CLIMATE LOBBYING IN THE CANADIAN OIL & GAS SECTOR

Investor Benchmark of Oversight and Disclosure
CLIMATE ACTION NOW
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Globally, the fossil fuel industry has been deeply involved in political debates on climate change and the development of effective climate policies. Unfortunately, this involvement has rarely been supportive of rapid action on climate change. Even after the adoption of the Paris Agreement in 2015, some parts of the Canadian oil & gas industry have actively lobbied policymakers to block, delay and weaken federal and provincial attempts to transition towards a low-carbon economy.

The millions of dollars spent on lobbying by the sector have delayed or undermined climate regulation, even though many firms have publicly stated their commitment to tackling climate issues and engage in efforts to reduce emissions. A failure to reach the Paris Agreement’s climate goals will result in massive costs that will ultimately be paid by investors and society as a whole. While investors might seek shelter by avoiding investments in specific sectors or asset classes, they cannot “opt-out” of the effects of climate change across their whole portfolios. Therefore, investors have a clear interest in the development of effective climate policy and regulation. They are increasingly seeking evidence of responsible climate-related lobbying practices and raising expectations for lobbying transparency.

SHARE benchmarked 22 companies listed in the S&P/TSX Capped Energy Index (TTEN) and analyzed these companies on their climate lobbying disclosure. The index reached $145 billion of market capitalization at the end of 2019. Together, these companies constitute a representative sample of the Canadian oil & gas industry from an investor perspective, and what we have learned can help guide investor-company dialogue on responsible climate lobbying activity across the sector.

The results leave investors with unanswered yet urgent questions about the extent and content of most companies’ climate-related lobbying activity:

- All companies analyzed have participated in direct or indirect lobbying activities to influence policy outcomes at the federal or provincial level.
- A large majority of the companies scored poorly on our indicators and failed to provide salient information.
- Only a few companies dedicated a section of their website or other regular disclosures to their climate lobbying activities. The majority of companies we analyzed provided this information through proprietary third-party reporting platforms. Information was often incomplete and selective.
- Zero out of 22 companies disclosed their overall spending on lobbying. Only three companies have disclosed amounts related to their membership in industry associations.
- 16 out of 22 companies disclosed a comprehensive list of their memberships to industry associations either on their website or in corporate documentation or via a third-party reporting platform. Out of the eleven companies that are active with direct lobbying, just five of them acknowledged their direct lobbying activities.

The lack of transparency associated with the concentration of political lobbying through industry associations makes it even more difficult for investors to determine whether there is alignment between a company’s public positions and the lobbying activities they support.

This report provides investors with an overview of the climate lobbying disclosures in the Canadian oil & gas industry. The findings should both allow investors to perform due diligence and to engage with investee companies. It also provides companies with a reporting framework and examples of industry best practices to help them improve their climate lobbying disclosure over time.

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Climate change is an environmental and social crisis. It is also a fiduciary problem

Climate change is a global challenge that requires a rapid response from a broad range of actors to limit its profound impact on the planet and broader economic system. Since the adoption of the UN Framework Convention on Climate Change in 1992, many countries have developed adaptation and mitigation policies to tackle climate change.

Recent climate forecasts reveal that the failure to keep the global temperature rise well below a limit of 2 degrees Celsius relative to preindustrial levels will have disastrous impacts on the planet. These include mass species extinction, ocean level rise, extreme temperature fluctuation, flooding, drought, fires, and hurricanes. Uncontrolled climate change will also cause widespread social disruption, including health impacts, famine, and the largest human displacement in recorded history – with associated consequences of rising inequality and, political instability.\(^3\)

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Climate change is not only a social and environmental problem, but it is also a fiduciary and investment problem in which investors have a prevalent role to play. There is a growing consensus that climate change represents a material risk to businesses and threatens shareholder value in the medium and long term. The failure to meet Paris Agreement targets would put institutional investors’ portfolios and the economy upon which they depend at risk.

That’s why the assessment of climate risk exposure in portfolio management is rapidly becoming a prevailing norm among investors. Investors are increasingly expecting companies to report on plans to limit their carbon emissions and transition towards a low carbon economy. Pension investors acting as fiduciaries, for example, carry a duty of care and of loyalty to their beneficiaries as rooted in Canadian law and that of many other jurisdictions. Fiduciaries are required to make prudent investment decisions and act in the best interest of their beneficiaries. Recent scholarship has made clear that the fiduciary duty requires institutions to consider the effects of climate change as part of their investment processes, through risk-and-opportunities analysis and, where relevant, by promoting higher standards and practices at a company-level. By providing an adequate level of information on their actions to adapt and mitigate climate change-related risks, companies enable investors to make informed investment decisions in accordance with their fiduciary duty.

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Climate change policy is also an investor concern

The scale of the challenge climate change represents for the stability of financial markets and the global economy also requires institutional investors to address government and regulatory policy to protect their fiduciary interests.

Unchecked, global warming threatens investors through physical risk to infrastructure, supply chains, social disruption, political uncertainty, and labour disruption, among other factors. These potential impacts, known as “unhedgeable risks,” cannot be addressed through asset selection or divestment alone. They compel institutional investors to engage policymakers and companies to push for more effective climate policy to limit systemic risks for the medium and long-term performance of their investments.

While responsible investors organize to protect their long term interests, some oil & gas industry actors continue to advocate for weaker climate regulation that preserve the sector’s short-term interests. As governments begin to act to tackle global warming, companies have been involved in a flurry of lobbying to influence policy outcomes.

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12 For instance, in 2018 a coalition of 631 investors representing over USD $37 trillion in asset under management signed the “Global investor statement to governments on climate change” urging governments to implement ambitious policies to achieve the Paris Agreement goal. Statement available at: https://www.iiecc.org/media/2019/12/191201-GISCCC-FINAL_for_COP25-007.pdf


16 The UN Global Compact’s Guide for responsible corporate engagement in climate policy identifies two categories of corporate influence on policy: “direct engagement” and “indirect influence.” While direct engagement refers to the attempts to influence policy outcomes through direct communication with policymakers or government officials, indirect influence refers to efforts to alter policy outcomes through campaigns targeting public opinion or third-party advocacy. See: UNGC. Guide for responsible corporate engagement in climate policy. 2013, available at: https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2FEnvironment%2Fclimate%2FGuide_Responsibe_Corporate_Engagement_Climat_Policy.pdf
lobbying activities align with investor interests. In 2019, for example, SHARE collaborated with a coalition of 200 institutional investors led by BNP Paribas, CalPERS and CalSTRS and representing more than US$6.5 trillion in assets, urging 47 of the largest US emitters to align their climate lobbying with the goals of the Paris Agreement, providing a list of investor expectations for carbon-intensive industries when engaging policymakers on the topic of climate change.

In the 2020 proxy season, investors (including SHARE’s clients) filed at least 38 shareholder proposals about political activities in the US, and several resolutions that specifically addressed climate lobbying. Investors asked oil & gas companies like ExxonMobil, Phillips 66 and Chevron to align their lobbying activities with the Paris Agreement goals.

Domestically, SHARE has been engaging with 23 Canadian energy companies to ask them to provide greater transparency in line with the investor expectations on climate lobbying and industry best practice.

18 Investor Expectations on Corporate Climate Lobbying. Available at: https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf
2.1 Outsized influence: Direct lobbying

The OECD uses the following definition. Lobbying refers to:

*the specific efforts to influence public decision making either by pressing for change in policy or seeking to prevent such change. It consists of representations to any public officeholder on any aspect of policy or any measure implementing that policy, or any matter being considered, or which is likely to be considered by a public body.*

Lobbying tactics have become more sophisticated over time and can take different forms. The Canadian oil & gas industry has actively lobbied policymakers to shape legislation and regulation both before and after Canada’s Paris commitments. Between 2011 and 2018, the Canadian fossil fuel sector recorded significantly more lobbying activities than any other industry at the federal level. As an illustration, the five most active Canadian oil & gas industry associations have together lobbied the federal government at rates thirty times higher than renewable energy industry associations and five times higher than environmental NGOs.

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2.2 Opaque Industry Associations Dominate Lobby Activity

While larger companies have sufficient in-house and consultant resources to engage with policymakers directly and set their own political agendas, most companies complement this effort with collaborative lobbying efforts that allow them to pool resources with other actors. This can also significantly reduce transparency.

Companies tend to coordinate their political advocacy efforts through industry associations and other special interest groups.\(^{22}\) Companies see their membership as a less costly alternative to advance industry-specific issues.\(^{23}\) In addition, industry associations provide a powerful and unified message on behalf of the sector, while shielding individual companies from potential public backlash.

In Canada, five industry associations and five companies account for 65 percent of political advocacy activities in the oil & gas industry at the federal level. According to the Canadian Centre for Policy Alternatives, the Canadian Association of Petroleum Producers (CAPP), the Canadian Gas Association (CGA), the Canadian Energy Pipeline Association (CEPA), the Petroleum Services Association of Canada (PSAC) and the Mining Association of Canada (MAC) account for approximately 40 percent of all lobbying contacts made by the industry between 2015 and 2018.\(^{24}\) Suncor Energy, TC Energy, Enbridge, Encana and Imperial Oil account for another approximately 25 percent of all lobbying contacts made by the industry during the same period.\(^{25}\) Through their collaboration on behalf of a large number of companies, industry associations play an essential role in setting the Canadian fossil fuel industry agenda on climate change.

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25 Ibid.
## 2.3 Canadian firms involved in direct and indirect lobbying

Our research indicates that out of the 22 companies analyzed, 11 companies were involved in direct lobbying activities at the federal or provincial level in 2019 and at least 21 companies participated in indirect lobbying through their membership in an industry association. Public lobbyist registries from the federal and Alberta governments show that a large majority of companies that participated in direct lobbying activities attempted to influence climate-related policies or regulations (see table below).

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<th>Jurisdiction</th>
<th>Date</th>
<th>Topic</th>
<th>Memberships in trade association</th>
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<td>NA</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 3: Direct and Indirect Lobbying Activities
Since signing the Paris Agreement, the Government of Canada has committed to reducing its GHG emissions by 30% below 2005 levels by 2030 and announced its intention to develop a plan toward net-zero emissions by 2050.26

Our research indicates that the oil & gas industry primarily concentrated its lobbying efforts on three key aspects of the Canadian climate strategy:

1. Environmental impact assessment;
2. Methane emissions; and
3. Carbon pricing.

Industry arguments on each of these issues have generally focused on the regulatory burden and high compliance costs, the impact on competitiveness, and the protection of jobs. Each of these arguments are a legitimate concern for investors and policymakers. However, in our view, industry lobbyists often fail to account for the countervailing cost of an unchecked climate crisis on economic growth and employment, and rarely offer viable alternative models for how Canada can meet its Paris Agreement commitments. Without endorsing any particular policy solutions pursued by federal or provincial regulators, we simply note that investors are not well-served by lobbying that primarily serves to stall progress on the climate transition.

3.1 Objective

This report examines the level of transparency and quality of disclosure provided by a selection of Canadian oil & gas companies listed in the S&P/TSX Capped Energy Index (TTEN). Our report analyzes the disclosure made publicly available by the companies we assessed as well as provided through private or institutional reporting platforms.

27 Note: The companies benchmarked reflect the constituency of the S&P/TSX Energy Index on October 18, 2019. While 24 companies were listed in the index on that day, we chose to remove the two only companies (Grande Tierra Energy Inc. and Pason System Inc.) that don’t appear to have participated in lobbying activities in 2018 and 2019.

28 Note: These platforms include companies’ individual 2019 CDP Climate Change questionnaire responses (the CDP is a UK-based organization that supports companies, cities, states and regions to measure and manage their risks and opportunities on a broad range of environmental topics, including climate change. Each year, some companies are invited to provide data and information about their carbon footprint through a comprehensive questionnaire. It also includes questions related to political engagement), the Alberta lobbyist registry, the Canadian Federal Registry of Lobbyists and the Center for Responsive Politics OpenSecrets.org database.
3.2 Themes, categories and criteria

SHARE reviewed relevant disclosures from the 22 Canadian oil & gas companies listed in the TSX 60 Capped Energy Index. Our review of public disclosures looked at six themes broken down into 14 categories.

These categories and themes are based on the Investors Expectations on Climate Lobbying and the PRI guide for responsible climate lobbying. The categories follow a set of criteria awarding one or more points each depending on the weight associated with each factor.

Companies have been evaluated based on the following themes:

1. **Position on climate change**: Has the company publicly endorsed the Paris Agreement and clarified its stance on climate change policy?

2. **Governance**: Has the company disclosed information about policy, oversight and monitoring systems as well as procedures in place to guide its climate political advocacy activities?

3. **Direct lobbying**: Has the company disclosed information about its approach to direct lobbying?

4. **Indirect lobbying**: Has the company disclosed information about its approach to indirect lobbying, especially regarding its memberships to industry associations?

5. **Political spending**: Has the company reported its annual lobbying expenses?

6. **Alignment**: Has the company disclosed information about procedures in place to ensure the alignment of its lobbying activities with the Paris Agreement goals and its climate-related position?

A complete breakdown of scoring is included in Appendix 1.

3.3 Scope

The companies selected include petroleum producers, pipeline operators, or transportation services, among others. The range of activities represented in our analysis allows us to draw conclusions that are not only reflective of the state of practice in the Canadian oil & gas industry but also relevant to investors with diversified portfolios in the oil & gas sector.

SHARE reached out to all of the benchmarked companies in January 2020 and invited them to review our initial findings. We provided an opportunity for the companies to clarify their disclosure and to commit to addressing some of the gaps identified in the report. Many companies offered further information based on our inquiries in January 2020. Where appropriate, findings were adjusted.

For additional details regarding the themes, categories and scoring methodology, see Appendix 1.

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29 Investor Expectations on Corporate Climate Lobbying. Available at: https://www.unpri.org/Uploads/i/k/t/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf

Oil & gas lobbying disclosure leaves investors with more questions than answers

The 22 companies we analyzed scored an average of 24% across all categories. This low average scoring reflects the poor quality of disclosure relating to climate lobbying in the Canadian oil & gas sector. Suncor is the only company to have scored above 50%. Freehold Royalties Ltd. is the only company that scored 0 percent (see Table 1).

The results show that the top three rated companies stand out from the rest of the companies analyzed, in terms of both the existence and quality of disclosure.
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>COMPANIES’ AVERAGE SCORE</th>
<th>COMMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position on climate change</td>
<td>56%</td>
<td>20 companies out of the 22 analyzed provided information about their position on climate change or oversight of climate-related risks. However, only four of them specified their position regarding the Paris Agreement.</td>
</tr>
<tr>
<td>Governance</td>
<td>65%</td>
<td>11 companies out of the 22 analyzed provided information about the governance system they put in place to regulate their lobbying activities. Only three companies have disclosed comprehensive lobbying policy that addresses indirect lobbying, direct lobbying and political donations.</td>
</tr>
<tr>
<td>Direct Lobbying</td>
<td>42%</td>
<td>Only five companies out of the 22 analyzed provided information about their direct lobbying activities. Suncor Energy Inc and Canadian Natural Resources Ltd are the only companies that disclosed a comprehensive overview of their direct engagement with policymakers.</td>
</tr>
<tr>
<td>Indirect Lobbying</td>
<td>100%</td>
<td>19 companies out of the 22 analyzed provided names of industry associations they belong to, and 17 of them provided a comprehensive list of industry association memberships.</td>
</tr>
<tr>
<td>Spending</td>
<td>11%</td>
<td>No company disclosed the overall amount spent on lobbying activities or the total amount paid to industry associations. Only four companies (Suncor Energy Inc, Cenovus, Imperial Oil and Crescent Point Energy) out of the 22 analyzed specified a threshold to disclose their industry association memberships.</td>
</tr>
<tr>
<td>Alignment</td>
<td>31%</td>
<td>12 companies out of the 22 analyzed provided information on the processes in place to ensure that their lobbying activities are consistent with their position on climate change or stance regarding the Paris Agreement.</td>
</tr>
</tbody>
</table>

31 Direct political contributions are a waning concern in Canadian jurisdictions, with corporate and union contributions banned in the federal jurisdiction, as well as Ontario, Quebec, British Columbia, Alberta, Manitoba and Nova Scotia. Direct contributions from corporations are still a concern in some Canadian jurisdictions, most notably, Saskatchewan, where unlimited donations are still permitted; as well as in the United States. Canadian political finance laws across jurisdictions still leave significant leeway for “third-party” spending, with relatively lax limits and disclosure requirements.

Table 1 Highlights of findings by theme
<table>
<thead>
<tr>
<th>Companies</th>
<th>Climate Position</th>
<th>Governance</th>
<th>Direct Lobbying</th>
<th>Indirect Lobbying</th>
<th>Spending</th>
<th>Alignment</th>
<th>Weighted Total in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suncor Energy Inc.</td>
<td>63%</td>
<td>83%</td>
<td>100%</td>
<td>100%</td>
<td>17%</td>
<td>58%</td>
<td>70%</td>
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<td>25%</td>
<td>47%</td>
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<td>Cenovus Energy Inc.</td>
<td>46%</td>
<td>61%</td>
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<td>100%</td>
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<td>46%</td>
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<tr>
<td>MEG Energy Corp.</td>
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<td>25%</td>
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<td>Encana Corporation</td>
<td>21%</td>
<td>69%</td>
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<td>0%</td>
<td>38%</td>
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<td>33%</td>
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<td>100%</td>
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<td>25%</td>
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</tr>
<tr>
<td>Imperial Oil Limited</td>
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<td>100%</td>
<td>17%</td>
<td>0%</td>
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<td>Crescent Point Energy Corp.</td>
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<td>25%</td>
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<td>25%</td>
</tr>
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</tr>
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<td>100%</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Enerflex Ltd.</td>
<td>0%</td>
<td>17%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Shawcor Ltd.</td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Freehold Royalties Ltd.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Average overall</strong></td>
<td>21%</td>
<td>22%</td>
<td>10%</td>
<td>82%</td>
<td>3%</td>
<td>13%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Average Top 3</strong></td>
<td>56%</td>
<td>65%</td>
<td>42%</td>
<td>100%</td>
<td>11%</td>
<td>31%</td>
<td>54%</td>
</tr>
</tbody>
</table>

*Table 2 Company Scores by Theme*
Finally, we observe a relative correlation between companies’ size and disclosure performance.

Not surprisingly, companies with larger market capitalization tend to score higher than their smaller competitors (see Table 3). This trend can be explained in part by the fact that larger companies are more likely to participate in direct lobbying either through staff or consultants and face greater public scrutiny than their smaller counterparts. Large companies also tend to have more capacity for public and investor reporting. Lastly, the largest companies are subject to the most investor scrutiny. Among the five largest companies benchmarked, Suncor Energy (70%), Husky Energy (47%), Cenovus Energy (46%) achieved the highest overall scores. On the other hand, Imperial Oil (32%) and Canadian Natural Resources Limited (29%) performed lower than what would be expected from similar size firms. Three of those companies have received formal shareholder proposals on lobbying disclosure (two of them from SHARE), and the other two have engaged constructively with SHARE on the issue.

<table>
<thead>
<tr>
<th>Companies</th>
<th>Market cap (B)</th>
<th>Weighted Total in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suncor Energy Inc.</td>
<td>38.68</td>
<td>70%</td>
</tr>
<tr>
<td>Husky Energy Inc.</td>
<td>5.19</td>
<td>47%</td>
</tr>
<tr>
<td>Cenovus Energy Inc.</td>
<td>8.17</td>
<td>46%</td>
</tr>
<tr>
<td>MEG Energy Corp.</td>
<td>1.14</td>
<td>39%</td>
</tr>
<tr>
<td>Encana Corporation</td>
<td>3.54</td>
<td>38%</td>
</tr>
<tr>
<td>Vermilion Energy Inc.</td>
<td>1.21</td>
<td>38%</td>
</tr>
<tr>
<td>Imperial Oil Limited</td>
<td>17.66</td>
<td>32%</td>
</tr>
<tr>
<td>Canadian Natural Resources Ltd.</td>
<td>28.69</td>
<td>29%</td>
</tr>
<tr>
<td>Crescent Point Energy Corp.</td>
<td>1.32</td>
<td>25%</td>
</tr>
<tr>
<td>Whitecap Resources Inc.</td>
<td>0.96</td>
<td>25%</td>
</tr>
<tr>
<td>Enerplus Corporation</td>
<td>0.92</td>
<td>19%</td>
</tr>
<tr>
<td>ARC Resources Ltd.</td>
<td>1.78</td>
<td>18%</td>
</tr>
<tr>
<td>Seven Generations Energy Ltd.</td>
<td>1.18</td>
<td>18%</td>
</tr>
<tr>
<td>Frontera Energy Corporation</td>
<td>0.4</td>
<td>15%</td>
</tr>
<tr>
<td>PrairieSky Royalty Ltd.</td>
<td>2.22</td>
<td>15%</td>
</tr>
<tr>
<td>Boytex Energy Corp.</td>
<td>0.39</td>
<td>15%</td>
</tr>
<tr>
<td>Tourmaline Oil Corp.</td>
<td>3.33</td>
<td>13%</td>
</tr>
<tr>
<td>Porex Resources Inc.</td>
<td>2.27</td>
<td>11%</td>
</tr>
<tr>
<td>Secure Energy Services Inc.</td>
<td>2.90</td>
<td>10%</td>
</tr>
<tr>
<td>Enerflex Ltd.</td>
<td>0.51</td>
<td>5%</td>
</tr>
<tr>
<td>ShawCor Ltd.</td>
<td>0.25</td>
<td>3%</td>
</tr>
<tr>
<td>Freehold Royalties Ltd.</td>
<td>0.53</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 3: Scoring versus Market Capitalization
Companies fail to take a clear climate change position

Responsible investors expect companies to take clear positions on climate change and the degree to which they incorporate climate risks into their business strategy and operations. This theme evaluates the degree of transparency provided by companies regarding their stance on climate change and the evidence of oversight of climate change-related risks.

Our assessment of the “Climate change position” theme is based on the three criteria:

1. **Endorsement of the Paris Agreement:** Does the company: (a) clearly state its support of the Paris Agreement: OR (b) publicly demonstrate its support of government’s actions to implement effective regulation to meet the Paris Agreement’s goals?

2. **Position on climate change policies:** Does the company provide a comprehensive list of its positions on significant climate change policies (e.g. Energy efficiency standards, carbon pricing, GHG emissions standards, etc.)?

3. **Oversight of climate change-related risks:** Does the company (a) describe its oversight and monitoring of climate change-related risks; (b) identify the person or persons responsible for climate change oversight?
The 22 companies SHARE analyzed scored an average of 21% in this theme. Top 3 companies stand out with an average score of 56%. See Figure 2 for an overview of the scoring.

Our research shows that only seven companies have taken a clear position in support of the Paris Agreement or on climate change in general. This result contrasts with the high level of disclosure we see for the oversight of climate change-related risks at the company itself. Twenty companies provided information on the oversight and monitoring of climate risks or have identified the person responsible for this oversight.

In our view, while publicly-traded companies are responding to the increasing demand of climate risk disclosure from investors, they are refraining from taking a clear position on climate policy. Those companies that do take a clear stance on climate change also have the most advanced lobbying disclosure and have a leadership position in this benchmark.

Climate Position

*Figure 2 Company scoring for climate change position*
Each of the companies that publicly endorsed the Paris Agreement has also expressed reservations regarding the targets or actions to achieve them.

Canadian Natural Resources said that it “recognizes the need to reduce GHG emissions and supports Canada’s leadership in the Paris Agreement as a pathway to reducing GHG emissions and driving innovation.” However, in its CDP disclosure, the company states that it “supports with minor exceptions the article 6 of the Paris Agreement”. Suncor states in its lobbying disclosure that it “supports the approach outlined in the Paris Agreement, but no one group or industry alone can limit the global average increase to below 2°C, relative to preindustrial levels.”

**Good Practice:** Suncor is the only company that provided a comprehensive overview of its position on climate change and climate-related policies:

> **We support regulatory design that:**

- is focused on emissions rather than targeting specific sectors and protects against carbon leakage
- drives best achievable performance from existing facilities
- provides clear support for innovation and technology development that enables game-changing solutions
- positions Canada as a leader in energy innovation and ensures competitiveness
- sets challenging but achievable reduction goals with a process that allows for an increase in ambition as technology develops
- is flexible and provides for multi-jurisdictional compliance pathways
- avoids duplication.

---

32 CDP. Canadian Natural Resources Limited - Climate Change 2019
5.2 Oversight and Monitoring of Climate Risk a Governance Weakness

This theme evaluates the degree of information provided by companies on their governance system. This includes the oversight and monitoring system and the existing structure of accountability. SHARE scored the companies based on the following criteria:

- **Policy disclosure**: Does the company: (a) have a publicly available lobbying policy or policy that includes provisions on lobbying; (b) have a publicly available lobbying policy or policy that contains provisions on lobbying that specifically addresses climate lobbying? The lobbying policy must address direct engagement with policymakers, indirect engagement through third-party organizations, and political donations.

- **Oversight & monitoring**: Does the company describe the oversight and monitoring of its lobbying activities?

- **Accountability**: Does the company identify the person responsible for oversight of lobbying?

Our research shows that only a handful of companies have disclosed formal lobbying policies or incorporated provisions on climate lobbying into an existing formal policy. It is not clear whether a larger portion of companies have adopted such a policy but not disclosed its existence. This absence of information is concerning. Without the disclosure of a policy, investors are not able to understand the robustness of the systems and protocols — if they exist — that are necessary to ensure consistency of lobbying activities, or even compliance with legal obligations.

Suncor Energy, Husky and MEG Energy stand out as the only three companies that have a comprehensive lobbying policy that addresses their participation in direct lobbying, indirect lobbying and political donations.

Eleven companies out of the 22 analyzed provided information about the system they established to govern their climate lobbying activities. 35 Companies scored an average of 22%. The top three companies scored an average of 65%. Only eight companies identified who within their organization is responsible for overseeing the company’s political activities.

35 Note: In the methodology, we took into consideration whether a company has been active in either direct lobbying or indirect lobbying in 2019 and granted points if the company explicitly said in its disclosure that it doesn’t participate in any lobbying activities.
**Leading Practice:** Whitecap Resources has established board-level oversight for its political advocacy activities through the creation of a Sustainability and Advocacy Committee.

The committee has the responsibility to oversee “advocacy initiatives to governments, communities and the public relating to policy issues affecting the sustainability of Whitecap or the Canadian energy industry” and has the mandate to “receive periodic reports from management relating to Whitecap’s advocacy initiatives to stakeholders, governments, communities and the public relating to policy issues affecting sustainability, including without limitation Whitecap’s participation in industry associations, sponsorship of advocacy organizations, retention of government and community relations firms and management’s direct advocacy as well as the cost of such initiatives.”

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**Good Practice:** Husky’s code of conduct includes a section on lobbying.

The provisions describe the process implemented to approve and monitor lobbying activities. For instance, the code says that “Husky maintains a semi-monthly internal reporting process to facilitate these filings, and [the personnel] should report to [its] Senior Vice President any lobbying activities [the personnel] participates in either on behalf of Husky or as a member of an association in which you are a Husky representative (for example, CAPP).”

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**5.3 Twenty-one out of 22 companies do not provide complete disclosure of direct lobbying**

This theme assesses companies’ disclosure of their approach to direct lobbying. To score full points in this category, companies must (a) provide a list of their lobbying priorities and (b) a list of the specific legislation they have supported or opposed.

Our research shows that 11 of the companies benchmarked were involved in direct engagement with policymakers in Canadian or U.S. jurisdictions, and all of them have addressed climate change in these activities.

Of those, only five companies disclosed information about their direct lobbying: Canadian Natural Resources, Suncor Energy, Encana (now Ovintiv), Husky Energy and Vermillion Energy. On average, companies involved in direct lobbying scored 10%.

Furthermore, evidence found in public lobby registries indicates that only Suncor Energy has provided information that reflects the comprehensive range of topics the company had lobbied on. The four other companies disclosed only partial information.
We note that many companies don’t clarify whether or not they participate in direct lobbying activities.

Without this information, investors have to search through many provincial, federal and international lobbying registries to perform due diligence.

Direct Lobbying

*Figure 4 Company scores on Direct Lobbying Disclosure*
Leading Practice: Suncor discloses a comprehensive list of its climate lobbying priorities:

- The development of national low-carbon policies such as the:
  - Pan-Canadian Framework on Clean Growth and Climate Change
  - Clean Fuels Standard in Canada
  - Greenhouse Gas Pollution Pricing Act (GGPPA) which encompasses the development of the consumer fuel tax and the industrial output-based pricing system

- The development of provincial low-carbon policies such as:
  - Alberta’s industrial emissions reduction policy, 100 Mt oil sands emissions limit
  - Quebec’s cap-and-trade program and Energy Transition Action Plan
  - Ontario’s Emission Performance System
  - British Columbia’s CleanBC Climate Action Plan and Low Carbon Fuel Standards

- Supporting Canada’s Ecofiscal Commission in broadening the discussion of carbon pricing into the realm of practical policy application. The commission brings together economists to inform the critical discussion about the ecofiscal reform that Canada’s future requires.

- Supporting the World Bank Carbon Pricing Leadership Coalition (CPLC), a voluntary initiative that aspires to catalyze action toward the successful implementation of global carbon pricing.


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5.4 A clearer picture is emerging of indirect lobbying activities in the oil & gas sector

We evaluated the level of information provided by companies about their indirect lobbying through their membership in industry associations. To score full points in this theme, companies must disclose a comprehensive list of their memberships in industry associations, above a disclosed dollar value threshold.

Disclosure of industry association membership is now becoming standard practice in the Canadian oil & gas industry. The twenty-one companies that participated in indirect lobbying scored an average of 82 percent. Seventeen companies disclosed a comprehensive list, while two additional companies provided a partial disclosure.

Good practice is to disclose all contributions above a threshold of $25,000. This practice helps investors to focus their attention on organizations to which companies contribute the most and perform their due diligence accordingly. It is also a threshold recommended by the U.S. Conference Board for disclosure of political activities. 39

Three companies have engaged through industry associations but failed to specify their membership dues (Enerflex Ltd, ShawCor Ltd and Freehold Royalties Ltd).

Good Practice: Parex disclosed a comprehensive list of its industry association memberships in its Sustainability report.40

Separately, in the NEO profiles on its website, Parex publishes the industry and professional association memberships of its executive team.41

5.5 Investors left in the dark on oil & gas lobby spending

This theme evaluates the degree of transparency related to overall expenditures for direct and indirect lobbying. To score full points, companies must disclose both the total amount spent on lobbying and the amount paid to industry associations.

Just four companies—Suncor, Cenovus, Imperial Oil and Crescent Point Energy—provided information on the amount spent on industry associations, broken down by a threshold.

No company provided the total amount paid for its memberships. Partial points were granted to companies that disclosed their memberships by the amount paid. While this is not a complete measure, it helps investors to better understand the allocation of funds to indirect lobbying and the importance of the association to corporate strategy.

Zero out of 22 companies reviewed provided an overall amount spent on lobbying.

Good Practice: Parex disclosed a comprehensive list of its industry association memberships in its Sustainability report.40

Separately, in the NEO profiles on its website, Parex publishes the industry and professional association memberships of its executive team.41

Leading Practice: Cenovus disclosed a comprehensive list of its sponsorships and memberships, organized by the amount paid.

The list includes all the industry associations to which the company paid at least $1,000.42


41 Parex Resources. “About us”. Available at: https://parexresources.com/about-us/management/


Spending

Figure 6 Company scores on lobby expenditure
5.6 Working at cross-purposes: companies score 13% rating on alignment of climate positions

The final theme evaluated the degree of information provided by companies on the process in place to assess the consistency of their lobbying activities with the Paris Agreement targets, and their own publicly stated positions. To score full points in this category, companies must describe the procedure used to review the alignment of their outside memberships with the Paris Agreement and their positions on climate change; describe the range of actions taken when misalignments are identified, and provide the results of the review process.

On average, companies scored 13% on this theme.

Our research shows that the vast majority of the companies benchmarked participated in one or both of direct and indirect lobbying. Only six companies provided information on the process implemented to ensure that these activities are consistent with the Paris Agreement or their own publicly stated positions.

Suncor Energy stands out as the only company that provided comprehensive information on how it ensures alignment. Vermillion Energy is the only company to describe the actions it intends to take if it identifies a case of misalignment.

Suncor is also the only company that identified a misalignment with an industry association (CAPP) and specified in that case, the next steps taken to address this issue.

Good Practice: In its CDP report, Suncor discloses a misalignment between its position and CAPP’s position on carbon pricing.

The company adds that it “remains an active member of CAPP, working to communicate our position of supporting carbon pricing, with considerations for trade-exposed industries, and the Alberta provincial emissions limit on oil sands operations.”

Figure 7 Company scores - Alignment

Alignment

Good Practice: In its CDP report, Suncor discloses a misalignment between its position and CAPP’s position on carbon pricing.

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Figure 7 Company scores - Alignment

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Figure 7 Company scores - Alignment

Alignment
Opacity of oil & gas lobbying leaves investors at risk

Climate change poses significant and systemic risks to the global economy which will have adverse consequences on portfolio sustainability and profitability for investors. Achieving the goals of the Paris Agreement requires collective action from a broad range of stakeholders, including oil & gas firms. Investors need to play their own role in advocating for responsible climate policy. But companies, alongside their investors, must also take a clear and firm position on climate change, thereby aligning their political advocacy with the Paris Agreement.

Our findings show that there is a concerning lack of transparency on climate lobbying in the Canadian oil & gas industry as a whole. Although a large majority of the companies benchmarked were involved in climate lobbying activities, only a few disclosed meaningful and comprehensive information to their shareholders.

Despite the poor disclosure observed generally, a small cluster of companies have demonstrated leadership by adopting leading industry practices. A growing number of oil and gas companies recognize the value in informing investors about their political advocacy. Transparency of political activities contributes to building corporate accountability and strengthening shareholders’ trust and company value.

In this report, we have highlighted those leading industry practices, while identifying the gaps in disclosure that remain. There is a clear opportunity for investors to engage with the oil and gas industry to advocate for responsible climate lobbying including greater transparency in their reporting and stronger alignment with the goals of the Paris Agreement.
## APPENDIX 1: Methodology

<table>
<thead>
<tr>
<th>CATEGORY #</th>
<th>CATEGORY</th>
<th>INDICATOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Position on climate change</td>
<td>1.1 Position on the Paris Agreement &lt;br&gt; The company: &lt;br&gt; (a) publicly endorses the Paris Agreement; OR &lt;br&gt; (b) publicly supports governments’ actions to develop and implement climate change policy and regulation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2 Position on climate-related policies &lt;br&gt; The company provides a comprehensive list of climate change positions, including on specific policy (e.g. Energy efficiency standards, carbon pricing, GHG emissions standards...).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.3 Oversight of climate change-related risks &lt;br&gt; The company: &lt;br&gt; (a) describes the oversight and monitoring of climate risks; &lt;br&gt; (b) identifies the person or organ responsible for climate change oversight.</td>
</tr>
<tr>
<td>2</td>
<td>Governance</td>
<td>2.1 Lobbying policy (disclosure) &lt;br&gt; The company: &lt;br&gt; (a) discloses a public lobbying policy or relevant lobbying policy content in corporate disclosure; &lt;br&gt; (b) has a publicly available lobbying policy or policy that includes provisions lobbying that addresses specifically climate lobbying.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.2 Lobbying policy (quality) &lt;br&gt; The lobbying policy: &lt;br&gt; (a) addresses direct engagement with policymakers; &lt;br&gt; (b) addresses indirect engagement through a third-party organization; &lt;br&gt; (c) addresses political donation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.3 Lobbying oversight &amp; monitoring &lt;br&gt; The company describes the oversight and monitoring of lobbying.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.4 Accountability &lt;br&gt; The company identifies the person or organ responsible for lobbying oversight.</td>
</tr>
<tr>
<td>3</td>
<td>Direct lobbying</td>
<td>3.0 Approach to direct lobbying &lt;br&gt; The company: &lt;br&gt; (a) provides a comprehensive list of its lobbying priorities; &lt;br&gt; (b) provides a comprehensive list of the specific legislations it has supported or opposed through direct engagement.</td>
</tr>
<tr>
<td>4</td>
<td>Indirect lobbying</td>
<td>4.0 Industry association memberships &lt;br&gt; The company provides a comprehensive list of its memberships to industry associations.</td>
</tr>
<tr>
<td>5</td>
<td>Spending</td>
<td>5.1 Overall amount spent on lobbying &lt;br&gt; The company discloses the annual amount of lobbying expenses.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.2 Amounts paid to industry association memberships &lt;br&gt; The company discloses payments made to industry associations.</td>
</tr>
<tr>
<td>6</td>
<td>Alignment</td>
<td>6.1 Review process &lt;br&gt; The company describes the process in place to ensure the alignment of its lobbying activities (including membership) with the Paris Agreement and climate change position.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6.2 Actions &lt;br&gt; The company describes the range of actions it takes when a misalignment is identified.</td>
</tr>
</tbody>
</table>
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