Extinction Rebellion Nottingham Briefing Document, January 2020

Nottinghamshire Pension Fund's investments in BP and Shell: Climate risk, the Paris Agreement and recent Pension Fund statements

Nottinghamshire Pension Fund has a total exposure to BP and Royal Dutch Shell of £180m.

The Pension Fund directly holds around £112.6m in BP and Shell stocks[1]. In addition, the Fund has exposure of around £67.5m through its investments in a Legal & General passive UK equity fund which holds a high proportion of its portfolio in the two companies[2].

This note analyses whether BP's and Shell's strategies are aligned with the Paris Agreement on climate change, as claimed by the companies themselves and the Pension Fund. The Fund professes to support the Paris Agreement as part of its approach to managing climate change risks.

To do so, the note looks at recent climate-related shareholder resolutions at the AGMs of both companies, as well as recently published research. In the light of its findings it also addresses the veracity of statements made by the Nottinghamshire Pension Fund at its 2019 AGM.

> *"Overinvestment in oil and gas creates risks for investors, regardless of whether the world is effective in tackling climate change. Either investors face assets being stranded as demand for fossil fuels falls in a transition to a low carbon economy, or the overinvestment contributes to excess emissions from fossil fuels, the failure to transition and the financial costs of a dramatically changed climate." (Global Witness, 2019)*

Key findings

- BP and Shell are not effectively managing climate risk. Nottinghamshire Pension Fund is highly exposed to both companies, placing it at great risk of significant value loss, with serious negative implications for its members.
- In contrast to their public pronouncements, neither BP nor Shell have strategies which are aligned with the Paris Agreement. This represents a significant financial risk to the Pension Fund. The UN's Principles for Responsible Investment project forecast in December 2019 that by 2025 the largest oil and gas companies – which include BP and Shell – could lose 31% of their value due to abrupt regulatory change in the face of the huge risks associated with climate change[3].
- Shell's emissions reduction target is clearly only half of what is required to be Paris-aligned. A question addressing this at the 2019 Pension Fund AGM was not answered.

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[1] Latest published holdings as at 30 September 2019: https://www.nottinghamshire.gov.uk/media/2324589/2019-20-q2-equities.pdf

[2] Nottinghamshire Pension Fund has an investment of £564m in Legal & General's UK Equity Index (as at 30.09.2019 – see footnote 1). Around 12% of this Fund by value is invested in BP and Shell shares, equalling over £67m (around £24m in BP and £43m in Shell). See Top 10 Holdings in Legal & General factsheet at https://tinyurl.com/rjpvkpr. Note that Royal Dutch Shell has two entries due to issuing two classes of shares ('A' and 'B').

[3] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

- BP has no comprehensive emissions reduction target at all. A shareholder resolution carried at BP's 2019 AGM commits the company on paper to Paris alignment, but delivery of this is currently implausible.
- It is not possible to have a Paris-aligned strategy without measuring and reducing Scope 3 emissions: those relating to the use of energy (mainly oil and gas) products by consumers, which represent the vast majority of both companies' emissions.
    - Shell is measuring and reducing Scope 3 emissions - under its emissions reduction target - but this target is far too weak.
    - BP explicitly says that it has no responsibility for Scope 3 emissions, and is not measuring them. The shareholder resolution carried at BP's AGM commits it to providing information on the (Paris-aligned) 'strategic fit' if its energy investments. It appears impossible for the company to do so in a meaningful way without measuring Scope 3 emissions.
- At their 2019 AGMs both Shell and BP came out against resolutions put forward by the shareholder group Follow This which would have committed the organisations far more strongly to emissions pathways – including Scope 3 emissions - which meet Paris commitments. Nottinghamshire Pension Fund abstained on the BP resolution, which received only 8% of votes in support. The Shell resolution was withdrawn without a vote taking place. The Pension Fund was advised to abstain on it.[4]
- Recent research by Carbon Tracker and Rystad Energy shows that both companies are continuing to approve and plan high carbon fossil fuel projects which are not Paris-aligned. At its 2019 AGM the Pension Fund stated publically that Carbon Tracker research – relating to fossil fuel investment decisions made by both companies in 2018 - was no longer relevant in the face of 'new' Paris-aligned BP and Shell strategies produced in 2019. This statement was misleading: BP labelled its existing strategy 'Paris-aligned' in 2019, without making the changes necessary to achieve this; while Shell neither produced a new strategy nor made any relevant changes to its existing one in 2019. Neither company is Paris-aligned.
- The UN Principles for Responsible Investment's[5] December 2019 report on the 'Inevitable Policy Response' to climate change states that the market is currently seriously under-pricing climate risk and that societal pressure and the growing impacts of climate change will force disruptive changes in policy from governments across the world over the next five years. It forecasts that by 2025 the ten largest companies in the global integrated oil and gas exploration and production sector by market cap will lose 31 percent of current value as a result[6] [7]. The report casts serious doubt on the Pension Fund's strategy of using engagement as shareholders to prompt oil and gas companies to make small and incremental change. Such changes do not go close to addressing the risk of abrupt value loss.

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[4] See 2019 Q2 proxy voting record here https://www.nottinghamshire.gov.uk/media/2314394/proxy-voting-2q-2019-full-report.pdf. p.151 for BP resolution, p. 149 for Shell.

[5] LGPS Central, the LGPS pool of which Nottinghamshire Pension Fund is part, lists PRI as one of the organisations it works in partnership with. Does the Fund give credence to its forecasts? https://www.lgpscentral.co.uk/responsible-investment/

[6] See https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

[7] BP and Shell are among the top ten oil and gas companies globally. See PWC report (from p.19), showing Royal Dutch Shell as 2nd and BP as 5th largest oil and gas companies by market capitalisation: https://www.pwc.com/gx/en/audit-services/publications/assets/global-top-100-companies-2019.pdf

Definitions of key terms used in this note:

Paris-aligned strategy: The 2015 Paris Agreement on climate change sits under the wider UN Framework Convention on Climate Change, the goal of which is to 'prevent dangerous climate change'. To meet this goal, the aim of the 2015 Paris Agreement is to restrict global temperature rise to 'well below' 2°C, and to aim for 1.5°C. The Intergovernmental Panel on Climate Change's 2018 Special Report on global warming of 1.5°C[8] established 1.5°C as the 'safe' limit for warming, above which irreversible climate change with catastrophic impacts will ensue. The report shows that to limit temperature rise to this level, global emissions must be reduced by around 45% by 2030, and to net zero by around 2050. This is to have only a 50% chance of restricting global warming to 1.5°C. As major primary suppliers of energy, companies such as BP and Shell must achieve emissions reductions closely aligned to this emissions pathway in order for the global reductions required to be achieved. If they do not, their emissions will be at a level which will contribute to runaway, catastrophic climate change. Non-Paris alignment also means companies are over-investing in fossil fuel projects and could lose value if a sudden and disorderly energy transition occurs in the face of climate change.

Scope 3 emissions: These are indirect emissions relating to a company[9]. In the case of oil and gas companies the vast majority of Scope 3 emissions are those relating to the use by customers of energy products sold by the company (mostly the burning of fossil fuel products). Scope 3 emissions themselves dwarf companies' direct emissions, such as those relating to operations.

[8] https://www.ipcc.ch/sr15/
[9] https://www.carbontrust.com/resources/faqs/services/scope-3-indirect-carbon-emissions/

<u>Royal Dutch Shell: emissions targets and Paris-alignment</u>

Nottinghamshire Pension Fund directly holds £70.7m in shares in Royal Dutch Shell, with further exposure of £43.2m through its investment in Legal & General's UK Equity Index[10].

Emissions targets

Shell's emissions reduction target was announced in December 2017 as its 'Net Carbon Footprint ambition'. The target is to reduce the emissions intensity of each unit of energy it sells by 'around 50%' by 2050. Shell says the target is the company "play[ing] our part and contribut[ing] to the global effort to tackle climate change and meet the goal of the Paris Agreement" [11].

In December 2018 the company announced short-term targets towards the achievement of the 2050 target[12].

The following question was submitted to the 2019 Pension Fund AGM regarding Shell's 2050 target and the Paris Agreement:

"The Intergovernmental Panel on Climate changes states that to have a 50% chance of avoiding catastrophic, irreversible climate change we must cut global emissions by 45% by 2030, and to net zero around 2050. Shell's plan is to cut the carbon intensity of each unit of energy it sells by 50% by 2050, while also increasing the amount of energy it sells, amounting to a less than 50% reduction in its carbon emissions. Do you regard Shell's plans as consistent with preventing catastrophic climate change?"[13]

In its answer to this question, the Pension Fund did not address these figures at all.

As one of the world's largest suppliers of energy, to be Paris-aligned Shell must have emissions targets very similar to the required cuts set out by the IPCC. Its 50% by 2050 target clearly does not meet this.

Carbon Tracker analysis

In September 2019 Carbon Tracker published analysis showing that Shell (and BP) made investment commitments to fossil fuel projects in 2018 which are not Paris-aligned[14].

A question submitted to the Pension Fund's 2019 AGM cited this analysis and asked how it fitted with the Pension Fund's stated support for the Paris Agreement. The Fund's answer was:

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[10] See footnotes 1 and 2.
[11] https://www.shell.com/energy-and-innovation/the-energy-future/what-is-shells-net-carbon-footprint-ambition/faq.html
[12] https://www.shell.com/media/news-and-media-releases/2018/leading-investors-back-shells-climate-targets.html
[13] See p.9 https://www.nottspf.org.uk/media/2319469/agm-questions-and-answers-full-text.pdf
[14] https://www.carbontracker.org/reports/breaking-the-habit/

‘In 2019 – after the 2018 carbon tracker analysis – BP and Shell announced ambitions to align their business models with the Paris Agreement’[15].

Shell did not announce this in 2019. Their existing announcements from 2017 and 2018 still stand. Their 50% target is not consistent with the requirements of the Paris Agreement.

As Shell’s long-term (50% reduction) target was announced in 2017, the investment decisions taken in 2018 analysed by Carbon Tracker have been taken under Shell’s current strategy. These investment decisions demonstrate that their current strategy is not Paris-aligned. The Pension Fund’s references to a ‘new’ Paris-aligned strategy and statement that the Carbon Tracker analysis is no longer relevant are wholly misleading.

The ‘Follow This’ group’s 2019 Shell AGM resolution

An attempt by shareholders at Shell’s 2019 AGM to get the company to produce targets which are properly Paris-aligned was unsuccessful. The investor group Follow This proposed Resolution 22, including:

“Emissions from energy products (Scope 3) are crucial in the Paris Climate Agreement, and we therefore support you to include these in your targets. In 2017, Royal Dutch Shell plc set the example by including Scope 3 in their ambition to halve their carbon intensity by 2050. **However, this ambition is not in line with a well-below -2°C pathway**. This climate resolution reflects our belief that we need targets that are truly aligned with a well-below -2°C pathway across the whole energy sector.” (emphasis added)[16]

The company recommended that shareholders vote against the resolution as ‘not in the best interests of the company’, and the resolution was subsequently withdrawn[17]. Under its proxy voting procedures, the Pension Fund was advised by its advisor PIRC to abstain on this vote had it taken place[18].

The withdrawal of this resolution may highlight a shortcoming of the shareholder engagement model: shareholders are influenced greatly by the company saying that something is ‘not in its best interests’. This is understandable in that shareholders do not want to force a change which the company says will harm its value. In the face of the existential threat of climate change, the threat of disorderly energy transitions to company value, and the inadequate response of oil and gas majors such as Shell, it is however very regrettable that shareholders seem unable to prompt companies to make the transformative changes required to their businesses. A similar story is true of BP (see the next section).

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[15] See p.5 https://www.nottspf.org.uk/media/2319469/agm-questions-and-answers-full-text.pdf

[16] See ps 5&6 https://www.shell.com/investors/retail-shareholder-information/annual-general-meeting/_jcr_content/par/textimage_d70a.stream/1555487744300/0764a3142b033422f6471ce4e97cb2f8751e1f40/shell-notice-of-annual-general-meeting-21-may-2019.pdf

[17] See p2 https://www.shell.com/investors/retail-shareholder-information/annual-general-meeting/_jcr_content/par/textimage_d70a.stream/1558445228324/189cdefe444ff7b8447cea8e06e3a2aa53fcd3c5/2019-shell-agm-results.pdf

[18] See footnote 4.

Rystad Energy analysis of Shell's investment and production plans

The world-leading energy analysis company Rystad Energy produced a study in October 2019 showing that Shell plans to increase oil and gas production over the next decade by over 37%, despite the need to greatly reduce emissions to meet Paris requirements. Shell's emissions would themselves account for over 1.5% of the available global carbon budget remaining to limit temperature rise to 1.5°C[19].

Plans to increase production – seen in tandem with its completely inadequate emissions reduction target - show that the company does not take the Paris Agreement seriously.

Further evidence for this is offered by recent reports that Shell may well miss its own – inadequate - green energy investment target to 2020[20].

UN Principles for Responsible Investment (PRI) analysis

As part of its Inevitable Policy Response project, the UN PRI published research in December 2019 which "forecasts an abrupt and disruptive policy response to climate change which will cause re-pricing of many of the world's most valuable companies by 2025"[21].

The project's analysis shows that the market is currently seriously under-pricing climate risk, and that societal pressure and the growing physical impacts of climate change – seen in 2019 in floods in the UK, Venice and eastern Africa, widespread wildfires in California, Siberia and Alaska, Hurricane Dorian in the Bahamas, the exacerbation of Australian drought and bushfires, and record temperatures in many countries including the UK – will prompt disruptive policy change around the world over the next five years as countries ramp-up emissions reduction efforts[22].

The impact of this on the value of oil and gas companies is profound: "The ten largest companies in the integrated oil & gas exploration & production sector by market cap lose nearly a third (31 percent) of current value, or $0.5tn"[23]. Although the full report[24] does not name any individual companies – across any sectors – BP and Shell are among these top ten oil and gas companies[25].

Nottinghamshire Pension Fund's level of exposure to Shell places it at very significant financial risk from this policy response.

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[19] See Rystad Energy analysis reported here: https://www.theguardian.com/environment/2019/oct/10/oil-firms-barrels-markets

[20] https://www.edie.net/news/10/Royal-Dutch-Shell-may-fail-to-reach-green-energy-targets/

[21] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

[22] The Paris Agreement itself facilitates this response through its 'ratchet' mechanism: the second round of carbon reduction pledges will be submitted by states in 2020, followed by a global stock-take in 2022-23, with the third round of (more ambitious) pledges following in 2025.

[23] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

[24] https://www.unpri.org/download?ac=9857

[25] See footnote 6

It is striking that, across economies as a whole, those companies which are best prepared for the transition by working sustainably in the industries which will grow as the world moves away from fossil fuels will see their values increase[26]. This highlights the potential for the Pension Fund to increase its value and reduce risk though positive, low- and zero-carbon investment.

This UN PRI report adds to a growing number of warnings from institutions – including many central banks – regarding the extent of climate change risk. The Bank of England warned in 2019 that stranded fossil fuel assets represent potential losses of $1-$4trillion[27].

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[26] https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article

[27] See p.4 https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/avoiding-the-storm-climate-change-and-the-financial-system-speech-by-sarah-breeden.pdf

BP: no direction home

Nottinghamshire Pension Fund directly holds approximately £42m in shares in BP, with further exposure of £24.2m through its investment in Legal & General's UK Equity Index[28].

There is acute contradiction between BP's public position on climate change and its actions. Despite public statements and the passing of a recent shareholder resolution regarding Paris alignment, BP's recent investment decisions, future plans, and resistance to measuring and reducing Scope 3 emissions show that its approach to addressing climate risk is wholly inadequate. The company cannot in fact make strategic decisions which address the climate risk of its investments without measuring and planning to radically reduce Scope 3 emissions.

In light of this, its public statements of support for and strategic alignment with the Paris Agreement are misleading. Statements by the Pension Fund which uncritically repeat those of BP are also misleading. Further, basing investment decisions on the notion that BP is dealing with climate risk constitutes a grave financial risk to the Pension Fund.

Shareholder resolution carried at the 2019 BP AGM

At the 2019 Nottinghamshire Pension Fund AGM, the Fund responded to questions regarding BP's alignment with the Paris Agreement and Scope 3 emissions by saying that "BP's new Paris aligned strategy does recognise the importance of downstream emissions"[29].

At first glance, it does appear that BP has made significant steps recently: At its 2019 AGM, BP supported a shareholder resolution calling for alignment of the company's strategy with the Paris Agreement. The resolution subsequently received 99% of votes[30].

It also committed the company to:

- Provide the profile of anticipated levels of investment in different types of energy, including oil and gas and other lower carbon energy technologies and their strategic fit.
- Provide estimates of product carbon intensity, to include the carbon content of energy products and the emissions associated with the value chain of their production[31].

In its response to the resolution, BP said that "We believe that BP's current strategy is consistent with the Paris goals"[32].

The company went on to say: "The flexibility in our strategy avoids the pitfalls of setting a fixed course based on a single view of the future, and allows BP to adjust to the pace and direction of the transition as it unfolds. Even to meet the Paris goals, there are many paths the world could take. It also reflects BP's own experience, which tells us that it does not work to invest in the world that we want to see, too far ahead of the firm policy frameworks needed to bring that world about. This puts significant value at risk and does not advance the world towards the Paris goals."[33]

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[28] See footnotes 1 and 2.
[29] See p.7 https://www.nottspf.org.uk/media/2319469/agm-questions-and-answers-full-text.pdf
[30] See Resolution 22, on p.4 and ps 23-25 here: https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-agm-notice-of-meeting-2019.pdf
[31] Ibid, p.23.
[32] Ibid, p. 24
[33] Ibid, p.24

The Pension Fund statement that there is a 'new Paris aligned strategy' implies that BP has created and published a new strategic plan, which comprehensively addresses climate risk through true Paris-alignment. The company's response shows that there is no 'new' strategy. As will be discussed below, it seems highly improbable that the strategy is truly aligned with the Paris Agreement, even given the requirements of the shareholder resolution.

By emphasizing 'flexibility', BP's response to the shareholder resolution also suggests that:

- The company is resisting setting a defined emissions reduction pathway which would provide more assurance that it would meet the goals of the Paris agreement.
- The company are going to wait for regulation rather than positively investing in rapid change themselves. They will follow rather than lead.

Waiting for regulation rather than leading represents a significant risk to the company. Under normal circumstances reacting to, rather than anticipating, regulation to some degree has some merit as an approach. However, given the rapidly growing nature of climate risks, and threat of being caught behind abrupt and disruptive regulatory developments which would be highly detrimental to company value – as forecast by the UN PRI – a 'wait and see' approach carries great risks.

BP could therefore be more target-led. The company has the ability to measure its current emissions (including Scope 3), can calculate the emissions reduction pathway required to meet its contribution to achieving the Paris Agreement, and could calculate from there the energy mix required to meet it. Technology will evolve, but forthcoming innovations – for example the potential for very large-scale global deployment of floating offshore wind turbines[34] – can to some extent be predicted. Moreover, it would appear prudent not to invest in further oil and gas exploration when the risks of this with regard to climate change are already well established and will only grow going forwards.

The 'Follow This' group's 2019 BP AGM resolution

At its 2019 AGM, BP did not support a separate resolution by the shareholder group Follow This, which was very similar to that submitted to the Shell AGM[35]. It subsequently only received 8% of votes. Nottinghamshire Pension Fund abstained[36].

The core text of the resolution includes:

"Shareholders request the company to set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2°C. These targets need at least to cover the greenhouse gas (GHG) emissions of the company's operations and the use of its energy products (Scope 1, 2, and 3), and to be intermediate and long-term."[37]

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[34] As recently forecast by the International Energy Agency https://www.iea.org/news/offshore-wind-to-become-a-1-trillion-industry

[35] https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-agm-notice-of-meeting-2019.pdf. See resolution 23, p.4 and ps 26-27.

[36] See footnote 4.

[37] Ibid. See resolution 23, p. 4.

The supportive text to this resolution includes: "Emissions from energy products (Scope 3) are crucial in the Paris Climate Agreement, and we therefore support you to include these in your targets"[38].

BP's reasons for not supporting the resolution included:

"• setting specific long-term reduction targets is inconsistent with the flexibility that is central to BP's strategy;
• it [the resolution] calls for targets for Scope 3 (end user) emissions that BP **does not control**"[39] (emphasis added).

BP therefore rejects the measurement of Scope 3 emissions[40]. It is impossible to see how BP can have a Paris-aligned strategy if it is not measuring Scope 3 emissions, which form the vast majority of its total emissions.

Referring back to the Pension Fund AGM question regarding BP's Scope 3 emissions, the Pension Fund's response that BP is addressing 'downstream emissions' is confusing and misleading. It was presumably an attempt to equate Scope 3 emissions with 'downstream emissions' in the minds of those listening to or reading the Pension Fund's words. However they are not the same thing, as evidenced by the differing response of the company to the two shareholder resolutions and the vagueness of the term 'downstream emissions'.

Carbon Tracker analysis and implications regarding BP's commitments to shareholders

As discussed above regarding Shell, Carbon Tracker's September 2019 report showed that BP made investment commitments to fossil fuel projects in 2018 which are not Paris-aligned. To repeat, the Pension Fund responded to a 2019 AGM question regarding this by stating that:

'In 2019 – after the 2018 carbon tracker analysis – BP and Shell announced ambitions to align their business models with the Paris Agreement'[41]

The answer suggested that the Carbon Tracker analysis was now outmoded and that BP will not make any non-Paris aligned investment decisions from this point onwards. That this will be the case is contradicted by October 2019 Rystad Energy analysis of BP's investment plans, discussed below.

Moreover, when the company refuses to measure and reduce Scope 3 emissions – crucial to Paris-alignment – it is impossible for its investment decisions to be adequately informed to ensure that they are Paris-aligned.

[38] Ibid, p. 26
[39] Ibid, p.27
[40] It is to some extent confusing that the company supported a resolution calling for the provision of 'estimates of product carbon intensity', while not supporting one which called for the measurement and reduction of Scope 3 emissions. The difference between the two resolutions appears to be that the first requires BP to estimate the carbon intensity of products (presumably per unit), but not to measure or reduce total emissions from the use of its products, which are the Scope 3 emissions the second resolution calls for the measurement and reduction of.
[41] See p.5 https://www.nottspf.org.uk/media/2319469/agm-questions-and-answers-full-text.pdf

It is noteworthy that the shareholder resolution passed at the 2019 BP AGM included the stipulation that BP must provide the profile of anticipated levels of investment in different types of energy. This is to include investments in oil and gas and other lower carbon energy technologies, and their strategic fit with a strategy now supposed to be Paris-aligned[42].

This again raises the question of how BP can evaluate the (Paris-aligned) strategic fit of investments in oil and gas projects if it is not measuring Scope 3 emissions relating to them.

Even if this issue was somehow overcome, if Carbon Tracker's analysis is accurate then BP's own reporting should in future show that the investment commitments they made to oil and gas projects in 2018 are not Paris-aligned.

If it does so, will BP continue with these investments? Either it will have to abandon them, presumably losing money already sunk into the projects, or it will continue with investments which are not Paris-aligned and carry huge climate-related financial risks as highlighted by the UN PRI and the Bank of England.

As noted above, BP current position is highly confused and contradictory.

To re-state one of the most important issues simply, how can it evaluate and address the climate risk of projects if it refuses to measure and reduce the Scope 3 emissions which account for most of that climate risk? How can it safeguard company value and shareholders' money – including Nottinghamshire Pension Fund's members' money - without doing so?

Rystad Energy and Global Witness analyses of BP's investment and production plans

Rystad Energy's October 2019 analysis shows that BP plans to increase oil and gas production over the next decade by over 20%, the complete opposite of what is required to meet the Paris targets. BP's emissions would represent well over 1% of the total available global carbon budget remaining to limit temperature rise to 1.5°C[43].

Further, the group Global Witness has analysed BP's current plans and found that with planned oil and gas production it could only meet its Paris obligations by deploying a completely unprecedented – and likely completely unrealistic - level of storage of carbon underground through Carbon Capture and Storage (CCS). Only 17 CCS plants currently exist globally, but this would need to be increased to 2,500 over the next 20 years, the equivalent of opening one plant every 3 days[44].

Plans to expand production in the face of the increasingly visible and alarming impacts of climate change, and the coming policy response to them, seem increasingly unrealistic and a grave threat to company value. The prospect of the associated emissions being mitigated through such as enormous expansion of Carbon Capture and Storage appear equally unrealistic.

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[42] It is noteworthy that the resolution itself sites Carbon Tracker methodology as a model for evaluating BP's strategy - see p.23 https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-agm-notice-of-meeting-2019.pdf
[43] See Rystad Energy analysis reported here: https://www.theguardian.com/environment/2019/oct/10/oil-firms-barrels-markets
[44] https://www.globalwitness.org/sv/blog/we-shouldnt-be-fooled-bps-climate-claims/

Summary: Nottinghamshire Pension Fund's investments in a world of growing climate risk

Nottinghamshire Pension Fund's current strategy is to engage with oil and gas companies as shareholders. In the best cases this does result in some change: Shell's 50% by 2050 target came about as a result of shareholder pressure. As discussed above though, Shell's target, seen as industry-leading, is itself wholly inadequate in addressing climate risk.

Further, both Shell and BP's disingenuousness regarding their alignment with the Paris Agreement, their failure to back 2019 shareholder resolutions by the Follow This group, and Rystad Energy's and Carbon Tracker's analyses showing continuing plans for expansion of fossil fuel exploration and production, all point to companies which are not positioned to manage the very large risks highlighted by the UN Principles for Responsible Investment project.

As described by the UNPRI, as the world witnesses the growing physical impacts of climate change, the so-called 'environmental' and 'moral' reasons for radical action to reduce emissions become societal and political imperatives. Policy which reduces emissions has financial implications for companies and investors:

Increasing extreme weather and other physical impacts

leads to

Societal and political pressure

leading to

Policy response to rapidly reduce emissions

leading to

Financial implications for companies in affected sectors

leading to

Financial implications for investors in those companies

BP and Shell are not managing climate risk. Nottinghamshire Pension Fund is highly exposed to both companies, placing it at great risk of significant value loss, with serious negative implications for its members.