CONOCOPHILLIPS
Form PX14A6G
May 07, 2010

Memo

TO: ConocoPhillips Company shareholders

Subject: Grounds for a Yes vote on ConocoPhillips shareholder resolution requesting a report on the environmental impacts of oil sands operations

Date: March 1, 2010

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RESOLVED: Shareholders request that an independent committee of the Board prepare a report (at reasonable cost and omitting proprietary information) on the environmental damage that would result from the company's expanding oil sands operations in the Canadian boreal forest. The report should consider the implications of a policy of discontinuing these expansions and should be available to investors by November 2010.

This is the third year this resolution has been submitted. It received 27.5% in 2008 and 30% in 2009. The California State Teachers Retirement System is the lead filer, joined by 19 co-filers1.

Rational for a Yes vote:

1) **ConocoPhillips (COP) shareholders bear significant financial and competitive risk** as long as the company continues its strategic focus on the development of the oil sands, given the significant potential for future carbon regulation, oil price volatility, water scarcity, as well as the legal and reputation risks arising from local environmental damage and impairment of traditional livelihoods to impact the long-term economics of these projects and the value of our company. We believe that these risks are material to the company, and that our company has not done an adequate job of disclosing to investors how it plans to manage them over the long-term.

2) **COP's shareholders may bear significant financial risk** if the current lawsuit filed by the Beaver Lake Cree against the Canadian government is successful and leads to shut-down or delay of oil sands projects.

3) **The oil sands are an expensive bet on the long-term viability of consistently high oil prices.** Financial analysts and industry players including Goldman Sachs and Total have said that oil sands projects require long-term prices in excess of $80/barrel to break even. Given the long capital horizons involved in the oil sands, oil prices need to remain consistently high for decades in order for projects to earn a return. Deutsche Bank and BP, among others, have raised doubts recently about the long-term oil demand and have

4) **Although COP has begun limited reporting on the oil sands in its sustainability publication, it has not provided investors with sufficient information to enable them to determine whether the company recognizes and is properly managing the risks associated with its significant oil sands investments.** COP's disclosures fall short of meeting the resolved clause. While the report describes the scope of the company's oil sands operations, it fails to describe the impact that COP's oil sands operations will have on the environment, as the report requests. Hence, investors are not being given adequate disclosure as to how the significant risks embedded in its tar sands operations will be managed.

Further, COP has been unresponsive to investors' requests for further clarity and specificity on key oil sands issues including how the company considers sustainability risks such as carbon and water when considering increased investment in the oil sand; which alternative fuel sources are being considered for its operations; its plans for the undeveloped properties; its progress in its participation in regional planning efforts, particularly with respect to water management; and reporting metrics. The company has also failed to respond to a letter from a number of signatories of the United Nations Principles for Responsible Engagement requesting a dialogue on the oil sands.

I. INTRODUCTION

We believe that while oil prices will at some point rebound, there is now significant doubt as to whether the high oil prices that are required to generate economic returns in the oil sands can be sustained over the long-term. There is now a consensus that oil demand in the developed world has peaked, and a growing number of experts, including analysts at Deutsche Bank and BP, believe that global oil demand will peak in the near- to mid-term as well due to a confluence of factors including advances in efficiency, increasing electrification of the transportation system, and growing concerns in China about energy security. To be viable (much less profitable), oil sands require high oil prices. According to FairPensions (UK), "analysts have suggested that profitability is dependent on an oil price in a range of $70 to $100, with *in situ* production requiring the upper level of that range." A recent Deutsche Bank report suggests that high oil prices could well trigger a permanent shift to more energy efficient products, more efficient oil use and substitution.2 Costs can also be expected to rise under any aggressive development scenarios, and oil sands oil are already the most expensive in the world.

While oil prices are relatively low, it is an opportune time for the company and investors to assess the full environmental and social impacts of COP's projects and discern the wisest path forward.

II. CONOCOPHILLIPS' INTEREST IN THE TAR SANDS

ConocoPhillips is: