



TOTAL ENERGIES' CLIMATE-LINKED BONDS: A TRAP

Investors briefing

TOTALENERGIES' CLIMATE-LINKED BONDS: A TRAP

Authors:

Lara Cuvelier, Reclaim Finance
Andrea Hernández, Reclaim Finance
Lucie Pinson, Reclaim Finance

Contributors

Henri Her, Reclaim Finance
Angus Satow, Reclaim Finance

Page editing:

Jordan Jeandon, Graphic designer

Publication date:

September, 2021

WHAT IS IT ABOUT

In February this year, the French oil and gas major **TotalEnergies**, announced in its [Result and Outlook presentation](#) that, as part of the company's climate ambition, all its new bond issuances would be linked to key performance indicators (KPIs) on climate. In TotalEnergies' words "climate KPI-linked" - i.e. a type of Sustainability-Linked Bond.

We present in this briefing the reasons why responsible investors should not buy such bonds if their KPIs do not include Paris-aligned short-term targets and hide oil and gas expansion plans, which would plainly be inconsistent with the remaining carbon budget to align with a 1.5°C trajectory. Without such conditions, investors will face the risk of being associated with greenwashing and being exposed to unsustainable debt.

TotalEnergies' new bonds will be a good test to see which investors support the major's oil and gas expansion plans.

A NEW TYPE OF BOND THAT COULD DELAY CLIMATE ACTION

Sustainability-Linked Bonds (SLBs) have gained significant traction in the [last year](#), following their launch in 2019.¹ Contrary to green or transition bonds, whose proceeds are intended to finance specific projects, SLBs' proceeds can be used as the issuer wants, as long as it commits to sustainability objectives set by... itself. This flexibility might be highly appreciated but it is also a double edge sword. While the potential of SLBs to trigger significant changes at corporate level remains unproven, the lack of Paris-aligned KPIs raises risks for them to be considered as merely marketing gimmicks to justify financial support to polluting sectors. They will fall in the "greenwashing" product category if their associated KPIs actually hide the development of activities that are fully inconsistent with the remaining global carbon budget.²

With these reasons in mind, **investors should take special care when considering SLBs. Given that TotalEnergies' 2030 climate targets are far from what is required to limit global warming at 1.5°C, SLBs aligned with them cannot be considered legitimate.** Investing in these securities will damage the sustainability credentials of the bondholders and will place into question the credibility of SLBs as an effective mechanism to finance the transition away from polluting sectors.

“ ***If we want to reach net zero by 2050 we do not need any more investments in new oil, gas and coal projects*** ”
Fatih Birol, IEA's executive director



TOTALENERGIES' CLIMATE STRATEGY IS FAR FROM A 1.5°C PATHWAY

During its [Result and Outlook presentation](#) in February, TotalEnergies disclosed the expected KPIs for its climate KPI-linked bonds but provided no more public information about the specific targets and timelines. We can however expect them to be the same as in their corporate [climate strategy](#)³, as this is common practice in the sustainable obligations market.

In that case and in brief, TotalEnergies' climate-KPI bonds will be far from Paris-aligned for the following reasons:

1. Problematic KPIs and targets

- a. Less than 30% of its scope 1 and 2 emissions are covered by targets
- b. Not enough detail at all for scope 3 emissions
- c. Carbon intensity: a flawed and misaligned target

2. TotalEnergies overall corporate strategy is at odds with climate science

- a. A forecast of 50% growth of hydrocarbon production between 2015 and 2030
- b. "Carbon neutral" gas that would not deliver emissions reduction in the atmosphere
- c. Dubious renewable energy targets
- d. CAPEX that remains largely dedicated to oil and gas



1. PROBLEMATIC KPIS AND TARGETS: INCOMPLETE ASSUMPTIONS AND FORGOTTEN EMISSIONS

A common approach for setting SLBs' targets is to benchmark against peer performance or the issuer's own historical performance.⁴ However, for obvious reasons, **the climate KPIs and targets of a bond issued by an oil and gas company should be aligned with what science requires to limit global warming at 1.5°C.** This is not the case for [TotalEnergies](#).

a. KPI 1⁵ - Less than 30% of TotalEnergies' scope 1 and 2 emissions covered by targets

With the aim of reaching carbon neutrality in its global operations (scope 1+2) by 2050, TotalEnergies set an intermediate objective of a 40% emissions reduction by 2030, versus 2015 levels. But this commitment covers only [10% of TotalEnergies' overall emissions in 2015](#).

Additionally, **TotalEnergies is betting on an improbable scale-up of industrialized and nature-based carbon capture and storage and of offsets.** Although it makes them an essential part of its climate strategy, it does not specify their respective roles in achieving its objectives of reducing its 2030 or 2050 GHG scope 1+2+3 emissions targets. It is unclear what climate scenario TotalEnergies uses to drive its decarbonization strategy. TotalEnergies' own '[Rupture 2050](#)' scenario (1.5-1.7°C) mentions a global capacity of 7.5Gt of CCS in 2050. To give an idea of the scale of the challenge, one of the flagship CCUS projects of TotalEnergies, [Nothorn Lights](#), developed jointly with Shell and Equinor, aims to store 1.5Mt CO₂/year. Indeed, Nothorn Lights is 5,000 times smaller than TotalEnergies' projected global CCS capacity by 2050. It is interesting to note that when depicting this project, TotalEnergies refers to the SDS

scenario according to which 2.4bn tons of CO₂ should be stored by 2040. TotalEnergies' Rupture scenario also bets on 8Gt of CO₂ being stored through nature-based solutions NBS – twice as much as the maximum amount in the sustainable range of natural carbon capture defined in the IPCC SR1.5 report - and hypothetical future technologies of carbon removal, which are far from having proved their relevancy and scalability. Through both CCS and NBS, the equivalent of 28% of the 2018 global emissions would be captured in 2050 in TotalEnergies' scenario.

b. KPI 2⁵ - Not enough detail at all for scope 3 emissions

Until now, TotalEnergies has only announced scope 3 emissions reduction targets in Europe: a 30% reduction in absolute terms from 2015 levels. To put this target into context and assess its relevance, we can refer to the graph on p.7 of the [Results and Outlook](#), presented in February 2021. The graph shows that while scope 3 emissions are intended to fall by 30% in Europe, TotalEnergies plans to increase them by almost the same proportions in the rest of the world.

Indeed, **although TotalEnergies has committed to a scope 3 emissions 2030 reduction target, it has failed to quantify it precisely.** As stated in its [report on the resolution submitted to its AGM](#), the major writes that "TotalEnergies set itself the target of [...] ensuring that the level of Scope 3 worldwide emissions related to the use by its customers of the energy products sold for end use in 2030 are lower in absolute terms compared to the level of 2015." Consequently no specific number was provided: rather than a commitment to reduce its emissions, this is a mere promise not to increase them.

c. KPI 3⁵ - Carbon intensity: a flawed and misaligned target

TotalEnergies' target to undertake a 20% reduction of the carbon intensity of its Scope 3 emissions by 2030 against 2015, putting it on a trajectory of a 60% decrease by 2050, falls short of the ambition needed to meet its net zero commitment and the Paris Agreement climate objectives. First, **carbon intensity indicators allow companies to scale up fossil fuel growth and do not automatically imply Paris-aligned emissions reductions in absolute terms.** In fact, as stated in its

[2021 universal registration document](#), TotalEnergies has been reducing its carbon intensity between 2015 and 2019 while simultaneously increasing GHG emissions based on equity share. Second, [Carbone 4 calculates the needed carbon intensity reduction by 2050 against 2015 would have to be at least of 75% to be consistent with a 2°C target, and of 90% for a target of less than 2°C.](#) Finally, the IPCC AR6 shows most of GHG emissions reduction must take place early to limit global warming to 1.5°C by the end of the century: it is then urgent that TotalEnergies aligns its targets with the diktats of climate science.

Betraying the very principle of a Sustainability-Linked Bond

After making public in February 2021 its intention to issue sustainable debt, TotalEnergies submitted its climate strategy to shareholders' vote in May. TotalEnergies has made clear its intention of favoring long-term maturities. But its current 2030 targets do not meet the [expectations of the members of the ClimateAction 100+ initiative](#), including investors that are calling on TotalEnergies to announce more ambitious targets in the coming years while having voted in favor of the major's current climate plan.⁶

Given the clear lack of ambition in its current climate objectives, issuing SLBs based on them is a fool's game. Investors, as well as TotalEnergies itself, know that these objectives would need to evolve and that they will be obsolete in the short term, despite being linked to a long-term maturity instrument.

The aim of providing a financial incentive for companies to transition, supposed to be the core principle of SLBs, would not exist here, as TotalEnergies will doubtless reach its flawed targets.

2. TOTALENERGIES' OVERALL CORPORATE STRATEGY AT ODDS WITH CLIMATE SCIENCE

In the case of an SLB, investors fund general corporate purposes. The supposed goal of using such bonds is to support the transition plan of a company. **But TotalEnergies' current climate plan is at odds with climate science.**

a. TotalEnergies forecasts a 50% growth of its hydrocarbon production between 2015 and 2030⁷

In [its report on the resolutions](#), TotalEnergies states that it plans to increase its energy production from 2.7 mmboe/d in 2020 to 3.6 mmboe/d by 2030, with half of that growth coming from LNG methane gas, and oil likely to remain close to its current level. **That means that gas production could increase between 36% and 41% by 2030.**⁸ As a reference, [CTI reported](#) that TotalEnergies must achieve a minimum 35% reduction in fossil fuel production by 2040 compared to 2019 levels, to stay within the carbon budget implied by the IEA's "Beyond 2 Degrees Scenario" (B2DS). Given this scenario drives us to a total temperature rise of 1.75°C by 2100, **TotalEnergies should aim at even higher reduction targets to align with a 1.5°C scenario.**

b. TotalEnergies' "carbon neutral" gas would not deliver emissions reduction in the atmosphere

Fossil gas is mostly methane, a potent greenhouse gas (GHG) that traps 86 times more heat in the atmosphere than the same amount of CO₂ over a 20-year time period. Its liquefied form – LNG- uses energy-intensive

process with long supply chains which imply even more opportunities for methane to escape into the atmosphere. The latest IPCC report urges a reduction in methane emissions over the next 10 years if the world is to meet its climate goals. Similarly, UNEP's [Global Methane Assessment](#) points out that the mere use of existing gas infrastructure greatly compromises our ability to keep global warming to 1.5°C; any plan to expand it and extend the use of natural gas would put us dangerously far from that goal.

TotalEnergies claims in fact it offers "carbon neutral" gas by offsetting the associated emissions. **But experts - including the consulting group that accompanied TotalEnergies in the process of selecting the offset projects - agree that this would not neutralize the emissions caused by the fossil gas.**

c. TotalEnergies' dubious renewable energy targets

TotalEnergies has failed to disclose precise data on its expected energy mix in 2030. TotalEnergies indicates that its "projected [...] sales mix will change significantly by 2030: 50% of gas and green gases, 35% of oil and liquid biofuels, 15% of electricity, mostly renewable". **The major mixes renewable energies with fossil fuels and does not break down the content of what it calls electricity or renewable.** As a reminder, TotalEnergies wrongly integrates [biomass](#) in the category "renewable energies" and its electricity production comes partly from combined cycle gas turbine (CCGT). TotalEnergies does not indicate a number regarding its production of green hydrogen and green gas either.

d. TotalEnergies' CAPEX remains largely dedicated to oil and gas

TotalEnergies has committed to invest to have gross power generation capacity from renewables of 35 GW in 2025, and of 100 GW by 2030, but this is dwarfed by its plans to expand fossil fuel production over the next decade. Indeed, despite the need to wind down oil and gas production, **the company**

plans to continue to assign 80% of its CAPEX to oil and gas 10 years from now. Using CTI's least cost methodology, [the recent CA100+ net zero benchmark](#) estimates that 58% of potential future oil & gas CAPEX is at risk under the IEA's Beyond Two Degrees Scenario, creating a significant risk of stranded assets. **Moreover, the CA100+ assessment also shows that TotalEnergies has failed to set medium-term targets or goals consistent with a global reduction in emissions of 45 per cent by 2030 relative to 2010 levels.**

Would TotalEnergies at least pass the basic test of transparency and disclosure?

Best practices in the sustainable obligations market include the publication of "pre-issuance documents" such as the sustainability-linked finance framework, investors presentation, external review (second party opinion), and a dedicated website. Even if these documents are not mandatory, their elaboration and public disclosure to all stakeholders is highly encouraged to ensure a clear and transparent process.⁹ At the time of writing, **TotalEnergies has not publicly disclosed any of the pre-issuance documents of its climate KPI-linked bonds.** It remains to be seen if the major will make these documents public before its first bond issuance.

But transparency is not enough. The exhaustiveness of the information disclosed also remains to be seen. In addition to a clear and comprehensive explanation of the group's climate strategy, and the establishment of the climate-KPIs and its associated targets and timelines, **TotalEnergies' pre-issuance documents should also detail how these targets will be achieved and the calculation methodology.** These elements are not present in the current climate strategy of the major.

Finally, when analyzing the pre-issuance documents of any issuer, it is important to remember that **having a Second Party Opinion (SPO) should not be considered as sufficient proof of the quality of an SLB.** In the best of the cases, a SPO could highlight certain areas of opportunity, but it is in the investor's interest to conduct more comprehensive research.

CONCLUSION

Far from contributing to the oil and gas sector's transformation, **supporting TotalEnergies' self-designated climate-KPIs bonds will bolster the French major's greenwashing strategy, thus taking us farther away from a 1.5°C trajectory.** For the investors backing the bonds, it would mean the loss of their sustainability credentials and damage to their corporate image. As of now:

- TotalEnergies does not have short-, medium- and long-term goals that are aligned with the Paris Agreement objectives.
- TotalEnergies does not have a decarbonization strategy aligned with credible climate objectives, in accordance with climate science.
- TotalEnergies has not publicly committed to stop developing new fossil fuel projects in the short term, in accordance with climate science.

As for SLBs in general, investors should bear in mind that there are serious doubts about SLBs being able to incentivize companies to transition faster.¹⁰ The bonds are issued to answer short-term needs for cash – thus, the difference in temporality with the linked long-term targets makes an imperative for reaching targets today hard to imagine, given that potential impacts would only occur in the long term. Investors should make sure it doesn't give the green light for polluters to delay climate action once again.

“
Gas, like coal, has no future as the world wakes up to climate emergency.
”

*Christiana Figueres,
former Executive Secretary
of the UNFCCC*

ANNEX : AN INCREASING LIST OF PROBLEMATIC SLBS

Considering that issuers have carte blanche to use the bond's proceeds, a comprehensive pre-issuance assessment of SLBs should not only focus on evaluating the KPIs and targets, but the issuer's business model and forward-looking plans. Without proper scrutiny, SLBs can lose all their credibility, to become merely an instrument of marketing and a way to obtain cheap funding. The examples below highlight some companies with no serious environmental ambitions using SLBs:

- Brazilian meatpacker JBS, the principle contributor to the destruction of the Amazon rainforest and the Cerrado region, issued in June an SLB. While the SLB commits the company to reduce its scope 1 and 2 of greenhouse emissions, it does not commit the company to reduce scope 3 emissions - which are at least 90% of the company's total - or to reduce deforestation. Indeed, the company is only committed to eliminating deforestation from their global supply chain by 2035, far beyond its own 2009 commitment. An unacceptable timeline in a context where deforestation in the tropics is responsible of about 8% of the world's annual GHG emissions, in addition to its dramatic impact on biodiversity, local populations, and water resources. The banks that supported this transaction: Santander, Barclays, Bradesco BBI, BTG Pactual, Mizuho, and XP.
- After the issuance of a Sustainability-Linked Credit Facility in February, the Canadian midstream energy company Enbridge issued an SLB in June. The company specializes in the transportation of tar sands, one of the most polluting fossil fuels, and is well-known because of

Line 3 pipeline, a project deeply associated with numerous violations of human rights. While the bond includes the reduction of GHG emissions intensity (scope 1 and 2) among its targets, it excludes absolute emissions targets and scope 3 emissions targets, which are the bulk of its emissions. Moreover, as indicated by the AFII and Barclays, the company has given itself a head start as it is calculating its emissions reduction using 2018 as the baseline while it has already cut them by 25% since then. Concerning Enbridge's climate plans, the company likes to highlight its renewable investments. However, the majority of the company's 2020 growth projects is related to oil and gas - which represent 82% of total estimated expenditures- and is completely unaligned with a 1.5°C pathway. The banks that supported this transaction: Barclays, Bofa, Citigroup, Credit Suisse, JP Morgan, Mizuho, and SMBC

- The French overseas utility company Albioma issued in December 2020 a Sustainability-Linked Euro PP which final objective is to achieve a 95-100% share of renewable energy by 2030. Even if at first glance this objective may seem to be Paris-aligned and to contribute to the group's plan to phase out coal, Albioma's sustainability-linked finance is likely to cause more damage than environmental benefits: the company is considering solid biomass as a renewable energy source. Despite the use of biomass from "sustainable sources", solid biomass for large scale electricity generation is a not only a threat to climate change, but also to the ecosystems, land and water resources and human health. The banks that supported this transaction: Natixis and Société Générale.

References

1. Since the first green bond was issued by the European Investment Bank in 2007, the market for this new type of financial product, which is supposed to be linked to new or existing green projects, has seen increasing success. However, while fossil fuel companies and other players with significant activity in high-emitting industries are not excluded from this market, they can only market their bonds as "green" when the proceeds will be specifically used for projects that are acknowledged as green. To bypass this and increase the size of the capital market labelled as sustainable, financial institutions have developed new types of financial instruments: "transition bonds" were among the first to emerge, followed by "sustainability-linked bonds".
2. The amount of carbon dioxide emissions permitted over a period of time to keep within a temperature threshold of 1.5°C
3. TotalEnergies' climate strategy as presented and approved in the 2021 Annual Shareholders' Meeting.
4. This approach, used by itself, is highly problematic. In the best case, it may refer to a certain degree of progress, but it is not linked to a real and effective transition.
5. TotalEnergies disclosed the expected KPIs for its climate KPI-linked bonds during February's presentation: Scope 1+2 oil&gas operated emissions and Scope 3 absolute emissions and/or carbon intensity objectives. However, the major did not provide more public information about the specific targets and timelines. We expect them to be the same as in their current climate strategy, as this is common practice in the sustainable obligations market.
6. According to Climate Action 100+' assessment, TotalEnergies fails to meet the criteria of 8 out of 10 indicators used to evaluate the company's alignment with the coalition goals. The indicators assessed as unaligned are: Net-zero GHG emissions by 2040 ambition, long-term (2036-2050) GHG reduction targets, medium-term (2026-2035) GHG reduction targets, short-term (up to 2025) GHG reduction targets, decarbonization strategy, climate allocation alignment, climate policy engagement, and TCFD disclosure. Only climate governance is considered as aligned.
7. TotalEnergies' DEU indicates hydrocarbon production of 2347kboe/d in 2015. The group plans to increase its gas production to 1819kboe/d in 2030, leaving its oil and liquids production stable compared to 2019 (1672kboe/d), resulting in hydrocarbon production of 3514kboe/d in 2030.
8. TotalEnergies' gas production in 2020 was 1328 kbep/d according to its annual report, or 1162 kbep/d according to Rystad Energy UCube. According to its annual general meeting document, TotalEnergies aims to increase its gas production by 480 kbep/d between 2020 and 2030, resulting in an increase ranging from 36.1% to 41.3%.
9. Even the Sustainability-Linked Bond Principles developed by the ICMA recommend pre-issuance documents to be disclosed and reported by issuers to stakeholders.
10. As reminded in the CBI Discussion paper on Transition finance recently published: "There is no clear evidence on the necessary materiality of the incentive to change corporate behaviour, particularly to date where many KPIs appear not to have been set at sufficiently high ambition levels"

Credits

Marios Gkortsilas | Shutterstock

TOTALENERGIES' CLIMATE- LINKED BONDS: A TRAP

Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of some financial actors, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

contact@reclaimfinance.org

