



**ExxonMobil, Investor Pressures and the Environment**

May 4, 2011

This special supplement to Si2’s Action Reports on the pending environmental shareholder resolutions at ExxonMobil provides information on the various recent investor critiques of the company relating to environment issues and the company’s disclosures in its recent reports to investors and the public, and takes note of what may prove to be a significant rapprochement with some key investor critics last year.

In addition to considering a perennial shareholder proposal relating to its non-discrimination policy and sexual orientation and a proposal about political spending (both covered in separate Si2 Action Reports), ExxonMobil shareholders will vote on May 25, 2011, on five proposals that take issue with Exxon’s approach to environmental issues, with climate change as the dominant theme. Si2 is publishing four reports on these resolutions, as noted in the table below.

| 2011 Annual Meeting Agenda Excerpts |   |                      |  |
|-------------------------------------|---|----------------------|--|
| Item                                | Proposal                                    | Si2 Action Reports   | Si2 Briefing Papers                      |
| 8                                   | SH: Adopt policy on human right to water    | Human Rights         | Human Rights                             |
| 9                                   | SH: Report on oil sands risks               | Oil Sands            | Environment: Natural Resource Management |
| 10                                  | SH: Report on hydraulic fracturing          | Hydraulic Fracturing |  |
| 11                                  | SH: Report on sustainable energy leadership | Climate Change       | Environment: Climate Change              |
| 12                                  | SH: Adopt goals to cut GHG emissions        |                      |  |

Source: ExxonMobil’s [2011 proxy statement](#)

**Company Overview**

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 24.8 billion barrels of oil equivalent in proved reserves on six continents, including 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 capable of producing 6.4 million barrels per day. Worldwide, ExxonMobil had 83,600 employees at year-end 2010, not including another 22,000 who work at the company-operated retail sites.

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.

In June 2010, the company completed its \$36 billion acquisition of XTO Energy, an independent oil and gas company with substantial natural gas holdings which had been the country's second-largest gas producer. The deal was the largest undertaken by the company since the \$81 billion merger with Mobil in 1999. With the purchase, ExxonMobil acquired 14 trillion cubic feet (Tcf) of proved reserves, making it one of the largest natural gas companies in the United States.

The company's revenue and other operating income are still below the record \$459.6 billion it posted in 2008, when it also reported net income of \$45.2 billion. In 2009, revenue dropped substantially to \$301.5 billion, before rising to \$370.1 billion in 2010. Net income in 2009 also fell substantially from a year earlier, to \$19.3 billion, before climbing to \$30.5 billion in 2010.

| Financials            |           |            |
|-----------------------|-----------|------------|
|                       | Revenue   | Net Income |
| 2010                  | \$370,125 | \$30,460   |
| 2009                  | \$301,500 | \$19,280   |
| 2008                  | \$459,579 | \$45,220   |
| (Millions of dollars) |           |            |

Notably, diluted earnings per common share were \$6.22 in 2010, up significantly from \$3.98 in 2009, although still below the \$8.66 per share earned in 2008.

## I. Investor Activism

Institutional investors concerned about Exxon's approach to climate change and other environmental issues have been proposing shareholder resolutions to the company under the aegis of the climate-focused Campaign ExxonMobil since 1998, although other shareholders have proposed resolutions for far longer. As the largest oil and gas company in the world, and one that for many years expressed strident opinions questioning the validity of climate change science, funding climate change skeptics and lobbying against legislation on the issue, ExxonMobil has been a lightning rod. Even before climate change had captured the concern of a broad swath of the investment community, the spill of the *Exxon Valdez* in Alaska in 1989 inspired the formation of the Ceres coalition and spawned a slew of shareholder resolutions to Exxon and other companies about environmental disclosure. The Valdez spill was also one of the key events that spawned today's broad movement for greater corporate accountability through detailed sustainability reporting—which has become commonplace for leading companies around the world.

**The shareholder campaign and Exxon responses:** Initial votes on Exxon's climate change resolutions, sponsored by environmentally conscious investors, were less than 10 percent, but as the campaign progressed into the first decade of the 21<sup>st</sup> century, it garnered support from leading pension funds—including the New York City funds, which co-filed a 2002 resolution about renewable energy. The 20.2 percent vote on this proposal appears to have prompted the company to provide investors with more information on its position. In 2004, Exxon issued its *Report on Energy Trends, Greenhouse Gas Emissions and Alternative Energy*. The report included, however, no reference to the United Nations Intergovernmental Panel on Climate Change (IPCC) study, released in 2001, that warned of the dangers of climate change and the role fossil fuels play in creating higher levels of carbon dioxide (CO<sub>2</sub>). Some leading investors were subsequently incensed by management's response to shareholder resolutions and by public statements from CEO Lee Raymond dismissing their concerns.

A 2006 report from the company, *Tomorrow's Energy: A Perspective on Energy Trends, Greenhouse Gas Emissions and Future Energy Options*, discussed the company's view that fossil fuels would remain the dominant energy source needed to meet growing global demand through at least 2030, and that technological advances could improve energy efficiency and cut GHG emissions. The company had elected a new CEO and chairman, Rex Tillerson, and the 2006 report acknowledged climate change might pose

significant societal risks but still said they were uncertain. In response, Campaign ExxonMobil continued, with further shareholder resolutions after a brief hiatus in 2006 (see table below for a listing of proposals since 2007).

**Funding for climate skeptics:** As investors were mounting critiques of the company on the annual meeting agendas, and as activists used the company as a convenient punching bag elsewhere, Exxon came under heavy criticism for its funding of climate change skeptics. These included the Competitive Enterprise Institute, a conservative think tank, and many others. The company's connection to highly placed climate skeptics within the administration of President George W. Bush became evident when it hired the head of the White House Council on Environmental Quality, Philip Cooney, who previously had worked as a lobbyist for the American Petroleum Institute (API). Cooney left the administration after it was revealed in a [2005 article](#) in *The New York Times* that he had played a central role in watering down the language used by government scientists in reports about climate change. He was hired by Exxon within days of his departure, the *Times* noted. But in 2008, the company reported that it would cease funding climate skeptics, saying in its *2007 Corporate Citizenship Report* that it would "discontinue contributions to several public policy research groups whose position could divert attention from the important discussion of how the world will secure the energy required for economic growth in an environmentally responsible way."

| Recent Environmental Shareholder Resolutions at ExxonMobil   |                                 |                        |      |      |                      |                      |
|--|---------------------------------|------------------------|------|------|----------------------|----------------------|
| Proposal   | Lead sponsor                    | Percent Support/Status |      |      |                      |                      |
|  |                                 | 2007                   | 2008 | 2009 | 2010                 | 2011                 |
| <b>Natural Resource Management and Environmental Impacts</b>   |                                 |                        |      |      |                      |                      |
| Adopt coastal wetlands protection policy   | Presbyterian Church             | -                      | -    | -    | 9.1                  | -                    |
| <b>Adopt policy on human right to water</b>  | Northstar Asset Mgt             | -                      | -    | -    | 6.7                  | Pending              |
| Publish sustainability report on logistics   | Bartlett Naylor                 | -                      | -    | -    | -                    | Omitted <sup>1</sup> |
| Report on accident prevention efforts  | AFL-CIO                         | -                      | -    | -    | -                    | Omitted <sup>2</sup> |
| Report on community envir. impacts   | Episcopal Church                | 9.8                    | 10.8 | -    | Omitted <sup>3</sup> | -                    |
| Report on drilling in Arctic refuge  | Green Century                   | -                      | 8.4  | -    | -                    | -                    |
| <b>Report on hydraulic fracturing</b>  | As You Sow                      | -                      | -    | -    | 26.3                 | Pending              |
| <b>Report on oil sands risks</b>   | Green Century                   | -                      | -    | -    | 26.4                 | Pending              |
| <b>Climate Change</b>  |                                 |                        |      |      |                      |                      |
| Adopt climate change action principles   | AFL-CIO                         | -                      | -    | -    | w/d                  | -                    |
| <b>Adopt goals to cut GHG emissions</b>  | Srs. of St. Dominic             | 31.1                   | 30.9 | 29.0 | 27.2                 | Pending              |
| Adopt renewable energy policy  | Stephen Viederman               | 7.3                    | 27.5 | 27.3 | -                    | -                    |
| Disclose GHG emissions at the pump   | Mario LaLanne                   | 7.1                    | 7.0  | -    | -                    | -                    |
| Report on climate change risks   | Christopher Reynolds Foundation | -                      | -    | -    | w/d                  | -                    |
| Report on fossil fuel demand risks   | Neva Goodwin                    | -                      | -    | -    | 7.8                  | -                    |
| Study sustainable energy leadership  | Neva Goodwin                    | -                      | 10.4 | 10.0 | -                    | -                    |
| <b>Report on sustainable energy leadership</b>   | Midwest Capuchins               | -                      | -    | -    | -                    | Pending              |
| Report on energy independence options  | Midwest Capuchins               | -                      | 9.4  | -    | 6.7                  | -                    |
| <sup>1</sup> Requested GRI report on the impacts of the company's logistics; omitted on grounds that it was too vague.   |                                 |                        |      |      |                      |                      |
| <sup>2</sup> Requested report on how the company is taking steps to reduce accidents at its refineries; the SEC agreed with the company's contention that the proposal was moot based on existing disclosures. (Covered by Si2 under Labor Rights as a worker safety issue.) |                                 |                        |      |      |                      |                      |
| <sup>3</sup> Submitted past the deadline for inclusion   |                                 |                        |      |      |                      |                      |
| w/d = withdrawn by the proponents after an agreement   |                                 |                        |      |      |                      |                      |

**Recent support for shareholder proposals:** In the last several years, shareholder proposals relating to climate change have received significant levels of support from company investors. In addition, some investors concerned about the company's strategic direction led a 2008 effort to withhold support from a member of the board of directors who chaired the company's public issues committee, and to separate the chairman and CEO. The latter proposal came from members of the Rockefeller family, who contend the company is not taking the changing energy outlook into account in its strategic decision mak-

ing; Neva Rockefeller Goodwin, the great-granddaughter of John D. Rockefeller, who founded Standard Oil, a precursor company to Exxon and Mobil, has helped coordinate the family efforts. Goodwin, an economist, co-directs the Global Development and Environment Institute at Tufts University. She eventually convinced the 100-odd group of Rockefeller heirs to join the effort questioning the company's strategic direction, although there have been no new public developments in the family's campaign in the last year, Goodwin told Si2 recently. She proffered a proposal last year asking the company to consider alternative demand scenarios in which fossil fuels play a less central role; it received 7.8 percent.

**High-scoring proposals**—The proposal that asks Exxon to adopt goals to cut its greenhouse gas emissions has attracted particularly high levels of support—about 30 percent—as the table below illustrates; the proposal is pending again this year. But a separate proposal asking the company to adopt a renewable energy policy also achieved vote results in excess of 27 percent in 2008 and 2009. Further, the 2010 proposals on hydraulic fracturing and the Canadian oil sands both also attracted support from just over one-quarter of the shares cast; both proposals have been resubmitted for consideration this year.

**Water**—Two resolutions last year related to water but neither cracked the 10 percent threshold; a proposal that the company officially recognize the human right to water received just 6.7 percent support but is again pending in 2011. The proposal asking ExxonMobil for a new coastal wetlands policy that would address degradation caused in part by the oil and gas industry in Louisiana received just over 9 percent in 2010 and was not resubmitted this year.

**Sustainable technology leadership**—The Province of St. Joseph of the Capuchin Order, also known as the Midwest Capuchins, has been active in the ExxonMobil campaign for several years. The Capuchin proposal in 2011 is a slightly modified version of the order's 2010 request. Last year, the proposal asked for a report on how ExxonMobil "can become the recognized industry leader in developing and making available the necessary technology...*to enable the U.S.A. to become energy independent in an environmentally sustainable way.*" Using the same thrust with a little differently worded goal, the resolution this year asks for a report on how the company "can become the recognized industry leader in developing and making available the necessary technology and products *to become an environmentally sustainable energy company at every level of its operation.*" (Emphasis added.) The 2011 resolution takes an approach similar to those sponsored by Neva Goodwin in 2008 and 2009.

### **2010 Shareholder Accords**

Two proposals on climate change submitted in 2010 were withdrawn. The AFL-CIO withdrew its request for ExxonMobil to adopt climate change action principles after reaching an agreement with the company. This may have prompted the company to make further disclosures on its website about its approach to climate risk management (see below). Further, proponents led by the Christopher Reynolds Foundation withdrew a new resolution that asked the company to report "on the financial risks resulting from climate change and its impacts on shareowner value over time, as well as actions the Board deems necessary to provide long-term protection of our business interests and shareowner value. The Board shall decide the parameters of the study and summary report."

Withdrawal negotiations were led by Stephen Viederman of the Christopher Reynolds Foundation and representatives from the Connecticut Retirement System and the Ceres coalition, as well as Tim Smith of Walden Asset Management. Smith characterized the accord as "an incremental but important shift by the company in recognizing, monitoring and managing risks related to climate" that have both financial and business components. He said the discussion participants now have an "ongoing dialogue" and also a "foundation for expanded disclosure"—which contrasts with two other oil companies that received the same proposal. Neither **ConocoPhillips** nor **Chevron** agreed to discuss the proposal, the proponents

said, and it went to votes at both firms, receiving modest levels of support, with 7.5 percent at Conoco and 8.6 percent at Chevron. (Separate Si2 Action Reports were issued on each company, accessible through the Engagement Monitor.)

In a letter to the proponents on March 18, 2010, a representative of the company's investor relations department noted the "multiple communication channels" the company uses to present information to stakeholders on climate change—its website, *Corporate Citizenship Report*, response to the Carbon Disclosure Project and 10-K annual report filed at the Securities and Exchange Commission. He took note of the regulatory and physical risk statements in the company's 10-K, and summarized the company's strategy to cut emissions through energy efficiency improvements and technological advances. He also highlighted the company's funding of research at Stanford University, its exploration of producing fuel from algae and its work on hydrogen fuel cells. In conclusion, he said, "The core sustainability challenge for the energy industry is how to provide the energy that enables economic development while at the same time reducing the environmental footprint of energy use."

Tim Smith of Walden Asset Management recently noted to Si2 that the company's has made what he views as progress by pulling together on its website information about climate change. He said the company now seems to acknowledge what investor critics have long felt is obvious—that the oil and gas sector faces enormous risks that must be identified and managed. "Conceptually, the discussions have moved," he said, since now ExxonMobil "recognizes climate change will affect it, and that it must respond." Nonetheless, he pointed out that ExxonMobil recently urged its employees to support efforts to cut EPA funding in Washington, which investor activists find dismaying.

## II. Disclosure on Climate Change and the Environment

### *Energy Demand and Continued Reliance on Fossil Fuels*

The company's fundamental business strategy rests on its assessment that the indisputably rising global energy demand of the coming decades will be met largely by fossil fuels, despite a change in the mix of fuels and the increasing importance of non-carbon-based energy. The outlook is "a carefully prepared annual projection of future energy supply and demand, based on existing trends, including trends for significant increases in energy efficiency," a company representative told Si2. He said the outlook is a more realistic view than some scenarios from the International Energy Agency, which have "ambitious" expectations for policy and technology. In its 10-K, the company says it expects global energy demand in 2030 to increase by 35 percent compared to 2005 levels, even as energy efficiency increases. The company states, "Meeting this demand will not be easy, especially considering that the world's energy resources are increasingly found in difficult or hard-to-produce places. It will require the global energy industry to operate on a scale even larger than today."

ExxonMobil's strategy is to develop and pursue "an integrated set of solutions that includes expanding supplies, improving efficiency and mitigating emissions," an approach that will rely on technological innovation. Accordingly, ExxonMobil says, it plans to invest "more than \$125 billion over the next five years developing future energy supplies and investing in communities in which we operate, while at the same time reducing the environmental impact of what we do." The company notes, "ExxonMobil realizes the scale of this global challenge is enormous, but so, too, is our commitment to succeed and our capacity to innovate. We are confident that by pursuing these integrated solutions, the world can achieve greater energy security, environmental progress, and economic prosperity. "

Exxon points out that its scientists "are among the handful from the private sector that do participate in the U.N. Intergovernmental Panel on Climate Change," and that they "have contributed over 40 papers to the peer reviewed literature on climate science." The papers are listed on Exxon's website.

**Strategic outlook:** ExxonMobil's forecast that worldwide energy demand will increase 35 percent by 2030 comes from its most recent annual assessment, *Outlook for Energy: A View to 2030*, published in 2010. Although the company believes that substantial improvements in energy efficiency will lower demand for fossil fuels significantly, it says that the demands of the developing world will still be met largely by petroleum products 20 years hence, and that the drive for economic development in these countries will increase by 70 percent (last year it predicted only 60 percent growth), offsetting flat demand in advanced industrialized countries. Electric power generation, which relies most heavily on carbon-rich coal, will account for 35 percent of all energy demand, Exxon says (down from its 40 percent prediction last year), while the transportation sector will demand more fuel, particularly in heavy duty trucks and buses. But consumer preferences for more fuel-efficient personal vehicles will cut global demand for fuel they use, even causing it to drop a little.

The company intends to be one of the major players meeting this demand, through providing oil (which it says will remain the largest energy source) and natural gas, which Exxon thinks will beat out coal as the second-largest energy source in 20 years. Natural gas will outstrip the use of coal, especially in developed countries but not in developing economies (particularly China and India), as gas supplies extracted through unconventional extraction such as hydraulic fracturing increase, according to *Outlook for Energy*. Exxon still does not see alternative energy sources providing anything more than a sliver of the energy supply in 2030, although it does say their use will expand "significantly."

Electricity generation will explode in the next two decades as developing economies gain access they never had before to options for use in the home, and as economies generally expand, the company predicts. The company says coal will become far less affordable an option than gas, nuclear, wind and solar—even if carbon capture and storage technologies come online commercially with government help—since it believes the cost of carbon in developed countries by 2030 will be about \$80 per ton. Given these assumptions, ExxonMobil says that it believes gas will provide one-quarter of the world's electricity needs, and that it will become the top source for electricity production. Coal's share of the electricity generation mix globally will drop from 40 percent today to about 30 percent in 2030, according to company projections.

Relying more heavily on gas instead of coal will cut CO<sub>2</sub> emissions in the power generation section by about 60 percent, but given rising demand in the transportation and industrial sectors, the outlook remains grim for CO<sub>2</sub> levels. Exxon's outlook for greenhouse gas emissions is not optimistic when compared to possible alternative scenarios that envision a different energy mix that would reduce carbon emissions quickly. It projects that global CO<sub>2</sub> emissions will be 25 percent higher in 2030 than they were in 2005, with all of the increase coming from developing nations even though their per capita emissions will remain much lower than in industrialized countries. In fact, Exxon says that the presently developed world will see 2030 emissions close to 1980 levels. It concludes that emission reductions beyond 2030 will come from "aggressive gains in efficiency and/or the use of less-carbon-intensive fuels"—both of which will require technological advances.

Despite intense interest in other sources of energy, ExxonMobil says that oil will remain the world's largest single energy source through 2030, since it provides so much energy for a small volume and is readily available. The sources for oil will change, however, the company says, as exploration and production increase outside OPEC countries, including from sources such as deepwater drilling and the Canadian oil sands where ExxonMobil is active. Overall, global demand for liquid fuels production will grow by 20 percent, *Outlook for Energy* predicts, and it will be boosted by increased liquid natural gas extraction and use—facilitated by new technologies. The company believes it is well positioned to meet demand and address concerns raised about the environmental impacts of its operations around the world.

### **General Environmental Risk Disclosures**

ExxonMobil's 10-K provides investors with general information about the company's spending on environmental impact reduction efforts and about the company's accounting practices related to the cost of environmental liabilities, but makes no specific mention of how its oil sands or hydraulic fracturing operations, in particular, affect overall spending in these areas. Regarding spending on projects to minimize environmental impacts, the company states,

Throughout ExxonMobil's businesses, new and ongoing measures are taken to prevent and minimize the impact of our operations on air, water and ground. These include a significant investment in refining infrastructure and technology to manufacture clean fuels as well as projects to monitor and reduce nitrogen oxide, sulfur oxide and greenhouse gas emissions and expenditures for asset retirement obligations. ExxonMobil's 2010 worldwide environmental expenditures for all such preventative and remediation steps, including ExxonMobil's share of equity company expenditures, were about \$4.5 billion. The total cost for such activities is expected to remain in this range in 2011 and 2012 (with capital expenditures approximately 40 percent of the total).

With regard to accounting practices for known environmental liabilities, ExxonMobil tells investors,

The Corporation accrues environmental liabilities when it is probable that obligations have been incurred and the amounts can be reasonably estimated. This policy applies to assets or businesses currently owned or previously disposed. ExxonMobil has accrued liabilities for probable environmental remediation obligations at various sites, including multiparty sites where the U.S. Environmental Protection Agency has identified ExxonMobil as one of the potentially responsible parties. The involvement of other financially responsible companies at these multiparty sites could mitigate ExxonMobil's actual joint and several liability exposure. At present, no individual site is expected to have losses material to ExxonMobil's operations or financial condition. Consolidated company provisions made in 2010 for environmental liabilities were \$448 million (\$504 million in 2009) and the balance sheet reflects accumulated liabilities of \$948 million as of December 31, 2010, and \$943 million as of December 31, 2009.

ExxonMobil's 10-K includes a section on "safety, business controls, and environmental risk management" that explains,

Our results depend on management's ability to minimize the inherent risks of oil, gas, and petrochemical operations and to control effectively our business activities. We apply rigorous management systems and continuous focus to workplace safety and to avoiding spills or other adverse environmental events. For example, we work to minimize spills through a combined program of effective operations integrity management, ongoing upgrades, key equipment replacements, and comprehensive inspection and surveillance. Similarly, we are implementing cost-effective new technologies and adopting new operating practices to reduce air emissions, not only in response to government requirements but also to address community priorities. We also maintain a disciplined framework of internal controls and apply a controls management system for monitoring compliance with this framework. Substantial liabilities and other adverse impacts could result if our management systems and controls do not function as intended. The ability to insure against such risks is limited by the capacity of the applicable insurance markets, which may not be sufficient.

Regarding environmental, regulatory and litigation risks, ExxonMobil says,

Even in countries with well-developed legal systems where ExxonMobil does business, we remain exposed to changes in law (including changes that result from international treaties and accords) that could adversely affect our results, such as increases in taxes or government royalty rates (including retroactive claims); price controls; 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); adoption of regulations mandating the use of alternative fuels or uncompetitive fuel components; government actions to cancel contracts or renegotiate terms unilaterally; and expropriation. Legal remedies available to compensate us for expropriation or oth-

er takings may be inadequate. We also may be adversely affected by the outcome of litigation or other legal proceedings, especially in countries such as the United States in which very large and unpredictable punitive damage awards may occur.

### ***Climate, Air and Water Risk Disclosures***

**Climate change:** ExxonMobil's 2009 *Corporate Citizenship Report*, released in 2010, includes a section entitled "Managing Climate Change Risks," which outlines the following strategy for reducing greenhouse gas (GHG) emissions: "We focus on increasing energy efficiency in the short term; implementing current proven emission-reducing technologies in the near and medium term; and developing breakthrough, game-changing technologies for the long term."

Overall, the company reports total GHG emissions in 2009 of 128 million metric tons, which represents a decrease of about three million metric tons compared with the year before. The reduced emissions are attributable to flare reductions, increased energy efficiency, normal variations in operations and improved GHG emissions measurement, ExxonMobil says.

Regarding climate change business risks, ExxonMobil's 2010 10-K says,

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These include adoption of cap and trade regimes, carbon taxes, restrictive permitting, increased efficiency standards, and incentives or mandates for renewable energy. These requirements could make our products more expensive, lengthen project implementation times, and reduce demand for hydrocarbons, as well as shifting hydrocarbon demand toward relatively lower-carbon sources such as natural gas. Current and pending greenhouse gas regulations may also increase our compliance costs, such as for monitoring or sequestering emissions.

In addition, the 2010 10-K includes mention of alternative energy. In the 2009 10-K, the company gave only brief mention to alternative energy in its discussion of risk factors. This year, it says:

Many governments are providing tax advantages and other subsidies and mandates to make alternative energy sources more competitive against oil and gas. Governments are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources. We are conducting our own research efforts into alternative energy, such as through sponsorship of the Global Climate and Energy Project at Stanford University and research into hydrogen fuel cells and fuel-producing algae. Our future results may depend in part on the success of our research efforts and on our ability to adapt and apply the strengths of our current business model to providing the competitive energy products of the future.

In its 2008 *Corporate Citizenship Report*, released in 2009, ExxonMobil said it regularly considered technological, physical, political and regulatory risks related to climate change," but it was reluctant to quantify them. It said, "A number of organizations have attempted to quantify the potential implications of climate-related policies for oil and gas industry shareholders. However, these efforts are based on regulatory assumptions that are only speculative given the current status of negotiations on climate-related policies."

In its 2009 version of the report, the next iteration and the most recent available, the company seems to go further down the road of estimating the costs of cutting carbon emissions. It includes a page on its website about "managing long-term climate risks," summarizing recent scientific research and observing that stabilization of CO<sub>2</sub> emissions "poses a significant challenge." It goes on to [evaluate the potential cost](#) of deploying new technologies, which remains unknown, pointing to a study conducted by MIT for the Department of Energy, *Scenarios of Greenhouse gas Emissions and Atmosphere Concentrations*. Estimates of CO<sub>2</sub> costs in three different strands of the study, ExxonMobil notes, differed by factors of three to 10, posing what it calls "special challenges for policymakers." It concluded that achieving the

lowest level of CO2 stabilization, of 450 to 550 ppm (the range scientists say is need to avoid catastrophe) will require technological breakthroughs and “unprecedented international cooperation.”

**Principles for climate change management**—ExxonMobil’s website provides a page about its views on how to proceed with long-term climate risk management. The company says that near-term objectives should include:

- promoting energy efficiency,
- deploying existing technologies that reduce greenhouse-gas emissions cost-effectively,
- supporting research and development of new low-emissions technologies, and
- supporting climate research to help inform the ongoing policy response.

The company explains its approach to evaluating policy options under debate is guided by the following principles:

- Ensure that any cost of carbon is uniform and predictable across the economy
- Let market prices drive the selection of solutions
- Promote global participation
  - Consider priorities of the developing world
  - Recognize the impacts of imbalances among national policies
- Minimize complexity to reduce administrative costs
- Maximize transparency to companies and consumers
- Adjust in the future to developments in climate science and the economic impacts of climate policies

As noted above, the AFL-CIO last year withdrew a shareholder resolution asking the company to adopt a set of six climate change principles “for national and international action to stop global warming.” The proposed principles were:

1. Reduce emissions to levels guided by science to avoid dangerous global warming.
2. Set short- and long-term emissions targets that are certain and enforceable, with periodic review of the climate science and adjustments to targets and policies as necessary to meet emissions reduction targets.
3. Ensure that states and localities continue their pioneering efforts to address global warming.
4. Establish a transparent and accountable market-based system that efficiently reduces carbon emissions.
5. Use revenues from the carbon market to:
  - Keep consumers whole as our nation transitions to clean energy;
  - Invest in clean energy technologies and energy efficiency measures;
  - Assist states, localities and tribes in addressing and adapting to global warming impacts;
  - Assist workers, businesses and communities, including manufacturing states, in a just transition to a clean energy economy;
  - Support efforts to conserve wildlife and natural systems threatened by global warming; and
  - Work with the international community, including business, labor and faith leaders, to provide support to developing nations in responding and adapting to global warming. In addition to other benefits, these actions will help avoid the threats to international stability and national security posed by global warming.
6. Ensure a level global playing field by providing incentives for emission reductions and effective deterrents so that countries contribute their fair share to the international effort to combat global warming.

While the company continues to demur about setting goals for emissions reductions, which shareholder activists and other critics have wanted it to do for years, its stance on climate change and the need to address it as a pressing public policy problem has clearly undergone a significant change. It is clearly on the side of market-driven change, but it nonetheless says there should be “fundamental shifts toward

energy-efficient technologies and practices across the economy.” It concludes the page on carbon costs with asserting its view that a carbon tax, not a cap-and-trade system, would make the most sense:

If policymakers do move to impose a cost on carbon, we believe that a carbon tax would be a more effective policy option to reduce greenhouse-gas emissions than alternatives such as cap-and-trade. And to ensure revenues raised from such a tax are indeed directed to investment, and to assist those on lower incomes who spend a higher proportion of their income on energy, a carbon tax should be offset by tax reductions in other areas to become revenue neutral for government. It is rare that a business lends its support to new taxes. But in this case, given the risk-management challenges we face and the policy alternatives under consideration, it is our judgment that a carbon tax is a preferred course of public policy action versus cap and trade approaches.

**Air:** At the corporate level, ExxonMobil says it is “committed to reducing the emissions of volatile organic compounds (VOCs), sulfur dioxide (SO<sub>2</sub>) and nitrogen oxides (NOx) from our operations.” The company’s emissions of these substances dropped 14 percent between 2008 and 2009 and have fallen by 36 percent since 2005. The company reports it has cut NOx and SO<sub>2</sub> emissions by two-thirds since 2005, keeping it on track to meet a 70-percent reduction goal by 2012. Overall, it is cutting about 7 percent each year in VOC emissions and about 5 percent annual in NOx per unit of production.

**Water:** ExxonMobil states that the company “continually seeks ways to reduce water use and preserve water quality through the design and operation of our facilities, recycling and reuse, and measures to prevent water pollution.” In its *2009 Corporate Citizenship Report*, the company reports on freshwater management, which includes “on-site recycling and water reuse, purchase of treated wastewater for use as process water, and enhancements in processes to decrease water needs.” It said freshwater consumption at the company dropped 3 percent in 2009, with net consumption of 2,150 million barrels, and that it has recycled more than half of the fresh water it has used since 2005.

ExxonMobil’s Environmental Standard for water management for major upstream projects (a category that would include oil sands projects) requires an assessment of local water resources and consideration at the planning and design stage of the best ways to mitigate and reduce water usage.

**Spills:** The company also includes a section in the report on spill prevention, reporting that in 2009 it has “only one leak of trace amounts of oil from a long-term leased vessel,” despite 27,000 marine vessel voyages. It says it achieved this record by a “rigorous screening process” for its vessels that takes “hundreds of technical, operational, and other noncommercial factors” into consideration. The company did have 18,000 barrels of hydrocarbon spills from non-marine sources in 2009, but this was a reduction of 13 percent from the previous year. It said that because spills of more than one barrel had increased, it “did not meet expectations,” but pledged to do better and to put an “increased emphasis on equipment reliability, individual accountability in daily activities to reduce human error, training to address high spill risk areas, and increased infrastructure inspections.”

ExxonMobil was the recipient this year of a proposal about accident prevention at refineries (Si2 is covering this issue as a worker safety concern under Labor Rights, although it has obvious environmental implications). While both it and **Chevron** challenged the resolution at the SEC arguing it could be excluded from the proxy statement because it was moot, ExxonMobil was the only one to prevail on this argument. The SEC said the company’s public disclosures “compare favorably with the guidelines of the proposal,” but in Chevron’s case knocked the proposal out because a similar resolution had arrived first about oil well safety.

### ***Indigenous Peoples***

ExxonMobil’s *2009 Corporate Citizenship Report* states, “Isolation from industrialized society can make indigenous communities particularly vulnerable to development. Through consultations, we help to me-

ciate concern and play a role in addressing special community needs, such as improving living standards, health care, skills development, housing, and other unique issues faced by the indigenous communities in which we operate.” The company says its operations are consistent with 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. Regarding Aboriginal groups’ property rights, ExxonMobil says, “We respect property rights in the nations in which we operate. Before implementing new projects, we engage in free, prior, informed consultation with communities that will likely be affected by our operations.”

### **III. Summary of the 2011 Environmental Proposals**

Each of the 2011 shareholder resolutions takes issue with some aspect of the company’s approach to environmental issues. The proponents want ExxonMobil to adopt a policy on the human right to water, to report more fully on the panoply of risks associated with development of the oil sands in Canada, to explore how it ensures its use of hydraulic fracturing is properly protective of workers and the environment, to do more to develop sustainable energy technologies and to set greenhouse gas emissions reduction goals.

#### ***Water: Human Rights (Item 8)***

Item 8 asks the company to adopt a policy on the human right to water. The proponent points out that 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, 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.

#### ***Oil Sands (Item 9)***

The proponents believe there are significant risks associated with oil sands development projects, and that ExxonMobil is not doing enough to disclose these risks to its shareholders. They cite regulatory, operational, reputational and liability-related risks associated with the “resource-intensive and environmentally damaging nature of oil sands development.” The proposal describes increased regulatory restrictions about the high water demands of oil sands projects and their impact on local waters; tightening regulations, as well as remediation and reclamation costs, associated with tailings ponds; lawsuits filed by Aboriginal groups seeking protection of their Canadian treaty rights; and market risks related to the high cost of oil sands production and overall oil market volatility. ExxonMobil opposes the resolution, saying it already provides “sound and thorough information on the Corporation and its activities” and that the report requested by the proponents “would be duplicative to information already available.” The company also notes that oil sands projects are an important source of future growth and that it is already taking a number of significant steps to reduce environmental and other risks associated with its oil sands operations. The company released a new report in January 2011 on the oil sands.

### ***Hydraulic Fracturing (Item 10)***

The proponents are asking the company to report on the environmental impact of the company's fracturing operations and identify strategies the company can adopt to minimize any adverse consequences of the practice. The importance of fracturing techniques to ExxonMobil's operations is growing, particularly given the company's recent acquisition of XTO Energy. At the same time, public concern over the environmental consequences is mounting, especially in the highly populated areas drawing on drinking water from the Marcellus Shale region. Specific ExxonMobil disclosures about hydraulic fracturing are limited, and investors will have to decide if the requested report is warranted given the controversy engendered by the practice and the potential risks raised by the proponents, or if they are sufficiently reassured by ExxonMobil's general approach to environmental issues. The proponent sees potential regulations for horizontal drilling and hydraulic fracturing as a threat to ExxonMobil, while the company contends that state regulations adequately address the environmental impacts, and that it has released enough information already.

### ***Climate Change (Items 11 and 12)***

Two proposals address sustainable energy issues and greenhouse gas emissions goals.

**Item 11 (Sustainable energy leadership):** The proponents believe that the company's business plans which are based on its projections of continued growth in demand for fossil fuels between now and 2030 is not sustainable because of the negative consequences that growth poses for the world's climate and public health. The company sees the requested report as unnecessary since it already routinely reports on its development and commercialization of new energy technologies and products. According to the company, these new energy technologies will take decades to develop and deploy and during that time oil and gas will be essential to meet growing demand for energy.

**Item 12 (Greenhouse gas emissions goals):** The proponents believe that the threat greenhouse gas emissions pose to the climate is clear and that the company should develop a cohesive strategy that sets goals for deep emission reductions. They note that the company has set quantitative goals to reduce energy use, flare gas volumes, and emissions of volatile organic chemicals, NOx and SO2 and argue that now is the time to set similar goals for greenhouse gas emissions. The company does not believe setting quantitative GHG reduction goals is the best way to manage climate change risk. Instead, it feels a better way to address the proponent's concerns is to use its management and technical expertise to make its operations more energy efficient and develop innovative technical solutions that can reduce GHG emissions.

## **IV. Resources**

- 2011 ExxonMobil Proxy Statement  
<http://www.sec.gov/Archives/edgar/data/34088/000119312511095944/ddef14a.htm>
- 2010 ExxonMobil Form 10-K  
<http://www.sec.gov/Archives/edgar/data/34088/000119312511047394/d10k.htm>
- 2009 Corporate Citizenship Report  
[http://www.exxonmobil.com/Corporate/Imports/ccr2009/pdf/community\\_ccr\\_2009.pdf](http://www.exxonmobil.com/Corporate/Imports/ccr2009/pdf/community_ccr_2009.pdf)
- 2008 Corporate Citizenship Report  
[http://www.exxonmobil.com/Corporate/Imports/ccr2008/pdf/community\\_ccr\\_2008.pdf](http://www.exxonmobil.com/Corporate/Imports/ccr2008/pdf/community_ccr_2008.pdf)
- ExxonMobil website section, Energy and Environment  
[http://www.exxonmobil.com/Corporate/safety\\_climate.aspx](http://www.exxonmobil.com/Corporate/safety_climate.aspx)

- *Outlook for Energy: A View to 2030*  
[http://www.exxonmobil.com/Corporate/energy\\_outlook\\_view.aspx](http://www.exxonmobil.com/Corporate/energy_outlook_view.aspx)
- *Climate Risk Disclosure in SEC Filings: An Analysis of 10-K Reporting by Oil and Gas, Insurance, Coal, Transportation and Electric Power Companies*, Ceres and Environmental Defense Fund, June 2009.  
<http://www.ceres.org/Document.Doc?id=473>
- *Global Climate Disclosure Framework for Oil & Gas Companies*, Institutional Investors Group on Climate Change, Ceres and Investor Group on Climate Change, March 2010.  
<http://www.ceres.org/Document.Doc?id=573>