Federated Hermes

CASE STUDY

CONOCOPHILLIPS

EOS ENGAGEMENT IMPACT

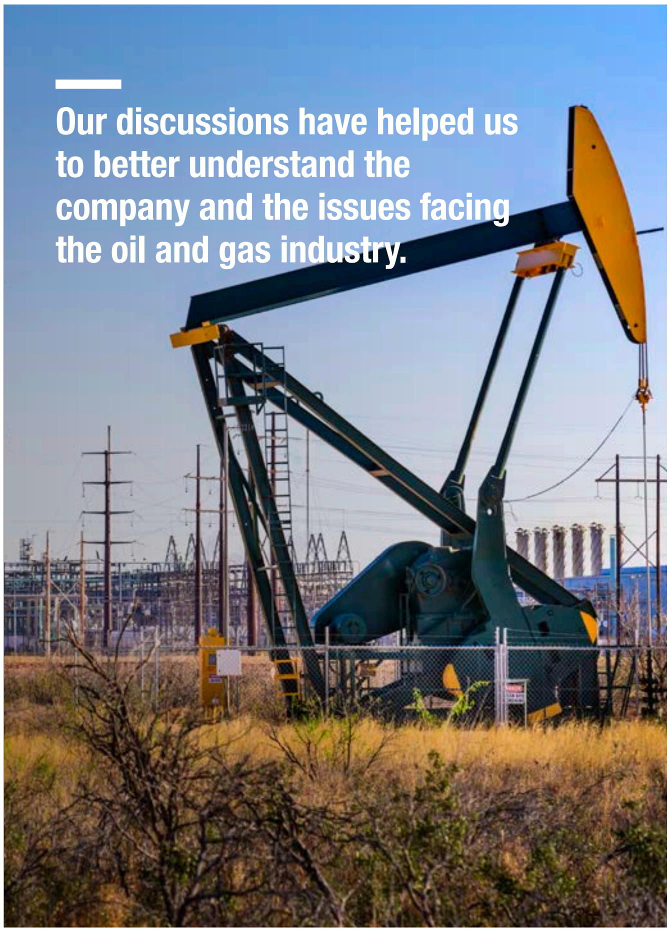
March 2020

Environmental
Climate change risk management, enhanced climate change disclosure, responsible oil sands production.

Social
Disclosure of political and lobbying activity.

Strategy, risk and communication
High impact and disaster recovery risk management, sustainability targets.

ConocoPhillips has improved its climate policies, practices and disclosures to help assure investors of its preparation towards the low-carbon economy. EOS has engaged with the company to achieve best practice and communicate this publicly.



Our discussions have helped us to better understand the company and the issues facing the oil and gas industry.

Company overview

ConocoPhillips is one of the world's largest oil and gas exploration companies. Since the 2012 spin-off of its downstream business, it has divested or reduced its exposure to higher cost assets, most recently announcing the sale of its North Sea assets in Q2 2019.

Background

The company has been thoughtful and collaborative during our engagement, providing us with detailed information concerning its policies and practices. Our discussions have helped us to better understand the company and the issues facing the oil and gas industry. However, this thoughtfulness has been less evident in its public disclosures until recently. By focusing on lower cost assets, it is improving returns. It seems to be preparing to become more resilient to the energy transition, by divesting many of its higher cost assets. However, its climate change disclosures did not make the link to strategy clear when we began intensifying our engagement on climate change in 2014. For example, its description of its scenarios provided very limited information on their construction.

Our engagement

Our engagement began in 2010 after the Deepwater Horizon oil spill disaster. We focused on the company demonstrating that it had best-in-class health and safety, and disaster response risk management in place. We also sought best-in-class management of oil sands risk and a reduction in climate risk associated with energy intensive and costly assets. We have had a longstanding and evolving engagement on climate change and political and lobbying activity. We have also encouraged the company to report more transparently on sustainability issues.

We have met with the global head of sustainable business development and his predecessors, the climate change director and the director of social responsibility many times, as well as its governance professionals. We came away from these discussions pleased with the company's thoughtfulness but disappointed with the mismatch with its reporting. For example, the actions it is taking around its portfolio and the assurance it had given us on how climate change is factored into strategy was not reflected in its disclosure until recently. Our engagement in this period focused on encouraging the company to reduce the mismatch between the thoughtfulness of our dialogue with the limited nature of its public disclosure.

Changes at the company

After correspondence and several meetings to discuss its approach in detail, the company convinced us that it is an industry leader on health and safety and disaster recovery, completing our objective in 2013. We also completed our objective concerning best practice oil sands production in 2014. In addition, we have seen progress in its reporting on climate and political activity and donations, enabling us to complete further objectives that year as a result of improvement in its political and lobbying disclosure. We also completed objectives in 2018 where the company published its four climate change scenarios in its sustainability report and its improved narrative demonstrated more clearly how climate change is affecting its strategic decision making which appears to be reflected in its disposal of many of its higher cost, riskier assets.

2°C

ConocoPhillips now reports on three 2°C scenarios and has articulated a climate change action plan.

Its 2018 sustainability report, published in 2019, marked a significant step forward in its sustainability reporting, including its climate reporting. For example, it now reports on three 2°C scenarios and has articulated a climate change action plan, which is enabling us to progress our objective on improving disclosure and our objectives in relation to lobbying activity and factoring climate into executive pay.

Next steps

We continue to encourage the company to improve its climate change related disclosure. In particular, we wish to see it demonstrate that its strategy is fully capable of being aligned with the Paris Agreement. As part of this, we also look forward to it reporting a sharp reduction in its greenhouse gas intensity, and setting more ambitious 2030 targets. This is in the context of improving its wider sustainability reporting, specifically by establishing targets and other ways to enable us to monitor progress against important issues.

We are also encouraging the company to further improve its disclosure of how it governs its relationships with membership organisations in relation to climate change, using the standard that Royal Dutch Shell produced in Q2 2019 as a minimum benchmark. We also wish to see greater share-ownership obligations for better alignment with long-term investors on climate change and other matters.

Tim Goodman
Engagement, EOS

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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