Two Years After ‘Aiming for A’: Where Are We Now?

This report discusses BP Plc’s response to the 2015 shareholder resolution on climate disclosure co-filed by ShareAction and outlines how investors might respond.
The ‘Aiming for A’ resolution filed at BP Plc, which passed with 98.28% of the vote in May 2015 can be found below. The full supporting statement is in Appendix 1.

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2017 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency’s (IEA’s) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company’s Annual Report and Sustainable Development Report.
Executive summary

Background

In December 2014, as concern grew among investors that the oil and gas sector was not adequately preparing itself for rapidly occurring industrial changes, a coalition of shareholders filed a resolution at each of BP plc and Royal Dutch Shell plc. These resolutions called on the companies to produce enhanced disclosures on how they were preparing to adapt their business models and capital expenditure plans in the context of the global shift to a low carbon energy mix. Since the passage of the resolution at BP’s AGM in April 2015, the world has continued to change for the oil and gas sector. These changes have been keenly felt by investors, and many are expressing a sharper appetite for action by firms in the integrated oil and gas sector to manage climate-related financial risk.

Investors in conventional oil and gas companies face a number of different challenges in a world that is experiencing and responding to climate change. On the one hand, rapid advances towards a decarbonised energy mix threaten to kill demand for hydrocarbons. An even greater danger is posed if hydrocarbons continue to be produced and consumed as they are today. Investors face potential costs across large parts of their portfolios through the systemic risks that unmitigated temperature rises pose for the global economy. These challenges speak to the urgent need to ensure that the oil and gas majors are transitioning towards low carbon resilience, and doing so in a manner that protects shareholders’ capital.

The ‘Aiming for A’ resolutions at BP and Shell called for increased disclosures on the companies’ assessments and management of these risks to their short, medium and long-term commercial resilience. Two years on, ShareAction finds that BP, as expected, has fulfilled the minimum requirements of the resolution. However, the company’s disclosures are weak in certain areas – as detailed in this report. More importantly, BP’s disclosures on climate-related risk management lend no comfort that the board has grasped the pace of the low-carbon transition, nor the risks this presents to the preservation of shareholders’ capital.

The successful filing of the ‘Aiming for A’ resolutions paved the way for subsequent shareholder resolutions on climate-related disclosure at oil and gas companies such as Exxon and Occidental Petroleum, and at other high-carbon companies in the mining and utilities sectors. These pioneering resolutions set the scene for the establishment of the Task Force on Climate-Related Financial Disclosures. While enhanced disclosures are critical to investor risk management, investors must focus on the underlying risks not merely on the quality and quantity of corporate reporting on climate-related risk. This report analyses the progress made by BP with respect, to the disclosures mandated by the ‘Aiming for A’ resolution, but seeks to go beyond this, by analysing what these disclosures reveal about the risk on the table for shareholders in BP.

This report provides a detailed analysis of BP’s response to date, and makes recommendations to inform investor engagement with the company. In particular, it is written to support the ongoing engagement of the original co-filers of the 2015 resolution and signatories to the Global Investor Statement on Climate Change, representing 409 investors across the world with more than US $24 trillion in assets under management. It should assist the ongoing work of member organisations including the Principles for Responsible Investment (PRI), Asia Investor Group on Climate Change, Ceres, the Investor Group on Climate Change (IGCC) and the Institutional Investors Group on Climate Change (IIGCC). The investors in these organisations, most of whom invest on behalf of pension savers in economies across the world, have a fiduciary duty to protect savers from investment risks in high-carbon companies.

We believe that fiduciary investors with a holding in BP should now escalate engagement with the company in order to protect capital and achieve a swift, orderly transition to a low carbon economy. Investors should be asking for a clear strategy, with milestones for implementation, that moves the company away from high risk, high-carbon assets. Such action would safeguard capital under highly disruptive low-carbon scenarios that look increasingly realistic in light of technological and
public policy developments following the Paris Agreement.

BP has worked hard over the last two years to reduce operating costs, resulting in improved free cash flows. Before the board of BP commits to their next capital expenditure (capex) cycle, investors should robustly question the likely return on capital deployed in new high carbon projects given changes afoot in the wider global energy industry. ShareAction outlines its analysis of capex risks in greater detail in a separate investor briefing, soon to be published.

In this paper, we highlight a number of actions investors can take to address the shortcomings in BP’s response to date, and to protect their capital:

Voting

We encourage investors to vote in support of shareholder resolutions that mandate the business to align its strategy with the goals of the Paris Climate Agreement.

Engagement

This document runs through the five areas of the 2015 ‘Aiming for A’ resolution and highlights where BP has either addressed the relevant risks or fallen short of doing so. Given progress, ShareAction believes investors should escalate their engagement with BP, according to the challenges and recommendations provided below.

Summary of key recommendations and challenges

Greenhouse gas emissions (GHG) management

BP’s operations are highly emissions intensive and remain so two years on from the resolution.

Shareholders should request that BP:

- Sets ambitious targets to reduce emissions relating to the company’s operations (i.e. Scope 1 and 2 emissions). These should cover both absolute emissions at a company-wide level and emissions per unit of energy produced and used in key divisions and projects
- Reports to shareholders on the impacts of carbon pricing on demand for the company’s products
- Outlines a plan for reducing total lifecycle emissions (i.e. Scope 1, 2 and 3) as part of the company’s low carbon transition strategy

Asset portfolio resilience to post-2035 scenarios

BP has a diverse portfolio of assets (operational and in reserve). Shareholders should request that BP:

- Provides more detailed analysis on the resilience of its portfolio of assets (operational and in reserve) to its ‘even faster transition’ scenario
- Outlines a plan, with quantifiable milestones, to make the company commercially resilient against the IEA’s 450 scenario, explaining in the company’s audited annual report how this is being operationalised in respect of capital allocation decisions

Low-carbon energy R&D and investment strategies

BP’s total investment in renewable and clean technologies has shrunk since 2005. Shareholders should request that BP:

- Outlines in greater detail how executive management is assessing the opportunities and risks around diversification into low-carbon assets and opportunities, including its plans and options for low-carbon R&D
Strategic KPIs and executive incentives

BP’s shareholders voted through a new 3-year executive pay policy in May 2017. Shareholders should request that BP:

• Clarifies how low-carbon transition scenarios will be articulated in the ‘strategic progress’ performance metric for the allocation of performance shares
• Reduces or eliminates volume-based KPIs, and includes instead ‘per share’ indicators that align the interests of long-term shareholders with management in the context of heightened uncertainty for integrated oil and gas companies

Public policy interventions

Oil and gas companies have been energetic lobbyists, and BP is no exception. At times the positions taken by high-carbon companies are inconsistent with shareholders’ long-term interest in a swift and orderly low-carbon transition. Shareholders should request that BP:

• Discloses membership of all entities to which the company is linked or those that act on its behalf on climate or energy policy
• Discloses the company’s position on upcoming climate legislation in different jurisdictions across the world
• Outlines a policy for dealing with member-led bodies whose climate-related policy and lobbying contradicts BP’s own corporate plans and initiatives
This section of the report analyses BP’s response to the five areas on which the firm is mandated to provide further information following the successful passing of the 2015 ‘Aiming for A’ shareholder resolution.

Disappointingly, BP has not provided a single, formal response to the resolution in either 2016 or 2017. However, documents taken into consideration for this analysis include the BP Technology Outlook, Strategy Update, Sustainability Report, Energy Outlook and Annual Report. While parts of these documents respond to many of the concerns outlined in the resolution, this report analyses the key areas where the company is continuing to fall short, and suggests how investors might engage is encouraging BP to set its business on a path that is consistent with the goals in the Paris Climate Agreement.

Greenhouse gas (GHG) emissions management

The 2015 ‘Aiming for A’ resolution directed BP to report on how it is seeking to manage its operational emissions. A more holistic approach to addressing the firm’s GHG footprint would address Scope 3 emissions, which make up around 80-90% of BP’s total lifecycle GHG emissions. These include emissions of BP’s customers and ultimate product users.

<table>
<thead>
<tr>
<th>Key findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>• BP does not yet publish a target for reducing its Scope 1 or 2 emissions, although it is working on initiatives to address these in different parts of the business</td>
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<tr>
<td>• BP does not describe a strategy to reduce its Scope 3 emissions, although it has initiatives underway (such as its lubricants business) that could assist with this</td>
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</table>

Scope 1 and 2 emissions

BP notes that it is focusing on reducing its operational GHG emissions, by working to hone the energy efficiency of its operations, reduce flaring, and decrease methane emissions. As Table 1 shows, BP’s direct GHG emissions increased by just over 1 million tonnes of CO₂ equivalent from 2015 to 2016.3

Scope 3 emissions

The largest proportion of BP’s emissions are not operational, but those expended by consumers (roughly 80-90%). While BP has not set specific goals for reducing Scope 3 emissions, the firm describes strategies that will help customers reduce their emissions, and this is welcome.

In industrialised countries, BP applies an internal carbon price of $40 per tonne of CO₂ equivalent, and stress tests at $80 per tonne. While positive,

### Table 1: BP Greenhouse Gas Emissions

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</thead>
<tbody>
<tr>
<td>Direct carbon dioxide (CO₂) (million tonnes (Mt))</td>
<td>56.4</td>
<td>47.0</td>
<td>45.5</td>
<td>45.1</td>
<td>46.1</td>
</tr>
<tr>
<td>Direct methane (Mt)</td>
<td>0.17</td>
<td>0.16</td>
<td>0.15</td>
<td>0.16</td>
<td>0.16</td>
</tr>
<tr>
<td>Direct greenhouse gas (GHG) (MtCO₂ equivalent (CO₂-e))</td>
<td>59.8</td>
<td>50.3</td>
<td>48.7</td>
<td>49.0</td>
<td>50.1</td>
</tr>
<tr>
<td>Indirect carbon dioxide (CO₂-e) (Mt)</td>
<td>8.4</td>
<td>6.7</td>
<td>6.8</td>
<td>6.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Real sustainable reductions in GHG emissions* (MtCO₂-e)</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Greenhouse gas intensity (tCO₂-e per unit)</td>
<td>29.2</td>
<td>30.1</td>
<td>32.0</td>
<td>32.7</td>
<td>34.7</td>
</tr>
<tr>
<td>Refining (per utilized equivalent distillation capacity)</td>
<td>901</td>
<td>995</td>
<td>978</td>
<td>944</td>
<td>951</td>
</tr>
<tr>
<td>Petrochemicals (per thousand tonnes)</td>
<td>293</td>
<td>283</td>
<td>291</td>
<td>290</td>
<td>287</td>
</tr>
<tr>
<td>Flaring* (upstream) (thousand tonnes (kt) of hydrocarbons)</td>
<td>1,548</td>
<td>2,028</td>
<td>2,188</td>
<td>1,863</td>
<td>1,886</td>
</tr>
<tr>
<td>Customer emissions* (MtCO₂-e)</td>
<td>517</td>
<td>472</td>
<td>406</td>
<td>402</td>
<td>395</td>
</tr>
<tr>
<td>Carbon dioxide avoided through our renewables business (MtCO₂-e)</td>
<td>2.4</td>
<td>2.9</td>
<td>3.2</td>
<td>3.3</td>
<td>3.1</td>
</tr>
</tbody>
</table>
this is limited as it only applies to operational emissions, rather than those expended by consumers. Carbon prices are aimed at incentivising reduced fossil fuel consumption and are a policy mechanism that BP has publicly supported. The impacts of a carbon price on Scope 3 emissions would be significant for BP’s business, as it would reduce demand for fossil fuels and increase the competitiveness of renewables.

**Key recommendations**

Shareholders should request that BP:

- Sets ambitious targets to reduce emissions relating to the company’s operations (i.e. Scope 1 and 2 emissions). These should cover both absolute emissions at a company-wide level and emissions per unit of energy produced and used in key divisions and projects

- Reports to shareholders on the impacts of carbon pricing on demand for the company’s products

- Outlines a plan for reducing total lifecycle emissions (i.e. Scope 1, 2 and 3) as part of the company’s low-carbon transition strategy

**Asset portfolio resilience to post-2035 scenarios**

A key concern for investors is that oil companies are misallocating capital for green or brown field growth projects whose economics are at risk under different lower-carbon economy scenarios. To mitigate this risk, shareholders need assurance that firms have a long-term transition strategy to diversify their business lines, and/or return more cash to shareholders. This will ensure that the companies’ portfolios are resilient to low-carbon scenarios where demand for hydrocarbons is falling.

![Figure 1: BP Carbon emissions scenarios, 2017](source.png)
Key findings

- BP's new ‘even faster transition’ scenario is a positive step. Nonetheless, this scenario is considered as an alternative. Its ‘base case’ scenario for business planning is consistent with 3–5°C+ of warming, an outcome which is unacceptable and highly risky for many of BP’s investors.

- BP does not provide in-depth or quantitative analysis of the firm’s commercial resilience under the ‘even faster transition’ scenario or other even more disruptive low carbon scenarios. This is not reassuring given BP’s long track record of badly misjudging the speed of renewables growth in the global economy.

- BP states that its strategy is resilient to a range of outcomes, including its lower-carbon scenarios. While it is welcome that BP is increasingly open to low-carbon strategic alignment, it is not clear if the firm has a robust strategy in place to ensure resilience under more disruptive low-carbon scenarios.

BP’s new ‘even faster transition’ is aligned with the IEA 450 scenario, consistent with a 50% chance of limiting temperature rises to 2°C. This scenario depends on the rapid scaling up of low emissions technologies (see graph below).

In its 2017 strategy update, BP notes that its “strategy and investment choices are robust to a range of scenarios and, given the uncertainties of the energy outlook, should not be fixed on a single view”.

The three scenarios considered are a return to the oil price cycle, oil and gas oversupply, and ‘faster transition’ cases.

Investors should encourage BP to publish the sort of analysis undertaken by some of its peers. Statoil disclosed to shareholders the Net Present Value (NPV) at risk under IEA 450 scenario and Total SA now uses IEA 450 as its base case for planning.

It is encouraging that BP is increasingly open to aligning its strategy and investment decisions with low-demand, low-carbon outcomes. However, it is not clear that BP sees these scenarios as likely.

For instance, Chief Executive Officer, Bob Dudley, recently stated "we see oil and gas continuing to meet at least half of all demand for the next several decades".

BP plans on investing $200 million a year in its lower-carbon pillar... This represents a decline from its 2005 planned expenditure of $800m.

Table 2 raises questions about whether BP’s current strategy is resilient to a Paris-compliant world. With the sector’s poor record on capital planning and allocation, the burden of proof falls on BP’s board to demonstrate to investors that its strategy will protect shareholder capital in the case of a scenario where demand for hydrocarbons falls more quickly than Bob Dudley and his management team currently expect.
**Table 2: BP strategic priorities**

<table>
<thead>
<tr>
<th>Strategic priority</th>
<th>Challenges to low-carbon resilience</th>
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<tbody>
<tr>
<td>Shift to gas and advantaged oil in the upstream</td>
<td>BP states that it is looking to get ‘back to growth’, and seeks to expand oil production by around 1 million barrels of oil equivalent per day by 2021. We encourage investors to question whether hydrocarbon growth is the most prudent way that BP could be allocating capital as it prepares for low-carbon resilience. BP has prioritised a number of growth areas: large deep-water developments; natural gas and liquified natural gas (LNG). All of these developments have economic challenges in a carbon constrained environment which are outlined in a number of research pieces listed in the endnotes of this piece:</td>
</tr>
<tr>
<td>• Deepwater – high development costs&lt;sup&gt;8,9&lt;/sup&gt;</td>
<td></td>
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<tr>
<td>• Natural gas – uncertain demand forecasts&lt;sup&gt;10,11,12&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>• Liquefied natural gas (LNG) – high capital cost and stranded asset risk&lt;sup&gt;13&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Market-led growth in the downstream</td>
<td>Low-carbon trends could pose both risks and opportunities for this component of the business model. Investors may question how BP’s strategy would perform under disruptive scenarios, including a drive to curb high-contaminant fuels, like diesel&lt;sup&gt;14&lt;/sup&gt;, and a take-off in additive manufacturing. Indeed, BP has acknowledged that additive manufacturing could reduce demand in the maritime freight industry for international bunker fuel.&lt;sup&gt;15&lt;/sup&gt;</td>
</tr>
<tr>
<td>Venturing and low-carbon across multiple fronts</td>
<td>One of the pillars of BP’s new strategy is “being involved in the transition to a lower carbon future”.&lt;sup&gt;16&lt;/sup&gt; BP plans on investing $200 million a year in its lower-carbon pillar, comprising 1.3% of the total capital expenditure. However, this figure represents a significant decline from its 2005 planned expenditure of $800m.</td>
</tr>
<tr>
<td>Modernising the group</td>
<td>The information publicly available canvasses five areas where the company has scope to improve. However, it is insufficient for investors to determine if and how BP would achieve this objective.</td>
</tr>
</tbody>
</table>
Portfolio and equity assets

BP has a 19.75% equity interest in Rosneft. Carbon Tracker listed Rosneft as having the third highest level of unnecessary capex under the IEA 450 scenario, with over $69bn capex committed to projects with breakeven prices of over $80 per barrel. Rosneft has recently expanded its Arctic ventures – projects which tend to sit at the higher end of the cost curve. Investors might question how BP’s ambition to be ‘fit for the future’ extends into its exposure to Rosneft.

Key recommendations

Shareholders should request that BP:

- Provides more detailed analysis on the resilience of its portfolio of assets (operational and in reserve) to its ‘even faster transition’ scenario
- Outlines a plan, with quantifiable milestones, to make the company commercially resilient against the IEA’s 450 scenario, explaining in the company’s audited annual report how this is being operationalised in respect of capital allocation decisions

Low-carbon energy R&D and investment strategies

ShareAction questions whether all oil & gas companies will have the necessary competencies to successfully move into unfamiliar markets. Although DONG Energy is an encouraging example of a firm that has used fossil fuel revenues to shift into renewables, value will be at risk if firms deploy large amount of shareholder capital into renewable projects that are not commercially successful. It is therefore incumbent upon companies such as BP to ask if it would be more prudent to rapidly build strategic capabilities, such as re-skilling their workforce, or acquiring human capital in order to transition into green energy, or instead, to exercise fiscal discipline by returning cash to shareholders.

One of the steps BP has taken to position itself for a lower-carbon world is tilting its portfolio towards natural gas alongside various small-scale capital investments in renewable projects and technologies. Nevertheless, this transition is not taking place at a fast enough pace or scale to adequately prepare BP for <2°C.

Key findings

- BP allocated 1.3% of its annual capex to its ‘lower-carbon’ strategic pillar. While it is prudent not to allocate capital into areas where the firm may not be able to make competitive returns, BP should be encouraged to communicate an alternative strategy for transitioning for <2°C resilience, if it does not envision a wholesale business diversification
- The role of gas as a bridging fuel faces challenges from potential low-demand scenarios and associated methane potency

The shift to gas

Around half of BP’s upstream portfolio is currently made up of natural gas, with the share set to rise to 60% within a decade. These investments are partially explained by the fuel’s lower emissions content than coal and oil. Yet research from the Stockholm Environmental Institute finds that it can only be considered a bridging fuel if robust guardrails are applied, including: eliminating methane leakages, strategically yielding the greatest substitution effect by displacing coal, and preventing low-carbon technology lock-out (i.e., developments in gas made at the expense of progress in renewables). However, a recent study found that natural gas power plants release up to 120 times more methane than earlier estimates suggested. In light of these challenges, investors might query if investments, particularly in higher-cost shale oil and gas, represent the most prudent future option.

Moreover, a number of challenges threaten the short, medium and long-term forecasts for gas demand, which pose further threats to BP’s emphasis on gas. The International Gas Union’s 2016 World LNG Report predicts weak demand
from Asia, and stagnant growth in China are also cutting into demand projections. Analysis from Deloitte highlights a number of potential disruptions to LNG markets, including excess global liquefaction capacity, price volatility and global competition from renewable energy growth. For example, recent analysis by Australia’s largest integrated energy company found that the combined use of wind, solar and battery storage is already cheaper than new gas generators. Analysis in the UK has also shown that coal power has been substituted by wind, solar and energy efficiency gains, rather than gas.

Renewable technologies

BP plans on investing $200 million a year in its lower-carbon pillar, with projects including wind energy and Brazilian biofuels. This represents 1.3% of the company’s total capital expenditure (around $15bn). This is lower than previous years: in 2005, BP announced plans to spend $800m a year on renewable energy. Deputy CEO Lamar McKay recently stated “we’re going to do more venturing, more experimentation and more partnerships. In other words – not very high capital acquisitions… [We’re] anticipating a high failure rate.”

This is a prudent approach which could prevent shareholder value from being destroyed in the case that BP manages to successfully diversify its business model. However, according to the BP “even faster transition” scenario, energy consumption from renewables and other sources would account for more than 40% of total consumption in 2035, thereby far surpassing low-carbon expenditure planned for by the company to date.

Key recommendations

Shareholders should request that BP:

- Outlines in greater detail how executive management is assessing the opportunities and risks around diversification into low-carbon assets and opportunities, including its plans and options for low-carbon R&D
Strategic KPIs and executive incentives

The supporting statement for the 2015 resolution specified: “Transitions that span decades are complex to manage and often require lead indicators and incentives. Investors are interested in BP’s evolving approach to KPIs and executive incentives, in the context of the transition to a low-carbon economy”.

While certain volume-based remuneration incentives have been removed, there is little clarity regarding how KPIs encourage business leaders to plan the company for resilience under <2°C.

Since strategy determines a firm’s KPIs and executive incentives, companies must first clarify their long-term plans and strategic direction. Depending on the pathway pursued, different indicators and incentives might be appropriate. Currently, there is insufficient evidence of progress on this element of the resolution. While certain volume-based remuneration incentives have been removed, there is little clarity regarding how KPIs encourage business leaders to plan the company for resilience under <2°C.

Key findings

- BP has removed the Reserves Replacement Ratio (RRR) from its remuneration policy incentive schemes, although this target remains within as a KPI. Other volume or production based KPIs include production (mboe/d) and major project delivery.
- Investors should push for great clarity regarding how long-term strategic changes for <2°C resilience will be integrated in the firm’s KPIs and executive incentives.

Removal of remuneration features not conducive with low-carbon resilience

In 2017 BP removed the Reserves Replacement Ratio from its remuneration policy. Furthermore, and unlike Shell, BP’s new remuneration policy does not include any direct volume-based targets.

Lengthening incentive schemes

Executives should not be rewarded for conduct that could pose liabilities to long-term shareholders. For capital projects with life spans extending over decades, BP’s current incentive system that results in rewards in 3-6 years’ time seems inappropriate.

There are concerns associated with extending performance measurements far beyond the likely tenure of executives i.e. 10-year Long Term Incentive Plan. What such a long term incentive scheme would look like in practice will require analysis and debate involving remuneration experts. The Remuneration Committee should look to develop incentive systems that extend over the capital cycle and integrate the various climate scenarios incorporated into BP’s strategy planning. Reporting of this practice should also be made clearly available for investors.
Greater transparency on allocation of performance based shares

Another welcome step would be to provide greater transparency on the 20% allocation of performance based shares, measured according to the progress made in meeting strategic targets across four areas:

- Shift to gas and advantaged oil in the upstream
- Market led growth in the downstream
- Venturing and low-carbon across multiple fronts
- Gas, power and renewables trading and marketing growth

Further details about the targets are not disclosed, making it hard to assess the relative focus given to low-carbon elements of the strategy.

Key recommendations

Shareholders should request that BP:

- Clarifies how low-carbon transition scenarios will be articulated in the ‘strategic progress’ performance metric for the allocation of performance shares
- Reduces or eliminates volume-based KPIs, and includes instead ‘per share’ indicators that align the interests of long-term shareholders with management in the context of heightened uncertainty for integrated oil and gas companies

Public policy interventions

In the last year, BP has issued both constructive and concerning statements in relation to climate policy. BP remains a member of various trade bodies that have taken obstructive positions on climate and energy policies. It is not clear what internal governance mechanisms the firm has in place to address inconsistencies in the positions taken by member organisations. BP should address these shortfalls in order to meet the public policy requirement of the ‘Aiming for A’ resolution.

Key findings

- While it is welcome that BP has supported key climate policies, it is uncertain if BP fully supports action on the scale and timeline required to meet <2°C goal
- There remains a need for greater transparency of trade association membership and policy alignment, as well as governance mechanisms for dealing with inconsistency

Recent statements on climate policy

BP has publicly endorsed the Paris Agreement, encouraging President Trump to remain within the pact. The company supports a range of initiatives to encourage carbon pricing. However, forensic analysis conducted by NGO InfluenceMap highlights that BP’s own lobbying does not always reflect the scale and timelines required to meet <2°C goal. The company scores an E+ on InfluenceMap’s performance scoring. While BP are a member of the Climate Leadership Council that have called for a price on carbon, they are also a member of trade bodies that proactively lobby against this, making their public policy positions unclear for investors.
Transparency and governance around climate policy

BP does not disclose a full list of its member trade associations, or its oversight and governance procedures for dealing with inconsistencies between its own policy position and those taken on its behalf by trade associations such as the American Petroleum Institute and the National Association of Manufacturers, Western States Petroleum Association, Australian Petroleum Production Association, and the Canadian Association of Petroleum Producers.

Where BP decides it cannot leave trade associations that have taken different positions than its own on climate change, it could be encouraged to explain to investors how it is using its leverage within these trade bodies to shift their position to one more supportive of robust action on climate change.

Key recommendations

Shareholders should request that BP:

- Discloses membership of all entities to which the company is linked or those that act on its behalf on climate or energy policy
- Discloses the company’s position on upcoming climate legislation in different jurisdictions across the world
- Outlines a policy for dealing with member-led bodies whose climate-related policy and lobbying contradicts BP’s own corporate plans and initiatives
Conclusion

The passage of the ‘Aiming for A’ resolution in 2015 signalled a major development in global financial markets. Investors expressed their interest in oil and gas companies disclosing more about their climate-related financial risks.

BP has responded to the five core themes of the resolution in a limited way to date. This exposes investors in the company to significant and growing risks, and should motivate greater engagement with the company. This should involve calling on BP to take swifter and bolder action to protect their capital. Key objectives and timelines for achieving this goal need to be set, and reported on regularly to shareholders.

Investors have a critical role to play in encouraging the company to put such measures in place and in holding the company to account against its chosen metrics. Long-term planning is particularly critical for businesses operating in this industry, but the near term is not without its risks for hydrocarbon companies that fail to demonstrate to financial markets that they are fully prepared for all scenarios. Investors in BP should set clear timelines and objectives for engagement with the company, including necessary escalation strategies. If risk reduction is not demonstrated, investors should divest their holdings in BP.
Annex I: Comparative analysis of BP’s reporting in 2016 and 2017

Table 3: A comparative analysis of BP’s reporting in 2016 and 2017

<table>
<thead>
<tr>
<th>Area of resolution</th>
<th>2017 analysis</th>
<th>2016 comparative analysis</th>
</tr>
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<tbody>
<tr>
<td>Emissions targets</td>
<td>No targets for reducing operational emissions</td>
<td>No improvement since last year’s disclosures</td>
</tr>
<tr>
<td></td>
<td>No strategy for reducing total lifecycle emissions</td>
<td></td>
</tr>
<tr>
<td>Portfolio resilience and</td>
<td>Fossil fuel demand base case aligned with 3 – 5°C+ warming</td>
<td>Although slightly scaled down from 2015, BP’s base case continues to take a bullish forecast on oil and gas growth</td>
</tr>
<tr>
<td>low-carbon strategy</td>
<td>New ‘even faster transition’ alternative scenario consistent with IEA 450 and 50% chance of &lt;2°C</td>
<td>It is welcome that BP now considers the possibility of an IEA 450 equivalent scenario</td>
</tr>
<tr>
<td></td>
<td>Limited in-depth or quantitative assessment of resilience under IEA 450 or &lt;2°C</td>
<td>However, investors require more information on how BP will adjust its strategy for resilience, and the current value at risk under this outcome</td>
</tr>
<tr>
<td></td>
<td>BP’s strategic priorities and capital allocation plans suggest the firm is not aligning for &lt;2°C resilience</td>
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<tr>
<td>Low-carbon capital allocation</td>
<td>‘Lower carbon’ pillar represents 1.3% of total capital expenditure, with no targets to increase</td>
<td>New ‘lower carbon’ pillar improves insight into BP’s low-carbon strategy, although current commitments do not indicate portfolio-wide transition</td>
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<td></td>
<td>Lack of clarity regarding capital allocation plans for &lt;2°C</td>
<td>Require greater clarity on long-term low-carbon capital allocation plans</td>
</tr>
<tr>
<td>KPIs and executive incentives</td>
<td>Volume-based targets removed from remuneration but remain in KPIs</td>
<td>It is welcome that BP has removed volume-based metrics from its remuneration policy</td>
</tr>
<tr>
<td></td>
<td>No indicators that signal long-term wholesale strategic changes for low-carbon resilience</td>
<td>Require clarity on how BP will link indicators to a long-term transition strategy</td>
</tr>
<tr>
<td>Public policy interventions</td>
<td>Mixed policy positions on energy and climate. Positive support for Paris Agreements and carbon pricing, but also policies that could undermine a timely low carbon transition</td>
<td>Since 2016, BP has continued to publicly support calls for climate action. However, there still appears to be an inconsistency in the ambition of action BP is prepared to support</td>
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<tr>
<td></td>
<td>Remains a member of trade associations that have lobbied to weaken climate policies</td>
<td>No improvement on the transparency around trade association membership, and governance mechanisms for dealing with inconsistencies in positions</td>
</tr>
<tr>
<td></td>
<td>Unclear what governance mechanisms exist to assess and alleviate misalignments</td>
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</tbody>
</table>
Special resolution – strategic resilience for 2035 and beyond

That in order to address our interest in the longer term success of the Company, given the recognised risks and opportunities associated with climate change, we as shareholders of the Company direct that routine annual reporting from 2016 includes further information about: ongoing operational emissions management; asset portfolio resilience to the International Energy Agency’s (IEA’s) scenarios; low-carbon energy research and development (R&D) and investment strategies; relevant strategic key performance indicators (KPIs) and executive incentives; and public policy positions relating to climate change. This additional ongoing annual reporting could build on the disclosures already made to CDP (formerly the Carbon Disclosure Project) and/or those already made within the Company’s Energy Outlook, Sustainability Review and Annual Report.

Supporting Statement

It is our intention that this is a supportive but stretching shareholder resolution. It has been prepared by the “Aiming for A” coalition of UK asset owners and mutual fund managers for a larger co-filing group.

The “Aiming for A” coalition includes the £150bn Local Authority Pension Fund Forum and the largest members of the £15bn Church Investors Group. The coalition was convened by CCLA Investment Management in 2011/12. The group is undertaking in depth engagement with the ten largest UK-listed extractives and utilities companies, with a particular focus on the companies’ CDP performance bands.¹

There are several reasons why UK asset owners and mutuals have come together under the “Aiming for A” initiative to support extractives and utilities companies in their preparations for the low-carbon transition. These range from systemic risk management and our collective fiduciary duty to engage in economic transformation, through to amplifying longer-term investor voices and involving ultimate beneficiaries.

We believe that supportive but stretching shareholder resolutions can play a positive stewardship role in the UK. They could amplify the need to balance the short- and longer-term aspects of shareholder value creation.

The wider co-filing group includes asset owners and some of their fund managers, from both the UK and overseas. The asset owners span charitable foundations, Church investors pension funds and individuals (including clients of Rathbone Greenbank Investments). All the co-filers have been ably assisted by Client Earth and Share Action as part of their ongoing programme work.

Thanks to Mercer² and Carbon Tracker’s³ research, horizon-scanning investors are aware of the portfolio risks of public policy uncertainty and potential asset stranding. Major technology transitions are rarely smooth, and draconian policy action that has to be introduced quickly after prolonged delay increases risks to investors. The resolution covers five related areas:

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¹ | https://www.cdp.net/en-US/Pages/disclosure-analytics.aspx
² | http://www.uk.mercer.com/newsroom/climate_change_scenarios.html
³ | http://www.carbontracker.org/our-work/
1. Ongoing operational emissions management

In 2014 BP reached a “B” carbon performance band (on an A-E scale) through CDP. Within the performance banding methodology considerable weight is given to operational emissions management, alongside strategic and governance issues like those below. The “Aiming for A” coalition and other investors are interested in how the company is maintaining progress towards reaching an “A”, including across companies where BP has a major shareholding. For further details see https://www.cdp.net/en-US/Programmes/Pages/CDP-Investors.aspx

2. Asset portfolio resilience to post-2035 scenarios

BP has a diverse portfolio of assets (operational and in reserve). The role of gas as a transitional fuel is well reflected in this portfolio, and the current resilience of the company’s overall portfolio compares favourably with other oil and gas majors. We ask that an assessment of the portfolio’s resilience against the range of IEA, and any other relevant post-2035, scenarios be outlined to investors in routine reporting from 2016. Investors are also interested in the role exploration, disposals and cash distributions to investors will play in the nearer term.

3. Low-carbon energy R&D and investment strategies

BP has an Alternative Energy business, and $8bn has been invested ahead of schedule. In addition, 20% of BP’s R&D is already directed towards the low-carbon transition. Investors are interested in BP’s post 2015 plans in these areas, including any for carbon capture and storage (CCS).

4. Strategic KPIs and executive incentives

BP was one of the first oil and gas majors to signal a strategy of “value not volume”. Transitions that span decades are complex to manage and often require lead indicators and incentives. Investors are interested in BP’s evolving approach to KPIs and executive incentives, in the context of the transition to a low-carbon economy, including the role played by the reserves replacement ratio (RRR).

5. Public policy interventions

BP has co-ordinated its approach to public policy at group level since 2011 and recently joined over 70 countries and over 1000 companies in signing the World Bank statement for a price on carbon. Investors are interested in BP’s public policy programme, including positions on key policy measures, especially for the critical 2015 to 2020 policy making period.

Finally, we’d also like to highlight the global investor coalition on climate change's document outlining their expectations for oil & gas majors, which is available from: http://globalinvestorcoalition.org/. This builds on their carbon asset risk (CAR) initiative.

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iv | http://www.worldenergyoutlook.org/weomodel/ (the WEO-2014 uses a scenario approach to examine future energy trends and has been extended to 2040 for the first time. It presents three scenarios: the New Policies Scenario, the Current Policies Scenario, and the 450 Scenario)
References


30. See reference 22.


32. Ibid.
Authors

Juliet Phillips and Michael Chaitow

Disclaimer

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes Responsible Investment practices by pension providers and fund managers. ShareAction believes that Responsible Investment helps to safeguard investments as well as securing environmental and social benefits.

shareaction.org
info@shareaction.org
+44 (0)20 7403 7800
16 Crucifix Lane
London, United Kingdom
SE1 3JW

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