Exxon Mobil’s CEO Rex Tillerson Looks at America’s Energy Industry Future

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Sound Bites from Mr. Tillerson’s Speech

Effect on Economy: According to a recent study by PriceWaterhouse Coopers, the oil and natural gas industry contributes more than $1 trillion a year to the U.S. economy.

Proposed New Taxes and Fees for the Oil and Natural Gas Industry: Care should be taken in adopting tax policies that arbitrarily punish investors or workers, singling out any one industry. Such policies are usually counterproductive.

New Energy Sources: [America] will need to increase the use of alternative energy sources such as wind and solar. We will also need nuclear, hydroelectric, and geothermal power.

Future Energy Needs: The International Energy Agency estimates that the energy industry will need to invest more than $25 trillion in the world’s energy supply infrastructure by the year 2030 to meet growing energy demand. Oil and natural gas alone are projected to supply nearly 60% of the world’s energy needs through the year 2030.

Greenhouse Gas Emissions: With this increased energy demand, we also foresee a second part to the energy challenge — reducing greenhouse gas emissions associated with energy use.

Best Hope: Our best hope for bringing change to the world’s massive energy system is to harness the power of new technologies and free markets.

Climate Change: When it comes to managing the risk of climate change, in my view, the most effective policy approaches must be guided by several key principles: (1) establish a uniform and predictable cost for emissions; (2) allow markets to select the best methods to reduce emissions; (3) minimize administrative complexity; (4) maximize cost transparency; and (5) encourage global participation.
**Cap-and-Trade:** Unfortunately, experience indicates that a cap-and-trade system will result in volatile prices for emissions allowances, and this volatility will carry a heavy cost for both the economy and the environment.

**Revenue Neutral Carbon Tax:** A revenue-neutral carbon tax, though, has the advantage of being well focused for achieving our society’s goals of reducing emissions over the long term.

**Imported Oil:** In the great oil shock of ’73 and ’74, we were importing about 35% of our oil, now we are importing almost 60%.

**Foreign vs. U.S. Oil:** My automobile doesn’t know where that barrel of oil came from. It burns a gallon of gasoline that was refined out of a barrel of crude from the West Coast of Africa as well as it burns oil from the Gulf of Mexico….The real debate and the real issue ought to be, how does that manifest itself in energy security?...You have as large a number and as diverse a number of sources of imported oil as you can make available to yourself….The two largest suppliers of foreign oil to the United States are Canada and Mexico.

**Drilling in Alaska National Wildlife Refuge (ANWR):** I don’t know if there will ever be any oil produced, because I don’t know if there is any oil there.

**Exxon Valdez:** It was, first, a national and state tragedy, but it was also an extraordinarily emotional event inside of Exxon….What it motivated us to do was to completely change the way we deal with risk management….[Now], for about 10 years, our average marine spill was a teaspoon per million barrels that we transport. We have not had a spill of even a teaspoon size since the fourth quarter of 2006, and these are little drops that come off the hose when you disconnect. We don’t even have those anymore.

**New Refineries:** We’ve been able to meet this rising demand for gasoline and products without any new refineries….Do we need any more [refineries]? The answer to that is, we think likely not.

**MR. RUBENSTEIN:** Good evening. I’m David Rubenstein, president of The Economic Club of Washington. Thank you all for coming to our fall opening dinner. We’re very, very pleased to have Rex Tillerson here tonight, and I will introduce him more formally after dinner. But we’re very pleased to have such a distinguished business leader here. We’re very honored that he would come here and help us kick off our fall program.
Let me first recognize the sponsors for the event tonight. First, Akin Gump, represented by Bruce McLean. Lee Technologies, represented by John Lee. PricewaterhouseCoopers, represented by Chris Simmons. Toyota Motor, North America, represented by Jo Cooper. And a company called Exxon Mobil – [laughter] – has a few tables here tonight, and I’m very pleased they could come. Thank you all. [Applause.]

Our corporate partners this year are Bingham McCutchen, represented by Barry Direnfeld; HSBC, represented by Aimee Daniels; Information Management Consultants, represented by Sudhakar Shenoy; PricewaterhouseCoopers, again, represented by Chris Simmons; and that other firm called the Carlyle Group. Thank you all. [Applause.]

I’d like to recognize our special guests. The Ambassador to Singapore; the Ambassador from Belgium; Councilman Jack Evans; Chief Financial Officer of the District of Columbia Nat Gandhi; and representatives from the Embassies of Qatar, Iraq, and Russia. Thank you all for coming. [Applause.]

Now, I’ll just go through two other brief announcements. On November the 19th, we’ll be having Bill Marriott as our special guest speaker. It’ll be a luncheon, not surprisingly, at a Marriott-owned hotel – [laughter] – the Ritz-Carlton. It’ll be a different format; it’ll be a Q&A the entire time, and so anybody who has questions they’ve always wanted to ask Bill Marriott, you can e-mail them to Mary Brady and let me know.
My first question will be, when checking into a hotel at 11 o’clock at night and the room clerk says what the rate is, what is one’s leverage in negotiating a lower rate? I don’t know. My other question will be, when you check out and they ask you did you have anything in the minibar, how many people actually tell the truth? [Laughter.] I don’t know. So we’ll get all these important questions answered at that luncheon.

The other announcement is that on November the 16th, the same week, we will again have the program where we have members hosting dinners at their home. If you’re interested in going to one of these dinner at someone’s home, please let Mary Brady know and we will get you set up to go to one of the homes. We have five different members hosting events on that November the 16th.

So now, please enjoy your dinner, and I’ll be back shortly to introduce our guest speaker. Thank you. [Applause.]

[Dinner is served.]

MR. RUBENSTEIN: We’re very pleased to have Rex Tillerson as our special guest to open our fall season. Rex is a native Texan – fifth-generation Texan, educated at the University of Texas, graduated in 1975 and had two choices of jobs at that time. He took the lower paying job at the time to go into a company called Exxon.
Over 34 years, he managed to work his way up to a pretty senior position. He was actually elected the president of Exxon Mobil in 2004 at the age of 52 and, at the age of 54, became the Chairman and CEO. During that period of time, Exxon Mobil has had record profits and record market capitalization. Each of the 3 years he’s been CEO, they’ve had record profits.

Last year, in 2008, they had profits for the year of $45.2 billion. No company in the history of the world has ever had as big a profit as that in one year. At one point during his tenure, the market capitalization of Exxon Mobil went to $500 billion, the highest of any company in the history of the world. Obviously, as the markets have come down a bit, it’s gone down.

But the market capitalization of Exxon Mobil today is $330 billion, by far the highest market capitalization of any company in the United States. Microsoft is second. So it’s an incredible feat that Rex Tillerson has accomplished.

Now, admittedly, the company wasn’t exactly down in the dumps when he took over. [Laughter.] But he has done a number of things besides increasing profitability, such as engaging Exxon Mobil in the issues of today and positioning Exxon Mobil as a major participant in policy issues that it perhaps previously hadn’t been as involved with.

In addition to his time as CEO and the very great success he’s had, he’s regarded as the sixth most influential businessman in the United States, right between Bill Gates and Warren
Buffet. He’s been very active in nonprofit affairs. He’s on the executive council of the Boy Scouts, and he was a Boy Scout for many, many years. [Applause.]

He is also involved in the United Negro College Fund. He is the Vice Chairman of Ford’s Theater, where he led the recent campaign to redevelop Ford’s Theatre, raising $50 million. I can ensure you that he was very persuasive in getting people to give more money than they thought they were going to give. I know. [Laughter.] So I urge you all to go to see Ford’s Theater, because a lot of what you now see there is the result of Rex Tillerson’s persuasive skills.

But he’s been very persuasive in Washington as well, and now spends a good deal of time talking to people on Capitol Hill and others in the Administration. He has a lot of thoughts about what’s going on in the policy debate today. So let me now introduce the CEO of Exxon Mobil, Rex Tillerson. [Applause.]

REX TILLERSON: Thank you, David. That Ford’s Theater pledge wasn’t too painful, was it? [Laughter.] Well, it is my privilege to be here tonight to speak with all of you. I did a little bit of looking back on the history of The Economic Club of Washington, which I understand has been around for about a quarter of a century.

In checking around on the history of the Club and kind of what its purpose is, I think it’s apparent that it does play a valuable role in providing yet another different and unique kind of a forum to talk about the various issues in front of the nation today. I think its founders understood that Washington’s business community needed a place to discuss and debate the
pressing policy matters of the day and understood that the decisions made in our nation’s Capital affect the long-term strength and viability of our economy.

I think the Economic Club, over its history, has risen to become a premiere venue for discussing economic growth, job creation, and America’s future. For this reason, I can think of no better place and no better time to speak. The American people are looking for answers to reenergize our economy. Congress and the Administration are debating policy options a range of fronts, including approaches to reduce the risk of climate change. America’s entrepreneurs and businesses are looking for sound, long-term energy and fiscal policies so they can invest in the future with renewed confidence.

Today, I want to talk about the role America’s energy industry plays in strengthening our economy, creating jobs, and generating value for the American people. It is a role that is often overlooked and, in my view, terribly underestimated. During the course of my remarks this evening, I’ll discuss the importance of the energy industry to our economy, the growing demand for energy around the world, the most effective means to reduce emissions and other environmental impacts from energy use, as well as the need for putting in place public policies that spur investment and innovation to ensure we reach those shared goals.

We meet, of course, at a time of tremendous economic challenge, not just in our nation, but around the world. Since December of 2007, when our current recession began, nearly 7 million Americans have lost their jobs. Thousands of small businesses have closed their doors.
Many companies, large and small, have cut back on their investments in the future. And some of America’s largest corporations have had to contend with bankruptcy and seek government aid.

In addition, our state, federal, and local governments have experienced tremendous fiscal pressures as tax revenues have fallen and deficits continue to soar. Recently, financial markets appear to have stabilized. Energy prices are down from recent highs and worldwide energy demand has also eased. And the pace of job loss seems to have slowed.

Yet, despite these positive developments, companies, workers, and consumers remain uncertain about the future. To recover from the recession, business and government must work cooperatively to restore that confidence. We will need investments and innovation from industry and we will need sound and stable government policies that lay the groundwork for sustained growth in all sectors.

For more than 150 years, the oil and natural gas industry has played an important role in America’s economic growth and it continues to help drive the U.S. economy by providing reliable energy, well-paying jobs, tax revenues, technological innovation, and shareholder value. According to a recent study by PriceWaterhouse Coopers, the oil and natural gas industry contributes more than $1 trillion a year to the U.S. economy.

This enormous contribution comes in the form of jobs, labor income, and the value added within our industry as well as in other industries that provide goods and services to support our
activities. Or to put our contributions another way, the oil and gas sector is responsible for 7.5% of the government’s total economic output.

America’s energy industry does not just provide financial strength. The energy sector is also a major U.S. employer. The oil and natural gas industry supports more than 9 million jobs in the United States, or about 5% of total U.S. employment. These jobs put more than $550 billion of income into the economy in 2007 alone.

Of course, this contribution to American productivity and employment also strengthens our state, federal, and local governments. According to the U.S. Energy Information Agency, America’s major energy producing companies paid or incurred more than $242 billion of income tax expense from 2005 to 2007. Last year, Exxon Mobil alone paid more $14 billion in state and federal taxes.

Unfortunately, the oil and gas industry’s enormous economic contributions are generally overlooked. Despite the billions of dollars in value in investments that are created and the millions of jobs that are supported, discussions about the energy industry focus almost solely on energy prices or quarterly earnings announcements.

This misplaced focus often drives public policy in the wrong direction, hurting consumers and carrying adverse consequences for the entire economy. In recent years, this misplaced focus has led to higher taxes. Congress has enacted tax laws that are expected to cost
the industry about $10 billion in additional taxes from what the industry would otherwise already pay.

In addition, in the 2010 budget, the current Administration has proposed new taxes and fees for the oil and natural gas industry – taxes and fees that could potentially total more than $400 billion over the next 10 years. Now, this probably sounds like some businessman engaging and complaining about taxes. My script says it is not. [Laughter.]

I’m not going to read that part of the script – [laughter]) – because I am complaining a little bit. But in fact, by the end of this speech, you’re going to hear me proposing a new tax. Instead, what I’m pointing out is that care should be taken in adopting tax policies that arbitrarily punish investors or workers, singling out any one industry. Such policies are usually counterproductive.

They violate the principle of fair and equal treatment that is one of the great strengths of the rule of law and free markets. They place an undue burden on economic growth and they undermine job creation. Punitive taxes levied on the energy industry will ultimately raise costs for consumers, putting the highest burden on those who are least able to deal with higher energy costs: the poor and the low income.

Finally, such punitive taxes would undercut America’s future by hindering the ability of the U.S. energy industry to invest in new energy supplies and conduct the research and development necessary to develop new technologies, ceding that ground to foreign companies.
Like few other industries, oil and natural gas production depends on consistent, disciplined, and substantial investments over a very long period of time.

It takes years of planning and billions of dollars to create a modern energy project and projects can last for 75 years or longer. To give you an example from 1983 through 2007, Exxon Mobil made more than $355 billion in investments worldwide. Those investments exceeded our total cumulative earnings across the same period.

Raising taxes and fees on the energy industry does not just endanger the investments in new energy products; it also makes harder for the energy industry to return value to our shareholders, who can then reinvest that value into other segments of the economy. Nearly 55 million households have a mutual fund account and 45 million households have IRAs or some form of personal retirement account. Millions of these households depend on the financial strength and performance of America’s energy companies to protect their investments. What all these numbers show is that America’s energy industry is a critical part of America’s financial strength and its fiscal health.

But even these data do not do justice to the important role that affordable, reliable energy plays in our economic growth. The fact is, affordable and reliable energy has a vast multiplier effect that helps every company and every consumer in the American economy. To understand the best policy course for harnessing, not hindering, the strength of energy industry, it is important to understand the realities governing the industry and the energy future we must face together.
First and foremost to grasp is the fundamental fact that global energy demand is set to grow and it is going to grow significantly. As the International Energy Agency, along with almost any other think tank or any other government forecast you want to examine predicts, the world’s total energy demand will be significantly higher – about 35% higher over the next 25 years. And that’s despite the current economic downturn.

Such energy demand growth is actually good news. In developed nations, it promises greater access to the technologies and services that sustain our prosperity, advanced computing, improved transportation, expanded communications, cutting-edge medical research, and other modern advances rely on ready access to affordable and reliable energy sources.

For developing nations, energy offers something even more fundamental. It represents hope and opportunity. Energy means expanded industry, increased trade, and improved transportation, all of which create jobs that help people escape poverty. For rising nations, affordable, reliable energy is also vital to building new homes, schools, hospitals, and sanitation systems that can improve and save lives.

We wish such progress for all people. This brighter future presents a challenge, however. To meet this enormous and growing demand for energy, the energy industry must operate at a size and a scale and over a long-time horizon that, for most people, is simply too difficult to grasp. The world currently uses the equivalent of more than 230 million barrels of oil per day to fuel transportation, generate electricity, run farms and factories, heat and cool homes, and more.
Exxon Mobil is the world’s largest publicly traded energy company and yet we account for a mere 2 percent of the world’s total energy. It is an enormous global energy industry. Not only is this an enormous challenge in terms of scale; it demands long-term planning horizons. Time in the oil and gas industry is not measured in normal business cycles. It is certainly not normal, measured in election cycles. But it is measured across generations.

The energy we use today is the product of investment decisions and technical work that were made many years ago, even decades ago. In addition, for most nations, the energy that powers their economies requires a vast, complex infrastructure. New supplies of energy can come from hundreds, even thousands of miles away, often originating thousands of feet below sea level or drawn from layers of rock once thought impenetrable.

To conquer such challenges requires long-term planning and effective risk management, especially as the world’s energy resources are increasingly found in difficult or hard-to-reach places. And it requires an unprecedented level of new investment on the part of the world’s energy sector. Again, the International Energy Agency estimates that the energy industry will need to invest more than $25 trillion in the world’s energy supply infrastructure by the year 2030 to meet growing energy demand.

These fundamental energy realities are important. For decades, they have shaped how our industry manages risk, plans for the future, and invests in new technologies. As energy demand grows around the world, these realities will become increasingly important. We will
need to use them as the starting point as we work together to build sound and stable policy. In the decades to come, they will affect our economic growth, the environment, and our energy security.

In short, our policy response will shape our future. The fact of enormous and growing demand for energy around the world means that the United States must pursue policies that allow us to develop energy from all available and commercially viable resources. We will need to increase the use of alternative energy sources such as wind and solar. We will also need nuclear, hydroelectric, and geothermal power.

In fact, all of these sources will help our economy as they become more efficient and they become more competitive with time. Developing all our energy resources will also require us to find and produce more oil and natural gas. Fossil fuels currently provide the vast majority of the world’s energy. Due to their availability, their affordability, and their versatility, they will continue to do so.

Oil and natural gas alone are projected to supply nearly 60% of the world’s energy needs through the year 2030. With this increased energy demand, we also foresee a second part to the energy challenge— reducing greenhouse gas emissions associated with energy use. Globally, we expect energy-related carbon-dioxide emissions to rise by an average of 1% per year through the year 2030.
Much of this emissions growth will come from rapidly developed nations such as China and India. Meeting the challenge of reversing this trend in greenhouse gas emissions will require every nation, industry, and consumer to help. Our best hope for bringing change to the world’s massive energy system is to harness the power of new technologies and free markets. By allowing nations and peoples to work together, we can invest in integrated solutions.

These solutions leverage technology to expand energy supplies, increase efficiency, and reduce emissions. Time and time again, our industry has proven that innovation and cooperation unleash human ingenuity and bring far-reaching technological advances that can transform the economy, protect the environment, and increase energy security.

Let me provide just a couple of examples of how investing in integrated solutions can help society achieve our shared goals, starting with recent advances in natural gas. For years, we have known that the United States holds vast quantities of so-called tight gas or shale gas. This is natural gas that’s locked in formations that are denser than concrete. But we did not have the technologies to extract this so-called tight gas in a cost-effective way, until now.

After more than a decade of steady investment in research and development, ExxonMobil and others have achieved breakthroughs with the invention of multi-zone stimulation technology. Now, this is a technology that allows us to stimulate, bust the concrete, and improve recovery from natural gas reservoirs previously thought to be economically out of reach.
Here in the United States, in just one part of Colorado, it would allow my company to increase production by 300%, providing enough energy from this one area to heat 50 million U.S. homes for 10 years. At the same time, this technology helps reduce environmental impacts as we can now drill up to nine wells from a single point, allowing us to reduce our footprint, so we don’t use impact the surface acreage as much.

Also, by making greater supplies of cleaner burning natural gas available to Americans, this technology helps reduce greenhouse gas emissions in a substantial and meaningful way. Our long-term approach has also led us to invest in technologies that have promised to be truly transformative for the economy and the environment, even though they may be decades away.

In July, you may have seen our announcement that we forged an alliance with the leading biotechnology firm, Synthetic Genomics, Inc., to research and develop next-generation biofuels from photosynthetic algae. Certain species of algae can produce oils through photosynthesis that could one day be blended through our existing refining and supply network, converted into diesel, gasoline, and other products.

If this R&D effort is successful, algae could play a role in expanding our transportation fuel supplies. Because algae lives by absorbing carbon dioxide, this revolutionary technology could also help us reduce greenhouse gas emissions. In addition, unlike first-generation biofuels like those made from corn or sugarcane, algae production does not rely on freshwater or arable land.
So this next-generation biofuel should have no adverse impact on food supplies. If the research and development milestones are met, we expect to spend more than $600 million on this project. That’s just to prove the technology. If the technology is proven, it will require billions of dollars more of investments to begin production on a commercial scale. These are just two examples of technological innovations.

Over the last 5 years, we have invested more than $3.7 billion in research and development projects, because we know making a steady and disciplined investment in innovation can help us and our customer and increase their own efficiency and reduce emissions. In our industry, we understand that when it comes to achieving change at scale in the energy system, it requires long-term investments of time and money.

This is why our nation needs energy policies that maximize the use of markets, minimize complexity, and give businesses the predictability to invest with confidence to develop the new technologies that are our best hope for a brighter future. Climate change policy is one example where such an approach is needed.

As Congress debates important legislation for addressing the risk of climate change, we must remember the fundamental realities, again, governing the energy system, the need for and pace of technological change and the role of stable policies to encourage innovation, investment, and collaboration. When it comes to managing the risk of climate change, in my view, the most effective policy approaches must be guided by several key principles.
First, a successful carbon reduction policy needs to establish a uniform and predictable cost for emissions, for use in all economic decisions. This will ensure that government is not put in a position of arbitrarily picking winners and losers. Second, the best way to ensure the carbon costs are minimized is to allow for markets to select the best methods to reduce emissions through new investments and technology.

Third, we should seek to minimize administrative complexity. Our shared goal is to reduce emissions at the lowest cost to society. To do that, we must keep administrative costs low so that market participants can invest in technologies that actually reduce emissions, not become bogged down in bureaucratic demands or incur the cost of financially burdensome regulatory systems.

Fourth, we should seek to maximize cost transparency. By providing this transparency, companies and consumers can assess for themselves cost within the context of different public policy options, as well as then assess that cost against their own needs and their own available resources, allowing them to make the best decision possible for them.

Fifth, our national policy approach should encourage global participation. Energy is critical to progress and economic opportunity in both developed and developing countries. Thus, for long-term emissions reductions to succeed, every nation must be involved. Developed nations cannot do it alone. Developing nations cannot be expected to forego economic growth and advancement.
Thus, any carbon reduction policy must take these realities into account and encourage every nation to participate in the most appropriate way to meet our shared goals for reducing emissions globally. Of course, there will need to be periodic reviews and assessments to ensure that we can adapt to any changes in climate science that might emerge or to respond to any adverse impact that these policies may be having on economic performance.

So how does the current proposal before the Congress to reduce carbon emissions measure up against these principles for effective policy making? Will a cap-and-trade system accomplish our society’s shared goals? Unfortunately, experience indicates that a cap-and-trade system will result in volatile prices for emissions allowances, and this volatility will carry a heavy cost for both the economy and the environment.

For businesses and industry, price volatility undermines the abilities to invest in advanced technologies. Price volatility also creates economic inefficiencies and invites manipulation in the markets for allowances. For businesses and entrepreneurs, the added complexity and lack of a predictable cost for emissions make it difficult to plan, especially over the long term.

As we discussed earlier, steady and disciplined investment is needed to develop and deploy new technologies. We’re not alone in this assessment. The Congressional Budget Office studied cap and trade and concluded, I quote, “volatile allowance prices could have disruptive effects on markets for energy and energy-intensive goods and services and make investment planning difficult.”
Cap-and-trade schemes create another potential cost – opportunities for market manipulation. Yet, even with regulations aimed at minimizing the potential for market manipulation, the volatility inherent in a cap-and-trade system will add to consumers’ concerns about energy prices and the consumer’s ability to manage energy-related expenditures.

These costs and consequences inherent to cap-and-trade schemes have led many policy experts and economists to prefer another course action to reduce greenhouse emissions. That other option is a revenue-neutral carbon tax. I know that’s hard for a politician to say, so we’ve given them a new name. They can call it a refundable greenhouse gas emissions fee. [Laughter.]

Now, as a businessman, I have to take a deep breath every time I talk about this subject because it is very difficult for me to speak favorably about any new tax. So I hope you take it as an indication of how serious we think the issue is. A revenue-neutral carbon tax, though, has the advantage of being well focused for achieving our society’s shared goals of reducing emissions over the long term.

It can be made predictable, transparent, and comparatively simple to understand and implement. A carbon tax can create a clear and uniform cost for emissions in all economic decisions. This encourages every business, every industry, and every consumer to become more efficient and do their part to increase efficiency and reduce emissions through other choices they might make.
Because a carbon tax is directly applied to the carbon content of fossil fuels or to other greenhouse gas emissions, there is no need for government to pick winners and losers in the industry through such complex allowance and allocation processes as we have witnessed on the Hill of late. By eliminating price volatility, a carbon tax provides predictability, and predictability allows entrepreneurs and businesses to plan over the long term, to research emerging technologies and develop the integrated solutions that have the most positive impact.

A carbon tax also avoids the cost and complexity of having to build a new market for emissions allowances or the necessity of adding a new layer of regulators and administrators to police this market. And a simple carbon tax can be more easily implemented. It can be largely built on the existing tax infrastructure.

We pay a lot of taxes, excise taxes and other federal taxes today. We just add this one to the list. There’s another advantage. A revenue-neutral carbon tax can ensure that government policy is specifically focused on reducing emissions, not on becoming a revenue stream for other purposes. In other words, the size of government need not increase due to the imposition of a carbon tax to solve a threat to society by returning the tax revenue back to consumers through reductions in other taxes, payroll taxes, or simple dividends. We can reduce the burden on the economy and on our most vulnerable citizens. In this current economic downturn, American families and businesses can hardly afford to be paying a higher cost for energy, so a direct and transparent refund mechanism is a political imperative.
Finally, there is another potential advantage to the tax approach. A carbon tax may be a more viable framework for engaging participation by other nations. A tax framework is easier to implement and it does not cap economic growth. In addition, it can be easily adapted to reflect the circumstances of each country.

Given the global nature of the greenhouse gas challenge, and the fact that the economic growth and development in economies will account for a significant portion of future greenhouse gas emissions, policy options must be flexible in order to encourage global engagement. Now, some people have suggested that a revenue carbon tax has no chance of gaining sufficient support in Congress to become a law.

They say a carbon tax is too politically sensitive and that it is easier and more politically expedient to support a cap-and-trade approach, because the public will never figure out where it’s hitting them. [Laughter.] They’ll just know they hurt somewhere in their pocketbook. I disagree with this assessment. I believe the American people want climate policy to be transparent, honest, and effective.

Economists generally agree that achieving a given emissions target costs less under a tax or fee approach than under a cap-and-trade system. The system simply isn’t incurring the transactional cost, so more of the cost to the economy goes directly to lowering emissions. I firmly believe it is not too late for Congress to consider a carbon tax as a better policy approach for addressing the risk of climate change.
Indeed, there has never been a more opportune time for Congress to pursue this course of action. During this time of economic challenge, we must remember that our nation’s economic growth and success are built on the innovation, energy, and ingenuity of the American people. In the months ahead, our nation will make many important decisions about the direction of our energy policies.

The U.S. oil and gas industry— and I certainly can commit Exxon Mobil—are committed to working with government leaders to help reenergize the economy, create new jobs, protect the environment, and strengthen America’s energy security. We’re going to continue to do our part to achieve all these shared goals by investing heavily, in the face of a down cycle, developing integrated technology-based solutions to our nation’s economic and environmental challenges.

And I’m confident, with sound and stable public policies in place, that these investments hold the promise for a brighter future for not just all Americans, but for the global community as well. I thank you for your kind attention. [Applause.]

QUESTIONS AND ANSWERS

MR. RUBENSTEIN: People can forward up some questions and then we’ll – Rex will answer some questions directly from the audience as well. On the tax that you have proposed and advocated, are you involved in any lobbying effort, now, to try to get that through Congress? And do you think that’s realistic?
MR. TILLERSON: Well, we have been engaged in discussions with just about anybody who will listen to us. [Laughter.] Both on the Hill as well as with the Administration, we’ve talked about our view of the complexities of a cap-and-trade system and the heavy burden of regulatory costs that we think comes with that system and all the points that I just made.

I think, David, what I’m sensing is that Congress and the Administration, obviously, have placed a high priority on this because the American people have placed a high priority on it. I think they are searching for a solution that they would have confidence in as workable, and so we are getting a lot of interested inquiries about our views on the carbon tax, how we would structure it. And a lot of engagement over, well, what could we do to the cap-and-trade system to address some of these issues?

We’ve provided our views on what many people call hybrid-type approaches – cap-and-trade with some kind of a linked carbon-fee system, for instance. So we are engaged very heavily I can tell you, through our own direct discussions; we’re engaged heavily through many of the trade associations of which we are a member. We work with a number of broad-based organizations, certainly NAM, the Chamber, the Trucking Association, and the Farming Association.

As all of you can appreciate, this is an issue that will leave no American life untouched. Whatever we do will change the life of every single American in one way or another. And so we do feel strongly that we need to get this as right as we can. And one element of it that is really critical is to have a system in which you have some degree of flexibility as time goes by, so that
as you are either achieving your goals or not achieving your goals, you can easily turn that knob back and forth and make vernier adjustments.

And a tax is fairly simple to do that. You can turn it up a little bit if you are not achieving your goals and you think the economy can stand. Or if it is coming at too great of an economic cost, you can turn it down a little bit and still stay on a track of ever-improving emissions reductions – a cap-and-trade system with very complex transactional agreements that are in place now. These are contract agreements between counter-parties; it’s very difficult to intrude into that system and understand exactly how you are influencing it.

The way the Europeans do it is they put credits in or take credits out. But there is so much opacity to that system that it is very hard to predict exactly where that manifests itself in the economy. So again, it is all about keeping it simple, transparent. I think people make good choices when they understand the data, and a tax is pretty straight-forward data.

MR. RUBENSTEIN: Let me ask you a question. When oil prices go up, it seems that at the pump, you recognize it pretty quickly. When oil prices go down, there seems to be a perception that – [laughter] – you don’t recognize it. Is that a misperception or what?

MR. TILLERSON: That’s the market – [laughter] – you know. The gasoline price that you see at your corner retail station is by and large a function of the competitive environment within that little region. These regions can be as small as a few city blocks or as large as several counties, depending on the number of stations and the amount of competition. The flow-through of prices
from the cost of the barrel of crude directly to the pump, you know, is just a function of the supply chain and what is called the dealer tank wagon price, because that’s what they’re buying in bulk – when those higher cost barrels make their way through the system.

Now as the prices come down, it’s the same thing. And a lot of that has to do with how the dealer deals with those lower dealer tank wagon prices he or she is seeing. And I don’t think it should come as any surprise to people that often times, as the price is rising quickly in your retail store, your mom and pop dealer at the corner, they simply can’t push the price through fast enough, so there is a period of time when often times, they’re making absolutely no money on the way up. Their margins are gone and they’re just taking the cash flow to buy the next, more expensive tank wagon of gasoline so they can change the price. So on the way down, I think that there’s a natural lag that occurs as they try to recoup some of their losses that they incurred on the way up.

So, if you think about the way you might run your business, you’d probably do the same thing now. At some point they have to respond to the guy who is posting his sign down the street, where all of a sudden at the pump aisle, there is nobody coming to the store.

MR. RUBENSTEIN: We have had a debate in our country about the need to reduce foreign oil. In the great oil shock of ’73 and ’74, we were importing about 35% of our oil, now we are importing about almost 60%. Do you think it is a false debate to worry about foreign oil coming into the country, or should we actually try to reduce the amount of foreign oil coming in?
MR. TILLERSON: Well, that has always a very perplexing question to me because my automobile doesn’t know where that barrel of oil came from. It burns a gallon of gasoline that was refined out of a barrel of crude from the West Coast of Africa as well as it burns one from the Gulf of Mexico. Other than the trade balance flows, we shouldn’t see that any differently than we do with any other trade issue. So I can ask you the same thing, is it bad, is it negative for the economy and our national security to rely so much on imported sources of foreign capital?

MR. RUBENSTEIN: You’re asking me? [Laughter, applause.] If I can get a 20% carried interest on it, it’s okay but – [laughter].

MR. TILLERSON: The real debate and the real issue ought to be, how does that manifest itself in energy security? Because I think that is really the question that people are most concerned about. Is our energy security threatened because we are exposed to such a high level of imports? My response to that is, the way you manage that threat is to ensure that you have as large a number and as diverse a number in sources of imported oil as you can make available to yourself.

So don’t cut any sources off. The United States imports oil from about 35 countries. The two single largest suppliers of foreign oil to the United States are Canada and Mexico. Saudi Arabia accounts for a very small amount. The whole Middle East accounts usually at most for about 15%. People are fixated on that part of the world for some reason, which also baffles me because they’ve been one of the most reliable suppliers of energy through wars, turmoils, coups.
They’ve always kept it flowing. The only time it got cut off is when they decided to cut it off over a dispute.

The question really is, let’s keep the supplies diversified. It speaks for open trade; it speaks for maintaining good relationships among energy suppliers. They are as dependent upon us as a consumer as we are upon them as a producer. There is a natural codependency that exists in the consuming nation-producing nation supply balance. So I understand that there’s been a lot made of that. It really does perplex me. I don’t understand it, when you step back and look at it in the context that we’ve got 35 countries we can choose from.

MR. RUBENSTEIN: I don’t know if you ever had a chance to talk to former Governor Palin about energy – [laughter] – two Alaska issues: one, do you see ANWR as being a place where oil will ever be produced for the United States? And secondly, is there a realistic Alaska natural gas pipeline that is going to be built?

MR. TILLERSON: Well, as to ANWR, I don’t know whether any oil will ever be produced, even if they let us go up and drill tomorrow, I don’t know if there will ever be any oil produced, because I don’t know if there is any oil there. I’ve said for many years, this whole conversation could be much ado about nothing. There may be nothing up there. We simply don’t know.

The only way to find out is go drill some exploration wells, and then we’ll know whether we’ve got something to argue about. If there is oil there and it is substantial and the size of the resource – it’s in a very difficult location, very high-cost location – then it likely would be
developed and produced. But we really don’t know what the resources endowment of ANWR might be.

We know it is in a fairly limited area, because we know there should be the right kind of geology to have reservoir traps and source rock so that we could have some oil or natural gas there. But if and when we get around to that, that is a political question.

As to the Alaska natural gas pipeline, I’ve told many people, this is the fourth or fifth time I’ve tried to get an Alaska natural gas pipeline moving forward. I worked on it the first time back in the early 1980s, when I was in the Exxon Company USA Natural Gas Department. This is an extraordinarily challenging project. The cost of the pipeline is upwards of $30 billion. It is to bring a supply of gas down to a single market, the United States, the lower 48. We might be able to drop some off in Canada on the way, but they really don’t need any, because they are exporting gas to us now.

So it is a huge investment. And to make huge investments like that – and we were talking about this at dinner – I’m often asked by people from Alaska, well now wait a minute, I heard you spending $28 billion in Qatar to develop LNG. I just saw where you are part of this $40 billion project in Australia. How come you can’t do this in Alaska? And the simple answer is, in both of those countries, they have given us 30 years of tax and royalties stability. They’ve said, here are the rules; we won’t change them.
The state of Alaska has never given us tax and royalty stability. And until they provide that, it is not financeable, because no one knows how much money they’re going to make if the state can change the tax rate on you at any given time. And the state of Alaska has changed our tax rate 22 times. They ratcheted it up pretty severely when the price of oil went high. They didn’t bring it back down when the price of oil went low.

I talk about stable policies in my remarks. You’re going to go out and invest $30 billion and it is going to take you about 10 years to build the darn thing. And then you’re going to produce the first volume of gas to sell into a market that you have no idea what the price is going to be. You’d like to at least know that the state is not going decide to double the tax rate on you the day you sell the first KCF. So that has been the real hurdle all along, has been getting stability in the state of Alaska. We spend a lot of time talking to them about it; we’re committed to work with them around a structure. We want it; we want as badly as they do, because we want to see this resource brought on the market for the consumers here in the U.S.

MR. RUBENSTEIN: Okay, let me ask you, for our guests who might have some extra money to invest in the stock market or elsewhere – [chuckle]. If they wanted to invest in the energy world, other than your stock, where would you say they could make a good profit in investing in energy? What areas do you recommend?

MR. TILLERSON: David, that is why I just run an oil company and – [laughter] – don’t run an investment house.
MR. RUBENSTEIN: Okay, well let me ask you – [laughter]. Before you became CEO, Exxon Valdez was a national problem, of course, when it had the spill. What have they done to prevent that type of problem occurring in the future?

MR. TILLERSON: Well the Exxon Valdez was first, a national and state tragedy, but it was also an extraordinarily emotional event inside of Exxon. I can tell you that because I lived through all of it. What it motivated us to do was to completely change the way we deal with risk management. Out of that incident was an extraordinary effort to create what is called today our operational integrity management system. At the time, it was called something else; but it has evolved over the past 20 years and it is a very detailed approach to how we manage all elements of risk in our business the world over. It is done the same way; it doesn’t matter where you are.

The benefit of that has been that as we move people around the world from place to place or we go into a new place, we take this system with us. We don’t have to create something from scratch, and our people don’t have to wonder how we’re going to manage risk when they go from one part of the world to the next. The execution of that system is what has changed the way we manage risk and it is why we have not had for several years, for about 10 years, our average marine spill was a teaspoon per million barrels that we transport. We have not had a spill of even a teaspoon size since the fourth quarter of 2006, and these are little drops that come off the hose when you disconnect. We don’t even have those anymore.

So it has changed dramatically the way we manage that risk, and that has been picked up throughout the industry and it has changed dramatically. Obviously technology has helped us;
new systems have helped us; better materials, the fleet is being changed out to double-hull tankers, which of course gives you another barrier against risk mitigation. My view of that is if you don’t want that to be your only protection, you better have some very good systems in place as well. So it was a lesson that was hard learned by us and the industry as a whole, and it is one that we look back on and remind ourselves of all the time.

MR. RUBENSTEIN: Okay, another question is about the Foreign Corrupt Practices Act. When you’re competing against foreign companies around the world, is the FCPA a real handicap for you and American companies, or is it something that is not a big handicap any longer?

MR. TILLERSON: Well, let me think about how to answer this question exactly – [laughter]. It is irrelevant to us because the FCPA is the law and we’re going to abide by the law. We are in these situations all the time and I have personally been in situations in dealing with foreign governments where, as a condition of the deal, they introduce some aspect that they say, well, to get the deal done, now you need to do this and this.

And we quite frankly just say at that point, well look we can’t do those things; we are not going to do those things; and if that is the basis of the deal, then I guess Exxon Mobil and your country can’t do business. And we just have to get up and walk away. And we do that more often than probably people realize. Now the interesting part of the rest of the story is that more often than people probably realize, if a little time goes by and that government calls us back and they ask, how come you haven’t come back to see us? And we say, well, we told you we can’t
do the deal under the terms. They say, well you need to come back and talk to us, and we pick the conversation up and those questions are never asked of us again.

So I think in some governments, there is a bit of a testing that goes on because it is not illegal for companies from certain countries to engage in certain activities, the governments just want to ensure that they’re getting everything they can get. But when they understand we can’t do that, if the deal is sound and they really want us there, then we get the deal done and we don’t have those issues.

MR. RUBENSTEIN: We will now have questions from the audience. People raise their hands; there should be some mics floating around. Anybody have a question?

QUESTIONER: Hi, I am Dan Whitten with Bloomberg News. Some Senators just came out with their bill [Kerry-Boxer Bill] yesterday; EPA just came out with a rule. Can you comment on the specific impact that is going to have on you? And if you can say anything about what that might do to the price of a gallon of gasoline?

MR. TILLERSON: Well, and I’ll be honest with you, I have not had a chance to read in detail the Kerry-Boxer bill. I know they have introduced it. I know some of the basics of what is in that bill and I’ve followed what the EPA has talked about doing. In terms of the impact of any type of climate legislation on our business, when we evaluate our investment decisions going forward, we have for some time included and assumed the cost of carbon in all of our investments, you know, working on the basis that we think legislation is going to move forward.
So, our investments have to bear the cost of that. I’m not going to share with you what that assumption is, because I don’t want to give anybody a price to shoot at. But we do have it in there. So, clearly, certain types of projects are made uneconomic or they’re put at the margin.

Now what that sends us off to do when that happens is, we send our technologists and our project engineers back to the drawing board and we say, okay, if this is the element that is putting it beneath our investment criteria, you’ve got to go find a way to improve that situation, so you’ve got to figure out how to get cost out of it somewhere else, you’ve got to find some technology solutions, but if we’re going to invest in this project, you’ve got to give me a better plan than you have now.

That is no different than the way we deal with any other risk element of a project, so this is just another element of risk that we manage when we make investment decisions, it does not fundamentally change the way we do things. There is no doubt there will be some things at the margin that will not longer be economic unless our guys, our folks, our bright people can figure out a way to claw that value back. And they’re pretty good at doing that.

In terms of what it would mean for price at the pump, that is entirely a function of where they set the price of carbon. So it is hard to say what the effect would be until you know what the carbon price is.
MR. RUBENSTEIN: We haven’t built a refinery in this country in decades. Do you think it is possible to get a refinery built here, or do you think it is not even worth pursuing any longer?

MR. TILLERSON: Well, I think the real question, David, is do we need any more refineries? The last refinery built was in 1973 by Marathon; we built the next-to-the-last refinery in Joliet, Illinois, in 1972, so we have the second most modern refinery in the U.S. [Laughter.]

We were talking about this over dinner, in fact, and I think what a lot of people don’t appreciate is that, while there have been no new Greenfield sites built, within the fence lines of the existing refining system in the United States, there has been enormous modernization, upgrading, improvements over the years, which is why we’ve been able to meet this rising demand for gasoline and products without any new refineries.

In the case of the Joliet refinery was – I mentioned the last one we built in 1972, it was built to refine at a capacity of about 150,000 to 160,000 barrels a day. Today, that same refinery, same footprint, largely the same vessels, processes almost 280,000 barrels a day. And that is just through technology improvements and engineering and science and things we learned how to do with the pots and pans to get more out of it. So, I think the question is, do we need any more? And the answer to that is, we think likely not.

Motor gasoline demand in the United States peaked in 2007, and of course we’ve had this economic correction, but before the economic correction, our outlook predicted that motor gasoline demand would peak in the United States in 2007 and start a long steady decline. Our
current outlook is, 2007, we’re using about 20 million barrels a day of gasoline; in 2020 we’ll be using about 17 million. And that is the result of several things happening, the increasing volumes of biofuels, ethanol, and biodiesels and things that are out there are taking up some of that demand space. But there is an enormous improvement in energy efficiency in the fleet.

Now, the motor vehicle fleet had been improving at about one and a half percent per year for the past 25 years. But the average fuel economy line has stayed flat, and the reason is because the automobile industry has taken all the energy improvement in the fleet and plowed it back into heavier vehicles and more horsepower, because that is what the consumers wanted – the advent of the SUV. So they were able to keep the average fuel economy number flat through engine economy improvement, which they then put back in through more weight and horsepower.

We think going forward, that because of the emphasis on energy efficiency, ongoing improvements in vehicle mileage standards as well as a changing mix over time of hybrid or hybrid-like vehicles, that motor gasoline is down it is headed down; it is going to continue to head down. So, we probably have plenty of refining capacity is my observation.

MR. RUBENSTEIN: When you are driving along and you stop and need gasoline and you stop at an Exxon station, do you ever tell them who you are? [Laughter.] Do they recognize you? [Laughter.]
MR. TILLERSON: I don’t want to give them a heart attack. [Laughter.] Occasionally, from time to time, a store manager, particularly in the stores that we own, of which we’re not going to be owning very many any longer – they’ll recognize me. And the interesting thing, I see them immediately run to the bathroom to see if it is clean. [Laughter.]

MR. RUBENSTEIN: Okay, one more question.

QUESTIONER: You haven’t mentioned OPEC tonight. What is your view on OPEC – [inaudible].

MR. TILLERSON: Well, OPEC, today, as you know, they’ve had curtailment in place now for about a year and half. Compliance with that curtailment has been extraordinarily good. At one point they had about 82%t compliance, which is very good for OPEC. It is running about 65% now. When the price of oil got back up above $70, some people just can’t help themselves. [Laughter.]

But OPEC, as an entity, continues to play, you know, the role they want to play. They have continued to invest in capacity, so again, kind of back to this concern people have over foreign imported oil. Saudi Arabia has invested billions and billions of dollars to increase their capacity to now a little over 12 and half million barrels a day. It was at about 10 million. They did that so that the world will have reliable supplies and so they can take advantage of the demand when it is there.
Now they are sitting on almost 4 million barrels of shut-in spare. Now I don’t know very many people in the business community that can invest that kind of money and then shut capacity in. So they play a useful role in that regard, in that within OPEC today there is – among all the OPEC countries – there is somewhere between 5 million to 6 million barrels a day of spare capacity that is shut in.

Inventory levels are at record highs around the world for crude oil supplies, for motor gasoline, for heating oil. There is more than 110 million barrels of oil floating on the water with no place to go. So there is a huge supply overhang out there, and I think from OPEC’s perspective, they’ve invested a lot of money and they would like to be able to sell some of the capacity they’ve invested in.

Are they relevant today? Of course they are. They are still the swing suppliers in the world. And they are willing to play that role.

MR. RUBENSTEIN: Thank you very much Rex, we appreciate it. I’m going to give you this American Eagle from the Steuben Collection. [Applause.] Thank you very much, it was very good, very good. [Applause.] We have coffee and cordials in the back, and please join us back there.

Thank you all very much. We stand adjourned.
Rex W. Tillerson

A native of Wichita Falls, Texas, Rex W. Tillerson earned a Bachelor of Science in Civil Engineering at the University of Texas at Austin before joining Exxon Company, U.S.A. in 1975 as a Production Engineer. In 1989, he became General Manager of EUSA's Central Production Division, responsible for oil and gas production operations throughout a large portion of Texas, Oklahoma, Arkansas, and Kansas.

In 1992, Mr. Tillerson was named Production Advisor to Exxon Corporation. Three years later, he was named President of Exxon Yemen Inc. and Esso Exploration and Production Khorat Inc., and in January 1998 became Vice President of Exxon Ventures (CIS) Inc. and President of Exxon Neftegas Limited. In those roles, he was responsible for Exxon's holdings in Russia and the Caspian Sea as well as the Sakhalin I Consortium operations offshore Sakhalin Island, Russia.

In December 1999, he became Executive Vice President of Exxon Mobil Development Company. Mr. Tillerson was named Senior Vice President of Exxon Mobil Corporation in August 2001, and was elected President of the Corporation and member of the board of directors on March 1, 2004. He assumed his current position of Chairman and Chief Executive Officer on January 1, 2006.

Mr. Tillerson is a member of the Executive Committee and Policy Committee of the American Petroleum Institute. He is also a trustee of the Center for Strategic and International Studies. He is a member of the National Petroleum Council, the Business Roundtable and its
Energy Task Force, an honorary trustee of the Business Council for International Understanding, and a member of the Emergency Committee for American Trade.

Mr. Tillerson is a member of the Executive Board of the Boy Scouts of America, a director of the United Negro College Fund, and Vice-Chairman of the Ford's Theatre Society. He is also a member of the Engineering Advisory Board for the University of Texas at Austin and the Society of Petroleum Engineers.