

## Oil and Gas Producers— Should we paint an entire industry with the “BP” brush?


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As oil continues to wash up on shores across the Gulf Coast due to the crisis in the Gulf of Mexico, BP, the famously self-branded Beyond Petroleum oil giant, has placed a negative spotlight on an entire industry’s environmental performance. In this report, we explore oil and gas producers’ actions and priorities, finding that the industry needs to better prioritize efforts to reduce their environmental impact.



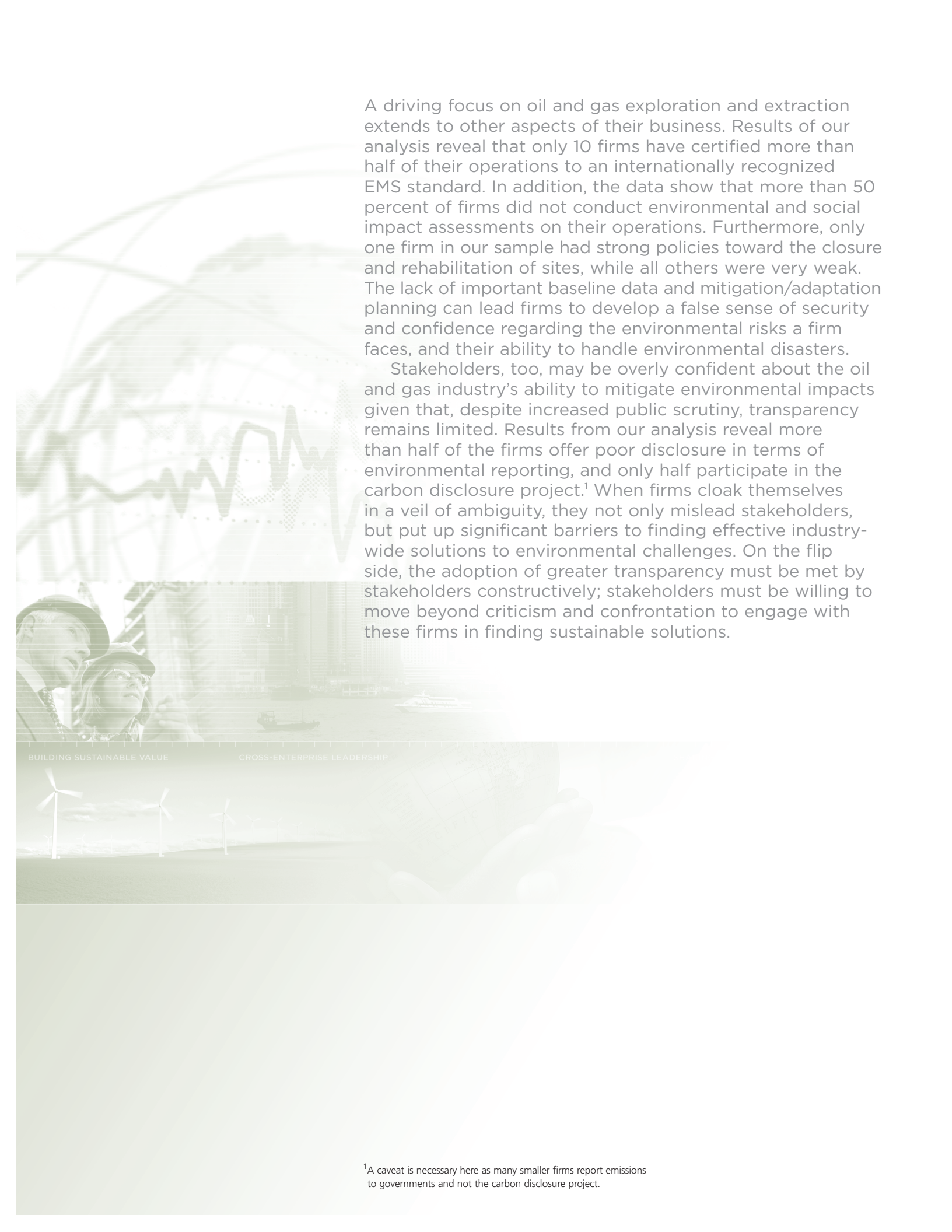
Of the 98 oil and gas firms in our sample, only 10 percent have caused the vast majority of serious operational controversies during the previous two to three years. These firms, however, represent the largest (non-state owned) producers, including BP, ExxonMobil, Royal Dutch/Shell, ConocoPhillips, and Chevron, who together represent a total market cap of more than \$700B USD. These large producers have the capital to push traditional boundaries of the industry in extracting previously unattainable resources. However, in doing so, they are exposed to increased risk and the potential for failure, as in the case of deep oil exploration. Although the authors find the oil and gas industry is moving in the right direction towards improving its environmental performance, much distance remains to be covered. Until addressed via industry-wide urgency and priority, public and private confidence will remain elusive for the embattled industry.

Carbon intensity stands as one area in which oil and gas firms have improved their performance. Carbon intensity is a measure of a firm's annual carbon emissions relative to its annual sales. More than 50 percent of producers in the sample saw relative carbon intensity drop during the last two to three years. Only a quarter appear to be increasing. While largely good news, commitments to future reductions in carbon emissions are limited by the absence of regulatory policies that offer more certainty on carbon prices. Only 18 firms set measurable targets for reducing emissions. This is not surprising as there are many strategic concerns with being a first mover on emission reductions. Setting the wrong targets can result in criticism from environmental groups, backlash from shareholders and may position the firm negatively with respect to negotiations with regulators. Still, leadership on this front would be a welcome change.

This regulatory gap may also explain the reluctance on the part of energy firms to commit to less carbon-intensive technologies such as wind and solar. This can create a problem for some firms, such as BP, who created the impression that their long-term plans involve a more diverse energy portfolio. Despite this posturing, a singular focus on fossil fuels continues to dominate the field. Only five firms in the study were meaningfully committed to clean technologies and/or renewable energy. (BP is not one of them.) Further, for each of these five firms, their "green" offerings comprised less than 5 percent of revenues. Perhaps worse still, only a handful of firms had any serious plans to increase their own use of renewable energy. Of course, this should be interpreted with caution, as many firms in our sample are small- to medium-sized players who may not have the resources to move into renewable energy production. Regardless, this disconnect between image and action feeds a growing distrust of the entire industry.

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A driving focus on oil and gas exploration and extraction extends to other aspects of their business. Results of our analysis reveal that only 10 firms have certified more than half of their operations to an internationally recognized EMS standard. In addition, the data show that more than 50 percent of firms did not conduct environmental and social impact assessments on their operations. Furthermore, only one firm in our sample had strong policies toward the closure and rehabilitation of sites, while all others were very weak. The lack of important baseline data and mitigation/adaptation planning can lead firms to develop a false sense of security and confidence regarding the environmental risks a firm faces, and their ability to handle environmental disasters.

Stakeholders, too, may be overly confident about the oil and gas industry's ability to mitigate environmental impacts given that, despite increased public scrutiny, transparency remains limited. Results from our analysis reveal more than half of the firms offer poor disclosure in terms of environmental reporting, and only half participate in the carbon disclosure project.<sup>1</sup> When firms cloak themselves in a veil of ambiguity, they not only mislead stakeholders, but put up significant barriers to finding effective industry-wide solutions to environmental challenges. On the flip side, the adoption of greater transparency must be met by stakeholders constructively; stakeholders must be willing to move beyond criticism and confrontation to engage with these firms in finding sustainable solutions.

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<sup>1</sup>A caveat is necessary here as many smaller firms report emissions to governments and not the carbon disclosure project.



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The Richard Ivey School of Business ([www.ivey.ca](http://www.ivey.ca)) at The University of Western Ontario is Canada's leading provider of relevant, innovative and comprehensive business education. Drawing on extensive research and business experience, Ivey faculty provide the best classroom experience, equipping graduates with the skills and capabilities they need to tackle the leadership challenges in today's complex business world. Ivey offers world-renowned undergraduate and graduate degree programs as well as Executive Development at campuses in London (Ontario), Toronto and Hong Kong.

## ABOUT JANTZI SUSTAINALYTICS DATA

The Jantzi-Sustainalytics dataset tracks firm performance according to environment, social and governance (ESG) themes for more than 2,100 companies from 32 countries. Included are data pertaining to supply chain practices, products and services, philanthropy, community involvement, environmental impacts, business ethics, and corporate governance. The data used in this report are current as of December 31, 2009 and resulted in a sample of 98 oil and gas firms from 16 countries dominated by the United States, Canada and Australia.

Jantzi-Sustainalytics is the North American regional arm of Sustainalytics. This global firm has headquarters in Amsterdam and local offices in Toronto and across Europe. The company provides environmental, social, and governance research and analysis; sustainability consulting; and responsible investment services.

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