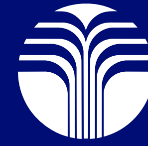


Columbia Center on Sustainable Investment

A JOINT CENTER OF COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE, COLUMBIA UNIVERSITY

Transferred Emissions Are Still Emissions: Why Fossil Fuel Asset Sales Need Enhanced Transparency and Carbon Accounting

Study by the Columbia Center on Sustainable Investment and Sabin Center for Climate Change Law, presented at UNCTAD's 8th World Investment Forum, Abu Dhabi, UAE

Jack Arnold
Program Associate, CCSI

19 October 2023

Guiding Questions:

1) What are transferred emissions?

2) What are the details behind transferred emissions?

3) What opportunities are there for reform?

Guiding Questions:

1) **What are transferred emissions?**
2) What are the details behind transferred emissions?
3) What opportunities are there for reform?

Transferred emissions:

As oil and gas companies attempt to decarbonize their business in line net zero goals, they offload underperforming or heavily-polluting assets, often to smaller or less publicly-scrutinized buyers.

The Big Read Oil & Gas industry + Add to myFT

A $140bn asset sale: the investors cashing in on Big Oil's push to net zero

The pressure on listed oil majors could have unintended consequences if production passes to private or state-owned companies

Green | The Big Take

The Retreat of Exxon and the Oil Majors Won't Stop Fossil Fuel

National oil champions are likely to fill the gap left by private-sector players—meaning emissions won't shrink as fast as the supermajors

Private Equity Is Quietly Keeping Fossil Fuel Companies in Business

Vulture funds have spent $1.1 trillion snapping up energy companies over the past decade.

PRIVATE EQUITY PROPELS THE CLIMATE CRISIS

The risks of a shadowy industry's massive exposure to oil, gas and coal

OCTOBER 2021

What Happens When an Oil Giant Walks Away

Who Are the Supermajors?

ConocoPhillips

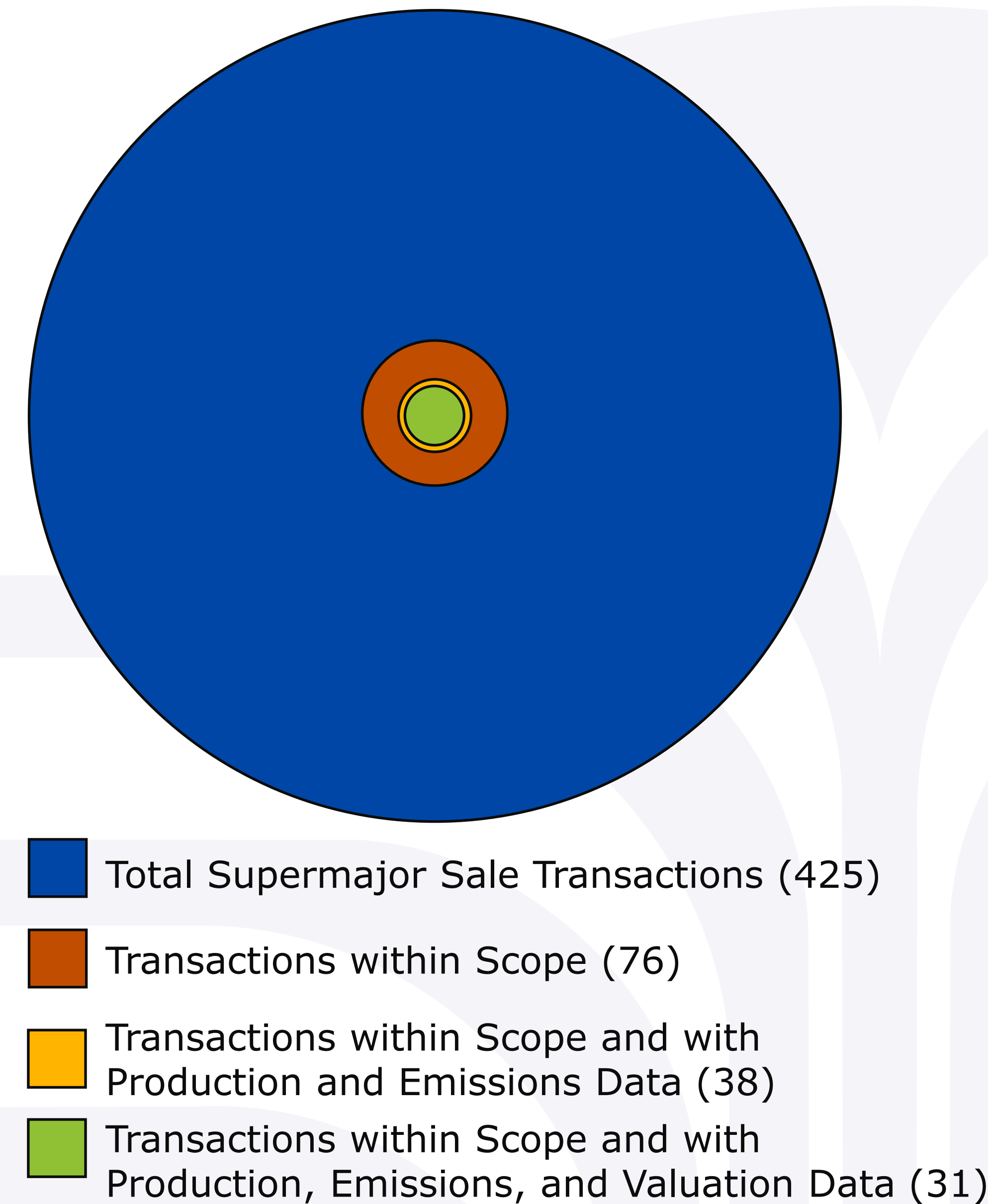
bp

ExxonMobil

TotalEnergies

Scope of the Report

- Transactions between 2017–2021
- Limited to supermajors' sold assets
- Sampling criteria for transactions:
  1) Asset must operate in upstream business
  2) Asset must produce oil primarily
  3) Supermajor must sell completely
- We explicitly exclude these transactions:
  1) Farm-in/out agreements
  2) Swap deals
- We attributed 100% of production to supermajors, as equity-share was difficult to consistently find



Source: Prepared by the authors based on an analysis of data from supermajors' reporting, news reports, and Underlying Data from S&P Global Commodity Insights, @2023 by S&P Global Inc.

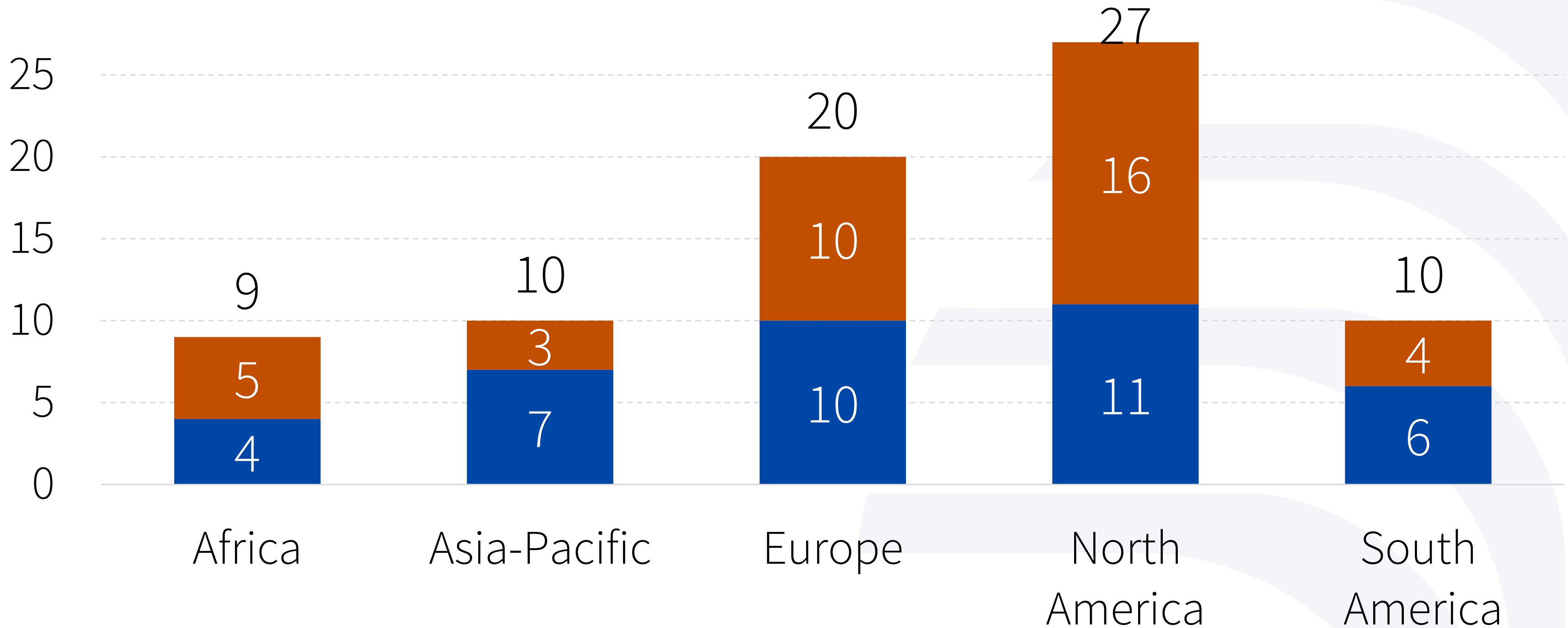
Guiding Questions:

1) What are transferred emissions?

2) What are the details behind transferred emissions?

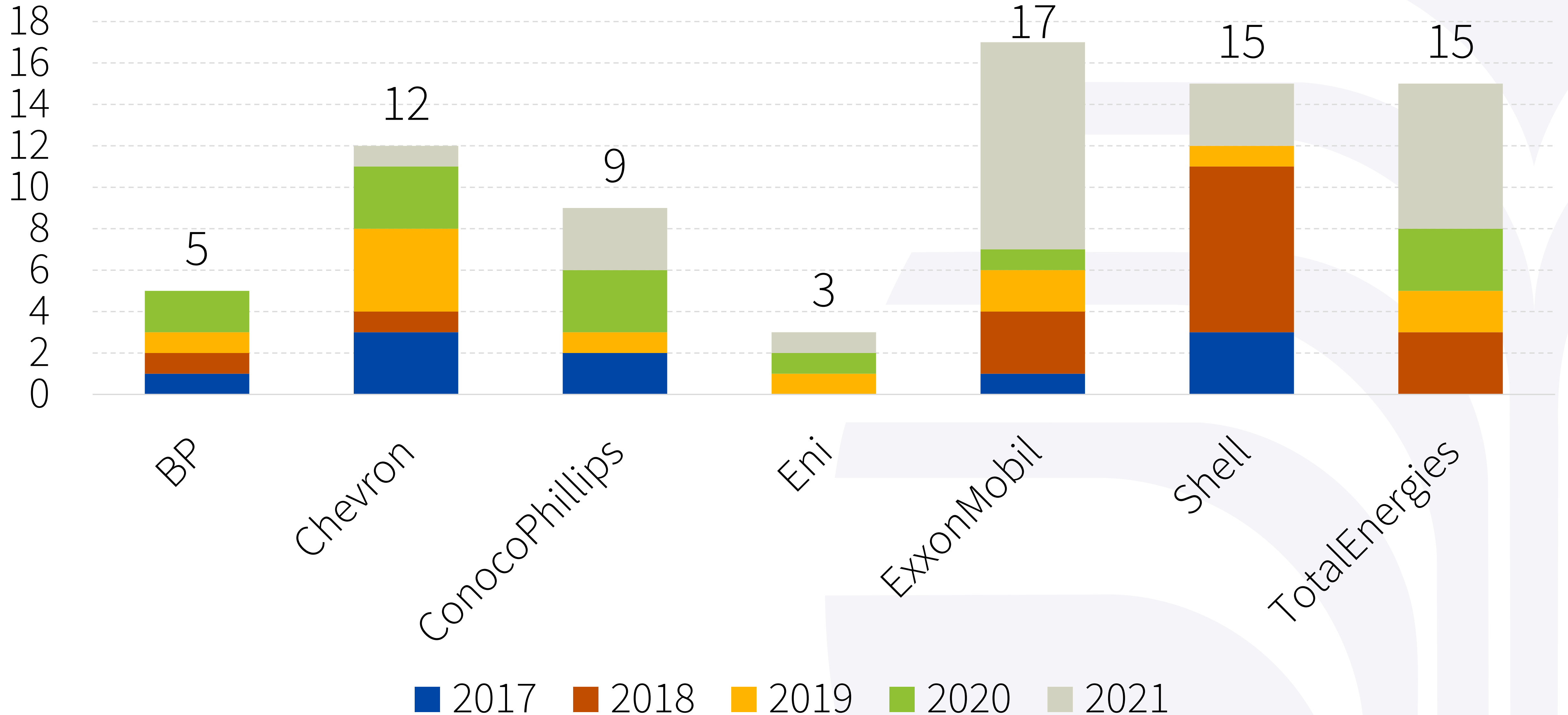
3) What opportunities are there for reform?

Transactions by Region



Source: Prepared by the authors based an analysis of Underlying Data from S&P Global Commodity Insights, ©2023 by S&P Global Inc.

Transactions by Supermajor



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Source: Prepared by the authors based an analysis of Underlying Data from S&P Global Commodity Insights, ©2023 by S&P Global Inc.

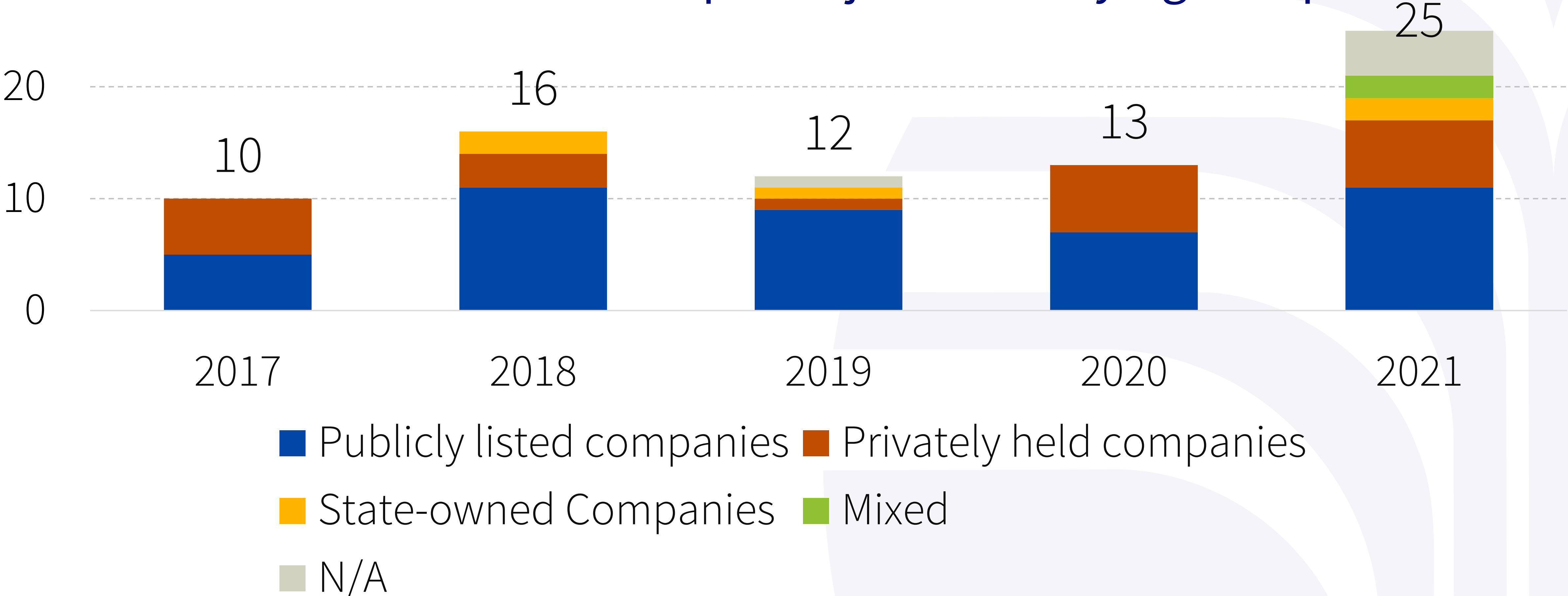
The Quantity of Transferred Emissions is Significant

Offloaded and reported scope 3 emissions, 2017–2021 (Mt CO_2, n=38)

Supermajors	Total Scope 3 Emissions Attributable to Sold Assets	Reported and Estimated Company Scope 3 Emissions	Total Scope 3 Emissions Attributable to Sold Assets / Reported and Estimated Company Scope 3 Emissions
BP	621.8	1901.5	32.70%
Chevron	728.2	2323.0	31.35%
ConocoPhillips	519.6	944.3	55.02%
Eni	7.9	1102.2	0.71%
ExxonMobil	388.3	2959.5	13.12%
Shell	1483.1	7668.0	19.34%
TotalEnergies	426.9	2010.0	21.24%

Source: Prepared by the authors based on supermajors' emissions reporting and Underlying Data from S&P Global Commodity Insights, @2023 by S&P Global Inc.

What Types of Companies are Buying From the Supermajors?



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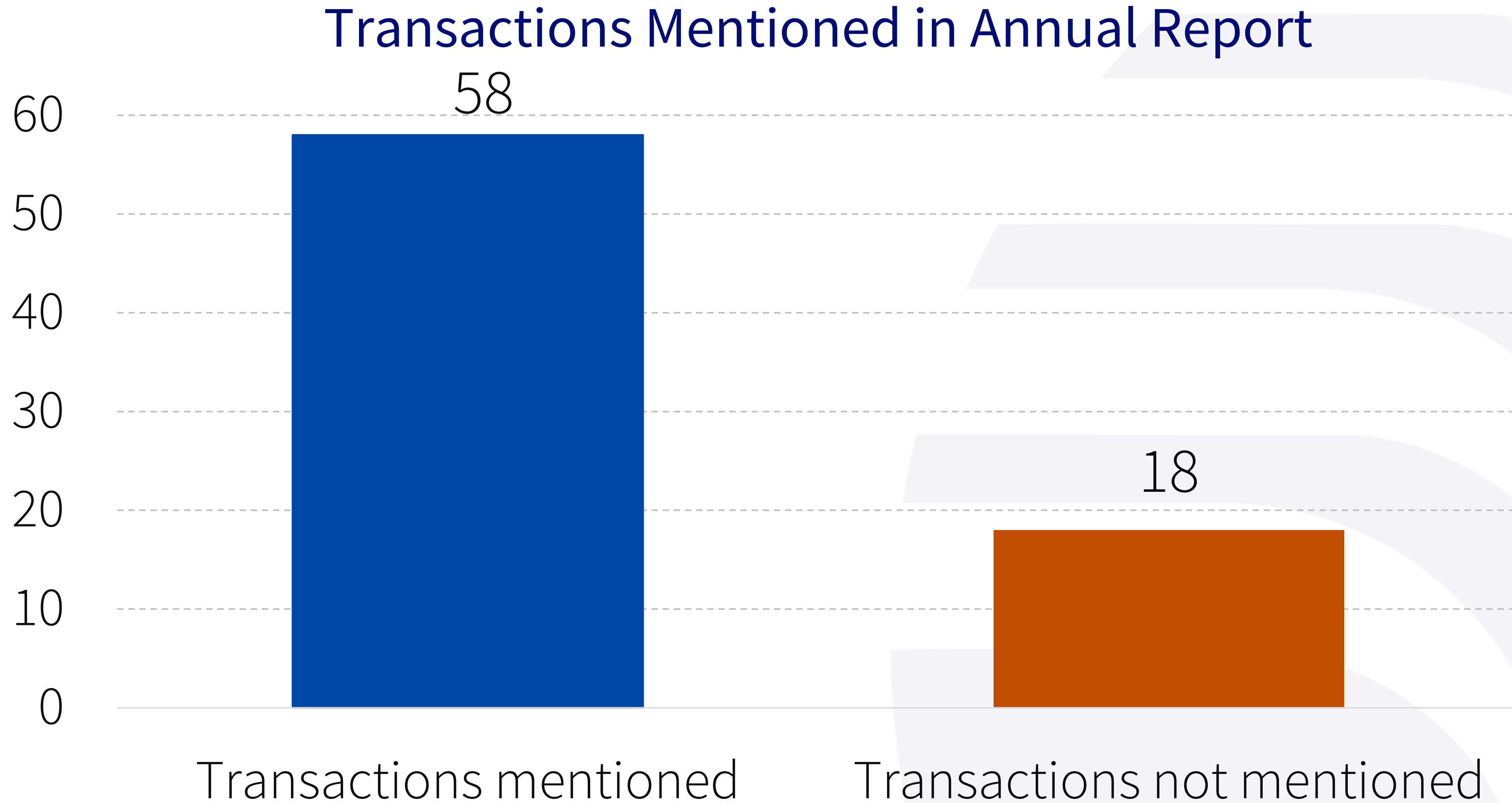
Source: Prepared by the authors based an analysis of Underlying Data from S&P Global Commodity Insights, ©2023 by S&P Global Inc.

How Transparent Are the Supermajors about Asset Sales?



Source: Prepared by the authors based an analysis of the supermajors' 2017—2021 annual reports.

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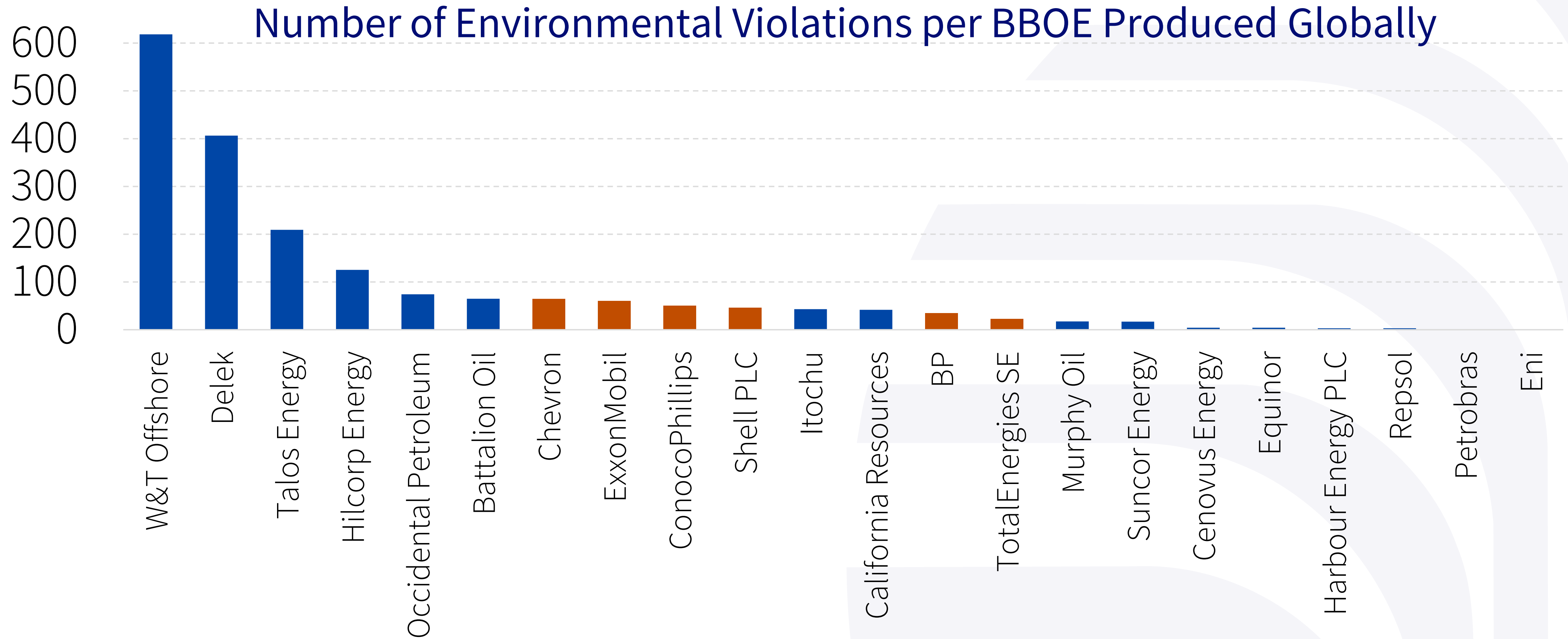
Buyers' Environmental Performance



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Source: Prepared by the authors based an analysis of Good Jobs First's Violation Tracker Data.

Guiding Questions:

1) What are transferred emissions?

2) What are the details behind transferred emissions?

3) What opportunities exist for reform?

Transparency as a Goal of Regulatory Reform

Fossil fuel asset sales present two interrelated challenges to coordinated climate action:

1. Fossil fuel asset sales obscure the GHG emissions landscape, because of transparency and data access issues.
2. Fossil fuel asset sales may result in higher global emissions.

Accounting for Sales in Emissions Reporting Structures: Base Year Recalculation under the Greenhouse Gas Protocol

What is a Base Year?

- Company inventories must define "chosen organizational and operational boundaries."
- Base year: a year "for which verifiable emissions data are available."
- Companies must use the base year as a reference point for emissions reporting.

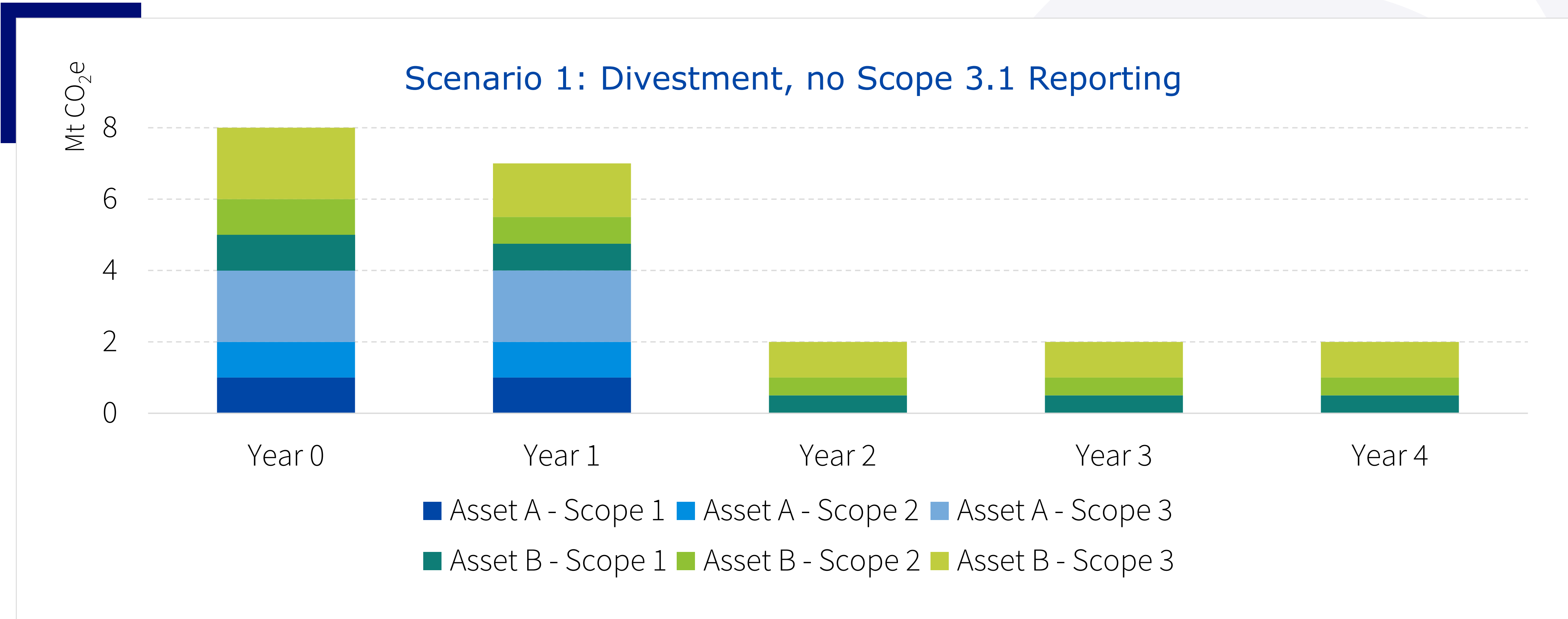
Base Year Recalculation

- "Companies are required to retroactively recalculate base year emissions when **significant structural changes** occur in the reporting organization, such as **mergers, acquisitions, or divestments**."

A company appropriately applying and reporting its base year recalculations would be *unable* to claim material emissions reductions simply by offloading emissions through asset sales.

Accounting for Sales in Emissions Reporting Structures: Scope 3.1 Reporting

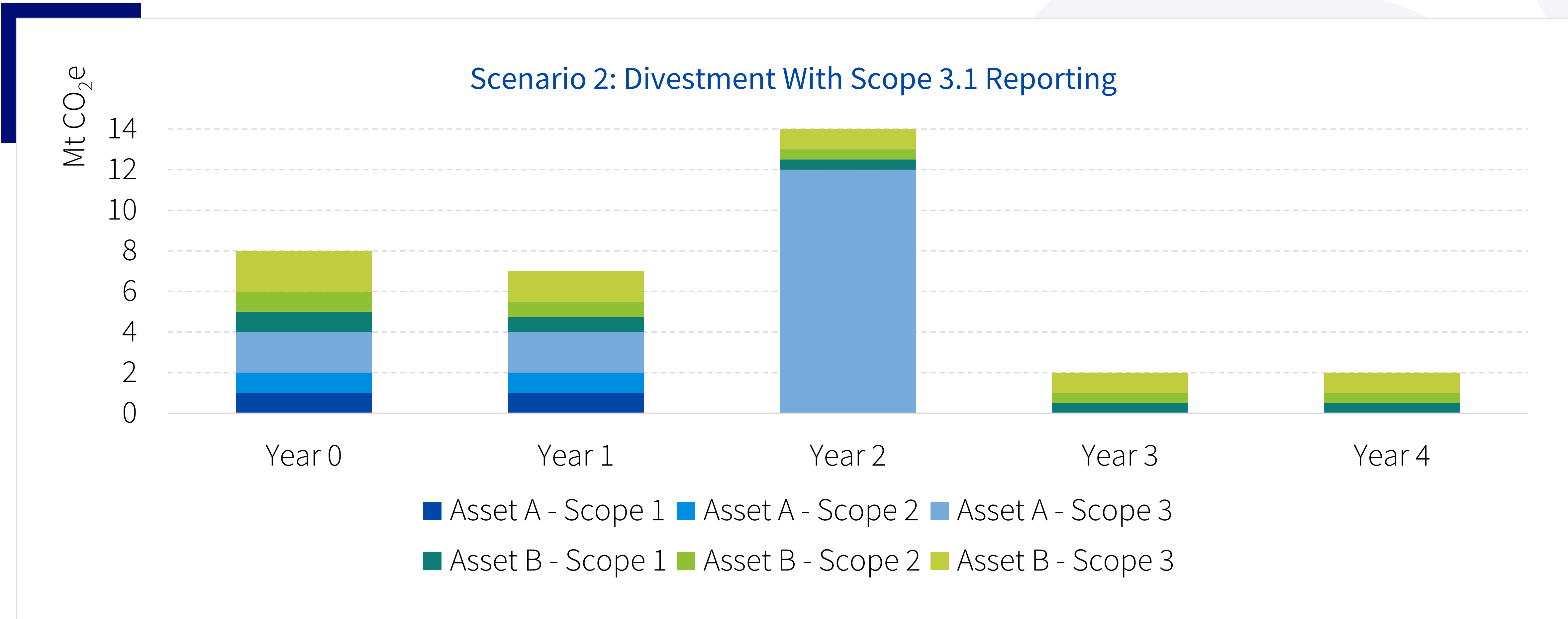
Divestment of Asset A, Efficiency Improvements in Asset B, no Scope 3.1 Reporting (Status Quo)



Source: Prepared by the authors.

Accounting for Sales in Emissions Reporting Structures: Scope 3.1 Reporting

Sale of Asset A With no Emissions Reduction Plan, Efficiency Improvements in Asset B, Scope 3.1



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Source: Prepared by the authors.

Requiring Asset-level Direct Disclosure of Emissions

Regulators could supplement general "materiality" requirements with asset-specific disaggregated emissions disclosures

- Require companies to disclose disaggregated emissions on project-by-project and jurisdiction-by-jurisdiction basis.
- Require companies to disclose the buyers' identities, post-transfer emissions reduction plans, and projections of post-transfer emissions over the asset's lifetime, among other information.

EU's sector-specific "country-by-country" disclosure rules provide a model for thorough asset-specific disaggregated disclosures

Including Upstream Fossil Fuel Assets in Point-Source GHG Inventories

Alongside corporate reporting, jurisdictions could directly track assets.

- The EU, UK, and US all maintain centralized databases of certain **significant** GHG emission point sources and their beneficial owners.
- These databases could serve as a model for national or regional GHG reservoir inventories.
- There is a clear demand for this tracking. A public monitoring regime would support civil society efforts, like the Global Registry of Fossil Fuels, a project launched by the Carbon Tracker Initiative in 2022.

Tracking assets, rather than owners, provides direct benefits.

Main Takeaways

1. Existing corporate disclosure standards are insufficient to track fossil fuel asset sales.
2. Sales of upstream fossil fuel assets are common and have led to the offloading of significant GHG emissions by the supermajors.
3. Fossil fuel asset sales by the supermajors do not just shift GHG emissions but may increase them.
4. Fossil fuel assets sold by the supermajors may move to companies with worse environmental track records.
5. Regulatory reforms based on existing GHG emissions accounting frameworks can substantially enhance transparency around fossil fuel asset sales.
6. Tracking asset- and jurisdiction-specific emissions and including fossil fuel assets in existing GHG inventories may be more effective reform alternatives than tweaking emissions accounting frameworks.

Relevant Literature to Review

Columbia FDI Perspectives

Perspectives on topical foreign direct investment issues
Editor-in-Chief: Karl P. Sauvant (Karl.Sauvant@law.columbia.edu)
Managing Editor: Matthew Conte (msc2236@columbia.edu)

The Columbia FDI Perspectives are a forum for public debate. The views expressed by the authors do not reflect the opinions of CCSI or our partners and supporters.

No. 352 March 6, 2023

Governments and companies must address climate and governance risks when petroleum assets change hands

by

Nicola Woodroffe and Erica Westenberg*

Whether driven by climate targets, reputational risk, financial considerations, or a combination of factors, some MNEs are selling petroleum assets, sometimes as part of their decarbonization strategies. However, simply selling petroleum projects may not reduce, and may actually increase, climate impacts if assets are transferred from companies with stronger environmental and reporting commitments to those with weaker commitments. Moreover, unless handled responsibly, disengagement by reputable firms may increase certain other risks for host developing countries and their citizens, such as exacerbating weak governance, corporate capture and corruption, conflict, and human rights abuses. Governments, companies, investors, and civil society should ensure that, when petroleum projects change hands, sustainability and governance standards do not slip. This may require revisiting approaches to petroleum laws and contracts and updating our understanding of company and investor social responsibility.

Host country governments should vet the quality of would-be buyers. This is not a new concept, and many governments have built related protections into their upstream petroleum legal frameworks. Contracts granting companies the right to explore for, and extract, petroleum often include restrictions on companies' ability to transfer their interest to another party. For example, all 28 English-language petroleum agreements on ResourceContracts.org[1] signed in the past five years require prior government approval for assignments of interest.[2] 23 of these specify technical and financial competence of an assignee as a condition for approval, and 25 require license holders to conduct petroleum operations in line with best industry practice.

Tackling Transferred Emissions

Climate Principles for Oil and Gas Mergers and Acquisitions

AS YOU SOW
Main Post Office, P.O. Box 751
Berkeley, CA 94704
www.asyousow.org
BUILDING A SAFE, JUST, AND SUSTAINABLE WORLD SINCE 1992

Notice of Exempt Solicitation Pursuant to Rule 14a-103

Name of the Registrant: ExxonMobil Corporation (XOM)
Name of persons relying on exemption: As You Sow on behalf of Andrew Behar
Address of persons relying on exemption: Main Post Office, P.O. Box 751, Berkeley, CA 94704

Written materials are submitted pursuant to Rule 14a-6(g)(1) promulgated under the Securities Exchange Act of 1934. Submission is not required of this filer under the terms of the Rule, but is made voluntarily in the interest of public disclosure and consideration of these important issues.

ExxonMobil Corporation (XOM)
Vote Yes: Item #11 – GHG Reporting on Adjusted Basis
Report Impact of Asset Transfers on Disclosed Greenhouse Gas Emissions

Annual Meeting: May 31, 2023
CONTACT: Danielle Fugere | dfugere@asyousow.org

THE RESOLUTION

BE IT RESOLVED: Shareholders request that ExxonMobil, at reasonable cost and omitting proprietary information, disclose a recalculated emissions baseline that excludes the aggregated GHG emissions from material asset divestitures occurring since 2016, the year ExxonMobil uses to baseline its emissions.

SUPPORTING STATEMENT: Proponents recommend disclosing, at management discretion:

- The emissions associated with ExxonMobil's material asset divestments since 2016;
- What portion, if any, of ExxonMobil's current emissions reduction targets relies on accounting for asset transfers as emissions reductions;
- A base year emissions recalculation policy establishing a threshold for future recalculations related to divestitures.

SUMMARY

To address growing climate-related risk, investors expect companies to set greenhouse gas (GHG) emissions reduction targets aligned with the Paris Agreement's 1.5-degree Celsius goal and to report their reduction progress. Fundamental to target-setting and reporting is accuracy.

When polluting assets are transferred from one company to another but continue operating, their emissions should not be counted toward the selling company's emissions reduction goals. To do so would be to take credit for climate progress where none has occurred.

AS YOU SOW
2023 Proxy Memo
ExxonMobil | Report Impact of Asset Transfers on Disclosed Greenhouse Gas Emissions

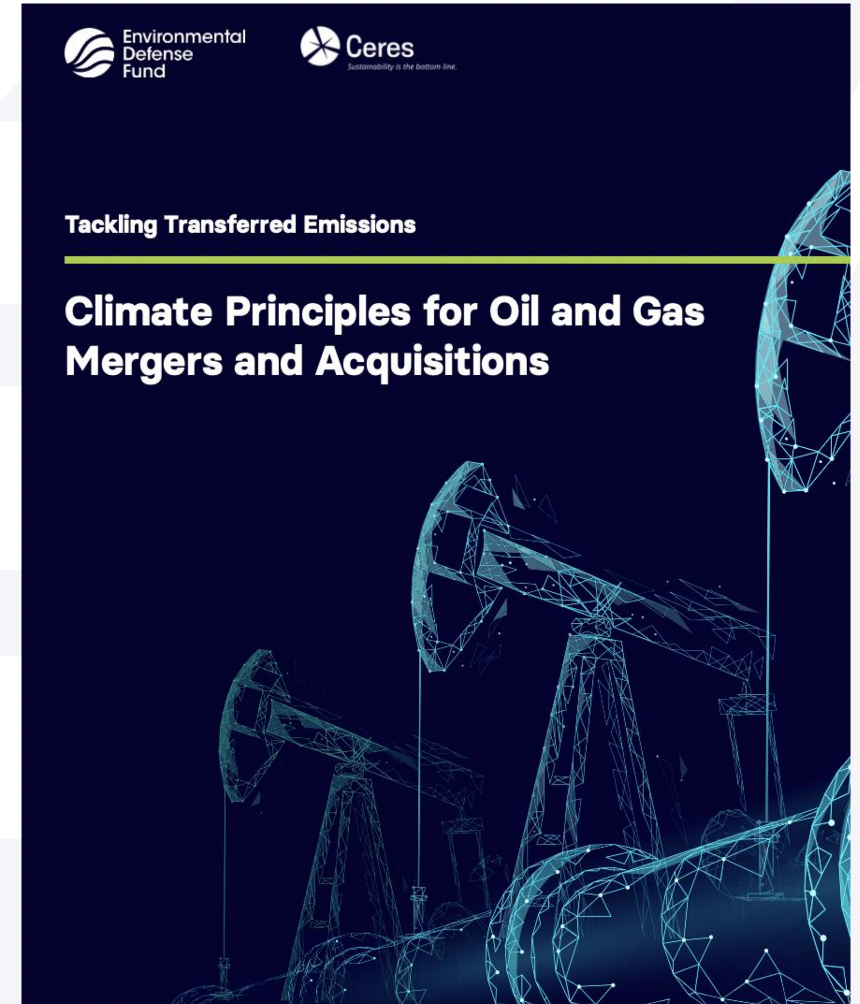
Investors must stand firm in requiring that company-reported progress toward GHG emissions reduction targets reflect only real-world emissions cuts. Transferring emissions from one company to another may appear to reduce an individual company's emissions but it does not necessarily reduce actual GHG emissions, contribute to the goal of limiting global temperature rise to 1.5 degrees Celsius, or reduce company or stakeholder exposure to climate risk.

ExxonMobil Corporation ("ExxonMobil" or "the Company") and Proponent agree on a fundamental principle: In ExxonMobil's Board's words, "divesting assets to reduce emissions and meet an emissions target does not reduce global emissions and could result in potentially higher emissions depending on the capabilities of the acquiring company."[1] While the Board asserts that ExxonMobil "make[s] divestment decisions to maximize value and improve competitiveness, not to manage emissions," ExxonMobil remains unwilling to provide clarity as to the role that divestments play in achieving the Company's net zero emissions reduction goal or the role of divestments in the approximately 13 percent reduction in absolute emissions that ExxonMobil has reported achieving since its 2016 baseline year.[2]

Environmental Defense Fund & Ceres

Tackling Transferred Emissions: Climate Principles for Oil and Gas Mergers and Acquisitions (2022)

- Principles emerged out of discussions with industry stakeholders, including a series of roundtables with private and public equity investors, banks, oil and gas companies, non-profits, and others involved with oil and gas dealmaking.
- The Climate Principles are divided into four categories: Pre-Deal Due Diligence, Disclosure, Emissions Reduction Targets and Strategy, and Decommissioning.
- In addition to these voluntary principles geared toward private sector actors, policymakers and regulators should consider adopting directives and frameworks that ensure continuous emissions reductions in the oil and gas sector.



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AND COLUMBIA CLIMATE SCHOOL

Contact information:

Jack Arnold: jack.arnold@columbia.edu

Martin Dietrich Brauch: martin.brauch@columbia.edu

TRANSFERRED EMISSIONS ARE STILL EMISSIONS

Why Fossil Fuel Asset Sales Need Enhanced Transparency and Carbon Accounting

Jack Arnold, Martin Lockman, Perrine Toledano, Martin Dietrich Brauch, Shraman Sen, and Michael Burger

Briefing | **May 2023**