Vanguard Investment Stewardship Insights

Voting insights: Emission reduction targets at ConocoPhillips

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Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: ConocoPhillips

Meeting date: May 11, 2021

Proposal: Item 5 – Emission Reduction Targets

How the funds voted

At the annual meeting for ConocoPhillips, a U.S.-based energy company, the Vanguard funds supported a shareholder proposal requesting that the company set emission reduction targets inclusive of greenhouse gas (GHG) emissions across its operations and energy products.

Vanguard's principles and policies

Vanguard expects portfolio companies and their boards to be competent about relevant and material risks. For climate change risk, this includes an expectation to implement appropriate risk oversight and mitigation practices and to disclose to the market how their board oversees climate-related strategy and risk management. A highly engaged board will ensure that climate-related risks and opportunities influence short- and long-term planning. Vanguard encourages companies to set clear and meaningful climate-related goals related to the company's overall strategy.

At companies where climate matters present material risks, the Vanguard funds are likely to support shareholder proposals that seek reasonable and effective disclosure of GHG emissions or other climate-related metrics. The funds may also support proposals that ask companies to pursue climate risk mitigation targets, such as those aligned to the goals of the Paris Agreement.

Analysis and voting rationale

We have held meaningful discussions with members of the ConocoPhillips board over many years. Our engagement in the second half of 2020 covered ConocoPhillips' climate strategy and the company's net zero ambitions by 2050. We were encouraged by the company's near-term commitments in setting net zero emissions targets for its operations, as well as by its ability to set a Paris-aligned intensity target by 2030. (Intensity targets compare a company's emissions to a type of economic output. Companies may also set absolute targets that aim to reduce certain emissions by a set amount.) The company also shared more about how its recent acquisition of Concho Resources would benefit its climate strategy.

We engaged with ConocoPhillips again leading up to its annual meeting. In both conversations, the management team and board highlighted how they advocated for public policy advancements across the sector in ways that seek to bring about sensible policies and frameworks related to climate risk. ConocoPhillips believes its brings the unique perspective of an upstream exploration and production company, which faces different challenges in its energy transition strategy than its global peers do. We view having an active role in public policy as an important element of a company's strategy to better understand and anticipate regulatory risks associated with the energy transition. For example, we recognize the leadership role ConocoPhillips has assumed in helping to develop carbon pricing policy options, among other key initiatives that it believes will benefit long-term shareholders.

In addition to ConocoPhillips' investment in public policy, we expected to hear more from the company about its investments in emerging and renewable technologies. We have observed that the company's peers are investing in innovative solutions, and we did not see evidence—from either our engagements or publicly available disclosures—that ConocoPhillips was aligned with its peers in this regard. We have encouraged the company to consider how its internally facing strategies complement the work it is doing in the public policy sphere to best position the company for success throughout the energy transition.

In our assessment, the shareholder request that ConocoPhillips set a companywide emission reduction target across Scope 1, 2, and 3 emissions will appropriately encourage the company to prioritize options beyond public policy advocacy to prepare for and mitigate the transition risks associated with climate change. Accordingly, the Vanguard funds supported the proposal.

What we expect from companies on this matter

We expect boards to provide proper oversight of risk and strategy. Where climate change risk is material to a company, we expect its board to be climate competent, to mitigate risk by setting appropriate targets, and to effectively disclose its climate strategy and progress in publicly available materials. Shareholders benefit from disclosure that can provide insight into how a board oversees material risks at the enterprise and how the company mitigates both the physical and transition risks associated with climate change.

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