THE 2035 INITIATIVE I POLICY BRIEF #18

Oil companies aren't cleaning up their act fast enough on climate

Most firms are greenwashing at worst or hedging at best, investing marginally in green energy to minimize risk from stringent policy or future shareholder pressure.

Based on **Jessica Green, Jennifer Hadden, Thomas Hale and Paasha Mahdavi. 2021. "Transition, hedge, or resist? Understanding political and economic behavior toward decarbonization in the oil and gas industry."** ***Review of International Political Economy*** **+ Jessica Green, Jennifer Hadden, Thomas Hale and Paasha Mahdavi. 2022. "Using earnings calls to understand the political behavior of major polluters."** ***Global Environmental Politics*****.**

The Policy Problem

Oil companies have been touting their commitments to renewables, pledging to become "net zero" – not adding greenhouse gases to the atmosphere on balance. Are these companies willing to decarbonize, or is this more greenwashing? And what is the oil industry's long-term viability in a carbon-constrained world?

Key findings

- Little connection between what oil firms tell their investors on climate policy and what they do in their business operations.
- Not all firms are alike: European firms like Shell and BP are less opposed to climate policy than American firms like Chevron and Exxon, though there are important exceptions like Italy's Eni and Spain's Repsol.
- "Legacy pressure" matters: oil companies with assets that are more vulnerable to climate policy (such as refineries and fracking wells) are feeling more decarbonization resistance from internal departments.

What We Found

Among the top 10 investor-owned oil companies, there is very little connection between what firms tell their investors and what firms actually do regarding climate change and decarbonization. But not all firms are alike: some invest in green energy and are trying to clean up their operations, while others are doubling down on oil and gas. Even the most ambitious firms, like Equinor and Shell, are engaging in hedging rather than all-out decarbonization: dabbling in solar, wind, and electric vehicles while still largely focused on oil and gas in case the energy transition is never fully realized. We also found that companies with more "legacy assets" such as refineries – as well as firms operating in markets with more stringent environmental regulations and with greater public pressures to decarbonize – are more likely to resist than to hedge. If climate policy gets tougher, these firms will either have to make costly retrofits or write off many of their refining assets, as Exxon has hinted it may have to do.

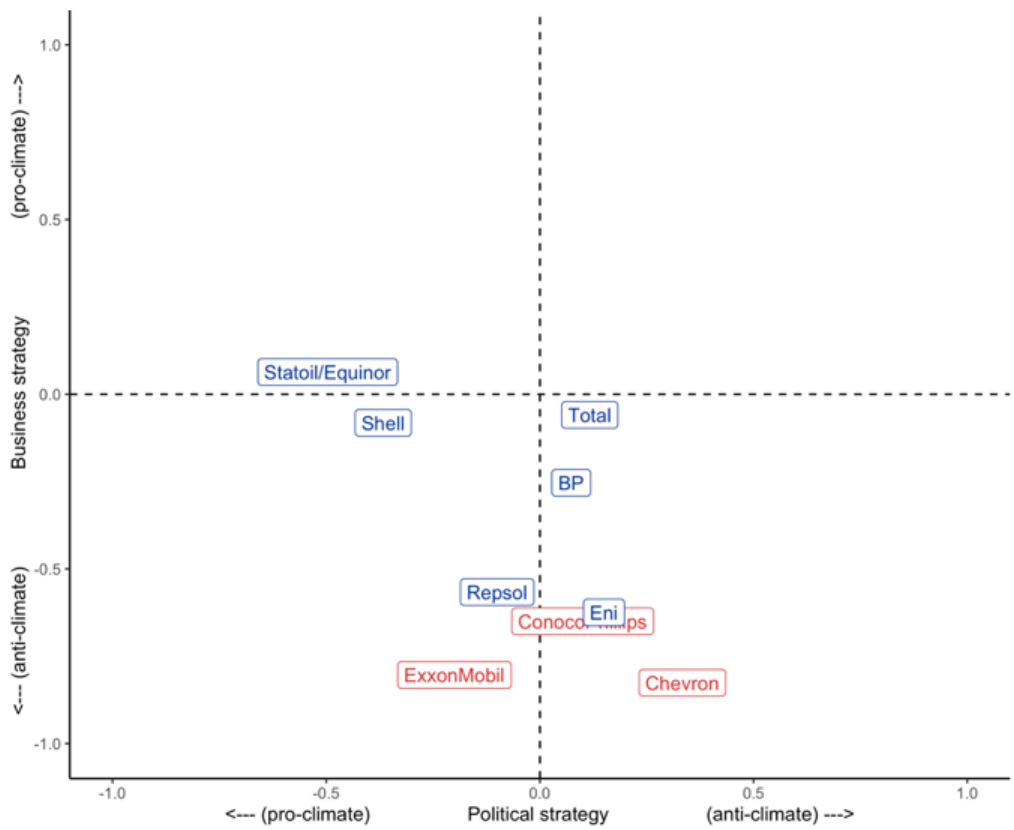

Fig. 1 Variation in oil firm decarbonization strategies. The graph shows the over-time average in climate strategy based on earnings call data on the x-axis compared to an index of operational activities that reflect climate strategy (emissions, energy efficiency, oil versus non-oil investments) on the y-axis. European firms are blue; American firms are red.

What We Did

We evaluated 16.1 million words in 1,747 shareholder/earnings calls and operational data on business activities in six different components (emissions, flaring, energy efficiency, oil/gas mix, upstream commitments, and low-carbon investment deals). We then compared both dimensions – what firms say they will do (earnings calls) and what they actually do (operational data) – across a 15-year period. Finally, we evaluated what determines variation across firms and over time using statistical models that include information on regulations that firms face in their home country and the markets in which they operate, along with data on oil prices, firm-level diversification, refining capacity, and R&D expenditures.