BTPS

BTPS oil & gas policy (October 2024)

One of the BTPS investment beliefs is that 'long-term risk-adjusted returns can be improved by integrating sustainability considerations into the investment process with regard to fiduciary responsibilities; risk of permanent loss of capital can also be reduced'.

As part of this approach to sustainability, BTPS has an ambition to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035. We believe this delivers the best risk adjusted outcomes for the Scheme as part of meeting its funding target. Achieving this ambition involves both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy.

As a member of the United Nations-convened Net-Zero Asset Owner Alliance (the Alliance we recognise that oil & gas companies will be at the heart of efforts to reduce the carbon intensity of hydrocarbon supplies and accelerate investment into clean fuels, renewables and electrification. As such, we seek to influence the transformation of the energy sector towards a clean and secure future through our investment and engagement efforts.

We support the Alliance's position paper on the oil and gas sector, acknowledging the outsized impact that production activities and the use of oil and gas has on global emissions which in turn could have a negative impact on the Scheme's risk adjusted returns.

We aim to use our influence as a global investor to engage with our investment managers on alignment to BTPS' Net Zero 2035 ambition, who in turn encourage companies to transition their businesses towards net zero and phase-out fossil fuels from the energy system in line with the IPCC guidelines. We will also continue to engage with policy makers and regulators, to contribute actively to discussion on the phase-out of fossil fuels.

Action

Oil and gas comprise around 60% of global energy and drive 50% of carbon emissions, of which approximately 15% stem operations and 85% from product use.

We expect companies to develop strategies and business models that reduce transition risk and capture growth opportunities as the world decarbonises, whilst mitigating physical risk; invest in activities consistent with lower long-term oil and gas demand levels; provide accurate financial reporting reflective of social, legal and regulatory risk; and clearly advocate for the Paris goals, in their public policy engagement.

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Over the long term the Scheme expects its exposure to fossil fuel companies to reduce whilst increasing exposure to renewables. This trend will help facilitate the green energy transition in line with the 1.5C pathway whilst delivering the best risk adjusted outcomes for the Scheme. Nevertheless, we do expect to continue allocating to the oil and gas sector where capital is required to help decarbonise and where companies have clear Paris aligned goals.

To achieve this, in keeping with the Scheme's overall Net Zero ambition, the Scheme's investment managers will seek to increase share of the portfolio, as measured by the allocation to companies and assets which are (a) achieving net zero (b) aligned or (c) aligning with the transition to low carbon economy over time to be fully aligned by 2035. The alignment with the Paris Agreement is to be determined by our investment managers using reputable data sources and/or robust internal assessment frameworks.

As the Scheme approaches 2035, its net zero ambition, we may consider the risks posed by laggard companies as being too great and impactful to achieving our funding outcomes. In this situation, we could seek to reduce portfolio-level transition risks through various options such as the following, subject to them meeting the Scheme's wider funding and investment goals:

- Allocating more heavily toward companies and assets transitioning to a lower carbon economy.
- Divesting from laggards where there is risk of stranded assets or regulation that could negatively impact growth and/or financial returns due to the long-term sustainability of the business or asset.
- Seeking allocations to low- or zero-carbon solutions and removal/avoidance technologies.
- Consider participating in credible carbon credits markets, in both voluntary markets and regulated schemes.

In the interim, our expectations are as follows:

- We will monitor and report portfolio alignment towards Paris goals with the expectation that this will increase over time, albeit not necessarily in a linear way.
- Our managers will engage with oil & gas companies, encouraging a swift transition to a lower carbon economy and secure energy supply, and report on the objectives and progress of such engagement.
- We will seek to encourage alignment between companies, regulators and governments around clear and robust energy policies aligned with 1.5C aligned renewable energy targets to accelerate the transition.
- All direct and indirect lobbying and political activities by companies to be aligned with their science-based emissions targets.