

To Save the Planet, We Need to Leave Fossil Fuels in the Ground—but Oil Companies Have Other Plans

William D. Cohan | Dec. 10, 2014

A growing and powerful Greek chorus—composed of activists, environmentalists, billionaires, former Goldman Sachs



partners, former Goldman Sachs partners who are also former Treasury secretaries, and a former vice president of the United States—has been sounding an urgent message to the world: Big Oil companies cannot, and must not, sell the vast fossil-fuel reserves they have spent billions of dollars finding, digging up and refining. These voices warn that if ExxonMobil, Chevron and Shell are allowed to burn all their carbon, the planet's temperature will rise beyond the 2-degrees-Celsius threshold that, a consensus of scientists holds, is the tipping point to environmental Armageddon. In economic terms, this means we can have either a safe planet or an ExxonMobil worth hundreds of billions of dollars, but we can't have both. Nothing less than Earth's future is at stake.

In June, that chorus seemed to find an important ally: President Obama. In an interview on Showtime's *Years of Living Dangerously*, Obama told New York Times columnist Thomas Friedman that Big Oil must leave two-thirds of its fossil fuel in the ground. "We're not going to be able to burn it all," Obama said.

There's just one problem: Big Oil doesn't agree. On the contrary, Big Oil wants to burn all of the fossil fuel it has found, and then some. It doesn't want anyone telling it what it can and cannot do. Indeed, there is increasingly a sense that the latest efforts of the environmentalists—including the worldwide People's Climate March in September—are desperate ones, reflecting political impotence in the face of an intransigent Congress. "The climate movement is choosing these narratives not because they are objectively the best way to describe the problem," said Steve Coll, the author of *Private Empire*, the definitive book on the history of ExxonMobil. "It's because they are the best way to describe the problem in the absence of comprehensive legislation to actually fix the problem, which they can't achieve in the United States."

That political reality just got a whole lot worse, too, in the wake of the midterm elections, when lawmakers deep inside Big Oil's pockets swept further into power. Caught in a moment of seeming ennui a few days later, Bill McKibben, the Middlebury College professor and 350.org leader, was at something of a loss to describe exactly how the movement presses on from here. "My guess is [the election] means we need to really push outside the formal political system, so things like divestment become even more critical," he wrote in an e-mail. "That said, we're already working as hard on it as we know how to." On December 2, McKibben resigned as the chair of 350.org. His interim successor, K.C. Golden, reached by phone, acknowledged there is "a yawning gap" between what is morally and ethically the right thing to do on the environment and "what the political system is able to deliver." Nevertheless, he argues that "a lot of things are moving in the right direction." Divestiture, he says, is one of them: "It's one step at a time. Divestment gives every person, every institution, every pension fund the opportunity to take control and do something positive."

Big oil companies have made no secret of their belief that they can have it all: both a huge market valuation and a planet that suffers no catastrophic effects from climate change. For the record, ExxonMobil is the world's second-most-valuable company (trailing distantly behind Apple), and its AAA-rated bonds are yielding only slightly more than similar-duration Treasury securities, suggesting that creditors are not the slightest bit worried about a default or a write-down of the value of the so-called stranded assets—oil and gas that ExxonMobil has found but that environmentalists hope will never be sold. "They're some of the biggest political players on Earth, and they have enormous clout," McKibben said of Big Oil. "So they will use that clout to try and ensure that they're allowed to burn everything they've got, and there's all this stuff they continue to look for every day."

In truth, Big Oil seems more or less indifferent to the political and media commotion. It's as if Big Oil is from Mars and the scientists, environmentalists and enlightened politicians are from Venus. ExxonMobil is busy spending \$40 billion this year searching in the remotest parts of the globe—Banyu Urip, anyone?—for new sources of fossil fuel. And it continues to rake in the dough: in 2014, ExxonMobil is expected to generate EBITDA (Wall Street jargon for the amount of cash a company generates annually) of around \$80 billion, enjoying a whopping 19 percent profit margin (based on a consensus revenue estimate of around \$430 billion) and an astounding annualized return on equity of nearly 20 percent. In other words, Big Oil remains incredibly profitable. For Big Oil, it's simply business as usual. In late September, Rosneft, the Russian oil giant, announced that its joint venture with ExxonMobil in the Arctic has discovered a major cache of oil and gas.

Like Lee Raymond, his hard-charging predecessor, ExxonMobil CEO Rex Tillerson has become the embodiment of Big Oil. Tillerson grew up in rural Texas and Oklahoma. He is a proud Eagle Scout, and Ayn Rand's *Atlas Shrugged* is his favorite book. After receiving his civil-engineering degree from the University of Texas, Tillerson joined Exxon and never left. In 2006, at 53, he became CEO. According to *Private Empire*, he brought to the top job a more nuanced view of climate change. Whereas Raymond was essentially a climate-change denier, Tillerson has been willing to throw Exxon's considerable financial resources into studying the issue, lobbying Congress and trying to communicate more diplomatically. "But the essential convictions and the business model haven't changed," Coll said. In fact, Tillerson has made few concessions on the subject of climate change.

Tillerson rarely grants one-on-one interviews with journalists—he declined my repeated requests—but occasionally he will appear in a comfortable forum. One such moment occurred in June 2012 at the Council on Foreign Relations (CFR) in Manhattan. Tillerson came ostensibly to trumpet that, thanks to the newly rediscovered wonders of hydraulic fracturing, or "fracking," the country was awash in natural gas, of which ExxonMobil was the largest domestic producer (owing to the \$35 billion acquisition of XTO Energy that Tillerson engineered in 2010). This was before the world had been clued in fully that the United States was on the verge, as Tillerson described it, of "energy security." It was, he said, "nothing short of extraordinary." (In October, the United States passed Saudi Arabia as the world's largest producer of liquid petroleum, and that new dynamic has sent OPEC into some unexpected turmoil.)

Tillerson then addressed his critics. "Ours is an industry that is built on technology, it's built on science, it's built on engineering, and because we have a society that by and large is illiterate in these areas—science, math and engineering—what we do is a mystery to them, and they find it scary," he said. "And because of that, it creates easy opportunities for opponents of development—activist organizations—to manufacture fear. And so as these technologies emerge, we know the immediate response from certain...interested parties out there is going to be to manufacture fear, because that's how you slow this down. And nowhere is it more effective than in the United States."

During the question period, David Fenton, the founder of the public relations firm Fenton Communications, asked Tillerson about the effects of burning fossil fuels on the environment. "The seas will rise, the coastlines will be unstable for generations, the price of food will go crazy," Fenton said. "This is what we face, and we all know it.... [If] we burn all these reserves that you talked about, you can kiss future generations goodbye."

Tillerson was unimpressed. He said the scientific models that spit out such conclusions were flawed, so the ability to predict "with any accuracy" the impact of carbon emissions on the climate "is really pretty limited." He did concede that

continuing to burn carbon would "have a warming impact" on the planet, but he didn't believe anyone could say how much. Then he added something extraordinary: the solution to the unknown impact of climate change was merely one of "adapting" to new circumstances. "As human beings...we have spent our entire existence adapting, OK? So we will adapt to this," he said. "It's an engineering problem, and it has engineering solutions. The fear factor that people want to throw out there, to say 'We just have to stop this,' I do not accept."

Six months after Tillerson spoke at the CFR, John Watson, the chairman and CEO of Chevron, showed up there, too. Much of the East Coast was still reeling from the near-catastrophic consequences of Hurricane Sandy, the size and scope of which many environmentalists blamed on climate change. Indeed, a new World Meteorological Organization report found that in the 2000s, there were nearly 3,500 natural disasters from floods, storms, droughts and extreme temperatures—almost five times the number of such disasters reported in the 1970s. Watson echoed Tillerson's observation that the United States was increasingly energy-secure and called it a "once-in-a-generation opportunity."

Watson said the "best estimates" for the next "twenty or thirty years" were that "we're still going to be deriving 70 percent to 80 percent of our energy from fossil fuels," despite the remarkable progress made in the use of renewables. Was there nothing that could be done? moderator Alan Murray wondered. "There's nothing you can do about it if you want light, heat, mobility and affordable energy," Watson replied.

Fenton was in the audience that day, too. Again he asked what a Big Oil CEO intended to do to slow the warming of the planet. Like Tillerson, Watson was unmoved. "We have a long way to go before we can replace the current forms of energy that we have today with affordable versions that are less carbon-intensive," Watson said.

If there was any remaining doubt that Big Oil cannot be shamed into reducing the hunt for, and burning of, fossil fuels, it was pretty much erased with the recent release—courtesy of The New York Times—of a transcript made of a private speech given by Richard Berman, an influential political consultant, to the Western Energy Alliance's annual meeting this past June in Colorado Springs. Berman, the founder and CEO of the Washington-based Berman and Co., was hoping Big Oil would help fund a \$3 million public-relations campaign against what he called "Big Green Radicals." The subject of his presentation was "Big Green Radicals: Exposing Environmental Groups."

In his talk, Berman described the fight against environmentalists as "an endless war" that could only be won by appealing to people's emotions—fear, love, anger, greed and sympathy—rather than to their rational thought. ("FLAGS" is Berman's self-styled acronym for this strategy.) "Fear and anger have to be part of this campaign," he told his audience. "If you want to win, that's what we're going to do. We're not going to get people to like the oil and gas industry over the next few months.... What you got to do is get people fearful of what is on the table, and then you got to get people angry over the fact that they are being misled. No one likes being lied to. No one likes being told, 'Oh, this won't hurt.' And so that is central to the messaging campaign going forward." Berman said that green groups are well funded and are not going away anytime soon. "They are in the business to change laws," he continued. "And you change laws by changing people's behavior. You change laws by changing people's attitudes, which in turn is followed by legislators changing their opinion. So think of it as an endless war. And you have to budget for it."

Environmentalists are waging their side of this war with vastly fewer resources than Big Oil commands, but with an increasingly diverse arsenal of tactics. As Berman implicitly concedes, climate campaigners have had some impact on public awareness, even though that has not translated yet into political gains. And for activists like Marcie Smith of the Responsible Endowments Coalition, divestment is more about turning fossil-fuel companies into social pariahs than it is about depressing their stock price. "It's about sending a political signal that the fossil-fuel industry's environmentally destructive and politically corrupt business practices are no longer tolerated," she said.

Taking on Big Oil also requires venturing onto its economic terrain. One environmentalist who has done so is Mark Campanale, a former money manager and the founder of the Carbon Tracker Initiative, a London-based nonprofit. To get Big Oil to 'fess up about the magnitude of its "stranded assets," Campanale has encouraged activist investors to put resolutions on shareholder ballots during the spring corporate proxy season. It's a clever tactic born of Campanale's finance background. But like the "stranded assets" argument generally, it has met with only modest success.

In October 2013, with Campanale's help, Ceres, a nonprofit environmental and shareholder activist organization, corralled seventy institutional investors with some \$3 trillion of assets under management to demand that Big Oil come clean about the fossil-fuel assets that it might never be able to turn into cash. "We would like to understand ExxonMobil's reserve exposure to the risks associated with current and probable future policies for reducing greenhouse gas emissions by 80 percent by 2050," the investors wrote to Tillerson. The activists wanted a resolution in ExxonMobil's May 2014 proxy requiring the company to prepare a report, by September 2014, to address the "stranded assets" dilemma.

That's the last thing Tillerson wanted, of course. And thus began an arduous negotiation. On March 20, the two sides announced a compromise: ExxonMobil would release its first-ever public assessment of the risks to its balance sheet of the "stranded assets," and the activists would withdraw their resolution. The environmentalists crowed. "I think Exxon coming to the table...was incredibly important because, just a few short years ago, Exxon had been a climate denier," explained Danielle Fugere, the president and chief counsel of [As You Sow](#), an environmental activist organization.

But it seemed like a Pyrrhic victory, at best. Some would say that Tillerson snookered them. ExxonMobil's thirty-page report was nothing more than a defense of the status quo and a rehash of much of what Tillerson had said two years earlier at the CFR. The company did not believe it was sitting on any stranded "hydrocarbon reserves," nor did it believe any would become stranded. On the contrary, Tillerson argued, burning as much fossil fuel as possible was the key to lifting billions of people out of economic hardship and helping them achieve a better life.

To accompany this narrative, the report had two sets of photos: one contrasted a man plowing a field using yoked oxen with a farmer driving a big industrial tractor; the other contrasted a bent-over woman, dressed in primitive garb and feeding sticks into a wood fire outside her mud hut, with an Asian woman and her daughter heating a meal in stainless-steel pots on a stove in a spotless kitchen.

ExxonMobil did acknowledge that there was "always the possibility that government action"—in the form of a carbon tax, a "cap and trade" regulation or a "carbon capture" plan where carbon emissions are buried underground—"may impact the company," but it dismissed as "highly unlikely" any chance of new laws or regulations that would prevent its proven reserves from being burned. That kind of reform seems even less likely to happen in the 114th Congress, which begins in January. The company cited its own studies as finding that the "world will require all the carbon-based energy that ExxonMobil plans to produce"—35 percent more in 2040 than in 2010—and that it did not "anticipate society being able to supplant traditional carbon-based forms of energy with other energy forms, such as renewables, to the extent needed to meet this carbon budget."

ExxonMobil is not alone in this view. Also in response to activist pressure, Royal Dutch Shell on May 16 produced a twenty-page letter that managed the intellectual jujitsu of seeming to acknowledge the climate conundrum while making it clear that Shell—like Exxon—would have no stranded assets, adding: "There is a risk that focusing on 'stranded assets' or the concept of the 'carbon bubble' distracts attention away from the reality of a growing population, increasing prosperity and growing energy demand." The message from Big Oil seemed to be, in the words of environmental writer Mark Hertsgaard, "You don't think we're going to burn this? Just watch us."

Even though it sure seemed that ExxonMobil had extended a large middle finger to the environmental activists, they did not necessarily see it. "This is a behemoth corporation and, at the very least, they've acknowledged the issue of climate-change risk," said Natasha Lamb at Arjuna Capital. "In my estimation, ExxonMobil was not giving us the finger. It was giving global government the finger [by] saying, 'You're not going to do anything about this risk, so we can sit pat.'" Fugere, at [As You Sow](#), said she found the proxy exercise illuminating, if only to prove definitively that ExxonMobil will not be swayed. "They believe that the demand for fossil fuel will increase; that's an incredibly important perspective," she said. "They are creating a fiction." Undaunted, Lamb and Fugere proposed a new resolution for ExxonMobil's 2015 proxy: that the company commit to increasing the amount of capital it returns to shareholders through stock buy-backs and dividends, instead of spending the money on increasingly costly fossil-fuel exploration.

Of course, divestiture is the easiest step for an investor if he or she no longer believes a stock will make money; just sell the stock and be done. McKibben and former vice president Al Gore have been leading advocates of large endowments and pension funds divesting themselves of Big Oil stocks. In September, the Rockefeller Brothers Fund—built, in part, on the wealth of the heirs of John D. Rockefeller, the founder of what has become ExxonMobil—said it would begin immediately divesting the stocks it owns in coal and tar-sands companies and then, eventually, in all fossil-fuel companies. "The divestment movement will continue to grow very, very quickly," McKibben said, "and I think as it does, it'll be one of the several things that's putting pressure on the political system to shift." He is particularly heartened by the University of Dayton's June announcement that it would eliminate fossil-fuel stocks from its \$670 million endowment. "It's a good indication, I think, of which way the world is going," he said. In Stockholm to accept an award on December 1, McKibben asked the city to sell its fossil-fuel stocks.

But there are big hurdles for the divestiture movement. For starters, at a price equal to just less than five times its estimated 2014 EBITDA of \$80 billion, ExxonMobil's stock is cheap, making it attractive to institutional investors, particularly in an overheated market. Google, by contrast, trades at around fourteen times its estimated 2014 EBITDA. None of the twenty-four research analysts who cover ExxonMobil have "sell" recommendations on its stock—about par for the course on Wall Street, where the big banks depend on corporations for fees and are loath to urge investors to dump their securities, especially when they appear to be cheap. And this is despite a 40 percent drop since June in the market price of a barrel of crude oil.

At ExxonMobil's annual research analysts' meeting, held in March at the New York Stock Exchange, there was not a single mention of the words "stranded assets" or "carbon bubble." One questioner noted that many of the company's new capital expenditures seem to be for projects that are getting harder to do. But Tillerson swatted away this concern deftly.

Still, the activists remain hopeful their divestiture message is gaining traction. McKibben and others point to Stanford University's decision in May to sell off the coal stocks in its \$18 billion endowment. But, in truth, this was a minor concession on Stanford's part, amounting to a couple of million dollars. (Stanford made no mention of divesting oil and gas stocks, or of ExxonMobil's 2002 pledge of \$100 million—out of a projected \$225 million budget—to create the Global Climate and Energy Project at the university.) And the mighty Harvard, with an endowment of \$36 billion, won't even go that far. In a statement issued in October 2013, Harvard president Drew Gilpin Faust said she preferred "engagement" with the Big Oil companies to divestment. "We should think about how we might use our voice not to ostracize such companies but to encourage them to be a positive force both in meeting society's long-term energy needs while addressing pressing environmental imperatives," she wrote, in delicious corporate-speak.

Campanale, at Carbon Tracker, said he understands the dilemma supposedly faced by large institutional investors, which insist that divestiture, for them, is not as simple as just selling stock. So-called passive fund managers feel constrained to buy fossil-fuel stocks because these companies are a big part of the world economy, and it can be unwise, professionally, to leave them out of a portfolio. "If you do, you'll ultimately lose your investors' money, so it's better just to run with the herd," he said of their thinking. But while Campanale is sympathetic to these concerns, he remains unbowed: "It's irrational to invest in more fossil fuels, knowing that we've got enough already invested to burn the planet."

After the November 2014 election, Ceres, the environmental group that works with Carbon Tracker, lamented that while GOP control of Congress "will certainly have consequences," the more important development from the group's perspective was the release of a report by the Intergovernmental Panel on Climate Change that demanded "substantial emissions reductions over the next few decades and near zero emissions of CO₂ and other long-lived [greenhouse gases] by the end of the century" and urged a complete phasing out of fossil fuels in favor of "clean energy." Ceres sees a huge opportunity for investors. "The inevitable and necessary shift...will unleash innovation and create multitrillion-dollar investment opportunities," wrote Christopher Fox, director of special projects, in a recent blog post. "At the same time, this essential shift will create risks for any current and future investments in fossil fuels."

There's no denying anymore that we have been thoroughly warned about the dangers of continuing to burn fossil fuels. The problem is that it's increasingly hard to believe that Big Oil won't get its way. "The Exxons of the world have all the

money," McKibben allows. "But that doesn't mean I don't think we're going to win." He worries that we're running out of time, though, and points to the "massive and irrevocable" melting of the West Antarctic ice sheet. "That's Exxon's gift so far to the planet," he says. "I don't know whether we can stop them in time or not, but we're definitely putting a dent in everyone's understanding of the future."

Mark Hertsgaard believes that winning this fight requires raw political power. Every one of the successful social movements in this country started with political protest. Mere resolutions on corporate proxy statements are insufficient. "It's not like we don't have enough policy proposals," he concludes. "It's not like we don't have enough legal advocates or inside players in Washington, DC. That is not the problem. The problem is that there is no political power behind that, and in order to get the government to make Exxon leave that stuff in the ground, to really leave two-thirds in the ground—that's going to take political power and not a bunch of shiny reports."