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Subject: 2016 Proxy Statement – Item No.12: Stockholder Proposal Regarding Report on Climate Change Impact Assessment

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The Vermont Pension Investment Committee co-filed Proxy Item No. 12, *Stockholder Proposal Regarding Report on Climate Change Impact Assessment*. Additional co-filers include The New York State Common Retirement Fund, The Church of England Endowment Fund, The Regents of the University of California, Zevin Asset Management, LLC on behalf of Ellen Sarkisian, and The Brainerd Foundation. The proposal will be voted on at the May 25, 2016 Annual Meeting of ExxonMobil (“Exxon”).

Institutional Investors with more than \$6 trillion assets under management have declared that they support the proposal, including major fund managers and pension funds Amundi, AXA Investment Management, BNP Paribas Investment Partners, CalPERS, Legal & General Investment Management, Natixis Asset Management, New York City Pension Funds, and Schroders Investment Management.¹

Resolved: Shareholders request that by 2017 ExxonMobil publish an annual assessment of long term portfolio impacts of public climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyze the impacts on ExxonMobil's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2-degree target. The reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario.

The Vermont Pension Investment Committee encourages shareholders to support this proposal and firmly believe that doing so is in investors' long-term interests:

- The proposal addresses a material risk – the risk that the transition to a low carbon economy proceeds at the pace envisioned by the Paris Agreement rather than the slower pace envisioned by the company.
- The proposal is uncontentious. Shareholders have already requested similar disclosure in votes at the 2015 annual general meetings of Exxon's European peers, BP, Shell and Statoil. All three companies' board of directors endorsed the disclosure requests and have started to report in line with them.

- Exxon’s current disclosures do not compare favorably with the guidelines of the proposal.
- Exxon’s current disclosures are the subject of a serious controversy that creates substantial risks.

The Vermont Pension Investment Committee and The Vermont State Treasurer ask shareholders to consider the following perspectives:

Exxon faces material risks that the transition to a low carbon economy will accelerate more quickly than Exxon’s forecasts and capital planning strategies assume.

Although Exxon acknowledges the climate accord (“Paris Agreement”) reached in Paris at the Conference of the Parties (“COP 21”), Exxon continues to rely upon projections for demand that are far higher than the commitments established under the Paris Agreement. As a result, it is unclear how the company is addressing the potential impacts of climate policies on the long-term price and demand scenarios for its reserves and resource portfolio. While Exxon claims that its existing disclosures sufficiently address this issue, the Securities and Exchange Commission (“SEC”) explicitly rejected the same arguments that Exxon has raised in its opposition statement when the SEC denied Exxon’s request to exclude this shareholder proposal on the grounds that Exxon had already “substantially implemented” it.ⁱⁱ

Price: Shareholders are aware that Exxon has responded to the current decline in oil prices by selling assets and cutting costs, in line with many of its competitors. Exxon has sold assets worth \$2.4 billionⁱⁱⁱ and reduced 2016 capital expenditures by 25% from the previous year.^{iv} While these short-term strategies respond to current price declines, it is appropriate for shareholders to question the company’s long-term financial outlook^v and prospects for continued dividend growth under different long-term price scenarios. This is especially true given Exxon’s recent announcement that it is moving forward with requests for regulatory approval of the Midzaghe oil-sands project despite the high break-even costs generally required for such projects, as well as Exxon’s recent claims that many of its offshore discoveries may be at risk of stranding due to new federal regulations.^{vi}

Demand: The International Energy Agency (IEA) publishes scenarios that model different public policy pathways and their expected impact on the demand for, and mix of, future energy sources.^{vii} The IEA’s “450 Scenario” sets out an energy pathway that limits the global increase in temperature to 2 degrees Celsius, also referred to as a “2-degree scenario.” In Paris, 195 countries agreed to keep global temperature increase “well below” 2 degrees Celsius, and to pursue efforts to limit it to 1.5 degrees Celsius. Implementation of the Paris Agreement is based upon the “nationally determined contributions” submitted by 188 nations. While Exxon points out that the initial “intended nationally determined contributions” do not result in emissions reductions sufficient to reach the 2 degree target, it does not acknowledge that the Paris Agreement and the parties to it recognized and dealt with that issue.^{viii} The Agreement requires submission of new, progressively more stringent nationally determined contributions every five years to ensure that the 2 degree target is met.^{ix}

Despite referencing the Paris Agreement, Exxon’s forecasts regarding demand and CO₂ emissions are in direct conflict with achieving the Agreement’s target of limiting global average temperature rise to “well below 2 degrees Celsius” in comparison to pre-industrial levels. With respect to global demand for oil in 2040, Exxon bases its 2016 Outlook and planning on forecasted demand equivalent to 223 quadrillion BTUs.^x The IEA 450 Scenario (consistent with 2-degrees) projects that oil demand in 2040 would only amount to 74.1 million barrels of oil/day.^{xi} Converting Exxon’s forecasted 223 quadrillion BTUs to million barrels of oil/day results in roughly 105 million barrels of oil/day, that is 30.9 million barrels/day in excess of the 2-degree scenario. Therefore, Exxon’s 2016 Outlook is not consistent with, nor does it take into account any scenarios consistent with, the 2-degree target established by the Paris Agreement. A change in demand of the magnitude required under the Paris Agreement could have significant impacts on Exxon’s capital investments and business strategy, and Exxon’s current disclosures fail to provide any information to investors to assess how Exxon is addressing this risk.

CO₂ Emissions: With respect to CO₂ emissions, Exxon states:

[W]e expect global energy-related CO₂ emissions to peak around 2030, and then begin declining. Global CO₂ emissions are expected to be only about 10 percent higher in 2040 versus 2014, despite the fact that population will have risen by about 25 percent and global GDP will have more than doubled.^{xii}

In contrast, the IEA has concluded that achieving the 2-degree target established in Paris requires a peak in energy-related emissions by 2020.^{xiii} Exxon’s projected outlook for energy-related CO₂ emissions is also far in excess of the IEA projection under a 2-degree scenario. Exxon’s 2016 Outlook shows “energy-related CO₂ emissions by region” that appear to add up to almost 40 billion metric tonnes in 2040.^{xiv} This is more than double the 18.7 billion tons of energy-related CO₂ emissions projected by the IEA by 2040 in its 450 Scenario.^{xv}

By stress-testing its portfolio and business strategy against the lower demand scenario necessary to achieve the 2-degree target, Exxon can provide investors with better information about how it is managing risk and keeping pace with its peers. While Exxon’s current Energy Outlook may be an appropriate base-case for Exxon’s planning, in light of the Paris Agreement, prudent planning requires that the company provide additional stress-testing disclosure relating to possible demand shifts resulting from a carbon-constrained economy. Understanding how lower demand scenarios would impact particular types of reserves and resources is especially warranted given recent studies estimating the magnitude of potential losses and wasted capital expenditures if companies do not plan for a 2-degree scenario. For example, Barclays Equity Research estimated the potential for \$22 trillion in lost revenues for the oil industry by 2040 under a 2 degree scenario, and Carbon Tracker suggests that in a 2 degree scenario, up to \$72.9 billion in capital expenditures on Exxon’s projects alone would not be needed as soon as 2025.^{xvi}

Exxon disclosures regarding resilience to low demand scenarios do not compare favorably with its competitors.

Exxon’s disclosures lag its extractive industry peers who are increasingly evaluating two-degree scenarios:^{xvii}

- In 2015, the boards of **Royal Dutch Shell, BP, and Statoil** endorsed very similar, disclosure-oriented resolutions titled “Strategic Resilience for 2035 and Beyond” which received almost unanimous investor support;^{xviii}
- In 2016, the boards of **Total, Suncor, Glencore, Anglo-American** and **Rio Tinto** have committed to supporting investor calls for additional disclosure;
- **Statoil** presented a 2-degree scenario in its 2015 Energy Perspectives, and **ConocoPhillips** now tests its capital planning decisions against four carbon-constrained scenarios;^{xix}
- **BHP Billiton**, publicly released its “Climate Change: Portfolio Analysis” that evaluates the impact of multiple 2 degree pathways on its assets;

Exxon indicated in its 2016 annual report that:

“Potential investment opportunities are evaluated over a wide range of economic scenarios to establish the resiliency of each opportunity.”^{xx}

However, Exxon has not provided investors with any information regarding the details of these scenarios or their outcomes. If Exxon is assessing and addressing the potential risks of low demand scenarios, a report providing more information regarding the company’s resilience to a lower carbon economy is likely to provide assurance to shareholders that Exxon is, and will remain, competitively well-positioned. Given the current level of disclosures investors have no such assurance.

Shareholders are seeking to understand Exxon’s long-term resilience to changes within the energy sector.

The energy sector is rapidly changing. While current volatility is rooted in an excess supply of oil and gas, global efforts to reduce greenhouse gas emissions and technological developments may exacerbate volatility over the next 20 years. There are indications that an energy transition is already well underway due in part to:

- **Policy changes** – most notably the 2015 Paris Agreement—and national/regional frameworks aimed at aggressively reducing greenhouse gas emissions;^{xxi}
- **Declines in the cost of renewable energy** – in the U.S., 20 states are at solar grid parity^{xxii} and the number is forecast to rise to 42 by 2020;
- **Technological advances and disruptions** – including battery storage, distributed electricity generation, energy demand management and the growing market for electric vehicles.^{xxiii}

Oil and gas assets have decades-long lifespans. Shareholders may accept Exxon’s strategy for current market conditions, however, prudent investors will also seek to assess the long-term resilience of Exxon’s portfolio and the company’s overall positioning in carbon-constrained markets. Disclosure of stress testing that takes into account the potential impact of public policy changes consistent with achieving the 2-degree target on Exxon’s assets will assist shareholders in determining if Exxon is sufficiently prepared for a changing future.

Shareholders need to understand how Exxon is addressing the risks it faces as a result of the serious controversy regarding its climate disclosures.

Exxon is facing substantial risks as a result of its past and current practices regarding disclosure of climate risks. In 2015 the New York Attorney General announced that he was opening an investigation focusing “on potential consumer and securities fraud stemming from Exxon’s public statements on global warming.”^{xxiv} Since that time, the California Attorney General has commenced her own investigation into Exxon, and 15 additional state attorneys general have announced their support for the investigation with Massachusetts and the Virgin Islands formally joining the investigation.^{xxv} In addition, the United States Department of Justice has referred a request for a federal probe to the Federal Bureau of Investigation.^{xxvi} The allegations over Exxon’s disclosures regarding climate change and climate risk constitute a serious controversy that could result in significant legal fees, reputational harm, and fines or other remedies.^{xxvii} By preparing and presenting a report like the one requested by shareholders, Exxon could address this controversy, at least with respect to its current level of disclosures, regarding the financial risks presented by climate change actions and lower demand scenarios.

Conclusion

Because disclosure of stress testing that assesses the resilience of Exxon’s portfolio to climate change policies consistent with achieving the globally agreed upon 2-degree target will assist shareholders in determining if Exxon is maximizing shareholder value under a range of scenarios, investors are encouraged to vote “FOR” this important request for enhanced disclosure.

ⁱ Reuters, “Big Investors Want Exxon to Explain How it Will Face Climate Change Policy,” Fortune (Apr. 12, 2016) available at <http://fortune.com/2016/04/12/exxon-climate-change-policy/>. For full list of public declarations view <http://www.ceres.org/issues/carbon-asset-risk/investor-support-of-portfolio-resilience-resolutions>.

ⁱⁱ “Based on the information you have presented, it does not appear that ExxonMobil’s public disclosures compare favorably with the guidelines of the proposal.” See Response of the Office of Chief Counsel, Division of Corporate Finance, Re: ExxonMobil Corporation Incoming Letter dated January 22, 2016 (Mar. 22, 2016) available at <https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2016/nyscommon032216-14a8.pdf>.

ⁱⁱⁱ ExxonMobil, “Fourth Quarter 2015 Earnings Call,” 3 n.1 (Feb. 2, 2016) available at http://cdn.exxonmobil.com/~media/Global/Files/Earnings/2015/news_presentation_4q15.pdf.

^{iv} ExxonMobil, “2016 Analyst Meeting,” 33 (Mar. 2, 2016) available at

^v In 2015: however, while Exxon’s costs compare favorably to its publicly-traded competitors, the company remains at a disadvantage to lower-cost nationally owned oil companies, which own 80% of the world’s oil reserves (http://www.opec.org/opec_web/en/data_graphs/330.htm).

^{vi} Chester Dawson, “Exxon’s Imperial Oil Seeks Approval for New Canadian Oil-Sands Project,” Wall Street Journal (Mar. 11, 2016) available at <http://www.wsj.com/articles/exxons-imperial-oil-seeks-approval-for-new-canadian-oil-sands-project-1457737085>; “In a closed-door meeting last month, Exxon, the largest driller in the U.S., said the government . . . ignored the reduced production and stranded reserves that would result.” Joe Carroll, “Exxon’s dire estimate: Tougher offshore drilling rules will cost \$25 billion, sink exploration,” Dallas Morning News (Apr. 14, 2016) available at <http://www.dallasnews.com/business/energy/20160414-exxon-s-dire-estimate-tougher-offshore-drilling-rules-will-cost-25-billion-sink-exploration.ece>.

^{vii} <http://www.iea.org/publications/scenariosandprojections/>.

^{viii} Letter from Louis L. Goldberg on behalf of ExxonMobil to SEC, 3 (Feb. 29, 2016) available at <https://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2016/nyscommon032216-14a8.pdf>; UNFCCC, Adoption of the Paris Agreement, Article 4, §§ 2-3, 9 available at <https://unfccc.int/resource/docs/2015/cop21/eng/109.pdf>.

^{ix} Paris Agreement, Article 4, §§ 2-3, 9.

^x ExxonMobil, “The Outlook for Energy: A View to 2040,” 72 (Jan. 2016) available at <http://cdn.exxonmobil.com/~media/global/files/outlook-for-energy/2016/2016-outlook-for-energy.pdf>.

^{xi} World Energy Outlook, Annex A, 583 (2015).

^{xii} ExxonMobil, Energy Outlook 2016 at 9, 49.

^{xiii} World Energy Outlook, 27, 58 (2015) (“a peak in energy-related emissions by 2020” is an “essential step if the door to a 2°C outcome is to remain open”).

^{xiv} ExxonMobil, Energy Outlook 2016 at 52.

^{xv} IEA, World Energy Outlook 2015, Annex A, 587.

^{xvi} Mark Lewis, et al., Barclays Equity Research, “Climate Change: Warming up for COP-21,” 1, 9-10 (Nov. 24, 2015) available at <https://live.barcap.com/PRC/servlets/dv.search?contentPubID=FC2194025&bcmlink=decode>; Carbon Tracker, “The \$2 trillion stranded assets danger zone: How fossil fuel firms risk destroying investor returns,” (Nov. 2015) available at http://www.carbontracker.org/wp-content/uploads/2015/11/CAR3817_Synthesis_Report_24.11.15_WEB2.pdf.

^{xvii} Shareholders may also be familiar with the “Oil and Gas Climate Initiative (OGCI)” established in 2014 by ten major, global oil and gas companies: BP, CNPC, Eni, Pemex, Reliance Industries, Repsol, Saudia Aramco, Shell, Statoil and Total. OGCI is an “industry-driven initiative which aims to catalyse practical action on climate change in focus areas such as the role of natural gas, carbon reduction instruments and tools, and long-term energy solutions.”

^{xviii} The resolution for strategic portfolio resilience received 98.28% of the vote. See BP, AGM 2015 Poll Results, 3 available at <http://www.bp.com/content/dam/bp/pdf/investors/bp-agm-poll-results-2015.pdf>; At Shell, the resolution for strategic portfolio resilience received 99.91% of the vote. See Royal Dutch Shell, PLC, Result of Annual General Meeting, 2 available at

http://www.shell.com/investors/retail-shareholder-information/annual-general-meeting/_jcr_content/par/expandablelist/expandablesection.file/1445265423749/f31267f0a0555c83fd0f8d523077d766/2015-agm-voting-results.pdf; The resolution for strategic portfolio resilience received 99.95% of votes. See Statoil, Minutes of Annual General Meeting 2015, 6 available at <http://www.statoil.com/en/NewsAndMedia/News/2015/Downloads/Minutes%20from%20Annual%20General%20Meeting%20in%20Statoil%20ASA%2019%20May%202015.pdf>.

^{xix} Although Exxon claims that analyses by other oil and gas companies have reached the same conclusions that it reached in its 2014 report on carbon risk, that is at odds with the projections contained in those scenarios. Statoil included a 2 degree scenario in its 2015 Energy Perspectives and its estimate of oil demand in 2040 was far closer to the IEA’s 450 Scenario than Exxon’s 2016 Energy Outlook than Exxon’s. See Statoil, Energy Perspectives 2015, 58 (June 2015) (World oil demand 2012-2040 in million barrels per day shows projection of roughly 75-80 million barrels per day in line with IEA projection) available at

<http://www.statoil.com/en/NewsAndMedia/News/2015/Downloads/Energy%20Perspectives%202015.pdf>; Statoil’s 2 degree scenario also shows CO2 emissions at much closer to 20 billion tons of CO2 in 2040 rather than the 30-40 billion that Exxon’s Outlook shows. See id. at 18; Likewise, ConocoPhillips recently released a presentation showing its projections of fossil fuel use in 2040 and it’s representation of oil use looks to be even lower than 75 million barrels/day. See <http://www.conocophillips.com/sustainable-development/environment/climate-change/Documents/10222015-COP-CarbonAssetRisk-PresbyterianSymposium.pdf>. Unlike Statoil and BHP Billiton, ConocoPhillips does not provide a public presentation of how such a level could affect its reserves and resources, but it clearly understands the parameters of changing demand under a 2 degree scenario.

^{xx} ExxonMobil 2015 10-K, 40 available at <https://www.sec.gov/Archives/edgar/data/34088/000003408816000065/xom10k2015.htm>.

^{xxi}The full list of initial nationally determined contributions is available at

<http://www4.unfccc.int/submissions/INDC/Submission%20Pages/submissions.aspx>.

^{xxii} <http://www.greentechmedia.com/research/report/us-residential-solar-economic-outlook-2016-2020>

^{xxiii} Global Agenda Council on the Future of Oil and Gas, World Economic Forum, “Future Oil Demand Scenarios,” (Apr. 2016) available at http://www3.weforum.org/docs/Future_Oil_Demand_Scenarios.pdf; Tom Randall, “Here’s how electric cars will cause the next oil crisis,” Bloomberg (Feb. 25, 2016) available at <http://www.bloomberg.com/features/2016-ev-oil-crisis/>.

^{xxiv} Lynn Cook, “Exxon Mobil Gets Subpoena From N.Y. Regarding Climate-Change Research,” Wall Street Journal (Nov. 5, 2015) available at <http://www.wsj.com/articles/exxon-mobil-gets-subpoena-from-n-y-regarding-climate-change-research-1446760684>; John Schwartz, “Exxon Inquiry Both Mirrors and Contrasts with Tobacco Industry Case,” New York Times (Nov. 6, 2015) available at http://www.nytimes.com/2015/11/07/science/exxon-inquiry-both-mirrors-and-contrasts-with-tobacco-industry-case.html?_r=0; Alex Nussbaum, “Is Big Oil the New Big Tobacco,” Bloomberg (Dec. 2, 2015) available at <http://www.bloomberg.com/news/articles/2015-12-02/turning-exxon-s-tiger-into-joe-camel-is-climate-camp-s-gameplan>.

^{xxv} John Schwartz, “Exxon Mobil Climate Change Inquiry in New York Gains Allies,” New York Times (Mar. 29, 2016) available at <http://www.nytimes.com/2016/03/30/science/new-york-climate-change-inquiry-into-exxon-adds-prosecutors.html>.

^{xxvi} Timothy Cama, “Feds refer Exxon climate claims to FBI,” The Hill (Mar. 3, 2016) available at <http://thehill.com/policy/energy-environment/271642-feds-refer-exxon-climate-claims-to-fbi>.

^{xxvii} This is exactly the type of “potentially controversial business/financial practices” that ISS references in its proxy voting guidelines. See ISS, 2016 U.S. Summary Proxy Voting Guidelines, (Feb. 23, 2016) available at <http://www.issgovernance.com/file/policy/2016-us-summary-voting-guidelines-23-feb-2016.pdf>.