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Energy Independence and Global Warming
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Thank you, Chairman Markey, Ranking Member Sensenbrenner, and members of the Committee.

The world's economy runs on energy. Americans depend on it every day to fuel their cars, heat their homes, and power their businesses.

Because energy is so important, all of us have a responsibility to engage in an open, honest, informed debate about our energy future that is grounded in reality and intent on finding viable solutions.

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

First, our earnings, although high in absolute terms, need to be viewed in the context of the scale and cyclical, long-term nature of our industry, as well as the huge investment requirements.

Second, stable tax and regulatory policies are essential to encouraging needed investments. Imposing punitive taxes on American energy companies, which already pay record taxes, will discourage the sustained investments needed to continue safeguarding U.S. energy security.

Third, all reliable and economic forms of energy are needed to meet growing needs – but the pursuit of alternative fuels must not detract from the development of oil and gas.

Allow me to elaborate on each point in turn.

Because of the massive scale of our industry, our profitability in absolute terms is large, particularly in the current up cycle. But in 2007, the oil and gas industry earned, on average, about 8.3 cents per dollar of sales – near the Dow Jones Industrial Average for major industries of 7.8 cents per dollar of sales.

Because ours is a commodity business, earnings rise and fall in cycles. We are currently in an up cycle, strongly influencing our current profitability.

But we've seen up and down cycles before. In 1980, crude oil prices reached record levels - approaching the equivalent of over $100 a barrel in today's dollars and many were predicting that oil prices would soar to over $250 a barrel in today's dollars. But those predictions were wrong - by the mid-1980s prices had fallen dramatically and the industry was in dire straits.

Ours is a long-term business, with energy projects requiring enormous investments spanning decades that must carry through both up and down cycles.

Over the last 25 years, we have invested $355 billion – which is more than we earned. In the last five years alone, we have invested almost $89 billion, including about $25 billion in North America (over $17 billion in the U.S. alone).

Over the next five years, ExxonMobil plans to invest at least $125 billion. We depend on high earnings during the up cycle to sustain this level of investment over the long-term, including the down cycles.

Regarding taxes, currently the energy industry pays record levels. While our worldwide profits have grown, our worldwide income taxes have grown even more. From 2003 to 2007, our earnings grew by 89 percent, but our *income* taxes grew by 170 percent. Over the last five years, ExxonMobil's U.S. total tax bill exceeded our U.S. earnings by $19 billion.

A recent survey by Tax Notes of 80 leading U.S. companies revealed that these companies had an average income tax rate of 30 percent. ExxonMobil’s effective income tax rate in 2007 was 44 percent.

To discriminate against American energy companies – as the proposed changes to Section 199 and the Foreign Tax Credit do – would not only add to these taxes, but also impact investment in future energy supplies by redirecting needed capital and creating competitive disadvantages for American energy companies competing overseas. Taxes should be fair, stable, and pro-competitive – principles these proposals violate.

Finally, regarding alternatives, the International Energy Agency forecasts that oil and gas will continue to meet about 54 percent of global energy demand in 2030. Alternative fuels also play an important role, but the IEA forecasts that renewable energy sources such as biofuels, wind, solar and geothermal will account for only about two percent of global energy supply in 2030 - again, an indicator of the scale required.

The market is the most effective means of determining the future energy mix in a way that maximizes supply and minimizes cost.

Government mandates and subsidies distort market forces and impede technological innovation. Raising taxes on oil and gas production to subsidize alternatives will likely lead to less overall energy production, not more. And as many independent observers are now noting, such mandates can have unintended consequences.

Continuing to provide Americans with the energy they need – reliably and responsibly – is a challenge ExxonMobil employees are determined to meet.

Government can help by creating a level playing field, and promoting fair, stable, and pro-competitive tax policy.

It is this kind of leadership that is needed to meet our nation’s energy challenges.

Thank you.