The Day The Energy World Changed

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May 26, 2021 was the day the energy world changed.

On the same day that a Dutch court in The Hague ruled that Royal Dutch Shell could be held liable for climate change and ordered it to reduce its greenhouse gas emissions by 45% by the end of 2030 compared to 2019 levels, ExxonXOMMobil lost a proxy fight in which at least two board candidates nominated by a small environmental activist hedge fund pushing the company to move to a cleaner energy platform were elected to the Board of Directors, with support from Wall Street institutional investors also concerned about climate change. Meanwhile, ChevronCVX investors separately voted 61% in favor to order that company also to cut greenhouse gas emissions generated by use of its products.

Coming on the same day, these three matters show clearly how concern over climate change has been growing, and now is even impacting the business of traditional energy companies.

The ExxonMobil vote was not only about emissions. Poor financial results produced by company management before and during the pandemic also played a part. However, there is no doubt that concern over climate change was a deciding factor. While not under the same court mandate as Royal Dutch Shell, the company clearly must pay more concern to environmental matters than in the past or its board risks further replacement, if not shareholder mutiny. Needless to say, this will not be an easy path to follow.

This dilemma is illustrated by the ExxonMobil situation, which produced one of the largest proxy fights in corporate history.

Perhaps surprisingly, the ExxonMobil dissidents were supported by traditional asset managers like BlackRock'sBLK Larry Fink. While BlackRock now is now taking heat for its stance, its position has been known for months. Following the vote, BlackRock put out the following statement, which while couching the matter more as an investment driven decision than a purely moral or societal issue, reaches the same result:

“Exxon and its Board need to further assess the company’s strategy and board expertise against the possibility that demand for fossil fuels may decline rapidly in the coming decades. The current reluctance to do so presents a corporate governance issue that has the potential to undermine the company’s long-term financial sustainability.”

That theme of a rethink in energy company business practices was amplified by the news that the spread (or extra yield) over the Treasury rate for bonds issued by European oil firms has increased, meaning investors now find the energy companies’ debt to be riskier.

While this all is being painted as good news for the world environment and bad news for the energy companies, in reality what it could mean, if done correctly, is enforced realism on all sides of the energy debate, to the betterment of us all.

From the standpoint of the energy companies, they now must mount a true information campaign to show the tradeoffs involved in all energy matters, and what changes will actually need to be implemented to facilitate a shift away from carbon emissions to the degree being demanded by investors (and in the case of Royal Dutch Shell, now ordered by a court).

Energy companies must explain to their investors how in the real world the drive to decarbonize will work, putting forth clearly the short term and long term investment decisions that will need to be made in order to make the transition from fossil fuels to green energy production as seamless and smooth as possible. This will mean not only explaining that which is obvious, but also pointing out some of the hidden perils of making the transition without adequate planning, guidance, and sound political and economic support from both the public and private sectors working in harmony and not at cross purposes.

As an example, energy companies now both should and must show how in places like Germany, prior attempts artificially to force massive decarbonization without accompanying market support and good public planning, including especially necessary infrastructure changes, resulted not only in Nord Stream 2 but also in an even greater reliance on Russian oil and natural gas than before.

Beyond merely reiterating the perils of too much fossil fuel reliance, which has always been the theme of environmentalists, these companies also now have an obligation to explain to the world the limits of renewable energy. This will include both how their products may be affected, but also may not be.

In the United States we use more natural gas than we did in 2000. However, as a result of fracking and the movement away from dirty energy like coal to cleaner products like natural gas our carbon emissions are down to levels not seen since the 1980’s. Is this a good tradeoff or a bad one?

It will be up to people like the activist ExxonMobil board members to explain why this is bad, but it will be for the board as a whole to reach consensus on the overall direction that the company will choose to take, balancing all of the competing demands.

Perhaps most importantly, neither Russia nor China is joining these moves to decarbonize. Is it a good thing for the west to put so much pressure on its own energy companies while it essentially allows China, the world's largest emitter of greenhouse gases, to get a pass? Will there really be a decrease in demand for fossil fuel products by 2050, or is this just wishful thinking? More than any other firm, the world's biggest energy company, ExxonMobil, now has the opportunity, and indeed the obligation, to find out.

I have often argued in these articles that what is needed most is a legitimate discussion on the tradeoffs involved. The events of May 26 have put this in sharper focus.

Energy companies, investors, environmentalists, and western governments all now must "get real" about energy, lest we produce a world in which environmentally, geopolitically, and economically we will be far worse off in 2030 and 2050 than we are now. We may never be able to reach full consensus on all of this, but we need to strive as much as possible to all be working toward common goals and agreed upon strategies as the world continues to face the existential climate crisis.

ATTORNEYS MENTIONED

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