theguardian

Exxon Mobil should return profits to investors, not build more reserves

The oil giant should focus on value rather than investing money in expensive projects to build the very fossil fuel reserves that endanger its own – and the planet's – survival

November 28, 2014 | Natasha Lamb

Instead of investing in more expensive ways to source fossil fuels, big oil companies should return profits to investors and focus on value. Photograph: Alamy

Exxon Mobil has been left pondering an age-old investment question – when to re-invest profits and when to return them to investors – after a shareholder proposal, which asks the company to return capital to shareholders rather than break ground on high-cost high-carbon projects in the face of global climate change, was filed by Arjuna Capital and As You Sow.

The answer boils down to where you can secure the greatest value. If companies invest in new projects for ever-lower returns, those investments are value destroying. At a certain point, companies must face the fact that they are no longer growth companies, but mature, value companies that pay steady dividends.

There are two physical constraints determining the growth of oil companies — there is only so much easy-access oil and our atmosphere can absorb only so much carbon. The first constraint is hurting business now; industry return on invested capital is at a 40-year low despite a sustained period of high gas prices. Unconventional oil, which is harder to extract, is simply too expensive.

As big oil races to separate sticky oil from sand, and drill to previously unthinkable ocean depths in previously unthinkable layers of the earth's crust, spending has doubled over the last 10 years. But supply has only grown by 3%.

Exxon is not immune – it has doubled company investments in new reserves over the last seven years, while reducing capital returned to shareholders by roughly a third.

While the second constraint, global climate change, is hotly contested and politicised, it is actually a simple math and science equation. If we burn too much carbon we will raise global temperatures to unsafe levels. Big oil can heed that logic and wake up to the biggest risk their business faces this century. Or they can put their heads in the sticky tar-like sand and continue to pump money into lobbying efforts trying to convince the public otherwise.

In response to Arjuna's previous shareholder proposal on carbon asset risk, Exxon publicly stated their business is not at risk of decreased demand because they think it's "highly unlikely" that global governments will adopt severe enough policies to reduce fossil fuel consumption.

But just this month, the USA and China took a step toward meaningful carbon goals. Addressing a recent seminar in London, BP's former chief executive, Lord Brown, said: "The targets agreed by President Obama and President Xi will not be achieved with the policies currently in place… They will therefore require new policies, which could reduce the two countries' cumulative oil demand by more than 17bn barrels of oil over the next 15 years."

This is but the latest writing on the wall. Global governments already agree that we cannot raise global temperatures more than 2C, which means that we can only burn less than one third of existing fossil fuel reserves carried on energy firm's balance sheets.

The problem investors face is that Exxon is both willing and able to spend a lot more on projects that could prove uneconomical. The company has the potential to spend more than $100bn in high-cost high-carbon projects over the next 10 years — projects that could fail to prove fruitful if oil prices stay below $95 a barrel, as they are today.

Building fossil fuel reserves in the face of global climate change is simple folly. We should not be in a rush to find and burn all the carbon we can, regardless of cost and irreversible climate impact. Instead, companies and their investors should focus on value.

Big Oil faces a headwind. They are pushing the limits; there's only so much oil in the ground and there's only so much CO2 we can pump into the air. When Exxon realises that, they can start planning smartly for the future.