

CLIMATE CHANGE PROPOSAL

Objective: Obtain approval of API's climate change proposal and advocacy plan for next steps on public engagement including with the Biden administration, Congress and the broader public.

Background: During the month of February, the API policy committees met at the direction of the API Executive Committee to enhance the industry's policies and initiatives on climate change. The purpose of this effort was two-fold. First to enhance our climate change advocacy with the Biden administration and Congress as the U.S. seeks to establish a nationally determined contribution consistent with the Paris Agreement.

The proposal includes the following five points:

1. **Endorse Carbon Pricing** *to drive economy-wide, market-based solutions.*
2. **Accelerate Technology & Innovation** *to reduce emissions while meeting growing energy needs.*
3. **Further Mitigate Emissions from Operations** *to deliver environmental progress.*
4. **Advance Cleaner Fuels** *to provide lower-carbon choices for consumers.*
5. **Drive Climate Reporting** *to support consistency and transparency.*

1. Endorse Carbon Pricing

API proposes the following position on carbon pricing:

API supports well-designed, market-based, economy-wide carbon pricing as the most impactful government climate policy instrument to reduce CO₂ emissions while helping keep energy affordable, instead of mandates or prescriptive regulatory action.

As policymakers consider various policies and approaches to address the risks of climate change, API will continue to engage based upon its climate principles and issue specific framework on carbon pricing and work to integrate legislation that prices carbon across sectors and political jurisdictions while avoiding duplication.

2. Accelerate Technology & Innovation

API currently supports government funding of basic research toward the objective of reducing emissions, with a focus on technologies evaluated based on the potential for the largest scale and most economic GHG emissions abatement opportunity across the economy.

Based upon our industry's history and expertise we can help to further develop and promote the commercial promise of carbon capture, utilization and storage, and hydrogen technologies. **API proposes** to work with policymakers and other trade associations to:

- Fully appropriate funding for low carbon RD&D programs authorized in the Energy Act of 2020.
- Increase substantially Congress-appropriated funding for government research on a range of low or no carbon technologies, including capturing and storing carbon and production and supply of hydrogen, with formal assessment of funded technologies on the basis of potential for GHG abatement at the lowest cost.

- Implement federal policies consistent with the NPC study to substantially increase support for CCUS to achieve “at-scale phase” deployment.
- Implement policies to expand the infrastructure needed to secure a place for these low carbon technologies in the economy.

3. Further Mitigate Emissions from Operations

Flaring:

API proposes to advance to the second phase of its two-phase Flare Management Program under The Environmental Partnership to address associated gas flaring. This includes API analysis of existing/planned infrastructure and projected oil and natural gas production to better understand and ultimately inform the consideration of an associated gas flaring reduction target or goal.

API maintains that the regulation of flaring is best managed at the state level, and we will continue to work with both state and federal agencies to address routine gas flaring and proceed with the development of an operational guidance document on flaring, based on the best practices identified by The Environmental Partnership.

API proposes to encourage members to individually commit to no routine flaring by a certain date (e.g., World Bank’s Zero Routine Flaring Initiative by 2030), and promote the development of a common definition of routine flaring.

Methane: API currently supports cost-effective policies and direct regulation that achieve methane emission reductions from new and existing sources across the supply chain. Additionally, the oil and natural gas industry remains committed to the development and deployment of new technologies and practices through industry initiatives, like The Environmental Partnership, to better understand, detect, and mitigate emissions.

API proposes to engage in a two-year aerial survey project, managed by The Environmental Partnership, supported by supplemental funding from interested member companies. To collect meaningful data as quickly as possible, the project is purposefully designed to be iterative. Each phase of the project, starting in the second quarter of 2021, will inform subsequent project design and data collection to advance EPA approval of the aerial survey technology to satisfy regulatory requirements. As part of this effort, API will also support investigation, testing, and advancement of additional detection technologies. These projects can help inform API’s advocacy with the Biden administration as the EPA considers regulatory requirements to address emissions from existing sources and to continue to reduce methane emissions through voluntary collaborative industry efforts.

API proposes to engage proactively in the national debate regarding abandoned wells as a potential contributing factor to methane, by actively working with the Interstate Oil and Gas Compact Commission (IOGCC) to determine where opportunities exist for collaboration on state priorities associated with abandoned wells; to develop a stand-alone federal initiative that will provide federal grant money to meet the needs of the states while reducing potential environmental impacts from abandoned wells; and to participate as a thought partner with authors of federal initiatives focused on abandoned wells.

Refining: **API proposes** to establish a voluntary program for carbon emissions reductions available to all refineries to reduce GHG emissions. Further discussions are necessary to develop a meaningful program to incentivize and measure significant carbon emissions reductions. Such a program would identify a recommended target that is achievable and would result in meaningful GHG emissions reductions, along with a third-party reporting mechanism (i.e., Solomon or OGCI).

Additionally, **API proposes** to conduct forums to share information on topics such as refinery carbon emissions reduction efforts, and energy efficiency that protect company intellectual property and conform to API antitrust guidelines.

4. Advance Cleaner Fuels

Differentiated Natural Gas and LNG: API currently supports policies that expand the use of U.S. natural gas in both domestic and global markets. As investors and large natural gas customers increasingly look to understand the emissions impact of their suppliers, there has been a rising interest in a standardized and transparent market for natural gas differentiated by its emissions intensity.

Differentiated, or “responsible” natural gas is becoming increasingly important to buyers in both domestic and international gas markets. **API proposes** supporting the ongoing development of markets for differentiated natural gas, recognizing the significance of these efforts in ensuring natural gas continues to be viewed as a major component of a lower carbon energy future. API will continue to seek opportunities to engage with entities in the process of developing these initiatives and will explore the possibility of leveraging the work of API Global Industry Services in establishing criteria and methodologies for certifying differentiated natural gas.

Electricity: In promoting the sustained role for natural gas in an increasingly carbon constrained electricity sector, API has current principles for evaluating—and potentially supporting—Clean Energy Standard (CES) proposals that are inclusive of natural gas. In recognition of API’s newly proposed position in support of an economy-wide carbon pricing (outlined above), **API proposes** that its framework position on CES should be retained. API will make it clear that carbon pricing is the most impactful government policy instrument to reduce emissions. However, we will be prepared to engage on CES proposals consistent with our framework position.

Transportation Fuels: **API proposes** supporting technology neutral policies at the federal level that drive GHG emission reductions in the transportation sector using a holistic approach for fuels, vehicles and infrastructure systems.

More specifically, **this proposal** includes: 1) fuel standards, 2) vehicle standards based on a technology neutral, lifecycle approach for lower GHG emissions, 3) fuel/vehicle system optimization to improve efficiency and 4) supportive infrastructure measures.

Regarding fuel standards, **API proposes** supporting well-designed (technology neutral, lifecycle-based, and feasible) federal standard to reduce the carbon intensity of fuels.

API proposes engagement with EPA and renewable fuel stakeholders to develop strategies that eliminate the annual deadlock over RFS volume mandates, and result in a well-designed fuel standard for 2023 and beyond, either through regulation or legislation.

Regarding vehicle standards, **API proposes** support for the use of technology neutral fuel economy and GHG standards as an effective method to reduce the carbon impact of all transportation modes.

API proposes support for transitioning the standards from a tailpipe basis to a full lifecycle approach that encompasses both vehicles and fuels.

Finally, **API proposes** considering support for the adoption of a 95 RON octane standard for new vehicles to facilitate cost effective fuel economy improvements, as part of a holistic policy framework to reduce CO₂ emissions from transportation in conjunction with the fuel and vehicle standards mentioned above. API would not support a 95 RON standard on a stand-alone basis.

5. Drive Climate Reporting

API recognizes that policy makers, financial stakeholders and others seek to understand GHG emissions across the entire oil and natural gas value chain.

API proposes supporting industry sustainability reporting consistent with the *IPIECA-API-IOGP Sustainability Reporting Guidance* and promoting member efforts in this space.

API proposes supporting consistent climate-related financial risk and opportunity disclosures amongst the industry, including reporting consistent with or leveraging Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) frameworks. API will continue to monitor and seek to influence the further evolution of external reporting frameworks.

Next Steps: API will release a climate action framework outlining the above policy recommendations and new industry initiatives, following approval by the API Board of Directors. API will highlight the industry's climate framework as building on the industry's climate progress to date and supporting the U.S. government's new contribution to the Paris Agreement.

Following API Board approval, API will release the framework

Action: To approve the five-point climate change proposal and supporting advocacy plan.

For Information

**API Board of Directors
March 25, 2021**

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GLOBAL INDUSTRY SERVICES

Objective: To report on API's efforts to fully utilize and leverage its Global Industry Services (GIS) Division, which offers standards-setting, field assessments, certifications, licensing and training programs across industry segments.

Background: The mission of API's GIS Division is to provide world-class standards, training, assessment and certification services that enable the oil and natural gas industry to operate efficiently, safely, reliably, profitably and sustainably. Comprised of approximately 115 staff, the GIS Division

Each year, API publishes approximately 80 new and revised standards as part of its library of more than 700 ANSI-accredited standards and other statistical products

In addition to its standards-setting activities, GIS operates related revenue-generating business including the Monogram®/APIQR Program; Engine Oil Licensing and Certification Program, Individual Certification Program for inspectors; and training programs for industry employees and contractors,

GIS also administers

programs to drive safety and environmental protection across the industry, including the API Energy Excellence initiative, the Upstream's Center for Offshore Safety (COS), Midstream's Pipeline Safety Management System Assessment Program and Downstream's Process Safety Site Assessment Program (PSSAP®). The activities of the GIS Division are overseen by the Global Industry Services Committee (GISC).

Discussion:

Supporting Operational Excellence and Contributing to Segment Priorities

Another key role played by GIS is setting industry standards and providing supporting services that help companies advance performance, share good practices and benchmark against peers. API took a significant step forward in bringing together segment standards and programs under a common framework and commitment to accelerating safety and environmental progress through its new API Energy Excellence platform. Launched publicly during API's State of American Energy Event in January 2021, API Energy Excellence is a systems-based framework that contains 13 elements that are broadly applicable across industry segments. The elements serve as a roadmap for accelerating operational integrity, drawing upon existing segment standards and programs.

We will also elevate the initiative in agency meetings as appropriate. In support of member progress reporting beginning in early 2022, API has formed an Energy Excellence Resource Network, with more than 100 companies already nominating designees. This Network will be engaged in webinars and good practice sharing forums throughout the year, and nominations can be sent to [REDACTED]



In support of segment priorities and contributing to API Energy Excellence, API plans to publish 75 standards this year, and industry participation in their development thus far in 2021 has been strong. API has prioritized partnerships with other standards-setting organizations globally, including the International Association of Oil and Gas Producers (IOGP) and others in Brazil, Russia, Saudi Arabia and the UAE, to harmonize approaches, drive operational efficiencies and create a level playing field where possible around the world. To continue to progress these objectives, in the initial months of the year, GIS has signed Memorandums of Understanding with the State Oil Company of Azerbaijan Republic (SOCAR), the Center for Local Business Development in Guyana and the African Energy Chamber (AEC). We are already seeing positive results in standards adoption and business development from the cultivation of these new relationships.

Enabling Future Industry Trends and Technologies, Ensuring Business Resilience

As GIS considers the evolving needs of API members as well as the trajectory of our existing revenue-generating businesses amid market trends shaping the future energy landscape, potential new areas for GIS contributions have emerged. These range from standards setting in the electric vehicle (EV) fluids space to measurement and infrastructure standards related to carbon capture, use and storage (CCUS), hydrogen or other types of "new energy" infrastructure to use of API work in differentiated natural gas definitions. In some cases, such as differentiated hydrocarbons, GIS supporting efforts could enhance API advocacy to expand markets for U.S. natural gas. In other areas, this work mitigates risks to and creates new opportunities within existing API businesses.

GIS is working closely with its policy counterparts and the GISC to explore and prioritize these opportunities.

Action: None. For information only.

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