

ESG Viewpoint

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Key risks

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

BP sets a course for net zero

A major commitment to become a “net-zero operating” company by 2050 was unveiled by BP’s new CEO Bernard Looney, as he set out his ambitions for the oil supermajor. This commitment aims to address the long-standing question of whether oil & gas companies can transform themselves in response to the low-carbon energy transition.

It has defined the destination of the company in 2050, while leaving open a range of options for the management to identify the transition pathway suitable to its business model as energy policy and technology evolve. This means that BP would still invest in oil & gas assets, at least in short term, while developing low carbon ventures to support its long-term growth.

It is, in our view, a commitment comparable to some other major international oil companies, including Shell, which committed to halving its net carbon footprint by 2050 last year. We believe that it is essential for companies in the sector to come up with a uniform way to communicate their commitments, e.g. benchmarking them to the ambitions set out in the Paris Agreement.

BP’s move also further widens the gulf between the European companies, which have taken more progressive steps, including companies such as Equinor and Total with their substantial clean energy investments and Repsol with its own net zero target, and oil and gas companies in the rest of the world, which largely remain on a business-as-usual trajectory. Despite concerted investor engagement efforts through the Climate Action 100+ initiative, US supermajors including ExxonMobil and Chevron have barely shifted their core business strategies, and have yet to set long-term Paris-aligned targets.

The key question for us as investors is how BP will implement its commitment, on which the management will give more details in September 2020. We believe that achieving the goal will require a comprehensive and holistic consideration of

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It is essential for companies in the oil & gas sector to come up with a uniform way to communicate their commitments

carbon neutrality across all the aspects of BP's operations to resist the temptation of continuing to scale its oil and gas assets for short-term gains.

We would expect the company to decarbonise its business strategy to the maximum possible extent, avoiding excessive reliance on potentially expensive carbon offsets to net zero emissions. This demands an immediate and urgent shift in both research & development and capital expenditure plans. BP's progress in these areas slowed significantly after its 'Beyond Petroleum' strategy from the early 2000s ran into difficulties, and it now lags peers such as Total, which has built one of the world's largest solar businesses.

Steps we would recommend include:

- ✓ A review of the internal carbon price used in project assessments, including an assessment of potential offsetting costs
- ✓ An improved mechanism to veto fossil fuel investments if such additional supply does not align with the ambition set out in the Paris Agreement, a key ask in the resolution from Climate Action 100+ investors at the 2019 AGM
- ✓ A significant scaling up of clean tech research funding
- ✓ Identification and disclosure of which low-carbon technology pathways the company will be pursuing
- ✓ Executive remuneration structures linked to the achievement of milestones in the climate strategy

We have been engaging with BP for two decades, both on an individual basis and through collaborative engagement initiatives such as Climate Action 100+, with close to 200 meetings, calls, emails and letters. We believe the new management team is genuinely committed to the zero carbon commitment, and that it is deliverable. We look forward to seeing more details on its decarbonisation strategy and will continue the constructive dialogue with the management team to ensure that BP is ahead of the curve in the low carbon energy transition.

BP's Commitment to be Net Zero by 2050:

Five aims related to BP's emissions:

- 1 Net zero across BP's operations on an absolute basis by 2050 or sooner.
- 2 Net zero on carbon in BP's oil and gas production on an absolute basis by 2050 or sooner.
- 3 50% cut in the carbon intensity of products BP sells by 2050 or sooner.
- 4 Install methane measurement at all BP's major oil and gas processing sites by 2023 and reduce methane intensity of operations by 50%.
- 5 Increase the proportion of investment into non-oil and gas businesses over time.

Five aims related to the world's emissions:

- 1 More active advocacy for policies that support net zero, including carbon pricing.
- 2 Further incentivise BP's workforce to deliver aims and mobilise them to advocate for net zero.
- 3 Set new expectations for relationships with trade associations.
- 4 Aim to be recognised as a leader for transparency of reporting, including supporting the recommendations of the TCFD.
- 5 Launch a new team to help countries, cities and large companies decarbonise.

https://www.bp.com/en/global/corporate/who-we-are/reimagining-energy.html?gclid=EAlaQobChMI-MzG_obb5wiVDbDtCh1KSgn4EAAYASAAEgl_S_D_BwE

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