



## The Story Behind The 38.2% Vote at the ExxonMobil AGM

The 2016 ExxonMobil AGM set the stage for what may become an inflection point in the investment market relative to climate change. The referenced details of one situation that evolved prior to the meeting, forming the basis for concern by a group of investors, are outlined in a Proxy Memorandum initially co-filed by the New York State Common Retirement Fund and the [Church of England Endowment Fund](#).

The key issue of the Proxy Memorandum was that prior to the AGM, Exxon had projected that the world demand for oil in 2040 would be [223 quadrillion BTU's](#) (page 72), which converts roughly to 105 million barrels of oil per day. This demand forecast was totally at odds with the IEA 450 Scenario, which is consistent with limiting the temperature increase to 2°C, of 74.1 million barrels of oil per day by 2040. The difference between the two, of 30.9 million barrels per day, would presumably have a significant impact on the projected earnings of Exxon and thus the performance of its stock.

Enter Dr. Michael MacCracken, who besides having a multi-decadal involvement with Exxon had written in 2002 to the then chairman and CEO, [Lee R. Raymond](#). That letter was the foundation of what would transpire at the ExxonMobil AGM. In a nutshell MacCracken differentiated between how science and business assess the future; science focused on predictions based on the '*probability*' (statistical) analysis of data and business focused on '*possibilities*' based on reviewing a range of scenarios. With regard to the meeting's Item No. 12: Stockholder Proposal Regarding Report on Climate Change Impact Assessment, he distilled the entire situation to the simplicity of requesting that Exxon should be required by the stockholders to perform a **stress test** on any future projections. Implicit in performing a stress test is thorough due diligence of the nature anticipated by seasoned investors.

It should be mentioned that a few months prior to the Proxy Memorandum MacCracken had participated in the generation of a document specifically targeted at explaining climate science in [business terminology](#).

The resolution was defeated as it only garnered the support of 38.2% of the stockholders. This however was a remarkable result based on former resolutions centered on climate change that had been proposed at prior Exxon AGM's. In the aftermath AODP's ([Asset Owners Disclosure Project](#)) ExxonMobil Investor Engagement Report revealed that 50% of Exxon's investors who supported the board and voted against the resolution had signed up to the UN-supported Principles for Responsible Investment (PRI), pledging to incorporate environmental, social and governance (ESG) factors into their investment decisions. Principle 3 states: "We will seek appropriate disclosure on ESG issues by the entities in which we invest."

Based on the legal requirement for company BOD's to exercise fiduciary responsibility on behalf of their stockholders it would appear that the BOD of ExxonMobil has either knowingly committed fraud or is utterly incompetent. In the case of those entities identified by AODP who voted against the resolution irrespective of the fact that they had signed up to PRI, thereby pledging to incorporate environmental, social and governance (ESG) factors into their investment decisions, there is all the appearance of fraudulently deceiving their investors.

It takes little imagination to envisage that very shortly law suits will be filed and the cavalier approach of certain corporate actors towards climate change will be exposed and questioned in courts of law.

In response to the defeat of the resolution Rex Tillerson, chairman, president, and CEO of ExxonMobil, [stated the following](#); "*Just saying 'turn the taps off' is not acceptable to humanity. It is a judgment of balance between future climatic events which could be catastrophic but are unknown, by the IPCC's own acknowledgement, and more immediate needs of humanity today to address poverty, starvation, broad-based disease control, and the quality of life that billions of people are living in today, which is unacceptable to many of us.*"

On the surface this would appear to be a commendable goal; that is until one performs the necessary due diligence and applies a stress test to the findings as requested by the resolution. An analysis of that

nature would reveal that one identifiable **risk** is that a continuance of BAU, in line with Exxon's 2040 projections, is that rather than uplift billions the consequence would more than likely kill billions. Business, particularly investment, is fundamentally based on assessing risk so perhaps we should examine just a few of the risks that society faces around 2040.

In particular let's focus on Tillerson's assertion that a continuance of BAU is essential to address poverty and starvation.

- **Fish.** Fish is the only source of protein each day for an estimated 2-3 billion and the majority of those consumers are subsistence fishers residing in coastal regions around the planet. Scientific research projects there is a risk that [by 2048 fish stocks will collapse world-wide](#) clearly leading to the associated collapse of many millions of micro economies, wide spread starvation, [and even macroeconomic considerations](#).

The chart that projects the collapse clearly indicates that this will not occur on New Year's Eve 2047; the reality is that this is already under way and will become progressively more deleterious. One might add to this [the current state of the oceans](#) due to the excess energy they have absorbed from the burning of fossil fuels and the reality that the Exxon projections would add substantially to the problems developing on a wide scale in our oceans.

It is notable that the Paleoclimate record shows that the last time our oceans became as acidic as they currently are the consequence was it drove [Earth's greatest extinction](#).

On this basis alone should we take the identifiable risk of continually increasing the burning of fossil fuels, as Exxon is proposing, or reduce the risk by ameliorating the situation? Sound investment, and effective management, is after all centered on minimizing risk!

- **Food.** Lloyds of London issued a report in 2015, '[Food System Shock](#)', that was interpreted by some as the potential collapse of industrial civilization by 2040; '*it's a sobering wake-up call, which shows that business-as-usual guarantees the end-of-the-world-as-we-know-it: [our current way of life is not sustainable](#)*'. Added to this a similar report by [Sir David King](#) in 2015.

The reality of both reports is that a world food crisis could occur at any time but according to the Lloyds 1:100 return rate (an insurance industry measure of certainty) this is more than likely totally unavoidable by 2040 failing considerable changes in the burning of fossil fuels. The King report only serves to confirm this situation.

Let us bear in mind that we have already experienced the world food riots of 2008 and the Arab Spring of 2011 (triggered by a substantial increase in food prices in that region), that ultimately progressed into Syria. The ensuing Syrian refugee crisis, which was a direct consequence of a 5-year drought that triggered a mass exodus from the countryside, has resulted in immense problems in the Middle East, Europe and throughout the world.

Now let us add to all of this a recent announcement by the UN that 50 million will be forced to leave their homes by 2020 because their [land has turned to desert](#); the epicenter of this problem is in sub-Saharan Africa and the majority of those displaced will first head North to the already stressed Middle East with the objective of reaching Europe. The consequences could be unthinkable; by 2020!

- **Trees.** In 2009 the IUFRO (International Union of Forest Research Organizations) delivered a report to the UN that stated the natural tree sink could flip from a sink to a source at an [increase of 2.5°C](#). This is an immense consideration that will progressively impact the basic calculations related to the temperature increase that will consequentially occur due to emissions from the burning of fossil fuels. One should note that the UN calculated the Paris Accord would only limit the temperature increase to 2.7°C, if all pledges were implemented [perfectly](#), and independent domain experts have calculated that the result could be greater than 4°C. It should also be noted that none of these calculations includes the potential for a flip in the natural tree sink, which absorbs at least 20%, of emissions, and thus all the identifiable risks to society due to the continued burning of fossil fuels will increase.

There is a plethora of articles that reveal that the [flip is already in progress](#) and every year there are [more](#). The obvious risk is that the IUFRO report was conservative with the direct consequence of the natural tree sink flipping earlier than forecast, thereby totally upending the basic calculations used to set policy.

The above are merely three factors that are not fully considered in any of the IPCC reports; there are others but surely this should be enough to cause concern about the actual level of forward risks we face. Tillerson, as with many others, continually questions the veracity of IPCC documents which by the very nature of the process involved are dated conservative consensus science at the time of publication. IPCC documents specifically provide a basic [guideline](#) for policy, and their [content](#) most certainly portrays a situation that requires urgent attention, but they were never intended to be the sole factor on which to base policy. No military, business (particularly the financial industry), or responsible parent, would assess risk on dated data; all would demand the most recent data available prior to fully assessing risk and determining the policy appropriate to the circumstance.

The approach of Tillerson to justify an unabated continuance of BAU has all the hallmarks of the tactics used for DDT, asbestos, and cigarettes; this time [financially supported](#) by an immense denial machine (note follow the link in the first paragraph of the referenced article to the paper by Robert J. Brulle). The lack of due diligence by investors, that would expose the actual situation is reminiscent of Enron and the 2008 sub-prime loan triggered financial crisis, because a competent due diligence analyst would rapidly expose the very serious situation Tillerson et al are continually obfuscating.

Tillerson et al have totally ignored: the warning of [Robert Zoellick](#) prior to leaving the World Bank; the warning of [Mark Carney](#) (Governor of The Bank of England); the approach of the [Bank of America](#) towards transitioning; and the widely discussed (by financial experts) risk of erasing [45% of portfolio value by 2020](#) due to climate change impacts.

The bottom-line is hardly complicated. In his own words Rex Tillerson acknowledges that scientists have predicted catastrophic outcomes unless we take urgent, very urgent measures to remediate the situation that has been created by burning fossil fuels. No less a spokesman than the [Pope](#), representing the views of 97% of peer reviewed climate scientists (note that many of the other 3% have questionable counter arguments, often funded by the fossil fuel industry), identified how serious the situation has become in his 2015 [encyclical](#). What Mr. Tillerson is proposing is that we totally ignore the potential for catastrophic risk, however overwhelming the evidence is becoming, in favor of continuing BAU and thereby by default increasing the risk of a catastrophic outcome.

**That risk applies to all of us, our partners, our children, grandchildren, and our assets, unless we now act with extreme urgency. There will be no havens (as some seem to think) where one can escape from the predicted ravages of unabated climate change and its inter-coupled impacts throughout the matrix that defines modern society.**

The First Amendment to the United States Constitution prohibits abridging the freedom of speech and therefore as a private citizen Rex Tillerson has a constitutional right to think and say anything he believes. However as the Chairman of a public corporation he is subject to regulations, supported by well-established case law, that restrict what he says to his stockholders; particularly when those statements would deliberately mislead them. Quite simply that is fraud and beyond civil suits places ExxonMobil in the headlights of state attorneys' under the US RICO Act.

So the most likely outcome of the 38.2% vote, and what transpired in the aftermath, is that so-called ambulance chasing lawyers will leap at this opportunity; corporations and investors should be aware of the potential for very costly law suits against the likes of ExxonMobil (climate change deniers) – very aware.

The overarching question for society however is, 'How do we prevent a world food crisis emanating from both land based agriculture and ocean based fishing?' As matters stand, without considerable and urgent action, this will be unavoidable and thereby threaten the very foundation of modern civilization with the entire attendant inter-coupled consequences.