



# *Unpacking ESG Ratings and their impact on our business*

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Workshop for CNG Research Review

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# Outline of Workshop (80 mins)

- Introduction to commercial ESG ratings (10 mins)
- Questions, Challenges and Opportunities Workshop
  - Understand your stakeholders (\*) values, concerns and challenges, what do they need from you (15 mins)
  - Prioritise; what is already being done and identify the gaps, what we can and should do (15 mins)
  - Definition of success; what outcomes do we aspire to in terms of ESG performance (15 mins)
  - Definition of Research Questions (20 mins)

(\*) Think shareholders, customers, staff, community, regulator, etc.

# Setting the Scene – ESG disclosure and ratings

- The ESG score of a company should highlight the risk to future performance from an environmental, social and governance aspect.
- Formal ESG reporting is currently still on a voluntary basis
- The ASX only requires reporting if disclosure of the relevant information could provide a material impact (materiality test):
  - *The company will need to form a view where the expected variation compared to published earnings guidance is between 5-10%. Importantly, ASX recently clarified that entities in the ASX 300 should consider applying a materiality threshold of 5% rather than 10%.*
  - *When a reasonable person would expect the information to have a material effect on the share price*
- Rating companies sell their products to investors and other stakeholders
  - Big business!
- Competition between companies for funding (and talent) is getting harder, ESG ratings will become more important

Normalising and making ESG ratings credible and consistent should have significant advantages for both firms and jurisdictions.

# What makes up the ESG score

ASX:

- Environmental: Environmental management and climate change;
- Social: Human capital management, including occupational health and safety, and stakeholder management;
- Governance: Corporate governance.

Note that commercial ratings agencies define their own categories, as well as the relative importance of these in their final weighted scores as demonstrated by the next examples.

- These categories generally include the above items, as well as a long list of subcategories like: board tenure and remuneration, shareholder communication, executive remuneration, diversity targets, wages and working conditions, strikes, auditor resignation, management departures, tax fraud, profit warnings, strikes, controversies of ANY nature, etc.

# Rating Agencies fall under one of three categories

Providers Category	Description	Examples of these types of Rating Providers
Group 1	Based on a company’s public disclosure information, they will usually engage with a company during the rating process, but only for clarification of any publicly available information.	Sustainalytics, MSCI, ISS, FTSE4Good and Vigeo Eiris
Group 2	Based on a survey or questionnaire conducted with the company to be rated. This includes information not publicly available. Companies that do not participate will still be rated.	Standard&Poor’s (S&P), CDP, Principles for Responsible Investments
Group 3	Data aggregators, companies that trawl corporate websites and reports. There is no engagement with the company to be rated. These are generally financial and market data houses with a wide subscriber base, so will have an important impact, they make a business out of gathering data and selling their data bases.	Refinitiv, ICE and Bloomberg Terminal

*Some Input*

*Lots of Input*

*No Input*

# ESG Ratings for Australian Oil and Gas companies; 2021 vs 2022

Company Scores	Sustainalytics		S&P		Refinitiv	
	ESG rating Nov 21	ESG rating Aug 22	ESG rating Nov 21	ESG rating Aug 22	ESG rating Nov 21	ESG rating Aug 22
	Note: a lower rating is better		Note: a higher rating is better		Note: a higher rating is better	
					No Input	
PetroChina (0857.HK)	52.8 (severe)	55.1 (severe) ↓	not available	22	53	58 ↑
Exxon (XOM)	35.8 (high)	36.5 (high) ↓	36	36	71	83 ↑
Chevron (CVX.AX)	41.2 (severe)	37.6 (high) ↑	42	39 ↓	84	80 ↓
Shell (RDSA)	35.1 (high)	34.8 (high) ↑	68	65 ↓	89	93 ↑
ConocoPhillips (COP) ■	36.2 (high)	34.9 (high) ↑	69	68 ↓	68	70 ↑
Woodside (WPL.AX)	24.8 (medium)	30.8 (high) ↓	77	75 ↓	71	59 ↓
Santos (STO.AX) ★	35.5 (high)	39.5 (high) ↓	23	32 ↑	46	52 ↑
Beach (BPT.AX) ▲	36.2 (high)	40.8 (severe) ↓	52	56 ↑	42	49 ↑
Origin (ORG.AX) ●	34.1 (high)	34.0 (high) ↑	28	54 ↑	60	56 ↓
Strike (STX.AX)	Not Available	51.4 (severe)	Lots of Input Not available		Not Available	1
Karoon (KAR.AX)	Not Available	49.0 (severe)			20	10 ↓
SenEx (SXY.AX)	Some Input				25	33 ↑
Cooper Energy (COE.AX)					37	14 ↓

↓ Performance deteriorated

↑ Performance improved

The only consistent response is Woodside, which has deteriorated according to all three rating companies

Origin went from no participation in S&P review in 2021 to full participation in 2022

# Relative Ratings – best performer on top

Based on Sustainalytics

*Some Input*

Company Scores	Sustainalytics
	ESG rating Aug 22 Note: a lower rating is better
Exxon (XOM)	36.5 (high)
Woodside (WPL.AX)	30.8 (high)
Origin (ORG.AX) ●	34.0 (high)
Shell (RDSA)	34.8 (high)
ConocoPhillips (COP) ■	34.9 (high)
Chevron (CVX.AX)	37.6 (high)
Santos (STO.AX) ★	39.5 (high)
Beach (BPT.AX) ▲	40.8 (severe)
Karoon (KAR.AX)	49.0 (severe)
Strike (STX.AX)	51.4 (severe)
PetroChina (0857.HK)	55.1 (severe)

Based on S&P

*Lots of Input*

Company Scores	S&P
	ESG rating Aug 22 Note: a higher rating is better
Woodside (WPL.AX)	75
ConocoPhillips (COP) ■	68
Shell (RDSA)	65
Beach (BPT.AX) ▲	56
Origin (ORG.AX) ●	54
Chevron (CVX.AX)	39
Exxon (XOM)	36
Santos (STO.AX) ★	32
PetroChina (0857.HK)	22

Based on Refinitiv

*No Input*

Company Scores	Refinitiv
	ESG rating Aug 22 Note: a higher rating is better
Shell (RDSA)	93
Exxon (XOM)	83
Chevron (CVX.AX)	80
ConocoPhillips (COP) ■	70
Woodside (WPL.AX)	59
PetroChina (0857.HK)	58
Origin (ORG.AX) ●	56
Santos (STO.AX) ★	52
Beach (BPT.AX) ▲	49
SenEx (SXY.AX)	33
Cooper Energy (COE.AX)	14
Karoon (KAR.AX)	10
Strike (STX.AX)	1

There is little consistency in the relative scores

# Top categories that make up the rating

	Sustainalytics (updated annually)						S&P (updated annually)					Refinitiv (updated weekly)						
	ESG rating	Exposure to material ESG issues	ESG Management	highest controversy level events	Industry ranking out of 244	industry ranking movement since Nov 2021	does company participate in the rating	ESG rating	Environment (Industry mean 25)	Social (industry mean 26)	Governance & Economic (industry mean 34)	No industry ranking	ESG Rating	Environment	Social	Governance	Industry ranking out of 434	industry ranking movement since Nov 2021
	Note: a lower rating is better				lower number is better	percentage shift	Note: a higher rating is better, all companies score 1-100, industry mean is provided					Note: higher rating is better, companies are scored between 1 and 100 (lower - upper quartile) within the industry group				lower number is better	percentage shift	
PetroChina	55.1 (severe)	High	average	5 - severe	216	-11.8%	no	22	20	22	23		53	58	53	45	129	0.03
Shell Plc	34.8 (high)	High	strong	4- high	48	2.0%	yes	65	72	56	69		93	93	92	94	1	-0.00
ConocoPhillips	34.9 (high)	High	strong	2 - moderate	49	5.5%	yes	68	72	68	66		69	70	77	54	51	0.02
Santos	39.5 (high)	High	strong	2 - moderate	79	-9.1%	no	32	27	25	40		44	52	41	40	165	0.02
Beach	40.8 (severe)	High	average	1- low	87	-9.7%	yes	56	47	66	54		65	49	74	73	65	-0.26
Origin	34.0 (high)	High	strong	2 - moderate	Util Cie		yes	54	47	50	61		67	56	67	86	Util Cie	
Strike	51.4 (severe)	High	average	1- low	189								16	1	11	44	367	
SenEx													41	33	34	64	185	-0.18
Cooper Energy													38	14	28	89	200	0.02

Exposure to material issues  
ESG management  
Highest controversy level events

*Some Input*

Environment  
Social  
Governance and Economics

*Lots of Input*

Environment  
Social  
Governance

*No Input*



## Relative Ratings - best performer on top, sorted on S vs E vs G vs ESG

S&P Rating	Social	Refinitive Rating	Social
Woodside (WDS)	78	Shell Plc	92
ConocoPhillips	68	Chevron (CVX.AX)	86
Beach	66	Woodside (WDS)	81
Shell Plc	56	ConocoPhillips	77
Origin	50	Beach	74
Chevron (CVX.AX)	44	Origin	67
Exxon (XOM)	36	Exxon (XOM)	65
Santos	25	PetroChina	53
PetroChina	22	Santos	41
Strike		SenEx	34
Karoon (KAR.AX)		Karoon (KAR.AX)	29
SenEx		Cooper Energy	28
Cooper Energy		Strike	11

S&P Rating	Environment	Refinitive Rating	Environment
ConocoPhillips	72	Shell Plc	93
Shell Plc	72	Exxon (XOM)	83
Woodside (WDS)	71	Chevron (CVX.AX)	80
Beach	47	ConocoPhillips	70
Origin	47	Woodside (WDS)	59
Chevron (CVX.AX)	33	PetroChina	58
Exxon (XOM)	33	Origin	56
Santos	27	Santos	52
PetroChina	20	Beach	49
Strike		SenEx	33
Karoon (KAR.AX)		Cooper Energy	14
SenEx		Karoon (KAR.AX)	10
Cooper Energy		Strike	1

S&P Rating	Governance	Refinitive Rating	Governance
Woodside (WDS)	76	Shell Plc	94
Shell Plc	69	Cooper Energy	89
ConocoPhillips	66	Chevron (CVX.AX)	86
Origin	61	Origin	86
Beach	54	Beach	73
Santos	40	Woodside (WDS)	69
Chevron (CVX.AX)	38	SenEx	64
Exxon (XOM)	37	Karoon (KAR.AX)	61
PetroChina	23	ConocoPhillips	54
Strike		PetroChina	45
Karoon (KAR.AX)		Exxon (XOM)	44
SenEx		Strike	44
Cooper Energy		Santos	40

S&P Rating	ESG rating	Refinitive Rating	ESG Rating
Woodside (WDS)	75	Shell Plc	93
ConocoPhillips	68	Chevron (CVX.AX)	84
Shell Plc	65	Woodside (WDS)	71
Beach	56	ConocoPhillips	69
Origin	54	Origin	67
Chevron (CVX.AX)	39	Exxon (XOM)	66
Exxon (XOM)	36	Beach	65
Santos	32	PetroChina	53
PetroChina	22	Santos	44
Strike		SenEx	41
Karoon (KAR.AX)		Cooper Energy	38
SenEx		Karoon (KAR.AX)	30
Cooper Energy		Strike	16

# Observations to date....

- A relationship is developing between cost, and availability, of capital and perceived ESG performance.
- Divergence and inconsistency in ratings schemes is likely to cause confusion:
  - In the investor community
  - government oversight and jurisdictional positioning
  - as well as for corporations attempting to benchmark and learn or improve.
- There is a lack of clarity on the impact of absolute and relative ESG performance, and the impact of ESG reporting and performance on broader firm returns:
  - Anecdotes are common and probably need to be ground-truthed.
  - Impact on obtaining new and old sources of finance
  - Impact on partnerships? Who wants to work with you
  - Impact on talent attraction? Who wants to work for you

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# Thank you

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