Why investors should back the 2020 climate resolution at Total

This briefing makes the case for the climate change resolution filed by 11 institutional investors at oil major Total S.A.
About ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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Executive Summary

Resolution

• **Key Ask:** The resolution, filed by 11 investors representing more than 750 billion euros in assets under management, requests that Total sets absolute emissions reduction targets in line with the goals of the Paris agreement.

• **Scope:** This includes operational emissions (scope 1 and 2) and emissions related to the use of sold products by customers (scope 3).

• **Timeline:** The resolution will be voted on at Total’s AGM on 29 May 2020.

Key Points

• **Net zero strategy misses the mark:** Total’s new net zero ambition falls short of the ambition of the shareholder resolution on the ballot at the 2020 AGM and what is required to meet the Paris climate goals.

• **Refusal to take responsibility for Scope 3 emissions:** Total’s net zero ambition only applies to countries in which governments have committed to net zero, relying on the behaviour of governments and consumers to reduce the bulk (90%) of its emissions. The resolution would require Total to set fixed targets covering all of its emissions.

• **Carbon intensity measures are not enough:** Total’s goal to reduce the carbon intensity of Scope 3 emissions by 60% falls short of the net zero commitment needed to meet the Paris goals. It also relies on carbon intensity indicators, which allow the company to scale up fossil fuel growth and increase emissions in absolute terms. The resolution would require Total to set absolute emissions reduction targets.

• **Capital expenditure is inconsistent with Paris goals:** Total has committed to spending up to $2 billion annually on low-carbon energy, but this is dwarfed by its plans to expand fossil fuel production over the next decade. Nearly 70% of potential CAPEX in that period is at risk under Paris-compliant scenarios, creating a significant risk of stranded assets.

• **Natural gas is a key part of Total’s climate strategy:** Total aims for natural gas to represent a 60% share of overall production by 2035. However, natural gas is a fossil fuel which has a significant impact on the climate via carbon emissions and methane leakages. Carbon capture and storage is required for natural gas to be sustainable in most Paris-compliant scenarios, the technology for which is unproven at scale.

• **Pay packages encouraging growth:** The emissions measure in the executive remuneration policy is outweighed by a growth metric linked to production and reserves targets. Shareholders are encouraged to vote against the remuneration policy at the 2020 AGM.
Next steps for investors

1. Investors are encouraged to vote for the resolution and notify Total of their voting intention as soon as possible.

2. Investors are encouraged to pre-declare their voting intention publicly.

3. Investors are encouraged to engage with Total on the issues raised in this briefing and on its wider approach to managing climate-related risks and opportunities.
Introduction and background

This briefing outlines the case to investors in Total for why they should vote in favour of the climate shareholder resolution on the ballot at the 2020 AGM in May.

Climate change and the oil and gas sector

The Intergovernmental Panel for Climate Change (IPCC) predicts with high confidence that 1.5°C of warming will be reached between 2030 and 2052 if global temperatures continue to rise at the current rate. In October 2018, the IPCC clearly illustrated the increased risks to health, livelihoods, food security, water supply, human security, and economic growth associated with a failure to limit warming to the 1.5°C limit under the Paris climate agreement.

Climate change demands urgent action from all public and private actors, but it is clear that the oil and gas sector must be at the forefront of the transition to a low-carbon future. Since 1965, the top 20 fossil fuel companies have contributed to 35% of all energy-related greenhouse gas emissions globally. Looking ahead, the world's proven fossil fuel reserves already exceed the carbon budget set out in the Paris Agreement. To limit global warming to below 1.5°C, a proportion of these reserves must stay in the ground.

The investment community has recognised the need for action in the oil and gas sector. Pressure from shareholders and civil society has pushed the oil majors to move on climate change over the last decade, recently leading to net-zero announcements at companies such as BP, Shell and Total. However, these long-term ambitions must be supported by credible, near-term transition plans that reduce fossil fuel output and limit carbon emissions.

Covid-19 and the climate crisis

Oil and gas companies are under extreme pressure as a result of the current covid-19 pandemic. In April 2020, US crude oil traded with negative prices for the first time in history, and the International Energy Agency (IEA) has projected the lowest oil demand in 25 years. Oil companies should use the challenge of the covid-19 recovery as an opportunity to start the restructuring that must take place if the planet is to deal with climate change.

The climate crisis is also likely to have an impact on fossil fuel demand, as the IPCC finds that there must be significant reductions in the share of oil and gas in the primary energy mix if we are to limit global warming to 1.5°C. In light of the uncertainty over future demand for oil and gas, it is in the interest of investors in the oil and gas sector to make sure that companies adapt their business models to be resilient to potential price volatility and the risks associated with the energy transition.

Total SA

Total is one of the largest international oil and gas majors with business interests in more than 130 countries. As a result, its operations have a significant impact on climate change. According to data recently produced by the Climate Accountability Institute, Total was responsible for 0.91% of cumulative global greenhouse gas emissions between 1965 and 2017.
While there has been a notable increase in investor pressure across the oil and gas sector in the last decade, Total has largely avoided scrutiny on its response to climate change compared to other oil majors such as BP and Shell. The resolution on the ballot at the 2020 AGM presents shareholders in Total with an opportunity to signal to the company that they expect its corporate strategy to be (i) in line with the Paris climate goals; and (ii) resilient enough to respond the market, policy and technological changes associated with climate change and the low-carbon energy transition.
The resolution

In April 2020, a coalition of 11 European investors representing more than 750 billion euros in assets under management and approximately 1.35% of Total’s shareholder capital filed a shareholder resolution at Total. It is the first climate resolution to be filed at a French company.

The resolution requests that Total sets medium- and long-term absolute emissions reduction targets in line with the goals of the Paris agreement, covering its operational emissions (scope 1 and 2) and emissions related to the use of sold products by customers (scope 3).

The resolution was coordinated by Meeschaert Asset Management and the co-filers include Actiam, Candriam, Friends Provident Foundation, La Banque Postale Asset Management and Sycamore Asset Management.

See Appendix 1 for the full resolution wording.

Total’s response and “net-zero” ambition

Total has accepted the shareholder resolution on the ballot at the AGM on 29 May 2020, but has not recommended that shareholders approve the proposal. The main opposing argument put forward by Total is that the company has already responded to the objective of the resolution by setting a new climate ambition to reach net zero by 2050.

In response to shareholder pressure from Climate Action 100+ (CA100+) and the proponents of the resolution, Total announced a new climate ambition in May 2020. The key points are:

1. Net zero across Total’s worldwide operations by 2050 or sooner (scope 1+2);
2. Net zero across all its production and energy products used by its customers in Europe by 2050 or sooner (scope 1+2+3);
3. 60 per cent or more reduction in the average carbon intensity of energy products used worldwide by Total customers by 2050 (less than 27.5 gCO2/MJ) – with intermediate steps of 15 per cent by 2030 and 35 per cent by 2040 (scope 1+2+3).

The commentary below outlines how Total’s new climate strategy falls short of the ambition of the shareholder resolution on the ballot and of the ambition required by oil and gas companies to meet the Paris goal of limiting global warming to 1.5°C.
Analysis of Total’s climate strategy

Total’s net zero ambition does not cover all Scope 3 emissions

Total’s first aim is to achieve net zero across its worldwide operations by 2050. This ambition applies only to operational emissions (Scope 1 and 2), and complements the existing short-term target in place to reduce the absolute greenhouse gas emissions on its operated oil and gas facilities from 46 Mt CO2e to less than 40 Mt CO2e by 2025[10]. However, operational emissions represent just 10.5 per cent of Total’s overall emissions compared to emissions from the use of its sold products.

Breakdown of Total’s greenhouse gas emissions by scope 2015-18

<table>
<thead>
<tr>
<th>Type of emissions</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operated oil and gas facilities (Scope 1 &amp; 2)</td>
<td>MtCO2e</td>
<td>46</td>
<td>45</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Use by customers of products sold for end use (Scope 3)</td>
<td>MtCO2e</td>
<td>410</td>
<td>420</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

Total claims in its response to the resolution that it is not responsible for Scope 3 emissions, reinforcing CEO Patrick Pouyanne’s comments at the 2019 Investor Day that indirect emissions “depend on the behaviour of clients”[11]. However, oil and gas companies cannot be considered to be Paris-aligned unless they commit to tackling the bulk of their emissions (almost 90% in Total’s case).

Total’s second aim to achieve net zero for Scope 3 emissions may look progressive at face value, but it only applies to regions in which governments have already committed to implement policies and regulations aimed at net zero. Total’s statement outlines that this ambition currently only applies to “Europe”, or more specifically to the EU, UK and Norway[12]. If a country has committed to net zero emissions, it follows that companies operating within that country will have to bring their own footprints in that country in line with its policy.

Total is an international oil major with business interests in more than 130 countries. In order to meet the Paris climate goals, this Scope 3 ambition must be extended to all countries irrespective of whether they have committed to net zero by 2050.

The shareholder resolution on the ballot at the 2020 AGM goes further than Total’s net zero climate ambition by requesting absolute emissions reduction targets across all emissions worldwide, in line with the goals of the Paris agreement. This would ensure that Total actively manages its climate impact across the full life cycle of its product, instead of relying on external factors such as the behaviour of governments and consumers.
Total’s carbon intensity ambitions are not progressive enough

Total’s third aim is to reduce the carbon intensity of its products (Scope 3) worldwide by 60 per cent by 2050, which falls short of the net-zero commitment needed to meet the Paris goals.

Total also included intermediate steps of a 15 per cent reduction in carbon intensity by 2030 and 35 per cent by 2040. While the 2030 target has not changed from Total’s previous commitments, the 2040 target is actually less ambitious than the previous ambition to achieve a 25-40 per cent reduction in carbon intensity by the same year. The intermediate targets of 15 per cent by 2030 and 35 per cent by 2040 are inconsistent with the need for urgent and immediate action called for by the IPCC Special Report on 1.5°C to avert the most catastrophic impacts of climate change.

Total’s ambition for Scope 3 reductions also relies on carbon intensity indicators. Absolute emissions targets are preferable to intensity targets for three main reasons:

1. Intensity targets can allow companies to grow their fossil fuel businesses as long as investments in lower carbon assets are made at a faster rate, thereby lowering the average carbon intensity per unit of energy sold. This is problematic as it could lead to a company’s emissions rising in absolute terms, even though its carbon intensity is reduced. This is at odds with the finite limits on carbon emissions inherent to the climate system and reflected in international commitments.

2. Intensity targets do not preclude investments in specific fossil fuel projects, and thus fail to account for the risk of stranded assets. The Carbon Tracker Initiative (CTI) has shown that circa 30 per cent of the oil majors’ upstream capital expenditure is not compatible with the Paris agreement. In the event of tougher climate regulations or a drop in oil demand, there is a risk that these high-value assets are no longer able to make an economic return and are left “stranded”.

3. Intensity targets do not allow fossil fuel companies to go through a “managed decline”, a strategy in which companies adapt to the new reality of a declining end market and wind down their activities. Intensity targets are incompatible with such a strategy because whilst these companies would be winding down their operations (and thus reducing their absolute emissions), their energy mix would remain the same. In other words, their energy intensity would remain constant although their absolute emissions would decrease.

The shareholder resolution on the ballot at the 2020 AGM requests that Total sets medium- and long-term absolute emissions reduction targets – rather than carbon intensity – to ensure that the company cannot claim to meet its climate commitments while simultaneously scaling up fossil fuel production unsustainably, locking in oil and gas infrastructure and increasing its emissions in absolute terms.

Capital expenditure is inconsistent with the Paris goals

In the statement with CA100+, Total claimed that its current capital expenditure (CAPEX) strategy is consistent with the goals of the Paris agreement. However, there is a clear mismatch between Total’s stated climate ambition and its CAPEX. The company has continued to expand fossil fuel
exploration and production while investments in low-carbon assets have remained low. According to CDP, just 4.3% of total CAPEX was directed towards low-carbon projects over the period 2010-2018. In 2018, Total pledged to invest $1.5 to $2 billion annually in low-carbon electricity, equivalent to approximately 10% of total CAPEX. Total’s new climate strategy includes a target to increase this to 20% by 2030. However, analysis by Rystad Energy shows that prior to the crash in oil prices caused by covid-19, Total was set to embark on an aggressive expansion plan in 2020. According to the analysis, Total planned to drill 25 wells to meet a production growth target of 5% per year between 2017 and 2022. Although Total announced a new exploration strategy that would favour assets at low breakeven in so-called “mature” areas in 2018, Total’s pre-covid19 CAPEX plans signalled a renewed appetite for riskier projects.

These CAPEX plans are also at odds with CTI’s finding that Total must achieve a minimum 35% reduction in fossil fuel production by 2040 compared to 2019 levels, in order to stay within the carbon budget implied by the “Beyond 2 Degrees Scenario” (B2DS) developed by the IEA. The B2DS sets out a rapid decarbonisation pathway to achieve net-zero emissions by 2060, with only a 50% chance of limiting average future temperature increases to 1.75°C. IPCC scenarios find that the world needs to reach net-zero by 2050 to limit warming to 1.5°C. CTI find that 67% of Total’s potential CAPEX on unsanctioned projects for the period 2019-2030 are considered “at risk” under the B2DS. Total therefore faces significant risk of stranded assets in a world of weak demand for fossil fuels. Total must integrate a more robust internal carbon price to evaluate the feasibility of future projects. Its current model of $40 per tonne is a weak proxy for the profound impact that the low-carbon transition could have on the oil and gas sector.

The covid-19 crisis and consequent oil price crash will force Total to reconsider its short-term CAPEX plans. The shareholder resolution on the ballot at the 2020 AGM would ensure that climate risk is firmly integrated into investment decisions, and that future CAPEX plans reflect the realities of the energy transition and thereby safeguard the long-term interests of shareholders.

Climate impacts of natural gas

In 2019, natural gas represented 53% of Total’s overall production and the company aims to increase this share to 60% by 2035. The company has identified natural gas as a key pillar of its climate change strategy, describing it as a “vital partner” for renewable energy sources. Natural gas is a fossil fuel that emits greenhouse gas emissions to the atmosphere during extraction, transportation and combustion. In most Paris-compliant scenarios, natural gas requires large-scale deployment of carbon capture and storage (CCS) technology to be sustainable. Indeed, 10% of Total’s overall research and development budget is allocated to CCS. However, both the IPCC and IEA have expressed concern that the deployment of CCS at scale is unproven, and reliance on such technology is a major risk considering the severe technical, economic and resource constraints.

There are also alternative solutions to addressing the intermittency of renewables with far lower greenhouse gas implications, such as grid interconnection, battery storage, demand-side management and improvements in system operation.
Methane leakages in the extraction and transportation of natural gas are also a major concern. Over a 20-year timeframe, methane emissions are 86 times worse for the climate than carbon dioxide emissions\textsuperscript{27}. A recent study by the Environmental Defense Fund found that methane emissions in the US were 60\% higher than reported by the Environmental Protection Agency\textsuperscript{28}. The IEA also note that the lifecycle emissions intensity of natural gas are subject to a high degree of uncertainty\textsuperscript{29}.

The resolution at the 2020 AGM would push Total to integrate the potential hidden risks of natural gas into its CAPEX decisions and climate strategy, to ensure that high-carbon infrastructure at risk of “stranding” is not locked in for decades into the future.

**Pay policies prioritise fossil fuel growth**

Total’s remuneration policy includes the company’s operational emissions target as a metric in both the annual bonus and the longer-term performance share framework for the CEO and Chairman, both held by Patrick Pouyanné\textsuperscript{30}. However, the 10\% emissions measure in the annual bonus is outweighed by a metric related to production and reserve targets (15\%), which directly incentivises management to pursue development of its fossil fuel businesses. In addition, both emissions metrics are tied to scope 1 and 2 emissions only, which account for just 10\% of Total’s overall emissions inventory.

In the context of climate change, remuneration policies should not reward executives for chasing growth for growth’s sake in the upstream businesses\textsuperscript{31}. Pay packages should incentivise management to prioritise value or shareholder returns, and also ensure that any climate measures are afforded sufficient weighting and substance to drive change in executive decision-making at the speed and seriousness required for the energy transition\textsuperscript{1}.

As well as voting for the shareholder resolution, investors are also encouraged to vote against the remuneration policy up for vote at Total’s AGM in May 2020.

\textsuperscript{1} For more information on how executive remuneration can impact climate change and the energy transition, see here: \url{https://shareaction.org/wp-content/uploads/2020/04/BP-Shell-Rem-Final.pdf}
Conclusion and next steps

Conclusion

This briefing has demonstrated that Total’s net zero climate ambition is not aligned with the goal of the Paris Agreement to limit warming to 1.5°C, and falls short of the ambition of the shareholder resolution on the ballot at the 2020 AGM in May.

Total’s net zero ambition relies heavily on external factors such as the behaviour of governments and consumers to tackle the company’s indirect emissions from the use of its products. Total is an international oil major with business interests in over 130 countries, but the net zero aim for Scope 3 emissions only applies to countries in which governments have already committed to net zero. Total also has an ambition to reduce the carbon intensity of its products by 60%, but this falls short of the net-zero commitment the world needs to meet the Paris goals. It also relies on carbon intensity indicators which permit companies to increase fossil fuel production.

The resolution on the ballot at the 2020 AGM requests that Total sets medium- and long-term absolute emissions reduction targets in line with the goals of the Paris agreement, covering its operational emissions (scope 1 and 2) and emissions related to the use of sold products by customers (scope 3). This is in line with Climate Action 100+’s ask that companies take action to reduce greenhouse gas emissions across the value chain.

This resolution is more ambitious than Total’s net zero ambition. It would align Total’s climate strategy with the Paris climate goals and ensure that its business model is resilient and flexible enough to respond to the market, policy, and technological changes associated with the energy transition. If passed, this resolution would signal to Total that its investors expect the company to integrate climate risk into strategic planning and safeguard their long-term interests as shareholders.

Next steps for investors

1. Investors are encouraged to vote FOR the resolution and notify Total of their voting intention as soon as possible.

2. Investors are encouraged to pre-declare their voting intention publicly.

3. Investors are encouraged to engage with Total on the issues raised in this briefing and on its wider approach to managing climate-related risks and opportunities.
Appendix 1

Amendment to Article 19 - Financial year - Company accounts of the Articles of Association

The General Assembly,

Ruling under the quorum and majority conditions required for extraordinary general meetings, after having examined the information contained in the explanatory memorandum accompanying the draft resolution and the report of the Board of Directors,

Decides to amend Article 19 - Financial year - Company financial statements of the Articles of Association by adding a third paragraph specifying the content of the management report prepared by the Board of Directors for the attention of the General Meeting, the first two paragraphs remaining unchanged.

Article 19 - Financial year - Company accounts of the Articles of Association will now be written as follows:

“The financial year begins on January 1 and ends on December 31.

At the end of each financial year, the Board of Directors shall compile an inventory, an income statement and a balance sheet as well as the appendix that completes them and shall establish a management report. It also prepares the Group’s consolidated financial statements.

In addition to information about the situation of the Company and its activities during the past year and other information required by legislative and regulatory provisions in force, the management report will include the Company’s strategy, as defined by the company’s board, to articulate a roadmap to align its activities with the provisions set forth in the Paris Agreement, and notably articles 2.1(a) and 4.1 therein, indicating (i) appropriate targets for reduction of direct or indirect greenhouse gas emissions as an absolute value for Company activities related to production, transformation and purchase of energy products (Scope 1 and 2) and use by clients of products sold for final use (Scope 3) in the medium-, and long-term, and (ii) the measures implemented by the Company to achieve said targets”.


6 Intergovernmental Panel on Climate Change (2018). Global Warming of 1.5°C.


12 Total SA (2020). Joint statement between Total S.A. and institutional investors as participants in Climate Action 100+.

13 Intergovernmental Panel on Climate Change (2018). Global Warming of 1.5°C.


16 Total SA (2019). Integrating climate into our strategy.


21 ibid

22 Total SA (2019). Integrating climate into our strategy.

23 Intergovernmental Panel on Climate Change (2018). Global Warming of 1.5°C.

24 Total SA (2019). Integrating climate into our strategy.

References


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