Paasha Mahdavi (00:04):

Let's start this episode with a little time travel. We're going to go all the way back to 2012. You might remember that K-Pop sensation Gangnam Style has taken over global radio waves. I mean, everybody is doing that dance. But that's not the only thing that's happening. There's also climate stuff going on. Lots of fossil fuel developments. BP is still cleaning up the Deepwater Horizon spill from two years earlier. The Canadian tar sands are kicking up renewed interest. And Shell plans to move forward on a new project, Arctic oil exploration.

(00:39):

In hindsight, it seems kind of crazy that folks would be drilling for new oil in the Arctic a decade ago, but the Arctic is estimated to hold about 13% of the world's undiscovered oil and 26% of undiscovered gas. Big oil's not about to miss out.

Louise Rouse (00:56):

Shell was the first of many that were lining up. Equinor was planning to go into the US Arctic. Chevron was looking at the US Arctic. We felt that Shell would be the opening of the gates into that frontier.

Paasha Mahdavi (01:09):

That's Louise Rouse. At the time, Louise was a young consultant working for a non-profit called ShareAction when her team got a daunting request to try and block Shell from opening those gates in the Arctic. They weren't climate scientists or even protestors. They worked with investors, including ones who owned shares of Shell. Louise's job was twofold: convince investors that Shell's Arctic exploration was a big financial risk, and get them to persuade Shell's management to halt the project.

Louise Rouse (01:44):

The story the industry was telling at that time was that frontier exploration, big megaprojects, was going to be the future of the industry, and we wanted to challenge that. We felt that if we could challenge that growth narrative that the industry was selling, then we could actually attack the foundational beliefs about the oil industry in the market, and the future that investors thought might exist for the market. And the Arctic became one of the major frontiers that the industry was looking to exploit.

Paasha Mahdavi (02:18):

Louise and her team repackaged climate change in a more investor-friendly way. They argued that the potential for oil spills was financially risky, that the Russian energy company Shell was negotiating with for drilling access had an irresponsible history. Shareholders who simply stood by would be playing roulette with their own millions of dollars in stock. But convincing them was a long and uphill battle.

Louise Rouse (02:42):

There was a sense of resignation, I would say, among investors early on around the Arctic. One of our first meetings with an investor in London, they listened to the points we were making and then the progressive investor, who I think on a personal level wasn't in favor of Arctic drilling but professionally said, "It's inevitable. The most we can do is manage the risk."

Paasha Mahdavi (03:03):

But in 2015, after spending a whopping $7 billion on exploration, Shell abandoned the project, citing safety concerns and federal permitting problems.

Louise Rouse (03:14):

When Shell left the Arctic, I wrote to some investors just to thank them for their work, and one wrote back to say, "Well, it was inevitable." So that arc of inevitability had shifted completely.

Paasha Mahdavi (03:27):

It was a huge win. And later in 2015, the Paris Agreement struck another blow to the future of big oil, and waves of big corporations started making net zero climate commitments in line with global 1.5 degree targets. But that didn't mean they'd actually stick to those goals.

(03:44):

Louise has spent the years since teaming up with investors to push corporations for climate accountability, and her work is far from over.

Leah Stokes (03:55):

This is A Matter of Degrees, stories for the climate curious. I'm Dr. Leah Stokes.

Katharine Wilkinson (04:00):

I'm Dr. Katharine Wilkinson.

Paasha Mahdavi (04:02):

And I'm Dr. Paasha Mahdavi.

Katharine Wilkinson (04:04):

We got a lot of doctors in the house today.

Paasha Mahdavi (04:08):

I don't think any of us could do surgery.

Katharine Wilkinson (04:10):

Yeah, probably not.

Leah Stokes (04:13):

Instead, what we're going to be talking about is corporate climate commitments. And Dr. Paasha Mahdavi is a professor, like me, at UC Santa Barbara, where he also researches energy policy.

Paasha Mahdavi (04:23):

Well, I'm glad to be here, and I'm really glad that you ended up convincing me to move to Santa Barbara. It's probably like 10 degrees in DC right now.

Leah Stokes (04:30):

Good life choice all around.

Katharine Wilkinson (04:33):

So Paasha, tell us about the research you've been doing lately.

Paasha Mahdavi (04:36):

My colleagues and I looked at the biggest oil and gas companies in the world and compared what they said they would do on climate to what they would actually do on climate, and those things did not line up. I mean, there's been an explosion of pledges in recent years. If you think back to 2019, only 16% of the global economy had made a net zero pledge, but by 2021, in just two years, almost 70% had made a commitment.

Katharine Wilkinson (05:03):

Wow, that is a huge jump. And I imagine there are lots of folks who think that's a really good thing that these pledges have grown.

Paasha Mahdavi (05:12):

Well, yeah, but there's just one teeny tiny problem. A lot of those pledges are meaningless.

Leah Stokes (05:20):

While we're seeing all these statements, we're also recognizing that a lot of this is greenwashing. There are pledges that might look really good on paper, but they do very little to actually lower carbon pollution in any timeframe that we know is necessary.

Katharine Wilkinson (05:36):

I do feel like a lot of these things come with very swanky websites about net zero goals, Paris aligned, but I know recently there was that Shell memo that came out that read, and I quote, "Please do not give the impression that Shell is willing to reduce carbon dioxide emissions to levels that do not make business sense." So, net zero on the one hand, actually not going to do anything on the other.

Paasha Mahdavi (06:03):

Exactly. And what's kind of wild is that Shell's done a lot better than other companies, like Chevron and Exxon.

Katharine Wilkinson (06:11):

Wow, that's depressing. So Paasha, how do we actually tell what's bold from BS?

Paasha Mahdavi (06:17):

The first thing we need to unpack is what categories of heat-trapping pollution that these companies are counting? Every company has three different scopes of emissions, sometimes thought of as "burn, buy, and beyond." So, let's say I run a bakery. Scope one means all the emissions I directly burn and control, like the gasoline for my delivery cars or the amount of gas that I use to heat my ovens.

Katharine Wilkinson (06:43):

Okay, I'm following. You're trying to make some croissants, so that's all the pollution associated with making the croissants and getting them to the people.

Paasha Mahdavi (06:53):

Exactly. Scope two is all the emissions I buy for my business. I don't have total control over these, it's kind of like the electricity that I pay for to power my bakery.

Katharine Wilkinson (07:03):

What about the pollution for the wheat that you had to buy to bake that croissant?

Paasha Mahdavi (07:10):

All of that is put into scope three, all the indirect emissions that are completely beyond my bakery, but things that we still need to make a loaf of bread. So, it's fertilizer that's used to grow the wheat flour. It's methane from uneaten leftovers from a landfill. I mean, these emissions might not even be directly related to the croissant either, like if my employee's retirement plans are invested in other companies that are emitting greenhouse gases.

Leah Stokes (07:37):

This is a very progressive bakery where you're giving retirement plans to your employees, Paasha.

Katharine Wilkinson (07:42):

I know, I'm actually wondering if you might be hiring any time soon, and is there a monthly croissant stipend also? I'd like to know about that. So, we've got scope one, the things you're burning within the bakery. Scope two, things that you're buying for the bakery. Scope three, happening well beyond the bakery, but still related. So, let's take it from bakery to a company like Shell. Their scope three emissions then would include things like the gas that people are buying at the pump, right? Or the jet fuel that gets used for airplanes.

Paasha Mahdavi (08:21):

Yeah, exactly. Scope three amounts to somewhere around 90% of all Shell's emissions. And it's not just the case for fossil fuel companies. I mean, the vast majority of most companies emissions are scope three, in this beyond category. They're also the most difficult kind to measure.

Katharine Wilkinson (08:40):

I have to imagine that means a lot of companies just don't measure them. How can we possibly quantify and be responsible for the emissions of our customers?

Paasha Mahdavi (08:51):

Sadly, yes. Many climate commitments only include plans and measurements for scope one and two. And remember how I said Shell is unique?

Katharine Wilkinson (09:00):

Mm-hmm.

Paasha Mahdavi (09:00):

It's because they're a company who actually does include a portion of their scope three emissions in their commitment, but, and this is a big but, their plan to reduce those emissions relies heavily on carbon offsets.

Leah Stokes (09:16):

We've heard this story before.

Paasha Mahdavi (09:19):

Well, get ready to hear it again, because carbon offsets, or carbon neutrality, is very different from zero emissions, and that difference will make or break our climate future.

Emma Watson (09:31):

Carbon neutrality means essentially a balancing of your carbon dioxide emissions with carbon credits, carbon offsets, and those can be emission reductions or removals, it doesn't really distinguish, but basically it means a balancing at any point.

Paasha Mahdavi (09:49):

That's Emma Watson. She works for the Science Based Targets initiative. Her organization helps set net zero standards for climate pledges, and they see a bunch of carbon offsets in company's proposed commitments. I mean, a basic example is if a company emits 100 tons of carbon per year, they pay someone else to plant enough trees to balance out those tons of carbon emitted.

Katharine Wilkinson (10:12):

But of course climate change is already decreasing the planet's natural methods for carbon absorption. I mean, planting trees does some good to be sure, but as we've unfortunately witnessed, trees burn and we obviously can't just buy more soil or ocean or atmosphere to bring back to earth everything that we've put up into the skies.

Leah Stokes (10:35):

The number one thing we need to be doing is stop burning fossil fuels. We don't have time for more excuses that push climate action further down the road.

Paasha Mahdavi (10:45):

Emma told me there's a few things to look out for in pledges that aren't really about making climate progress.

Emma Watson (10:52):

I think there are few red flags, as you say. The first is when companies say, "We'll be net zero in our operations," because that tends to be a commitment that a company would make, and it's only covering, in the vast majority of cases, less than 20% of their actual footprint. So I think that's probably a number one red flag.

(11:16):

I think also a lot of the time, a really super early date to achieve net zero is a red flag. Although we want to encourage ambition, we don't want that to be based on buying offsets, and really what is required is pretty much a 90% reduction from companies. So if they're actually going to achieve that, they're not going to do it in the next five years most of the time.

Paasha Mahdavi (11:44):

Emma's job at SBTI is to standardize these net zero goals. Instead of companies just flinging out random reduction percentages, target dates, methods for getting there and so on, she thinks there needs to be a common standard.

Emma Watson (11:58):

Net zero, I would say, is a bit of a wild west in terms of how companies are defining their approaches to net zero. They're looking at it from lots of different lenses in many different ways. And since around about October 2018, the Intergovernmental Panel on Climate Change, they came out with their special report, 1.5 degrees Celsius, and that was really when the concept of net zero started to gain popularity and more and more and more companies were setting net zero targets, but without that structure, without that definition.

Paasha Mahdavi (12:35):

The lack of standardization is a big problem. It makes it really hard to understand what companies are even doing.

Emma Watson (12:41):

I think three years ago we published our first progress report and what we found was that a lot of companies weren't actually reporting in the way that they'd committed to, and that made it really hard for us to understand whether companies with science based targets are actually doing what they've signed up to do.

Paasha Mahdavi (12:56):

We need to have pledges that can be measured, and Emma told me that the first thing we need to see in these pledges are short-term targets.

Emma Watson (13:04):

We're looking at a goal, I suppose, and with that goal, you need to have a near term target, so you need to show that you're taking this short-term action, because we need to be halving our emissions by 2030, so that's the most important first step. The second part is that you have a long term commitment, and for most companies, as I mentioned earlier, that's going to be a reduction around 90%.

Katharine Wilkinson (13:30):

We want these bold goals with strong, clear, short-term targets. This makes perfect sense to me, but the question I'm left holding is, "What is it going to take to get more of these legitimate corporate pledges?"

Paasha Mahdavi (13:45):

When it comes to climate action, there's one critical group that can directly influence a company. It's shareholders. And when you want shareholders to take a stand, you call someone like Louise Rouse, who we heard at the top of the show. Louise had to convince Shell's investors to push for climate action because she knew Shell itself never would.

Louise Rouse (14:07):

I work as a consultant to nonprofit groups around the world to help them engage with the financial community on issues that concern them. We're trying to make NGOs as effective as possible within the finance sphere, so really trying to ensure that the fantastic work and research that they develop lands with this key stakeholder, because it's sort of painful to see when it doesn't, frankly, that there's this great piece of research that has just not landed, has passed people by, they haven't seen it. And there is this sense that maybe if it was packaged slightly differently, or delivered by a different messenger, that it would achieve greater impact.

(14:54):

So that's really the mission, is to help other groups. Because I'm not a climate scientist, I'm not an expert on lots of the issues I work on, but I feel I have the ability to help message that work in a way that can make it as effective as possible.

Paasha Mahdavi (15:12):

Imagine the race to net zero is a relay. First up is a nonprofit like SBTI. They hit the ground running, they're standardizing goals and pushing for decarbonization. They're saying, "Look how hot this place is getting. Here's why and here's how you can cool it down." Then they pass the baton to someone like Louise. Louise takes that climate science baton and repackages it into something a little different, something that will resonate with investors.

Louise Rouse (15:40):

While investors ultimately are the owners of companies and Milton Friedman's theory is that those companies owe their obligations to those investors and shareholder return is the primary goal of management, but in theory, shareholders can direct management, they can appoint management, and so they do have the power ultimately to withdraw their money and their investment if they feel the company is not a good return for their money.

Paasha Mahdavi (16:07):

This is one of a few levers shareholders have to influence a company, divestment. Divestment at a large enough scale scares management, because it sends stock prices way down. And it's also galvanized media attention around corporate climate action.

Louise Rouse (16:22):

I think both Shell and Exxon, if I remember correctly, have referenced the risk of divestment in the big range of risks that they're legally obliged to disclose. They're having to spend a lot of time talking to shareholders, much more time than they would've spent 10 years ago, talking to people who are saying, "It's becoming challenging for me to hold you." They are talking about the challenge for people to continue holding these stocks. It's a very real thing.

Paasha Mahdavi (16:49):

It was big news when Harvard announced they'd start divesting their endowment portfolio away from fossil fuels. And they're not the only institutional investor taking this step, but it's not going to solve the problem on its own.

Leah Stokes (17:01):

I mean, I imagine someone else just buys up those shares and the problem repeats, right?

Katharine Wilkinson (17:07):

Yeah, because now somebody who owns that stock, they might be less likely to use their shareholder power for climate action to actually make progress.

Paasha Mahdavi (17:17):

And so divestment might get us some decarbonized companies or decarbonized investment portfolios, but it's not going to get us all the way to a decarbonized economy.

Louise Rouse (17:27):

I can sell any stock I hold in an oil company, that won't necessarily help the world decarbonize either. Now, that doesn't mean divestment doesn't have a very important role to play in changing the social license status of an industry. We would not have the movement we have in policy and regulation space without the divestment movement. But I think we would need to be cautious about investors dumping various companies and saying, "That's it, now that's my climate work done. I have nothing else to do."

Paasha Mahdavi (18:01):

Luckily there's another lever beyond divestment. It's called disclosure.

Katharine Wilkinson (18:05):

Disclosure is one of those terms we hear a lot in the climate space, but, Paasha, what does it really mean and what is disclosure trying to achieve?

Paasha Mahdavi (18:14):

The core idea is that investors are legally entitled to information that'll allow them to understand risk and make smarter investment decisions.

Katharine Wilkinson (18:24):

Right. That's a focus of government regulatory agencies like the Securities and Exchange Commission, the SEC.

Paasha Mahdavi (18:31):

In the past climate data has not been part of that legally required information. But back in March, the SEC made a landmark proposal that would actually change this. It would make it harder for companies to avoid disclosing their emissions and climate related risks to investors. It is a big, big deal.

Leah Stokes (18:48):

Wow, that is a big deal. It basically makes the SEC like a referee, right? They're saying, "If you're a company and you're not disclosing your climate risks, your pollution, you could be penalized."

Katharine Wilkinson (19:01):

I mean, bring the pain SEC.

Paasha Mahdavi (19:04):

But even though rules that require this kind of disclosure are definitely good, much like divestment, they're also not going to be enough.

Louise Rouse (19:11):

There's was a movie in the 90s, Jack Nicholson, called *As Good As It Gets*, and he is complaining to Greg Kinnear's character about something or other, and Greg Kinnear's character is giving him ineffective advice, and Jack Nicholson says, "I'm drowning, and you're describing the water." That is sort of my view about disclosure. There is an element that we know we're drowning and we're obsessed with describing the water and ensuring that the water is adequately described, and meanwhile it continues to rise.

(19:41):

Disclosure is a necessary but insufficient condition. So, the danger is an overreliance on disclosure as the mechanism by which you change the behavior of people in the market. There's just way too much optimism that if the market has the information, then it will act on it, and I just don't believe disclosure, or lack of disclosure, is the primary reason why we're not seeing action on climate change. We're not seeing action on climate change because inaction is quite profitable. We're not seeing action on climate change because the financial system is fundamentally structured to be short-termist, and so disincentivizes long term thinking. Not only doesn't incentivize it, disincentivizes it.

Leah Stokes (20:27):

Yeah, in the short-term climate inaction can be quite profitable for fossil fuel companies and their investors. The challenge is getting them to think longer term, and the financial system disincentivizes that.

Katharine Wilkinson (20:39):

Right. It's all about next quarter, next quarter, next year, and it discourages the very kind of longer term thinking we need.

Paasha Mahdavi (20:47):

But things are changing. I mean, you saw what Louise did with Shell back in 2015, the relative Dark Ages when it comes to all this stuff. More and more people, including investors, are waking up to climate change. Which brings us to our third guest and a third lever for influencing corporations, engagement.

Jill Courtenay (21:06):

Engagements are reaching out to corporations, asking them for material information. If they respond, then we basically work with them in agreements over time. If they don't respond, then we escalate to what's called a resolution.

Paasha Mahdavi (21:28):

That's Jill Courtenay, a director at As You Sow, a shareholder advocacy nonprofit that pushes for climate action. She told me how engagement works with corporations in practice.

Jill Courtenay (21:40):

I've been working with As You Sow now for close to four years, and even a couple of years in, I didn't quite understand what we were doing. I was still learning. It's just so involved and it's so detailed, and I was so surprised that a lot of the things that I had been reading about, like some of the changes that McDonald's was making with their plastics, things that Dunkin' Donuts was doing with their cups, and all of these things related to plastics, all of these things related to pesticides, a lot of the results that I was seeing and experiencing just as an everyday customer had actually started as a shareholder resolution.

Leah Stokes (22:26):

Wow, that's really cool that shareholder resolutions are making such a difference. How does that actually work?

Paasha Mahdavi (22:33):

A shareholder resolution is basically a formal request. Shareholders can demand that management take action on an issue like climate. It's what you do if you've asked politely and a company still isn't making any changes. Because remember, many shareholders are part-owners of a company because of the stocks that they hold, and that gives them important rights they can use to affect change.

Jill Courtenay (22:56):

And the first one is your right to request material information. And material information, or materiality, it's any data that a shareholder needs to make a choice to buy, hold, or sell their shares. Voting your proxy is another right that you have as a shareholder.

Paasha Mahdavi (23:19):

This year, shareholders have submitted a record number of resolutions. Almost a quarter of those are about climate change. Shareholders at Costco and Boeing voted in favor of resolutions asking management to report and take action on scope three emissions, the beyond we were talking about before. All thanks to the work of organizations like As You Sow.

Jill Courtenay (23:42):

We're asking for, and we want, the ability to know and to document what the companies are committed to, what they've said they're committed to, because company statements, they can say that they're doing all sorts of things, and without being behind the scenes, we really have no way of knowing. And so, asking for material information is one of the first steps to holding them accountable. Because when we file resolutions or engagements, these become agreements that are in writing that we are actually holding them accountable to.

Paasha Mahdavi (24:17):

Resolutions aren't legally binding, but it would be a bad look for a company to overlook a resolution that gets a 20% vote in favor. I mean, they'd be flat out ignoring one in five of their shareholders, the very people they're supposed to make money for. And guess what? You and I, and a lot of our listeners, might already be those shareholders.

Jill Courtenay (24:38):

Most people who are participating in 401K plans through their companies or their workplace, they have very little idea of what's actually inside those mutual funds and if it's aligned with their values, either financially or otherwise. That's 100 million shareholders that are in 401K plans. That's approximately $10 trillion of assets under management. That's a lot of money that has very little oversight.

Paasha Mahdavi (25:10):

Most of us are invested in the stock market through 401ks and mutual funds, but even if you've had $2,000 invested in an individual stock for three years or more, you have the right to vote and propose a resolution.

Katharine Wilkinson (25:25):

Okay, I am digging this newfound power, Paasha. I like that it's sounding more political and more democratic than we might think about the financial space. But I'm wondering if we are running into the same problem we've touched on, that these resolutions are asking for better disclosure, better reporting, but we also know that's not enough.

Paasha Mahdavi (25:49):

In the story of corporate climate action, this is where policy comes in.

Leah Stokes (25:54):

Oh, my favorite. You know I have a PhD in public policy, right?

Katharine Wilkinson (25:58):

It's now becoming very clear why Leah encouraged you to move to Santa Barbara, Paasha.

Paasha Mahdavi (26:05):

Remember the SEC proposal I talked about earlier, the one that would push companies to disclose their emissions and their climate risks?

Leah Stokes (26:13):

The one that was announced back in March. But proposal seems like the key word here.

Paasha Mahdavi (26:18):

It is. But if the proposal is enacted, then everybody has to play by the same rules. The idea is that more investors will start investing in companies with better climate data and better decarbonization plans. Emma said it best when I spoke with her.

Emma Watson (26:33):

Not everyone's going to report on a voluntary basis for us to make the right decisions. We need it to be mandatory and we need it to be done in the right way, so we very much welcome the SEC coming through, and hopefully we'll see more and more companies disclosing this information so we can make those right decisions.

Paasha Mahdavi (26:52):

Last spring, we got a peak into what these SEC rules might look like. In May, the SEC fined Bank of New York Mellon one and a half million dollars for implying that some of its funds met ESG investment criteria when they didn't.

Katharine Wilkinson (27:05):

Let's just do a quick definition shout out here. ESG, remember, that's everything environmental, social, and governance within a corporation.

Leah Stokes (27:13):

So, 1.5 million. That's kind of a slap on the wrist for a big bank, right? But it is also a precedent. It means that the SEC is not looking the other way anymore on blatant greenwashing. And hopefully the same will be true for big companies if this disclosure rule passes.

Paasha Mahdavi (27:30):

Cracking down on greenwashing is absolutely a step forward, but it's not going to slash carbon pollution. We need to approach this from multiple political angles. Here's Louise again.

Louise Rouse (27:42):

Ultimately, these are political issues that should be solved by regulation and policy, rather than government's preference, "It's for the market to solve this and we don't need to get involved." And that is the abdication we're having by politicians about climate change. "We don't want to solve this. The market should solve this."

(28:02):

I think what you see is some market participants do not want that responsibility, and not necessarily for bad reasons, but they do not believe it is their role to be a regulator or to be a government.

Paasha Mahdavi (28:16):

The market has a pretty clear track record here. It's not going to drive voluntary pollution cuts. Too many players are still missing the big point. Climate change poses huge financial risks. Most investors and executives haven't factored that into their equations quite yet.

Louise Rouse (28:33):

I think a lot of people don't think they're personally exposed, and by that I mean their own professional lives are exposed. They're not measured on any metric that makes it relevant to them. Their bonuses are not dependent on it. And in fact, as I said, I think they're disincentivized from looking at it. And then it's a timeframe of exposure, so I think they do still feel this is quite some way away. People who buy and sell actively, they believe they'll get off the train before. That's their whole skillset, right? And they are ignoring the macroeconomic risk.

Paasha Mahdavi (29:10):

In other words, fancy algorithms and smart people who care about stock prices and returns are missing the forest for the trees.

Leah Stokes (29:16):

And that's partially because, for a lot of executives, their jobs and compensation depends on them not getting it. They're just not getting paid for climate progress.

Paasha Mahdavi (29:26):

That's why the push needs to continue to come from investors. Unlike most executives, they're thinking a little more longterm, especially institutional investors like public employee pensions. Louise pointed out the importance of big investors focusing on climate in particular.

Louise Rouse (29:43):

The advantage that a financial actor has in that space is all of these sectors fall into their remit, because they're investors across the economy, so they do have that cross-sectoral legitimacy that individual companies in those sectors might not feel that they have, and it would be good to see it being used.

Paasha Mahdavi (30:03):

We need investors and the SEC to cement climate disclosure as the norm, and then move on to bigger political asks.

Louise Rouse (30:11):

Because if you believe, for example, oil companies should not be undertaking new exploration, and you might be making that clearer to companies that you invest in, and you might even be considering leaving a company who's not agreeing with you. Are you engaging with governments who are issuing licenses? Are you making clear as a major political stakeholder that you don't want that to happen? Because even if you don't hold a single oil company and governments continue to issue licenses and they continue to be drilled, then you're subject to the same risk as you were with the exception of that particular stock performance.

(30:43):

We need investors, for example, who are countering those who are calling up saying drill, drill, drill and pushing for companies not to transition. That is happening. But we need them to be much more forceful and also to begin political engagement.

Paasha Mahdavi (31:00):

Investors can engage politically in two big ways. First, powerful investors can lobby the government directly for tighter regulations. And second, if investors know an executive is sympathetic to the cause, they can push that executive to lobby the government too.

Katharine Wilkinson (31:16):

I like it. It's a bit of a teamwork approach.

Paasha Mahdavi (31:19):

It is. Executives of companies and big investment firms meet with government officials multiple times a year to talk about policy. Climate risk could, and honestly should, just get rolled into those conversations.

Katharine Wilkinson (31:31):

Okay, so what's the hold up?

Paasha Mahdavi (31:34):

Well, the truth is, many corporate leaders don't think they should be pushing the government to do this. They're afraid of blowback from their conservative investors or even from their boards.

Leah Stokes (31:44):

There's a whole opposition movement going on. Republicans in red states are lining up to oppose what they call woke capitalism.

Katharine Wilkinson (31:51):

It sounds like the story you've brought us, Paasha, is that there are challenges and barriers everywhere we look, but also potential footholds for progress, and it's going to take leaders stepping into all of them.

Leah Stokes (32:04):

Right. We've learned about divestment, disclosure, shareholder engagement and resolutions, lobbying, and ultimately changing the rules with policy. There's a lot that can be done.

Katharine Wilkinson (32:15):

It gives me some hope that we can make progress, if investors, executives, and the government all do something to move us towards climate progress.

Paasha Mahdavi (32:24):

We know change can happen even in the depths of the fossil fuel industry. And that's where I want to end today's episode, with perhaps the most famous battle which happened at Exxon. Back in 2017, the company had refused to disclose information about what are called stranded assets, investments that might never pay off as the climate crisis grows and the world stops using oil.

Jill Courtenay (32:47):

The shareholders agreed that the company was creating too much risk. Stranded assets, it means that they're pouring capital expenditures into searching for more oil and gas that would never be commercialized. It needed to stay underground because it was beyond the climate limits, and so we deemed that as a waste of money.

(33:11):

We got a majority vote, and still the company did nothing. So, in 2018 and 2019, a group of shareholders voted no confidence on the board. Yet because there were no other board members running, even with low votes the entire board stayed intact.

Paasha Mahdavi (33:31):

So, Jill and her team, along with other shareholder advocates, took it up yet another level.

Jill Courtenay (33:37):

In 2021, As You Sow worked on an initiative that brought a six-person board slate to Exxon and negotiated for three board seats, and then Engine No. 1 also ran a board slate for multiple seats. So, we ended up with five new board members. Then Exxon offset this by increasing its board size from a nine-person board to a 12-person board, so it would still have the majority.

Paasha Mahdavi (34:04):

It was a big moment that shows the power shareholders can have, but Exxon fought back with a move of its own. They're fighting to keep control and keep polluting. Ultimately, this story may end in the courts.

Jill Courtenay (34:17):

We're now suing seven oil and gas companies through what's called derivative action, where we actually represent the company and sue our own board for breach of fiduciary duty. That is what it has come to with the oil and gas companies.

Paasha Mahdavi (34:36):

Holding fossil fuel companies accountable is not simple, but with folks like Emma, Louise, and Jill leading the way, we have a chance. We now know when corporate plans are meaningless, but we also know what it would take to make them legitimate. Together, these advocacy groups are writing a new playbook for corporate accountability in the era of the climate crisis. And in the long run, I believe we are going to win.

Leah Stokes (35:06):

A Matter of Degrees is co-hosted by me, Dr. Leah Stokes.

Katharine Wilkinson (35:10):

And me, Dr. Katharine Wilkinson. And this week it's also hosted by...

Paasha Mahdavi (35:14):

Me, Dr. Paasha Mahdavi.

Leah Stokes (35:16):

We are a production made in partnership with Frequency Media, The 2035 Initiative at UC Santa Barbara, and the All We Can Save project.

Katharine Wilkinson (35:25):

Thanks to our funders and supporters who make the show possible, Energy Foundation, NorthLight Foundation, McKnight Foundation, Bloomberg Philanthropies, and the 11th Hour project.

Leah Stokes (35:35):

If you're digging the show, please hop on Apple Podcasts or Spotify and give us a five star rating or leave us a review.

Katharine Wilkinson (35:43):

Jordan Rizzieri is our producer. Catherine Devine and Emily Krumberger are our associate producers. Enna Garkusha is our supervising producer, and Michelle Khouri is our executive producer.

Leah Stokes (35:55):

William Cagle and Ellie Katz wrote the script, and Isabel Moncloa Daly and Becca Godwin were script editors. Matthew Ernest Filler is our lead audio engineer, mixer, and sound designer, with dialogue editing and additional mixing by Claire Bidigare-Curtis.

Katharine Wilkinson (36:11):

Rose Wong designed our new show art, and Sean Marquand composed our theme song. Additional music came from Blue Dot Sessions.

Leah Stokes (36:19):

Research, fact Checking, communication and production support by Daniela Schulman, Amarachi Metu, Jenna Cameron, and Madeleine Jubilee Saito.

Katharine Wilkinson (36:28):

Come back soon as we tell more stories for the climate curious.