Shareholder Resolution at ExxonMobil

INVESTOR BRIEFING

May 2015

This briefing provides investors with information regarding the greenhouse gas emissions reduction shareholder resolution (Item 10) which will be raised at the ExxonMobil Annual Meeting on 27 May 2015.

The resolution asks management to create a disciplined business strategy with goals to reduce greenhouse gas (GHG) emissions. A disciplined business strategy that incorporates clear GHG reduction goals would serve to strengthen ExxonMobil’s competitive position, protect shareholder value and manage climate risk.

The resolution has been co-filed by 45 investors including faith based investors, state pension funds, hospitals and foundations, following on from approximately 20 years of dialogue with the company.

Background
As one of the largest international energy companies, ExxonMobil is exposed to potential financial and regulatory risks arising from global and domestic climate policy and related technology trends. In the US, President Obama has committed to reduce GHG emissions 26-28% by 2025. EU countries have pledged to reduce emissions by 40% below 1990 levels by 2030 and China, a major player in the global demand for oil, has committed to peak its carbon emissions by 2030. These initial commitments foreshadow further global commitments in the lead up to the global climate treaty to be negotiated in Paris in December 2015.

Shareholders have become increasingly concerned that ExxonMobil is not taking sufficient steps to address climate related risks. Shareholders have repeatedly urged the company to set GHG emission reduction goals for the company’s products and operations. These proposals have been met with ongoing resistance from the company which has sought to reassure investors that their current plans are adequate to handle the risk. However shareholders continue to be concerned that shareholder value is being put at risk for the reasons described below.

RESOLUTION

Item10: Greenhouse Gas Emissions Goals Resolution

RESOLVED: Shareholders request that the Board of Directors adopt quantitative goals for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by November 30, 2015, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

Investor Concern
Shareholders have been asking the company to develop a management strategy to reduce emissions from both its operations and products for eight years in a row. The emission reduction resolution has received strong support of shareholders (ranging between 21.98 – 31%) over the past several years, demonstrating that a significant portion of the shareholders do not believe the current system is adequately reducing emissions.

Current Emissions Management System
Between 2011 and 2013, ExxonMobil’s emissions increased by 3.7% even as production fell by 6.1%. Rising emissions make it clear that the company does not have a sufficient process in place to manage and limit emissions. In particular, it indicates that the company’s long-standing strategy of setting an internal price of carbon has not led to the desired outcome.
An additional indicator of the company’s inadequate GHG emissions management is its declining CDP score. The CDP Performance score for ExxonMobil dropped from a “B” to a “C” last year.1 This drop was at least in part due to the company’s failure to have an emissions management target in place.

While the company’s steps to increase efficiency, improve co-generation, and reduce emissions in flaring and venting have prevented the production of additional GHG emissions, these reductions amount to only a fraction of the company’s net emissions.2 These efforts may have reduced costs, but they do not shield the company from carbon risk.

The environmental business planning process ExxonMobil uses to inform broader business plans may include project level objectives, however, these goals are not established at a company-wide level, or made publicly available. Therefore, the project level objectives have not been an effective tool to adequately mitigate increases in absolute emissions or emissions intensity.

A long-term goal that publicly indicates ExxonMobil’s commitment and objectives for each of the strategies it is using to manage its climate risk would effectively communicate that it is considering the transition to a carbon-constrained environment. Important elements to effectively achieving a reduction goal might include continued improvement in energy efficiency of operations, avoiding development of the highest carbon fuels (such as oil sands), as well as an even broader approach that includes increased research and development of biofuel technology, diversification of the project portfolio to include renewable energy or carbon capture and storage projects that include monitoring and reporting regarding the percentage of carbon that remains successfully sequestered.

Investors are also concerned about the reputational risk associated with the company’s failure to publicly manage the GHG intensity of its business portfolio and evolving expectations around corporate leadership in response to mounting evidence of climate change. Meaningful GHG emission reduction targets could also alleviate this risk.

**GHG Emission Reduction Best Practice**

A GHG emission reduction goal is critical to preserving shareholder value and indicating that the company is developing appropriate strategies to succeed and lead in a carbon-constrained world. Continuing with business as usual is not an effective strategy and does not demonstrate leadership, in the face of ever increasing emissions.

ExxonMobil has previously set and achieved targets, albeit more limited, related to mitigating climate risks. For example, it improved energy efficiency across worldwide refining and chemical operations by at least 10% between 2002 and 2012, and improved energy efficiency by 10% in refining and 12% in chemical manufacturing.3 However, the failure of the company to set a global GHG reduction goal places it well behind its most advanced peers. Indeed, best practice has evolved to setting “Science-based targets” that align with the global goal of limiting warming to 2°C.4 “More than 30 companies, including BT, General Mills, Honda Motor Company, National Grid, and Unilever, have already committed to setting science-based targets.”5 The CDP reporting framework will soon include questions to incentivize and track company use of science-based approaches. This leaves a company like ExxonMobil with no target even further behind.

While the Oil and Gas sector faces distinct challenges in reducing the emissions profile of its products, ExxonMobil lags behind its peers. Of 12 major oil and gas companies reporting to CDP,6 ExxonMobil’s disclosure score of 76 is the second lowest; in terms of performance, the company is listed in performance band “C”, whereas the majority of companies scored “B” or higher, with leaders scoring “A-“. Six Oil and Gas companies have absolute GHG targets for at least a portion of the company’s emissions, including Chevron, Eni SpA, Total, ConocoPhillips, Hess, and Statoil.7 For example, Total set a goal to reduce its scope 1 emissions by 15% by 2015 from 2008 levels and has put incentives in place at a variety of levels to achieve this goal.8 Total’s CDP report also states that the Board has objectives to improve scope 3 emissions “through innovative solutions for [Total’s] customers.”9

In its Opposition Statement, ExxonMobil argues against setting GHG targets because “goals for absolute GHG emissions reductions would need to reflect the coincident impact of largely unforeseeable factors that influence year-to-year changes in market demand, including macroeconomic issues, weather, and responses by national oil companies which would be impractical for guiding business performance.”10 However, peer companies are setting GHG goals despite the unforeseeable nature of the future, recognising that such goals are responsive to the risks inherent in the current oil and gas business model. Furthermore, investors recognise unforeseeable factors are part of any forward looking target, just as with financial and operating results.11
Conclusion
For the eighth year, shareholders have urged ExxonMobil to set GHG emission reduction goals. The continued reluctance of the company to take on board these proposals serves to deepen investor concern that shareholder value remains at risk. By supporting this resolution, investors can send a strong message to the company that they are not satisfied with their current strategy to reduce GHG emissions, and are in favour of a more robust demonstration that the company is adapting to a carbon-constrained world.

To declare your support for the ExxonMobil resolution, follow the link below:
http://www.investorclimatedeclarations.org/

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References
2 The company reports these efforts reduce 10.5 million tons of emissions annually. Meanwhile, their net scope 1 and 2 emissions are 126 million tons. http://www.exxonmobilchemical.com/Chem-English/sustainability/sustainability-energy-efficiency.aspx.
3 Investor CDP, 2014 Information Request, ExxonMobil, question CC3.1e.
4 See e.g. http://sciencebasedtargets.org/
6 The 12 companies are Anadarko Petroleum Corporation, Apache Corporation, BG Group, BP, Chevron Corporation, ConocoPhillips, Eni SpA, Exxon Mobil Corporation, Hess Corporation, Royal Dutch Shell, Statoil ASA, and Total.
7 See each company’s CDP report.
8 Investor CDP, 2014 Information Request, Total, question CC3.1a
9 Investor CDP, 2014 Information Request, Total, question CC2.2a
10 ExxonMobil Opposition Statement to 2014 GHG Reduction Goal Shareholder Proposal
11 “Factors Affecting Future Results,” ExxonMobil, February 2015, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NTI1MjR8Q2hpbGRJRD0tMXxUeXIeYXBIPTM=&t=1

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