ShareAction recommends that investors take a strong voting stance on director re-election at the 2020 ExxonMobil AGM, and encourages investors to also support items 4 and 9 on the ballot.

Executive summary

This briefing encourages investors in ExxonMobil to support the Church Commissioners and the New York State Common Retirement Fund (NYSCRF)’s call to take a robust approach to voting on the re-election of directors at the 2020 AGM, and to vote in favour of the shareholder proposals requesting an independent chair (Item 4) and a report on lobbying (Item 9).

This recommendation is based on three central reasons:

1. ExxonMobil has actively worked to prevent shareholders from expressing their views on its climate change strategy by blocking resolutions two years in a row;

2. ExxonMobil’s climate ambition is not in line with the Paris climate goals; and

3. Directors should be held accountable for ExxonMobil’s failure to manage climate change.

History of engagement at ExxonMobil (2015-2019)

The Church Commissioners and NYSCRF have been engaging with ExxonMobil on climate change and governance issues since 2015. They were the lead proponents of a shareholder proposal on climate-related disclosures at ExxonMobil in 2017, which obtained 62% of the votes.

As a result of this shareholder engagement, ExxonMobil published its first ‘Energy and Carbon Summary’ report the following year. Although this was an important step forward for the company, ExxonMobil’s summary reports in 2018 and 2019 were criticised by scientists, investors and civil society for lacking clarity and ambition across a number of critical areas related to climate change, therefore minimising its usefulness to investors.
In December 2018, the Church Commissioners and the NYSCRF, backed by a coalition of more than 30 investors representing US$1.9 trillion in assets, filed a shareholder proposal asking ExxonMobil to set Scope 1, 2 and 3 emissions targets aligned with the goals of the Paris Agreement³.

Instead of engaging positively with these investors, ExxonMobil asked the US Securities and Exchange Commission (SEC) for permission to block the shareholder proposal on the grounds that it was “inherently misleading” and sought to “micro-manage” the company⁴. The SEC ruled in Exxon’s favour, preventing shareholders from exercising their basic shareholder rights.

In response to the SEC’s decision, the Church Commissioners and NYSCRF lodged exempt solicitation documentation with the SEC ahead of the 2019 AGM⁵. This announced that both investors would be voting against the re-election of the entire ExxonMobil board, as well as voting for shareholder proposals calling for an independent chair (Item 4), the establishment of a climate change committee (Item 7) and a report on lobbying (Item 10). Items 4 and 10 both received around 40% of the vote, while Item 7 received less than 10%. There were also notable votes against the re-election of directors Ursula Burns (28%), Steven Reinemund (14%) and CEO Darren Woods (7%)⁶.

2020 ExxonMobil AGM

Ahead of the 2020 AGM, the Church Commissioners co-filed another shareholder proposal asking ExxonMobil to disclose if, and how, it plans to reduce its total contribution to climate change and align its operations and investments with the Paris Agreement’s goal of maintaining the global average temperature rise to well below 2°C⁷.

As in 2019, ExxonMobil successfully requested permission from the SEC to block the shareholder proposal. ExxonMobil claimed that the resolution was “materially false and misleading”, sought to “micromanage the company”, and that it had “already substantially implemented the proposal”⁸.

In an attempt to challenge the company on its climate ambition, the Church Commissioners and NYSCRF have once again filed a notice of exempt solicitation at ExxonMobil⁹. In short, the notice calls on shareholders to:

• Implement a strong voting stance on director election in line with their own voting policies (Item 1);

• Vote FOR the shareholder proposal regarding an Independent Chair (Item 4); and

• Vote FOR the shareholder proposal regarding a Report on Lobbying (Item 9).

ShareAction supports the call to ExxonMobil shareholders to take a robust voting stance on director election, as well as to vote in favour of items 4 and 9 on ExxonMobil’s ballot.

ShareAction is a campaigning organisation pushing the global investment system to take responsibility for its impacts on people and planet, and use its power to create a green, fair, and healthy society.
ExxonMobil’s inadequate response to climate change constitutes a broad failure of corporate governance and a specific failure of independent directors to oversee management. Directors should be held directly responsible for such failures, while an independent board chair and disclosure of lobbying practices are important first steps in restoring oversight and good governance practices.

This briefing provides three main reasons why investors should support this action at the 2020 AGM.

1. ExxonMobil is undermining shareholder democracy by blocking investor engagement

ExxonMobil has actively worked to prevent shareholders from expressing their views on its climate change strategy. For the second year in a row, ExxonMobil has successfully blocked shareholder resolutions, co-filed this year by the Church Commissioners, and last year by both the Church Commissioners and NYSCRF, that would have given shareholders a vote on whether they support emissions reduction consistent with the goals of the Paris Agreement.

Shareholder resolutions are an important option for investors in circumstances where the company fails to respond to private engagement in a timely or substantive manner. As the Climate Action 100+ (CA100+) leads, the Church Commissioners and NYSCRF should not be prevented from bringing a resolution to the board to highlight to other shareholders their dissatisfaction with ExxonMobil’s approach to climate change and the governance failures that underpin it.

Despite the company’s assertion that the proposed resolution would seek to “micromanage” the company, similar proposals have been brought at European oil majors over the last few years including at Royal Dutch Shell\(^\text{10}\) in 2018 and at BP\(^\text{11}\) in 2019. This represented an important step towards increased investor engagement at both companies and provided shareholders with an opportunity to voice their climate concerns. Indeed, both Shell and BP have since announced net-zero ambitions including strategies to tackle their Scope 1, 2 and 3 emissions.

The 2020 AGM provides investors with an opportunity to integrate climate-related concerns into their voting decisions and signal to ExxonMobil that they disagree with the company’s flagrant attempts to block engagement with shareholders on climate issues.

2. ExxonMobil’s climate ambition is not in line with the Paris climate goals

ExxonMobil claims in its application to the SEC that the company has already “substantially implemented” the main ask of the resolution, which was to disclose how it plans to align its operations and investments with the 2°C goal of the Paris agreement. However, while Exxon claims to support the Paris agreement in its public reporting, its current strategy acts in full defiance of it.

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Oil and gas companies, particularly in Europe, have responded to investor concerns with net-zero ambitions and increased responsibility for Scope 3 emissions. In contrast, ExxonMobil does not even report its Scope 3 product emissions as they are a “function of demand” and are “not within its direct control,” both outdated arguments in the oil and gas industry. ExxonMobil has set short-term targets for greenhouse gas emissions but these only apply to methane, flaring and to one of its oil sands affiliates operating in Canada. Analysis by the Transition Pathway Initiative shows that based on its current strategy, ExxonMobil’s emissions trajectory is far above the Paris goals.

Analysis by the Carbon Tracker Initiative (CTI) finds that ExxonMobil must achieve a minimum 55% reduction in fossil fuel production by 2040 compared to 2019 levels, in order to stay within the carbon budget implied by the “Beyond 2 Degrees Scenario” (B2DS) developed by the International Energy Agency (IEA). The B2DS sets out a pathway with only a 50% chance of limiting average future temperature increases to 1.75°C. However, at a presentation for analysts in March 2019, ExxonMobil CEO Darren Woods announced that the company would increase capital spending to $35 billion in 2020 up from $26 billion in 2018, with a view to increasing production by more than 25% on 2018 levels by 2025 (or 1 million barrels of oil equivalent per day).

Although the current covid-19 crisis and consequent oil price crash will force ExxonMobil to reconsider its short-term CAPEX plans, it is clear that ExxonMobil shows no signs of decelerating its expansion plans for its fossil fuel businesses. Indeed, the 2020 Energy and Carbon Summary states that “the Paris Agreement does not contemplate or require individual companies to decrease production to align with the goal of maintaining global temperature rise to below 2°C.”

ExxonMobil has failed to estimate the potential impact that this strategy could have on individual assets and long-term profitability. Analysis by CTI estimates that as much as 30-40% of ExxonMobil’s potential capital expenditure on sanctioned and unsanctioned projects between 2019 and 2030 could fall outside of the IEA’s Sustainable Development Scenario, which gives only a 50% chance of keeping global temperature rise below 2°C. This number rises to 60-70% in the B2DS.

ExxonMobil has also consistently spurned opportunities to improve transparency on its corporate climate lobbying record. The company continues to question the desirability or feasibility of urgent action towards a global low-carbon energy transition, and to allocate millions to trade associations that oppose most forms of climate regulation.

3. Directors should be held accountable for failing to manage climate change

Voting rights give shareholders both the opportunity and the responsibility to participate in the stewardship of companies and ensure that climate-related risks are being adequately managed at the executive level. The failure to incorporate these risks into business planning at high carbon companies, such as ExxonMobil, threatens the long-term performance both of those companies and the investment portfolios in which they sit.
Investors should vote against the re-election of directors if these individuals fail to represent shareholder interests or to foster the long-term success of the company. ExxonMobil’s inadequate response to climate change and undue restrictions on shareholder engagement constitute a significant failure of independent directors in the performance of their duties.

One possible reason for this is the excessive management influence on the board and weak oversight of management, caused by the following factors:

- The combined role of Mr Darren Woods as CEO and Chair;
- The lack of a proper Senior Independent Director with accountability to shareholders; and
- The fact that ExxonMobil awards independent directors shares for performance, further blurring the divide between executive management and the supervisory role of the board.

ShareAction strongly supports the Church Commissioners and NYSCRF’s decision to vote against the re-election of its entire board, but it would like to draw all shareholders’ particular attention to the following three directors, namely Mr. Darren W. Woods, Mr. Kenneth C. Frazier, and Ms. Angela F. Braly.

1. Mr. Darren W. Woods, CEO and Chairman

Mr Woods joined ExxonMobil in 1992 and became CEO and Chair in 2016. ExxonMobil’s position on climate change has shifted very little under the leadership of Mr Woods. Analysis by InfluenceMap finds that Mr Woods has consistently undermined climate action in public communications, focusing repeatedly on the threat of global energy poverty to justify inaction on climate change, undermining the need for climate regulation and effective carbon pricing, and supporting measures that incentivise increased oil and gas production at the expense of alternative energy sources. Despite Mr Woods’ promise to improve shareholder dialogue, Exxon has consistently refused invitations to engage seriously and constructively with investors in the CA100+ initiative, which is backed by more than 450 institutions with over US$40 trillion in assets.

2. Mr. Kenneth C. Frazier, Lead Director and Chair of the Board Affairs Committee

Mr. Frazier was selected to be the independent Lead Director at ExxonMobil in March 2020, the board member accountable to shareholders in the absence of an independent Chairman. In 2016, as Chair of the Board Affairs Committee, Mr Frazier implemented a policy to prevent directors from speaking directly with shareholders, instead requiring investors to submit messages of no longer than 2,200 characters through a form on the company’s website. Keeping board members from engaging directly with shareholders is out of step with corporate governance best practice, as investors and companies expect board members to make themselves available to shareholders for discussions. This policy led BlackRock, ExxonMobil’s second largest investor, to withhold its support from both Mr Frazier and former Presiding Director Jay Fishman in 2016. In 2017, ExxonMobil reversed its decision and announced it would allow shareholders to meet members of its board. This is a powerful example of the impact of dissent voting at ExxonMobil.
3. Ms. Angela F. Braly, Chair of the Public Issues and Contributions Committee

Ms. Braly was appointed as a director at ExxonMobil in 2016 and currently chairs the Public Issues and Contributions Committee. The primary purpose of this Committee is to review and provide advice regarding the company’s policies, programmes and practices on public issues of significance including climate change. As such, Ms. Braly bears a heavy responsibility for ExxonMobil’s climate strategy and should be held accountable for the company’s inadequate response in this area.

Conclusions and next steps

This briefing has highlighted ExxonMobil’s inadequate approach to climate change and the governance failures that underpin it. ExxonMobil’s business strategy is not aligned with the goals of the Paris agreement, which carries considerable risks both for the climate and for the long-term profitability of the company. Furthermore, the board has undermined shareholder democracy for two consecutive years by rejecting shareholder resolutions seeking to address climate-related issues.

For these reasons, ShareAction encourages shareholders in ExxonMobil to support the Church Commissioners and the NYSCRF’s call to take a robust approach to voting on the re-election of directors at the 2020 AGM, and to vote in favour of the shareholder proposals requesting an independent chair (Item 4) and a report on lobbying (Item 9).

ShareAction also encourages asset owners to engage with their asset managers to cast their votes thoughtfully, with climate-related concerns in mind, at this year’s AGM.
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