



Investment  
Leadership  
Programme

UN-convened Net-Zero  
Asset Owner Alliance

# Position on the Oil and Gas Sector

March 2023



**This position was written by the members of the UN-convened Net-Zero Asset Owner Alliance. Contributing members include:**

Patrick Peura (Allianz), Thomas Liesch (Allianz), Udo Riese (Allianz), Bertrand Millot (CDPQ), Michel Léveillé (CDPQ), Adam Matthews (Church of England Pensions Board), Chad Park (Co-operators), Sue Reid (Global Optimism), Oliver Büsse (Munich Re), Viktor Keller (Munich Re), Thomas Henriksen (PensionDanmark), Matthias Pedersen (PFA), Tamsin Ballard (PRI), Peter Sandahl (Nordea Life & Pension), Liza Jansen (Prudential), Yun Wai-Song (SCOR), Alix Chabaud (SCOR), Adam Ichikawa (SOMPO Holdings), Claudia Bolli (Swiss Re), Martijn Tielens (Swiss Re), Eliya Devay (UNEP FI), Remco Fischer (UNEP FI), Andreas Rauter (UNIQA), Jake Barnett (Wespath Benefits and Investments), Ryan McQueeney (Wespath Benefits and Investments), Matthias Kopp (WWF), Vanessa Bolmer (WWF), John Scott (Zurich Insurance Group), Claudia Limardo (Zurich Insurance Group), and Massimo Mancin (Zurich Insurance Group).



# Contents

- Preface ..... 4**
- Executive summary ..... 6**
- Introduction ..... 9**
  - 1.1 Background on fossil fuels and oil and gas sector ..... 10
  - 1.2 The scientific imperative ..... 10
  - 1.3 Societal and geopolitical challenges..... 14
- Position on the oil and gas sector and expectations for sector stakeholders..... 17**
  - 2.1 Expectations of oil and gas companies and carbon-intensive sectors ..... 18
  - 2.2 Expectations of policymakers and regulators..... 20
  - 2.3 Expectations of investors..... 22
    - 2.3.1 Portfolio allocation and investment decision making ..... 23
    - 2.3.2 Private asset investment in oil and gas infrastructure..... 25
    - 2.3.3 Investment stewardship..... 27
    - 2.3.4 Asset owner to asset manager engagement..... 30
- Conclusion..... 32**

---

# Preface

In the words of UN Secretary-General António Guterres, “The alarm bells are deafening, and the evidence is irrefutable: greenhouse gas emissions from fossil-fuel burning and deforestation are choking our planet and putting billions of people at immediate risk.”

**As members of the UN-convened Net-Zero Asset Owner Alliance (the Alliance), we share a commitment to transitioning our investment portfolios to net-zero greenhouse gas emissions by 2050.**

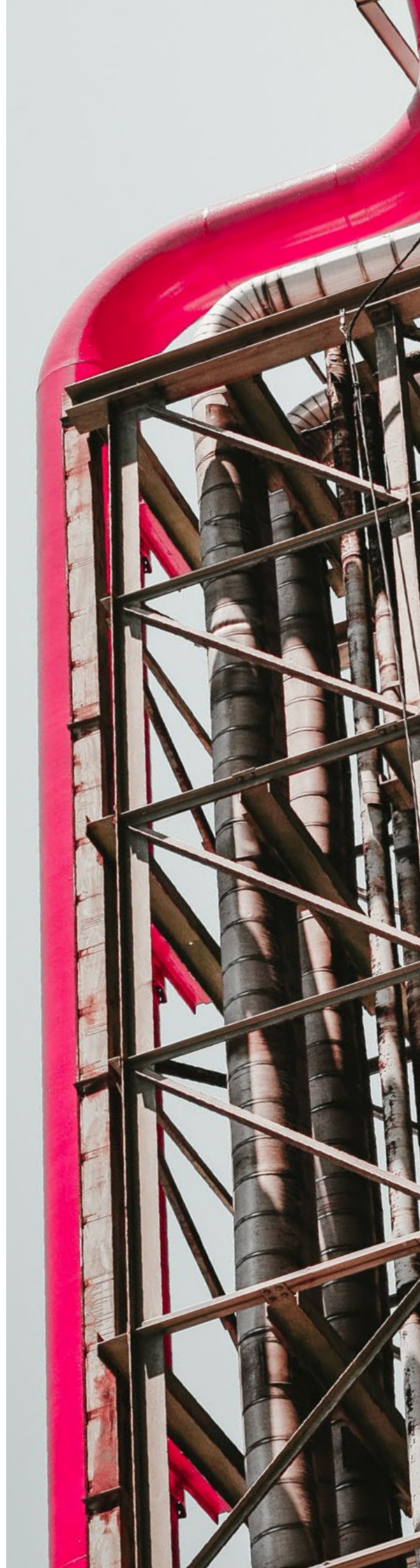
Together, we manage over US\$11 trillion in assets on behalf of our clients and beneficiaries. As part of our fiduciary obligation to these stakeholders, we seek to safeguard these assets and achieve the best investment returns possible. This includes using our influence to address the systemic risks of climate change and identifying how the global economy can swiftly and equitably transition its energy supply from fossil-fuel dependency.

The Alliance has already published positions on [thermal coal](#), [the coronavirus recovery](#), and [governmental carbon pricing](#), all of which directly address the need to transition from an economic system based largely on the combustion of fossil fuels and identify steps for doing so. This paper builds on these positions by establishing crucial expectations for the oil and natural gas sector and its many stakeholders. It places a focus on energy markets and on oil and natural gas demand driven by fuel and transportation. **As such, this paper closely examines the oil and natural gas sector and includes actions that can influence and support a transition aligned with limiting the global temperature increase to 1.5°C.**



**The practical economic complexities of this transition coexist with the urgency of the scientific imperative to act now.** The world needs to reach peak emissions within the next three to five years in order to maintain the viability of a 1.5°C scenario, and scientists have warned that our current trajectory is not on pace. In the face of such worrying projections, it is important to remember that science also offers a lining of hope—namely, that the worst effects of climate change can be prevented if action is taken immediately. Such an approach can also contribute to long-term economic growth. The Alliance’s position is therefore based on multiple streams of action and engagement by oil and gas companies, as well as other carbon-intensive businesses, governments, and key stakeholders in the financial sector. We believe that each of these actions serves a unique purpose. Collectively, all are needed to achieve a 1.5°C-aligned transition with no or limited overshoot.

**The financial sector alone cannot solve the climate crisis.** Alliance members’ commitments are made with the expectation that governments will follow through on their own commitments to the Paris Agreement. Furthermore, companies (including those in the oil and gas sector) must set ambitious targets and implement relevant transition plans. In addition, they must ensure that their actions align with a swift and equitable transition. Technological advancements are also needed across the breadth of the global economy, including the development and scaling-up of alternative, low- and/or zero-carbon energy. **And all of this must be done while respecting the delicate balance between the *supply* of fossil fuels, on the one hand, and society’s *demand* for affordable and reliable energy, on the other.**



# Executive summary

The global economy is currently dependent on oil and natural gas as fuels and feedstocks for a variety of critical sectors. However, use of these resources significantly contributes to the climate crisis. This crisis, in turn, poses an existential risk to a healthy, functioning economy—on which asset owners’ investment portfolios rely and on which broader society depends. As such, we must urgently reduce our dependency on oil and gas in a manner consistent with limiting global warming to 1.5°C (Section 1.1).

The Alliance’s perspective on this transition is guided by the Intergovernmental Panel on Climate Change’s 1.5°C no or limited overshoot scenarios, as well as on the One Earth Climate Model and the International Energy Agency “Net Zero by 2050” roadmap. A close examination of these frameworks makes it clear that several key stakeholder groups must support a strong reduction in oil and gas supply and a rapid decline in industrial/consumer demand for these same fuels (Section 1.2).

Nevertheless, such a significant transition cannot responsibly or practically advance without consideration of its social and geopolitical implications. An overarching “trilemma” exists that requires economic stakeholders to simultaneously consider energy security, environmental sustainability, and energy access/affordability. Russia’s aggression against Ukraine and the subsequent energy-cost crisis of 2022 have highlighted the real-world effects of this trilemma (Section 1.3).

The challenges of transitioning away from oil and gas dependency are best mitigated by adopting a systemic position that considers all levers available for driving decarbonisation in the supply and demand of oil and gas, as well as in overall economic systems. Thus, the Alliance’s position on oil and gas is expressed in the form of expectations for three systemically influential stakeholder groups: companies, policymakers, and investors.

On the company side, we focus on oil and gas companies, as well as on companies that drive demand for oil and gas. Our positions are stated as practical and impactful expectations that these companies can responsibly act upon without delay (Section 2.1).

For policymakers, we focus on systemic interventions that can deliver demand reductions and increase alternative energy supply through economy-wide actions, such as the implementation of carbon pricing mechanisms. These actions will help incentivise decarbonisation, unleash much-needed innovation, and more effectively harness the power of the capital markets in facilitating a transition to net zero (Section 2.2).

Finally, we outline how investors can integrate these positions into their policies and decision-making in a way that amplifies the actions needed for a rapid, 1.5°C-aligned transition.

Our expectations for investors are structured as follows:

- Section 2.3.1: Portfolio Allocation and Investment Decision-Making
- Section 2.3.2: Private Asset Investment in Oil & Gas Infrastructure
- Section 2.3.3: Investment Stewardship
- Section 2.3.4: Asset Owner-to-Asset Manager Engagement

The following table provides a summary of each of our position statements for the aforementioned stakeholder groups.

Stakeholder group	Summary positions
<b>Oil &amp; Gas companies (and companies in intensive fossil fuel using sectors)</b>	<ul style="list-style-type: none"> <li>■ Set science-based, absolute- and intensity-oriented emissions targets that cover Scope 1, 2, and 3 emissions, in line with widely accepted, science-based, low/no overshoot, 1.5°C-aligned pathways (e.g., IPCC, OECM, and IEA NZE 2050 roadmaps). Practice discipline in all infrastructure financing decisions in alignment with emissions targets and 1.5°C aligned scenarios.</li> <li>■ Reduce oil and gas consumption in own operations and products or services offered, immediately focus on transitioning business models to low- or no-carbon alternatives.</li> <li>■ Align corporate lobbying with company’s climate goals and science-based emissions targets.</li> <li>■ Address fugitive methane emissions, including subscribing to best practices initiatives for measurement and reporting.</li> <li>■ Rapidly transition from any dependence on carbon-intense unconventional oil and gas.</li> </ul>
<b>Policymakers</b>	<ul style="list-style-type: none"> <li>■ Provide regulatory certainty for demand reduction mechanisms, especially carbon pricing.</li> <li>■ Design just, equitable, and socially-acceptable carbon pricing mechanisms.</li> <li>■ Deliver investments in zero-emission infrastructure and technologies.</li> <li>■ Establish limits on value-chain emissions from oil and gas, including regulation on minimum emissions monitoring and performance requirements.</li> <li>■ Enforce mandatory requirements for climate reporting including Scopes 1, 2, and Scope 3 emissions.</li> <li>■ Support public/private investment partnerships to facilitate capital flows to support the transition.</li> </ul>

<b>Investors</b>	<b>Portfolio Allocation and Investment Decision-Making</b>		<b>Investment in Oil &amp; Gas Infrastructure</b>	
	<ul style="list-style-type: none"> <li>Align portfolio allocation and de-risking activities with climate ambitions.</li> <li>Evaluate risks of alternative investment strategies.</li> <li>Allocate to low- or zero-carbon solutions and removal/avoidance technologies.</li> <li>Invest in other key economic drivers.</li> </ul>		<ul style="list-style-type: none"> <li>Individually align direct infrastructure investments with credible 1.5°C net-zero scenarios.</li> <li>No new investments in infrastructure projects in new upstream oil and gas fields.</li> <li>Further information on midstream and downstream investments given in <a href="#">Figure 5</a>.</li> </ul>	
	<b>Investment stewardship</b>		<b>Asset owner to asset manager engagement</b>	
	<ul style="list-style-type: none"> <li>Engage on science-based targets, benchmarking and lobbying alignment</li> <li>Integrate other climate-related key performance measures.</li> <li>Support merit-based proxy voting policies and moves to strengthen the landscape for proxy voting.</li> </ul>	<ul style="list-style-type: none"> <li>Create stronger climate-related resolutions.</li> <li>Engage on policy.</li> <li>Participate in sector/value-chain engagements.</li> <li>Adapt stewardship strategies for companies in EMDEs.</li> </ul>	<ul style="list-style-type: none"> <li>Acknowledge fiduciary alignment, which includes the need to address climate change as a systemic risk to asset owner clients.</li> <li>Drive action on preceding recommendations.</li> </ul>	





SECTION 1:  
**Introduction**



## 1.1 Background on fossil fuels and oil and gas sector

The global economy has widely relied on fossil fuels since the start of the Industrial Revolution more than 170 years ago, and control of these resources has driven countless international events—from wars and revolutions to major economic growth spurts and financial shocks.<sup>1</sup> Over this time, petroleum/crude oil (referred to as simply “oil” throughout this paper) and natural gas (methane, referred to as “gas”) have superseded coal as the two most important fossil fuels and chemical feedstocks driving the global economy.

Oil and gas have two primary uses: as fuels in the power sector, and as fuels/feedstocks in a variety of other economically critical sectors, such as industry, transportation, petrochemicals, plastics, agrochemicals, agriculture, and infrastructure materials (e.g. glass, cement, iron, and steel). These fossil fuels have long played a critical role in the global economy, but their status as non-renewable resources leads to significant externalised costs that threaten sustainable economic and societal development.

When subjected to combustion processes, oil and gas generate numerous environmental pollutants, including greenhouse gases (GHGs). Production of oil and gas also contributes to the release of methane via venting and leakage. These emissions are commonly referred to as “fugitive methane emissions”.

Regardless of their direct source, anthropogenic (or human-caused) GHG emissions comprise the main driver of climate change and consequently pose a range of systemic risks across the economy. **The Alliance recognises the importance and urgency of transitioning away from dependency on fossil fuels in order to mitigate these systemic risks.<sup>2</sup> The Alliance also acknowledges that a managed phasing-out of oil and gas in most existing uses and markets is required to address the scientific imperative of reducing anthropogenic GHG emissions.**

## 1.2 The scientific imperative

The Intergovernmental Panel on Climate Change’s (IPCC) recent AR6 working group III report on the mitigation of climate change explains that limiting global warming to 1.5°C is beyond reach without immediate and deep emissions reductions across all sectors.<sup>3</sup> In reference to the dangers of not reducing emissions, the IPCC highlights climate change’s potential to induce historic heatwaves, more intense wildfire seasons, and changing patterns of extreme weather. Over time these phenomena elevate the risk of widespread conflict and forced migration. As we have observed in recent times, these possibilities no longer reside in the realm of the merely theoretical.

---

1 Daniel Yergin’s *The Prize* (1990) is a valuable resource detailing the history of fossil fuel industry and explaining how it moulded the economic and geopolitical realpolitik of today.

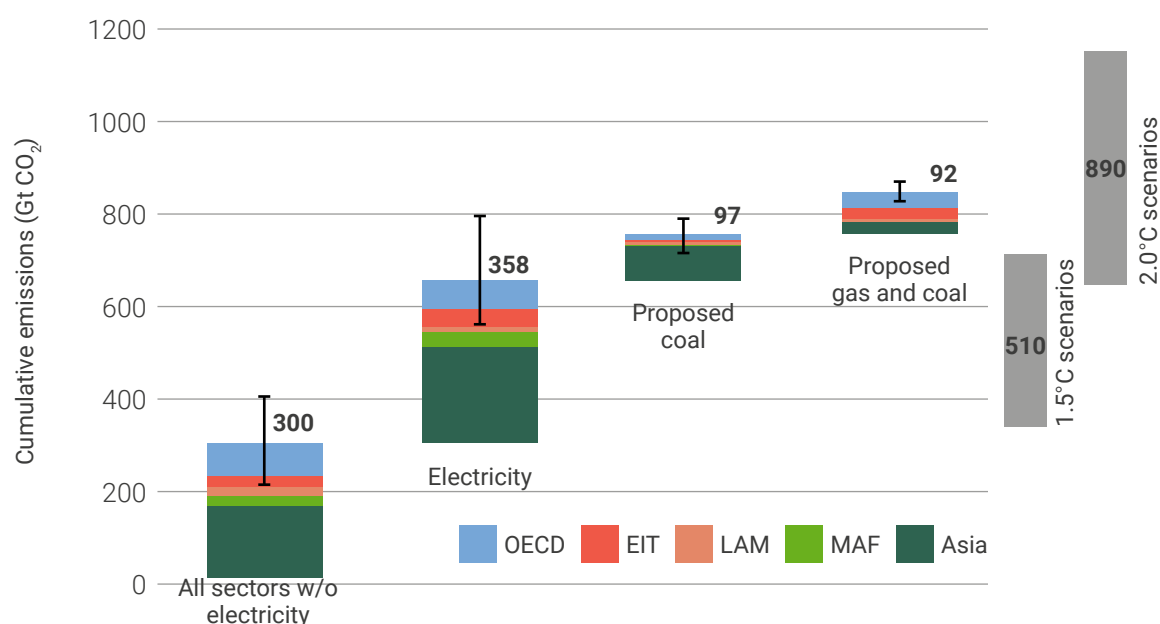
2 The Alliance’s existing position on thermal coal calls for a “phase-out of all unabated existing coal-fired electricity generation in accordance with 1.5°C pathways”. [unepfi.org/wordpress/wp-content/uploads/2020/11/Net-Zero-Asset-Owner-Alliance-Thermal-Coal-Position.pdf](https://unepfi.org/wordpress/wp-content/uploads/2020/11/Net-Zero-Asset-Owner-Alliance-Thermal-Coal-Position.pdf) (p.2).

3 IPCC. 2022. Sixth Assessment Report, Working Group III contribution: Climate Change 2022: Mitigation of Climate Change: [ipcc.ch/report/ar6/wg3/](https://ipcc.ch/report/ar6/wg3/)

Further, the IPCC outlines numerous climate-related financial risks. For example, it highlights relevant factors such as the “physical impacts of climate change” and risks arising “from a disorderly transition”.<sup>4</sup> In addition, it flags various sector-specific risks, including the possibility of stranded fossil-fuel assets in the energy system.<sup>5</sup>

The IPCC is also clear about the remaining “budget” for GHG emissions that can be released without exceeding its low/no overshoot 1.5°C pathway, and it cautions that estimates of future emissions significantly exceed this budget. This warning is depicted by the illustration below, which shows predicted emissions from the power (electricity) sector and other sectors:

**Figure 1:** Future CO<sub>2</sub> emissions from existing and currently planned fossil fuel infrastructures<sup>6</sup>



The estimated emissions in **Figure 1** are color-coded by the geographic region with which they are associated. In the context of a global carbon budget, however, we are particularly interested in total cumulative emissions. The two leftmost columns estimate the future emissions of all sectors, the majority of which are set to occur in the power sector to generate electricity. Without adding any new capacity, emissions from existing fossil-fuel infrastructures alone are enough to exceed the remaining carbon budget for achieving a 1.5°C scenario.<sup>7</sup> The estimated emissions associated with these sectors utilising proposed fossil-fuel infrastructures would also put a 2.0°C scenario in serious jeopardy.

4 Ibid. (p.186)

5 Ibid. (Chapter 6)

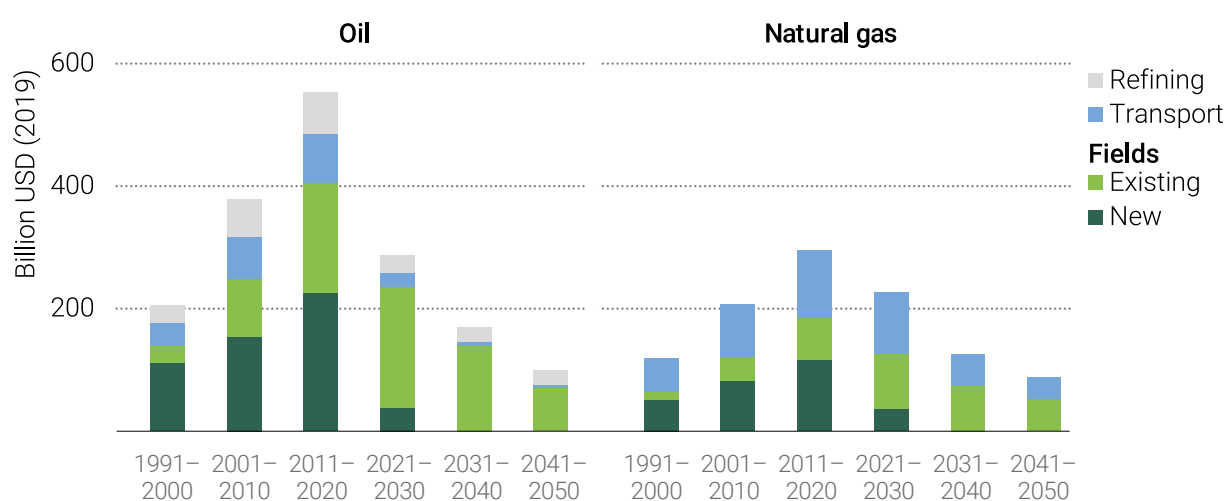
6 IPCC. 2022. Sixth Assessment Report, Working Group III contribution: *Climate Change 2022: Mitigation of Climate Change*: [ipcc.ch/report/ar6/wg3/](https://www.ipcc.ch/report/ar6/wg3/) (Technical Summary, p.26). Note: Grey bars on the right depict a range (from 5–95th percentile) of overall cumulative emissions in gigatons of CO<sub>2</sub> (GtCO<sub>2</sub>) until reaching net zero in pathways/scenarios that limit warming to 1.5°C with low/no overshoot and that limit likely warming to 2°C. A midpoint of 510 GtCO<sub>2</sub> compares to a total carbon budget to maintain a 66% chance of limiting warming to 1.5°C of 420 GtCO<sub>2</sub> cited in the IPCC SR1.5 report and 400 GtCO<sub>2</sub> cited in the AR6 report.

7 The IPCC derives this calculation based on historic patterns of capacity utilisation and infrastructure lifetimes.

The Alliance’s net-zero ambitions are guided by the IPCC’s low/no overshoot scenarios, as well as the One Earth Climate Model (OECM)<sup>8</sup> and the International Energy Agency’s (IEA) Net Zero by 2050 roadmap. We also look to resources like the Network for Greening the Financial System scenarios<sup>9</sup> and the Glasgow Financial Alliance for Net Zero’s (GFANZ) work (such as the latter’s Sectoral Pathways for Financial Institutions report<sup>10</sup>) to help inform our understanding of sector dynamics and transition pathways.

Importantly, these frameworks apply the science of emissions reductions and describe the corresponding economic actions needed to achieve various global temperature scenarios. For example, the IEA’s Net Zero by 2050 roadmap outlines steadily declining investment in the oil and gas sector through the middle of the century.

**Figure 2:** IEA’s Net Zero by 2050 Roadmap—investment in oil and gas<sup>11</sup>



IEA. All rights reserved.

The reductions in investment described in **Figure 2** reflect the IEA’s modelled reductions in the production and use of oil and gas to achieve a net-zero outcome by 2050. Such reductions would likely mean that some oil and gas assets are retired earlier than planned, comprising a fundamental transition-related risk. This risk must be managed thoughtfully by companies, policymakers, and investors, including through demand-side actions.

8 The One Earth Climate Model was commissioned by the Alliance and the European Climate Foundation, in partnership with the University of Technology Sydney: [link.springer.com/content/pdf/10.1007/978-3-030-05843-2.pdf](https://link.springer.com/content/pdf/10.1007/978-3-030-05843-2.pdf)

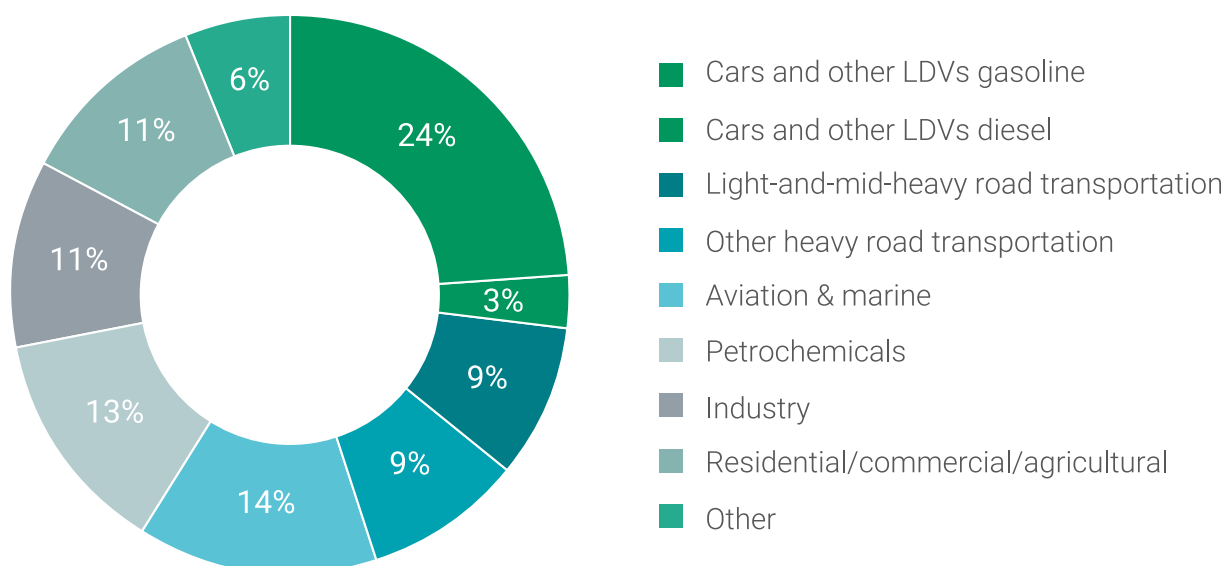
9 [ngfs.net/ngfs-scenarios-portal/data-resources/](https://ngfs.net/ngfs-scenarios-portal/data-resources/)

10 [assets.bbhub.io/company/sites/63/2022/06/GFANZ\\_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions\\_June2022.pdf](https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions_June2022.pdf)

11 International Energy Agency. 2021. Net Zero by 2050: A Roadmap for the Global Energy Sector: [iea.org/reports/net-zero-by-2050](https://www.iea.org/reports/net-zero-by-2050) (p.103). According to the IEA, investment in new fields in the 2021-2030 period can only be for projects that are already under construction or have already been approved.

Indeed, the “demand side” of the transition is one of grave importance. The sources of demand for oil alone illustrate that end users rely on these fuels for diversity of key tasks.

**Figure 3:** Breakdown of Global Oil Demand<sup>12</sup>



Both the IEA and the OECM describe the declines in supply *and* demand that would be necessary to achieve their respective net-zero pathways.<sup>13</sup> For example, the IEA roadmap notes that fossil fuels would account for just over 20% of global energy supply in 2050, with total global final energy demand around 17% lower than 2020 levels.<sup>14</sup> On the other hand, it projects that demand for oil and gas as fuels would drop by 15% by 2030 and by 48% by 2040 compared to 2020 levels.<sup>15</sup>

In the OECM 1.5°C Scenario, fossil fuels account for just under 8% of total energy supply in 2050 (remaining only to meet feedstock demand), with total global energy demand down about 29% from 2020.<sup>16</sup> The OECM scenario also models oil and gas as a share of global primary energy demand/supply (excluding non-energy use) falling from 52% in 2019 to 43% in 2030 and just 16% by 2040.<sup>17</sup>

12 As of 2018. Adapted from BNP Paribas Asset Management, Wells, Wires, And Wheels: [tecsol.blogs.com/files/bnp\\_wells\\_wires\\_wheels.pdf](https://tecsol.blogs.com/files/bnp_wells_wires_wheels.pdf). Data from Deutsche Bank, Wood MacKenzie.

13 The IEA roadmap utilises a total CO<sub>2</sub> budget from 2020 of 500 GtCO<sub>2</sub>, consistent with a 50% chance of limiting warming to 1.5°C as of the IPCC’s 2018 SR1.5 report. The OECM/University of Technology Sydney’s Limit Global Warming to 1.5°C report cites a global carbon budget of 400 GtCO<sub>2</sub>, consistent with 67% chance of limiting warming to 1.5°C as of the IPCC’s 2022 AR6 report.

14 University of Technology Sydney, Limit Global Warming to 1.5°C: [unepfi.org/wordpress/wp-content/uploads/2022/05/UTS\\_Limit-global-warming\\_Sectoral-Pathways-and-Key-KPIs.pdf](https://unepfi.org/wordpress/wp-content/uploads/2022/05/UTS_Limit-global-warming_Sectoral-Pathways-and-Key-KPIs.pdf) (p.38).

15 International Energy Agency, Net Zero by 2050: A Roadmap for the Global Energy Sector: [iea.org/reports/net-zero-by-2050](https://iea.org/reports/net-zero-by-2050) (p.196)

16 University of Technology Sydney, Limit Global Warming to 1.5°C: [unepfi.org/wordpress/wp-content/uploads/2022/05/UTS\\_Limit-global-warming\\_Sectoral-Pathways-and-Key-KPIs.pdf](https://unepfi.org/wordpress/wp-content/uploads/2022/05/UTS_Limit-global-warming_Sectoral-Pathways-and-Key-KPIs.pdf) (p.38).

17 Sven Teske, Achieving the Paris Climate Agreement Goals: [link.springer.com/content/pdf/10.1007/978-3-030-99177-7.pdf](https://link.springer.com/content/pdf/10.1007/978-3-030-99177-7.pdf) (p.52)

Although the IEA and OECM models differ in a few areas, all such science-based frameworks underscore the importance of a rapid reduction in oil and gas supply *and* demand. Thus, to manage systemic climate risks and economy-wide decarbonisation most effectively, investors and the broader financial sector must support both a coordinated reduction in oil and gas production *and* the deployment of technologies that provide alternatives to oil and gas.

## 1.3 Societal and geopolitical challenges

The world's dependency on fossil fuels and the risks associated with seismic shifts in oil and gas supply, demand, and investment make it clear that a transition away from these fuels is not without headwinds. The core challenge of this transition is the global need to achieve: (i) affordable and equitable access to energy; (ii) low-carbon energy and environmental sustainability; and (iii) long-term energy security. Achieving all of these simultaneously is sometimes referred to as the energy “trilemma”.

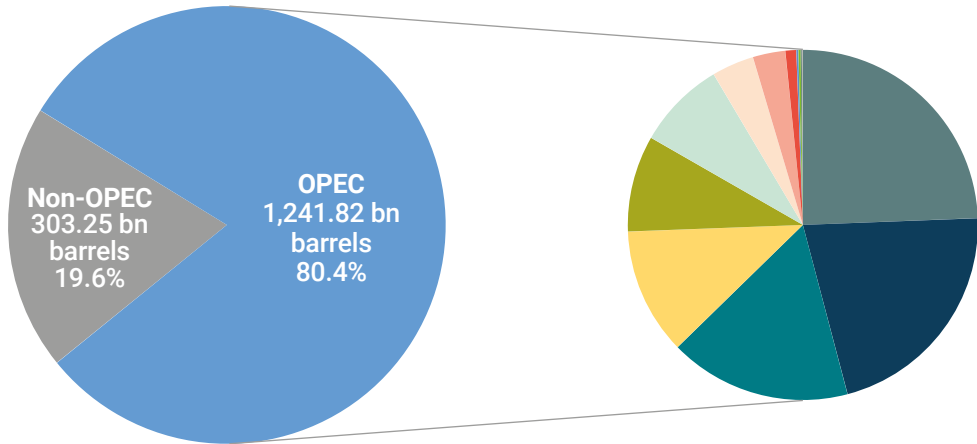
This trilemma exists, in part, because of the inherent tension between global oil and gas supply, on the one hand, and the increasing demand for affordable and secure energy, on the other. It is now widely accepted that continuing to rely on fossil fuels is unsustainable. However, reducing supply of oil and gas too rapidly—i.e. without taking steps that significantly reduce demand, such as the rapid deployment of renewables—would result in severe economic disruption, as is outlined in various capacities by the IPCC, IEA, and OECM.

There are numerous other related factors to consider, not the least of which is the oil and gas sector's close association with global geopolitics. It is estimated that 90% of oil reserves and more than 75% of production is controlled by state-owned companies.<sup>18</sup> In addition, past disruptions in oil supply—most notably, the 1973 oil crisis—led to greater political power and economic influence for entities like the Organisation of the Petroleum Exporting Countries (OPEC). Oil and gas represent valuable income for OPEC countries and other producers, meaning that the transition has direct implications for their national budgets and other strategic interests.

---

18 World Bank. 2011. National Oil Companies and Value Creation: [documents1.worldbank.org/curated/en/650771468331276655/pdf/National-oil-companies-and-value-creation.pdf](https://documents1.worldbank.org/curated/en/650771468331276655/pdf/National-oil-companies-and-value-creation.pdf)

**Figure 4:** OPEC Countries' Share of World Oil Reserves, 2021<sup>19</sup>



**OPEN proven crude oil reserves, at end 2021 (billion barrels, OPEC share)**

Venezuela	303.47	24.4%	Nigeria	37.05	3.0%
Saudi Arabia	267.19	21.5%	Algeria	12.2	1.0%
IR Iran	208.50	16.8%	Angola	2.52	0.2%
Iraq	145.02	11.7%	Gabon	2.00	0.2%
United Arab Emirates	111.00	8.9%	Congo	1.81	0.1%
Kuwait	101.50	8.2%	Equatorial Guinea	1.10	0.1%
Libya	48.36	3.9%			

Source: OPEC Annual Statistical Bulletin, 2022

The importance of fossil fuel-related revenues to the national budgets and strategic interests of oil and gas producers helps explain why the fossil-fuel production policies of many governments fail to line up with their stated climate ambitions. Indeed, a 2021 report on this so-called “production gap”—commissioned by the UN Environment Programme and the Stockholm Environment Institute, among others—found that current government plans would “produce more than twice the amount of fossil fuels in 2030 than would be consistent with limiting warming to 1.5°C”.<sup>20</sup>

Of course, there is also the geopolitical importance of energy security, as evidenced by Russia’s invasion of Ukraine and the impacts of Western sanctions on Russian oil and gas supplies to Europe. The resulting supply disruption highlights the uncertainties of the current energy system in relation to energy security—including vulnerabilities associated with energy reliability, affordability, independence, and supply sustainability across Europe.

Energy security is also highly relevant for Emerging Markets and Developing Economies (EMDEs). EMDEs face unique challenges, and their economies are likely to be more susceptible to volatility associated with the energy transition. Many such countries also have much more recent fossil-fuel infrastructure than that of developed countries. Those EMDEs with a higher proportion of newer carbon-intensive infrastructure may need to advance their respective energy transitions on a longer timescale. This consideration should inform—and potentially require the acceleration of—mitigation efforts undertaken by developed countries in light of the aforementioned scientific imperative to reduce *global* emissions. This is in line with the Paris Agreement, which outlines the principles of “common but differentiated responsibility”.

<sup>19</sup> [opec.org/opec\\_web/en/data\\_graphs/330.htm](https://www.opec.org/opec_web/en/data_graphs/330.htm)

<sup>20</sup> [productiongap.org/2021report/#R1](https://www.productiongap.org/2021report/#R1)

There also exists a need to bridge a crucial gap for the approximately 750 million people worldwide who lack energy access.<sup>21</sup> In light of this pressing requirement, the factors impacting energy transitions in EMDEs are intertwined with the simultaneous challenge of delivering a positive social impact. This challenge is a global one, and the IPCC incorporates it into its projections using its “Socioeconomic Pathways”, which consider both qualitative and quantitative data relating to projected social and economic developments. The only Socioeconomic Pathway modelled by the IPCC which aligns with a 1.5°C target is the “Sustainability—Taking the Green Road scenario (SSP1)”, which emphasises “more inclusive development that respects perceived environmental boundaries”<sup>22</sup> and gives high preference to electrification and renewable energy.<sup>23</sup>

Failing to equitably allocate the costs of decarbonisation risks impacting low-income populations disproportionately—just as these same populations have long been disproportionately harmed by the pollution and other externalised costs of the world’s reliance on oil and gas. To avoid this, and to ensure the energy transition described throughout this paper is just, governments must accompany their use of demand-side levers (e.g. carbon pricing) with policies that help those most impacted by changes to the price and availability of energy.

The key takeaway from all these societal and political considerations is that any action that reduces the global supply of, or demand for, oil and gas is likely to have ramifications for both the effectiveness and pace of the energy transition. These could include social and/or political opposition, which would *slow* the transition. Equally, they could comprise consumer and governmental responses intended to *accelerate* it. An illustrative example of the second is the European Union’s recent plan to increase the region’s energy independence from “unreliable suppliers and volatile fossil fuels”.<sup>24</sup> Although its adoption owes to a political crisis (namely, Russia’s invasion of Ukraine), an important ancillary effect of this plan could be the acceleration of the global transition.

The Alliance believes that the scientific imperative for net zero and the many factors underpinning the energy transition trilemma drive the requirement for an expedited transition away from our dependence on oil and gas. Section 2 of this position paper seeks to identify specific steps that can make this a reality while also addressing the challenges mentioned above.

---

21 The World Bank. ‘Report: Universal Access to Sustainable Energy Will Remain Elusive Without Addressing Inequalities.’ Press release, 7 June 2021: [worldbank.org/en/news/press-release/2021/06/07/report-universal-access-to-sustainable-energy-will-remain-elusive-without-addressing-inequalities#:~:text=Access%20to%20electricity.&text=As%20a%20result%2C%2090%20percent,fragile%20and%20conflict%2Daffected%20settings](https://worldbank.org/en/news/press-release/2021/06/07/report-universal-access-to-sustainable-energy-will-remain-elusive-without-addressing-inequalities#:~:text=Access%20to%20electricity.&text=As%20a%20result%2C%2090%20percent,fragile%20and%20conflict%2Daffected%20settings).

22 Riahi, Keywan, et al. ‘The Shared Socioeconomic Pathways and their energy, land use, and greenhouse gas emissions implications: An overview.’ Global Environmental Change, vol. 42, Jan. 2017, pp. 153–68, doi:[doi.org/10.1016/j.gloenvcha.2016.05.009](https://doi.org/10.1016/j.gloenvcha.2016.05.009).

23 IPCC. 2022. Sixth Assessment Report, Working Group III contribution: Climate Change 2022: Mitigation of Climate Change: [ipcc.ch/report/ar6/wg3/](https://ipcc.ch/report/ar6/wg3/) (Chapter 8, p.49).

24 European Commission. ‘REPowerEU: Joint European action for more affordable, secure, and sustainable energy.’ Press release, 8 March 2022: [ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_1511](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511); ‘Four EU Countries Set Joint Target of 150 GW of Offshore Wind by 2050.’ Press release, 18 May 2022: [offshorewind.biz/2022/05/18/four-eu-countries-set-joint-target-of-150-gw-of-offshore-wind-by-2050/](https://offshorewind.biz/2022/05/18/four-eu-countries-set-joint-target-of-150-gw-of-offshore-wind-by-2050/)





SECTION 2:  
**Position on the  
oil and gas sector  
and expectations  
for sector  
stakeholders**



The societal and political consequences underpinning the urgent need to reduce both demand for, and supply of, oil and gas are stark reminders that the transition requires immense collaboration between various stakeholders. **Thus, the Alliance’s position on oil and gas is expressed as asset owner expectations of the three key stakeholder groups: companies, policymakers, and investors.** Within these three primary groups, we examine more specific categories of stakeholders, including companies from the oil and gas sector as well as other carbon-intensive sectors, plus Alliance members and other asset owners.

The following positions are based on an acknowledgement that individual members make their own portfolio decisions and will allocate resources consistent with their fiduciary duties. **As per the Alliance’s governing documents, members’ individual positions are expected to be informed by the Alliance’s positions. Also, as stated in the Preface, commitments by members of the Alliance are made with the expectation that governments will follow through on their own commitments to the Paris Agreement.**

## 2.1 Expectations of oil and gas companies and carbon-intensive sectors

Companies in the oil and gas sector—be they privately-owned, publicly-traded, or state-owned enterprises—are the major producers of oil and gas. Further, their customers, which largely comprise companies in carbon-intensive sectors, are the major users of oil and gas products. Both producers and users of oil and gas must be at the forefront of transitioning the economy away from dependency on these resources in a manner aligned with the scientific imperative to drastically reduce global emissions. The Alliance expects that companies will undertake the following steps:

- **Set absolute- and intensity-oriented emissions targets that are science-based:** As stated in Section 1.2, emissions from existing fossil fuel infrastructure alone are enough to exceed the remaining carbon budget for a 1.5°C scenario. As such, all oil and gas companies need to set absolute- and intensity-based emissions targets that cover Scope 1, 2, and 3 emissions, in line with widely accepted, science-based, low/no overshoot, 1.5°C-aligned pathways (e.g., IPCC, OECM, and IEA roadmaps).

It is important that oil and gas companies commit to having their science-based targets evaluated by a reputable organisation and/or against a reputable framework.<sup>25,26</sup> These companies should then publish corresponding transition plans, make such plans available in their engagements with investors and to the broader public,

---

25 The Science-Based Targets initiative (SBTi) is the recognised global leader in validating corporate emissions reductions targets and has published guidance on targets for companies in the oil and gas sector (see: SBTi, August 2020. [Guidance on setting science-based targets for Oil, Gas and Integrated Energy companies](#)). However, SBTi has since paused its validation of oil and gas sector commitments as it works on improving its methodology (see: [SBTi Updated Oil and Gas Sector Guidance and Fossil Fuel Policy](#)). Companies and investors should keep abreast of updates from SBTi regarding its oil and gas methodology and its ability to validate targets from the sector.

26 The Institutional Investors Group on Climate Change’s (IIGCC) “Net Zero Standard for Oil and Gas” is a crucial framework, having been informed by the Transition Pathway Initiative (TPI) and developed by investors representing over \$10 trillion in asset under management. The IIGCC standard sets minimum expectations for what oil and gas companies must include in their net-zero transition plans.

align corporate strategy and capital expenditure with their targets, and link those targets to executive compensation.

- **Reduce oil and gas consumption:** As emphasized throughout this document, the shift away from oil and gas requires careful consideration of both supply *and* demand. Therefore, companies that drive the consumption of oil and gas must also commit to science-based emissions reduction targets. Corporate purchasers of products that require heavy use of oil and gas, as well as providers of products and/or services dependent on this use (such as auto manufacturers), must immediately focus on transitioning their business models to low- or no-carbon alternatives.
- **Align corporate lobbying with climate goals:** All direct and indirect lobbying and political activities by companies must be aligned with their science-based emissions targets. Furthermore, companies must develop responsible lobbying strategies and partnerships that can deliver the regulatory environment required to achieve their transition plans. Finally, it is imperative that oil and gas companies discourage actions by their trade associations and other sectoral actors that do not support, or that actively lobby against, sound climate policy.<sup>27</sup> The Alliance encourages members and other investors to prioritise the communication of lobbying expectations to other companies. We also call on both these parties to consider implementing escalation strategies (e.g. votes against directors) when companies do not adopt constructive and transparent lobbying practices.
- **Address fugitive methane emissions:** One of the primary sources of anthropogenic methane emissions is “fugitive emissions” released in the production and distribution of oil and gas. There are a variety of best practices for reducing fugitive emissions, including those outlined by the Oil and Gas Methane Partnership 2.0.<sup>28</sup> Companies involved in this initiative commit to end routine flaring by 2030 or sooner and pledge to participate constructively in relevant policy and regulatory discussions.
- **Rapidly transition from any dependence on carbon-intensive unconventional oil and gas:** Unconventional oil and gas tend to be among the most carbon-intensive fossil fuels on a life-cycle emissions basis, either because of fugitive methane emissions (including shale and tight gas, tight oil, methane hydrates, and coal seam gas) or because of the energy-intensive process of production or extraction of heavy and extra heavy oil and bitumen (EHOB). The carbon intensity of these unconventional oil and gas sources over their life cycle generally means that financing or investing in them should be de-prioritised. However, exceptions may exist when investments are targeted explicitly at reducing emissions intensity and improving operational performance on GHGs, particularly in tight oil and tight gas where emissions could be significantly reduced through diligent management of fugitive methane, as identified above.

---

27 Research by InfluenceMap, a civil society group, shows that such lobbying practices are commonplace. For example, see: [influencemap.org/report/Fossil-Fuel-Lobbyists-Are-Dominating-Climate-Policy-Battles-During-COVID-19-a78b11aa1be42aef5d7078d09457603b](https://influencemap.org/report/Fossil-Fuel-Lobbyists-Are-Dominating-Climate-Policy-Battles-During-COVID-19-a78b11aa1be42aef5d7078d09457603b)

28 The Oil & Gas Methane Partnership 2.0 (OGMP 2.0) is a multi-stakeholder initiative launched by UNEP and the Climate and Clean Air Coalition. The only comprehensive and measurement-based reporting framework for the oil and gas industry, OGMP 2.0 is designed to improve the accuracy and transparency of methane emissions reporting by oil and gas companies: [ogmpartnership.com](https://ogmpartnership.com)

- **Cease financing new oil and gas drilling in sensitive environments (i.e. the Arctic<sup>29</sup> and in deep water/ultra-deep water<sup>30</sup>):** Environmental issues other than GHG emissions—such as the potential for accidents that pollute sensitive ecosystems and threaten biodiversity—present unique challenges that caution against financing or investing in deepwater oil and gas and Arctic oil and gas.

## 2.2 Expectations of policymakers and regulators

While many governments have set net-zero targets, these are not yet reflected by credible Nationally Determined Contributions (NDCs) that align with a 1.5°C scenario.<sup>31</sup> In turn, countries are often not on track to achieve their targets due to the inadequate integration of their NDCs into relevant national planning, including their respective regulatory and legislative processes.

Governments must implement ambitious policy frameworks that provide the certainty and stability for businesses to make capital investment decisions that are aligned with a 1.5°C transition. Policymakers and regulators can deliver this by setting strong market signals through the pricing of externalities—via taxation, levies, and/or cap-and-trade programmes—and by establishing other incentives (e.g. subsidies) that will expedite the transition.

Reinforcing previous statements and publications by the Alliance, including positions on thermal coal, governmental carbon pricing, and the coronavirus recovery, the Alliance calls on policymakers and regulators to provide the following measures:

- **Regulatory certainty for demand reduction mechanisms:** Certainty over the broad trajectory of economic incentivisation allows for a better organised and more orderly transition, and carbon pricing is one of the strongest policy tools to incentivise reduction in demand for oil and gas. An appropriate design is *essential* for the efficacy of carbon-pricing policy instruments.

29 The Alliance recognises that various definitions of “Arctic” exist. According to the Arctic Monitoring and Assessment Programme (AMAP), “Arctic” is defined as follows: “The region covered by AMAP is ... essentially the terrestrial and marine areas north of the Arctic Circle (66°32’N), and north of 62°N in Asia and 60°N in North America, modified to include the marine areas north of the Aleutian chain, Hudson Bay, and parts of the North Atlantic Ocean including the Labrador Sea.” See: AMAP Assessment report, Chapter 2, p.2: [climate-adapt.eea.europa.eu/metadata/organisations/amap-arctic-monitoring-and-assessment-programme](https://climate-adapt.eea.europa.eu/metadata/organisations/amap-arctic-monitoring-and-assessment-programme). Nevertheless, investors seeking to implement investment guidelines based on this position may work within the frameworks established by the data resources most readily available to them.

30 Varying definitions exist for what constitutes “deep water” and “ultra-deep water” activity. In this context, we are referring to oil & gas drilling in sea depths greater than 1,500 meters, combined with the presence of novel technical issues (e.g. high pressure drilling techniques).

31 The latest UNFCCC NDC Synthesis Report found that implementation of all the latest NDCs would result in a total global GHG emission level in 2030 that is 15.9% higher than the 2010 level. This compares to the estimated decline of 45% from 2010 levels by 2030 that aligns with 1.5°C low/no overshoot pathways (see: [NDC Synthesis Report](#), p.6).

Thus, as set out in our carbon pricing position,<sup>32</sup> the Alliance supports a steadily escalating carbon-price corridor on oil and gas. Fossil-fuel subsidies also must be phased out, including by actualising the G20's subsidy phase-out commitment, which dates back to 2009 and was reaffirmed in 2021. Additionally, governments must establish incentives and/or requirements for conservation and energy efficiency. These should include, but should not be limited to, support for a rapid uptake in zero- or low-emissions electric vehicles, renewable energy procurement, heat pumps, and weatherproofing.

- **Just, equitable, and effective carbon-pricing mechanisms:** Policymakers should design carbon-pricing mechanisms to reduce or compensate for the potential impact that shifts in economic activities resulting from carbon pricing will have on disadvantaged communities.<sup>33</sup> Well-designed, pricing-related regulations will benefit the majority of the global population, with proceeds used to help those most impacted by any increased cost of energy. Remaining proceeds should be used to support additional green solutions, including those mentioned in this paper.
- **Investment in zero-emission infrastructure and technologies:** Government spending should include direct support for zero-emission infrastructure and technologies,<sup>34</sup> with specific consideration for renewable energy, smart grids, and grid-scale energy storage, as well the electrification of mass transportation and commercial/passenger vehicles. This spending should include commitments to procure low- or zero-carbon energy and materials for government buildings and operations. Policymakers should also consider opportunities for research and development that are supportive of electrifying and developing alternative fuels in hard-to-abate sectors. The same goes for regulators. Fuel alternatives are of particular necessity in process industries that depend on high levels of heat that cannot be achieved efficiently through electrification. Furthermore, governments should promote clean transport infrastructure in cities, including the expansion of dedicated bicycle lanes and investment in clean public transit.<sup>35</sup>
- **Limits on value-chain emissions from oil and gas:** Governments can limit emissions from the full oil and gas value chain by not issuing licenses for new oil and gas projects. Other measures available to them include implementing stringent, market-wide standards and establishing robust monitoring systems across the oil and gas sector. These measures would collectively help to maintain a regulatory floor so as to ensure that that best practices for emission reductions are retained, even if assets are offloaded from strong-performing operators to lower-performing operators. We also urge governments to sign the Global Methane Pledge announced at COP26,<sup>36</sup> to support the Oil and Gas Methane Partnership 2.0, and to strengthen regulations aimed at curbing fugitive methane emissions and flaring.<sup>37</sup>

---

32 [Existing Alliance position](#) (p.5).

33 [Existing Alliance position](#) (p.5).

34 [Existing Alliance position](#) (p.4).

35 Ibid.

36 [globalmethanepledge.org/#about](https://globalmethanepledge.org/#about)

37 Ibid.

- **Mandatory climate reporting requirements:** The effective management of the energy transition will require that investors and other oil and gas stakeholders are informed by standardised and comparable emissions-related data from companies. As described in the Alliance’s statement on the EU’s Non-Financial Reporting Directive consultation,<sup>38</sup> this should include:
  - Scopes 1, 2, and Scope 3 emissions, with Scope 3 separated by upstream/downstream and by individual GHGs (most notably, carbon dioxide and methane)
  - Identifying the split of emissions in estimated/measured/assured
  - Forward-looking targets covering absolute GHG emissions as well as GHG intensities (e.g., GHG emission intensity planned in five and 10 years), which would enable members of the Alliance to chart their pathways and investment decisions to realise net-zero commitments.
  
- **Public/private investment partnerships:** Sufficient capital exists globally to finance the investments needed for a 1.5°C scenario, but the availability of projects that meet the investment requirements of institutional investors remains low. Consequently, financial flows are currently three to six times lower than the levels needed by 2030 to limit warming to below 2°C, let alone 1.5°C.<sup>39</sup> Bridging this investment gap requires clear action from all stakeholders. Such action includes the preparation of appropriate projects by governments, the use of transition financing mechanisms (such as well-designed green bonds), and a concerted effort to increase the use of blended finance to make investments in the transition more attractive for institutional investors.<sup>40</sup>

## 2.3 Expectations of investors

While companies and policymakers set the conditions for a successful transition away from oil and gas, investors must also play a driving role. The imperative to reduce global emissions to protect investment portfolios from the costs associated with a disorderly transition is sufficiently great that taking action to mitigate the associated risks is clearly within investors’ fiduciary responsibilities.<sup>41</sup>

Investors have two main levers to influence action in line with their interests and support a transition in the real economy. The first comprises decisions related to their own portfolio asset allocation (e.g., deciding to invest more, or less, in particular assets, companies, or

---

38 Net-Zero Asset Owner Alliance: [Statement On The Eu’s Non-Financial Reporting Directive Consultation](#)

39 IPCC. 2022. Sixth Assessment Report, Working Group III contribution: [Climate Change 2022: Mitigation of Climate Change](#) (p.62).

40 Net-Zero Asset Owner Alliance (2022): [Call on Policymakers to Support Scaling Blended Finance](#)

41 Alliance members endorse this understanding of fiduciary duty through the Alliance’s official commitment, which states: “in order to enable members to meet their fiduciary duty to manage risks and achieve target returns, this Commitment must be embedded in a holistic ESG approach, incorporating, but not limited to, climate change, and must emphasise GHG emissions reduction outcomes in the real economy” (see: [unepfi.org/wordpress/wp-content/uploads/2019/09/AOA\\_FAQ.pdf](https://unepfi.org/wordpress/wp-content/uploads/2019/09/AOA_FAQ.pdf)). Other investors may also look to the Principles for Responsible Investment’s definition, which includes “encouraging high standards of ESG performance in the companies or other entities in which they are invested” and “supporting the stability and resilience of the financial system” (see: [The modern interpretation of fiduciary duty](#)).

sectors). The basic premise here is that allocation decisions signal investor interest and confidence in particular businesses. This potentially raises or lowers these businesses' cost of capital, which has direct implications for a company's growth prospects and management's decision-making. Investors should be integrating these considerations across their entire portfolios, while nuancing for specific considerations in each asset class and adapting strategies to the individual NDCs and individual country circumstances referenced in Sections 1.3 and 2.2.

The second lever available to investors is their stewardship activities. These can be divided into more *direct* or more *indirect* levers of influence. *Direct influence* involves proxy voting and participating in engagement dialogues with companies, sector representatives, and policymakers. This stewardship is often most effectively pursued in collaboration with other investors and through coalitions such as Climate Action 100+ (CA100+). Asset owners and other investors can—and should—actively support the transition from oil and gas dependency through these levers.

The Alliance is of the opinion that significant, fundamental changes are required at a systemic level if the global economy is to successfully manage the transition in an efficient, equitable and 1.5°C-aligned manner, as is needed. Therefore, the Alliance also emphasises the need for asset owners to employ *indirect levers* of influence. In this context, *indirect influence* involves investors clearly voicing their long-term investment interests and their fiduciary obligations to assist in shaping discourse in the business community and to help support policy and regulatory efforts to address climate change.

The Alliance believes the proposed direct and indirect interventions serve as a useful framework for investor action aligned with the expectations of companies and policymakers set out in Section 2.1 and Section 2.2.

### 2.3.1 Portfolio allocation and investment decision making

All investors should explicitly and strategically consider their portfolio allocation decisions as they relate to the investment risks and opportunities inherent to the energy transition and the impacts of climate change. This is particularly true for investors committed to 1.5°C or net-zero goals. Naturally, this includes members of the Alliance, who must work towards their individual goals of net-zero portfolio alignment with attention to the sector-spanning investment and spending that is outlined in credible transition scenarios. Prudent asset allocation and investment decision-making should consider the following issues:

- **Portfolio allocation and de-risking activities:** Members of the Alliance and other investors must determine the point at which they consider the risks posed by laggard companies to be too great. Options for reducing portfolio-level transition risks include:
  - **Prioritisation of “transition ready” companies:** Investors may opt to intentionally allocate more heavily toward the most “transition ready” companies. This focus on readiness should occur for companies both supplying and demanding oil and gas. On the supply side, investors should ideally prioritise oil and gas companies that show strong resource (e.g. GHG emissions management, operational energy efficiency, diversification and decarbonisation of product offerings, etc.) manage-

ment and capital discipline. A case in point might be electing not to fund the most carbon-intensive oil and gas production on the grounds that such assets (e.g., oil sands, challenging deep-water operations, and greenfield explorations.) are more likely to become stranded. Both demand- and supply-side companies with a focus on efficiency are also more likely to benefit from climate-smart policies and regulations. Lower emissions in production, for instance, will likely translate to lower production costs if or when carbon prices are internalised. Companies demanding fossil fuels will also hedge transition risk by investing in and building value chains that enable alternative supply from renewable sources.

- **Selective divestment:** Multiple strategies are available to investors considering this approach. For example, investors can divest selectively from companies that they consider laggards (e.g., those widely engaged in unconventional production or with expansion plans that do not align with scientific frameworks) and/or that measure poorly against applicable standards and benchmarks, such as the CA100+ Net Zero Company Benchmark. Investors pursuing this strategy are encouraged to reallocate capital towards companies that are positioning themselves strongly for the energy transition.
- **Underweighting:** Investors may choose to underweight or divest from companies more broadly.
- **Evaluating risks of alternative investment strategies:** Highly diversified investors, including many asset owners, may find they have greater discernment in different asset classes across certain areas of their portfolios. For example, investors with alternative investment strategies should consider whether their private equity or private debt investments are supporting direct spending on riskier oil and gas projects (our perspective on direct investments in oil and gas infrastructure is described in greater detail in Section 2.3.2). If these investments are supporting higher-risk projects, investors should employ increased scrutiny of such strategies when deciding upon appropriate allocation, including conducting intensive engagement with managers and underlying companies prior to investment.
- **Allocations to low- or zero-carbon solutions and removal/avoidance technologies:** Investors are encouraged to invest in projects and technologies targeted at the expansion of low- or zero-carbon energy and the reduction of demand for oil and gas resources, as well as credible carbon removal and avoidance solutions.
- **Investing in other key economic drivers:** Investors should consider participating in credible carbon credits markets, in both voluntary markets and regulated schemes. They should do so in such a way as to contribute to a liquid and well-regulated credits market, thus accelerating the incentive to transition that is associated with carbon-pricing mechanisms.



## 2.3.2 Private asset investment in oil and gas infrastructure

Beyond the scope of traditional liquid financial assets, investment in oil and gas infrastructure projects (e.g. extraction facilities, pipelines, terminals, and storage) through direct infrastructure investments must be approached with heightened and ever-increasing caution and scrutiny.

The same definition of "infrastructure investment" is used as set out in the third edition of the Alliance's Target-Setting Protocol:

**An infrastructure investment is defined as an investment in an entity or corporate group which derives the substantial majority (i.e., more than two thirds) of its revenues from owning, financing, developing or operating infrastructure assets. Infrastructure assets include physical assets, structures, facilities, systems, and networks that often provide or support essential public services.<sup>42</sup>**

In the Protocol, it is noted that the chapter on infrastructure investments "is written from the perspective of a stand-alone, unlisted infrastructure asset class," and it states that Alliance members "should decide, and clearly communicate, whether infrastructure assets that sit outside their infrastructure portfolio fall under their infrastructure reduction target or sit within the target for another relevant asset class."

Alongside these definitions, the Alliance established important recommendations for such infrastructure investments that members should consider when setting their individual targets. These include general guidelines that are widely applicable to oil and gas infrastructure investments, as well as specific guidance for fossil fuel projects. The Target Setting Protocol third edition states:<sup>43</sup>

- Alliance members shall not provide new finance to infrastructure assets whose purpose or emissions cannot be aligned with the Alliance net-zero ambitions which are guided by IPCC's no or limited overshoot scenarios, OECM and the IEA's NZE2050.
- For oil, members shall not finance assets which are not aligned with science-based or government-issued regional/national 1.5°C degree pathways, especially not upstream greenfield projects beyond those already committed by the end of 2021.
- For gas, members shall not invest in assets which are not aligned with science-based or government-issued regional/national 1.5°C degree pathways.

42 Net-Zero Asset Owner Alliance, [Target-setting Protocol, Third edition](#) (p.67)

43 Ibid. (p.71)

With this paper, the Alliance builds on these position statements by establishing additional positions on oil and gas infrastructure projects below. We do recognise that some investors may choose to continue investing in new oil and gas infrastructure in exceptional circumstances where alternatives for affordable and reliable energy are not yet viable or where government-issued regional/national 1.5°C pathways and/other regional specificities may influence portfolio decisions. Nevertheless, we strongly caution against investment in long-lived assets that are likely to become stranded in a 1.5°C-aligned transition, and we underscore the reality that “business-as-usual” investments in oil and gas infrastructure are inconsistent with such a scenario.

With that in mind, investors who are committed to net zero and 1.5°C should adopt the following guidelines:

**Figure 5:** Positions on oil, gas and associated energy infrastructure project investment

Fuel	Oil	Gas
<b>Upstream</b>	No new oil fields should be financed, built, developed, or planned. Investment should be limited to existing oil fields.	No new gas fields should be financed, built, developed, or planned. Investment should be limited to existing gas fields.
<b>Mid-stream</b>	Investment in oil pipeline distribution and storage should be limited to brownfield projects.	Investment in gas pipeline transmission, distribution and storage should be limited to brownfield projects. Investments in the conversion of gas pipelines to transport hydrogen are acceptable. No investment in new midstream infrastructure for gas, unless aligned with 1.5°C low/no overshoot pathways.
<b>Downstream</b>	No investment should be made in oil-fired power generation infrastructure. Investment in refineries and petrochemicals should be limited to brownfield projects (e.g., to promote efficiency or eliminate fugitive methane emissions).	No investment should be made in unabated new baseload gas-fired power generation or in infrastructure using gas as a fuel to produce hydrogen in the absence of carbon capture, utilisation and storage (CCUS). No new gas infrastructure unless it is designed with carbon reduction measures sufficient to align with 1.5°C low/no overshoot pathways.

As illustrated, both investors and oil and gas companies need to evaluate more critically which fossil fuel resources should be responsibly retired, kept in the ground, or developed in the short-term with investment focused solely on supporting operation during the transition. The above table does highlight several areas where investment in oil and gas infrastructure is still acceptable, with an emphasis on investment that is required to support the global economy during the energy transition. But all choices must be guided by credible 1.5°C scenarios for the oil and gas sector, including the OECM and the IEA roadmap mentioned above.

### 2.3.3 Investment stewardship

Investment stewardship represents a crucially important lever with which investors can make their long-term interests known to broad audiences, including their portfolio companies and their clients/beneficiaries. Prudent stewardship on climate issues should focus on building alignment with the aforementioned expectations. It should also be based on credible, science-based transition plans and should use escalating strategies when necessary. Moreover, engagement with companies should include the following actions:

- **Engaging on science-based targets, benchmarking, and lobbying alignment:** Investors should engage with oil and gas and other carbon-intensive companies on the need to set science-based emissions targets, in line with the expectations defined in Section 2.1. Investors should also stay informed of widely accepted transition-related benchmarks (e.g. the Transition Pathway Initiative [TPI] Tool and the CA100+ Net Zero Company Benchmark), as well as transparency standards that complement these benchmarks, such as the IIGCC Net Zero Standard for oil and gas companies. Implementation of these benchmarks and standards into engagement strategies will vary. However, each of these tools provides a critical evaluation of how oil and gas companies are aligning themselves with the transition. The same is true for key stakeholders from other industries. Investors should also scrutinise the lobbying activities of their portfolio companies to ensure they are aligned with companies' climate commitments. Many benchmarks, including the CA100+ Net Zero Company Benchmark, include coverage of direct and indirect lobbying activity. Engagement strategies should be transparent, with investors publicly communicating the principles behind their engagement requests, escalation strategies and requisite stewardship expectations of companies that help illustrate accountability, including the key performance indicators (KPIs) that will be considered.

#### A closer look: CA100+ Benchmark

The indicators in the CA100+ Net Zero Company Benchmark are critical evaluation tools that help investors determine if a CA100+ focus company is aligning to a 1.5°C-degree world and not actively obstructing the transition. Investors can set expectations for companies by utilising the tool and making it clear that they should be achieving green indicators in the benchmarking framework. Investors then need to decide for themselves if, when, and how they should escalate stewardship activities when their expectations for a full green benchmark are not met.

- **Integrating other climate-related KPIs:** Specific KPIs that are goal-oriented and climate-related can help investors evaluate a company's transition plan, as well as its progress (or lack thereof) towards achieving that plan. Investors should build these KPIs into their expectations of company management. For example, remuneration systems for top management can explicitly include a factor like compliance with emissions targets as a KPI for performance-based pay.

- **Adopting policies for merit-based proxy voting and strengthening the proxy voting landscape:** Investors' proxy voting policies and behaviours should align with their own requests of companies in the oil and gas sector. The Alliance believes it is crucial that voting "for" shareholder resolutions (or against management's recommendation) based on the merit of the request should be considered a standard course of business. Voting against resolutions may still be warranted when these are poorly constructed or are encumbered by a technicality. In general, however, investors should consider their overall alignment with a proposal's core aims and vote for resolutions based on the merit of the request, not tertiary considerations such as their relationship with company management.
- **Supporting stronger climate-related resolutions:** At present, investors who vote against a resolution often wait until the next shareholder meeting for the filer of that resolution to make an adjustment to their proposal. This is a cumbersome and slow process that does not align with the urgency of the challenge to transition from oil and gas in a way that is aligned with a 1.5°C pathway. All investors should help strengthen the efficacy of resolutions relating to climate and the energy transition by making clear what a palatable climate resolution consists of or by developing and filing resolutions directly with companies when they see fit (e.g. if/when they do not see adequate progress on climate topics that represent a high priority to them).

The above recommendations for improving stewardship of portfolio companies are clear and direct levers of influence that all investors possess. However, the systemic change needed to transition away from our dependence on oil and gas requires that investors utilise the full breadth of the direct and indirect levers of influence available to them.

In early 2022, the Alliance published a discussion paper, *The Future of Investor Engagement*, which highlights the need for improved stewardship strategies to address the systemic risk of climate change. Investors can implement a more systemic approach to stewardship by:

- **Engaging on policy:** The systemic risks of climate change create an imperative for investors to advocate for smart climate policies as a key fiduciary consideration. Investors can maintain a non-partisan stance, fulfil their fiduciary obligations, and represent their long-term interests on specific policy issues relating to the oil and gas transition by advocating for smart climate policymaking. Investor messaging to policymakers should focus on issues related to financial risks to portfolios, existential risks to asset owners' businesses, and transition risks whose disruptive potential increases as delays in the necessary policy response continue.
- **Participating in sector/value-chain engagements:** Just as no one company or sector can solve the climate crisis alone, businesses cannot transition their operations into alignment with the systemic shift we have described in the absence of corresponding shifts across their value chains. Investors should help catalyse this shift by leading and participating in sector/value chain-level dialogues that convene companies across the oil and gas and other carbon-intensive sectors, while also seeking to identify sector-specific opportunities for decarbonisation. These conversations should include the identification of critical gaps in current trajectories, the pinpointing of shared challenges regarding the decarbonisation of sectors, and the discussion of common solutions to sector-wide challenges (e.g. the challenge of transforming the transportation sector and the fuels on which it relies).
- **Seeking engagements on the “demand side” of the transition:** Investors should seek engagements with large-scale consumers of oil and gas, with dialogues focusing on the need to reduce demand for these resources. These conversations can also occur at the sector/value chain level. For example, in the steel sector, this might involve engaging miners to electrify equipment and decarbonise the sector's power sources. It could also include working with shipping and transport providers to decarbonise their fleets and encouraging steel purchasers to enter supply contracts for green- or low/no-carbon steel. All such engagement efforts should be supported by the implementation of governmental regulatory frameworks (e.g. the enforcement of building code regulations that require the use of low-carbon materials in the design and construction of greenfield infrastructure in the built environment). These engagements should also include requests that companies develop reporting methodologies for accountable customer emissions that provide investors with transparent information so as to inform their engagement of demand-side companies on their use of oil and gas.
- **Adapting stewardship strategies for companies in EMDEs:** Investors need to familiarise themselves with the NDCs established by individual countries, including EMDEs, under the terms of the Paris Agreement. The same is true for the intended net-zero plans of EMDEs. Country-specific transition plans and individual NDCs have direct implications for existing oil and gas assets, respective timelines for the scaling-up of low- and/or zero-carbon energy, and other factors influencing the pace of energy

transitions within countries—all of which are likely to be material to investor decision-making and stewardship approaches. Looking forward, investors need to give more in-depth consideration to the unique transition challenges of emerging markets and how engagement can be both impactful and consistent with principles of differentiated responsibilities and a just transition.

### 2.3.4 Asset owner to asset manager engagement

Most of the preceding recommendations describe interventions and positions that can and should be adopted by a diversity of institutional investor types. But Alliance members also recognise that asset owners hold a unique engagement opportunity through their relationships with their asset manager partners:

“Asset managers choose the companies in our portfolios, conduct corporate engagements, cast votes on directors and climate resolutions on our behalf, and influence the business community through their own policy engagement and public discourse. They also typically have more staff, resources, and analytical insights for stewardship activities within their organisations than asset owners. Although individual asset managers may have different business models and investment strategies, they are—as a whole—one of the most active participants in the investor engagement ecosystem. Asset owners have a responsibility to pick those managers that best align their actions with asset owners’ long-term interests, including climate change mitigation.”

**Excerpt from the Alliance’s “*Future of Investor Engagement*” Discussion Paper (p.26)**

In addition to urging asset owners to select the managers that already best align with their interests, the Alliance has encouraged the concept of “asset manager engagement”, whereby asset owners actively engage their asset managers on the need to represent their systemic and long-term interests on climate topics through bold investment decision-making and ambitious stewardship activities.<sup>44</sup> Asset manager engagement on topics specifically related to the transition from oil and gas should:

- **Acknowledge fiduciary alignment:** Asset owners should seek to work with asset manager partners who recognise that climate risk is not only a systemic financial risk to portfolios, but also an existential risk to the fundamental businesses of their asset owner clients. Thus, as a fiduciary acting in the best financial interest of those clients, support for greater climate action—including through thoughtful portfolio allocation and stewardship—is aligned with their duties and responsibilities. It is crucial that asset managers clearly acknowledge and act on this alignment.

44 Net-Zero Asset Owner Alliance, [The Future of Investor Engagement: A call for systematic stewardship to address systemic climate risk](#) (p.26–28)

- **Drive action on preceding recommendations:** Asset manager engagement on the energy transition should seek to drive alignment and further action on all the preceding recommendations. In particular, the Alliance believes asset managers can help encourage the development of the policy frameworks and economic incentives needed to catalyse the energy transition through thought leadership, public discourse, and direct policy engagement. Conversely, asset owners must “set the tone” by establishing that this work is expected of the asset managers that they choose to hire.

The Alliance has sought to make many of the above considerations, and other key expectations for asset managers, more actionable by explicitly defining these requests to asset managers in the Alliance’s Target-Setting Protocol 2.0.<sup>45</sup> The Alliance members look forward to continued partnership with their asset managers on achieving the energy transition described throughout this paper and finding new ways to prepare investment portfolios for the systemic impacts of climate change.

---

45 Net-Zero Asset Owner Alliance: [Target-Setting Protocol, Second Edition](#) (p.64)



# Conclusion

This paper offers various actions and principles that should guide the approaches of companies, policymakers, and investors around the world. It is clear that each of these stakeholders must move in punctuated tandem. On the one hand, this means managing a rapid escalation of ambition that reflects a 1.5°C-aligned transition. On the other, it means simultaneously making sure that key stakeholder groups—such as those companies facilitating supply and demand of oil and gas—do not fall out of sync. All parties must work with urgency and transparency to ensure a transition that is as swift and equitable as possible.

The efficacy of this transition will be shaped by its progress over the next three to five years. This time period will not only provide a clear indicator of whether the global economy is on track to halve emissions by 2030; it will also take the world past 2025—the year set by the IPCC for reaching peak emissions in order to maintain the possibility of a 1.5°C scenario.

In the next three to five years, asset owners must see significant steps from all the key stakeholders described in this paper—and take significant steps themselves. Carbon intensive sectors must drastically reduce their demand for oil and gas, and, at the same time, oil and gas companies must begin reducing supply as called for by science-based, 1.5°C-aligned pathways. Governments and policymakers need to advance towards their Paris commitments by implementing robust policies that address oil and gas supply, demand, and emissions reductions. Finally, investors must ambitiously utilize their multiple levers of influence in alignment with their fiduciary obligations to manage systemic climate risks. Beyond this decisive time period, all stakeholders will need to make more difficult choices regarding the ongoing viability of oil and gas assets.







Investment  
Leadership  
Programme

## UN-convened Net-Zero Asset Owner Alliance

[unepfi.org/net-zero-alliance/](https://unepfi.org/net-zero-alliance/)