

Carbon Neutral Fossil Fuel Claims

Q3 September 2021



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Introduction

This report presents Trove Research's Q3 2021 update on the use of carbon credits for fossil fuel product claims. We use the term fossil fuel to include various upstream and downstream energy products, as well as fossil fuels used for lubricants.

The data and analysis behind the report form part of the Trove Intelligence platform covering corporate climate commitments and the use of carbon credits. As part of this platform, Trove Research maintains an up-to-date analysis on all carbon neutral claims associated with hydrocarbon products. Carbon Neutral claims included in this analysis cover seven product areas:

Upstream products

- Crude oil
- Condensate
- LNG
- LPG

Downstream products

- Aviation fuel
- Lubricant
- Petrol / diesel

This analysis includes carbon credit purchases for fuel shipments made to date, but exclude future carbon neutral commitments. Data is collected from a wide range of publicly available sources. Where data on carbon credit purchases or the size of the cargo is not disclosed, we have estimated carbon credit purchases based average shipment quantities and the carbon content of the product.

Summary

The number of hydrocarbon product shipments sold with Carbon Neutral claims has increased rapidly in the last few years. Key take-aways are as follows:

Quantity of carbon credits used

- By the end of Q3 2021 some 6.8Mt of carbon credits had been bought or retired for Carbon Neutral fuel claims. 4.6Mt of these credits were made in the first three months of 2021.
- Claims in 2021 represents c. 5% of all carbon credit retirements to date in 2021.
- The most significant growth has been in LNG shipments, with 26 Carbon Neutral cargos having been shipped to date, 18 of them in 2021.
- Two crude oil cargos have been claimed as Carbon Neutral in 2021, using 0.9Mt of carbon credits.
- Carbon credit purchases for Carbon Neutral lubricants have seen a renewed interest in 2021, representing 0.7Mt of credit demand

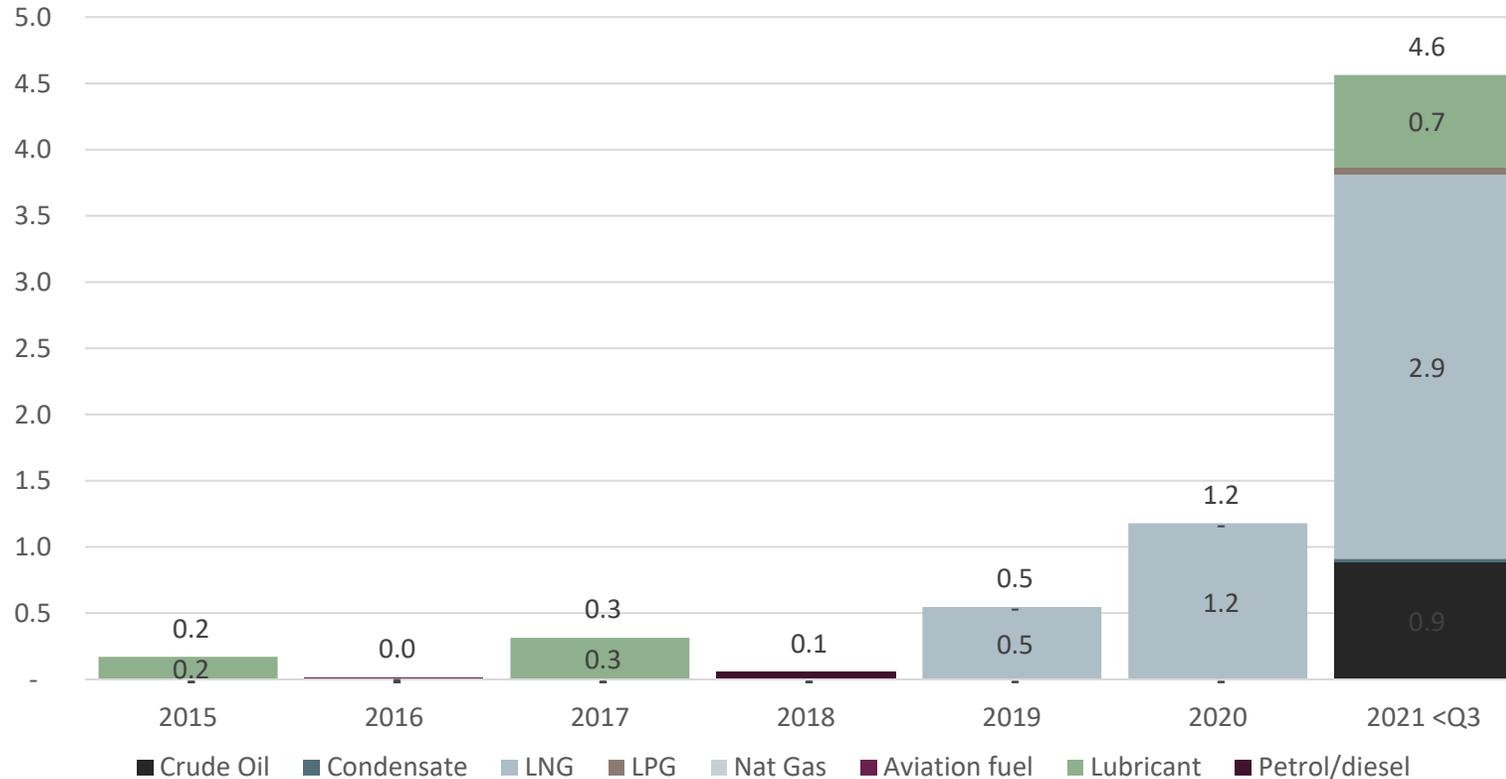
Types of carbon credits used

- **One in five** of the Carbon Neutral products claimed by the end of Q3 2021 only cover Scope 1 and 2 emissions – ie the emissions from upstream extraction, production and transportation of the fuel product. **They do not cover the emissions embodied in the fuel products themselves. This is a potentially misleading claim.** These Scope 1 and 2 claims, however, represent 5% of total offset emissions due to their smaller size.

Carbon Neutral Fossil Fuel Products - Annual Credit Demand

2021 has seen a surge in the use of carbon credits for hydrocarbon products. By end Q3 2021 4.6Mt of carbon credits had been used to offset hydrocarbon products. This represents c. 5% of global voluntary carbon retirements.

Carbon credit purchases by product type per year (MtCO₂e)



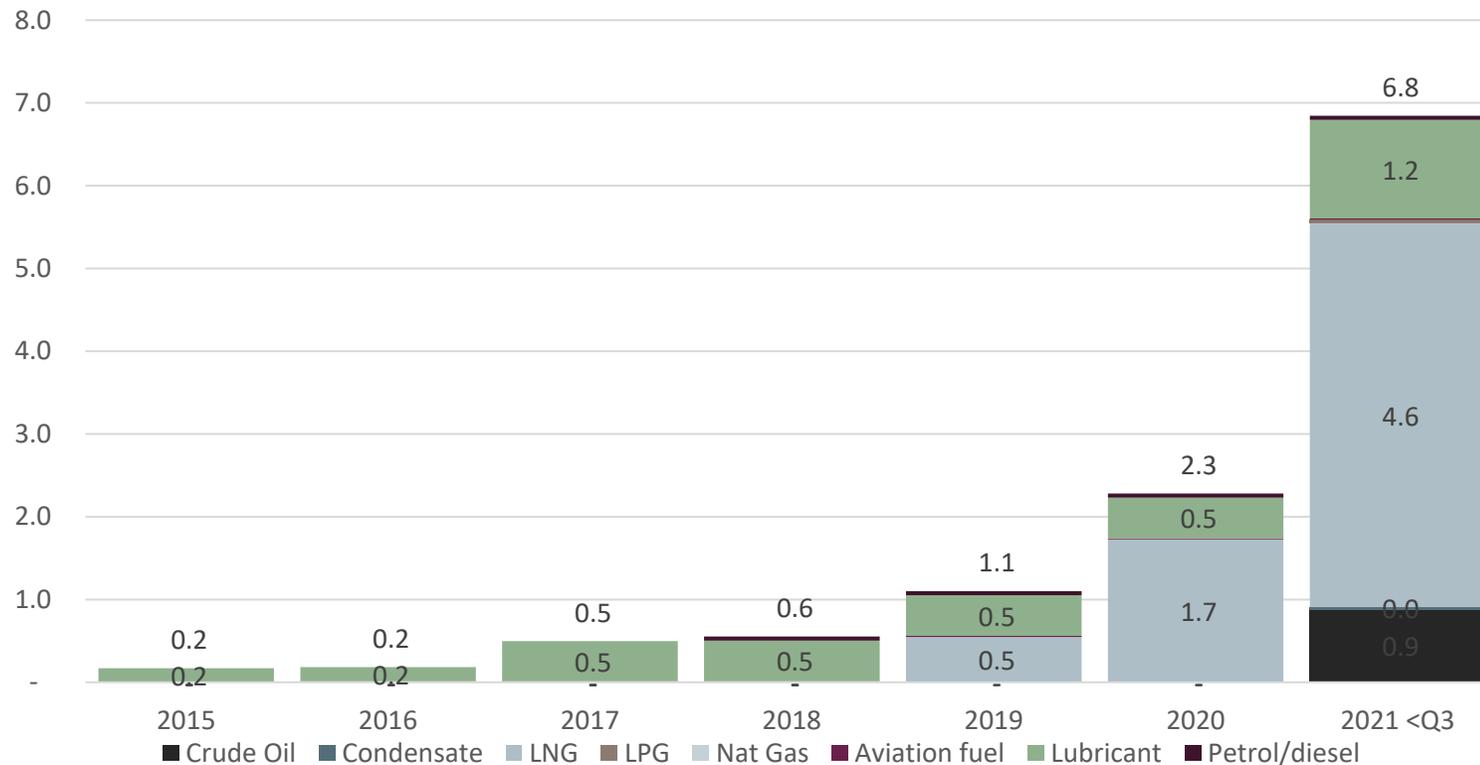
- 2021 has seen a significant increase in the quantity of carbon credits bought for Carbon Neutral fuel product claims.
- By the end of Q3 2021 some 4.6Mt of credits had been bought or retired for Carbon Neutral fuel claims. This represents c. 5% of all carbon credit retirements to date in 2021.
- The most significant growth has been in LNG shipments, with 26 Carbon Neutral cargos having been shipped to date, 18 of them in 2021.
- Two crude oil cargos have been claimed as Carbon Neutral in 2021, using 0.9Mt of carbon credits.
- Carbon credit purchases for Carbon Neutral lubricants have seen a renewed interest in 2021, representing 0.7Mt of credit demand.

Source: Trove Research analysis

Carbon Neutral Fossil Fuel Products – Cumulative Credit Demand

6.8Mt of carbon credits had been used by end Q3 2021 to offset hydrocarbon products. Energy companies are more willing to take responsibility for their carbon emissions than customers.

Carbon credit purchases by product type - cumulative (MtCO2e)



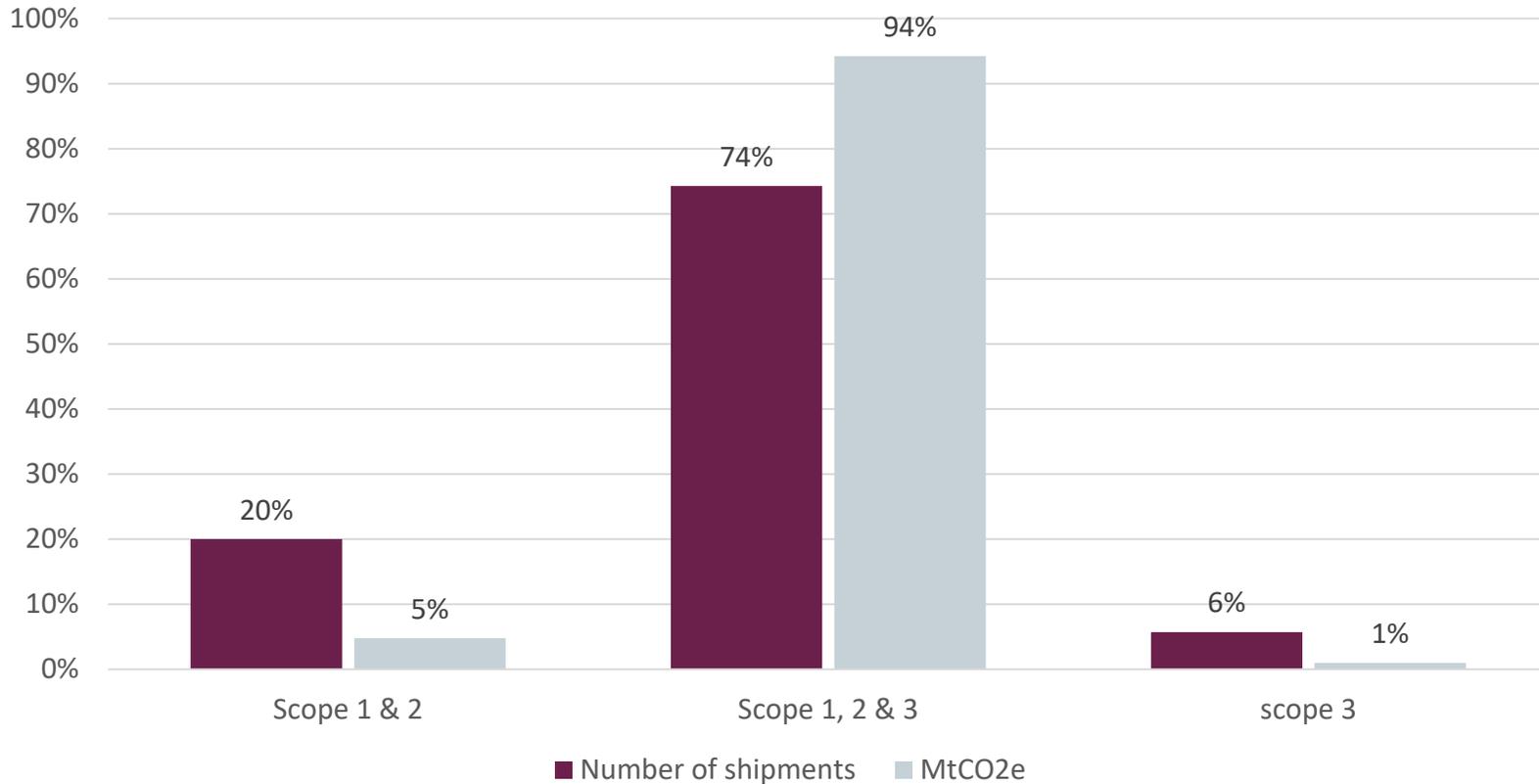
- By end Q3 2021 6.8Mt of carbon credits had been used to offset hydrocarbon products.
- Carbon Neutral lubricants represent a significant and growing proportion of credit use in the hydrocarbon sector. However, the majority of carbon credits are used to claim carbon neutrality for pre-refined products: LNG, crude oil and condensate.
- The emphasis on offsetting upstream products rather than consumer products reflects a persistent challenge in selling carbon neutral fuels at the pump. To date, energy companies appear more willing to take responsibility for the carbon emissions of their products than their customers.

Source: Trove Research analysis

Carbon Neutral Fossil Fuel Products – Scope Coverage

One in five claims for Carbon Neutral fossil fuel products ignore the carbon contained in the fuel.

Proportion of Carbon Neutral fuel product claims covered by different scopes (%)



- One in five of the Carbon Neutral shipments claimed by end Q3 2021 only cover Scope 1 and 2 emissions – ie the emissions from upstream extraction, production and transportation of the fuel product. They do not cover the emissions embodied in the fuel products themselves.
- **This is a potentially misleading claim.**
- These Scope 1 and 2 shipments, however, only account for 5% of the Carbon Neutral claims from the hydrocarbon product sector. The majority - 95% - of carbon claims relate to the upstream emissions and carbon embodied in the product.

Source: Trove Research analysis

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