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Exxon Mobil gets serious about climate risk

Heather Long | Mar. 25, 2014

Exxon Mobil has agreed to shareholder demands to report on how climate change will impact its business.

Exxon Mobil (XOM), America's largest energy company, funded global warming denial groups for years. Now it has agreed to release a report by the end of March that details how climate change could affect its business.

The move comes in response to a shareholder resolution and as the nation marks the 25th anniversary of the Valdez oil spill that released 11 million gallons of crude oil into Prince William Sound in Alaska.

Investors and activists concerned about climate change see this as a major victory that they hope will inspire other companies to follow suit.

The push to get Exxon Mobil to do a climate change assessment has been going on for months.

Investors sent letters and tried to engage with Exxon behind the scenes. Arjuna Capital, a sustainable wealth management firm, and As You Sow, a California non-profit, ultimately filed a shareholder resolution demanding a comprehensive "carbon risk report." That resolution has been dropped now that Exxon plans to issue its climate change report.

The argument environmentally conscious investors have made is that shareholders need to know how large a company's fossil fuel reserves are. Regulatory or financial conditions may make it too costly to use all the current reserves, let alone new ones.

"Shareholder value is at stake if companies are not prepared for a low-carbon scenario," said Natasha Lamb, director of equity research for Arjuna Capital.

In other words, Exxon and other big fossil fuel companies could be left with stranded assets.

"Oil and gas reserves used to be seen as money in the bag. Now it's clear there is no way all these reserves could be extracted and burned without massively increasing carbon in the atmosphere," said Simon Billenness of CSR Strategy Group, which consults on socially responsible investing issues.

Exxon Mobil refused to comment for this story and has not spoken publicly about the carbon risk report. But there has been no negative impact on the company's stock since the activist shareholders released news of the deal on March 20th. The stock is actually up about 1%.

Danielle Fugere, president of As You Sow, wasn't surprised by the market reaction. "Companies that are facing these risks head on, that's a company you want to invest in," she told CNNMoney.

There is a growing coalition of investors concerned about climate change. Some are calling for companies to exit the fossil fuels business entirely in a move reminiscent of the campaigns to end Apartheid in South Africa during the 1980s. As You Sow has also filed shareholder resolutions asking for carbon risk reports from oil companies Chevron (CVX), Hess (HES), Anadarko (APC) and coal miner CONSOL Energy (CNX).

"Now that the Exxon domino has fallen, it will be much harder for Chevron to dismiss this issue," says Andrew Logan, director of oil and gas programs for CERES, an umbrella group working with over 100 institutional investors on social responsibility issues.

A carbon risk shareholder resolution at CONSOL Energy's annual meeting last year garneredabout 20% of the vote and was seen as a wake up call to the industry. Two utility companies, FirstEnergy (FE) and Southern Company (SO), have also agreed to do reports looking at climate risk to their businesses.

But the marquee victory is clearly Exxon. Activists await the report and will likely press for further action based on the findings.

"Exxon Mobil is a company that takes significant pressure to move, but once they say they're going to do something, they get it done," CSR Strategy Group's Billenness said.