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[Products & Services](#)

[Our Company](#)

[Corporate Citizenship](#)

[Our Brands](#)

[Your Industry](#)

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- > [NEWS ROOM](#)
 - [Media Contacts](#)
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 - [Op-Eds](#)
 - [Speeches & Interviews](#)
 - [Publications](#)
 - [Valdez](#)
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Environmental Performance and Policy: An ExxonMobil Perspective

Remarks by Rene Dahan
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Thank you. It is always a pleasure to be here in London, among friends, colleagues, competitors - even critics - and others interested in our industry.

Not too long ago, I came across an interesting article in Petroleum Intelligence Weekly comparing oil companies' approaches to environmental and other public image issues.

The article wrongly suggested that my company, ExxonMobil, didn't seem to care much about either the environment or its public image, and opined that this may have something to do with arrogance born of size, a tendency to bury our head in the sand and a great reluctance to "engage." The article also touched on the widely held belief that ExxonMobil had great influence over the U.S. administration environmental policies. On this latter point I must confess that quite unfortunately, this is a compliment we simply do not deserve. As to the rest of the analysis ... I intend to deal with most of the points made in the course of my talk.

Let me begin with this notion of "engagement" which many view as central to the debate around environmental policies. It requires I believe some clarification. If one takes "engagement" to mean a dialogue with the more extreme activist groups who choose to demonize Society's use of fossil fuels, whose stated objective is to drive our industry out of business and whose practice is to dictate, not debate ... Well, I would suggest that NOT ENGAGING has little to do with arrogance and everything to do with COMMON SENSE.

If however, "engagement" means to stand up and express one's views and opinions clearly and honestly, to tell it as it is, without too much regard for the resulting gain or loss in popularity, then, Ladies and Gentlemen, we have always engaged and I assure you we shall continue to be engaged. It is not always a comfortable position to be in, particularly here in the UK right now. But comfort is not on our menu when we determine what we believe in and decide to speak up.

With this as a lengthy but necessary introduction, let me now get into the subject of this talk: the ENVIRONMENT.

It is surprising to me that the one word, the one notion which doesn't often come up in discussions about environmental policy or public image is "PERFORMANCE." A well known Chinese proverb says, "actions speak thousand times louder than words" and yet at times it seems images, intentions, ads and other expressions take precedent over performance.

Performance or Popularity

Our industry has long dealt with the issue of environmental performance versus environmental popularity. For at least the last 30 years, we have contended with environmental issues and their impact on our public images.

On occasion, some companies, like my own, have taken positions in contrast to the stampede of public opinion. Others have adopted the positions of industry critics, while some have sought to avoid the public eye entirely.

Certainly, the **public** positioning among our companies has differed. For our part, we see industry's duty to provide as much benefit to our economies and societies as we can, while at the same time ensuring that we minimize the environmental impact of our operations and our products. This focus on performance is something that, in fact, we at ExxonMobil are quite proud of.

And I think it can serve as a model for helping us out of the confusion and rhetoric and disagreement surrounding many environmental issues lately. And I believe when all the dust settles after the public relations battles, boycotts, threats and the like -- environmental performance, not words, not corporate advertising, will be the only valid currency of our environmental contribution.

Environmental Management

In talking about how our industry works to protect the environment, let me start perhaps at the last place you would expect -- Valdez, Alaska. Our entire company...as well as our industry...was traumatized, and to some degree reborn after the Exxon spill at Valdez in 1989.

It was a terrible accident everyone in our company very much regrets. Exxon went to extraordinary lengths to clean up the damage and it was a successful effort at that level. However, the public relations story was different, and the legacy (and of course, the litigation) is still with us.

But I know other companies among our partners and competitors watched all this happen and also suffered a trauma. Many have been through similar experiences. Maybe not as visible and sensational. Maybe not as costly. But all companies in our and related industries watched Valdez and other events that shaped the public consciousness...Bhopal, Love Canal, Amoco Cadiz and so on...and drew certain common conclusions.

For our part, we at what is now ExxonMobil committed to build into the fabric of our company a continuous improvement program to make what were already industry-leading environment protection policies pre-Valdez even stronger. Our environmental performance today is a product of that experience, and of the processes and management systems we set in place over a decade ago. Other companies have taken similar or parallel approaches...to ensure that environmental impact is as close to a minimum as possible.

Basic Principles

The approach we take is founded on the basic operating principles of our company. They include:

- disciplined and clearly documented management systems;
- rigorous scientific, economic and technical analysis to identify priorities and most effective approaches;
- a commitment to R&D to improve our products and performance.

Our environmental management systems drive environmental performance by requiring that we:

- Conduct business in a manner compatible with the balanced economic and environmental needs of the communities in which we operate;
- Comply with all applicable environmental laws and regulations -- and where they don't exist, apply responsible standards voluntarily;
- Work with government and industry groups to foster the development of effective environmental laws and regulations -- rules which recognize the science and consider risk, costs and benefits, including -- often unforeseen -- effects on energy and product supply.

These are highly complex issues with many variables and dimensions.

As companies and as human beings, we in industry know that our models have been built to ensure that we don't fail in addressing this challenge. We must not fail our communities, our customers, our shareholders, or our world. And so we stay awake at night, thinking the unthinkable ... working out ways to ensure that it never happens. In other words, what truly matters to us is our very real underlying performance in these areas.

Multi-dimensional, bottom-line focus on performance is essential to business success and should be applied also by those who advocate and make environmental policy.

The focus should be on communities, standards of living, energy security, economic and environmental progress and concrete cost-benefit assessments that affect nations and lives so profoundly.

To better apply the point, let's take it down to the next level of detail.

OIMS

We have consolidated our safety, health and environment systems into a unified Operations Integrity Management System (OIMS).

The system has been refined as the years have passed -- including some important things we learned from people outside the industry, from our competitors' best practices, and from Mobil's similar systems.

OIMS is a structured, comprehensive system that seeks to ensure the achievement of consistent, reliable and incident free results. Given the risks inherent in our business, we see having such a system as a prerequisite to earning and keeping our license to operate.

The best indication of the success of the system is to quote from what Lloyd's Register recently said, in granting us attestation that our entire worldwide operations met the ISO14001 requirements:

"We believe ExxonMobil to be among the industry leaders in the extent to which environment management considerations have been integrated into its ongoing business processes."

Does that mean we are perfect? Certainly not.

Does it mean we have improved? Yes, dramatically.

Does it mean any system is failsafe? No.

Does it mean the odds of serious failure are reduced? Definitely.

Other companies are striving for comparable goals. Imagine the positive impact there would be on public health, safety and the environment if public policy adopted such a rigorous, scientific, cost-effective system to reduce environmental risk or, for that matter, any other risk.

Performance

Can performance be the key criteria for shaping environmental policy ... both company policy, and global policy? In other words, will a performance-based policy deliver?

Let's take safety as an example of how our company approach has delivered. Between 1995 and today our rate of incidents requiring employee time away from work fell 70% worldwide.

We have the best safety performance in the industry. And when we talk about our safety performance -- it's not just about good safety statistics. It is a task we carry out with true passion from the corporate top to the work

floor. We believe that how we go about handling safety matters is a good indicator of how we approach any task -- using those very same basic operating principles I mentioned a moment ago.

The rate of all employee injuries and illness declined by 40%. Our contractors reduced their lost time injury rate by 30%. No large company has better performance. But we're convinced we can and will do better as we continue to apply the principles of continuous improvement to safety.

On the environmental side, I'll cite another key statistic: in the last four years we have reduced spills to land and water from marine vessels by 50% -- THINK ABOUT THIS -- to about two tablespoons lost for every million gallons of crude and products transported. This is a statistic that any reporter or critic can verify.

But more importantly, we will not rest until it is consistently and sustainably as close to zero as possible.

R&D

Now I'll talk a little about the role of Research and Development in protecting the environment.

R&D is a strong engine of change and progress. At ExxonMobil, our commitment to R&D is a major driver of both business efficiency and successful environmental performance.

We believe we have the largest in-house R&D effort in the industry -- beyond all the technical advances made every day by the thousands of people working in our plants and operations. This fundamental R&D spans work in physics, chemistry and mathematics to field application of new approaches. Of the \$600 million ExxonMobil invests annually in our in-house R&D, approximately \$120 million a year -- and the efforts of 400 scientists, engineers and technologists -- are focused on the development and application of advanced technologies devoted to safety, health and environmental programs.

Let me give you just a few examples of how this R&D effort impacts our environmental performance. It confirms our basic belief that a more efficient business is likely to be a more environmentally responsible one also.

First, in the upstream, 3-D seismic imaging and advanced drilling techniques have lowered costs to discover and produce oil and gas while resulting in a dramatic increase in estimates of recoverable reserves. That's good news for us at the company -- but what's often overlooked is that these techniques have also radically lowered the "footprint" of our work, and the energy and waste expended in looking for new reserves.

In the downstream, our R&D effort is to re-engineer fuels and lubricants for today's and tomorrow's needs, to lower costs, to make operations safer, and to cope with changing regulatory requirements for our plants and products. Many of the gains in efficiency that have come out of these programs have also had direct and substantial environmental benefits.

Since the "energy crisis" of the early 70's we have placed much focus on becoming more energy efficient in our operations. In fact between 1973 and 1998 we were able to reduce the energy use in our refineries and chemical plants by 37%.

The energy we saved over that period is equivalent to the total output of a major oil field, say the Beryl field here in the North Sea, over the same period. The CO2 emissions we've avoided (based on 200 million tons of carbon) well above the entire CO2 emissions of the UK in 1998.

Several years ago, however, we decided we needed to do more. We put together a worldwide expert team of technologists and engineers to develop a set of state-of-the-art technologies and practices now incorporated in our new Global Energy Management System.

By looking in detail at each of our operations, we developed a disciplined, comprehensive approach to energy management that is now being rolled out to each ExxonMobil manufacturing site. Our current assessment shows that we should be able to achieve at least another 15% energy efficiency improvement during the next several years beyond the 37% already captured

One third of that should come from operational improvements -- the rest from investments including cogeneration. In fact, we are the leader in the installation of cogeneration units that simultaneously produce electric power and steam, with up to 50% energy savings.

And since natural gas is usually the fuel of choice, CO2 and other emissions are lower. The energy saved is about 1/4 of that generated as electricity by all the wind and solar facilities worldwide. The capacity we have in place has reduced CO2 by almost 6 million tons a year.

In the chemicals business, by adopting similar R&D-led approaches, we've reduced our air emissions and hazardous waste disposal rates by almost 60% since 1989.

We believe that proper policy decisions will result in corresponding R&D approaches and resources being applied to climate change amelioration...and to finding the most cost-effective and highest performance solutions...without distorting the efficiency of the free market.

The Future

Now I'd like to look at the future.

Some critics compare our industry to our fossil fuel antecedents -- the dinosaurs. Modern research actually emphasizes just how successful the dinosaurs were in surviving for hundreds of millions of years, but I suspect that's not what our critics are getting at. Further, their notion is that we are somehow behind the curve of technological change and business innovation.

That's a truly misinformed position. What is going on today inside many of our companies, mine included, is

exciting, intellectually challenging and will materially change our future in a positive sense. We have learned to be optimistic about our capabilities, not as a matter of "wishful thinking," but because our industry has met numerous such challenges successfully in the past decades.

I hope I've made clear that at ExxonMobil we're researching ways to lower costs and emissions from all our operations and to make our products better and cleaner. Some of our top scientists and engineers are at work on new business opportunities building on our core strengths. For example, we are engaged in a major fuel cell research program with GM and Toyota.

If successful, these technologies will eliminate the need for -- and the significant environmental impacts of -- enormous investments in fuels infrastructure that could delay the widespread use of fuel cell vehicles.

We're also working on some remarkable technology ideas with Toyota. These technologies offer the potential of huge advances in the efficiency and cleanliness of the internal combustion engine, and will be the benchmark against which new technologies such as fuel cells are judged.

Our philosophy is not to pick winners and decry all other options. Part of the strength of a competitive global business environment is that we all place bets on what the future will look like, with society the ultimate winner. We believe that in the future, a variety of energy solutions will meet people's needs. Our R&D program reflects that belief.

While there are enough oil reserves for at least 70 years and enough coal for maybe another 250 years, we expect a variety of fuel sources to develop to meet future needs. Each will have its own niches and its particular pros and cons.

And while we as a company are investing in solutions that we assess are environmentally safer, more cost effective and higher performance than other options, we certainly encourage others to go down a different path, if they see promise there. It's good for the environment, good for the economy and good for the world.

Renewables will have their part. How big or small a role depends on addressing major issues of cost and impact. Government mandates -- look at California's electric car experience -- can't overlook basic issues of science and economics, and we'll continue to make ourselves unpopular by telling anyone who'll listen about the realities.

As for our own approach to renewables, we currently believe (having spent half a billion dollars to find out -- we learn from our experiences) that we can better serve society's near and medium-term needs, by focusing on R&D work on how to reduce the environmental impacts of oil and gas use.

Some people criticize us for that, but the focus derives from a business decision, not an ideological decision. If the market reality changes and we conclude we can make good sound investments in the renewables arena, we may be there again.

It is absurd to say, as some do, that lack of investment in renewables means an unwillingness to take significant steps to improve the environmental performance of our operations or to address the concerns associated with climate change.

The renewable industry does not suffer from a lack of investments. Some of our key competitors and many others outside the oil and gas industry show great appetite for such investments. What it will suffer from is the absence of significant breakthrough advances to close the economic gap with competing energy forms. This will come from research, not from manufacturing investments.

Science, Public Opinion and Environmental Policy

Now, let's briefly appraise where we are on climate change. This one issue can serve as a prism for just about all environmental concerns and policies.

Current scientific, economic and technical understanding of climate change remains limited. A fair reading of the specifics -- not just the executive summaries -- of the IPCC and National Academy of Science Reports shows that there are critical gaps in our understanding -- including the role of natural variability, understanding of critical processes that limit ability to make predictions, and the extent to which human activities affect climate today.

I can't think of any person with a basic level of scientific competence who would disagree that these are important gaps.

BUT LET ME BE VERY CLEAR -- SCIENTIFIC UNCERTAINTY IS NO REASON TO DELAY TAKING APPROPRIATE ACTION. The issue is -- given the level of society's current knowledge of the relevant science, the economics and technology options -- what are the appropriate policy options to address the potential long-term risks.

It is no secret that in Europe, very few openly oppose Kyoto and it has become politically incorrect to do so. This position seems to preclude further analysis, justification and debate on such steps as capping energy use and other prescriptive mandates. Any attempt to expand the debate on these issues is met with a very negative response.

I think that as players in a science-based industry operating in open market economies and open political systems, we all have a responsibility to ensure that there is a full and balanced flow of scientific information and opinion ... and that there is always room for thoughtful, responsible opposing opinions ... based on careful consideration of all of the science, options, costs, risks (including analysis of risk of delaying various proposed remedial steps) and benefits.

In this expanded debate, our role is to speak up based on our experience and knowledge of science, technology and economics.

I want to say a few things to explain our position and to address the extreme criticism expressed on this side of the Atlantic. The activists campaigning against the U.S. government's position on the Kyoto treaty say that the U.S. position was dictated by ExxonMobil, encouraged by a campaign donation.

This is absurd.

The George W. Bush presidential campaign raised a total of \$194 million; the Gore campaign raised a total of \$133 million. It's illegal for a U.S. corporation to give money to a candidate for national office. ExxonMobil, like many other companies in the U.S., has a political action committee funded solely by voluntary contributions from employees. The ExxonMobil PAC donated \$745,670 to individual presidential and congressional candidates during the last election cycle. Just \$5,285 of this was contributed to the Bush campaign.

These contributions by our political action committee to all candidates placed us only about #150 on the rank list of corporate political action committees. [NOTE: BP political contributions were at about the same level.] It is ridiculous to suggest that our contributions could buy influence on U.S. government policy.

The truth of the matter is, in the U.S., opposition to Kyoto was and is a mainstream view. While the American public, like my company, is concerned about climate change, they've not been convinced that Kyoto is the answer. Many feel quite strongly that Kyoto is the wrong answer.

America's labor unions, for example, are worried about the economic impact. Even before the treaty was signed, the U.S. Senate voted 95-0 against any agreement that did not include developing countries ... or caused serious economic harm to the U.S. economy. This is why the Clinton Administration did not even try to get it ratified.

Nearly every mainstream industry group in the U.S. opposes the treaty -- including the U.S. Chamber of Commerce, the National Association of Manufacturers, and the U.S. Council for International Business. These are not all people with a vested interest in fossil fuels -- in fact, most of the companies represented by these large associations have no such connection.

Rather, they recognized the likely impact of the treaty on the U.S. economy. After all, the Kyoto targets would require reductions of roughly 30% from where emissions are projected to be. To place this in perspective, the required reductions exceed emissions generated from transportation or power use in the United States today. And they realize that Kyoto will likely have very little impact on the global environmental front because it excludes developing countries from its guidelines.

ExxonMobil Actions

THAT SAID, WE AT EXXONMOBIL AGREE THAT GLOBAL CLIMATE CHANGE IS A SERIOUS ISSUE AND THE CURRENT LACK OF SCIENTIFIC, ECONOMIC AND TECHNICAL CERTAINTY IS NOT A REASON FOR INACTION.

So what are we as a company doing about it?

We're investing money in research -- as we have been since 1980 -- to increase our own and society's knowledge of the problem. We're reducing our own emissions now -- as we have been for many years. We're planning on more reductions in the future, as well as working on future fuel technology R&D as I described earlier.

Government Actions

But we all agree that industry alone cannot ensure environmental protection. Governments do need to start now to adopt policies.

If global warming turns out to be one of mankind's greatest potential challenges, then surely we deserve more than a choice out of one single option. The debate we need to have is not simply to determine who is for and who is against Kyoto. That debate has brought a lot of useless controversy and has damaged international relationships. The debate should be expanded and continued to consider all our options in a manner that matches the gradually improving scientific understanding of potential climate change. There is ample time to do so or even to try several options in different regions before committing to the most effective approach.

We would offer the following for consideration in developing a way forward. Our approach would distinguish two broad phases. A first phase encompassing the next fifteen to twenty years would be devoted to:

An active research program engaging our best worldwide research establishments to systematically improve our ability to predict the magnitude, the impact and the consequences of climate change, and to better monitor changes in temperature and other critical climate variables. This should be a focused, intense effort by scientists without political massaging of their work.

Until research and observations produce significant gains in scientific understanding there would be little value to develop any further speculative predictions of climate change from the same climate models run with differing assumptions.

Governments in all countries in both industrialized and developing economies should establish Emission Registries and require significant emitters of greenhouse gases to report annually on their emissions on a mandatory basis so we can establish consistent measurement systems to measure from today -- not from an arbitrary 1990 or 1995 base line -- to ensure consistent, verifiable performance measurement by all, including developing countries.

Encourage actively through incentives and otherwise actions that raise energy efficiency in all sectors of the economy. Industrial plants, power generation, appliances, automobiles, etc.

Promote carbon storage through wise forest and agricultural practices.

Focus international efforts on a framework that supports technology transfer and information sharing.

Consider that using existing technology to raise the efficiency of power generating plants in China, India and other developing countries to today's average level in the U.S. and Europe would reduce CO2 emissions in 2010 by more than one billion tons per year, or 1 1/2 times the reduction expected from implementation of the Kyoto Protocol, as now defined, in nations other than the U.S.

Realistically appraise and address the barriers to renewables, like wind and solar, as well as nuclear energy using technology and policy tools to increase their potential role.

And then, most importantly, undertake research on the kind of long-term mega technologies such as fuel cells, clean coal, CO2 separation and storage, and other energy systems capable of significantly improving the energy efficiency of the world economies and reducing the emission of greenhouse gases without giving up economic prosperity.

During the following phase these new technologies would be developed and deployed at a pace consistent with their economic potential and the perceived need to control total greenhouse gases emissions. WE NEED TO REMEMBER THAT THOSE NEW TECHNOLOGIES DO NOT EXIST TODAY AND YET THEY REPRESENT THE ONLY, I REPEAT, THE ONLY EFFECTIVE LONG TERM RESPONSE TO POTENTIAL CLIMATE CHANGE. THE NEED TO URGENTLY MOVE ON THIS PRIORITY IS NOT SUFFICIENTLY RECOGNIZED.

Conclusion

In conclusion, my company supports approaches that balance the needs of society for affordable abundant energy, and the need to address the longer-range issue of climate change. Our focus is on ensuring the most efficient approaches are adopted, rooted in sound science and economics, and we will always advocate that the concerns of the consumer are heard. We will continue to press for a continuing and expanded debate on environmental policy.

We approach the challenge of addressing climate change the same way as any other challenge we have faced -- focusing on performance, learning from our experiences and those of others, striving to continuously improve and always aiming to be the best and clearest in expressing our views.

Thank you very much.