



Action Report

Human Rights (Water)

ExxonMobil

May 5, 2011

Ticker	Exchange	Meeting Date	Record Date	Annual Meeting Location
XOM	NYSE	5-25-11	4-6-11	Dallas, Texas

Agenda	
Item	Proposal
1	MGT: Elect directors
2	MGT: Ratify selection of auditors
3	MGT: Advisory vote on executive compensation
4	MGT: Advisory vote on frequency of future advisory votes on executive compensation
5	SH: Establish independent chair of board
6	SH: Report on political spending
7	SH: Adopt sexual orientation non-discrimination policy
8	SH: Adopt policy on human right to water
9	SH: Report on oil sands risks
10	SH: Report on hydraulic fracturing
11	SH: Report on sustainable energy leadership
12	SH: Adopt goals to cut greenhouse gas emissions

Si2 Briefing [Human Rights](#)

Report Author [Peter DeSimone](#)

Links [Proxy Statement](#)

Resolved Clause **BE IT RESOLVED** that the shareholders request the Board of Directors to create a comprehensive policy articulating our company’s respect for and commitment to the human right to water.

Lead Proponent NorthStar Asset Management

Vote History The proposal is a resubmission from 2010, when it received 6.7 percent support.

Summary Oil and gas operations by their nature use vast sums of water. At times, the water use of oil and gas operators can deplete local resources to a point where they restrict local communities’ access to meet even basic needs. This is the case in Alberta, Canada, where ExxonMobil has an oil sands operation for synthetic crude oil, as the proponents note in their proposal. However, ExxonMobil recycles and reuses 95 percent of the water required by this operation, making it unclear if the impact of its operations is contributing to the water crisis there or elsewhere. Still, there are considerable sustainability risks associated with ExxonMobil’s use of water. These, outlined in a recent report by the Ceres coalition, ranked ExxonMobil in the middle of its peers in its disclosure practices, while giving the industry overall a very poor grade. The proponent

sees a direct link between basic human rights enshrined in conventions of the United Nations and access to water. It wants ExxonMobil to articulate a policy that addresses this basic principle and outline ways it will ensure its operations do not violate this basic right. ExxonMobil says it already has policies, processes and practices that address these concerns.

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

I. ExxonMobil and Human Rights (Water)

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.

The company's operations are divided into three business segments:

- **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.

ExxonMobil has 24.8 billion barrels of oil equivalent in proved oil and natural gas 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 36 refineries in 21 countries. In 2010, the company refined an average of 5.25 million barrels of oil a day.

Worldwide, ExxonMobil has more than 83,000 employees.

Financials					
Revenue	\$370,125 million	Net Income	\$30,460 million	Reporting Year	2010

The company's revenue and net income rebounded sharply in 2010 as the worldwide recession eased and oil prices climbed. Although net income was still below the record all-time high of \$45.2 billion earned in 2008, 2010's \$30.5 billion was well above 2009's \$19.3 billion.

Reserves: In its [2010 Form 10-K](#), Exxon reported that total proved oil and gas reserves of 24.8 billion barrels of oil equivalent. With the June 2010 completion of its merger with XTO Energy, a company with extensive unconventional natural gas holdings, ExxonMobil's continuing transition from petroleum toward natural gas was reinforced. The company's natural gas reserves now make up 53 percent of its total reserves.

Production: In 2010, ExxonMobil produced an average of 2.42 million barrels of oil a day and processed 12.1 trillion cubic feet of natural gas (with an energy content equivalent to 2.0 million barrels of oil a day). Natural gas production now accounts for 46 percent of ExxonMobil's energy production, up from 39 percent in 2009 and a reflection of the company's acquisition of XTO Energy's natural gas assets.

Oil and Gas Operations and Water Use

Drilling for oil requires water to remove obstructions from the well and to draw out deposits, and many oilfield operations pollute drinking water supplies in the process. In oil sands operations, like those in ExxonMobil's Canada operations, large amounts of steam are injected into the ground to soften hydrocarbon resources so that they can be pumped to the surface for extraction. In addition, refineries require water in the various processes used to refine crude oil into usable fuel. A U.S. Environmental Protection Agency briefing on its website, [Water & Energy Efficiency by Sectors - Refineries](#), says that one to two and one-half gallons of water is needed to refine a gallon of gasoline. The website also notes that oil sands operations like ExxonMobil's in Alberta, Canada, use two to four and one-half barrels of water for every barrel of synthetic crude oil they produce. In fact, most aspects of the operations of integrated oil companies, from drilling to refining, are water intensive. To their credit, oil and gas companies have worked to devise ways to recover, process and reuse water resources. For example, ExxonMobil in its 2009 sustainability report (reviewed below) notes that its oil sands operations now recycles and reuses more than 95 percent of the water needed for its extraction operations. However, the issue continues to loom large for oil and gas companies.

Risk factors: As a February 2010 report from Ceres, a national coalition of investors, environmental groups, and other public interest organizations working with companies to address sustainability challenges, concludes, "Oil and water don't mix." The report, [Murky Waters? Corporate Reporting on Water Risk, A Benchmarking Study of 100 Companies](#), reviews several high-risk industry sectors, of which it ranks oil and gas among the highest. By nature, it says, water risk management is a key financial factor for companies across the oil and gas sector.

The report identifies the following types of risks related to oil and gas operations:

- **Physical risks** related to "higher shipping costs, non-availability of feedstock and constraints on production when drought decreases river flows or limits water availability." The report says this constraint is especially acute for refiners and operators in the Albertan oil sands areas, such as ExxonMobil.
- **Reputational risks** linked to oil spills and pollution of surface and groundwater. The report cites the *Exxon Valdez* spill as a prime example, and the most recent BP spill in the Gulf of Mexico now tops the list. In addition, the report mentions community concerns surrounding wastewater management and pollution as another reputational risk threatening to limit oil and gas companies' licenses to operate.
- **Regulatory risks** attached to increasing federal and state oversight of chemicals used for deep shale natural gas drilling and links to water contamination and related to the practice of hydraulic fracturing. In addition, the report references efforts to bolster regulatory requirements for managing tailings ponds in Alberta that stand to increase operators' costs.

Reporting trends: Despite the relatively high risks, the *Murky Waters* report found "relatively weak water risk disclosure overall" of water-related risks, with an average score of 19 out of 100. **BP** won the highest marks in the study with 35 points, although ironically it is the company in the sector with the highest reputational risks at the moment linked to the 2010 spill in the Gulf of Mexico. Canadian natural gas producer **EnCana** came in at the bottom with four points. For its part, ExxonMobil ranked in the middle of the oil and gas producers with 23 points. Overall, the report found:

- Almost two-thirds of the oil and gas companies analyzed reported total water usage, with only two—**BP** and **Royal Dutch Shell**—providing access to site and regional data. Fewer than half offered any wastewater discharge data. ExxonMobil reports total water usage, but it does not offer trends or wastewater discharge data.

- Slightly more than half the oil companies reported some level of physical risk, and all but one disclosed some regulatory risk. As reviewed later in this report, ExxonMobil discusses some regulatory and physical risks linked to water use and its operations.
- Only two companies—both oil sands operators—disclose water use reduction targets; only one, **Total**, set a wastewater reduction target. ExxonMobil did neither.
- None of the oil and gas companies reported engaging with suppliers on water management or risks, despite what the report called a “significant reliance on contracted companies to perform drilling services.” This played a key role in BP’s accident in the Gulf of Mexico.
- More than half the companies reported stakeholder engagement with local communities on water management issues, including ExxonMobil.

ExxonMobil’s Policies

ExxonMobil publishes its [Standards of Business Conduct](#) on its website. The code describes its commitments generally to human rights and environmental protection. In addition, various sections on its website review its policies in these areas. These are described below.

Human rights: ExxonMobil’s Standards document says that it is committed to being “a good corporate citizen” everywhere it operate and that it will “maintain high ethical standards, obey all applicable laws, rules, and regulations, and respect local and national cultures.” ExxonMobil also dedicates a portion of its website to “current issues” and includes information on its efforts to uphold and protect human rights here. [This section](#) of ExxonMobil’s website notes that ExxonMobil has been a signatory to the Voluntary Principles on Security and Human Rights since 2002 and states its commitment to these principles through its own [Statement of Principles on Security and Human Rights](#). The principles outline expectations for ExxonMobil’s operations on how to manage interactions with host government security forces, as well as private security providers. They offer guidelines for dealings with host government security, as well as “language for memorandums of understanding for relationships with host country government security, language for contracts with private security providers, and reporting and record-keeping templates.”

Community consultations—Also within its human rights discussion, ExxonMobil says that it regularly holds consultations to mediate concerns raised by local communities where it operates and to play a role in addressing special community needs, including “improving living standards, health care, skills development, housing, and other unique issues faced by the indigenous communities” where it does business.

Indigenous peoples’ rights—ExxonMobil says it is “consistent with the principles of the ILO Convention 169 concerning Indigenous and Tribal Peoples in Independent Countries, the United Nations Declaration on the Rights of Indigenous Peoples, and the World Bank Operational Policy and Bank Procedure on Indigenous Peoples to provide both short- and long-term support efforts to address the issues facing indigenous communities.”

Property rights and resettlement—ExxonMobil says that it respects property rights everywhere it operates. It notes that before it implements a new project, it engages in “free, prior, informed consultation with communities that will likely be affected by our operations.” It also notes that, as dictated by individual circumstances, it incorporates “direct compensation programs and community programs that in some instances provide micro-development programs.” When community resettlement is necessary, it says, it provides “fair and just compensation to those affected and we are consistent with the World Bank Operational Policy and Bank Procedure on Involuntary Resettlement.”

Employee training—ExxonMobil notes that its employees are trained on these policies regularly.

The environment: ExxonMobil’s Standards document says that it is “dedicated to running safe and environmentally responsible operations.” As part of that effort, it conducts “business in a manner that is compatible with the balanced environmental and economic needs of the communities in which it operates” and remains “committed to continuous efforts to improve environmental performance throughout its operations.” ExxonMobil says it is its policy to:

- “Comply with all applicable environmental laws and regulations and apply responsible standards where laws and regulations do not exist;
- “Encourage concern and respect for the environment, emphasize every employee's responsibility in environmental performance, and foster appropriate operating practices and training;
- “Work with government and industry groups to foster timely development of effective environmental laws and regulations based on sound science and considering risks, costs, and benefits, including effects on energy and product supply;
- “Manage its business with the goal of preventing incidents and of controlling emissions and wastes to be low harmful levels; design, operate, and maintain facilities to this end;
- “Respond quickly and effectively to incidents resulting from its operations, in cooperation with industry organizations and authorized government agencies;
- “Conduct and support research to improve understanding of the impact of its business on the environment, to improve methods of environmental protection and to enhance its capability to make operations and products compatible with the environment;
- “Communicate with the public on environmental matters and share its experience with others to facilitate improvements in industry performance;” and
- “Undertake appropriate reviews and evaluations of its operations to measure progress and to foster compliance with this policy.”

Planning—ExxonMobil notes that processes, namely its Environmental Business Planning (EBP) process, support its environmental policies. The company’s “step-by-step approach” to planning “integrates environmental improvement into overall business plans and strategies” and helps the company “to identify key environmental drivers, set targets in key focus areas and identify projects and actions to achieve these targets.” ExxonMobil conducts three reviews for all new projects and developments, which incorporate environmental and social impact assessments that review factors such as community concerns, sensitive environmental habitats and future regulatory developments. The results from these reviews are incorporated into project design and implementation.

ExxonMobil’s Reporting

ExxonMobil’s most recent sustainability report its 2009 *Corporate Citizenship Report*, issued in 2010, covers its environmental and social performance in 2009 and describes its present efforts in these areas. ExxonMobil produced the report in accordance with the reporting guidelines and indicators of the International Petroleum Industry Environmental Conservation Association (IPIECA) and the American Petroleum Institute (API) Oil and Gas Industry Guidance on Voluntary Sustainability Reporting. ExxonMobil notes that “these indicators are also consistent with the indicators used by the Global Reporting Initiative (GRI) in the G3 Sustainability Reporting Guidelines,” but it does not declare a GRI reporting level. However, ExxonMobil does furnish a GRI Index at the end of its report with comparisons of the three reporting standards. The sections of the report on human rights and water are described below.

Human Rights: The human rights section of ExxonMobil’s 2009 sustainability report frames the issue and repeats the policies described earlier in this report. It does not offer any firm metrics, targets or case studies, however.

Water: In the report’s freshwater management section, ExxonMobil notes the undeniable link between human rights, local communities and water, and it says that it understands its “responsibility to surrounding communities and the environment to manage our freshwater use in a sustainable manner, and to respect human rights.” ExxonMobil views its “challenge” in this area “is to apply technology and operational practices to enhance water use efficiency and protect water quality while delivering energy.

It says this process begins with its effective water resource management. It applies “a systematic approach” to managing freshwater consumption “by assessing the availability and demands on water resources.” It points to data from the International Water Management Institute it evaluated to see where communities might be most distressed from its water use. It says in all cases, it sets priorities based on scarcity and community needs and seeks opportunities to reduce, reuse, and recycle freshwater, while treating any discharged water to acceptable levels.

ExxonMobil highlights that it has developed an Environmental Standard for Water Management, which “requires projects in regions with limited freshwater to conduct an assessment of available resources and to identify mitigation options to reduce freshwater consumption.” Some of the tools it uses to mitigate its local water use impact include “substituting lower-water-use technologies, reusing freshwater multiple times, reducing water losses, and using alternative sources such as produced water—the naturally occurring salt water that is brought to the earth’s surface with oil or natural gas.”

The company also underscores that all of its operations set water improvement targets as part of their regular environmental planning efforts. In addition, it established a Freshwater Issue Management Team in 2009 “to better understand the water-related risks and opportunities facing the company.” It says that the team continually assesses “the potential impacts of emerging public water policies on our business and identifies available technologies and technology development opportunities to improve water management.”

Metrics: ExxonMobil reports that the net consumption of freshwater at its operations in 2009 was 2,150 million barrels, representing a 3 percent reduction from 2008. Since 2005, it highlights, it has recycled more than 50 percent of the freshwater it used, which “aids in effectively managing our consumption.”

Policy implementation: New in its 2009 sustainability report are a series of examples of how ExxonMobil implements its policies and strategies on water use.

Piceance Basin, Colorado—ExxonMobil notes that a key challenge for its natural gas project in the Piceance Basin in Colorado is the low permeability of the rock containing the gas and its use of hydraulic fracturing techniques to withdraw the natural gas. While in the past freshwater had been used exclusively to generate the high pressure in the rock to fracture it, it now makes use of the nearly 14 million barrels a year of water it recovers from the site. It says it expects to reduce freshwater use at Piceance by 35 percent in 2010 and 75 percent over the next several years using 2009 as a baseline. At the same time, ExxonMobil notes, “freshwater will continue to be used for drilling shallow sections of the well to avoid contamination of surface water and soils.”

Oil sands in Alberta, Canada—Similarly, finding freshwater supplies is a critical environmental issue for its Imperial Oil Cold Lake *in situ* oil sands operation and the Kearl oil sands mining project, both situated in Alberta, Canada, ExxonMobil says. It notes that about 5 percent of licensed water in Alberta “is allocated for use by the oil sands industry,” although at present “only one-third of this allocation is used.” However, the challenge going forward is that Alberta Environment, the local regulator, wants oil

sands users to increase water use efficiency by 30 percent by 2015. The company says its Cold Lake operations have achieved reductions in freshwater use of about 88 percent by deploying water treatment, recycling, and the use of produced water as an alternative. (Water and other issues related to the oil sands operations are examined in depth in Si2's Action Report on the pending shareholder resolution about these operations.)

Chemical operations in Singapore—Freshwater also is very limited in Singapore, ExxonMobil says, and the government there has already begun to take steps to meet increasing demand, including desalination, recycling wastewater and collecting storm water. In response to these operational challenges, ExxonMobil's chemical operations there use a significant amount of non-potable industrial water and treated or recycled wastewater, and ExxonMobil is integrating water-saving technologies, including wastewater treatment, sea water for certain cooling systems, and air coolers at a new facility it has under construction in Singapore.

Lube oil blending in Colombia—ExxonMobil also highlights that its Cartagena plant reduced freshwater consumption by more than 50 percent since 2007, by developing a general education and conservation program, reusing separator water for landscaping and installing of automatic shutoffs on faucets.

Mobil Cepu in Indonesia—ExxonMobil notes that freshwater supply and sanitation are key problems in Indonesia and hold serious public health risks. To help alleviate the problem, ExxonMobil says it created a water and sanitation program to increase access to clean water in the community where its Mobil Cepu Limited subsidiary operates. It says the project has created 11 water and sanitation committees “organized by villagers to build capacity and the technical knowledge to drill and construct their own water wells.” It says the project has improved access to potable water for more than 3,000 households.

Mapun Island, The Philippines—On Mapun Island, the closest community to ExxonMobil's drilling and exploration operations in the South Sulu Sea, ExxonMobil and the Alternative Center for Organizational Reforms and Development (ACORD) conducted a community needs assessment in 2009, which found access to potable water to be the most pressing problem. In response, ExxonMobil created a community project to rebuild a pumping station, create a new water distribution network and install a generator, which by June 2010 was expected to supply potable water to 13,000 residents, about half of the island's total population.

10-K disclosures: In its [2010 10-K filing](#) with the SEC, ExxonMobil acknowledges certain regulatory and litigation risks, including “changes in environmental regulations or other laws that increase our cost of compliance or reduce or delay available business opportunities (including changes in laws related to offshore drilling operations, water use, or hydraulic fracturing).”

Fines and legal proceedings—ExxonMobil also discloses that on November 29, 2010, it received a “Notice of Violation” from the Pennsylvania Department of Environmental Protection (PaDEP) that its XTO Energy subsidiary allegedly had “an unpermitted discharge of brine or produced fluid” from a tank at the Marquardt Well Site in Penn Township, Pennsylvania. The discharge, according to PaDEP, “reached a water of the state and...XTO failed to notify the PaDEP of the incident, had litter on the site, and failed to post well permit numbers and operator information at the well site.” The notice “does not contain a specific penalty demand,” ExxonMobil notes, “but XTO believes that PaDEP may seek a penalty in excess of \$100 thousand.” It says that XTO responded to the notice on December 9, 2010, and “agreed to cooperate with PaDEP in responding to and remediating it,” while “not admitting to a violation for the alleged release.”

In its [2009 10-K statement](#), ExxonMobil acknowledged that on November 21, 2008, the Louisiana Department of Environmental Quality (LDEQ) issued a compliance order and notice of a potential penalty for ExxonMobil's refinery in Baton Rouge, Louisiana. The order requires the refinery to take corrective actions related to self-disclosed emissions in excess of permissible levels involving the refinery's wet gas scrubber and wastewater treatment. It also notes that on December 23, 2008, the U.S. Attorney for the District of Massachusetts filed a misdemeanor criminal information alleging that a company pipeline violated the Clean Water Act when a spill occurred in early January 2006, on the Island End River near a company terminal in Everett, Massachusetts. A plea agreement intended to resolve the case was also filed with the Federal District Court on that same date. It required ExxonMobil to plead guilty to a misdemeanor violation of the Clean Water Act, to agree to fund and implement an environmental compliance plan for the three year probationary period, to pay a fine of \$359,018 and a special assessment of \$125, to pay \$5,640,982 in community service payments to the North American Wetlands Conservation Act Fund, and to pay \$179,509 for spill-related cleanup costs.

Background on the Human Right to Water

Article 11, paragraph one of the United Nation's International Covenant on Economic, Social and Cultural Rights specifies several rights emanating from the realization of the right to an adequate standard of living "including adequate food, clothing and housing." The UN Economic and Social Council's Committee on Economic, Social and Cultural Rights issued a [report](#) in January 2003 outlining what exactly that statement means and concluded that the use of the word "including" indicates that this list of rights was not intended to be exhaustive. It says, "The right to water clearly falls within the category of guarantees essential for securing an adequate standard of living, particularly since it is one of the most fundamental conditions for survival." Furthermore, it adds, "the committee has previously recognized that water is a human right contained in article 11, paragraph one..." as the "right to water is also inextricably related to the right to the highest attainable standard of health and the rights to adequate housing and adequate food." The committee also opined that the right to water "should also be seen in conjunction with other rights enshrined in the International Bill of Human Rights, foremost amongst them the right to life and human dignity."

Justification: The committee explains that "water is a limited natural resource and a public good fundamental for life and health," and that "the human right to water is indispensable for leading a life in human dignity." Therefore, it says, "It is a prerequisite for the realization of other human rights." The committee says that it has numerous examples of the "widespread denial of the right to water in developing as well as developed countries." It notes that according to a World Health Organization report, *The Global Water Supply and Sanitation Assessment 2000*, more than one billion people "lack access to basic water supply, while several billion do not have access to adequate sanitation, which is the primary cause of water contamination and diseases linked to water

Legal definition: The committee concluded that the "human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses." It defines an adequate amount of safe water as the amount "necessary to prevent death from dehydration, to reduce the risk of water-related disease and to provide for consumption, cooking, personal and domestic hygienic requirements."

Legal basis: The committee also notes that the right to water has been recognized in a wide range of international documents, including treaties, declarations and other standards. For example, it says, Article 14, paragraph two, of the Convention on the Elimination of All Forms of Discrimination Against Women stipulates that nations that are party to the convention are required to ensure to women the right to "enjoy adequate living conditions, particularly in relation to...water supply." In addition, it says,

Article 24, paragraph 2, of the Convention on the Rights of the Child requires countries party to the convention to combat disease and malnutrition “through the provision of adequate nutritious foods and clean drinking-water.”

II. Proponent Position

The proponent notes that water is a key resource and one of the top sustainability challenges confronting companies, especially for those counting on water as a key resource in the production of products, as ExxonMobil does. The proponent explains, “Through oilfield injection, oil extraction uses nearly 60 million gallons of water annually in the Canadian province of Alberta alone.” It adds, “This water is not returned to the local community and is ultimately unusable for other purposes.” As further evidence of ExxonMobil’s challenges on water use, it notes that the U.S. Environmental Protection Agency (EPA) reports that U.S. oil refineries use one to two million gallons of water daily and up to 730 million gallons annually.

All told, the proponent says, ExxonMobil’s water use is tremendous and depletes groundwater from local communities, which it equates to “a direct violation of the human right to water that the UN Committee on Economic, Social and Cultural Rights defines as all people’s right to safe, sufficient, acceptable, physically accessible and affordable water for personal and domestic use.” The proponent notes that the UN Commission on Human Rights issued a report in 2003 “on the scope of the human rights obligations.” The report, the proponent quotes, says “transnational corporations and other business enterprises, their officers and persons working for them are also obligated to respect generally recognized responsibilities and norms contained in United Nations treaties and other international instruments.” In addition, the proponent believes, “Regarding equitable access to safe drinking water and sanitation, this report means that the responsibility for ensuring this level of access is not only on governments, but also on private water providers and corporations that utilize water resources.”

Meanwhile, the proponent points out what it feels is a bit of hypocrisy in ExxonMobil’s *Corporate Citizenship Report*, which “touts” the company’s commitment to promoting and respecting human rights, that the company says, “is essential for helping to create a stable business environment.” Yet it does not adhere to the UN’s International Covenant on Economic, Social and Cultural Rights, which describes as part of articles 11 and 12 a human right to water that “entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water.”

Given the circumstances and the challenges confronting ExxonMobil, the proponent believes the best course of action is for ExxonMobil to respect the UN’s definition of the human right to water and to “create a comprehensive policy articulating our company’s respect for and commitment to the human right to water.” It warns that companies without “strong human rights and environmental policies face serious risks to their reputation and share value if they are seen to be responsible for or complicit in human rights violations, specifically the violation or erosion of the human right to water.” Moreover, the proponent says, “that significant commercial advantages may accrue to our company by adopting a comprehensive human right to water policy, including enhanced corporate reputation, improved employee recruitment and retention, improved community and stakeholder relations, and reduced risk of adverse publicity, consumer boycotts, divestment campaigns, and lawsuits.”

III. Management Position

ExxonMobil agrees with the proponent and says that it, indeed, “has a responsibility to surrounding communities and the environment for managing our freshwater use in a sustainable manner, and to respect human rights.” However, it also believes that it “already has sound policies and processes in place, as part of our Standards of Business Conduct, which address the water and human rights issue.”

Therefore, it says that creating “a specific policy on water and human rights is unnecessary.” (These policies are reviewed above.)

ExxonMobil tells shareholders that they can see its policies in action throughout its operations. For example, its environmental policy commits it “to continuous efforts to improve environmental performance; and requires our facilities to be designed, operated, and managed with the goal of preventing incidents and reducing adverse impacts to the environment and society, including impacts to society of our freshwater use.” It adds that “to address the growing global concern for freshwater quality and availability, we continue to assess our current and planned activities to identify where freshwater may become a scarce resource, to better understand our freshwater use patterns, and to assess opportunities to reduce our use.” It notes, “This includes analysis of the social and economic impact of our new projects.” As an example, it points to a project in Singapore to expand its chemical plant there. It notes that as part of the expansion it is “installing innovative wastewater treatment technology which increases re-use, thereby reducing our water use by about 2 million cubic meters per year compared to conventional technology.” As another example, it describes its affiliate’s action to make “process improvements to recycle about 95 percent of the water produced during oil recovery operations, resulting in a significant reduction in freshwater consumption.”

ExxonMobil also points out that shareholders can read about its efforts to manage effectively water use in its annual sustainability report. In addition, its “operations integrate water improvement targets in their environmental business planning efforts.” These efforts “drive technological and operational innovations, as well as strategic community investments to enhance freshwater use efficiency and reduce freshwater quality deterioration.” Given that it feels its present efforts are rigorous and adequate to address the concerns raised by the proponent, ExxonMobil is asking shareholders to vote against the resolution.

IV. Analysis

Key Points at Issue

- Do ExxonMobil’s policies and practices fully address the proponent’s concerns as it claims?
- What would be the costs and benefits associated with adopting the proponent’s proposal?
- How does ExxonMobil stack up in comparison to its competitors in this area?

Policy questions: ExxonMobil readily admits that water is key to its operations. In the report’s freshwater management section, ExxonMobil also acknowledges the undeniable link between human rights, local communities and water, and it says that it understands its “responsibility to surrounding communities and the environment to manage our freshwater use in a sustainable manner, and to respect human rights.” Still, this is not the UN’s definition of the human right to water or the direct link the proponent seeks.

While ExxonMobil has extensive policies on human rights related to security forces associated with its operations and other labor and human rights issues, it does not directly link human rights to access to water. This might be a fine point of contention, but it is one the proponent is raising with its resolution. It is difficult to assess in reviewing ExxonMobil’s disclosures whether communities where it does business are deprived of water because of its operations. Clearly, there is a substantial sustainability challenge to its ongoing operations in Alberta, Canada, if it continues to rely on local supplies of water, although it is unclear if its efforts to recycle and reuse water are enough to stem the depletion of supplies from the local river there.

Performance: The proponents and ExxonMobil also appear to disagree on whether it is managing the issue effectively, particularly in its oil sands operation in Alberta, Canada. ExxonMobil points out that 95

percent of the water it uses during recovery operations is recycled to produce more steam. It also notes that it recycles and reuses water in most of its operations worldwide and continues to make investments and improvements in this area. It reports its total water usage and environmental policies to assess the environmental impact, including water use, of future operations. Moreover, it sees a direct economic benefit for doing so, and says that costs related to water are regularly included as part of its financial assessments of operations. As part of this process, ExxonMobil says that it consults with local community groups about their concerns about water and attempts to address these issues in its planning.

Comparisons: ExxonMobil received a middling grade from Ceres in comparison to other oil and gas operators, although the entire sector received low marks for its disclosures of water use and related risks. Ceres seems to think that the entire sector could be doing better in measuring, assessing and disclosing water usage, related discharges of wastewater, spills, related risks and other information related to water use. Two competitors, **BP** and **Royal Dutch Shell**, provide access to site and regional water use data, which could prove useful to shareholder attempting to assess risks related to operations in especially sensitive areas.

Voting Considerations

Voting in favor: Investors who are concerned about the importance water management holds for the company, and those who want to see an explicit link to human rights will want to vote for this resolution. They will be joined by those who believe ExxonMobil needs to improve its performance and risk-related disclosures about water.

Voting against: Investors who think management is doing an adequate job in managing water issues, which it clearly recognizes are important to its business, may vote against the proposal. They may take some comfort from the company' average rating from Ceres and think the company has provided investors with enough information to assess its actions.

However they vote, shareholders weighing costs of implementing the proponent's request can be assured that the economic impact would be negligible.

V. Resources

- 2010 ExxonMobil Form 10-K
<http://www.sec.gov/Archives/edgar/data/34088/000119312511047394/d10k.htm>
- Water & Energy Efficiency by Sectors - Oil Refineries, an EPA factsheet
<http://www.epa.gov/region9/waterinfrastructure/oilrefineries.html>
- *Murky Waters? Corporate Reporting on Water Risk, A Benchmarking Study of 100 Companies*, Ceres (February 2010)
<http://www.ceres.org/Document.Doc?id=547>
- ExxonMobil's Standards of Business Conduct
http://www.exxonmobil.com/corporate/about_operations_sbc.aspx
- ExxonMobil's Statement on Principles on Security and Human Rights
http://www.exxonmobil.com/Corporate/community_rights_framework.aspx
- ExxonMobil's 2009 Corporate Citizenship Report
http://www.exxonmobil.com/Corporate/Imports/ccr2009/community_ccr.aspx
- The UN Economic and Social Council's Committee on Economic, Social and Cultural Rights committee report on the human right to water, January 2003
[http://www.unhchr.ch/tbs/doc.nsf/0/a5458d1d1bbd713fc1256cc400389e94/\\$FILE/G0340229.pdf](http://www.unhchr.ch/tbs/doc.nsf/0/a5458d1d1bbd713fc1256cc400389e94/$FILE/G0340229.pdf)