# MEMO

SUBJECT: Please vote FOR Proxy Item #9, an ExxonMobil shareholder resolution requesting the company to adopt greenhouse gas reduction targets for products and operations.

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***Resolved:***
*Shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by November 30, 2012, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.*

**Rationale for a FOR vote, Proxy Item 9:**

I. ExxonMobil's shareholders bear significant financial and competitive risks if the company is unprepared to meet existing and impending requirements to reduce greenhouse gas (GHG) emissions from its operations and its products. Company-wide quantitative reduction goals for products and operations provide a clear signal to investors that ExxonMobil is preparing for a low-carbon future.

A. Shareholders have asked ExxonMobil to set greenhouse gas reduction goals for the past six years. Despite the proposal being sponsored by dozens of institutional investors each year and the proposal maintaining solid support among shareholders, the company has not satisfied the request, even as competitor companies have set GHG reduction targets. Setting public GHG targets that shareholders can assess is an important step in the development of a comprehensive, long-term strategy to significantly reduce greenhouse gas emissions from company operations and products. **Having an emissions reduction target would let investors know the company is seriously preparing for a carbon-constrained business environment.**

B. Due to its carbon-intensive products and long capital horizons, the oil sector is uniquely exposed to regulatory risks resulting from climate change. Investors need to know which companies are prepared for these risks and which are not. Numerous regulations exist or have been proposed relating to GHG emissions, including regulations that have direct impacts on the oil sector and ExxonMobil.

1. In the company's 2011 10-K, ExxonMobil states, "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."[1]

2. ExxonMobil is present in almost 200 countries, and international action on climate change continues to progress, most recently with the carbon tax enacted in Australia as one example. Other such regulations could include low carbon fuel standards (such as those existing in the EU and California), the tailpipe GHG emissions standard set by EPA for vehicles sold through 2016, and the EPA's forthcoming fuel economy and emissions standards for model years 2017-2025.
3. As a fully integrated international energy company, ExxonMobil is exposed to all of these regulatory risks. In its 2011 Carbon Disclosure Project (CDP) response, the company states, "while climate change remains extraordinarily complex, increasing scientific evidence makes it clear that rising greenhouse gas emissions pose risks to society and ecosystems. These risks justify the development and implementation of responsible actions by governments, companies, and individuals."[2] ExxonMobil is therefore aware of the financial and competitive risks posed by climate change and responses to it, but has yet to set concrete goals for reducing its GHG emissions from its products and operations to mitigate this risk.

C. Presently, ExxonMobil's 10-K disclosure lacks the specificity needed to help investors understand the financial implications of climate change on the company. The 10-K contains limited, general information on the risks of climate change, including both physical risks to the company's operations and regulatory risks. The company mentions emissions reductions initiatives related to energy efficiency and reduced flaring. In these areas, ExxonMobil has set concrete goals—to reduce flaring by 20% from 2008 to 2010 and to improve energy efficiency by 10% between 2002 and 2012. The flaring goal was achieved in 2010 and a new goal has not been set. The energy efficiency goal has not yet been reached.[3] While these efforts represent a step in the right direction, overall emissions have not been significantly affected by the reductions as indicated in the company's 2011 CDP response.

D. ExxonMobil has already suffered financial losses and significant costs related to air emissions in recent years (some of which contribute to climate change), and some of these environmental expenditures are expected to continue in the future. In

[1] ExxonMobil 2011 10-K, p 3
[2] ExxonMobil 2011 Carbon Disclosure Project Response, p 2
[3] ExxonMobil 2011 Carbon Disclosure Project Response, p 3

2011, the company's worldwide environmental expenditures totaled $4.9 billion.[4] There were several incidents specifically related to air emissions.

II. ExxonMobil's climate risk preparedness lags behind major peers.

A. ExxonMobil is the world's largest publicly traded oil and gas company, yet many of its competitors are far ahead in operational greenhouse gas emissions reductions goals. In 2009, Chevron Corporation agreed to track and report on both operations and the carbon content of its products after fruitful discussions with investors.[5] As shown in the chart below, ExxonMobil is lagging behind competitors who have already set company-wide emissions targets for operations.

| Chevron | Shell | Total |
|---|---|---|
| **Quantitative Goal:** Preliminary goal for 2011 was 60 million metric tons (an intensity target for operations), with plans to further reduce emissions through efficiency improvements, and reduced flaring.[6] | **Goal:** Reduce GHG emissions from operations by 5% relative to a 1990 baseline for all facilities globally under operational control.[7] | **Goal:** (a) reduce flaring of gas by 50% between 2005 and 2014;[8] (b) reduce GHG emissions of operational activities 15% by 2015.[9] |

B. ExxonMobil's plans for expanding production in the future include deep sea drilling, shale gas, and oil sands, all of which raise environmental and climate concerns. With these expansion plans, and without greenhouse gas reduction goals, it is difficult for investors to determine how ExxonMobil will increase its energy reserves while simultaneously decreasing its GHG footprint over time. A lower carbon strategy can be achieved through avoiding new high-carbon-emitting projects, renewable energy investments (such as those made by Chevron and BP),[10] or in part by the technological innovations ExxonMobil discusses on its website, such as carbon capture and storage and algae biofuels.[11] However, if ExxonMobil is to make substantial emissions reductions, the scale of these

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[4] ExxonMobil 2011 10-K, p 1
[5] http://tricri.org/news/30-breakthrough-on-tracking-carbon-emissions
[6] Chevron 2011 CDP response, question 3.1
[7] Shell 2010 20-F, p 50
[8] Total 2011 CDP response, question 3.1
[9] Total Environment and Society Report 2010, p 45
[10] http://www.chevron.com/deliveringenergy/ and http://www.bp.com/sectiongenericarticle800.do?categoryId=9036324&contentId=7067654
[11] http://www.exxonmobil.com/Corporate/energy_ops_ccs.aspx and http://www.exxonmobil.com/Corporate/energy_vehicle_algae.aspx

technology innovations needs to be far broader with significant resources behind them to achieve large-scale emissions cuts for the company. ExxonMobil clearly lags behind its peers in setting clear targets for reducing total GHG emissions. Shareholders believe management would make clearer progress on emissions reductions with goals that are company-wide and that focus on the company's core products. A commitment to reduction goals, and a strategy to achieve those goals, with strong monitoring elements, would signal a preparedness to move forward in a carbon-restricted energy environment.

III. Without improved disclosure of greenhouse gas goals, and strategies and practices to mitigate climate risk, shareholders cannot adequately assess the risks of their investment in ExxonMobil.

A. The oil majors, including ExxonMobil, clearly face substantial financial risks related to climate change. Their basic business model of extracting hydrocarbons and selling them to be combusted without capturing GHGs is increasingly under serious threat. In ExxonMobil's annual global outlook, the company predicts that fossil fuels such as oil and coal will contribute 80% of global energy supplies by 2040, while renewables such as wind, solar, and biofuels will account for only 4%.[12] This view is not in line with many companies, investors, and governments who are working and planning for a lower carbon future. Indeed it may not even be in line with many ExxonMobil employees, as an internal survey revealed that only 24% approve of the company's environmental stewardship.[13]

B. The risks in question include those that have been noted in the resolution proposed during the past several years by Neva Rockefeller Goodwin: namely that, as is increasingly often noted, it is poor and emerging market countries that will feel the effects of climate change first and most harshly. This risks a reversal of the economic growth that ExxonMobil projects in the developing world, from where it expects to get all future growth in demand for its products.

C. Regulations such as those in the EU, US, and California are increasingly focusing on product emissions, including lifecycle emissions from "wells to wheels," making this an important emerging risk that needs managing, in addition to the targets needed for emissions from operations.

1. In 2010, ExxonMobil's scope 1 and scope 2 emissions totaled 147,000,000 metric tons of $CO_2$.[14] The company's absolute emissions increased 3% from the previous year.[15] Furthermore, according to the International Energy Agency, approximately 90% of petroleum-related greenhouse gas emissions are generated when customers use petroleum products and only

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[12] "ExxonMobil Sees Global $CO_2$ Emissions Peak in 2030." *Reuters*. Dec 9 2011, available at http://planetark.org/enviro-news/item/64143

[13] "Gusher." *The New Yorker.* April 9 2012, pp 28-37

[14] ExxonMobil 2011 CDP Response, p 8

[15] ExxonMobil 2010 CDP Response, pp 12-13

10% are released during operations,[16] suggesting that ExxonMobil is indirectly responsible for a vast amount of additional emissions.

2. ExxonMobil states that, "our strategy to reduce GHG emissions is focused on increasing our own 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."[17] However the company's own track record has proved that this is insufficient—energy efficiency improvements will not make enough of an impact on the emissions of a large company like ExxonMobil, and breakthrough, game-changing technologies are needed as soon as possible.

Without greenhouse gas reduction goals, shareholders cannot adequately assess the risks associated with their ownership of shares in ExxonMobil. **Shareholders are urged to vote 'FOR' the resolution.**

[16] ExxonMobil 2010 CDP Response, Question 15.2.
[17] ExxonMobil 2010 Corporate Citizenship Report, p 33