

ACCR Investor Briefing Santos Ltd (ASX:STO)

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About ACCR

The [Australasian Centre for Corporate Responsibility](#) is a philanthropically-funded NGO that monitors the environmental, social and governance (ESG) practices and performance of ASX-listed companies. We undertake research and highlight emerging areas of business risk through private and public engagement, including the filing of shareholder resolutions.

Engagement with Santos

ACCR has engaged with Santos for several years, and last met with Santos executives in late January 2020. Santos' plans do not align with the goals of the Paris Agreement. Santos vastly overestimates the role of gas in the transition to a low carbon economy, and as a result has failed to consider how rapid decarbonisation scenarios would impact its business.

Santos' strategy and lobbying on climate and energy policy rely on two central claims:

1. That Australian LNG exports are "cleaner" than coal¹;
2. That LNG sold by Santos is displacing coal in power generation in Asia².

The first claim is questionable, given the improved understanding of lifecycle emissions of gas, including recent research on fugitive methane emissions. The second is presented without evidence. Despite repeated requests for evidence of this claim, Santos and the peak petroleum lobby group, APPEA, have presented none. Given the centrality of these claims to Santos' investability, ACCR recommends that shareholders support the first ordinary resolution on Paris Goals and Targets.

There are clear links between corporate emissions and the influence of corporations on a regulatory environment that should drive emissions reductions. Shareholders therefore have an interest in supporting the review process outlined in the second ordinary resolution on direct and indirect lobbying.

Over the last five years, Australia's national emissions have continued to increase, due to the growth of the LNG exports, offsetting declining emissions in the electricity sector³. If the growth of Australia's LNG export industry continues, as foreshadowed by Santos and its peers in the Australian market, Australia will not deliver on its 2030 Nationally Determined Commitment (NDC).

¹ Santos Ltd, Climate Change Report 2020

² *ibid.*

³ <https://www.abc.net.au/news/2020-02-24/lng-boom-increasing-carbon-emissions/11993850>

Ordinary resolution on Paris Goals and Targets:

Shareholders request the Board disclose, in annual reporting from 2021:

1. Short, medium and long-term targets for reductions in our company's Scope 1, 2 and 3 emissions (**Targets**) that are aligned with articles 2.1(a) and 4.1 of the Paris Agreement⁴ (**Paris Goals**);
2. Details of how our company's exploration and capital expenditure, including each material investment in the acquisition or development of oil and gas reserves, is aligned with the Paris Goals; and
3. Details of how the company's remuneration policy will incentivise progress against the Targets.

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company, or to limit the disclosure of commercial-in-confidence information.

Santos' climate commitments

Santos' 2019 Climate Change Report addresses each of the key pillars of the Task Force for Climate-related Financial Disclosure (TCFD) reporting framework, but its growth strategy and emissions targets are not consistent with the goals of the Paris Agreement.

In its 2020 Climate Change Report, Santos committed to the following⁵:

1. To increase gas production by >60% to at least 4.5m tonnes p.a. by 2025;
2. To reduce operational emissions by 5% in the Cooper Basin and Queensland by 2025;
3. To assess the feasibility of carbon, capture and storage (CCS), and solar thermal technologies.

Santos intends to increase production for the foreseeable future, while its global peers BHP Group, BP, Repsol and Royal Dutch Shell have committed to set targets to reduce Scope 3 emissions.

Santos' scenario analysis

The IPCC's Special Report on Global Warming of 1.5°C projects that in the absence of carbon capture and storage (CCS), or with only a limited use of fossil fuels with CCS, the share of primary energy provided by gas must decline by 20-25% by 2030, and by 53-74% by 2050 (relative to 2010)⁶.

Santos has assessed the resilience of its portfolio against three scenarios from the International Energy Agency (IEA). The most ambitious scenario assessed, the Sustainable Development Scenario (SDS), is heavily reliant on CCS technologies, requiring >2000 Mt CO₂ to be captured by 2040⁷. The Sustainable Development Scenario (SDS) holds the temperature rise to below 1.8°C with just a 66% probability in the absence of global net-negative CO₂ emissions⁸.

⁴ Article 2.1(a) of The Paris Agreement states the goal of "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

Article 4.1 of The Paris Agreement: In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

⁵ Santos Ltd, Climate Change Report 2019, 21 February 2019

⁶ IPCC, Special Report on Global Warming of 1.5°C, October 2018

⁷ Santos Ltd, Climate Change Report 2020

⁸ <https://www.iea.org/reports/world-energy-model/sustainable-development-scenario>

Despite Santos' commitment to explore the feasibility of CCS at Moomba in South Australia, in the absence of commercially viable CCS at scale, there is a clear gulf between our company's plans and the recommendations of the IPCC.

Transition risk

In late 2019, the IEA's World Energy Outlook 2019 (WEO) declared that the Sustainable Development Scenario (SDS) would require a "significant reallocation" of investment away from fossil fuels towards efficiency and renewables⁹. The WEO also said that the declining cost of wind and solar are "bolstering the economic case for switching directly from coal to renewables", rather than using gas as a transition fuel.

In November 2019, then BHP CEO Andrew Mackenzie forecast a global decarbonisation from coal "more or less directly, to renewables", particularly in the absence of cheap gas¹⁰.

Santos is planning major capital expenditure of \$500 million in 2020, including the Barossa and Dorado fields, and Papua New Guinea¹¹. Santos continues to fund offshore exploration in Western Australia, onshore exploration in the Northern Territory and Queensland¹², and recently acquired rights to explore in Queensland's Channel Country¹³.

Santos faces significant transition risks in the medium to long term, particularly in the absence of any significant investment in low-carbon technologies.

Regulatory risk

The Principles for Responsible Investment (PRI) Inevitable Policy Response forecasts policy intervention by 2025 that will be "forceful, abrupt, and disorderly because of the delay"¹⁴.

In Australia, Santos faces the significant risk in the short term that state-based regulators will begin to assess Scope 3 emissions from new fossil fuel developments, as per the rejection of the Bylong coal mine in NSW in September 2019¹⁵. The NSW Independent Planning Commission described the greenhouse gas aspects of the Bylong project as "problematic"¹⁶.

Santos not only refuses to take responsibility for its Scope 3 emissions, but it is resistant to regulators taking into account the emissions from Australia's LNG exports. In a speech in July 2019, Santos CEO Kevin Gallagher said that in regard to Australian LNG exports to Asia, "[that] doesn't mean there's a role for regulators to consider Scope 3 emissions in project approvals"¹⁷.

Methane emissions

Recent research published in Nature magazine concluded that the fossil fuel industry may be underestimating methane emissions by 25-40%¹⁸. While Santos disclosed methane emissions of 0.47 Mt CO₂e in 2018/19¹⁹, this is an estimate rather than a systematic bottom-up measurement. As our understanding of the fugitive emissions from oil and gas production improves, Santos faces the risk that regulators increase scrutiny on methane measurement and controls.

⁹ <https://www.carbonbrief.org/profound-shifts-underway-in-energy-system-says-iea-world-energy-outlook>

¹⁰ BHP Group Ltd, Annual General Meeting Speeches, 7 November 2019

¹¹ Santos Ltd, 2019 Investor Day Presentation, 3 December 2019

¹² *ibid.*

¹³

¹⁴ https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787_article

¹⁵ <https://www.abc.net.au/news/2019-09-18/bylong-coal-mine-proposal-knocked-back/11523856>

¹⁶ *ibid.*

¹⁷ Santos Ltd, CEO Speech to Petroleum Club WA Dinner, 23 July 2019

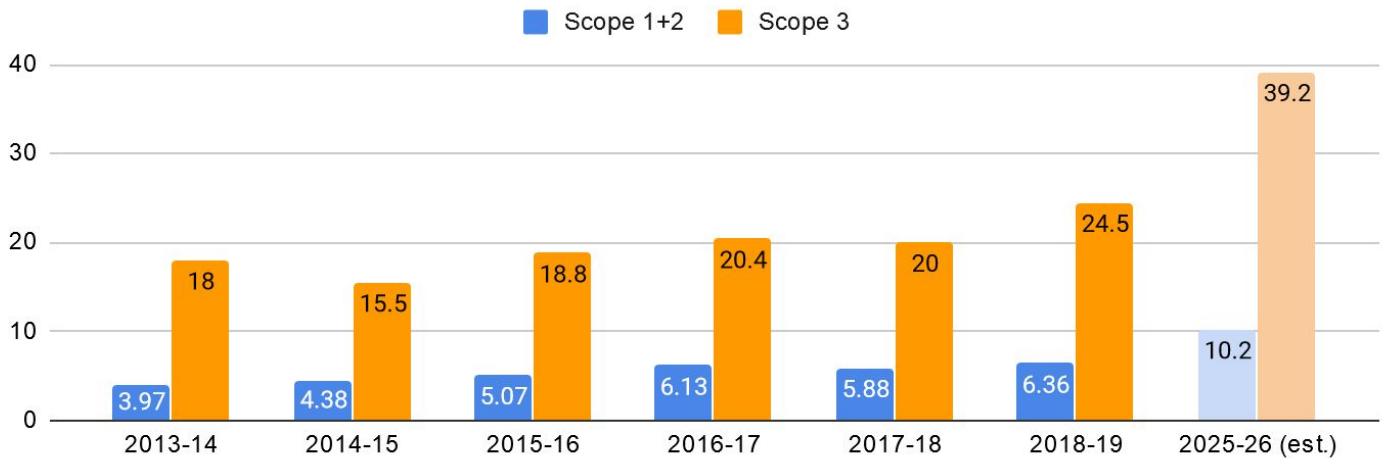
¹⁸ Hmiel et al, Nature, February 2020

¹⁹ Santos Ltd, Climate Change Report 2020

Commitments lack substance

Santos’ Scope 1+2 gross operated emissions were 6.36 million tonnes CO₂e in 2018/19, an increase of 60% since 2013/14²⁰. Santos’ Scope 3 emissions were 24.5 million CO₂e in 2018/19, an increase of 36% since 2013/14²¹.

Santos gross operated & projected emissions (MtCO₂e)



Santos’ commitment to reduce operational emissions by 5% by 2025 does not apply to Santos’ operations outside the Cooper Basin and Queensland. It is likely that Santos will significantly increase operational emissions in other locations in the short term. In Queensland, a 5% reduction in emissions will likely be met by the decarbonisation of the electricity grid.

To date, Santos has not disclosed sufficient information about its commitment to “assess carbon capture and storage, and solar thermal technologies”. It has not disclosed its financial commitment, or the timeline or metrics by which it will measure success.

Remuneration

Santos’ CEO and senior executives are awarded short term incentives (STI) based on the assessment of company performance against the company scorecard. Just ten percent (10%) of the company scorecard is composed of “Sustainability” measures, including Community, Emissions, Culture and Capacity, and Continuous improvement²². The emissions component refers to “air, land and water”, thus diminishing the focus on greenhouse gases (GHG). In the absence of further information, it is assumed that GHG reduction comprises <1% of the STI.

Furthermore, twenty percent (20%) of the company scorecard is composed of “Reserves and Resources” measures²³. Despite overwhelming evidence that the vast majority of the world’s proven reserves cannot be extracted and burned if we are to limit global warming to well below 2°C²⁴, Santos continues to incentivise executives to explore for more reserves.

Santos’ remuneration structure must be revised to remove incentives for exploration, and materially incentivise emissions reduction and business transformation. Global peers BP²⁵ and Royal Dutch Shell²⁶ have committed to do the same.

²⁰ *ibid.*

²¹ *ibid.*

²² Santos Ltd, Annual Report 2019

²³ *ibid.*

²⁴ Global Carbon Project, Global Carbon Budget 2019

²⁵ <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bernard-looney-announces-new-ambition-for-bp.html>

²⁶ <https://www.shell.com/media/news-and-media-releases/2018/leading-investors-back-shells-climate-targets.html>

Ordinary resolution on our company's climate-related lobbying

Shareholders request that our company conduct a review of its direct and indirect lobbying activities relating to climate, resources and/or energy policy (Review). A report summarising the completed Review be should disclosed on the company's website by 31 October 2020.

The Review should cover a period of at least two years and should address the consistency of our lobbying activities with the goals of the Paris Agreement to limit global warming to well below 2°C (**Paris Goals**).

Direct lobbying by our company or its agents: where the Review shows direct lobbying inconsistent with the Paris Goals, shareholders request that the Board disclose a strategy to prevent further lobbying inconsistent with those Goals.

Indirect lobbying by Industry Associations of which our company is a member: where the Review shows a record of lobbying inconsistent with the Paris Goals, shareholders request that Board disclose a remediation plan, agreed with the Industry Association. Shareholders recommend that our company suspend membership of an Industry Association where a remediation plan cannot be agreed (or the Board otherwise decides suspension is in our company's interests).

Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of our company.

Santos' industry associations

ACCR expects alignment of corporate lobbying with the goals of the Paris Agreement to limit global warming to well below 2°C (**Paris Goals**). We are concerned that Santos' recent direct²⁷ and indirect²⁸ lobbying activities have not promoted the achievement of the Paris Goals.

Independent, UK-based research group InfluenceMap has described Australia as "a test-tube case for what happens when highly powerful and climate-obstructive fossil fuels lobbyists can operate with impunity."²⁹

This resolution seeks further disclosure on Santos' direct and indirect lobbying on climate and energy policy, in light of the failure of successive Australian governments to implement policy designed to achieve the Paris Goals.

Direct lobbying

In recent years, Santos has publicly criticised the Australian government's approach to energy policy as "populist"³⁰, lobbied the Western Australian Premier Mark McGowan immediately after the Western Australian Environment Protection Authority (WA EPA) proposed considering Scope 3 emissions in project approvals³¹, and most recently called for

²⁷ **Direct lobbying** includes lobbying of state and federal parliamentarians undertaken by senior executives and Board members or lobbying firms engaged by Santos as its agents.

²⁸ **Indirect lobbying** includes lobbying, advertising and advocacy activities undertaken by Industry Associations of which Santos is a member.

²⁹ Influence Map, Trade Groups and their Carbon Footprints, September 2019

³⁰ <https://www.abc.net.au/news/2018-09-05/santos-gas-federal-government-policy-investor-confidence/10204284>

³¹

<https://www.smh.com.au/business/the-economy/epa-buckles-under-pressure-from-wa-government-oil-and-gas-sector-20190314-p5144l.html>

subsidies for carbon capture and storage (CCS)³². Currently, shareholders are unaware of the full extent of Santos' direct lobbying of state and federal governments.

Indirect lobbying

Since 2017, at least eight ASX50 companies (and many more global companies) have conducted a formal review of the activities of their industry associations, including Anglo American, BHP Group, BP, Glencore, Origin Energy, Rio Tinto and Royal Dutch Shell. To date, Santos has not committed to doing the same.

Santos is a full member of the Australian Industry Greenhouse Network (AIGN), the Australian Petroleum Production and Exploration Association (APPEA), the Chamber of Minerals and Energy of Western Australia (CMEWA) and the Queensland Resources Council (QRC). Santos withdrew from the Business Council of Australia (BCA) in late 2019.

- **AIGN** represents the interests of EITE (emissions-intensive, trade exposed) industries. It lobbied against effective policy on climate change throughout the early 2000s, and its own members once described the organisation as the “greenhouse mafia”³³. Very little information about AIGN's recent activities is publicly available, however AIGN remains active and continues to send a delegation to international climate talks, including COP25 in Madrid³⁴.
- **APPEA**, of which the Santos CEO is Chair, has supported the use of Kyoto carryover credits³⁵ to effectively halve Australia's 2030 emissions target, a position which the Australian government used to delay talks at COP25 in Madrid.³⁶ APPEA has called for LNG plants to be exempt from public disclosure of their emissions,³⁷ has opposed state-based renewable energy targets³⁸, and has said that there is no “need in any way, shape or form” for governments to regulate emissions from LNG exports³⁹.
- In recent years, **APPEA** has developed a growing online and social media presence, often under the auspices of several, ostensibly independent or separate, entities. These entities are all owned and managed by APPEA, and promote its messaging online using different branding and messaging styles. These entities include: Energy Information Australia, Bright-r with Gas, Gas4NT, Shale Gas, Natural CSG (no longer in use), Our Natural Advantage and Seismic Survey.
- **APPEA** and the **CMEWA** successfully campaigned against a WA EPA recommendation that would require large new emissions intensive projects to offset carbon emissions⁴⁰.
- **QRC** has called on the Queensland government to underwrite the development of a new coal-fired power station⁴¹, lobbied extensively for new thermal coal mines in the Galilee Basin⁴², and relentlessly pursued policies to promote the export of Australian thermal coal to Asia⁴³. In 2019, it supported government efforts to criminalise protest⁴⁴.

³²

<https://www.smh.com.au/business/companies/santos-boss-optimistic-about-next-two-decades-despite-amped-up-climate-change-debate-20200116-p53s3o.html>

³³ Guy Pearce, High and Dry, 2007

³⁴

<https://unfccc.int/process-and-meetings/parties-non-party-stakeholders/non-party-stakeholders/overview/how-to-obtain-observer-status>

³⁵

https://www.appea.com.au/media_release/appea-welcomes-commitment-to-further-consultation-on-labors-climate-change-action-plan/

³⁶ <https://www.theguardian.com/environment/2019/dec/16/un-climate-talks-australia-accused-of-cheating-and-thwarting-global-deal>

³⁷ <https://www.theguardian.com/environment/2018/nov/16/nothing-to-hide-oil-and-gas-lobby-pushes-to-limit-data-on-its-emissions>

³⁸ APPEA Submission, Energy Security Board National Energy Guarantee Draft Detailed Design Consultation Paper, June 2018

³⁹

<https://www.theaustralian.com.au/business/mining-energy/rivals-baulk-at-bhp-carbon-plan/news-story/83afe8670070a450b1a4732ebc6703ab>

⁴⁰ https://www.appea.com.au/media_release/wa-epa-guidelines-put-investment-at-risk/

⁴¹ <https://www.qrc.org.au/media-releases/hele-power-plant-strengthen-queenslands-trade-energy-leadership/>

⁴² <https://www.qrc.org.au/media-releases/all-mps-must-heed-bipartisan-committee-call-to-bin-galilee-ban-qrc/>

⁴³ <https://www.australianmining.com.au/news/record-coal-exports-continues-to-drive-queensland-economy/>

⁴⁴ <https://www.abc.net.au/radio/programs/pm/pm-pledges-to-crack-down-on-protesters/11665058>

Australia urgently requires the implementation of public policy designed to bring its emissions trajectory into line with the Paris Goals. Santos' record of lobbying on climate and energy policy runs directly counter to the achievement of the Paris Goals. This resolution promotes a strategic reset of Santos' approach to policy engagement.

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