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Woodside Petroleum Ltd (ASX:WPL), Santos Ltd (ASX:STO), Oil Search Ltd (ASX: OSH)



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Investors are urged to vote in favour of the following resolution, which Market Forces has supported shareholders to propose at the upcoming annual general meetings of all three companies:

Capital Protection

"Shareholders request the company disclose, in subsequent annual reporting, information that demonstrates how the company's capital expenditure and operations will be managed in a manner consistent with the climate goals of the Paris Agreement.

This information should include:

- Details of how the company's capital expenditure will facilitate the efficient managing down of oil and gas operations and assets in a timeframe consistent with the Paris goals;
- Production guidance for the lifetime of oil and gas assets that is consistent with the Paris goals;
- Plans and capital expenditure requirements for decommissioning and rehabilitating asset sites at the end of their Paris-aligned lifetimes;
- Plans for how employees of the company will be informed of asset closures, and employee transition plans, including any compensation for job losses, training and support in seeking future employment; and
- Details of how remaining capital in the company will be returned to investors."

Executive summary

The CO₂ emissions embedded in existing and under-construction fossil fuel projects is <u>more than double</u> <u>the IPCC's 1.5°C carbon budget</u>, leaving no room for new fossil fuel producing infrastructure. In fact, to meet the goals of the Paris Agreement, global greenhouse gas emissions must <u>fall by more than 7.6% per</u> <u>year</u> over the next decade. Oil and gas production <u>must fall respectively by 4% and 3%</u> annually from 2020 to 2030.

In direct contrast to what is required to meet the Paris climate goals, Santos, Woodside and Oil Search all plan to significantly increase their fossil fuel production. Santos expects to increase annual production by 103.7% by 2026 compared to 2018 levels, Oil Search plans to increase annual production by more than 80% by 2030 from 2020 levels and Woodside has presented plans to increase production by 70% by 2028, with 2019 as the baseline. These increases are largely driven by growth CAPEX totalling up to US\$30 billion, amounting to 64% of their current combined fixed assets value.

Attempting to justify these investments, the companies use global LNG demand forecasts that see 2035 demand 38.0% higher than that projected by the IEA's in the Sustainable Development Scenario (SDS), where a warming of 1.65°C would be achieved with just a 50% chance. In fact, each company is planning to increase production at rates that exceed even the IEA's "STEPS" scenario, which is matched to a 2.7°C warming outcome.

In other words, the companies' business strategies are consistent with the failure of the Paris Agreement, entailing significant stranded asset risk.

Markets served by Australian oil and gas producers are seeking to decarbonise. China has recently committed to achieve net-zero greenhouse gas emissions by 2060, Japan and Korea by 2050, while Taiwan is currently considering a net zero 2050 policy. Hopes of an LNG import boom in emerging Asian economies taking up market share as current key markets move towards net zero are unreasonable, with the Institute for Energy Economics and Financial Analysis (IEEFA) recently noting increased pricing volatility has placed over US\$50 billion of proposed LNG power projects in developing Asian markets at risk of cancellation.

Over-optimistic oil price assumptions have generated serious financial pain for all three companies. The combined write-downs of Santos, Woodside and Oil Search since 2015 amount to more than US\$14 billion, as oil price assumptions have been revised down from close to US\$100/bbl to the

US\$60-US\$70/bbl range today. However, these assumptions remain higher than estimated pricing under a Paris-aligned decarbonisation pathway, indicating further write-downs will be necessary.

The concept of requiring companies to return capital to shareholders instead of pursuing new fossil fuel projects is nothing new. Eight years ago the Carbon Asset Risk initiative <u>wrote to 40 of the world's top oil</u> and gas companies, asking:

"We would like to understand what options there are for [the company] to manage these risks by, for example, reducing the carbon intensity of its assets, divesting its most carbon intensive assets, diversifying its business by investing in lower carbon energy sources **or returning capital to shareholders**." (emphasis added)

In 2014, As You Sow and Arjuna Capital <u>filed such a resolution</u> with ExxonMobil seeking increased returns to investors instead of CAPEX on "growth" projects.

In February 2019, Legal & General fund manager Nick Stansbury <u>said of Shell</u>, "In our view the most shareholder-friendly option is to make a commitment now to a managed decline."

In 2020, Aviva Investors CIO David Cumming <u>suggested</u> fossil fuel producers could choose one of two approaches: a "managed decline", maximising returns from existing assets, not sanctioning new projects and returning excess capital to shareholders; or diversification into other sectors. More recently, <u>Aviva has said</u> it will divest from oil and gas companies that fail to bring emissions goals and capital expenditure plans into line with a net zero outcome.

Investors have been increasingly supportive of action to reduce scope 3 greenhouse gas emissions. In 2020, 43% of Santos and 50% of Woodside shareholders voted in favour of resolutions calling for these actions. Regardless of the future direction companies choose to take their business, for pure-play oil and gas companies to reduce greenhouse gas emissions in line with the Paris agreement means winding down existing fossil fuel assets, a transition that requires careful planning and management to ensure value is preserved in the company, employees are provided a just transition in the form of compensation, retraining and future employment, and environmental impacts are remediated. This is precisely the information sought by the resolutions on the agenda for the upcoming AGMs of Woodside, Santos and Oil Search, and we strongly encourage investors to continue their support for action to reduce greenhouse gas emissions by seeking information demonstrating how companies will carefully manage the transition to a decarbonised economy.

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Reducing emissions requires careful managing down of assets

"Companies that continue to sanction higher-cost projects which do not fit with a lower demand scenario risk destroying significant shareholder value through the creation of stranded assets, as well as contributing to the failure to achieve climate goals." - <u>Carbon Tracker Initiative</u>

2020 provided a glimpse into what action on climate change, commensurate with the scale needed to meet the Paris Agreement's goals, entails for the fossil fuel industry if it fails to adequately plan for and manage the low carbon transition.

Global CO₂ emissions <u>fell by around 7% in 2020</u>, with gas demand <u>falling 4%</u> and <u>oil 8%</u>. These shifts <u>prompted experts to suggest</u> "peak fossil fuel demand was almost certainly in 2019."

To meet the goals of the Paris Agreement, global greenhouse gas emissions must <u>fall by more than 7.6%</u> per year over the next decade.

Tens of billions of dollars were written off the value of oil and gas projects last year. Given that **the scale of demand decline observed in 2020 must be repeated every year to at least 2030 if we are to meet the Paris goals**, this raises serious questions as to the valuation of existing oil and gas assets, let alone new developments.

Recognising universal owners' imperative to limit global warming in line with the Paris Agreement, as well as concerns over the financial stability of individual assets, investors are increasingly calling on companies to set targets for downstream emissions from the use of their products (scope 3 emissions) and manage capital in line with the Paris climate goals. In 2020, 43% of Santos and 50% of Woodside shareholders voted in favour of resolutions calling for these actions.

Paris-aligned targets to reduce scope 3 emissions would necessitate plans to manage down oil and gas production over time so as to allocate and return capital in a manner consistent with this decline. These resolutions are therefore a corollary of the need to reduce scope 3 emissions by all three companies, requesting details of plans to manage down oil and gas assets, preserving as much capital as possible for redistribution to shareholders, environmental remediation, and supporting the company's workforce throughout the transition.

These proposals are in the best interests of shareholders and the companies, due to the clearly recognised risk that further capital expenditure on oil and gas development and production projects would be stranded by market and policy shifts to meet the Paris climate goals, resulting in severe financial impacts to all three companies.

No room to expand gas and oil production

"To meet the upper Paris goal ("well below 2°C"), we must achieve net zero emissions by 2040–2050. This requires a rapid phaseout of existing fossil fuel infrastructure, leaving no room for expansion of the gas industry" - 25 leading Australian scientists

The latest science paints a very clear picture: the Paris Agreement means the world cannot accommodate any new or expanded gas and oil production projects. The CO₂ emissions embedded in existing and under-construction fossil fuel projects is more than double the IPCC's 1.5°C carbon budget.

No new fossil fuel developments, be it coal, gas, unconventional gas, or oil are permissible if you're serious about the Paris target."

> - Emeritus Professor Will Steffen, ANU, Australian Academy of Science Law symposium, August 2019

The reductions in gas and oil use required to meet the Paris climate goals leave producers exposed to rapidly declining markets. Far from justifying further capital expenditure to increase production, Paris-aligned demand scenarios require strict capital management and planning for a managed, orderly decline in production.



The time to begin planning for a wind-down of gas production is, as with other fossil fuels, already upon us." - <u>SEI, IISD, ODI, Climate Analytics, CICERO, and UNEP</u>

While the Paris-aligned transition away from oil and gas will occur more gradually than coal, the need to begin a managed decline in production is vital to limiting warming to 1.5°C. IPCC analysis shows gas use for primary energy must fall globally (p.14) by 25% by 2030 and 74% by 2050 from a 2010 baseline, oil's role in primary energy falling 37% and 87% over the same timeframes.

Analysis of the carbon budget required to limit warming in line with the Paris Agreement's 1.5°C target shows oil and gas production must fall respectively by 4% and 3% annually from 2020 to 2030. However, current global fossil fuel production plans would see significant increases, "which by 2030 would result in more than double the production consistent with the 1.5°C limit". The same report singles out oil and gas production in Australia as particularly concerning and inconsistent with the Paris climate goals (p. 17, 34).



Production Gap Report: fossil fuel demand under different scenarios

Source: Production Gap Report 2020

Santos, Woodside and Oil Search plan to significantly increase their fossil fuel production. Santos expects to increase annual production by 103.7% by 2026 compared to 2018 levels and Oil Search plans to increase annual production by more than 80% by 2030 from 2020 levels. In the most recent mid-term production forecast, Woodside presented plans to increase production by 70% by 2028, with 2019 as the baseline.

In short, while oil and gas production must fall by 3-4% annually from 2020 to 2030 to maintain a 1.5°C limit, Santos, Woodside and Oil Search's growth plans entail compound annual growth rates of 9%, 6% and 6% over a similar timeframe, respectively.



WPL, STO, OSH gas production forecasts vs. PGR 1.5°C pathway: Cumulative increase

Sources: Santos - 2020 Investor Day Presentation, Woodside - 2019 Investor Briefing, Oil Search - 2020 Investor Briefing

Note: Oil Search yearly growth plotted linearly based on 2025 and 2030 forecasts

Further demonstration of the stranded asset risk facing Australia's gas sector is provided by Global Energy Monitor's February 2021 report, <u>Pipeline Bubble 2021</u>, which found Australia has US\$43 billion of planned or under construction gas pipelines at risk of becoming stranded in a Paris-aligned energy transition.

Key markets moving to decarbonise

The Asian LNG market is key to Woodside, Santos, and Oil Search's future prospects, while oil and Australian domestic gas sales also account for significant proportions of the revenue mix.

Oil Search's <u>sales revenue mix</u> was made up of LNG and gas (79.6%), liquids (17.6%) and others (2.8%) in 2020. <u>Woodside's</u> 2020 sales revenue mix was made up of LNG (70.1%), domestic gas (2.0%), liquids (23.8%) and others (4.1%). From Santos' <u>US\$3.4 billion</u> revenue in 2020, gas, ethane and LNG sales accounted for 74.0%, while crude oil represented 15.7%, and the remaining 10.4% was due to sales of condensate, naphtha and LPG.



Sources: Woodside - 2020 Annual Report, Santos - 2020 Annual Report, Oil Search - 2020 Annual Report

China has recently committed to achieve net-zero greenhouse gas emissions by 2060, Japan and Korea by 2050, while Taiwan is currently considering a net zero 2050 policy. The <u>International Energy Agency's</u> Net Zero Emissions 2050 (NZE2050) scenario shows the path to achieve this goal requires gas and oil use in 2030 to be 20% and 40% below the 2.7°C-aligned Stated Policies Scenario (STEPS) levels, respectively.

In the <u>2020 World Energy Outlook</u>, the IEA questions the characterisation of gas as a "transition fuel", arguing that gas use is less important in countries where coal use is already in structural decline. Moreover, the IEA states that gas use does not help in countries where a pathway to net-zero emissions has been mapped.

"Although short-term gains are still possible from coal-to-gas switching, the narrative that natural gas is a transition fuel is being seriously scrutinised in the context of pledges to reach net-zero emissions by midcentury." (pg. 193)

In the domestic context, the gas-led recovery proposed by the Australian Government has been widely <u>rejected</u> by academics and economic think tanks. The <u>Grattan Institute</u> argues that far from fuelling the recovery from the current recession, natural gas will inevitably decline for industries and homes in Australia.

The international market is not an exception. Hopes of an LNG import boom in emerging Asian economies taking up market share as current key markets move towards net zero are unreasonable, with <u>IEEFA</u> recently noting increased pricing volatility has placed over US\$50 billion of proposed LNG power projects in developing Asian markets at risk of cancellation. More recently, <u>IEEFA warned</u> LNG importers in Asia of the lessons learned from the United States, where the Texas power crisis has highlighted the risk inherent in LNG imports due to the energy transition. In February 2020, Maersk, the world's largest containerline, <u>expressed concerns about the use of LNG-powered vessels</u>, stating:

"We are currently concerned around LNG about the levels of upstream methane emissions in the production cycle and methane slip from the engines during combustion."

Increasing stranded asset risk

"Approval of new fossil fuel development or expansion is incompatible with keeping global warming to 2°C, and will 'lock in' emissions and warming far beyond the end of mining operations." - <u>Former</u> <u>Chief Scientist Penny Sackett</u>

Despite the declining markets required to meet the Paris climate goals, each of the companies receiving these resolutions have large-scale capital expenditure plans to significantly increase production.

Woodside, Oil Search and Santos are considering mid-term investments in major growth projects totalling US\$30 billion. These capital expenditures equate to almost 64% of the companies' 2020 fixed assets value.



Mid-term capex vs. 2020 fixed assets

Sources: Santos - 2020 Investor Day Presentation and Annual Report, Woodside - 2019 Investor Briefing and 2020 Annual Report, Oil Search - 2020 Investor Briefing and Annual Report To support these plans, all three companies use global LNG demand forecasts that would lead to a complete failure of the Paris Agreement's objectives. Santos, Woodside and Oil Search expect an average global LNG demand of 633 mtpa by 2035, 38.0% higher than that forecasted by the IEA's SDS, and 12.6% higher than that forecasted in the STEPS, which aligns with 2.7°C of global warming.

The difference between the average demand forecasted by Santos, Woodside and Oil Search by 2035 and the IEA's SDS demand by 2035 is equivalent to 22 Scarborough projects, 47 Barossa projects or 32 Papua LNG projects, in terms of LNG annual production capacity. Put simply, each company's business strategy is a heavy bet against the Paris Agreement.

Oil Search, Santos and Woodside are at a competitive disadvantage to other LNG producers

Lower cost LNG projects in Qatar and Russia are far better placed economically to take up most of the market share in a declining gas demand scenario. Together, Qatar and Australia <u>supplied around 45% of global LNG in 2019</u>, with Qatar supplying approximately 2% more than Australia. Qatar has <u>approved</u> the final investment decision for the US\$29 billion North Field East Project, the world's largest LNG project, which would see Qatar increase its production capacity by 40% to 110 mtpa by 2026. This is unwelcome news for anybody concerned about climate change but also challenges the margins available to Australian and PNG producers. <u>Qatar Petroleum estimates</u> a cost of supply of just above US\$4/mmBtu, while Woodside, Santos and Oil Search exceed the US\$5.5/mmBtu barrier with their lowest-cost projects. By contrast, under the SDS the IEA forecasts 2025 gas prices (2019 real terms) at US\$6.0/mmBtu and US\$5.4/mmBtu in China and Japan, respectively.





Sources: Woodside - 2020 Investor Day Presentation, Oil Search - 2020 Results Presentation, Santos - 2020 Investor Day Presentation, <u>Reuters</u>

Santos

Santos plans to increase oil and gas annual production to <u>120 mmboe</u> by 2026, a 103.7% increase compared to 59 mmboe in 2018.

In pursuit of this target, <u>Santos is planning</u> US\$4.5 billion in capex on major growth projects over the next five years, including Narrabri Phase 1 (coal seam gas), Barossa (LNG), and Dorado Phase 1 (offshore oil). Between 2020 and 2023, Santos plans to spend US\$1.1 billion to increase production nearby existing infrastructure.

Santos cites global oil and domestic gas demand growth forecasts consistent with the IEA's 2.7°C STEPS, and a <u>global LNG forecast</u> where demand is 19% above the <u>STEPS</u> demand by 2035 and 46% higher than that forecasted in the <u>SDS</u>.

<u>Carbon Tracker's analysis</u> of Santos' potential capex on unsanctioned upstream projects to 2030 found less than a third (~US\$5 billion) of capex opportunities had breakeven costs that fit within the IEA's Beyond 2 Degrees Scenario (B2DS), which is consistent with 1.6°C of warming. The remaining ~US\$12 billion would be stranded under the demand profile of the B2DS.

Woodside

In its most recent (2019) mid-term production guidance, Woodside presented <u>plans</u> to increase production to 70% above 2019 levels by 2028, a compound annual growth rate of over 6%. Woodside's planned rate of production growth is triple that forecast under the <u>Production Gap report's</u> business as usual scenario.

Woodside's <u>latest investor presentation</u> forecasts LNG demand to grow by over 4% each year to 2035, exceeding the <u>International Energy Agency's</u> 2.7°C STEPS. By 2035 Woodside expects LNG demand to be 14% higher than the STEPS demand by 2035 and 40% higher than the SDS demand forecast.

<u>Woodside is planning</u> new LNG development projects worth more than US\$36 billion, including Scarborough & Pluto-2 LNG expansion (US\$11.4 billion) and Browse (US\$20.5 billion) and Sangomar Phase 1 (US\$4.2 billion).

Collectively known as the Burrup Hub, <u>Woodside's Scarborough</u>, <u>Pluto and Browse expansion projects</u> "would be Australia's most polluting fossil fuel project ever to be developed, with a total lifetime carbon footprint of over 6 billion tonnes of CO₂, equivalent to running 35 coal power stations every year until 2070".

<u>Carbon Tracker's analysis</u> of Woodside's potential capex on unsanctioned upstream projects to 2030 found just a fifth (~US\$8 billion) of capex opportunities had breakeven costs that fit within the IEA's Beyond 2 Degrees Scenario (B2DS). The remaining ~US\$30 billion of potential capex opportunities would be stranded under the demand profile of the B2DS, which is consistent with 1.6°C of warming.

Oil Search

Oil Search <u>plans</u> to increase production by more than 80% from 2020 levels by 2030, a compound annual growth rate of over 6%.

To justify these increasing production plans, Oil Search <u>cites</u> a global LNG by 2035 which is 5% higher than the demand projected in the <u>IEA</u>'s STEPS, and 29% higher than that forecasted in the SDS. This suggests the company is planning for a future consistent with more than 2.7°C of global warming.

Oil Search <u>plans</u> to spend more than US\$3.5 billion on new development projects between 2021 and 2027, including Papua LNG and the Pikka project in Alaska. The company's <u>2017 climate risk analysis</u> showed Nanushuk, part of the Pikka project, would not be NPV positive under a 1.5°C scenario.

Capital mismanagement

The capital expenditure plans outlined above are based on commodity demand forecasts and price assumptions that are wildly optimistic in light of the energy transition required to meet the Paris climate goals. The likelihood of wasted capital and further write downs on stranded oil and gas projects threatens to exacerbate a long-term and worsening trend of underperformance by Woodside, Santos and Oil Search.

A total shareholder return analysis shows Santos, Woodside and Oil Search have significantly underperformed the market (ASX 200) over the past decade. As action has increased to address climate change, and throughout the market shock caused by the COVID-19 pandemic, that performance gap has widened.



Source: Refinitiv - Total Return analysis from 10/02/2011 to 10/02/2021

As previously noted, the scale of emissions reduction and corresponding impacts on fossil fuel demand seen in 2020 must be repeated year-on-year for the next decade if we are to meet the Paris climate goals.

2020 saw a combined US\$6.5 billion in write-offs from Woodside, Santos and Oil Search, adding to the US\$11.0 billion worth of impairments these companies recorded from 2013 to 2019.



Impairment and long-term oil price forecasts

Sources: Woodside - Annual reports 2014-2020, Santos - Annual reports 2014-2020, Oil Search - Annual reports 2014-2020

These impairments have invariably been tied to downward revisions of commodity prices, particularly long-term oil price assumptions. Woodside, Santos and Oil Search each have a history of overestimating long-term oil prices. Impairment charges demonstrate the financial risk facing companies whose strategic and capital expenditure plans are based on unreasonably optimistic assumptions.

According to <u>IEEFA</u>: "Santos has consistently adopted oil price assumptions that have proved to be too high, leading to an over-valued balance sheet." Downward revisions of these assumptions have cost the company over US\$8.6 billion in impairments since 2014. Santos's 2019 annual report assumed a long-term oil price of US\$70/bbl (2020 real). This figure was <u>revised down</u> to US\$62.50 in July 2020, resulting in a <u>US\$756 million write down</u>.

Woodside's <u>2019 annual report</u> assumed a long-term oil price of US\$72.5/bbl (2020 real). This figure was <u>revised down</u> to US\$65 in July 2020, leading to a US\$5.3 billion write down. Downward revisions of these assumptions have cost the company over US\$7.1 billion in impairments since 2015.

Oil Search <u>revised</u> its long-term oil price down to US\$63/bbl in July 2020, causing a <u>US\$374 million write</u> <u>down</u>. Downward revisions of oil price assumptions have cost the company almost US\$750 million in impairments since 2015.

Even after significant downward revisions in 2020, all three companies continue to assume long-term oil prices higher than their peers and well above what could be considered Paris-aligned.

<u>Carbon Tracker</u> analysis shows that in the IEA's SDS, which gives just a 50% chance of limiting warming to 1.65°C, "oil demand can be satisfied by projects that generate a 15% internal rate of return at an oil price in the [high] \$40s."

Underpinning its <u>commitment</u> to cut production by 40% by 2030, BP has set its <u>long-term oil price</u> <u>forecast</u> at US\$55/bbl.

We note investor groups representing over US\$103 trillion in assets under management have <u>called on</u> <u>companies</u> to ensure their financial reports are prepared using assumptions consistent with the Paris Agreement.



Sources: Woodside - 2020 Annual Report, Santos - 2020 Annual Report, Oil Search - 2020 Annual Report, BP -<u>Press release</u>, Total - <u>Reuters</u>, Carbon Tracker - <u>The Impair State 2020</u>

Note: Carbon Tracker price refers to "oil demand can be satisfied by projects that generate a 15% internal rate of return at an oil price in the [high] \$40"

Company climate commitments fall short

Through public reporting and direct engagement with Market Forces, it is clear each of Woodside, Santos and Oil Search will only consider climate action up to the point at which it would impact their previously-stated business as usual production plans. None of the commitments made by these companies so far would even approach a reduction in oil and gas production in line with a <u>required decline of 3% per year from 2020 to 2030 to achieve 1.5 °C.</u> By contrast, the current climate change policies allow for significant increases in production in the next 5-10 years.

Woodside

Woodside's climate commitments include:

Commitment	Observation
Reduce scope 1 and 2 emissions by 15% by 2025 and 30% by 2030 (2016-2020 average baseline)	 Roughly consistent with Australian government target, which has been found to be 'insufficient', consistent with up to 3°C of warming. Based on the <u>Science-based Targets Initiative's</u> absolute contraction approach, emissions must decline by 21% by

	 2025 and 42% by 2030 (2020 baseline) in order to align with the Paris Agreement's 1.5°C target. No scope 3 target at all.
Aspiration to reach net zero by 2050 or sooner	• Non-committal, no indication that this will extend to cover scope 3.

Santos

Santos' climate commitments include:

Commitment	Observation
Reduce scope 1 and 2 absolute emissions by 26-30% by 2030 from 2020 baseline	• This is aligned with the Australian government target, which has been found to be <u>'insufficient'</u> , consistent with up to 3°C of warming.
Actively work with customers to reduce their scope 1 and 2 emissions by >1 mtCO ₂ e per year by 2030	 There is no baseline given for this target, meaning it could be achieved by incidental shifts in individual customer behaviour, while Santos' overall scope 3 profile continues to grow. Santos' recent scope 3 emissions (product use, gross operated) are as follows: 2017-18: 20.0 MtCO₂e 2018-19: 24.5 MtCO₂e The company's plans to double production by 2026 would likely see scope 3 emissions rise to around 40 MtCO₂e. A 1 MtCO₂e reduction would equate to just 2.5% of this figure. The wording of this commitment does not necessarily require any emission reduction at all. If the company "actively works" with customers to reduce emissions, this may satisfy the commitment, regardless of whether any reductions are realised.
Net zero scope 1 and 2 absolute emissions by 2040	 Relies almost entirely on Carbon Capture and Storage technology developing to a point where hydrogen can be produced from gas, with all emissions captured and stored, at a commercially viable scale. No long-term scope 3 target.

Oil Search

Oil Search's climate commitments include:

Commitment	Observation
Reduce operated greenhouse gas intensity in excess of 30% by 2030	 Intensity targets allow for absolute emissions to increase, which is expected given the company's increasing production plans. As noted above, even a 30% reduction in absolute emissions is inconsistent with the Paris Agreement's 1.5°C target. No scope 3 target at all.
Aim to be a net zero company by 2050	 Non-committal, no indication that this will extend to cover scope 3.
Invest in Paris aligned growth projects	• No analysis disclosed to demonstrate exactly how Oil Search has assessed its growth growth projects (see 'Increasing stranded asset risk' above) and concluded they are aligned with a 1.5°C warming outcome.

Engagement

Market Forces has engaged with Woodside, Santos and Oil Search since 2016, and supported shareholders to file resolutions calling for climate risk disclosure at these companies' 2017 AGMs (Oil Search was withdrawn after the company committed to produce a climate risk report in the following year).

Since then, despite varying degrees of increase in the quality and quantity of climate risk disclosure, all three companies have failed to demonstrate adequate *management* of climate change transition risk. In Market Forces' most recent conversations with these companies, they would not contemplate the fact that meeting the Paris goals would impact their own large scale production expansion plans.

Each company claims its projects will be among the few that present value, even in the rapidly declining overall demand profile required to hold warming to 1.5°C. Yet none have provided details to support their claims.

It is clear that Santos, Oil Search and Woodside remain unmoved by the engagement efforts of Market Forces, other advocacy organisations and investors aiming for environmental protection and corporate responsibility, making these resolutions necessary.

Investor support for managing down at-risk assets

The widespread shareholder support for Paris-aligned scope 3 targets and capital expenditure plans at last year's Santos and Woodside AGMs demonstrates investors are increasingly prepared to demand companies bring their business models into line with a 1.5°C warming outcome.

For a fossil fuel producer, this shift necessitates limiting production to only those projects and timeframes that can be demonstrated to fit within a Paris-aligned carbon budget. Some major investors have not only accepted this, but are publicly calling for fossil fuel companies to manage down production.

The concept of requiring companies to return capital to shareholders instead of pursuing new fossil fuel projects is nothing new. Eight years ago the Carbon Asset Risk initiative <u>wrote to 40 of the world's top oil</u> and gas companies, asking:

"We would like to understand what options there are for [the company] to manage these risks by, for example, reducing the carbon intensity of its assets, divesting its most carbon intensive assets, diversifying its business by investing in lower carbon energy sources **or returning capital to shareholders**." (emphasis added)

In 2014, As You Sow and Arjuna Capital <u>filed such a resolution</u> with ExxonMobil seeking increased returns to investors instead of CAPEX on "growth" projects.

In February 2019, Legal & General fund manager Nick Stansbury <u>said of Shell</u>, "In our view the most shareholder-friendly option is to make a commitment now to a managed decline."

In 2020, Aviva Investors CIO David Cumming <u>suggested</u> fossil fuel producers could choose one of two approaches: a "managed decline", maximising returns from existing assets, not sanctioning new projects and returning excess capital to shareholders; or diversification into other sectors.

The wording of these resolutions leaves both options open to the companies, although it must be noted none have indicated a willingness to transition out of oil and gas production, which is necessary in either scenario. More recently, <u>Aviva has said</u> it will divest from oil and gas companies that fail to bring emissions goals and capital expenditure plans into line with a net zero outcome.

Market Forces supported shareholders to lodge similar resolutions to those covered in this briefing at other ASX 200 pure play fossil fuel producers in 2020: Whitehaven Coal, Beach Energy, New Hope Corporation, and Cooper Energy. Those resolutions saw support from some major investors, including Allianz, Aviva, Legal & General, Calpers and UBS Asset Management.

Investors are urged to continue the trend of increasing support by voting in favour of these resolutions.