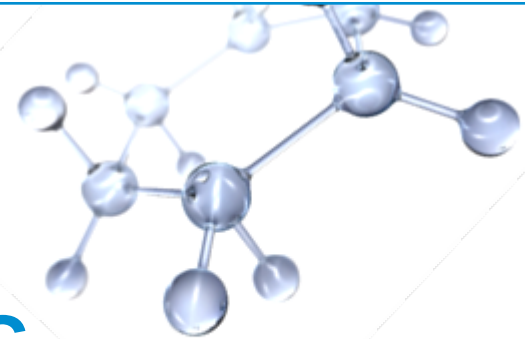


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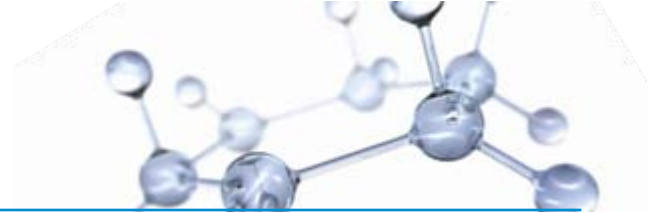


an alternative way to price GHG emissions.....revenue-neutral “carbon” tax

S. K. Stuewer
2009 Virginia Industry Environmental Conference
September 2009

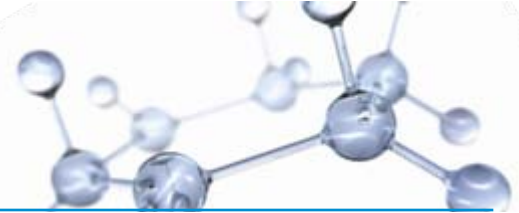
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overview



- what are we trying to achieve?
- emissions reduction challenge
- international realities
- price volatility with cap-and-trade
- “carbon” tax system design
- “carbon” tax benefits

what are we trying to achieve?



- address risk posed by GHGs by reducing emissions
- reduce emissions at lowest cost - get the maximum reduction for dollars spent
- minimize disruption to domestic economy and minimize impact on international competitiveness
- create a stable and sustainable program – addressing climate risks will take decades

action is needed....but it must be the right action.

emissions reduction challenge

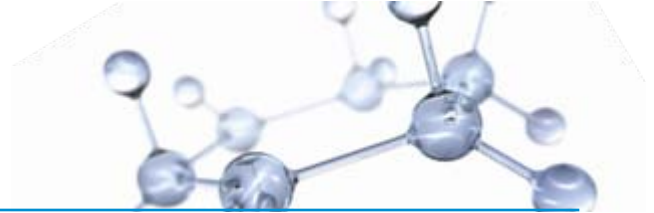


significant reductions in emissions require:

- breakthroughs in technology, e.g.
 - lower costs for renewables
 - next generation biofuels
 - carbon capture and storage
- massive global investment in energy infrastructure – both supply and end-use
-while meeting the needs of growing economies where energy supports economic development

need a stable and predictable **long-term** investment environment

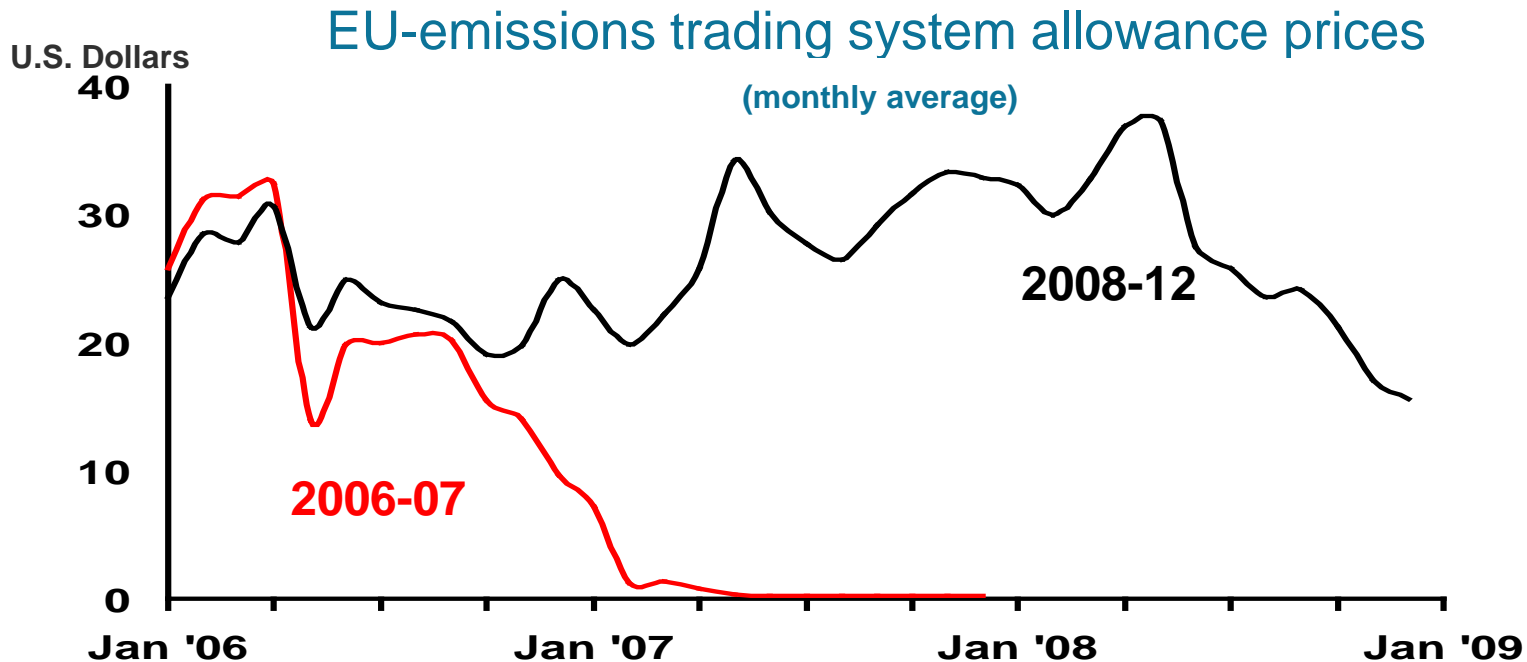
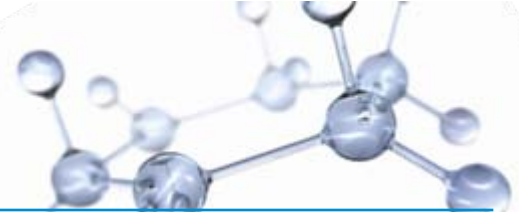
international realities



- international engagement essential
- unified international program unlikely
 - governance and enforcement difficulties
 - different starting circumstances
- mosaic of national or regional approaches requires:
 - Cross-border funding mechanisms
 - WTO-compliant mechanism to avoid 'leakage'
 - Open markets and free trade to facilitate technology transfer

Copenhagen negotiations critical to defining path for international participation

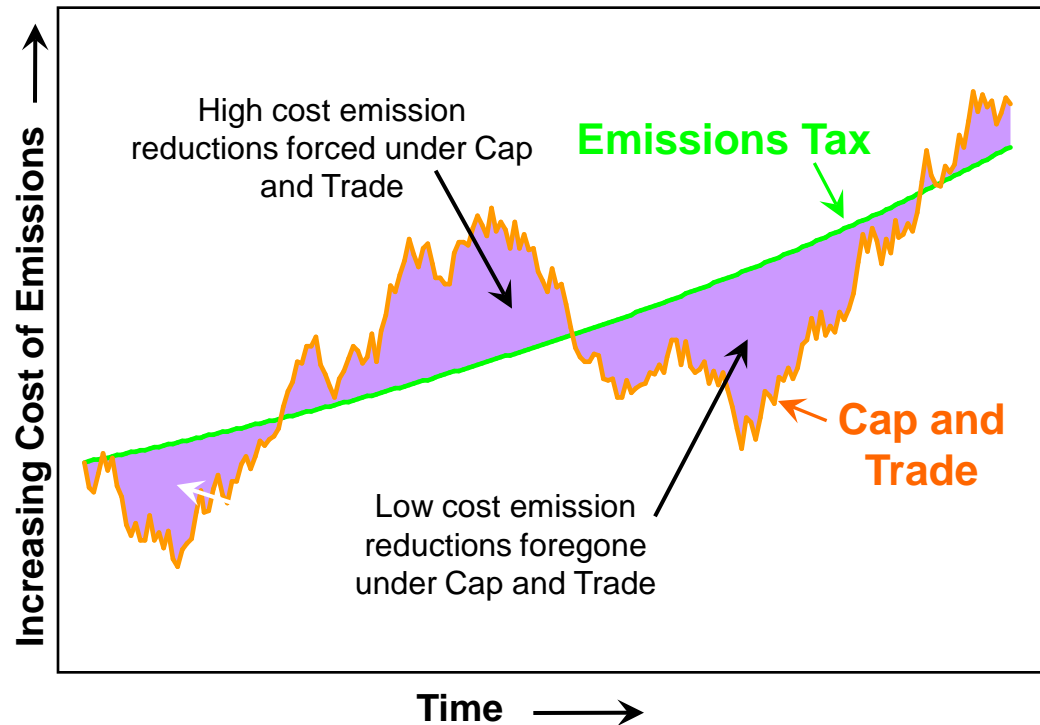
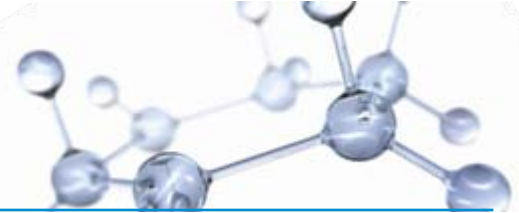
price volatility with cap-and-trade



price volatility.....

- undermines long-term planning and investment
- creates economic inefficiency
- invites manipulation of allowance trading

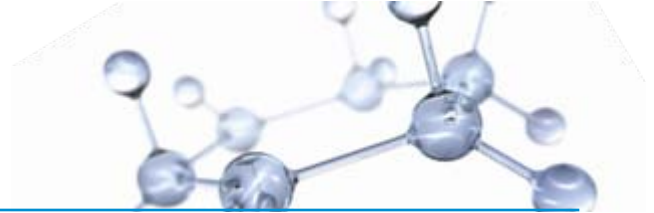
price volatility with cap-and-trade



price volatility.....

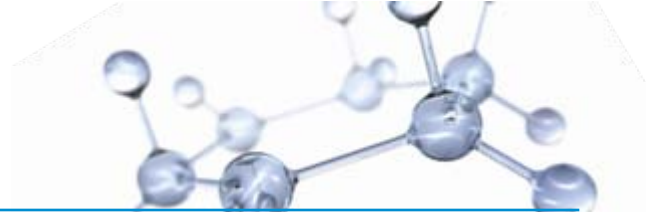
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“carbon” tax system design



- starts with emissions reduction goals and tax trajectory; trajectory adjusted periodically to deliver goals
- widest coverage of GHG emissions administratively practical
- revenue returned to the economy through reductions in taxes on labor and/or capital.
- administrative efficiency by “upstream” regulation on fossil fuels; limited end-use coverage needed
- WTO-compliant border adjustment to reduce movement, or “leakage”, of industry out of U.S.
- tax credits for sequestration and non-fuel uses of fossil fuels
- tax credits for approved offset projects

“carbon” tax benefits



- predictable, transparent cost on GHG emissions.....
 - encourages needed investment and research
 - achieves economy-wide emission reductions at lower cost
- avoids non-transparent wealth transfer created by allowance allocations
- more feasible global approach; facilitates addressing trade and competitiveness issues
- avoids complexity and risks of market for carbon securities
- administratively more efficient

revenue neutrality and economic efficiency form a viable political argument.