be only to complement 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 considers the best available science.
- ✓ Envisaged actions to reduce methane emissions along the value chain, including flaring, leakage control and venting.[10]

Restrictions at corporate level

Banks 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 bank 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 stop providing financial services to companies that don't meet the expectations.

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

- ✓ Immediate commitment to stop providing by 2025 at the very latest financial services to 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.

Banks shall adopt restrictive measures over time to gradually reduce their financial services 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 financial services 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 any new financial services 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.

An exception to the above measures may be made for project financing or dedicated financing to the energy transition activities (e.g., the deployment of renewable energy). Any dedicated financing (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 banks 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.

This 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. Sustainable Linked Bonds (SLBs) or any general-purpose corporate financing shall not be subject to such an exception because the financing is not earmarked for specific activities and could be used for unsustainable activities.

In the case a policy is adopted on unconventional fossil fuels, banks shall apply it to the activities and products listed in the comprehensive definition given in the "General Recommendations", and they shall stop financial services to 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.

Banks should commit to reduce their oil and gas trading activities at a rate consistent with science.

N.B. Banks shall disclose the database used to evaluate the companies exposed to the oil and gas sector. It is recommended to use the GOGEL.

[1] Les Echos, Les investissements repartent à la hausse dans l'exploration et l'extraction pétrolière, January 2023

[2] IISD, Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments, June 2022

[3] Carbon Tracker, Unburnable Carbon: Ten Years On, June 2022

[4] The NZE scenario of the IEA provides a pathway to meet global energy needs while having a 50% chance of keeping global warming below 1.5°C. It was used as the reference scenario in the WEO 2021 and was updated in the WEO 2022 published in October 2022. It projected a reduction in oil and gas production of 22 and 23% respectively by 2030 compared to 2021 levels and an end to the development of new oil and gas production projects and LNG terminals.

Despite the disrupted energy environment caused by the invasion of Ukraine, the need to halt oil and gas expansion as soon as possible remains a key feature of the IEA NZE scenario. The May 2021 NZE scenario already projected to halt the development of new oil and gas fields, beyond those for which the FID was approved before January 1st, 2022. Considering 2022's LNG capacity additions, the WEO 2022 version of the NZE highlights the need to also end the development of new LNG terminals, beyond those approved by January 1st, 2023.

The completion of some projects that can swiftly enter production and operate for a limited time only – mainly shale oil & gas projects – is not expressly forbidden in the WEO 2022 version of the NZE. The IEA notably stresses that the invasion of Ukraine cannot justify a "new wave of oil and gas infrastructure", and that any new oil and gas fields will make it "even more challenging" to meet carbon neutrality targets and "creates the clear risk that [the 1.5°C] target moves out of reach". Concretely, any such project will require even greater reduction efforts in other sectors and activities.

[5] International Energy Agency, World Energy Outlook 2022, p.164, November 2022

[6] International Energy Agency, World Energy Outlook 2022, p.133-134, November 2022

[7] International Energy Agency, World Energy Outlook 2022, Figure 3.22, November 2022

[8] International Energy Agency, World Energy Outlook 2022, p.64, November 2022
[9] 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.

[10] International Energy Agency, Curtailing Methane Emissions from Fossil Fuel Operations Pathways to a 75% cut by 2030, October 2021