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## The Merger Wave in Big Oil: Assessing climate impacts

**Moderator** – Prue Bentley

**Panel Participants:**

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**Prue Bentley - Moderator**
Now this session is a unique opportunity to pick the brains of four of the smartest people in their fields and we do hope to keep this as accessible as possible so that whoever you are, wherever you're zooming in from, that, you'll learn something valuable.

The oil and gas sector, as we know around the globe, is changing like all industries in the post-industrial era, and it is adapting to new realities. So today we're going to explore answers to the question, will mergers and acquisitions in the oil and gas industry ultimately be good or bad for climate? Our panellists today look at decarbonisation and come from different perspectives and regions of the world.

You're going to hear from Shu Ling Liauw, who's the CEO of Accela Research, Laetitia Pirson, who is a carbon asset risk expert at Ceres, Tim Buckley, the Director of Climate Energy Finance and Andres van der Linden, who is Senior Responsible Investment Adviser at PGGM Investments.

And over the next hour or so, we're going to hear a brief rundown from each of our panel members. I'll host a Q&A with the panel and then it'll be over to you for some questions. Some of you have submitted questions, so we'll try and get some of those at the end.

So firstly I would like to introduce Shu Ling Liauw, the CEO of Accela Research to speak. Shu Ling, are all these mergers and acquisitions a net positive or negative for Climate, what do you reckon?

**Shu Ling Liauw – CEO, Accela Research**
Thanks Prue. It's an important question. Our view is that M&A is really an important tool for companies in oil and gas as they transition because it will allow them to reshape their portfolio.

Now for me in a prior role, I have managed financial institution mergers and acquisitions and I know it's a great tool to change a company's exposure to opportunities and risks. So

especially for the oil majors, it's a form of capital allocation that is almost an immediate way to reshape your portfolio.

When we look at transition performance, it's not without its drawbacks, particularly on divestment. Our view is very much that divestment is a great corporate strategy to reshape portfolios, but not an emissions reduction strategy. And Laetitia will touch on some other risks when she goes through some of the work she's done as well.

So for us, like, great tool, but what does that actually mean when you're looking at a deal, how can you tell which ones are enabling transition or not. So for us, you know we were thinking about you know what's the type of M&A that we would expect to see if a company is preparing for decline in either oil or gas demand.

And our view is very much that you've got three strategic options. Just broadly, one, you've got companies who are going to be exiting the industry. So they're going to be choosing to not deal with the stranded asset costs not deal with the demand in decline for their products or other liabilities that are associated with an industry declining.

Secondly, you have companies that will look to diversify their offerings so that they have revenue options from other sources.

Thirdly, we see efficiency plays, so companies looking to build market share and focus on providing low cost products, in the case of oil and gas also low carbon productions. It could also be a combination of these strategies.

So what we did with the team is we looked at the recent mergers and acquisitions for the companies that we cover over the last three years as well as the US majors to see if we could find anything that was telling about what they did. I'll just share my screen and we can have a look at some of the data.

OK. So this chart (Title: Recent mergers & acquisitions provide insights into transition strategies) shows you oil and gas transactions that have occurred over the last three years. It's looking at count, so not value and we're looking at two groups of transactions, so fossil fuel transactions and low carbon and power transactions. And in that we've also included carbon capture and storage.

What can we tell about transition strategies from this? Firstly, we see for the European majors that they have been doing acquisitions which is at the top of the chart and divestments both in oil and gas and in low carbon and power. That very much supports their focus as a diversifying strategy in the face of transition.

Also we see that Shell and Total are leading in the number of low carbon acquisitions that they have made as well as leading in the number of fossil fuel divestments. And if you have a look behind that a little bit more, you can see that divestments have really been focused on oil assets that are more carbon-intensive and acquisitions of oil and gas assets have really been focused on gas overwhelmingly for European majors. So for us when we think about

what is that saying about transition - one, we think it supports diversification into low carbon products. It says that the companies may be preparing for decline in oil demand, but that also they're not really preparing for declining gas.

Now we next switch to looking at the US majors. You know off the back of last year we saw Exxon look to acquire Pioneer, Chevron, Hess, both consolidation plays on the face of it and may look like doubling down on fossil fuels but actually they're looking to grow market share, become more efficient providers of oil and gas. So we very much squarely put them in the efficiency play. They're looking to provide the I guess the last oil and gas even as the industry declines and probably more so oil than gas.

Like the European Majors, they're also not, don't appear to be expecting a decline in gas in the way that they're conducting M&A. One thing we thought was really interesting with the US majors was that Exxon’s strategy is actually a bit different to Chevron prior to those mega deals. So Exxon, if you look at the number of fossil fuel divestment, it actually exceeds Shell and Total. So they've done more fossil fuel divestment in the last three years than the European Majors.

I think this is a sign that it's not just the European majors who are looking to high grade their portfolios. Exxon has also been active in that space. Those assets are really also based on oil. For Exxon and Chevron, you see you both have made low carbon acquisitions but more in CCS and DACS.

Now last week we had a look at what does this mean for the Australian companies. So the transactions that we looked at are very minimal and from what we can see there's very little evidence that M&A is being used as a tool to drive transition. And we say that in the context of, you know, having there been recent talks right now of Woodside and Santos merging.

The reason why we're saying that, we can't really see any signs of it being about transition, we think that what they're doing is different to the consolidation in the US and that's because there's no low carbon acquisitions in their portfolio.The acquisitions and divestment of fossil fuel assets are not being driven by efficiency.

For recent transactions they've done Woodside’s acquisition of the BHP assets and Santos's acquisition of Oil Search was really about size and financial capacity, ensuring that they can continue to provide funding for ongoing growth in oil and gas.

So when we look across all the strategies we definitely see it is a really important tool for transition. We're seeing different approaches throughout the region. So European majors are using it as a tool to diversify, using it as a tool to prepare for a world with lower oil, same for the US majors but little evidence of transition really playing a part in M&A for Woodside and Santos.

We’ve got one more slide (Title: Aussie vs US transactions as a % of market capitalisation). I think that just kind of really shows the focus on size for Woodside and Santos. We're just

showing the transactions that they have pursued (to increase their financial capacity) compared to their own market capitalization, which are twice that even of those mega deals in the US. So it's really interesting for us to see all the different approaches.

**Prue Bentley - Moderator**
Thanks very much for that, Shu Ling. It's a really good start to the conversation. I'd like to hand over now to Laetitia Pirson. And don't forget to just reintroduce yourself if you wouldn't mind. Laetitia, thanks.

**Laetitia Pirson – Carbon Asset Risk Expert, CERES**
Sure. Hi everyone and thanks for having me here. So I'm Laetitia Pirson, I work at Ceres in the US, a nonprofit organisation focused on sustainable future for all I would say. And together with a colleague at the Environmental Defence Fund (EDF) last year we co-authored the Climate Principles for Oil and Gas M&A. And so I guess that's why I'm here and I'll come back to the principles.

Right, so I think your question Prue was to know whether oil and gas transactions that we see recently are good or bad for the climate. And of course I would say it depends. I mean it is definitely a part of the oil and gas industry strategy and there are many, many different sorts of transactions.

So maybe first for context, you know I focused mostly on the US so I'll speak more to that part of the world. But what we've really seen there is a period of growth in the oil and gas sector, where it made sense I think to have a lot of smaller companies. But now that the industry isn't in the growth phase anymore, scale is becoming more important and consolidation is kind of the logical next step, I think.

So as Prue said, we've heard many times that consolidation could be yet another sign that the fossil fuel industry is or has no intention of slowing down. And I think perhaps consolidation could actually be a sign of an industry that is in fact slowing down because investors aren't rewarding growth and instead are looking for scale.

So you mentioned that already Shu Ling but Exxon by acquiring Pioneer and the same with Chevron acquiring Hess, I think in those cases you're really looking at oil and gas majors that are focused on oil and gas into the future as their strategy and they want to be the last man standing. And so I think as you already mentioned both got access to lower cost barrels by acquiring Pioneer or Hess in Guyana particularly.

And I think those deals are a sign that both majors realise that if they are to survive the energy transition and a declining demand, they will need the lowest cost, lowest hopefully lowest carbon barrel also. And so I don't really read that as a bet on oil and gas forever, but kind of the best bet possible of an oil and gas major who wants to remain an oil and gas company as long as possible. So they are getting ready really for a future where I think there is less oil and that per se is not bad for the climate.

Besides I think another way to look at the consolidation is that as the industry consolidates, it might lead to future production to shrink. When you look at a deal like Southwestern and Chesapeake merging for example, it's likely that they're combined budget will be lower than both companies' budgets before the merger. So that's one thing. And then also the consolidated company will have a more diverse portfolio giving it more options to develop the best lower costs and hopefully lower carbon barrel too.

So there is a scenario I think where merger leads to less production and lower carbon intensity in total over time. In addition, one last thing maybe more on the positive side is that some of the acquisitions that are consolidations that we've seen, for example Conoco buying Concho, Dev (Devon Energy) acquiring WPX, Oxy buying some private equity assets, that really represents assets moving from companies that didn't prioritise emission reductions to companies that do. So I guess that's progress of a sort, that's it.

There are also counter examples of that like Exxon acquiring Pioneer or possibly concerning that Shell is trying to exit its asset in Nigeria also. So I would say a lot depends on the details of how consolidation progresses and it's certainly not all rosy.

There are many things to watch still. So two years ago, I think EDF published research showing that in aggregate and over the previous five years, assets were moving away from companies with climate commitments to companies without, which is concerning from a climate perspective and a global emissions perspective. And they have also shown that in aggregate, public to private market, the public to private deals dominated.

So I think again, that lack of transparency is a cause for concern and that's why really we, Ceres together with EDF, the Environmental Defence Fund, have developed the climate principles for oil and gas M&A. And we've done that in consultation with oil and gas companies, banks, private equity firms, institutional investors and nonprofit organisations too.

And these are really voluntary principles to ensure that when companies divest or acquire assets, they incorporate climate safeguards in negotiations, perhaps also in deal terms to ensure that there is continued climate stewardship.

And I think we'll come back to the principals later on probably. But since we've published the principles, they've been used by financial institutions in their engagements with oil and gas companies and also other organisations continue to build on them. So I think it's been mentioned in the WEO (World Energy Outlook) report by IEA, the Columbia Centre on Sustainable Investment has also looked at more of the regulatory levels that could be used to control these risks or the risks related to M&A activity in the oil and gas sector as opposed to our more voluntary corporate approach. So I think, yeah, a policy response would be a helpful next step. So, yeah, I guess I'll stop here, but we'll need to continue to watch this space and definitely need, I think, to look at these transactions from a climate perspective too.

**Prue Bentley - Moderator**
Thank you Laetitia. I'll throw it over to Tim now. Where do you stand on this, Tim Buckley, are consolidations that we're seeing, are they good or bad for climate or is it once again, a question of it depends?

**Tim Buckley – Director, Climate Energy Finance**
Thanks, Prue and good evening, everyone from Sydney. I work at a public interest think tank, Climate Energy Finance. So overall, I don't think there's any material benefit, there's no material benefit from this consolidation wave.

But if I step back overall, I think there is growing global financial acceptance of the climate science and there is a movement by globally significant financial institutions to acknowledge the climate science once it start to invest in it. And we're seeing sector pathways, we're seeing interim targets and science, some science based target initiative alignments, but it's very much two steps forward, one step back with a little bit of progress.

So as a result, we are seeing a little bit of a shrinking in global capital access for fossil fuel companies. It's starting to shrink, but it's a long way from closed. We did see a closing, an effective closing of the coal market maybe four or five years ago. But with Putin's invasion of Ukraine that changed everything in the near term. And I think the markets have reopened, particularly given the excessive profits the fossil fuel companies have been making. But I don't want to be all bearish.

We are seeing global capital changing, pivoting to solutions and I think Bloomberg reported on that last week saying that global investment in zero emissions technologies in 2023 was 1.77 trillion dollars, 1.8 times the amount of money going into fossil fuels. And that ratio has improved from say one to two, three years ago. So capital is pivoting, but the consolidation of oil and gas companies, it is a consolidation tactic in response to the energy transition, but it really concentrates their market power, a political lobbying power and retains the importance of those companies.

Sorry, the retained importance of those companies means they still continue to get access to global capital. So concentrating their political lobbying, their groupthink on climate science denialism, In my view, there's no real benefit to the world.

And so I see fossil fuel companies, particularly oil and gas companies, as bad faith companies, bad faith actors, and they're very much wedded to fossil fuels in their DNA. They are dinosaurs. We really need to see them progressively die out at the end of life, ideally with an accelerated programme of carbon pricing and regulations to drive the exit of those companies or effectively they need to die. Dinosaurs have to die out. They're not going to invest in the future.

And I mean, I look at Woodside as an example, last year or year ago it doubled in market cap by merging with BHP Petroleum. So BHP divested its petroleum assets having already divested its coal assets, it doubled the market cap of Woodside. It really just entrenched their market power and their grip over the Western Australian and federal governments in

Australia. And Woodside remains a climate science dinosaur from its Chairman to its CEO down, and with 60 billion a market cap, they've got no shortage of political power now and the vast, vast majority of their CapEx is going into building new Greenfield developments. So it's not like they're having any access to capital constraints.

They have talked about investing $5 billion by 2030 in lower emissions services, but the reality is they haven't actually reached financial close on a single transaction. Oklahoma green hydrogen, way behind schedule. So it's a fraction of the 20 billion plus that Woodside's investing in new global projects, new fossil fuel projects. So consolidating the power of the dinosaurs into even bigger companies.

I'll just finish by saying it actually leverages the nature or the very negative nature of passive index players like BlackRock, Vanguard and State Street. At the end of the day, they abrogate any responsibility of their client monies. They don't make any management, any management influence over the companies they're investing in. So companies like Woodside are double the market cap, so they just remain major investment vehicles leveraging the growth of index investing and index investing is undermining in my view the necessary need for finance to actively manage a key known financial risk.

So that's a long winded way to say I don't think consolidation is helping in any way. These are dinosaurs. We actually need to see them die off. They're just consolidating and entrenching there. It's a shrinking of their number, but a growing of their size individually. So just to entrench their market power.

**Prue Bentley - Moderator**
Alright, well, I'm really looking forward to digging into some of those things you've just raised, Tim. Thank you very much. And lastly, Andres Vanderlinden, would you mind giving us your take on whether the consolidation is good or bad for Climate?

**Andres van der Linden - Senior Responsible Investment Advisor, PGGM Investments**
Hi, everybody. My name is Andres van der Linden. As mentioned, I work at PGGM Investments, which is a fiduciary manager of PFCW, which is the Dutch Health.

**Prue Bentley - Moderator**
Sorry, Andres, your mic is a little quiet. Can you, is there any way you can turn it up a little?

**Andres van der Linden - Senior Responsible Investment Advisor, PGGM Investments**
Sorry, can you hear me better now? That's better. Yeah. OK. I'll just speak louder. Apologies for that. So I think it has been said by each of the panellists, you can't see this as black and white, right? So what I'll do is I'll simply list 3 positives from PGGM's point of view and three, potential negatives.

And also with the positives, I think as has been mentioned by Laetitia, there are potential benefits for operational missions for scope one and two. And the example we look at is ExxonMobil post acquisition of Pioneer Resources and it announced it will reach net zero in the Permian by 2030 which is more ambitious than the goal that Pioneer had pre acquisition.

The second point in favour, I think these companies are seeking profitability through M&A and efficiency rather than through expansion and new drilling, right. They're not expanding new wells and which I think is a positive at least in the short term. And that's really from a pension fund point of view, we're universal owners, and we're concerned about the impact of global emissions on our portfolios rather than just at the asset level.

And I also want to invite you to think about the inverse related to expanding low carbon. Would we prefer oil and gas companies buying renewables companies or expanding its own production of low carbon? At PGGM, with our engagements, we've really been promoting the latter with energy companies and potentially you can see the inverse as a positive.

So the final point in favour related specifically to PGGM, it's simple that consolidation just means fewer companies to engage. You know, as mentioned, we're universal owners. We don't have to engage Pioneer Resources anymore. It's a simple reason, but our engagement could have more bang for its buck. I think the same could be said for shareholder resolutions, but it's if they pass right, if they're responsive to engagement and these are really big ifs. Now let's move on to the potential negatives potentially for the climate.

I think it's been mentioned, but these companies are becoming larger with the idea of becoming resilient to volatility and with the idea that they'll produce hydrocarbons into the future. They're clearly seeing robust demand going into the 2030s, which is against, let's say the IEA forecasts.

The second one, I don't think it's been mentioned. Bigger companies means more political muscle for lobbying, right? The positions of these companies, it's obviously in stark contrast to that of the IEA. Are they going to work to stymie these trends and work towards this other reality that they believe in?

The final point against, I think this is related specifically to PGGM. Our goal is to invest in Paris aligned companies and so far these deals have moved these companies further away from that. But this is talking about what we've seen. We've seen underlying companies becoming more unaligned which isn't really surprising and actually we haven't been engaging these companies because of that fact because we don't really see any hope for these ones. But what if two of the greener oil and gas companies were to come together, let's say Shell, BP or TotalEnergies and BP. How would this affect their Paris alignments? I don't have an answer for that. I just want to end my part by sort of giving food for thought for the audience. Back to you Prue.

**Prue Bentley - Moderator**
OK. Let's dig into some of those questions. And Andres, I'm going to just ask this one very firstly of you, and I mean you talked a little bit about the investment and others did too, but what role do investors have to play here? I mean, how can they be active? You talked about engagement, having fewer players to engage with after more consolidation. Can you talk to me a little bit more about how that can work?

**Andres van der Linden - Senior Responsible Investment Advisor, PGGM Investments**
I think so you're asking about the role of investors, right, in these activities. It boils down to our role in general with our investees and that's accountability. We need to be holding them accountable for all these things. And there are few questions I think we need to ask these companies. I think it also echoes what's in the standards of Laetitia and first of all, how does M&A fit within your transition plan, right, just in general M&A and how is this preferred over organic growth for example.

I think there is an argument to be made, they made a lot of cash and investors have been very cautious about them spending on new production which is really expensive. So maybe it does fit with some of these American companies. What are the specifics of your target? In the case of these American majors, going after shale producers actually make sense considering their convictions, right? And you also have to think about, they want to compete with these national oil companies. This actually could be a good move. And also shale's short cycle, you're actually minimising the risk of stranded assets. So these are some of the questions.

Then to the climate side, how does this impact the climate commitment scope one and two potentially, OK, but are you going to be producing for far longer? Are you going to use your political muscle to curb the impetus towards transition. Some of the questions, I don't know if Laetitia wants to jump in with her standards, but that's maybe just a start from my side.

**Prue Bentley - Moderator**
Can I, can I just also just throw in something a bit of a, lob in a bomb that Tim already mentioned, which is these index funds, these, you know, big, bigger players with their investment heft, is, does that cause a problem? And Laetitia, I don't know, does that, does that cause a problem that some of these bigger investors, as Tim said, have just abrogated all responsibility in this area?

**Laetitia Pirson – Carbon Asset Risk Expert, CERES**
Yeah, I think it does. And definitely you know just in general I think it's really part of investment firm fiduciary duty to manage portfolio risk and that includes I think you know, we haven't said it here but like climate risk is financial risk that's really what we believe at CERES and how we engage around those issues with investors.

And so I think engaging oil and gas companies generally and certainly on their M&A related reputational risks, legal risks, physical risks, transition risks, is really important. And so yeah, I think it's a problem if those index funds are not doing that. We would definitely encourage investors generally to ask oil and gas companies how M&A interacts with their climate targets as Andres said, how they are going to mitigate the climate impacts of M&A generally.

And so we mentioned already the climate principles for oil and gas M&A, but they're divided into 4 categories: credit due diligence, disclosure, emission reduction targets, and strategy and decommissioning. And we think those four areas are really important to engage companies on. So in terms of kind of key questions that have that other investors have already used in dialogues with companies and have proven helpful is to ask them more

information about their due diligence policy, whether it includes safeguards around transferred emissions.

For example, whether the company would consider screening out buyers or acquisition opportunities based on the financial, financial also but the climate track records of the companies Also, what part of their target they're planning to achieve or have already achieved by divesting assets or acquiring assets? Will they require a commitment from buyers to continue to reduce GHG emissions after the transaction? Will they include such commitment in deal terms, things like that? I think those are all really concrete and relevant questions that should be asked through the companies to make sure that we go in the right direction climate wise, that is. Not sure that answered the question.

**Prue Bentley - Moderator**
But yeah, look, I think it definitely does. I mean you're talking about giving investors the tools to be able to ask the smart questions when they're going in to nominate various investments. So yeah, absolutely. Tim Buckley, I've got a question for you which is around the relationship between, and you touched on this a little bit, the relationship between market forces and regulation in addressing climate risks associated with mergers and acquisitions. So, you know, where's your analysis at on that?

**Tim Buckley – Director, Climate Energy Finance**

Thanks Prue. I think market forces are definitely failing in terms of the climate science need for a massive scaling up of investment in zero emissions alternatives. Because the fossil fuel incumbents are using their political pressure and political power, they're lobbying to ensure that there is no price on carbon emissions. Absent, sorry, outside of Europe, of course, absent a price signal, Western developed financial capital can't really be deployed at the speed and scale that the science dictates we have to do.

Now, I don't want to be totally negative. I have actually, my group actually focuses a lot on China because thankfully China is taking a global leadership position here. So when I mention Western capital needs the price signal to really move, China is taking a strategic opportunity to dominate zero emissions of the future. They are really driving this scaling up of manufacturing and research and development. So that gives me a lot of cause for hope. But ultimately for Western markets to really work effectively, we need a price on carbon, we need the policy framework and this consolidation.

That's why I emphasise the negative aspect of Woodside doubling in market cap their power, their ability to lobby and climate deny and undermine progress in policies clear. Whereas you look at the Chinese SOE's by comparison, when the president of China says you must decarbonise, the Chinese SOE’s do what they're told and so the major SOE's we just put a report out a couple months ago highlighting they have pivoted their strategies quite aggressively into zero emissions technologies, whereas you see only lip service from the oil and gas companies in the West. But I do strongly believe that the power of global finance and so it can deploy capital at the speed and scale required once we get the right policy signals.

And I'll finish by mentioning, I've just dumped on BlackRock as a number one index passive investor. But I do note that BlackRock has just taken on the, on the, on the active side, the $12 billion acquisition of Global Infrastructure Partners last month trebles their exposure to global infrastructure and BlackRock sees that as the opportunity for sectoral long term growth opportunity, trebling their exposure to renewable energy and green infrastructure investments. So that's what we need to see when, but ultimately it's going to happen faster once we get a price on carbon and that at the moment is largely absent outside of Europe. And so that's why I think financial markets are really grappling with it while the oil and gas companies are still making out like war profiteering bandits.

**Prue Bentley - Moderator**
Do you think that geopolitical events will have any major influence on this sector, Tim, or on this move or it really is just down to policy

**Tim Buckley – Director, Climate Energy Finance**
Geopolitics is massive And yes is the answer because I mean the Inflation Reduction Act in America, a trillion dollars of outright subsidies and capital support for zero emissions technology. So Biden did that because of the response to China effectively winning the race. So yes, I think geopolitics are critical.

We've seen a massive uplift in American investment in zero emissions technologies because President Biden managed to convince the American Congress to vote for the US IRA in response to China's outright leadership in all of these sectors. So yeah, and ultimately that's also then spurred on Japan, Korea, India, the European governments have all responded with massive government stimulus.

But ultimately, you're not relying on the financial markets, you're relying on governments. And so we're actually lobbying the Australian government. Well, the financial markets are failing. We're going need to see the Australian government have an Australian response to the IRA for Australia not to miss out. The old adage, Leave it to the markets. That's not going to work because no one else is leaving it to the markets.

**Prue Bentley - Moderator**
Thanks Tim. We've made a lot of assumptions about where these companies are going based on you know their mergers and acquisitions, the strategies that they're taking. Shu Ling was hoping you could just address it, the issue of transparency and how much you can actually infer from their actions about, you know, where they're heading in the future.

**Shu Ling Liauw – CEO, Accela Research**
Yeah, I think from our point of view, we assess performance of emissions reduction and it is really hard from a transparency point of view to understand what is driving that reduction to take place. So at Accela, we do a lot of work using financial disclosures that the company provides, really not looking a lot at the climate disclosures and we try and reconcile them if you like.

We take what the core businesses are doing and build up emissions profiles from the volumes and sales that they disclose in their annual reports. So from you know, for us to really say OK, how much of their total emissions reduction has been delivered by divestments, that's work we actually have to do in the financial reports. It's not, it's not obvious and I think Laetitia is nodding and would agree that one of the small things that companies need to be doing is as they are divesting and reshaping their portfolios is being clear about how that's impacting reductions in scope one, scope two and scope three.

We like that BP was one of the early players to get a scope 3 Target. But really my position has evolved a lot in whether that was useful or not because when we do the numbers at Accela all that's being driven by divestment and we know these assets still continue to exist. So our preference would actually be just really to be focusing on where you know as an integrated energy provider who wants to participate in low carbon where you're helping your customers transition.

And a big conversation we're having with investors and some of the companies right now is the opportunities for customer based emission targets and strategies. And because they're so much more inherently connected to what the business is doing day to day rather than just being this kind of like really nice thing to put on a poster to somewhere, but actually doesn't really mean much for climate.

**Prue Bentley - Moderator**
What do you mean by customer based?

**Shu Ling Liauw – CEO, Accela Research**
Yeah. So ultimately, if we are to achieve these ambitious emissions reductions that we need globally, we need to transform our energy system. So we're, we're using oil and gas today, the customers who are using that, whether it's for power or for heating or my car, I need to start using different fuels that are lower carbon. So what's happening at the moment, particularly for oil, is one of the demand drivers of oil which is transport is slowly being eroded because customers aren't using petroleum, they're starting to use electric vehicles, there's more efficiency. So one of the key customer groups of oil is starting to change. There might be other oil demand that comes online, but ultimately, a material driver of demand today is in a future lower carbon transitioning economy going to disappear. So we think that tracking that is much more useful than just looking at divestment.

**Prue Bentley - Moderator**
Fascinating. Yeah. Yeah, a lot will come from the ground up. So there's quite a few different ideas around here. We're talking policy, We're talking geopolitics. We're talking about investor-led. Andres, you wanted to say something on that.

**Andres van der Linden - Senior Responsible Investment Advisor, PGGM Investments**
Yeah, I just wanted to echo what Shu Ling is saying you know, and just to frame it as we want companies to prove the impact on global emissions. Right. I think there's a, there's been a real fixation on company levels emissions targets right now Shu Ling pointed out if

you insist on an absolute scope 3 emissions target, there's been a tendency to just sell these assets elsewhere and that doesn't help the global situation, right.

So what we want not only from the oil and gas side but also from the low carbon side, you know, help your customers show that by, you know, switching a customer from, you know diesel to biofuels, you're actually having an impact on avoided emissions. I'm not saying that you should tally that all and say well there's offset here, but paint us the story, right, really say OK, we're this is what we're doing with our upstream assets. We're producing at lower, lower intensity. You know, we're going to respond to consumer demand. On the low carbon side, this is what we're actually doing to help customers switch over. So I think you can get lost in just the top line target a lot, but it's the larger narrative that really indicates if a company is helping the world get to Paris and if they're not. And I think we should stop saying is this company Paris aligned and say, are they helping global Paris alignment.

**Prue Bentley - Moderator**
Don't forget you can ask your own questions. They'll come through to us and hopefully we'll get some time to answer them. I have got a question from a participant and it's this: What role can banks play in setting the terms of big oil mergers and acquisitions to funnel capital into decarbonisation and disincentivize M&As that increase exposure to climate risk. So what role can banks play? Andres, I reckon this is a good one for you.

**Andres van der Linden - Senior Responsible Investment Advisor, PGGM Investments**
Yeah, it's a good one. What we're a pension fund, so we can't really, we don't have anything to do with that, but the way that my colleagues are engaging banks that are in our portfolio and a lot of the times actually we're just asking them not to do business with oil and gas companies. And I think there's a difference between if you're earmarking loans for transition or you're saying, OK, we're not going to give loans if it's to do with drilling for new wells or mergers and acquisitions. So I think you can really earmark where your loan goes.

And then you can say, OK, if it's towards greener activities, you can get cheaper financing and for activities we don't want to see such as drilling of new wells, while we can just say you're not supposed to do that anymore and sort of engage our banks and our portfolios to do. That's I think the best way. And to be honest, you know we're a pension fund, we're sitting in the secondary market. We have impact through engagement and voting. Banks really channel capital to these sectors. So I think it's crucial that banks are engaged on this. And to be honest, I think it's not done enough.

**Prue Bentley - Moderator**
Interesting. We've got another question. Oh, actually Shu Ling, did you want to chime in on that one?

**Shu Ling Liauw – CEO, Accela Research**
Yeah, I'm not sure if Tim was going to say something as well. Potentially we were going to say the same thing, but I would say that it depends, because banks are big institutions that operate across capital structures. So if we're talking investment banking, they're actually the

ones facilitating these deals. I think it is really culturally difficult to get bankers to turn down deals because it's an asset going from a company that has a net zero target or similar to a company that doesn't and intends to grow that asset because ultimately the incentive is to keep on getting deals and business.

Whereas if we're talking about the banks lending capacity and financing, then I think they are starting to have, we're having those conversations with banks about how do we work out which we should lend to for all the different sectors that touch you know emissions, what a good plan looks like. And I think something like M&A could be considered in that context.

So almost like for you to access this level of financing rates that might be discounted as Andres mentioned, then you would need to make these kind of criteria or potentially you know, linking to Laetitia's work, that's how you actually get some of those clauses into M&A agreements. Because for me, while I can see that legal agreements have capacity to put provisions like that and to deal with liability, that is not how transactions work right now, right. They're there to reduce liability for everyone. Everyone wants to get rid of the business and walk away. So banks and regulation might be able to have a role in kind of changing those agreements in the future.

**Prue Bentley - Moderator**
OK, we might come back to a couple of other things in just a moment. But I do want to ask Laetitia, if you want to just expand on that because you have talked about those principles. Can you just dive in a little bit more to that question and you know where, how do you actually get that sort of thing over the line?

**Laetitia Pirson – Carbon Asset Risk Expert, CERES**
Sure. And maybe if I can just add a little something to what was just discussed.

**Prue Bentley - Moderator**
Absolutely.

**Laetitia Pirson – Carbon Asset Risk Expert, CERES**
So bank, we had a lot of banks attending the round tables where we discussed the climate principles for oil and gas M&A and as you said Shu Ling I think in terms of putting conditions on their own financing and let's say they're not there yet and we had a lot of reluctance I think from banks just saying you know if we put too many conditions they'll go see our competitors and so we won't be any better.

But that said, they also have a whole advising, they're also advising a lot of the deals and I think that's an underused lever that we have there. Some of them might, you know even just mention the climate principles for oil and gas M&A in discussions with the companies that they are engaging with and that could already go a long way I think. So there is clearly defined the financing aspect is where we need to go. But a good first step would be to discuss that when they're advising deals. OK. So with that, I forgot your original question.

**Prue Bentley - Moderator**
Well actually I was going to ask this, this one which came in from a participant and it might be for you and I think probably Tim might have something to say about this, but how do you actually define a climate aligned transaction. So what are the indicators? What are the metrics? How do you actually hold them to a certain standard?

**Laetitia Pirson – Carbon Asset Risk Expert, CERES**
Right, well, that's a broad question and I don't know that I will be exhaustive in the answer. But I think what we are really looking for and there seems to be agreement here in the room is that we want global emissions to go down and we want climate stewardship to be continued I think post transactions.

So what we have defined in the climate principles and I think that gives an overview of what I also think Climate aligned transaction should look like is first the due diligence process should really be led carefully and to ensure that the new owner of the asset has the ability to, so that's the financial ability, the technical ability, etc. And will also commit to operating the assets in line with climate standards or at least add, I mean as strong standards as the previous owner had. And if that's not the case, we'd recommend just screening out the acquisition.

Then I think there is a whole discussion to be had around disclosure. We already mentioned parts of that, but really sellers and buyers should publicly report the metrics to demonstrate that high quality disclosure is preserved across the transaction. So emissions should be reported before by the seller, also after transaction by the buyer. And we should have a clear sense of where emission reductions are coming from on scopes 1, 2 and three. And then I think it's also really important to make sure that buyers commit to continuity in GHC emission reductions, both on the ambition level and in terms of the concrete decarbonization plan.

And also we didn't really talk about decommissioning a lot, but I think that's a very important part of this story too. And companies need to plan for the proper decommissioning of the assets that they transfer and that's something they can do early on. So I think if all of that is kind of done, we're not there yet, but that would be a great improvement compared to where we are now.

And in terms of indicators, I would think very quickly you know disclosure of divested and acquired emissions scopes 1-2 and three, pre and post transaction, ideally even at the asset level, disclosure of the degree to which asset transfer contributed to company progress towards emission reductions, disclosure of the buyer, their commitments and their climate commitments and then disclosure of non discounted asset retirement costs and how they will be accounted for. Those are the things that I would start to look for but others might have another answer to that.

**Prue Bentley - Moderator**
I might bring Tim Buckley back into the conversation there because we've talked a bit about those metrics around how you actually, how you define a climate aligned transaction. We also have a question around voluntary commitments, and you know at the moment in lieu of

you know policy and regulation asking these companies to do it, I guess it is voluntary at the moment. Tim Buckley, do you think that those can be effective at all?

**Tim Buckley – Director, Climate Energy Finance**
Yeah and maybe bringing the two questions, Mark Crouch's question on voluntary and the role of GFANZ and I'll respond in terms of the Australian banks, we have actually seen the Australian banks all sign up for GFANZ. They've all signed up to a commitment of net zero by and alignment with 1.5°, and so it's not just GFANZ, but aligning explicitly with 1.5 degrees and saying they'll have interim targets. Now in Australia, that actually has legal fiduciary duty obligations on the individual directors of the banks.

So it's early days yet, but we are seeing the Australian banks are now set to decarbonization pathways and they are aligning those sector decarbonization pathways with the climate science and 1.5°. So that is a legal fiduciary duty for each of the directors individually of the Australian bank. So at the moment, I actually would give that a fair bit of credit and I would rely on it acknowledging its early days. But I do think that they're putting out the major banks are defining what the sector pathway is for oil and gas companies and for them to continue to lend.

They've actually made very explicit metrics that they're going to evaluate their own loan book. And so if a company fails to address the climate science then it's not going actually be within the sector pathway that each of our major Australian banks has, has explicitly defined and is annually reporting on. So early days yet, but it is actually I think going to play a role. So not so much the M&A, but the merger it's more, does say a Woodside having doubled in size actually now deploy capital in alignment with the climate science. Now my answer would be categorically not, they're not. They've done lip service to investing in green. They're building 3 of the largest fossil fuel new greenfield developments in the world right now concurrently. So there are 100% not aligned with the climate science.

So the major Australian banks actually are legally obliged according to their sector pathways to reduce their exposure, collectively to the oil and gas sector. So that is going to progressively starve a player like Woodside of access to the domestic banks. Now ultimately they can always go to Asia, they can go to their customers in Japan and Korea and China and maybe get financing from them. But I think it'll get progressively harder.

And I'll maybe just finish by saying to Mark Crouch's question, I think the voluntary commitments like Science Based Target Initiative and the alliances like GFANZ have played a really important role historically. But in Australia, we've actually now got the Federal government, their Treasurer, Jim Chalmers, mandating disclosures and that takes effect on the 1st of July this year for the top 100 companies in Australia so as a legal obligation. I think we're starting to see the necessary policy intervention, so it moves from voluntary to actually legislated and that's critical because at the end of the day, we need everyone to jump in and act on this climate science.

**Prue Bentley - Moderator**
And just as we wrap Tim, you know, one of the big questions is obviously, when do you think oil and gas is going to peak? When do you think they're going to really start shrinking these mergers and acquisitions?

**Tim Buckley – Director, Climate Energy Finance**
Well they need to do it with immediate effect. They actually needed to do it as of two years ago. And so far, the oil and gas dinosaurs globally are not complying with the science. They're not doing what the IEA says, which is no new greenfield developments of any new fossil fuels with immediate effect as of two years ago. That still holds, in my view. And so when you look at say, OK, quoting Woodside, they're building 3 concurrent new oil and gas project right now and investing next to nothing in zero emissions technology.

So they're totally unaligned with the climate science, but I don't expect them to do it voluntarily. They're dinosaurs. It's not in their DNA. All of their lobbying and influence is to undermine the science and delay action so they can maximise their profit. The end of the day, it's going to have to be forced on them by the collective efforts of government and investors. And that's why I applaud Jim Chalmers actually regulating climate disclosures. I would much prefer the Australian government just brought in a carbon price.

**Prue Bentley - Moderator**
Fascinating. So effectively what you're saying is not soon enough. We didn't get a timeline, but thank you very much for that. Tim. I'm just gonna throw back to Shu Ling Liauw from Accela Research just to wrap us all up. Thanks very much, Shu Ling.

**Shu Ling Liauw – CEO, Accela Research**
I just wanted to thank everyone for attending today. It's a really important topic to explore and I think has multiple facets to it. I hope that you've got something of value today and thanks so much for all the panellists in sharing their diverse views and the work that they've done on this topic and Prue for hosting us today.

And this is one topic on M&A and transition, but Accela and we're looking at a range of topics that are both enabling and are hurdles for transition. And we'll be sending you our latest thoughts on quarterly results that are happening at the moment ahead of AGMs, so you can understand exactly the engagement points you need to be prioritising. But if there's anything that's raised here today, please reach out to us. In addition, any questions we didn't get to today because we are very tight on time, we'll look to get back to you and address and everyone will be receiving a copy of the webinar as well. So thank you very much for attending.

**Prue Bentley - Moderator**
Thanks, Shu Ling. Thanks everyone.