



Remarks by Rex W. Tillerson
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Johannesburg, South Africa - (Courtesy Exxon Mobil)

Thank you for those kind words. I appreciate the opportunity to address you today.

This is an historic gathering. For the first time, the World Petroleum Council is holding its triennial congress on the continent of Africa. It is a well-deserved tribute to Africa's growing importance as a producer and consumer of energy in the 21st century.

I congratulate all our African sponsors on this recognition, including host sponsor Petro South Africa and co-host sponsors NNPC, NOC Libya, Sonangol and Sonatrach.

I would also like to recognize our many other international partners here today from Africa and beyond, and I welcome the opportunity to share this platform with His Excellency Minister al-Naimi. Your Excellency, we deeply value the long partnership we have enjoyed with your country.

The Crisis

Our meeting today is historic for another reason. It comes in the wake of two natural disasters impacting the global energy community, disasters which demonstrate the importance, interdependence and resilience of our industry.

In the last month, hurricanes have struck the very heart of production, refining and supply in the United States - the world's third largest producer and single largest consumer of energy. Hurricane Katrina hit the Gulf of Mexico coast August 29, and Hurricane Rita hit September 24.

These storms have had a devastating impact on the communities in their paths, as have many natural disasters the world has faced. But what distinguished these from others – and what we, in the energy industry, should reflect upon today – is the impact they have on the international energy operations centered in the Gulf of Mexico region.

It is too early to draw definitive conclusions from Hurricane Rita. As of today, several refineries remain closed and much production is suspended. Although damage caused by Rita is still being assessed and addressed, we can draw important conclusions from Katrina and it is these conclusions that I ask you to consider today.

Hurricane Katrina caused evacuation of eighty percent of the manned platforms in the Gulf of Mexico, destroying 40 platforms and severely damaging many more. It shut nine major refineries... closed two major pipelines... halted 95 percent of the Gulf of Mexico's oil production and close to 90 percent of its gas production ... and substantially curtailed import facilities in the area.

It threatened to paralyze operations, panic markets, and did in fact propel prices sharply upwards.

The Response

But instead of panic, what we witnessed in the immediate aftermath of Hurricane Katrina was a rapid, market-driven recovery.

Within two weeks, all major import facilities and product pipelines were operating at full or only slightly reduced rates.... all but about 5 percent of U.S. refining capacity had returned... and all but 15 percent of U.S. oil and 6 percent of gas production had been restored.

Markets responded accordingly. Crude prices returned to pre-storm levels. Trading volumes normalized. And although prices at the pump remained high, they stabilized downwards after their steep spike in the immediate aftermath of Hurricane Katrina.

Even the temporary regional price spike was evidence of a properly functioning market. With supply unavoidably curtailed, prices rose and demand moderated, so that large scale shortages were averted.

How can we account for this remarkable recovery? Many energy companies operating in the region – including mine, I am pleased to say – made advance preparations, executed these plans effectively, and quickly repaired damage and adapted production and refining operations immediately afterwards.

Global energy markets likewise rose to the challenge. The industry and the investment community responded calmly and confidently. Traders reallocated resources effectively and efficiently. Market mechanisms and financial institutions operated smoothly. Under this extraordinary circumstance – as under normal circumstances - markets worked.

Finally, local and national governments also played a constructive role by collaborating with industry to dismantle impediments to trade, temporarily easing regulations, and releasing reserves of crude to meet the shortfall created by supply chain interruptions. The release of stocks from the U.S. Strategic Petroleum Reserve and all 26 member countries of the International Energy Agency to industry refiners is the picture of successful industry-government collaboration to address a severe energy supply disruption.

The Lessons

I believe we can draw three lessons from Hurricane Katrina.

First, disruptions such as these remind us of the critical importance of energy to all spheres of our economic life.

In the immediate aftermath, as flood waters engulfed whole communities and assistance was en route, stranded victims depended on three commodities above all else to survive – food, water and energy.

Energy is not only key to progress. Energy is also often key to survival. Hurricane Katrina should remind us of the essential nature of our industry.

Second, this crisis demonstrated the true extent of our global interdependence. Hurricane Katrina was a regional weather event that had a worldwide economic impact.

It sent shock waves through energy markets, supply networks, refining complexes, and production sites around the globe.

This confirms an important truth: net energy importing countries like the United States cannot escape their dependence on foreign supply. And net exporting countries cannot escape their dependence on foreign demand. The hurricane shows that, with precious few exceptions, the notion that any one nation can be energy independent is not realistic.

Finally, the response to Hurricane Katrina demonstrated the strength and resilience of our industry. With timely and appropriate assistance from government, the worldwide energy industry's vast network of interlocking assets, functions, components, services – and, above all else, its dedicated professional workforce – proved its mettle.

Now we have Hurricane Rita. And we are rising to the challenge once again.

This is an achievement for which all of us in the global energy community – industry executives and employees, government leaders, capital investors, service providers – can be proud.

The Challenge

It is with this achievement in hand and these lessons in mind that we must urgently rise to another challenge – meeting the next generation's energy demands.

It is an acute challenge. We are all familiar with the statistical projections for future energy supply and demand. We know abundant petroleum supplies exist. According to the U.S. Geological Survey, more than 2 trillion barrels of conventional oil remains to be recovered, twice what has already been produced in all of human history.

Beyond that, more than a trillion barrels of frontier resources, like oil sands and oil shale, are expected to be recovered over time.

We also know, however, that demand for energy is growing at a tremendous rate. World energy demand is expected to increase by almost 50 percent in just 25 years, with 80 percent of the demand growth in the developing world.

A broad range of energy options will be needed to meet this demand, but despite the expected growth in nuclear, biofuels, wind and solar energy, fossils fuels are realistically the only energy sources with the scale and versatility to meet the challenge of growing demand over this period.

This challenge comes at a time when the energy map is in flux. On the supply side, although the Middle East is and will long remain the epicenter, other production is shifting from mature areas in North America and Europe to new supply sources in Russia, the Caspian Basin, and here in Africa.

On the demand side, rapidly growing economies – especially China, India and many other nations in Africa, Asia and Latin America – are expected to consume a greater and greater share of the growing energy pie.

These dramatic supply and demand shifts in the energy map have further increased the physical distance between producers and consumers, putting a continuing high premium on safe and reliable transport and on the wider application of solutions such as LNG.

This, then, is the crux of the challenge that we all now face: discovering, developing, and delivering the global endowment of hydrocarbon resources in an efficient, economic, and socially responsible way to a new generation demanding - and deserving - higher standards of living.

Leadership in the Global Energy Community

Meeting this challenge will take the same qualities we have seen during the last month in the aftermath of the hurricanes – foresight, flexibility, fortitude, and confidence in market forces. It will also require tremendous investment and technological innovation.

But, most importantly, it will take leadership. Right-minded and steadfast leadership, grounded in reality.... honest and open in approach... and firmly focused on the future.

And it will take this brand of leadership from all segments of the global energy community – industry, investors and governments.

Industry

First, to my colleagues and competitors in private industry: we must invest wisely, manage effectively, operate efficiently and responsibly, and prepare for tomorrow through research and continuous technological innovation.

We must maintain our commitment to building local capacity. Our industry has a strong interest and a responsibility to invest in the long-term productivity and prosperity of the communities in which we operate. Such investments pay long-term economic and social dividends for all.

ExxonMobil strives daily to meet this challenge to industry and we are doing so successfully.

Beginning with investment in the upstream sector. In Africa alone, we have invested \$12 billion over the last five years and plan to double this investment by the end of the decade.

We are conducting exploratory drilling in quality, untapped acreage around the globe, from the Gulf of Mexico to the Gulf of Guinea to the Gulf of Arabia.

In our operations, we apply our Operations Integrity Management System on a global scale, setting industry benchmarks for effectiveness, efficiency, reliability and safety.

And ExxonMobil's investment in R&D has, for many years, consistently led the industry, with our annual spend topping \$600 million. As a result, ExxonMobil does not rely on "off the shelf" technologies that represent the average, but on propriety technologies that set the standard.

At the same time, ExxonMobil is contributing to the communities in which we operate.

Here in Africa we are collaborating with governments and businesses to build indigenous capacity by making investments... creating local jobs... helping educate and train... transferring knowledge and skills... and purchasing local goods and services.

For example, in Angola, we offer extensive technical job training and support for education. In Chad, we recently opened an in-country training center offering instruction in all facets of our operations. In Nigeria, 95% of our workforce is Nigerian – and 100% are given the training they need to succeed and to advance. It is a pattern we replicate around the world.

By investing in the local workforce and infrastructure, we are building a legacy of economic progress, enabling host countries to reap the long-term benefits of their resources. I know I speak for all international energy companies represented here today when I say that we view local capacity building as a business imperative -- and a partnership responsibility.

But ExxonMobil's community contributions extend far beyond the fence line of our facilities. We support education, health, safety and environmental initiatives worldwide for our employees, their families, and the communities in which we operate. We recently launched our Educating Women and Girls program, to help provide education and training opportunities for women and girls in the developing countries where we live and work. Through our Africa Health Initiative we have donated more than \$10 million in grants to the fight against malaria. And employees in more than 20 countries in subsaharan Africa are participating in our StopAIDS program.

Investors

The second segment of the world energy community called upon to play a leadership role is the investment community. Much will be required of investors to meet the future energy challenge.

The International Energy Agency estimates that over \$200 billion per year of investment is needed to produce the oil and gas the world requires. That is more than \$5 trillion by 2030 – about half the Gross Domestic Product of the United States, the world's largest economy. And the IEA estimates that about \$10 trillion of additional investment is required for the electricity sector alone.

We cannot, however, call on investors to act unwisely. Ultimately, investment capital will flow to the companies that perform and to the countries with the most favorable business climates.

Governments

This calls for leadership from governments of resource-rich and importing countries, the third segment of the global energy community. Many such governments are represented here today. To meet the energy challenge, we need you as partners in attracting investment.

Providing access to acreage... opening markets... reducing trade barriers... eliminating subsidies and market interventions... providing fiscal certainty... upholding the rule of law... protecting the sanctity of contracts... acting transparently... protecting human rights.

It is critical to remember that all of us here -- industry and host governments -- ultimately compete for our share of the world's investment dollars. To maintain investors' support, it is essential we continually earn their confidence by demonstrating a commitment to stability, consistency and the long term.

If you lead in this way, industry and investors will follow.

Many governments here in Africa and across the globe have shown this brand of leadership, and here ExxonMobil has found reliable partners.

Finally, to the civil society leaders watching today's proceedings: you, too, have a vital role to play in meeting the energy challenge. Your constructive participation in an informed and reality-based debate about the global energy challenge is critical, along with the recognition of the need to strike a positive balance between the economic, environmental and social priorities involved.

A Realistic Risk-Reward Framework

Meeting the next generation's demand for energy will take each of us – industry, investors, governments, and our societies at large – playing our leadership role.

But it will also require we do so together – each making our individual development, investment and policy decisions through a common framework for realistically assessing risk and reward.

At current crude prices, the reward appears great. This will change. Ours is a cyclical industry – what goes up will invariably come down, and will undoubtedly go up again.

What will not change is the presence of risk. Despite the tremendous gains we have made in technology and safety, we cannot escape the reality that a large proportion of hydrocarbon resources reside in physically challenging parts of the world, many far from the world's consuming markets and lacking sufficient infrastructure to export commercial quantities of oil and gas.

Therefore, a focus on the fundamentals and on the future – not on fluctuating spot prices – is paramount.

Petroleum is a commodity, arguably the world's single supercommodity. No two commodities are the same, but many are susceptible to sudden and sharp price movements. The history of nearly

any commodity market is that the only successful investment strategy is one that remains steadfast during the inevitable price peaks and troughs.

This is especially true in our industry, where lead times and planning horizons for major projects span many years, even decades. A long-term investment strategy is the best and only means to achieving greatest total return for investors, as well as greatest total value for host countries.

Short-term price fluctuations do not significantly affect the pace of our projects at ExxonMobil. We neither accelerate our pace of implementation when prices are high, nor do we decelerate when prices are low, beyond what is sustainable over the long-term. Nor should current prices significantly affect the pace of investment or market liberalization.

Where industry, investors and governments have worked together in this risk-reward framework, it has proven largely successful for all concerned. Private sector investors have captured a reasonable return on the resources, technology, and human capital they have dedicated. International oil companies have been able to build capacity for themselves and for the communities in which they operate. And the citizens of host governments have enjoyed direct economic benefits – through taxes and royalties – and indirect benefits, through jobs and economic growth.

ExxonMobil's projects in nearby Angola are a prime example. Here we have deployed the world's largest floating production storage and offloading vessel, large enough to hold 2.2 million barrels. We successfully brought the Kizomba 'B' project on stream this year, more than five months ahead of schedule, and together with our other Angolan production facilities, we are already producing more than 550,000 barrels of oil a day.

We could not have accomplished this significant technical, scientific, managerial and financial feat without the support of the government of Angola and its national oil company. And we could not have even launched this ambitious project – which was first conceived more than a decade ago – without sufficient investment.

Examples can be found elsewhere in Africa in which we are privileged to partner with national governments, including in Nigeria, Equatorial Guinea, Chad, Cameroon, Madagascar, and Sao Tome and Principe.

Shaping the Energy Future Together

Let me close by recalling the theme of this year's Congress: "Shaping the Energy Future: Partners in Sustainable Solutions."

We have the ability to shape the future of energy and overcome the challenge we now face, a challenge equally severe but far greater in scope than the one we overcame in the aftermath of Hurricane Katrina, and the one we are overcoming now in the aftermath of Hurricane Rita.

The solution is leadership – leadership from all sectors of the global energy community.

In the city that both Gandhi and Mandela, two of the world's most courageous leaders, once called home, let us resolve today to show the leadership necessary to take on this challenge. Together.

Thank you.