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IIGCC Publishes Net Zero Standard for Oil and Gas Sector

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On April 18, 2023, the Institutional Investors Group on Climate Change (IIGCC) published a **“Net Zero Standard for Oil & Gas.”** Development of the Standard follows a two-year collaborative process led by IIGCC with support from the Transition Pathway Initiative (TPI), Climate Action 100+ investors and other stakeholders. Net Zero Standards are sector-specific frameworks developed to help climate-focused investors (including groups such as **Climate Action 100+**) and other stakeholders assess corporate transition plans against the 1.5°C climate scenario set out in the **Paris Agreement**. The oil and gas Standard is the first of a series of “sector-specific frameworks” IIGCC will be helping to develop. IIGCC will apply the Standard to the operations and transition plans of major market participants and aims to publish public assessments in late 2023. Following the assessments, the framework will be reviewed again by IIGCC with the aim of making further refinements post-2023.

The Standard is designed to complement the Climate Action 100+ Net Zero Company Benchmark, which we have **previously discussed**. The metrics set out in the Standard are classified by type depending on whether they aim to capture climate-related disclosure or assess the alignment of disclosure against an existing benchmark. Disclosure metrics include an assessment of whether a company has set an ambition to achieve net zero greenhouse gas emissions by 2050 or sooner. The alignment metric evaluates whether reduction targets are in line with the relevant net zero pathway. Metrics relating to “climate solutions” (technologies and products that will enable the economy to decarbonize) are categorized and scored separately. The Standard asks a responding company to state the definitions it uses for categories including wind and solar electricity as well as low carbon fuels like hydrogen and biofuels.

IIGCC has designed the metrics to provide investors with the “transparency they need to differentiate between companies that are genuinely transitioning and those that are not.”

Provisional indicators were published in September 2021 and a pilot study was conducted on five major European **oil and gas companies**. IIGCC reports that while the pilot study showed “increasing transparency over decarbonization plans, including disclosures on the contribution of offsets to targets,” it also showed a “need for continued improvement in alignment of all targets and plans with relevant 1.5°C scenario benchmarks.” Adam Matthews, Chair of the process for the Oil & Gas Net Zero Standard, said: “This is intentionally a demanding yet practical Standard...[i]t levels the disclosure landscape.” He further added that, “[w]e recognise it will not be easy to meet the Standard from day one, but we are inviting companies to unequivocally commit to disclose against the Standard and to set out a timeline to do so over the coming year.”

Taking the Temperature: IIGCC recently launched the [Net Zero Engagement Initiative \(NZEI\)](#), which goes beyond the companies already engaged by Climate Action 100+ and will support investors to align more of their investment portfolio with the goals of the Paris Agreement. With the release of the Net Zero Standard for Oil & Gas, IIGCC is aiming to provide information to investors regarding corporate transition plans and, specifically, to better understand how to evaluate transition plans in economic sectors that have particular climate-related challenges.

As we have observed, investors are continuing to pressure companies on their net zero commitments, particularly in the [financial services](#) and [oil and gas](#) sectors. More broadly, at least [certain studies](#) indicate that many companies still lack credible and sufficiently detailed transitions plans to meet net zero goals by 2050.

At the same time, the politicization of climate-related action in the U.S. has also affected environmentally-focused investor initiatives like Climate Action 100+ and IIGCC. For instance, Republican members of the House Judiciary Committee [launched an investigation](#) into Climate Action 100+, claiming that it “seems to work like a cartel.” That pressure seems to be having an impact, as significant members of key financial services or insurance industry net zero initiatives, such as the [Net-Zero Insurance Alliance \(NZIA\)](#), [Net Zero Banking Alliance \(NZBA\)](#) and [Net Zero Asset Managers initiative \(NZAM\)](#), have left the alliances due to antitrust concerns and/or certain of those organizations have amended membership requirements in the face of threatened withdrawals to ease net zero commitments. While these developments do not preclude individual company action on climate-related issues, the potential weakening of these industry collaborations threatens to deprive members of the benefits of appropriate cooperation and risks backlash from “pro-ESG” stakeholders, including [potential challenges](#) including in the form of litigation.