



## Action Report

# Environment: Climate Change

## ExxonMobil

May 5, 2010

Ticker	Exchange	Meeting Date	Record Date	Annual Meeting Location
XOM	NYSE	5-26-10	4-6-10	Dallas, Texas

### Agenda

Item	Proposal
1	MGT: Elect directors
2	MGT: Ratify selection of auditors
3	SH: Special shareholder meetings
4	SH: Incorporate in North Dakota
5	SH: Shareholder advisory vote on executive compensation
6	SH: Adopt sexual orientation non-discrimination policy
7	SH: Adopt policy on human right to water
8	SH: Adopt coastal wetlands protection policy
9	SH: Report on oil sands risks
10	SH: Report on hydraulic fracturing
11	<b>SH: Report on energy independence leadership options</b>
12	<b>SH: Adopt goals to cut greenhouse gas emissions</b>
13	<b>SH: Report on fossil fuel demand risks</b>

<b>Si2 Briefing</b>	<a href="#">Environment: Climate Change, Special Report on ExxonMobil, Investor Pressures and the Environment</a>
<b>Report Author</b>	<a href="#">Heidi Welsh</a>
<b>Links</b>	<a href="#">Proxy Statement</a>

### Item 11

<b>Resolved Clause</b>	<b>RESOLVED:</b> shareholders request ExxonMobil's Board of Directors to establish a Committee to study steps and report to shareholders within six months of the annual meeting (barring competitive information and disseminated at a reasonable expense), on how ExxonMobil, within a reasonable timeframe, can become the recognized industry leader in developing and making available the necessary technology (such as enhanced sequestration, engineered geothermal and the development of other renewable energy sources) to enable the U.S.A. to become energy independent in an environmentally sustainable way."
<b>Lead Proponent</b>	Province of St. Joseph of the Capuchin Order
<b>Vote History</b>	A similar resolution from the Capuchins in 2008 received 9.4 percent support.
<b>Summary</b>	The proponents say the company should look at non-carbon energy sources as a way to achieve U.S. energy independence, and report to shareholders on its findings. The

company says its existing publications already cover the ground suggested by the proponents, and that it already is playing a leading role in the search for viable energy sources. Investors will have to decide if they think the company should do more to explore alternatives to fossil fuels.

#### Item 12

<b>Resolved Clause</b>	<b>THEREFORE, BE IT RESOLVED:</b> shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company’s products and operations; and that the Company report to shareholders by September 30, 2010, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.”
<b>Lead Proponent</b>	Sisters of St. Dominic of Caldwell New Jersey
<b>Vote History</b>	Investors have been considering this resolution at ExxonMobil for many years. Most recently, it received 29.0 percent in 2009, 30.9 percent in 2008 and 31.1 percent in 2007.
<b>Summary</b>	The proponents want ExxonMobil to set greenhouse gas emissions goals, to help achieve needed reductions in CO <sub>2</sub> and to respond to investor requests. The company says such goals would have to be based on a complex set of factors that cannot be predicted, and that its approach to improve energy efficiency and flare reductions is a better one. Shareholders will have to decide which position they find more persuasive, and to ponder whether the substantial levels of investor support for goal setting mean Exxon should change its position.

#### Item 13

<b>Resolved Clause</b>	RESOLVED that shareholders of ExxonMobil Corporation (‘ExxonMobil’) ask the board of directors to consider in its strategic planning process the risk that demand for fossil fuels in the next 20 years could be significantly lower than ExxonMobil has projected, and report to shareholders (at reasonable cost and omitting proprietary information), no later than November 30, 2010, on how such demand reduction would affect ExxonMobil’s long-term strategic plan.
<b>Lead Proponent</b>	Neva Rockefeller Goodwin
<b>Vote History</b>	This resolution is a new formulation from the proponents, who also sponsored a similar resolution in each of the last two years asking the company to study sustainable energy leadership scenarios; it received 10.0 percent in 2009 and 10.4 percent in 2008.
<b>Summary</b>	The proponents want ExxonMobil to consider scenarios that include a much lower demand for fossil fuels than the company now relies upon. They think developing government investments in non-carbon energy sources and the potentially catastrophic effects of climate change could create an energy future very different than the one envisioned by the company. Exxon does not agree and says it already takes a wide variety of assumptions into account in its planning. Oil will remain dominant, the company says, although it will continue to work to cut emissions from its operations and to facilitate its customer’s cuts, as well. Investors will have to decide if they think the company’s strategy has sufficient regard for the potential changes in future energy demand articulated by the proponents.

**Note: Separate Si2 Action Reports cover climate-related [Item 9 \(oil sands\)](#) and [Item 10 \(hydraulic fracturing\)](#).**

## I. ExxonMobil and Climate Change

ExxonMobil is the world's largest publicly traded oil and gas company. Its business covers the whole range of oil- and gas-related activity, including exploration, extraction, refining, transportation and sale of natural gas and petroleum products, plus petrochemicals. ExxonMobil has 23 billion barrels of oil equivalent in proved reserves on six continents, including some unstable areas such as Nigeria, Angola and Kazakhstan. The company is the world's largest oil refiner, with ownership interest in 37 refineries in 21 countries capable of producing 6.2 billion barrels per day. Worldwide, ExxonMobil has more than 80,000 employees.

Financials					
<b>Revenue</b>	\$301,500 million	<b>Net Income</b>	\$19,280	<b>Reporting Year</b>	2009

The company's revenue and net income both fell substantially in 2009 given the worldwide recession, with revenue dropping to \$301.5 billion, down from a record \$459.6 billion in 2008. Net income dropped, as well, falling to \$19.3 billion, down from an all-time high of \$45.2 billion the previous year.

More specifically, the company's three business segments include:

- **Upstream** operations for exploration, development, production, gas marketing and related research,
- **Downstream** operations that manufacture and sell the company's petroleum, through a global refining and supply network of plants, transportation systems and distribution centers for fuels, lubricants and other products, and
- **Chemicals**, which makes and sells commodity petrochemical products, including olefins, aromatics, and polyethylene and polypropylene plastics.

**XTO merger:** In mid-December 2009, Exxon and XTO Energy, another Texas company that has extensive unconventional natural gas holdings and exploration expertise, agreed to merge their operations. The \$41 billion deal will significantly boost Exxon's capacity, making it the world's largest holder of new sources of natural gas. Explaining their perspectives on the merger in testimony before Congress in January 2010, Exxon and XTO chief executives noted that natural gas emits half the CO<sub>2</sub> of coal; XTO CEO Bob Simpson said simply, "Natural gas is the wave of the future." The deal is expected to close this year, subject to regulatory and shareholder approval. (See Si2's Action Report on Exxon and the hydraulic fracturing proposal for more on the deal and related concerns about fracturing.)

**Reserves:** In its most recent 10-K report, Exxon reported that its total proved oil equivalent reserves of 23 billion barrels—including both those that have been developed and those that remain undeveloped—are distributed among liquids (8,905 million barrels including crude oil, condensate and natural gas liquids), bitumen (2,055 million barrels from Canada's oil sands), synthetic oil (691 million barrels) and natural gas (68,007 million cubic feet). Before the XTO merger, its natural gas reserves made up 49 percent of the company's proven reserves, a percentage that has been increasing in recent years as the company grows this share of its capacity to capitalize on the attraction of natural gas as a "bridge fuel" leading away from oil. The XTO merger will increase the company's stake in natural gas substantially, since the company brings with it proved reserves of 12.5 trillion cubic feet of natural gas and 400 million barrels of liquids.

**Strategic outlook:** ExxonMobil forecasts that worldwide energy demand will increase 35 percent in the next two decades, according to its most recent annual assessment, *Outlook for Energy: A View to 2030*, published in 2009, with essentially all the demand increasing coming from the developing world. It believes fossil fuels will be the primary supply for this demand, although natural gas will grow in importance. Exxon therefore sees significant growth opportunities for its current business model that is

focused on fossil fuel products. Its outlook for greenhouse gas emissions is not optimistic when benchmarked against the goals set out by scientists who warn of impending disaster from a carbon-rich atmosphere. *Outlook for Energy* projects that global CO<sub>2</sub> emissions will increase by 0.9 percent annually until 2030. Emissions reductions will be dependent on technological advances and energy efficiency, the report says, but the company does not believe non-carbon-based fuels will become very significant in the next 20 years.

(A more detailed summation of *Outlook for Energy* appears in Si2's [Special Report on ExxonMobil, Investor Pressures and the Environment](#). This report also includes information on general environmental and climate change risk disclosures made by Exxon in its securities filings and 2008 *Corporate Citizenship Report*.)

### Greenhouse Gas (GHG) Emissions

Extracting and transporting oil and natural gas and refining petroleum into gasoline, diesel fuel and petrochemicals requires significant amounts of energy which, depending on its source, can also generate substantial greenhouse gas emissions. In addition, flaring of waste gas at refineries and wells releases methane—a greenhouse gas 21 times more potent than CO<sub>2</sub>—into the atmosphere.

**Emissions data:** The company has reported on enterprise-wide greenhouse gas emissions data since 1998, and since 2003 on all operations on an equity ownership basis. Its emissions reporting figures were externally assured through Lloyd's of London.

Greenhouse Gas Emissions at ExxonMobil (millions of metric tons)					
	2005	2006	2007	2008	Change, 2005-2008
<b>Scope 1 (Direct Emissions)</b>					
Absolute GHG emissions <sup>1</sup>	138	146	141	131	-5%
Normalized GHG emissions <sup>2</sup>					
Upstream	21.2	22.5	21.3	19.0	-10%
Downstream (Refining)	17.3	17.6	17.4	17.0	--2%
Chemical	44.3	43.9	41.6	42.2	-5%
Hydrocarbon flaring	7.7	8.2	8.1	5.7	-26%
<b>Scope 2 (Indirect Emissions from Electricity Purchases)</b>					
Absolute GHG emissions <sup>3</sup>	-1	-4	-4	-3	-200%
<b>Scope 3 (Other Indirect Emissions)<sup>4</sup></b>					
Absolute GHG emissions	Not reported. Exxon notes in its CDP response that consumer use of petroleum products come from consumer use, which it does not report.				
<sup>1</sup> Direct equity, CO <sub>2</sub> -equivalent emissions <sup>2</sup> Direct equity, CO <sub>2</sub> -equivalent emissions, excluding cogeneration and Hong Kong power, metric tons per 100 metric tons of throughput or production <sup>3</sup> The company reported to CDP its net indirect equity GHG emissions, which were its indirect equity GHG emissions from purchased electricity and steam globally less the indirect equity GHG emissions from production of electricity and steam exported to third parties globally (emissions which it included in its Scope 1 reporting each year). <sup>4</sup> Other indirect emissions include those from employee business travel, external distribution and logistics, use and disposal of company products and supply chain. Sources: ExxonMobil 2008 Corporate Citizenship report and Carbon Disclosure Project annual reports from ExxonMobil.					

**Direct emissions**—ExxonMobil’s operations released the equivalent of 131 million tons of CO<sub>2</sub> into the atmosphere in 2008—down 5 percent from 138 million tons in 2005 (see table). Efforts to reduce hydrocarbon flaring in Nigeria were an important factor in the reduction, cutting two million metric tons between 2007 and 2008. But the company also says that its energy efficiency improvements—which it says are being accomplished at a rate two to three times faster than the industry average—have been a critical component of its improvements, as well. It launched a Global Energy Management System in 2000 that has identified opportunities to improve energy efficiency by 15 to 20 percent at its refineries and chemical plants, and has implemented about 60 percent of these projects to date, it told the Carbon Disclosure Project.

**Indirect emissions from electricity use**—The company also reported to the Carbon Disclosure project on its emission from electricity purchases, known as “Scope 2” emissions under the GHG Reporting Protocol. Net Scope 2 emissions in 2005 to 2008 from ExxonMobil have been negative because of its own generation exported to third parties globally.

Exxon’s use of cogeneration, which produces power for its operations from the heat and steam they generate and is often more efficient than purchasing power from local sources, is an important reason for its overall emissions cuts. (The company has interests in about 100 cogeneration facilities at 30 global locations.) According to the company’s 2009 CDP response, in 2007 it self-produced 70 percent of the electric power needs of its refineries and 50 percent of the electric power needs of its chemical plants. It is continuing two decades of investment in cogeneration capacity and expects to boost its capacity from the current 4.5 gigawatts to more than 5 gigawatts by 2011.

**Indirect emissions from products**—The company does not report on “Scope 3” emissions from the use of its products, which according to International Energy Agency estimates account for 90 percent of the emissions from petroleum products. Using this estimate, the company’s total emissions footprint for 2008 would be approximately 1.179 billion metric tons if consumer petroleum use is included. Exxon says in its 2009 CDP report that while it is a straight-forward proposition to calculate GHG emissions from particular petroleum products, the supply system for crude and petroleum products is complex, and that “there is no simple way to account for...business transfers to estimate emissions” from its products. It says that “producers, refiners, distributors, and end-users should each be responsible for managing and reporting the emissions generated from activities under their control,” and that it is working to facilitate fuel usage efficiencies that will cut both its emissions and those of its customers.

**Carbon intensity:** Another measure of a company’s progress in reducing its GHG emissions is the amount of climate change gases released into the atmosphere per unit of production—the “carbon intensity” of a company’s products. A firm that is increasing its production while at the same time reducing the carbon intensity of each unit of production can nevertheless see the amount of its overall GHG emissions rise.

Exxon has had success in reducing its GHG emissions per unit of production, as the table notes. When its absolute emissions are normalized by calculating them per 100 metric tons of throughput or production, all of its business segments have realized reductions in their emissions intensity. Improvements in refining have been much less substantial than in its upstream and chemical segments.

**Goals:** Exxon has set goals to cut emissions in specific segments of its operations, but has declined to set an overall GHG emissions reduction goal. It explained to CDP in 2009 that it is actively seeking to increase its production of oil and gas, and that this puts “upward pressure on absolute emissions,” although “we are committed to managing this growth as efficiently as possible.” But it said, “We do not believe that absolute GHG emission reduction targets by individual companies will be an effective approach to reduce global GHG emissions while addressing the other fundamental societal challenges of

energy security and economic growth.” The proponents of the shareholder resolutions all take issue with this position, as Section II below points out; they are joined by a broad coalition of global institutional investors.

For energy efficiency, the company has set a goal of 10 percent improvement in its refining and chemical operations between 2002 and 2012, and it is on target to meet this goal. It also has set a goal of cutting upstream hydrocarbon flaring by 50 percent over 2007 levels “over the next several years,” it told CDP in 2009.

**Outlook:** In its CDP response, the company said antitrust laws in the United States and elsewhere that bar the disclosure of sensitive competitive information mean that it cannot provide estimates about its future emissions. Despite the energy efficiency improvements and flaring reductions underway by Exxon, it seems clear that the company’s absolute GHG emissions are likely to increase—probably substantially—in the future, barring significant technological breakthroughs.

**Technological solutions?** One such breakthrough could be carbon capture and storage technology. Exxon is involved in research with governments and universities to identify workable solutions, but none have yet been found to be commercially viable. Exxon is also working on tire, automotive parts technology and advanced motor oils, as well as new generation lithium-ion battery materials, engine research and ignition technology. All these are within the carbon-fuel based paradigm, however. The company is exploring alternatives through the Global Climate and Energy Project at Stanford University and at other universities around the world. It highlights one new project in its *2008 Corporate Citizenship Report*, where it expects to spend more than \$600 million to create biofuels from synthetic algae, if project R&D milestones are met by its partner, Synthetic Genomics, a California-based biotech firm. The company also is working on hydrogen fuel cell battery technology for vehicles.

**Investments to achieve goals**—The company has spent \$1.5 billion on energy efficiency and GHG emission reduction efforts since 2004, it told CDP in 2009. It also has spent \$5 billion, over an undisclosed period of time, to increase gas utilization in its upstream operations, in projects where it re-injects gas into oilfields to maintain reservoir pressure; this expenditure includes projects to commercialize routine natural gas flaring. Looking ahead, it expects within the next few years to invest another \$500 million in energy efficiency initiatives. It also has committed \$100 million to develop and test carbon capture and storage methods. The latter includes a demonstration project near LaBarge, Wyoming, where construction began in 2008; the project is scheduled for startup in the second or third quarter of 2010, Exxon told Si2. It declined to provide CDP with any estimates of its investment payback.

### ***Climate Change Governance***

The board of directors’ Public Issues and Contributions Committee is responsible for overseeing climate change and environmental issues, although the chairman and CEO and the company’s management committee also have this responsibility. The board committee’s members, who are all independent directors, receive “timely” briefings from the Vice President for Safety, Health and the Environment (SHE), who leads shorter term implementation of corporate policies which have a direct impact on environmental performance. The Vice President for SHE reports to the company’s management committee, which in turn reports to the CEO. The board receives in-depth briefings on climate change at least annually, covering “public policy, scientific and technical research, as well as company positions and actions in this area,” Exxon told CDP. In 2009, Exxon added a new Environmental Policy & Planning Department (EP&P), with four managers who lead the planning process for longer term environmental issues, including climate risk; all report to the new Vice President for EP&P.

The company does not tie management compensation incentives directly to the achievements of GHG reduction goals. But it does take environmental performance, including climate change-related goals, into account as part of its broader performance evaluations.

## II. Proponent Positions

### *Item 11 (Energy Independence)*

The Province of the St. Joseph of the Capuchin Order from Milwaukee, also known simply as the Midwest Capuchins, is the lead proponent for this proposal, which asks Exxon to study and report to shareholders on how it can develop and make available technology to enable U.S. energy independence, “in an environmentally sustainable way.” The Capuchins, who are affiliated with the Interfaith Center on Corporate Responsibility (ICCR), suggest these methods could include “enhanced sequestration, engineered geothermal and the development of other renewable energy sources.”

The proponents reprise concerns about rising global temperatures and the need to find alternative fuel sources to avoid the “alarming consequences” of climate change. They quote the assessment by the International Energy Agency (IEA) that if fossil fuel demand does not peak by 2020, the world may not be able to avoid disastrous warming of up to six degrees Celsius. Further, they point out that Exxon’s *Outlook for Energy* documents the basis for the company’s view that fossil fuel demand will rise, despite these worrisome forecasts. Meeting the demand Exxon projects will be difficult in any case, the proponents say, giving as evidence its reserve replacement level of just 76 percent in 2007, the “lowest in 14 years” according to a February 2008 article in *The Wall Street Journal*.

Although the proponents commend Exxon for its algae biofuel project announced in July 2007, they say the project’s potential \$300 million investment “pales compared to the billions” committed at the same time to developing oil fields in Iraq and off the Ghana coast. “Furthermore, this ‘baby-step into biofuels’ seems miniscule compared to the \$45.22 billion it earned in 2008,” they assert.

Environmental harm and related negative health effects from continued reliance on fossil fuels only bolster the view that the company should put more investment into non-carbon fuel research, in the eyes of the proponents. They say that the coming ‘oil crisis’ (so dubbed by the CEO of Hess) means collaborative work is needed to deal with both this and other shortages such as water, and they urge support for the proposal as one means to this end.

### *Item 12 (GHG Goals)*

Another ICCR affiliate, the Sisters of St. Dominic of Caldwell, New Jersey, is the lead proponent of the long-running proposal asking Exxon to establish greenhouse gas emission reduction goals. This group of proponents notes that greenhouse gases must be cut by 80 percent to 95 percent by 2050 if dangerous levels of CO<sub>2</sub> in the atmosphere are to be avoided, according to the U.N. Intergovernmental Panel on Climate Change (IPCC). They reiterate the concern expressed by the Midwest Capuchins about fossil fuel demand needing to peak by 2020 to achieve the IPCC goal, adding that the IEA said zero-carbon fuels should make up one-third of primary energy sources by 2030—a scenario well below the projected emissions trend in ExxonMobil’s *Outlook for Energy*.

Recent upheavals in the energy markets, and changing dynamics that will come when carbon gets a price, need to be taken into account by the company, the proponents contend. They say that their request for GHG reduction goals is in line with the company’s own environmental planning process (which sets targets and ways to achieve them). But the company “has not sufficiently explained to shareholders why setting carbon reduction goals for its operations and products would be negative for

the Company or its business performance,” the proponents say, particularly since it has set targets in other areas such as financial performance, energy efficiency, flaring and air pollutants.

The proponents acknowledge “marked improvements” in ExxonMobil’s most recent *Corporate Citizenship Report* and its “solid investments in energy efficiency,” although they call these “the low hanging fruit.” They say Exxon should use its well-known business expertise to make “bold responses to climate change, as it does with tanker spills and safety.” The nature of the company’s response to investor concerns at its 2009 meeting was “disappointing,” in the proponents’ view, since they believe the board of directors “has never sufficiently responded to shareholders in their request for a cohesive vision for dealing with climate risk and opportunity, including articulating goals for reducing GHG emissions from ExxonMobil’s products AND operations.” They conclude that “setting clear strategies and goals in the context of a comprehensive emissions response is long overdue,” and urge support for the resolution.

### ***Item 13 (Demand Risks)***

The lead proponent of this resolution, Neva Rockefeller Goodwin, brings a new request to the 2010 ballot although she and other members of the Rockefeller family have been pressuring the company to take more aggressive action on climate change for several years. The proposal asks the company to consider scenarios about fossil fuel demand that differ from those articulated in its current strategic plan. If fossil fuel demand does not live up to the company’s expectations, the proponents want to know how Exxon’s current long-term plans will be affected.

The resolution points out that the company’s current strategy rests on the assumption that global energy demand will rise by 1.2 percent annually for the next two decades, because of demographic and economic growth, with demand concentrated in developing countries, particularly the Asia Pacific region. The proponents also note the company’s assumption that the transportation sector will see energy demand grow by 40 percent, and that oil will be used to meet 94 percent of this demand in 2030—driven in part by China’s tripling of transportation fuel needs.

But the proponents question whether these assumptions will hold, and they note alternative ambitious forecasts for climate policy and technology such as the “International Energy Agency’s ACT Map 2050 and BLUE Map 2050 scenarios.” (These scenarios were summarized in a 2008 report available on the [IEA website](#).) Fossil fuel demand may be much less than ExxonMobil projects if governments fund non-carbon based energy technologies, the proponents say, and China’s plans relating to electric and hybrid vehicles as reported in *The New York Times* in April 2009 are but one example.

Demand also may be lower if economic growth is negatively affected by climate change, the Rockefellers say. Since Exxon sees a continuation of existing trends in the very countries that will see the worst effects from climate change, it may be making a strategic mistake, they suggest. The proponents are heirs to John D. Rockefeller, the founder of Standard Oil (a precursor to ExxonMobil) and one of the most successful businessmen in American history. They say Rockefeller’s “genius was in recognizing early on the need and opportunity for a transition to a better and cheaper fuel,” and that current management is poised to miss out on the transition to a new energy economy. It should reframe itself “as an energy company, rather than an oil and gas company, and...become part of the solution to the climate and energy crisis,” they conclude.

Neva Goodwin told Si2 that the company needs to have more than one basic strategic assumption. Extremely successful companies such as ExxonMobil “can succumb to failures that were completely unexpected – until they happen,” she said, giving as an example Kodak’s inability to adapt to the digital photography revolution. She also noted that a moral perspective can be helpful in showing the way to what the world really needs—which should be the guide to what a business provides. She said that,

given its significance in the world, “if Exxon takes a constructive leadership position” in the energy market, “it could in important ways shape its own future.”

### III. Management Positions

#### *Item 11 (Energy Independence)*

ExxonMobil opposes the resolution. It says it already covers the same ground proposed by the resolution in its existing publications and that the proposed “narrow” focus on U.S. energy independence is unwarranted.

Management sets out evidence of the leadership role it already plays in energy technology, collaborating with academia and government to advance biofuels through its algae project, “consideration of geothermal and other renewable energy sources,” its carbon capture and storage efforts and its various energy efficiency initiatives. The company says these efforts show it already “actively contributes to energy security throughout the world,” particularly through its promotion of advanced technology.

Specific types of technologies can be commercialized by ExxonMobil only after it assesses its “capabilities, market analyses and anticipated returns to shareholders,” the company points out. Examples it gives include its work on developing hydrogen fuel cell technology, new forms of lithium-ion vehicle batteries, the carbon capture and storage demonstration project in Wyoming, and the algae-based fuels project. Whether any of these can be commercialized will depend on research results, however.

The company takes issue with the resolution’s premise in its resolved clause that Exxon should work for U.S. energy independence, and suggests this is not really what the proponents want, anyway. The best way forward for the United States “to successfully manage its energy needs is through interdependence, not energy independence,” and in management’s view, “energy independence is not a realistic possibility.” It therefore urges a vote against the proposal.

#### *Item 12 (GHG Goals)*

Arguing against the proposal that it set GHG emission reduction goals, ExxonMobil says that setting such goals is not “the most effective way” for it to either manage emissions or climate risks. Instead, it says that it should help “to meet growing demand for our products efficiently and economically and by promoting longer-term improvements in emissions from our operations and end-uses of our products through advanced technology.”

Management acknowledges that the increased production it foresees is likely to lead to increased emissions, although it says this can be mitigated to an extent through methods it is already employing. But higher emissions can also come from “the more energy-intensive efforts required to produce some new resources, to process heavier, more sour crude oil, and to manufacture cleaner products,” the company says.

According to Exxon, goals would only be useful and realistic for reducing emissions if they could accurately reflect what is virtually impossible to predict:

the coincident impact of largely unforeseeable year-to-year changes in external market demand, weather, internal production growth, changing patterns of investment, regulation, technological advancements, efforts of business partners, efforts of National Oil Company partners, and demand volume by product type – all calculated across the many countries in which ExxonMobil operates.

In contrast, Exxon says that its current approach is “workable, sustainable, and effective.”

The energy demand forecasted by bodies such as the International Energy Agency, noted in *Outlook for Energy*, allows for major efficiency gains, but is enormous, the company says. It is seeking “effective, affordable, game-changing technologies” through its research and development efforts, but these have yet to become a reality. In the meantime, it will work to help its customers use its fuels more efficiently and continue its research on fuel cells, batteries, carbon capture and stores and algae-based fuels—all things that fit within its capacities.

But the company says it will seek “increase[d] production of oil and gas efficiently and economically to meet growing global energy demand and to maintain leadership in return to shareholders.” The company says this will “contribute to effective long-term solutions to manage climate risks.”

### ***Item 13 (Demand Risks)***

Management says its *Outlook for Energy* report shows that its “traditional business focus areas will remain indispensable for decades,” although it agrees that “all viable sources of energy” should be pursued to meet burgeoning demand. The report—and the company’s consequent strategic business decisions—do take into account “a broad range of assumptions regarding future demand, sources of supply, and a wide variety of technologies,” the company says. Its “decades of experience” undergird the report.

Management dismisses the need for the alternative demand scenario assessment proposed by the resolution, saying that “separate reports dealing with particular proponents’ or advocates’ beliefs would not be a productive use of our shareholders’ investment.” In commenting on the proponent’s point about alternative demand scenarios, Exxon investor relations manager David Henry told Si2 that IEA ACT Map and BLUE Map “are not forecasts, they are ambitious scenarios for climate policy and technology” that are “far more ambitious than results from the Copenhagen Climate accord.” The company said its outlook is not an advocacy piece, but simply an “assessment of existing trends that are already strongly underway in rapidly developing nations.”

Oil is “the only fuel with the scale, infrastructure, and energy density needed to meet the majority of the world’s transportation demands,” and it will remain dominant for the foreseeable future as a result, even though natural gas will grow quickly as a “major fuel” given new methods of extracting it. More reliance on clean-burning natural gas “can serve economic progress while helping mitigate environmental impacts,” the company says.

The search for energy sources to fulfill the enormous projected demand will require investment of about \$480 billion a year over 2008 to 2030, management says, and it is well-positioned “to provide tremendous value.” This approach is a “sensible, broad-based solution” based on the company’s “proven business approach,” according to management. It does say that its “active involvement in research on alternative energy technologies enables it to readily assess new developments for possible commercialization and investment to improve shareholder value,” but makes clear that non-carbon fuels are simply not its primary focus.

## **IV. Analysis**

### ***Key Points At Issue***

- Is the company doing enough to explore non-fossil fuel energy options?
- Should the company set overall targets for greenhouse gas emission reductions?

- Does the company's strategy have sufficient regard for potential changes in the structure of future energy demand?

Exxon's status as the largest oil and gas company in the world, with vast resources and the capacity to substantially influence peer companies, energy markets and policy makers, has made it an almost irresistible target for activists, for many years. It appears the company is softening its former skepticism about the validity of climate change science. It is clearly focused on devoting its considerable resources to address the undisputed and growing demand for more energy, which is and will remain particularly acute in developing countries. What drives continuing debate over the company are competing visions about its commitment to find and develop non-fossil fuel energy sources. Each of the three pending resolutions specifically relating to global warming raises a different issue, but investors are likely to see each of the proposals as complimentary pieces of the same puzzle and vote on them the same way.

The company has seen both its absolute greenhouse gas emissions and its emissions intensity fall in the last several years, with particular progress made in reducing emissions from gas flaring. Some of this can be attributed to the global recession, but it is clear that Exxon has invested significantly in energy efficiency initiatives, including cogeneration, which also has helped. The company notably does not report on indirect emissions from the use of its petroleum products, which according to the International Energy Administration make up 90 percent of its total carbon footprint—potentially 1.179 billion metric tons of CO<sub>2</sub> in 2008 alone.

**Exploration of non-fossil fuel energy options:** The Capuchin's proposal (item 11) asserts the company can and should do more to explore non-fossil fuel energy production; the request is framed in terms of a report on how the company might facilitate U.S. energy independence, however, which while attractive as a political goal is a rather unlikely in a practical sense. Exxon contends that its publicly available *Outlook for Energy*, its *Corporate Citizenship Report*, and its participation in the scientific dialogue about viable ways to supply the world's energy needs all mean that the proposal is essentially moot. Votes on this resolution will turn on investor assessments of the adequacy of Exxon's demonstrated commitment to find and develop non-carbon energy options, and whether more effort is warranted. The company highlights its potential \$600 million investment in algae biofuels research, hydrogen fuel cell research and advance vehicle batteries, but its main focus remain firmly in the fossil fuel paradigm. Its carbon capture and storage demonstration project in Wyoming is to come on line later this year, though, and with the XTO merger it is clearly taking steps that will capitalize on the policy interest in cleaner-burning natural gas.

**Setting goals:** Investors and management at Exxon have been sparring for years over whether it makes sense for the company to set an overall greenhouse gas emissions reduction goal, as the proponents of item 12 want. The company makes no bones about its aim to boost production of oil and gas, which despite mitigating efforts (which are significant) is likely to boost its current substantial CO<sub>2</sub> emissions still further. The proponents reason that if the company can set goals for energy efficiency improvements (targeted at 10 percent reduction between 2002 to 2012) and flaring (targeted at 50 percent reduction over 2007 levels "over the next several years"), then it should be able to set overall emissions reduction goals, as well.

Investor proponents of corporate action on GHG emission reduction see goal setting as a critical strategic step that companies must take if they are to help avoid a catastrophic CO<sub>2</sub> tipping point. Its industry peer Chevron does set an annual GHG reduction goal, while ConocoPhillips does not. The Carbon Disclosure Project and its supporters, who manage assets worth some \$60 trillion, contend that it is critical to set goals, and some investment managers see them as important signals indicating good management of an issue, which can help them measure a company's performance. Exxon argues that

its efforts to improve energy efficiency both for its own operations and for its customers' use of its fossil fuels are a more appropriate response to the challenge.

**Alternative energy demand scenarios:** Exxon gives investors and the general public a comprehensive assessment of the nature of energy demand in the coming years, and detailed projections of how this energy demand will be met. It says alternative scenarios that rely less on oil and gas to meet this demand contain aggressive assumptions that are not as realistic as its own outlook. Game-changing technology is really the only way these alternative scenarios will be realized, Exxon says; its research and development aims to uncover these technologies. Investors will have to consider whether they think the company is sufficiently prepared to shift course quickly if the energy paradigm shifts dramatically, as the Rockefellers' proposal suggests it could. Exxon characterizes the alternative scenarios mentioned in the proposal as "beliefs" that it need not address because it has already conducted a thorough analysis of the future.

### ***Voting Considerations***

**Voting in favor:** Shareholders who think Exxon should invest more in non-fossil fuel energy sources, those who think it should set goals to reduce its emissions, and those that think the company owes its investors an assessment of how it will meet alternative demands scenarios are likely to vote in favor.

**Voting against:** Investors who think the company's initiatives on non-fossil fuel energy are important and sufficient, those who believe the company does not need to set an overall emissions reduction goal, and those who do not agree that alternative demand scenarios need to be examined in greater detail are likely to vote against all the proposals.

## **V. Resources**

- ExxonMobil 2009 Carbon Disclosure Project response  
[https://www.cdproject.net/en-US/Pages/Search-For-The-File+-search.cdproject.net/responses2/public/Exxon\\_Mobil\\_Corporation\\_4721\\_Corporate\\_GHG\\_Emissions\\_Response\\_CDP7\\_2009.asp](https://www.cdproject.net/en-US/Pages/Search-For-The-File+-search.cdproject.net/responses2/public/Exxon_Mobil_Corporation_4721_Corporate_GHG_Emissions_Response_CDP7_2009.asp)
- *2008 Corporate Citizenship Report*, ExxonMobil  
<http://www.exxonmobil.com/Corporate/community.aspx>
- ExxonMobil website section, Energy and Environment  
<http://www.exxonmobil.com/Corporate/energy.aspx>
- *Outlook for Energy: A View to 2030*, ExxonMobil, 2009  
[http://www.exxonmobil.com/Corporate/energy\\_o\\_view.aspx](http://www.exxonmobil.com/Corporate/energy_o_view.aspx)
- *World Energy Outlook 2009 Fact Sheet*, International Energy Agency  
[http://www.worldenergyoutlook.org/docs/weo2009/fact\\_sheets\\_WEO\\_2009.pdf](http://www.worldenergyoutlook.org/docs/weo2009/fact_sheets_WEO_2009.pdf)
- *Energy Technology Perspectives 2008: Scenarios and Strategies to 2050*, Executive Summary, International Energy Agency  
[http://www.iea.org/techno/etp/ETP\\_2008\\_Exec\\_Sum\\_English.pdf](http://www.iea.org/techno/etp/ETP_2008_Exec_Sum_English.pdf)