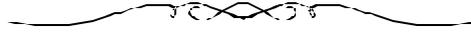


**A Joint Hearing of the Senate Committees on
Energy and Natural Resources and
Commerce, Science and Transportation**

**Statement of Lee R. Raymond
Chairman and Chief Executive Officer
Exxon Mobil Corporation**

**Dirksen Senate Office Building
November 9, 2005**

*Remarks by Lee R. Raymond
Chairman and CEO, Exxon Mobil Corporation
Senate Energy and Commerce Committees
Joint Hearing on Energy Pricing and Profits
9 November 2005*



Chairmen Domenici and Stevens, Co-Chairman Inouye, Ranking Member Bingaman, and Committee Members. Thank you for the opportunity to discuss the important issues being raised about ExxonMobil and the industry.

The increases in energy prices following Hurricanes Katrina and Rita have put a strain on Americans' household budgets. We recognize that. After all, our customers are your constituents. And we recognize our responsibility to make energy available to them at competitive costs.

It is our responsibility to engage in an open, honest, informed debate about our energy future... grounded in reality... focused on the long-term... and intent on finding viable solutions.

In that spirit, I would like to make three points during my allotted time.

First, given the scale and long-term nature of the energy industry, there are no quick fixes or short-term solutions.

Second, petroleum company earnings go up and down with the volatility in the openly and globally traded commodities in which we deal, but our ongoing investment programs do not – and they cannot, if we are to meet growing energy demand.

And third, as the response to Hurricanes Katrina and Rita proved, markets work, even under the most extraordinary circumstances. Permitting them to function properly is the kind of leadership required to meet the future energy challenges we all face.

Let me elaborate on each point in turn.

Energy Industry Scale and Timelines

As you consider energy policy – just as when we consider corporate strategy – it is essential to understand the sheer size of the petroleum industry and the extended timelines in which we operate.

Currently, the world's consumers use the equivalent of 230 million barrels of oil every day from all energy sources.¹ That's 400 million gallons an hour, or 67 billion gallons a week. Because of the size and strength of the U.S. economy, Americans consume a fifth of this total, more than any other country.

You are accustomed to dealing in large budget figures, so let me try putting it in those terms. At current market prices, the bill for the world's petroleum consumption is more than \$2.5 trillion a year. That's greater than the U.S. government's entire annual budget.

The petroleum companies represented here today help meet that enormous demand – but we are a relatively small part.

Consider this. ExxonMobil is the world's largest, non-government petroleum company, with over 86,000 employees, a market capitalization of about \$350 billion, and operations in 200 countries and territories. In fact, almost three-quarters of our business is outside the United States.

¹ ExxonMobil Energy Outlook.

On an average day, we produce over 4 million oil equivalent barrels. That is about 3 percent of the world's daily oil and gas appetite.

Now, in addition to the energy industry's enormous scale, it is also important to keep in mind the long-term timelines in which we operate.

In politics, time is measured in 2, 4 or 6 years, based on the election cycle.

In the energy industry, time is measured in decades, based on the lifecycles of our projects.

For example, ExxonMobil just announced first oil and gas production from our Sakhalin-1 project in Russia's Far East. We began work on the project over 10 years ago when prices were very low, and we expect it to produce for over 40 years. All told, that's more than 50 years for one project.

Fifty years is 25 Congresses and 12 Presidential terms. It is longer than any Senator has served in the history of this body. Or think of it this way - 50 years ago, Dwight Eisenhower was President.

So what does this mean for policymaking? It means, given the scale and long-term nature of our business, effective policies must be stable, predictable and long-term in their focus.

History teaches us that punitive measures, hastily crafted in reaction to short term market fluctuations, will likely have unintended negative consequences - including creating disincentives for investment in domestic projects.

Think back to the 1970s -- when we were in an energy crisis in the U.S.

First price controls and then punitive taxes were tried to manage petroleum markets. In addition to contributing to the record gasoline prices consumers were paying by March 1981, they contributed to shortages and gasoline lines. As the government gradually withdrew from trying to actively manage petroleum markets, prices began to come down. In fact, if you exclude the effect of state and federal taxes, prices in real terms for petroleum products like gasoline, diesel fuel, heating oil and jet fuel have actually declined over the last 25 years.² Today's higher prices are still less than the prices that resulted from government controls in the early 1980s.

Which brings me to my second point.

Earnings and Investments

The petroleum industry's earnings are at historic highs today. But when you look at our earnings per dollar of revenue – a true apples-to-apples comparison - we are in line with the average of all U.S. industries.³ Our numbers are huge because the scale of our industry is huge.

How are these earnings used?

We invest to run our global operations, to develop future supply, to advance energy-producing and energy-saving technologies, and to meet our obligations to our millions of shareholders.

Last year, when oil prices averaged a little under \$40 a barrel and earnings were high, ExxonMobil invested almost \$15 billion in new capital expenditures and more than \$600 million in research and development.

² See also: Appendices A and B, *Price Increase of Consumer Goods*, and *Commodity Price Increases*, respectively.

³ See, Appendix C, *How Do Oil Industry Earnings Compare to Other Industries?*

And in 1998, when crude oil prices were much lower – as low as \$10 a barrel for a time – so were our earnings, about \$8 billion. But we invested \$15 billion in capital expenditures that year as well.

In fact, over the last 10 years, ExxonMobil's cumulative capital and exploration expenditures have exceeded our cumulative annual earnings.⁴

So, we keep investing in the future when earnings are high as well as when they are low.

If we are to continue to serve our consumers and your constituents, corporate and government leaders alike cannot afford to simply follow the ups and downs of energy prices.

We must take a longer-term view.

The current debate on building new grassroots refineries is a good example. Building a new refinery from scratch takes years – even if regulatory requirements are streamlined.

Current refining economics are almost irrelevant. And once a refinery begins operations, it takes years more for that refinery to pay back its investment.

For us, a faster, more practical and economical way to add capacity has been to expand our existing refineries. It is much more efficient because the basic infrastructure is already in place. We have invested \$3.3 billion over the last five years in our U.S. refining and supply system.

Over the last ten years, ExxonMobil alone has built the equivalent of three average-sized refineries through expansions and efficiency gains at existing U.S. refineries.

⁴ See, Appendix D, *ExxonMobil Long-Term Earnings and Investment History*.

And industry-wide, while the number of refineries in the United States has been cut in half since 1981, total output from U.S. refineries is up by 27 percent over this same period, a percentage which almost exactly matches the rise in overall product demand.⁵

I should add that we would like to invest even more in this country, especially in exploring for and producing new supplies of oil and natural gas – if there were attractive, economic opportunities to do so. But the fact is the United States is a mature oil province, domestic production is declining from those areas that are accessible to the industry, and limited opportunities for new investment have been made available to us.

Market Leadership

Finally, my third point. Markets work – if we let them.

The response to Hurricanes Katrina and Rita proved the point. These storms were a one-two punch, to the petroleum industry as well as to many of your constituents. At one point, almost 29 percent of our domestic refining capacity was shut down, and all told, the Congressional Budget Office estimates the hurricanes caused somewhere between \$18 billion and \$30 billion in energy sector infrastructure losses.⁶

But we are recovering. Crude oil supply was quickly rerouted, refineries rapidly came back on-line, investors kept cool-headed, and production in the Gulf has been gradually restored.

Credit for this goes, in part, to the energy industry, especially our diligent and dedicated employees who went above and beyond to repair the damage and to get back to work.

⁵ See, Appendix E, *How Do Fewer U.S. Refineries Affect Supply?*

⁶ Statement of Douglas Holtz-Eakin, Congressional Budget Office, “*Macroeconomic and Budgetary Effects of Hurricanes Katrina and Rita*,” before the House Committee on the Budget (October 6, 2005).

Credit also goes to the federal government. Release of crude from the Strategic Petroleum Reserve and the temporary easing of regulations such as gasoline specifications and the Jones Act enabled us to reallocate resources effectively and efficiently. That helped.

But most importantly, credit goes to our free market system. The hurricanes showed that markets work, even under the most extraordinary conditions.

Even before the hurricanes made landfall, shippers rerouted tankers, refiners recalibrated output, traders reallocated resources, investors moved capital, and consumers began to change their consumption patterns.

Prices for products did increase, of course, but there was no panic and no widespread shortage. Retailers responded to the short-term supply disruption, consumption decreased, and imports increased to make up for the shortfall.

The remarkable recovery would not have been possible had the millions of Americans impacted by the storms – energy producers, refiners, suppliers, retailers and consumers – not had a free hand to respond. Markets enabled them to do so.

And letting markets work will enable us to meet our future energy challenges.

In just twenty-five years, global energy demand is expected to increase nearly 50 percent, with oil and natural gas needed to continue to meet a majority of that demand.⁷

An estimated 100 million barrels of oil equivalent in new production is required during this time frame, as well as an estimated \$17 trillion in new investment.⁸

⁷ See, Appendix F, *Will Energy Demand Continue to Increase?*

⁸ International Energy Agency, *World Energy Outlook* (2005).

To be sure, much of future demand growth will be in developing countries like China and India. But because oil is a global commodity – like corn or copper - failing to meet demand abroad means higher prices for Americans at home.

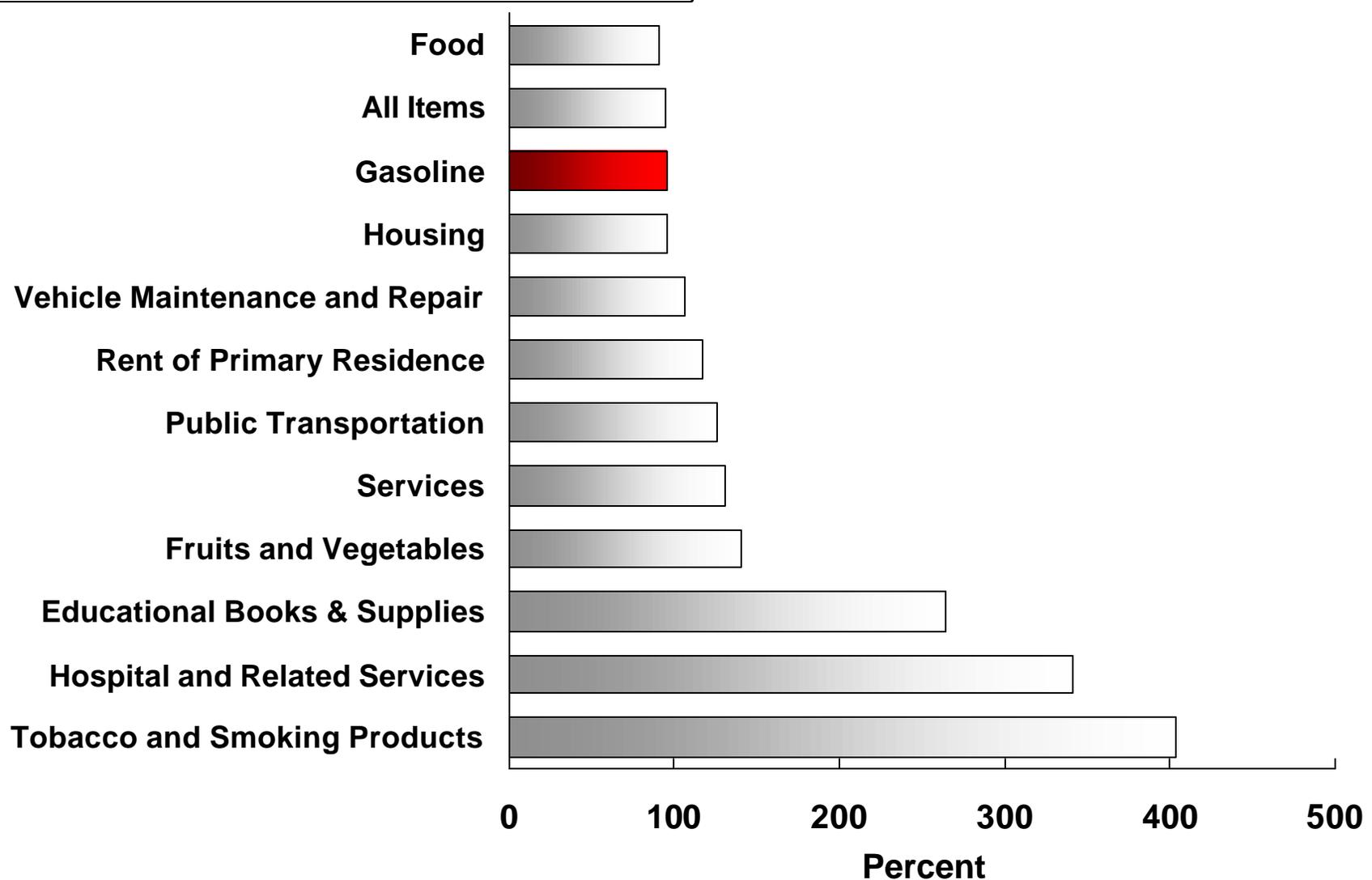
The energy industry is meeting this challenge, and will continue to do so. Government can best help by promoting a stable and predictable investment environment, reinforcing market principles, promoting global trade, promoting the efficient use of energy, and implementing and enforcing rational regulatory regimes based on sound science and cost/benefit analyses.

It is this kind of leadership that is required of all of us to meet the future energy challenges we all face.

Thank you.

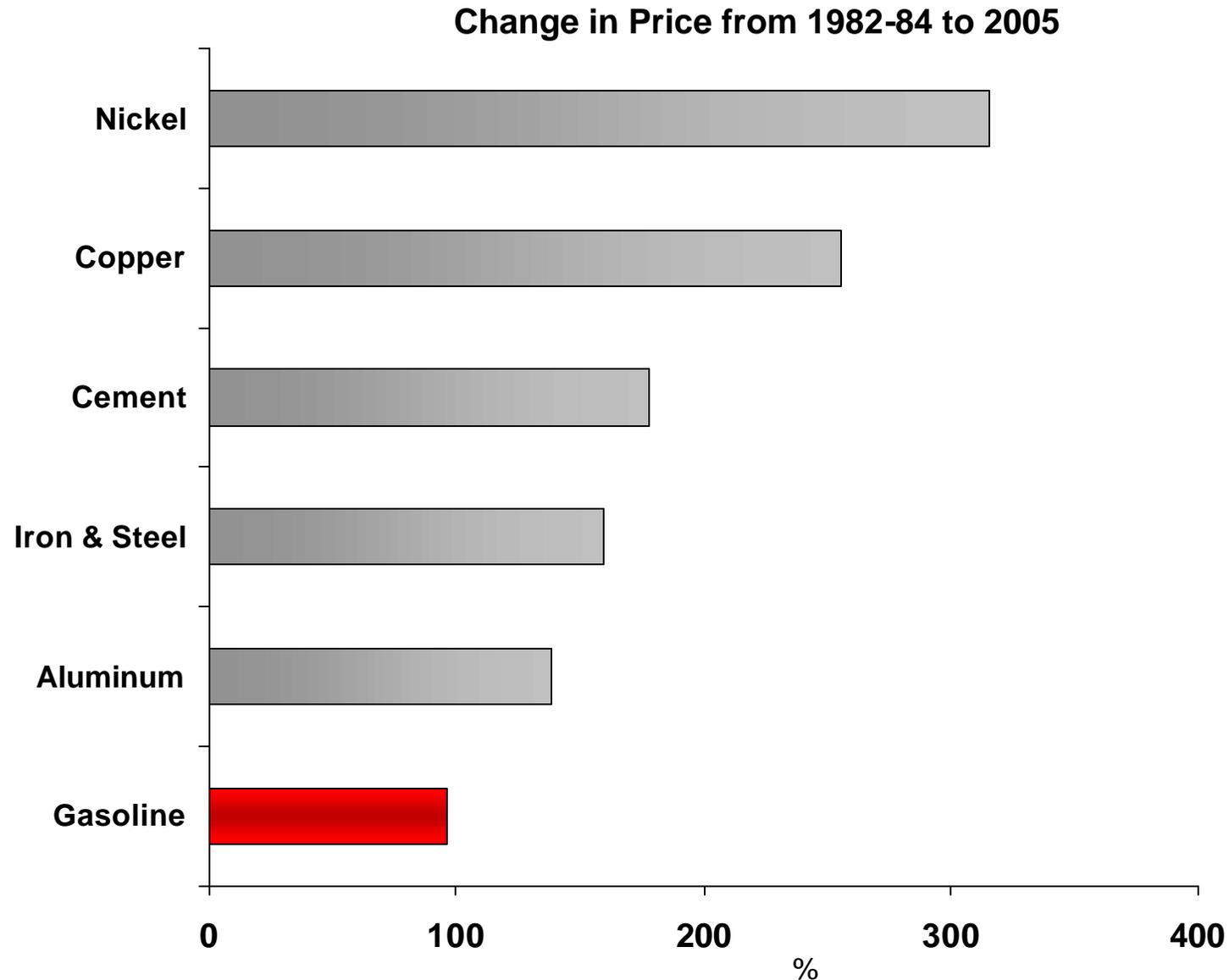
Price Increase of Consumer Goods

Change in Price from 1982-84 to 2005



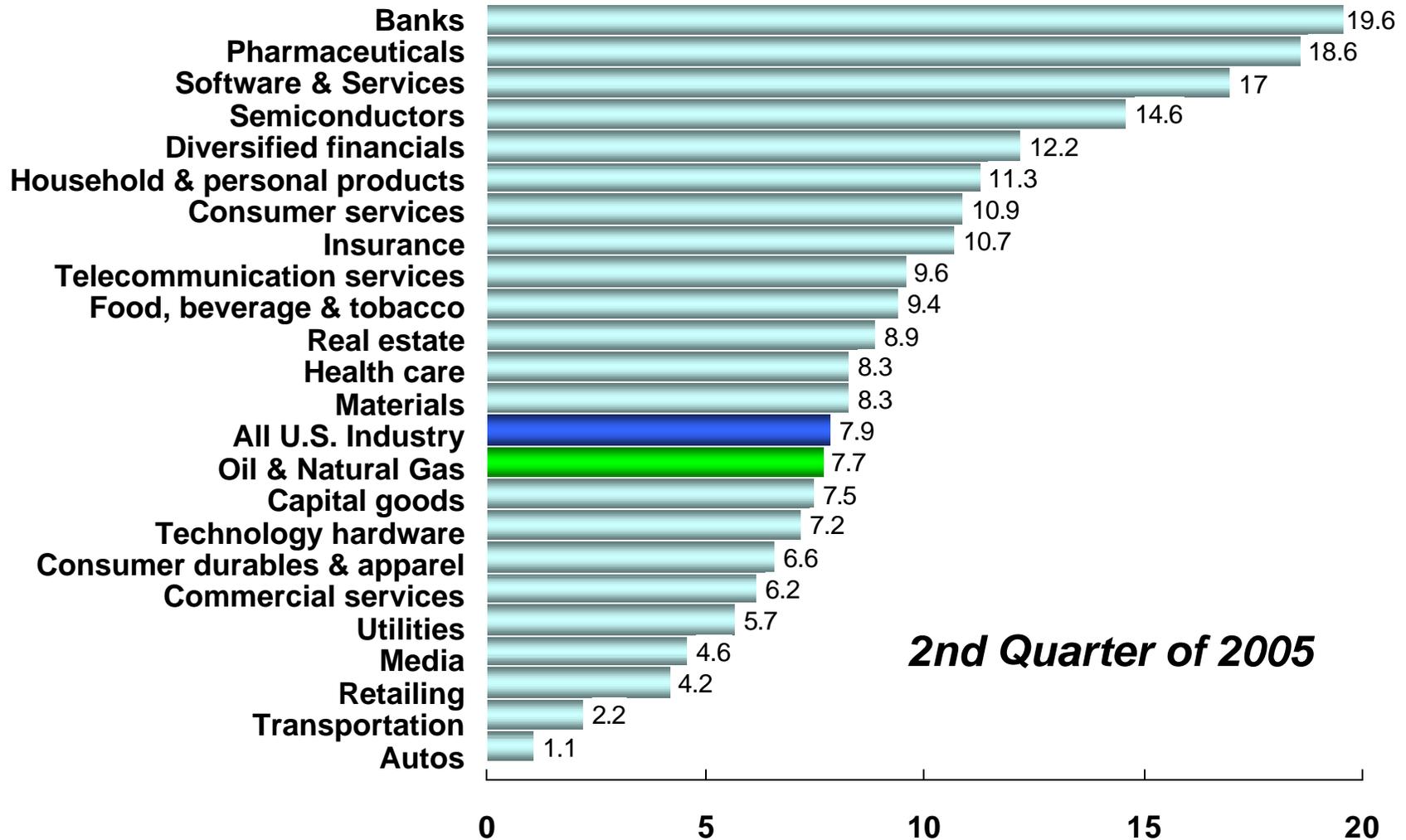
Source: U.S. Bureau of Labor Statistics – (July, 2005)

Commodity Price Increases



Source: U.S. Bureau of Labor Statistics and World Bank

How Do Oil Industry Earnings Compare to Other Industries?

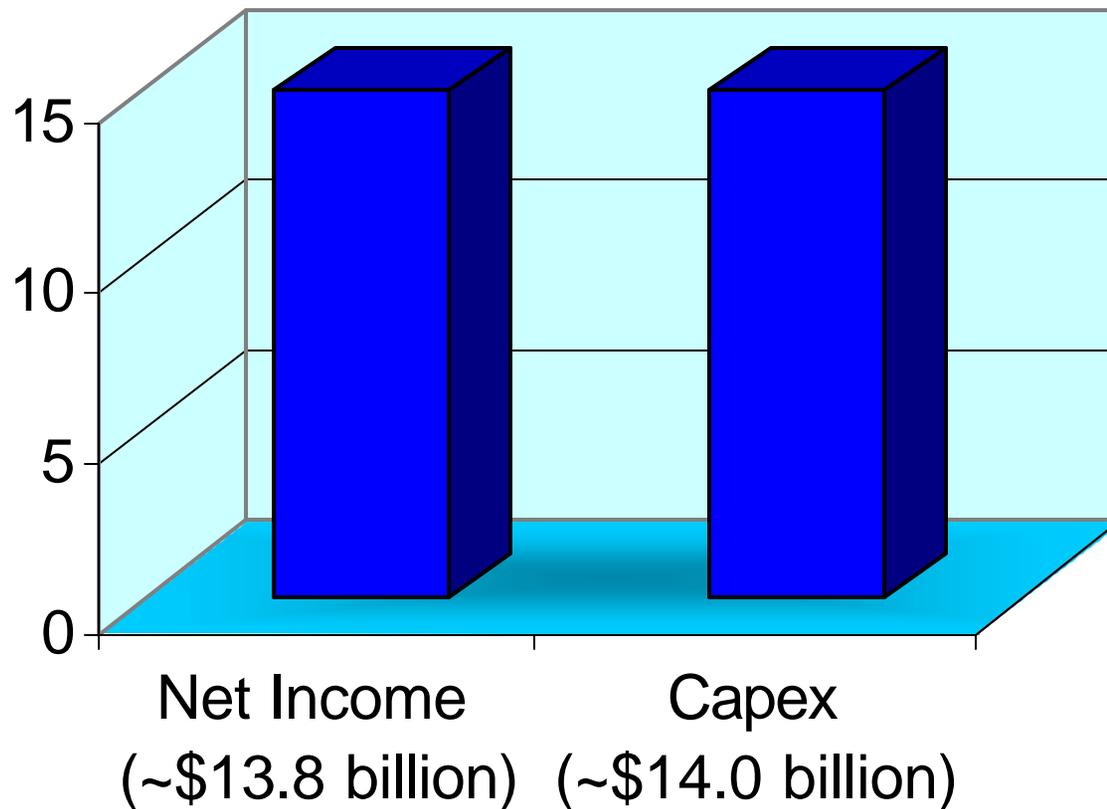


Source: API calculations based on filings with the federal government as reported by Business Week and The Oil Daily

Cents per dollar of sales

ExxonMobil Long-Term Earnings & Investment History

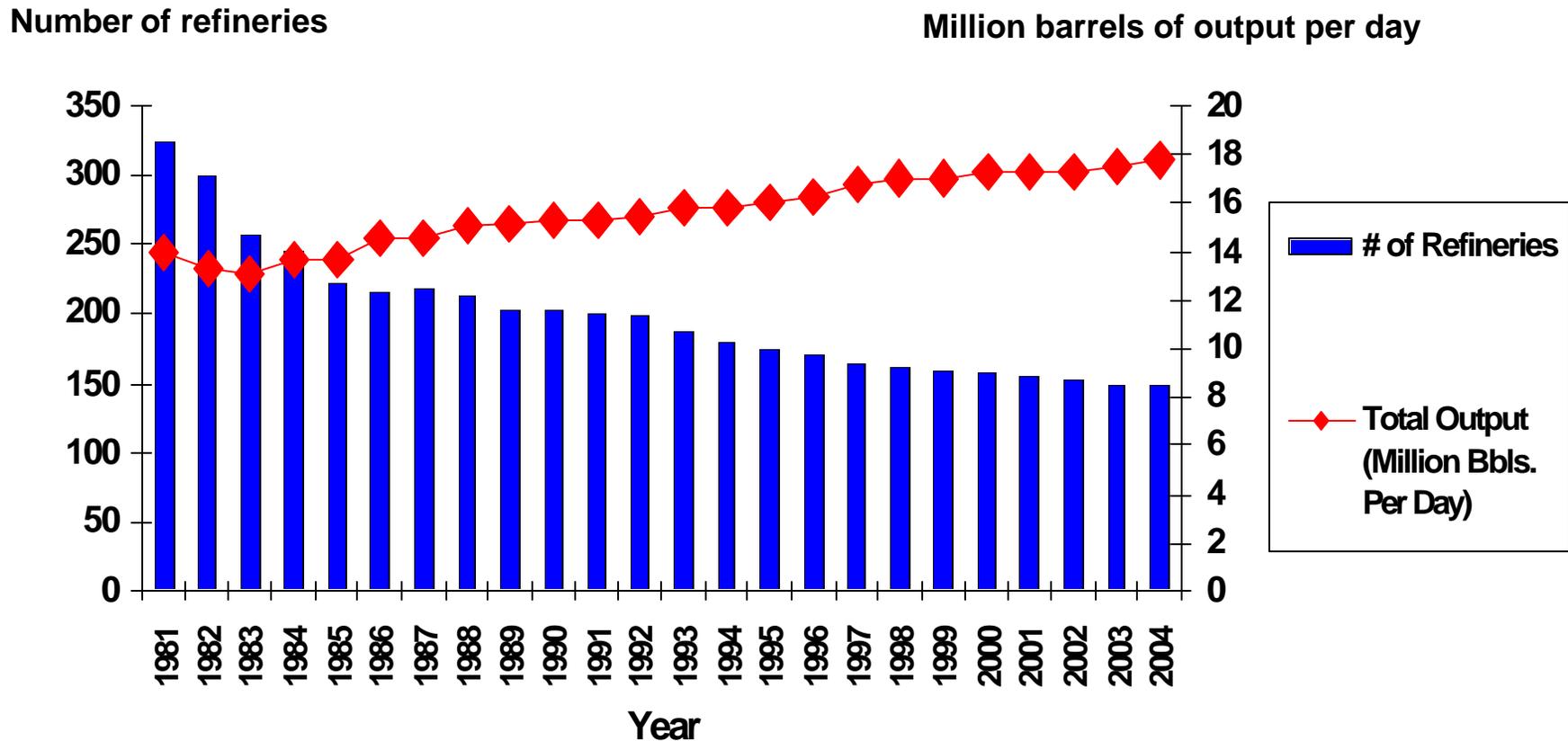
10 Yr Average '95-'04 (\$US Billions)



Source: EM Financial Reports

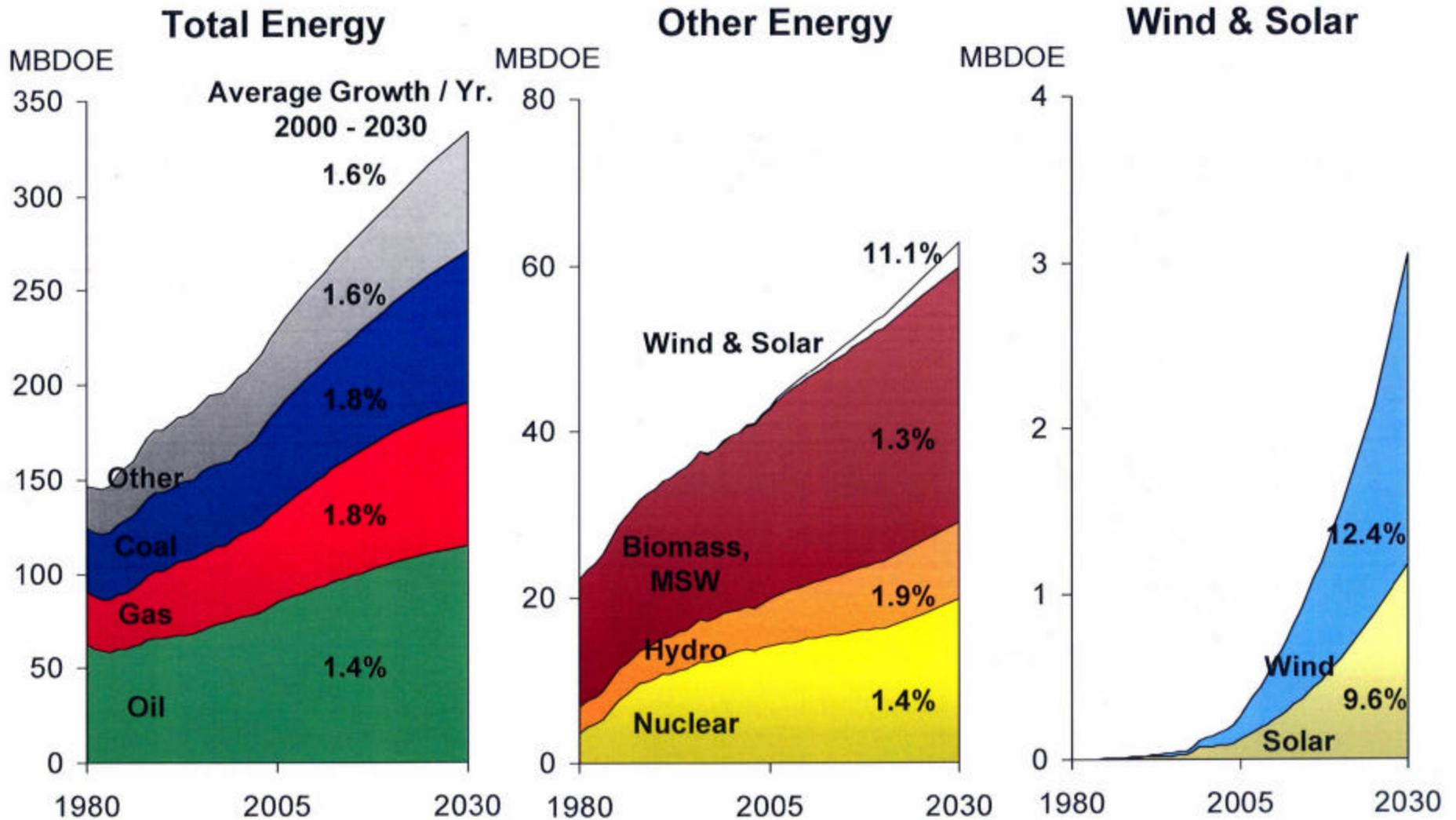
How Do Fewer U.S. Refineries Affect Supply?

Technology, investment, and efficiencies have significantly increased output of refined products in US by 27% since 1981.



Source: EIA data

Will Energy Demand Continue to Increase?



From 2003 to 2030 \$17 trillion total energy investment required