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Exxon Mobil's Commitment to Carbon Asset Risk is Just the Beginning

As the company bows to pressure to report on its preparations for climate regulation, campaigners want investors to recognise that extractors may be forced to leave oil and gas in the ground

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There is a big shift afoot in energy markets and it is not just funds flowing out of fossil fuel stocks courtesy of Bill McKibben and his climate movement 350.org. While many investors across the globe say no to Big Oil through divestment, others are looking to change the energy giants from the inside.

Workers use pressure washers to clean oil from a beach at Smith Island on Alaska's Prince William Sound after the 1989 spill. Photograph: Bob Hallinen/MCT/Getty

Climate change is an immense risk to the oil and gas industry as we know it; the biggest risk, of course, is the fate of fossil fuel reserves. If catastrophic warming is to be avoided, only one third of current reserves can be burned. Which makes us question why oil and gas companies spent over $650bn (about £400bn) last year looking for more?

Arjuna Capital, a sustainable wealth manager, and the non-profit As You Sow filed a first-time shareholder proposal with Exxon Mobil on this very topic. The proposal asked Exxon to report on how it was preparing for a carbon-constrained world where greenhouse gas regulation and market forces strand uneconomic assets, and whether money spent finding more reserves is in shareholder interests.

In a turnabout from Exxon's long-standing reputation as a climate sceptic, Exxon is the first energy company to respond to investor concerns and, in exchange for withdrawal of the proposal, commit to publish a report on how it assesses carbon asset risk.

Exxon's commitment did not come overnight and is the result of months of dialogue and legal process. In October, we sent the company a letter asking how its business plan fares in a low-carbon future. This was part of a larger investor inquiry to the 45 top fossil fuel companies, coordinated by Ceres and Carbon Tracker, and representing $3tn (£1.8tn) in assets.

After filing our proposal last December, Exxon worked to block it from appearing on its proxy through a no-action request with the Securities and Exchange Commission. We made our counter-argument, asserting that the resolution should be put to a vote of shareholders, and continued our dialogue. Ultimately, the SEC upheld our proposal this

March and we reached an agreement significant enough for us to withdraw.

Energy markets are shifting in fundamental ways and shareholder value is at stake if companies are not prepared to survive in a low-carbon economy. As oil gets harder to find and extract, more and more unconventional "frontier" assets – such as deep-water and tar sands – are being booked on balance sheets. These reserves are not only the most carbon-intensive, risky and expensive to extract, but the most vulnerable to devaluation. As investors, we want to ensure that our company's capital will yield strong returns and that we are not throwing good money after bad.

And we're not the only ones worried about overspending. Under pressure from investors, European majors are cutting back capital expenditures, divesting assets and returning money to shareholders, a move that has greatly bolstered Total and BP's stock performance. If, according to Goldman Sachs, companies need $120 per barrel of oil to reach full cost breakeven, the industry is more vulnerable to price shocks than ever.

As any economics student knows, when demand goes down, so does price. When shifting market forces – including cheap renewables, energy efficiency, and air pollution regulation – hinders fossil fuel demand, prices will drop. With companies spending a fortune developing unconventional assets, there's not a lot of wiggle room at the margin, and profits are at stake.

As investors, we want to ensure capital discipline and we are not interested in investing in low-return projects. With two thirds of Big Oil's reserves at risk and the industry taking part in an all out shopping spree, companies need to seriously consider returning money to shareholders through dividends and buybacks.

Transparency is key to efficient markets, and disclosing risks posed by climate change is no small matter. We hope Exxon's report will serve as a template for the industry so investors can make assessments with consistent data that can be compared from company to company. Exxon's commitment comes on the 25th anniversary of the Exxon Valdez spill – a game-changing event for the sustainable investing movement. With climate change looming, we have reached another critical juncture, and preparing for a low-carbon future is a necessity, not a choice.

Investors are the canary in the coalmine and will move their money to avoid material risk. Forward-thinking companies need to reassess how they allocate shareholder capital and act strategically to shift their business models.

If Big Oil can't redirect capital to low carbon energy alternatives, investors will.