Shareholder Resolutions Gain Ground on 'Stranded Assets' Issue

Daniel Cusick | May 23, 2014

An Anadarko oil rig in the Gulf of Mexico. Photo courtesy of Anadarko.

Questions about oil and gas companies risking billions of dollars in stranded petroleum assets under potential new carbon regulations remained a hot topic this week, as three of the world's leading energy companies responded to shareholder pressure to address such concerns.

Yesterday, the nonprofit group As You Sow revealed that a shareholder resolution asking Anadarko Petroleum Corp. to more fully analyze its "stranded asset" risks garnered 30 percent support among voting shareholders. The result was "the highest ever for a carbon asset risk resolution, signaling the need for investors to seriously consider these risks," the Oakland, Calif.-based group said.

Meanwhile, investors and observers of Royal Dutch Shell PLC were still digesting the findings of a 20-pageanalysis on the financial risks of climate change issued by the company last week at its annual shareholders meeting in The Hague, Netherlands.

While acknowledging that risks from climate change will "continue to rise up the public and political agenda," Shell executives expressed confidence that none of its current reserves will become stranded. Rather, the company said, "the world will continue to need oil and gas for many decades to come, supporting both demand and oil and gas prices."

Moreover, Shell said, the notion of oil and gas companies risking billions of dollars in potential stranded assets due to climate regulation has "significant gaps," including its failure to acknowledge the significant projected growth in energy demand; the role of carbon capture and storage technologies; and the rise of natural gas, bioenergy and energy efficiency measures.

"Energy demand growth, in our view, will lead to fossil fuels continuing to play a major role in the energy system -- accounting for 40-60 percent of energy supply in 2050 and beyond, for example," Shell said.

Is a large carbon footprint risky?

Shell is the second major oil and gas company to make public its views about exposure to climate risk, following a pair of reports issued by Exxon Mobil Corp. in early April. Like Shell, Exxon acknowledged that climate change poses a risk to the company's bottom line, but it made clear it would not chart a future without fossil fuels (ClimateWire, April 2).

The world's major oil companies are under mounting pressure from shareholder groups and environmental nonprofits to at least analyze their firms' financial and operational risks in the context of tighter regulation of carbon dioxide and other greenhouse gases associated with the exploration, production and burning of fossil fuels.

Since the launch of climate-focused shareholder campaigns several years ago, nonbinding resolutions seeking greater disclosure on GHG emissions and corporate risks associated with climate change have been put before energy firms dozens of times, but many of the early resolutions have fizzled with shareholders and management alike.

A recent climate risk disclosure resolution put before Hess Corp., for example, fared poorly, with just 8.4 percent of the company's 226 million shares backing the measure, according to the nonprofit group Ceres, which helps organize and promote resolutions on behalf of activist investors and monitors their outcomes.

In its most recent annual report, Hess said that the company "monitors, measures and takes steps to reduce our carbon footprint at existing and planned operations." And while the company did not meet all of its goals under its first five-year climate change strategy from 2009 to 2013, the company "did make significant progress towards our goals," including reducing absolute greenhouse gas emissions by 3 million tons.

Hess, like a number of its peer companies, also discloses its emissions and other information to the U.K.-based monitoring group CDP (formerly the Carbon Disclosure Project), a practice it has done for five years.

Increasingly, however, climate-based shareholder resolutions are gaining ground, especially for companies that have large carbon footprints, where environmental concerns are widely known and where corporate boards have traditionally withheld such information. Persistence also matters, as companies that have faced successive resolution campaigns over two or three years often see shareholder support for the measures go up with each vote.

At the same time, groups like As You Sow have managed to bend the ear of numerous corporate boards, at least to the degree that companies like Shell and Exxon Mobil are sharing information and responding to questions in public forums.

A 'sleeper issue' wakes up Anadarko

The latest resolution before shareholders of Houston-based Anadarko, which holds an estimated 2.8 billion barrels of proven oil reserves in onshore and offshore deposits in North America and Africa, would have the company prepare a report by September addressing "how Anadarko is preparing for potential scenarios in which demand for oil and gas is greatly reduced due to regulation or other climate-associated drivers."

The resolution also asked Anadarko to report on "the company's goals and plans to address global concerns regarding fossil fuels and their contribution to climate change, including analysis of long and short term financial and operational risks to the company."

Anadarko's management opposed the resolution, stating in the firm's 2014 proxy statement that "the requested reports would result in an unnecessary and unproductive use of the company's time and resources."

Among other things, Anadarko said that its in-house climate change committee is already monitoring and reporting on the company's actions to reduce greenhouse gas emissions, and that the firm also reports its climate-related risks and opportunities to the monitoring group CDP.

Lastly, Anadarko said that the requested report would require officials "to engage in speculation on a variety of matters, including future possible restrictions on carbon emissions and the reaction and conduct of consumers in response to any such regulations."

Danielle Fugere, As You Sow's president and chief counsel, noted in a release that stranded carbon assets have become the "sleeper issue" of the 2014 proxy season. And even when companies refuse to meet the resolutions' specific demands, the process has put large energy firms on notice that they are being closely watched.

"In order to make informed investment decisions, shareholders must be aware of companies' financial risk," Fugere said. "If Anadarko's reserves cannot be freely sold in the future, the company's future long-term solvency is uncertain."