

Engaging on demand-side climate solutions

To keep a global temperature rise of 1.5°C within reach, global emissions must reduce by at least 43% by 2030 versus 2019.¹ But with global emissions yet to peak, EOS is continuing to engage on demand-side solutions. By Will Farrell and Hannah Heuser.

Engagement with fossil fuel companies – so called “supply-side” engagement – has been a cornerstone of EOS’s climate change engagement over the last decade. In this time, oil and gas majors have committed to ambitious methane reduction targets, a greater consensus on coal phase-outs has been established, and at COP28 there was an unprecedented reference to transitioning away from all fossil fuels in the agreement text. Many oil and gas companies now have a transition narrative, with several European majors planning to invest between 20% and 35% of capital expenditure on low-carbon technologies by 2025.

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However, with oil and gas prices providing strong and resilient commercial incentives into the 2020s, various indicators suggest that oil and gas majors’ strategies are not yet fully aligned with 1.5°C and the Paris Agreement. Engaging across a universe of companies, we are using our supply-side insight to strengthen our engagement efforts on the demand-side of the price equation. We encourage companies to imagine a net-zero future, to assess the viability of solutions needed to get there, and to deliver the demand-led signal that 1.5°C can happen.

Demand-side engagement

The demand for renewable electricity provides a case study for this engagement approach. In requesting that companies set 1.5°C-aligned targets and identify key actions to reduce their emissions accordingly, many companies in our engagement programme have increased their emphasis on the procurement of renewable power purchase agreements (PPAs). This has contributed to a dramatic increase in these contracts to a record high of 46 GW globally in 2023.² Elevated prices for PPAs, which provide a fixed contract insulated from fossil fuel price shocks, have contributed to the rapid build-out of renewables, delivering the decarbonisation of the electricity supply through a demand-side lever.

In many hard-to-abate sectors, however, the best green technology available is not always immediately obvious. Through dialogue with companies on climate solutions and technology selection, we recognise that shareholders delegate

¹ <https://www.ipcc.ch/report/ar6/wg3/>

² Corporate PPAs hit record high in 2023, says BloombergNEF – pv magazine International ([pv-magazine.com](https://www.pv-magazine.com))

executive functions to management. Notwithstanding this vantage point or technology uncertainty, we scrutinise the assumptions governing this decision-making, while also reminding companies of the level of ambition required to be a competitive player in a net-zero world.



Tackling the hydrogen demand question

Green hydrogen is sometimes mooted as a decarbonisation lever for several hard-to-abate sectors. While the economics of green hydrogen are expected to improve, scaling up is only possible through company leadership. Keeping in mind the need for a 1.5°C ambition, we encourage companies with uncertain decarbonisation pathways, such as chemicals, cement, and steel, to plot a commercial pathway to net-zero emissions, possibly by leveraging green hydrogen.

This transition planning compels companies to identify the barriers to hydrogen deployment, prompting informed discussions with possible green hydrogen suppliers. Engie, a company we have engaged for several years on elevating its climate ambition and strategy, has outlined hydrogen use cases after developing its transition plan. It recently completed a 50% conversion of its Maxima gas-fired power station to green hydrogen and is in the process of securing a scalable supply of green hydrogen, a valuable demand signal to upstream industry.³



Treading a fine line on carbon capture

As with hydrogen, experts from different institutions and geographies believe that carbon capture, utilisation and storage (CCUS) will play an important role in limiting global temperature rise. However, the nascent technology has been slow to take off, due to high costs and uncertainty around the economic feasibility of large-scale CCUS deployment.

Yet carbon capturing technologies remain an important pillar of some companies’ decarbonisation strategies, especially in hard-to-abate sectors. We encourage companies in these sectors to conduct a thorough analysis to evaluate the economic feasibility of CCUS and to quantify the risks and uncertainties, while determining the required investment in research and development to successfully roll out CCUS.

When we engage with companies that have identified CCUS as a credible and economically feasible decarbonisation lever, we encourage these companies to send strong demand signals to the market and policymakers. Heidelberg Materials, for example, has outlined a clear rationale for the need to use CCUS in its net-zero plan. This is because optimising the product mix, adopting alternative fuels, and increasing circularity would not be sufficient to future-proof the company. It has strategically partnered with other companies and stakeholders to build a comprehensive project pipeline.



Public policy advocacy

In many cases, to a greater or lesser extent, companies are likely to see current levels of public policy as a constraint, limiting the demand for green technologies. We encourage companies to outline policy dependencies clearly and to develop an advocacy strategy to inform policymakers. In their advocacy reviews, Heidelberg Materials and Holcim publicly demand financial support for the deployment of CCUS and the development of transport infrastructure connecting emission sources with storage sites, for example. These companies also call for support in developing demand and customer markets for low-carbon cement.

These insights inform our approach to public policy advocacy. CCUS costs are likely to fall as the market grows – economies of scale can be exploited and inefficiencies will be reduced. The sooner that companies signal demand, the sooner supply is likely to scale up to meet it.

While discussions around climate change mitigation often tend to focus on supply-side solutions, we have been enhancing our activity on the demand side. We advocate for, and scrutinise companies’ technoeconomic analyses, encouraging companies to develop their businesses competitively against a Paris Agreement-aligned future, strengthening these important transition demand signals for markets and policymakers.

While the world economy is not yet fully aligned with 1.5°C, an increasing number of companies now have ambitious greenhouse gas reduction targets. For example, more than 4,000 companies have set targets validated by the Science Based Targets initiative.⁴

³ <https://www.engie.com/en/news/immersion-maxima-gas-fired-power-stations>.

⁴ [About us – Science Based Targets Initiative](#)

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