

# The Science Based Targets initiative

## Deep Dive Webinar on Fossil Fuel Finance Position Paper Consultation Draft

July 18, 2023

PARTNER ORGANIZATIONS



United Nations  
Global Compact



WORLD  
RESOURCES  
INSTITUTE



IN COLLABORATION  
WITH

WE MEAN  
BUSINESS  
COALITION



# Welcome & Housekeeping

- This event is being recorded
- It will be published on YouTube and the SBTi website
- Post your questions in the Q&A box

# Today's Topics

- Background and Introduction
  - SBTi Oil and Gas Method Update
- SBTi Fossil Fuel Finance Consultation Draft
  - Criteria
  - Survey Questions
- Next Steps & Discussion

# TODAY'S SPEAKERS



Nate Aden  
Finance Lead



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Energy Sector Manager



# DRAFT FINANCE RESOURCES FOR CONSULTATION



## NEAR-TERM FINANCIAL SECTOR SCIENCE BASED TARGETS GUIDANCE

Version 2.0 - Consultation Draft  
June 2023

Clarifies

Increases ambition

Aligns with 1.5°C



## THE SBTi FINANCIAL INSTITUTIONS NET- ZERO STANDARD

CONCEPTUAL FRAMEWORK AND INITIAL  
CRITERIA

Consultation Draft  
June 2023

New conceptual  
framework

Enabling FIs to  
develop near- and  
long-term net-zero  
targets

Aligned with 1.5°C

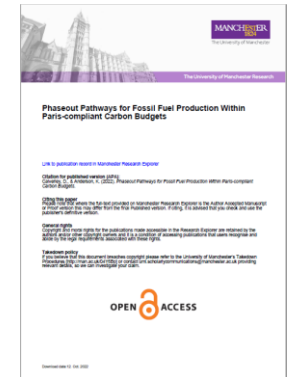
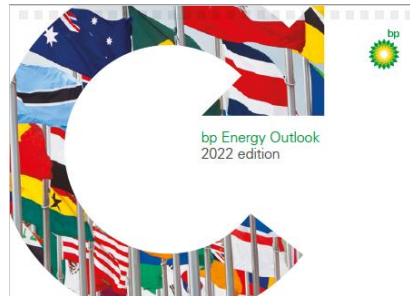
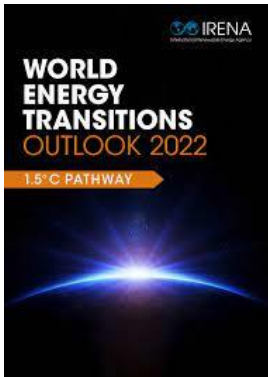
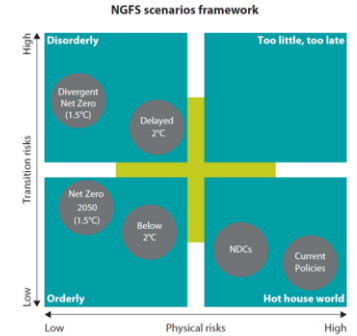
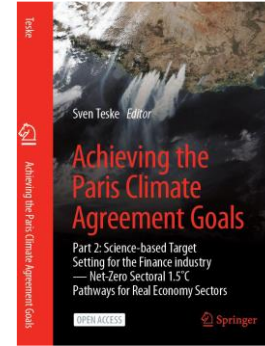
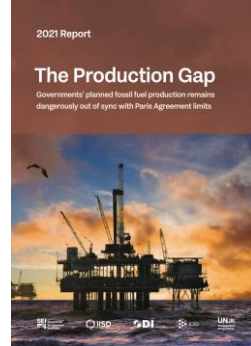
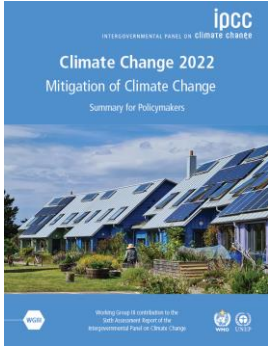


## THE SBTi FOSSIL FUEL FINANCE POSITION PAPER

Consultation Draft  
June 2023

Disclosure, arrest,  
transition and  
phase-out of  
fossil fuel finance

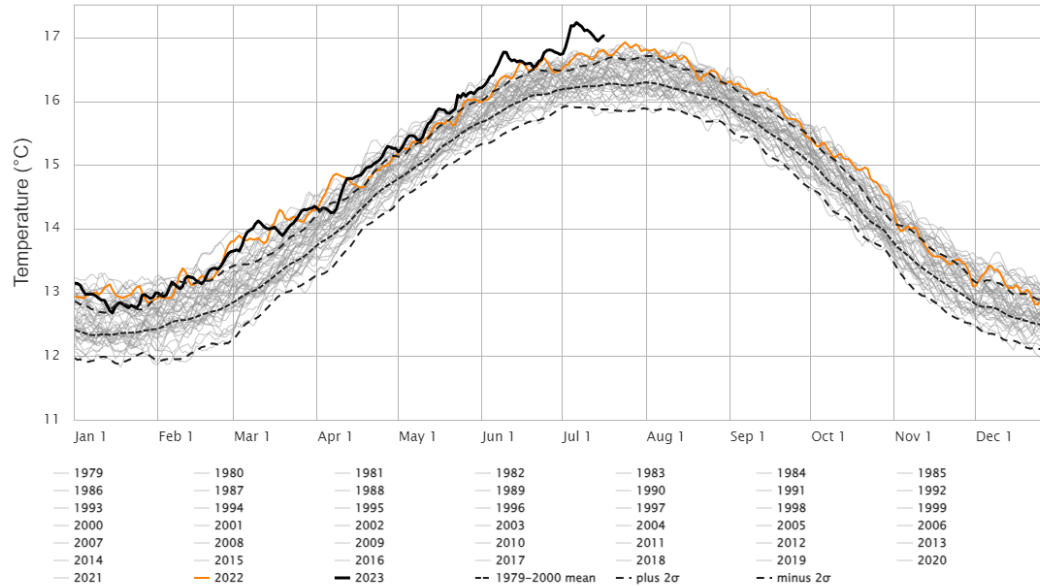
# References: climate science and recent publications



# Rising temperatures are adding urgency

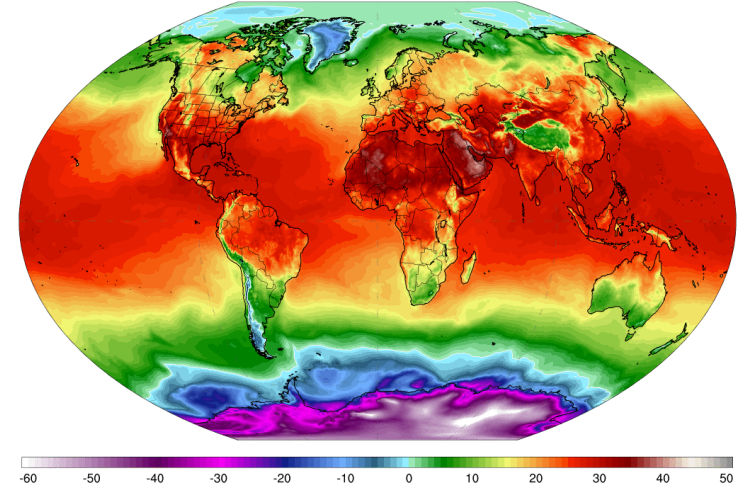
2m Temperature World (90°S–90°N, 0–360°E)

NCEP CFSV2/CFSR | ClimateReanalyzer.org, Climate Change Institute, University of Maine



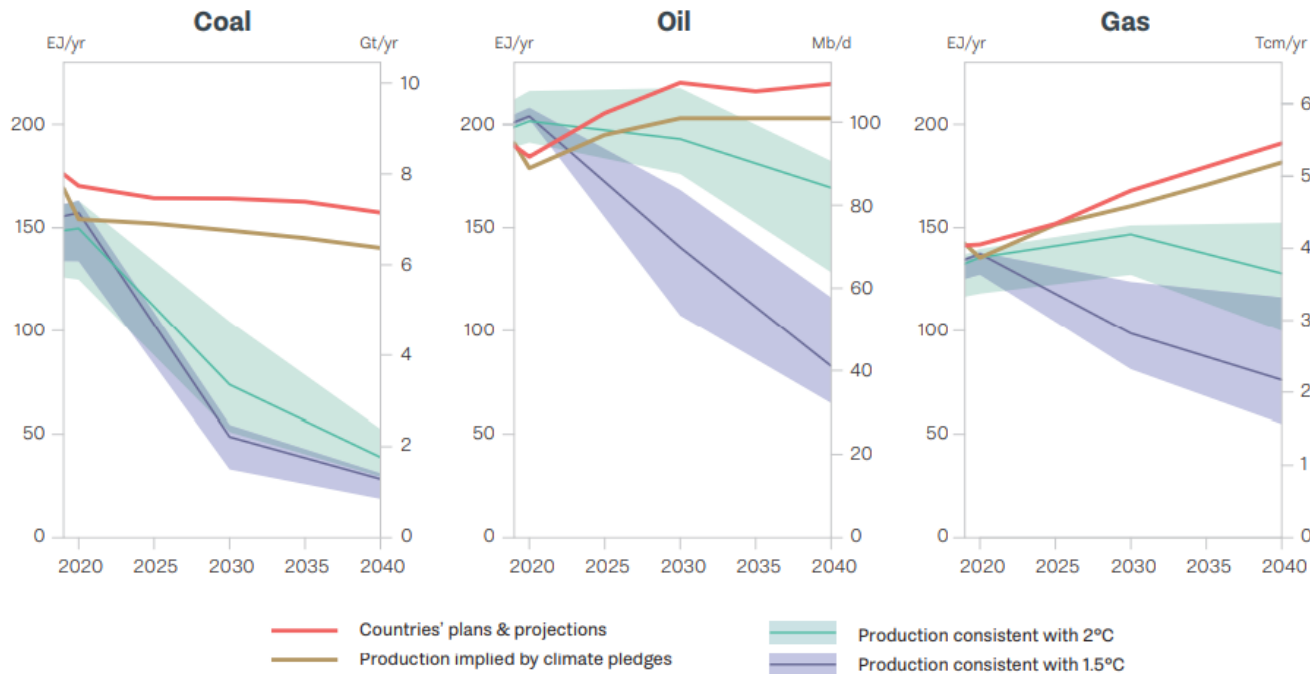
CFSV2 Avg 2m Temperature (°C)  
Sun, Jul 16, 2023

ClimateReanalyzer.org  
Climate Change Institute | University of Maine



Global average temperatures (Source: NOAA CFS/CFSR via Climate Reanalyzer, University of Maine)

# 1.5° scenarios require reduction of fossil fuel production



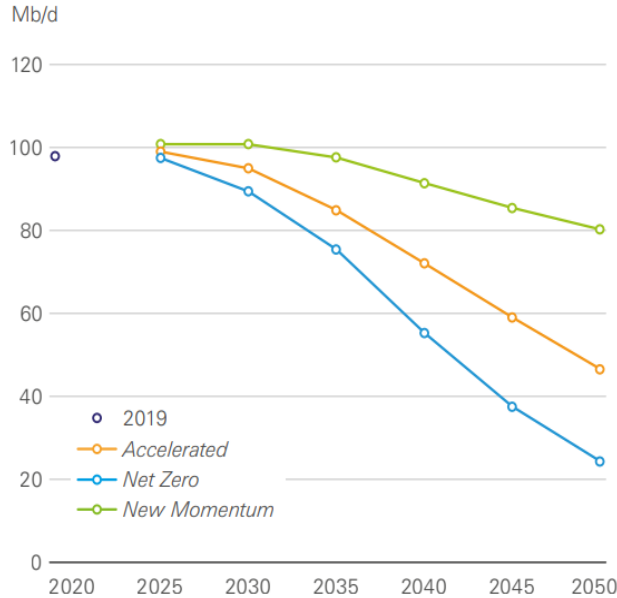
Global coal, oil and gas production (EJ per year) under the four pathways: climate pledges and projected fossil fuel productions of 15 countries, and the median and 25th–75th percentile range (shaded) of the IPCC 1.5°C and 2°C pathways

(Source: The Production Gap Report 2021)

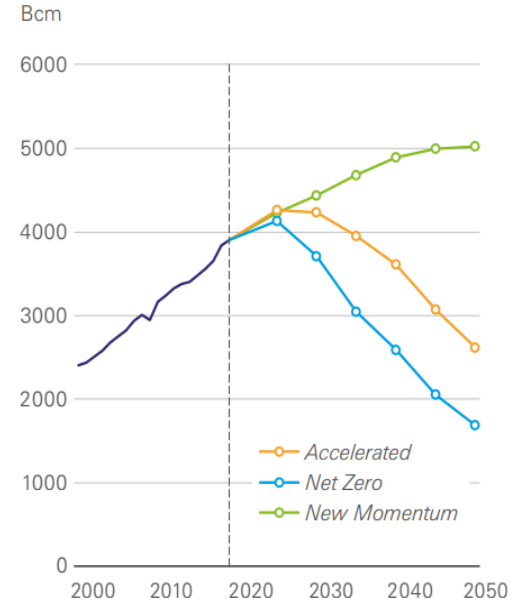


# Energy companies have modeled demand reductions aligned with net-zero 1.5°

## Oil demand



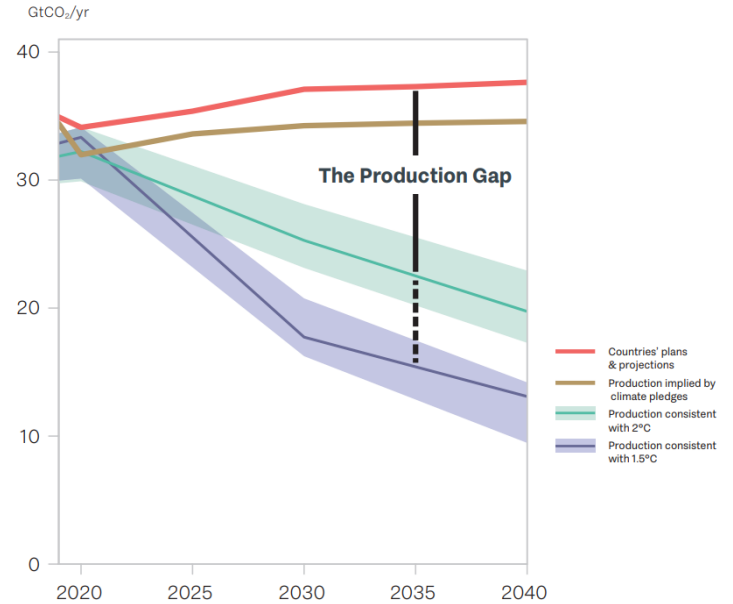
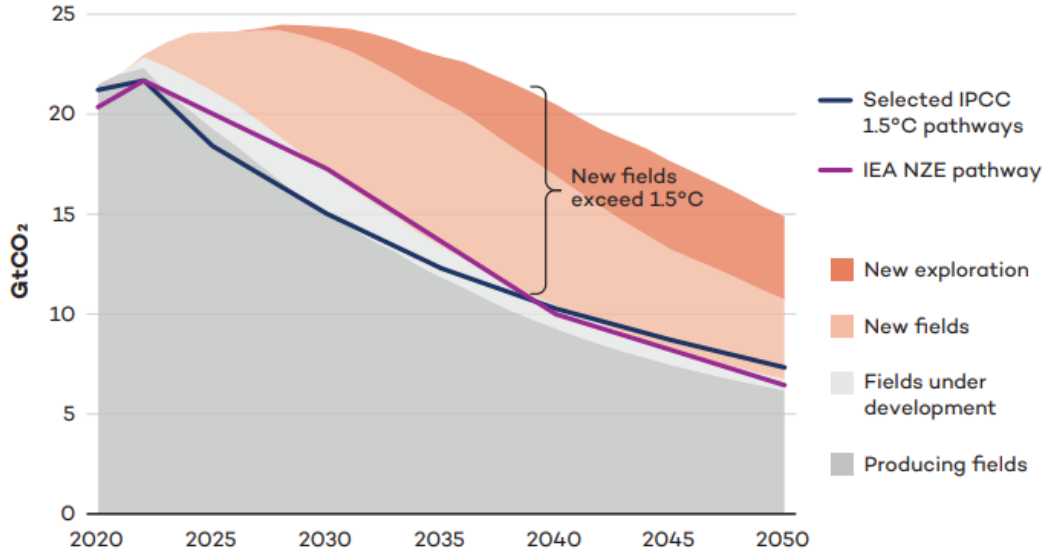
## Natural gas demand



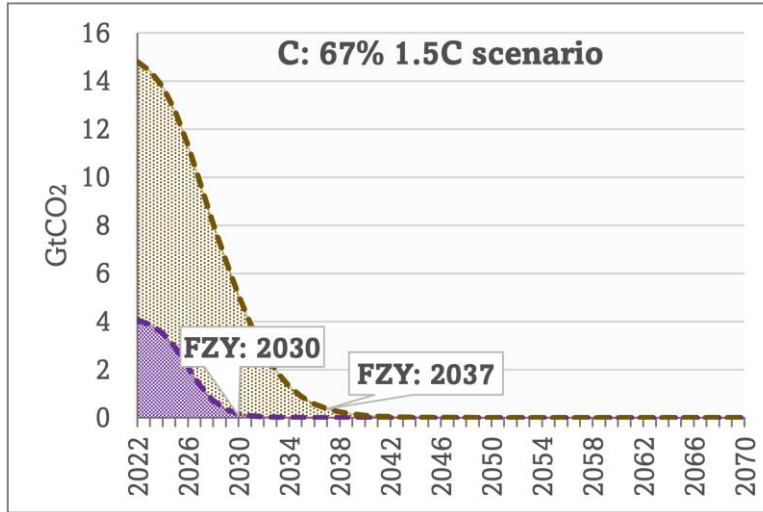
Global oil (million barrels per day) and gas (billion cubic meters) demand under the three pathways

(Source: BP Energy Outlook 2022)

# Climate science foundations

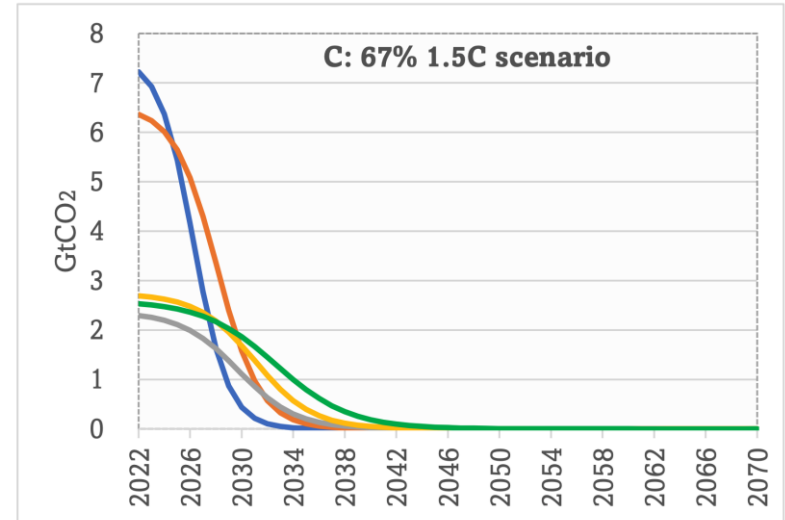


# Phase-out scenario trajectories



Coal production phaseout pathways and respective 'budgets' for Developed (DD) and Developing (DG) countries under three temperature scenarios.

NB: FZY = Functional Zero Year (<5% of 2018 baseline).



Combined oil & gas phaseout pathways for five groups of countries under three core temperature scenarios.

# Oil and Gas Project: Expert Advisory Group Review Evaluation Report

January 2023

## SBTi Oil and Gas Method Development: Process Overview



# Oil and Gas Sector Guidance Development

## Progress to date

Since March 2022

Fossil fuel companies are not permitted to commit to SBTi due to a lack of sector guidance

September 2022

SBTi publishes the **Oil and Gas Interim Report\*** to:

- Outline previous work and acknowledge challenges that arose during development, review, and public consultation of draft sector guidance from 2020
- Clarify outstanding methodological questions to be posed to an expert advisory group (EAG) review panel

January 2023

SBTi publishes results of **EAG review\***. Topics examined include:

- Proposed energy accounting methodologies
- The use of absolute vs. emissions intensity targets
- Flexibility vs. comparability on progress metrics and target setting pathways
- Scope 1 and 2 emissions pathways for the sector
- Expansions to the sector scope covered by the guidance
- Addition of qualitative criteria targets as a requirement

2023

- Finalizing project plan and detailed timeline to revise guidance for **O&G/fossil fuel companies**
- 1st phase: Final sector scope and goals for final guidance content outlining



# THE SBTi FOSSIL FUEL FINANCE POSITION PAPER

Consultation Draft

June 2023

Addresses financing of fossil fuels - coal, oil and gas, providing explicit criteria for financial institutions

Acts as an interim methodology while the fossil fuel company sector pathways are in development

Proposed as “entry requirement” criteria for FINZ standard

# Fossil Fuel Finance – Draft Criteria Summary

## FI fossil fuel finance requirements\*

- 1 Disclose:** Exposure to all fossil fuel activities through financing and facilitating services, including trading activities.
- 2 Arrest:** Cease all new financial flows in support of projects and companies involved in new (including expansion of existing) fossil fuel capacity.
- 3 Transition:** Engage FF companies to align to 1.5°C pathways. Use qualitative and quantitative (absolute, intensity, and capex) targets.
- 4 Phase out:** Set clear goals to phase out project and company exposures that are non-1.5°C aligned.



### Previous Feedback Received & Incorporated

Proposed criteria includes both project specific and general corporate financing in the “arrest” criteria, which impacts new financing of companies who are planning *new unabated* capacity additions across the oil/gas value chain

### Previous Feedback Received & Incorporated

We heard that the time-scale of financial flows is sometimes inflexible, so a two-year engagement period before the phase-out of existing financing and facilitation has been suggested to allow for the transition of assets before phasing out.

\*Refer to tables 2 and 3 of the Fossil Fuel Finance Position Paper for more detail.

# Disclose and Arrest Criteria

Publicly disclose the following fossil-fuel related information on an annual basis:

Disclose



Absolute financed and facilitated S1+2+3 emissions



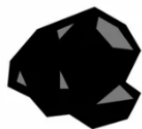
Financial exposures



Forward-looking transition plans including arrest and phaseout

Arrest

Financial institutions shall implement the immediate cessation of new financial flows, with the exception of new financing for permanent decommissioning of production activities and capacity, abated projects, and 1.5°C-aligned companies



All coal projects / companies



Oil and gas projects / companies that are involved in expanding production and/or adding capacity to any applicable oil and gas value chain associated activities

The cessation shall go into effect immediately upon publication of the FI SBT.



# Transition and Phase-out Criteria

FIs shall establish targets for all financial flows to existing fossil fuel activities at the company level and shall also establish targets at the portfolio level:

Transition



**Company level:** engage FF counterparty companies to transition along 1.5°C pathways by establishing 2030 quantitative public targets, including: absolute, intensity, and capex metrics that cover the S1, 2, 3 GHGs of the fossil fuel companies; also, clear commitments for no new expansion and the phasing down/out of production along approved 1.5°C pathways with low/no overshoot



**Portfolio level:** no new or increased portfolio exposure in terms of financed and facilitated emissions from fossil fuel activities that are not clearly aligned with a 1.5°C transition

FIs shall commit to phasing out all financial activities linked to unaligned companies and projects according to the following regional criteria:

Phaseout



**Wealthiest:** Phase-out all existing financial flows for coal projects by the end of 2030 at the latest; output of oil and gas needs to be cut by 74% by 2030, with complete phase out by 2034



**Middle-Income:** Phase-out all existing financial flows for coal projects by the end of 2030 at the latest; output of oil and gas needs to be reduced 28% by 2030 and eliminated by 2043



**Low-Income:** reduce coal exposure by 50% by 2030 and exit by the end of 2040; output of oil and gas needs to be reduced 14% by 2030 and eliminated by 2050

# Abatement Definition

- Measures taken by fossil fuel companies to prevent, reduce, or eliminate sources of GHG emissions within their value chains.
- Applicability of abatement for the purpose of this position paper is considered to be at least **90% reduction** of direct and indirect emissions from the associated fossil fuel asset of the holding company, project, or activity (**IPCC, 2022, p. 28**).
  - i.e. from combustion and fugitive methane emissions related to energy supply, respectively
- For carbon capture to be considered part of the 90%, it must be,
  - i. utilized for mitigation products that have century-scale (or greater) lifetimes (i.e. geological CCS); and
  - ii. must **not support enhanced oil recovery (EOR)** or other processes that enable continued fossil fuel extraction and production development.
- To evaluate abatement, methods should be independently assessed on an annual basis.



# Projects and activities

## Coal

**Upstream:** *Coal mining including existing extraction plus exploration, drilling, processing and development of new or expansion of existing mines*

**Midstream:** *Any transport and logistics, processing of coal to liquid gas and coal to gas, storage and services dedicated to supporting the coal value chain*

**Downstream:** *New, existing (incl retrofit) coal power, O&M and EPC services to any part of the value chain, heat or cooling production plant and any transmission infrastructure of coal-fired electricity*

.....

**Upstream:** *New or existing O&G projects: exploration, extraction, development / redevelopment / expansion of fields (including enhancing the rate of production, e.g. EOR projects)*

**Mid-stream:** *O&G refining, storage, transportation and distribution infrastructure or logistics*

**Downstream:** *Oil and/or gas power, heat or cooling generation facilities*

## Oil and gas

# Fossil Fuel Scope of Denomination

## Company



Fossil fuel company includes both:

- specific projects dedicated to fossil fuel activities, plus
- established companies who derive at least 5% revenue share from the projects or activities as in the applicable value chains.
- This applies to a group where any of its subsidiaries exceed this threshold, and/or to a specific company.

## Project



Any project or private infrastructure investment which is being:

- financed/facilitated with proceeds ring-fenced for a specific project (e.g., construction of a gas pipeline),
- and where financial recourse for the FI is likely to be limited to the assets of the project.

This includes financial flows provided in support of special purpose vehicles established for specific project purposes.

## Portfolio



Across the FI's fossil fuel related financed and facilitated emissions,

- no new or increased portfolio exposure in terms of financed and facilitated emissions from fossil fuel activities that are not clearly aligned with a 1.5°C transition (FINZ)



# New vs. Existing Financial Flows

## New Financial Flows

Any new services that an FI provides to a company, project, or activity, as committed to from 2022 onwards (based on published scenarios).

- e.g., a new loan for a coal mining project

## Existing financial flows

Any existing financial service provided, as committed to from any time prior to 2022.

- e.g., equity or bond holder in a fossil fuel company, or renewal of a credit facility



# SURVEY - Fossil Fuel Finance Position Paper



Topics include:

- Definitions of fossil fuel companies
- Types of fossil fuels considered
- Definitions of key terms such as "abatement"
- Scope of covered value chain
- Granularity of the requirements at the project and company level

# Consultation Questions

5% revenue  
threshold to  
define a FF  
company

Coverage of  
all types of  
coal, oil and  
gas

Is the 5% revenue threshold for defining a fossil fuel company the right threshold?

Do you agree the scope of this position paper should differentiate between certain types of fossil fuels (i.e. thermal/metallurgical coal, light/medium/heavy oil, wet/dry gas)?

# Consultation Questions

Scope and  
acceptable  
levels of  
abatement

Applicability  
of abatement  
to FI SBTs

Do you agree the definition of “Abatement” used in these criteria is adequate?

Do you agree abated fossil fuels should be included in FI SBTs?

# Consultation Questions

## Applicable **Fossil Fuel Supply Chain**

Referring to Annex 2, is the SBTi Fossil Fuel Finance Position Paper Value Chain too extensive or too narrow in scope for oil and gas?



# Consultation Questions

## Coal phase-out **geographic split**

For exit criteria related to financial flows provided in support of the coal value chain, is “high- and high-middle income countries /other countries” list the right delineation for phase out of coal by 2030/2040, respectively?

# Consultation Questions

Disclose,  
Arrest,  
Transition,  
Phase-out

Are the requirements set out in Table 3 feasible for an FI to comply with?

# Consultation Questions

## Disclosure Requirements

Do you agree that other organizations' disclosure requirements (e.g., Taskforce for Climate Related Financial Disclosures) should be used provided they have sufficient granularity?

# Consultation Questions

**Comment Box**

Do you have any other comments on the  
Draft Fossil Fuel Finance Position Paper?



**ANY QUESTIONS?**





# NEXT STEPS & CLOSING REMARKS

# NEXT STEPS

1. 60-day public consultation closes on **14 August 2023**. All stakeholders are invited to submit feedback.
2. Following this, we will review all feedback and update the resources.
3. Regular updates will be published on our website, social media channels and newsletters.

Have your say.

Complete our survey  
before 14 Aug.





**THANK YOU**