Shareholder risks and opportunities related to PR and advertising for fossil fuel clients

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Disclaimer

This publication was prepared based on own research as well as a review of publications by and interviews with experts, NGOs, think tanks and other relevant stakeholders including among others Brown University, Clean Creatives, ClientEarth, ClimateAction100+, Comms Declare, Conscious Advertising Network, Global Carbon Project, Greenpeace, InfluenceMap, the Intergovernmental Panel on Climate Change, the International Energy Agency, Reclaim Finance, and Transition Pathway.

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Executive Summary

The IPCC and the UN Secretary-General affirmed a study that found that **PR firms working on behalf of fossil fuel companies are a key organisational actor in climate politics**.

Agencies from the Big Four PR and advertising companies – namely, **WPP, Omnicom, Publicis Group and IPG,** provide services to fossil fuel clients that mainly focus on **portraying their transition**. However, according to various experts, **this transition is not happening** in a Paris-aligned way - exposing the shareholders of the Big Four to material risks.

As the fossil free movement grows, **pressure on those providing services to coal, oil and gas companies increases:**

I. **Business is at risk:** NGOs are calling for a **ban on fossil fuel advertising**, which has already been implemented by some legislators.

II. **Legal risk is increasing:** climate litigation has emerged as a new tool to hold carbon polluters liable and might target involved third-parties, too.

III. **Damage to brand reputation will hamper talent acquisition and retention:** the PR and advertising industry is highly competitive and creative talent is the most valuable resource. **To attract younger generations** that expect work to be aligned with their values, employers must show they **take climate action seriously**.

So far, all of the Big Four claim to be committed to fighting climate change but fail to include **advertised emissions** into their strategies. While some of the risks are mentioned, **disclosure on actual exposure** in terms of revenue share and names of fossil fuel clients **is limited** and thus, **insufficient to assess** these **risks as a shareholder**.

PR and advertising companies are at risk of losing business, talent, and are exposing themselves to legal risk. To mitigate these risks, they should **seize the opportunity to become fossil free** by declining future contracts with fossil fuel companies.

"A good number of corporate agents have attempted to **derail climate change mitigation by targeted lobbying and doubt-inducing media strategies**. (...) **Corporate advertisement and brand building strategies** also attempt **to deflect corporate responsibility** to individuals, and/or to appropriate climate care sentiments in their own brand building."

International Panel on Climate Change (IPCC), April 2022

"And it includes the **massive public relations machine** raking in billions **to shield the fossil fuel industry** from scrutiny. (...) Fossil fuel interests need to spend less time averting a PR disaster – and more time averting a planetary one."

UN Secretary-General António Guterres, September 2022

Sources and references on page 9.

Situation:
Systematic fossil fuel advertising and lobbying has been exposed

Fossil fuel companies rely on PR and advertising specialists to lobby the public.

Sources and references on page 9.

Scientists uncover the role of PR and advertising firms in delaying climate mitigation [1]

A study by Brown University found that **PR firms are a key organisational actor in climate politics**. The results were affirmed by the Intergovernmental Panel on Climate Change (IPCC) in their most recent report and by UN Secretary-General António Guterres in September 2022.

As per the IPCC, PR and advertising work in two ways: 1) **targeted lobbying and doubt-inducing media strategies** by fossil fuel companies; 2) **advertising and PR to appropriate climate care sentiments in their brand building** and to deflect corporate responsibility to individuals.

Fossil fuel advertising is about **lobbying the public** using a technique called 'paltering' – **emphasising single facts to create a misleading overall impression**, e.g. by promoting single green activities to distract from by majority polluting behaviour.

PR and advertising agencies face risks by promoting a transition regarded as insufficient [2]

According to Global Witness, there were **at least 636 fossil lobbyists at COP27**, outnumbering indigenous peoples' delegates two to one. InfluenceMap found that oil and gas majors not only had invested **over 1 billion USD of shareholder funds on "misleading climate-related branding and lobbying"** after the Paris agreement. They are also spending hundreds of millions of dollars each year on "**a systematic strategy to portray themselves as positive** and proactive on the climate change emergency".

For example, **TotalEnergies** rebranded in 2021 to reflect becoming "a major player in the energy transition" **despite continuing to invest more than two-thirds** of their capital expenditures **into oil and gas,** planning to exploit new fields and building the world's longest heated crude oil pipeline. Based on InfluenceMap's analysis, **62% of their marketing includes green claims.**

PR agencies offer various services to the fossil industry – from engaging in public policy on behalf of their clients, including direct lobbying of public officials and influencing public opinion, to rebranding campaigns or data analysis to increase fuel sales. As per InfluenceMap, the agencies' **work focuses on portraying a transition** of fossil fuel companies. **However, there is barely any meaningful transition** that includes relevant short-term targets to avoid crucial tipping points.

Data from investor tools such as Transition Pathway suggests that only **one of the 68 publicly listed power companies has a decarbonisation plan consistent with a 1.5° C pathway**. Studies by Carbon Tracker and Oil Change International found that oil and gas companies still fail to meet the bare minimum for alignment with the Paris Agreement. Despite warnings by the International Energy Agency (IEA) to stop new fossil projects to keep global warming below 1.5° C, **fossil fuel companies continue to expand oil and gas operations**.

Complication:
The fossil free movement is targeting the PR and advertising industry

As scrutiny on the main drivers of climate change deepens, **risks for PR agencies who support fossil fuel companies are rising.**

Sources and references on page 9.

Pressure on the fossil industry is rising; for their supporters, too [3]

Calls for an end to the fossil era are not only getting louder and receiving support by officials like the UN Secretary-General. **A global 'Fossil Free' movement of activists, NGOs, politicians and scientists is looking to cancel fossil fuels in various areas** - from fossil divestments in the Finance sector to ending university funding and targeting law firms representing fossil fuel clients.

Nations most affected by climate change, namely Vanuatu and Tuvalu, have called for **a Fossil Fuel Non-Proliferation Treaty**. The EU Parliament and the WHO joined their call, which includes ending all new exploration and production as well as phasing-out existing production of fossil fuels.

In January 2022, **more than 450 scientists called** on major advertising and PR firms **to drop** their **fossil fuel clients**. A **'Ban Fossil Fuel Ads'-campaign** by NGOs like Greenpeace and the WWF is calling for a tobacco-style ban on advertising for oil, car and aviation companies. While noteworthy limitations remain, **such a ban has already been implemented in France and Amsterdam**, while other cities like Liverpool, Stockholm and Sydney are considering doing so.

There are also two relevant initiatives from within the creative industry: **Clean Creatives**, which asks agencies to take **a pledge to decline any future contracts** with fossil fuel companies, and the **Creative Carbon Disclosure** which seeks to increase **transparency on potential climate conflicts** by providing a template to disclose business relations with so-called 'high-carbon clients', which besides fossil fuel companies also include beef and plastics producers.

Increasing risks for those still supporting the fossil industry [4]

The **PR and advertising industry is highly competitive** and constantly changing. **Talent is key** - creative people are every agency's principal asset. Relationships with clients can be affected by the departure of key personnel and **a small agency is able to take client accounts from a much larger competitor**.

It is **a comparatively young industry**, with an average age of between 28 to 34, much lower than in other industries. Research by McKinsey and Deloitte found that more than two-thirds of the **Gen Z and millennial workforce take climate change personally**, are channelling their energies toward meaningful action and **expect companies to do the same**. Their sense of purpose is defined by their work and Edelman's 2022 Trust Barometer confirms that one in five employees had left or planned to leave their job to **find a job that better fits with their values**.

The **number of agencies and creatives that have joined the Clean Creatives and Creative Climate Disclosure initiatives is growing**. To date, more than 1,300 creatives and 465 Agencies have pledged to decline fossil fuel clients. Similar numbers have committed to disclose and address their climate conflicts.

Why change is warranted: Material risks for PR and advertising firms are rapidly increasing

Serving fossil fuel clients is not yet illegal, but the **legitimacy** to do so **is crumbling fast.**

Regulatory, business risks [5]

The **risk of regulation banning fossil fuel advertising is increasing**, with first legislators having issued such bans and others considering doing so. In France and Amsterdam advertising for energy products related to fossil fuels and fossil-fuelled vehicles are banned, while Liverpool, Stockholm and Sydney are preparing to introduce such regulation.

This leads to business risks up to and including **loss of business**.

Legal, litigation risks [6]

There is **increased scrutiny by public authorities** into investigating claims of greenwashing. In the US, a House panel questioned oil companies about their role in spreading climate 'disinformation' and subpoenaed them for documents related to spendings on PR agencies. The investigation is expected to also include these third-party companies.

From 2015 to 2021, the cumulative number of climate litigation cases has more than doubled. Several of those are **lawsuits accusing oil and gas companies of greenwashing, citing advertising and marketing campaigns** that allegedly make unsubstantiated claims about the environmental impacts of their products.

PR and advertising firms usually are subject to the investigation but are not yet directly named as defendants. This, however, could change. During the opioid crisis in the US, third-party company McKinsey agreed to a USD 600 settlement for their role as consultants.

Reputational, brand risks [7]

Talent is the most valuable resource in the PR and advertising industry. The majority of the younger generations are looking for working in a purposeful, value-aligned environment. This is even more true in the creative industries. A survey by NGO Comms Declare found that **73% are hesitant to work with fossil fuel clients**, while 67% think their agencies should take a stronger stand against fossil fuel clients. One major loss of talent in the PR world occurred in 2015 **at Edelman**, when **4 executives left** citing their involvement with **fossil fuel clients** as **the reason**.

Scrutiny on a company's climate strategy is increasing. **Companies are expected to implement measures throughout their value chain.** Thus, for companies choosing a PR and marketing vendor, that is also working for fossil fuel companies, might create reputational issues for themselves. **Client portfolios could become a crucial issue when selecting PR agencies for the next campaign.** Especially, larger consumer brands will need to take these risks into account.

These **companies also tend to pick those agencies with the best, like-minded talent.**

Sources and references on page 9.

Disclosure on climate action, risks and exposure related to fossil fuel clients (as of December 2022) [8]

	WPP	Omnicom	Publicis Groupe	IPG
Climate action taken by the companies	Science-based target (Near term: 1.5°C by 2025, 2030; Net zero: Committed; Business Ambition for 1.5°C campaign member) *Advertised emissions not mentioned.*	Science-based target (Near term: Committed) *Advertised emissions not mentioned.*	Science-based target (Near term: 1.5°C by 2030; Long term: 1.5°C by 2040; Net zero: Committed by 2040; Business Ambition for 1.5°C campaign member) *Advertised emissions not mentioned.*	Science-based target (Near term: Committed; Business Ambition for 1.5°C campaign member) *Advertised emissions not mentioned.*
Statements on risks related to fossil fuel clients in their reporting on risk framework	"Increased reputational risk associated with working on client briefs perceived to be environmentally detrimental and/or misrepresenting environmental claims."	"We could be affected by future laws or regulations enacted in response to climate change concerns and other actions."	"transition risks arising from changes in the market, regulations or technology (...) in terms of regulatory changes, such as the end of certain product categories for the Groupe's clients, the ban on communicating on certain products"	"transitional risks, such as shifting market preferences and changing legal conditions associated with climate change. We are at risk of incurring related costs of compliance with climate-related laws, regulations or policies, including investor and client-driven policies and standards"
Revenue breakdown by sector	*Not disclosed.*	Oil, Gas and Utilities: 2% (2021)	Energy & Industry: 3% (2021)	*Not disclosed.*
Fossil fuel clients (disclosure in company's own report)	*Not disclosed.*	*Not disclosed.*	Abu Dhabi National Oil Company	*Not disclosed.*
Fossil fuel clients (external research by Clean Creatives)	Shell, BP, Saudi Aramco, ExxonMobil, BP, Chevron, Peabody Energy, Equinor, Nucoal, Ecopetrol, and more...	ExxonMobil, Chevron, Glencore, Shell, Oil and Natural Gas Corporation (ONGC), Ecopetrol, YPF, and more...	TotalEnergies, Saudi Aramco, Petrobras, Enbridge, Shell, Ampol, Bharat Petroleum, Petrolimex, Oil and Natural Gas Corporation (ONGC)	Conoco-Philips, ExxonMobil, Equinor, Saudi Aramco, Indian Oil, Shell, Eni, TotalEnergies, and more...

Sources and references on page 9.

How to address fossil fuel client-related risks as a shareholder

Call on companies to **seize the opportunity** to mitigate all risks **by becoming fossil free** by declining future contracts with fossil fuel companies.

Concrete questions for stewardship activities

PR and advertising firms should be asked:

I. **To address risks related to fossil fuel clients**, namely, addressing the current contradiction between own emission reduction targets and advertised emissions.

II. **To disclose relevant information to enable investors to assess risks related to fossil fuel clients**, namely, providing data on the actual involvement such as the number and names of fossil fuel clients, and the share of revenues generated with fossil fuel clients as well as topics that are subject of PR and lobbying activities conducted on behalf of fossil fuel clients.

III. **To mitigate risks related to fossil fuel clients**, namely, by implementing processes and tools to identify environmentally harmful briefs by validating claims of fossil fuel clients (e.g. publicly available investor tools like ClimateAction100+ or Transition Pathway), and by rejecting briefs that are not aligned with a 1.5° C pathway.

Finally, there is one cost-effective measure to ask for:

Seize the opportunity by becoming a fossil free company boosting reputation and attracting key young talent: Declining all future contracts with companies whose primary business is the extraction, processing, transportation, or sale of oil, gas, or coal; and Electric Utilities that generate 50% or more of their electricity from fossil fuels, or generate 50% or more of their revenue from business in fossil fuels.

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