Editorial Comment: Why BP and Shell should welcome the Aiming for A shareholder proposal on climate change

Material issues for both the companies AND their investors
by Daniel Brooksbank | January 21st, 2015

Four years after it faced a major shareholder resolution on the Deepwater Horizon disaster, BP is now facing an altogether different challenge from its investors. It is one company (and Shell, which is facing an identical proposal) should not just reject out of hand or respond to in a perfunctory way. Rather, they should embrace it completely. Indeed, they should be grateful for shareholder partners who are prepared to go through the substantial effort required to file a shareholder proposal in the UK.

The BP resolution in 2011 related specifically to a review of risk management after the employee deaths and huge fines that blew out its long-term share price, which has rarely touched 70% of its former value prior to Deepwater Horizon, even before the latest oil price shock. Today’s resolution officially co-filed today (January 21) by some of the world’s leading investors, and which we have been reporting on throughout its gestation, is altogether a different beast.

Not to downplay the Deepwater-related resolution – in many ways it was a defining moment – the new proposals represent a more complete query about the outlook for fossil fuel companies in the context of climate change. The investors themselves refer to it as “supportive but stretching”, underlining their partnership approach.

The resolutions – titled “Strategic Resilience for 2035 and Beyond” – are broken down into a series of key elements. The investors are interested in the firms’ “evolving approach” to KPIs [key performance indicators] and, very interestingly indeed, executive incentives, “in the context of the transition to a low carbon economy” and the role played by the reserves replacement ratio (RRR), a metric used by investors to judge the operating performance of oil and gas firms.

They also want to know about public policy interventions and an assessment of the firms’ portfolios’ resilience against a range of International Energy Agency and other scenarios. These are to be outlined to investors in routine reporting from 2016. In addition, the investors are interested in the role of “exploration, disposals and cash distributions” to investors in the nearer term.

This is investors saying these companies face a vastly different future where they must explain what their business response will be. The resolutions raise serious, material issues that shareholders argue the companies are facing.

It is inconceivable that the oil giants aren’t conducting serious scenario analysis around the issues the investors are raising. They wouldn’t be doing that if they didn’t think it was … material. If it’s material, it should be disclosed. If not, why? It sounds simple, and it is.

The action has, in part, been coordinated by campaign group ShareAction and ClientEarth, the law firm that has the backing of rockers Coldplay and Brian Eno, and philanthropist and politician Zac Goldsmith. Less well known, perhaps, is that one of its trustees is Howard Covington, a former head of the European investment banking business of US investment bank Wasserstein Perella and founding shareholder and director of New Star Asset Management, which was sold in 2009 to Henderson Global Investors. That’s a potent combination of social and investment influence.

It’s fair to speculate that there has already been engagement with the oil companies on this, given that the UK investor-corporate relationship is not as confrontational as the US. The “Aiming for A” initiative is now a few years old and the specific resolutions have been in the works for some time. This will not come as a surprise to either the companies or their investors. It will be fascinating to see how the companies respond publicly and what recommendations the oil giants make to their investors about how to vote on the proposals (which go to the vote at AGMs in April and May) and what arguments they use either for or against.

BP and Shell need all the support they can get right now. The dramatic decline in oil prices, the increasing grid parity status of renewable energy, the shale gas revolution, the global divestment campaign and the looming reality of tightening climate change policy are all potential shocks that arguably call into question the companies’ long-term viability in their current form.

A group of shareholders helping them plot their way to a long-term sustainable future is absolutely the best thing for them.