



strategy&

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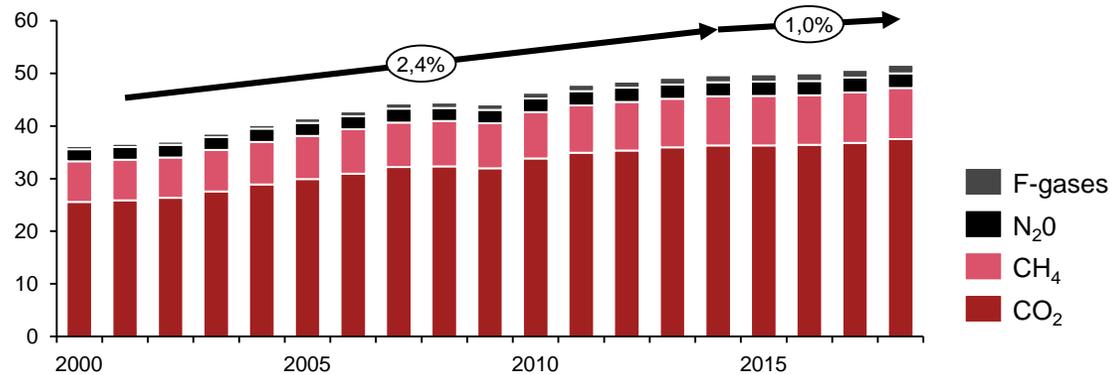
Sustainability strategies for Oil and Gas

Industry perspective
2020

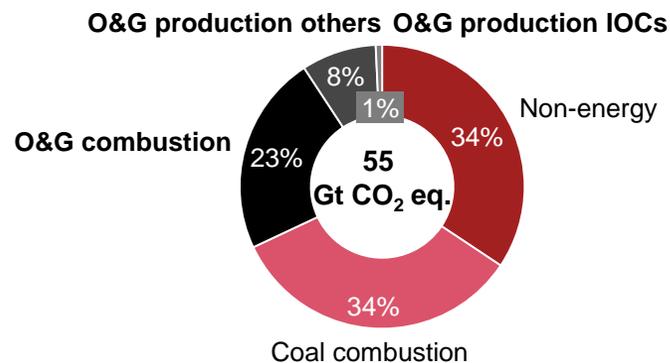
The current renewed focus on sustainability is driven by the role of Oil and Gas in global Greenhouse Gas (GHG) emissions

GHG emissions by sector

Global GHG emissions, 2000-2018, Gt CO₂ equivalent



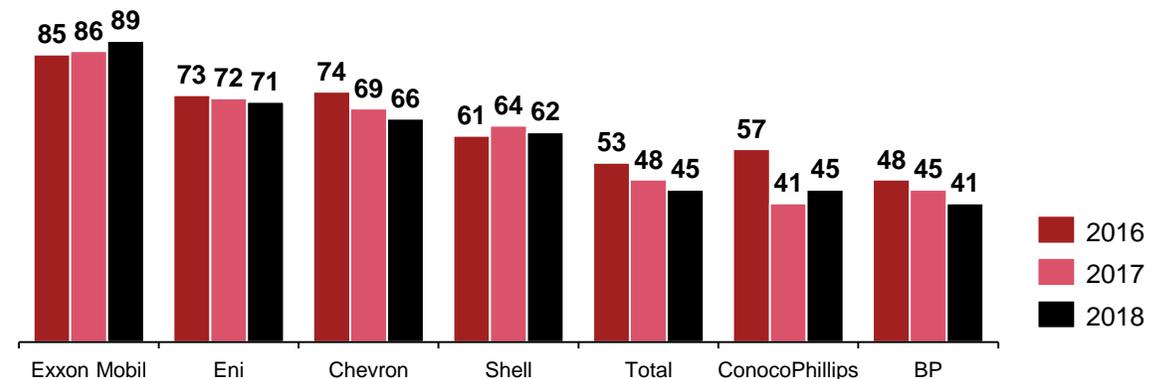
Breakdown of global GHG emissions, 2018, Gt CO₂ equivalent



Discussion

- **Global GHG emissions continue to rise by 2% per annum** such that meeting the emissions level needed to limit temperature rise to 1.5°C will require drastic action
- **Energy accounts for 2/3 of global emissions**, driven by the combustion of coal, Oil and Gas for power generation.
- **Direct contributions of Oil and Gas operations are significant and account for 10% of global GHG emissions**
- Major **IOCs have been taking action** to manage emissions from their own operations resulting in a flattening or reduction in GHG emissions intensity in recent years
- However, there are growing calls for companies to take further action to reduce own emissions and emissions from Oil and Gas combustion for power generation

Oil and Gas co. emissions intensity, 2015-2018, '000t CO₂ eq. / MMboe



Growing societal expectations to manage emissions is creating pressure on Oil and Gas companies in four key areas

Key drivers for Oil and Gas emissions management



Evolving policies and regulation

- Commitments to the reduction of emissions in accord with the 2015 Paris Agreement
- Growing application of carbon pricing mechanisms



Public and shareholder activism

- Shareholder pressure and resolutions to provide transparency on emissions and efforts to address climate concerns
- Public activism highlighting the negative role of the sector in climate change



Changing investment strategies

- Rise of sustainability indices and tools highlighting sustainability performance
- Investment strategies of private equity, investment banks and government institutions to decarbonize investment portfolios

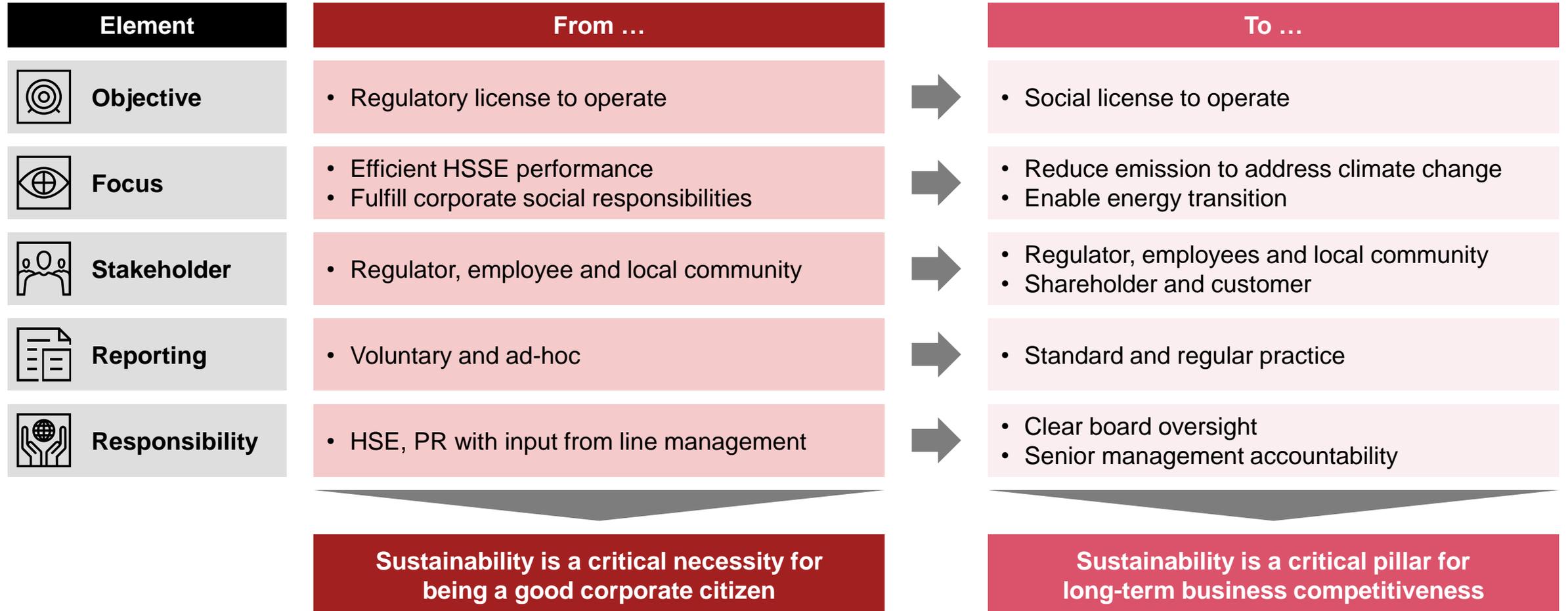


Improvement in renewables energy economics

- Reduction in the Levelized Cost of Electricity (LCOE) from renewable sources of power
- Growing contribution from solar and wind to future power generation

As a consequence, sustainability has evolved into a business imperative critical for long-term competitiveness

Evolution of sustainability in Oil and Gas



Oil and Gas companies have responded to the new sustainability imperative by taking actions in six main areas

Oil and Gas sustainability responses

Commitments and targets



- Commitments to long-term sustainability objectives, especially on decarbonization
- Continuous improvement targets

Investment in technology



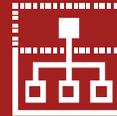
- Investment in digital and other technologies to reduce / mitigate emissions
- Evaluation and piloting of “adjacent” technologies e.g. carbon capture, hydrogen

Low carbon business models



- Increasing investment in low carbon energy sources and technologies
- Establishment of new energy venture organizations

Governance and performance management



- Strengthened governance structures to elevate sustainability management to Board level
- Improved visibility on sustainability performance and link to executive remuneration

Investment screening and portfolio



- Evaluation of investment opportunities including sensitivities on carbon pricing
- Portfolio actions to reduce exposure to assets with high carbon footprints

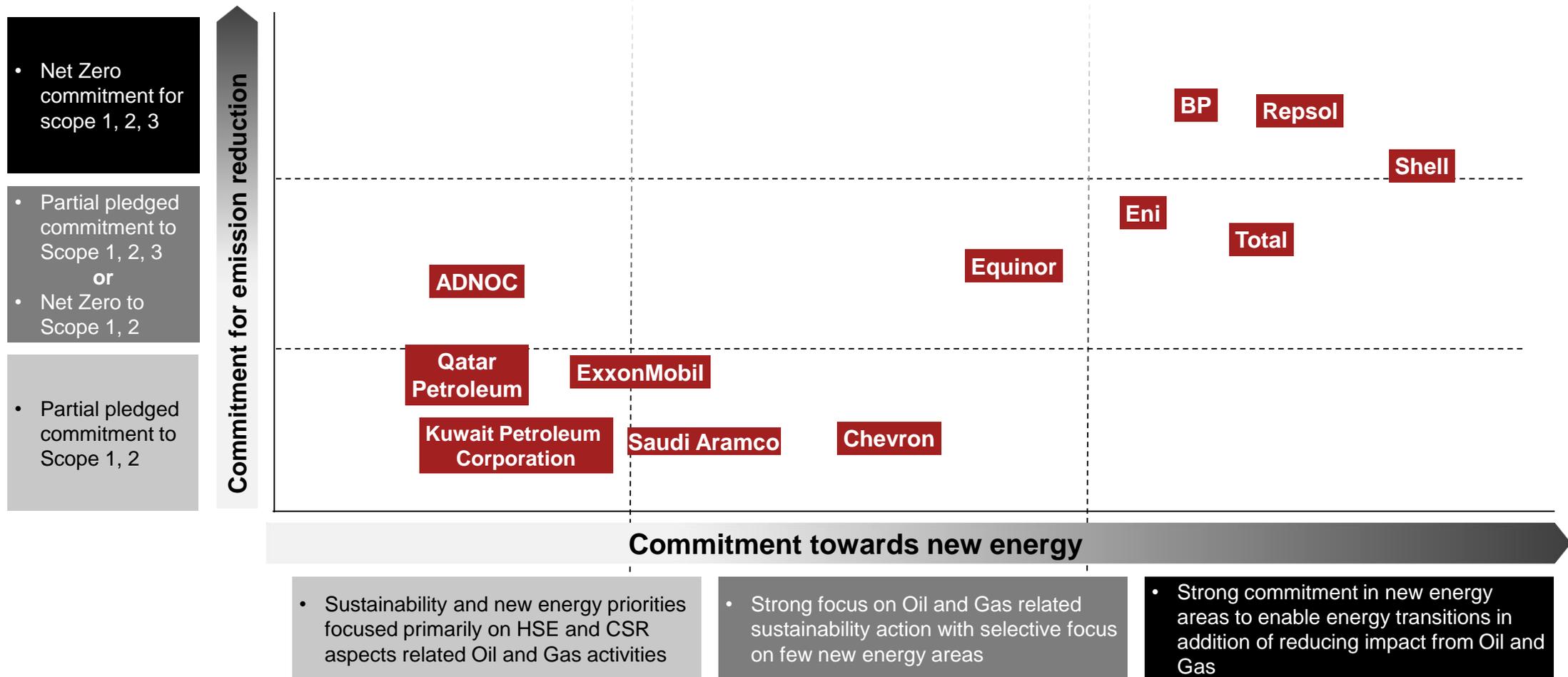
Standards and reporting



- Adoption of industry-wide standards and participation in industry initiatives
- Linking of sustainability reporting to established standards e.g. UN SDG

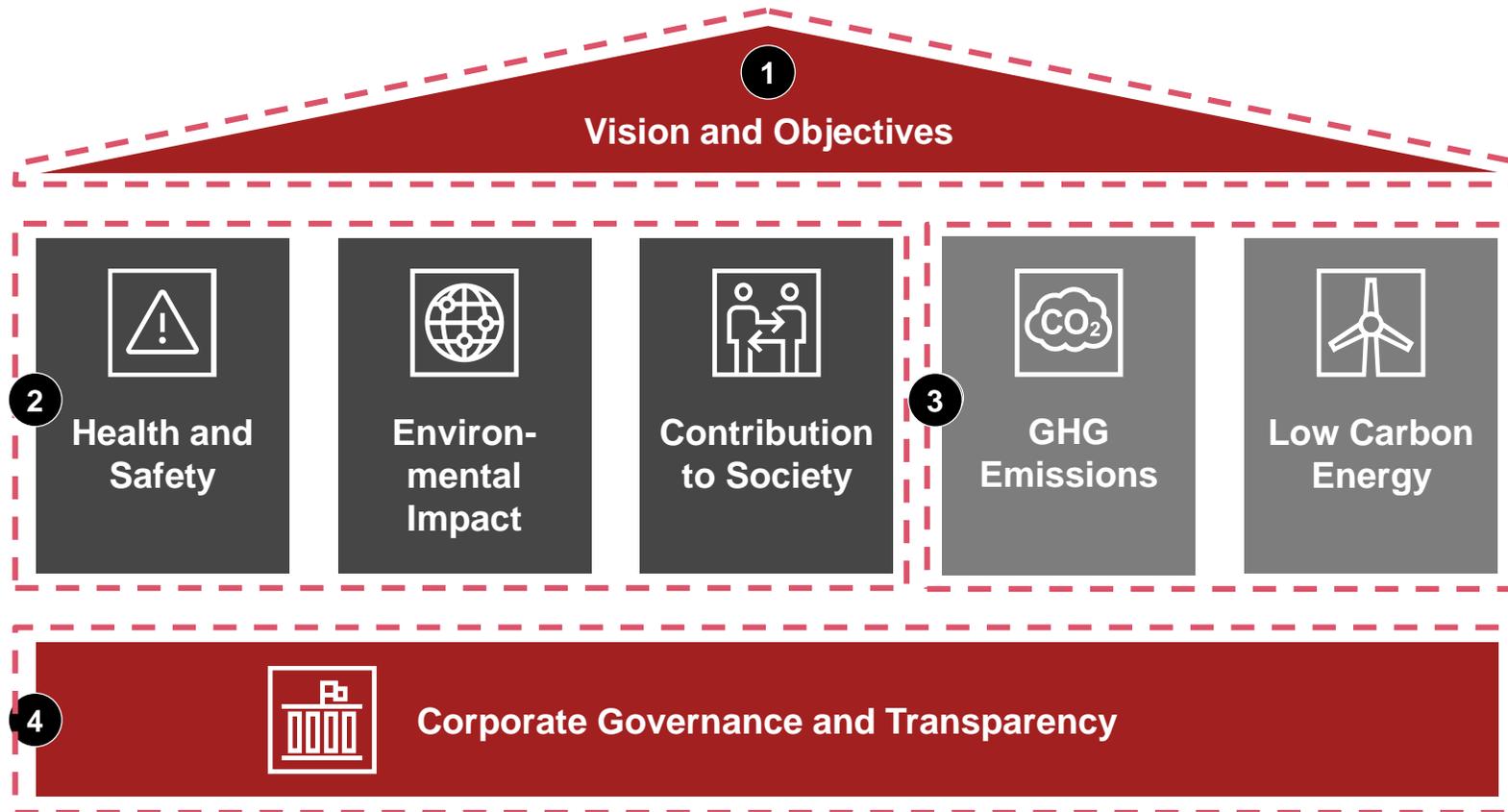
Different approaches to decarbonization and expansion into low carbon illustrate different levels of priorities in the sector

Oil and Gas company sustainability positioning



Holistic Oil and Gas sustainability strategies include elements required for compliance along with strategic choices

Elements of a sustainability strategy for Oil and Gas

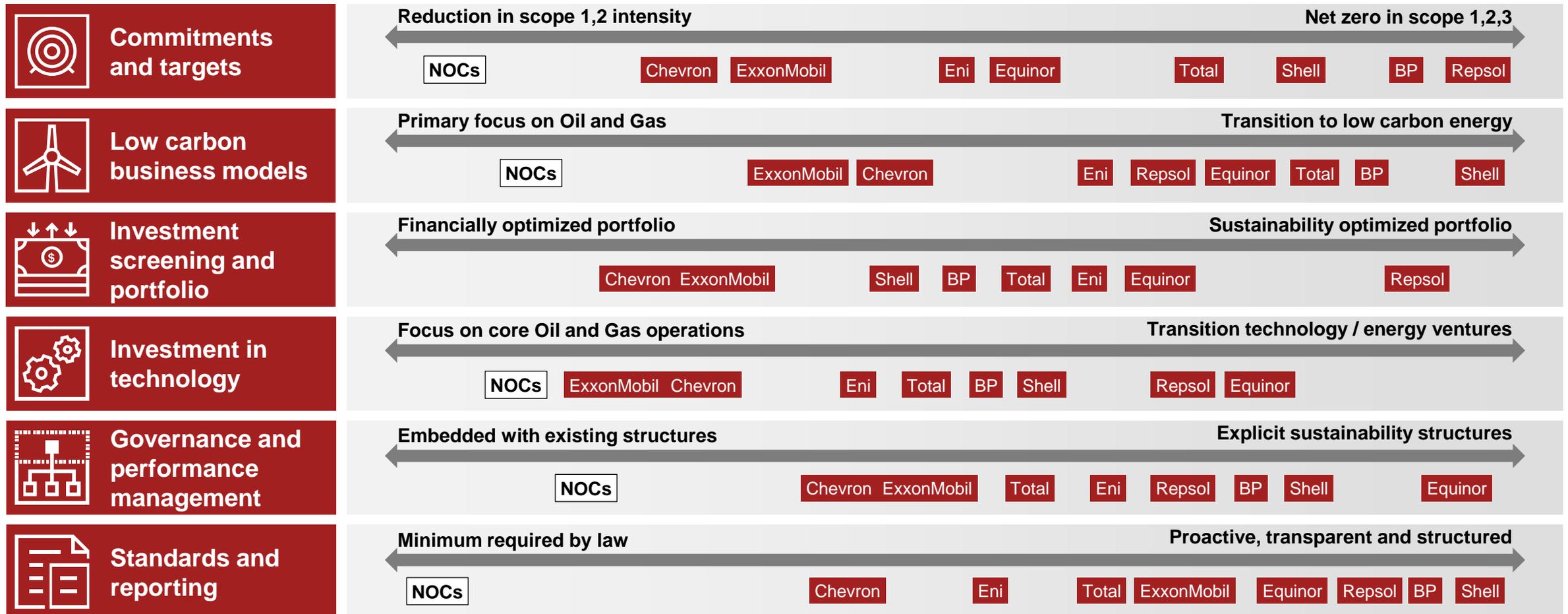


Holistic Oil and Gas sustainability strategies comprise **four main elements**:

- 1 **Vision and Objectives** that express the intent of the strategy and the relevance to broader company objectives
- 2 Elements related to **Health and Safety, Environmental Impact** and **Contribution to Society** that demonstrate how the company will **comply with policies and regulations**, incorporate best-practices and align with stakeholders
- 3 Elements related to **GHG Emissions** and **Low Carbon Energy** that include elements of compliance, but also **strategic choices** for the company in terms of positioning for the energy transition
- 4 **Corporate Governance and Transparency** to meet **regulatory requirements** and proactively communicate the company **sustainability strategy and performance**

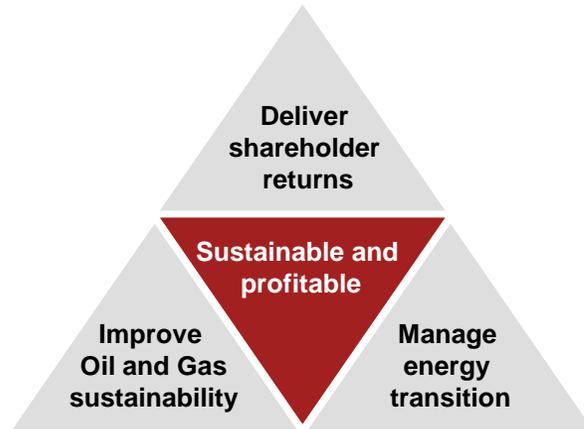
Current focus on energy transition requires companies to make strategic choices on sustainability positioning ...

Strategic choices for Oil and Gas sustainability strategies



... that need to be considered in the context of the overall balancing of sustainability and profitability objectives

Achieving a sustainability and profitability balance



- **Sustainability** has emerged as a topic of **critical importance for Oil and Gas** companies
- As important as sustainability is for stakeholders, **companies also need to remain profitable and attractive for investors**
- Successful sustainability strategies require a **conscious choice on the sustainability positioning** that best reflects key stakeholder expectations, and delivers an **optimum sustainability impact for any given investment**
- This impact may be expressed in monetary terms or in **broader terms around importance for continuity of the business**

Typical questions in developing a sustainability strategy

- What are the **expectations of stakeholders** in balancing sustainability and profitability?
- What are essential activities required to retain **license to operate in HS&E** and contribution to society?
- How can **HSE&S performance** be further improved?
- What is the **sustainability vision** for the company in terms of Net Zero vs. continuous improvement in emission intensity?
- What are the **investments required** to achieve the greatest impact in terms of emissions reductions?
- What is the optimal **sustainability governance** structure for the company?
- What **reporting standards and frameworks** should the company employ?
- What **new technologies** should be piloted and adopted?
- Which **new business models** should the company consider (if any)?
- What are the **core competencies** that can be leveraged to expand into new business models?
- How should sustainability vision, targets and performance be **communicated to stakeholders**?

Contacts



Anil Pandey

**Partner at Strategy&
Middle East**

+971-56-6911214
anil.pandey
@pwc.com



Dr. Raed Kombargi

**Partner at Strategy&
Middle East**

+971-4-436-3000
raed.kombargi
@strategyand.ae.pwc.com



Giorgio Biscardini

**Partner at Strategy&
Italy**

+39-02-72-50-91
giorgio.biscardini
@strategyand.it.pwc.com



David Branson

**Senior Executive
Advisor at Strategy&
Germany**

+49-160-4906431
david.b.branson
@strategyand.de.pwc.com