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Re William Bourne statements at 11 March Committee Meeting: Examining oil & gas company climate targets and questions of engagement and divestment

Dear Pension Fund Committee members,

At the March 11th Pension Fund Committee meeting, William Bourne made a number of statements regarding the climate targets of oil and gas companies, as well as on divestment and engagement.

Examining these statements provides a very good opportunity to scrutinise oil and gas companies' climate-related targets, as well as to look at related questions of engagement and divestment. I will focus particularly on Shell and BP as the Pension Fund's largest oil and gas investments.

I hope you will find the letter informative - in researching this letter my own understanding of these issues has increased. There have been a number of climate-related announcements by oil and gas companies over the last year or so, and it is difficult without close examination to know what they amount to.

At the end of the letter I ask a number of questions which I would like answers to in writing from the Chairperson, on behalf of the Committee.

As Councillor Kerry said at the meeting, things are not black and white, and barely anything is. However, I hope this letter will shine a light on what is happening within the sector.

It will be seen that oil and gas companies' targets and actions continue to fall far short of the ambition required to prevent catastrophic, irreversible climate change. This is true of Shell and BP, despite recent announcements which may at first glance suggest they are taking serious action. There are particularly serious issues with companies' plans over the crucial period to 2030 – what the Transition Pathway Initiative (TPI) has called 'the transition decade' – when science demands very rapid cuts in emissions.

Canada has just announced a 2030 target of a 36% cut in absolute emissions on a 2005 baseline¹. The US and Japan appear likely to announce 2030 targets of at least 40% this week as part of President Biden's global climate summit², with new commitments from South Korea and possibly

¹ <https://www.reuters.com/article/us-canada-budget-climate/canada-sets-new-2030-carbon-reduction-target-to-issue-first-green-bond-idUSKBN2C62MF>

² <https://www.nytimes.com/2021/04/13/climate/biden-climate-change-diplomacy.html>
<https://apnews.com/article/biden-emissions-goals-climate-summit-c02ea56b944d01c812644900fce803e7>

China to follow later in the year³. The UK is reported to be about to announce a 2035 target of a 78% cut in emissions, building on its existing 68% 2030 target⁴.

It should be clear reading this letter that oil and gas companies' 2030 targets are lagging very far behind the policies of many major economies, further increasing climate-related financial risk to investors.

If shareholder engagement is having any effect it is far too slow and limited to prevent oil and gas companies ongoing contributions to catastrophic climate change or to significantly reduce financial risk.

Mr Bourne said "You might not invest in BP and Shell today, but might want to in future". We certainly would not invest in BP and Shell today – and we call again for divestment.

You may be surprised that in principle we would not rule out agreeing with the idea of investing in the future. However, to do so would require a scale of company transformation to clean energy production of which there is currently no sign.

Key targets and definitions

Before addressing Mr Bourne's comments in detail, it is helpful to set out the scientific consensus on action required to prevent climate catastrophe, as well as some key definitions:

The scientific consensus

The scientific consensus is that warming above 1.5°C will lead to runaway, irreversible climate change with catastrophic impacts (IPCC, 2018)⁵.

To have a 66% chance of limiting warming to 1.5°C, global absolute emissions must be reduced by around 50% by 2030, and to net zero around 2050⁶.

To play their fair part in this, oil and gas companies must reduce their absolute emissions by around 50% by 2030, and to net zero around 2050.

Why is the 2030 target so important?

Accumulated concentrations of greenhouse gases in the atmosphere are determined by **cumulative emissions** over time. Atmospheric concentrations will be far lower in a scenario where emissions are reduced 50% to 2030 and decline to net zero by 2050 than they would be if

³ In the US-China Joint Statement issued on 17th April the two countries "committed to..... taking enhanced climate actions that raise ambition in the 2020s in the context of the Paris Agreement" <https://www.state.gov/u-s-china-joint-statement-addressing-the-climate-crisis/>

⁴ City AM quoting the FT, 19th April 2021 <https://www.cityam.com/uk-to-hike-emissions-cut-plans-ahead-of-climate-summit-report/>

⁵ IPCC (2018) Summary for Policymakers, Section C. <https://www.ipcc.ch/sr15/chapter/spm/>

The IPCC gives a figure of 'about 45% from 2010 levels by 2030'. However, emission levels have risen since 2010, bringing us to a figure of around 50% <https://www.iea.org/articles/global-co2-emissions-in-2019>

⁶ *ibid*

substantial reductions take place a lot later. The scientific consensus tells us that it is this first scenario which must occur to give us a reasonable chance of limiting warming to 1.5°C.

Absolute emissions and emissions intensity targets

Understanding the difference between absolute emissions and emissions intensity is key to understanding oil and gas companies' targets.

Absolute emissions are the measure of total emissions from a company.

Emissions intensity is the volume of greenhouse gas emissions per unit of energy produced or sold.

Why does this matter? A reduction in emissions intensity may not correspond at all to a similar reduction in absolute emissions. Two important, related, reasons for this:

- If absolute emissions stay the same, but the number of units of energy sold increases, then emissions intensity will fall without absolute emissions changing.
- Growing low carbon energy sources without reducing fossil fuel production or sales would have this effect. The TPI has highlighted that "There is a concern that oil and gas companies intend to meet decarbonisation goals by growing low-carbon sources, without cutting oil and gas production."⁷ In such a case, a company's absolute emissions and therefore its contribution to climate change would not have been reduced.

Fossil fuel production consistent with 1.5°C

The UN Environment Program's Production Gap Report 2020 found that:

"Between 2020 and 2030, global coal, oil, and gas production would have to decline annually by 11%, 4%, and 3%, respectively, to be consistent with a 1.5°C pathway."⁸

William Bourne's statements – paraphrased but retaining their meaning - will now be looked at.

William Bourne: There is a difference between sector-wide divestment and company-specific divestment. Divestment from the whole fossil fuels sector is not a good idea. BP and Shell are looking to reduce carbon intensity by 45% by 2035.

To approach the question of whether there is a strong case for company-specific or sector-wide divestment, it is vital to look at whether any oil and gas companies have targets under which they will play their part in limiting global temperature rise to 1.5°C.

Mr Bourne appeared to be providing BP's and Shell's 2035 targets as positive examples of engagement success, and presumably therefore views them as somewhere close to adequate.

⁷ Transition Pathway Initiative, May 2020, p. 16

<https://www.transitionpathwayinitiative.org/publications/58.pdf?type=Publication>

⁸ <http://productiongap.org/2020report>. The Production Gap Report: 2020 Special Report from the United Nations Environment Program.

I will look at Shell and BP in more detail. This takes into account climate-related announcements made over the last year.

Shell

- Shell continues to prioritise investment in oil and gas over renewables and low carbon energy sources. In the ‘near term’, it plans annual investment of \$2-3 billion in Renewables and ‘Energy Solutions’, \$4 billion in liquefied natural gas (LNG), and around \$8 billion in oil and gas production⁹.
- Up to and including the year 2035 it only has emissions intensity targets, allowing the company to maintain high levels of oil and gas production.
- Its intensity target for the key period to 2030 is a 20% reduction¹⁰. This is clearly not close to the 50% reduction in absolute emissions required by 2030. The cumulative emissions it will be responsible for to 2030 will help to tip the world towards irreversible climate change with catastrophic impacts.
- As Mr Bourne stated, Shell has a 2035 intensity reduction target of 45%¹¹. This target also falls very far short of the ambition required.
- Going forwards from now, Shell expects a “gradual reduction in oil production of around 1-2% each year”¹² This is not close to the 4% decline required as set out by UNEP (2020).
- Shell plans to increase liquefied natural gas production to at least 2025, saying it will “Extend leadership in liquefied natural gas (LNG) volumes and markets..... to deliver more than 7 million tonnes per annum of new capacity on-stream by middle of the decade”.¹³
- Shell has a 2050 target of a 100% net reduction in emissions intensity. As it is a 100% target this does equate to a 100% absolute target.
- However, to achieve this it is unrealistically reliant on offsetting, and particularly on its customers offsetting emissions from use of Shell’s products. It is also counting on a very large-scale expansion of Carbon Capture and Storage (CCS) over the next 14 years.

More comment on Shell offsetting plans, and CCS

Although it plans demand-side work with customers to help them avoid and reduce emissions, to meet its 2035 intensity target and its 2050 ‘net zero’ target Shell is also reliant on its customers “tak[ing] action on the emissions created by their use of our energy products” (CEO Ben Van

⁹ Royal Dutch Shell PLC Strategy Day 2021, media release: <https://www.shell.com/media/news-and-media-releases/2021/shell-accelerates-drive-for-net-zero-emissions-with-customer-first-strategy.html>

¹⁰ P.2 of https://www.shell.com/energy-and-innovation/the-energy-future/our-climate-target/_jcr_content/par/relatedtopics.stream/1612987226583/4115c96421e7441230e91f1487f44ac2c8e923ab/our-climate-target.pdf

¹¹ ibid

¹² ibid

¹³ ibid

Beurden)¹⁴. For ‘energy products’ read ‘oil and gas’. This ‘action’ would be in the form of offsetting and Carbon Capture and Storage.

Shell has been criticised for a high reliance on offsetting¹⁵ - including planting trees - to allow it to continue to produce oil and gas. This is both Shell paying for offsetting itself, and customers offsetting emissions from use of Shell’s products¹⁶.

In discussing its net emissions targets and how they will be achieved, Shell states that “Climate scientists are clear that using nature to absorb and store carbon plays an important role as the energy system transitions.”¹⁷

This is rather overselling the role of offsets: climate scientists are in fact clear that, while tree planting etc. is an important aspect of climate change mitigation, it is not without key challenges¹⁸ and should certainly not be an excuse for continuing unsustainable levels of oil and gas production, as Shell plans. UNEP (2020) sets out the production declines that are required, which Shell is very far from meeting.

(N.B. In discussing its emissions reduction work with customers, Shell says “We use a hierarchical ‘avoid, reduce and then compensate’ approach”¹⁹. Its continued prioritisation of oil and gas production shows it does not apply this hierarchy to its own activities.)

Shell is counting on a huge expansion of Carbon Capture and Storage (CCS), more than fivefold to 2035 from capacity it currently has planned or built²⁰. There are also serious questions about how customers could use CCS to prevent emissions from use of Shell products: in many cases its use by small scale users (e.g. a motor vehicle using Shell petrol) would be impossible.

BP

- In August 2020, BP made some headline-grabbing announcements: chiefly that it would cut oil and gas production by 40% by 2030, and invest significantly in renewables generation²¹.

¹⁴ Quoted by Reuters, April 16 2020 <https://www.reuters.com/article/us-shell-emissions-idUSKCN21Y0MW>

¹⁵ Union of Concerned Scientists: <https://blog.ucsusa.org/nicole-pinko/conocophillips-exxonmobil-and-chevron-climate-pledges-and-actions-fall-short>

¹⁶ Greenpeace refers to Shell’s reliance on tree planting as ‘impossible’ <https://www.greenpeace.org.uk/news/shells-net-zero-plan-grotesque-and-delusional/>

¹⁷ https://www.shell.com/energy-and-innovation/the-energy-future/our-climate-target/_jcr_content/par/relatedtopics.stream/1612987226583/4115c96421e7441230e91f1487f44ac2c8e923ab/our-climate-target.pdf

¹⁸ Carbon Brief analysis of the UK’s tree planting ambitions comments that “the apparent simplicity of planting trees to “suck” carbon from the atmosphere masks a highly complex issue. Forests are not a “silver bullet” for cutting CO2 emissions...” <https://www.carbonbrief.org/in-depth-qa-how-will-tree-planting-help-the-uk-meet-its-climate-goals>

¹⁹ <https://www.shell.com/shellenergy/othersolutions/welcome-to-shell-environmental-products/working-with-customers-to-compensate-for-their-emissions.html>

²⁰ Royal Dutch Shell PLC Strategy Day 2021, media release: <https://www.shell.com/media/news-and-media-releases/2021/shell-accelerates-drive-for-net-zero-emissions-with-customer-first-strategy.html>

²¹ Reuters, August 4, 2020: <https://www.reuters.com/article/us-bp-outlook-idUSKCN2500NH>

- However, the company has stated that its absolute emissions from its marketed products (Scope 3 emissions) are set to rise to 2030. Scope 3 represents the vast majority of its emissions. Consensus science demands a 50% reduction.
- BP has no absolute emissions targets.
- Its intensity targets to 2030 – particularly those relating to Scope 3 emissions - are completely inadequate.
- It does not include the majority of Scope 3 emissions in its intensity targets.

I will now look at BP's intensity targets and absolute emissions in more detail:

Intensity targets

Although I believe stated by Mr Bourne that it has, I am unsure that BP has a 2035 emissions intensity target. It has 2030 intensity targets across several company 'Aims':

- **Aim 1** – emissions from operations, 30-35% lower than in 2019;
- **Aim 2** – emissions associated with the carbon in BP's upstream oil and gas production, 35-40% lower than in 2019;
- **Aim 3** – carbon intensity of marketed products, more than 15% lower than in 2019²²

Of these, Aim 3 is most important, as the vast majority of the company's emissions are from marketed products (Scope 3 emissions). It can be seen that its Scope 3 2030 intensity target is only 15%. This must again be viewed against the consensus science, which demands a 50% reduction in absolute emissions.

BP's 2050 target is to cut the carbon intensity of the products it sells by 50% by 2050²³. It is difficult to see how this equates to 'net zero'.

Further, according to the TPI, this Scope 3 target in fact only covers 41% of the companies externally sold energy²⁴.

Absolute emissions set to rise to 2030

Regarding absolute emissions, in September 2020, Giulia Chierchia, BP Executive Vice President, Strategy and Sustainability, clarified that:

"We do expect the absolute level of emissions associated with our marketed products to grow out to 2030, even as the carbon intensity covered by Aim 3 falls."²⁵

²² Delivering BP's Net Zero Ambition: <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/from-international-oil-company-to-integrated-energy-company-bp-sets-out-strategy-for-decade-of-delivery-towards-net-zero-ambition.html>

²³ <https://www.bp.com/en/global/corporate/who-we-are/our-ambition/our-aims.html>

²⁴ TPI, May 2020, p.10 <https://www.transitionpathwayinitiative.org/publications/58.pdf?type=Publication>

²⁵ See p.16 of Reimagining Energy Presentation, BP Week, September 2020 <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bpweek/bpweek-reimagining-energy-slides-and-script.pdf>

The Union of Concerned Scientists comments:

“Apparently any emissions reductions associated with the company’s plan to reduce its oil and gas production 40% by 2030 will be more than offset by increased emissions from the oil and gas that BP plans to purchase from other producers and bring to market. Absent any limits on what other companies produce, they will simply expand production to sell to BP. Thus, BP’s plan to reduce production by 2030 appears to provide *absolutely no reduction* in the company’s contribution to climate change.”²⁶

Falling intensity but rising absolute emissions is the scenario discussed in the ‘key targets and definitions’ section earlier in this letter, or in fact a worse one. To achieve it requires BP to be selling more energy while having (more slowly) rising absolute Scope 3 emissions.

A 15% intensity cut and a rise in absolute emissions to 2030 represent appalling corporate negligence in the face of the halving in absolute emissions that science tells us is required.

William Bourne: Shareholders putting pressure on BP and Shell has had an effect.

The above analysis of Shell’s and BP’s plans shows that – if engagement from shareholders has indeed played any significant role in the companies increasing their climate ambitions²⁷ – it has not produced anything like the scale of change required.

This is especially so over the crucial period to 2030. The companies continue to focus on oil and gas production instead of the rapid transition required.

William Bourne: Most oil and gas companies are looking to achieve net zero 2050

It is the case that most European oil and gas majors have some form of ‘net zero’ 2050 target that includes Scope 3 emissions²⁸. However, it is also true that in most cases these targets are only for emissions intensity, rather than absolute emissions²⁹.

The Transition Pathway Initiative’s May 2020 assessment of European oil and gas majors concluded that none were aligned with 2°C, let alone 1.5°C³⁰.

It also concluded that no non-European oil and gas company was aligned with even the Paris pledges benchmark (at the time of the assessment a 3.2°C temperature rise), let alone 2°C or lower³¹.

²⁶ <https://blog.ucsusa.org/peter-frumhoff/is-bp-finally-committing-to-ambitious-climate-action-or-about-to-fool-us-twice-five-things-to-look-for-in-its-climate-strategy>

²⁷ Tightening international climate policy is likely to have played a decisive role in company decisions, while societal pressure, including quite possibly from divestment campaigns, is also likely to have been an influence.

²⁸ TPI, May 2020

²⁹ Ibid. See also 28, 29 and 30 for US companies.

³⁰ Ibid. Since this assessment Shell has increased the ambition of its intensity targets. Its new targets have been discussed above. It appears impossible that they could be aligned with 1.5°C, in particular due to the lack of action to 2030.

³¹ Ibid, p.18

Of the three largest US companies:

- Chevron does not have a net zero target, and plans to expand oil and gas production to 2025.³²
- ExxonMobil does not have a net zero target, and does not have Scope 3 emissions targets.³³
- ConocoPhillips has a 'net zero' target, but this relates only to operational emissions and does not include Scope 3.³⁴

William Bourne: Divestment would not remove capital from oil and gas companies, because others would buy shares. It would (though) send a signal.

I am glad that Mr Bourne believes that divestment would send a signal to companies that its activities are unacceptable.

The argument that capital would not be removed from companies by selling shares, and that the opportunity to positively influence companies would be lost, was made by Mr Bourne and has been made by senior Officers on numerous occasions.

Taken in itself, this argument can be seen to place the opportunity to engage above more important considerations.

The ability to engage is not an excuse for holding shares which have over a number of years given poor returns and which carry high climate-related risk.

This risk may not be equal for all oil and gas companies, but it is very high for all of them. No oil and gas company is anywhere close to meeting their responsibilities in preventing catastrophic climate change.

It is well established what is required of oil and gas companies: a very rapid decline in production beginning immediately, and very rapid transition to zero carbon energy sources. Every company continues to drag its heels.

This compounds the risk to investors: If companies do decide to act as they should over the next decade, they face further stranding of fossil fuels reserves, as well as of exploration and production assets³⁵.

Imminent major increases in 2030 ambition by some of the world's largest economies will increase climate-related financial risk to the sector even more, by pushing companies further behind international climate policy.

³² <https://www.reuters.com/article/us-chevron-outlook-idUSKBN2B11ND>

³³ https://corporate.exxonmobil.com/News/Newsroom/News-releases/2020/1214_ExxonMobil-announces-2025-emissions-reductions-expects-to-meet-2020-plan

³⁴ <https://www.conocophillips.com/sustainability/managing-climate-related-risks/metrics-targets/ghg-target/>

³⁵ In 2020 Shell and BP wrote-down a combined \$40bn in stranded assets. Fortune magazine called this 'the tip of the iceberg for fossil fuels' <https://fortune.com/2020/06/30/shell-22-billion-write-down-fossil-fuel-assets-net-zero/>

Concluding comments and questions.

Mr Bourne called for a distinction to be made between company-specific and sector-wide divestment. However, when every company is pushing us towards catastrophic impacts and is far behind the curve of international climate policy there is no need for such a distinction to be made.

Shell may be 'industry leading', but in an industry leading us to runaway climate change. Extreme weather is already impacting the people of Nottinghamshire.

Engagement is failing to make much impact, and the ongoing focus on it appears to serve – even if unintentionally – to reduce focus on the level of financial risk the entire sector is at.

In light of the information set out in this letter, and as a member of the Pension Fund, I kindly request answers to the following questions:

- Do you agree that the targets and activities of all oil and gas companies are inconsistent with preventing catastrophic climate change?
- What is your assessment of the level of climate-related financial risk of each individual oil and gas company that the Pension fund currently invests in? Do imminent announcements by the US and others of increased 2030 ambition increase climate-related risk for every oil and gas company? Do you agree climate-related financial-risk is unacceptably high for every company?
- Do you agree that engagement is not having the required impact on the targets and activities of oil and gas companies?
- Will the Pension Fund therefore divest from all oil and gas companies?
- As many large economies take major steps towards 1.5°C-alignment, will the Pension Fund take action to align its investments with 1.5°C-consistent pathways? Will it take further action – beyond that already planned – to increase investment in companies and industries which are helping to mitigate climate change?

I request answers from the Chairperson, on behalf of the Committee. Committee members – rather than Officers – are the decisions-makers and are accountable as such.

Many thanks for your time in reading this.

Yours sincerely,

Michael Howard

Divest Notts