

## Our View: Making Exxon Great Again

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Exxon presented its latest results to investment analysts last week. During the meeting, the firm announced an increase in capital spending with the goal of boosting oil production by more than a million barrels per day by 2030. Paul Sankey, an oil analyst, offered a succinct conclusion:

“I don't think the Saudis are going to love this presentation.”

Sankey is correct. Exxon's announcement should trouble oil-exporting countries and executives at all firms engaged in finding, developing, and producing oil because it demonstrates that the world's largest major oil company has embarked on a path of Schumpeterian creative destruction.

Creative destruction occurs when the innovative entry of entrepreneurs disrupts existing business patterns and destroys the value of established organizations that enjoyed some degree of monopoly power thanks to their previous technological, organizational, regulatory, and economic advantages.

Exxon has become a creative destroyer by developing technologies that allow it to find, develop, and produce oil at lower costs than its competitors. Exxon's CEO, Darren Woods, indicated that the company intends to expand aggressively following President-elect Trump's call for more drilling in the US. OPEC or OPEC+ was of no concern. Woods wants to restore Exxon to the greatness it enjoyed before 1973, when it produced more oil than anyone else.

Making Exxon great again will likely force a decline in oil prices unless oil-exporting countries accept further market-share cuts. This is where Exxon's creative destruction comes into play because its success at lowering costs will allow it to keep drilling and adding to production even as other firms and countries have to pull back. As a result, Exxon's market share will grow, allowing it to earn even larger profits if prices rise.

The creative destruction scenario will see prices fall initially, causing other producers to cut activity or close. Should prices rise again, a new group of low-cost firms and countries will emerge to dominate the market. Exxon hopes to lead the group.

This scenario of creative destruction is not new. Developments over the last forty years in tin markets offer a preview. For several decades, tin producers and consumers worked to stabilize prices, offering a cooperative model that OPEC followed. The tin effort failed in 1985 when new producing countries that enjoyed lower production costs entered the market and refused to accept output quotas. This was a clear illustration of Schumpeterian creative destruction. Tin prices dropped by sixty percent, and high-cost producers in the UK and Thailand exited.

Today, tin production has almost doubled, and prices have increased sixfold. The producers who enjoyed lower costs have significantly profited from their creative destruction of the old market.

This seems to be Exxon's plan now as the company works to "make itself great again."