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The 'Mean Greens' Are Forcing Exxon to Clean Up Its Act

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Since the 1990s, the wisest oil-producing countries and companies have regularly reminded themselves of the oil patch adage that the Stone Age did not end because we ran out of stones; it ended because we invented bronze tools. When we did, stone tools became worthless — even though there were still plenty on the ground.

And so it will be with oil: The petroleum age will end because we invent superior technology that coexists harmoniously with nature. When we do, there will be plenty of oil left in the ground.

So be careful, wise producers tell themselves, don't bet the vitality of your company, community or country on the assumption that oil will be like Maxwell House Coffee — “Good to the last drop” — and pumped from every last well. Remember Kodak? It underestimated the speed at which digital photography would make film obsolete. It didn't go well for Kodak or Kodachrome.

Alas, though, not every oil company got the memo.

One that most glaringly did not is the one that in 2013 was the biggest public company in the world! It's ExxonMobil. Today, it is no longer the biggest. As a result of its head-in-the-oil-sands-drill-baby-drill-we-are-still-not-at-peak-oil business model, Exxon lost over \$20 billion last year, suffered a credit rating downgrade, might have to borrow billions just to pay its dividend, has seen its share price over the last decade produce a minus-30 percent return and was booted from the Dow Jones industrial average.

But last week — finally — Exxon got the memo, in the form of a shareholder revolt in what was one of the most consequential weeks in the history of the oil and gas industry and shareholder capitalism.

I've long argued that if environmentalists want to have an impact on the climate they can't be “nice greens.” They have to be “mean greens.” They have to be as mean and tough, as diligent and vigilant, as the industry they're trying to change.

Well, last week a little hedge fund called Engine No. 1 delivered an unprecedented master class in mean green

using the tools of democratic capitalism. A plucky, purpose-driven investment fund, Engine No. 1 set out to force Exxon to improve its financial returns by getting much more serious about gradually transitioning — through innovation and acquisitions — into being an energy company, not just an oil and gas company.

At Exxon's annual meeting, Engine No. 1 offered up a slate for four new members of Exxon's 12-member board. The four represent deep energy expertise and climate solutions. The slate committed to push the oil giant to a net-zero emissions strategy by 2050, more investments in clean energy systems and more transparency about Exxon's energy transition, with metrics and milestones, as well as disclosure of its lobbying payments and partners, suspected of undermining the science around climate change.

And darn if half the slate — Gregory Goff and Kaisa Hietala — wasn't immediately elected by wide margins, and at least one other member might be as well when ExxonMobil finishes counting the votes from its very, very bad day.

Engine No. 1 was successful because it got three of the four biggest pension funds in America — fed up with Exxon's relentless value destruction — to vote for its nominees. We're talking about the California Public Employees' Retirement System, the California State Teachers' Retirement System and the New York State Common Retirement Fund. Also, three of the world's biggest fund managers, Vanguard, State Street and Black Rock, which together own more than one-fifth of all Exxon stock, each voted for part of the dissident slate.

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And if you are keeping score at home — on your Stone-Age-ending-before-we-run-out-of-stones scorecard — on the same day that Engine No. 1 landed at least two energy/climate experts on the Exxon board, Barron's reported: "A Dutch court ordered European energy giant Royal Dutch Shell to slash its carbon emissions by a net 45 percent by 2030. And, at Chevron's annual meeting, shareholders supported a nonbinding proposal to ask the company to cut carbon emissions generated by the use of its products."

Engine No. 1 and its allies are not playing around, and for good reason. As CNN reported a few days earlier, citing a newly published Harvard study, "For decades, ExxonMobil has deployed Big Tobacco-like propaganda to downplay the gravity of the climate crisis."

"The study used machine learning and algorithms to uncover trends in more than 200 public and internal Exxon documents between 1972 and 2019," according to CNN, which quoted this statement from the study: "These patterns mimic the tobacco industry's documented strategy of shifting responsibility away from corporations — which knowingly sold a deadly product while denying its harms — and onto consumers."

Exxon's existing board was noteworthy for one thing: Other than the C.E.O., it had one member — appointed only this year — who I would call an energy expert and none steeped in climate expertise that could help the company

and you — who I would call an energy expert, and none steeped in climate expertise that could help the company adapt.

The two new directors will definitely help, but getting the third — conservationist Andy Karsner — would really shake things up. Exxon says the voting results are too close to call, and it needs more time to certify if Karsner won a seat.

Bloomberg reported: “Exxon telephoned investors the morning of the ballot — and even during an unscheduled, hourlong pause during the virtual meeting — asking them to reconsider their votes, according to several of those who received calls. Some said they found the last-ditch outreach and halt to the meeting unorthodox and troubling.”

I first got to know and respect Karsner watching him in action in 2007, when he was an assistant secretary of energy for George W. Bush. He oversaw the U.S.’s National Laboratories’ applied science programs and negotiated America’s re-entry into the U.N.’s Convention on Climate Change at the Bali conference, which laid the pathway for the Paris global climate deal. Before that, Karsner built power plants in Pakistan and solar plants in Morocco.

He has been a longtime member of the board of Conservation International, as was my wife. In full disclosure, Karsner and I are now friends, but it’s his experience and outlook that recommend him here. If there were a picture in the encyclopedia of a “mean green,” it would be Karsner: tough as nails and green as grass.

Karsner, the other Engine No. 1 nominees and Engine No. 1 itself are out to strengthen Exxon, not destroy it. They view it as one of the world’s greatest collections of scientific and engineering talent. They welcome Exxon’s sudden enthusiasm for the idea of creating a \$100 billion public-private carbon-capture facility along the Houston Ship Channel to sequester planet-warming carbon dioxide. They also know that demand for oil and gas for transportation, power generation and plastics is not disappearing overnight. Wisely managed money will be made there.

But in a world where Ford just unveiled an all-electric version of its F-150 full-size pickup truck, one of its top-selling vehicles, and says that it envisages electric cars and trucks making up 40 percent of its production by the end of the decade, they think Exxon has got to stop betting that the good ole days of oil and gas profits will return — and start becoming a more diversified energy company. That means not only investing more in future carbon capture, batteries and other renewables, but also using its engineering prowess to invent that future — while it still has an income stream from oil and gas.

Everyone knows it won’t be easy. Making the kind of profits that Exxon once piled up from oil and gas will be very, very hard as a more diversified energy company. But it beats becoming a corporate fossil by betting the house on increasingly unprofitable, increasingly obsolete, increasingly unhealthy fossil fuels.

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