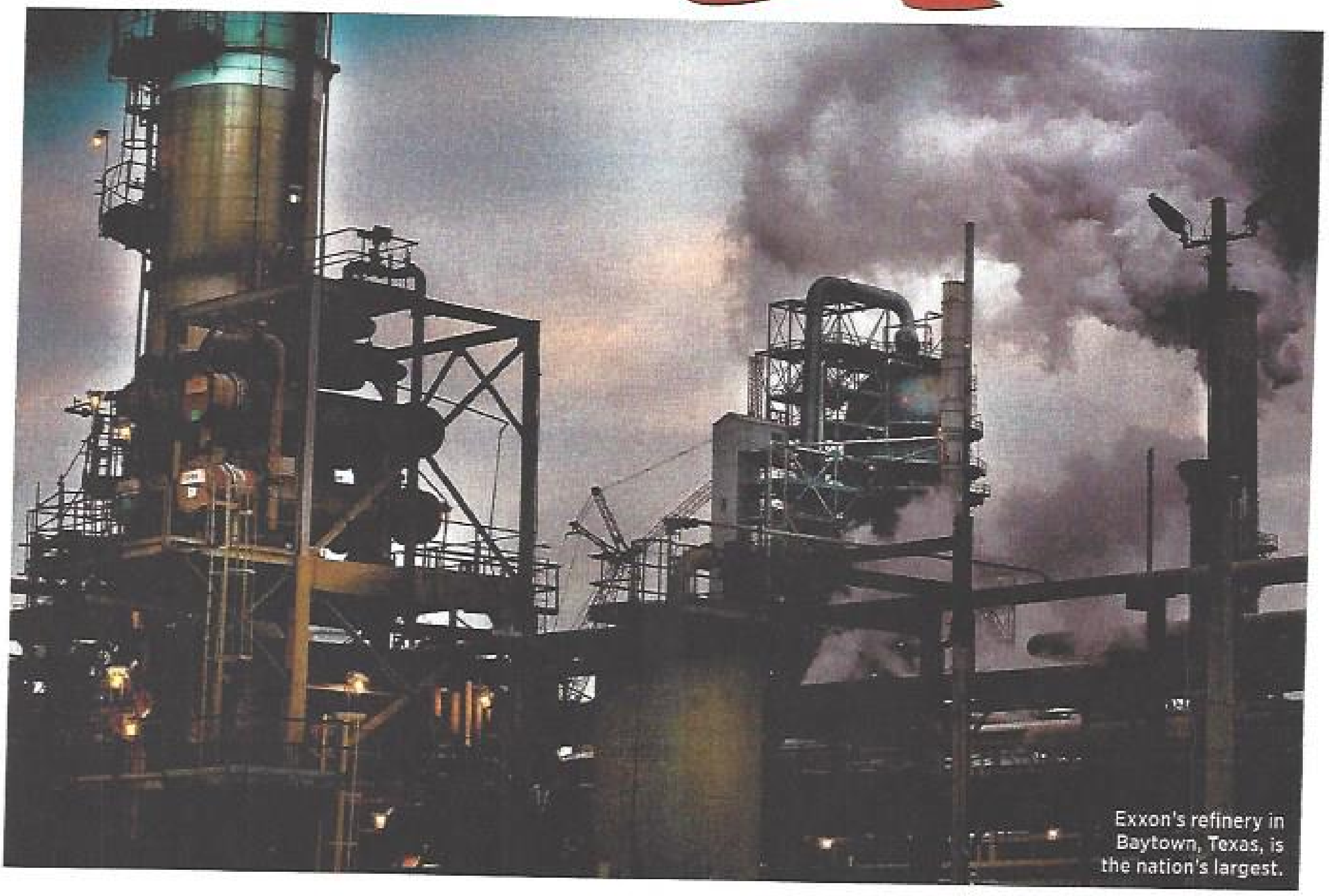


Exxon's refinery in Baytown, Texas, is the nation's largest.

THE EXXON INVESTIGATION

For decades, the oil giant knew the dangers of climate change and did everything in its power to deny the threat of a warming planet. Will the company finally pay the price?

By McKenzie Funk

AT 9 A.M., EXXONMOBIL'S SHAREholders start to file into Dallas' Morton H. Meyerson Symphony Center for their annual meeting. Security personnel check IDs and confiscate phones. Uniformed police stand guard. Everyone passes through metal detectors. Outside is a crowd of protesters hoisting signs – "Exxon Lies, Seas Rise" – while standing beside a 13-foot ice sculpture of #ExxonKnew. Inside the cavernous auditorium, Exxon CEO Rex Tillerson stands onstage, his podium framed by two massive pots of white carnations and a pop-up forest of green ferns. Behind him is a beautiful image of a snow-dusted desertscape – Utah, perhaps – with an oil derrick perched lightly atop a rock outcropping. "For many years now," Tillerson begins, "ExxonMobil has held the view that the risks of climate change are serious and do warrant action."

On this muggy Texas morning, the world's largest publicly traded oil company, one of the most profitable corporations of any kind anywhere ever, is facing unprecedented pressure. A series of in-depth reports recently revealed that Exxon, a font of climate skepticism in the 1990s and 2000s, had also been on the cutting edge of climate science as far back as the 1970s. It ran its own computer models, built up a team of in-house experts, and understood from the beginning that any effort to stop global warming would mean an effort to reduce fossil-fuel use. As the threat of regulation grew, the company gave tens of millions of dollars to dozens of think tanks and advocacy groups that churned out white papers questioning even the most basic facts of climate change. It took out full-page advertorials in *The New York Times*, *The Washington Post* and *The Wall Street Journal* with titles like "Climate Change: A Degree of Uncertainty" and "With Climate Change, What We Don't Know Can Hurt Us."

Last November, New York Attorney General Eric Schneiderman opened a fraud investigation, subpoenaing the company for 39 years' worth of internal memos, e-mails and other documents related to climate change. In March, he announced a new coalition of 17 states and territories that will pursue climate litigation against Big Oil. Members of Congress and both Democratic presidential candidates have called on the Department of Justice to do the same. The

BENJAMIN LOWY/REPORTAGE BY GETTY IMAGES

FBI is circling. The 70,000-person company, long a symbol of American corporate might, is under siege. This investigation, Al Gore has said, "may well be looked back on as a major turning point."

Now, in Dallas, Exxon is being confronted by yet another group: its own shareholders. As never before, Exxon's investors are worried about how global efforts to curtail rising temperatures will hurt the company's profits. To meet the climate goals of last year's Paris Agreement, more than two-thirds of global fossil-fuel reserves – $100 trillion worth, according to a Citigroup estimate – would have to remain in the ground. If Exxon believes climate change is real, that warming more than two degrees Celsius could be catastrophic, and that the world is finally serious about averting this disaster, it must also accept that it may never sell tens of billions of barrels of oil currently on its balance sheet.

After Tillerson's opening remarks, Edward Mason, a financial manager who represents the Church of England's $10 billion investment fund, proposes that Exxon publish an annual study on how meeting the Paris benchmarks will affect the company's portfolio. Natasha Lamb, with the activist-investor firm Arjuna Capital, suggests the company beat a managed retreat from a future that no longer has a place for oil giants. To each, Tillerson responds calmly in his Texas twang that "the board recommends a vote against this proposal."

The moment many in the crowd are waiting for, though, when the CEO explains Exxon's current thinking on climate change, comes after a question from the audience. The temperature projections made by climate models 30 years ago have proved fundamentally correct, a scientist named Mike McCracken says, so what is Exxon doing to plan for the dire warming today's models project?

"We're not ignoring the risk that's out there," Tillerson says. Climate change could be "catastrophic," and Exxon must be part of mitigating it. But the people of the world will not – and should not – give up refrigerators and cars and increasing standards of living. "We are grounded in the reality of the day and grounded in the technology of the day," Tillerson continues. "Just saying 'turn the taps off' is not acceptable to humanity."

In other words, the world will not actually meet the Paris goals. So Exxon will be fine. The auditorium, packed mostly with corporate die-hards, erupts in applause, but the case against Exxon may turn on moments like this. Schneiderman does not have to show that the company injured a specific victim or conspired to hide what it knew about climate science from the public – just that it did not tell its own investors the truth about the risks climate change poses to its bottom line.

HOT SEAT Protesters gather outside Exxon's shareholders meeting in Dallas – officials are investigating whether the oil giant lied about climate change to protect its stock price.

BEN TORRES/THE NEW YORK TIMES/REDUX

McKenzie Funk, author of "Windfall," wrote about climate-change profiteers for Rolling Stone in 2010.

Exxon's history of sowing confusion about climate change is well-documented. Its uncompromising former CEO Lee "Iron Ass" Raymond publicly derided computer climate models as "notoriously inaccurate." The idea that societies could stabilize the climate by cutting man-made greenhouse emissions, he said in a 1997 speech, "defies common sense."

New York fraud laws, however, carry a six-year statute of limitations. Raymond retired a decade ago, and under Tillerson, Exxon has dropped almost all of its funding for climate-denial think tanks. Believing some form of climate regulation is inevitable, the company now factors in a theoretical carbon price – $80 a ton – when evaluating the long-term economics of new oil and gas projects. Since the start of the Obama administration, Exxon has also said it supports a carbon tax (which Tillerson views as less onerous than cap-and-trade), and once secretly partnered with another organization to lobby for the tax on Capitol Hill: the Sierra Club.

"The best way to say it is that our understanding of the science evolved along with that of the rest of the world," says Exxon spokesman Alan Jeffers. "People focus on the public-policy groups" – that is, the ones Exxon funded that raised doubts about man-made climate change – "while choosing not to focus on the science we supported." Jeffers notes that Exxon scientists have published more than 50 peer-reviewed papers on climate change, and the company funded the climate-modeling team at MIT with $3.8 million over 19 years. (Although tax filings reviewed by Greenpeace show that Exxon also gave $31 million to climate skeptics over roughly the same period.)

While it's true Exxon no longer requires the threat of law enforcement to admit global warming is real, the case against Exxon is most significant – a possible "turning point" – because one form of climate denial remains almost wholly uncorrected: Exxon's stock price.

An oil company's value rests, in large part, on its booked reserves: the petroleum deposits it has discovered and claimed a legal right to someday produce. ExxonMobil is a reliable blue-chip stock because it has forever grown its reserves, aggressively chasing and booking new deposits the world over. Some of its wealth is tied up in refineries and gas stations and real estate, but it is mostly on paper – that is, mostly in the ground. Meaningful action on climate change threatens to leave these assets "stranded." "There is arguably no material fact more important to the future value of companies that own massive amounts of carbon-based fuel," Gore tells me, "than the answer to the question 'Is global warming real, man-made and a problem that must be urgently addressed?'"

There are more than 1.5 trillion barrels of oil reserves on the books of multinationals and petro-states. If we are to keep global warming to two degrees Celsius, only a third of this – more than $25 trillion worth, according to the Citigroup analysis – can be burned. Gore compares these holdings to the junk mortgages Wall Street bundled and sold off at top dollar to unknowing investors, only Big Oil's exposure is about 20 times bigger. "Subprime carbon assets, they're not going to be burned," Gore says. "If companies are offering stock under the assumption that it's all going to be burned, they are not being candid. The longer these companies represent 'There's absolutely no problem with global warming, nothing to see here – move along,' the bigger the crash is going to be."

IN EDITORIALS AND PUBLIC STATEMENTS, Exxon and its defenders frame the "coordinated attack on ExxonMobil" as a battle over the First Amendment. By prosecuting the company based on past statements and internal communications, the argument goes, activists and attorneys general – the "climate police," to quote *The Wall Street Journal*'s editorial page – are criminalizing free speech. To which Schneiderman has a stock response: "The First Amendment doesn't give you the right to commit fraud."

The legal strategy against Exxon has been years in the making. In 2012, the advocacy group Union of Concerned Scientists held a two-day meeting in Southern California to examine whether tactics in the fight against Big Tobacco, which had long suppressed what it knew about the link between cigarettes and cancer, could be deployed in a fight against Big Oil. The tobacco companies were eventually charged with racketeering and agreed to a record $200 billion settlement. A network of pseudoscience think tanks unraveled while the number of smokers in the United States fell toward historic lows.

Efforts to hold Big Tobacco accountable finally got traction, the meeting's participants learned, because state attorneys general got internal documents that revealed a sophisticated disinformation campaign. The tobacco companies hadn't tried to convince the public that cigarettes didn't cause cancer – just that the science was unsettled and still being debated by experts. "Doubt is our product," reads one strategist's memo, "because it is the best means of competing with the 'body of fact' that exists in the minds of the general public."

One of the UCS meeting's organizers, Naomi Oreskes, co-author of the influential book *Merchants of Doubt* and now a professor at Harvard, underscored the clear parallels with Big Oil: Some of the same industry-funded scientists who once clouded evidence of tobacco's harms had reappeared – and recycled the same tactics – in the climate debate. It was fair to assume, notes the UCS meeting summary, that "similar documents may well exist in the vaults of the fossil-fuel industry and their trade associations and front groups."

Schneiderman's investigation of Exxon would get an assist from two small teams of journalists: Columbia University's Energy and Environment Reporting Fellowship, led by veteran investigative journalist Susanne Rust, and InsideClimate News, a nonprofit, digital-only publication that got its start trying to stir up what co-founder David Sassoon calls "Digg storms." Together, the two outfits started a house fire for Exxon.

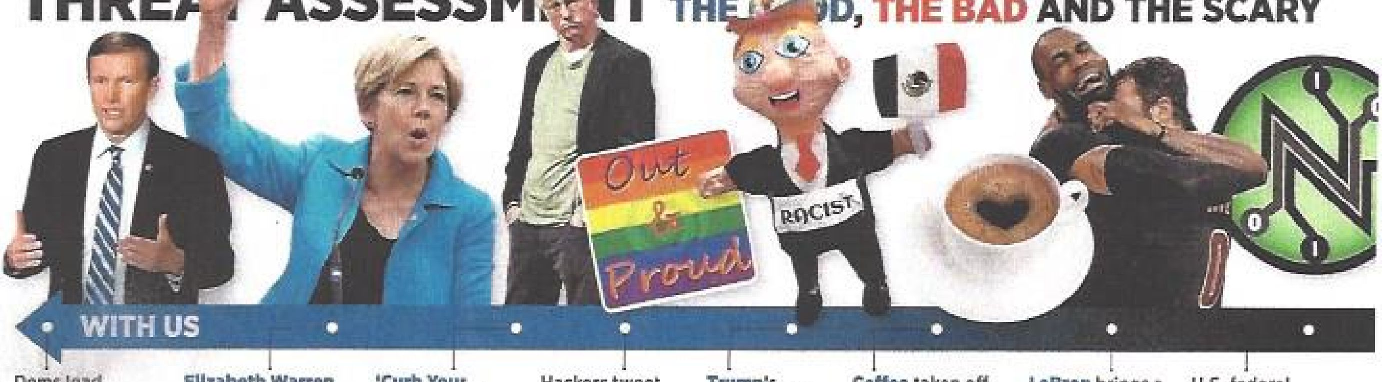
ICN was the first to publish its investigation, built on documents its reporters discovered in the ExxonMobil Historical Collection at the University of Texas-Austin library. Its September 2015 stories on what Exxon long knew about climate change upended the popular image of the oil company. In 1979, Exxon fitted a supertanker with custom-made sensors to measure increased CO_2 concentrations in the oceans and atmosphere. In 1982, it hired scientists and mathematicians and collaborated with outside researchers to build its own computer climate models, secretly bolstering the growing scientific consensus about the dangers of unbridled greenhouse emissions.

Columbia's first story, published in partnership with the *Los Angeles Times* in October, made clear that Exxon had done more than study the fundamental science of the greenhouse effect – it looked into what benefits climate change could have on new oil exploration. One person quoted in the series was Ken Croasdale, an ice researcher who had worked for Exxon's Canadian subsidiary, Imperial Oil. Part of Croasdale's job was to report to Exxon headquarters on the warming Arctic, where Exxon still holds oil leases. He speculated that the company was "taking a gamble" that it would be able to drill when the ice inevitably broke up.

Exxon responded forcefully, noting that both ICN and the Columbia fellowship have received support from the Rockefeller Brothers Fund, which bears the name of the family that founded Exxon but now strongly backs climate action. In a letter to

"EXXON DID MORE THAN STUDY THE FUNDAMENTAL SCIENCE OF CLIMATE CHANGE – IT LOOKED INTO HOW CLIMATE CHANGE COULD BENEFIT OIL EXPLORATION."

THREAT ASSESSMENT THE GOOD, THE BAD AND THE SCARY



Dems lead 15-hour filibuster on **gun control.**

Elizabeth Warren gets vetted for Clinton VP spot.

'Curb Your Enthusiasm' to return for ninth season.

Hackers tweet gay pride from pro-**ISIS** Twitter accounts.

Trump's unfavorability reaches 70 percent.

Coffee taken off World Health Org list of cancer causes.

LeBron brings a championship home.

U.S. federal court: **Internet** is a public utility.

FROM LEFT: SENATE TELEVISION/AP IMAGES; BILL CLARK/CQ ROLL CALL/AP IMAGES; JENNY ANDERSON/WIREIMAGE; NO CREDIT; MARK RALSTON/AFP/GETTY IMAGES; GHENADIE/SHUTTERSTOCK; EZRA SHAW/GETTY IMAGES; NO CREDIT the president of Columbia, an Exxon representative leveled charges of journalistic malpractice against Rust and her fellows, claiming the company was not given a chance to respond to questions – despite an e-mail record showing the opposite. Columbia's journalism-school dean, Steve Coll, investigated Exxon's claims, soon rebutting them point by point in a six-page response. As for ICN, Exxon has repeatedly called its journalists – who include veterans of *The New York Times, The Wall Street Journal, Los Angeles Times* and PBS – "anti-oil-and-gas activists." This spring, ICN was a finalist for a Pulitzer Prize for its Exxon reporting.

Schneiderman cannot rely entirely on what the journalists uncovered – he needs proof of an ongoing fraud within the six-year statute of limitations – but no other attorney general is better positioned to find a smoking gun. Under a 1921 New York statute called the Martin Act, Schneiderman has almost unlimited subpoena power. The act has helped win a series of billion-dollar settlements against Wall Street's biggest banks over the subprime-mortgage scandal, and perhaps more important, anchored a case of climate fraud against the world's largest publicly traded coal company, Peabody Energy. After two years of quiet investigation, the coal company was hanged by its internal documents – an unsettling precedent for Exxon, which so far has been forced to turn over some 600,000 documents. "Peabody is the same legal theories," Schneiderman says. "We found several clear-cut examples of fraud."

Another aspect of Peabody is worrisome for Exxon's investors: When it settled with Schneiderman, agreeing to revise its financial statements to reflect the potential for stranded assets and other climate-related risks, coal-fired power plants were already struggling with new federal regulations and a widespread switch to cleaner-burning natural gas. By the time Peabody signed the agreement, its shares were down 90 percent. In April, the coal giant declared bankruptcy. "That's not because of our case," Schneiderman says. "But it proves our point. The market is moving from coal very rapidly – and from oil."

After the votes are tallied in Dallas, Natasha Lamb of Arjuna Capital, wearing a red blazer in a sea of gray and black suits, mills about the symphony lobby with Exxon's other investors. "There was a change in tenor," Lamb says of this year's meeting. "There was a lot more admission by Tillerson that climate change is real – that the science is real." At the same time, Lamb adds, "Tillerson seems comfortable that there can be outcomes other than a two-degree rise in temperature. That's where it breaks down. And that's a frightening view looking into the future."

OIL KING CEO Rex Tillerson has tried to calm fears that climate change will hurt profits.

In 2014, Lamb helped force Exxon to publicly own up to this dystopian view of the future. Lamb's group had proposed a resolution asking Exxon to do the math on stranded assets in a carbon-constrained world. Exxon tried to strike the proposal from the ballot, Lamb says, but "I persevered." Exxon's head of investor relations ultimately cut a deal with her: The company would write a paper on "carbon asset risk" – the first such report by an oil major – if Lamb and her partners would agree to withdraw their proposal.

Exxon's paper, "Energy and Carbon – Managing the Risks," previews the arguments Tillerson made onstage. In the coming decades, more people, especially poor people, will want more energy. The world will use more renewables – but also more fossil fuels. A truly low-carbon future will not happen. "ExxonMobil believes that although there is always the possibility that government action may impact the company, the scenario where governments restrict hydrocarbon production in a way to reduce GHG emissions 80 percent...is highly unlikely," the report says. "We are confident that none of our hydrocarbon reserves are now or will become 'stranded.'"

It's possible that Tillerson's hoped-for technological breakthrough will magically save us all – and save Exxon's stock price. It's possible that Exxon, demonstrably richer and bigger, will out-compete its fossil-fuel rivals, even as carbon constraints begin to pinch – someone else's carbon assets may have to stay in the ground, but not Exxon's. It's possible that Exxon is already a toxic asset, that it is subprime, that it is no longer one of the most valuable companies on the planet because its reserves are already unburnable. All of this is possible.

It's likewise possible that the future we fear – three or four or five degrees of temperature rise, and with it fire and famine and rising oceans – will come to pass. Exxon, we now know, has chosen to bet on it. Its 2014 white paper, acknowledging that climate change is real, though not a threat to its future profits, is well within the statute of limitations for Schneiderman's case. The courts will have to decide if this is fraud or just wishful thinking. ⦿

Led Zeppelin on trial

Trump donates $50 million to his own campaign.

Rolls-Royce unveils driverless car with lasers to project a virtual red carpet.

Lin-Manuel Miranda leaving *Hamilton* cast.

Senate rejects gun-control measures.

Gator attacks, drowns toddler at Walt Disney World resort.

Greenland hits record high temperatures, above-average melt.

U.N.: A record **65.3 million people displaced** by conflict.

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