Unconventional

The unflappable oil giant changes tack.

In recent years, as the price of oil rose to record levels, analysts fretted that Exxon Mobil's conservatism was undermining its future growth. As rivals threw money at new projects or acquisitions, it spent more on share buybacks and dividends than it invested. Critics complained that the firm was slowly winding itself up. But Exxon's managers endlessly intoned that they invested for the long term, and would not be moved by temporary swings in prices. That approach was vindicated when oil prices plunged last year. Now Exxon has taken advantage of lower oil and gas prices to replenish its reserves—and raised a different set of questions about its future.

On December 14th Exxon agreed to buy XTO Energy, a natural-gas firm, in a deal valued at $41 billion. The deal was apparently struck when Exxon's chief executive, Rex Tillerson, entertained Bob Simpson, XTO's boss, at a quail hunt on company land in Texas. If completed, this will be Exxon's first acquisition worth more than $2 billion since its transformational $80 billion purchase of Mobil in 1999. It will increase Exxon's proved reserves by the equivalent of 2.3 billion barrels of oil, or almost 20%. But it also brings promising exploration rights, with the potential to increase reserves and production even more, and great expertise in exploiting them.

XTO is one of the leaders in the business of extracting gas from shale and other dense geological formations—a technique that has caused a jump in America's output of gas and seems likely to boost production elsewhere. Exxon had been gradually building up its reserves of such "unconventional" gas. But in recent years leases in America had become very expensive, and Exxon had turned elsewhere instead. Now, with the price of gas at roughly a third of its peak last year, unconventional assets are cheaper.

Independent producers such as XTO have been hit not just by weak prices but also by the heavy borrowing that fuelled their exploration, which cannot easily be refinanced in today's unforgiving credit markets. Exxon, however, has been rewriting the record books for corporate profits in recent years, so it will have no trouble absorbing XTO's debts or paying to develop its reserves. Several other independent gas producers facing similar constraints may also be snapped up in the coming months. Indeed, Exxon Mobil may pounce again.

But by buying XTO, Exxon aligns its fate more closely with the price of natural gas, rather than oil. As it is, much of the growth in its reserves in recent years has come from its share in the development of the world's biggest gasfield, off Qatar. The price of gas has not recovered as quickly as that of oil in recent months, in part thanks to the success of firms like XTO in producing more of the stuff.

Mr Tillerson obviously expects the price of gas to rise. It is the least polluting of the fossil fuels, which means it should be in demand if the world adopts tighter constraints on greenhouse gases. And as the past few years have shown, Exxon likes to play a long game.

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