Facing Low Oil Prices Exxon Is Looking For New Strategies

WASHINGTON – Major oil companies are in deep trouble. Too much global supply means lower crude prices. If this continues –and there is every little evidence that it will not– this means that large exploration projects in far away lands that typically require large up front investments may no longer have economic justifications. Simply stated, these projects mean too much money invested now for potentially weak or even negative returns years from now.

Move into shale

Hence the decision just announced by the new Exxon leadership to invest more in the U.S. shale oil sector. This move would require lower up front capital investments, as opposed to the traditional focus huge on large "conventional oil" exploration ventures, many of them off shore operations, which may cost billions over a number of years before they become operational. It is hoped that this move into U.S. shale would create greater operational flexibility, since shale wells do not cost that much and can be "turned on or off" fairly quickly, depending on global demand and supply fluctuation.

This is how *Oil & Energy Insider* (March 3, 2017) describes the move:

*"**Exxon goes big on U.S. shale.** New **ExxonMobil (NYSE: XOM)** CEO Darren Woods gave his first presentation to investors this week, where he outlined a strategy to step up investment in U.S. shale. Exxon will allocate a quarter of its 2017 budget to short-cycle shale projects. The move will help the oil major navigate an uncertain market, as cash can be returned to the company much quicker from shale drilling than it can from the major offshore projects that Exxon has long been*

accustomed to. Still, Exxon will move forward aggressively on its large offshore discovery in Guyana, hoping to bring it online in the next few years. “

Diversify

So, here is the thing. Exxon is trying to diversify its energy portfolio. It will continue work on existing “conventional oil” projects. But it will try to mitigate the risks associated with large commitments to new expensive projects in a volatile and downward trending crude prices environment by buying more into the less risky U.S. shale sector.

I say smart move. However, it may just not be enough. In part thanks to the U.S. shale oil revolutions that began in earnest about a decade ago, there is just too much crude supply world-wide.

It may not work

Hard to believe that OPEC’s oil price support efforts –its decision to cut production, somewhat– even if aided by similar production cuts enacted by Russia and other non-OPEC producers, will manage to put a real floor on oil prices.

Good luck to Exxon. It really needs it in order to protect its position as an American oil giant.