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Exxon Agrees to Disclose Its 'Carbon Risk'

Shareholder Resolution Is Withdrawn on Promise of Environmental Report

Daniel Gilbert | Mar. 20. 2014

Exxon Mobil Corp. has agreed to disclose how the regulation of carbon emissions could affect the value of its oil and gas holdings, a sign that America's biggest energy company is stepping up efforts to address shareholders' environmental concerns.

Exxon Mobil is set to disclose the impact of carbon regulations on its investments, such as mining oil sands in Alberta, Canada. *Corbis*

The oil giant will publish a report later this month explaining how it weighs the risks that regulations could make it prohibitively expensive to tap oil and gas, according to Arjuna Capital, an investment management firm focused on social responsibility that submitted a shareholder resolution asking for such a report.

Exxon is set to disclose a range of measures in the report, including a calculation of the carbon emissions that its operations give off and a discussion of how it incorporates the risk of regulation into its spending plans.

Arjuna said it withdrew the shareholder resolution after Exxon became the first major energy company to agree to provide the information.

David Rosenthal, Exxon's head of investor relations, told Arjuna earlier this month that the company is making "an extensive outreach this year" to shareholders concerned about carbon, greenhouse-gas emissions and hydraulic fracturing, among other environmental issues, according to correspondence reviewed by The Wall Street Journal.

An Exxon spokesman declined to comment.

For years, Exxon has assumed that there will be a cost from government regulations designed to limit carbon emissions from fossil-fuel use, as concerns mount over their impact on the climate. In developed countries such as the U.S. and in Europe at the vanguard of such policies, Exxon assumes that carbon emissions will cost about $80 per ton in 2040.

But the Irving, Texas, giant is taking that a step further with agreeing to detail how it weighs the risks of carbon regulations.

"I think it reflects a shift in priorities and understanding at the company," said Natasha Lamb, director of equity research and shareholder engagement at Arjuna. Regulations that tax carbon could make it more expensive to develop much of Exxon's reserves, especially those that require costly technologies to tap, such as mining heavy, tar-like crude in Canada, she said.

"If companies are spending a fortune to develop unconventional assets, there's not a lot of wiggle room when it comes to the margins," she said.

The proposal submitted by Arjuna, in concert with environmental advocacy group As You Sow, is the first to seek such disclosure from Exxon.

In announcing the agreement, Arjuna and As You Sow said, "The report will provide investors with greater transparency into how ExxonMobil plans for a future where market forces and climate regulation makes at least some portion of its carbon reserves unburnable."

Last year, a similar carbon-risk shareholder resolution at Consol Energy Inc., a coal and natural-gas company, received support from 20% of votes cast by shareholders. The groups have filed such proposals at nine companies this year in addition to Exxon, they said.

Some of the items to be covered in the new report are already disclosed in some detail by Exxon, such as the makeup of its oil and gas reserves by region and type of fuel. Of the 25.2 billion barrels of oil and the equivalent in natural gas that Exxon books as reserves, nearly a third are in the U.S. or Europe, according to a February filing with the U.S. Securities and Exchange Commission. That doesn't include the 3.6 billion barrels of bitumen, a thick kind of crude, in Canada and South America.