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Oil Company Bosses' Bonuses Linked to $1tn Spending on Extracting Fossil Fuels

ExxonMobil, Shell, Chevron, Total and BP pour funding into projects to unlock oil reserves – despite scientists warning they will lead to climate change disaster

Simon Bowers and Harry Davies | May 25, 2015

Royal Dutch Shell's oil drilling rig Polar Pioneer is towed towards a dock in Seattle. Photograph: Elaine Thompson/AP

Bosses at the world's big five oil companies have been showered with bonus payouts linked to a $1tn (£650bn) crescendo of spending on fossil fuel exploration and extraction over nine years, according to Guardian analysis of company reports.

The unprecedented push to bring untapped reserves into production, and to exploit new and undiscovered fields, involves some of the most complex feats of engineering ever attempted. It also reflects how confident Exxon Mobil, Shell, Chevron, Total and BP are that demand will remain high for decades to come.

The big oil groups are pressing ahead with investments despite the International Energy Agency (IEA) estimating that two-thirds of proven fossil fuel reserves will need to remain in the ground to prevent the earth from warming 2C above pre-industrial levels – a proposed temperature limit beyond which scientists warn of spiralling and irreversible climate change.

Multi-billion-dollar capital projects amount to huge, long-term bets by the big five that exorbitant costs associated with unlocking hydrocarbon reserves in some of the most inaccessible locations on the planet can eventually be recouped and converted into profits.

Bonuses for chief executives at all five firms are tied to the achievement of delivery milestones in the construction and deployment of such projects.

Shell's Ben van Beurden, for example, last year received a pay deal worth $32.2m, including bonuses linked to delivering "a high proportion of flagship projects on time and on budget". These are thought to include four platforms floating 1,000 metres or more above deepwater wells in the Gulf of Mexico, Gulf of Guinea and South China Sea.

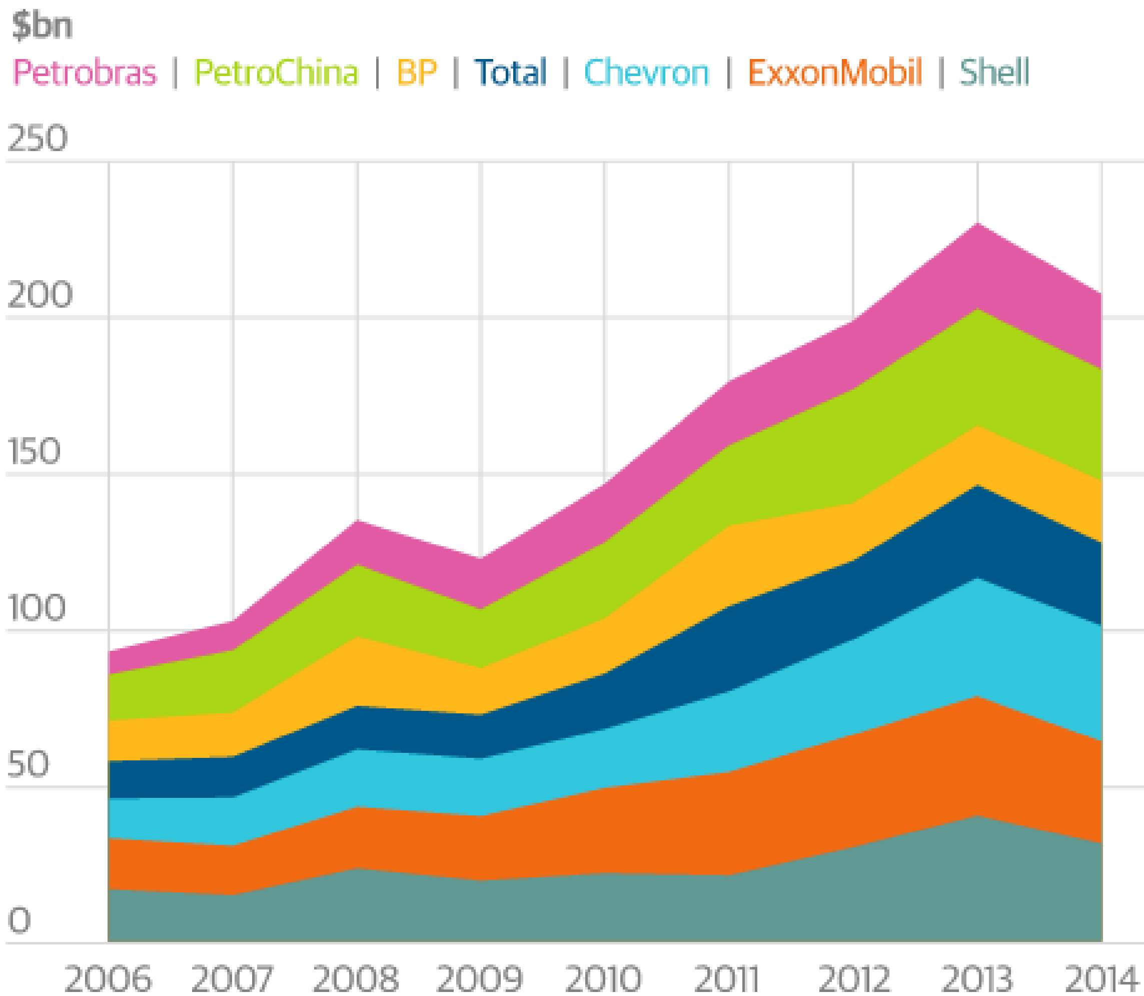
Similarly, BP's Bob Dudley was awarded a pay deal worth $15.3m, with bonuses linked to seven "major projects", thought to include Sunrise, a tar sands joint venture in Canada, as well as projects in Angola, Azerbaijan, the Gulf of Mexico and the North Sea.

The boss of Exxon, Rex Tillerson, was paid $33.1m last year including bonus payouts linked to projects including the first well in the Kara Sea, in the Russian Arctic, and the expansion of the Kearl tar sands operations in northern Alberta, Canada.

The Guardian asked each of the big five about the appropriateness of linking bonuses to capital spending given the looming threat posed by climate change. Shell said pay for Van Beurden "reflects delivery of company strategy, measured by both short-term and long-term targets".

Chevron said executive rewards were "strongly tied to corporate performance and directly linked to increases in shareholder value". Exxon Mobil and BP declined to respond, while Total did not answer.

Energy companies upstream capital expenditure



Guardian graphic

In 2013 the big five collectively spent $165.3bn on so-called “upstream activities” where investment is focused on colossal engineering projects to bring reserves on tap and, to a lesser extent, on exploration. Nine years earlier, the figure had been $70.8bn.

Upstream capital spending edged lower last year, falling to $147.4bn as companies reacted to the surprise fall in the oil price, the first dip in upstream investments in at least nine years. But while the financial press has been full of reports of capital projects being axed or delayed, inflation-adjusted spending for 2014 remained 77% higher than in 2006 and is projected at many companies to continue at historically high levels for years to come.

The combined 2014 upstream capital spending bill for the big five is three and a half times the sum devoted to research and development by the world’s five biggest-spending drug firms. It is also equivalent to more than 14% of the combined stock market value of Exxon Mobil, Shell, Chevron, Total and BP.

On Wednesday, activist shareholders at Chevron, led by campaign group As You Sow, will attend the company’s annual meeting in San Ramon, California, inviting fellow investors to vote in favour of a resolution they have filed calling for Chevron to slash its upstream capital spending and to return the unused cash to shareholders.

The equivalent of one in every five dollars of revenues at Chevron was poured back into capital projects last year, totalling $37.1bn. That compares with just 7% nine years ago. A similar pattern showing a rising proportion of revenues reinvested in upstream capital spending was seen at several firms.

The As You Sow resolution is unlikely to be carried because it is opposed by the Chevron board. In its letter to shareholders ahead of the meeting, directors said the proposal “is based on a flawed, if not dangerous, premise: that stockholders would be best served if Chevron stopped investing in its business”.

They also hinted that Chevron did not believe political leaders convening in Paris in December for a UN climate change summit will do much to interrupt the growing demand for fossil fuels.

“Notwithstanding the intent of nations to do so, the level and pace of global policy action indicates a low likelihood of a global accord to restrict fossil fuel usage to the levels referenced by the proponents [of the resolution].”

Exxon Mobil, which holds its annual meeting on the same day in Dallas, Texas, is similarly expected to persuade its shareholders to vote down a handful of resolutions tabled by activists.

In recent months BP and Shell have agreed to calls from church fund managers and other activists to next year provide “further information” on executive bonuses in the light of international ambitions to shift the world to a low-carbon economy. The activists want this to include a review of those bonuses currently linked to exploration and development of reserves.

Despite the tens of billions of dollars involved, capital spending by the oil industry’s big five is thought to pale next to some of the upstream budgets of state-controlled groups which now dominate the world’s hydrocarbon carbon stores.

Figures analysed by the Guardian from Brazil's Petrobras and China's PetroChina show capital spending of $24.2bn and $35.7bn respectively. They have expanded spending from 2006 of $7.33bn and $14.67bn.

The vast majority of the world's reserves were once controlled by powerful western companies known as the Seven Sisters – businesses that have effectively evolved into what are now known as the big five oil and gas majors. Their domination of global carbon resources, however, has greatly diminished, with the rise of private, state-controlled firms in Saudi Arabia, Venezuela, Iran, Russia and Malaysia.

Asked about its determination to press ahead with large budgets for upstream capital projects, Shell told the Guardian: "Shell and the wider industry go through cycles of investment due to the nature of our projects and the external environment in which we operate."

BP said: "Affordable, secure energy is essential for economic prosperity and we forecast that global demand for energy is set to grow by nearly 40% by 2035. The IEA's 450 parts-per-million [CO_2 emissions] scenario estimates that by 2040 up to 60% of the fuel mix will still be fossil fuels; investment to develop oil and gas will continue to be needed."

BP

CEO: Bob Dudley

Reported pay*: $15m

Big capital expenditure (capex) milestone: Sunrise, Canada

In late 2014, four years after facing intense shareholder resistance over its move into Canada's vast and environmentally controversial tar sands, operations began at BP's $2.5bn Sunrise project.

Sunrise is a prize asset for BP and their joint venture partners Husky Energy – a Canadian firm controlled by Hong Kong billionaire Li Ka-Shing. With estimated reserves of 3.7bn barrels of oil, BP believe Sunrise will provide a "secure and stable" source of energy over the next forty years.

Tar sands developments like Sunrise have attracted deep environmental opposition.

As well as locking in decades of some of the dirtiest fossil fuel production, extraction is an exceptionally carbon intensive process.

The Sunrise project was among seven major project start-ups that helped secure Bob Dudley's 2014 bonus. Its delivery, however, was less well received by the 1,000 workers in Canada unexpectedly laid off the day first oil was announced in March.

Chevron

CEO: John Watson

Reported pay*: $26m

Big capex milestone: Jack/St Malo, US Gulf of Mexico

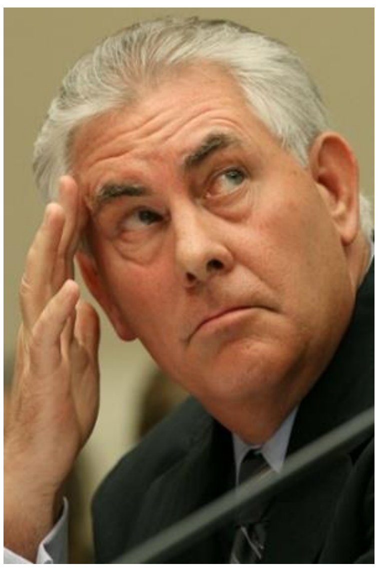
The Jack/St Malo project has taken Chevron to one of the deepest and most remote parts of the Gulf of Mexico. After ten years of work and $7.5bn of investment, Chevron finally began pumping oil and gas from their "signature project" in December 2014.

The hulking, purpose-built Jack/St Malo platform sits in ultra-deep waters of over 2,000m – displacing as much water as 350 jumbo jets would – drilling down to reservoirs 6,000 metres beneath the seabed (approximately 14 Empire State Buildings deep).

Chevron believe production at Jack/St Malo will continue over the next 30 years and beyond, but in the short term the project is expected to help the company reach a target to significantly ramp up oil and gas production by 2017.

It also counts towards CEO John Watson's pay packet, whose performance is measured by the delivery of major projects such as Jack/St Malo.

Exxon Mobil



CEO: Rex Tillerson

Reported pay*: $33m

Big capex milestone: Kara Sea, Russian Arctic

After months of drilling around the clock through the short Arctic summer, Exxon Mobil and their Russian partners Rosneft struck oil last year. Announcing the major discovery, Rosneft CEO Igor Sechin said: "This is our united victory."

The discovery of over 700m barrels of oil came with a hefty price tag – $700m for the single northernmost well in the world – but for Exxon it was ultimately short-lived. Soon after the discovery, the Texas-based company was forced to withdraw from the project thanks to creeping sanctions against Russia.

By leading drilling operations in the icy Kara Sea, Exxon have taken the first steps towards opening up Russia's Arctic waters as a major new oil and gas frontier. The Kara Sea alone is believed to hold colossal reserves of tens of billions barrels of oil.

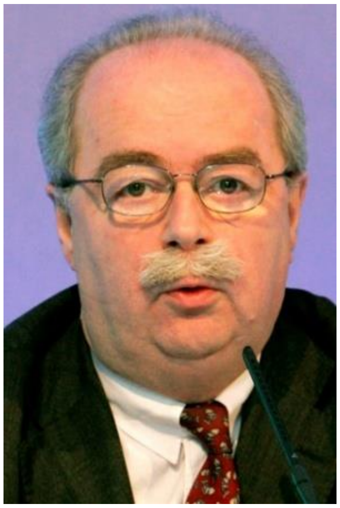
Despite withdrawing from the project, the Arctic exploration project is among Exxon's 2014 results linked to CEO Rex Tillerson's annual pay award.

Total

CEO: Christophe de Margerie (until October 2014)

Reported pay*: $6m

Big capex milestone: Kashagan, Kazakhstan



Production at Kashagan – one of the world's most expensive and complex oil projects – is on hold. But for a brief period in 2013 the $50bn mega-project in Kazakhstan began pumping oil for the first time after a decade of setbacks and delays.

Total, which is among a consortium of companies behind the Caspian Sea project, is not expecting production to resume until 2017, but Kashagan's vast reserves are believed to be worth the wait.

With estimated proven reserves of 13bn barrels of oil, Kashagan is one of the largest oil fields in the world – originally anticipated to produce more oil than Libya and with reserves greater than Brazil, according to the EIA.

For Total, the brief spurt of production at Kashagan was a highlight of 2013 and increasing production has been explicitly tied to the chief executive's pay.

Shell

CEO: Ben van Beurden

Reported pay*: $32m

Big capex milestone: Gumusut-Kapak, Malaysia

Gumusut-Kakap is a deep-water oil platform off the coast of Malaysia that began pumping oil for the first time in October 2014. The project is among several of Shell's flagship projects in 2014 tied to Ben van Beurden's £2.3m bonus.

Viewed from above, the giant platform covers an area of almost two football fields and is among the largest of its kind in Asia. Floating in the South China Sea, the platform has four decks and sits atop potentially vast reserves of as much as 500m barrels of oil.

Eventually Gumusut-Kakap is expected to contribute around 25 per cent of Malaysia's oil production. The project, according to Shell, is "critical to Malaysia's long-term energy security".

* Reported pay is the headline figure given in the annual report for each group. Calculation methodology differs between reporting jurisdictions.