

CONSULTATION RESPONSE

BEIS CONSULTATION DESIGNING A CLIMATE COMPATIBILITY CHECKPOINT FOR FUTURE OIL AND GAS LICENSING IN THE UK CONTINENTAL SHELF

01 March 2022

INTRODUCTION

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has now over 4,700 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US\$120 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

The PRI welcomes the opportunity to respond to BEIS call for feedback on designing a climate compatibility checkpoint for future oil and gas licensing in the UK Continental Shelf.

ABOUT THIS CONSULTATION

In March 2021, HMG announced the outcome of a review which looked at the compatibility of continued oil and gas licensing with the UK's climate objectives. The outcome of the review was that a checkpoint should be introduced to ensure that licensing is only allowed to continue for as long as it aligns with UK climate objectives. The wider objectives include carbon budgets, UK's nationally determined contribution (NDC) and achieving net zero emissions by 2050. The checkpoint would be exercised before the Oil and Gas Authority (OGA) offered a *new* licensing round (or rounds). The consultation document proposes that the checkpoint satisfies three principles (1) evidence-based; (2) transparent; and (3) simple. It would also comprise of a series of six proposed "tests" that must be passed in order for the checkpoint outcome to be positive.

For more information, contact

Jodi-Ann Wang

Climate Policy Analyst

jodi-ann.wang@unpri.org

Freya Bannochie

Policy Analyst, UK

freya.bannochie@unpri.org

KEY RECOMMENDATIONS

The PRI welcomes the proposal to apply a climate checkpoint to North Sea oil and gas production and encourages the government to set stringent and ambitious tests to the licensing of oil and gas exploration in the UK. We believe that leveraging policy interventions with a presumption against exploration would send a clear signal to investors and consumers that the UK is committed to acting on its climate commitments.

The PRI's key recommendations are:

- **Set stringent tests to the licensing of exploration with tighter limit on production and a presumption against exploration.**
- **Reassess licenses issued for all fossil fuel projects at exploration, consenting or production stages, such as consenting of production,** and join the Beyond Oil and Gas Alliance (BOGA) to strengthen UK climate leadership and credibility.
- **Release phase-out plans for all UK support for coal, oil, and gas projects** in order to align with the UK carbon budget, interim and long-term climate goals.
- **Implement policies to lower the emissions footprint of fossil fuels imported to the UK,** via the establishment of a carbon border adjustment mechanism (CBAM) or the implementation of standards.
- **Strengthen and significantly enhance the availability and accessibility of data that is comprehensive, standardised, and government-verified on fossil fuel reserves and resources,** so as to adequately inform an effective and equitable phase out of fossil fuel projects.
- **Establish a Just Transition Commission** to fully realise the UK's COP26 just transition commitments, including facilitating stakeholder engagement, informing transition policymaking, and forging consensus on phaseout plans in affected communities. Provide financial assistance that leverages resilient, green jobs for affected workers and communities.

In addition to the key recommendations and detailed responses in this document, the PRI recommends the UK government to also consider the following aspects when implementing the climate compatibility checkpoint:

- **The declining role of oil and gas in the global net-zero transition.** The International Energy Agency has set out the implications of a 1.5°C pathway for the oil and gas sector: no new oil or gas fields are approved for development.¹ The recent IPCC Sixth Assessment Report has underlined the urgency of drastically cutting emissions to avoid the worst effects of climate change. The UK Climate Change Committee (CCC) has highlighted irrespective of where fossil fuels are sourced, the UK should adopt a policy of limiting its greenhouse gas emissions in line with the UK's 2030 emission reduction target. The calls to action from scientists and industry groups alike, needs to translate to real, drastic, and immediate emissions reduction. A delayed and disorderly transition risks undermining the value of financial assets.

¹ International Energy Agency, *Net Zero by 2050* (May 2021): <https://www.iea.org/reports/net-zero-by-2050>

- **The timescale of the net zero transition and Oil and Gas Authority (OGA) licensing and consenting process.** As the OGA has reported, the timeline from discovery to Final Investment Decision, then to first production, is on average 28 years. This means that licenses awarded this year would on average lead to fields being brought online by 2050. The IPCC scenario for 1.5c show reductions in global oil consumption of 20-78% by 2035 and 32-90% by 2050, and over 80% by 2050.² The CCC pathways see oil consumption fall by 46-62% by 2035 and 84-98% by 2050, and unabated fossil gas virtually eliminated by 2050.³
- **Amidst the energy price crisis, the need for strategic resilience in energy systems is critical.** The net-zero transition offers countries a cushion against future supply side shocks and offers energy security, both in terms of supply and price volatility. The best way to reduce the UK's exposure to volatile prices is to cut fossil fuel consumption on the path to net zero. The prioritised focus of this era should thus be on improving energy efficiency, transitioning to renewables-based power systems, and electrifying end uses in transport, industry, and heating.

² Intergovernmental Panel on Climate Change, *Special Report on Global Warming of 1.5°C* (2018): <https://www.ipcc.ch/sr15/>

³ UK Climate Change Committee *The Sixth Carbon Budget – the UK's path to Net Zero* (2020)

DETAILED RESPONSE

PROPOSALS

It is proposed that the design of the checkpoint satisfies the following principles:

- **Evidence-based:** the checkpoint must use either reliable data, or credible projections when drawing its conclusions.
- **Transparent:** the checkpoint structure should be clear and objective, and the sources of all data and projects should be publicly available and transparent.
- **Simple:** the checkpoint should be able to be described in a short document, and therefore give confidence to all stakeholders that a clear and methodical process is being followed.

Question 1: Are these the right principles? Are there others that should be included?

Overall, the PRI welcomes the proposed three design principles for the checkpoint and recognise the needs for it to be evidence-based and transparent. However, we note that given the complexity of the potential tests and considerations presented in this consultation, it may be difficult to present a simple checkpoint. As such, the PRI caution prioritising simplicity over rigour or stringency.

In regard to the principle of **transparency**, leading research groups have highlighted issues regarding data reliability current remains within existing data and methodology on fossil fuel production projects and emissions reporting in the UK. There is currently limited publicly accessible, granular information on fossil fuel reserves and resources, and no comprehensive, standardised and government-verified source of data in the public domain that is conducive to checking what is in the ground, and what is produced.⁴

The PRI also notes that two additional principles that should be included to ensure the rigour and robustness of the Checkpoint:

- **Science-based:** in addition to being based in evidence of accurate projects and reliable data, the design of the checkpoint should also be based in science, particularly drawing from the findings of leading climate science advisory groups such as the International Energy Agency, the Intergovernmental Panel on Climate Change, and the UK Climate Change Committee.
- **Equitable:** the UK's responsibility and historical emissions contributions should be acknowledged when considering the further development of new oil and gas projects. An equitable transition, both domestically for fossil fuel workers, and globally in the principles of common but differentiated responsibilities,⁵ should be followed in the design and implementation of this checkpoint.

Question 2: Are there other things that the checkpoint could take into consideration? If yes, please provide proposals for how these could be considered objectively, as well as data sources that could be used to support the inclusion of such a consideration (the more

⁴ Carbon Tracker, Global Energy Monitor *Briefing Note: A Registry of Global Fossil Fuels* <https://static1.squarespace.com/static/5dd3cc5b7fd99372fbb04561/t/6179f33bc6cd44257cefee/1635382081595/Briefing+%E2%80%93+Global+Registry+of+Fossil+Fuels.pdf>

⁵ UNFCCC, The Glasgow Climate Pact: <https://unfccc.int/process-and-meetings/the-paris-agreement/the-glasgow-climate-pact-key-outcomes-from-cop26>

information that is provided here the better). You may wish to read the rest of the document before answering this question.

Upon review of the consultation document, the **PRI strongly recommends that BEIS should seek to subject existing oil and gas projects that already hold a license but have not yet received development consent or final investment decision to the checkpoint.** In the UK, up to 46 of such projects could be approved. It has been estimated that these projects have the potential to produce up to 2.1 billion barrels of oil equivalent over their lifetimes, amounting to 900 million tonnes of CO₂ – more than twice the amount produced by the UK economy each year – when burnt.⁶ The CCC has also stated that existing measures such as the OGA monitoring compliance to the North Sea Transition Deal (NSTD) and supporting the transition, are narrow, and warrant broader guidance from the government to assess the climate compatibility of late-stage projects with UK and global climate targets.

Moreover, the PRI would recommend ensuring that the weighting of potential tests be facilitated in a manner that a licensing round would have to successfully pass **all** tests before deemed climate compatible. Without such a balanced weighting, a project could be deemed climate compatible without passing all tests, which can undermine the efficacy and stringency of the checkpoint.

PRI'S COMMENTS ON POTENTIAL TESTS

Potential Test 1: Reductions in operational greenhouse gas emissions from the sector vs. commitments (Questions 3&4)

While the PRI supports the UK and other global producers in reliably and effectively reducing the operational emissions of oil and gas emissions, we recognise that the target of the North Sea Transition Deal (NSTD) remains insufficient. It should be acknowledged that the NSTD sets a target of 50% reduction in upstream emissions from oil and gas supply by 2030, while the CCC has called for the need for a 68% reduction in the same period.⁷ Climate Action Tracker has determined the CCC recommendations as the only domestic emissions reduction scenario consistent with 1.5°C.⁸ Given this inconsistency, the NSTD should not be referenced as the threshold to award future licenses, until it is aligned with recommendations of the CCC.

In addition, an assessment of a Paris-aligned demand scenario for oil and gas extraction should also be conducted as part of the test to determine the alignment and compatibility of new oil and gas projects with the global goal of limiting temperature rise to 1.5°C.

Given the above-described concerns, **the PRI does not recommend the inclusion of a grace margin.** As the checkpoint is intended to assess the compatibility of additional licensing with UK's climate objectives, awarding additional licenses in the case of the oil and gas sector not meeting its emission/emission reduction targets would undermine the stated purpose of this checkpoint.

⁶ Carbon Brief *Factcheck: Can new UK oil and gas licenses ever be 'climate compatible'?* (24 Feb 2022) <https://www.carbonbrief.org/factcheck-can-new-uk-oil-and-gas-licences-ever-be-climate-compatible>

⁷ UK Climate Change Committee *2021 Progress Report to Parliament* (24 June 2021) <https://www.theccc.org.uk/publication/2021-progress-report-to-parliament/>

⁸ Climate Action Tracker *Climate Target Update Tracker, United Kingdom* (12 December 2020): <https://climateactiontracker.org/climate-target-update-tracker/united-kingdom/>

Potential Test 2: Reductions in operational greenhouse gas emissions from the sector benchmarked internationally (Questions 5-9)

Similar to the response above, while movements towards reducing the operational emissions of oil and gas production are welcome, the proposed design of this test risks the impact of increasing global emissions. It is inevitably the case that bringing new fields online would expand the global market of oil and gas, likely drive-up consumption (given the elasticities of the oil and gas markets), and in turn result in added emissions due to the burning of oil and gas.

In this light, it is worth noting the recent decision by a US federal judge to block oil and gas drilling licenses across the Gulf of Mexico due to the failure in accounting for the auction's climate change impact shows precedent in such considerations.⁹

Potential Test 3: Status of the UK as a net importer or exporter of oil and gas (Questions 10-13)

The PRI does not support the use of this test as a criterion to determine the climate compatibility of future licensing rounds. The CCC has emphasised that “regardless of choices over where the UK gets its fossil fuels at the margin, the UK should adopt to a policy to limit greenhouse gas emissions from the production/supply of fossil fuels consumed in the UK, irrespective of where emissions occur.”¹⁰ The UK’s status as a net importer for oil and gas will not swiftly change in the foreseeable future, so the impacts of new fields in facilitating this change remains minimal. Environmental appraisal needs to look at climate impact not only within a single nation, but also in foreign markets and ecosystems.

While the CCC has noted that UK production has an emissions footprint that is lower than the average for international extraction, approximately 14% for fossil gas and 3% for oil (excluding emissions associated with refining or transport), it is equally true that additional oil and gas extraction would support increased global market, thus offsetting the emissions advantage of domestic production.

The PRI recommends that the checkpoint test takes into account the global implications of increased oil and gas production. As such, the limiting factor shouldn’t be the change in status of UK’s role as a net exporter or importer, but whether new licenses would drive up global emissions beyond that which is aligned with the 1.5°C pathway. In parallel, policies could be implemented to lower the emissions footprint of fossil fuels import to the UK, such as via a carbon border adjustment mechanism (CBAM) or implementation of standards.

Potential Test 4: Sector progress in supporting Energy Transition Technologies (Questions 14-17)

No comments from the PRI.

Potential Test 5: Consideration of international scope 3 emissions (Questions 18-19)

⁹ The Guardian *US judge blocks sale of Gulf of Mexico drilling leases over climate concerns* (28 January 2022): <https://www.theguardian.com/us-news/2022/jan/28/gulf-of-mexico-oil-gas-drilling-leases-judge-blocks-climate-biden>

¹⁰ UK Climate Change Committee, *Letter: Advice to the UK Government on compatibility of onshore petroleum with UK carbon budgets* (March 2021): <https://www.theccc.org.uk/publication/letter-advice-to-the-uk-government-on-compatibility-of-onshore-petroleum-with-uk-carbon-budgets/>

The PRI supports the inclusion of scope 3 emissions as a test. Climate Action 100+, an investor initiative of more than 600 investors with more than \$60 trillion assets under management, are engaging oil and companies to ensure they align their capital expenditure to 1.5°C, which ultimately means no new oil and gas development.¹¹ Investors are calling on fossil fuel companies, and relatedly the government, to disclose an adequate and credible transition plan that is assessed against the Oil and Gas Sector Net Zero Standard.¹² For oil and gas companies, reaching net zero requires a dramatic cut not only in operational emissions (scope 1 and 2), but also those released when products they sell are used (scope 3 category 11 – use of sold products), with reduction targets set for near-, medium-, and long-term.

In addition, major oil corporations such as TotalEnergies, Shell, and ExxonMobil are already monitoring their scope 3 emissions, setting precedent for wider practice across the industry.

Potential Test 6: Consideration of the “global production gap” (Questions 20)

The PRI welcomes the consideration of the “global production gap” in the checkpoint test.

There exists multiple credible assessments that detail oil and gas demand profiles that are consistent with the 1.5°C temperature rise pathway. Most notably, the UNEP *Production Gap Report* finds that the world’s governments currently plan to produce 57% more oil and 71% more gas in 2030 than would be consistent with the 1.5°C scenario, and getting on track entails decreasing oil and gas production by 4% and 3% respectively each year until 2030.¹³ Furthermore, despite the availability of new reserves and resources, 60% of oil and gas need to remain in the ground to have a 50% probability of keeping with 1.5°C.

Given the above findings, it is recommended that BEIS can determine the global decline rates for oil and gas production through outlining and aligning to the falling global demand scenario for oil and gas.

PRI’S COMMENTS ON THE IMPLEMENTATION OF THE CHECKPOINT

Question 21: Do you have views on whether it would be advantageous to put the checkpoint on a statutory footing if such an opportunity arose in future?

No comments from the PRI.

Question 22: Do you have views on how long the outcome of a checkpoint should be considered valid for?

The checkpoint should be implemented annually before any future licensing round, to ensure that any assessment of the checkpoint is reflective of evolving global production and demand, increasing pace of decarbonisation of upstream emissions, and evolving scientific evidence published by research bodies.

¹¹ Climate Action 100+ <https://www.climateaction100.org/>

¹² *Net Zero Standard for Oil and Gas Companies* (15 September 2021): <https://www.iiqcc.org/resource/net-zero-standard-for-oil-and-gas-companies/>

¹³ *Production Gap Report 2021*: https://productiongap.org/wp-content/uploads/2021/11/PGR2021_web_rev.pdf

Question 23: Should the checkpoint outcome apply to potential future onshore licensing rounds within England?

The PRI recommends that all future licensing rounds should utilise the checkpoint and be scrutinised, including potential future onshore licensing.

PRI'S COMMENTS ON 'OUT OF ROUND' LICENSE AWARDS

Question 24: Do you agree that 'out of round' should be subject to the existing regulatory process and effective net zero test, rather than the climate compatibility checkpoint?

The PRI agrees that 'out of round' licenses should also be subject to the outcome of the climate compatibility checkpoint so as to ensure consistency across future licenses. A lack of consistency in standards between different licensing rounds can create policy loopholes whereby producers may seek to out of round licensing to avoid stringent assessment of the project's climate impacts.

The "net zero test" as outlined in the consultation document does not match the proposed comprehensiveness and rigour of the climate compatibility checkpoint, as it excludes scope 3 emissions and does not compare climate impact against the UK's climate targets and sector targets.

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Department for Business, Energy and Industrial Strategy to design a climate compatibility checkpoint for future oil and gas licensing in the UK Continental Shelf.

Any question or comments can be sent to policy@unpri.org.