OIL AND GAS INVESTORS TELL PRODUCERS TO FOCUS ON RETURNS, NOT ENDLESS GROWTH*

Oil and gas companies are facing competition from renewable energy and electric vehicles, a global campaign against the use of plastics and increasingly stringent climate targets. In the face of these challenges, shareholders want them to prioritize returns to investors rather than endless growth.

Most oil and gas companies are jeopardizing shareholder returns by rewarding bosses for endlessly chasing growth in a world where pressure to meet climate targets and sharp falls in renewables costs are set to eat into future demand. And the group warns that companies may have to shrink in order to offer the highest returns to shareholders. It analyzed the link between remuneration policies and total shareholder returns after the 2014 crash and found companies that rewarded growth were outperformed by those that rewarded financial returns.

The report was released in advance of the annual meeting season and shows that policies which incentivize production growth and reserves can deliver less value to investors than schemes which reward top executives for delivering financial returns.

Andrew Grant, senior analyst at Carbon Tracker and author of the report, said: "The vast majority of oil and gas companies incentivize their executives to chase growth -- behavior that risks destroying value given uncertainty over future demand. This report provides shareholders with the ammunition they need to challenge this approach and press for remuneration policies which reward executives for delivering solid financial returns."

Carbon Tracker found that:

- 92% of 2017 incentive schemes rewarded executives for either increasing production, growing reserves/resources volumes, or both, although companies are increasingly moving away from this model;
- Only one company, US-based Diamondback Energy, does not reward growth, incentivizing executives purely on controlling costs and improving financial returns;
- Four companies have no direct incentives for growth, but include other measures which indirectly reward growth: Equinor (although only in a minor element), BP, Galp Energia and Origin Energy;
- Nine companies include metrics related to mitigating climate change -- Shell, Equinor, Repsol, Eni, CNRL, ExxonMobil, Suncor, Total and BP -- but this affects only a small proportion of remuneration, and most still simultaneously reward fossil fuel growth.

*" Oil And Gas Investors Tell Producers to Focus on Returns, Not Endless Growth", Forbes