

## **Energy and Law: In Service to the World**

### **Remarks by Lee R. Raymond Chairman, Exxon Mobil Corporation**

Receipt of the John Rogers Award  
53<sup>rd</sup> Annual Institute on Oil and Gas Law  
February 21, 2002  
Houston, Texas

It is a great pleasure to be here and to receive this wonderful honor. The John Rogers Award has been presented to some of the most important figures in the U.S. and the international oil industry. This includes my three immediate predecessors from Exxon.

The appearance at this institution and this dinner of so many distinguished leaders in the petroleum industry is testimony to the importance attached to the mission of The Institute for Energy Law and The Center for American and International Law.

I'd like to talk about this mission tonight, and why it is so vital.

I know that everyone here understands that the application of energy to all aspects of our lives has been one of the central reasons for the progress we have made, both as individuals and as a country. The modern use of energy has given us a degree of mobility and comfort that people in previous times would have found unimaginable.

During our life spans, the primary source of this energy has been, of course, oil and natural gas. These fuels are predominant because of the many advantages they offer, including their comparative affordability. They have, at a minimum, kept us from having to denude the land of all its forests, or to dig up vast tracts to produce coal.

At some point we as a society will move toward greater reliance on other energy forms. I know that many people think this stage is just around the corner, or would be, were it not for what they consider to be old habits and the self-interested power of conventional energy companies.

But surely this point of view is both unsophisticated, and unrealistic. We as a society use oil and gas because oil and gas have provided the power to transform human life for the better, and to do it at a low cost.

Regardless of how one feels about conventional sources of energy, especially their impact on the environment, there is in the immediate future no sensible way to adopt other sources for the majority of our needs. Any transition will take decades, perhaps as much as a century. Wishful thinking about new energy sources should not blind us to the realities of energy use and energy costs.

Unless and until the transition to new energy approaches takes place, we simply must "dance with who brung us." We must do the best we can to find and produce oil and gas, and then make the way we use it as environmentally benign as we can. We have already made great strides in meeting this second goal, and we will see even further improvements.

Just to cite our experience in this country in the last three decades, we have seen enormous reductions in the amount of atmospheric lead, particulates, smog-causing compounds, sulfur dioxide and carbon monoxide. And this is despite an energy consumption rise in excess of 40 percent, a growth in our population of 38 percent, an increase in vehicle miles of almost 150 percent, and the growth in our economy, inflation-adjusted, of almost 160 percent.

Since conventional oil and gas will be with us for quite some time, and the environmental impact of our operations and our products will continue to improve, then the future of our industry is very bright indeed.

But it is equally important that we recognize where we will find most of the oil and gas, and what will be needed if we are going to be able to develop it in an environmentally acceptable and an economic manner.

It is by now obvious that the majority of the conventional resources of petroleum lie outside the boundaries of the United States. And here let me make four very important points.

First, developing these resources will require the expertise of private companies, working in partnership with governments.

Second, in a number of places the legal structures needed for the successful production of energy are comparatively undeveloped, and must be both improved and respected.

Third, creating and gaining respect for the legal framework underpinning resource development will be a central need and a central focus of the legal work required by the oil and gas industry.

And finally, bringing an understanding and respect for the rule of law in the natural resource arena will have far-reaching implications beyond the energy field.

I'd like to elaborate on these points.

The primary vehicle for the development of oil and gas resources outside of OPEC are the private companies -- and even they play an increasing role in OPEC. Technology continues to be the engine of resource development -- and that technology comes almost exclusively from private companies.

In other words, if a country wants to develop its conventional energy, then it simply must be inviting to private energy companies.

That does not mean that companies can, or should, operate without respect for the legal arrangements of the host governments. Successful resource development will require a partnership between the private and the public sectors. It also means that we, as private partners, must appreciate and respect the customs and laws of the larger societies in which we operate -- but that is nothing new to our industry.

We have been global before the term "globalization" came into vogue.

The central reality is that private companies and the host governments have a mutual interest in creating a financial and legal structure that is appealing and advantageous to both.

Here is where the contribution of legal concepts and lawyers is absolutely critical.

In many of the new areas where we are pursuing oil and gas development, the host country's legal regime is either undeveloped or even discouraging to that development.

As I am sure you understand, being a private company we have an immense amount of our shareholders' money at risk. The quality of a country's legal arrangements is central to our being willing and able to proceed with large new investments. And unless we can ensure investors, our shareholders, that their money will yield an attractive return, we will be unable to provide the vast sums needed for energy development.

This has been, I think surprisingly, a somewhat difficult lesson for many people and governments to accept. Particularly in portions of the former Soviet Union and in some of the countries in Africa and Latin America, we have found it a challenge to be understood on this point. Fortunately, their appreciation of the economic framework needed by private parties has been growing.

We have constantly urged governments to adopt legal regimes that make resource development financially attractive. We have pressed to ensure that the agreements made by governments be kept. We have emphasized the need to move with dispatch in coming to agreements, since projects long-delayed can become uneconomic. We have gone further to argue for legally binding and fair conflict resolution procedures, to protect against arbitrary decisions by governments.

In other words, we have asked that legal arrangements be adopted that permit development in a commercially attractive, timely, and secure fashion. We are willing and able to provide the technology and the money required to develop expensive energy resources. We are prepared to take the commercial risks that accompany the fluctuations of the world energy market.

But, we do not want to take unnecessary legal risks, especially those that arise from deficiencies in the legal structure of a country.

I might also add that we largely depend on the host governments to ensure the physical security of our projects and facilities and people. We have found that a predictable and fair approach to the local population by the government is our best assurance of safety. Repression and uneven treatment are not only objectionable per se, they can also fail to accomplish their security goals.

Everything that I have been talking about has a close connection to legal arrangements.

A fundamental appreciation by governments that they need to have a transparent legal framework is vital. There must be a mutual determination that both parties will respect an agreed legal structure. Both parties need to arrive at a sensible and fair process for resolving disagreements. The governments must be prepared to create

a framework where an adequate return can be earned on a private investment. And the security arrangements must ensure fair treatment of the local population.

If we are successful in accomplishing all of these goals, I think we are likely to achieve another, and most important one. This one goes far beyond the specific arrangements governing an individual project or a particular business deal.

Everything that we tend to emphasize in developing a project underscores a particular way we approach doing business, and the values we have.

We emphasize the necessity of honoring agreements and the primacy of the law in handling new challenges and disagreements. What this means in practice is that in many countries we are the first to ask those governments to face the "rule of law."

We recognize the importance of culture and traditional practices, but we go about our business in a way that underscores the central role of legal structures. Furthermore, we do this as an international entity, which reinforces the message that the legal arrangements we articulate represent an international perspective -- indeed, an international norm.

I believe this insistence on the rule of law and the honoring of fair agreements has far-reaching implications.

I believe it affects law and order in the societies in which we invest.

I believe it promotes a respect for the law, and a respect for human rights.

I believe that these particular values contribute to equity and equality in the societies that adopt them, and can lead to greater social stability.

I believe that the legal arrangements provide a basis for material advances for everyone in these societies. This will stem from the effects of the legal system on the economic growth that is the basis for improved education, for cleaner water, for better health care, and for advances in environmental protection. I think that the economic growth that is part and parcel of a society based on the law is the only sensible and humane way forward for many of the countries around the world.

And I am both hopeful and proud as I see how the oil and gas industry plays such a central role in promoting these material advances and these values.

Each of you, in my view, should feel the same.

Many of you here will soon become a part of the effort to construct more certain legal arrangements in resource development, both here in the United States and outside our boundaries.

This is an important task with many benefits for people everywhere. It is not simply doing work for an industry that develops natural resources. It is doing work that will improve the condition of millions of people worldwide. And where done well, it will contribute to much more than people's comfort. It will contribute to their security under the law and to their freedom.

Thank you.