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Exxon Warns Global Warming Targets ‘Unlikely’ to be Met

Ed Crooks | Mar. 31, 2014

ExxonMobil, the US oil group, said it was “highly unlikely” that the world would cut greenhouse gas emissions sufficiently to keep global warming within the internationally agreed limit of 2C.

In two reports on the implications of climate change for its business published on Monday, Exxon rejected suggestions that policies to cut emissions would leave many of its oil and gas assets “stranded” – incapable of being profitably developed.

It accepted that carbon dioxide emissions created by burning fossil fuels were raising global temperatures, and that warming created risks, but argued that the threat needed to be weighed against other objectives, including the need for energy in developing countries.

Creating a resonable chance that the rise in temperatures stayed below 2C would mean cutting greenhouse gas emissions 80 per cent by 2050, and putting a price on carbon far in excess of levels now prevailing in the EU’s emissions trading scheme, costing the average US household thousands of dollars per year, it said.

“The scenario where governments restrict hydrocarbon production in a way to reduce GHG [greenhouse gas] emissions 80 per cent during the outlook period [to 2040] is highly unlikely”, one of Exxon’s reports said.

It added: “Based on this analysis, we are confident that none of our hydrocarbon reserves are now or will become ‘stranded’.”

Exxon’s projections suggest that fossil fuels are likely still to be providing three quarters of the world’s energy in 2040 – an analysis that is close to that of other forecasters including the International Energy Agency, the rich countries’ watchdog.

Investors including Arjuna Capital, a sustainable investment firm, and As you Sow, a shareholder activist group, had filed proposals for Exxon’s annual meeting in May calling for the company to give its assessment of the risks to its business presented by climate change and emissions policies. The proposals were withdrawn after Exxon agreed to publish its reports.

Andrew Logan of Ceres, an investor group that campaigns on social and environmental issues, said investors disagreed that a low-carbon future was unlikely, and would “continue to push Exxon to align their planning with this reality”.

Exxon says it already takes climate change into account in its planning, using a “proxy cost of carbon” to reflect present and future policies to control emissions, which is used in all its investment decisions.

That expected price rises by 2040 to \$80 per tonne of carbon dioxide – equivalent to about \$35 on a barrel of oil – in rich countries, and to about \$30 per tonne in higher-income emerging economies such as China and Mexico.

That contrasts with a price of \$200 per tonne that has been estimated as necessary to cut greenhouse gas emissions by 80 per cent.

Exxon argues that it can help to curb emissions by producing gas that can be substituted for higher-emitting coal for power generation.

“We take this issue seriously, and we are doing what we can,” said Ken Cohen, Exxon’s vice-president of public and government affairs.

“We are reducing greenhouse gas emissions by helping customers cut their emissions and by improving the energy efficiency of our own operations.”

Large international oil companies have responded in differing ways to growing investor pressure over stranded asset risk.

Chevron, the second-largest US oil company by market capitalisation behind Exxon, has rejected similar investor proposals for disclosure on carbon risk, and faces a vote at its annual meeting.

BP also dismissed concerns earlier in March, writing in its sustainability review that “we believe that the unburnable carbon approach to assessing the impact of potential climate regulation on a company’s value oversimplifies the complexity of the issue and overstates the potential financial impact”.

Royal Dutch Shell plans to give its views on climate change and greenhouse gas emissions in its sustainability report, due in April, and Total of France also plans additional disclosure on the issue.

Danielle Fugere of As You Sow said investors appreciated that Exxon had decided to publish its reports when other companies had been unwilling to bring their assumptions into the open.

However, she added that they needed more in-depth information. “We will continue working with Exxon and other fossil fuel companies to increase disclosures about these critical issues,” she said.