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BUSINESS

ESG Blowback: Exxon, Chevron Investors Reject Climate Measures

Shareholders' votes, along with others in Europe, deal a blow to activists

By Collin Eaton Follow *and Jenny Strasburg* Follow

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Shareholders at Chevron and Exxon Mobil struck down proposals urging the oil companies to cut emissions. PHOTO: BRANDON BELL/GETTY IMAGES

An investor-driven climate change push at some of the world's largest oil companies has stalled out.

On Wednesday, Exxon Mobil XOM **-0.72%** ▼ and Chevron's CVX **-0.64%** ▼ shareholders struck down a raft of proposals urging the companies to cut greenhouse-gas emissions derived from fuel consumption, put out new reports on climate benchmarks and disclose certain oil-spill risks, among other initiatives.

The votes were abysmal for climate activists. All but two of the 20 shareholder proposals for the two companies garnered less than 25% of investors' vote, according to preliminary results, with some performing much worse than similar proposals put forward last year.

Among the most controversial proposals were those that would have had the companies adopt targets for reducing emissions including those from third-party consumption of their products, such as when drivers burn gasoline in their cars, also known as Scope 3 emissions. Those received only 11% and 10% of the vote among Exxon and Chevron investors, respectively, compared with 27% and 33% for similar proposals last year.

In recent weeks, similar climate proposals failed to win over most shareholders at annual meetings of British oil and gas giants BP and Shell in London.

Investment strategies linked to ESG, short for environmental, social and corporate-governance issues, had gained momentum in recent years, particularly following the onset of the pandemic in 2020. Investors pressed oil companies to show how they were working to reduce their climate footprint, set long-term environmental goals and curtail the flaring of unwanted natural gas.

In 2021, investment firm Engine No. 1 prevailed in a historic proxy battle against Exxon, winning three board seats at the company's annual meeting with the backing of investment firms, Vanguard, State Street and BlackRock. The firm argued that Exxon needed to form a better strategy to prepare for the world's anticipated energy transition.

After the defeat, Exxon adopted a so-called net zero commitment—a goal to reduce or offset greenhouse-gas emissions from its operations to zero by 2050.

Investors in recent years urged oil companies to set long-term environmental goals. PHOTO: NITASHIA JOHNSON FOR THE WALL STREET JOURNAL

But Wednesday's votes demonstrated how some shareholders have backed off pushing major oil companies to embrace certain climate goals. Investors said many voices pushing ESG measures have been drowned out following Russia's war in Ukraine, which caused oil and gas prices to skyrocket as global supplies were crimped.

Mark van Baal, founder of environmental activist group Follow This, said shareholders missed an opportunity at the annual votes. Investors know that avoiding climate disaster will require global emissions to fall by almost half by 2030, he said, but many are focused on short-term profits.

"It's incomprehensible that most investors still accept the U.S. super majors' refusal to cut emissions this decade," van Baal said.

The industry and its allies have said some countries, particularly in Europe, were too quick to move away from fossil fuels toward clean energy sources such as solar and wind. A movement against climate activism has gained political traction in the U.S., particularly among Republican voters. Entrepreneur Vivek Ramaswamy, a candidate for the Republican presidential nomination, has made anti-ESG policies a central plank of his campaign.

The pushback against ESG measures has also hit investment firms such as BlackRock, which have faced potential boycotts in Texas and other red states. Republican officials in Florida, Texas, Louisiana and South Carolina pulled more than $4 billion in pension and investment funds from BlackRock starting last year. BlackRock brought in $230 billion from U.S. clients in 2022.

It wasn't immediately clear how BlackRock, State Street and Vanguard voted at the meetings this week.

State Street and BlackRock declined to comment. Vanguard didn't immediately respond to a request for comment.

Investments in fossil fuels pushed many oil companies to record profits last year, which lured back some investors who had fled after years of meager returns from the industry. Exxon Chief Executive Darren Woods said Wednesday the company had benefited from investing in fossil fuels when others pulled back.

Even in Europe, energy executives have shown a willingness to alienate clean-energy investors to tailor strategies to the thirst for fossil fuels. BP and Shell's record full-year 2022 profits and hefty returns to investors have attracted new investors, and won back some who were dubious of their energy-transition strategies, executives said.

Shell and BP executives have said their strategies are consistent with targets to lower global emissions, while also helping supply the oil and gas still demanded in coming years globally. Exxon and Chevron have said they support the emissions targets set by the Paris climate accords and reducing emissions from their operations.

But Woods and other industry executives have argued some climate-related proposals would backfire or leave the economy worse off. Woods said several proposals rejected Wednesday would have required the company to assume the world will cut carbon emissions at a much faster pace than observers have projected.

"Some [would] go so far as to force us to decrease oil and gas development," he said. "This would do nothing to reduce global demand."

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