

An Investor Guide to the Climate Principles for Oil and Gas Mergers and Acquisitions

How to engage oil and gas companies and banks on transferred emissions



Introduction

Mergers and acquisitions (M&A) are an integral part of oil and gas industry business strategy. However, M&A transactions can lead to increased climate and environmental harm and higher emissions, potentially cancelling out beneficial industry decarbonization efforts. When assets move from relative climate leaders to owners with weaker standards through oil and gas M&A, they are also often being shifted out of public view. This poses significant reputational, legal, physical, and transition risks for all actors involved, including buyers and sellers, M&A advisors, and institutional investors.

This investor guide to the [Climate Principles for Oil and Gas Mergers and Acquisitions](#), developed by Ceres and EDF, can help investors assess potential risks from oil and gas M&A activities in their portfolio and take steps to address these risks. We focus on actionable guidance to implement the Principles, highlighting current industry best practice and providing resources that support investor dialogues with both oil and gas supply chain companies and banks.

The Principles are divided into four key areas: pre-deal due diligence, disclosure, emissions reduction targets and strategy, and decommissioning. They aim to provide climate-related guidance for consideration in oil and gas deal terms across the supply chain to ensure that buyers' operation of acquired assets will remain in accordance with sellers' climate commitments, or improve on those commitments.

Implementing the Principles can create opportunities for all parties involved to create long-term value, and lead to a new paradigm for oil and gas transactions that is more compatible with global net zero goals.

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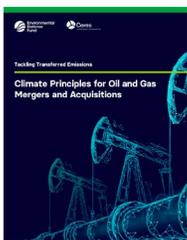
Definitions

Climate standards: Standards that link to climate performance, such as disclosure, target setting, planning, execution and evaluation of work to reduce emissions, and proper asset decommissioning.

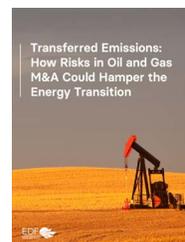
Mergers and acquisitions (M&A): Acquisitions, divestitures, mergers, equity transactions, asset transfers, and other energy transactions.

Transferred emissions: GHG emissions that are being transferred along with the ownership of assets in the oil and gas industry. These transactions bring the potential for reduced environmental stewardship and limited climate disclosure.

Related Reading



Tackling Transferred Emissions
Climate Principles for Oil and Gas Mergers and Acquisitions
(Ceres and EDF, January 2023)



Transferred Emissions
How Risks in Oil and Gas M&A Could Hamper the Energy Transition
(EDF, May 2022)

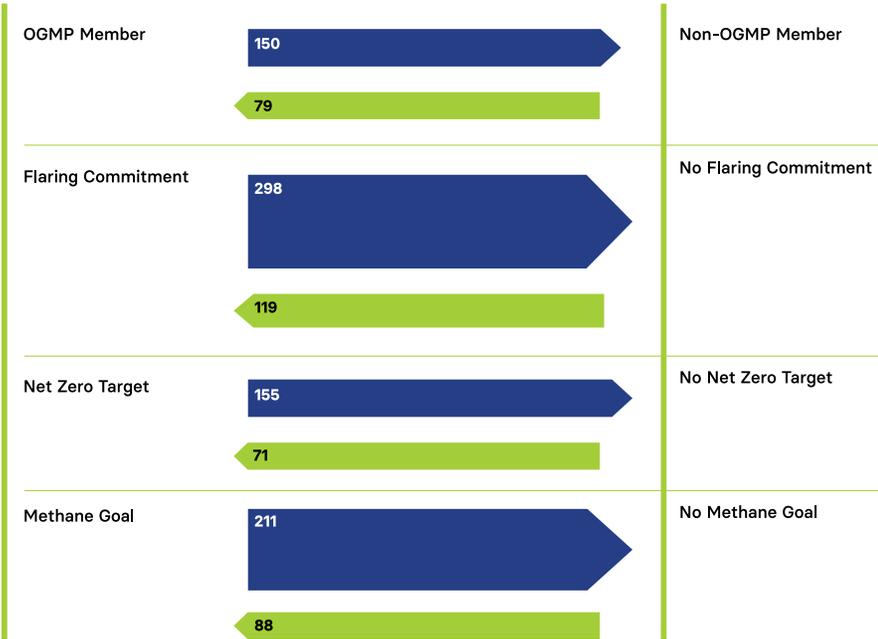
Part 1

Risks and Opportunities Associated with Oil and Gas Mergers and Acquisitions

M&A has been part of the oil and gas industry since its earliest days, and companies buy and sell assets for a variety of reasons. Reducing portfolio emissions can be among those reasons, and a recent Deloitte analysis found that 10% of oil and gas deals in 2021 referenced ESG as a consideration or key deal rationale. EDF has recently [shown](#) that, in aggregate, such deals transfer upstream oil and gas assets from companies with climate commitments and public disclosure requirements to companies without equivalent safeguards.

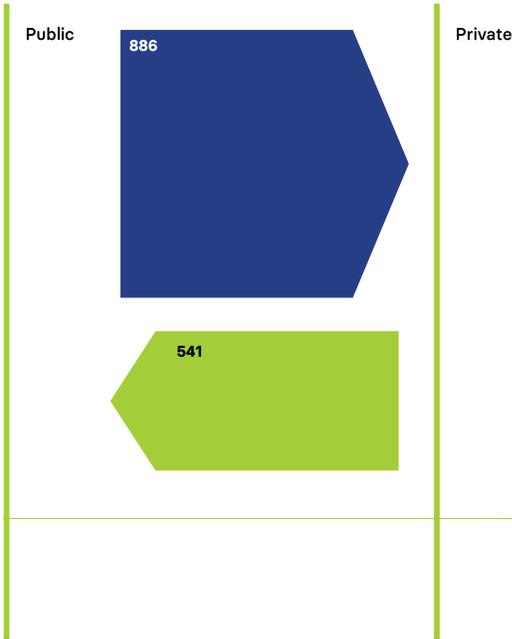
Environmental Commitments

Number of Deals, 2017-2021



Public Status

Number of Deals, 2017-2021



The presence of an environmental commitment as reflected in this chart is based on commitments as of 2021. Reference for both graphs: Gabriel Malek, ["Transferred Emissions: How Risks in Oil and Gas M&A Could Hamper the Energy Transition,"](#) ed. Andrew Baxter, Dominic Watson, and Andrew Howell, EDF+Business (EDF, May 2022).

Transactions blind to the climate implications of asset transfer in the oil and gas industry may result in an increase in overall emissions, cancelling out more beneficial industry efforts that can result from M&A activity (including efficiency and operational improvements, renewable power use, carbon capture, managed phaseout, and permanent asset retirement). They also risk reducing transparency, as emissions leave the public record when assets move from public to private markets.

This poses reputational, legal, physical, and transition risks for all actors involved, creating material financial risks.

 Reputational and legal risks	 Physical risks	 Transition risks
<p>Lower GHG emissions transparency.</p> <p>More skepticism about the integrity of oil and gas companies' decarbonization strategies, such as divestment of assets is increasingly not considered as a valid decarbonization strategy.</p> <p>Previous owner held responsible for negative climate outcomes post-transfer.</p> <p>Increased scrutiny of mergers and acquisitions from the media, civil society, governments, and investors.</p>	<p>Potential increase in GHG emissions, contributing to escalating climate change.</p> <p>Increased physical infrastructure damage, supply chain dislocations, reduced resource availability, lost productivity, commodity price volatility, and increased cost of capital.</p>	<p>More regulation of high-carbon products.</p> <p>Lower demand for high-carbon products.</p>

Including the maintenance of climate standards along with financial considerations into the asset and capital allocation process can create opportunities for all parties involved to reduce reputational, legal, physical, and transition risks, create long-term value, and establish a paradigm for oil and gas transactions that is more compatible with global net zero goals.

Opportunities for the seller

- Retain credibility in own climate targets achievement
- Contribute to real-world emissions reduction
- Maintain access to capital
- Limit divested assets' trailing liabilities
- Meet shareholder expectations
- Raise industry standards and level the playing field
- Manage reputational, legal, physical, and transition risks

Opportunities for the buyer

- Gain a competitive advantage in negotiations
- Create long-term value for the asset
- Meet expectations of future buyers
- Maintain access to capital
- Meet own climate targets
- Meet shareholder expectations
- Raise industry standards and level the playing field
- Manage reputational, legal, physical, and transition risks

Opportunities for financial institutions

- Create long-term value
- Keep limited partners invested as they strive to meet their climate targets
- Meet own climate targets by ensuring real-world emissions reductions
- Meet shareholder expectations
- Raise industry standards and level the playing field
- Manage reputational, legal, physical, and transition risks

Part 2

The Climate Principles for Oil and Gas Mergers and Acquisitions

The [Climate Principles for Oil and Gas Mergers and Acquisitions](#) provide climate-related guidance for use in oil and gas dealmaking. Use of the Principles can help ensure that climate commitments transfer along with assets at the time of sale, limiting M&A-related reputational, legal, physical, and transition risks. In a deal that uses the Principles, the seller takes reasonable steps to ensure that the buyer has the requisite incentives and financial strength to invest in emissions mitigation, manage the asset phaseout, and properly retire the asset at the end of its life. The buyer demonstrates that it will continue to responsibly steward the asset.

Ceres and EDF developed the Principles through discussions with industry stakeholders, including a series of roundtables with private and public equity investors, banks, oil and gas companies, non-profits, and others involved with oil and gas dealmaking. The Principles emerge from and build on current industry best practices that some companies have adopted as part of navigating the risks and opportunities of the energy transition and addressing stakeholder concerns.

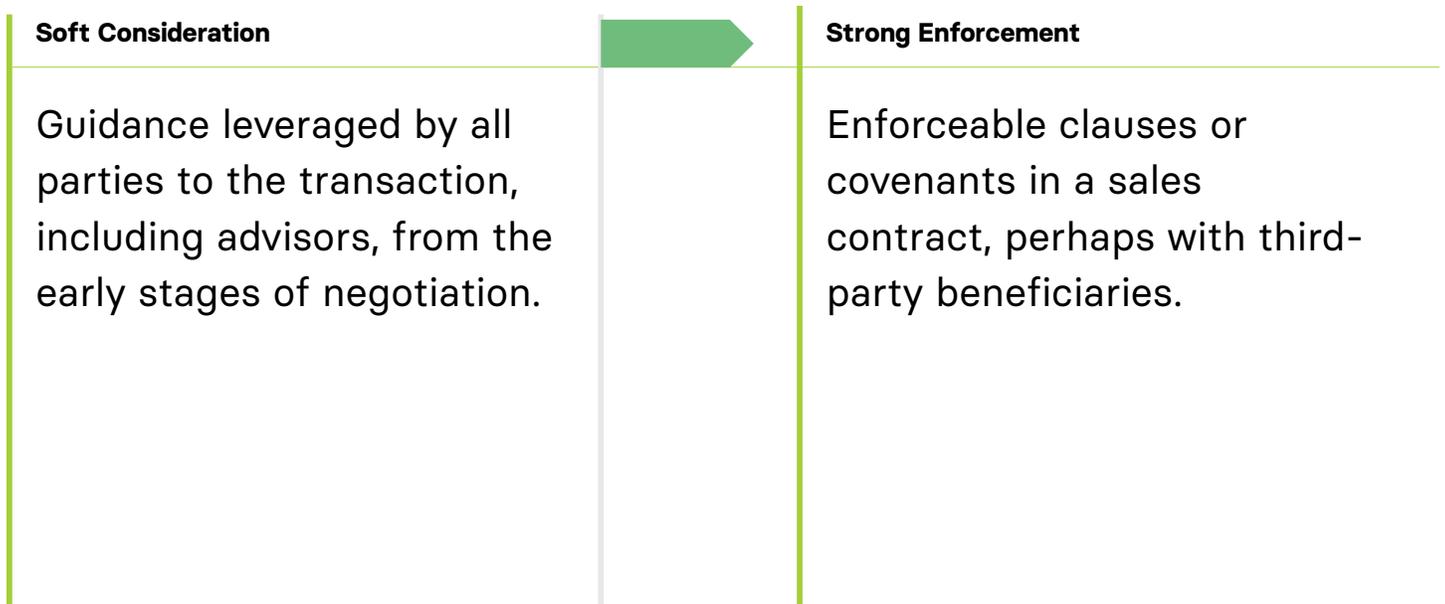
The Principles are divided into four categories, summarized below: **Pre-Deal Due Diligence, Disclosure, Emissions Reduction Targets and Strategy, and Decommissioning**. The principles marked with an asterisk were identified during the stakeholder consultation as being actionable and important for immediate incorporation into the M&A process. The following two sections of this guide cover engagement tactics and questions, and examples of Principles-aligned practices by oil and gas companies.

<p>Pre-Deal Due Diligence</p> <p>Sellers should perform due diligence on potential buyers to ensure the new owner of the asset has the ability to and will commit to operating it with climate standards as strong as, or stronger than, those of the seller.</p> <ul style="list-style-type: none"> • *Climate standards assessment: Analyze buyer’s track record and emissions management plans. • *Financial strength assessment: Examine the buyer’s financial strength, including its ability to fulfil its climate commitments and decommission the asset at the end of life. • Technical strength assessment: Examine buyer’s ability to safely operate the asset, measure and reduce GHG emissions, and safely decommission the asset at the end of life. 	<p>Disclosure</p> <p>Sellers and buyers should publicly report metrics to demonstrate that high-quality disclosure is preserved across transactions. Sellers and buyers should also make clear what share of any changes to their emissions are due to divestment or acquisition versus other emissions reduction strategies.</p> <ul style="list-style-type: none"> • Divested and acquired emissions disclosure: Absolute and intensity GHG emissions changes as a result of asset divestment and acquisition from the past five years. • *Emissions disclosure against targets: Degree to which asset transfers contributed to company progress towards emissions targets. • Transaction disclosure: Disclosure of assets transferred, for how much money, and between which parties. • Asset emissions disclosure: Scope 1 and 2 emissions (including methane and flaring) linked to the transferred asset. • Scope 3 emissions disclosure: Estimated Scope 3 emissions linked to the transferred asset. • Emissions verification: Third-party verification of asset’s emissions after transaction.
<p>Emissions Reduction Targets and Strategy</p> <p>Sellers should assist buyers in maintaining or strengthening a transferred asset’s reduction targets and strategy by sharing best practices. Buyers should commit to continuity in GHG emissions reduction ambition and plans.</p> <ul style="list-style-type: none"> • *Emissions reduction targets: Transferred asset is operated with absolute and intensity GHG emissions targets at least as ambitious as the seller’s targets. • *Emissions reduction strategy: Emissions reduction strategies and plans, when available, are transferred from seller to buyer along with the asset. If lacking, buyer should endeavor to develop such plan within a year after transaction. 	<p>Decommissioning</p> <p>Companies should plan for the proper decommissioning of transferred assets. Sellers and buyers should establish who is responsible for decommissioning, how much decommissioning will cost, and how those costs will be guaranteed.</p> <ul style="list-style-type: none"> • *Determination of decommissioning funds: Cost of retirement obligations of transferred asset is fully accounted for at the point of transfer. • *Decommissioning liability: Holders of decommissioning liability are clearly identified at the point of sale. • Asset liability disclosure: Estimated non-discounted asset retirement costs are disclosed.

During stakeholder consultation, we identified a lack of clarity in best practices for topics including:

- Transferring Scope 3 reduction targets, and
- Recalculating base year GHG emissions, in line with guidance from the Greenhouse Gas Protocol and Ipieca.

How the Principles are implemented in deals may vary across a spectrum of options depending on regulations, disclosure regimes, and decommissioning rules in the applicable jurisdiction. As illustrated below these could range from “Soft Consideration” to “Strong Enforcement”



Part 3

Engagement Tactics and Questions



As part of their fiduciary duty to manage portfolio risk, investors should ask oil and gas companies how M&A activities interact with climate targets, and how companies mitigate the climate impact of M&A. Similarly, investors should engage banks and other actors involved in oil and gas M&A on the topic of transferred emissions.

In recent years, investors have increasingly made the fiduciary case for continued stewardship through M&A. Their engagements with oil and gas companies and banks have taken multiple forms, including dialogue and [shareholder proposals](#).

There are typically two approaches that investors use to engage industry on transferred emissions. One begins with increased disclosure and transparency around M&A activities to scope the issue and raise company awareness, while the other focuses on pre-deal due diligence first, as a way to limit M&A-related risks as early as possible.

Path 1: Starting with Disclosure and Transparency



Path 2: Starting with Due Diligence



Listed in the table below are some key questions that have proven helpful in investor-company dialogues.

Pre-Deal Due Diligence	Disclosure
<p>Questions include:</p> <ul style="list-style-type: none"> • Does the company due diligence policy include safeguards around transferred emissions? • Will the company screen out buyers or acquisition opportunities based on their climate track record? If so, how? • Will the company screen out buyers based on their financial solvency or technical strength assessments? If so, how? • How will the company improve disclosure around its pre-deal due diligence processes? 	<p>Questions include:</p> <ul style="list-style-type: none"> • What part of the company's climate targets have been achieved or are planned to be achieved through divestment or acquisition? • How will the company utilize the capital raised through divestment? • What is the company's acquisition and divestiture strategy? • How does the company think about the intersection between M&A and its climate goals? • How will the company ensure continued GHG emissions disclosure through M&A? • How would recalculating the company's GHG emissions baseline affect the company's emissions reduction targets?
Emissions Reduction Targets and Strategy	Decommissioning
<p>Questions include:</p> <ul style="list-style-type: none"> • How will the company ensure continued climate stewardship through M&A? • Will the company require a commitment from buyers or commit to set minimal GHG emissions reduction targets, and continue to reduce GHG emissions post-transaction? • Will the company include such commitment in deal terms? • Will the company share assets' decarbonization plans with buyers? 	<p>Questions include:</p> <ul style="list-style-type: none"> • How will the company provide financial assurance of decommissioning at the point of transfer? • How will the company ensure that the holder of decommissioning liability is clearly identified for each deal, and capable of responsible asset retirement? • How will the company improve disclosure related to M&A and decommissioning? • Will the company disclose liabilities linked to sold assets at the point of transfer, on its books?

Part 4

Examples and Case Studies of Principles-Aligned Practices

Below, we offer guidance on leading practices and real-world examples of companies starting to implement key pieces of the [Climate Principles for Oil and Gas Mergers and Acquisitions](#).

Methodology

To identify practices aligned with the Principles, we screened several large, investor-owned oil and gas companies with a record of climate risk disclosure. We examined their annual and sustainability/climate reports and relevant webpages or sources (including public CDP responses), identifying language relating to asset transfer with a focus on discussion of acquisitions, divestments, and decommissioning. The examples below reflect leading practice on key facets of the Principles.

Pre-Deal Due Diligence

Selected principle

Technical strength assessment

Real-world example

In 2021, **Shell** [refused](#) to sell its Convent refinery in Louisiana to a bidder that was not considered “viable” nor did have the “ability and experience to operate complex manufacturing assets safely.” Instead, the company decided to shut the refinery down.

When considering divestments, Shell [states](#) that it examines attributes of potential buyers: “These attributes may include their financial strength; operating culture; health, safety, security and environment (HSSE) policies; and approach to ethics and compliance.”

Shell further states that: “Divestments are often subject to the approval of regulatory authorities, which may in part depend on potential buyers’ HSSE capacity, compliance record, and asset-stewardship capabilities.”

Takeaway

While many companies have similar statements noting how they factor in environmental risk when evaluating potential buyers, concrete examples like this are less common. Though the extent and rigor of due diligence may be unlikely to be fully public, companies can and should provide more detail on how buyer climate track records and financial solvency shape their asset transfer decisions.

Disclosure

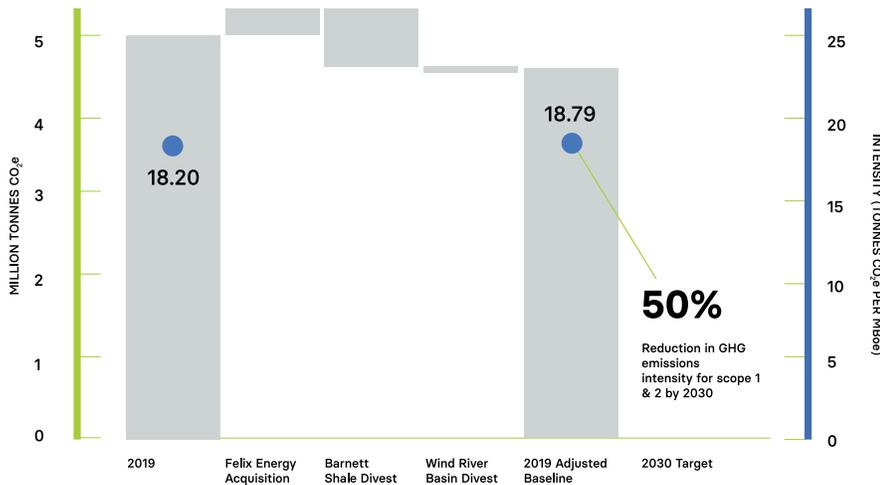
Selected principle

Divested and acquired emissions disclosure

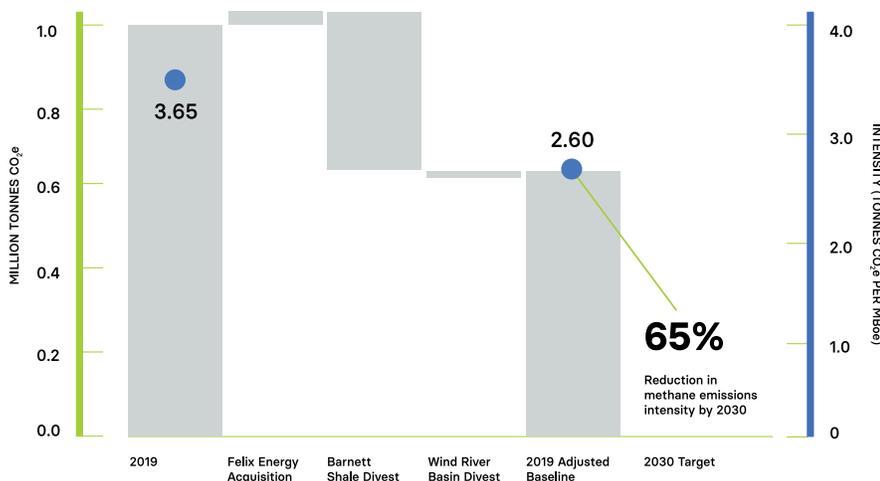
Real-world examples

Devon's disclosures cover the impact of overall M&A activity on absolute and intensity GHG and methane emissions, with partial insight into the impact of each individual transaction. As a result of material M&A activity in 2020 and 2021, Devon has recalculated its 2019 baseline for its 2030 intensity targets for GHG and methane emissions (see graphic below).

GHG Emissions



Methane Emissions



Selected principle

Divested and acquired emissions disclosure

Real-world example

Shell reports how absolute Scope 1 and 2 emissions have changed from 2020 to 2021 as a result of M&A activity, including how M&A contributed to progress against its absolute emissions reduction target. This includes a “waterfall chart” indicating total Scope 1 and 2 GHG emissions as well as changes from acquisitions, divestments, changes in output and “reduction activities and purchased renewable electricity.” The full chart can be seen in [Shell's 2021 Sustainability Report](#).

bp [discloses](#) how divestments have contributed to the total reduction in Scope 1 and 2 emissions using absolute figures. The company also provides [partial insight](#) into the role divestments play in reducing upstream operational methane emissions.

“Our combined Scope 1 and Scope 2 emissions (...) were 35.6MtCO₂e, a decrease of 35% from our 2019 baseline of 54.4MtCO₂e. The total decrease of almost 19MtCO₂e includes 14.7MtCO₂e in divestments and 2.6MtCO₂e in sustainable emission reductions.”

Selected principle

Transaction disclosure

Real-world example

Devon [provides](#) information related to deals, including total deal value, buyer and seller parties, and nature of the asset; **Shell** [discusses](#) specific divested assets, including information about the nature of the asset, region of operation, and date of divestment; and **bp** [discusses](#) specific divested assets (e.g., operations in Alaska, petrochemicals business, and bpx energy) in various places throughout its sustainability report.

Selected principle

Asset-level emissions disclosure

Real-world example

Devon discloses approximate changes in GHG and methane emissions volumes split out by deal (see graphic above).

Selected principle

Scope 3 emissions disclosure

Real-world example

bp [provides partial insight](#) into how divestments play a role in reducing Scope 3 emissions.

“The estimated Scope 3 emissions from the carbon in our upstream oil and gas production were 304MtCO₂ in 2021, a reduction of approximately 7% from 328MtCO₂ in 2020, mainly associated with portfolio changes, including divestments and existing field decline.”

Takeaway

While a few select companies have provided helpful disclosures for how assets and divestitures impact their emissions, there remain significant opportunities for improvement. Stakeholders would benefit from fully transparent and actionable disclosures across industry that break out emissions by greenhouse gas, clearly identify the impacts of specific deals, show how these changes impact performance against company targets, and provide other detail to help investors assess what role M&A activity plays in decarbonization efforts. While we did not uncover any publicly available examples, companies should also look to fully disclose Scope 3 emissions associated with specific asset transfers.

Emissions Reduction Targets and Strategy

Selected principle

Emissions reduction targets

Real-world examples

In December 2021, **ConocoPhillips** acquired **Shell's** Permian Basin assets for \$9.5 billion. In connection with this transaction, ConocoPhillips improved its company-wide Scope 1 and 2 emissions intensity reduction targets from a 35-45% to a [40-50%](#) reduction by 2030 (vs. 2016).

While there is no public mention of asset-specific emissions targets or reduction strategies being transferred over from Shell's ownership of these assets, this increased Scope 1 and 2 target ambition provides an example of how transactions can be structured to begin to limit potential risks of increased emissions from M&A.

bp [emphasizes](#) that it seeks to reduce emissions where possible, including for assets considered and scheduled for divestment. The company [states](#) that when it is the operator and has "mature carbon management plans, [it] aims to pass those plans on to the buyer."

Takeaway

Significant opportunities remain for sellers to publicly disclose their efforts to develop and share asset-specific performance targets and plans. Limited information is currently available on corporate policies to address this climate risk and how they play out in practice. If sellers do not provide a plan, buyers should develop one to ensure they will be operated with at least the same climate standards as before the transaction. Additionally, buyers should integrate new assets into their own existing (or revamped) climate targets.

Decommissioning

Selected principle

Determination of decommissioning funds

Real-world examples

Significant opportunities remain for companies to align corporate policies with the Principles. Examples from the state of Colorado and the North Sea provide evidence of growing regulatory interest in addressing the financial assurance gap. In 2021 the Colorado Oil and Gas Conservation Commission put in place regulatory requirements to provide assurance that companies are financially capable of fulfilling their asset retirement obligations, including plugging of inactive wells, reclaiming, closing and abandoning exploration and production waste management facilities, and appropriately disposing of produced water. Under the regulations, operators are required, among other things, to ensure “single-well financial assurance,” or financial assurance that is sufficient to cover retirement costs for low-producing wells, on transfer.

In the North Sea’s United Kingdom Continental Shelf, operators of oil and gas installations, including pipelines and connected wells, are required to decommission infrastructure at the end of the field’s economic life. In order to ensure that government and taxpayers are not left with decommissioning costs and responsibilities, the Offshore Petroleum Regulator for Environment and Decommissioning (OPRED) regularly assesses the financial capability of operators, their joint operating agreement partners, and other parties with decommissioning liability to meet their decommissioning obligations, even in the event of the insolvency of one or more parties responsible for decommissioning. These assessments include a comparison of the decommissioning costs for the field in relation to company value, a risk classification for each company (low, medium, and high), and a risk classification for the field overall. OPRED is currently in the process of finalizing Financial Assurance Guidance outlining this policy.

Separately, two deals to transfer wells from EQT to Diversified Energy in 2018 and 2020 provide examples of potential risks related to retirement liability transfer. In July 2022, a class action lawsuit was filed in West Virginia against Diversified Energy alleging, among other issues, that it had inaccurately accounted for retirement obligations, in particular by assuming a significant portion of its wells would not be retired until after 2056 and that the whole portfolio would not be retired until 2095. Among other aims, the litigation seeks to void the deals and transfer liability for retiring the wells back to EQT.

Regardless of the business strategy behind the decision to transfer the assets, without appropriate financial assurance in place to ensure appropriate asset retirement, the transfers and subsequent lawsuit have exposed both the buyer and the seller to potential financial, legal and reputational risks.

Takeaway

In order to ensure emissions and other harmful environmental and health impacts associated with inactive, unplugged wells are appropriately mitigated, companies should ensure the proper retirement of transferred assets. In particular, at the point of asset transfer, buyers and sellers should fully account for the costs of retirement and determine the party responsible and liable for decommissioning. This is a matter of both proper stewardship of these assets and prudent management of the potential for contingent liability to the company.

This can be effectuated by both the buyer and the seller ensuring that the full cost of plugging and reclamation activities is covered by financial assurance including via bonding, escrow, or other mechanisms. Companies can provide additional assurances by having a regulator or other third party take note of the retirement liability for the specific assets. For example, if a buyer and seller contractually agree the seller will be responsible for plugging, abandonment and reclamation of the transferred assets, this agreement should be filed with the appropriate regulatory agency to ensure that the retirement liability is part of the official record and that the seller's ability to fulfil its obligation can be tracked over time.

Companies and their investors would further benefit from the disclosure of estimated liabilities, on an undiscounted basis, at the point of sale, allowing all parties to appropriately assess and manage climate-related and environmental risks from asset transfer. In order to provide assurance that liabilities are accurately calculated, it is recommended that disclosed liabilities pre- and post-transaction are equal or equivalent – and, if not, for differences to be credibly explained.

Part 5

Frequently Asked Questions



Where can investors find data on oil and gas M&A and related GHG emissions?

In the absence of greater transparency from the industry, investors must rely on expensive third-party resources to inform their decision-making and engagement strategies. Data sources should ideally include data on the transferred asset (disclosed production and emission volumes) and information on the buyer, seller, and any financing/advising parties involved (their identity, financial strength, and environmental commitments). Below are existing data sources that provide coverage of M&A in the oil and gas space:

- **Rystad Energy UCube and EmissionsCube:** Provides extensive coverage of oil and gas asset transfers, including transaction information and estimated (and when possible, reported) production and emissions linked to the transferred assets, as well as other asset details. Useful to support company- and country-specific data analyses.
- **Bloomberg Terminal:** Provides extensive coverage of dealmaking in the oil and gas space, often including detailed financial information related to the deal, though less likely to include asset-specific production and emissions data. Useful to support company-, bank- and country-specific data analyses.
- **Refinitiv Eikon:** Provides broad coverage of oil and gas asset transactions, though less likely to include asset-specific production and emissions data. Useful to support company-, bank- and country-specific data analyses.

None of the data sources examined provide full information on the climate commitments and disclosures of transacting parties, so alternate data sources may be required to meet that need. This brief and partial assessment of data sources is intended to serve as a starting point for investors, noting that the scope and quality of the actual data offerings may vary by deal and according to changes made by data providers. Ultimately, investors will want to push companies to publicly disclose more decision-useful information on transferred emissions.

Is the aim of the Principles to limit oil and gas M&A?

No. The Principles are climate-related guidance that sellers and buyers should consider when negotiating oil and gas deals to ensure continued climate stewardship through the M&A process.

M&A is motivated by a range of factors, including financial engineering, portfolio optimization, or consolidation across the industry – therefore oil and gas M&A will continue to occur. However, given the related climate risk, which in turn represents financial risk, it is part of investors' fiduciary duty to assess how oil and gas companies' M&A activities interact with their climate targets.

How can oil and gas companies sufficiently reduce their GHG emissions, if not by selling off high-emitting assets?

Companies have many options to reduce their GHG emissions. These include efficiency and operational improvements such as reducing flaring and methane leakage, using renewable power, implementing carbon capture and storage, and pursuing managed phaseout and permanent asset retirement.

What is the role of regulations vs. the Principles in managing the risks of transferred emissions?

Regulations have a key role to play in bringing oil and gas assets into alignment with net zero targets. The voluntary Principles are not intended to conflict with or take precedence over regulations. In jurisdictions where appropriate regulations are not in place, the oil and gas industry and financial institutions should use the Principles to make progress on climate targets.

What if asset-level GHG emissions data are not available?

Asset-level emissions disclosure (by both the seller and the buyer) was considered particularly important by some stakeholders, including investors, during roundtables held in 2022. This level of transparency is required to assess what happened to a particular asset post-transaction.

However, in some cases, for example when wells are added to a larger field, asset-level emissions tracking and disclosure might be challenging. This is why the Principles specify that disclosure “may be aggregated up to company level where asset level reporting is not feasible.” Aggregation at a regional or sub-sector level would be preferred.

What if the seller or buyer lacks climate disclosure or targets?

Pre-deal due diligence should screen out buyers who would increase the likelihood that transferred asset leads to higher global emissions. After that initial screening, the seller should continue to engage in dialogue with potential buyers about their climate standards to ensure continued asset stewardship post-transaction. Potential buyers who will not commit to continued stewardship should be walked away from.

If the buyer acquires asset from a seller who lacked climate disclosure or targets, it is the buyer’s responsibility to ensure GHG emissions linked to the asset are publicly disclosed after transfer, to set emissions reduction targets in line with a 1.5°C-aligned scenario, and to develop an asset-specific decarbonization plan within a year of the transaction.

How can the Principles be enforced?

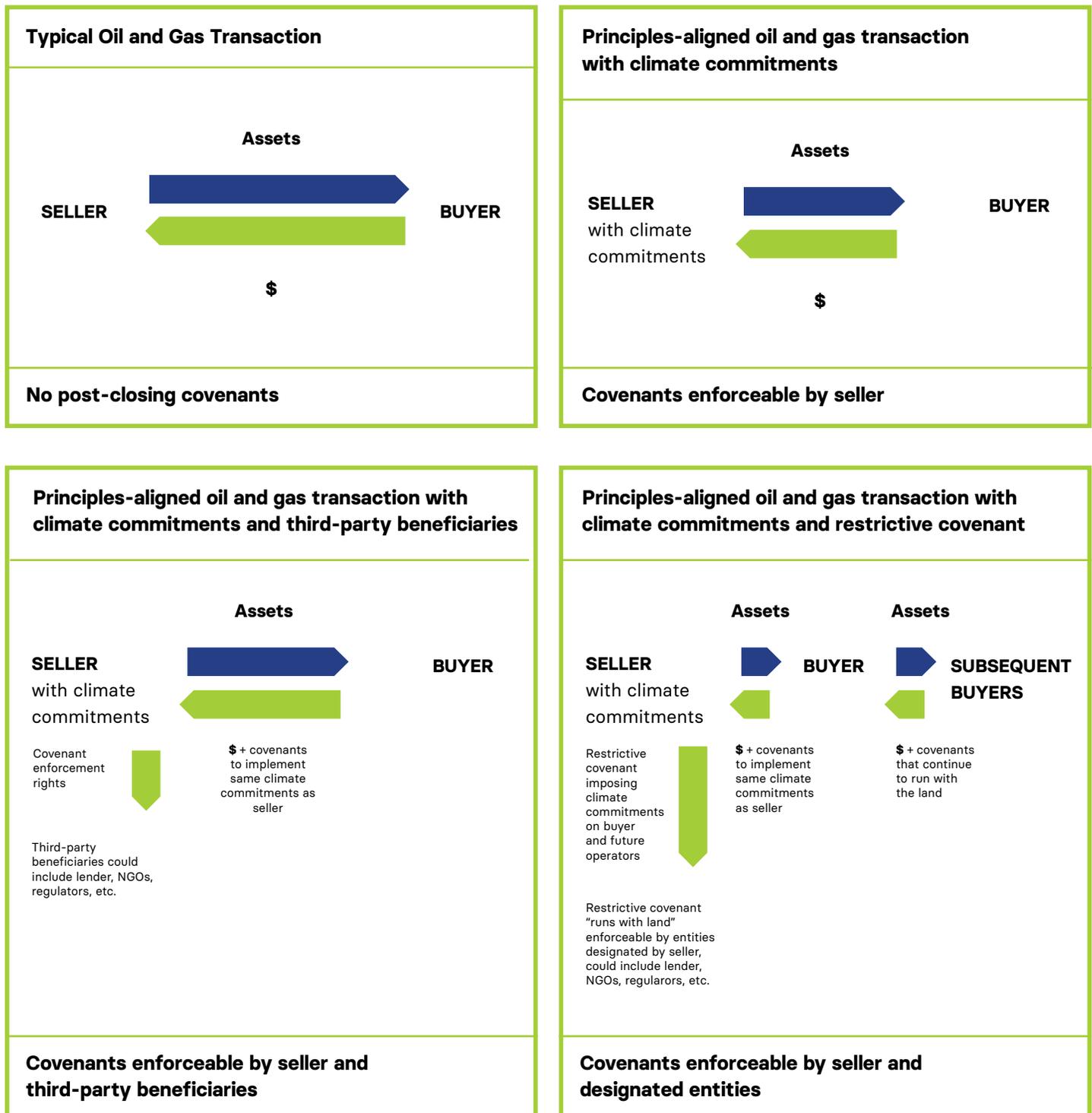
Public scrutiny -- including by validated benchmarking institutions, scientists and academia, non-profits, the media, and the public -- does play and will continue to play a key role in ensuring that oil and gas companies' M&A maintains climate standards. As access to GHG emissions data is becoming more widespread, and satellites, as well as new measurement technologies are bringing new transparency to bear on oil and gas operations, it will become increasingly straightforward to link the emissions of an asset with current and previous owners.

For example, in its new Net Zero Company Benchmark 2.0, the investor-led Climate Action 100+ initiative added indicator 11, which asks the world's highest emitting companies to disclose the factors underlying their historical emissions trajectory, including quantification of the main actions that have driven any Scope 1, 2, or 3 emissions changes, specifying any material "one-off" items (e.g., divestments, acquisitions, and mergers).

Further, the CDP questionnaire lists some relevant questions on transferred emissions, covering among others structural changes, emissions boundary, and base year emissions recalculation (see questions C5.1a, C5.1b, C5.1c and C7.9a).

According to guidance from the Task Force on Climate-related Financial Disclosures, organizations should consider providing the following information when presenting climate-related metrics: "[t]rend data to allow for consideration of how metrics have changed in absolute and relative amounts over time, including whether acquisitions, divestments, or policies have affected results." The appendix to our previous report, *Tackling Transferred Emissions: Climate Principles for Oil and Gas Mergers and Acquisitions*, provides illustrative sample contract provisions that could be helpful for parties seeking to include enforceable clauses or covenants in sales contracts and joint operating agreements. Below are some illustrative examples of how this could be achieved.

How can the Principles be enforced?



When should companies recalculate their baseline GHG emissions?

The [Greenhouse Gas Protocol](#) provides that companies should recalculate base year emissions in the event of “[s]tructural changes in the reporting organization that have a significant impact on the company’s base year emissions. A structural change involves the transfer of ownership or control of emissions-generating activities or operations from one company to another. (...) Structural changes include: mergers, acquisitions, and divestments (...)”

Oil and gas industry association [Ipieca](#) similarly recommends “adjustments to the base year emissions” to account for “[s]ignificant structural changes to the organization including mergers, acquisitions, and divestitures”, to avoid giving the “appearance of increases or decreases in emissions, when in fact no changes occurred for the same set of activities; rather, emissions would merely be transferred from one company to another.”

We recommend that sellers and buyers recalculate their baseline after material transfers, in line with the Greenhouse Gas Protocol and Ipieca guidelines, in a manner that is transparent to investors aiming to measure progress against targets. This is particularly important when companies have absolute emissions reduction targets, and when the said targets are linked to a company’s executive compensation scheme.

Through both the “divested and acquired emissions disclosure” and “emissions disclosure against targets” principles, stakeholders should indirectly get access to the same information on baseline GHG emissions changes.

Part 6

Conclusion

Oil and gas M&A can lead to increased GHG emissions, and assets moving off the public record. The [Climate Principles for Oil and Gas Mergers and Acquisitions](#) represent opportunities for all actors involved in oil and gas M&A to limit related reputational, legal, physical, and transition risks, create long-term value, and lead to a new paradigm for oil and gas transactions that is more compatible with global net zero goals.

For investors, transferred emissions can present financial and reputational risks within their portfolios, and engaging with oil and gas companies and banks on the topic is a strategy to identify and reduce these risks. The discussion, case studies, and examples in this guide can assist investors in engaging oil and gas companies and their bankers on this issue, so that they implement the Principles in their own dealmaking. Adoption of the Principles will benefit M&A stakeholders by increasing transparency and reducing risks, while accelerating energy sector decarbonization toward net zero goals.

