

The Role and Importance of Commercial and Strategic Oil Inventories

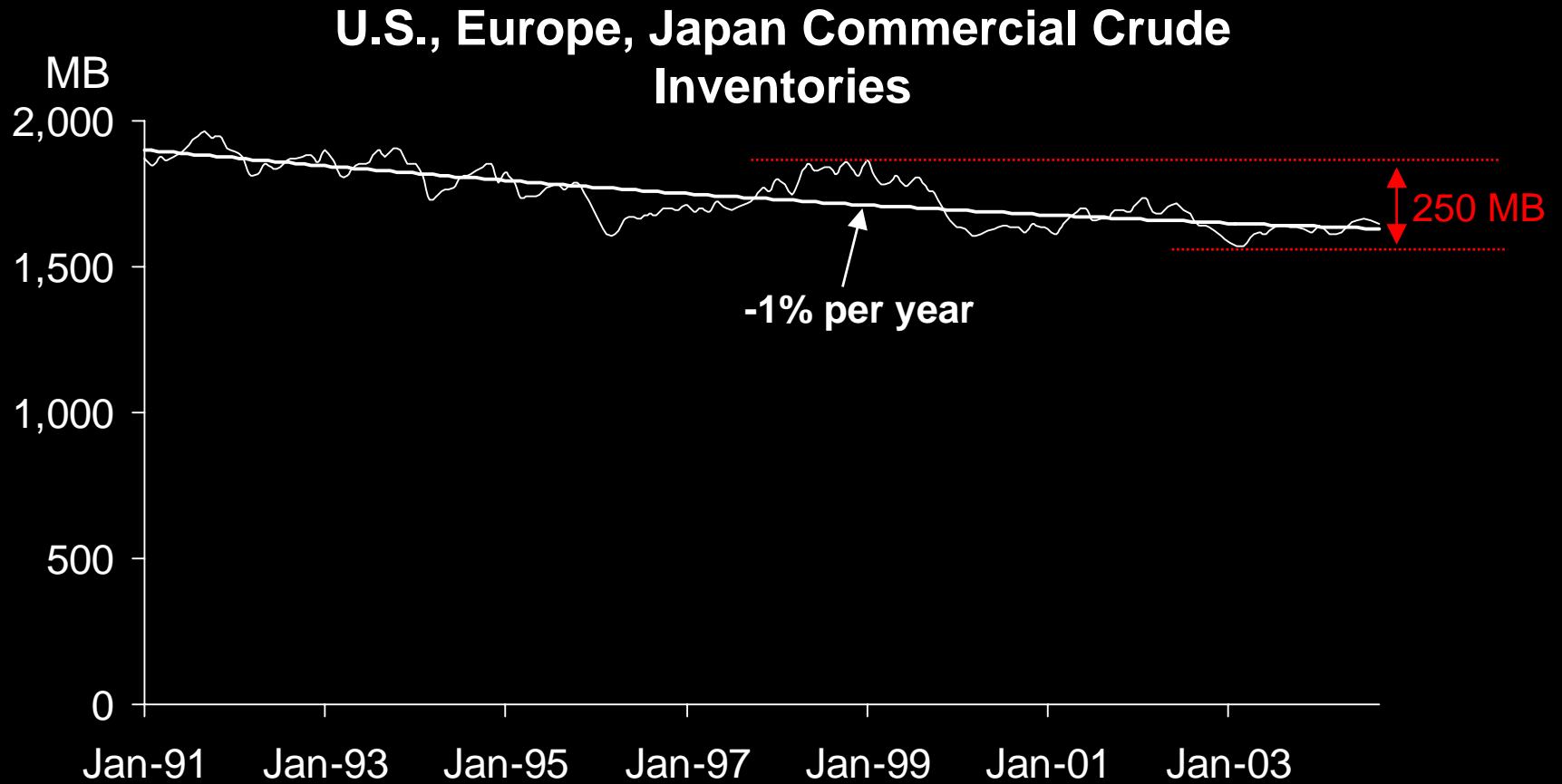
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Houston, Texas

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Exxon Mobil Corporation

Role of Commercial Oil Inventories

- ***Industry needs commercial inventories to...***
 - Smooth transitions from batch to continuous links in supply chain
 - Cover for typical variability and delays in supply chain
 - Capture economic opportunities
- ***Inventories represent significant business cost***
 - Cost to build and operate tankage and storage systems
 - Capital invested in inventory
 - Risk of degradation or loss
- ***Industry has incentive to reduce inventories as much as possible without disrupting reliability of supply chain***

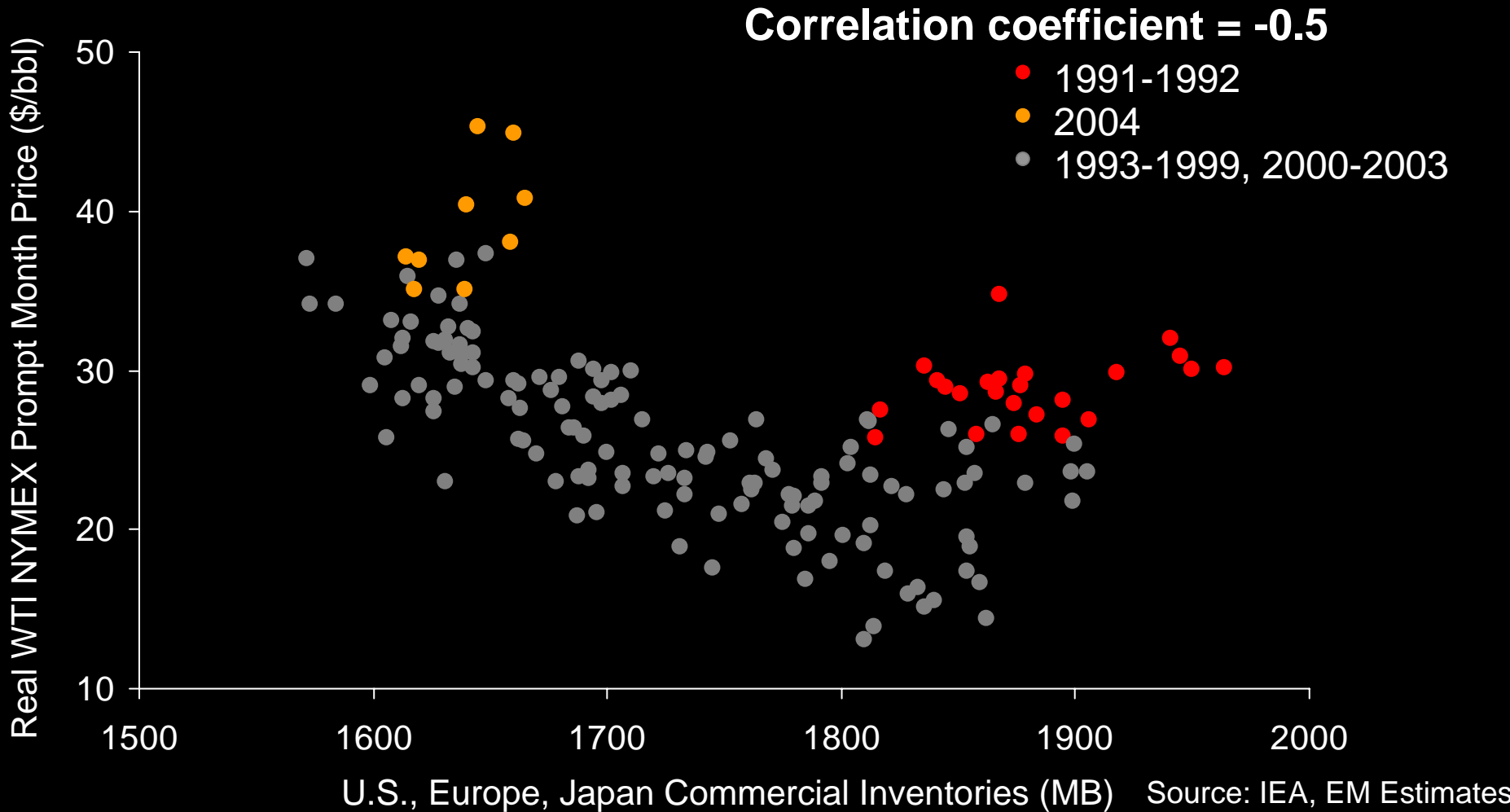
Crude Oil Inventory Trend, 1991-2004



Source: IEA, EM Estimates

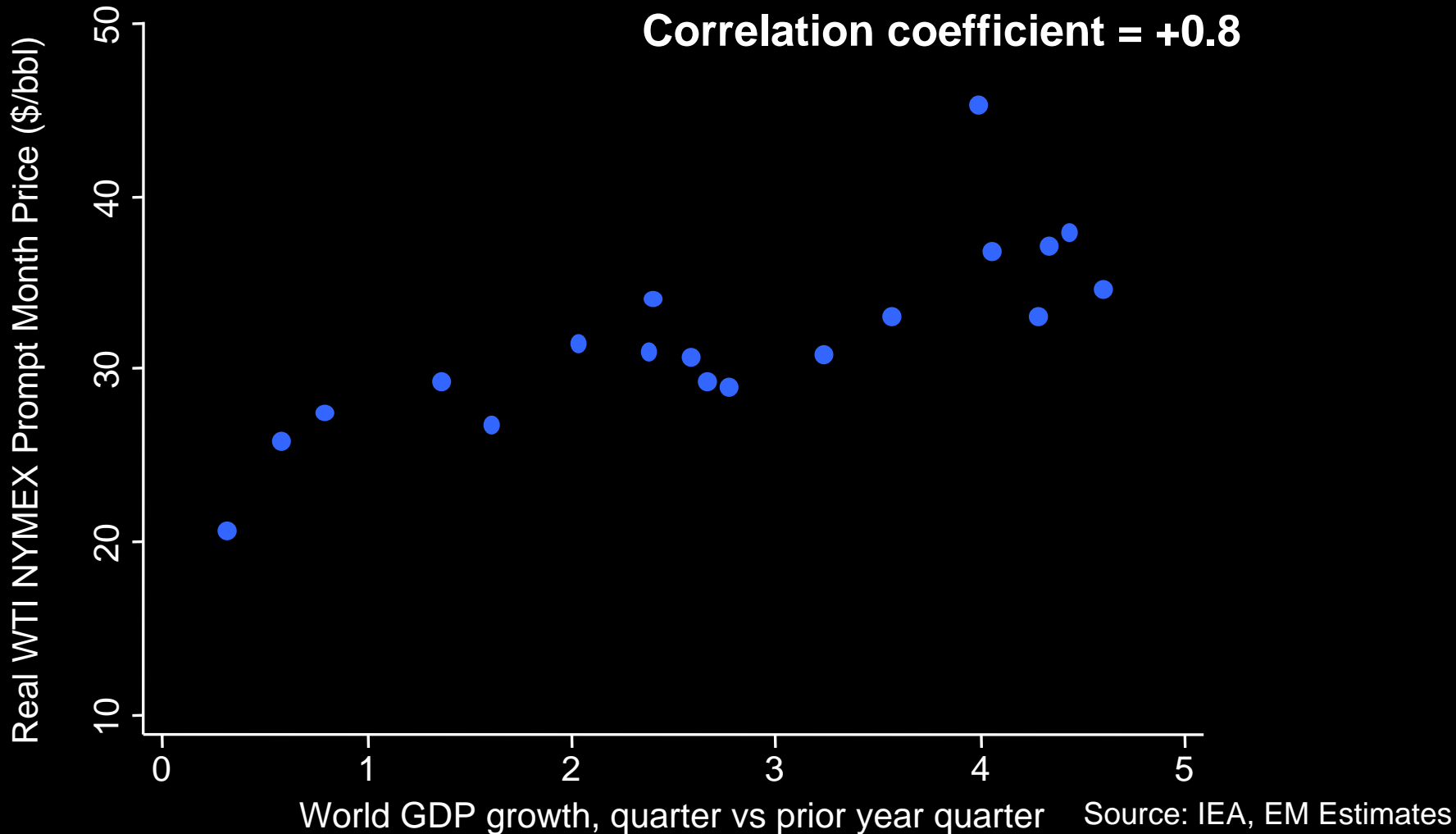
Industry efficiencies and consolidations are reducing inventory needed to reliably meet demand

Real Crude Prices And Inventories



The statistical correlation between crude price and inventory is weak.

World Economic Growth and Real Crude Prices, 2000-2004



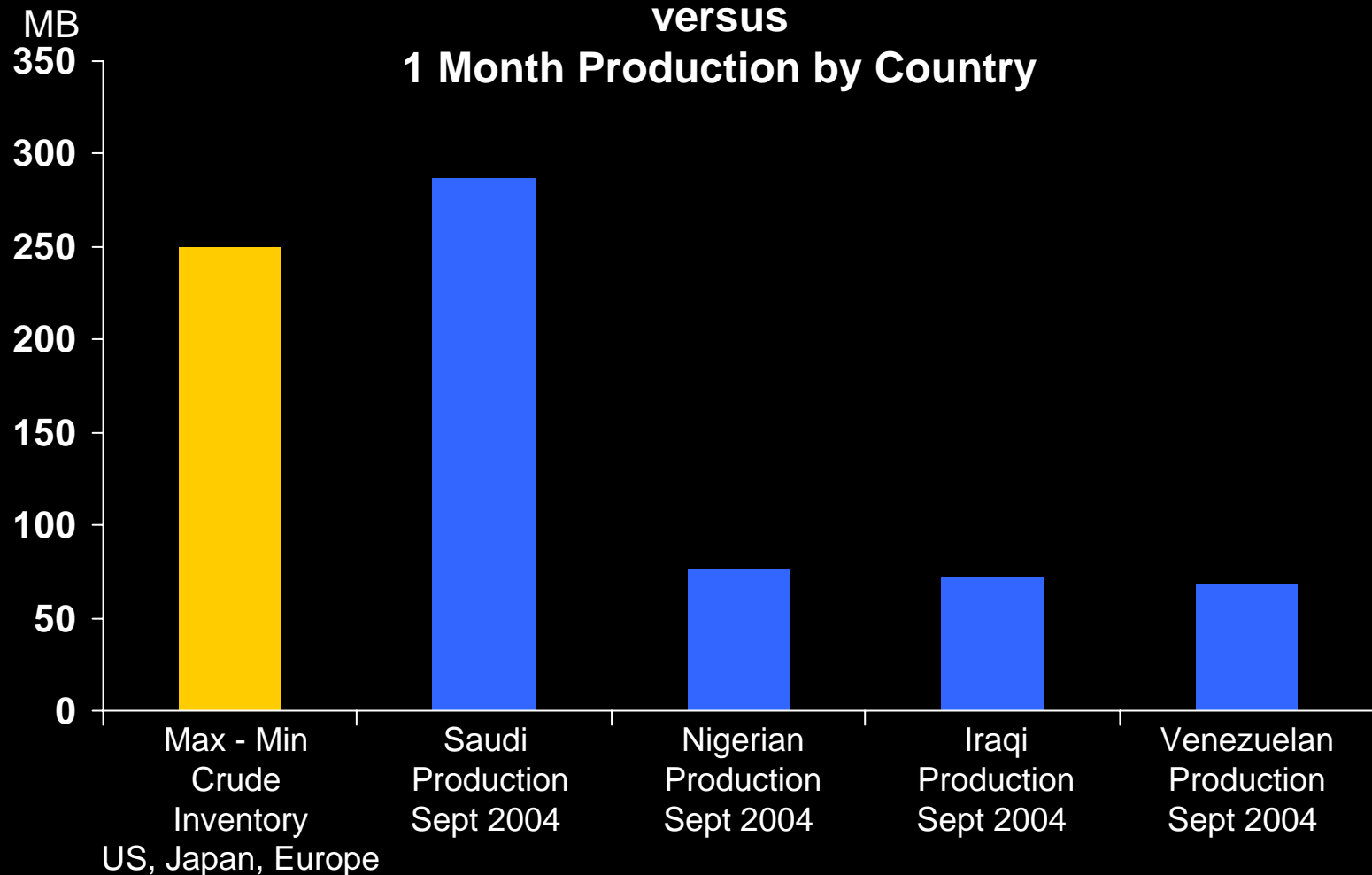
Crude price correlates strongly with economic growth.

Many Factors Affect Oil Inventory Levels

- ***Inventories and prices are part of a complex system***
 - Both are influenced strongly by the supply/demand balance
- ***Neither prices nor inventories are perfect indicators of the supply/demand balance***
- ***Many other factors influence crude oil inventories***
 - Forward price curve
 - Geopolitical uncertainty
 - Logistics disruptions

Commercial Inventories Cannot Compensate for Significant Supply Disruptions

Maximum Observed Commercial Inventory Swing
(Jan 1999-Mar 2000)



Source: IEA, EM Estimates

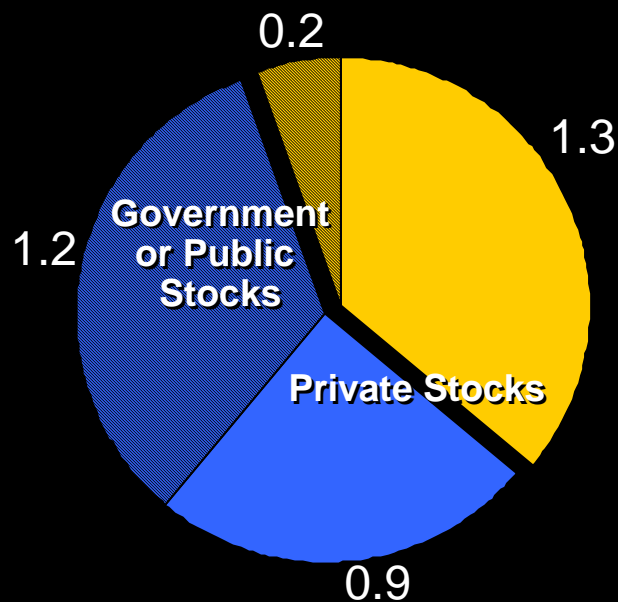
Role of Strategic Inventories

➤ ***Strategic stocks provide protection against damage to a nation's economy***

- provides time to develop alternative supplies
- provides time for orderly demand management and fuel switching

➤ ***Availability of emergency stocks may help to calm oil markets in periods of uncertainty***

OECD Strategic Inventories
YE 2003

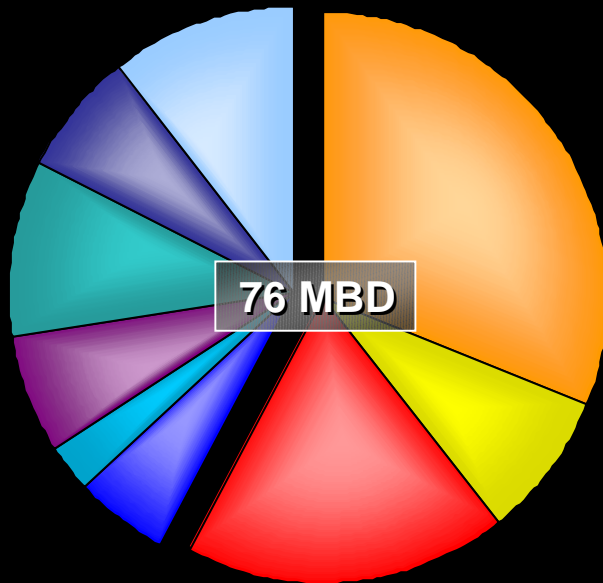


Total OECD
Crude & Product Stocks
3.6 GBOE

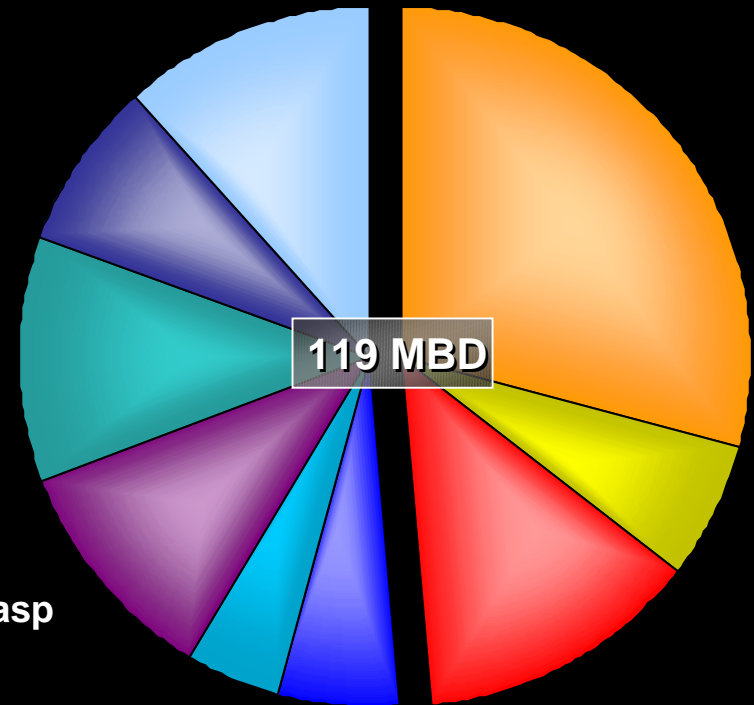
- Crude
- Product
- ▨ Government or Public Stocks

Oil Demand Growth is Expanding the Need for Strategic Stocks

World Oil Demand



2001



2025

- North America
- Industrialized Asia
- Western Europe
- East Europe & Rus/Casp
- India
- China
- Other Asia Pacific
- Latin America
- Middle East & Africa

Source: US EIA

Key Attributes of Good Emergency Stockholding Systems

- ***Stocks are available reliably***
- ***Criteria for emergency stock release are well defined***
- ***The free market is utilized to promote efficient allocation of supply***
- ***Stock types and locations efficiently meet demand***
- ***Stock holding costs are minimized***
- ***Emergency stock release is only used for major supply disruptions***