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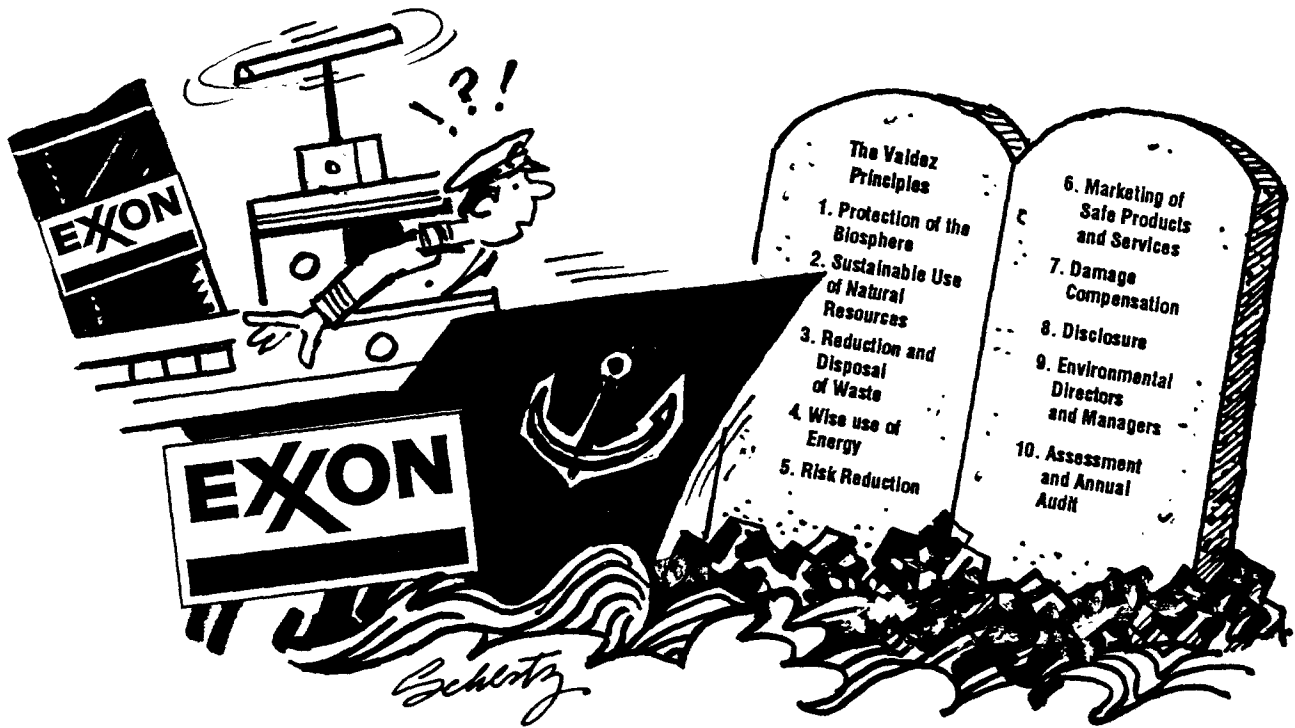
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# Exxon Collides With the "Valdez Principles"



by JAYNE W. BARNARD

IT HAS BEEN a year and a half since the *Exxon Valdez* fouled Alaska's Prince William Sound with 11 million gallons of freshly pumped crude oil. For Exxon's management, the March 1989 spill was the beginning of a long night of public scrutiny of the company's environmental practices. Chairman Lawrence G. Rawl was summoned to appear before Congress. Angry demonstrators disrupted Exxon's annual shareholders' meeting. Environmentalists excoriated Exxon and investors watched helplessly as vast amounts of Exxon assets were redeployed to support the Alaska cleanup.

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Now an influential group of environmental organizations, allied with some of the biggest shareholders in Exxon and other companies, has undertaken a major effort to redirect corporate environmental priorities.

The Coalition for Environmentally Responsible Economies (CERES), headquartered in Boston, includes such diverse groups as the Audubon Society, the Sierra Club, and the New York and California public employees' retirement funds. The Interfaith Center on Corporate Social Responsibility, headquartered in New York City and affiliated with the National Council of Churches, counsels churches and religious orders on the effective use of their proxy votes to advance social goals at corporate annual meetings. Together, CERES and the Interfaith Center are attempt-

## The Valdez Principles

Leading environmental organizations — including the Sierra Club, National Audubon Society, and National Wildlife Federation — joined with the Social Investment Forum to form the Coalition for Environmentally Responsible Economics (CERES), whose first act was to draft the Valdez Principles for corporations to sign. The idea is to make the Valdez Principles a litmus test of corporate behavior. Companies are being pressured to abide by the following prescripts:

### **1. Protection of the Biosphere**

We will minimize the release of any pollutant that may cause environmental damage to the air, water, or earth. We will safeguard habitats in rivers, lakes, wetlands, coastal zones, and oceans and will minimize contributing to the greenhouse effect, depletion of the ozone layer, acid rain, or smog.

### **2. Sustainable Use of Natural Resources**

We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve nonrenewable natural resources through efficient use and careful planning. We will protect wildlife habitat, open spaces, and wilderness, while preserving biodiversity.

### **3. Reduction and Disposal of Waste**

We will minimize waste, especially hazardous waste, and wherever possible recycle materials. We will dispose of all wastes through safe and responsible methods.

### **4. Wise Use of Energy**

We will make every effort to use environmentally safe and sustainable energy sources to meet our needs. We will invest in improved energy efficiency and conservation in our operations. We will maximize the energy efficiency of products we produce or sell.

### **5. Risk Reduction**

We will minimize the environmental, health, and safety risks to our employees and the communities in which we operate by employing safe technologies and operating procedures and by being constantly prepared for emergencies.

### **6. Marketing of Safe Products and Services**

We will sell products or services that minimize adverse environmental impacts and that are safe as consumers commonly use them. We will inform

consumers of the environmental impacts of our products or services.

### **7. Damage Compensation**

We will take responsibility for any harm we cause to the environment by making every effort to fully restore the environment and to compensate those persons who are adversely affected.

### **8. Disclosure**

We will disclose to our employees and to the public incidents relating to our operations that cause environmental harm or pose health or safety hazards. We will disclose potential environmental, health, or safety hazards posed by our operations and we will not take any retaliatory personnel action against any employees who report on any condition that creates a danger to the environment or poses health or safety hazards.

### **9. Environmental Directors and Managers**

At least one member of the board of directors will be a person qualified to represent environmental interests. We will commit management resources to implement these Principles, including the funding of an office of vice president for environmental affairs or an equivalent executive position, reporting directly to the CEO, to monitor and report on our implementation efforts.

### **10. Assessment and Annual Audit**

We will conduct and make public an annual self-evaluation of our progress in implementing these Principles and in complying with all applicable laws and regulations throughout our worldwide operations. We will work toward the timely creation of independent environmental audit procedures which we will complete annually and make available to the public.

ing to persuade thousands of American companies to adopt ten principles of corporate environmental responsibility, symbolically named "The Valdez Principles." These principles, announced by CERES in

September 1989, are designed to minimize environmental damage and to maximize corporate accountability to employees, shareholders, and the public on matters of environmental concern.

The groups are using the mechanism of the "shareholder proposal," a method long used by social investors to promote various causes, such as discontinuing production of dangerous products or adopting anti-apartheid principles for companies doing business in South Africa. CERES and the Interfaith Center — and their stockholder members and clients — submitted shareholder proposals this year seeking inclusion of the Valdez Principles on the ballot at twenty-two companies. Some companies, including Exxon, fought the

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"The Valdez Principles are more than feel-good issues for shareholders."

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inclusion of the Valdez Principles on their corporate ballot, arguing that issues of environmental quality were matters of "ordinary business operations" unsuited for shareholder input. When the Securities and Exchange Commission ordered that the proposal be printed, Exxon urged its shareholders to vote against it on the grounds that the Valdez Principles "do not recognize the need to balance the importance of environmental protection with the importance of adequate energy resources and stable, healthy economies."

#### COMPROMISING PRINCIPLES

Other companies, including Waste Management, Amoco, Chevron, Mobil, and Texaco, took a more conciliatory position. They agreed to adopt a compromise version of the principles without requiring a shareholder vote. The Valdez Principles ultimately came to a vote at five companies. While none of the proposals passed in this first outing, they all received a surprising amount of support, given the difficulties and expense of soliciting votes for shareholder proposals. (Exxon, for example, has over 700,000 shareholders.)

CERES's long-term goal is to persuade 3,000 companies, principally through negotiation rather than by shareholder proposal, to adopt the Valdez package. Some major investors intend to support this effort — several state and city pension funds, controlling billions of dollars in assets, have passed resolutions to "prefer" companies that have adopted the Valdez Principles.

The Valdez Principles are more than feel-good issues for shareholders. Exxon's clean-up costs following the Valdez oil spill have already passed the \$2.3 billion mark — funds that otherwise would have been available for reinvestment or redistribution in divi-

dends. California Comptroller Gray Davis, trustee of a fund holding over 8 million Exxon shares, stated in April that "Exxon has yet to grasp fully the importance of improving its environmental record."

Most of the Valdez Principles are uncontroversial — minimize pollution, recycle where possible, and use energy wisely, for example. Some, however, have generated heated resistance from management. One sticking point has been the requirement that companies circulate a comprehensive "environmental report card" each year. There have also been strong objections to the twin demands that companies place on the board of directors a "person qualified to represent environmental interests" and create an office of "vice president for environmental affairs," reporting directly to the CEO. Apparently, corporate managers find it more acceptable to embrace platitudes concerning their products and operations than to make concessions in the area of senior corporate governance. Shortly after the Valdez oil spill, however, Exxon did put an environmentalist, oceanographer John H. Steele, on its board. In addition, in January 1990, Exxon appointed one of its top executives to the newly created position of vice president for environment and safety. Indeed, in its proxy statement, Exxon argued that these measures were "consistent with several objectives" of the Valdez Principles. Other major oil companies, including Arco, Amoco, and Phillips, have also elevated responsibility for environmental policies to the vice presidential level.

California's Davis has been quoted as saying that the first companies to embrace the Valdez Principles in their entirety "will increase market share and profit substantially." While that seems unlikely, some consumer-oriented companies, including DuPont and Polaroid, are reportedly taking a hard look at adopting the principles. Presumably they see some marketing mileage to be gained from becoming corporate leaders in the environmental movement, as food processors did in embracing the low-fat/high-fiber/oat bran movements of the 1980s.

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"Responsible Care seems to reflect more public relations than progress."

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Among industrial companies, the chemical industry in particular has attempted to respond to pressures from environmentalists by creating its own set of principles, known as the "Responsible Care" program. Nearly 200 chemical companies have signed on to Responsible Care. The program's sponsor, the Chemi-

## Not the Valdez Principles

The Chemical Manufacturers Association, an industry lobbying group, has developed ten "guiding principles" concerning environmental matters. More than 170 member companies of the CMA have signed on to these principles as part of the group's Responsible Care program. Were these guidelines developed to preempt the imposition of a more potent set of principles on the industry?

- To recognize and respond to community concerns about chemicals and our operations.
- To develop and produce chemicals that can be manufactured, transported, used and disposed of safely.
- To make health, safety, and environmental considerations a priority in our planning for all existing and new products and processes.
- To report promptly to officials, employees, customers and the public, information on chemical-related health and environmental hazards and to recommend protective measures.

- To counsel customers on the safe use, transportation, and disposal of chemical products.
- To operate our plants and facilities in a manner that protects the environment and the health and safety of our employees and the public.
- To extend knowledge by conducting or supporting research on health, safety and environmental effects of our products, processes, and waste materials.
- To work with others to resolve problems created by past handling and disposal of hazardous substances.
- To participate with government and others in creating responsible laws, regulations, and standards to safeguard the community, workplace, and environment.
- To promote the principles and practices of Responsible Care by sharing experiences and offering assistance to others who produce, handle, use, transport, or dispose of chemicals.

cal Manufacturers' Association (CMA), recently saluted its members' efforts by placing full-page ads in newspapers across the country. The ads coincided with the observance of Earth Day.

### PRINCIPLE POSTURING?

Unfortunately, Responsible Care to date appears to reflect more public relations than progress. Though the program's "Guiding Principles" were adopted in 1988, CMA is only now developing the "Codes of Management Practice" with which to implement its larger goals. Moreover, the management codes, to be developed largely by "chemical company experts," are not intended to be enforced. That is, while all CMA members will be expected to work toward eventual compliance with the codes when they are written, CMA has not imposed timetables for compliance, nor does it intend to sanction members who fail to achieve compliance. Rather, the association will rely on company self-evaluations and will provide support to those companies making the least progress.

There is one advantage to joining Responsible Care. When representatives from CERES come knocking, urging chemical manufacturers to sign on to the Valdez Principles, the manufacturers can self-righteously decline. Companies can argue that they already have their own code of environmental con-

duct. Union Carbide did precisely this when first contacted by CERES during 1989. Pointing to the company's in-house Responsible Care program, Carbide spokeswoman Kay Phillips asserted that the Valdez Principles represented little more than a duplication of effort.

The real issue, however, is not which environmental reform program is the best. Rather, the issue is whether investors are willing to sacrifice some immediate profits in exchange for more responsible environmental practices. Thousands of investors supported this proposition when they voted for the Valdez Principles during proxy season this year. Many thousands more, however, did not. Can these investors be expected to change their views in the future? Will companies, without the support of investors, voluntarily embrace the Valdez Principles or similar stringent guidelines for environmental reform? These questions remain unanswered.

The Valdez Principles are backed by substantial moral and economic clout. In the end, however, it will be precisely the interests of the two types of sponsors — idealists and investors — which CERES has wisely assembled, that will have to be balanced if corporations are to make progress toward a cleaner environment. Exxon and others will find this delicate balancing act every bit as challenging as cleaning up Prince William Sound. □