ExxonMobil and Chevron suffer shareholder rebellions over climate

Exxon loses two board seats to activist hedge fund

A policeman at West Qurna-1 oil field, which is operated by ExxonMobil, in Basra, Iraq. Photograph: Essam Al Sudani/Reuters

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US oil giants ExxonMobil and Chevron have suffered shareholder rebellions from climate activists and disgruntled institutional investors over their failure to set a strategy for a low-carbon future.

Exxon failed to defend its board against a coup launched by dissident hedge fund activists at Engine No. 1 which successfully replaced two Exxon board members with its own candidates to help drive the oil company towards a greener strategy.

Meanwhile, a majority of Chevron shareholders rebelled against the company's board by voting 61% in favour of an activist proposal from – Dutch campaign group Follow This – to force the group to cut its carbon emissions.

Mark van Baal, who founded Follow This, said Wednesday's shareholder revolts mark an investor "paradigm shift" and a "victory in the fight against climate change".

The shareholder rebellions in the US were matched by an unprecedented reversal for the oil industry upset in the Netherlands where green campaigners won a court battle in the Hague to force Shell to cut its carbon emissions by 45% in the next 10 years.

"Institutional investors understand that no investment is safe in a global economy wracked by devastating climate change," Van Baal said.

The activist win against Chevron was the third successful insurrection coordinated by Follow This against the boards of US oil companies after it forced through votes to cut emissions at ConocoPhillips and Phillips 66 earlier this month.

Exxon was forced to adjourn its annual shareholder meeting for an hour in a bid to stave off the rebellion by Engine No.1 which may claim a further two board seats once the preliminary results are finalised. Exxon said the vote was too close to call late on Wednesday.

Exxon's second largest shareholder, BlackRock, is understood to have thrown its support behind a campaign by Engine No. 1 to oust four directors on the Exxon board in favour of its own candidates, who all have a background in fossil fuels but leadership experience in green energy innovation.

BlackRock, the world's biggest asset manager, owns a 6.7% stake in Exxon, sided with the rival upstart, according to Reuters, due to frustration with the company's refusal to take climate concerns seriously. Legal & General, one of Exxon's top 20 investors, is also said to have backed Engine No. 1 and pledged to vote against Exxon boss Darren Woods, who survived the boardroom battle.

Exxon's diminutive rival was set up last year as an impact investment firm by veteran hedge fund tech investor Chris James in an attempt to replace four Exxon board members with directors who have "experience in successful and profitable energy industry transformations" which can help turn the challenge of the climate crisis "into a long-term business plan, not talking point".

Activist investor ousts at least two Exxon directors in historic win for pro-climate campaign

By Matt Egan and Alexis Benveniste, CNN Business

https://edition.cnn.com/2021/05/26/business/exxon-annual-meeting-climate-oil/index.html

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New York (CNN Business)A hedge fund that's criticized ExxonMobil's climate strategy won enough shareholder support to oust at least two directors from the oil giant's board, a major loss for the once-mighty company.

For the first time in modern history, America's largest oil company faced a credible challenge from an activist investor, Engine No. 1. Upset with Exxon's financial performance and its foot-dragging on climate, the hedge fund sought to oust four directors at the company's annual shareholder meeting.

Engine No. 1 won two board seats in the shareholder vote. Two additional board seats were still too close to call Wednesday afternoon.

- The vote is a major milestone in the climate battle because it's the first proxy campaign at a major US company in which the case for change was built around the shift away from fossil fuels.
- The ouster of at least two Exxon (XOM) directors sends a loud message to other fossil fuel companies at a time when the International Energy Agency has warned the world it needs to immediately stop drilling for oil and gas to prevent a climate catastrophe. Engine No. 1 has criticized Exxon's reluctance to diversify into renewable energy and steps to maximize oil production.

"Investors are no longer standing on the sidelines. This is a day of reckoning," Anne Simpson, managing investment director at the California Public Employees Retirement System (CalPERS), said in a statement. CalPERS is among the prominent investors and pension funds that backed the activist campaign.

Exxon uses Big Tobacco's playbook to downplay the climate crisis, Harvard study finds

"Investors have sent a shot across the bow of Exxon, but its impact will ricochet across the boards of every major fossil fuel company," Mark Campanale, founder and executive chair of the Carbon Tracker Initiative, said in a statement.

Exxon's board will reconsider two shareholder proposals that received majority shareholder approval, according to the company. The proposals include Item No. 9, which calls for a report on lobbying, and Item No. 10, which requests a report on climate lobbying.

"We've been actively engaging with shareholders and received positive feedback and support, particularly for our announcements relating to low-carbon solutions and progress in efforts to reduce costs and improve earnings," Darren Woods, chairman and CEO of ExxonMobil said in a statement. "We heard from shareholders today about their desire to further these efforts, and we are well positioned to respond."

Stumbles opened the door to rebellion

Critically, this fight with activists comes after a period of dismal performance for Exxon.

The world's most valuable company as recently as 2013, Exxon has lost nearly $200 billion in market capitalization since its peak. It had enjoyed an unbroken run as a member of the Dow Jones Industrial Average from 1928 until it was kicked out of the exclusive index last summer.

During the five years prior to the pandemic, Exxon's total return (including dividends) fell by 17.5%, according to Engine No. 1. That was easily last among the five biggest oil companies over that span, with Exxon the only one suffering a loss. The S&P 500 surged nearly 80% during the same time frame.

However, Exxon has rebounded in 2021 as oil prices have climbed. The share price is up 41% this year, nearly quadrupling the S&P 500's advance. Still, Exxon remains far from the record highs hit in mid-2014.

'Questionable strategy'

Engine No. 1 argued the climate crisis poses an existential threat to Exxon — one the company hasn't taken seriously enough. Unlike BP, Royal Dutch Shell and other European oil majors, Exxon has doubled down on oil and gas despite growing concern about the climate crisis.

Oil companies told to stop drilling now to save the planet

"A refusal to accept that fossil fuel demand may decline in decades to come has led to a failure to take even initial steps towards evolution, and to obfuscating rather than addressing long-term business risk," Engine No. 1 wrote in its investor presentation.

Institutional Shareholder Services advised shareholders to vote in favor of three of Engine No. 1's candidates.

Citing Exxon's "questionable strategy" for the future and "diminishing returns," Glass Lewis, another influential advisory firm, urged shareholders to back two of the four candidates.

"We believe Engine No. 1 has presented a compelling case that, without a more concerted response and well-developed strategy ... related to the global energy transition, Exxon's returns, cash flow and dividend, and thus its shareholder value, are increasingly at threat," Glass Lewis wrote in its report.

Big Three hold the key

Engine No. 1 holds just 0.02% of Exxon's shares. However, the hedge fund won backing from major institutional investors, including the New York Common Retirement Fund, the Church of England, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). But like most proxy fights, the battle hinges on which side gets the support of the Big Three asset managers. BlackRock, State Street (STT) and Vanguard collectively owned nearly 19% of Exxon's shares as of the end of March, according to Refinitiv.

The stakes couldn't be higher for America's first major offshore wind farm

That's why it's a very big deal that Reuters reported BlackRock has voted for three of Engine No. 1's four candidates to join the Exxon board. A BlackRock spokesperson declined to comment on the report, and it's not clear how the company voted.

BlackRock, the world's largest asset manager, is under fire itself from activists demanding it live up to its own climate promises. The campaign is being led by BlackRock's Big Problem, a coalition that includes the Sierra Club, Rainforest Action network and Friends of the Earth.

"We question whether BlackRock is ready to hold the biggest oil and gas polluters — and their financiers — accountable. Anything less is lipservice — and greenwashing," Roberta Giordano, one of the organizers, wrote in a memo on Monday.

Beyond the board battle, Exxon also faces multiple climate-related shareholder proposals.

Both Glass Lewis and ISS recommend shareholders back three separate proposals calling for Exxon to issue reports detailing the financial impacts of the IEA's net zero 2050 scenario, on lobbying payments and policy and on corporate climate lobbying being aligned with the Paris climate agreement.

Exxon promises to keep refreshing its board

Exxon has defended its strategy by pointing to projections for continued demand for oil and natural gas, particularly in emerging markets. The company has also pointed to efforts to reduce emissions and invest in carbon capture and storage as well as hydrogen. Exxon has estimated carbon capture alone could be a $2 trillion market by 2040.

"We believe success in developing these technologies will be critical to both advancing society's ambitions for a lower-carbon future and in delivering long-term shareholder value," Woods and Exxon lead director Ken Frazier wrote in a letter to shareholders Monday.

However, Glass Lewis said it doesn't believe Exxon "has made a compelling case" that carbon capture will become economically viable or grow to the scale required to become the centerpiece of the company's energy transition strategy.

"We're left with the feeling Exxon isn't doing enough in terms of preparing or investing for the future," Glass Lewis wrote.

In a sign of the pressure facing Exxon, the company also promised to add two new directors over the next 12 months, one with energy industry experience and one with climate experience. That would be on top of the six new directors that have been added since 2017.

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For its part, Engine No. 1 urged shareholders not to be swayed by what it called Exxon's "cynical, last minute maneuvering."

"This is the same company that for years has refused to take even gradual material steps towards being better positioned for the long-term in a decarbonizing world," Engine No. 1 said in a statement.

Shell: Netherlands court orders oil giant to cut emissions

Published
2 hours ago

Activists hugged in court after the judge delivered the verdict

A court in the Netherlands has ruled in a landmark case that the oil giant Shell must reduce its emissions.

By 2030, Shell must cut its CO_2 emissions by 45% compared to 2019 levels, the civil court ruled.

The Shell group is responsible for its own CO_2 emissions and those of its suppliers, the verdict said.

It is the first time a company has been legally obliged to align its policies with the Paris climate accords, says Friends of the Earth (FoE).

The environmental group brought the case to court in 2019, alongside six other bodies and more than 17,000 Dutch citizens.

Though the decision only applies in the Netherlands, it could have wider effects elsewhere. BBC Netherlands correspondent **Anna Holligan tweeted that it was a "precedent-setting judgement"**.

A Shell spokesperson said they "fully expect to appeal today's disappointing court decision" and added that they are stepping up efforts to cut emissions.

"Urgent action is needed on climate change, which is why we have accelerated our efforts to become a net-zero emissions energy company by 2050," the spokesperson said, adding that Shell was investing "billions of dollars in low-carbon energy, including electric vehicle charging, hydrogen, renewables and biofuels".

"This is really great news and a gigantic victory for the earth, our children and for all of us," FoE director **Donald Pols said in a statement**. "The judge leaves no doubt about it: Shell is causing dangerous climate change and must now stop it quickly."

View original tweet on Twitter

Under the terms of the Paris Agreement on climate change, nearly 200 nations agreed to keep global temperatures "well below" 2C above pre-industrial levels.

The legally binding treaty came into force on 4 November 2016. The US withdrew under former President Donald Trump but has since rejoined under President Joe Biden.

- **Why did the US rejoin the Paris climate agreement?**
- **A really simple guide to climate change**

A number of groups around the world are now trying to force companies and governments to comply with the accords through the courts.

Shell has previously said **it wants net zero emissions for itself** and from products used by its customers by 2050.

In December its defence lawyers told the Dutch court the company was already taking "serious steps" to move away from fossil fuels, and said there was no legal basis for the case.
Other major oil companies are also making changes amid a greater global focus on cutting emissions.
On Wednesday Chevron investors voted in favour of a proposal to cut its customer emissions, while shareholders at Exxon elected two climate activists to its board after months of wrangling over its business direction.

The Shell verdict is a massive win for environmental campaigners, and other industrial giants will be scrambling to figure out how it could affect them.
Because suddenly it's not good enough for firms to comply with the law on their emissions - in an extraordinary case like this, they have to comply with global climate policy too.

The company's defence is that if people feel progress towards cutting emissions is too slow, they should lobby governments - not Shell - to change policies and introduce financial incentives.
The judges have clearly decided that Shell should be taking responsibility itself for cutting emissions much faster.
The firm will surely appeal - and it might well win the case in a higher court.
But this verdict alone will be a warning to companies round the world that the battle against climate change may be spelling the end of anything resembling "business as usual".

Shell - full name Royal Dutch Shell - is a British-Dutch multinational. Because its headquarters are in The Hague, FoE was able to bring a case to a Dutch court.
Earlier this year another Dutch court ruled that Shell was responsible for damage caused by oil leaks in the Niger Delta, and ordered the company to pay compensation to farmers.
Shell, however, has said the leaks were the result of "sabotage".