Energy Intelligence

Energy Intelligence Premium Weekly

Thursday, May 26, 2022

Energy Transition: Investors Focus on Execution

Climate pressures on oil and gas companies have eased this year, as investors switch focus to ensuring firms implement long-term transition strategies. This reflects broad acceptance of the global low-carbon shift more than any slowdown, according to Energy Intelligence analysis.

- **Climate urgency has eased as investors take stock of new strategies.** Most IOCs adopted transition-related strategies as environmental, social and governance pressures intensified in the past few years. We now see investors taking a pause and focusing on execution, rather than further ratcheting up demands. The Ukraine crisis, high oil and gas prices and broader economic concerns have also emphasized the need for a more measured pace. Shareholders at BP and Equinor last week rejected calls for larger end-use (Scope 3) emissions cuts "consistent with the goal of the Paris climate agreement," while endorsing both companies' transition strategies. Stepped-up resolutions calling for Paris-aligned targets at Chevron, Exxon Mobil, Occidental, Valero and ConocoPhillips also failed, as did proposals for banks to slash fossil fuel lending. This contrasts with 2021, when more modest climate-related proposals surged to majorities and forced more reticent companies to act. US giant BlackRock recently said it would reject climate resolutions seen as too prescriptive or destroying value. Focus is also broadening; the Climate Action 100+ coalition is now focusing more on demand as well as supply of fossil fuels.

- **A quieter, more nuanced approach is now taking shape.** We see this year's developments as a sign of the energy transition's maturation, rather than a slowdown. After raising the alarm on climate risk and driving new targets, the financial community is giving companies time to put those plans into practice, with more focus on direct engagement and less on high-profile shareholder resolutions. Financial institutions are developing their own net-zero plans and determining how to align portfolios. Having set the pace, some may be inclined to let policymakers take the lead, especially as the Ukraine war resets political priorities. We are watching how this squares with pressure from activist investors like Follow This or Dutch pension funds — and some elements in broader society — pushing a faster rejection of fossil fuels.

- **The Ukraine crisis amplified tensions between near- and long-term timelines.** The crisis has (1) shaken up oil and gas trade flows and stressed supply and (2) boosted the financial and equity performance of fossil fuels, while (3) accelerating the longer-term transition in some regions, especially Europe. We see these contradictory pressures giving the industry more leeway to increase near-term oil and gas supply (and ease energy security considerations) as long as wider transition plans remain in place. We note the IEA and BlackRock's support for quick-response shale and skepticism of 10 to 30-year developments. We do see a role for certain long-term projects, like smaller/more modular deepwater and LNG schemes and those targeting hydrogen, biofuels or carbon capture.

- **IOCs will still face problems if they falter.** Despite noisy headlines, we don't see major shifts in key investors' underlying objectives over the last six months. No oil and gas company has reversed course on net-zero plans. We've long emphasized that investors fundamentally want companies to develop and adopt credible transition plans that (1) are resilient to changing business conditions and (2) put the world on a firm path to address long-term climate risk. Despite acceleration pressure easing, companies must still show concrete progress and would face investor backlash if they regress. We also believe that for many IOCs, like Exxon, a firm floor now sits under low-carbon investment, and a ceiling on oil and gas investment, irrespective of the transition pace.

- **ESG demands will keep evolving.** Going forward, we expect investors to closely monitor progress on low-carbon spending and, in Europe, declining oil capex. We see most large investors continuing to engage with companies despite rising divestment pressures in certain quarters. We also expect stepped-up investor interaction with governments, regulators and other sectors to directly target end-use demand, though select pressure for IOC Scope 3 targets will persist. The gap between US and European investor demands may widen further, as US producers focus on short-cycle oil and gas output within long-term carbon goals and Europeans focus more on renewables and LNG. We will also watch financial institutions for more detail on what investments align with their net-zero goals — although we expect this to reinforce the above trends.

Energy Intelligence REPORTS

Climate Votes Hit Limit of Investor Appetite
Investors appear to have hit the limit of their appetite for driving more progressive emissions reductions at oil companies through votes on annual shareholder resolutions*... click for full report*

Our Take: It's All About the Balance
Companies must thread the needle with their oil and gas investments, balancing the need for more supply with an energy transition that continues apace... *click for full report*

Investors to Keep Up Pressure Despite Weakened Resolve
Climate-minded investors remain committed to increasing pressure on oil companies despite nuances and evolutions, Energy Intelligence found... *click for full report*

Our Take: Funds Seek Measured Approach on ESG
Energy Intelligence does not believe the BlackRock rethink means such institutions want oil companies to abandon or scale back their plans, but instead reflects a conviction that the transition must proceed at a measured pace to avoid chaos*... click for full report*

US Major AGMs Confirm Limits to Climate Demands
This year's annual general meetings have shown that there's a limit to just how far shareholders will demand oil and natural gas companies push their emissions reduction strategies — at least for now*... click for full report*

Energy Intelligence SERVICES

Energy Transition

- News
- Analysis
- Research
- Data

Energy Intelligence EXPERTS

Alex Martinos
Director, Energy Transition Research
+44 (0)20 7518 2248
amartinos@energyintel.com

Philippe Roos
Senior Reporter
+33 6 2286 3776
proos@energyintel.com

Noah Brenner
Executive Editor, Operations
+1 713 234 1483
nbrenner@energyintel.com

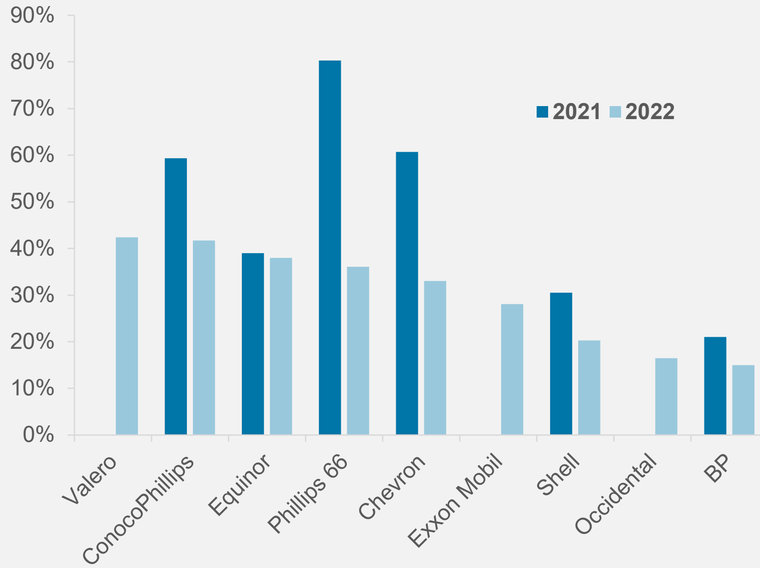
Energy Intelligence | **Energy Intelligence** Premium Weekly

Thursday, May 26, 2022

Investors: Conflicting Pressures

Source: Energy Intelligence

Shareholders Ease Support for Emissions Resolutions as Demands Get Tougher



Note: Shareholder support for Follow This-sponsored shareholder resolutions.
Source: Energy Intelligence, preliminary voting results, SEC filings, Follow This

ABOUT ENERGY INTELLIGENCE PREMIUM

Delivering just the right amount of tailored, relevant and concise insights to senior executives

The digital age has brought an abundance of unfiltered and often unreliable information, which takes time to sift through.

The **Energy Intelligence Premium** service provides senior executives with concise, value-added information on key issues to help quickly understand the global energy landscape.

The service provides you with both a high-level overview and the means to drill down to the granular level, through:

- The Daily Email – Our Must-Read News Stories
- The Weekly Email – Our Take on a Key Industry Topic
- The Bundle – Customized Content & Data Solution
- Access to Energy Intelligence Analysts

Energy Intelligence Premium CONTACTS

Sales:
Geoff Wright,
Global Head of Sales & Marketing
+1 646 616 0836
gwright@energyintel.com

Content:
Kathrine Schmidt, *Editor, EI Premium*
+1 609 273 6450
kschmidt@energyintel.com