



A SUSTAINABLE INVESTOR GOES TO HOUSTON

Viewpoints from CERAWeek 2023

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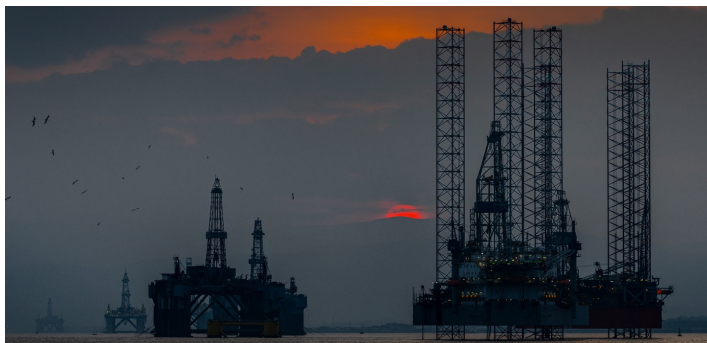


In early March, the Energy Industry gathers in Houston at a conference called CERAWeek, now hosted by S&P, the current owner of an oil and gas information service previously known as Cambridge Energy Research Associates. This annual event brings together industry leaders and participants from across the world, and in recent years, from across the energy spectrum despite the group and event's fossil-fueled history.

This year's event, titled "Navigating a Turbulent World: Energy, Climate and Security," included a panel on the topic of constructive dialogues between climate advocates and the energy industry, in which Trillium was invited to be a participant representing the advocate perspective. As Trillium's Power analyst, I was excited to take advantage of the offer and the accompanying free registration to a conference I had

heard about but never expected to attend given its hefty price tag and my expectation of general misalignment with our investing philosophy.

What I found though, didn't entirely match my expectations. Although the word climate in the conference title should have given it away, I have to admit I was surprised to hear how often the words climate, carbon, sustainable, net zero, low-intensity, and emissions came up. The very first question of the first session of the conference, directed from the moderator to a major U.S. oil company CEO, was about the energy transition away from carbon to renewables. I heard the phrase "Houston, we have a problem," used in reference to climate change three times before lunch the first day! The CEO of a southeast Asian national oil company proclaimed loudly that he is not a climate denier. CEOs and other representatives from across the energy value chain spoke about the need to address climate change. Many companies bragged about how "low-intensity" their natural gas and oil were, with one executive even claiming his company's fossil fuels are low-carbon!



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Of course, these executives were referring strictly to Scope 1 and 2 emissions, the emissions that result from the company’s activities, like production or refining of the fuel. It is true that there is lots of room for improving the carbon intensity of these fuels, such as improving the energy efficiency of production, using solar power for production as one Middle Eastern national oil company CEO described, reducing leaks, and ending the process of flaring natural gas—meaning simply not bothering to capture and use it when it is produced as a byproduct of oil. I was actually really surprised to hear multiple CEOs refer to the need to control methane leaks and emissions in an almost offhand way—as in of course they need to be dealt with and we as an industry obviously need to stop flaring. That position was not as widely accepted during Trillium’s many years of engaging with oil companies and requesting these very actions, before we changed our approach to investing in traditional energy, such as the methane emissions-related shareholder proposals we filed at EOG Resources in 2014, 2015, 2016, 2017, and 2019.¹

¹ <https://archive.trilliuminvest.com/?s=eog>

One CEO warned that with the advent and use of drones that can detect methane levels and plume emission locations, there will be no way to hide emissions. While I will believe that the energy industry will clean up its production when I see it, I felt that there was a pretty big attitude shift among the executives that are no longer claiming that the climate isn’t changing, or that we can’t know why, or that CO₂ is life, as an ad campaign once claimed.

The bigger issue, of course is the elephant in the room—downstream scope 3 emissions released when the industry’s products are burned and the question of if this industry should or will exist into the future. On this issue, the industry participants were united—fossil fuels are here for the long term. The particular logic thread I heard again and again was that the geopolitical events of 2022 demonstrated the importance of energy security, not just sustainability. Several speakers used the phrase “orderly transition” to imply that oil and liquefied natural gas (LNG), which allows global transportation via ship rather than pipelines, are key components of providing affordable energy to the world. I also heard the claim that natural gas is “not just a bridge” multiple times as well. Several companies spoke of feeling a sense of duty to supply European countries with as much natural gas as possible—one representative from a former Soviet republic talked of installing as much wind and solar energy production at home as possible, to minimize the country’s own use of natural gas so it could export even more to Europe.

This is where I got skeptical of the whole thing. If humanity wants a livable climate in the next century, or even later in this one, something has to change, and there is now such a broad acceptance of that fact that even these CEOs were willing to at least pay lip service. While their companies have, in many cases, done the bare minimum they could to claim they are aware of the changing dynamics, I came away less convinced that these big energy companies will be able to successfully transition their own businesses than I had been. At the same time, the challengers to the fossil-based economy are continuing to getting more robust and less expensive, and these big companies are wasting time defending the energy system of the last century.

On a more positive note, while some Americans who spoke at this conference are still stuck in the fossil age, the Biden administration’s Inflation Reduction Act and its climate-boosting provisions were mentioned in almost all of the sessions I attended—either as an opportunity for companies or a challenge to other governments to come up with something similar.

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And I heard representatives from both Kuwait and Bahrain boast about how their nations will be leaders in the energy transition, not something I would have expected to hear from major oil exporters.

The highlight of the conference for me was a session I almost didn't attend, featuring the incoming president of the next United Nations climate conference, United Arab Emirates' Industry Minister and CEO of the Abu Dhabi National Oil Company, Sultan Ahmed Al Jaber. All I knew of Sultan Ahmed Al Jaber was that many in the climate community were skeptical of his selection, fearful of the energy industry hijacking this year's conference. While one speech without actions won't change anyone's mind, he spoke passionately and persuasively about the need for the energy industry to seriously face the climate crisis, telling an audience including global oil industry executives, and with John Kerry sitting front row center, that, "We are way off track. We need a major course correction. This is a global challenge that calls for global solutions from every stakeholder acting in unity and solidarity... Alongside all industries, oil and gas needs to up its game, do more and do it faster."²

All in all, I came away from this fossil-fueled extravaganza moderately more hopeful than I had been. I came home to news from Bloomberg proclaiming that, "with 2022 data now available, [Bloomberg New Energy Finance] is confident the global market for internal combustion vehicles peaked in 2017 and is now in structural decline."³ And I am glad to be investing in the companies providing the ascendant, innovative solutions that I think will continue to replace the status quo.

² <https://www.upstreamonline.com/energy-transition/-we-need-a-major-course-correction-cop28-chief-urges-oil-and-gas-sector-to-achieve-net-zero-targets-earlier/2-1-1413983> and <https://www.reuters.com/business/energy/ceraweek-uaes-jaber-urges-big-oil-tackle-climate-challenges-2023-03-06/>

³ <https://www.bloomberg.com/news/articles/2023-03-09/carmakers-can-kiss-pre-pandemic-combustion-car-sales-goodbye>

About the Author



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Elizabeth is the Head of ESG Strategy, Lead Portfolio Manager on Trillium's ESG Core Equity strategy, and a Portfolio Manager on Trillium's ESG Large Cap Core and ESG Small/Mid Cap Core strategies. As Head of ESG Strategy, Elizabeth is responsible for leading the development and oversight of the implementation of ESG-related policies and initiatives across all investment strategies. She collaborates with all members of the ESG research team to maintain and expand upon Trillium's thought leadership on ESG and responsible investing processes and operating protocols.

Elizabeth is currently the Treasurer of the Board of Directors of Our Bodies, Ourselves, a nonprofit that advocates for women's health and social justice. She has previously held volunteer board positions for the Harvest Cooperative Markets in Boston and the Boston Chapter of the Appalachian Mountain Club. Elizabeth holds a B.S. in Chemistry from the College of William and Mary, and a Master of Environmental Management from the Yale School of Forestry and Environmental Studies. Elizabeth is also a member of the CFA Society Boston and is a Chartered Financial Analyst charterholder.

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