# WHICH REFERENCE SCENARIO FOR WHICH SECTORAL POLICY?

Carbon neutrality objectives aligned with the Paris Agreement's 1.5°C limit on global temperature rise have been adopted in the climate policies of many private actors. However, several pathways exist to achieve these goals, each depending on the ways efforts are distributed across geographical areas, sectors, and time periods.

While scaling global climate scenarios to the level of a company or financial portfolio has methodological limits, the energy sector can rely on the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario (NZE Scenario). This scenario provides a clear and credible pathway to limit global warming to 1.5°C and achieve carbon neutrality by 2050. Updated annually in the IEA's World Energy Outlook (WEO), the NZE Scenario successfully reconciles climate objectives with the need for energy security and a transition aligned with development goals.

With such a scenario in place, energy sector players have no valid reason to avoid their responsibility to follow a pathway aimed at limiting warming to 1.5°C by the end of the century. This is the approach adopted by all French banking groups: as all of them, without exception, refer to the NZE Scenario in their climate policies.[1]

Scenarios can serve as a reference for plotting a course to reduce exposure to fossil fuel sectors, but they must also guide decisions with immediate impact, particularly regarding support for fossil fuel expansion. A 1.5°C global temperature limit can be achieved through various scenarios. To reduce uncertainties linked to some of them, we prefer to focus on scenarios with little or no overshoot and limited reliance on negative emissions technologies.

## 1. IS GAS EXPANSION COMPATIBLE WITH THE 1.5°C GOAL?

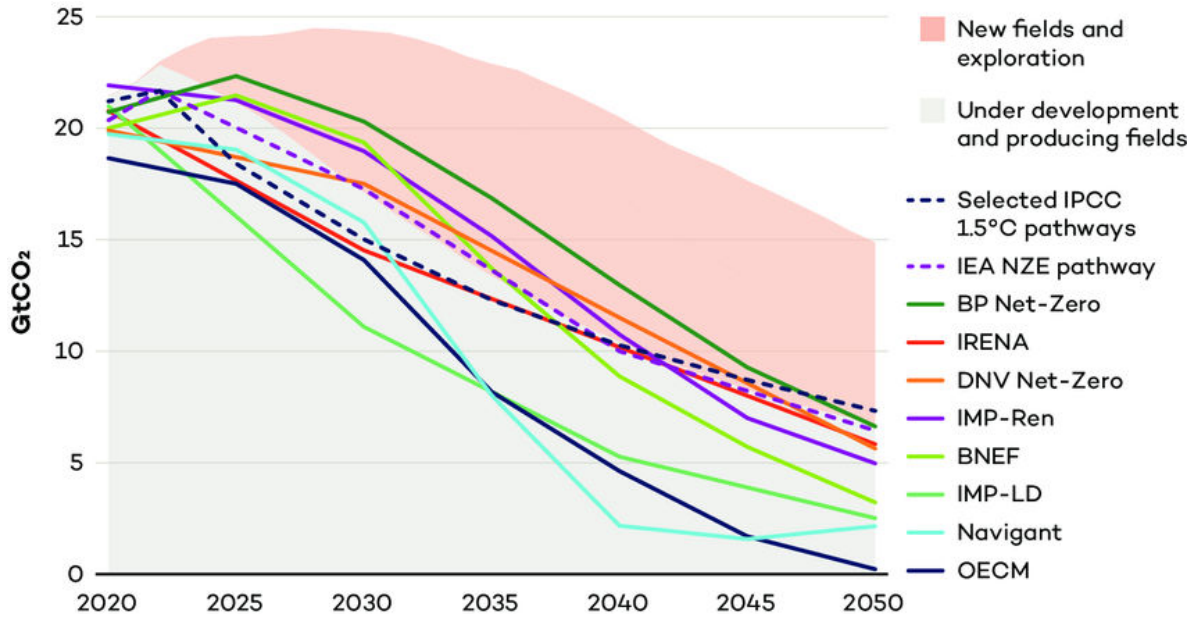
### a. Incompatibility due to carbon budget

All science-based scenarios agree that developing new gas exploration and production projects, or liquefied natural gas (LNG) export terminals, impedes the goal of limiting global warming to 1.5°C - in particular for pathways with little or no overshoot and limited reliance on negative emissions technologies. According to the International Panel on Climate Change (IPCC),[2] this incompatibility arises because "emissions from existing fossil fuel infrastructures already exceed remaining cumulative net CO2 emissions in pathways limiting warming to 1.5°C (>50%) with no or limited overshoot" and "the world must decrease global oil and gas production and consumption by 30% by 2030.... This is equivalent to an annual average decrease of 3% for both oil and gas until the end of the decade."[3]

1. See communications from BNP Paribas, Crédit Agricole, Société Générale, Groupe BPCE, Crédit Mutuel, and La Banque Postale.
2. IPCC, Climate Change 2022: Mitigation of Climate Change, Technical Summary, page 22, March 2023
3. International Institute for Sustainable Development (IISD), Lighting the Path: What IPCC energy pathways tell us about Paris-aligned policies and investments, page 3, June2022

The reduction of fossil fuel production is also highlighted in other scenarios,[4] including: the One Earth Climate Model (OECM)[5] developed by the Net-Zero Asset Owner Alliance (NZAOA), the UNEP's Production Gap Report,[6] and theUN High-Level Expert Group's (HLEG) Integrity Matters report.[7] It has also been confirmed by scientific studies published in Environmental Research Letters,[8] Nature,[9] and from the Tyndall Centre for Climate Change Research.[10]

**Global oil and gas production based on various 1.5°C pathways**




*Source: International Institute for Sustainable Development (IISD), Navigating Energy Transitions: Mapping the road to 1.5°C, October 2022*

### b. LNG Infrastructure overcapacity risks worldwide fossil fuels lock-in

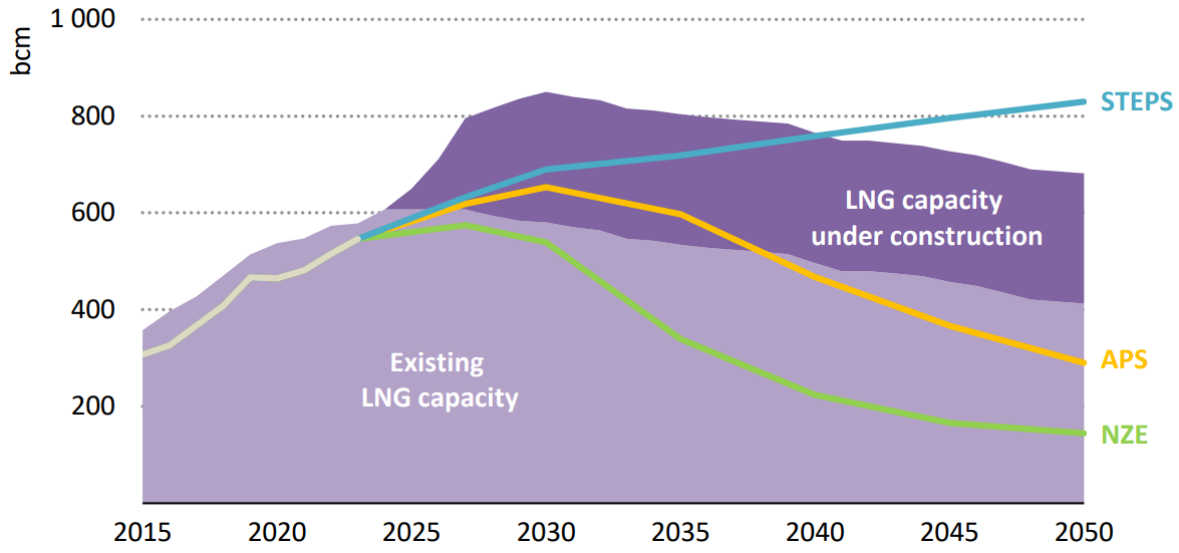
In the IEA's NZE Scenario, the development of new gas projects, including exploration and production and midstream liquefied natural gas (LNG) export terminals,[11] is deemed incompatible with the goal of limiting global warming to 1.5°C. This also applies to LNG terminals, as future global LNG needs are already largely met by existing infrastructure.

In its World Energy Outlook 2024 report, the IEA highlights the risks of overcapacity in LNG infrastructure due to the proliferation of projects, given that existing infrastructure is already more than sufficient.

The global decline in fossil gas demand also justifies halting the development of new LNG import terminals in many regions, such as Europe and South Korea.[12]

4. IISD, Navigating Energy Transitions: Mapping the road to 1.5°C, page 9, October 2022
5. Institute for Sustainable Futures (ISF), Limit global warming to 1.5 °C: Sectoral pathways & Key Performance Indicators, page 37, May 2022
6. SEI, Climate Analytics, E3G, IISD, and UNEP, The Production Gap Report 2023: Phasing down or phasing up? Top fossil fuel producers plan even more extraction despite climate promises, page 16, November 2023
7. UN High-level Expert Group (HLEG) on the Net Zero Emissions Commitments of Non-State Entities, Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions, page 23, November 2022
8. Kelly Trout et al, Existing fossil fuel extraction would warm the world beyond 1.5 °C, Environmental Research Letters, Volume 17, Number 6, May 2022
9. Dan Welsby et al, Unextractable fossil fuels in a 1.5 °C world, Nature, Volume 597, pages 230–234, September 2021
10. The University of Manchester Research, Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets, March 2022
11. IEA, World Energy Outlook 2024, page 239, October 2024
12. Institute for Energy Economics and Financial Analysis (IEEFA), South Korea is building too many LNG import and storage terminals, November 2023

**LNG trade by scenario relative to existing and under construction export capacity to 2050**




*Source : IEA, World Energy Outlook 2024, October 2024*

## 2. ARE FINANCIAL INSTITUTIONS OBLIGED TO ALIGN WITH 1.5°C SCENARIOS?

Given the determinants of the various 1.5°C-aligned energy scenarios compatible with limiting global warming by the end of the century, a financial actor cannot claim to be working to combat climate change if they indiscriminately support fossil fuel companies and projects. Instead, the climate commitments they make require them to mobilize all available resources to maximize the chances of achieving their climate goals.

The primary responsibility of financial actors is to ensure that their activities do not hinder the energy transition. Fossil fuel expansion undermines all transition efforts since it adds to - rather than replaces - sustainable energy sources, failing to significantly reduce greenhouse gas emissions.

Moreover, limiting climate action in order to address energy needs is paradoxical. These two goals are neither contradictory nor of different priority levels. If a financial actor claims to align their business model with the goal of meeting energy needs, they have no reason to shy away from using their discretion to reduce the impact of their financing activities on the energy sector in the name of combating climate change.

### RECOMMENDATIONS

Reclaim Finance calls on financial institutions not to present fossil gas as a transitional energy source and to commit to a complete short-term halt to all financial services that support fossil gas expansion across its value chain, including in the power generation sector. This includes an immediate halt to all support for new gas fields and liquefied natural gas (LNG) export terminals, as well as to the companies developing them.

**Click here to consult our detailed recommendations for financial institutions.**