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In Shift, Exxon Mobil to Report on Risks to Its Fossil Fuel Assets

Diane Cardwell | Mar. 20, 2014

Energy companies have been under increasing pressure from shareholder activists in recent years to warn investors of the risks that stricter limits on carbon emissions would place on their business.

On Thursday, a shareholder group said that it had won its biggest prize yet, when Exxon Mobil became the first oil and gas producer to agree to publish that information by the end of the month.

In return, the shareholders, led by the wealth management firm Arjuna Capital, which focuses on sustainability, and the advocacy group As You Sow, said they had agreed to withdraw a resolution on the issue at Exxon Mobil's annual meeting.

An Exxon rig in Mobile Bay, Ala. The company agreed to publish plans to cope with the risks to its assets posed by potential limits on greenhouse gas emissions. *Credit: Bevil Knapp/European Pressphoto Agency*

Exxon declined to comment, but an email exchange with the company provided by the shareholder groups confirmed the agreement.

The shift is a sign of a growing acceptance among investors and companies that the value of fossil fuel assets may be out of line with evolving policies on global warming.

For example, oil reserves deep in the Gulf of Mexico are much more expensive to extract, and would become uneconomical if carbon emissions are reduced by as much as 80 percent, a goal articulated by President Obama.

"These two goals" — extracting a company's reserves, and reducing carbon emissions — "are in conflict and unlikely to be able to coexist going forward," said Allen Good, an oil company analyst at Morningstar. "There certainly is an awareness out there of it."

In addition to showing how it will assess the risks to its portfolio, Exxon Mobil also agreed to say how further restrictions on carbon emissions would affect the projects it intends to invest in and to explain why new fossil fuel reserves in which it invests are not at risk of losing value, the shareholder groups said.

"That the largest American oil and gas company is the first to come to the table on this issue says a lot about the direction that energy markets are taking," said Danielle Fugere, president of As You Sow. "Investors need transparency and disclosure about these company choices."

The agreement comes after one in January by the large electric company FirstEnergy and is part of an effort by Ceres, a coalition of environmentalists and investors, to make companies more environmentally responsive.

Also on Thursday, Denise L. Nappier, the Connecticut state treasurer, said that Peabody Energy, a Missouri-based coal company, had agreed to produce a similar report in exchange for withdrawing a shareholder resolution filed by the Connecticut Retirement Plans and Trust Funds.

The Ceres campaign began last fall with a letter from shareholders representing $3 trillion in assets to 45 of the largest fossil fuel companies asking for more information about whether and how they were addressing the risks posed to

their assets by changing climate policy. Two-thirds of the companies agreed to respond by this spring, said Andrew Logan, director of the group's oil and gas and insurance programs.

After that, shareholders filed proposals at almost a dozen companies, most of which have yet to strike a public agreement, including Hess, Kinder Morgan and Chevron.

Investors have been pressuring corporations into action on climate change, and a movement to persuade universities, foundations and governments to rid themselves of investments in fossil-fuel companies has had some successes. Two billionaires — Michael R. Bloomberg and Tom Steyer — have started an effort called Risky Business, which includes three former Treasury secretaries, Henry M. Paulson Jr., Robert E. Rubin and George P. Shultz, to assess the economic risks posed if climate change is left unaddressed.

In the 2013 proxy season, shareholder submissions grew more than 6 percent compared with the previous year, with environmental and social proposals representing the largest category, at just under 40 percent, according to a report from Ernst & Young.