



# PORTLAND MARKET REPORT

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IN VIEW

## WHY DO OIL MAJORS GENERATE 'OUTRAGEOUS' PROFITS? BECAUSE THEY CAN...

February saw a slew of eye-watering annual results from the oil industry and none of them brought more water to the eye than Exxon's 2022 profit of \$56bn. The world's largest independent oil company and all-round environmental malefactor generated a return of over \$1bn per week, \$150m a day or a cool \$6.5m per hour! Unsurprisingly, shareholders were (quietly) delighted, whilst environmentalists were aghast. Even President "Green Deal" Biden joined the fray, calling the results "outrageous" before then performing the most extraordinary political gymnastics in demanding that Exxon pump more oil out the ground to bring prices down. Go figure!

### "A PRETTY POWERFUL ADVERT FOR CONTINUED INVESTMENT"

Like most American oil giants, Exxon can trace its roots back to the 1870s and John Rockefeller's Standard Oil Company. Standard was broken up in 1910 by "trust busting" (anti-monopoly) legislation and this not only made Rockefeller the richest man on earth (and possibly the richest man that has ever lived) but also led to the creation of seven new oil firms (the "Seven Sisters") of which Exxon went on to become the biggest. Over the course of the 20th Century, this "new" company relentlessly acquired drilling rights and global exploration licenses, whilst building, and then obsessively investing in, world-class refineries with huge production capacities. Exxon heralded themselves as the industry's low-cost leader, with mega-scale assets so efficiently run that they would be immune to downturns in commodity prices. Even today, they still lead the pack not only with their huge profits, but also their continued discoveries of new, drillable oil fields. It is no coincidence that that the biggest oil discovery of recent times – the 10bn barrel Guyanan basin, discovered in 2015 and already producing over 400,000 barrels per day – is owned and operated by Exxon.

Exxon's "boom and bust" defying returns have largely set them apart from other oil majors, along with their steadfast refusal

to engage in the decarbonisation agenda. Such faddish interests were left to their less successful and "woke" European competitors. Besides, according to the Exxon Board, they could legitimately claim to already be the most efficient and thus greenest oil company on the planet. Their production facilities flared less waste gas than their rivals, they received far fewer environmental compliance penalties and their refineries were bywords for sustainability in the recycling of energy and waste products back into the crude processing system. When pressed on the issue of emissions, Exxon would solve that through technological solutions, because they had the best researchers and the best engineers in the business.

Which is all well and good, but for anyone outside the industry, Exxon simply represent everything that is bad about the oil sector. Despite being one of the first companies to actually prove fossil fuel combustion affected global weather patterns, Exxon chose to bury this evidence and instead mounted an aggressive "climate denial" strategy (involving hundreds of lucratively paid lobbyists and dubiously paid scientists). Their position on climate change was neatly summed up by the then CEO Rex Tillerson in 2012, when he said "there are much more pressing priorities that we as a society need to deal with and you'd save millions upon millions of lives by making fossil fuels more available". He then added "it's an engineering problem and there will be an engineering solution...".

Inevitably, investors and shareholders turned a blind eye, as long as results were good – which they invariably were. It's true that, in a covid affected 2020, the company lost \$22bn and this generated searching questions about Exxon's future. What was the point of endlessly extracting crude in a decarbonising world? Surely their huge oil reserves would become nothing more than "stranded assets" once the world started consuming less fossil fuels. But then, 2 years later, those same assets made \$56bn in a single year, which is a pretty powerful advert for continued investment. Besides, Exxon's public position is that global oil consumption will continue to increase until 2050, in stark contrast to the European oil majors (Shell, BP etc), who are forecasting oil

decline from 2030 onwards.

This doesn't mean that Exxon has completely "shut-out" green activity in recent years. They have invested heavily in fuel cell technology, as well as patenting biofuel manufacture from algae (potentially the greenest of all biofuels). Furthermore, in a highly significant move, they publicly accepted the inevitability of carbon taxes and have withdrawn lobbying interests to that effect. None of these actions demonstrate any kind of "Road to Damascus" moment when it comes to climate change, but what they do show is a company hedging their bets against a low carbon future, that may be forced upon the industry via legislation. The best example of this "half-way house" approach is Exxon's enormous carbon capture schemes (that's capture – not reduction) currently being integrated into their global production facilities.

### "HEDGING THEIR BETS AGAINST A LOW CARBON FUTURE"

None of these activities will pacify Exxon's critics, of which of course there are many. But ultimately the world's largest independent oil company is guilty of nothing more than doing capitalism well. They invested, they were meticulous, they mastered the market and 100 years later, they made \$56bn in a single year. Their continued denial and obstruction of climate change arguments is undoubtedly a stain on their reputation, but Exxon did nothing illegal and their freedom to be a societal "bogeyman" is their right in a democratic world. They are after all, a business, not a government.

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