

Rex Tillerson: CERAWeek Opening Address

Rex W. Tillerson, chairman and CEO, Exxon Mobil Corporation, delivered the opening address of CERAWeek 2007. His speech, "The State of the Energy Industry: Strengths, Realities and Solutions," opened Oil Day on Feb. 13, 2007

Rex W. Tillerson chairman
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Rex W. Tillerson Chairman and CEO, Exxon Mobil Corporation Opening Address to CERA Week 2007 Houston, Texas Feb. 13, 2007

The State of the Energy Industry: Strengths, Realities and Solutions

Thank you, Dan [Yergin]. CERAWeek is one of the most informative and formative events on the international energy calendar—an opportunity to review recent developments in our industry, and to discuss the challenges and opportunities our industry faces in the years ahead. Thank you again Dan.

As we engage in these discussions of the challenges and opportunities confronting our industry, it is my view that we have cause for optimism. The challenges we face are great—but the opportunities are even greater.

And if our industry continues applying our proven strengths, I am confident we will meet the challenges, seize the opportunities, and continue to deliver the energy the world needs in a safe, secure, reliable, affordable and environmentally-sound manner.

Doing so requires that we reaffirm our understanding of the fundamental realities that define our industry—and that we share this understanding with the public and policymakers that shape our work. Today, I'd like to discuss some of these realities with you—and to talk about what is needed to address them successfully.

The Industry's Achievements

I would like to start with a fundamental reality that is too often overlooked. The fact is, ours is an industry with a record of tremendous accomplishment and an industry with much to be proud of.

Throughout our history, the oil and gas industry has fulfilled its important role of facilitating economic growth worldwide through consistent investment, constant innovation, and continued interdependence in a global free market system... and ultimately, by providing products of great value to our customers for over a century.

We are responsible for many of the products that define modern life - from transportation, to heating and electricity generation, to the plastics that go into products ranging from medical equipment to children's toys.

In many ways, the story of human progress in the modern world parallels the advances our industry has achieved.

We have consistently invested our earnings to enhance and expand energy production to meet growing needs. At ExxonMobil, we have invested over the last five years alone nearly \$82 billion on six different continents to search for new supplies, build new production facilities, expand refining capacity, and deploy new, environmentally-advanced technologies.

Between 1991 and 2005, we invested a total of \$210 billion—almost half of our current total market capitalization and a figure exceeding our total earnings during that period. Other companies can report similar strong investment records.

Our industry has also constantly innovated, expanding the boundaries of what is possible. We have moved into deeper and deeper waters to find and produce new supplies of energy. In the early 1960's, the first offshore wells were drilled in just a few hundred feet of water. Today, wells are drilled in water depths of up to ten thousand feet, reaching more of the world's remaining large resources of oil and natural gas. For my company, we anticipate that by 2010, deepwater drilling will account for over 15 percent of our global oil production.

Today, we can drill horizontally to distances of six miles to access new sources of energy more cost effectively, as we are doing on Sakhalin Island in Russia. Not only does this technology enable us to overcome harsh environment challenges, it reduces the footprint of our operations as well.

And through improved seismic mapping capabilities, more sophisticated reservoir simulators and a broad array of other technological advances, we have grown the Earth's accessible resource endowment.

Our industry has also enhanced energy security through greater diversity of supplies, enabled by global free markets.

Ours is a record of continued delivery of energy in the face of geopolitical uncertainty, world wars, regional conflicts and major weather events—a testament to our resilience and adaptability.

The reason for this resilience lies in an efficient, diversified global network of production and distribution, and the market mechanisms that enable industry to respond to changes in global supply and demand.

The scale advantages of oil and natural gas across a broad array of applications provide economic value unmatched by any alternative. Ongoing technological advances have enabled the continued expansion of economically recoverable supplies from resources once considered technically challenging to what we now describe as the "easy oil."

Finally, our industry has also built a record of accomplishment in ongoing improvements in environmental performance. The footprint required of our activities is getting smaller and more efficient, proving that energy production and environmental protection need not be zero-sum. We are becoming more energy efficient in our operations, thereby lowering our emissions intensity... we are producing cleaner, lower emission fuels that improve air quality... and we have improved our ability to transport liquids across vast distances without spills.

But for an industry as essential to progress and as integrated into everyday economic life as ours, the realities and challenges we face in delivering energy are broadly misunderstood by those whom we serve.

For those of us in our industry, an understanding of these realities is intuitive. However, for others, including the public at large and most policymakers, they are not intuitive. Together, we must better explain these realities.

Industry Timeframes

First, we must provide greater understanding of the reality of the timeframes within which our industry works to deliver this uninterrupted supply of energy. These are timeframes that often transcend the political cycle and most certainly the media cycle.

Many policymakers think in increments of two, four or six years, based on election cycles. In contrast, those of us in the energy industry think in increments of two, four or six decades, based on timelines to gain access to new acreage, explore for, discover, and bring to production the next sources of supply.

This is an important point, because acting impulsively in setting energy policy with the expectation of immediate results will likely have negative consequences that will be felt for decades to come. We must therefore inform the public and policymakers about the long timeframes that define our industry.

Last October, ExxonMobil announced the first exports of oil from our Sakhalin-1 project in Russia's Far East. These resources were first discovered in the 1970's, but they had to wait for advanced technology to make them viable as sources of supply. We began work on the project 10 years ago, and expect it to produce for about 40 years. All told, that's more than three quarters of a century since discovery and half a century for one project.

This day 50 years ago, Dwight Eisenhower was in the White House, Sputnik was on the launch pad, and Dan Yergin's thoughts were on other things than one day authoring an award-winning book on the rich history of our industry.

The long timelines inherent to our industry make long-term policymaking an imperative. Measures, for example, that seek to impose additional taxes on the industry or increase governments' take in light of recent high prices will likely have the consequence of impeding investments needed for new, more diverse sources of supplies to meet demand 10 or 15 years from now.

And despite our continual focus on the long-term, it would be a mistake to think the industry does not respond to market signals. In fact, the industry responds to such signals on a daily basis.

Oil is one of the most traded commodities on the planet, and every day hundreds of thousands of transactions are completed, leading to the efficient distribution of energy to locations around the world.

Meeting Growing Demand

But we respond to market signals on another, more fundamental, level. These are the signals sent by projections of long-term demand. These market signals rise above short-term volatility and inform the industry's investment planning for the years ahead. These are the signals that tell us how much energy will be needed not today or next year, but in 2020 and beyond.

Many of the projects we are developing today, and the plans we have for tomorrow, are geared towards meeting this long-term demand outlook.

So what are these long-term market signals telling us? Driven by growing prosperity in the developing world, global energy demand is projected to be close to 40 percent higher in the year 2030 than it was last year, reaching close to 325 million barrels per day on an oil-equivalent basis.

A wide range of energy sources will contribute to meeting this growing global energy demand, but the affordability and reliability of fossil fuels will continue to provide the majority of the world's needs over the next quarter-century and beyond.

We must therefore plan for a future in which oil and gas will play a critical role in underpinning future economic growth around the world, and on a larger scale than these sources do today.

The size of the investment and implementation challenge before us is enormous. The International Energy Agency estimates that total investment required in the oil and gas sectors over the period 2005 to 2030 will amount to more than \$8 trillion. A large portion of these investments will be required to develop new supplies to simply replace ongoing declines in existing volumes. The rest will be needed for additional supplies to meet the increase in demand. Nearly two-thirds of the total energy supply investment will take place in non-OECD countries.

It is therefore important that we have a clear understanding of the context within which energy demand is likely to take shape over the next quarter-century—because this demand will underpin rising living standards in developing nations, and because it will bring with it substantial increases in greenhouse gas emissions. This is a subject I will return to shortly.

The Resources Are Available

Linked to the issue of demand is, of course, the question of resource supply. Here again, an awareness of the realities is important to a constructive debate on the outlook and implications of continued energy use.

The good news is that abundant oil resources are available to meet the projected growth in demand. According to the U.S. Geological Survey the earth was endowed with more than 3 trillion barrels of conventional oil. This estimate has grown steadily over the years as our industry has developed new and more sophisticated technologies to locate and produce these resources.

If we add estimated "frontier" resources, such as heavy oil and shale oil, this total rises to over 4 trillion barrels. Considering we have used 1 trillion barrels of oil in the history of mankind, the outlook for future supply is positive.

But the challenge of meeting future demand is broader than recognizing that the resources are available. They must also be accessible.

In the United States alone, an estimated 31 billion barrels of recoverable oil and 105 trillion cubic feet of natural gas are currently ruled off-limits. Many of these restrictions are driven by concerns about the environmental impact of offshore production.

But many fail to fully appreciate the tremendous strides our industry has made towards reducing our environmental footprint and improving safety and reliability of our operations. We have shown the ability to drill with precision and with minimal disruption to the environment, and are in fact doing so in equally if not more challenging conditions elsewhere in the world. On this issue, we seem to be stuck in a time warp of the 1960's. It is time the public debate on access in this country move forward.

A Global Resource... and a Global Marketplace

We should engage in this discussion on the basis that the world's energy needs transcend national boundaries. The ability to meet energy demand today and for the future lies in policies that allow companies to search for, develop, and produce available resources wherever they may be, and to encourage further industry innovation to do so in the most efficient and effective manner.

By underpinning this approach with stable fiscal and regulatory environments in both producing and consuming countries, we can lay the basis to further strengthen the resilience of the energy market to events and disruptions that may occur from time to time.

The path to energy security does not lie in attempting to insulate domestic economies from the influences of the global marketplace.

Instead it lies in open international trade, competitive markets, diversity of supply and the strengthening of partnerships between producing and consuming nations. To achieve energy security is to achieve collective security among diverse economies and cultures on a global scale.

Addressing Emissions

No discussion about the realities facing our industry today would be complete without reference to the issue of greenhouse gas emissions and climate change. This is an issue that crosses all boundaries,

impacts industry and governments, but most importantly will directly impact consumers in every part of the world.

The majority of the growth in energy demand will come from developing nations as their growing populations pursue higher standards of living. With this improvement in living standards will come most of the growth in future greenhouse gas emissions.

By the year 2030 it is expected that global emissions of carbon dioxide will approach 40 billion tons per year, up from close to 28 billion tons per year today.

So, we know our climate is changing, the average temperature of the earth is rising, and greenhouse gas emissions are increasing. We also know that climate remains an extraordinarily complex area of scientific study. While our understanding of the science continues to evolve and improve, there is still much that we do not know and cannot fully recognize in efforts to model and predict future climate system behavior.

Having said that, the risks to society and ecosystems from climate change could prove to be significant. So, despite the uncertainties, it is prudent to develop and implement sensible strategies that address these risks while not reducing our ability to progress other global priorities such as economic development, poverty eradication and public health.

Our industry has a responsibility to contribute to policy discussions on these important issues—and to take concrete actions ourselves to reduce emissions.

As an industry, we are already improving efficiency in our operations—greatly enhancing our energy efficiency while supplying more products than ever before. Steps taken at ExxonMobil, for example, since 1999 to improve energy efficiency at our facilities, for example, resulted in CO₂ emissions savings of 11 million metric tons in 2005. That's equivalent to taking 2 million cars off the road.

But we must do more. We must continue to foster and support scientific research into technology breakthroughs to deliver new sources of energy with even lower emissions. One example is Stanford University's Global Climate and Energy Project, which ExxonMobil and other partners are supporting with a collective contribution of \$225 million.

The approaches policymakers adopt to address climate risks are also important. A global approach is needed that promotes energy efficiency, ensures wider deployment of existing emissions-reducing technologies and supports research into new technologies.

It is also critical to maintain support for fundamental climate research, recognizing that there remains much that we still do not understand.

Specific policy tools should be assessed for their likely effectiveness, scale, and costs, as well as their implications for economic growth and quality of life. In that regard, rigorous and informed debate - - debate that takes into account the essential role played by energy in advancing social and economic progress—will best support thoughtful policymaking.

In our view, the most effective approaches will maximize the use of markets. This will help promote global participation and facilitate the rapid spread of successful initiatives.

Consistent with a market-based approach, effective policies will ensure a uniform and predictable cost of reducing carbon emissions, maximize transparency, minimize complexity, and adjust to new developments in climate science and the economic impacts of policies.

Just as technology has continually been the driver of progress in our industry, I am confident that future technology advances will both expand our understanding of the climate system and enable an effective response.

We must encourage all participating in this debate to frame the discussion in terms of the realities we face—the realities of growing demand and the need for affordable, reliable energy to enable the world's consumers to achieve genuine improvements in their quality of life.

The policy measures adopted today will have far-reaching implications in the years ahead. We must consider the potential impacts on future economic growth and quality of life for not just the current generation, but those of our children and grandchildren.

Conclusion

Let me offer some concluding thoughts on the issues that I have discussed with you today.

We live in a world characterized by complexity—a world of geopolitical uncertainty, of questions about where our future energy supplies will come from, and of concerns about the risk of climate change.

Yet, for all this complexity, our fundamental mission as an industry remains clear and simple: we must meet the world's growing need for affordable, reliable energy in a manner that is economic, safe and environmentally responsible.

Our track record demonstrates that we can deliver on this mission. The state of our industry is strong.

While we do not underestimate the challenges that lie ahead, I am confident that, by further developing our technological expertise, by supporting responsible resource access and the role of free markets, and by engaging in thoughtful, frank and intelligent debate on policy issues, we can lay the foundation for a bright energy future for our world.

Thank you.

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