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Commentary on the International Energy Agency (IEA) Net Zero Pathway

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- *Finally shining a light on unsubstantiated corporate climate targets*
- *Storebrand Global ESG Plus - aligning risk exposures with net zero*
- *The future is efficient, clean and green*

This week the International Energy Agency (IEA) has released a landmark report[1] which, for the first time, lays out the detail behind the required energy transition for a realistic 1.5°C scenario. This is important because the IEA is responsible for the modelling which governments and industry use to inform their energy investment plans. Until now, the IEA has not made available a scenario which meets the full ambition of the Paris Agreement[2], but it has come under increasing pressure from market participants, including Storebrand[3], to do so.

IEA scenarios, due to their sector specific granularity in comparison to scenarios available for broader purposes such as the IPCC, also underpin the tools used for company climate strategy assessments, such as the Transition Pathway Initiative (TPI), PACTA and the Climate Action 100+ Benchmark. We have previously raised concerns about the scenarios behind existing portfolio measurement tools and 'net zero' alignment trajectories[4]. These tools often lack 1.5°C scenarios and use pathways that are reliant on unrealistic technology assumptions. The IIGCC also raised the lack of robust scenarios as a key finding in its recently launched Net Zero Investor Framework[5]. The lack of these scenarios has meant reduced clarity on what the implications of net zero are for industries like oil & gas, but also for the financial sector. The IIGCC noted that the new IEA scenario is expected to become an industry standard for "assessing net zero alignment".

This new IEA NZE2050 pathway shines a light on what is required from governments and the energy industry in order to achieve net zero. Current climate pledges and targets are not ambitious enough, both by governments[6] and the oil and gas majors[7]. The report is mandatory reading for any organisation or investor that seeks to align with a net-zero future, we have summarised a few of the key points below:

Storebrand Global ESG Plus – aligning risk exposures with net zero

In 2019, Carbon Tracker, building on its previous reports in 2017 and 2018, produced a detailed analysis[8] of the capital expenditure plans of major oil and gas companies to show that the industry was actively investing against the Paris Agreement goals. We have used this research to demonstrate the alignment of our fossil free global equity strategy, Storebrand Global ESG Plus, with the long-term goals of the Paris Agreement. The IEA NZE2050 brings this into sharp focus:

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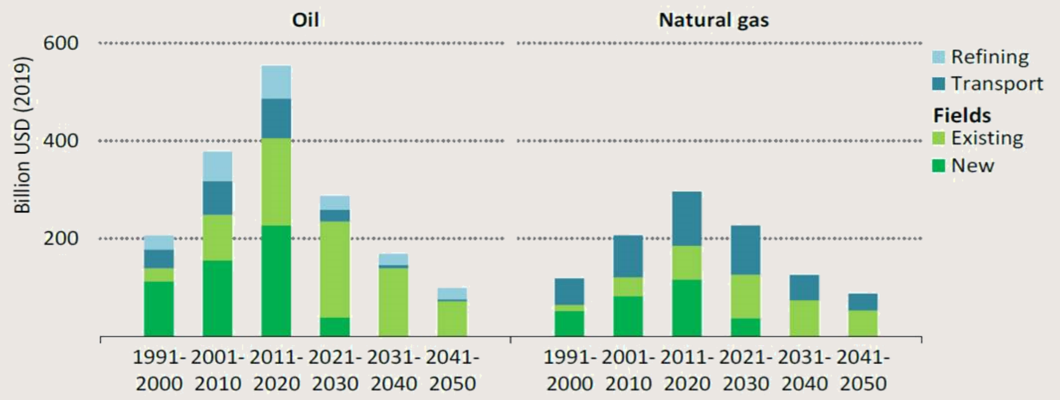
[1] *Net Zero by 2050: A Roadmap for the Global Energy Sector*
[2] *Pathway consistent with 50% probability of limiting the global temperature rise to 1.5 °C without temperature overshoot*
[3] *Storebrand, PensionDanmark, Alecta sign mass letter to energy agency on climate*
[4] *Storebrand responds to UK Government Consultation on Aligning Pension Schemes with TCFD*
[5] *IIGCC Net Zero Investment Framework*
[6] *Quote IEA report about government pledges:*
"even if successfully fulfilled, the pledges to date would still leave around 22 billion tonnes of CO2 emissions worldwide in 2050. The continuation of that trend would be consistent with a temperature rise in 2100 of around 2.1 °C"
[7] *None of the oil and gas companies based on current TPI carbon performance assessments are aligned with net zero ref: TPI State of Transition Report, May 2021*
[8] *https://carbontracker.org/reports/breaking-the-habit/*

"Fossil fuel use falls drastically in the Net Zero Emissions Scenario by 2050, and no new oil and natural gas fields are required beyond those that have already been approved for development"

As illustrated in the following chart from the IEA report, any oil and gas company that invests in new fossil fuel projects from 2021 cannot be considered aligned with 'net zero'.

Figure 3.4 ▷ Investment in oil and natural gas supply in the NZE



Storebrand, as a founding member of the Net Zero Asset Owner Alliance[9] and Storebrand Asset Management, a signatory of the Net Zero Asset Managers Initiative[10], has a company-wide climate policy[11] focused on realistic science-based targets for 2050, including interim short-term emissions reductions for 2025. We will use our position as a large asset owner and Norway's biggest private asset management company to engage with companies and vote for change. In 2020 we excluded, across all Storebrand managed assets, companies such as Exxon and Chevron[12] who were exposed by InfluenceMap[13] for lobbying against the transition to a Paris-aligned economy.

Storebrand has continued to push companies on climate targets during the voting season this year, supporting shareholder resolutions and voting against management on the climate plans of major oil and gas companies (such as BP and Shell) which are *not aligned with a 1.5°C future*. The IEA NZE2050 provides further evidence that this is the right strategy for any investor that is serious about climate alignment. For clients that want to minimise financial exposure to climate risk, particularly unmanaged exposures in their core global equity or passive portfolios, we offer a fossil free strategy, Storebrand Global ESG Plus.

The future is efficient, clean and green

A rapid phase-out of fossil energy is balanced with an equally rapid shift to renewable energy. The IEA NZE2050 does not rely as heavily, when compared with previous IEA scenarios and those used by many oil and gas companies[14], on unproven future technologies or nature-based offsets to allow the continuation of carbon intensive energy sources. In particular, it limits reliance on CCUS (Carbon Capture Utilisation and Storage) and Carbon Dioxide Removal (CDR) through BECCS (Bio-energy Carbon Capture and Storage) and DACCS (Direct Air Capture with Carbon Capture and Storage) when compared with IPCC pathways. This is aligned with IPCC scientists who have recently raised the alarm on the use of high levels of offsets in climate plans and emissions target-setting[15]. NZE2050 also limits bioenergy, allaying some concerns raised about land use and meeting the sustainable development goals.

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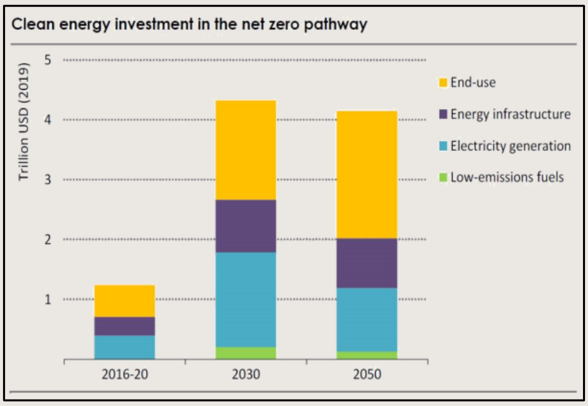
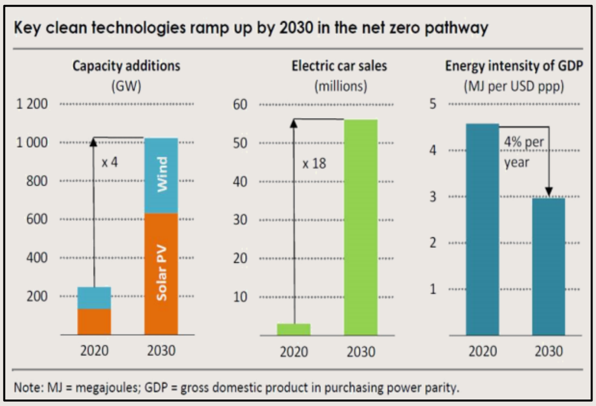
[9] *UNEPFI Net Zero Asset Owner Alliance*
[10] *Net Zero Asset Managers Initiative*
[11] *Storebrand Climate Policy for Investments*
[12] *Storebrand divests out of Exxon and others due to climate lobbying*
[13] *InfluenceMap Corporate Lobbying: How Companies Really Impact Progress on Climate*
[14] *Shell says new Brazil sized forest would be needed to meet 1.5°C climate goal*
[15] *Rogelj, Geden, Cowie & Reisinger, Three ways to improve net-zero emissions targets, March 2021*

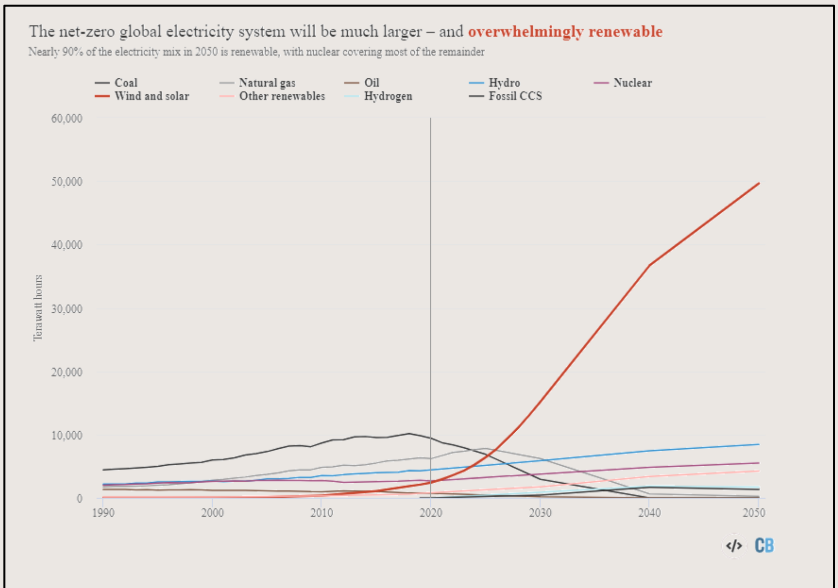
The result of this is a dramatic increase in renewable energy sources:

"Solar PV and wind become the leading sources of electricity globally before 2030 and together they provide nearly 70% of global generation in 2050."

The report shows a positive outlook for clean energy investment, hydrogen use, energy efficiency and green transport by 2030.







Global electricity generation by source, terawatt hours (TWh), historical and under the IEA NZE scenario to 2050. Other renewables includes bioenergy, geothermal and tidal. Fossil CCS includes coal and gas. Source: IEA net-zero roadmap. Chart by Carbon Brief using Highcharts.

The IEA NZE2050 has been much anticipated and it gives us further evidence that Storebrand Global ESG Plus, is well positioned for clients that would like to demonstrate alignment with a net zero pathway. We achieve this by:

- Going fossil free - avoiding companies and industries that are actively investing against the goals of the Paris Agreement
- Increasing green revenues across the whole of the portfolio
- Providing access to the companies and industries that will provide the solutions for net zero – such as solar, wind, hydrogen, energy efficiency and green transport (which are difficult for index investors to gain exposure to)
- Increasing positions in companies with externally verified Science Based Targets[16]
- Managing unintended portfolio risks

Further information about the Storebrand Global ESG Plus strategy is available here[17].

[16] Science Based Targets initiative
[17] Storebrand Global ESG Plus

The views and opinions in this document are those of the authors in relation to the Storebrand Global ESG Plus strategy.

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Except otherwise stated, the source of all information is STOREBRAND Asset Management AS as at end March 2021.

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More information is also available on the webpages: www.skagenfunds.com and www.storebrandfunds.com.