"American Energy: Keeping the Momentum Going"
U.S. Chamber of Commerce
Transcript of Remarks by Ryan Lance
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It's an honor to address the United States Chamber.

We need your voice here in Washington. Why? Because 3 million American businesses support 120 million jobs in the United States. So policy decisions made on business matter to a great many people. They can make the difference between fulfilling our economic potential – or falling short.

My topic today – "American Energy: Keeping the Momentum Going" – is a good example. We have quite a success story to tell – but we need the right policy decisions for the future. I'll get to that in a minute.

But first, I want to express my support and our company's support for the Chamber's views on some key issues.

ConocoPhillips agrees that U.S. energy policy should pursue 3 imperatives. One is adequate, stable and affordable supplies. Two is national energy security. And three is environmental protection.

To achieve these imperatives, we both support expanded access to resources. The Administration just announced a five-year plan to open up parts of the Atlantic to exploration. It's certainly a step forward and we appreciate that. We hope to see similar steps in the future.

Next, we agree that infrastructure permitting is needlessly road-blocked. For example, the Keystone XL Pipeline was first proposed in 2008. It's been debated exhaustively – for too long. It makes since and we just need to get on with it. Permitting must be streamlined – and de-politicized.

This brings us to regulation. We agree that regulations are needed. But they should be "smart," transparent, non-redundant and balanced. They should be based on science – not hype. And the benefits should exceed the costs to consumers and industry. We recently saw an example of this in the D.C. Court of Appeals. It threw out a Securities and Exchange Commission rulemaking on transparency. It did so in part because the rule didn't consider the burden it would have on competition and the cost to investors.

The Endangered Species Act's current rules are examples of regulations that need a re-think. They don't weigh costs against benefits. They're not always based on science. And

they too often reflect a response to certain pressure groups – the kind that want to stop oil and gas development completely. It's unfortunate that regulations are manipulated beyond their original intent.

There's talk now about regulating methane emissions. The industry is already making voluntary reductions. This is more efficient and less expensive than regulations would be, and there are also fewer delays in the efforts we're putting forward. Besides that, we have really strong economic incentives to reduce these emissions.

Our next area of agreement is the need for corporate tax reform. We believe that reform could promote greater business investment. It could enhance the international competitiveness of American companies.

But there certainly are some concerns. Reform should not enact double taxation of foreign earnings. And it should not curtail capital cost recovery, of the capital investments needed in our industry and businesses across the U.S. That would hurt capital investment.

Any new tax rules should be stable and non-discriminatory. They should treat all industries fairly and be blind in respect to different industries. They should not single out certain industries or companies for punitive treatment. We live in a competitive world today and if we are to prosper, the U.S. needs to get it right on taxes.

Free trade is another area we have in common with the Chamber. We favor open markets and promotion of exports.

And last, I'll offer our own suggestion. We need to work in close collaboration with government. ConocoPhillips has had several recent examples where this has been successful. The EPA was gathering data on fracturing. We provided information, and they expressed appreciation and sought clarification. Meanwhile the U.S. Bureau of Land Management was drafting rules on well integrity. We met with them and provided a lot of expertise and feedback. Another example was with Interior's Fish and Wildlife Service, which was studying the Sand Dune Lizard. In support, industry committed 90,000 acres in the Permian Basin to cooperative agreements on conservation. So collaboration can work. I think we've demonstrated that.

Now, back to "American Energy: Keeping the Momentum Going." We really do have an energy renaissance underway today. Both oil and natural gas production are rising. This has greatly improved energy security both globally and here in the U.S.

We've shifted the oil market's center of gravity away from unstable areas. Even the president referred to this in his State of the Union address. He said that, "Today, America is number one in oil and gas."

We did this through technology. Yes, oil is a high-tech business. We use some of the most powerful computers in the world today. We recruit PhDs from the finest universities. We can recover oil and gas from shale rock as hard as this podium. We produce from waters 8,000 feet deep, and from five miles below the surface. We're technology leaders. We do this while prioritizing safety and environmental protection. We are all about solutions – and problem solving.

Our success has really helped jump-start the economy. We now support 9.8 million U.S. jobs. We contribute 8 percent of the U.S. gross domestic product. And over the last two years, 40 percent of U.S. GDP growth came from oil and natural gas.

Many domestic manufacturers are thriving thanks to affordable energy. It's helping chemicals, it's helping metals, transportation, mining, paper and others. Entire regions are benefiting. And that includes some outside the traditional producing states. Consumers are saving at the utility meter and at the gas pump. And government is gaining new revenue from taxes and royalty payments.

We've created hundreds of thousands of high-paying U.S. jobs. The oil industry's mean annual wage is twice that of the private sector. And our employee benefits offer 50 percent greater value than the Fortune 500 average.

Obviously, we're facing low oil prices now. But this hasn't stopped the renaissance. Production is still growing. The resource base is so large – and so diverse – that the renaissance is going to continue.

But there are impacts. Capital investments are falling – responding to the lower oil prices. And there will be some job losses. Oil and natural gas production are fundamental to the U.S. economy. In fact some view low oil prices as having a net negative impact for our country, despite the savings at the pump. So the U.S. investment climate must remain positive otherwise. We shouldn't put domestic producers at a competitive disadvantage by limiting their available markets.

Natural gas is an example of the right approach. We have a growing surplus here in North America. By 2016 – just next year – the U.S. will be positioned to become a net exporter of liquefied natural gas. Several LNG export projects have already been approved by the government. In return, the country will gain job creation and economic stimulation.

Exports are vital to the U.S. We are the world's second-leading product exporter. Products and services together generated $2.3 trillion from exports in 2013. That's one-seventh of our GDP. Now, we have the opportunity to export another commodity – crude oil.

We can do this. U.S. oil production bottomed at about 7 million barrels a day in 2009, just five years ago. Now we're back above 11 million a day. DOE predicts that could grow to 12 million a day in 2020, and potentially 18 million a day by 2040.

Looking to our neighbor to the north, Canada, their production is also growing. It's 4 million barrels a day now. That could increase 50 percent by 2030.

Meanwhile, U.S. oil demand is flat. That's thanks to renewable fuel mandates. Also more efficient cars and trucks on the road today.

U.S. and Canadian production combined will soon exceed total demand. So together we can become net exporters by 2020. The low oil prices could delay this a little, but it's coming. It will be here.

Most of our new production is from shale rock, in the form of condensate and very light oil. It doesn't match up well with our refineries on the Gulf Coast. Those refineries were specially configured years ago to handle heavy crude oil from Venezuela and Mexico.

In order to process the light oil coming from the energy revolution, these refineries may have to operate inefficiently – or run at reduced rates. This costs more. So the Gulf Coast refiners have to pay less for light oil. Today, the discounted U.S. price for crude is $5-to-$10 per barrel below the global price of crude – or $50 vs. $60. That discount really starts to hurt domestic producers. It cuts their ability to reinvest back into the business to grow production.

Some ask – why not just expand the refineries? That is an option. But it would take major investments, or $400 million per plant. These refineries are already making big investments to meet tougher gasoline standards. And air permits could be very difficult for these refineries to get. So we just don't think they can make the investments needed to handle all the light sweet crude that's coming.

And crunch time is coming fast. Light oil production today already exceeds our capacity to refine it. So the U.S. crude price is trading at $10 a barrel below the global crude price. That's because the refineries are in seasonal turnarounds. They're getting ready to make summer blends of gasoline, which are different from winter blends. So there's a seasonal impact today. But the surplus that's coming is going to create a bigger problem. The seasonal surpluses will become year-round by 2017. And by 2020, we'll need to export from 1.5-to-2 million barrels a day.

We're confident these higher volumes are coming. U.S. oil production grew by over a million barrels a day last year. Or as much as 1.5 million a day including the liquids that come with natural gas. And even with predictions of lower prices, we've seen predictions of 700,000 a day in growth this year. But some of the new light oil projects

start becoming uneconomic at prices below $70. And the vast majority become uneconomic at $40.

So this light oil discount poses a real danger to the U.S. growth path. Again, today's global price is about $60. The U.S. price is $50 and we've seen it even lower recently, and expect it to go lower over the next few months.

Fewer projects will break even in this environment. Cash available for reinvestment will fall. From a competitive standpoint, U.S. producers will be disadvantaged against our foreign competition. Bottom line is even more drilling rigs will be laid down. More jobs will be lost. And U.S. economic stimulation will fall.

But there is a solution – a solution with several parts. First, heavy oil production is falling in both Mexico and Venezuela. The Canadian oil sands can replace it. That is, if the Gulf Coast refiners can get this oil economically. Approving Keystone XL would help. Certainly the president's veto last week was disappointing. This oil now moves by rail – which is much more expensive than if it were moving by pipeline.

Second, we should export our surplus oil. We need exports – particularly in a low-price environment. World prices are already close to break-even for many projects. The U.S. discount pushes some of them even below that. So investment levels are down today.

But there's a roadblock to exports. We all know that in 1975, the Energy Policy and Conservation Act banned them. There are a few exceptions, like small amounts of oil going to Canada, or exports of oil from Alaska. But the ban is out of date. It worsens the impact of the price downturn. And it reduces the U.S. role in global markets. We should treat crude oil like any other potential export product.

By the way, the third-largest U.S. export – by dollar volume – is oil products like gasoline and diesel fuel. They can be exported legally. But the crude oil from which they are made cannot be.

We have seen one positive step. The Administration recently decided that some processed condensate – a specific type of liquid that we produce – is a product that can be exported. But this doesn't provide the magnitude of relief the industry will need by 2017.

There would be major benefits from crude oil exports. In the world market, light oil sells for more than heavy oil. So the U.S. would gain by exporting our surplus light oil. And then importing the less expensive heavy oil that our refineries are built to handle. The Brookings Institution predicts U.S. production would rise by up to 3 million barrels a day. Jobs would be created. Economic growth would be generated. And household income would grow.

IHS says that the industry's capital investments would rise by $750 billion through 2030. That's certainly a lot of economic stimulus. The annual GDP would gain $135 billion at the peak. We'd add a million more jobs, also at the peak. The trade balance would improve by $67 billion annually. And through 2030, government would gain $1.3 trillion in additional tax and royalty revenue.

At the pump, consumers would gain lower fuel prices. That's because world oil prices come down when new supplies are added. And fuel prices follow world oil prices. IHS estimates savings on gasoline could be as much as $18 billion annually. And Brookings says that could be 9-to-12 cents per gallon at the pump.

Of course there'd also be geopolitical benefits. Our rising U.S. production has already backed out 3 million barrels a day in imports just over the last three years. That equals the production losses the world has seen in the Mid-East and North Africa. So all else being equal, if we didn't have that extra production from North America, world prices would have been $12-to-$40 per barrel higher post-recession, according to ICF, at a time when we didn't need that. So thank goodness for the energy renaissance and the new production from the U.S., because it offset the losses occurring elsewhere in the world.

Future exports would also play a stabilizing role. OPEC's not going to do it – that role now resides with the U.S. shale oil industry. Exports would strengthen the economic power that underlies U.S. global influence. We could provide reliable supplies to friendly countries that now depend on less-secure sources.

Keep in mind – we'd only export the surplus. So I tell my refining friends, don't worry – there will still be plenty of light oil for their refineries. And they'd still have a competitive advantage. That because foreign refiners would have to pay $2-to-$6 per barrel in shipping costs for U.S. crude oil. We're just talking about exporting the surplus oil that our refineries can't handle.

So it's time for the government to address the export issue. It could do so through executive action – or through legislation.

In closing, we know we have a big job ahead to convince and educate policymakers and the public that it really is the right policy to allow oil exports. We have to change the mind-set from scarcity of reserves, to abundance. The export ban is really a hold-over from the last century. Today's energy renaissance is real. It's here for the long term. And it can continue to drive economic growth in the U.S. As mentioned earlier, the U.S. can't spend its way to success, or cut its way to success. But we can grow our way to success, and the oil industry can be a big part of that. We can help ensure that by recognizing the new realities – and allowing oil exports.

Thank you.

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