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RETAIL GAS PRICES (PART II): COMPETITION IN THE OIL INDUSTRY

HEARING

BEFORE THE

TASK FORCE ON COMPETITION POLICY AND ANTITRUST LAWS

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

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RETAIL GAS PRICES (PART II): COMPETITION IN THE OIL INDUSTRY

THURSDAY, MAY 22, 2008

HOUSE OF REPRESENTATIVES,
TASK FORCE ON COMPETITION POLICY
AND ANTITRUST LAWS
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Task Force met, pursuant to notice, at 11:12 a.m., in room 2141, Rayburn House Office Building, the Honorable John Conyers, Jr. (Chairman of the Task Force) presiding.

Present: Representatives Conyers, Jackson Lee, Waters, Cohen, Sutton, Wasserman Schultz, Smith, Chabot, Keller, Cannon, Issa, and Feeney.

Also present: Representative Peterson.

Staff present: Anant Raut, Majority Counsel; and Stewart Jeffries, Minority Counsel.

Mr. CONYERS. Good morning, ladies and gentlemen. We are ready to begin.

We welcome you all here again. Many of you have almost become professional witnesses, you have been here so many times.

This is the second hearing that the Antitrust Task Force has held, but I am putting in the record all the hearings that have been held on the Hill with the Senate and the House, with our various Committees. It comes to a very large number.

The reason these hearings are called, gentlemen, is that every one of my colleagues on this Committee join with me in wanting to figure ways to bring the price of gas down at the pump. We all want to do it.

The question is how do we do it. And it is not that you are the ultimate resolvers of this issue, but certainly you are among the major players. And it is in that sense that we begin these hearings.

On May 7, when we had our first hearing on this subject, the national average price of gas was $3.66. Today, it is $3.81. In Washington, DC, it is $4. In other places, it is just as much.

So we come here to explore this. We thank you so much for your cooperation.

I wanted to just recognize my colleagues for a couple minutes for them to bring their welcome and identify the key point that is on their mind when they come today.

I will start with the Ranking Member of the full Committee, Mr. Smith of Texas, for his comments, and then I will go to Steve Chabot.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, fuel prices at the pump have caused a significant strain on individuals' and businesses' finances across the nation. This week, the average price for gallon of gas hit $3.84, a new high.

Unfortunately, some people are playing a blame game when it comes to prices at the pump, often pointing fingers at big oil. According to the Federal Trade Commission, though, there is no collusion to fix prices in the retail sale of gasoline.

So what can Congress do to reduce fuel prices?

Congress should be working to expand the domestic supply of energy. House Democratic leaders have rejected opportunities to increase that supply, which would result in a drop in prices at the pump.

For example, last August, 95 percent of House Democrats voted against a proposal that would have opened up the outer continental shelf and the Arctic National Wildlife Refuge to drilling for oil and natural gas.

Only one-tenth of 1 percent of ANWR would be impacted. The area is frozen tundra, not exactly where the caribou roam. There may be as many as 86 billion barrels of oil in the outer continental shelf and Arctic National Wildlife refuge, enough oil to keep America going for 5 years, with no foreign imports at all.

Drilling in ANWR alone would increase U.S. crude oil production by 20 percent of today's levels, which would mean lower gas prices in the future.

While no one contends that opening up the OCS and ANWR to drilling will make United States energy independent overnight, it is a step in the right direction.

Many believe that alternative fuels are the solution to gas prices and while alternative sources of energy are important, including solar and wind, they account for only 6 percent of U.S. energy consumption.

Even if we doubled our reliance on these types of energy, increasing 100 percent, it would hardly be noticed at the gas pump.

With fossil fuels constituting so much of our energy consumption, both now and in the future, expanding our access to oil and natural gas must be a part of the solution in reducing gasoline prices.

An excess profits tax on the oil companies has been proposed. While it is true that these companies have strong profits, profits are necessary for companies to expand, produce and create more jobs.

To put these profits in perspective, last year, oil and gas companies had a profit margin of 8.3 percent, lower than the 8.9 percent profit margin enjoyed by all manufacturing sectors and significantly lower than the 13 percent profit enjoyed by computer companies and the 18 percent profit in pharmaceuticals.

Do we really want to start punishing any business that makes more than an 8 percent profit?

Regarding energy companies, an excess profits tax would only serve to discourage them from investing more in their exploration, production and refining capabilities. This is not the way to reduce the price of gas.

Not only would an excess profits tax not produce an extra drop of oil, it would drive down the value of oil company stocks, which

are owned by millions of Americans and their pension funds, retirement funds and mutual funds. In fact, all Federal employees who participate in the thrift savings plan have a stake in the energy companies.

There is an old cartoon in which the character, Pogo, says, "We have met the enemy and he is us."

It is Congress who needs to be held accountable for not supporting policies that would increase the supply of oil and reduce the price of gas.

There are no short-term fixes to this problem. But over the long term, Congress can help reduce the cost of gas at the pump.

Mr. Chairman, one final request, a unanimous consent request to have an editorial that was in "Investor's Business Daily" today made a part of the record.

And I will yield back the balance of my time.

Mr. CONYERS. Without objection.

[The information referred to follows:]

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Crude Scapegoats

By INVESTOR'S BUSINESS DAILY | Posted Wednesday, May 21, 2008 4:20 PM PT

Energy: It's now a cliche: fat-cat oilmen control our destiny by holding back supplies, letting prices soar, then pocketing the profits. But if any fat cats are to blame for the energy crisis, it's those on Capitol Hill.

IBD Series: Breaking The Back Of High Oil

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Funny how so few, especially our friends in the mainstream media, seem to notice Congress is the culprit. When it's not stopping the development of the energy resources we need, it's busy demonizing the very entities — such as the oil companies — that can go get them.

We raise this issue because, once again, Congress has dragged oil company chiefs to Washington for Star Chamber hearings where the innocent are presumed guilty before they even take a seat.

Democrats like Sens. Patrick Leahy, Herb Kohl and Dick Durbin are very skilled at the blame game. On Wednesday, they called on oil bosses to account for high oil prices and ripped them for their profits and pay packages. Everything, in other words, but propose real solutions to our problems.

"Do market forces alone explain the skyrocketing price of oil and gas?" Kohl wondered. We'll take that one: No, senator, market forces alone don't explain it; congressional incompetence does.

Of the "solutions" Congress has pushed — including limits on CO2 output, windfall profit taxes, restrictions on drilling on public lands and, most recently and absurdly, suing OPEC — all lead to less oil and higher prices.

We agree our economy could do more to save energy. And with oil prices over $130 a barrel, it will. (Indeed, U.S. oil use this year is down 2.2% from 2006.) That said, the main solution should be to drill for more oil and gas on our own territory. Billions of barrels and trillions of cubic feet await.

"When energy prices are high, the urge to point fingers at oil companies is strong," said J. Stephen Simon, senior vice president of Exxon Mobil Corp. "But undercutting the ability of American companies like Exxon Mobil to compete in a huge global marketplace only makes it harder for Americans to secure the energy they need at competitive prices."

Bingo! That oil has surged to $130 a barrel is no surprise: The supply is shrinking. Yet, Congress refuses to let our oil companies tap the massive assets that lie offshore and under our mountains — reserves that dwarf what we have today.

Our Outer Continental Shelf contains as much as 86 billion barrels of oil and 420 trillion cubic feet of gas, according to the U.S. Minerals Management Service. That's more than 10 times the oil and 20 times the natural gas we use each year.

Then there's oil shale. At least 1 trillion barrels of crude — possibly as many as 2 trillion — lie in formations across the Rocky Mountains and into Canada. "This," the Institute for Energy Research said recently, "is more than seven times the amount of crude oil reserves found in Saudi Arabia, and enough to meet current U.S. demand for over 250 years." Yet we don't want to disturb it.

And then, of course, there's the Arctic National Wildlife Refuge. Since 2000, U.S. oil consumption has increased roughly 750,000 barrels a day. If we had started drilling in ANWR back in 1995 — when President Clinton and congressional Democrats joined to kill it — we'd have an extra 1 million barrels of oil a day now.

The problem is clear: We now pump about 5 million barrels on our own and import 12 million, making us vulnerable to market blackmail by foreign producers. As recently as 1985, we pumped 9 million on our own and imported just 4.3 million.

This is our energy deficit, created by congressional incompetence and inaction. It's time to stop the blame and start the drilling.

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Mr. CONYERS. I am pleased now to recognize the gentlelady from Houston, TX, Sheila Jackson Lee.

Ms. JACKSON LEE. Mr. Chairman, let me, first of all, express my appreciation to you and this Committee for the insight of convening such a very important hearing and previous hearing that we have had.

I think it is well known that Houston claims and still remains the energy capital of the world. Many of these companies are my constituents and I proudly represent their employees, and I know that they are hardworking and patriotic Americans.

But as we proceed in this hearing, I hope that the approach will be a collective and collaborative effort of solutions. We already know the core principals and proposals of the industry, which is that this Congress has not worked effectively—when I say that, this bipartisan Congress—over the long term and that the answers to our problems are at our feet.

I would turn the cards back toward the industry and hope, in this process, this hearing, that you will offer creative solutions. Frankly, I believe that the issue of speculators, which many Americans are unaware of, add to the price.

I think the structure of OPEC, which many of you believe cannot be touched, adds to the price.

I do think that we have to be broad-based in our thoughts about how we secure more resources. I am a champion of drilling offshore of Texas and Louisiana. Why? Because there is a consensus. You have done it well. You have done it an environmentally safe manner.

I think the other interest that I have, and I do want to make mention of your colleague, Mr. Hofmeister, avocation in the road, and I am going to extend an invitation for a roundtable discussion in our city by all of you, at my invitation, on the question of solutions.

But this is an antitrust Committee. So we will be asking the hard questions. What is impacting these prices? Are there collusions and price fixing, in the ultimate results of the truck drivers who we heard from who are losing their business or to the moms and pops who are trying to go on a limited vacation over the summer or carpools.

All of this has a major impact on the mindset and the attitude that Americans have about how their country is treating them.

I think all of us, regardless of whether you are in the private sector, you are, in fact, public servants. You have a utility, a need that we cannot survive without.

Yes, we can look alternatively and we have done a good job. This Committee, the Energy and Commerce, the leadership of this Congress, Democratic leadership, looking at R&D and looking at alternatives, but, Mr. Chairman, I do believe that we have to have a balanced energy policy that includes a variety of resources, which these gentlemen represent.

Let us find a way that the callers that spoke to me this morning ask, and that is to relieve the pain. There may not be a short term if we think narrowly, but there may be a short term if we think broadly.

And I do think we have ideas that would warrant that and I hope to pose questions, Mr. Chairman, along those lines.

I yield back.

Mr. CONYERS. I thank you, Sheila Jackson Lee.

We would now turn to the Ranking Member of the Antitrust Task Force, Steve Chabot of Ohio.

Mr. CHABOT. Thank you, Mr. Chairman. I would like to thank you for holding this hearing, with our nation facing record high gas prices and energy prices.

And as we were preparing this speech, this was the part in the speech where we had a number and, over the past week to 10 days, since we knew we were going to have this hearing, we had to keep revising this figure and we have been scratching it out and putting it in.

And now, this morning, my staff gave me this morning's "Cincinnati Enquirer" article saying that "gas zips past $4 mark." So it is now $4 or higher than $4 in Cincinnati, Ohio.

And there is not an issue that we hear more about from our constituents than when is Congress going to do something about the high gas prices and how they are affecting their lives.

The public is demanding answers to questions such as, "Are we going to make energy more affordable in the short term? How are we going to make our nation more energy independent in the long term? What will be our primary source of energy in the future and how are we going to get there?"

In response, this Congress gives them legislation that purports to fix our energy problems simply by raising taxes by billions of dollars on domestic energy companies and hoping for the best.

That is not an energy policy. That is what amounts to a tax increase on every American family. And let's face it. For the most part, the oil companies are going to pass that cost on to the consumers at the gas pump. So they are basically just taxing the public.

We should be debating legislation to streamline the Federal permitting process that has stifled construction of new refineries. We haven't built one in about 32 years, the last one back in 1976.

We had 324 oil refineries back then. We have got fewer than 150 now, 30 years later.

We should be talking about benefitting consumers by simplifying our nation's fragmented gasoline supply. The number of regional boutique fuels restrict the movement of our fuel supply and raises costs on Americans at the pump.

And as Lamar Smith indicated before, we should be opening up Alaska's Arctic National Wildlife Refuge, ANWR, and the outer continental shelf for energy exploration. And all indications are that, combined, there is approximately 16 billion barrels in ANWR and 86 billion barrels in the outer continental shelf; so the two together, about 100 billion barrels of oil and, also, millions of cubic—excuse me—trillions of cubic feet of natural gas.

Previous Congresses made the decision to keep these vast reserves off limits. I know I personally voted 11 times since I have been here to open up ANWR. We had the votes to pass it in the House, but, unfortunately, it would go over in the Senate and be killed over there.

Of course, the price of a barrel of oil was much less then, too. It is now about $100—well, here we go again—$130 a barrel, $135 a barrel, and that is since yesterday, and reports indicate that it may reach $150 a barrel at some point this summer, this says. God only knows where it is going to be this summer at this point.

It is time we revisit this very important issue. What about encouraging the construction of nuclear power plants? We began that process in 2005 with the passage of the Energy Policy Act, but as we sit here today, we haven't built a new plant in decades.

European and Asian nations are building them by the dozens. India has nine new plants under construction. Japan has built five more and China is—they plan to build dozens of new reactors.

Let's talk about how we intend to compete with China, who is canvassing the globe in its quest to ensure a reliable supply of oil. Reports indicate that the Chinese are forming energy partnerships with rogue nations like Iran and Cuba, and Cuba is planning to work with China to drill of the Florida Keys.

So we are not going to go after that oil, but Cuba and China are. It is an absolute outrage.

Shouldn't we be talking about boosting domestic production simply so we wouldn't have to rely on the mood of third world dictators like Hugo Chavez? Wouldn't it be nice if prices didn't spike at our neighborhood gas stations when unrest in nations such as Nigeria occur and they impact us here directly?

Now, some may argue, and they might well be right, that oil isn't the long-term answer. It is a finite resource that may be exhausted or very scarce some years down the road, and China and India continue to develop and to soak up more of the oil that is available out there.

So maybe oil isn't the energy of the future, but shouldn't we consider boosting our oil and natural gas supplies, increasing our energy independence, that might just buy is the time necessary to develop the next fuel source?

Perhaps hydrogen fuel cell technology will take us into the next century or maybe other renewable resources that could be a combination of both or maybe something that we haven't even discovered yet? We don't know.

But we do know that America has substantial reserves of oil and natural gas that we have locked up, that this Congress has locked up. We have placed it off limits.

These resources could be the bridge that allows America to cross over the choppy waters of OPEC and third world dictators to the secure footing of affordable and secure energy sources of tomorrow.

Just as no nation has ever taxed itself into prosperity, it is simply not plausible to believe that we can tax and regulate our way to energy independence. Yet, that has been the majority's prescription and it is clearly failing.

As we all know, we remember this, we have heard it before, that Speaker Pelosi said 18 months ago that she had a plan, that they were going to—that prices at the pump were outrageous. They were $2.30 a gallon, $2.30. That was 18 months ago. Now, in my district, they are $4 a gallon, getting close to double what they were 18 months ago.

That was one heck of a plan.

I yield back the balance of my time.

Mr. CONYERS. Thank you.

Steven Cohen, Memphis, Tennessee.

Mr. COHEN. Thank you, Mr. Chairman.

And thank the panel here for coming before us.

Years ago, I think it was said, in Jefferson's time that the economy basically was grounded in land and farming and that agriculture was important, that the land was the foundation of society, and indeed it was, but that the land really belonged to everybody, because society was based upon it.

Today, oil is really what the economy is based on and, accordingly, everybody has an interest in oil, because society itself is so wedded to it.

You, as the leaders of the companies that produce and sell the oil, in my opinion, and I hope you agree and, in your remarks, will comment on this, have a duty to all of society to do the utmost to make this society a part of the riches that you have, to see that the price doesn't go up and people are not being economically stretched, as they are, and to find alternatives to fossil fuels so that we don't endanger greater than we already have the planet which we live and the very existence of man and all other species and the flora and the fauna that we presently have, some of which are threatened because of global warming.

You have a responsibility, a great responsibility, almost like a government unto yourself, to see that society is furthered and is perpetuated in a way that does not jeopardize the planet or does not jeopardize everybody's opportunity to have a share.

The price of gas is a regressive economic factor and poor people suffer more than a wealthy person does. I can afford $4 gas. But most people in my district cannot.

I heard something on "NPR" today that airlines can't continue with this $125 a barrel, and that is why they are charging people to put luggage on the airplane.

A lot of society and a lot of things we are used to are changing and I would just submit to you, while you have a duty to your stockholders, and I am one of them, that you have a greater duty to the planet and to the people, American people, people on this earth, because society has such an investment in what you have as your business interest.

And I would urge you to think about some social policies and to try to understand the responsibility you have to everybody to be cautious in the way that you operate your companies.

What happened in Alaska with the Valdez is unforgiveable and environmental disasters can't really be compensated. Their damage is never undone. But the damage you are doing to the economy can be corrected and I would just ask you to look within your own mortal souls and try to do something to help everybody out there and to help us get off of our reliance on oil and find alternative energy sources, which I know you can.

And I hope that we hear some responses to this in your testimony.

Thank you, Mr. Chairman.

Mr. CONYERS. Thanks, Steve Cohen.

From Florida, Ric Keller?

Mr. KELLER. Thank you, Mr. Chairman.

I am going to make my remarks very brief. I have got a ton of questions for our oil company executives and I want to get to them as soon as possible by waiting to let them testify.

So let me just briefly say that in terms of solutions, which is where we are all going right now, I firmly believe that we do need more exploration in ANWR, more exploration of our deepwater oil reserves, more refineries, more alternative energy solutions, like nuclear energy.

On the conservation side, I think we do need better conservation efforts, like higher fuel efficiency standards and tax incentives for hybrids.

I believe the oil company executives, from their testimony yesterday, have done a good and credible job of explaining that crude oil increases are the main reason driving the higher gas prices. I think they have done a good and credible job of explaining that the crude oil prices are governed by the law of supply and demand, and the one law we can't change here in Congress is the law of supply and demand.

I believe, however, on the flipside, that the Achilles heel of what I have heard from their testimony is the somewhat exorbitant pay that some of these executives have received in retirement packages and otherwise, as well as the failure of these companies to build any new refineries in the United States over the past 32 years.

And I want to give them the opportunity fairly to address both of those questions, because those are some of the perceptions that are on people's minds that they need to address, even though they may not directly impact the price of crude oil that we are going to pay.

So I will give them the chance to address those perceptions when I get to my questions. But as Woody Allen said, "Eighty percent of life is showing up," and I thank you for showing up.

And I yield back the balance of my time.

Mr. CONYERS. Thanks, Ric Keller.

Betty Sutton, Ohio?

Ms. SUTTON. Thank you, Mr. Chairman, for holding this important hearing today.

We began the discussions of what we can do in this Committee to address outrageous gas prices 2 weeks ago. And I know the American people have several questions they would like to ask our nation's oil executives, so I thank our witnesses for appearing here today.

When we met 2 weeks ago, and this has been alluded to by my colleague from Ohio, gas prices stood at a record national average of $3.61 a gallon. Today, the national average is $3.81 per gallon—rising a penny a day for the past month, surpassing, as he indicated, $4 in many part of our country.

There is no issue that I am hearing more about from my constituents than gas prices. They are outraged by what they are paying and, frankly, so am I.

Throughout the President's term of office, he has consistently claimed that all is well with the economy. My constituents know this is not the case. People are losing their jobs and those who

manage to hold on while the manufacturing base has collapsed around them have seen the value of their wages diminish greatly.

Now, people are spending up to $70—my colleague from Florida just told me she spent $68 to fill up her tank—to drive to work, to take their children to school and to go about their daily lives.

The trucking industry is suffering. A single fill-up costs truckers over $1,000. That is astonishing.

We heard in our last hearing about the trickle-down effect that diesel prices have on American consumers, leading to increases in food prices and other necessities that truck drivers and retailers live on.

The President says the cost-benefit analysis of taking immediate action to assist American consumers does not persuade him. Luckily for the American people, a veto-proof majority of Congress has disagreed.

Last week, Congress passed legislation, which the President has now signed into law, that requires the President to suspend purchases of oil for the strategic petroleum reserve through the end of 2008, so long as prices remain above $75 a barrel.

I would also like to thank Chairman Conyers for introducing the NOPEC Act, which passed the House earlier this week and will eliminate protection for OPEC-controlled entities to allow the Department of Justice to bring lawsuits in U.S. courts against cartel members.

We have heard a little bit about one measure supported by some of my colleagues across the aisle and our witnesses today to drill for oil in ANWR. Yet, the Department of Energy has concluded that opening up the Arctic for drilling would reduce the price of gasoline by approximately one penny per gallon 20 years from now.

The debate over drilling in ANWR has spanned decades, always resulting in the same answer—drilling in ANWR is simply not the answer to either what we hope is a short-term crisis or to our nation's long-term energy needs.

I often say that my top priorities as a Member of Congress are jobs, jobs and jobs. This morning, I heard one of my colleagues on this Committee say that our energy future needs to be green, green and green, and I could not agree more.

This Congress has enacted landmark legislation to take necessary steps toward a greener and cleaner future for America's energy policy, first, by passing the Energy Independence and Security Act that was signed into law in December and to set new fuel standards for cars and trucks.

Yesterday, we passed the Energy and Tax Extenders Act, which will retain and create hundreds of thousands of green energy jobs and provide tax credits for the production of renewable energy sources, like solar, wind energy and incentives for the production of renewable fuels and energy-efficient products.

In 2007, the oil industry recorded record profits of $150 billion, 75 percent which was earned by the companies we have represented before us today.

Exxon Mobil alone made $40 billion last year. It is the prerogative of the American people to know how these companies are possibly in need of the subsidies that the Administration has lavished upon them, while they themselves are suffering to make ends meet.

At our last hearing, I expressed concern about the Administration's energy policy, written in secret, in my view, by Vice President Cheney.

I look forward to hearing from you the details and the nature and extent of the involvement of the companies you represent, about your participation in those meetings which led this Administration's energy policy.

I thank the Chairman and yield back the balance of my time.

Mr. CONYERS. Thank you very much, Ms. Sutton.

Chris Cannon of Utah?

Mr. CANNON. Thank you, Mr. Chairman.

I appreciate your holding this hearing. I want you all to know that I agree entirely with Ms. Sutton that my constituents are outraged. I couldn't disagree more about the reasons for the outrage.

This is complicated subject. I am not sure that America and American citizens understand it, but they are learning. They are figuring it out. And what I hope they understand, very quickly, is that the price of oil is going to be a function—and I hope we hear from our witnesses today about this—that oil is going to be—the cost of gas is going to be derived by the availability of oil and the cost of making that oil available.

And the Democrats have, in fact, interfered continuously with our ability to make resources available so that the price will come down. They voted continuously as a body against drilling in ANWR, continuously as a body against drilling on the outer continental shelf.

We have had a regulatory proliferation under their period of control that has led to a diminishing of our ability to drill in the intermountain west. That has expanded, I think, somewhat significantly under the current President, but not nearly enough to keep up with the demands and the growing demand.

On the other hand, if we are going to get out of the problem of the cost, the $4 a gallon cost of gasoline today, we have to have another resource. We have to have something new.

We have a great deal—and I think we will hear some information about some of the unconventional sources, but there is a vast source of oil that is available to Americans and most people just don't understand that technology has caught up to the point where we can produce oil out of shale in the intermountain west.

Colorado has the largest amount, Utah the next, and Wyoming the third largest amount, and these amounts are in the neighborhood of 20 times as much as all the other conventional resources combined.

And, in fact, the amazing thing is that the conventional resources are very expensive to get. Technology has brought down—and I think several of the companies that are here represented today will testify about—or at least I will ask some questions about their technology for getting oil out of shale.

It is a matter of cost and a matter of availability. How do we reduce the cost? Well, you reduce the cost by having a programmatic approach to leasing shale from BLM public land.

But the Democrats have eliminated that program that we instituted as Republicans, when Republicans controlled the House and the bill that the President signed.

That is gone. In addition, we have to have the money available to BLM to promote the development of oil shale and to deal with the issues and the problems, and the Democrats, in their appropriations bill last year, included a rider that prohibited spending any money by BLM on development of shale oil or developing the opportunity to do shale oil.

One of the employees of one of the witnesses came in my office the other day. He is a guy who worked in Utah, I know him well, and he is now running one of these programs, and he handed me a list, two sheets of paper that had 42 to 46 agencies listed on it, many with multiple permits per agency.

And he said, "You know, Chris, we have got an 8-year lease on shale oil. The permitting is going to take us 7 years. How do I tell my board of directors they should invest in this 7-year process when the lease is 8 years?"

If we want to reduce the cost of oil, as a Federal Government, we have to get out of the way of industry, which now has, by the way, the capital available to, I think, pursue these alternatives, get out of the way of industry and let them get on with producing oil so that we can reduce the costs.

And the availability of oil is vast. It is vast. It is available in shale in America today. I think most of the people here that are going to be witnesses know, and I want the world to know, that we have the first commercial test in about 30 years going on to develop or yield oil out of shale today in Utah.

It is not done on Federal lands, because we can't do it on Federal lands. It is being done on school trust lands and I believe that by about mid-September, you are going to see that they are able to get oil out of shale. Based upon their tests, they believe that that could be done for about $30 a barrel.

Thirty dollars a barrel in a world where we are paying $4—for oil, we are paying about $138 yesterday. It is obscene that we have an environment where we are grilling these gentlemen because their companies, competing with each other, are trying to get the better share of the market in a world where they are constrained by resource.

And America has vast resources on its public lands, which it has locked up and kept from getting to the gas pump, kept from getting to poor people.

You know, Mr. Chairman, you and I have worked on many issues together where the commonality has been the regressive cost of Internet or taxes on telephones and other things like that.

We have a great deal of commonality. It is a crime, it is immoral to have the kind of policies that rob food from people in the third world, rob food from the poor people in America, because we are doing ethanol, and, on the other hand, locking up our resources and not letting people develop those resources so that we can bring that down cost from $4 a gallon to where it ought to be, a $1 a gallon or, frankly, less, but we would have to get rid of Federal taxes to bring it down, I think, below that level.

So, Mr. Chairman, this is an issue that I am excited about, I am concerned about. We need to change. We can do this as Democrats and Republicans and make the world a better place, but we have to change policies, and that is within our power to do.

And I thank the Chairman and yield back.

Mr. CONYERS. Well, I am glad this subject has attracted the gentleman's attention. Thank you very much.

Mr. CANNON. I would tell the Chairman that I have lived in shale oil Utah for my whole life, but $4 gas has finally got the attention of the American people, and I hope that we can be common in our views about it here.

Thank you, Mr. Chairman. I actually yield back this time.

Mr. CONYERS. Thank you.

I am pleased to recognize, from Florida, Debbie Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

You know, saying that Americans don't understand how oil impacts the price of gas, it is that kind of patronizing attitude that has shaken the confidence of the American people in their government.

With all due respect, the whole point of this hearing is so that we can identify ways that we can dramatically reduce the cost of gas or even maybe reduce the cost of it a little bit, because I am a mom with three young kids who just filled up my minivan the other day for $68.

That is real money. I mean, it might not be real money to the five people right in front of us, because $68 is like a nickel, based on the income that you all earn. But we cannot continue to expect to drill our way out of the cost of gas problem.

And I am a Floridian, and I oppose drilling off the coast of the outer continental shelf. But we need to understand several things. Since 2000, the amount of drilling that we have done has actually increased dramatically, exploded over the last 4 years.

Has the price of gas done down because of that? No. In fact, as drilling has increased, the price has just kept going up.

The Federal Government has given oil companies more drilling permits than they know what to do with. Since 2003, the Federal Government has consistently issued far more permits than the oil companies have acted on.

Are we tying their hands from continuing to drill? No. We are certainly not. Of the 42 million acres of Federal land that is currently being leased by oil and gas companies, only about 12 million acres are actually being produced.

Oil companies don't need new areas to drill. They need to use the ones we have already given them. And for all the talk from Republicans about how the Democratic Congress has stopped the drilling and that we have said no throughout the process, there hasn't been one acre closed to more drilling for oil or gas.

So if you could drill it under the Republican Congress, you can still drill it under the Democratic Congress.

And at the end of the day, what I would love to hear during the course of this hearing is a solution that does not involve more drilling.

I also find it baffling that we continue to give you subsidies and forgive royalty payments for an industry that makes record profits, that is the most profitable industry in America.

And on top of that, I have to tell you, it is very difficult to stand in front of our constituents, where you are an industry that is reap-

ing record profits, while charging record prices, and it becomes difficult to answer the question that inevitably comes up that you are not manipulating the prices, which there is a strong suspicion that you are.

So those are the kinds of things that I would like to hear from you today.

And thank you, Mr. Chairman. I yield back the balance of my time.

Mr. CONYERS. Thank you, Debbie.

Darrell Issa, California?

Mr. ISSA. Thank you, Mr. Chairman. And thank you for putting me after the gentlelady from Florida.

Her comment is true. America, over decades, has been habitually being a NIMBY nation. Well, we ask you to go to Kazakhstan for joint ventures, Venezuela, and many countries, some of them, quite frankly, less reputable when it comes to keeping their promises, some of which have nationalized resources, some of which, like Russia, fail to reinvest in their natural resources so that although today they have record profits, there is no likelihood of record profits in the future.

I am not ashamed to be a Republican. I am proud to be a Republican. I am proud to be for all energy solutions and for all reasonable energy savings, and I am happy that we are having this discussion today, because, in fact, whether or not there has been any manipulation in process, I think, those of us at the dais have to be part of the solution to make sure that there is surplus of opportunities and options to compete with real energy alternatives.

You in front of us represent one energy source or one group of energy sources. The truth is that this Congress has, in fact, taken many areas of potential new development off limits, when we had $9 or $10 or $20 a barrel oil.

Perhaps some of those didn't make sense. I, for one, have watched T. Boone Pickens reinvent himself and become the smartest guy going, because he went to Canada, where it takes $30 or $40 a barrel to lift or to extract, if you will, from the sands, and he now, of course, is making a killing.

He is making a killing because prices have gone well above where they were in the past and where they would be today if, in fact, we had a glut rather than a shortage around the world.

So I, for one, want to hear what we can do to enable you to have better access here, which I believe, unlike the gentlelady from Florida, a State like mine that has simply said we don't want it in our backyard, more available.

I also would like to and, with my questions, will ask about each of your company's worldwide efforts to find and extract oil from around the world. I don't expect you to give us all the answers on wind energy, although many of your companies have invested in that.

I do expect you to have a plan to reinvest the profits that you are earning today into future energy. I am confident you will, in fact, have a plan to do that, that unlike the gentlelady and the gentlemen, in some cases, on this dais, that you will show us where these funds are not simply being sent out to stockholders, although

well deserved, because many of them waited for a long time for these windfall profits, but, in fact, reinvest it in future energy.

For that, I hope the Chairman will be as receptive as I will be.

Mr. CHABOT. Would the gentleman yield?

Mr. ISSA. And I would yield to the gentleman from Ohio.

Mr. CHABOT. I thank the gentleman. I will be very quick.

The gentleman made the comment about America being a NIMBY nation, and NIMBY, of course, is "not in my back yard." I would just note, when it comes to ANWR, which is in Alaska, the overwhelming number of Alaskans are in favor of drilling in ANWR.

I yield back.

Mr. ISSA. Thank you, and reclaiming my time.

It is very clear that some people in America are not in anyone's back yard. That is not true of Hugo Chavez, who will drill where he needs to drill. It is certainly not true of the Chinese, who were today in preparation for drilling off of Cuba's coastline, far closer to the gentlelady from Florida's district than, in fact, any of you are allowed to drill.

So, Mr. Chairman, I do look forward to it. I do believe that we have to be vigilant against price manipulation. I also think we have to recognize that in absence of sufficient supply and too much demand is, in fact, what we also have an obligation from this dais to deal with.

With that, I would happily yield back.

Mr. CONYERS. Thanks, Darrell.

Tom Feeney, Florida?

Mr. FEENEY. Thank you, Mr. Chairman.

Congress has had some 45 hearings recently on gas prices and energy applications.

I would say that the essence of these hearings has proved two of my favorite maxims. Number one, no situation is so bad that Congress can't make it worse, and, two, that Congress is constantly trying to repeal the laws of supply and demand and economics as though we could reverse gravity by passing a law.

And I would predict that the more hearings we have and the more policies based on the attitude of the liberal leadership, the higher prices of gas will go.

I think it ought to be liberal leaders in Congress that are answering questions about how our policies have led to $138 a barrel oil.

Any of you that have had a third grade economics class or the first week of economics in high school or college can talk about the fundamental laws of supply and demand.

We can't really impact or stop India or China or much of the developing world that 40 years ago was walking around, they were rich if they had a bicycle. The demand for energy is increasing worldwide and there is simply nothing that the American Congress can do about that.

What we can have an impact on is supply. What have we done for 35 years? Energy includes a basket of viable ways to produce energy that we need in our personal lives, our families, for businesses and for prosperity.

Yet, for 35 years, we have said that not one nuclear power plant can be built to provide energy to Americans. All of our nuclear experts went to France. I hate to point out that France has a better common sense policy toward energy than the United States, but all of our technology and experts went to France.

They now get 80 percent of their energy needs from clean, renewable and affordable nuclear power. We have got 26 percent of the world's coal supply right here in the United States, and yet we have largely said we are not going to build any new coal plants, even though liquefied or gasified coal is cleaner than ever.

We have done this to ourselves. We have stopped any new drilling in the Gulf. The oil in shale, as Congressman Cannon pointed out, in ANWR, we have deliberately done everything we can to reduce the supply of domestic energy.

And, yes, it is great to talk about long-term needs that I support, wind and solar and biofuels are all great potential one day opportunities, but in the short run, we have done this to ourselves with policies.

And, finally, I would like to say a word about the speculators that supposedly are driving up the cost of gas at the pump. Speculators are nothing but sophisticated bettors and they are betting on what is going to happen in the future to supply and demand.

They are watching the United States Congress crush ourselves in every way that we produce a new policy of taxes or regulation or killing supply, and they are betting that this Congress will take $4 a gallon gas to $8 or $10 or $12 a gallon gas, and I would say if we don't change directions dramatically, the speculators are right.

They are not responsible. They are betting on the misperformance and the negligence of the United States Congress.

With that, I will yield back the balance of my time.

Mr. CONYERS. Thank you very much.

We welcome John Peterson of Pennsylvania sitting with us.

You have given us an idea, Tom, that I have been talking about with Mr. Chabot and Mr. Smith. Maybe we should hold a hearing someday and we will be the witnesses and let those we have invited ask us the questions, which has what has started out this morning.

We have finished now. We have got three quick votes. We will stand in recess and we will resume.

Thank you for your patience.

[Recess.]

Mr. CONYERS. Our witnesses are Steve Simon, Senior Vice President of Exxon Mobil Oil; Bob Malone, Chairman and President of BP America; John Lowe, Executive Vice President, ConocoPhillips; Peter Robertson, Vice Chairman of the Board of Chevron; and, our lead-off witness, Mr. John Hofmeister, U.S. President, Shell Oil Company, who we note has been active with the National Urban League, who is stepping down soon and who we wish well in his future endeavors.

Please start us off.

TESTIMONY OF JOHN HOFMEISTER, U.S. PRESIDENT, SHELL OIL COMPANY

Mr. HOFMEISTER. Thank you, Chairman Conyers, Congressman Chabot and Members of the Task Force. I appreciate the opportunity to testify today.

In addition to my formal written statement, I welcome the chance to share some additional thoughts.

This is an era of remarkable capital expenditures for major new projects and infrastructure, strong investments in technology and the aggressive pursuit of energy alternatives.

We are setting records in one of the most expansionary periods the industry has known. Yet, in the face of this sustained record spending, the relentless increase in the price of a barrel continues.

As repetitive and uninteresting as it may sound, the fundamental laws of supply and demand, I believe, are at work. Oil exporting nations are managing their natural resource development and production to supply their local and global markets in their own self-interest.

While all oil importing nations buy oil at global prices, some, notably, India and China, subsidize the cost of oil products to their nation's consumers, feeding the demand for more oil, despite record prices.

They do this to speed economic growth and to ensure a competitive advantage relative to other nations.

Meanwhile, in the United States, access to our own oil and gas resources has been limited for the past 30 years, prohibiting companies such as Shell from exploring and developing resources for the benefit of the American people.

According to the Department of the Interior, 62 percent of all onshore Federal lands are off limits to oil and gas development, with restrictions applying to 92 percent of all Federal lands.

In addition, the outer continental shelf moratorium on the Atlantic Ocean, the outer continental shelf moratorium on the Pacific Ocean, the outer continental shelf moratorium on the eastern Gulf of Mexico, congressional bans on onshore oil and gas activities in specific areas of the Rockies and Alaska, and even a congressional ban on doing an analysis of then resource potential for oil and gas in the Atlantic, Pacific, and eastern Gulf of Mexico prevent us from bringing new supplies to the American people at a time when they desperately need new supplies.

The Argonne National Laboratory, in addition, produced a report in 2004 that identified 40 specific Federal policy areas that halt, limit, delay or restrict natural gas projects.

I urge you to review it. It is a very long list. If I may, I offer it today, if you would like to include it in the record.*

Mr. CONYERS. I do and so ordered.

Mr. HOFMEISTER. When many of these policies were implemented, oil was selling in the single digits, not the triple digits we now see. The cumulative effect of these policies has been to discour-

*Note: The December 2004 report, "Environmental Policy and Regulatory Constraints to Natural Gas Production," has been made a permanent part of this record and is archived at the Task Force. The report may also be viewed on the Internet at:

http://www.ipd.anl.gov/anlpubs/2004/12/51652.pdf

age U.S. investment and send U.S. companies abroad to produce new supplies.

As a result, U.S. production has declined so much that nearly 60 percent of daily consumption now comes from foreign sources.

Alternative and renewable energy sources play a role and will grow substantially, and Shell is playing a key part in the expansion of such technologies.

But nonetheless, leading experts forecast that by 2030, we are still expected to import more than half of our oil.

The problem of access can be solved in this country by the same government that has prohibited it. Congress could, if it chose, to lift some or all of the current restrictions on exploration and production of oil and gas.

If the nation set a goal, Mr. Chairman, of increasing domestic production by 2 to 3 million barrels a day, by opening up new sources for exploration and production, in addition to recent laws you have passed to increase the production of renewable fuels and to increase miles per gallon in the vehicles that we drive, we could demonstrate to the world that we are in control of our own destiny.

If we did this, it would be unnecessary for our national leaders to ask the rulers of other sovereign nations to produce more oil for U.S. consumers and risk the discomfort of an unresponsive reply.

Instead of continuing the 30-year pattern of limiting access, let's implement a national policy that expands access where appropriate, and Shell is prepared to participate in such a plan.

In addition to more access, we do need more refining capacity. As you know from my written testimony, Shell is a 50 percent participant in the $7 billion expansion of the Motiva Refinery in Port Arthur, Texas.

This project will expand production of finished products by more than 300,000 barrels per day and, when completed, will be one of the largest refineries in the United States and in the world.

Refining capacity is particularly critical when it comes to the demand for diesel, aviation fuel and heating oil, all products that we in the industry refer to as the middle of the barrel.

At home and around the world, demand for these middle distillates is growing faster than the demand for gasoline. Due to the sustained demand for diesel mobility and air travel, prices for these products are also rising faster than other products.

There is simply no way for us to keep up with demand or get ahead of it without producing more oil and more refining capacity. Higher taxes would only serve to diminish the expansion capacity of this critical capital investment, and I urge you to resist such punitive policies.

We are making significant capital investment to produce more energy and more kinds of energy to meet global demand. Enormous amounts of capital are required and will continue to be required to fund our huge scale projects and cutting-edge research.

This year, Shell will spend more than $28 billion, the largest capital expenditure in our history and perhaps in the oil and gas industry, and this investment includes significant investments in wind, solar, hydrogen and biofuels.

In conclusion, Mr. Chairman, the United States has the natural resources, it has the technology, the financial capital, the human capital, and the desire to be more energy self-sufficient.

It consecrates the future of new alternatives and more traditional hydrocarbons. It can also address the CO2 reductions that we need for the future. It can continue to assure a quality of life for its citizens. It can deliver more affordable energy and affordable ways to U.S. consumers.

By addressing our challenges by considering them as short-term, medium-term and long-term opportunities, the U.S. can move beyond its current dilemma and build a new era of sustainable, affordable energy security.

I look forward to your questions.

[The prepared statement of Mr. Hofmeister follows:]

Statement

of

John Hofmeister
Shell Oil Company

Before the

House Judiciary Committee
Antitrust Task Force

Thursday, May 22, 2008

Chairman Conyers, Congressman Chabot and members of the Task Force, I am John Hofmeister, Retiring President of Shell Oil Company.

Shell Oil Company is an affiliate of the Shell Group, a global group of energy and petrochemical companies, employing approximately 104,000 people and operating in more than 110 countries and territories. Shell Oil Company, including its consolidated companies and its share in equity companies, is one of America's leading oil and natural gas producers, natural gas marketers, gasoline marketers and petrochemical manufacturers. Shell, a leading oil and gas producer in the deepwater Gulf of Mexico, is a recognized pioneer in oil and gas exploration and production technology.

I welcome the opportunity to testify today. It is, in fact, very timely because it comes at the end of an 18-month Shell journey called "A National Dialogue on Energy Security." We traveled to 50 cities and visited with more than 15,000 Americans to engage in meaningful dialogue on energy security.

I heard what you are hearing.

Americans are very worried about the rising price of energy – the cost to fill their cars, as well as the cost to heat, cool and light their homes and businesses. These cost increases are hitting consumers hard, particularly the poor and those on fixed incomes.

Let's look at historical data on the price of a barrel of crude and the average price of regular gasoline. Since April 2004, the price of a barrel of U.S. light sweet crude has gone up by more than $70, which is more than a 300 percent increase. In this same period, the average U.S. nationwide price of regular gasoline at the pump went up 100 percent. Looking just at the last 12 months, the price of a barrel has increased $60, or more than 100 percent. The price of regular gasoline has gone up 20 percent.

There is no single reason or simple explanation for the recent run-up in crude oil prices. Rather, a combination of circumstances, some short-term and some long-term in nature, is playing a role.

Let me highlight some of these factors.

- The rate of growth in global demand for oil has accelerated in recent years. This is largely the result of rapid economic growth and industrialization in countries like China and India and also sustained subsidies on oil products in oil exporting countries.
- Geopolitical events, such as the disturbances in the Niger Delta, have reduced supplies available to the international market.
- The cost of materials, labor and engineering services has skyrocketed. This in turn drives up the cost of new energy projects and the cost of developing new energy supplies.
- There is a shortage of capacity in energy services and materials. This shortage is in some instances leading to project delays and lengthening the time it takes for new projects and new supplies to come on line to meet increased demand.
- Access to oil and gas resources is becoming more difficult around the world. This, coupled with more stringent fiscal conditions governing investment in several major oil and gas-producing countries, adversely affects the economics of new energy projects. It may lead to reductions or delays of new investment in oil and gas supply capacity.
- The oil and gas resources that are available for development are increasingly found in extremely difficult or hostile areas – areas that are more technically challenging, more remote from markets, require more infrastructure, carry greater technical risk, have longer development lead times and are more costly to develop than has been the case during the past 30 years.

In addition, developments in the financial market have also contributed to the rise in prices.

- The fall in the value of the U.S. dollar, relative to other currencies, has reduced the equivalent revenue available to oil exporting countries and also partially shielded other oil importing countries from the impact of rising dollar-denominated oil prices.
- Global investment funds are rebalancing their portfolios to include a higher portion of commodities, including oil and natural gas, and this trend has accelerated with recent weakness in equity markets.

Along with the above factors, some observers have questioned whether speculative trading has also contributed to increased crude oil prices. We have observed that there are more participants buying and selling oil commodities than previously, and that these participants are made up of commercial users, such as ourselves, and non-commercial entities, such as pension funds, university endowment funds and hedge funds. Yet, it is unclear what effect this activity has had on prices. For example, the Commodities Futures Trading Commission recently testified before Congress that there was an absence of evidence that speculation had driven up oil prices. What is clear, however, is that the combined oil commodities trading community is telling us that we need to produce more oil.

Despite the apparent size of the major investor-owned energy companies, this remains a highly competitive industry. Consider the structure of our retail gasoline business, where the Shell brand has an 11.3 percent market share nationwide. Roughly 95 percent of Shell branded stations are owned by independent retailers and "jobbers." We are seeing healthy new retail competition emerging with brands such as WaWa, Sheetz and Turkey Hill.

From the perspective of the transactions experience at Shell, in markets of concern to both federal and state antitrust law enforcement agencies, mandatory divestitures were designed to prevent declines in the number of competitors or increases in concentration. And we have fully complied with such divestitures.

Most of these factors are not controlled by or even much influenced by the actions of oil companies. However, our business is developing energy and delivering it to consumers in the most efficient and cost-effective manner we can. We will continue to strive to contain cost pressures and to deliver these energy products to consumers at competitive prices in a secure and reliable manner.

Today I will talk about three issues related to the energy future of America. First, the global demand for energy and the supply outlook. Second, the investments that Shell is making to increase energy supply. Third, actions that policymakers can take to address the energy challenge.

Energy Demand and Supply

The world will demand an additional 35 million barrels of oil per day by 2030, which is a 42 percent increase over today's demand. It will demand 64 percent more natural gas than we are producing now.

The United States accounts for 25 percent of the world's energy demand. Americans use 10,000 gallons of oil – enough to fill a backyard swimming pool – every second of every day. We use 20 railcars of coal every minute.

These are sobering facts. How will this demand be met? Alternative and renewable energy sources will play a role and grow substantially. Energy efficiencies will improve as new technologies are developed and implemented. But leading experts forecast that oil and natural gas will continue to meet more than half of the world's energy needs in 2030.

There is no shortage of molecules of oil and gas in the ground. However, there are multiple influences that will affect the pace at which this oil can, and will, be developed.

On the demand side, we are seeing a step-change in the growth of demand for energy, particularly as emerging economies, such as China and India, enter into more energy-intensive phases in their economic development. It will be vital to become more efficient in how we use energy and to develop unconventional sources of oil and gas (such as oil sands), biofuels and vehicle electrification to meet this surge in demand. All energy sources added together will struggle to match demand – we will need all of the energy we can get.

On the supply side, many existing reservoirs are facing a natural decline in production. This means that high levels of continuous investment are required just to maintain status quo or to invest in enhanced oil recovery (EOR) techniques. In addition, ever-increasing levels of investment are required as smaller fields are developed and more complex frontier environments become the targets for hydrocarbon exploration and production, alongside the development of unconventional oil and gas supply. There are also uncertainties about the pace of investment in sensitive regions such as the Middle East and Latin America. Naturally, major resource-holding governments seek also to develop their sovereign reserves at a pace that matches their own economic goals.

The significant economic point comes when tensions arise between the growth of global demand for energy and the pace of investment, production and supply. We believe we are entering such a period and will face this increasingly for some time to come.

U.S. production has fallen steadily for the last 35 years. Oil production in this country peaked in the 1970s. As U.S. consumption of oil has doubled, domestic oil production has fallen off nearly 40 percent. Why? In large part, this is the result of government policies that placed important oil and gas resources off limits.

We still have a significant resource base in this country, both offshore and onshore. The U.S. Government estimates that there are about 300 trillion cubic feet of natural gas and more than 50 billion barrels of oil yet to be discovered on the Outer Continental Shelf surrounding the Lower 48. When you then add in the Alaska OCS resource, you add the potential for another 122 trillion cubic feet of natural gas and 25 billion barrels of oil. Unfortunately, 85 percent of the Lower 48 resource base is off-limits because of Congressional moratoria.

The U.S. has enormous oil shale resources, too, that, when the technology to extract it is mature, may provide a very significant boost to domestic energy supply. According to Rand Corporation, the oil resource in place within the Green River Formation, which covers portions of Colorado, Utah and Wyoming, ranges from 1.5 to 1.8 trillion barrels, of which between 500 billion and 1.1 trillion barrels are recoverable. According to Rand, "the midpoint in our estimate range, 800 billion barrels, is more than triple the proven oil reserves of Saudi Arabia." The U.S. has more oil locked in shale than any other country on Earth but impediments exist to accessing and developing this resource.

For the past 30 years, federal policies have restricted the availability of domestic oil and gas resources to U.S. consumers. Such as:

- Outer Continental Shelf Moratorium Atlantic Ocean
- Outer Continental Shelf Moratorium Pacific Ocean
- Outer Continental Shelf Moratorium Eastern Gulf of Mexico

- Congressional bans on onshore oil and gas activities in specific areas of the Rockies and Alaska
- And even a Congressional ban on doing an analysis of the resource potential for oil and gas in the Atlantic, Pacific and Eastern Gulf of Mexico

According to the Department of the Interior, 62 percent of all onshore federal lands are off-limits to oil and gas development with restrictions applying to 92 percent of all federal lands.

The Argonne National Laboratory did a report in 2004 that identified 40 specific federal policy areas that halt, limit, delay or restrict natural gas projects. I urge you to review it – it is a long list. If I may, I offer it today, if you would like to include it in the record.

Hundreds of lawsuits result in significant delays or eventually derail energy projects. A 2004 report by the General Accounting Office identified 10 opportunities during the leasing and permitting process where outside parties can sue to hold up or stop oil and gas projects on federal lands. And we are now seeing increased litigation on offshore activities as well. The combined weight of litigation and restrictive and uncertain policies is placing a heavy toll on America's ability to produce its own energy resources.

As we have increased imports to meet our domestic energy needs, a new concept of "resource nationalism" is emerging in resource-rich nations around the world. This concept has changed the dynamics of global energy development. Thirty years ago, national oil companies owned by or affiliated with governments were either non-existent or small players. Today, these national oil companies own as much as 90 percent of the proven oil reserves in the world, while investor-owned oil companies – some of which are here today – hold just six percent of proven reserves.

In 2006, the U.S. imported 3.7 billion barrels of oil to meet domestic demand, which is more than seven times the amount imported in 1970. The United States is the only country in the world that restricts the use of its own energy resources while transferring trillions of dollars of wealth to other countries in order to import energy.

So what is Shell doing? We are making significant capital investment to produce more energy – and more kinds of energy – to meet global demand.

Enormous amounts of capital are required to fund our huge-scale projects and our cutting-edge research.

Let me share with you some statistics:

- Today, we have double the number of new projects under construction that we had in 2004.

- Last year, we spent some $25 billion on capital investment worldwide developing energy projects.

- This year, Shell will spend $28 billion to $29 billion – the largest capital expenditure program in the oil and gas industry.

- Over the last 3 years that I have been in office, Shell has spent over $10 billion on capital investments just here in the U.S.

Shell has invested in alternative and renewable technologies, as well as additional conventional and new unconventional energy sources.

Wind
Shell is becoming a significant wind energy producer. We are involved in 11 wind projects spread across the U.S. and Europe. The total capacity of these projects is around 1,100 megawatts (Shell share is about 550 megawatts) with 845 megawatts in operation and more than 260 megawatts under construction. Out of the total capacity, almost 900 megawatts are in the United States where we have wind farms in Texas, Colorado, Wyoming, California, Iowa and West Virginia. More wind farms are under development. Our activities focus on the development and operation of commercial-scale wind developments that can add significant power and capacity to the grid.

Solar
Shell is an international developer of thin-film solar technology. We believe thin-film technology – although in the early phases of development – could prove to be the most commercially viable form of photovoltaic solar technology to generate electricity from the sun's energy.

Biofuels
Shell is making a major commitment to the use of biofuels in transport fuels. Shell is the world's largest blender of biofuels by volume and one of the world's largest distributors of transport biofuels, at around 800 million gallons a year. Shell buys and sells 400 million gallons of ethanol a year in the United States, about 11 percent of the total U.S. ethanol production.

And our commitment will increase to meet the new Renewable Fuel Standard (RFS) mandates passed by Congress last year, including the significant increase in the supply and distribution infrastructure necessary to move the five-fold increase in the RFS to markets all over the U.S.

Shell is a leader in the development of advanced biofuels technologies. We are quadrupling our rate of investment in transport biofuels, particularly in those using more sustainable second-generation technologies.

Shell believes that cellulosic ethanol holds particular promise. In the last six months, we have announced three new or expanded partnerships in advanced biofuels research and development projects in the United States, including fuel from algae and a promising new technology that could convert cellulose-derived sugars directly to biogasoline, rather than ethanol. This technology could potentially eliminate the need for special infrastructure and the low blend rates now required for standard vehicles.

Hydrogen
Shell is a leader developing transportation solutions with hydrogen. We are building hydrogen infrastructure in the United States, Europe and Asia. Right here in Washington, D.C., approximately three miles from Capitol Hill, is the nation's first integrated gasoline/hydrogen station at our Shell station on Benning Road.

Gasification and Gas-to-Liquids Fuel
The Shell proprietary gasification technology is being used to convert coal and biomass into a cleaner fuel for power generation and other applications. We also have a leading position in Gas-to-Liquids (GTL) technology for the production of cleaner transportation fuels. Our Pearl GTL project under construction in Qatar will be the world's largest plant converting natural gas into transportation fuel. GTL from our plant in Malaysia is mixed with diesel and sold at 5,000 Shell stations in 11 countries.

Liquefied Natural Gas
Shell is an industry leader in the production of liquefied natural gas (LNG). When projects under construction in Australia, Sakhalin and Qatar are completed, our LNG production will have increased 80 percent above 2005 levels. In the United States, we have significant regasification capacity at two existing LNG terminals and plans for development of a new terminal in the Northeast.

It is important that we put these energy sources into proper perspective. As I mentioned earlier, alternative and renewable energy sources will not make a significant contribution to the energy mix for many decades to come. Therefore, Shell continues to make substantial investment in producing and refining conventional oil and gas.

Oil and Gas
Exploration and Production: The Shell Exploration & Production (E&P) North American business is dedicated to growing the North American energy supply, a commitment underpinned by a history of investing billions each year, developing future domestic energy sources and defining new frontiers.

In the Gulf of Mexico, our exploration strategy is to drill prospects with large potential volumes and pioneer new plays. We are involved in a number of material prospects. Shell will continue to be an industry leader in the deepwater Gulf of Mexico, a frontier we pioneered more than a decade ago. In the past five years, we have produced nearly one billion barrels of oil there. The costs of deepwater exploration and production are immense and rising – from buying leases to bringing product to market. In November 2005, I told the combined panel of the Senate Energy & Natural Resources and Commerce Committees that the industry average cost of renting a deepwater oilrig was approximately $200,000 a day. Twenty-two months later, rigs were in such scarce supply that the cost of chartering one had climbed to more than half a million dollars a day. That was just the rig rental. The *total* daily costs of drilling a deepwater well – with the costs of pipe, support and all the rest – are even higher. In 2007, the average daily cost for a deepwater exploration well in the Gulf of Mexico was $759,000.

Shell is also pursuing natural gas prospects in a number of onshore North American basins. It is our goal to build new supply positions by developing

both conventional and unconventional gas resources. Today Shell is drilling for new natural gas supplies in the Gulf of Mexico, Texas and the U.S. Canadian Rockies.

Downstream: Shell has a world-class manufacturing organization. By running our facilities safely, reliably and efficiently, we achieve consistently high levels of operational excellence that help us better meet customer demand. In the U.S., refineries operated by Shell and our joint venture, Motiva, currently have a refining capacity of nearly 1.4 million barrels per day. Motiva is spending around $7 billion to double the capacity of its refinery in Port Arthur, Texas. This project, when finished, will be one of the largest refineries in the United States and in the world. By adding 325,000 barrels-per-day capacity, the expansion is equivalent to building a new refinery.

Oil Sands and Oil Shale: Shell is investing in the technology and infrastructure to develop vast oil sands in Canada and oil shale in the United States. The Canadian resources can benefit the United States fuels market. Shell has a 25-year research and development program to access oil locked in shale rock in Colorado, Wyoming and Utah. Congress should pursue policies that ensure that these critical energy resources can be responsibly developed to help meet our nation's energy challenge.

This brings me to my closing point.

What policymakers can do to address the energy challenge.

I invite you to read the attached report, "A National Dialogue on Energy Security: The Shell Final Report," which highlights the findings of our tour across America. It lays out a 12-point plan to address future energy needs.

For today, however, let me highlight six points for you to consider.

First, I urge policymakers to look at the facts. Energy demand is rising to fuel economic growth. Oil and natural gas will be the major energy sources for decades, even as we grow new technologies. We cannot rationally decide among the hard choices ahead of us without understanding the basic issues of energy security.

This brings me to the second point. In general, the United States tends to resist the need to develop new domestic energy sources. Can we afford to continue this approach while energy demand and costs are rising? Oil and gas development can and should occur in an environmentally responsible way. In 2006, Congress took a significant step in opening some new oil and gas prospects in the Gulf of Mexico to exploration and development while, at the same time, providing those energy-producing states and local coastal communities in the region with a revenue stream to help ensure economic and environmental stability. Congress should extend Outer Continental Shelf revenue sharing for all coastal areas adjacent to offshore development and should make more areas available for offshore leasing.

Third, we need more than oil and gas to meet demand. We need all forms of energy – plus conservation and energy efficiency. I commend Congress for passing the Energy Independence and Security Act of 2007 with more stringent CAFE standards. These standards and the other provisions in EISA will do more to increase energy efficiency than any other piece of legislation in recent memory. Congress should continue to adopt policies that encourage conservation, and companies like ours must continue to think more creatively about products and services we can develop to help customers use less energy. Consumers – and that means all of us – must think more about our own energy footprints: when and how we drive, what we buy, how we work and the kind of world we want to create for coming generations.

Fourth, government agencies must have the staff and the resources needed to do the environmental analyses and other scientific studies that must underpin energy projects of all kinds. This data is critical and must be completed in a thorough and timely manner. Therefore, Congress should consistently authorize and appropriate funding for these key federal agencies to hire, retain or contract the expertise needed.

Fifth, Shell supports the adoption of a federal law to reduce greenhouse gases. Specifically, we support a cap-and-trade program coupled with sector approaches. Such a program must include policies that lead to commercialization of carbon capture and storage (CCS) technology. Congress should ensure that we address CO2 emissions as we make the transition away from fossil fuels to new energy sources.

Finally, we need individuals skilled in math, science, technology and engineering to build the workforce of the future that will bring new energy

sources to America. School curricula should include more study of energy – where it comes from, how it is used and the impact of the energy choices we make. And these lessons should begin at an early age, to shape consumer behavior and encourage curious young minds to become our next generation of energy engineers. We welcome Congressional initiatives that will help secure a future energy workforce.

I thank the committee for its time. I am hopeful that policymakers, the private sector and the American people will come together on this important topic. We need to commit resources to all existing and potential energy sources, as well as innovations to address supply, demand and our carbon footprint.

Thank you. I am happy to answer any questions you may have.

Attachments:

"Environmental Policy and Regulatory Constraints to Natural Gas Production", by Deborah Elcock, ANL/EAD/04-1, Environmental Assessment Division, Argonne National Laboratory, December 2004

"A National Dialogue on Energy Security: The Shell Final Report", Shell Oil Company, 2008

Note: The attachments submitted with the prepared statement of John Hofmeister, are not reprinted here but are on file with the Task Force and can be viewed on the Internet at:

http://www.ipd.anl.gov/anlpubs/2004/12/51652.pdf

http://www.shell.com/static//usa/downloads/energy__security/pdf/shell__final__report.pdf

Mr. CONYERS. Thank you so very much.

We have all of our resumes, accomplishments and present activities that will be in the record.

Mr. Robertson, welcome.

TESTIMONY OF PETER J. ROBERTSON, VICE CHAIRMAN OF THE BOARD, CHEVRON CORPORATION

Mr. ROBERTSON. Good morning, Mr. Chairman, Ranking Member Chabot and Members of the Committee.

My name is Peter Robertson. I am Vice Chairman of Chevron Corporation, and I am here today proudly representing our 59,000 employees.

I appreciate the opportunity to discuss the energy issues facing consumers. We know Americans are frustrated and concerned about prices at the gas pump. They are looking for answers, and rightly so. They deserve answers from us and answers from Congress.

Last week, the average price of gasoline was $3.72 a gallon, up $0.62 from a year ago. Increased crude oil costs made up all of the increase and now account for 71 percent of the price, or $2.65 a gallon.

Global issues affecting the supply and demand of crude oil are driving prices up to new records. The world is consuming oil at an ever increasing rate and it is projected to continue.

There is dramatically reduced spare supply and no room for error. Any disruption or perceived threat of disruption sends oil prices up. Oil prices have doubled over the last year due to this highly volatile environment.

So what are we doing about rising oil prices? We are reinvesting our record income at record rates in future energy supplies, including renewables, and we market energy efficiency services.

This year, we are spending $7.1 billion to develop U.S. energy projects, triple what we spent in 2004. In the precious 5 years, we spent nearly $20 billion in the U.S.

When it comes to refining and gasoline marketing, we are spending $2.3 billion this year on our American facilities.

Recent upgrades to our U.S. system have added 1 million gallons per day and we are working to add more.

We now produce more than 6 billion gallons of gasoline each year, a large number, but that is less than 6 percent of the U.S. refining capacity, and, in fact, we own just five of the 150 U.S. refineries.

And when it comes to selling gasoline at the street corner, we are the fourth largest U.S. retailer, but our market share is less than 7 percent.

There are 168,000 retail sites across the country. We have fewer than 10,000 sites, most of which are owned and operated by independent businessmen and women.

Given the number of players involved, there can be no doubt competition for sales is fierce. Consumer demand has fallen in the first 2 months of this year.

U.S. gasoline production has been at record levels for over the first 4 months. Gasoline inventories have recently been pushed to

their highest levels in a decade. The market is well supplied. That is why the current high price situation is so confusing.

Americans are right to ask. With ample supplies of gasoline and weak demand at home, why are prices at the pump continuing to climb?

The tension is with crude oil supplies. America is the world's largest consumer. We important 10 million barrels a day, which is double our domestic production.

We are in competition for these imports with developing economies around the world, many of which subsidize their domestic fuel prices. This puts more pressure on limited spare capacity.

To ease this tension, massive investment is needed around the world. This is where companies such as Chevron play a critical role.

American energy companies are large compared to most U.S. businesses, but relatively small compared with national oil companies competing with us for supplies.

These companies have control over most of the world's known reserves and many enjoy the unqualified support of their national governments.

Punitive measures, such as windfall profits taxes, will hamper our ability to invest in badly needed supplies. They will weaken our competitiveness in this volatile atmosphere and increase our dependence on foreign supplies.

Our solutions need to focus on the basics of crude oil supply and demand. When it comes to demand, we need less. We need to value energy as a previous resource and use our ingenuity and advanced technology to use energy more wisely across the economy.

When it comes to supply, we need more of all forms, oil, natural gas, biofuels and other renewables. Last year, the National Petroleum Council study reinforced this need to deal with supply and demand. It emphasized strategies for achieving American energy security through smart policies and investments.

We strongly urge you to implement its recommendations. We know that high prices are forcing consumers to make hard choices on how they use energy.

We are making hard choices to mobilize more people and more money to increasingly remote locations in the world for more supplies. Chevron employees understand the enormous responsibility that they have to deliver energy reliably. I can personally attest to their strong commitment.

Congress has recently made some hard policy choices on renewables and energy efficiency that will make a difference. But we can't expect other countries to expand their resource development to meet our increasing needs as we limit our development without good reason.

We welcome the opportunity to work with you to ensure the responsible development of this country's substantial untapped potential resources in a way that respects the environment and delivers badly needed energy supplies to Americans.

Thank you.

[The prepared statement of Mr. Robertson follows:]

PREPARED STATEMENT OF PETER J. ROBERTSON

Chairman Conyers, Ranking Member Chabot, Members of the Committee. My name is Peter Robertson, and I am vice chairman of Chevron Corporation. I am here to represent the more than 59,000 Chevron employees (of whom 27,000 work here in the U.S.) and more than 1.5 million stockholders who put their trust in our company each day. I am proud to be a part of an industry so vital to every American's way of life and to the development and growth of economies around the world.

Given the many challenges our country faces on the energy front, I appreciate the opportunity to appear before you today. I will address the factors behind rising oil and gasoline prices, discuss some realities of the highly competitive global energy market, and outline what Chevron is doing to ensure reliable supplies of energy to U.S. consumers.

Although Chevron has been firmly rooted in California for almost 130 years, our operations and customers span the globe and extend across the entire energy spectrum. Globally, we produce approximately 1.7 million barrels of crude oil per day—less than 2 percent of global demand. Chevron's U.S. production of approximately 410,000 barrels of crude oil per day represents about 8 percent of U.S. total.

We refine, transport and sell petroleum products. Chevron is the sixth-largest refiner in the U.S., producing about 5.8 percent of the country's refined products. And we blend ethanol into almost 40 percent of the gasoline we sell in the U.S.

Chevron is a leading producer of renewable energy. We're the world's largest producer of geothermal energy (operating 1,250 megawatts), and we're pursuing next-generation biofuels and other alternatives with a number of important strategic partnerships.

Chevron is unique among major oil companies as a leading provider of energy efficiency services and clean energy solutions in the nation. Our subsidiary, Chevron Energy Solutions, has a strong track record of providing solar power to large commercial clients across the country. To date, it has handled more than 800 projects, helping clients lower their energy consumption and costs by nearly 30 percent on average.

Chevron strives to be a strong partner in the communities where we operate. Our company supports more than 11,000 large and small businesses throughout the country. Last year alone, we spent $10.8 billion with our business partners in the U.S. and supported 2,000 charitable organizations across 43 states and the District of Columbia.

It is precisely Chevron's size and scope that allow us to successfully compete for the energy resources the world and America needs.

Strong global demand, weak U.S. dollar have driven up oil prices

As we meet today, the question on the minds of most Americans is, "Why are gasoline prices so high?" The short answer? Because global crude oil prices are so high.

The price of oil has risen recently to above $125 a barrel—a record level and double its price at this time last year. Given that the largest portion of the cost of gasoline is crude oil, gasoline prices have risen to record heights. According to the Department of Energy, a gallon of regular gasoline retailed on average for $3.72 in the first week of May, with the price of crude oil accounting for about $2.65 of this amount. Federal, state and local taxes averaged 47 cents per gallon, making the combined effect of crude costs and taxes $3.12 per gallon or 84 percent. *(See Appendix chart #1).* While the price of crude oil has soared, it is important to understand that the market forces of demand, supply and competition have prevented gasoline prices from keeping pace. That average gasoline price for the first week of May rose 20 percent over the price for the same week last year—a relatively small amount compared to the jump crude has experienced.

Consumers and businesses feel the effects of high crude oil and gasoline prices from the supermarket to the airport. Chevron is both a producer and a user of energy, and we are concerned about escalating oil prices just as any other energy consumer is. To address these concerns going forward, it is important to understand the many factors affecting the price of oil—and, therefore, the price of transportation fuels.

There are fundamental factors affecting the current price of oil, including rising demand, the reduction in the supply system's spare capacity to deal with unforeseen disruptions, the value of the U.S. dollar and the associated flight to commodities, and rising risk—both above ground and below ground.

We have reached a point where worldwide demand is straining the global energy system. Demand in non-OECD countries—what we typically think of as developing nations—is experiencing robust growth, pushing up overall global demand despite essentially flat or slightly lower demand in OECD countries. In fact, growth in non-

OECD regions has accounted for over 80 percent of the rise in oil demand since 2000, including rapidly increasing demand throughout Asia, particularly in China and India. The expansion has been driven by exports and infrastructure investment, and has consumed commodities at an unprecedented rate. It is important to highlight that in many important energy-consuming non-OECD countries government treasuries have subsidized price *(Appendix chart #2)*—a factor that has contributed to additional stress on supplies and price.

The Middle East is also in the middle of a substantial investment cycle, a process that has kick-started oil product demand growth in the face of rising oil prices. Thus far, non-OECD oil demand growth has shown few signs of softening despite the U.S. economic slowdown.

It is this economic growth overseas, especially in India and China that has helped hundreds of millions of people to rise above the poverty level to a better quality of life. These basic human aspirations and the resulting energy demand growth are forecasted to continue. Global energy demand is projected to increase roughly 50 percent by 2030, with demand in the Asia-Pacific expected to grow 90 percent over the same period *(See Appendix chart #3).* And, according to the Department of Energy, demand in the U.S. is also forecasted to grow by 16 percent over the next 20 years.

The accelerated increase in demand since 2004 has reduced the global spare capacity of crude oil, creating a tighter relationship between supply and demand and heightened concerns in markets around the world *(See Appendix chart #4).* Falling or flat U.S. production is a contributing factor and adds to these pressures. According to the Department of Energy, U.S. crude oil production has fallen approximately 40 percent since 1985, while U.S. consumption has grown more than 30 percent to more than 20 million barrels per day today. In real barrels, U.S. oil production is now approximately 5 million barrels per day—down from approximately 9 million in 1985. The narrowing of spare production capacity in the world means that even when a relatively small amount of resource is at risk of disruption due to a variety of factors, it can affect the price of oil.

This heightened market sensitivity is exacerbated by other risks. "Below ground risk" is increasing as energy is harder to find and more expensive to produce. "Above ground risk" is also occurring around the world. At home and abroad, access to new supplies has been restricted, making it increasingly difficult for the energy industry to invest and expand operations. And calls for increased taxation only serve to shrink the capital base available for energy development. As the recent National Petroleum Council study pointed out, our country's greatest concern relative to future supplies stems not from a lack of hydrocarbon resource but, rather, from the risks to our ability to expand production in a manner timely enough to meet growing demand. Policies restricting access to new areas with resources in the United States combined with naturally declining mature crude oil and natural gas fields have increased U.S. reliance on imports from international sources. *(See Appendix chart #5).*

Demand and supply pressures on oil prices are compounded by the weakening of the U.S. dollar. The higher oil price is in part a market adjustment that reflects the weakening purchasing power of oil exporting countries that sell their oil in U.S. dollars but buy goods with stronger currencies such as the euro. Additionally, the weak dollar—and concern by stock investors over the subprime issue and its impact on the stock market—has contributed to a flight to commodities by investors seeking better returns *(See Appendix chart #6).* Oil has gone up along with many other commodities such as gold, corn, copper and even coal.

In the U.S., consumers have begun to respond to the high fuel prices by using less. Recent figures from EIA suggest that petroleum product demand in the U.S. has fallen 1.4 percent over the first two months of the year, compared with the same period last year. Gasoline production at U.S. refineries was at record levels over the first quarter of 2008, leaving inventories at their highest levels in a decade. Capacity increases at existing refineries have added the equivalent of 10 new refineries over the past decade. Overall refining capacity has increased by 20 percent since 1985 even though there are 57 fewer refineries *(See Appendix chart #7).* That retail fuel prices still remain high underscores the fact that many factors are in play, and, unfortunately, there are no short-term fixes to today's price levels.

Finally, it is important to note that the U.S. transportation fuel markets are not only well supplied but also highly competitive. We are the sixth largest U.S. refiner and operate five of the nation's roughly 150 refineries. Our market share is less than six percent. Marketing operations are similarly competitive. Chevron is the fourth largest U.S. branded marketer operating under the Chevron and Texaco brands. We have roughly 9,700 of the country's 168,000 branded stations. And it's

important to note that 95 percent of our stations are operated by independent business people, who must compete aggressively against at least 40 other companies.

Energy companies are making very little money on retail gasoline sales despite the high price environment. Energy company earnings from the first quarter of 2008 tell the tale. Chevron's U.S. downstream operations—that part of our business responsible for refining, marketing and transportation of gasoline and other refined products—effectively broke even. That portion of our business lost money over the last six months of 2007.

Over the years the Federal Trade Commission has scrutinized our industry carefully. Summarizing its oversight of the industry in 2004, FTC concluded: "In sum, mergers have contributed to the restructuring of the petroleum industry in the past two decades but have had only a limited impact on industry concentration. The FTC has investigated all major petroleum mergers and required relief when it had reason to believe that a merger was likely to lead to competitive harm. The FTC has required divestitures in moderately concentrated markets, as well as highly concentrated markets." [1] *(See Appendix chart #8)*

Energy challenges are immense—so is the infrastructure needed for supplies

To understand today's energy reality, I would emphasize that the energy system is global, vast and complex. For each minute we spend here today, the world will consume the equivalent of 7 million gallons of oil-equivalent. For decades it also has delivered energy to over a billion people around the globe efficiently and reliably. The infrastructure that produces energy in one part of the world and delivers it to another is highly interconnected—physically and to the global markets that set oil prices. Each depends upon the other. Although the United States is a key producer and *the* leading global consumer, we are only one part of this global system and cannot be isolated or immune from issues that either shape or upset global market dynamics.

There has never been a more urgent need to be realistic about the energy system's *inter*dependence and its size and scale. We also need to recognize the magnitude of resources—both financial and organizational—needed to keep it running. Today's energy infrastructure requires substantial ongoing investment to sustain production, tap new sources and meet growing demand. In fact, in its 2007 Energy Outlook, the International Energy Agency has projected that the world will require $22 trillion in new energy investments by 2030, with $7 trillion needed to produce the resources—the crude oil, natural gas, coal and biofuels—needed to meet demand. Nearly half of these investments will be in developing countries.

As we strive to meet demand, we are overcoming increasingly extreme and remote environments while responding head-on to the challenges posed by climate change. Our industry has evolved over the last 100 years from drilling with relatively simple wooden derricks that barely scraped the earth's surface to complex offshore platforms that produce oil from reservoirs located miles below, where pressures can exceed 20,000 pounds per square inch and temperatures can surpass the boiling point. One new crude oil project on the frontiers of the Gulf of Mexico can cost more than $5 billion and take more than 10 years to bring onstream. A recent expansion of production at the Tengiz field in Kazakhstan which added less than one percent to global oil supplies took more man hours of labor than the construction of the Panama Canal. We will need as many of these projects as we can get.

And costs are escalating. The competition for resources to meet that demand has resulted in rising costs for our industry. Costs in the upstream sector have doubled since the year 2000, reflecting higher prices for everything from steel, drilling rigs and offshore vessels to bulk materials, engineering, construction and labor. Similarly, the capital costs for our downstream refining, processing and chemical businesses are sharply higher.

Today's environment illustrates an industry truism: The era of easy access to cheap oil is over.

There are significant challenges and paradigms about energy that need to be resolved so that we can generate the kind of production at a scale needed to meet U.S. demand. These challenges will take time, money, new infrastructure and advanced technology to solve. For the foreseeable future it also will take contributions from all energy sources—traditional energy, renewables and energy efficiency.

[1] Federal Trade Commission, "The Petroleum Industry: Mergers, Structural Change and Antitrust Enforcement," August 2004

Competing in the global marketplace requires scale and strength

Today's global resources are increasingly nationalized, and single crude oil and natural gas development projects run in the billions of dollars. The search for the next source of energy and delivering it to markets on six continents—whether oil or next-generation fuels from renewable sources—takes enormous capital, specialized expertise, advanced technology and human energy that characterizes Chevron.

From a global perspective, sovereign states and their national oil companies own the majority of the resources consumers need. Chevron ranks 18th in terms of its access to oil reserves. *(See Appendix chart #9).* U.S. energy companies need the scale that is necessary to partner and compete with these large national oil companies to gain access to critically needed energy resources that fuel America's cars, heat America's homes and power America's businesses.

The U.S. is advantaged by having large, well-capitalized oil and gas companies that can partner and compete with this group of national oil companies. And, policies that disadvantage U.S. companies' ability to compete in the global marketplace—such as proposals to levy addition taxes on the industry—diminish our ability to provide new sources of energy.

Chevron is aggressively investing to develop new energy supplies

We are actively responding to the energy demand of the United States and countries around the world—investing aggressively to develop energy supplies to meet today's and tomorrow's needs. Our activities span a diverse portfolio of energy interests, including traditional oil and gas, renewables, alternatives, energy efficiency services, and research and development in future energies. Between 2002 and 2007, Chevron invested approximately $73 billion back into the business to bring new energy supplies to market—investing what we earned. Some $22 billion of that sum was invested in our U.S. operations.

Our capital program for 2008 is close to $23 billion, an increase of nearly $3 billion over our 2007 investment, and nearly triple what it was in 2004. Globally, Chevron currently has 40 major capital oil and natural gas projects in the planning, engineering or development stage, each with a net Chevron share of the investment over $1 billion. These projects are critical to supplying the energy that the world needs and will be important to closing the gap between supply and demand, which is key to addressing the challenge of high prices. Out of this queue of 40 major supply projects, eight are located in the United States. And there are many other upstream projects under $1 billion that will have significant production once they come onstream.

A number of these projects are situated at the forefront of development and employ leading-edge technology. As alluded to earlier, factors such as size, organizational capability and the ability to assume the inherent risks in developing technology and undertaking large investments are essential assets when competing in today's global energy environment. Even though Chevron is relatively small compared with its nationalized competitors, it is a strong competitor. This is an industry in which size, technological capabilities and financial strength are the new "price of entry," and large-scale and frontier energy developments are the norm versus the exception today and in the future.

Let me highlight an example to illustrate what we do. We are working on several deepwater crude oil and natural gas projects in the U.S. Gulf of Mexico. One of these, known as Tahiti, offers a typical case study in the risks facing this business today in terms of timing, scale and cost. We acquired the Tahiti leases in the 1990s. In 2002, we used leading-edge technology to drill in 4,000 feet of water and found an estimated 400 million to 500 million barrels of recoverable resources. It will take seven years to build the infrastructure required to produce the oil and gas more than a 100 miles offshore. When Tahiti finally comes online next year, we will have invested $4.7 billion—and dedicated personnel and resources for over a decade to manage exploration, permitting, engineering and development—before realizing $1 of return on our investment. Once in production, Tahiti is expected to produce for up to 30 years. Tahiti is expected to add 125,000 barrels of oil and 70 million cubic feet of gas per day to the U.S. domestic supply.

Today in the United States, the major oil and natural gas projects we have under construction have a total peak production capacity of 420,000 barrels per day of oil-equivalent. All these projects are expected to be in production by 2010.

We are also aggressively developing and applying new technologies to extend the life of existing fields. This year we expect to spend nearly $1 billion on the sophisticated technology and ongoing development activities required to produce as many barrels as possible out of our 100-year-old Kern River field in California. This investment in our base business is a very important. Aside from sustaining our capa-

bility to provide oil today, these efforts help us understand how complex oil reservoirs work—knowledge and technology that we can apply around the world so that our partners also can enhance their oil recovery from known resources. In fact, one of the reactions to high oil price has been a renewed focus on existing fields industrywide, a trend that is helpful in the near term and should be encouraged.

Chevron is investing in critical downstream refining and marketing infrastructure

We are also investing in our refineries and marketing business to continue to improve our ability to supply the products U.S. consumers need. We are investing $2.3 billion in 2008 in our U.S. downstream assets. Since 2002, we have invested $5.2 billion and we have developed additional production capacity of more than 1 million gallons of transportation fuel production per day. Our investment in U.S. downstream refining and marketing assets in 2007 accounted for almost half of our 2007 global downstream capital expenditures, even though our U.S. operations only accounted for about a quarter of our downstream business earnings. We also are investing in refineries outside the United States, such as Pembroke, Wales, which can produce gasoline to meet U.S. and California specifications.

Chevron's refinery investments have focused on achieving several goals, including upgrading our capability to provide more transportation fuels from more diverse crude oil feedstocks, improving reliability and energy efficiency, enhancing environmental performance of our facilities, and producing cleaner burning fuels.

At present, we are working on major projects at each of our big three U.S. refineries. We are advancing through the permitting process for projects at our El Segundo and Richmond refineries in California. At Chevron's Pascagoula, Mississippi, refinery, construction began this year on a new gasoline production unit. The project will improve equipment reliability and utilization and allow the refinery to optimize product yields. Gasoline production at the refinery is expected to increase by approximately 10 percent, or about 600,000 gallons per day, upon completion of the project in mid-2010.

Focusing on the longer term, we have recently announced a research and development project to further advance refining technology. Known as VRSH, which stands for Vacuum Resid Slurry Hydrocracking, this technology will help us produce transportation fuels from heavy crude oil otherwise used for other lower-grade petroleum products. We spent almost five years working on the project in a lab setting testing the technology. We announced in March that we are beginning work on a pre-commercial plant at our Pascagoula refinery that will take two years to construct. We will learn more about the technology for a few years before we will be able to confirm whether we can build one of these plants at full scale. Once that decision is made, it will take another several years after that to complete. This kind of step-by-step process is needed to ensure we are making the right decisions. They take time.

We are committed to remaining a reliable supplier to our customers, but it is important to remember that investments are sensitive to local permitting decisions and market forces. For example, we hope to soon finalize the plans for the Richmond refinery project The process of obtaining these permits has already taken more time than constructing a new state-of-the-art refinery we are investing in with partners in India or completing a major refinery expansion in at our joint-venture refinery in Yeosu, Korea.

At a more fundamental level, government policies—such as the recently passed energy bill with its very ambitious program for renewable fuels—have created new uncertainties over how much additional U.S. refining capacity may be needed to meet future U.S. demand. Nonetheless, we are aggressively investing in the critical energy infrastructure this nation needs to continue to reliably supply fuels to customers.

Diversifying energy and fuel sources

At the same time that we are investing at the forefront of traditional energy such as oil and gas, we also are pursing advances in renewable technologies that are needed to help diversify supply and meet the challenges of tomorrow. To add to domestic energy resources, Chevron and many other companies are making investments in renewable energy. Since 2002, Chevron has spent more than $2 billion to develop renewables and energy efficiency services. Between 2007 and 2009, our spending on renewable technologies and energy efficiency solutions will be an additional $2.5 billion.

Chevron is investing in new technology to unlock the enormous potential of cellulosic ethanol. In 2006, we formed a biofuels business to advance technology and

pursue commercial opportunities related to the production and distribution of ethanol and biodiesel in the United States. We recently announced a joint venture with Weyerhaeuser Corporation to pursue the research necessary to commercialize production of biofuels from nonfood sources. Catchlight Energy will work to develop technology that will lead to commercial biofuels production.

And more research is needed. We have strategic biofuels alliances with Georgia Tech, UC Davis, Texas A&M, the U.S. Department of Energy's National Renewable Energy Lab and the Colorado Center for Biorefining and Biofuels. We also are participating with AC Transit in the San Francisco Bay Area (California) on a zero-emission hydrogen bus project.

Chevron is taking aggressive steps to increase energy efficiency

The energy challenges we face, globally or in the United States, cannot be met by addressing only the supply side. It is also important for all of us to realize that the most readily accessible source of new energy is conservation and efficiency. At Chevron, we embrace conservation as an important business strategy, and we are in our 17th year of a focused effort to increase our own energy efficiency. Since 1992, we have increased energy efficiency by 27 percent.

And through Chevron Energy Solutions (CES), we are delivering energy efficiency projects that benefit federal, state and local governments; the public; and the environment. CES has completed over 800 projects involving energy efficiency and renewable power in the United States. These projects have accounted for over $1 billion in energy and operational savings, helping clients lower their energy consumption and costs by nearly 30 percent on average.

Chevron Energy Solutions has implemented energy efficiency, energy management and related energy improvements at government facilities across the United States. These projects include U.S. military bases such as: Beale Air Force Base, California; Department of the Navy, Marine Corps Logistics Base, Georgia; Department of the Army, Picatinny Arsenal, New Jersey; and the Department of the Army, Corpus Christi Army Depot, Texas. CES also has developed energy efficiency, solar power and clean energy projects for the U.S. Postal Service, including its Processing and Distribution Center in Oakland, California, and Mail Processing Facility in San Francisco, California. Another California solar project at Contra Costa Community College near San Francisco is the largest of its kind at an institution for higher learning in North America. The project, when completed, will generate 3.2 megawatts of solar power and will save the college $70 million in energy costs over 25 years.

The National Petroleum Council Study: Urgent action is needed

There is no single or short-term solution to satisfy the world's growing appetite for energy—or to prevent the United States from being affected by the global energy dynamic. We are in a new energy era, one defined by increased demand and constrained supply.

We need a *range* of realistic solutions, and we need them at scale.

We literally need all the energy we can develop and to use energy more wisely. This includes oil, natural gas, coal and nuclear power. It also includes renewables. And, just as important, it includes a focus on energy efficiency. The U.S. Energy Information Agency forecasts that over the next 25 years oil, coal and natural gas will provide roughly the same 86 percent of the world's total energy mix as they do today. The energy industry and other parties are making investments in all these areas, and it is important that they continue. All are needed to provide important additions to our energy supply portfolio. And all will play an important role in meeting increased energy demand.

At a time when more supply is needed, the United States has been reluctant to access some of its own resources. Chevron and others have been talking about the constrained supply-demand dynamic for the last several years, urging greater access to U.S. resources, onshore and offshore—especially given the time it takes for projects to come onstream. Instead, we have been increasing our demand on exporting countries because of policy decisions made here at home. Any serious measures toward energy security must seek to reverse this equation. As the world's largest consumer of energy, actions we ask of other producers must be matched at home.

Energy underpins every aspect of our society and our growing economy. The scale and breadth of the U.S. energy system is unsurpassed in the world, as is our energy demand, which is forecast to soon to need 1 million barrels of oil an hour of supplies. A sustained, reliable supply is essential, and that is achieved by bolstering supplies and moderating demand. The Energy Independence and Security Act of 2007 had important measures to moderate demand. However, it missed taking the

additional step we believe is also urgently needed—improved access to "off-limits" oil and natural gas resources that we will need 10, 20 and 30 years from now.

Last summer, the National Petroleum Council (NPC) issued a sobering study called "Facing the Hard Truths About Energy," which outlines a comprehensive, integrated approach to U.S. energy security. The NPC study is a broad-based consensus effort representing the views of an impressive range of experts and stakeholders. Input was sought from more than 1,000 other stakeholders, in the U.S. and abroad; there were 350 participants with backgrounds in all aspects of energy including efficiency, economics, geopolitics and environment; 65 percent of participants were from outside the oil and gas industry, including nongovernmental organizations, academia, government, environmental and financial.

The NPC study highlights the need for an integrated national strategy given accumulating risks to the supply of reliable, affordable energy. The study highlights a number of "hard truths":

- Coal, oil and natural gas will remain indispensable to meeting total projected energy demand growth.
- The world is not running out of energy resources, but there are accumulating risks to continuing expansion of oil and natural gas production from the conventional sources relied upon historically. These risks create significant challenges to meeting projected energy demand.
- To mitigate these risks, expansion of all economic energy sources will be required, including coal, nuclear, renewables, and unconventional oil and natural gas. Each of these sources faces significant challenges—including safety, environmental, political, or economic hurdles—and imposes infrastructure requirements for development and delivery.
- "Energy independence" should not be confused with strengthening energy security. The concept of energy independence is not realistic in the foreseeable future, whereas, U.S. energy security can be enhanced by moderating demand, expanding and diversifying domestic energy supplies, and strengthening global energy trade and investment. There can be no U.S. energy security without global energy security.
- A majority of the U.S. energy sector workforce, including skilled scientists and engineers, is eligible to retire within the next decade. The workforce must be replenished and trained.
- Policies aimed at curbing CO2 emissions will alter the energy mix, increase energy-related costs and require reductions in demand growth.

The NPC study sets forth five core strategies to assist markets in meeting the energy challenges to 2030 and beyond. The United States must:

1. Moderate the growing demand for energy by increasing efficiency of transportation, residential, commercial and industrial uses.
2. Expand and diversify production from clean coal, nuclear, biomass, other renewables, and unconventional oil and natural gas; moderate the decline of conventional oil and natural gas production; and increase access for development of new resources.
3. Integrate energy policy into trade, economic, environmental, security and foreign policies; strengthen global energy trade and investment; and broaden dialogue with both producing and consuming nations to improve global energy security.
4. Enhance science and engineering capabilities and create long-term opportunities for research and development in all phases of the energy supply and demand system.
5. Develop the legal framework to enable carbon capture and sequestration (CCS). In addition, as policymakers consider options to reduce CO2 emissions, provide an effective global framework for carbon management, including establishment of a transparent, predictable, economy-wide cost for CO2 emissions.

The study further recommended that markets should be relied upon wherever possible to produce efficient solutions. Where markets need to be bolstered, policies should be implemented with care and consideration of possible unintended consequences.

The study is a catalyst for action. And action is needed now on all of the recommendations.

Changing the conventional wisdom on energy

We welcome serious dialog about measures that can be taken to help the consumer deal with these rising energy and fuel prices and develop a comprehensive energy policy.

Let me reiterate that the NPC study has given us sound, sensible and achievable solutions. To successfully implement these recommendations, we need to change our conventional wisdom about energy development and its use.

First, we need to value energy as a precious resource. Energy efficiency is the most immediate and important action that each of us can take to contribute to rising energy prices. The United States must become a nation of energy savers. In short we need a "Made in America" solution enabled by everything from human ingenuity, to "smart" buildings, to advanced vehicles and transportation systems. Increased energy efficiency and conservation will help reduce demand for energy and will reduce pressures on the system. Markets are indicating U.S. consumers are already taking action. Congress has a critical role to play to engage the U.S. public and put the United States at the forefront of responsible energy use.

Second, we need all the energy we can get from every available source. We must continue to bring traditional energy supplies to market, and invest in the critical energy infrastructure this nation needs, even as we are developing alternatives sources of energy.

Third, on the supply side, we need your help to open up the 85 percent of the Outer Continental Shelf that is now "off limits" to environmentally responsible oil and gas exploration and development. We cannot expect other countries to expand their resource development to meet America's needs when our government limits development at home. Along with access, it is also important to streamline permitting processes to enable new resource development, additional recovery in existing fields and continued investment in critical downstream infrastructure to progress in a reasonable timeframe.

Fourth, I would encourage careful evaluation of policies that can lead to unintended consequences and create inefficiencies in the gasoline supply system. Today we have 17 "boutique" fuel requirements across the country, requiring us to blend unique gasoline products for different states and different localities. More requirements on fuels are being added through renewable fuel mandates and proposed climate policies. For example, we are under a mandate to include rising levels of corn-based ethanol in our gasoline products and, over time, add significant quantities of cellulosic ethanol. At the same time that we are accommodating these new mandates, policymakers have proposed legislation to reduce greenhouse gas emissions that again is disproportionately burdensome on the transportation fuels sector. We urge you and your colleagues to reflect on how to advance these important national policies without inadvertently disrupting our ability to provide the gasoline and transportation fuels that the United States needs. Rationalization of these multiple requirements will create greater efficiencies in the fuel supply system.

Finally, we urge you to reject punitive measures on our industry. Regardless of intent, these will diminish our ability to invest in the long term solutions critical to maintaining this country's energy infrastructure and supplies, as well as our ability to develop diverse energy resources for the future. As reported recently by the Congressional Research Service, a similar measure in the 1980s resulted in lower domestic production and increased dependence on foreign sources.[2] Put simply, actions drawn more from emotion than sound policy will hurt everyone.

American energy companies operate at the frontier of geography, geology and technology. As the world's largest energy consumer, and as a country blessed with rich natural resources, Americans need our ingenuity and your leadership. With your help we can continue to develop the critical energy supplies and infrastructure needed to supply this nation and support this economy. Our collective actions today will demonstrate leadership on issues that are within our control. They will bolster us today, prepare us for tomorrow and set in motion a wave of innovation and responsible development for many years to come—to help us weather the powerful forces we cannot control.

How we as a country deal with our energy future is nothing less than an urgent matter of our energy and national security

Ultimately, polices should recognize the *inter*dependence of the United States within the global energy system, while at the same time capitalizing on our country's own extensive energy endowment. These are not insignificant challenges, and

[2] *(Salvatore Lazzari, "The Crude Oil Windfall Profit Tax Of The 1980s: Implications for Current Energy Policy," Congressional Research Service, 3/9/06)*

they will require leadership and collaboration. We look forward to working with you to address these challenges.

Chevron will continue to do its part.

Thank you.

ATTACHMENTS

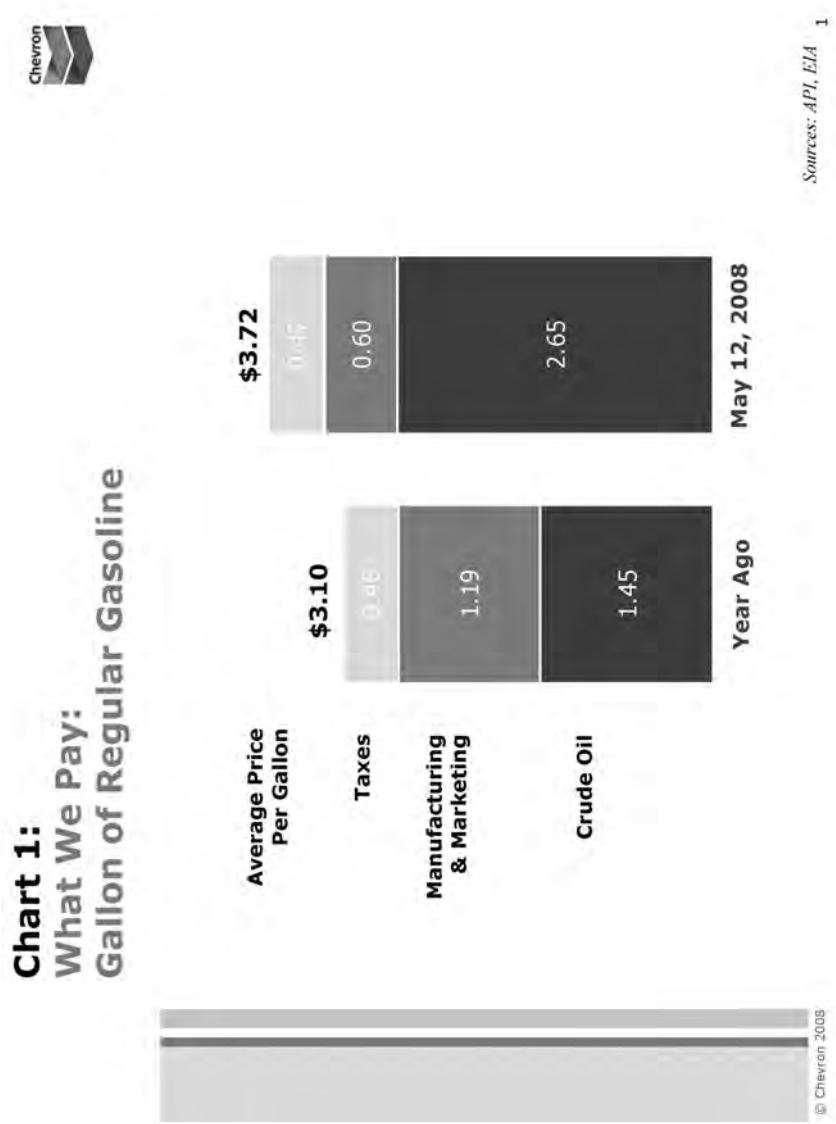
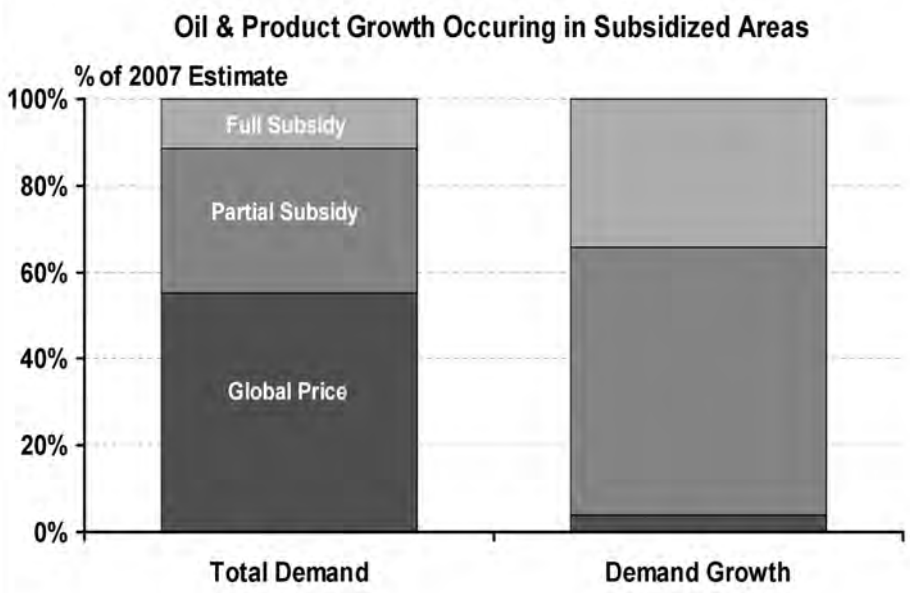


Chart 2:
Government Subsidies Artificially Support Demand Growth



Sources: IEA, PIRA

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Chart 3:
World Energy Demand Poised for Continued Growth

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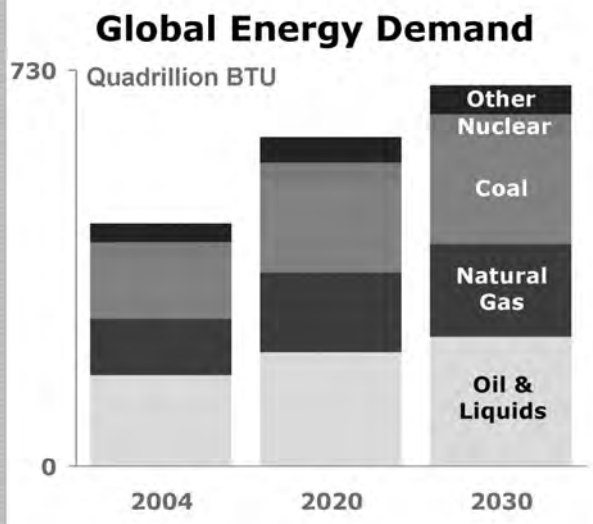
Fuel Mix

- Relative percentages don't change
- Hydrocarbons make up 87% of the fuel mix
- Oil remains the predominant fuel at nearly 34%
- Renewable growth rates are high, but small in absolute terms



Source: EIA International Energy Outlook 2007

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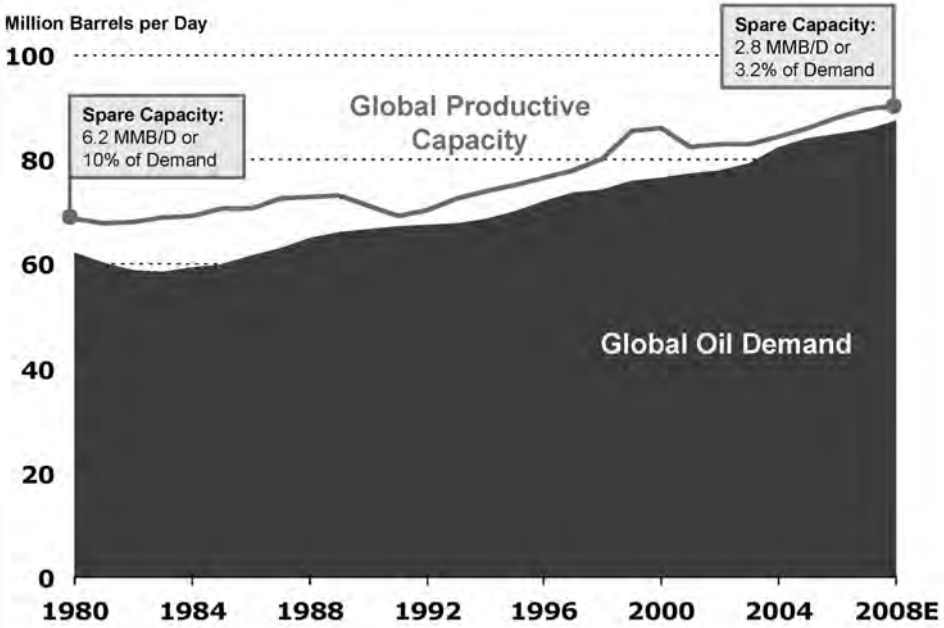
Chart 4:
Spare Capacity Relative to Global Oil Demand



Source: IEA Monthly Oil Market Report

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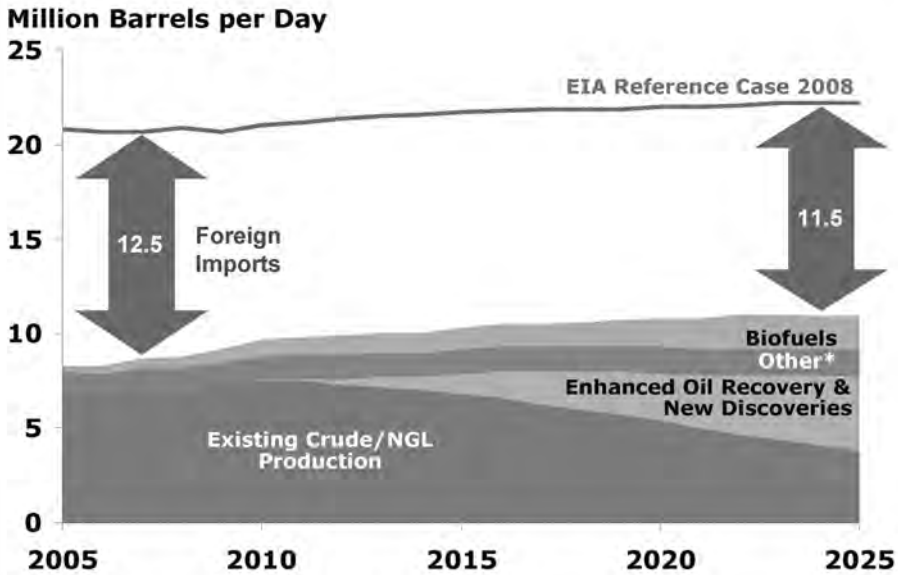
Chart 5:
U.S. Domestic Oil Supply & Demand
Includes Impact of EISA 2007



* Other includes refining process gains and other liquids.

Sources: Wood Mackenzie, EIA Annual Energy Outlook 2008

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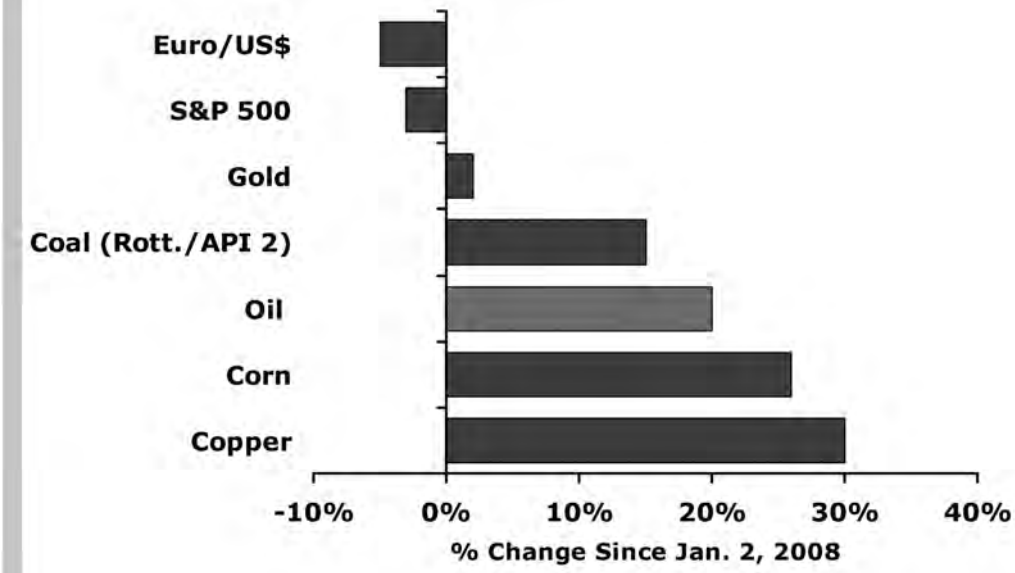
Chart 6:
Oil Prices have Risen Less Relative to Other Commodities



Source: Platt's Data as of Close on May 5, 2008

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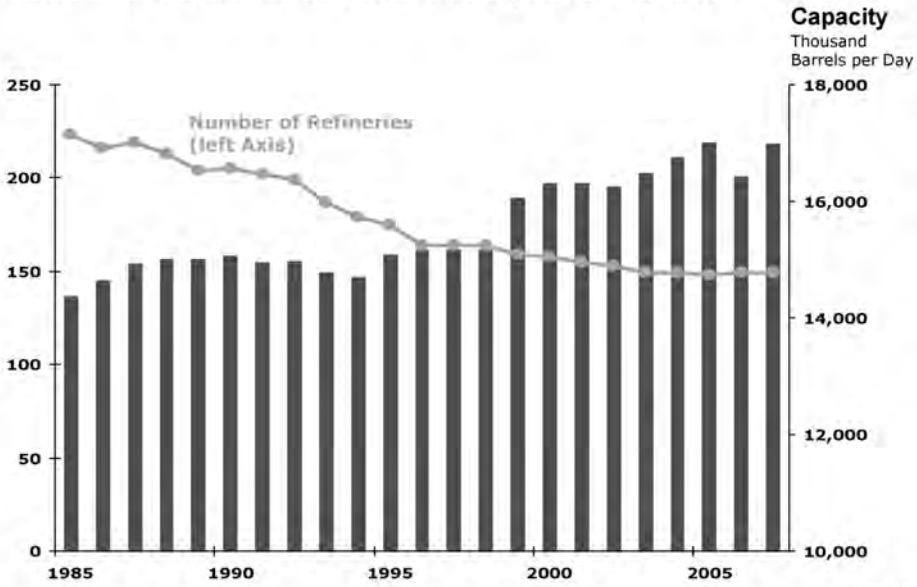
Chart 7:
U.S. Refinery Capacity

Chevron

Number of refineries declines but capacity expands



Source: EIA

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Chart 8:
U.S. Market Share Concentration by Industry

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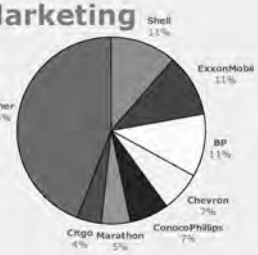
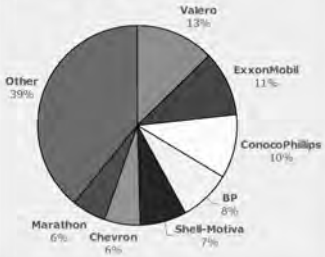
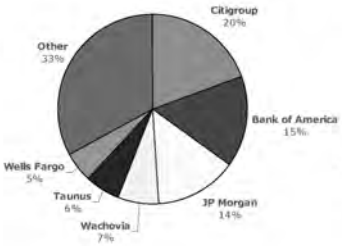
Gasoline Marketing



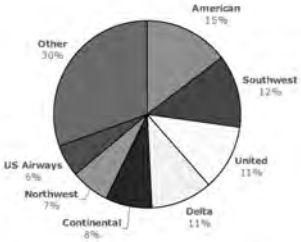
Refining



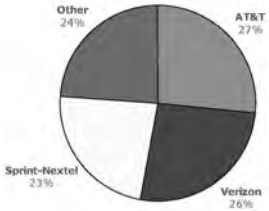
Banking



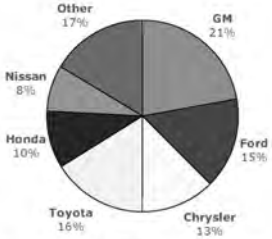
Airline



Telecommunications



Automobile



Source: Oil & Gas Journal, IBIS, DataMonitor, Wall Street Journal
All data is 2007 except Autos - 2008

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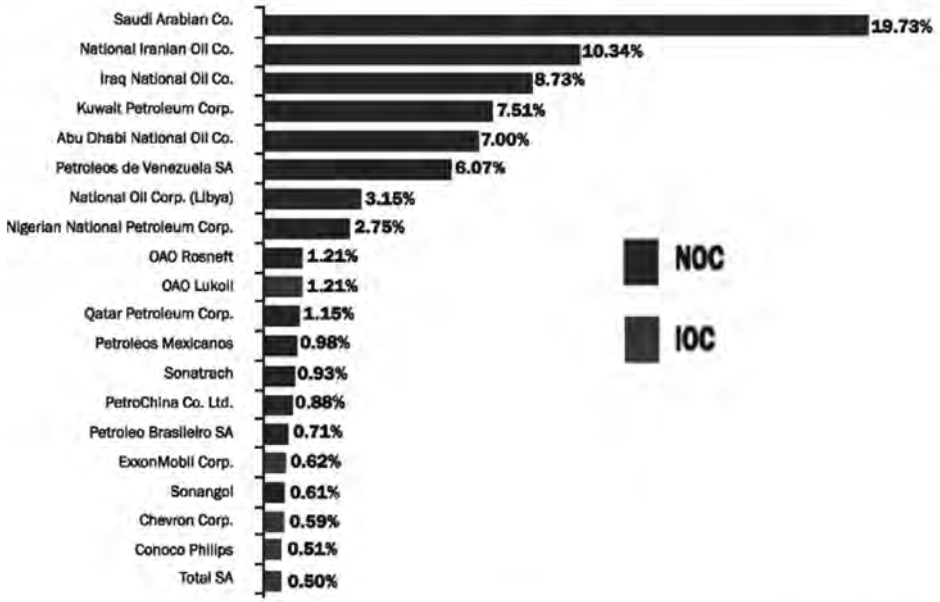
Chart 9:
2006 Largest Oil and Gas Companies
(percent of worldwide reserves)



Source: World reserves of 1.3 trillion barrels as of January 1, 2007 according to Oil and Gas Journal December 24, 2007; API

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Mr. CONYERS. Thank you so much.

John Lowe?

TESTIMONY OF JOHN E. LOWE, EXECUTIVE VICE PRESIDENT, CONOCOPHILLIPS

Mr. LOWE. Good morning, Chairman Conyers and the Committee.

We share the public's concern about rising energy prices and appreciate the opportunity to present our views on what is driving the increase, what our company is doing to respond, and what we believe Congress can do.

Crude oil represents over 70 percent of the current cost of gasoline. So higher crude prices are driving higher gasoline prices.

So why have crude oil prices increased so dramatically? There are numerous factors, the biggest contributor being a long period of strong global economic growth, particularly in developing Asia.

Limited access to resources, both here and abroad, also constrains the growth in supply. In addition, higher taxes, service cost inflation, little excess production capacity, and high geopolitical risk also contribute.

Adding to this are the investor funds flowing into oil futures as a hedge against credit risk, inflation and dollar devaluation.

I cannot overemphasize the access issue. Access to resources is severely restricted in the United States and abroad and the American oil industry must compete with national oil companies who are often much larger and have the support of their governments.

We can only compete directly for 7 percent of the world's available reserves, while about 75 percent is completely controlled by national oil companies and are not accessible.

ConocoPhillips is working to bring more energy to the market. Over the past 6 years, we have reinvested, on average, 106 percent of our income. In 2007, we earned $12 billion, but reinvested $13 billion, and we have over $15 billion in investments planned this year.

This investment includes finding added supplies of oil and gas, expanding refining capacity and continuing to research and bring renewable and alternative fuels to the market.

Here in North America, we are drilling exploratory wells, developing the Canadian oil sands, and building infrastructure. But we want to do more, such as explore the vast areas of the U.S. that are off limits due to drilling moratoriums.

These areas could more than double the nation's oil and gas reserves.

Downstream, we are increasing our refining capacity and ability to process lower quality crudes. Unfortunately, our efforts here in the U.S. have been met with continuing opposition.

At our Wood River, Illinois refinery, the 10th largest in the United States, we are experiencing long permitting delays via the appeals process that are blocking our expansion plans.

In California, a project to make ultra low sulfur diesel fuel has been threatened by permit challenge for 4 years.

We are working hard to bring renewable fuels into the market by looking at ways to process them at traditional refineries and researching new technologies.

Fifty-five percent of our U.S. gasoline volumes contain ethanol. E-85 and biodiesel are being marketed at our branded facilities. We are producing renewable diesel fuel and researching next generation biofuels, like cellulosic ethanol, and we are developing better materials for the lithium ion batteries and electric vehicles.

So what can Congress do to help address energy concerns?

Congress can enact a balanced national energy policy that encourages development of the conventional fuels that power our economy, clears the permitting logjam, encourages alternative sources, including all forms of biofuels, and removes the current tariff on imported ethanol, encourages high energy efficiency, and accelerates technological innovation.

Meanwhile, we urge you not to pass measures that have public appeal, but would be counterproductive, such as tax increases that diminish our investment capabilities, reduce the attractiveness of high cost domestic production, or disadvantage the U.S. oil and gas companies.

This has been tried before with extremely negative results, reducing supplies, eliminating jobs, and resulting in higher prices.

The nation cannot afford to make that mistake again.

The U.S. is in a global race for energy. We are competing against national oil companies that are far larger and that enjoy preferred access and governmental cooperation.

We must move beyond today's adversarial relationship and start working together to find real solutions. U.S. oil companies should be viewed as the key to the energy solution, not as scapegoats, but as assets in this global energy race.

We must be allowed to compete on level ground for the benefit of our country.

Mr. Chairman, that concludes my statement. Thank you.

[The prepared statement of Mr. Lowe follows:]

PREPARED STATEMENT OF JOHN E. LOWE

Testimony of John E. Lowe

Executive Vice President, Exploration and Production

ConocoPhillips

Before the

Committee on the Judiciary Task Force on Competition Policy and Antitrust Laws

U.S. House of Representatives

Hearing on

"Retail Gas Prices, Part 2: Competition in the Oil Industry"

On

Thursday, May 22, 2008

Introduction

Good morning, Mr. Chairman and Members of the Committee on the Judiciary Task Force on Competition Policy and Antitrust Laws. My name is John Lowe, and I am executive vice president of Exploration and Production for ConocoPhillips. In that capacity, I am responsible for our worldwide oil and natural gas exploration, development and production for the company.

ConocoPhillips shares your and the American public's concern about high consumer energy prices and we appreciate the invitation to provide our views on the factors that led to today's situation and to dispel some common misperceptions. We also welcome the opportunity to discuss our own efforts to expand U.S. energy supplies and thus improve the nation's energy security, as well as offer suggestions on what we believe the government should do to facilitate the process.

Let me begin by briefly describing ConocoPhillips. We are an international, integrated energy company, headquartered in Houston, Texas and active in nearly 40 countries. Among U.S.-based companies, we are the third-largest integrated energy company based on market capitalization, the second-largest domestic refiner, and a leading natural gas producer. We had annualized revenues of $220 billion, assets of $183 billion and approximately 32,800 employees as of March 31, 2008.

As you requested, my testimony here today will address the following subjects:

- Perspective and drivers of higher gasoline prices,
- The impact of mergers on energy markets,
- Misperceptions about oil industry profitability,
- ConocoPhillips' activities to increase U.S. conventional oil and gas supply and alternatives, and

- The path to a sound energy policy, including policies that should be avoided.

Perspective on Gasoline Prices

I want to start by giving you my perspective on gasoline prices and discuss what is driving those prices. This section of my testimony makes the following points:

- Gasoline prices have not increased as quickly as crude oil prices this year. This stems from the fact that the U.S. gasoline supply and demand balance is loosening due to a combination of flat-to-declining gasoline demand, increased gasoline production capability, higher imports in recent months, and greater use of ethanol in fuel supplies. As a result, refining profit margins are shrinking and consumers – although they have been severely impacted – are not paying the full cost of crude oil price increases. Refiners and other market participants are absorbing the difference – and are thus impacted along with consumers.

- Higher world crude oil prices continue to be the primary driver of increased domestic retail gasoline prices.

- In contrast with the global gasoline balance, the global diesel fuel balance is tightening due to a long-term trend of higher demand growth, with limited capability to shift existing refinery capacity to make more diesel fuel. Unlike the increased ethanol use in the U.S. that is reducing the demand for conventional gasoline, biodiesel is less competitive and is thus having a much smaller impact on diesel fuel demand. As a result of these factors, diesel fuel prices around the world are rising relative to gasoline prices.

- Gasoline and diesel fuel prices are set as a result of thousands of transactions between buyers and sellers on a global basis. Price variations between regions in large part are caused by differences in product specifications, supply and transportation costs, operating costs and taxes.

Gasoline prices are not rising as quickly as crude prices this year

The average U.S. retail gasoline price on May 12 was $3.72 per gallon, which is about 20 percent higher than during the same week last year. Retail gasoline prices are rising this year primarily as a result of higher crude oil prices. However, the rise in absolute terms is masking the underlying trend of weakening gasoline prices relative to crude oil prices. Figure 1 below shows that relative to last year, crude prices increased significantly more than gasoline prices.

Figure 1

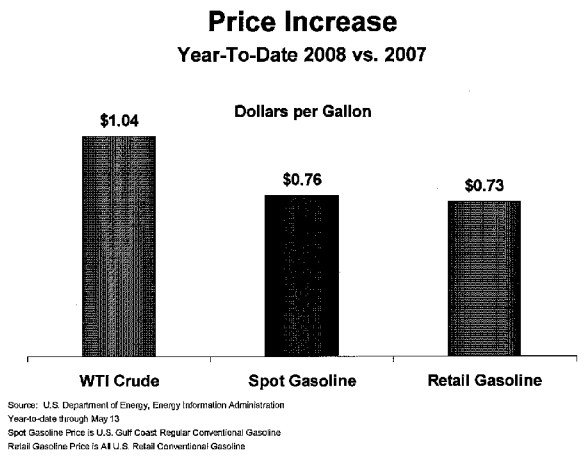


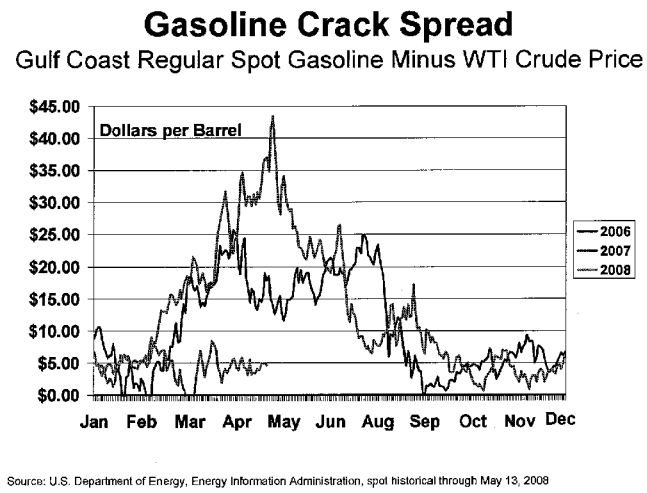
Figure 2 also shows that spot gasoline prices relative to crude oil prices have been unseasonably weak this spring, which is highly unusual for the start of driving season. There are several reasons for this relative weakness:

- Weakening gasoline demand due to the relatively high crude oil price level and the slowing U.S. economy,

- Rapidly increasing ethanol blending, which has expanded fuel supplies,

- The return of the domestic refinery capacity that was disrupted last year, and
- An increase in gasoline imports due to demand weakness in Europe, which continues to dieselize its automobile fleet.

Figure 2

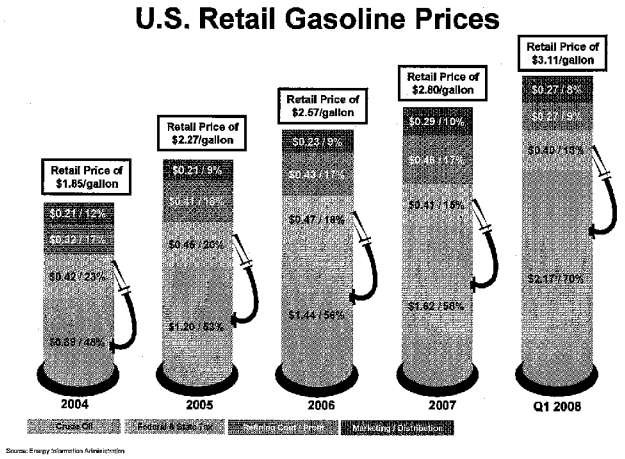


The failure of gasoline prices to keep pace with crude oil price increases reflects a longer term trend of a rising surplus of gasoline supply in the U.S. and Europe due to a long-term slowdown in gasoline demand growth. In contrast, diesel fuel prices are strengthening due to the ongoing trend of strong demand growth relative to the ability of refiners around the world to manufacture ultra-low-sulfur diesel fuel. Unfortunately, there is only a limited ability for refiners to convert existing gasoline production capacity from gasoline to diesel fuel. As a result, diesel fuel prices are strengthening globally, reaching $4.33 per gallon in the United States on May 12 compared to a gasoline price of $3.72 per gallon.

Global crude oil prices are the biggest driver of gasoline prices

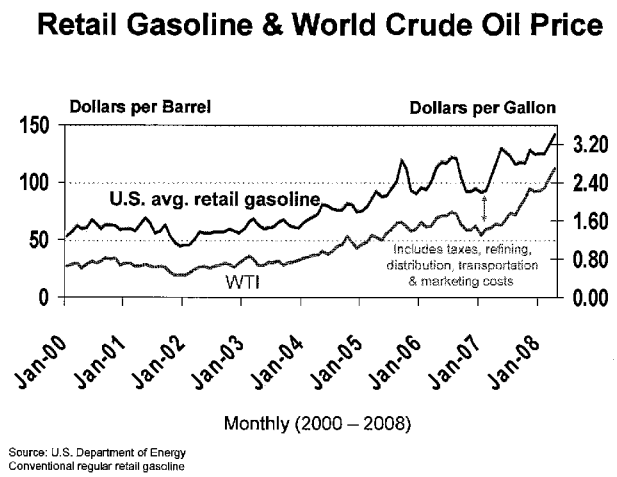
The biggest driver of increased gasoline prices has been higher global crude oil prices. The cost of crude oil is the largest single component of retail gasoline prices, representing about 70 percent of the pump price in the first quarter of 2008 (see Figure 3 below).[1] All costs and profits for the refining, distribution and marketing segments only accounted for 17 percent of the pump price in the first quarter of this year, with federal and state excise taxes accounting for 13 percent. Historical analysis also shows that changes in crude oil prices explained about 97 percent of the variation in the pre-tax price of gasoline between 1918 and 2006.[2] Figure 4 below demonstrates graphically that gasoline prices have historically moved with crude oil prices.

Figure 3



[1] U.S. Department of Energy, Energy Information Administration
[2] Carol Dahl, Colorado School of Mines, "What Goes Down Must Come Up; A Review of the Factors Behind Increasing Gasoline Prices, 1999-2006," April 2007

Figure 4



Crude oil is a global commodity with prices determined by the interaction of thousands of buyers and sellers in physical as well as futures markets around the world. Prices set in this global market reflect both current and future expected supply and demand.

The increase in global crude oil prices has been caused by:

- A period of strong global economic growth and thus oil demand growth, especially in developing Asian countries, Russia and the Middle East,

- A weak demand response to higher prices outside the United States due to price subsidies in developing countries and the weakening U.S. dollar,

- Constraints to expanding supply, including constrained resource access in many nations (including the United States), cost inflation and increased taxes,

- Increased geopolitical supply risk,
- Little excess OPEC production capacity,
- A rotation by the financial sector into commodities.

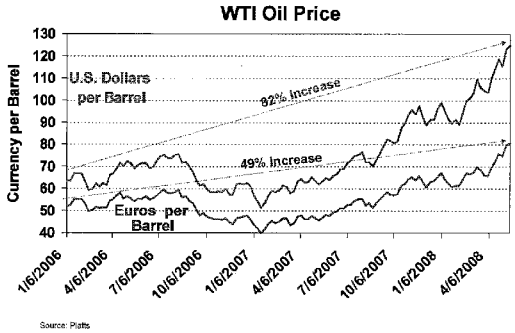
Global economic growth – One of the primary drivers of higher global oil prices over the last five years has been a sustained period of robust global economic growth, which led to stronger-than-expected energy demand growth. In fact, real growth in global gross domestic product between 2004 and 2007 of nearly 5 percent per year was about 40 percent higher than the average growth rate since 1980.[3] Due to this economic prosperity, between 2004 and 2007, oil demand grew by 2 percent per year, almost twice the rate experienced from 2000 to 2003. Nearly half of the demand growth since 2000 has been in emerging Asian nations that have reached a highly energy-intensive stage of their development. In these nations, rising per-capita income also enables a larger proportion of the population to afford affluent lifestyles similar to those in the United States. Oil demand growth in the Middle East, Russia and other oil-producing regions is also robust due to strong economic growth and fuel price subsidies.

Weak demand response to higher prices – Outside of the United States, high oil prices have not done much to trim demand growth. In Europe, tax rates on fuel consumption are sufficiently high to dwarf the impact of crude price increases. In developing countries, about 70 percent of demand is subsidized by the government so consumers are not experiencing the full impacts of price increases. Another factor is the decline in the U.S. dollar, in which oil is priced. Other countries have not experienced the same degree of crude price increase because their currencies have appreciated versus the U.S. dollar. Figure 5 below shows that the increase in crude oil prices in euros per barrel is significantly lower than the increase in crude oil prices in dollars per barrel.

[3] International Monetary Fund, "Updated October 2007 World GDP Growth and PPP Weights," January 30, 2008 (4.7% average for 2004-2007 vs. 3.3% average from 1980-2007)

Figure 5

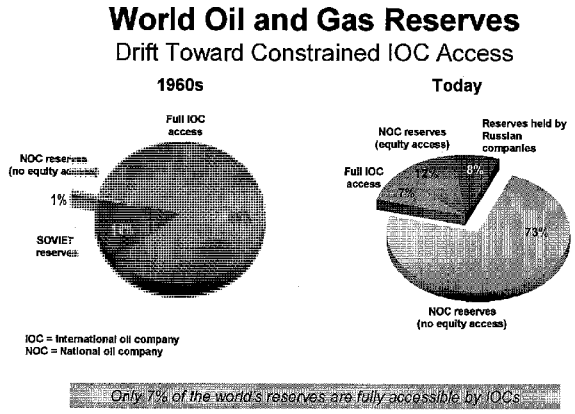
Weak U.S. Dollar Blunts Price Effects on Oil Demand Outside the U.S.



Supply constraints – A second reason for high global crude oil prices is constraints on expanding conventional supplies. The biggest constraint is rising resource nationalism that limits access to resources for development. Figure 6 below shows that in the 1960s, 85 percent of global oil and natural gas reserves were available for direct development by international oil companies, versus only 7 percent today. In addition, rising competition for access to the relatively limited resources that are open for development has enabled host governments to dictate fiscal terms that are so onerous that publicly traded oil companies cannot economically pursue them. Increased taxes are a part of the change in fiscal terms. Morgan Stanley estimates that the exploration and production tax rates of major oil companies have increased from about 30 percent to 45 percent since 2000.[4] In some cases, governments change fiscal terms after investments have been made or increase taxes on existing production, even in mature producing areas in otherwise stable countries (Alaska in the United States, and the United Kingdom). Such actions can make it uneconomic to invest the capital required to slow decline rates in existing fields. Increases in tax rates and other forms of government take are particularly problematic due to the maturity of oil provinces in areas such as the United States, the North Sea and Western Siberia and the increasing amount of capital required to offset the rising decline rates.

[4] Morgan Stanley Research, "Integrated Oil," March 14, 2008, Exhibit 17, page 11, exploration and production taxes divided by exploration and production earnings before taxes

Figure 6



Source: PFC Energy, Oil & Gas Journal, BP Statistical Review 2007
Note: Excludes unconventional crude oil and bitumen reserves

Resource access is also very limited in the United States, where an estimated 40 billion barrels of technically recoverable oil resources are either completely off limits or subject to significant lease restrictions. Similar restrictions apply to more than 250 trillion cubic feet of recoverable natural gas resources.[5]

Another constraint on expanding supplies is rapid inflation in industry drilling and service costs and difficulties in obtaining contractors to perform work on the desired time schedule. An upstream capital cost index, published by Cambridge Energy Research Associates, indicates that industry capital costs have approximately doubled since 2000,[6] reflecting higher costs for materials, equipment and personnel. Driving factors include higher industry activity and spending levels and the decline in the U.S. dollar, as well as strong demand for materials, equipment and people in other sectors of the global economy. Industry costs are also pushed upward by limited resource access and depletion of existing lower-cost resources, which force the industry to develop higher-cost resources. Such resources are typically located in deeper water or more remote locations, or may be unconventional in nature, requiring specialized development and refining techniques. Goldman Sachs estimates that marginal oil reserve

[5] National Petroleum Council, "Facing the Hard Truths about Energy," 2007, page 20
[6] Cambridge Energy Research Associates, "Upstream Capital Costs Index," December 5, 2007

replacement costs today to achieve a cost-of-capital return are about $90 per barrel.[7] Higher oil prices reflect the higher costs of reinvesting in new supplies.

Geopolitical risk – Also pushing crude oil prices upward is the high geopolitical supply risk attributable to the world's low level of excess oil production capacity and the fact that in several key oil-producing countries, political factors are constraining production (e.g., Nigeria, Iraq, Venezuela and Iran). The combination of strong demand growth and the need to offset lost production from these countries left the Organization of the Petroleum Exporting Countries (OPEC) at year-end 2007 with only 2.5 million barrels per day of excess capacity, equal to just 3 percent of global oil demand. This contrasts sharply with the greater than 10 million barrels per day of excess capacity that existed in the mid-1980s. This lack of spare capacity leaves world markets more vulnerable to oil supply disruptions caused by political events, storm damage to producing facilities, or unforeseen operational problems.

Role of OPEC – Within limits, OPEC could historically influence prices by adjusting its production to tighten or loosen the supply and demand balance. However, today the large amount of oil traded in futures exchanges (1.3 billion barrels per day) is 36 times greater than OPEC's oil production of 36 million barrels per day.[8] In addition, given OPEC's small excess production capacity, its member nations have significantly less influence on the price of crude oil than they had in the past.

Financial sector rotation to commodities – A final possible reason for recent increases in crude oil prices is the rising attractiveness of commodities to financial investors. Commodity index funds have been developed to provide investors with a financial vehicle to gain commodity price exposure. Investors have moved large amounts of capital into these funds in order to seek higher returns than are currently available through the stock and bond markets, to hedge the risk in their portfolios given the negative correlation between commodity prices and prices of stocks and bonds, or to hedge against inflation. Declines in U.S. interest rates or the value of the dollar stoke concerns about inflation, prompting an inflow of cash into these

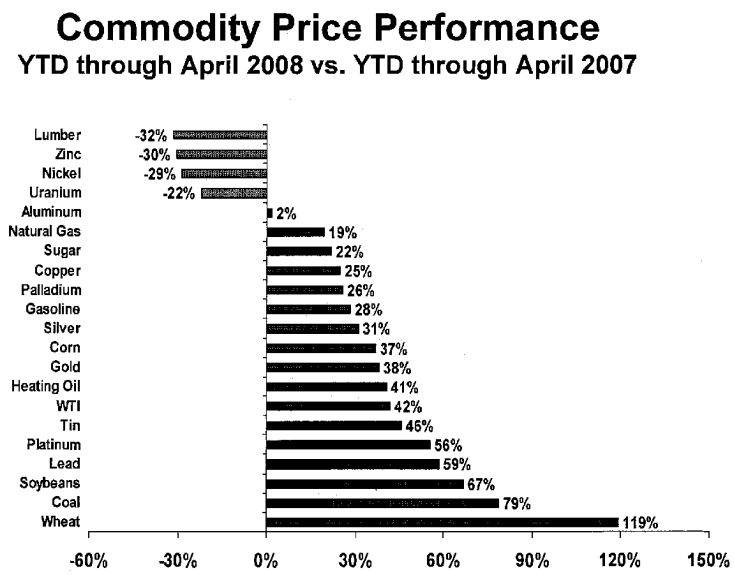
[7] Goldman Sachs, Global Roundtable, "$100 oil reality, part 2: Has the super-spike end game begun?" May 5, 2008, page 6

[8] OPEC production is 2007 estimate from the International Energy Agency Monthly Oil Market Report, The 1,272 million barrels per day trading estimates from futures exchanges are for March 2008 and include 679 million barrels per day for NYMEX WTI, 280 million barrels per day for Intercontinental Exchange WTI and 313 million barrels per day for Intercontinental Exchange Brent; OPEC production includes natural gas liquids

funds. According to Daniel Yergin, chairman of Cambridge Energy Research Associates, "oil has become the 'new gold' – a financial asset in which investors seek refuge as inflation rises and the dollar weakens." [9]

It is possible that the inflow of capital into long-only commodity futures funds is temporarily exaggerating upward oil price movements, as well as upward movements in the prices of other commodities (e.g., platinum, tin, gold and wheat). The funds are disproportionately weighted in energy commodities – one popular fund reports over a 70 percent weighting for energy. Figure 7 below shows that year-to-date in 2008 versus 2007, most commodities experienced substantial price increases, with many other commodity prices increasing more than the price of WTI crude oil.

Figure 7



Source: Bloomberg, Platts, spot prices, January 1 – April 30 2008 vs. 2007

[9] Daniel Yergin, Alexander's Gas and Oil Connections, volume 13, issue 7, April 15, 2008

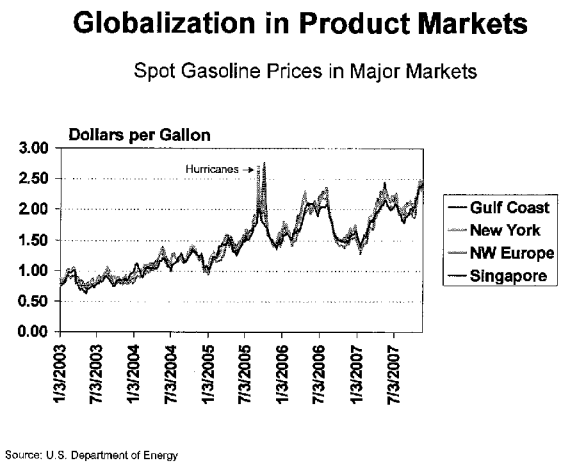
Other causes of high gasoline prices in recent years

While most of the variation in refined product prices is due to changes in crude oil prices, the supply and demand balance in the market for refined products also contributed to higher gasoline prices in the mid 2000s. However, as previously mentioned, those prices increased at a slower rate than crude oil prices this year. The factors that had contributed to rising gasoline prices until recently were:

- High global refinery capacity utilization due primarily to a period of strong global gasoline, diesel and other refined products demand growth,
- Constraints to the U.S. supply system, such as state or local requirements for "boutique" fuels,
- Refinery outages due to hurricanes and other unforeseen events, and
- Higher refining costs.

Before addressing these trends, it is important to point out that like crude oil, refined products also trade in the global marketplace at prices determined by global, regional, and local supply and demand fundamentals. Illustrating the point that this is a global market, Figure 8 below demonstrates that wholesale or spot gasoline prices in four diverse regions have experienced similar upward and downward pressures. There are occasional temporary regional dislocations due to weather conditions or refinery or transportation outages. However, any regional surplus products tend to rapidly move to supply-short regions and thus restore the global equilibrium, provided that geographic isolation or specialized product specifications do not interfere with this flow of products.

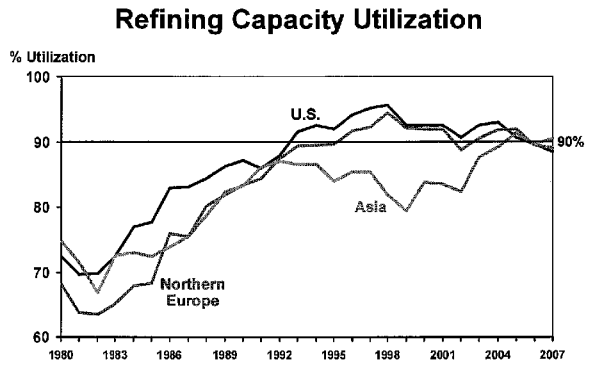
Figure 8



Global refinery capacity utilization – Until the mid 2000s, substantial excess refinery capacity in other nations enabled the United States to benefit from imports of surplus refined products. However, *strong global demand growth* has generally absorbed that surplus. Figure 9 below shows that refinery capacity utilization rates in the United States, Europe and Asia haveall increased substantially in recent decades. High utilization, in turn, led to higher refinery margins that have in turn made economically possible a large number of currently planned refinery capacity expansions. The International Energy Agency estimates that 10.6 million barrels per day of global refining capacity is being added between 2007 and 2012. These additions represent a 12 percent increase in global refining capacityand are 9 percent greater than the Agency's projected oil demand growth during that period. Half of the additions are from incremental expansions in the United States and Asia and half are from new refineries being built in the Middle East and developing Asian nations. In addition to the 1.1 million barrels per day of expansions in distillation capacity planned in the United States by 2012, there are also large-scale upgrading capacity additions that will process increasing amounts of Canadian heavy, sour crude oil, and increase yields of clean-fuels products.[10]

[10] International Energy Agency, "Medium-Term Oil Market Report," July 2007, pages 54 and 60

Figure 9



Source: BP Statistical Review, 2007; U.S. Department of Energy for U.S.
2008 = YTD DOE for U.S., COP estimates for other regions

In addition to a prolonged period of strong demand growth, there are several other reasons why refinery capacity growth had not kept pace with demand in recent years. The refining industry has historically had *weak returns on capital*, which made it difficult to justify major expansions. For example, between 1995 and 2005 the return on investment in the refining sector was 10 percent, about 4.7 percent less than the average returns realized by the S&P industrials.[11] In addition, the U.S. refining industry has been required to *invest substantial sums on making cleaner fuels and reducing emissions, which has crowded out investment on expansions*. The U.S. refining industry has invested more than $84 billion since 1990 to improve the environmental performance of its products, facilities and operations.[12]

Even when the considerable economic hurdles for major expansions can be overcome, we are finding it *extremely difficult to obtain permits for expansions*. For example, ConocoPhillips applied in May 2006 for a permit to expand the Wood River refinery (a 50 percent joint venture with EnCana) in Illinois, and still does not have a final permit. At our refinery in Wilmington, California, local permit challenges and litigation have threatened an ultra-low-

[11] Timothy J. Muris and Richard G. Parker, "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, page vi
[12] American Petroleum Institute, Environmental Expenditures by the U.S. Oil and Gas Industry, page 3

sulfur diesel fuel project since 2004. An expansion at our Rodeo refinery near San Francisco took 28 months to permit. The International Monetary Fund, in recognition of the barriers that hamper U.S. investment in downstream infrastructure such as refineries, stated "even when investment is allowed, environmental regulations and policies may drive up capital costs, causing delays."[13]

Our industry is often asked why the number of operable refineries in the United States has declined rather than increased in the last few decades, falling from 319 in 1980 to 149 in 2007. According to the Federal Trade Commission (FTC), the closures typically involved small, relatively unsophisticated facilities.[14] Between 1973 and 1981, federal government incentives enabled companies to own and profitably operate these small and often inefficient refineries. However, these refineries were hurt by the elimination of these incentives in 1981 as well as by the large capital expenditures that were required to meet government-mandated product specifications (such as clean fuels) and emissions reductions.

New refineries have not been built in the United States because building new refineries would cost considerably more than expanding existing refineries, and would face much greater permitting challenges. Thus, the industry has focused on incremental expansions of existing refineries. In fact, continuous expansions and improved efficiency have enabled the U.S. refining industry to increase crude runs nearly 30 percent since 1983,[15] despite closures of the smaller refineries and the refining industry's historically low returns on investment.

Constraints to the supply system – Another factor causing upward gasoline price volatility is the *proliferation of different grades of gasoline* required by various state and federal government environmental mandates. The existence of multiple unique product specifications makes it difficult to replenish supplies in the event of a disruption, such as storm-related refinery equipment outages. Regions with unique product specifications therefore experience greater price volatility than regions with standard specifications. A study by the U.S. Department of Energy indicated that "boutique" specifications did in fact result in upside

[13] International Monetary Fund, "What Hinders Investment in the Oil Sector," February 22, 2005, page 5
[14] U.S. Federal Trade Commission, Bureau of Economics, "The Petroleum Industry: Mergers, Structural Change, and Antitrust Enforcement," August 2004, page 7
[15] U.S. Department of Energy, Energy Information Administration, U.S. Weekly Crude Inputs Into Refineries, website (11.8 mmbd in 2003 and 15.2 in 2007)

volatility of gasoline prices,[16] a particular concern since more states are in the process of mandating new "boutique" grades of biofuels. The U.S. also requires lower sulfur gasoline than many other nations, which limits the sources from which gasoline can be imported into the United States. Other constraints to the supply system include limited import infrastructure, particularly on the West Coast, and the inability to ship ethanol-blended fuels in pipelines.

Refinery outages – While this has not been a large factor to date this year, unplanned refinery outages contributed to higher gasoline prices in some regions last year. In addition to unplanned outages, refineries undertake planned maintenance turnarounds, which are required to ensure the continued safe and efficient operation of refineries. Turnarounds are normally planned multiple years in advance and are scheduled before or after driving season to enable the refineries to run at full capacity during the peak demand period. The U.S. Department of Energy noted in a recent report that "the size and complexity of a refinery turnaround leaves little flexibility to change plans. The large commitments for labor, equipment and materials needed for process improvements make changes very costly at best, and safety concerns can override all other considerations."[17]

Higher refining costs – Additionally contributing to higher gasoline prices are higher refining costs. The refining industry has experienced substantial increases in energy, labor and materials costs. For example, the Nelson-Farrar composite index of refinery operating costs increased by 50 percent since 2002.[18] Contributing to this inflationary pressure is the fact that much of the domestic refining industry is competing for a limited pool of goods and services as multiple companies are working simultaneously to expand capacity. The refining industry has also had to expend capital on projects that reduce emissions and produce lower-sulfur fuels. Unfortunately, although performed for worthy causes, such projects often tend to increase operating costs.

[16] U.S. Department of Energy, Energy Information Administration, "Gasoline Type Proliferation and Price Volatility," September 2002, page 4
[17] U.S. Department of Energy, Energy Information Administration, "Refinery Outages: Description and Potential Impact on Petroleum Prices," March 2007, page v
[18] Oil and Gas Journal data base, "Nelson-Farrar refinery operating index," monthly as of November 2007

Gasoline supply and demand balance is moving back into equilibrium

Even as concerns grow over rising gasoline pump prices, the U.S. gasoline market is already moving back toward equilibrium due to:

- Slowing growth in demand caused by the higher gasoline price levels (in turn caused by higher crude oil prices) and the slowdown in the U.S. economy,
- Refinery capacity expansions,
- The restoration of domestic refining capacity that was disrupted last year,
- The increased use of ethanol in gasoline, and
- An increase in gasoline imports versus last year due to weakening gasoline demand outside the United States. The continued dieselization of Europe's automobile fleet is causing gasoline demand there to decline, and much of the surplus gasoline comes to the United States.

Evidence for the restoration of the balance in gasoline markets is the fact that as stated earlier, gasoline price increases are not keeping pace with crude oil price increases this year.

The relatively high gasoline-to-crude oil price spreads experienced in the last few years indicated tightness in the gasoline balance and provided the impetus for slower demand growth and increased production capacity. The market functioned properly to restore the gasoline balance. The best example of the market's effective response to a supply shortfall can be found in the aftermath of hurricanes Katrina and Rita in the fall of 2005, which temporarily shut down nearly 30 percent of total U.S. refining capacity as well as crude oil and product pipelines originating in the Gulf Coast. The higher gasoline price caused by the disruption resulted in increased refinery production outside the impacted area and higher gasoline imports. During the three weeks following Hurricane Rita, gasoline imports to the United States rose by 65 percent versus the previous year's rate. As a result of the market response, U.S. Department of Energy data indicates that the average retail gasoline price in

the United States dropped below pre-hurricane levels within one month (October 24, 2005) of the hurricane's landfall (Rita landfall: September 24, 2005).

Tightening global diesel supply and demand balance

The other shift occurring in global and U.S. product markets is the strengthening of diesel fuel prices relative to gasoline prices. Globally, and within the United States, diesel fuel demand has increased faster than gasoline demand in recent years. In the United States, diesel fuel demand growth has been robust due to strong economic growth until recently, and the heavy use of diesel fuel to transport products that are sold in the United States. Europe has had strong diesel fuel demand growth as a result of the tax-driven dieselization of the passenger vehicle fleet. Meanwhile, due to strong economic growth, Asia constitutes a greater share of the world's oil demand growth. It has traditionally had stronger demand growth for diesel fuel for use in the shipment of products and for generating electricity than it has had growth in demand for gasoline for use in personal transport. As a result of these global structural changes, overall world diesel fuel demand increased by 2.5 percent per year over the last decade, while gasoline demand grew by 1.5 percent per year. In 2000, global distillate demand (diesel fuel and heating oil) became a larger portion of global demand than gasoline.

The issue with the acceleration of diesel fuel demand relative to gasoline demand is that – to meet past demand patterns – refineries were generally configured to maximize gasoline production with a typical distillate yield in the United States of only about 25 percent. The ability to change the configuration of an existing refinery to produce more diesel fuel is limited and it would reduce gasoline production. Building new diesel-oriented refineries will require a significant amount of time and capital. Thus, the global diesel fuel supply/demand balance has tightened relative to gasoline.

Another reason for rising diesel prices is that the U.S. and Europe have substantially lowered the sulfur content of their diesel fuels in recent years. In addition to costing more to manufacture lower-sulfur products, other potential suppliers around the world can no longer meet the more stringent U.S. and European diesel fuel specifications, which reduces available imports. In addition, the production of ultra-low-sulfur diesel fuel can reduce the volume

produced from some refineries. Thus, acceptable diesd fuel supplies are more limited and cost more than in the past.

Diesel fuel prices are also stronger than gasoline prices because biodiesel is havingless of an impact on demand than ethanol is on gasoline demand. While increased U.S. ethanol use is reducing demand for conventional gasoline, biodiesel is less competitive and iscontributing less to overall diesel fuel supplies.

As a result of these global and U.S. market forces, U.S. prices for on-road retail diesel fuel averaged about 10.5 cents per gallon above gasoline prices since 2005, compared to averaging 5.5 cents per gallon below gasoline prices between 1995 and 2004.[19] In recent weeks, spot diesel prices in the Gulf Coast have been trading 50 cents per gallon above spot gasoline prices.

In addition, diesel fuel prices in the United States are being buoyed this year by strong demand and pricing in other nations. For example, there have been reports of additional diesel fuel demand for use in power generation as a result of disruptions in power markets and coal shortages in other nations, including China.[20]

Reasons for regional variations in retail gasoline or diesel prices

There is a common misperception that differences in retail prices across regions indicate that the market is not functioning properly. There are many legitimate reasons for regional variations in gasoline prices:

State or local environmental programs – Some areas of the country are required to use special "boutique" gasolines. Environmental programs, aimed at reducing carbon monoxide, smog and air toxics include the manufacture of federal and/or state-required oxygenated, reformulated and low-volatility gasolines. Other environmental programs put restrictions on transportation and storage. The reformulated gasolines required in some urban areas and in California cost more to produce than conventional gasoline used elsewhere, increasing the

[19] U.S. Department of Energy, Energy Information Administration, Weekly Petroleum Status Report, U.S. Gasoline and Diesel Retail Prices
[20] International Energy Agency, Oil Market Report, April 11, 2008, page 17

price paid at the pump. Many different states are now considering mandating differing percentages of biofuels usage, which will create additional boutique gasoline and diesel fuels.

State and local taxes – State gasoline sales tax rates in the United States range from a low of 7.5 cents per gallon in Georgia to a high of 34 cents per gallon in the state of Washington. Some localities also levy taxes on fuel.

Proximity of supply – The farther a location is from refineries or major pipelines, the higher you would expect the price to be given the necessity of trucking products from a pipeline terminal to the site. Trucking is more costly than pipeline transport.

Supply disruptions – Events that temporarily slow or stop production of gasoline or diesel fuel, such as storms or unplanned refinery maintenance, can prompt market participants to bid up the price of available supplies. Then, if the transportation system cannot easily move supplies from regions where they are in surplus to where they are needed, prices will remain comparatively high.

Operating costs – Even stations located adjacent to each other may have different traffic patterns, rents, and sources of supply that influence retail fuel prices. States also have different refinery production costs and product transportation costs, due to such factors as different crude oil supply sources, electricity and other utility costs, land values and wage rates.

The Impact of Mergers on Energy Markets

This section of my testimony indicates that mergers are not a cause of higher energy prices and instead have helped constrain energy prices from levels they might have otherwise reached. The main points are that:

- One of the primary reasons for the merger between Conoco Inc. and Phillips Petroleum Company was a response to adversely changing market conditions, such as the trend toward limited resource access discussed earlier, and growing size and risk of the remaining available development opportunities. These are the same trends that are

currently working to drive crude oil prices higher, despite the positive impact of industry mergers.

- "Big Oil" – the traditional publicly owned international oil companies – in fact is not so big when its small market share relative to that of national oil companies is considered. In addition, concentration levels of the various segments of the petroleum industry are low relative to those of other industries.

- Oil pricing and oil industry mergers have been subject to greater scrutiny by the Federal Trade Commission (FTC) than other industries. FTC merger reviews have more closely analyzed oil than other industries and the FTC have challenged mergers at lower levels of concentration. The FTC has also conducted several investigations of pricing anomalies and generally concluded that market forces were responsible.

- Our experience with the merger between Conoco Inc. and Phillips Petroleum Company suggests that consumers have benefited from the improved cost structure and higher efficiency of our greater scale of operations.

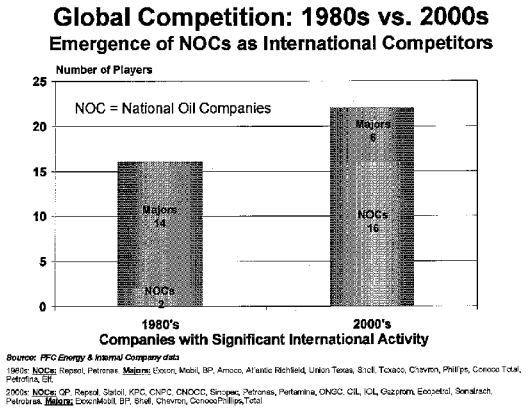
- Financial data included below indicates that oil and gas industry profitability is commensurate with that of other industries despite the current high point of an investment cycle.

Consolidation driven by reduced resource access and need to improve efficiency

I would like to share our general view on why the petroleum industry has been consolidating. First, it is important to point out that over the last decade there have been mergers in many industries. To some degree, the trend toward consolidation is driven by globalization, with mergers in mature markets giving companies from various industries sufficient scale and a lower cost structure that enables them to compete in a global arena. For petroleum companies, the global business environment has become particularly challenging as government-owned enterprises from both oil-producing and consuming nations have emerged as new global petroleum players, adding to competition in the marketplace. In fact, Figure 10 below shows that the emergence of national oil companies competing outside their borders has more than

offset the decline in the number of international oil companies due to mergers. Thus, the number of international competitors has increased since the 1980s.

Figure 10



The upstream segment of the petroleum business consists of exploration for and development and production (E&P) of crude oil and natural gas supplies. Access to crude oil and natural gas reserves is the principal challenge in the upstream segment of the petroleum industry today. In the United States, oil and gas production is declining, largely because many areas with the best remaining prospects for exploration and development are off limits due to state or federal drilling moratoriums. These access restrictions extend well beyond the most environmentally sensitive areas. This constrained access increasingly forces the U.S. energy industry to look for resources abroad, where resources often are controlled by national oil companies. Resource access – both domestic and international – has been steadily eroding since the 1960s. As shown in the previous Figure 6, international oil companies can directly access only 7 percent of the world's oil and gas reserves today, with only an additional 12 percent theoretically accessible through joint ventures with national oil companies.

Competition for the limited resources available – combined with rising foreign government taxes – make it difficult for publicly traded oil companies to access resources that offer the potential to earn acceptable returns to our shareholders. This has led to declining organic

reserve replacement rates for many international oil companies. Meanwhile, national oil companies from oil-producing and consuming nations, along with privately held Russian companies, are now competing globally and adding to the resource access challenge.

This constrained access at home and abroad has required international oil companies to undertake increasingly large and complex projects that host governments may not have the financial strength, skills or technology to undertake on their own, including in some developing countries that may not have the same rules of law and contract sanctity as most industrialized nations. At the same time, regime change has destabilized some jurisdictions and introduced risk at levels unforeseen at the time of the original investment. The expropriation of ConocoPhillips' assets in Venezuela is an example of such changes that highlights the enormous amount of risk companies are facing today, and the value of being a large and highly geographically diversified company.

The industry is also seeking opportunities in places that are more operationally challenging and thus expensive, such as prospects located in deep water, remote or arctic areas or unconventional oil projects that required downstream processing. A typical large ConocoPhillips exploration and development project requires several billion dollars of initial investment and may not generate revenues for over a decade from project sanction. A single large offshore platform in the Gulf of Mexico designed to operate in thousands of feet of water costs more than $1 billion to develop. A project to produce and deliver liquefied natural gas currently costs from $7 billion to $21 billion, depending on its size, location and complexity. The proposed Alaska natural gas pipeline is expected to cost $25 to $40 billion. Only large companies with substantial financial capacity and technical resources can effectively develop these projects, while sufficiently diversifying the number of projects and geographies to manage the risk. For U.S. companies to compete in today's environment of mega projects, they have been forced to consolidate to gain scale commensurate with the growing magnitude, complexity and risk of available opportunities. The forces demanding that oil and gas companies become larger and more diverse in order to compete will continue growing in the years ahead.

For the refining business, international competition and large required expenditures on environmental projects that generate little economic return have driven this industry as well to

strive for increased economies of scale and greater efficiency. The FTC has also observed that, "the United States has fewer refineries than it had 20 years ago, but the average size and efficiency of refineries have increased, along with the total output of refined products."[21]

The U.S. petroleum industry is not highly concentrated

Despite the consolidation that has taken place in the petroleum industry, it is still not highly concentrated today. The 2004 FTC report on mergers and structural changes in the industry concluded that "mergers of private oil companies have not significantly affected worldwide concentration in crude oil, and that concentration for most levels of the petroleum industry has remained low to moderate."[22] That conclusion was reiterated in FTC testimony to the U.S. Congress in 2006 that stated that "despite some increases over time, concentration for most levels of the United States petroleum industry has remained low to moderate."[23]

Exploration and production – There is a common misperception that the oil majors control a substantial portion of the world's oil and natural gas reserves. However, Figure 11 below shows that "Big Oil" is not so large compared to the national oil companies. In fact, the top six major companies (as defined in Figure 10) together hold only 4.5 percent of the world's oil and gas reserves.

Concentration in domestic crude oil production and ownership of crude oil reserves remained at very low levels between 1990 and 2002 as measured by the Herfindahl-Hirscchman Index (HHI), which equals the sum of the squared market shares of all market participants in the relevant product and geographic market. An HHI of 1,000 or less is considered to be unconcentrated. In 2002, domestic crude oil production had an HHI of 297, up only slightly from 284 in 1990.[24]

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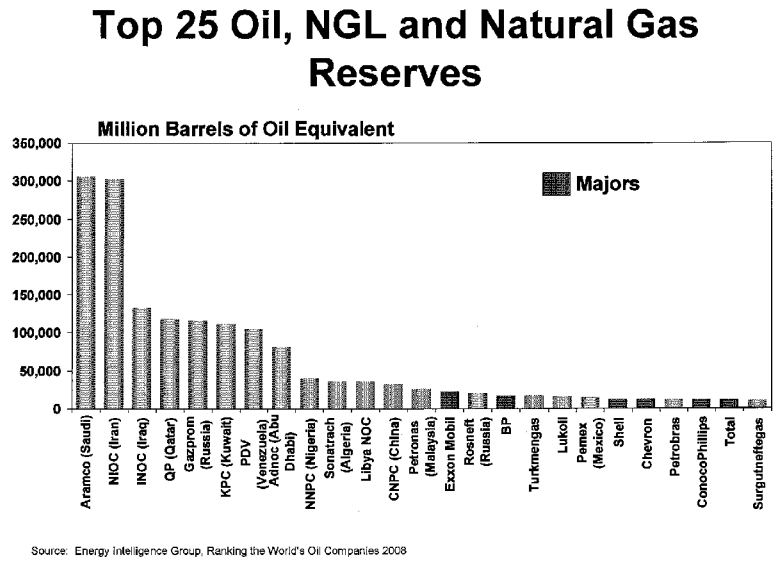
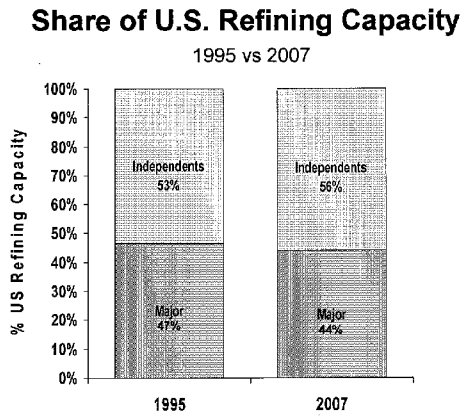
[21] Michael A. Salinger, "Petroleum Industry Consolidation: Prepared Statement of the Federal Trade Commission Before the Joint Economic Committee of the U.S. Congress," May 23, 2007, page 7
[22] William E. Kovacic, Commissioner, Federal Trade Commission, "Market Forces, Competitive Dynamics, and Gasoline Prices: FTC Initiatives to Protect Competitive Markets before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, May 22, 2007, page 22 referring to Federal Trade Commission, "The Petroleum Industry: Mergers, Structural Change and Antitrust Enforcement," 2004
[23] William E. Kovacic, Commissioner, Federal Trade Commission, "Petroleum Industry Concentration," Prepared Statement to the Committee of the Judiciary, U.S. Senate, February 1, 2006, page 5
[24] Timothy J. Muris and Richard G. Parker, "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, pages 11 and 13

Figure 11



Refining – Ownership in the U.S. refining industry is also not concentrated. Valero, an independent refiner, has the largest share with 13 percent of capacity. Figure 12 below demonstrates that despite the mergers that have taken place over the last decade, ownership of refining capacity has shifted slightly away from the U.S. integrated majors to independents.

Figure 12



Source: Oil Gas Journal US Refining Survey Data as of Jan 1, 1996 and Jan 1, 2008. Total Refining capacity reported for year end '95 is 15.34 mmb/d; and year end 2007 is 17.44 mmb/d.

Joint Venture shares are included in the parent company shares for Exxon, Shell, and ConocoPhillips.

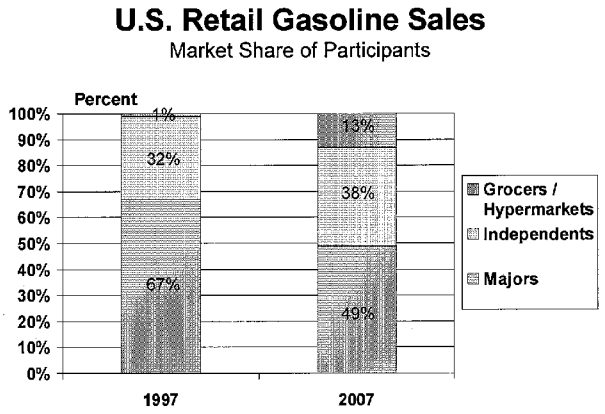
The U.S. refining industry is also not very concentrated compared to many other industries. The top four refining companies in the U.S. have a market share of 59.4 percent. The market share of the four largest companies is far more concentrated in these other industries:[25]

	Percent
Carbonated soft drink	94.8
Carpet	84.4
Brewing	84.2
Light bulb	77.3
Automobile	74.2
Fast Food	66.9
Pharmaceuticals	61.5

[25] Timothy J. Muris and Richard G. Parker, "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, pages 17 and 18

Retail marketing – The share of the four largest companies in the retail gasoline industry stands at 62 percent, which is far less concentrated than other industries.[26] Ownership of retail operations by the major companies has declined considerably over the last decade as shown in Figure 13 below. Over the past decade, the majors companies' gasoline brand share has decreased from 67 percent to 49 percent. There have been many new entrants into the retail business. Over the past ten years, giant grocery store chains and hypermarkets have increased their share from 1 percent to 13 percent. Independents have also grown their share from 32 percent to 38 percent over the last decade. These figures refer to market shares of gasoline sales. Major integrated oil companies have much smaller participation in the ownership and operation of retail stores. According to the Association for Convenience and Petroleum Retailing, the major integrated oil companies own and operate fewer than 3% of all retail locations in the United States.[27]

Figure 13



Source: The NPD motor fuels index, The NPD group

[26] Timothy J. Muris and Richard G. Parker, "A Dozen Facts You Should Know About Antitrust and the Oil Industry," June 2007, pages 17 and 18

[27] Testimony of Bill Douglass on Behalf of The National Association of Convenience Stores Before the House Judiciary Committee, Anti-Trust Task Force, Hearing to Examine the Consumer Effects of Rising Gas Prices, May 7, 2008, page 2

The petroleum industry receives more scrutiny than other industries

The petroleum industry receives closer scrutiny from antitrust authorities than other industries. An FTC review of merger investigations and enforcement actions from 1996 to 2005 concluded that the Commission brought more merger cases with lower levels of market concentration in the petroleum industry than any other industry.[28] During the period of oil industry mergers in the late 1990s, the FTC's Bureau of Competition spent almost one-fourth of its enforcement budget on investigations in the energy industry.[29]

In addition to merger reviews, the FTC also actively monitors wholesale and retail gasoline and diesel fuel prices. The agency regularly scrutinizes price movements in 20 major urban areas and approximately 360 cities across the country. The FTC has previously testified to the U.S. Congress that "in no other industry does the Commission so closely monitor prices."[30] The Commission's experience from its past investigations and from the current monitoring program indicates that unusual movements in gasoline prices typically have a business-related cause including movements in crude oil prices, supply outages (e.g., from refinery fires or pipeline disruptions), or changes in and/or transitions to new fuel requirements imposed by air quality standards.[31] States also have investigated gasoline and diesel fuel prices on a number of occasions. ConocoPhillips cooperates fully – both on a voluntary and a formal basis – with authorities and expends significant resources in providing information and other assistance to the authorities monitoring the petroleum industry.

ConocoPhillips' merger experience

ConocoPhillips' mergers, acquisitions and joint ventures have benefited consumers by reducing cost and improving the efficiency of our business, and increasing supplies of petroleum products for American consumers. Fundamentally, the supply of petroleum products depends on the ability of U.S. companies to access crude oil and natural gas andto transform them into petroleum products for American consumers. The transactions

[28] Michael A. Salinger, "Petroleum Industry Consolidation: Prepared Statement of the Federal Trade Commission Before the Joint Economic Committee of the U.S. Congress," May 23, 2007, page 3
[29] Ibid., page 8
[30] Ibid., page 16
[31] Ibid., page 17

undertaken by ConocoPhillips have been motivated by and have subsequently achieved increased access to crude oil and natural gas, and increased refining capacity to turn that crude oil into petroleum products. This increased supply has benefited – and can be expected to continue to benefit – American consumers through lower prices than would have otherwise been obtained and through greater energy security. These mergers and acquisitions also have strengthened the sustainability of the company's competitive position and long-term viability.

Given the size and importance of the merger of Conoco Inc. and Phillips Petroleum Company to our company's history, I would like to use this transaction as an example of how this merger has benefited U.S. consumers. This $36 billion merger of equals was completed on August 30, 2002. The rationale was to form a company of sufficient size and scale to address opportunities that could not be achieved by either company on a stand-alone basis. The merger was intended to develop a diversified growth portfolio and leverage the intellectual capital of the two companies. It also was intended to strengthen our financial position through diversifying earnings and cash flow, developing a stronger balance sheet and improving capital efficiency and the cost structure. We estimated cumulative cost and efficiency savings of approximately $1.9 billion in 2004 resulting from this merger.

In the Exploration and Production (E&P) segment of the business, our increased scale, financial strength and diversification have enabled ConocoPhillips to expand our investments in traditional core areas and to develop new legacy assets. The E&P business segment also benefited from the combination of the companies' complementary competencies. For example, by combining Phillips' liquefied natural gas (LNG) technical expertise with Conoco's extensive gas marketing experience, ConocoPhillips has become amore effective global gas player. These capabilities enabled us to compete successfully for participation in a major LNG project in Qatar (Qatargas III), which puts our company in a strong position to help expand imports of natural gas to American consumers over the coming years as the domestic supply declines.

In the refining and marketing (R&M) business segment, we benefited from lowering our cost structure, which was made possible by sharing technology and best practices, optimizing crude supply and improving management of intermediate refining feedstock across our entire refining system. Unit cost reductions have resulted from initiatives in the areas of energy

efficiency, operations optimization and maintenance. Additionally, the sharing of technological expertise and best practices has helped mitigate increases in thecapital costs of projects.

The merger also resulted in increased efficiency in R&M operations. We have been able to improve reliability and increase clean refined product yields at our refineries by sharing technology and best practices across our refinery network. These include initiatives in preventative maintenance, reduced turnaround time, improved tuning and control of operating units and installation of improved technologies.

Since the merger, refinery utilization has improved from the low 90 percent range to the mid 90 percent range, which is equivalent to adding 100,000 barrel per day of refining capacity. In addition, since the merger we have increased the nameplate capacity of our U.S. refineriesby approximately 2 percent, resulting in a further 50,000-barrel-per-day capacity increase.

Having multiple U.S. refineries that can be upgraded now enables us to bring additional crude oil from Canadian oil sands production into the United States. For example, in 2007 we formed a joint venture with EnCana, which created an integrated North American heavy oil business consisting of two 50/50 operating businesses that include two of their large oil sands projects and two of our U.S. refineries. The joint venture is presently working to expand the capabilities of the Wood River refinery in Illinois to handle additional volumes of crude oil from the Canadian oil sands. We are currently awaiting approval of permits to commence construction.

All across our post-merger refining system, we can point to numerous examples of higher crude-oil throughputs stemming from our enhanced ability to balance crude oil supplies among a larger number of refineries. For example, crude oil throughput at our Sweeny, Texas refinery was maintained at higher levels during the Venezuelan supply disruption in 2003 due to our ability to divert the specialized crude from three other ConocoPhillips refineries that could more easily adapt to alternative supplies. In several instances, we have been able to maximize our refining system throughput during Gulf of Mexico storms that delayed crude oil deliveries, including during the aftermath of Hurricane Katrina thanks to greater balancing options among waterborne cargoes, pipeline receipts and inventories.

We also have produced greater volumes of clean products since the merger through our ability to balance intermediate and blendstock inventories among refineries. For example, we increased the supply of imported gasoline and gasoline blendstocks from Conoco's Humber refinery in England through Phillips' Bayway and Trainer refineries on the U.S. East Coast. We also move premium gasoline blendstocks (e.g., alkylate, toluene) from our East Coast refineries to our West Coast refineries to increase the supply of CARB gasoline and to enhance octane. In addition, when we plan refinery turnarounds, we can process intermediate products (not yet upgraded to a finished product due to capacity lost in turnaround) at other plants. Even in the case of unplanned downtime, we are able to transfer intermediate products between facilities to enable crude rates to be maintained and to utilize stocks from other facilities to maintain supply to consumers.

We also have realized significant efficiency gains in operations of U.S. pipelines and terminals since the merger. For example, we improved access for Canadian crude oil on the Spearhead pipeline and improved crude oil import capability on the West Coast.

Divestitures stemming from the merger also moved refining capacity into the hands of new industry participants. Although we believed it was unwarranted, in response to an FTC mandate before the merger was closed, our Woods Cross refinery in Utah was sold to Holly Corporation, and our Denver refinery in Colorado was sold to Suncor. In both cases, the new owners have invested capital in order to maintain output and to make new clean fuels at these refineries.

Industry Profits: Addressing Common Misperceptions

There are many common misperceptions about industry profits that I would like to clear up. This section of my testimony makes the following major points:

- Costs of operations and supply expansion have increased along with rising oil prices. In fact, these cost increases have substantially raised industry reserve replacement costs.

- The large absolute size of earnings by major oil companies mostly reflects the enormous size of required investments in major projects.

- Petroleum industry profitability is similar to the profitability of other industries, with the exception that refining industry profitability has been historically weak.

- The petroleum industry is reinvesting in new supplies.

Costs catch up with prices

Oil and natural gas industry earnings are highly cyclical, as is the case with other commodity industries. Although the industry's profits have increased in recent years, along with the overall strengthening of underlying commodity prices, costs have escalated rapidly and are still rising. In fact, Morgan Stanley estimates that the returns on capital employed earned by the exploration and production operations of integrated oil companies actually peaked in 2005, and have since declined.[32] I previously mentioned that Goldman Sachs estimates that marginal reserve replacement costs today are approaching $90 per barrel. Morgan Stanley also estimates that from 2008 to 2012, new upstream investments will require crude oil prices of nearly $85 per barrel (West Texas Intermediate) to be profitable at the industry's cost of capital, and that given continuing cost increases, crude oil prices by 2012 of approximately $90 - $100 per barrel will be needed to justify investment.[33] Thus, today's higher prices actually reflect higher reserve replacement costs.

Large earnings reflect scale of investment

There is a common misperception that the absolute dollar amount of major oil company earnings is indicative of the industry's profitability. Rather, its earnings reflect the industry's enormous scale and the capital investment needed to replenish depleting supplies and to grow. I have already talked about the high cost of the mega projects that the majors are developing. A single large offshore platform in the Gulf of Mexico designed to operate in thousands of feet of water costs more than $1 billion to develop. Our earnings need to be large in absolute

[32] Morgan Stanley Research, "Integrated Oil," March 14, 2008, Exhibit 18, page 12
[33] Morgan Stanley Research, "Integrated Oil," March 14, 2008, page 12

terms to support the scale of investment required. For example, ConocoPhillips earned nearly $12 billion in 2007, but spent close to $13 billion in capital expenditures and investments.

Petroleum industry profitability is similar to other industries

There is also a common misperception that energy industry earnings and returns on investment are higher than those of other industries. Figure 14 below shows that the industry's earnings are comparable to those of other manufacturing industries.

Figure 14

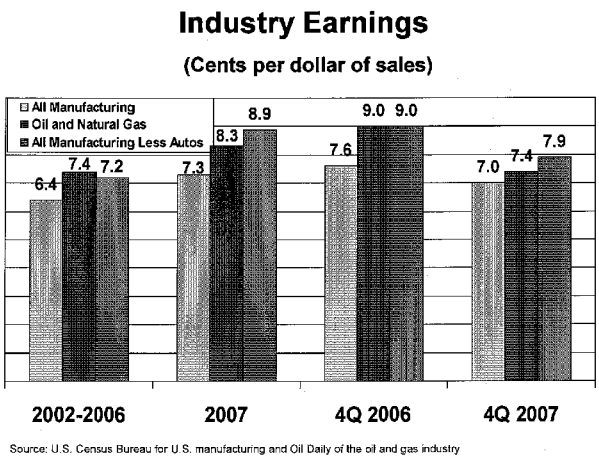
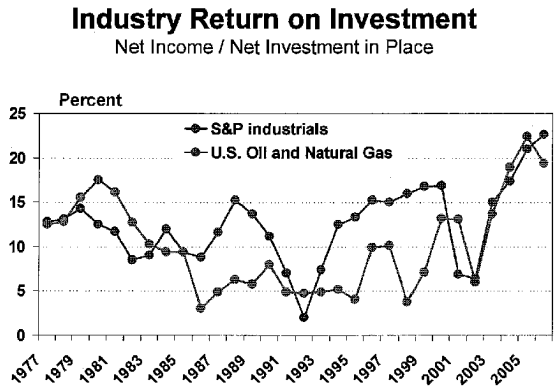


Figure 15 below, based on U.S. Department of Energy data, shows that the return on investment for the oil and natural gas industry is currently comparable to average returns for the S&P industrials, after lagging those returns for many years.

Figure 15



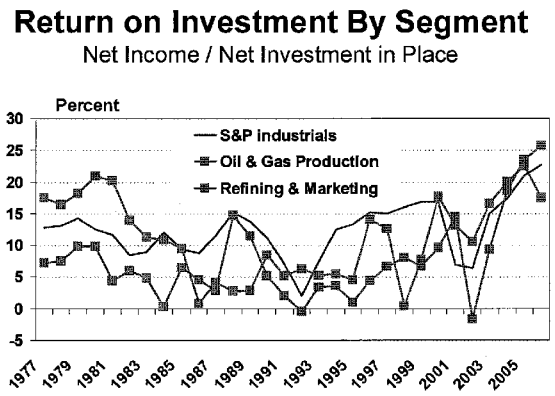
Source: U.S. Department of Energy, Energy Information Administration, Performance Profiles of Major Energy Producers, various issues and 2006 S&P figure compiled by PWC from Compustat data

The refining segment has historically had weak returns

Figure 16 below compares returns on investment for the S&P 500 industrial companies against those of U.S. oil and natural gas production and for U.S. refining and marketing. It reveals that the refining and marketing segment had relatively weaker returns for all years except for 2005 and 2006, and actually had negative returns in several years, most recently in 2002. This chart ends in 2006, which was an exceptionally attractive year for refining. Subsequent data from other sources indicate that industry profitability moved back towards more typical (lower) levels after 2006. Further, the Congressional Research Service indicated that downstream net income for integrated majors as well as independent refiners and marketers in 2007 declined by about 4-5 percent versus 2006. In the fourth quarter of 2007, net income for independent refiners and marketers declined 67 percent versus the fourth quarter of 2006.[34]

[34] Congressional Research Service, "Oil Industry Profit Review 2007," April 4, 2008, pages 4, 6 and 7

Figure 16



Source: U.S. Census Bureau for manufacturing data and Oil Daily for oil

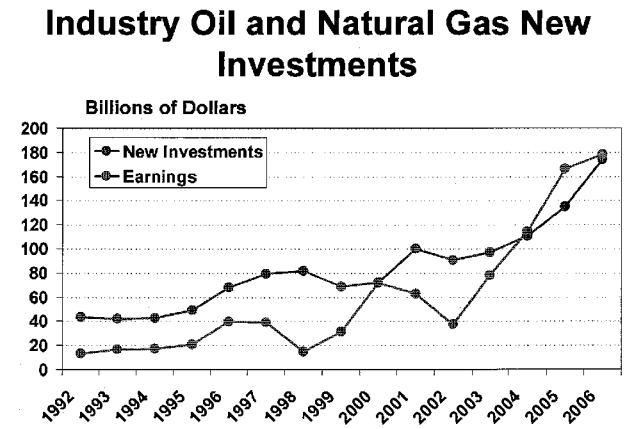
Historical returns for the refining industry have been weak because the industry is highly capital intensive and is required to invest substantial amounts of capital to meet environmental mandates for which there is often no financial return. Historically, the industry has continuously added incremental capacity that, except for a brief period in recent years, has kept pace with demand growth.

Refining margins are also highly cyclical. During periods when there is a price signal that justifies new investments, the entire industry tends to invest heavily and overshoot the new capacity needed to satisfy demand. Given the relatively slow rate of demand growth, it then takes many years to utilize the surplus capacity. Thus, the industry experiences long periods of very weak margins interrupted periodically by a few years of higher profitability that attracts new investment. I have already discussed how much capacity the International Energy Agency reports is presently being added.

The petroleum industry is reinvesting in new supply

Another common misperception is that the oil and natural gas industry is not reinvesting its earnings to develop new supplies. Figure 17 below shows that investments have increased along with earnings. For example, 2006 investments of more than $174 billion increased by 29 percent over 2005. Between 1992 and 2006, the U.S. oil industry invested more than $1.25 trillion into a variety of long-term energy initiatives, compared to net income of $900 billion. Some also express concerns over the industry's rate of stock repurchases. However, according to U.S. Department of Energy data, for the last 11 years, the industry spent only 21 percent of net income on stock repurchases, compared to the S&P industrials repurchase rate of 52 percent.[35] Despite the relatively low stock repurchase rate, the oil and gas industry would likely reinvest at even higher rates if governments made more resourcesavailable for development.

Figure 17



Source: Ernst & Young

[35] American Petroleum Institute, "The Truth About Oil and Gasoline: An API Primer," May 9, 2008, page 13

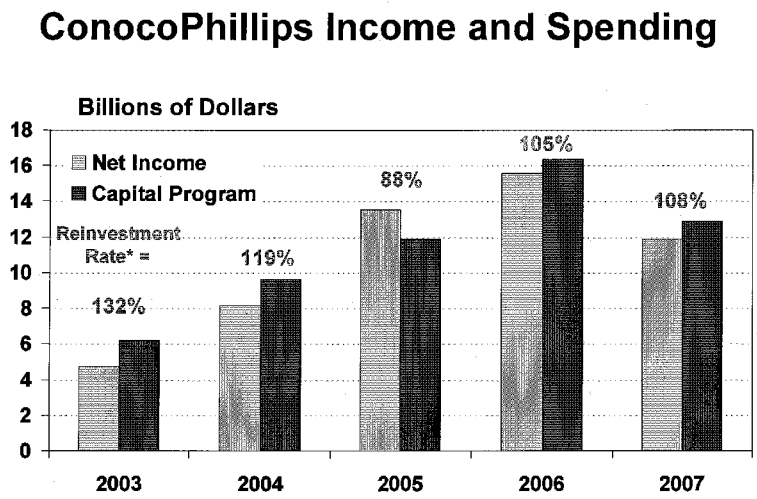
ConocoPhillips' Activities to Increase Supplies

ConocoPhillips is making substantial investments to add new oil and natural gas supplies, and thus help to ease upward pressure on consumer prices.

Reinvestment Rates

ConocoPhillips' reinvestments to develop new supplies have typically exceeded its earnings. Figure 18 below shows that between 2003 and 2007 the company's reinvestment rate as a percent of net income averaged 106 percent. In addition, capital spending increased nearly 150 percent between 2003 and our projected 2008 spending level of about $15 billion.

Figure 18



* Reinvestment rate as a percent of net income
Source: ConocoPhillips' SEC filings

Upstream investment and exploration

ConocoPhillips has significant investments planned to develop oil and natural gas resources in North America. In 2008, we will spend more than $6 billion in North America, with two-thirds of that amount earmarked for the United States.

North America is a key focus area for ConocoPhillips. For exploration, we predominantly operate in large resource plays onshore and the deepwater trend in the Gulf of Mexico offshore. In the Arctic, we have exploration acreage in the Chukchi Sea, Mackenzie Beaufort Sea and Canadian arctic islands. In fact, we are planning on spending more than $890 million this year alone for our high bids in Gulf of Mexico and Chukchi Sea lease sales.

Heavy oil – The Canadian oil sands are projected to become an increasingly important source of oil for the United States, particularly considering recent declines in heavy oil production in Mexico, Venezuela and California. The Canadian oil sands are projected to potentially provide nearly 20 percent of U.S. oil supplies by 2020.[36]

ConocoPhillips has a leading land position in the Canadian Athabasca oil sands and is actively investing to produce this oil, transport it to and refine it at our U.S. refineries, including our EnCana joint venture refineries. We have access to over 15 billion barrels of net potential oil resources, and plans are in place to increase our net production to about 400,000 barrels per day over the next decade. In 2008 alone, we are spending $900 million in development capital on the Canadian oil sands. ConocoPhillips is also spending significantly on technology to improve heavy oil output and reduce the resulting environmental and carbon footprint of the steam-assisted gravity drainage (SAGD) extraction process that is increasingly used to produce the heavy oil.

ConocoPhillips also has a 50 percent interest in the planned 2,148-mile Keystone oil pipeline, which will transport additional Canadian crude oil to the United States. The pipeline will have an initial nominal capacity of 435,000 barrels per day in late 2009 and will be expanded to a nominal capacity of 590,000 barrels per day in late 2010.

[36] Purvin and Gertz (18.5%)

We are working to expand the Wood River refinery in Illinois to enable it to utilize additional volumes from the Canadian oil sands. This expansion will increase Wood River'sheavy oil inputs by 54,000 barrels per day and increase the yield of total clean-fuel refined products by 80,000 barrels per day. This proposed expansion has been delayed by a pending appeal of a permit that was previously granted for the project by the Illinois Environmental Protection Agency.

Natural gas – ConocoPhillips was one of the leading natural gas producers in the United States in 2007, producing about 2.3 billion cubic feet per day. ConocoPhillips has a significant domestic natural gas resource base (about 12.6 trillion cubic feet of proved gas reserves), and is actively adding acreage in large resourceplays and exploring for additional supplies. For example, we plan to drill more than 200 exploration wells onshore in North America during 2008.

We are also investing to improve our natural gas delivery capabilities. We have a 25 percent ownership position in the Rockies Express pipeline, which is being built to move trapped natural gas from the Rocky Mountains region to Midwest and East Coast markets. We also have invested in liquefied natural gas (LNG) regasification facilities on the Gulf Coast in order to provide a potential outlet for LNG supplies we are developing around the world.

Arctic – ConocoPhillips is Alaska's largest oil and natural gas producer, with production of nearly 300,000 barrels of oil equivalent per day in 2007.

Alaska holds significant stranded natural gas resources, which if connected to the lower 48 states, would increase commercially proven U.S. gas reserves by about 17 percent. ConocoPhillips has long urged progress on the proposed 4 billion cubic feet per day Alaska natural gas pipeline, and we applaud Congress for your bipartisan efforts in passing the needed "Enabling Legislation" to progress this project. We are moving forward on planning the pipeline and are continuing our dialogue to deliver a project acceptable to all stakeholders. In order for this project to advance, it will ultimately need close cooperation between all resource owners, the State of Alaska and the Canadian and U.S. federal governments.

ConocoPhillips is also working with our partners, native groups and the Canadian federal government to move the 763-mile Mackenzie Delta gas pipeline project forward. The 1.2 billion cubic feet per day pipeline project would connect northern onshore gas fields with North American markets and provide consumers additional supplies of much needed natural gas.

Refining, marketing and transportation

In 2008, ConocoPhillips plans to invest $2.8 billion in our global refining, marketing and transportation operations. Of that amount, 74 percent will be invested in the United States and 69 percent will be invested in global refining.

Over the next five years (2008-2012), we plan to invest $7.0 - $7.5 billion in our base refining, marketing and transportation business, with 80 percent of that allocated for investments to improve reliability and safety, expand clean fuels production and reduce emissions. The other 20 percent will be for projects that reduce costs and improve efficiency. The large scale of ongoing capital requirements for safety and reliability and to meet all regulatory requirements makes it challenging for the refining industry to achieve attractive returns on capital.

We also plan to spend $6.5 - $7.0 billion over the next five years (2008-2012) on strategic investments, which are primarily refinery projects that increase crude oil refining capacity, raise clean product yields, or enhance the ability to utilize low-cost (and thus more difficult to refine) crude supply.

We are also targeting a 10 percent reduction in the energy intensity index of our U.S. refining system by 2012, as part of a voluntary commitment through the American Petroleum Institute to reduce carbon dioxide emissions in the U.S. refining sector. This reduction also makes good business sense because, as a large consumer of energy, the refining industry has been adversely impacted by higher energy prices in recent years.

Alternative and unconventional fuels

Renewable energy – ConocoPhillips is already a large blender of conventional ethanol in the United States. As the nation's second-largest refiner and fuels producer, during 2007 our marketers in the United States sold about 425 million gallons of ethanol, equivalent to a nationwide blend rate of 4.7 percent. About 55 percent of our gasoline sales contain ethanol. Additionally, we are rapidly expanding our U.S. ethanol blending capabilities. We have expanded capability for blending ethanol to 120 terminals this year (including proprietary and third party terminals) and are evaluating additional expansions. We are selectively adding biodiesel blending capabilities, although this fuel is currently priced higher than petroleum-based diesel fuel, and the economics of blending are challenged.

E-85 fuel is being marketed under our branded canopy in a number of states with over 2,500 potential sites, provided the marketer meets certain image, safety and fuel-quality guidelines. Thus far, the consumer response to E-85 has been disappointing. Many retailers who have installed E-85 dispensers report insufficient consumer demand to justify the expense of the conversion. The problem is that only 3 percent of the U.S. passenger vehicle fleet possesses flexible fuel capability today and consumers who own these vehicles are often unaware of it. In addition, consumers are concerned about the roughly 25-percent reduction in gas mileage sustained from using E-85 versus conventional gasoline.

Biodiesel is also being test marketed under our branded canopy, with under-the-canopy sales of unbranded B11 in Illinois and of branded B5 in certain farm states, again provided that the marketer meets specific image, safety and fuel-quality guidelines. Over 800 branded sites could potentially pilot market biodiesel in certain states.

The company is also engaged in the development and production of new biofuels that have a better environmental footprint than existing sources. We currently produce renewable diesel fuel at our Whitegate refinery in Ireland using vegetable oils as a feedstock and are test manufacturing the process at the Borger refinery (a joint venture with EnCana) in Texas as part of our arrangement with Tyson Foods to utilize by-product animal fat as a feedstock. The technology is performing well, but the economics are threatened by rising raw material costs

and the prospective loss of federal tax credits that are available to competing biomass-based diesel fuels.

ConocoPhillips conducts or funds internal and external research on new biomass fuels and has a joint development agreement with Archer Daniels Midland to develop fuels from agricultural waste. We have a major relationship with Iowa State University to research all phases of biofuels, and are a founding member of the Colorado Center for Biorefining and Biofuels, a cooperative research and educational center devoted to the conversion of biomass to fuels and other products.

Further, ConocoPhillips has created an internal group dedicated to evaluating opportunities to invest in solar, wind and geothermal power projects.

Alternative automotive technology – ConocoPhillips has participated in the FreedomCAR and Fuel Partnership with the U.S. Department of Energy, automobile manufacturers and other fuel providers since 2003. We are also working to facilitate wider use of electric vehicles by developing high-performance materials for lithium-ion batteries, a critical component in these vehicles.

Gasification – ConocoPhillips' E-Gas™ technology is a leading, commercially proven gasification technique. We are developing projects based on this technology and licensing it to others to utilize in producing synthetic natural gas, electrical power and a variety of chemicals. Our two major E-Gas™ equity gasification projects could be on line by 2014, at total expected gross capital costs of up to $7 billion.

Heavy oil and unconventional oil and natural gas – ConocoPhillips is presently undertaking significant research to improve the recovery of heavy oil and unconventional oil, such as oil shale, and improve energy efficiency throughout the production, transportation and processing value chain. We are also undertaking research and development focused on reducing their environmental footprint in terms of greenhouse gas emissions, water and land use.

Other focus areas for our research and development efforts include improving recovery of challenged natural gas and developing methods to commercially produce methane hydrates.

Carbon dioxide capture and storage and water usage – ConocoPhillips believes that development of carbon capture and storage (CCS) technology is essential, in that it will improve the environmental sustainability and acceptability of available fossil fuel resources. The company funds internal research as well as university research programs in the United States, Canada, Australia, Norway and the United Kingdom that are investigating CCS technology and how it can be customized to meet our industry's needs and the needs of our specific sites. We are in the planning phases for selecting several possible CCS sites in the United States and other countries.

ConocoPhillips believes that reducing the footprint of energy production operations on water resources will help improve the sustainability of both conventional and alternative energy sources. We are measuring our freshwater usage and developing detailed water assessments of selected business units, bringing greater focus to water management as a fundamental component of business planning. In addition to technology work underway in our existing Oklahoma laboratories, we recently announced the establishment of the Qatar Water Sustainability Center, with the long-term vision that it will become a corporate center of excellence for water-related technologies.

Path To A Sound Energy Policy

ConocoPhillips believes there are several concrete steps that Congress can take to enhance the nation's energy security. We want to first emphasize that despite the current tight market, the world is not short of energy supplies. Rather, it lacks sufficient political will to develop the vast fossil fuel and alternative resources that are available. Additionally, it is vital to point out that there is no "silver bullet" that would quickly and inexpensively replace fossil fuels and create energy security. Instead, the United States must bring all economic sources of energy to the marketplace, while promoting energy conservation and addressing environmental concerns. Doing so will require a national commitment and strong political leadership, as well as sound insight into the realities of the energy market.

ConocoPhillips believes a sound U.S. energy policy must incorporate the six actions explained below:

- Encouraging conventional supplies,
- Optimizing biofuels production,
- Encouraging alternative and unconventional sources,
- Lowering the carbon intensity of energy supplies,
- Improving energy efficiency, and
- Encouraging technology innovation

All of these policies are designed to reduce demand and increase conventional and alternative supplies, which are the only effective ways to reduce energy prices and increase energy security. We believe it is equally important for policymakers to refrain from adopting policies that will either increase demand or reduce supply, such as removing important price signals during supply disruptions or raising taxes on the energy companies that need high cash flow to reinvest in new, higher-cost supplies.

Encouraging conventional supplies

U.S. reserves could be increased by suspending federal drilling moratoria on non-sensitive lands and offshore areas that are currently off limits but doing so under strict environmental regulations. All together, these areas are estimated to hold 80 billion barrels of recoverable oil and natural gas equivalent – enough to double current U.S. reserves.

Congress should also facilitate the building of the critical infrastructure needed to deliver energy supplies to the public. The United States needs more ethanol unloading and blending terminals, more pipelines, power transmission lines, and more refinery expansions. But duplicate and overlapping federal and state laws, and overly long and difficult regulatory

processes, discourage or delay such infrastructure additions, particularly for refineries. Where infrastructure is clearly needed to serve the national interest, Congress should expedite federal and state permitting processes to ensure a balance between federal, state and local and special interests.

A related issue is the proliferation of different types of gasoline. State mandates require production of 16 localized "boutique" blends for particular markets, multiplied by three different octane grades and by different winter and summer blends. Also, some states now require boutique biofuels blends. The result is a profusion of different fuels, each with its own specifications. These boutique blends raise gasoline prices for consumers, and prevent the transfer of fuels from one region to another in the event of logistical or operational challenges. This causes shortages and price spikes. Congress could alleviate these problems by setting uniform national fuel requirements.

Optimizing biofuels production

Moving to biofuels, the Energy Independence and Security Act of 2007 mandates the use of 36 billion gallons by 2022. While this is a laudable objective, some improvements to that statute are needed.

First, the creation of different "silos" or categories of biofuels reduces flexibility in complying with the mandate, which is likely to cause inefficiency and increase costs. The Act also presumes to know what the best technologies will be 14 years from now. Congress should not attempt to pick "winning" technologies. Instead, a more sound approach would be to enact incentives or mandates that are both technology-neutral and fuel-neutral. For example, it is not reasonable for biodiesel to qualify for tax support, while renewable diesel fuel does not. As long as both processes use renewable feedstock, support should be neutral and treatment equal.

A second concern is mandating a level of biofuels use exceeding 15 billion gallons. Such concentrations will exceed the capability of both the vehicle fleet to consume the fuel and the supply infrastructure to deliver the fuel. Also, advanced biofuels that do not use potential food sources as a feedstock cannot be produced commercially today. The Environmental Protection

Agency has the ability to waive high mandated volumes if technology and production have not advanced sufficiently. However, such waivers are made known only a few months before the start of a compliance year, which does not allow fuel providers sufficient time to plan optimized and efficient compliance activities.

A third concern is the current 54-cent-per-gallon tariff on imported ethanol, which penalizes lower-cost and less carbon-intensive imports, such as from Brazil. This tariff should be phased out or eliminated.

Finally, ConocoPhillips is quite concerned about the potential for governments to layer on overlapping policies. For example, we hear that policies are being considered to add a national low-carbon fuel standard on top of a low-carbon renewable fuel standard. The overlap between these programs would further confound the overlap of state programs previously discussed. If the United States continues to overly constrain its production and supply systems, the result will likely be higher fuel costs and possibly even supply outages.

Encouraging alternative and unconventional sources

While alternative and unconventional energy sources will be essential in the future, it is important to recognize that new technologies take time to commercialize and usually cost more than conventional supplies. Here, Congress is at risk of too strongly favoring politically expedient energy sources. The market should determine the best technologies in order to avoid over-reliance on old technologies or uneconomical energy sources.

Lowering the carbon intensity of energy supplies

We would encourage future Congressional policies to focus on lowering the carbon intensity of U.S. energy supplies, and work to encourage the global community to join in this effort.

Congress could take action to reduce our nation's carbon footprint by creating a mandatory framework that would lower our greenhouse gas emissions, and set a price for carbon avoidance. This could be done by either a tax or a cap-and-trade system.

Incentives should be offered for development of carbon capture and storage, as well as establishing a national legal and regulatory framework for liability and permitting. And the government should provide access to federal lands that offer the potential for underground carbon storage.

Next, Congress should encourage greater use of renewable sources – such as solar and wind power – by extending their investment tax credits by five years at a time. This would help provide the financial certainty needed for investment. Development of these renewables benefits the public at large and should be paid for with public funding, not by imposing discriminatory tax provisions on three or four American companies, as is being considered.

Congress should also encourage greater use of nuclear power. To do so, the federal government should fulfill its commitment to dispose of waste generated by nuclear power plants. It should also sponsor research into advanced technology that uses the fuel more completely – while reducing waste volumes and half-life – and lowering proliferation risks.

Improving energy efficiency

The Energy Independence and Security Act of 2007 did much to improve fuel efficiency standards for light-duty vehicles and appliances, and ConocoPhillips commends Congress for this bold action. We also encourage governments to take action to slow the rate of growth in peak electricity use, which would otherwise increase natural gas demand in the United States. The government could help reduce peak electricity demand by enacting regulatory and fiscal incentives that encourage utilities to reduce electricity demand by offering more transparent real-time pricing that shows consumers the cost of power as they use it.

Encouraging technology innovation

It is also vital that Congress encourage investment in new technologies in all areas of energy conservation and development. Both the public and private sectors should increase spending on energy research and development. Government technology investments should be made in a transparent and market-based manner, with incentives going to the best ideas.

The government could further drive technological innovation through greater support of education. With half of the energy industry's technical work force expected to reach retirement eligibility in the next 10 years, there is growing need for more university students majoring in engineering, geology, geophysics and the other technical disciplines.

Policies to avoid

Avoiding policies that will reduce energy security is as important as implementing good policies. We highly recommend avoiding the following policies that we believe will make consumers worse off than they are today.

Petroleum price-gouging legislation – ConocoPhillips does not condone or tolerate taking advantage of consumers in times of crisis. However, we do not support price gouging legislation because it will exacerbate shortages during supply disruptions and consumers will be worse off.

Price gouging is a difficult concept to define. Many state statutes and regulations that attempt to address price gouging utilize definitions that either are difficult to apply or fail to give clear guidance as to what constitutes "price gouging." This makes it difficult for businesses to comply and governments to enforce. More importantly, price gouging legislation tends to function like price controls, which distort market price signals that act to efficiently allocate fuel. During supply disruptions, the rising price sends an important signal to consumers to conserve and suppliers to move more refined product into the impacted area. In this manner, the balance between supply and demand is restored. Without this price mechanism, panic stockpiling would increase demand and additional supplies would not be forthcoming. The shortage would be exacerbated. That is exactly what we saw in the early 1970s when price controls caused long lines at gasoline stations. According to the American Council for Capital Formation, if price controls were in effect following Hurricanes Katrina and Rita, it would have added an extra $1.9 billion in economic losses due to supply shortages.[37]

[37] Dr. Margo Thorning, "U.S. Gasoline Supplies: What Should Congress Do?" American Council for Capital Formation, June 13, 2007, page 2

Markets are working. Repeated investigations, including those associated with hurricanes Katrina and Rita, have consistently found that petroleum markets operate competitively. The FTC concluded in their investigation of post-Katrina gasoline price increases "in light of the amount of crude oil production and refining capacity knocked out by Katrina and Rita, the sizes of the post-hurricane price increases were approximately what would be predicted by the standard supply and demand paradigm that presumes a market is performing competitively."[38] The FTC also concluded that "evidence gathered during our investigation indicated that the conduct of firms in response to the supply shocks caused by the hurricanes was consistent with competition. After both hurricanes, companies with unaffected assets diverted supplies to high-priced areas. This is what we would expect in competitive markets. Refiners deferred scheduled maintenance in order to keep refineries operating. Imports increased and companies drew down existing inventories to help meet the shortfall in supply."[39] The industry's supply response after these hurricanes that temporarily shut down nearly 30% of total U.S. refining capacity was so effective that the average retail gasoline price returned to pre-hurricane levels within one month of the landfall of Hurricane Rita.

Tax increases on the oil industry – H.R. 5351 contains a number of tax incentives for alternative fuel and conservation programs that would be paid for by the oil industry. Specifically, this bill repeals the Section 199 domestic manufacturing deduction for the major integrated oil companies. It would discriminatorily deny our company the benefit of a tax deduction that is available to every other industry. It would discourage new domestic oil and natural gas investments by making those comparatively costly energy projects even less economically competitive with competing foreign investments. The Section 199 deduction encourages more oil and natural gas production in this country and in doing so, preserves high-paying U.S. jobs, which was intended by its enactment.

H.R. 5351 would also further restrict our industry's use of foreign tax credits, which would negatively impact our ability to compete for the energy resources that American consumers

[38] Federal Trade Commission, "Investigation of Gasoline Price Manipulation and Post-Katrina Gasoline Price Increases," Spring 2006, page 17
[39] Ibid., page 17

need. The foreign tax credit has been characterized by some as a "tax break" for our industry. It is not. It simply eliminates double taxation.

We are also concerned about proposals for windfall profits taxes on the oil industry. We are concerned that any tax increases on the industry would reduce our ability to invest in new supplies, which is already challenged by constrained resource access and high cost inflation. Tax increases reduce the cash available for spending on new supplies and reduce the value of growing or even maintaining high cost, marginal production, which is typical of mature oil basins in the United States. This would further tighten the energy market and increase oil imports – the opposite of Congress' intent. This nation already learned this lesson from the windfall profits tax imposed on the domestic oil industry between 1980 and 1988. According to the Congressional Research Service, this tax reduced domestic oil production by as much as 6 percent and increased oil imports by as much as 16 percent.[40] In addition, much of what is perceived as a windfall today is actually the substantially higher cost structure of the industry.

These tax proposals also ignore the fact that our industry already pays more than our fair share of taxes. In a recent survey of 80 diverse American companies, ConocoPhillips' effective tax rate between 2004 and 2006 of 43.6 percent was the highest, about 14 percent higher than the average.[41] Income taxes paid by domestic energy producers have already increased by 460 percent between 2002 and 2005.[42] Income taxes are only one of the ways we contribute to government revenues. We also pay royalties, production and excise taxes, and lease bonuses, the latter of which are paid whether you discover hydrocarbons or have a dry hole. When you take all these other forms of government payment into account, our effective tax rates are much higher. For example, our incremental fiscal-take rate[43] in Alaska is about 90 percent at current oil prices.

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[40] U.S. Congressional Research Service, "The Windfall Profits Tax on Crude Oil: Overview of the Issues," September 12, 1990, page 2

[41] Martin A. Sullivan, "Reported Corporate Effective Tax Rates Down Since Late 1990s," Tax Notes, February 25, 2008

[42] U.S. Department of Energy, Energy Information Administration, "Performance Profiles of Major Energy Producers 2006," Table B12 ($14.5 billion in 2002 to $81.5 billion in 2006)

[43] The amount of an incremental dollar in revenue that is paid to the government (state and federal) in the form of production taxes, royalties, federal and state income taxes and any other taxes; incremental rate in Alaska is 90% at $115/bbl oil price

Conclusion

Improving energy security and reducing the risk of climate change are formidable challenges. As one of America's leading energy suppliers, ConocoPhillips intends to be part of the solution to both problems. We encourage an atmosphere of cooperation between the U.S. Congress and the energy industry and we are eager to engage with you in finding solutions for meeting this country's energy needs.

Unfortunately, at a time when the world needs more energy, rising worldwide resource nationalism in other countries and limited access to resources here at home areimpeding our crucial efforts to replace current production with new reserves. In other countries, governments work closely with their domestic energy industry to assure access to resources and to build critical energy infrastructure. In the United States, government regulations have made it increasingly difficult to develop new sources of supply and build new energy infrastructure. The threats made by some to increase taxes on an industry that already has very high tax rates will, if carried out, further reduce our ability to expand supply.

The United States has much to gain from a healthy U.S. energy industry that can compete domestically and globally to expand the energy supply available to the United States. Actions taken to weaken the U.S. energy industry will accelerate the shift in control of resources into the hands of national and foreign oil companies at our expense. China, India, the European Union and other nations are deeply engaged in helping their energy industries capture resources to meet the future energy needs of their constituents. We must work together to ensure that our nation's energy needs are met.

Again, Mr. Chairman, thank you for inviting ConocoPhillips to participate in today's hearing. We look forward to working with this important task force in the days ahead.

Mr. CONYERS. Thank you very much.

We are pleased now to recognize Rob Malone, Chairman and President of BP America.

TESTIMONY OF ROBERT A. MALONE, CHAIRMAN AND PRESIDENT, BP AMERICA

Mr. MALONE. Thank you, Mr. Chairman, Ranking Member Chabot, Members of the Committee. Good afternoon.

We know that high energy prices are having an adverse effect on our economy and on our workers and families across this nation. Not a week goes by that I don't receive letters from consumers about the impact that they are feeling from high energy prices.

Unfortunately, I cannot and we cannot change the world market on which this nation now relies for 60 percent of the oil it consumes every day. But what we can do is to work together with this Congress, with the Administration and with governments and consumers to move toward greater energy security and a lower carbon energy future.

Today's high prices are linked to the failure both here and abroad to increase the supply of oil and gas and renewables and to reduce demand through conservation and energy efficiency.

The oil market is tight. Geopolitical risk and concern about future supply have had a big impact on price. We are working hard to expand and diversify U.S. energy supply. We are the nation's largest producer of domestic oil and gas and one of the nation's largest energy investors.

In the last 5 years, we have invested $31.5 billion in development of U.S. energy supply, almost dollar for dollar of our net income.

We expect to spend $30 billion over the next 5 years to maintain production of natural gas from the Rocky Mountain area, to renew critical infrastructure in Alaska, to continue development of the deepwater Gulf of Mexico, and to increase gasoline production at two of our Midwest refineries.

We are nearly doubling the capacity of our Frederick, Maryland solar plant and, by the end of this year, we expect to have 1,000 megawatts of U.S. wind power capacity online, increasing to 2,400 megawatts by the end of 2010.

We are already one of the largest blenders of ethanol in the nation. However, over the next decade, we will invest more than $500 million in the search for a new generation of biofuels that contains more energy, has less impact on the environment, and which is not made from a food crop.

Together with my colleague here from ConocoPhillips, we have recently announced the largest private sector investment ever in the United States, the Denali, Alaska gas line project.

Our investments across the entire energy spectrum are huge, but the hard truth is that even with major improvements in energy efficiency and the rapid growth of solar, wind and biofuels, the United States is going to need more oil, more natural gas, more coal and more nuclear power in 2030 than it does today.

The United States, with 5 percent of the world's population, is consuming 25 percent of daily world oil production. The U.S. has

to produce more of the energy it consumes and it has a responsibility to use the energy wisely.

On the supply side, we support incentives for alternative energy. But taxing one form of energy to encourage production of another will reduce our ability to keep up with the growing U.S. energy demand.

The results will be less investment, less production, tighter energy markets, and potentially even higher prices at the pump.

This nation should be encouraging production of all forms of energy, especially oil and gas. But adopting measures that limit access to U.S. resources, that dampen investment in infrastructure, discourage trade with our Canadian neighbors is going to make it increasingly difficult and make our economy more vulnerable to market influences.

My company is serious about bringing new sources of oil and gas to the U.S. market. We are also serious about building a sustainable, profitable alternative energy business that is capable of delivering the clean and affordable power that consumers want.

My company is ready to work with you and others to address the energy and environmental needs of this nation through a bipartisan and comprehensive energy policy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Malone follows:]

PREPARED STATEMENT OF ROBERT A. MALONE

House Judiciary Committee
May 22, 2008

Written Testimony

Robert A. Malone
Chairman & President, BP America

My name is Bob Malone and I am Chairman and President of BP America.

BP appreciates the opportunity to provide the Committee with information concerning our operations and investments. I am proud of our investments and the commitment they represent to the development of a secure energy future in the US. I am here today to convey BP's perspective about the marketplace and share our understanding of the choices we as Americans must make in order to ensure a diverse and adequate energy supply for future generations.

We are privileged to be the nation's largest producer of domestic oil and gas and one of the nation's largest energy investors. In 2007 BP's US production of oil was 513,000 bpd and gas production was over 2 Bcfd.

We operate the largest integrated solar manufacturing plant in the United States in nearby Frederick, Maryland.

We are major investors in wind generation and have amassed a land portfolio capable of potentially supporting 15,000 megawatts (MW) of wind generation, one of the largest positions in the country. We are building 700 MW of wind generation this year and expect to have an installed capacity of 2,400 MW of wind power by the end of 2010.

We are one of the largest blenders and marketers of biofuels in the nation. Last year, BP blended 763 million gallons of ethanol with gasoline and we are underwriting cutting edge research – investing

more than $500 million over the next 10 years –in the search for a new generation of biofuels that contain more energy… have less impact on the environment… and which do not reduce the supply or increase the cost of food. Further, we just announced the creation of a new $1 billion joint venture in Brazil that will build two sugarcane ethanol manufacturing facilities to supply Brazil and the growing demand markets in the US and Europe.

BP and ConocoPhillips have recently announced the launch of Denali - The Alaska Natural Gas Pipeline project. Denali will be largest private sector construction project ever built in North America, and the first major commercialization of Alaska North Slope gas.

We are attempting to develop hydrogen power generation with carbon capture and sequestration. In California we are evaluating a $2 billion, industrial scale project that will use petroleum coke to make hydrogen for use in power generation. Carbon dioxide, a byproduct of producing hydrogen, will be captured and safely and permanently stored underground.

In short, BP America is working to expand the supply of energy available to the United States and is committed to continue reducing the environmental impact of both energy production and consumption.

Our approach has been shaped by a hard truth.

Hard Truths

The US today is faced with tremendous energy challenges. It is experiencing the impact of years of policies, poor market dynamics and company decisions that have limited access to resources, discouraged development and constrained new investment to meet growing consumer demand for energy. BP recognizes the negative effects high prices have on the economy and the consumer. We alone can't change the conditions that brought us here. Energy companies, policymakers and consumers all have a role to play in creating a new energy future for the US.

This relationship must be shaped by the recognition that the US economy needs both to better conserve energy and to produce more energy of every type to meet growing demand. We need to invest in conventional oil and gas. We also need to invest in renewables and alternatives to begin the transition to a low carbon future. However, we must all understand that this future is many years away and that renewables and alternatives will not make a material contribution to total US energy supply for many years.

This view is reflected in a recent study issued by The National Petroleum Council in July of 2007 - Facing the Hard Truths About Energy. It was an in-depth, comprehensive review of the entire energy sector that benefited from participation and support from a diverse group of stakeholders and more than 1000 persons/groups involved in energy.

I have integrated its observations and conclusions below and added emphasis as necessary.

> *There is no single, easy solution to the global challenges ahead. Given the massive scale of the global energy system and the long lead-times necessary to make material changes, actions must be initiated now and sustained over the long term. Over the next 25 years, the US and the world face hard truths about the global energy future:*
>
> - ***Coal, oil, and natural gas will remain indispensable to meeting total projected energy demand growth.***
> - *The world is not running out of energy resources, but there are accumulating risks to continuing expansion of oil and natural gas production from the conventional sources relied upon historically. These risks create significant challenges to meeting projected total energy demand.*
> - *To mitigate these risks,* ***expansion of all economic energy sources will be required, including coal, nuclear, biomass, other renewables, and unconventional oil and natural gas****. Each of these sources faces significant challenges including safety, environmental, political, or economic hurdles, and imposes infrastructure requirements for development and delivery.*

The Council proposed five core strategies to assist markets in meeting the energy challenges to 2030 and beyond. All five strategies are essential, the US must:

- ***Moderate the growing demand for energy*** *by increasing efficiency of transportation, residential, commercial, and industrial uses.*
- ***Expand and diversify production*** *from clean coal, nuclear, biomass, other renewables, and unconventional oil and gas; moderate the decline of conventional domestic oil and gas production; and increase access for development of new resources.*
- ***Integrate energy policy into trade, economic, environmental, security, and foreign policies****; strengthen global energy trade and investment; and broaden dialogue with both producing and consuming nations to improve global energy security.*
- ***Enhance science and engineering capabilities*** *and create long-term opportunities for research and development in all phases of the energy supply and demand system.*
- ***Develop the legal and regulatory framework*** *to enable carbon capture and sequestration. In addition, as policymakers consider options to reduce carbon dioxide emissions, provide an effective global framework for carbon management, including establishment of a transparent, predictable, economy-wide cost for carbon dioxide emissions.*

The above excerpts only begin to touch upon the level of analysis contained in the nearly 400 page report. This report provides a complete assessment and a non-partisan roadmap on how and what to do in the area of energy policy.

BP Operations in America

BP's US operations have been challenged over the last few years - significantly impacted by a series of accidents and operational problems in both our refining and upstream businesses. BP has made significant investments to upgrade its assets, strengthen operations, improve its safety performance, and enhance compliance to prevent another such period from happening again.

Over the last 5 years, BP in America earned approximately $31.7 billion after-tax. Income taxes paid over the period have steadily increased to an effective rate of 37% in 2007 – with BP paying over $14 billion in income tax over the period. Regarding investments,

over the last 5 years BP has reinvested in the US $31.5 billion into projects across the energy spectrum. In 2007 alone, we invested three quarters of a billion dollars or 10 percent of our $7.5 billion US capital budget in alternative energy. And, over the next decade, we expect to continue to invest an average of $6 billion a year.

There are some who say oil industry profitability is excessive. But this ignores the size and scale of our business. Comparing oil industry performance to that of the broader market average (Exhibit 1) shows that our earnings are comparable. Looking at all the industrial sectors, oil and gas industry performance was in the middle of the pack (Exhibit 2).

BP's investments stretch from the Gulf of Mexico to the North Slope of Alaska and from the East Coast to the Midwest and the West Coast. The company's major spending programs also touch every major segment of the energy industry, from exploration and production of oil and natural gas through refining and distribution of fuel products, as well as alternative energy and biofuels. By heavily investing in a diverse range of energy sources – from traditional oil and natural gas production to alternative and renewable energy including solar, wind and hydrogen power – BP is helping meet America's energy needs today while ensuring a more secure energy future.

Below is a partial list of our current major investments:

Energy Biosciences Institute - $500 million
The institute is a joint collaboration with the University of California Berkeley, University of Illinois – Urbana Champaign and the Lawrence Berkeley National Lab. The project will look at the entire biofuels value chain – from feedstock to enzymes to process and on through to advanced biofuels molecules.

Colorado Natural Gas - $2.4 billion
Increase ultimate recovery of coalbed natural gas from the San Juan Basin of southwestern Colorado by an estimated 1.9 trillion cubic feet. The 13-year development program would

increase current BP net production of 425 million cubic feet per day by more than 20 percent, and maintain production above present levels for more than a decade.

Whiting refinery modernization - $3.8 billion
Upgrade and expand the Whiting refinery to increase Canadian heavy crude oil processing capability by about 260,000 barrels per day. The project also has the potential to increase motor fuels production by about 15 percent, or about 1.7 million additional gallons of gasoline and diesel per day.

Wind Power - $700 million
BP and its partners invested about $700 million in 2007 to develop wind capacity throughout the US, including California, Colorado and Texas. During 2008, BP will construct 5 US wind farms with a total generating capacity of 700 MW and a total value of over $1.5 Billion. This will bring our total installed capacity of wind generation to over 1,000 MW by the end of 2008. By 2010, we expect to have 2,400 MW installed. This is enough power to meet the needs of 720,000 households.

Solar Manufacturing Expansion - $97 million
BP is expanding the BP Solar manufacturing facility in Maryland, nearly doubling its capacity. When completed in 2009 the plant will have a manufacturing capacity of 150 MW in its casting and sizing processes.

Deepwater Gulf of Mexico - $20 billion
BP is increasing exploration and production of oil and gas from deepwater reservoirs in the U.S. Gulf of Mexico. BP will continue development plans to explore new lease area and bring producing areas on-line (Thunderhorse, Atlantis…).

Alaska renewal - $685 million
BP is investing hundreds of millions of dollars in Alaska each year to commercialize and produce the billions of barrels of known oil resources in our Alaska portfolio. We have enough

known oil and gas resources to sustain production for the next 50 years but this will require billions of dollars in new investments.

Wyoming Natural Gas - $2.2 billion
Over the next 15 years BP will double our natural gas production in Wyoming. Several hundred new wells are planned in the Wamsutter Field, BP's largest onshore development drilling program.

Husky Energy Joint Venture – $5.5 billion
BP and Husky will jointly develop Canadian oil sands resource and upgrade and modernize BP's Toledo, OH refinery. When fully operational the project is expected to deliver an incremental 200,000 bpd of oil to the US market and allow Toledo to produce 600,000 gpd more product to Midwest consumers.

Denali – The Alaska Gas Pipeline - $600 million
BP and ConocoPhillips have launched this project to bring 4 Bcf of Alaska gas to markets in the lower 48 states. The project is expected to cost in excess of $30 billion and will be the largest private sector construction project ever built. Near term spending will be to advance the project to an open season within the next 36 months.

However, as we look to the future, the US investment climate is deteriorating. Various efforts have unnecessarily impeded viable and critical infrastructure projects; promising development areas have been declared off-limits; existing manufacturing operations have been challenged in their efforts to upgrade and expand; and new taxes have been proposed which will discourage future energy resource development. Furthermore, these stumbling blocks exist across the energy profile and are not just confined to oil and gas activities.

Support for Renewables

Emblematic of these gaps are policy discussions concerning how to support and fund the development of alternative energy resources like wind, solar and biofuels. Not surprisingly, policymakers and consumers generally support efforts that promote the development of renewable energy. As reflected in our investment portfolio, BP concurs with this sentiment. However, there is significant divergence of opinion regarding the question of how to fund the necessary financial incentives.

BP strongly supports the renewal of incentives for wind, solar, and biofuels. They are an important part of why the US has been so successful in developing its renewable energy sector, but we cannot support a tax package that discourages efforts to bring on other much needed energy sources (oil and gas production). As shown in Exhibit 3, the oil industry is already heavily taxed compared to others in the manufacturing sector. In fact, the effective rate for 2006 was nearly double that for all manufacturing companies.

Despite the growth and development activity we are experiencing in alternatives, they cannot close the supply gap that is projected to occur over the next 20 year period. Fossil fuels like coal, oil, and natural gas will be critical to meeting expected energy demand growth.

Based on our experience in developing renewable infrastructure, there are many non-financial opportunities that would be effective in stimulating additional investment. These include:

- Expedited siting and permitting of transmission to allow for the distribution of clean power (wind, solar) from generating areas to load centers;
- Providing for market, time-of-day pricing for solar power installations to allow homeowners and others to provide excess power back to the grid during the peak demand periods at the same rate utilities charge others;
- Adopting a renewable portfolio standard (RPS) that requires power generators to utilize renewable sources like wind and

solar in their mix. Experience has shown that in those states that have a RPS, renewable usage has increased significantly.

Biofuels

Similar policy gaps exist in the area of biofuels. Last year's energy bill created significant opportunities to develop and grow the contribution of biofuels to the transportation fuels market. BP shares the view of policymakers that biofuels may be able to attain penetration rates of 30% by 2030 thus playing a huge role in meeting future transportation needs. However, the legislation created new challenges that could in the end create market distortions, supply disruptions and higher consumer prices if not adequately addressed. First, the implementation timetable is very aggressive, creating a risk to delivery of fuel in sufficient quantities to the markets where it is needed. Congress, while mandating biofuels blending, did nothing to ensure that the market was prepared to accommodate the huge storage, transportation and delivery infrastructure requirements necessary to get the product to the consumer.

Perhaps the greatest concern is that if biofuels producers can't supply – fuel retailers pay a penalty; if biofuels manufacturers can't produce – fuel retailers still pay a penalty. In order to make the emerging biofuels market work effectively, there must be a shared obligation with biofuels producers to ensure product reaches the consumer at the lowest possible price. Further, we support efforts to transition incentives away from first generation biofuels to support the research, development and deployment of advanced non-food feedstocks, conversion technologies and fuel molecules. Similarly, policymakers should explore how trade policy can be improved to stimulate greater worldwide biofuels production and supply options for the US.

Climate policy

Our nation will face difficult choices as we take steps to foster economic growth, ensure our nation's energy security and protect the environment. Chief among these environmental concerns is that of global climate change.

A decade ago BP was the first oil company to acknowledge the need to reduce greenhouse gas emissions. In the years since, we have worked to reduce emissions from our own operations and to provide consumers with cleaner, lower carbon energy options. However, because the energy industry is so large, diverse and complex, there are limits to what a single company or a single facility can do to address this global problem.

For that reason, BP has long advocated for the creation of a single, mandatory US greenhouse gas emissions registry and a market-based price for carbon. Market-based programs deliver the greatest and fastest reductions at the least cost. Just as important, they create a level playing field, meaning that everyone must be part of the solution and first movers aren't placed at competitive disadvantage.

The fact that Congress has not yet addressed national climate policy has not deterred some from trying to impose requirements as if a national policy existed.

Most recently, legislation has been adopted to discourage development of Canadian oil sands - the single largest oil resource base outside of Saudi Arabia. Additionally, a bill has been introduced to prevent the US from utilizing its world leading resource position in coal for power generation. Similarly, efforts are underway to either allow or encourage state or local jurisdictions to try and impose CO2 reduction targets on individual projects in order to make them uncompetitive and further discourage resource development.

Why do I mention these examples? They clearly represent efforts to limit energy development opportunities that would enhance US energy security, economic development <u>and</u> environmental protection. One may only conclude that by limiting engagement, understanding and dialogue concerning the choices facing consumers, the public will accept the notion that all fossil fuel energy development should be discouraged.

We believe Congress should set policy goals and allow the market to decide which technologies best deliver upon the objectives it sets. To do otherwise stifles the very technology breakthroughs and developments Congress supports.

Energy imports

Over the years, US policy has, in effect, encouraged oil and gas providers to look beyond the US border to meet growing US energy demands, yet policymakers often question our reliance on foreign oil imports. Policymakers also implore OPEC to produce and develop its own oil resources in order to reduce crude oil prices in the US. I question whether it is reasonable to rely on OPEC to solve a problem abetted by inconsistent US policy?

The US should strive to more fully develop its own resource base – to make a greater contribution to world oil supply – otherwise we will increasingly rely on imported energy to meet the needs of our growing economy.

Our nation, with 5 percent of the world's population, demands 25 percent of daily world production. I don't think this is sustainable. The US must produce more of the energy it consumes and has a responsibility to use that energy wisely.

Industry frustration levels are high because we see the potential to greatly expand US development opportunities (Exhibit 4). In fact, we have experience in the US Gulf of Mexico that demonstrates with the proper policy enablers industry will respond overwhelmingly. Since 1985, oil production from the deepwater Gulf has increased 15-fold, from 58,000 to 870,000 barrels per day. Despite water depths in excess of 1 1/2 miles, well depths as great as 30,000 ft and operating temperatures and pressures greater than we have ever experienced, industry responded to Government encouragement to invest, explore and develop this resource base. This is a huge success story as the deepwater Gulf now accounts for every sixth barrel of oil produced in the US.

We have no reason to believe that this success can't be replicated in other areas across the US.

Energy Markets

Your hearing notice indicated an interest in understanding the drivers behind the run-up in crude oil and gasoline prices. The following provides a brief synopsis of our market view.

Crude oil prices have increased sharply in recent years and have recently set record inflation-adjusted highs. The US benchmark West Texas Intermediate rose from an average of about $26 per barrel in 2001/02 to $72.20 in 2006. So far this year, WTI has averaged $102.51 (through May 6th), and peaked at $121.86 on May 6th.[1]

Tightening oil market fundamentals have been the key driver of higher prices. Economic growth is always a key driver of oil demand, and the world has just seen the strongest 5-year period of global economic growth since the early 1970s. While China has seen strong (and particularly energy-intensive) economic growth, so has the rest of the world.

Complicating this growth profile, some developing countries and oil exporters with rapidly growing economies subsidize prices in their domestic markets, thereby shielding consumers from the impact of rising world prices. For example, Venezuelan drivers pay about 7 cents per gallon—the world's lowest price—and Iranian drivers pay about 42 cents per gallon.[2]

Supply factors have also contributed to higher prices. Production is declining in mature provinces such as the US, the North Sea, and Mexico. Growth in Russian production has slowed. Shortages of labor and supplies as our industry has ramped up spending, combined with growing resource nationalism, have resulted in widespread project delays.

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[1] Source for price data: Platts
[2] Venezuela: NY Times 29 Oct 07; Iran: Yahoo News 17 Mar 08

In addition, OPEC has more successfully managed production levels. OPEC production cuts in 2007 were a key factor in reducing inventories and increasing prices. In addition, a number of OPEC members have experienced supply outages in recent years that continue to affect production levels, beginning with the PDVSA strike in late 2002 and including the Iraq war and civil unrest in Nigeria.

In addition to current fundamentals, changing expectations about the future have also affected oil prices. Many observers feel that geopolitical risks to oil supply have increased in recent years. Expectations of rising costs (including taxes) as well as policy changes in oil-producing countries that constrain the industry's development opportunities have bolstered long-term price expectations.

At the same time, a variety of factors have resulted in growing interest among financial investors in oil and other commodities. Recently, investors have responded to fears about a US economic downturn and a weakening dollar by seeking safety in oil and other stores of value, such as gold.

All of these factors have increased the price of oil.

The capacity for energy companies to respond with more supply has been constrained by several factors:

- The project development capacity of the global energy industry atrophied in the 1990s after years of low prices. Accumulating new specialized labor and equipment takes time and is expensive.
- Marshalling sufficient labor, materials, and equipment has been slowed by competition for resources from other industries that also took part in the rapid global economic expansion earlier this decade. The shortage of workers with relevant skills in the sciences is a particular concern.
- Finally, governments have limited the ability of companies to respond by limiting access to resources and raising the cost of

doing business through new taxes and greater government regulation.

Given the labor and equipment capacity constraints, companies can and do continue bidding for a limited number of resources (drill ships, platforms, supply and heavy lift vessels) needed to produce oil. This has raised the cost of producing oil in the US and around the world.

What are the impacts of high oil prices?

Both producers and consumers are responding to higher prices. Our industry is growing investment rapidly: Official DOE data shows that US onshore Lower48 production rose in 2006 and 2007—the first increases since 1985. More broadly, non-OPEC supply continues to increase, driven by new investments in deepwater production, heavy oil, and biofuels. Consumers are also responding: Despite above average economic growth, global oil consumption growth was below average in 2006 and 2007.

However, medium-term fundamentals continue to look supportive of a high crude oil price. It appears unlikely that the outlook for supply and demand will result in a massive build-up of OPEC spare capacity as was seen prior to the price collapse in the mid-1980s.

Oil has always been—and will remain—a cyclical commodity. Lead times for capital-intensive projects are long—it can take upwards of a decade to develop a deepwater oilfield, and (on the demand side) 15 years to turn over the vehicle fleet. It is reasonable to expect that prices will again experience a downside of the cycle…at some point. At the same time, a number of factors—such as rising taxes, more costly forms of production, and difficulty accessing reserves—suggest that prices will remain above previous lows in any future downturn.

How does oil price influence gasoline price?

As shown in Exhibit 5, gasoline and diesel product price trends virtually mirror those of crude oil over the last 6-year period.

However, examining recent price movements reveals that for the period of January 1 through May 8, 2008 gasoline price increases have lagged those experienced in the crude oil market (Exhibit 6, API, and NYMEX)

Exhibit 7 graphically represents the components that make up the cost of a gallon gasoline:

- The biggest single component of retail gasoline prices is the cost of the raw material used to produce gasoline - crude oil. Crude oil alone makes up 70 percent of pump prices (API, 2007 EIA data).
- Another major factor in gasoline prices is federal, state and local taxes, which account for 13 percent of the cost (API, 2007 EIA data). The nationwide average for gasoline taxes is currently almost 46 cents per gallon.
- Refining the crude oil into gasoline and retailing accounts for 17 percent of the retail price (API, 2007 EIA data). Refining costs can be affected by several factors:
    - U.S. refineries customarily reduce production each spring for routine maintenance before the heavy summer driving season.
    - Costs to comply with various government fuel regulations
- The imbedded profit within the refining and retailing of gasoline is currently about 7.5%.

Service stations may sell gasoline from a major oil company, but about 95% of stations are operated by independent business people who determine their own prices, which include a margin to pay for their cost of doing business and to provide a profit (although a profit can't always be assured).

Retailers base pricing on a variety of factors including the station's location and size, and such expenses as delivery costs, taxes, and contractual obligations to suppliers. Retailers also react to the prices charged by competing stations. If a station prices its gasoline too high compared to competitors, customers may take their business to

a station with lower prices. If a station loses enough volume, it may then reduce prices to attract customers.

A station's retail price also typically reflects the cost to replace the gasoline currently in its tanks. If the station doesn't generate enough cash to buy its next delivery, the retailer would be using debt to finance that purchase.

What's next?

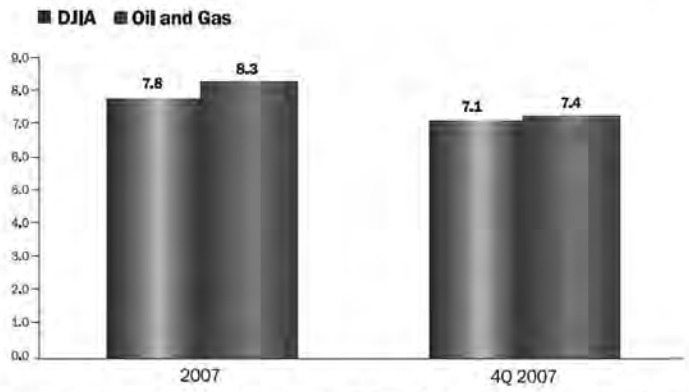
As I stated earlier, the US faces energy challenges today because of policies, market dynamics and decisions of the last few decades. Our focus should be to improve the situation and to lay the groundwork necessary to create a secure new energy future. We believe US interests are served by a strong energy industry enhancing US economic growth and enabling successful companies to better compete in the world economy.

Economic development will facilitate the necessary improvements in environmental performance across all sectors. However, a strong economy can't develop absent a coherent, comprehensive energy policy that focuses on near, mid and long-term policy measures.

BP has heard from consumers who truly feel the economic impacts of high energy prices. They recognize that prices are the culmination of policy choices made decades ago. Further, they question why energy has become a partisan issue and acknowledge that we as a country should reevaluate the choices that threaten our economic security.

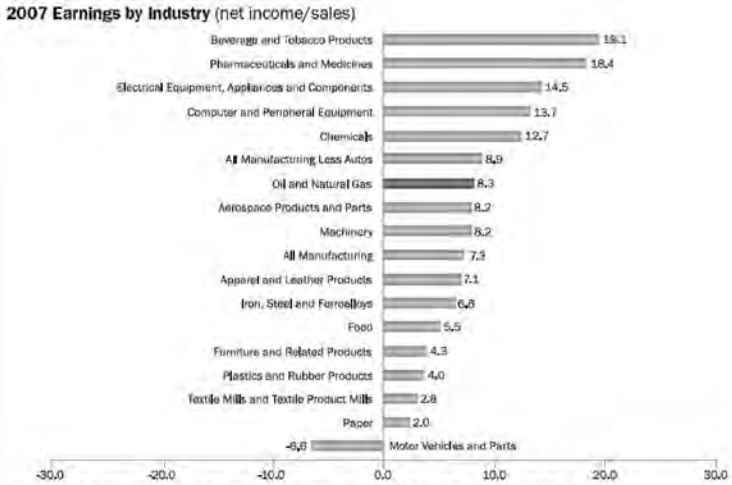
It is my commitment to pursue policies and investments that will enhance oil and gas supplies, produce more motor fuels and begin to make the transition to a lower carbon future. I would like Congress to partner with us in this journey?

Earnings of Dow Jones Industrial Average (DJIA) Companies and Oil and Gas Companies
(net income divided by revenue)



The information contained in this document is based on publicly available information. The companies included in these documents are based on the Dow Jones Industrial companies. However any reference to Dow Jones is for informational purposes only and should not be construed as an affiliation with, sponsorship of, or endorsement of the information or documents in which the Dow Jones name is referenced.

The fourth-quarter and full-year 2007 earnings for the oil and natural gas industry are very large because the companies are very large. But the earnings are not out of line when they are compared with the earnings rate of other Dow Jones Industrial Average companies by measuring the cents earned for every dollar of revenue. In fact, the average earnings rate for the Dow Jones companies is only slightly below the earnings rate for the oil and gas industry. And there are other industries that do far better than oil and gas, including pharmaceuticals, computers and chemicals.



Sources: Based on company filings with the federal government as reported by U.S. Census Bureau and *Oil Daily*.

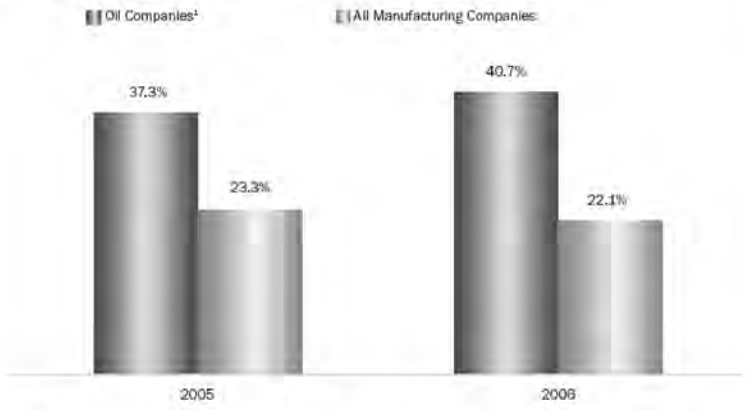
It may seem surprising that oil and natural gas earnings are typically in line with the average of other major U.S. manufacturing industries. This fact is not well-understood, however, in part because reports usually focus on only half the story—the profits earned.

Profits reflect the size of an industry, but they're not necessarily a good reflection of financial performance.

Profit margins, or earnings per dollar of sales (measured as net income divided by sales), provide one useful way to compare financial performance among industries of all sizes.

The latest published data for 2007 show the oil and natural gas industry earned 8.3 cents for every dollar of sales compared to 7.3 cents for all U.S. manufacturing and 8.9 cents for U.S. manufacturing, excluding the financially challenged auto industry.

Income Tax Expenses as Share of Net Income Before Income Taxes



Source: EIA, *Performance Profiles of Major Energy Producers*, Table B2

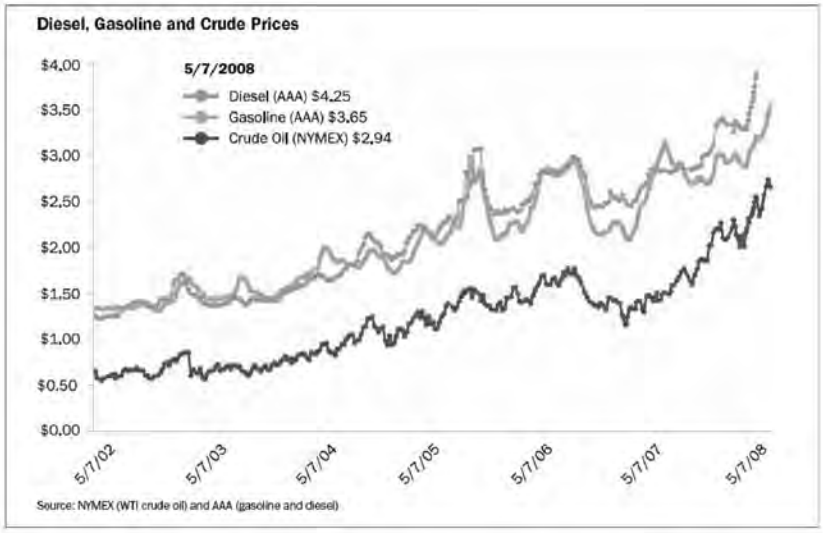
Taxes: Our Industry Pays More Than All Manufacturing

An important part of the revenue earned by U.S. oil and natural gas companies goes to taxes. U.S. oil and natural gas companies pay considerably more in taxes than do manufacturing companies. According to the U.S. Energy Information Administration, the industry's 2006 income tax expenses (as a share of net income before income taxes) averaged 40.7 percent, compared to 22.1 percent for U.S. manufacturing companies.

1 Energy Information Administration, 2006 *Performance Profiles of Major Energy Producers*, December 2007. These 27 companies accounted for about 44 percent of the total U.S. crude and NGL production, 43 percent of natural gas production, 81 percent of U.S. refining capacity and 3 percent of U.S electricity. These companies include Amerada Hess, Anadarko Petroleum, Apache, BP America, Burlington Resources, Chesapeake Energy, Chevron, CITGO Petroleum, ConocoPhillips Petroleum, Devon Energy, Dominion Resources, El Paso, EOG Resources, Equitable Resources, ExxonMobil, Fort-McGee, Lyondell Chemical, Marathon Oil, Motiva Enterprises, Occidental Petroleum, Shell Oil, Sunoco, Texaco Petroleum, Total Holdings USA, Valero Energy, The Williams Companies, XTO Energy

Our nation's energy security requires policies that do not disadvantage the investor-owned oil companies, but rather enables them to be competitive in the global marketplace. Our nation needs policies that promote greater supplies of oil and natural gas, not policies that hinder our industry's ability to provide American consumers the energy they demand and need. We have abundant volumes of oil and natural gas resources beneath federal lands and coastal waters, but the bulk of these resources have been placed off-limits to development.

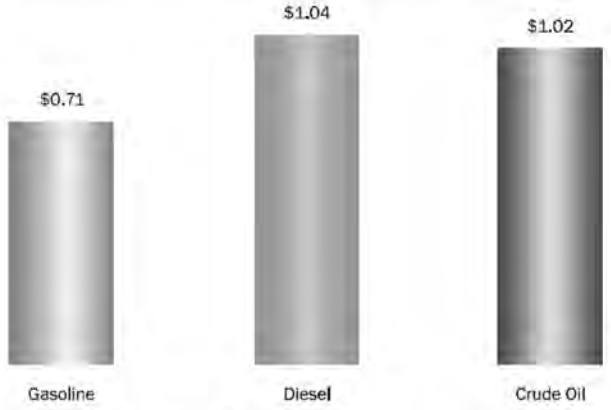
For example, according to federal government estimates, there is enough oil in these areas to power more than 60 million cars for 60 years.



Until recently, gasoline and diesel fuel prices closely tracked the cost of crude oil. But over the last year the supply and demand picture has changed. Demand for gasoline has been met with strong supply fed by record refinery production and high levels of imports. By contrast, the market for diesel is much tighter. While production has been strong, supplies have been limited by weaker imports. The Europeans are exporting less to the United States, because they are keeping more diesel for domestic consumption.

Diesel prices also are higher today, because it is a more advanced, low-sulfur fuel. Such fuels help improve air quality but they are more expensive to refine. Today's diesel contains less than 15 parts per million of sulfur, compared with 500 parts prior to 2006.

Average Price Increases Year to Date (cents per gallon) — **January 1 to May 8**



Source: NYMEX (WTI crude oil) and AAA (gasoline and diesel)

The price of West Texas Intermediate crude oil has increased by $1.02 per gallon for the period from January 1 through May 8th of this year compared to the same period last year. Diesel prices are averaging $1.04 more per gallon and gasoline 71 cents per gallon more.

What consumers are paying for at the gasoline pump

7.5% Earnings*

Source: Average of gasoline components from January through March 2008.

*Earnings differ by company. With 24 companies reporting as of May 8, 2008, figure represents net income divided by sales calculated from company financial reports filed with the federal government.

The biggest single component of retail gasoline prices is the cost of the raw material used to produce gasoline – crude oil. For example in the first quarter of 2008, crude oil alone made up 70 percent of pump prices. Refining the crude oil into gasoline accounted for 8 percent of the retail price. Retailing added another 9 percent to the retail price of gasoline. Taxes accounted for 13 percent of the price of gasoline.

Mr. CONYERS. Thanks so much.

Senior Vice President, Exxon Mobil, Steve Simon?

TESTIMONY OF J. STEPHEN SIMON, SENIOR VICE PRESIDENT, EXXON MOBIL CORPORATION

Mr. SIMON. Thank you, Chairman Conyers, Ranking Member Chabot, and Members of the Task Force.

Energy is essential to the U.S. economy and is a topic on many Americans' minds. They are raising important questions about how our industry is helping meet their vital energy needs.

I welcome the opportunity to respond to these questions and to clear up some misconceptions regarding our industry and to this end, I would like to make two points during my allotted time, similar to those I made before the Senate Judiciary Committee yesterday.

First, the prices Americans pay at the pump reflect the dynamics of an enormous international market for energy, which means that in order for American energy companies, like Exxon Mobil, to successfully compete, it is vital that we have sufficient financial strength and scale.

The crude oil used to manufacture the fuel Americans consume may have been produced in the United States or in any one of more than 35 countries. Within this vast global marketplace, competition is fierce. Exxon Mobil is the largest U.S. oil and gas company, but we account for only 2 percent of global energy production, only 3 percent of global oil production, only 6 percent of global refining capacity, and only 1 percent of global petroleum reserves.

With respect to petroleum reserves, we rank 14th. Government-owned national oil companies dominate the top spots.

For an American company to succeed in this competitive landscape and go head-to-head with huge government-backed national oil companies, it needs financial strength and scale to execute massive, complex energy projects requiring enormous long-term investments.

To simply maintain our current operations and make needed capital investments, Exxon Mobil spends nearly $1 billion a day. Over the past 25 years, we have invested $355 billion in new energy projects, which is more than we earned during the same period.

Over the next 5 years, we plan to invest at least $125 billion more. Our profitability, in absolute terms, is large. But it must be viewed in the context of the massive scale of our industry and our dependence on high earnings in the current up-cycle to sustain the huge investments required over the longer term.

The second point I would like to make addresses the concerns your constituents and our customers have about where their gas dollars are going.

Last year, the average price in the United States of a gallon of regular unleaded gasoline was around $2.80. On average, in 2007, approximately 58 percent of the price reflected the amount paid for crude oil.

Consumers pay for that crude oil and so do we. Of the 2 million barrels per day Exxon Mobil refined in 2007 here in the United States, 90 percent were purchased from others. Last year, we spent

over $40 billion ourselves buying crude oil and feedstock on the open market to fill our U.S. refineries.

Fifteen percent of the average price Americans paid at the pump last year reflected the amount collected in Federal, State and local taxes. The remaining 27 percent reflected refining, marketing and transportation.

For our refining and marketing business, that 27 percent would be more than 23 percent cost and less than 4 percent earnings, which translates to earnings of only about $0.10 per gallon of product sold. That is about one-quarter of the amount claimed by taxes.

Now, since last year, the increase in gasoline price and more can be attributed to the rise in the cost of crude oil. Product prices have not risen as much as crude oil. So industry margins have been reduced.

In fact, our U.S. refining and marketing earnings have actually been cut by more than half compared to last year to approximately $0.04 a gallon sold.

Our margins are tight because our industry is very competitive. The Federal Trade Commission and other government agencies have repeatedly confirmed this fact.

When energy prices are high, the urge to point fingers at oil companies is strong. But undercutting the ability of American companies, like Exxon Mobil, to compete in a huge global marketplace only makes it harder for Americans to secure the energy they need at competitive prices.

We should instead work together to strengthen U.S. competitiveness and meet the needs of the American people we all serve.

Thank you.

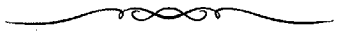
[The prepared statement of Mr. Simon follows:]

PREPARED STATEMENT OF J. STEPHEN SIMON

J. Stephen Simon
Senior Vice President
Exxon Mobil Corporation

Hearing of the U.S. House of Representatives Committee on the Judiciary
Task Force on Competition Policy and Antitrust Laws

"Retail Gas Prices, Part 2: Competition in the Oil Industry
May 22, 2008



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To simply maintain our current operations and make needed capital investments, ExxonMobil spends nearly one billion dollars a day.

Over the past 25 years, we have invested $355 billion dollars in new energy projects – which is more than we earned during this same period. Over the next five years, we plan to invest at least $125 billion more.

Our profitability in absolute terms is large, but it must be viewed in the context of the massive scale of our industry, and our dependence on high earnings in the current up cycle to sustain the huge investments required over the longer term.

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Since last year, the increase in gasoline price – and more – can be attributed to the rise in the cost of crude oil. Product prices have not risen as much as crude oil, so industry margins have been reduced. In fact, our U.S. refining and marketing earnings have actually been cut by more than half compared to last year, to approximately 4 cents a gallon sold.

Our margins are tight because our industry is very competitive. The Federal Trade Commission and other government agencies have repeatedly confirmed this fact.

When energy prices are high, the urge to point fingers at oil companies is strong.

But undercutting the ability of American companies like ExxonMobil to compete in a huge global marketplace only makes it harder for Americans to secure the energy they need at competitive prices.

We should instead work together to strengthen U.S. competitiveness and meet the needs of the American people we all serve.

Thank you.

Mr. CONYERS. Thanks so much, Mr. Simon.

Sheila Jackson Lee?

Ms. JACKSON LEE. I believe this process is constructive and I hope, as we proceed with our questions, that each of you will find our inquiry going down a pathway that would lead us to solutions.

My first question is very simple. I indicate my interest in this when we first started and I had my opening remarks, and I will just simply ask each of the gentlemen here to say yes or no, and that is the invitation for a roundtable discussion that is outside the realm of these very important congressional hearings in Houston on the question of solutions, which I believe is key to really explaining to the American people how we can work together.

Mr. Hofmeister?

Mr. HOFMEISTER. Congressman, provided we could do it in the next 35 days. Otherwise, I can't. I am sure my successor would be interested, as well.

Ms. JACKSON LEE. Mr. Robertson?

Mr. ROBERTSON. We would be pleased to participate and if I can do it, I would like to be there.

Ms. JACKSON LEE. Mr. Lowe?

Mr. LOWE. ConocoPhillips actually did a 35-city conversation on energy last year. We would be delighted to participate.

Ms. JACKSON LEE. Thank you.

Mr. Malone?

Mr. MALONE. We would be happy to participate.

Ms. JACKSON LEE. Mr. Simon?

Mr. SIMON. We would welcome the opportunity.

Ms. JACKSON LEE. Thank you.

Mr. Simon, I am going to start with you, because there is a question of buying product on the market, the international market, and I don't take to calling names to our international partners, but Exxon had a very strong presence in Venezuela, a market that is much closer than the North and South America.

What happened with that and what is the status of the product coming from Venezuela?

Mr. SIMON. Well, as I think you know, Congresswoman, our assets in Venezuela were expropriated and we are currently in arbitration regarding the value of those assets.

We are hoping for an amicable solution to that and constructive discussion, and we will see how that plays out.

Ms. JACKSON LEE. Does that mean now that the working entities that you had in Venezuela are no longer operable? You are no longer receiving the product?

Mr. SIMON. The Venezuelan government—PDVSA, the government company there, is operating those facilities today.

Ms. JACKSON LEE. And there was no—putting aside the arbitration—no way that you thought you could effectively negotiate a compromise in the new attitude of the new government or the existing government.

Mr. SIMON. We worked very hard to do so, but, thus far, have been unsuccessful. But as I said, we are still hoping for an amicable solution.

Ms. JACKSON LEE. And how many barrels were you getting out of that production area?

Mr. SIMON. We were bringing into the United States somewhere around 100,000 barrels a day.

Ms. JACKSON LEE. Thank you very much, Mr. Simon.

Mr. Hofmeister, would you explain how you put the partnership together for Motiva and how you overcame the regulatory maze that I hear members of the panel speaking to?

Mr. HOFMEISTER. Congresswoman, there is a long history of relationships between Saudi Aramco and, at that time, Texaco, and towards, I would say, about the 1996-1997 timeframe, Shell Oil Company entertained discussions with both Texaco and Saudi Aramco to form a series of joint venture companies in order to reduce costs and in order to bring, frankly, more product to America.

The relationship between Saudi Aramco and Shell has continued in the aftermath of the sale of the Texaco assets to Shell in the early 2000 period.

Ms. JACKSON LEE. Motiva came online when?

Mr. HOFMEISTER. Motiva was formed, I believe, about 2001. I would have to check the date to be precise. But today it is a 50-50 joint venture between Saudi Aramco and Shell Oil Company.

Ms. JACKSON LEE. The focus of my question is how you managed—did you get through the regulatory construct quickly or not quickly? Would you be prepared to do another refinery, since that is one of the issues that we are discussing?

Mr. HOFMEISTER. If you are referring to the refinery expansion of——

Ms. JACKSON LEE. Yes.

Mr. HOFMEISTER [continuing]. The Motiva Refinery in Port Arthur, the State of Texas was very helpful and very useful in helping to speed up the process and the Federal regulations, also, that we had to deal with——

Ms. JACKSON LEE. So it can be done.

Mr. HOFMEISTER. It can be done and it was done. We now have all permits and we are beginning construction.

Ms. JACKSON LEE. If you had to estimate, how many more refineries do you think—if we looked at a balanced energy policy that didn't rule out fossil fuels, what would be an optimum in terms of moving the technology forward and creating increased proficiency in our refineries? How many more would we need?

Mr. HOFMEISTER. Well, I can really on speak for Shell in that regard and I think with the $7 billion, $3.5 billion Shell share, that will take care of our expected demand for some time to come.

Ms. JACKSON LEE. So you wouldn't build another one at these point.

Mr. HOFMEISTER. Not at this point. But we never stop looking at options and depending upon our market share, in which we would decide to—instead of buying, on a third party market, finished products, we always keep options open for further expansions.

Ms. JACKSON LEE. Mr. Chairman, I had a question for Mr. Malone. I didn't know where we were.

Mr. CONYERS. Okay.

Ms. JACKSON LEE. Thank you.

Mr. Malone, BP has been known—has a long history in promoting conservation and biofuels, and, frankly, I believe that recognizing the need for heavy crude, if the energy industry would em-

brace its name, which is energy, which is diverse and doesn't have a definition to it, and begin to promote these alternative fuels, and, I must say, that I know some of the testimony did not reflect.

But we have passed legislation in this Congress, the 110th Congress, that is focused on R&D, that has tried to turn money back in to research development to improve the status of our energy policy, if you will.

What has BP done currently to promote not only conservation, but this alternative fuel, and how much more can we expect from the energy industry, including BP, on giving us the roadmap to alternative fuel?

Mr. MALONE. I am not going to try to speak for the entire industry, but I think you have heard that all of us have some degree of work that we are doing in alternatives.

As I said in my statement, the incentives that were included in the energy bill have allowed us to actually bring on additional wind generation capacity.

It would not be economical if it had not been for those encouragements, because we are building a market. We are going to have to get a lot of wind generation to make that profitable and competitive.

But an example is Texas went one step further and also put an encouragement in by requiring renewable energy into their system, and, right now, is now the largest wind producer in the United States.

So it is usually a combination of Congress and the States. So in wind energy, we are seeing it working.

Solar is a lot more difficult. We have been in the business a long time. Actually, our biggest solar market out of our Maryland plant is California, where, again, a combination of Federal and State has allowed that market to grow.

On the biofuels side, again, we are a big blender, but what we have got to look for and what we are spending money on is on research into the next generation of that biofuel and, as I stated, it doesn't compete.

And one other thing I would mention is we are working in California at the capability to generate hydrogen from the bottom of the barrel and it would be clean hydrogen, where we could sequester the CO2 in existing oil fields, increase the production from the field, sequester the greenhouse gases and produce clean energy from hydrogen.

Ms. JACKSON LEE. I thank the Chairman and I thank you for allowing me these questions, and I will even hang around for an abbreviated second round.

But I yield back, Mr. Chairman.

Mr. CONYERS. Steve Chabot?

Mr. CHABOT. Thank you, Mr. Chairman.

It is my belief that the greatest question in the economy right now, whether we go into a recession and if so, how deep it is, is the energy crisis that we have in this country now.

And they say you will reap what you sow and it is my belief that what Congress has sown is the inability of the necessary exploration and drilling in areas like ANWR and the outer continental shelf that has been mentioned by myself and others previously, and

that was terrible policy in not allowing this country to go into those areas.

And one of the key problems that we face right now, and I would invite any of the members of the panel to address that issue relatively briefly, how significant is walling off those areas, specifically ANWR and the outer continental shelf?

And I will start with you, Mr. Hofmeister.

Mr. HOFMEISTER. I think, Congressman, the first thing that has to be understood is that for 30 years, we have been building business plans that have not included major potential resource development projects in the Atlantic, Pacific, eastern Gulf of Mexico, as well as, as you say, ANWR.

So we have had 30 years of training to look elsewhere. And so we don't have a good handle on what is possible in the outer continental shelf, which is why I think it is long past time to at least map and understand what are the resources that are there so the nation could then make very informed decisions.

I think that the drilling that we are currently doing on existing leases, many of which are marginal leases, is not yielding sufficient new energy, new oil into the economy to make up for persistent decline in existing fields.

That then drives us to very expensive projects in the deepwater or ultra deepwater Gulf of Mexico, where we are allowed, which costs us an awful lot more money, which then, of course, gets built into the whole cost equation, which goes to American consumers.

So my point of view is this persistent denial of access is costing American consumers right out of their pocketbook.

Mr. SIMON. Congressman, can I add to that? I think there are estimates and in the estimates I have seen is about 30 billion barrels of oil and about 125 trillion cubic feet of gas that are declared off limits.

When you look at that and put it into perspective, that is enough oil to back out our current level of imports for more than 8 years and enough natural gas to heat 15 million U.S. homes for a period of over 100 years. This is the only government in the world who denies its citizens access to known recoverable significant quantities of oil and gas.

Mr. CHABOT. Thank you.

Mr. Robertson?

Mr. ROBERTSON. Congressman, we have the most dynamic, technologically advanced energy companies in this country and our production used to be 9 million barrels a day. It is now 5 million barrels a day of oil in the United States. We now import 10 million barrels a day.

We are, as has already been said, exploring the most difficult places in the world. We have heard from some of the Committee Members this morning about some of the forms of energy that exist in the United States, whether it be coal, whether it be oil, whether it be gas, whether it be other forms of energy.

And with the determination to address some of these permitting and some of these access issues, that production decline could be turned around significantly.

It takes long periods of time, but our domestic resources are very important and we have the capability to produce more in this country.

Mr. CHABOT. Excuse me. We have got votes on the floor. I only have a couple more questions. So let me get to the others very quickly, and I will ask Mr. Lowe and Mr. Malone on these.

One of the solutions that this current Congress believes to be helpful in this effort is to raise taxes. What effect does that have on exploration for additional oil and how much of the tax increases, were they come, ultimately just get passed along to the consumer?

Mr. MALONE. Well, as I said in my oral statement, Congressman, I think the important thing right now is my company is investing ever dollar it makes back into energy development in the United States, and the simple result of that is if you take a dollar away from me here, I am not going to have it to reinvest in energy here in the United States.

Mr. CHABOT. Mr. Lowe?

Mr. LOWE. I would just echo the same comment, that it is going to reduce supply, which is going to end up ultimately in higher prices for the consumers.

Mr. CHABOT. Mr. Chairman, I think in the interest of time, since we have votes on the floor, I am going to yield back, because I know the red light is ready to come on here.

Can we finish?

Mr. CONYERS. If you need any more time, we will go ahead.

Mr. CHABOT. Since we do have just a moment here, Mr. Cannon is very excited about shale and, obviously, they have got a lot out there.

How about when we come back? Because we are going to run out of time here. We have only got 4 minutes, I think, to get to the floor.

Mr. CONYERS. We will recess and any of the witnesses who want to join us at the deli in the B level, Attorney Raut will show you how to get there.

We will be right back.

[Recess.]

Mr. CONYERS. The Chair recognizes the gentleman from Ohio, Mr. Chabot.

Mr. CHABOT. Thank you, Mr. Chairman. And I will try to be relatively brief, since I started my questions prior to the votes.

And we want to apologize to folks here for having a break, but obviously this happens during the course of one of these hearings, the votes that we have.

Mr. Lowe, you had mentioned in your testimony that you were attempting to—going back a little bit—clearly having sufficient refinery capacity, if we have enough crude to be able to refine it in a product we can actually put into our cars in a timely manner, is important.

And it is my understanding that you are trying or, in fact, are still trying to expand the capacity of one of our refineries and I think you mentioned, in the permitting process, you have had lawsuits filed against you and that has been a holdup to being able to expand this refinery, to be able to put out more product.

Is that correct, you did say that?

Mr. LOWE. Yes, sir. Actually, at a number of different refineries, we have had significant issues with permitting. The one that I specifically mentioned was Wood River, Illinois, where it is a very important project to expand the capacity to produce significantly more clean fuels, and it really ties in with the Canadian oil sands development.

So this refinery will be capable of running those heavier Canadian oil sands. It has been about 2 years now and we still haven't gotten the permits.

Mr. CHABOT. And who or what organizations are filing such lawsuits to prevent you from expanding to be able to put out more gasoline that we can put in our cars?

Mr. LOWE. These are primarily environmental groups, who I think their primary interest is to block the development of the Canadian oil sands.

Mr. CHABOT. Now, as I was mentioning here when we broke for the vote, Mr. Cannon, for the second time that I have seen him quite animated about the future of shale oil and the potential to be able to go after that, and it sounds very interesting to me.

I am just wondering—he also mentioned that one of the problems has been the government and the example he used, I believe, was that it takes 7 years to develop the plant and move ahead, and yet they give them an 8-year lease.

So it makes no sense to make that investment if you are going to be shut down potentially after a year.

How real is that and is that something that we ought to be looking at in the future, that we are looking at in the future? Anybody that has any experience with this.

Mr. Robertson?

Mr. ROBERTSON. Well, shale is a real resource. I mean, there is supposed to be about a trillion barrels or something like that, which is bigger than a lot of the Middle Eastern oil put together in the three States that he mentioned.

Chevron and Shell both are working on projects with the DOE on different forms of producing that shale in an environmentally acceptable manner, focusing on an in situ process where we put chemicals or heat or whatever into the ground to produce this material without tearing up the surface, like we used to do in mining projects and those kinds of things.

So this is real. It is too big of a resource for the United States to ignore. It is going to take a determined effort over a period of time, but our companies are working on that today.

So we just need to make sure that there are no barriers to us continuing to go forward with this project. It is a multiyear project, but we need to start now. It is a huge opportunity for the United States.

Mr. CHABOT. And we have talked a lot about gasoline here today, which is critical, because a lot of people being hurt right now at the high prices at the pump.

But we haven't talked too much about diesel and, obviously, trucks are what take our products around the country and as diesel has been going up, all consumers are going to see this reflected in the price of goods that we purchase, whether it is at the grocery

store or the furniture store or anywhere else, and diesel is even higher than gasoline at this point.

What are the prospects for diesel in the near term and perhaps long term?

Mr. Hofmeister?

Mr. HOFMEISTER. Thank you. I think the point that many people do not realize is that if you have a 42-gallon barrel of crude oil, you cannot produce 42 gallons of diesel from that.

In other words, the way the cracking process works on the molecules, you can get, at best, with the right kind of crude and the right kind of production process, maybe 50 percent can be turned, at the most, turned into diesel or aviation fuel. More likely, you will get about a third.

We like to talk about a barrel in terms of three thirds, a bottom third, a middle third and a top third. And what is pushing up the price of diesel today is not just U.S. demand, but global demand, where Europe, for example, has a concentrated strategy to convert their fleet of private automobiles, not just their trucks, to diesel-run products.

Asia, all the construction, all of the major activities that are expanding economies in Asia are consuming diesel, as well as aviation fuel.

So there are only two ways to get more diesel into the marketplace. The first thing is to get more barrels. If you don't get more barrels, you don't have the opportunity to create that third or whatever it is into diesel, and then you need manufacturing or refineries in order to produce it.

In the U.S., we tend to concentrate the design of our refineries around gasoline more than diesel, because that is what the market has demanded.

So for this country, we would have to do some considerable retrofitting of refineries in order to produce more diesel. In the new expansion I have mentioned in Port Arthur, Texas, we are actually designing it in such a way that we can reconfigure quickly for more diesel as the market wants it.

Mr. CHABOT. Thank you. And, finally, one last question.

Mr. Hofmeister, I will address this to you, as well.

This Congress has put a lot of confidence on ethanol to get us out of this mess that we are in for a lot of reasons that have been self-imposed, as far as I am concerned and as I have already mentioned.

But ethanol is the thing that people are relying upon and, obviously, it has been driving up the cost of food stuffs and animal feed and everything else and we are paying for that in other ways.

But is it a fact that the energy that is expended to produce a gallon of ethanol is virtually the same as the ethanol that you ultimately get out at the end of the process?

Mr. HOFMEISTER. Well, I think it depends on the type of ethanol you are producing. Corn ethanol is one of the least efficient forms of ethanol, as we do our own research in this area, in that the coefficiency of energy in for energy out is fairly close to a one-to-one relationship.

Mr. CHABOT. Let me stop you there, if I can. So are you saying, in essence—is it generally gasoline that you are using or is it another type of fuel?

Mr. HOFMEISTER. If you compare the BTU content of what you get out of a gallon of ethanol with the BTU energy content to make that gallon of ethanol, it is fairly close to a one-to-one relationship.

Mr. CHABOT. So the energy expended to produce the energy that you get out the other side, what you are going to put in your car, is almost the same. Is that correct?

Mr. HOFMEISTER. That is correct. What many people don't recognize is that the ultimate BTU content of a gallon of ethanol is considerably less than a gallon of gasoline.

So it could be as much as 25 percent less than a gallon of gasoline.

Mr. CHABOT. So it could even be less.

Mr. HOFMEISTER. So you actually have to use more ethanol to get the same energy usage that you would—25 percent more ethanol to get the same energy usage as you would from the same gallon of gasoline.

Mr. CHABOT. Does that make any sense?

Mr. HOFMEISTER. Well, the reason Shell is pursuing all of its research in what we call second generation or cellulosic ethanol, we prefer not to put investment dollars into corn ethanol. We will let others do that.

But we believe that there is a much richer energy content to be had from ethanol that might come, for example, from algae or from wood chips or sawdust or other kinds of grasses that are not in the food chain.

So we have major projects ongoing with third parties to test the validity of that science.

Mr. CHABOT. Thank you.

Mr. Chairman, I yield back the balance of my time.

Mr. CONYERS. The Chair recognizes the distinguished gentlelady from California, Maxine Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

I thank you for using the Task Force to attempt to get some of the questions answered that we have all been asking and try and deal with the concerns of our constituents that we face on a daily basis.

I have listened to the testimony of our presenters here today, and I have been trying to read about what was done over on the Senate side, and we ask the same questions.

We ask a lot about profitability and in all of this testimony, we see where there are explanations of profitability and, basically, what the presenters are saying to us is, in essence, "we make a lot of money and we spend a lot of money," that we have to spend money on exploration and investments in everything from refineries, trying to expand them, to development of new sources of energy.

So we never really learn anything different when our presenters are here.

Let me try and frame some of these questions a little bit differently.

Exxon Mobil is represented by whom?

Mr. SIMON. By Steve Simon.

Ms. WATERS. Thank you very much, Mr. Simon.

It shows that $40.6 billion were your profits in 2007, the largest corporate profit in American history.

Now, with $40.6 billion in profit, are you saying that every time the price of oil per barrel increases, that you have to keep increasing the price at the pump in some way?

Mr. SIMON. Well, I think it helps to break that profitability down to where people understand the components of it.

Ms. WATERS. Okay, do that.

Mr. SIMON. If I could, please.

Ms. WATERS. Sure.

Mr. SIMON. When you look at that $40.6 billion, if you put that on a cents per gallon basis, on a global basis, it would be about $0.10 per gallon.

Ms. WATERS. So what did you spend that money on?

Mr. SIMON. Well, if I could just finish my point here and then I will come back to that.

Ms. WATERS. Sure.

Mr. SIMON. When you come back to the United States and then you look at the cents per gallon on the piece of the business where we produce products, last year, it was $0.04 per gallon and this year it is $0.014.

Now, in terms of where we are spending that in the United States, one thing we are doing is we are expanding our refineries to meet the demands of our customers and your constituents.

Ms. WATERS. Of the $40.6 billion, how much did you spend on refinery expansion?

Mr. SIMON. In the last 5 years, we have spent about $3.5 billion on refining here in the United States.

Ms. WATERS. In 2007, your profits were $40.6 billion. How much did you spend on refinery expansion in 2007?

Mr. SIMON. In 2007, it was probably about $1 billion, $1.5 billion.

Ms. WATERS. Okay, all right.

Mr. SIMON. Now, again, that is here in the United States and you have got to be sure that you are talking about profitability here in the United States.

Ms. WATERS. I am talking about $40.6 billion, wherever it was earned. Was that earned internationally or here in the United States?

Mr. SIMON. About 75 percent of that profitability was earned outside of the United States, so about 25 percent here in the United States. And, again, then when you look at what amount of that was earned the refining and marketing business, it was about 10 percent last year.

Ms. WATERS. Of the $40.6 billion, where you spent about $1.5 billion on refineries, how else did you spend $40.6 billion?

Mr. SIMON. Well, part of that goes back to the shareholder in terms of dividends, paid back the——

Ms. WATERS. What did you pay in 2007 in dividends?

Mr. SIMON. In dividends in 2007, we paid about $7.6 billion on a global basis.

Ms. WATERS. And how much did you pay on product promotion and advertisement, however that is framed in your company? I am just trying to get an idea of how it works.

Mr. SIMON. About $100 million.

Ms. WATERS. Is that all, $100 million?

Mr. SIMON. And that is everything in terms of advertising, product promotion, yes.

Ms. WATERS. I won't ask the amount of your compensation, but do you receive bonuses?

Mr. SIMON. If you looked at my total compensated granted last year, it was $12.5 billion. If you include a 1-year accrual of my pension fund, that would take it up to $15 billion.

Ms. WATERS. In 2007, how much——

Mr. CHABOT. Would the gentlelady yield?

Ms. WATERS. Yes.

Mr. CHABOT. He just said $12 billion.

Mr. SIMON. No, million. Million. I am sorry.

Mr. CHABOT. $12 million?

Mr. SIMON. $12.5 million.

Mr. CHABOT. Million.

Mr. SIMON. And then $15 million.

Mr. CHABOT. I thank the gentlelady for yielding.

Mr. SIMON. Thank you very much, Congressman.

Mr. CHABOT. It is all right.

Ms. WATERS. I am sorry. Let me go back. I just want to deal with 2007, because that is the $40.6 billion. Is that number correct? Maybe it is not the right number, $40.6 billion.

Mr. SIMON. $40.6 billion (sic) was the correct number.

Ms. WATERS. And how much in compensation?

Mr. SIMON. Out of that, I don't have that answer, Congresswoman.

Ms. WATERS. Okay.

Mr. SIMON. But when you look at how much we invested, I think is one of the things you are driving at——

Ms. WATERS. What does investment mean? We don't know what that means. We understand that you have to invest in ways that will improve the profitability of the company, that you have got to invest in, as you say, refinery expansion, you have got to do a lot of things.

But we don't know, when you say investment, whether or not the investments are realistic as it relates to how much you end up with and how much you have to charge at the pump.

I mean, I could take $40.6 billion and invest it all, I suppose, or somebody could. Not me, I couldn't.

But I want to know whether or not there is a percentage of that earnings that is reasonable for investments or whether or not when you come here and you talk to us and you tell us investment, we don't get the picture.

What did you invest in?

Mr. SIMON. Well, if you look at it over a longer period of time——

Ms. WATERS. Yes.

Mr. SIMON [continuing]. We have invested more than we have earned.

Ms. WATERS. Oh, so you are operating at a deficit.

Mr. SIMON. When you look at earnings, we have invested more than what we have earned over a longer period of time.

Ms. WATERS. But we can't deal with that. You know why we can't deal with that? Because I don't know what period of time you are talking about. I don't know how much investment. That is a nice general statement.

But the fact of the matter is we know you are not broke. We know that the compensation of the executives is very high. We know that you get your bonuses. We know that you spend a lot on promotion.

So we don't like to hear that you are broke and that you have spent more money than you are earning. It just doesn't sit well with us.

Mr. SIMON. And I wasn't trying to——

Ms. WATERS. It certainly doesn't sit well with me.

Mr. SIMON. I certainly wasn't trying to imply that we are broke, Congresswoman.

But if you looked at last year and looked at—I said we invested about $21 billion. Now, let me explain what that is.

That is investing in projects to bring on oil and gas supplies around the world, to expand our refineries, to expand our chemical plants and meet our chemical customers' requirements. It all goes into that.

Ms. WATERS. But it says profits. After all of that was done in 2007, you earned $40.6 billion, after all of that was done, $40.6 billion.

Mr. SIMON. $40.6 billion was the profitability. That is correct.

Ms. WATERS. That is right. So let's deal with that. You earned $40.6 billion, but you continued to raise prices at the pump.

Why is it necessary, when you have that kind of profit, that you increase the price at the pump to our constituents and to your customers?

Mr. SIMON. Okay. Well, let's come back and talk about that, which is what I was trying to do initially.

When you look at——

Ms. WATERS. No, I know what you did. I don't want you to tell me about the penny.

Mr. SIMON. I am going to, Congresswoman, if you would give me——

Ms. WATERS. No, you are not. I want to——

Mr. SIMON. If you will give me an opportunity——

Ms. WATERS. I want to know——

Mr. CONYERS. Would you like another round of questioning?

Ms. WATERS. Yes.

Mr. CONYERS. We have already given you more time.

Ms. WATERS. I appreciate that, Mr. Chairman, but let me just say this.

I appreciate your generosity, and I am going to yield back my time, because this is an exercise in futility.

And our constituents are angry, and they are knowing now that we are not going to get any new information out of these presenters.

I thank them for coming.

Mr. CONYERS. He is doing pretty well. I don't think it is futile at all.

Ms. WATERS. Let me yield my time before I step outside of this box.

Mr. CONYERS. You don't have any time to yield.

Ms. WATERS. Thank you, Mr. Chairman. Thank you, thank you, thank you very much. Thank you.

Mr. CONYERS. But I would like to invite you to another round of questions. You are just getting warmed up——

Ms. WATERS. I appreciate that.

Mr. CONYERS [continuing]. It sounds like to me.

Ms. WATERS. I appreciate that. Thank you.

Mr. CONYERS. All right.

Ric Keller?

Mr. KELLER. Thank you very much, Mr. Chairman.

I want to thank all our witnesses for being here today.

Mr. Simon, I will begin with you for a few questions for Exxon. Let me state that, preliminarily, I agree with much of your testimony before the Senate.

Specifically, I agree that the principal component of the price of gasoline is the price of crude oil. I agree that crude oil is determined by the law of supply and demand and that nothing we can do in Congress can alter that fundamental law of supply and demand.

I agree with you that there are things we can do to help influence it by drilling in ANWR and by providing more drilling for the deepwater oil reserves.

I think those are good steps.

One of the things you just testified about, however, is that you wanted to clear up some misconceptions and I want to give you some straight talk about the two issues that, from an appearance perspective, you may feel helpful you would like to address, and I will give you both issues and then give you a chance to fairly go through and give your side of both of them.

Let's first address the issue that you might want to address from an appearance perspective.

Moms in Orlando, Florida are paying $3.75 a gallon today at the local Exxon Mobil gas station. Exxon paid its former CEO, Lee Raymond, $400 million in retirement compensation.

This situation is unacceptable. People in central Florida are hurting and they want a hand, not a finger.

Now, you all are nice guys, you are respectful. I would not dare suggest any of you, just like me, wouldn't give them a finger. But I want to convey the anger and frustration that I hear from them on a regular basis at town hall meetings and give you a fair chance to respond to it.

The second issue that I would like you to address from a perception perspective. You just testified today that Exxon's profit margins are tight and that your long-term investments are huge.

It appears to some people that it is your profits that are huge and your long-term investments in building new refineries in this country are tight.

Specifically, Exxon just recorded a profit of $40.6 billion in 2007, the single largest annual profit in U.S. history for any U.S. company.

To put that in perspective, Wal-Mart is number one on the Fortune 500 list. Exxon's profits are literally more than triple those of Wal-Mart's in 2007.

At the same time, Exxon has not made any long-term investments in new refineries in the United States in the past 32 years, beyond the expansion of existing ones.

So I want to give you a chance to respond to those. I have some very detailed questions for you on the refineries.

But first, in fairness to you, do you have any response to clear up any misconceptions that you feel are out there with respect to what some believe to be exorbitant pay that you are using this money for?

Mr. SIMON. Well, it was our former Chairman. I think that number, we have tried to clarify that. That number itself, when you look at the $400 million, about 10 percent of that was associated with the 1 year and the rest of it was what was earned over many years, and a lot of that did not pay out until much later.

I would, however, say we recognize that is a large amount of money. It is determined by independent directors. It is not management that makes those determinations. And we pay our executives based upon that and that is where you look at competition and what others with comparable responsibilities and authorities are paid.

It is a lot of money, I know that.

Now, let's come back and talk about——

Mr. KELLER. Do you stand by that? Do you think that is a fair level of compensation, $400 million for one individual?

Mr. SIMON. Well, again, let's put it into perspective. That wasn't $400 million in 1 year. About 10 percent of that was in that year.

About 70-75 percent was not paid out until 5, 10 years into the future for that period and a lot of it was what was earned over a long career in terms of a pension payout, which was about 98 million.

Mr. KELLER. But you understand, if you were at my gas station in Orlando and you saw a single mom there with her kids and she just paid 80 bucks to fill up the minivan, it would probably be a hard conversation for you to have to say, "Look, we paid our CEO 400 million bucks. We just posted the largest profit in American history, and I need a hug here, because our margins are tight."

Mr. SIMON. I understand. I understand that fully. Again, that was a few years back. It, of course, has not an impact on this year—on last year's profitability.

But I recognize the point.

The point I would talk about is when you look at the profitability on the gasoline that we sell at the pump, and let's talk about that, again, when you look at the United States and the refining and marketing business last year, it was $0.04 on the dollar.

Now, you compare that $0.04 on the dollar of revenue, as compares to about $0.078 cents on the Dow Industrial, so it was about half of that.

I recognize it is a big impact on consumers, but, again, when you look at what is driving that, it is not the profitability on that that is driving the higher price.

It is the cost of the raw material that we have to buy in order to produce those products. We buy 90 percent of the raw materials that we use to produce those products on the open market.

Mr. KELLER. Well, Mr. Simon, my time has expired. So in fairness to others who haven't asked their questions, let me say this and wrap up, and I will defer to the Chairman.

I raise those two issues, the executive pay and the failure to build a new refinery in 32 years, because you wanted to clear up some misconceptions, and I have got about 12 or 13 more questions about the refineries, to give you a fair chance to address the refinery issue, too, as well as to talk about solutions.

So I just want you to know we want to be fair to you in raising these issues and when we come back to a second round of questions, we will be happy to ask you those questions and let you feel you got a fair shake and got your side out on those, as well.

Mr. SIMON. I really would appreciate the opportunity to address refining.

Mr. KELLER. Absolutely, and I promise you we will get to that in my first question when we get back.

Thank you, Mr. Chairman, yield back.

Mr. CONYERS. Betty Sutton?

Ms. SUTTON. Thank you, Mr. Chairman.

Were any of you or colleagues that you work with and communicate with participants in the energy task force meetings conducted by Vice President Cheney at the beginning of the Bush administration and if so, could you just share with the American people what role you played or they played?

Mr. SIMON. In Exxon Mobil's case, no, ma'am.

Ms. SUTTON. No one was there.

Mr. MALONE. In BP's case, yes, there was a meeting with the Vice President. Whether you would call it the task force meeting, our chief executive met with Vice President Cheney.

It was a general discussion, I am told, I was not there, around world oil production.

Ms. SUTTON. And when was that?

Mr. MALONE. Early 2001.

Ms. SUTTON. Thank you.

Mr. LOWE. No one from Phillips or ConocoPhillips was there.

Mr. ROBERTSON. No one from Chevron participated in that. But at the time when the new Administration came aboard, we wrote a letter to the President of the United States and sent a copy to some Members of the House and every Senator on both sides of the aisle with our recommendations for energy policy, and, frankly, a lot of it is playing out exactly the way we had described.

Mr. HOFMEISTER. I was working overseas during the early years of the Bush administration, so was not a party to any.

We looked into the history of Shell's involvement with the White House and we do know that, on a periodic interval, my predecessors would brief various members of the White House on energy matters, but were not part of a task force.

Ms. SUTTON. I have a question. Mr. Simon, you had the opportunity to talk to Representative Waters about the profit and the breakdown.

Today, I think it was, there was a story in the Washington Post, and I just want to see if this is accurate.

It says that Exxon Mobil made a $40 billion—I understand it is $40.6 billion—profit last year, repurchased $31.8 billion of stock. Is that correct?

Mr. SIMON. I am sorry. Thirty?

Ms. SUTTON. $31.8 billion of stock.

Mr. SIMON. Right.

Ms. SUTTON. Gave out $7.6 billion in dividends. Is that correct?

Mr. SIMON. That is correct.

Ms. SUTTON. Paid its top five executives $76 million. Is that correct?

Mr. SIMON. I have not checked that number. I don't know if that is correct or not.

Ms. SUTTON. What do you think? Is it in the neighborhood? Would you know if it is in the neighborhood, $76 million?

Mr. SIMON. I would have to check, Congresswoman. I just don't have the answer to that.

Ms. SUTTON. Were you asked this question by the Senate?

Mr. SIMON. The question I was asked by the Senate was what was my compensation and I answered that earlier in this hearing, as well.

Ms. SUTTON. Right. That was $12.5 million.

Mr. SIMON. $12.5 million granted in compensation, including stock and everything else, last year. And then there was an additional increment if you allocated back 1 year accrual of my pension and that would take it to $15 million, but that doesn't pay out until after I retire.

So I did not mention that. I mentioned the $12.5 million in terms of my compensation granted last year.

Ms. SUTTON. Do you have any idea how many people with Exxon Mobil make more than you?

Mr. SIMON. I would have to check on that.

Ms. SUTTON. No idea. How many people are in positions above yours?

Mr. SIMON. Well, I am the number two in the company in terms of I am a director, and we have got one other director, and, of course, that is our chairman.

Ms. SUTTON. And it says that the top five executives, $76 million. If you could get back to me——

Mr. SIMON. I would.

Ms. SUTTON [continuing]. With the answer to that question, I would appreciate it.

And that you invested roughly $10 million in renewable energy.

Mr. SIMON. No, that number is not correct. And if you would give me the opportunity, I would like to talk about our renewables approach.

Ms. SUTTON. What I would like to know, and not just from you, but from all, because I heard a lot of discussion about the investments that you are making in new energy projects, what is the percentage that you are investing in renewable energy?

Mr. SIMON. Could I?

Ms. SUTTON. You can start.

Mr. SIMON. When you look at what we are doing in order to do what I think to be our mutual objective of reducing the amount of fossil fuels that we consume and mitigating greenhouse gas emissions, when you look at what we are doing to accomplish that objective, it is somewhere around $2 billion over the last 4 years.

Now, that is a three-pronged strategy. One is to improve efficiency in our own operations, refining and chemicals operations, where we are improving efficiency at two to three times the rate of the average of industry, and there we are putting about $1.5 to $2 billion over the last 4 years into that.

The other prong is how do we help our customers to utilize our products more efficiently. And when you look at what we have developed right now, if applied in the U.S. vehicle fleet, would save about 5 billion gallons of gasoline and that would be equivalent to removing 8 million cars off the road.

When you look at our own operations, it was equivalent to removing about 2 million cars off the road when you look at what we have done since 1999.

Ms. SUTTON. But, Mr. Simon, all I am asking for is the percentage that you are investing in renewable energy in the projects that you are talking about putting investment in.

And if you could just get back to me with that number, too, that would be great.

Mr. SIMON. All right, I will.

Ms. SUTTON. Mr. Malone?

Mr. MALONE. Last year, it was about 10 percent of our capital, $750 million. This year, it will exceed that. It will be something in excess of 10 percent.

Mr. LOWE. ConocoPhillips' investments are primarily in the research phase. Spent about $150 million last year. But if those research things, such as carbon capture and storage, if those come to fruition, those would be multibillion dollar projects. But they are in the research phase at this point.

Mr. ROBERTSON. In the renewables area, Chevron is the largest geothermal energy company in the world. We just announced a joint venture with Weyerhaeuser to develop cellulosic non-food ethanol. So that is a serious project.

We have a company that sells energy efficiency and shows customers how to become more energy efficient by putting in either good practices or putting in solar panels or fuel cells or whatever fits that particular customer, and their experience has been reducing energy costs by 30 percent.

On those three areas, ethanol, second generation ethanol, geothermal energy and energy efficiency, we will spend $2.5 billion over the next 3 years. We spent about $2 billion over the last 5 years.

Ms. SUTTON. And you guys can't tell me what percentage it is that you are putting into these projects based upon all the money that you are saying that you are investing?

Mr. ROBERTSON. I can tell you that we are going to spend this year $23 billion. I can't tell you what we are going to spend in capital beyond that. But I can tell you that we are going to spend $2.5

billion on alternative energy and when and if some of these things prove out, like cellulosic ethanol, we are quite prepared to spend a lot more on it.

So we are at a phase in that work, that it is not an issue of how much money you spend on it. It is an issue of what you spend it on to try and develop some technology that will work.

So we are not constrained by money in terms of these projects.

Ms. SUTTON. So encouraging you to spend it there——

Mr. ROBERTSON. We are going to spend it. We are going to spend it and we are serious about the non-food ethanol. We are serious about the geothermal. We are serious about energy efficiency. That is the biggest opportunity we have.

On average, in over 800 projects, Chevron's energy efficiency customers, universities in California, military bases, post offices, they average, over 800 projects, 30 percent energy savings.

That is a lot bigger source of fuel for the economy by saving energy than most of these other things that I have talked about.

Ms. SUTTON. Sir?

Mr. HOFMEISTER. Shell has spent approximately $1 billion over the last 5 years on renewable energies. We believe that that is a prudent amount given the maturity of the technology.

For that $1 billion, there is a negative return on investment, which actually prompts us to think very seriously about how quickly we could spend more.

We do believe we can commercialize in time and this year we are continuing to spend. On a percentage basis, it is very small, it is less than 1 percent.

And at the same time, we are learning about what we need to do if we were to spend more in the future.

Ms. SUTTON. I really appreciate that you used the percentage, less than 1 percent. Thank you.

And, Mr. Chairman, I will yield back and wait for the next round.

Mr. CONYERS. Thank you so much.

I am pleased now to recognize Chris Cannon, the gentleman from Utah, who apparently has cooled down quite a bit now.

Mr. CANNON. I try to always have a cool exterior, but the inner furnace is always pumping, and especially when we are talking about these kinds of points.

To follow up on the gentlelady's questions about where we are spending money, can we start, Mr. Hofmeister, with you and go down the panel and could you tell me how much money, if you know, that you have spent on shale oil development as a subset of the unconventional?

Mr. HOFMEISTER. Congressman, I would have to confirm that number. I don't have it at my fingertips.

I think it is public record that between oil sands in Canada, Alberta, Canada, and oil shale, we are spending in the billions in order to develop projects.

But the Colorado effort is currently a research effort, so it is in the hundreds of millions. But I would have to check to confirm the number.

Mr. CANNON. Thank you. Hundreds of millions is actually quite a good number for this purpose.

I know that the chairman has also been investing in technology and recognizing the difference between production, which could be very large numbers, the question is just how much have you put into shale oil technology development, if you have a sense.

Mr. ROBERTSON. I can't tell you the answer to that. I can tell you that it is a significant research project that is going on using chemistry to try to figure out how to breach this stuff cleanly, and we have a joint project with the DOE and we are a large shale oil owner and have been for many years.

So we have put a lot money into the technology development. I will get back to you happily with the number.

Mr. CANNON. My sense is it has been hundreds of millions of dollars, just having looked at some of the material that you have out there.

Mr. ROBERTSON. It is probably in that range, but it is certainly not a lot more than that.

Mr. CANNON. We don't really want to nail anything down here, just to get a sense that this is an important project.

Mr. ROBERTSON. It is a very important project to Chevron and it has been for many years.

Mr. CANNON. I love the idea that you are not using brute force, but rather some——

Mr. ROBERTSON. I think in many places, that is something that is happening. We are partners with Shell in a project up in the oil sands in Canada, but the next generation of projects up there, too, will be in situ projects.

We use steam flooding around the world to produce oil through wells. In the future, we will be finding ways to put heat into the ground to produce oil sands through wells and, similarly, in the shale, it will be different technology, different chemistry, but essentially we will be putting something into the ground to be able to push that through wells.

So the technology is moving forward and we are deeply involved in this important project.

Mr. CANNON. Mr. Lowe, before you go ahead, let me just point out that we keep hearing this statement and it is quoted in the Desert News, I think, today. There is a statement Nick Rahall, the Chairman of the Resources Committee, "We simply cannot drill our way to lower prices at the pump."

But, of course, that is true if you think of drilling as a traditional function, but if you think of it in the unconventional sense, I think that that actually changes that analysis.

So I appreciate your reference to the kind of drilling that you would be doing, Mr. Robertson.

Mr. Lowe, is ConocoPhillips doing any oil shale development?

Mr. LOWE. The oil sands, in particular, but also the oil shale are a very important part of our growth story in the future.

We acquired most of our shale position when we acquired Tosco, which was mainly a refiner, but Tosco actually stood for "The Oil Shale Company."

Mr. CANNON. Do you have any sense of what the commitment has been historically——

Mr. LOWE. Sorry. I know that we invested a lot of money back in the 1970's. It is mostly in the research side up to this point, and it continues today.

Mr. CANNON. And let me just point out that that investment is vastly important, because we take that base of understanding and add the new technology that has developed over the last 30 years and it changes the nature of the calculation of what is available at what cost.

Mr. Malone, do you have a sense of what BP has done?

Mr. MALONE. I am not aware of any development opportunities that we have in the shale oil. But in the oil sands in Canada, we just announced a joint venture with Husky Oil, $5.5 billion.

We will bring oil to our Toledo refinery, Toledo, Ohio refinery and we will invest in the refinery, as well. It should be 600,000 gallons a day additional gas.

Mr. CANNON. Well, we appreciate that. That is a big chunk of new resource coming in, which makes a big difference.

Mr. Simon, could you tell us a little bit about what Exxon Mobil is doing?

Mr. SIMON. Yes. What we have done at this point is, again, mainly in the research area, although we have a technology that I know my colleagues wouldn't agree with that we think is superior in terms of developing shale oil resources.

That is an important resource. It should be made available and let us all of us apply our technologies and see how it works out.

Mr. CANNON. Let me just ask one final question. My governor, John Huntsman, has recently submitted a letter to the Senate asking that it lift the moratorium on the development of Utah oil shale, which, of course, is on BLM land, and I am thinking about introducing a bill that would allow the President to cut through the permitting process by drawing together groups of people that understand what needs to be done or what the environmental problems could be.

Is that something that your companies or those of you who are interested in oil shale would invite and if so, would you actually pursue development of oil shale properties?

Let me start with Mr. Hofmeister again.

Mr. HOFMEISTER. I think, Congressman, it would be a tremendous improvement which would enable us to get to a commercial decision on such projects in a much faster timeframe.

Mr. ROBERTSON. I am not familiar with the details, but the way you described it, it sounds like something we ought to support.

Mr. CANNON. May I ask, would your company pursue development if the permitting period was shortened?

Mr. ROBERTSON. Our company is pursuing, obviously, the technology, the development of the technology and as soon as we can make that commercial, we would certainly pursue it, yes.

Mr. LOWE. Certainly, we are in favor of access and we are very much in favor of having a clear permitting process.

Mr. MALONE. As I said, we don't have an active, but we never say never. And at one time, our predecessor company was in White River oil shale there in Utah.

At the current oil price, we couldn't make it economical. But we are always watching.

Mr. SIMON. Certainly, anything I believe that would open up that and allow access to it and allow commercial applications of whatever technologies we have would be very welcome, Congressman.

Mr. CANNON. Thank you.

Mr. Chairman, I recognize my time has expired, but if I could make one more comment.

That is, Mr. Malone referred to the White River mine. That cost $330 million, as I understand, to develop in 1977, over $1 billion today to duplicate that.

When I came to Congress, the first thing I did was to try and stop BLM from shutting that mine down. It is now up and available, but it is taken over 2 years to get the permits that we thought were going to happen in 6 weeks.

The permitting process has become a terrific problem and an impediment. The way we solve the problem of $4 a gallon oil is by making more resource available, which can deliver oil at a lower cost.

That is the only way we are going to do it and, in fact, we have those resources. And I wish we could also talk about coal to liquid, but that probably goes beyond the course of this.

So I thank you, Mr. Chairman, for your indulgence and yield back.

Mr. CONYERS. Thank you.

The distinguished gentlelady from Florida, Debbie Wasserman Schultz?

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

Mr. Simon, I want to direct my questioning mostly to you.

As I mentioned in my opening remarks, I paid $68 at the beginning of this week to fill up my minivan that I drive my family around it, and $68 isn't real money to someone who makes $12.5 million, but it is certainly real money to working families in America who are struggling to make their mortgage payments and pay for their groceries and make sure that they can afford to pay the copayments on their health insurance, if they even have health insurance.

And so when faced with the insensitivity that it appears the oil industry has for the plight of Americans who are struggling to fill the gas tanks of their minivans, it is really hard for me to understand and it is difficult when I stand in front of my constituents at a town hall meeting and they throw at me that the oil industry is making record profits and that you are charging record prices.

It is difficult for me to explain to them how you are not manipulating the price of gas and manipulating the price that is paid at the pump.

So, in fact, I probably want all of you to answer this question. But I can't say that there is evidence that you are manipulating the price, but I believe that you probably are.

So prove to me that you are not.

Mr. SIMON. Well, Congresswoman, I can assure you that we are not doing anything to manipulate prices. Now, how I can convince you of that, I am not sure, other than to say——

Ms. WASSERMAN SCHULTZ. Well, you have got to go beyond your word and show me.

Mr. SIMON. I give you my word and I would also comment that the FTC has investigated our industry more than any other that I know of, on the average of about three times per year over the last 35 years, and have never found in one of those any evidence of anticompetitive behavior.

I fully understand, and I know it is hard for you think that I empathize with the consumer, but we do and I do and we are doing all we can to try to put downward pressure on the prices.

We can do that in two ways.

Ms. WASSERMAN SCHULTZ. What are you doing to put the downward pressure? Because you are not expanding capacity.

Mr. SIMON. Yes, we are, Congresswoman. I did want to make that point. When you look at what industry has done, let me talk about industry first and then let me talk about what we have done as a corporation.

The industry, over the last 10 years, has brought on the equivalent of one new refinery every year by incrementally expanding existing capacity.

Ms. WASSERMAN SCHULTZ. How many has your company brought on?

Mr. SIMON. We have expanded capacity at a rate 40 percent above the industry average.

Ms. WASSERMAN SCHULTZ. How many refineries have you opened in the last 10 years?

Mr. SIMON. We have not opened any new refineries, but we have brought on the equivalency of new——

Ms. WASSERMAN SCHULTZ. Why not?

Mr. SIMON. We don't need new refineries, Congresswoman. What we can do is we can take what we have and incrementally expand that and do that at a lower cost and do it much more rapidly than we could by bringing on a new refinery.

Ms. WASSERMAN SCHULTZ. Well, the third grade economics that was referred to earlier, I have two third graders and there is not a whole lot of economics that they are learning, but the law of supply and demand is pretty basic.

And it is hard for me to understand how the prices keep going up and up and up if you are expanding capacity in a great enough proportion to bring down the price. I assume you are not.

Mr. SIMON. When you look at what has happened between last year and this year, price of the product has gone up. When you look at what is behind that, our profitability in the refining and marketing business has gone down.

Why is that? Because crude price has gone up about 80 percent.

Ms. WASSERMAN SCHULTZ. Your profitability has gone down, but you made $40.6 billion last year.

Mr. SIMON. The profitability in the refining and marketing business here in the United States, which is making those products you are talking about, has gone down. It is about 40 percent this year of what it was last year.

Why is that? It is because the price of the raw materials, crude oil, has gone up about 80 percent. The products you and I are talking about, when you look at diesel fuel, it is gone up about 52 percent and motor gasoline up only 60 percent.

Ms. WASSERMAN SCHULTZ. Mr. Simon, how many gas stations have you opened in the last 5 years in America?

Mr. SIMON. I wouldn't have that number. But when you look——

Ms. WASSERMAN SCHULTZ. I am talking——

Mr. SIMON. But when you look at the number of gas stations in this country, about 165,000, the number that we own and operate and, therefore, set the price in is only about a half a percent of that.

Most of those outlets are owned by independent businessmen and businesswomen.

Ms. WASSERMAN SCHULTZ. So while we open up more—but they are affiliated with your company. I mean, they might be owned and operated by the independent businessmen and women, but they have your company's name on them.

Mr. SIMON. They are branded. They are branded Exxon Mobil and, frankly, our market share has actually dropped since the merger. It is dropped from 14 percent down to 10 percent.

Ms. WASSERMAN SCHULTZ. Before I yield back, so the bottom line here, which is indisputable, is that you have opened no refineries. You say you have expanded capacity in the existing refineries.

Yet, the price has continued to go up. Your profits continue to go up and you have absolutely—and if you could get back to me with the number of gas stations that you have opened in the last 5 years in America, I would appreciate it.

You have expanded the asset point exponentially. So we are making the gas—the place you can get gas more available, but we are not making more gas available, and the price is going up and your profits, as well as your salaries of your top tier executives are going up.

That is inherently unfair and it causes the Members of Congress in front of you to stand in front of our constituents and have to defend how it is we are going to address the rising cost of energy, and you have no solutions.

I yield the balance of my time.

Mr. SIMON. But I did mention that our refinery capacity has expanded, Congresswoman, whether we brought on new refineries or not.

Ms. WASSERMAN SCHULTZ. But it isn't doing us any good, because the prices are not coming down.

Mr. SIMON. Oh, I think it has done some good. As mentioned before, the price——

Ms. WASSERMAN SCHULTZ. Really? What?

Mr. SIMON [continuing]. Of products relative to crude oil has come down. But the raw material behind it——

Ms. WASSERMAN SCHULTZ. The only thing that matters is that it costs almost $70 to fill up a minivan.

Mr. SIMON. I understand that.

Ms. WASSERMAN SCHULTZ. That is the price that matters.

Mr. SIMON. And that is because of the raw materials that we have to buy in order to produce those products.

Ms. WASSERMAN SCHULTZ. Well, you need to be more a part of the solution than you have been, and you can say that you have been, but it isn't working. So it is time to go back to the drawing board.

Yield back the balance of my time.

Mr. CONYERS. The distinguished gentleman from California, Darrell Issa.

Mr. ISSA. Thank you, Mr. Chairman.

And thank you, Ms. Wasserman Schultz.

I couldn't have asked for it to be better set up for the debate that was really going on here. I am listening and saying, "Okay, we have established through years of hearings that it is incredibly expensive and just about impossible to open a new refinery."

We established during the Jimmy Carter era there was this incentive to open a bunch of small, inefficient refineries and, over the years, they have gone away in favor of larger, more efficient refineries.

And we have established that there is a risk of these large refineries because they are better targets for terrorists. They have other fundamental problems. But that is the world that we live in.

Let me understand. That was the world we lived in with $29 oil. That was the world we lived in $2 ago in gas and oil prices. Isn't that true?

Okay. So all of those truisms of 30-40 years of bad or no energy policy haven't changed. I just want to make sure that I understand that 7 minutes-plus was used to berate you, Mr. Simon, on what I think was a very unfair tact, because you don't control retail prices.

We have had hearings to make it very clear. As a matter of fact, we have had hearings about the question of whether the interchange fees from credit card companies are more profitable than your gas revenues at the retail.

So having gone through that, let me move on to a couple of other areas and I will give you a break, Mr. Simon. Quite honestly, I think you need the glass of water and a little moment.

Mr. Malone, British Petroleum, I was in Baku when the pipeline was opened.

Would you tell us a little bit about your global activities? In other words, how much new capacity as a world company have you brought on outside the U.S. which goes into the same pool of available oil and then how much have you been able to bring on net inside the U.S. during that same period of time?

Mr. MALONE. Thank you, Congressman. We have been bringing on projects all over the world. You mentioned the one in Baku.

Mr. ISSA. I am going to Kazakhstan tomorrow night. Trust me, I am very interested in the place that brought on more than one ANWR in the time we have been arguing about voting on it.

Mr. MALONE. We have also been extremely active off the west coast of Africa. Angola, in particular, has been a real opportunity for us. Of course, development continues in the North Sea, just about geographically all around the world.

We have been investing at the rate of about $19 billion a year.

Mr. ISSA. Right. And shorten it down. You brought on, if I understand correctly, more outside the U.S., where you had opportunity, than you have been able to in the U.S. on a net basis.

Mr. MALONE. Yes. Our production has been declining in the U.S. We are now just roughly a half a million, 500,000.

Mr. ISSA. Mr. Lowe, same sort of a question. I know that you spent some time and energy in a number of markets that became off limits or unavailable to you.

If I remember right, you were involved in Syria, hoping to develop those oil wells that have never been properly developed. But how do you view U.S. versus the rest of the world and how much would you say you have brought on net in each place?

Mr. LOWE. Well, I think one of the items that does seem to get lost in all this is we deal with a depleting resource and so it is very challenging, particularly here in the U.S., where the depletion rates oftentimes are double digit.

So your production is going down, all other things being equal, by 10 percent or more a year. And so it is very difficult to keep production anywhere near flat here in the United States.

We are the largest producer in Alaska. Production continues to go down there.

Mr. Malone mentioned earlier the Denali, Alaska pipeline. That would be a $30 to $40, possibly even higher than that, billion investment to bring that natural gas down to the lower 48.

So the scale of our businesses is very large, very challenging to keep our production flat, let alone grow it.

Mr. ISSA. And, Mr. Robertson, you are California-based. California, if I understand it, is about a million barrels a day of production, about 2 million barrels a day of consumption.

How much opportunity have you had in California to have access to any new fields at all in order to try to take that reducing amount that is being produced in California and get it reversed?

Mr. ROBERTSON. Congressman, not much in California. Our biggest investments in California are in the same old place, in the San Joaquin Valley, where we have put an enormous amount of money. In fact, just in the last few weeks, we produced the two billionth barrel from an old field that was started up in 1899 called Kern River.

We have put billions of dollars into that field over the years. But the new access has been almost nothing.

Globally, we are going to be increasing production. We have, over this 5-year period, we are in the middle of increasing about 3 percent a year in terms of our production.

Decline rates are about 4 percent. That means you have got to have about 7 percent. We produce about 2.6 million barrels a day.

The opportunities we have in the U.S. are primarily the deepwater Gulf of Mexico. We have had some major projects, one coming on this year, one coming on next year.

Just one of those is a $4.7 billion project in 5,000 feet of water. So the places where we can invest in the United States, we are. We would love to invest more in the U.S.. Two thirds of our capital is outside the United States. We would love it to be a lot more in the United States, but the opportunities just haven't been there.

Mr. ISSA. That is a decision that we can make from the dais.

Mr. ROBERTSON. That is a decision that can be incredibly changed by policy in the United States.

Mr. ISSA. Mr. Hofmeister, Shell is certainly known as a global leader in many ways, known less as a U.S. company than as a global leader.

How do you find opportunities in the U.S. versus elsewhere when it comes to us being part of the solution of new production?

Mr. HOFMEISTER. Well, fortunately, Shell was a leader in the deepwater Gulf of Mexico and continues to produce in the Gulf of Mexico and invest in those areas where we have leases.

So we see the Gulf of Mexico as a continued growth opportunity. More recently, we have taken a very, very big bet on offshore Alaska, with multiple leases in the Beaufort Sea and the Chukchi Sea.

Regrettably, we are seeing tremendous legal action trying to stop every move we make in trying to get to a drilling season, which, of course, is limited in the amount of time we have to drill, and this is not an area that is off limits.

So Chukchi Sea and Beaufort Sea are not off limits, but there are others who are trying to prevent it from occurring by testing in the courts whether the EIS that has been done by the Department of Interior is adequate for the purposes of our prospective drilling.

But our growth primarily is coming from outside the U.S. at the moment.

Mr. ISSA. Well, I would like to thank you for continuing to try to produce in the U.S. I think that is important. Hopefully, we will recognize that we are part of the problem unless we allow you the opportunity to be part of the solution inside the U.S.

And I yield back, Mr. Chairman.

Mr. CONYERS. Thank you very much, Darrell.

Sheila Jackson Lee?

Steve Cohen of Tennessee?

Mr. COHEN. Thank you, Mr. Chairman.

Gentlemen, I missed some of this and I might have missed it. I would like to see—I read the Congressional Quarterly today. Mr. Coral Davenport said that, I guess it is Mr. Robertson there, that you might have earned as much as $50.6 million last year.

Is that anywhere near accurate? Are you Tiger Woods?

Mr. ROBERTSON. That is nowhere near accurate. What I earned last year I got in my pay and bonus. I got $2.5 million.

Mr. COHEN. Where would they have gotten——

Mr. ROBERTSON. In addition to that, I got some stock options and some performance shares, the value of which depends entirely on the performance of the company 100 percent.

They were valued last year in the proxy statement at $5 million. So if you add those two together, I got $7.5 million last year.

Mr. COHEN. Where do you think he got 50 or she got $50.6 million?

Mr. ROBERTSON. I have no idea.

Mr. COHEN. It is a lot of money without playing golf well. But thank you, sir.

Mr. Simon, you did pretty good, too, last year, if I understand it.

How much did you say you made last year, was it $12 million?

Mr. SIMON. $12.5 million in terms of compensation granted last year, although some of that pays out over time. And then if you were to take a 1-year accrual of the pension fund, it would actually take it up to $15 million.

Mr. COHEN. And how much did you make the previous year?

Mr. SIMON. The previous year, I don't remember.

Mr. COHEN. Would it have been that much?

Mr. SIMON. It could have been that much, and it could have been less.

Mr. COHEN. It would have been less. How much less would it have been?

Mr. SIMON. I don't know. I would have to get back to you on that.

Mr. COHEN. Could it have been $6 million?

Mr. SIMON. I don't believe it was that low, but I just don't recall.

Mr. COHEN. So it may be double.

Mr. SIMON. It wasn't that low, no.

Mr. COHEN. Could it have been double? Six is not double.

Mr. SIMON. No, it would not be double.

Mr. COHEN. Not double.

Mr. SIMON. No.

Mr. COHEN. Would it be 40 percent more?

Mr. SIMON. No, I don't believe so. But, again, I will get back to you on that.

Mr. COHEN. But it was more.

Mr. SIMON. It was more.

Mr. COHEN. How much more did you work this year than the previous year?

Mr. SIMON. I worked probably about the same this year as I have other years.

Mr. COHEN. So why did you make more money?

Mr. SIMON. The money that I get is, again, not determined by management inside our corporation. It is determined by a committee of independent directors.

They look at my responsibilities and my accountability——

Mr. COHEN. I understand all that.

Mr. SIMON [continuing]. And then compare that with others on the outside and then——

Mr. COHEN. I got that.

Mr. SIMON [continuing]. We pay competitively.

Mr. COHEN. I got that. But this is what confuses me. You are saying that the price of oil is determined by supply and demand and you said that you are 80 percent less profitable. Is that correct?

Mr. SIMON. Not on a total worldwide basis, no, I didn't say that.

Mr. COHEN. Is that just on American?

Mr. SIMON. That is talking about within the U.S. on refining and supply, which is part of the business that makes the products that we are talking about.

Mr. COHEN. So where are you making all this record profit?

Mr. SIMON. Most of the profitability that we make is outside of this country. This year, in the first quarter of this year, about 81 percent of our profitability was outside the United States.

Last year, of that $40.6 billion, 75 percent of it was outside the United States.

Mr. COHEN. And then that is just on the sale of gas?

Mr. SIMON. No. That is in terms of producing oil and gas, also, running our refineries, producing product, selling those and, also, our chemical operations.

Mr. COHEN. If the profit percentages—the profit percentage must have gone up, obviously. So profit at Exxon Mobil is not based on supply and demand.

Mr. SIMON. I think the profit of Exxon Mobil is based on supply and demand, because the market is what determines the price that we get for the commodities that we sell.

Mr. COHEN. Well, it does, but it doesn't—the profit margin, isn't that something different? I know that you sell different to the public, but your profit is figured differently, isn't it?

Mr. SIMON. No. The profit, the way you determine profit is, first of all, look at the price that you get for the products that you sell.

Mr. COHEN. Right.

Mr. SIMON. That is determined by supply and demand and then you look at the cost of producing those products. You subtract the cost from the revenues and that gives you the profit.

Mr. COHEN. But couldn't you sell your gas at a lesser price and still be higher than your cost? And by setting your price where it is, producing record profits, you are setting the price at the pump and not supply and demand setting it.

Mr. SIMON. No, I don't agree with that, Congressman, because, again, the price that is established for the products that we sell is established by the marketplace.

Let's take this year and let's look at the profitability on a gallon of gasoline. This year, first quarter, it was $0.014 for every dollar that we collected in revenue.

Now, that is down from last year and it is down because the cost of raw materials has gone up that we had to buy to produce those products and the price of the products that we sell have not gone up as much as crude oil. So the margin has actually been squeezed year to year.

Mr. COHEN. But your profit is up.

Mr. SIMON. The overall global profit this year is not up. It is about, I would say, roughly where it was last year. Last year, $40.6, first quarter of this year, $10.9.

Mr. COHEN. But if you charge less for gasoline, you wouldn't be making a $40.6 billion profit. You could maybe make a $20 billion profit, if you charged less.

Mr. SIMON. Gasoline is only a small component. When you look at what we make on refining and marketing, this year, it is about 4 percent of what our first quarter profitability was. Last year, about 10 percent when you look at what the downstream piece was here in the U.S.

Mr. COHEN. So what are you making the money on, lottery tickets?

Mr. SIMON. No. It is producing and selling oil and gas. When you look here in the United States, we produced about 300,000 barrels a day of crude oil. We actually run 2 million barrels a day.

And of that we produce, we only take 1 million of that and run it in our own refinery. So what we are doing is producing oil and gas and we are selling most of that on the open market.

For example, we run about 5.5 million barrels per day in our refineries around the world. We produce 2.4 million barrels a day of oil and only half of that goes into our own refineries.

So most of the refineries that we operate around the world, we are buying raw materials on the open market.

Now, the biggest piece of our profits is producing oil and gas and selling that oil and gas on the market.

Mr. CONYERS. Does the gentleman need additional time?

Mr. COHEN. I would like just another minute or 2, if you don't mind.

The gentleman from Shell, is it Mr. Hofmeister?

Mr. HOFMEISTER. Yes, sir.

Mr. COHEN. How much money did you say you all put into renewable energy sources in solar and wind last year?

Mr. HOFMEISTER. I said $1 billion over 5 years.

Mr. COHEN. One billions dollars over 5 years.

Mr. HOFMEISTER. It varies from year to year.

Mr. COHEN. How many of the other gentlemen on the panel are putting anywhere near that much into those areas?

Mr. Robertson?

Mr. ROBERTSON. I think I just described it. I think I said $2.5 billion over 3 years.

Mr. COHEN. Over 3 years.

Mr. ROBERTSON. In geothermal energy, non-food cellulosic ethanol and energy efficiency services for our customers.

Mr. COHEN. Mr. Simon, the report in Mr. Dana Milbank's story this morning said that your company put $10 million into renewable energy last year. Is that accurate?

Mr. SIMON. No, that is not correct. That was one piece of one project. But what we are doing is trying to accomplish what I think you are driving at and that is how do we reduce the amount of fossil fuels that we consume, lessening our dependence, and how do we reduce greenhouse gas emissions.

And what we are doing primarily is focusing on 60 percent of the equation and that is oil and gas. Oil and gas is going to continue to be the dominant source.

How do we use that more efficiently in our own operations and——

Mr. COHEN. How much did your company invest in renewables last year?

Mr. SIMON. In what you would call renewables, it would probably be about $100 million.

Mr. COHEN. And that is compared to $2.5 billion over 3 years.

Mr. SIMON. Because, again, we have looked at all current technologies of renewable fuels. These are current technologies. We have not identified any that have any appreciable impact in terms of adding supplies or reducing greenhouse gas emissions.

The $100 million I am talking about is looking at that next generation and we are funding all of the opportunities and leads that we have there and we think we have some very promising leads.

Mr. COHEN. Mr. Lowe and Mr. Malone, are your companies more in line with the two gentlemen to your right or with Exxon Mobil?

Mr. MALONE. Well, last year, we invested, in 2007, $750 million, 10 percent of our capital. This year, we will invest $1 billion, something in excess of 10 percent.

Mr. COHEN. And, Mr. Lowe?

Mr. LOWE. Ours is primarily on the research side, about $150 million last year.

Mr. COHEN. Thank you.

Do any of you have any solace or any hope you can offer the American public for what they are going to be paying for your record profits this year?

Mr. SIMON. I would say there are two things that we can do. One is work on supplies, and we have already talked about that.

Mr. COHEN. What do you mean work on supplies?

Mr. SIMON. Get access to supplies. And the other aspect is how do we produce more product and we are looking at expanding our capacity. We have already expanded it considerably already in terms of refining. And when you look at the industry, it is projected that about the equivalent of five new refineries will be coming on stream between now and the year 2012.

And to put that five into perspective, that is about three refineries more than is required to meet projected demand growth.

The point is the market is working. I know it is painful, but the market is working and it will work to the ultimate benefit of the consumer if we don't put additional tax burdens on the industry, let the market work, and don't put in place additional mandates for subsidies.

Mr. COHEN. Anybody have any better hope for the consumer than just the market is working and $4 is good?

Mr. HOFMEISTER. Congressman, in my opening statement, I said if this nation, led by the Congress, the Administration, set a goal of producing 2 to 3 million more barrels of oil a day in the near future, over, let's say, the next 10 to 15 years, plus the renewable fuels mandate that we have from last year's energy bill, plus the efficiency standards of the miles per gallon improvement, we could knock this issue of ever higher futures on its head.

Futures are based upon the prediction of more supply and by the United States of America coming to grips with the fact that it was now beginning to address the issue it has not addressed in years gone past, we could say to the world we are not going to come ask you for more production, we are going to do our own production.

That, in my opinion, would give immediately relief to the American consumers, knowing that this government was focused on solving the problem together with the industry.

Mr. COHEN. The solution is getting away from gasoline and getting into hybrids, getting into something that we don't have to depend on the folks in the Middle East or anybody else and be concerned about both the consumers and their pocketbooks and the planet, and that is not going to work by simply more drilling and more drilling and more drilling.

You can't drill yourself out of this problem, because the problem is bigger than that. And it goes back to my opening statement about the land belonging to the—is a title to the farmer, but the reality is society rests upon the land, so all people own it. That was Jefferson.

And an analogous situation could be made to oil and there are some ways that people think about—you might have title to the oil right now, but really, since society rests on it, you have a duty to the rest of the folks on this planet.

And the profits you all are making are unconscionable and to continue—and I have listened to all this and maybe I didn't do that third grade economic course, but I think there is something wrong

when you all are increasing your profits so much and your salaries so much and all you tell us drill, drill, drill, drill, drill.

You all are gouging the American public and it needs to stop and you are going to look for windfall profits tax and anti-gouging and competition and antitrust and there is a whole lot of other ways that this can happen, because it is obvious you all don't have the American public at heart whatsoever.

Mr. SIMON. I disagree with that, Congressman. I do think we have the American public's interest and we are doing all we can to produce as much supplies as we can, to put downward pressure on prices for the American consumer and other consumers around the world.

Mr. CONYERS. Well, I have had a discussion up here. There are five of you and five of us.

Steve Simon, I would like to invite you to my next town hall meeting. Who would you like to bring, since I have got the top guy here?

Mr. COHEN. I would like to bring you back again.

Mr. CONYERS. Not for a gas price town hall meeting. Who among these witnesses would you like to bring with you?

Mr. COHEN. I am going to pass.

Mr. CONYERS. Well, you have never been reluctant about anything before since I have known you in the Congress. I don't know.

I think there would be a great advantage to have one of these executives with you at the next town hall meeting. I will bet you get more people out than you have gotten out lately.

Mr. COHEN. Mr. Chairman, you are probably right and I guess the best person would be Mr. Hofmeister, because he is doing more with solar and renewable energy and I think that is what the people in my district want to hear about, and they wish that each of these individuals, particularly Exxon Mobil, which I have to admit I have got stock in and I have had it forever, but you should be doing more in alternative energy and trying to see if the public is served.

And I just really can't believe that the profit is just supply and demand. The profit is taking advantage of a situation.

Mr. CONYERS. Do your stockholders meetings go like this, Steve Simon?

Mr. SIMON. They go a little bit smoother, Mr. Chairman.

Mr. CONYERS. Ms. Sutton, who would you nominate to join you in Ohio?

Ms. SUTTON. Well, I would just like to comment that my colleague from Tennessee, when he mentioned that he would like Mr. Hofmeister because they were doing more with renewables, and you were out of the room when he said that they were using less than 1 percent of their investment money in renewables.

So if they are doing more and it was less than 1 percent, that is a bit of an issue.

But I think I would invite any of them, all of them. All of you come. Come to the 13th district, talk to my constituents. And I would also like to invite my colleague from across the aisle who said that the American don't understand.

Thank you.

Mr. CONYERS. Could I ask Sheila Jackson Lee whom among these distinguished witnesses she would like to bring to her next town hall meeting on the price of gas?

Ms. JACKSON LEE. Every one of them, Mr. Chairman. I believe they each have a perspective that should be heard and when I pose my questions, I hope I will get some of that perspective out as relates to this hearing.

Thank you, Mr. Chairman.

Mr. CONYERS. And now we recognize Ric Keller for his choice and his questions.

Mr. KELLER. Thank you, Mr. Chairman. They are all welcome at my event. With this affluent gentlemen, I don't have to pay for valet parking. So I can save some money here.

But I would love to have them here, because I think even though they are on the hot seat today, they have been very cool under pressure and respectful and I admire that.

Whatever we may think about the board of directors' decision at Exxon to pay $400 million to one individual at a time when people are hurting, Mr. Simon, your salary today, based on $12.5 million, is $34,246, and most folks out there watching this probably think you earned it and we appreciate you being here under these trying circumstances.

I raised a couple of issues that I gave you a chance to clarify. Executive compensation, I think you had a chance to deal with that issue. And I promised that I would come back and talk about refining. You remember that line of questioning.

Would you agree with me that refining capacity has not kept pace with demand for gasoline?

Mr. SIMON. When you actually look at it, Congressman, and you look at it over the last 10 or 5 years, the refining industry has expanded capacity commensurate with demand growth.

Mr. KELLER. Do you think refining capacity has kept pace with the demand for gasoline?

Mr. SIMON. Yes, I do. Yes, I do.

Mr. KELLER. You are familiar with the National Petrochemical and Refiners Association, which includes Exxon Mobil as a member.

Mr. SIMON. Yes, I am.

Mr. KELLER. The executive vice president, Charlie Drevna, of the National Petroleum and Refiners Association said, "Consumer demand just continues to grow, and we can't grow as fast at the refining level."

Do you disagree with that statement, as a member organization?

Mr. SIMON. Let me make a comment and then you decide whether I am disagreeing or not.

When you look at what we have done in the refining industry, we have grown capacity at about 1.1 percent per year. Demand has grown 1.1 percent per year.

So what we have got now, and I will say this, is we have got a much tighter supply-demand situation in refining than we have had for many, many years, and it started about 2003.

If you go back before 2003, we had a big surplus in the refining industry and now it is tight.

Mr. KELLER. You just proudly told us that you are going to put online the equivalent of five new refineries through expansion of the next 5 years. If refining capacity has kept pace with the demand for gasoline, why in the world you would be expanding these refining——

Mr. SIMON. I didn't say Exxon Mobil. I said the outlook and this is the EIA's outlook, is looking at what all everybody is planning and looking at what is going to be coming on stream, the equivalent of five new refineries for the industry are projected to come on stream between now and the year 2012.

If you look at projected demand growth, that is three refineries more than what we need. We will return to the same kind of environment in refining over the next several years that we had prior to the year 2003.

Mr. KELLER. Well, thank you. And since you cited the EIA—and for those watching this, that is the government's Energy Information Administration, and I happen to have an article from cnnmoney.com and I will quote it for you, April 17, 2007, from that very organization, "There have been calls every year this decade for new refining capacity, yet no new projects initiated," said Jeff Sundstrom, a spokesman for AAA, the motorist organization.

"Refining capacity has not kept pace with demand for gasoline. Numbers from the government Energy Information Administration proved Sundstrom correct. In 1995, American drivers burned about 17 million more gallons of gasoline a day than the country produced, according to the government's Energy Information Administration. The difference was made up for by imports. By 2005, the latest figures available, the gap had widened considerably to about 36 million."

So we have the government's Energy Information Administration saying refinery capacity has not kept pace with demand for gasoline. We have the National Petroleum and Refiners Association, for which you are a member, saying refining capacity has not kept pace with demand for gasoline.

We have the government's Energy Information Administration saying refining capacity has not kept pace with demand for gasoline. We have you saying that you are going to expand capacity, and yet everything is fine because refining capacity has kept pace with the price of gasoline.

And it is just dumbfounding me, and you are more of an expert than I am, to hear the conflict.

Mr. SIMON. Well, again, when I was talking, it was total product. It is true that imports of motor gasoline have gone up. That is true. They are low cost imports out of Europe, much cheaper than what we could produce here in the United States by expanding capacity.

That is part of our supply chain. But when you look at total products, refining capacity has grown commensurate with demand.

Mr. KELLER. When was the last year that Exxon built a new refinery as opposed to expanding an existing one?

Mr. SIMON. Well, over 35 years ago. But we don't need to build a new refinery.

Mr. KELLER. So 1973.

Mr. SIMON. Prior to that even.

Mr. KELLER. Okay. You haven't built a new U.S. refinery in 35 years. Have you asked for a permit to build a new U.S. refinery in the last 35 years?

Mr. SIMON. Not to my knowledge, because we haven't needed to. We can take what we have and expand it more than what is needed to keep pace with demand.

Mr. KELLER. President Bush has said that new refineries need to be built and he proposed to allow the oil companies to build these new refineries on old military bases.

As of today, isn't it fair to say that you have declined to take him up on his offer?

Mr. SIMON. I do not agree that we need a new grassroots refinery in this country.

Mr. KELLER. As of today, you have not taken the President up on his offer to build a new——

Mr. SIMON. No, we haven't.

Mr. KELLER [continuing]. U.S. refinery.

Mr. SIMON. No, we haven't.

Mr. KELLER. Okay. You are proud of the fact that you have expanded existing refineries. And I want to be fair to you, if you want to tell us what you are proud about in terms of the last few years and what you have done and where you see us going in the future.

I think that is only fair, and I will be happy to defer and listen fully to your answer.

And then I will yield back the balance of my time.

Mr. SIMON. As I mentioned before, when you look at what the industry has done, it has expanded capacity commensurate with demand for total product. When you look at what our corporation has done, we have expanded capacity at a rate 40 percent higher than the industry in terms of distillation capacity.

I am proud of that. I think our employees are doing everything they can to produce as many products as we can for the American consumer and I think they are doing a very good job of that. I am proud of it.

Mr. KELLER. Thank you, sir.

Mr. Chairman, my time has expired. I have more questions on refineries, but I will yield back in respect to the other witnesses here.

Mr. CONYERS. Thank you very much, Ric Keller.

Sheila Jackson Lee?

Ms. JACKSON LEE. Thank you very much, Mr. Chairman. This has been a very interesting discussion.

But I hope the witnesses who have been here before, been before a variety of Committees over the last couple of months, can understand the enormity of the frustration and, frankly, I think, the challenge.

And maybe the disappointment is that as we continue to listen, we are still sort of striking in the darkness to look for a real answer that, as you walk out of this room, this Committee can come together and say there is one focal point that we need to do for immediate relief, and I think that is the distinction, gentlemen, between the questioning of our colleagues who have shown some degree of frustration, because you have not answered the immediate question.

And I pose the immediate question in the context of a hypothetical that I saw rendered on one of our cable stations that indicated that suppose there was a Hurricane C which wreaked havoc in the Gulf. We lost many of our drilling rigs and we wound up with a $12 per gallon cost of gasoline.

It would jeopardize our national security, certainly our economic security, and it would be a crisis. And, frankly, all of you would be called upon to respond in a crisis mode.

Well, with not with Hurricane C, but we are in a crisis mode, by definition of many Americans, and it is not all your fault, because certainly the dollar is weak and it adds to the cost, I imagine, in the national cost, as well as the cost to consumers.

But what I am trying to press you for is immediate answers, and I would suggest responding to this. Why couldn't there be a moratorium in gasoline prices, for example, from June to October, moratorium on gasoline taxes, and the expense of that tax be paid by the profits that you have earned?

What would harm your overall bottom line profits? I assume, as a private entity, that would be something that your board would need to approve. Shareholders range from my good friend to the right to retirees and others who probably look to you for the fiduciary responsibility of ensuring they can stay above the water during their retirement.

But you are not giving the American people, if you will, direct and immediate relief.

So I pose that question to you as I show you that the Minerals Management Service of 2006 says that we have about 79 percent of land open to leasing, and, therefore, a smaller percentage not. So it seems that we have a sufficient amount of our leasing properties available for drilling.

And then this is another one that is prepared that says that as we look at the prices of gasoline, they actually lead to higher profits, and that is, of course, what provoked the American people when it comes to asking Congress to find a solution.

Now, let me pursue just another point before I yield to you for questions.

This is an Antitrust Task Force and you have already seemed to refute the idea that there is collusion. But let me give you a definition. Collusion is a will for subversion of a normal operation of free market and could result in serious harm to consumers, suppliers and the economy.

It virtually always results directly in inflated prices to consumers and denial of choices in the marketplace. Indeed, that is its purpose.

Now, for non-lawyers, they saw and heard this being read, the word collusion. They make a simple assessment that I am being hurt, there is inflation, I am paying a higher price for gasoline, there must be collusion.

So I think what we are trying to generate here today is some small measure that refutes the collusion theory requiring investigation by the Department of Justice, a collaborative effort with us.

And, Mr. Lowe, I am really going to start with you, because I look at your list here, and I agree with everything that you have said. I wear somewhat of a different hat from the region that I

come from, and I am somewhat at a loss as to what Congress has not done.

And I will read it quickly, and I have asked several questions and so I beg your indulgence.

But Mr. Lowe has, in his statement, encouraging conventional supplies, optimizing biofuels production, encouraging alternative and unconventional sources, lowering the carbon intensity of energy supplies, improving energy efficiency, and encouraging technology innovation.

What has Congress not done? That is what I understand. We have tried to do everything that we could.

And I would say to you, and I will yield to you for your answers on this, but one thing we have to get away from is the Republicans have the answers and the Democrats don't. And I, frankly, believe that that is what you have been operating on for a number of years and there is a new day in Congress.

Your representatives who are here in this room barely see us. We don't even know their names, hardly, and I will qualify those that I do, BP and Shell.

But any others, we don't know. There is no interaction. There is no sense that we are in this together, that there are those of us who look different from you who know energy, care about it and want something good to happen.

You don't respect us. So I don't think there is a coming together and a meeting of the minds, because you are not broadening those who you are discussing this issue with.

Shell got a wide view from your roving tour. ConocoPhillips did the same thing. I assume you saw the man and woman of America and got an earful, but also probably found some common ground.

So I am going to yield to Mr. Simon first on the question that I posed originally as refuting this question of collusion and the idea that you don't have enough places to drill.

According to our Federal resources here or documentation, you are drilling in a large part of this country. And then why we seem to have a policy that is single in answer.

And then don't forget my gasoline taxes, if you would.

Mr. SIMON. Well, thank you very much, Congresswoman.

When you, first of all, talk about collusion, let's examine a little bit about the industry. Let's take refining, first of all. There is 55 different refinery companies. There are about 145 individual refineries in the United States.

We are one of the largest refiners. We have seven refineries. We have 11 percent market position and that is actually down from where it was at the time of the merger.

So usually, in a concentrated market, that would not be the case.

Also, when you look at independent marketers, their market share has actually grown from 8 percent up to 25 percent.

Ms. JACKSON LEE. Mr. Simon, the American people don't really define it that way. They look at the fact that you have got Exxon Mobil, BP, ConocoPhillips, you have got Chevron, you have got Shell, and after that, then you get second tier, maybe there is somebody else that I missed, and there are domestics.

They look at you as an entity that is now merged, two huge companies, and they ask the question whether the small numbers that

have now gone down in size from 20 years ago are not actually engaged in making sure that the prices are being set at a certain amount.

Mr. SIMON. And that is what I am trying to get across here. I understand the perception, but the facts are not that. In other words, we have actually lost market share, not gained it, since the merger.

When you look at the retail side of the business, there are 165,000 retail outlets. Exxon Mobil owns and operates and, therefore, sets the price in only a half a percent of those.

Our market share, again, has gone from 14 percent down to 10 percent. We have lost market share and so have all of the majors.

Ms. JACKSON LEE. But does losing market share impact on still the opportunity to set prices, even though you have lost market share? That is the perception that the American people have.

New energy companies, merged energy companies, prices go up.

Mr. SIMON. But the concentration of the industry, when you compare the concentration of our industry versus others, it is one of the lesser concentrated industries in the United States. It has been repeatedly investigated by the FTC and not a single one of those investigations, which have been 100 over the last 35 years, an average of about three per year, not a single one of those have found any evidence whatsoever of price collusion or anticompetitive behavior.

Ms. JACKSON LEE. Here, today, you have offered us a presentation that doesn't seem to pinpoint, in an effective way, I appreciate your response, as to why this price keeps accelerating, short of the idea that the industry agrees with the price set.

Now, I am not suggesting that it would be proven. I am saying that it would be suggested and it seems to be that there are a smaller number of companies and the price has gone up.

But let me let you move on quickly to your other questions so the others could answer about the gasoline tax and calling a moratorium and having the energy companies pay for that tax moratorium from, say, June to September out of your profits.

Mr. SIMON. Did you want me to address the drilling aspect?

Ms. JACKSON LEE. If you can do it quickly.

Mr. SIMON. When you look at that chart you had, that is—unfortunately, I wish we were developing more, but oil isn't everywhere we have leases.

Where there is oil, we are developing that. These are mature, well established areas, where the prospects are a lot lower and, therefore, you don't find the oil everywhere.

We need access to those areas that are promising, lesser developed, where we know there is good prospect for oil and gas.

Ms. JACKSON LEE. You didn't answer the gasoline tax.

Mr. SIMON. When you look at the gasoline tax, again, you asked the question why the prices are going up.

Ms. JACKSON LEE. No. What I would like to ask is the question of whether or not you would absorb that in a moratorium on gasoline taxes, would you absorb that through you profits.

Would you be willing to do that if you were asked on behalf of the American people?

Mr. SIMON. What you would see, Congresswoman, if you eliminated that tax, you would see a drop in the price. But what would happen then is you would have an increase in demand. That price would go back up and I think it is impossible for any of us to say that the price wouldn't recover to where supply and demand would get back in balance.

Ms. JACKSON LEE. I would say this. I would venture and be willing to try it in the instance, let the market play as it would in that instance, and then come back again in September, since it would be a moratorium only briefly, and reorder it.

But I think some relief is owed and the question is whether you would be willing to pay those taxes so that the highway trust fund is maintained.

Mr. SIMON. No, we couldn't pay those taxes. When you look at our profitability, it is $0.014 this year on a dollar, whereas taxes are somewhere up around $0.15.

Ms. JACKSON LEE. Well, your profits show that they are a little larger than that. But let me yield to Mr. Malone.

Mr. MALONE. Let me not try to repeat, because I agree with a lot that Mr. Simon said.

On the issue of collusion, most of our retail outlets are not owned by us. They are owned by independent individuals.

Ms. JACKSON LEE. I am aware.

Mr. MALONE. I would also reinforce that we have investigations even going on now and have had continuously and they have yet to ever find that there was an issue on the market.

There is a point I would like to bring up, because I think it keeps getting lost in this. If you would just say today gasoline is $4 a barrel——

Ms. JACKSON LEE. A gallon.

Mr. MALONE. A gallon, excuse me.

Ms. JACKSON LEE. We would like the $4 a barrel.

Mr. MALONE. Is $4 a gallon, my apology. If you take that a barrel of oil is 42 gallons, right? At today's price, just to buy that barrel is about $3.20 a day to buy that barrel of oil.

Roughly, the retail outlets, we talked about this yesterday, $0.08 to $0.10. So now you are at about $3.30. Taxes, State, Federal, local, are about—let's use $0.50. You are now at $3.80.

That is built into this system. At $3.80, we are going to have to get that barrel of oil on a ship, a train, a boat, a plane, get it to our refineries, refine it, and then distribute it and market it.

And this is getting lost that the big piece is the $3.30 a gallon due to the rise in the price of crude oil. It is an enormous piece.

On your question about a tax holiday, we believe, first of all, street price is not set by us and even if there was a moratorium, I can't say that the retail outlets wouldn't keep the price up, because it is a commodity.

Let's say they did bring the price down. I think it would be very short-lived and that we could actually see a run on those kind of stations. Soon, the supply is gone and it is going to come in from overseas. It is just the supply-demand economics are at play here.

On the access, I will only make one point and, that is, when Congress opened up the deepwater Gulf of Mexico, and you and I have talked on many different times, I just want to use the example that

the price of oil was so low that it was not economical for many of us to go into the deepwater Gulf of Mexico.

Congress provided royalty relief. It encouraged us to go in at very low prices. We are just bringing on one of our platforms, a multibillion dollar platform and it is coming up with—we have partners in this—7,000 feet of water and 5 miles we go down below the surface.

It is a multibillion dollar one. We are now flowing about 150,000 barrels a day and it should flow as much as 250,000.

Access to where the source of oil is does work and there have been times government has helped. We don't need the subsidies, royalty relief in the Gulf of Mexico. In fact, they have gone——

Ms. JACKSON LEE. Are you at capacity in the Gulf of Mexico?

Mr. MALONE. No. I am building more platforms.

Ms. JACKSON LEE. Is the energy industry at capacity in the Gulf of Mexico?

Mr. MALONE. No. We are all out there trying to develop. Remember, we are pushing the frontiers of technology.

Ms. JACKSON LEE. And we agree with this and I don't know why we are complaining about supplies and access, because there you are in the Gulf and there is more that can come on line.

Mr. MALONE. That same Gulf, that same geology appears to go right around Florida and up the east coast and right around——

Ms. JACKSON LEE. And as you well we know, we will not be able to drill there without consensus in those areas. Where we have consensus is off the Gulf, and I say come one, come all.

But the point that is being represented is that we don't have enough, but we are not at capacity in the Gulf off of Texas and Louisiana.

Mr. MALONE. I would be happy to—I know what we are doing on our leases. I can't speak for anyone else. We are utilizing our leases and developing across our lease base and we would love to see more available to us.

Ms. JACKSON LEE. Mr. Lowe, you had a whole list and you say we are not doing—and we are doing all of that. And why wouldn't ConocoPhillips want to give relief to the American people by taking some of their profits and paying down on the gasoline taxes from June to September?

Mr. LOWE. I will try and address each of your points. ConocoPhillips has essentially exited—we are in the process of exiting the retail gasoline business. So that has been our strategy and we are really in the finalization of that.

On the access issue, I would say that there is plenty of evidence that the companies represented here are starved for access. ConocoPhillips, just in the past 6 months or so, the last 3 bid rounds, Chukchi Sea and the 2 Gulf of Mexico bid rounds, has been high bidder on more than a $1 billion worth of leases and we have been outbid by our peers on well over $1 billion of other money that we were willing to put at stake.

So we are starved for access. We are not making that up. It is a fact. We do need more access to more prospective acreage.

On the gas tax, I would just echo the comments earlier that the concern—I do believe that supply and demand works and that we have seen a reduction in gasoline demand with the higher prices

and my concern would be that if we lower the prices, that that would reverse itself, and we would actually exacerbate the problem.

So that would be my concern on the gas tax.

If I could just mention one other thing. I participated——

Ms. JACKSON LEE. I am smiling because I would want you to give that gift to the American people and let them decide that for a period of time. But let me yield back to you.

Mr. LOWE. ConocoPhillips did 35 of these what we call conversations on energy. I did a number of them, Reno, Nevada, Scranton, Pennsylvania, Richmond, Virginia, and it is a very healthy debate.

Ms. JACKSON LEE. It didn't hurt you, did it? It did not hurt you, did it? You came away okay.

Mr. LOWE. Absolutely, it was very educational, I think, on both sides and I would actually appreciate the opportunity to do one of your town halls. You are extremely thoughtful. I think it would be very good for both of us.

And when you ask kind of, well, what aren't we doing, I think my feeling is that there seems to be a lack of a recognition of how big this business is and how much it is a global business.

The U.S., people in America, we enjoy a great quality of life and that quality of life has come a lot, foundational, really from energy. Other people around the world want that same quality of life and so we are engaged in a real competition for energy.

So we are competing every day, whether it is crude prices, whether it is natural gas prices. You see we have an empty LNG port in the Gulf Coast because the price of natural gas in the United States is well below what the natural gas price is in Asia and Europe. And so we cannot compete for that natural gas, the LNG, away from elsewhere in the world.

So we need to recognize that we are—it is a global economy. This is a global business and we can do things here at home to provide more access, to provide more supply, to also work on the efficiency side.

We need to do everything and we need to work on that together.

Thank you.

Ms. JACKSON LEE. Thank you.

Mr. Robertson? And while you are answering, Mr. Robertson, what did you do in Venezuela?

Mr. ROBERTSON. Well, let me start with Venezuela. We stayed there. We negotiated an agreement that was acceptable to us and so we remain a producer in the Boscan field and we remain a producer in the heavy oil sands.

Ms. JACKSON LEE. And how much product do you get out of there?

Mr. ROBERTSON. We produce over 100,000 barrels a day in the Boscan field and, to be honest, I don't remember how much we produce in the Hamaca field.

Ms. JACKSON LEE. But that gets to the United States or it stays in South America?

Mr. ROBERTSON. A lot of it comes to the United States. But we have been in Venezuela since 1946, with a hiatus in between, and we expect to be there for a long time to come.

I think in these hearings the last couple of days, I hope one thing that has maybe become evident, is that the current situation is not

really about refineries in the United States. It is not really about whether we have enough service stations. It is not really about whether the market is well supplied with gasoline.

It is well supplied with gasoline, inventory is up. There is plenty of gasoline.

The problem is, again, what others have been saying, it is in the crude oil feedstock. So that all of a sudden becomes as bigger issue in the United States.

One out of every 4 barrels of oil in the world is consumed in the United States. So we are competing with the world. One of the things that I know is we have got 27,000 employees here in the United States that are doing everything they know how to continue to look for, develop and produce energy for people in the United States, and we have got lots of other American employees around the world in all kinds of difficult circumstances, and you can start to list off the countries.

I mean, Venezuela, Nigeria, Kazakhstan, Australia, Burma, a whole host of countries producing oil and gas, one-fourth of which, on average, comes to the United States.

So we are in this competition with the rest of the world and we can't get away from it. We are using one out of every 4 barrels that is produced in the world.

So we are part of that system and as a result of the fact that many other—and it has been mentioned before—many other economies are growing rapidly and in many of the large population centers of the world, our products are subsidized. I mean, not just subsidized, people are paying very, very low prices for gasoline and diesel and those other products.

So they are not even seeing the market price signals today. Those economies are moving forward and they are continuing to use these products and we are competing with those people for products in the United States.

So the issue is what can we do, and there are only two things we can do. We can either reduce the demand, the use of these products, and the American people, frankly, are reducing the use of these products. We have been looking at data. The first couple of months this year, U.S. gasoline demand was down 2 percent.

It is down, right now, looking at our service station sales, probably down 6 or 7 percent. So the demand is going down.

The other thing we have to do or the other part of it is increasing supply. I don't know whether you saw on ABC News last night, there was a clip from the deepwater Gulf of Mexico, showing what some of our folks are doing to bring on new supplies in deepwater Gulf of Mexico, just like was described, miles deep, incredible technology, incredible effort.

So we have got an enormous number of people working, Americans working very hard every day to supply energy to the American people and they are competing with the rest of the world and they are doing a heck of a good job.

And what we need to do is allow them to do more of what they are doing in the United States.

Ms. JACKSON LEE. Would you pay for the gasoline taxes for a period of time to give Americans immediate relief?

Mr. ROBERTSON. I can't——

Ms. JACKSON LEE. Representations of the witnesses is very complex for anyone to understand. You try to decipher between the retail upstream and downstream, and you are trying to suggest you don't have any gasoline stations, so it is not your fault.

You are not giving any relief. What would be the wrongness of this moratorium and the energy companies paying for these taxes out of their profits?

Mr. ROBERTSON. With respect, I would say we are giving relief in the sense that we are working every day to bring supply and we are working every day with our energy efficiency customers to make them more energy efficient and more profitable.

Ms. JACKSON LEE. So if we reduce need or reduce usage, you say that the gasoline per gallon would go down.

Mr. ROBERTSON. I am saying that if demand in the world and demand in the United States goes down, that will have an effect on price.

Ms. JACKSON LEE. And that is the crux of the issue, whether the demand in the world will go down.

Mr. ROBERTSON. Well, ours is a big part of the demand in the world. So it will have an effect on price.

Ms. JACKSON LEE. That would be the key, whether or not our going down reflects on the overall world price.

Mr. ROBERTSON. We are only part, but, again, we are 25 percent of the world's total demand. So if our demand goes down dramatically, prices will——

Ms. JACKSON LEE. But we have to wait that long, which will be a long time.

Mr. ROBERTSON. Well, I think the consumers have made a big change in the last few weeks. Our service station sales are down, as I said, 6 or 7 percent year over year. There is a dramatic change in the United States.

Ms. JACKSON LEE. Will we see a decrease then? Will it come back to the consumer? Will we see a decrease over these summer months?

Mr. ROBERTSON. It will certainly influence the price of gasoline.

Ms. JACKSON LEE. Do you think we will be down to $3?

Mr. ROBERTSON. I have no idea. I can't tell you that. I can tell you, on the gas tax, it was said already, I think reducing tax for a short period of time, reducing the price for a short period of time will increase the usage of the product and, frankly, compound the situation, because that will increase demand and increase the need in the United States for crude oil and increase the price of crude oil, and that is not what really, frankly, needs to happen here.

Ms. JACKSON LEE. I don't know if the minivan drivers are understanding that.

Mr. Hofmeister?

Mr. HOFMEISTER. Congresswoman, I don't think my company is qualified to get into national tax policy. I think that is for government to manage.

I do think, however, that a temporary suspension with a springback that would affect families at the end of the summer season would have as much negative impact on perception of what has been occurring.

But really, if you want to reduce the price of gasoline at the pump, the most dramatic step that this government could take is to commit to the United States people that we will solve this problem of restricting supply for once and for all.

This nation has for 30 years told us, "Go away, oil companies, go elsewhere, go to Kazakhstan, go to Brazil, go to Africa, go to Nigeria, go anywhere but the United States," except in that 15 percent of the outer continental shelf where we are doing everything we can to maximize production in that 15 percent.

If this nation said to the world and to its own citizens, "We want a dramatic increase in the quantity of production that is possible from America's own natural resources," it would knock the futures market on its head.

It would be unprecedented and traders would immediately get discouraged about bidding up the price, knowing that additional supplies would be coming into the market in the coming years, which would cause them to begin taking other positions rather than simply bidding up the price.

It would tell the world the U.S. is serious about its own supply. I think the tax idea is not a good idea.

Mr. KELLER. Would the gentlelady yield?

Ms. JACKSON LEE. I would be happy to yield.

Mr. KELLER. One of the things my friend from Texas said is that there needs to be a consensus about drilling in the outer continental shelf, and I happen to be from Florida.

And I would just like to ask you a question so you can speak to the Florida people on this issue.

I personally happen to be in favor of drilling for the deepwater oil reserves, but you hear two objections from Florida, and I would like each one of you to just briefly give us your response.

Number one, they don't want to see the oil rigs. So I would like to ask you how many miles off the coast to you have to be in order to not see the oil rigs. Is it 20 miles, 30 miles, 50 miles? You tell me.

And then the number two issue is they don't want to risk their tourism-based economy because of an oil spill that might happen, albeit even though it is unlikely.

So I would like you to address whether there has ever been such an oil spill by any of your companies that ended up with oil on the beach and then what solutions or what comfort you can give to the folks that there wouldn't be in the future.

So the three questions: how far does the rig have to be so you don't see it? Has your company ever had a spill that resulted in it coming on the Florida beaches? And, three, what assurances can you give that that wouldn't happen in the future?

Mr. Hofmeister?

Mr. HOFMEISTER. I would just respond very quickly. I think the curvature of the earth would be at 14 miles and most of the drilling would be well beyond 14 miles, as far as I could tell.

The question of—I am not aware of any oil spills on the beaches of the Gulf of Mexico that have come from any Shell Oil wells. We went through the summer of 2005 with seven named hurricanes. We shut down platforms seven times in one summer.

We had Katrina and Rita in the same year coming through nearly the same region of the Gulf of Mexico and although we took sustained damage and although the industry lost some 90 platforms, there were no spills on the beaches of Louisiana or Texas or Alabama.

The technology that did not exist when the Santa Barbara blowout occurred many years ago has improved dramatically to the point that shut-in valves and the manner by which we design rigs, design the sub-surface and the sea surface equipment, including the pipelines, is such that it—while nobody could ever say there would never be a spill, because we can't control nature, it is hard to imagine such equipment failure that we would have a spill.

Mr. KELLER. Are you saying you couldn't see the rigs at 14 miles visually?

Mr. HOFMEISTER. That is my understanding.

Mr. KELLER. Is that because they are mostly underwater?

Mr. HOFMEISTER. No. It is because the curvature of the earth means that the height of the rig above the surface of the water would be invisible.

Mr. KELLER. Thank you.

Mr. Robertson?

Mr. ROBERTSON. We haven't had a spill in Florida, to your question. Just to build on a comment that was made, I think during these hurricanes, 1,000 wells in the Gulf of Mexico were destroyed, ripped up, torn up, bent over, and not one, to my knowledge, leaked significantly.

So the technology is here to withstand serious natural disasters.

With regard to Florida, offshore, several years ago, we actually did drill offshore of Florida, in an area called Destin Dome, and did discover a fair amount of natural gas. In today's values, it would have been a tremendous value.

We could not get permission to develop it, after spending lots of money to get the leases and lots of money to drill exploratory wells. We could not get the money to develop. We eventually ended up having to turn the leases back.

So what is happening? We have rigs offshore in Angola and the people there support rigs offshore. We are developing LNG and we are going to bring it to a terminal in the Gulf Coast other than Florida and we are going to put it in a pipeline and send it to Florida.

Mr. KELLER. Understood. So do you agree with the 14 miles, you can't see it after 14 miles?

Mr. ROBERTSON. I don't have a better answer than that. It sounds about right.

Mr. KELLER. Mr. Lowe?

Mr. LOWE. Our work that we have done is in synch with the 14 miles. I don't have any knowledge, I don't believe we have ever had any spills that would affect the Florida coast, and I agree with the updated technology on the impact to the environment.

Mr. KELLER. Mr. Malone?

Mr. MALONE. Nothing to add, Congressman, to the others on what they have said.

Mr. KELLER. Has BP ever had a spill that ended up on the Florida beaches?

Mr. MALONE. No.

Mr. KELLER. Mr. Simon?

Mr. SIMON. Nor has Exxon Mobil. I would echo what my colleagues have said. I would make one more point.

Mr. KELLER. Yes, sir.

Mr. SIMON. And that is that we are developing oil and gas all around the world elsewhere in environments much more difficult, much more challenging than we would find here in the United States in a very environmentally responsible fashion and we are absolutely convinced we could do it here, as well.

Mr. KELLER. So to sum up, before I yield back to my good friend and colleague from Texas, you make up five of the largest oil companies in the United States. It is your collective opinion that with respect to drilling off Florida's coast, you wouldn't be able to see the rigs past 14 miles.

There has never been an oil spill from any of your major companies landing on the Florida beaches, to your knowledge, and you believe it can be done safely and secure and in an environmentally friendly manner, because you went through Hurricane Katrina, and even though that was so devastating, you had no oil spills show up on beaches there, and you have also had drilling in the past in places like Destin Dome without oil spills and you are comfortable it can be done in the future.

Is that a fair summary?

Mr. SIMON. Absolutely.

Mr. KELLER. I yield back to my colleague from Texas and thank her.

Ms. JACKSON LEE. I thank you. And I will include, because the Chairman has been enormously generous.

But this hearing was to provoke, if you will, and to probe the idea of collusion and the, if you will, fixing of prices and it doesn't mean that we—some of us here were predisposed to answers that would suggest that was happening.

But it is a hearing, as well, to find solutions and I would argue that you have given some, but they are not sufficient to give an immediate relief.

And I do believe that this will require more heads than one and a bipartisan approach. The gentleman from Florida is a Republican and I am on the other side, and I happen to agree with him that there can be safe and secure drilling in places that there is not.

But I can assure you that none of that will occur unless there is continued explanation and interaction with this bipartisan body politic here in the United States Congress going forward.

And though this is an aside, it has not occurred and I believe we are going to change minds and really understand whether prices are fixed, really understand whether there is connection to your compensation to fix prices or high prices, and this will have to be an ongoing dialogue even beyond a Committee hearing, because the DOJ can investigate, we can call for an investigation, but parallel to that, prices will continue to rise.

So I hope that we will have these gatherings that the Chairman has so generously offered to various Members, because I happen to believe that a moratorium on gasoline prices is not fixing prices,

but it has a real perspective to it, and I have gotten answers that say quite the contrary.

But I hope that out of this will come the opportunity to really get down to how we can lower these prices, and I thank the gentlemen for their answers.

I yield back.

Mr. CONYERS. I thank the gentlelady.

Did Steve Cohen want a follow up or is he going to wait for Maxine Waters?

Mr. COHEN. I will always wait for Maxine Waters, Mr. Chairman.

Mr. CONYERS. That is a wise move. I commend the gentleman for his soundness and experience in less than 2 years.

Ms. WATERS. Thank you, Steve.

Thank you, Mr. Chairman.

First of all, let me just say this. To Mr. Simon, I appreciate what is in your bio that indicates that you work with the National Action Council for Minorities in engineering.

Mr. SIMON. That is correct.

Ms. WATERS. That is very important.

To Mr. Hofmeister, that you serve on the board of the Urban League.

And to Mr. Robertson, I guess I want to ask you, at some point, what do you do with the U.S.-Saudi Arabian Business Council?

But I want to say thank you for your volunteerism and your contributions dealing with social issues and helping our neighborhoods and with our nonprofits.

And I just want you to know this is not personal. Thank you very much for being here.

Now, having said that, I want to get back to all this money you are making and I want to talk with you about whether or not there are acres of Federal land currently leased by oil and gas companies, 42 million acres and only 12 million acres are actually being drilled to proceed with oil and natural gas.

Someone may have asked this already, but is that a true statement?

Mr. SIMON. Ms. Waters, may I take that on?

But before I do, I would like to apologize for a number that I gave you earlier that was incorrect on what we are spending in terms of promotion and sponsorships and advertising.

I think I gave you——

Ms. WATERS. That $100 million?

Mr. SIMON.—$100 million. It is actually $270 million. So I did want to correct that number.

Ms. WATERS. Yes. I knew it was more than that. But I thought maybe you just didn't have it at your fingertips at the time.

Mr. SIMON. Well, thank you for giving me the opportunity to correct that.

Ms. WATERS. Sure.

Mr. SIMON. When you look at we currently have about 7 million acres under lease and on every one of those leases, we either have evaluated or are evaluating or have specific plans to evaluate, and every one of those that have prospects, commercial prospects, we are developing or are in the process of developing.

The problem is a lot of the acreage that we have is mature acreage. A lot of that will not have oil and gas prospects.

Ms. WATERS. How long have you had this 7 million acres?

Mr. SIMON. It varies. It varies depending upon the lease terms. We wish we were successful——

Ms. WATERS. Tell me, what is the amount of your oldest lease?

Mr. SIMON. I am sorry?

Ms. WATERS. I want to know how long you have had the leases and I want to understand, to the best of my ability, how long have you had—you say they vary. Some of them you may have had 10 years, some you may have had 15 years.

What is the longest period of time you have had these 7 million acres?

Mr. SIMON. I am informed that they are 1998-1999 and they are 10-year terms and most of them are toward the end of that.

Ms. WATERS. So if you have had them around 10 years, you have been exploring and researching to see what they could produce.

Mr. SIMON. And those that we have found that have prospects for commercial volumes, we are developing. So those that aren't are those that we have not found commercial prospects for and, again, these are established mature areas where you would expect to have a lower rate of prospects.

The access that we would like to get are those that are not developed, undeveloped, where we know the prospects are much greater than those that we have now in the mature developed areas.

Ms. WATERS. Such as?

Mr. SIMON. Like the parts that are currently off limits.

Ms. WATERS. So if your 7 million acres, only about 2 or 3 million are worth drilling.

Mr. SIMON. If that, if that.

Ms. WATERS. All together, they said there are 42 million acres of Federal land currently leased for oil and gas companies. Can each of you tell me how much of that 42 million you have? You have got seven.

If we could just start with Mr. Hofmeister, is it? How many acres do you have?

Mr. HOFMEISTER. I am sorry, Congresswoman. I would have to get back to you with the number. I don't know at my fingertips.

Ms. WATERS. Right down the line. How many do you have?

Mr. ROBERTSON. I do not know how many acres we have. Many leases that are producing have been around, we have had for 20 or 30 years, because we are producing on them. So there are rules.

The Federal Government has rules. So you can't just hang on to a lease forever. You have to have a plan. You have to be doing something. And if it is a 10-year lease, when the 10 years expires, if you haven't done the work that you committed to do, you lose it.

So on all the leases that we have, we are paying rentals. So we pay to keep them and we don't keep ones that we don't need and the government won't let us keep ones that we are not doing some work on.

So it is an active program on all of them.

Ms. WATERS. How many do you have, sir?

Mr. LOWE. A similar question came up yesterday and we are actually working to try and find that information, but I don't have that at my fingertips. I am sorry.

Ms. WATERS. Yes, sir?

Mr. MALONE. Onshore, I think I have been told about a half-million acres, 95 percent of that acreage is in production. The remaining 5 percent are in development, exploration and development now.

I don't know the acreage in the deepwater Gulf of Mexico, but of the 658 leases there, 114 are producing and the rest are under exploration and development.

Mr. SIMON. Congresswoman, I could add that we have 100 Federal lease blocks. Again, we gave you the acreage. And by the end of this year, only one of those will likely be producing and most of these will expire next year.

Again, we have not found prospects on. There is a small handful that we still believe deserve study, but very little.

Ms. WATERS. Again, you may have heard this information before. It is stated that the areas with the vast majority of oil and gas are already open to drilling. According to Federal Government surveys, 82 percent of the gas in the outer continental shelf and 79 percent of the oil in the outer continental shelf is suitable for leasing.

And this was before Congress opened more space in the Gulf of Mexico for drilling in 2006.

Mr. SIMON. I am not sure what information you are talking about there. My information is that about 85 percent of the offshore is off limits and even onshore, about 75 percent is either off limits or severely restricted.

So there is a significant amount of acreage that is unavailable, off limits, and there has been estimated it is about 30 billion barrels of oil and about 125 trillion cubic feet of gas.

That is enough oil to back out imports for a period of over 8 years and enough gas to heat——

Ms. WATERS. So you disagree with these information that I have that 82 percent of the gas in the outer continental shelf and 79 percent of the oil in the outer continental shelf is available for leasing. That is not something you are familiar with. You don't know that.

Mr. SIMON. Unless we have got different definitions. I can't identify with those numbers, I am sorry.

Ms. WATERS. Okay. When I first started the questioning, I asked about your need to—well, we are trying to find out the real relationship between the cost of a barrel of oil and the cost at the pump.

Whenever the oil increases, a barrel of oil increases, we automatically get these increases and would have us believe that it is absolutely necessary to do, because—and we don't know whether or not there is a direct connection.

Ordinarily, in managing your budgets and managing your income, you would say that when the price of commodities increase and you have got to spend your money, you have got to earn more money or you lose, you spend more money in order to do it.

But I don't see that connection yet with the barrel of oil and this increase at the pump.

Tell me one more time why it is, when the cartel—and let me just ask whether or not—is Angola in the oil cartel?

Mr. ROBERTSON. Angola is a member of OPEC, yes.

Ms. WATERS. And Nigeria and Venezuela, they all are. Okay.

Tell me, when they have increased the price of a barrel of oil, how does that increase get all the way down to the pump past all of your profits?

You have $123 billion in profits collectively and you have had, in 2007, that $40.6 billion that I keep getting back to. And so what if they increase the price of a barrel of oil? You still have big profits. Why do you have to—why does that translate automatically into an increase at the pump?

Mr. SIMON. Well, again, we have got different components of our business. When you look at the piece of the business here in the United States that produces those products, we have to buy that raw material on the open market.

Ninety percent of what we refine here we buy on that open market. And so we refine it and market and then we sell it. So if the price of that raw material goes up, if we don't pass that through, the profitability on that piece of the business goes down, and, indeed, it has this year.

Ms. WATERS. So instead of making $40.6 billion, what if you made $25 billion? Would that be enough for you?

Mr. SIMON. Well, we are going to——

Ms. WATERS. Because I understand what you are saying. You have got to go out on the open market and buy that raw material.

Mr. SIMON. Right.

Ms. WATERS. I understand that. You have got to refine it. You have got to do all of these things. But in the final analysis, after you do all of that, you had $40.6 billion.

Mr. SIMON. That is correct.

Ms. WATERS. And what I am asking you is this: in the name of patriotism, why can't you just have $30 billion or $25 billion for that year that you make $40.6 billion?

You have bought all your materials. You have done all your investing. You have explored. You have drilled. You have done everything and you have got $40.6 billion left.

Why does that price at the gas pump have to increase?

Mr. SIMON. Over the next 5 years, we are going to be investing over $125 billion. If we are not strengthening our balance sheet now, we are not going to be able to sustain long-term investments of that level——

Ms. WATERS. Give me the projection of your profits, just like you give me the projection of your investments.

Mr. SIMON. I don't have a projection.

Ms. WATERS. But you can give me, you can tell me how much——

Mr. SIMON. No, honestly——

Ms. WATERS [continuing]. It is going to cost you to invest. Tell me what your projections are for profits, given everything that you know.

Mr. SIMON. We are investing over $125 billion over the next 5 years, regardless of what our profitability is, because we don't

know what our profitability is going to be. We invest as much in low profitability——

Ms. WATERS. Let me just say this.

Mr. SIMON [continuing]. As we do in high profitability.

Ms. WATERS. Let me just say this. I cannot believe that you don't have the ability to do projections on your profits, given everything that you know and everything that you build in, everything you speculate that you build in.

You guys are very, very good. You have some of the best technologies for research and you do know and you do have projections about what your profits will be in the next 5 years.

So I don't want to hear about the investments over the next 5 years without hearing about your projections for profits over the next 5 years.

Mr. SIMON. Congresswoman, I can assure you we do not have projections of our profitability over the next 5 years, because we don't know what the price of crude oil is going to be. We do not know that.

Ms. WATERS. Yes. But what I am saying is you certainly don't now, but you see how it has been increasing and if you take the history of the increase and if it keeps going in that direction, you should be able to say if this continues to happen, this is what is going to happen to our profits and we are going to either reduce our investments so that we can maintain this huge profit that we have or we recognize that we are not going to make as much money and we will continue to invest.

I know that you do that.

Mr. SIMON. But what we do is we have a long-term outlook and we are not assuming that prices are going to stay where they are today. I cannot tell you when they might come down, whether they are going to go up higher.

But we have got a long-term projection. We are investing, and we don't change that investment whether we are in good times or bad times. If you go back to 1998 when crude was $10 a barrel, we were investing as much in that year as we were in the years before and after when crude was much higher.

We have a long-term outlook. That $125 billion that I talked about, we will be doing that regardless of what the profitability is over those next 5 years, because we are in a 10 to 15-year business here.

Ms. WATERS. You can't, in my estimation, run a business without projecting and without anticipating that you have to do cutbacks, perhaps, depending on how much money you want to make and how much you want to pay your dividends, you want to pay your investors. You have got to do that.

And so to say to me our investments are constant and we don't care if we lose all the money, all the profits, we are going to continue to invest, now you know that does not make good sense.

Mr. SIMON. No, and I agree with that.

Ms. WATERS. And you can't do that.

Mr. SIMON. I agree with that nor do we expect that we are going to be losing money. But I am telling you that we don't expect to be where we are now either and we map out that and we look at it over a 10-year period.

We don't look at it next year or the following year. That has nothing to do with what we are investing over those 5 years.

Ms. WATERS. How much money have you lost over the past 10 years?

Mr. SIMON. We have only lost money in the U.S. one time and——

Ms. WATERS. No, no, no, no. I don't want to know. I am talking totally. When I talk about——

Mr. SIMON. We have not lost money. We have not lost money.

Ms. WATERS. Of course, you have not.

Mr. SIMON. No. I admit that.

Ms. WATERS. So you have not lost money over the last 10 years.

Mr. SIMON. And or do we——

Ms. WATERS. As a matter of fact, the profits continue to climb. They didn't even dip in the past 10 years. They just kept going up and up and up until you get to 2007 with $40.6 billion, and you cannot tell me how to reduce the price of that gas at the pump.

Mr. SIMON. Well, the way we can reduce the price of the product is to work on raw materials and, also, to reduce the demand for product. We either supply more or we reduce demand.

And the way we supply more product, again, is to have access to bring on more so we can impact the price of those raw materials and reduce demand. And it has been pointed out——

Ms. WATERS. But even with the price that you pay for raw materials, you made $40.6 billion in 2007.

Mr. SIMON. We did not make $40.6 billion on the part of the business where we bought the crude and processed——

Ms. WATERS. But it doesn't matter, because in the final analysis, whether you do your accounting so that you separate out how much you are spending on one aspect of it, like your raw materials, or in other ways, the bottom line is $40.6 billion. That is what you made. That is what your overall profit was.

Mr. SIMON. No. And I understand where you are coming from, but each one of our pieces of the business has to stand on its own or we go out of that business.

We could be out of the refining business. We could be out of the marketing business and just sell the crude and gas, and natural gas——

Ms. WATERS. Well, the business decision would be if you can contract with somebody who can refine it for you cheaper, you ought to do that and you would do that.

Mr. SIMON. And if we could do that, we would. In fact——

Ms. WATERS. You would.

Mr. SIMON [continuing]. In some areas, in the retail business now, we are actually moving distributors——

Ms. WATERS. Why didn't you take that part of that $40.6 billion and expand refinery capacity?

Mr. SIMON. We have expanded refining capacity at a faster rate than demand has grown. There is no shortage of products today in the United States.

Ms. WATERS. Well, why don't you just keep on expanding your refining capacity? That brings down the cost, is that right?

Mr. SIMON. We are expanding our refining capacity at a rate faster than demand is growing and if you look at the refining and

marketing business over the next several years, the outlook is we are going to be back into a surplus situation here.

And so the refining and marketing business will be surplus. What I cannot tell you is what is going to happen to the raw material. But the outlook in refining and marketing is we are going to be in a surplus situation. It is going to be a sloppy market. That is the outlook.

Now, whether that materializes, I don't—that is our outlook and that is other people's outlook. It is the price of the raw materials that we have to buy to produce those products.

Ms. WATERS. I understand that very, very much.

Let me say this. I am considered a liberal. I am one of the persons who want to protect the environment, I want to do good for a lot of poor people, I want to make opportunities available, because I am one of those liberals who think the government has a responsibility to come to the aid of the people.

Now, as I watch gas go up past $4 per gallon at the pump and I watch people who are pawning their possessions in order to purchase gas and people on fixed incomes who can't get to work, who can't get their children to school, I am prepared to talk about doing whatever it is necessary to keep that from continuing to climb.

I am not going to be happy or sympathetic to the oil companies at all while people cannot afford to pay $5 a gallon for gas and you are making $40 billion, collectively, $123 billion in profits. You have got to know that.

And so Mr. Hofmeister says we can bring down the cost of this if you just let us drill where we want to drill. What guarantees are you going to give this liberal about how that will reduce the cost of gasoline at the pump if we let you drill where you say you want to drill?

What guarantees do you give me?

Mr. HOFMEISTER. Congresswoman, it has worked for 100 years in our industry that wherever there was adequate supply, there were reasonable prices. This price escalation is being driven not just by U.S. lack of supply, but global lack of supply.

Ms. WATERS. Point to the areas where you would like to drill, how much you would get from that drilling, over what period of time, and tell me how much that is going to reduce the cost of gas at the pump.

Mr. HOFMEISTER. Well, we are actually pursuing areas where we are allowed to drill and we are being stopped by lawsuits from doing that.

Ms. WATERS. I don't want to hear that. I am saying let's go to your idea.

Mr. HOFMEISTER. Let's go first to the eastern Gulf of Mexico.

Ms. WATERS. How much can you get?

Mr. HOFMEISTER. Don't know yet. We have to have a seismic analysis, a seismic survey, but we are not even permitted to do that——

Ms. WATERS. Tell me where you know that there are gas deposits or oil deposits that would reduce the cost of the gas at the pump. Tell me where you know it.

Mr. HOFMEISTER. We have a general knowledge that off the middle Atlantic states, there are prospective opportunities.

Ms. WATERS. How much do you think you can get out of there?

Mr. HOFMEISTER. Don't know yet. We would have to do an awful lot of analysis to be able to identify——

Ms. WATERS. So after all is said and done, there is nothing that you can tell us here——

Mr. HOFMEISTER. But in the meanwhile——

Ms. WATERS [continuing]. About how you could guarantee a reduction of the price at the pump if you were given the ability to go and drill where you say there is oil deposits.

Mr. HOFMEISTER. On the contrary, I can guarantee to the American people, because of the inaction of the United States Congress, ever increasing prices, unless the demand comes down, and the $5 will look like a very low price in the years to come if we are prohibited from finding new reserves, new opportunities to increase supplies.

Ms. WATERS. Well, everything that I see shows me that there are still areas under lease that have not been explored by you. I see that you have the money to, as you say, increase refinery capacity. You have the money for exploration and investment.

And I think that you could do a better job than you are doing. Because the American people over the years keep absorbing this price, they cry and they scream and somehow they continue to absorb it, while wages are going down or at least are stagnant.

There is going to come a point in time when it is not going to work and the American people are not going to be able to absorb $5, $6, $7, $8, $9, $10 gasoline.

And guess what? This liberal, who would be willing to entertain drilling in places that are protected now in the interest of protecting my constituents and the American people, don't feel so good if you don't take some steps now to guarantee us that you could, in fact, reduce the price at the pump.

And guess what this liberal would be all about? This liberal would be all about socializing—would be about basically taking over and the government running all of your companies, and that, I tell you, is an extreme position.

Mr. HOFMEISTER. Venezuela is a nationalized—what was a free market has been nationalized and we see what is happening under the government's leadership in Venezuela.

Ms. WATERS. Yes, but you are still working with them. You are over there with them.

Mr. HOFMEISTER. We are.

Ms. WATERS. And you are buying from them——

Mr. HOFMEISTER. We would like to work——

Ms. WATERS. And you are supporting them.

Mr. HOFMEISTER [continuing]. With this Democratic government in the United States.

Ms. WATERS. So I don't want to hear—I don't want to hear about Venezuela. They are your friend. You don't care what they do as long as you are able to get that oil from them.

So don't talk about what they are doing. What I am telling you is you don't want to see that happen in the United States. You guys have got to get off of this. You cannot keep coming in here with all of these profits and tell us you can't give us any guaran-

tees, even if the liberals are convinced that you should go into some of the protected areas.

What do you expect us to do?

Mr. SIMON. Congresswoman, I don't think any of us can guarantee what is going to happen in the future. But what I think we can guarantee you is that if we have access to those supplies, it will put a downward pressure on prices, whatever they are at that point in time.

I wish there were some silver bullets here. I wish there were something that we could tell you today that if you did or we did tomorrow would make a difference.

The issue we have got and the challenge we have got is that ours is a long-term business. The things we are doing today don't really show up until 5 or 6 years.

But what we can do is we can work to help our consumers to use less of our product, to take some of the burden off of them. And, for example, we are working on technology and we already have technologies available right now that we can that we can show to our consumers to help them use less of our product, to take the cost burden off of them, and also put downward pressure on prices.

If you applied those in the vehicle fleet today, it would save 5 billion gallons of motor gasoline, and that is a significant amount.

And these are things like this: when you look at we have a new tire inner liner which, if applied, keeps tires inflated. Over a billion gallons of gasoline every year are consumed because consumers' tires are under inflated.

Ms. WATERS. So how do you advertise that? How do you——

Mr. SIMON. We are advertising. We are putting it in our op-eds. We are working with tire manufacturers. We are sending this out to our consumers. We also have advanced economy engine oils now.

Ms. WATERS. Anybody on this Committee heard of any of this stuff?

Mr. SIMON. Well, I haven't had an opportunity to say it yet.

Ms. WATERS. But if you advertised it, we should have seen it somewhere.

Mr. SIMON. Oh, no, it——

Ms. WATERS. We should have learned about it somewhere.

Mr. SIMON. Well, it is advertised and we have Mobil One advanced economy engine oil, which improves the efficiency and that is now available and we started that in April. And if you put these into effect, it can have a big effect.

That can have an immediate effect. These other things we are talking about are extremely important——

Ms. WATERS. How much money do you spend on advertising that?

Mr. SIMON. Pardon me?

Ms. WATERS. How much money do you spend on advertising that?

Mr. SIMON. I have that now. That is that $274 million I was talking about earlier.

Ms. WATERS. Well, no, most of that goes to the——

Mr. SIMON. I agree with you. I agree with you.

Ms. WATERS [continuing]. The football games and stuff. You know what I am saying. That $275 million doesn't include that.

Let me just say——

Mr. SIMON. It is about $100 million that we are—but, I mean, we——

Ms. WATERS. Gentlemen, the proof of the pudding is in the eating. All we know is this. You have a very complicated business. You make a lot of money. The profits are there. You are compensated well and you may well deserve it, I don't know.

But I know our constituents are hurting. They are hurting and, again, you have been able to ride this wave of increases for a number of years and people have absorbed those costs and I know that in the background, people are thinking, well, you know, if it goes up to $5, they will get used to it. If it goes up to $6, they will find a way to deal with it.

But I don't think so. I don't think so. And I want to tell you I don't see any effort to try and talk about how you either reduce your profits or how you utilize the space that you already have leased to do the investment to get the products out of the ground.

I don't know how you use your influence sitting with the Saudi Arabian Business Council to try to influence the oil cartel. I don't know any of that.

But I know one thing. Whatever you are doing, you are not helping the American people to be able to have access to a product that we have all learned to depend on and a product that people are willing not to have to depend on if there were legitimate, sustainable alternatives to gas as we know it.

And so when you come here today and you put up with all of this, it is because, as legislators, we cannot abide this any longer. We cannot continue to do this.

And so I am hopeful that you will come up with something that will help us to reduce the price of that gas at the pump.

I am really hopeful that—Ms. Lee talks about, I don't know, interacting with you, talking with you. I don't need to do all of that. I just need for you to get it done.

We are not going to learn—we don't know how to do that. You know how to do that. And so I am hopeful that you will do that.

I thank you for being here today. If you feel a little bit beaten up on, we all feel beaten up on. So just share the pain. We get our behinds kicked every day in our districts about what is going on.

So, again, I thank you for the work that you do, the volunteerism and the help that you give with some of our nonprofits and the work that you do, but for that father that we are trying to train at the Urban League, it doesn't do any good if he can't get to work because he doesn't have any money for gas.

I yield back. Thank you.

Mr. CONYERS. I thank the gentlelady.

Does the distinguished gentleman from Tennessee want to yield to the gentlelady to his right?

Mr. COHEN. Can I ask a couple of questions, Mr. Chairman, first?

Ms. SUTTON. I will wait.

Mr. COHEN. I will yield.

Ms. SUTTON. I have hung in here this long. I certainly am not going to go anywhere. I thank the Chairman and I thank my colleague from Tennessee.

As has been mentioned here, obviously, this is an Antitrust Task Force and we are looking about probing collusion and a while ago, in the first round of questions, I asked you guys questions about whether or not you or any of the officials from your organizations had participated in the task force meetings, the energy task force meetings that Dick Cheney, Vice President Cheney held early in the Bush administration.

And I just want to make sure that I understood what you all said, because this is great, but this hearing is taking place in the light of day so that the American people can have access to your answers to these questions and hear this exchange and see what is going on.

When I asked you that question, I believe, Mr. Simon, and I want you to correct me if I am wrong, as we go down the line here, Mr. Simon, you said you didn't participate and your organization did not participate. Is that correct?

Mr. SIMON. That is correct.

Ms. SUTTON. Mr. Malone, you said that your chief executive officer participated, but not necessarily in the task force, just had a meeting with the Administration. Is that correct?

Mr. MALONE. Yes. And I have since been informed we also had one meeting with the task force from my company. So, yes, we did meet with the task force.

Ms. SUTTON. We will come back to that in a minute, but thank you for that clarification.

And, Mr. Lowe, you said that no one from your organization had participated, correct?

And, Mr. Robertson, if I recall correctly, you said that while you didn't participate, you sent some detailed policy recommendations or something to that effect, correct, and also to Congress?

Mr. ROBERTSON. I said we did not participate and I said when the new Administration came in, we sent a letter to the President of the United States and a copy to some Members of Congress, both sides of the aisle, with some detailed recommendations on this impending issue that we have of the shortage of product in the world.

Ms. SUTTON. That is what I recollect. Okay.

And, Mr. Hofmeister, you said that your company did not participate, correct?

Mr. HOFMEISTER. That is correct.

Ms. SUTTON. Okay. The reason why I am perplexed and a little bit dismayed is as I look back and, as I said, it is so important to do this stuff in the light of day, way back in 2005, I am looking at an article from *The Washington Post* headline "Document Says Oil Chiefs Met With Cheney Task Force."

And I will enter this into the record, Mr. Chairman.

Mr. CONYERS. Without objection.

[The information referred to follows:]

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Document Says Oil Chiefs Met With Cheney Task Force

By Dana Milbank and Justin Blum
Washington Post Staff Writers
Wednesday, November 16, 2005; Page A01

A White House document shows that executives from big oil companies met with Vice President Cheney's energy task force in 2001 -- something long suspected by environmentalists but denied as recently as last week by industry officials testifying before Congress.

The document, obtained this week by The Washington Post, shows that officials from Exxon Mobil Corp., Conoco (before its merger with Phillips), Shell Oil Co. and BP America Inc. met in the White House complex with the Cheney aides who were developing a national energy policy, parts of which became law and parts of which are still being debated.

In a joint hearing last week of the Senate Energy and Commerce committees, the chief executives of Exxon Mobil Corp., Chevron Corp. and ConocoPhillips said their firms did not participate in the 2001 task force. The president of Shell Oil said his company did not participate "to my knowledge," and the chief of BP America Inc. said he did not know.

Chevron was not named in the White House document, but the Government Accountability Office has found that Chevron was one of several companies that "gave detailed energy policy recommendations" to the task force. In addition, Cheney had a separate meeting with John Browne, BP's chief executive, according to a person familiar with the task force's work; that meeting is not noted in the document.

The task force's activities attracted complaints from environmentalists, who said they were shut out of the task force discussions while corporate interests were present. The meetings were held in secret and the White House

Testifying at a Senate hearing last week were, from left, Lee R. Raymond of Exxon Mobil, David J. O'Reilly of Chevron, James J. Mulva of ConocoPhillips, Ross Pillari of BP America and John Hofmeister of Shell Oil. (By Chip Somodevilla -- Getty Images)

TRANSCRIPT

Joint Senate Hearing on Energy Pricing and Profits

FROM FINDLAW

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- John McCain
- James Webb
- George Allen

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refused to release a list of participants. The task force was made up primarily of Cabinet-level officials. Judicial Watch and the Sierra Club unsuccessfully sued to obtain the records.

Sen. Frank Lautenberg (D-N.J.), who posed the question about the task force, said he will ask the Justice Department today to investigate. "The White House went to great lengths to keep these meetings secret, and now oil executives may be lying to Congress about their role in the Cheney task force," Lautenberg said.

Lea Anne McBride, a spokeswoman for Cheney, declined to comment on the document. She said that the courts have upheld "the constitutional right of the president and vice president to obtain information in confidentiality."

The executives were not under oath when they testified, so they are not vulnerable to charges of perjury; committee Democrats had protested the decision by Commerce Chairman Ted Stevens (R-Alaska) not to swear in the executives. But a person can be fined or imprisoned for up to five years for making "any materially false, fictitious or fraudulent statement or representation" to Congress.

Alan Huffman, who was a Conoco manager until the 2002 merger with Phillips, confirmed meeting with the task force staff. "We met in the Executive Office Building, if I remember correctly," he said.

A spokesman for ConocoPhillips said the chief executive, James J. Mulva, had been unaware that Conoco officials met with task force staff when he testified at the hearing. The spokesman said that Mulva was chief executive of Phillips in 2001 before the merger and that nobody from Phillips met with the task force.

Exxon spokesman Russ Roberts said the company stood by chief executive Lee R. Raymond's statement in the hearing. In a brief phone interview, former Exxon vice president James Rouse, the official named in the White House document, denied the meeting took place. "That must be inaccurate and I don't have any comment beyond that," said Rouse, now retired.

Ronnie Chappell, a spokesman for BP, declined to comment on the task force meetings. Dawn Sinclair, a spokeswoman for Shell, said she did not know whether Shell officials met with the task force, but they often meet members of the administration. Chevron said its executives did not meet with the task force but confirmed that it sent President Bush recommendations in a letter.

The person familiar with the task force's work, who requested anonymity out of concern about retribution, said the document was based on records kept by the Secret Service of people admitted to the White House complex. This person said most meetings were with Andrew Lundquist, the task force's executive director, and Cheney aide Karen Y. Knutson.

According to the White House document, Rouse met with task force staff members on Feb. 14, 2001. On March 21, they met with Archie Dunham, who was chairman of Conoco. On April 12, according to the document, task force staff members met with Conoco official Huffman and two officials from the U.S. Oil and Gas Association, Wayne Gibbens and Alby Modiano.

On April 17, task force staff members met with Royal Dutch/Shell Group's chairman, Sir Mark Moody-Stuart, Shell Oil chairman Steven Miller and two others. On March 22, staff members met with

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BP regional president Bob Malone, chief economist Peter Davies and company employees Graham Barr and Deb Beaubien.

Toward the end of the hearing, Lautenberg asked the five executives: "Did your company or any representatives of your companies participate in Vice President Cheney's energy task force in 2001?" When there was no response, Lautenberg added: "The meeting . . . "

"No," said Raymond.

"No," said Chevron Chairman David J. O'Reilly.

"We did not, no," Mulva said.

"To be honest, I don't know," said BP America chief executive Ross Pillari, who came to the job in August 2001. "I wasn't here then."

"But your company was here," Lautenberg replied.

"Yes," Pillari said.

Shell Oil president John Hofmeister, who has held his job since earlier this year, answered last: "Not to my knowledge," he said.

Research editor Lucy Shackelford contributed to this report.

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Ms. SUTTON. Thank you. "A document obtained this week by the Washington Post shows that officials from Exxon Mobil Corporation, Conoco, before its merger with Phillips, Shell Oil Company, and BP America met in the White House complex with Cheney aids who are developing a national energy policy, parts of which became law and parts of which are still being debated," and, of course, this was, again, an article that is a couple of years old.

And on the point of Chevron, it says, "Chevron was not named in the White House document, but the Government Accountability Office has found that Chevron was one of several companies that gave detailed energy policy recommendations," and that is consistent, I believe, with what you said, "to the task force."

And on BP, I think that maybe this is what you are referring to, "Cheney has a separate meeting with John Brown, BP's chief executive, according to a person familiar with the task force work."

I am concerned about what this says in relation to everyone, frankly, but Chevron, because I do have the underlying document here, too, about who was at the task force meeting and it is clear to me, it says Exxon, Jim Rouse. Do you know who Jim Rouse is?

Mr. SIMON. Jim Rouse used to have our Washington office here.

Ms. SUTTON. Jim Rouse obviously participated in this. Going on to BP, Mr. Malone, it actually says that you participated in a task force meeting.

Mr. MALONE. That is not correct. I never met with the task force nor did I meet with—I met with a staff member after the task force report was written.

Mr. SIMON. And I want to go on record as saying Mr. Rouse did not meet with the task force and if that is reported, that is inaccurate.

Ms. SUTTON. Well, again, I am going to put this into the record and I would love to have you look at it, because it says that Mr. Rouse actually was there February 14, 12 p.m.

With respect to BP, there were four people listed on this document, Bob Malone, Peter Davies, Deb Beaubien, and Graham Barr.

Mr. CONYERS. Without objection, it is entered into the record.

[The information referred to follows:]

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Energy Task Force Meetings Participants

Vice President Cheney's energy task force had a busy spring in 2001. While drafting a national energy policy, the group, chaired by Cheney, met with approximately 300 groups and individuals, ranging from the American Petroleum Institute to Defenders of Wildlife. Below, a list of individuals and organizations who met with the energy task force, as detailed in a document provided to The Post by a former White House official.

Name	Affiliation	Date of Meeting
Greg Moredock	Cargill Energy	March 14, 4 p.m.
Jim Rouse	Enron	Feb. 14, 12 p.m.
Ralph J. Goehring	Berry Petroleum Company	March 6, 9 a.m.
John Martini	California Independent Petroleum Association	March 6, 9 a.m.
Red Cavaney	American Petroleum Institute	March 6, 9 a.m.
Graham Ban [sic]	BP	March 22, 12 p.m.
Deb Beaubien	BP	March 22, 12 p.m.
Peter Davies	BP	March 22, 12 p.m.
Bob Mainne	BP	March 22, 12 p.m.
Eli Behout	Nitcor Oil & Gas	March 22, 12 p.m.
William Terry Smith	Tidelands Oil Production Company	March 22, 12 p.m.
Steve Parker	Tidelands Oil Production Company	March 22, 12 p.m.
William Dozier	Vintage Petroleum Inc.	March 22, 12 p.m.
Larry Bates	Vintage Petroleum Inc.	March 22, 12 p.m.
Wayne Gibber	CONOCO	April 12
Alan Huffman	CONOCO	April 12
Abby Mediano	CONOCO	April 12
Archie Dunham		March 21, 4 p.m. [sic?]
Kevin Brown	Sinclair Oil	March 21, 2 p.m.
Clint Ensign	Sinclair Oil	March 21, 2 p.m.
Kathi Wise	Sinclair Oil	March 21, 2 p.m.
Willie Hensley	Alyeska Pipeline Service Company	March 7, 9 a.m.
Lindsay Hooper	Small Refiners Group	March 15, 10 a.m.
Paul Feer	Marathon Oil, Conoco, Amerada	March 29, 2 p.m.
Rick Shelby	ADA Leadership Council	March 26
Sir Mark Moody-Stuart	Shell Oil	April 17, 10 a.m.
Steven Miller	Shell Oil	April 17, 10 a.m.
Jerry Halverson	Interstate Natural Gas Association of America	March 9, 9:30 a.m.
Rick Roldan	National Propane Gas Association	April 26, 10 a.m.
Lisa Bontempo	National Propane Gas Association	
RENEWABLE ENERGY		
	The Sheep Group	March 28, 10 a.m.
	National Bioenergy Industries Association	March 28, 10 a.m.
Jaime Steve	American Wind Energy Association	March 28, 10 a.m.
Glen Hamer	Solar Energy Industry Association	March 28, 10 a.m.

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Karl Gawell	Geothermal Energy Association	March 28, 10 a.m.
The Alliance to Save Energy	David Nemtzow	March 28, 10 a.m.
American Council for an Energy-Efficient Economy	Howard Geller	March 28, 10 a.m.
Environmental Energy Study Institute	Beth Eliel	March 28, 10 a.m.
Environmental Energy Study Institute	Carol Werner	March 28, 10 a.m.
American Biomass Association	Meagan Smith	March 28, 10 a.m.
American Green	David Flory	March 28, 10 a.m.
INDEPENDENT ENERGY FIRMS/COUNCILS/THINK-TANKS		
	Electric Power Supply Association	
Red Cavaney	American Petroleum Institute	March 8, 4 p.m.
David Yergin [sic--Daniel]	Cambridge Energy Research Associates	March 12, 4 p.m. (3 other visits)
	Sandia National Laboratories	April 20, 3 p.m. (w/VPOTUS)
	The Energy Council	March 6
Alan Richardson	Pacificorps	March 28, 2 p.m.
Rob Wallace	General Electric	March 28, 4:30 p.m.
	Nuclear Energy Institute	
	Business Council for Sustainable Energy	March 8, 11 p.m.
	Council of Republicans for Environmental Advocacy	Feb. 22, 2 p.m.
	Fluor Corporation	Feb. 21, 2 p.m.
	Alliance for Rural America (ARA)	
	Coalition for Energy and Economic Growth (CEEG)	Feb. 26, 2 p.m.
	American Public Power Association (APPA)	
	National Association of Manufacturers (NAM)	
	National Mining Association	Feb. 22, 10 a.m.
John Anderson	ELCON	
	Edison Electric Institute	
	National Hydrogen Association	
	American Society of Engineers	
Vernon Smith	California Energy Crisis	Feb. 21, 3 p.m.
	The Progress and Freedom Foundation	Feb. 22, 10 a.m.
	The Progress and Freedom Foundation	Feb. 22, 10 a.m.
CONSUMER GROUPS		
	The Progress and Freedom Foundation	Feb. 22, 10 a.m.
Paul Cicio from Dow Chemical, representing 11 companies	International Federation of Industrial Energy Consumers	March 7, 10:30 a.m.
ENVIRONMENTAL GROUPS		
Howard Ris	Union of Concerned Scientists	April 4, 10 a.m.
Alden Meyer	Union of Concerned Scientists	April 4, 10 a.m.
Elizabeth Thompson	Environmental Defense	April 4, 10 a.m.
Roger Rufe	Center for Marine Conservation	April 4, 10 a.m.
Jim Lyon	National Wildlife Federation	April 4, 10 a.m.
Erich Picha	Friends of the Earth	April 4, 10 a.m.
Alyssondra Campaigne	Natural Resources Defense Counsel	April 4, 10 a.m.
Deborah Callahan	League of Conservation Voters	April 4, 10 a.m.
Robert Musil	Physicians for Social Responsibility	April 4, 10 a.m.
Anna Aurilio	US Public Interest Research Group	April 4, 10 a.m.
Katherine Silverthorne	World Wildlife Fund	April 4, 10 a.m.

Sandra Schubert [sic]	EarthJustice Legal Defense Fund	April 4, 10 a.m.
Robert Dewey	Defenders of Wildlife	April 4, 10 a.m.
Kevin Curtis	National Environmental Trust	April 4, 10 a.m.
ACADEMIA/THINK TANKS		
Robert Hahn	American Enterprise Institute	
Philip Sharp	Kennedy School of Government	
James M. Griffin	Texas A&M	
James L. Sweeney	Stanford University	
Bob Faron	MRI Research	March 2, 2 p.m.
REGULATORY GROUP		
	National Association of Regulatory Utility Commissioners	
STATE/REGIONAL ORGANIZATIONS		
	National Association of State Energy Officials	
	Northeast Energy and Commerce Association	
CANADIAN INTEREST GROUPS		
	BC Hydro	March 26, 4 p.m.
	Nova Scotia Power	March 26, 4 p.m.
	HydroQuebec	March 26, 4 p.m.
	CEA	March 26, 4 p.m.
	Canadian Association of Petroleum Producers	
Bob Pierce	Foothills Pipelines	
Doug Baldwin	Trans Canada Pipelines	March 8, 12:30 p.m.
CITY/STATE/REGIONAL ORGANIZATIONS		
	National Association of State Energy Officials	
	Northeast Energy and Commerce Association	
John Fistolera	Northern Calif. Power Agency	
Rick Grice	State of Colorado, Office of Energy	
William Keese	California Energy Commission	
James Brandmueller Ph.D.	State of Nevada, Dept. of Business and Energy	
Frederick Hoover, Jr.	State of Maryland Energy Administration	
Maurice Kaya, P.E.	State of Hawaii, Dept. of Business, Economic Dev.	
Peter Smith	NY State Energy R&D Authority	
Helen Hansen	Metro Water District of Southern Calif.	
Brad Hiltscher	Metro Water District of Southern Calif.	
Deb Taylor	State of Texas Energy Conservation Office	
William Nesmith	State of Oregon, Office of Energy	
Edwin Pinero	State of Pennsylvania, Dept. of Environmental Protection	
Samuel Reid	State of Rhode Island, Governor's Office	
John Nunley	State of Wyoming, State Energy Program	
Kim Raap	State of Wyoming	
Barbara McCall	Texas Cities Legislative Coalition	
Alan N. Vallow, P.E.	City of Lodi, California	
Laura Y. Whitton	City of Chicago	
Jim Nichols	City of Lake Benton	
Mayor (Floyd Adams, Jr.)	City of Savannah	

Jack Hilliard	City of Florence Utilities	
Euline Brock	City of Denton, Tex.	
Bern Beecham	City of Palo Alto	
MEETINGS WITH MEMBERS OF CONGRESS/STAFF		
Rep. Barton (R-TX)		
Rep. Blunt (R-MO)		
Rep. Boucher (D-VA)		
Rep. Burr (R-NC)		
Rep. Calvert (R-CA)		
Rep. Cubin (R-WY)		
Rep. Pickering (R-MS)		
Rep. Radanovich (R-CA)		
Rep. Shimkus (R-IL)		
Rep. Tauzin (R-LA)		
Rep. Terry (R-NE)		
Staff of Rep. Nick Joe Racal (D-WV) (sic)		
Rep. Whitfield (R-KY)		
Rep. Wilson (R-NM)		
Republican Staff of House Energy Strategy Group		
Staff from House Majority Whip's Office		
Senator Murkowski (R-AK)		
Staff, Western Governors		
Seattle Chamber of Commerce		
Senator Bingaman (Ranking Minority Leader on Clean Air Sub-Committee)		
Rep. Ose		21-Mar
Rep. Vernon Ehler		21-Mar
Rep. Ralph Hall (D-TX)		12-Mar
Rep. Tauzin's Staff		8-Mar
Reps. Tauzin and Barton (Meeting with VPOTUS)		27-Mar
Sen. Voinovich		6-Apr
Rep. Duncan Hunter		6-Apr
Rep. Earl Blumenauer (D-OR)		
Rep. Rick Larson (D-WA)		
Rep. Brian Baird (D-WA)		
Rep. David Wu (D-OR)		
Rep. Greg Walden (R-OR)		
Rep. Greg Walden (R-OR)		
Rep Peter DeFazio (D-OR)		
Rep. Darlene Hooley (D-OR)		
Rep. Butch Otter (R-ID)		
Rep. Mike Simpson (R-ID)		
Rep. Dennis Rehberg (R-MT)		
Rep. Jay Inslee (D-WA)		
Rep Doc Hastings (R-WA)		
Rep. George Nethercutt (R-WA)		
Rep. Norm Dicks (D-WA)		
Rep. Jim McDermott (D-WA)		
Rep. Jennifer Dunn (R-WA)		
COMPANY/TRADE ASSOCIATION MEETINGS		
Brian Henneberry	El Paso Corp.	April 9

Lori Laudien	El Paso Corp.	April 9
Gretchen Emling	Williams	April 9
Janet Sena		April 9
Kristen Ludecke	PSEG Power	April 9
Richard Goodstein	American Ref-Fuel	April 9
Frazier Blaylock	Coventa Energy	April 9
Phil Moeller	CALPINE	April 9
David Brown	EXELON	April 9
David Gilbert	Constellation Energy Group	April 9
Holly Nichols	Reliant Energy	April 9
Joe Vasapoli	Reliant Energy	April 9
		April 9
Gene Peters	EPSA	April 9
Mary Doyle	Dynergy	April 9
Elaine Ziemba	NRG Energy	April 9
Melissa Lavinson	PG&E NEG	April 9
Tom Briggs	Enron	April 9
		April 9
Yvonne McIntyre	Mirant	April 9
		April 9
Jeanne Connelly	CALPINE	April 9
Tobyn Anderson	Lighthouse Energy Group	April 9
Laura Eahm	PPL Global	April 9
Rusty Matthews	Dickstein Shapiro	April 9
Barbara Burchett	Aquila Energy	April 9
Karen Hunsicker Billups	Entergy	April 9
Donn Salvosa	EPSA	April 9
	Alyeska Pipeline Service Company	
	American Gas Association	
	American Petroleum Institute	
	Arctic Power	
	BP/AMOCO/ARCO	
	Canadian Alliance	
Judy Pensavene	Constellation Energy Group	March 5, 9 am* second meeting
	CREA	
Beverly Marshad	Duke Energy	March 5, 9 am
	Edison Electric Institute	
	El Paso Energy	
	Emerson	
	Enron	
Kristie Simms	Entergy	March 5, 9 am
David Brown	Exelon Corporation	March 5, 9 am
	Exxon Mobil	
	Florida Power & Light	
	FLUOR	
	Independent Petroleum Association of America	
	Interstate Natural Gas Association of America	
	Interstate Oil and Gas Compact Commission	
Michael Flannigan	Kennecott/U.S. Borax and Rio Tinto	March 12
Alan Steinbeck	Kennecott/U.S. Borax and Rio Tinto	March 12
Tom Bunk	Kennecott/U.S. Borax and Rio Tinto	March 12
Bill Post	Pinnacle West	March 8

Robbie Aiken	Pinnacle West	March 8
	Midwest Research Institute re: energy studies	
	National Energy Marketers Association	
	National Mining Association	
	Natural Resources Canada	
	Nuclear Energy Institute	
	Petroleum Finance Company	
	Phillips Petroleum	
	Pinnacle West	
Bud Albright	Reliant Energy	
	Resource Development Council for Alaska	
	Southern Company	
	TXU	
	United States Enrichment Corporation	
	VECO Alaska, Inc	
Ambassador Smith	Williams Company	March 8, 5 pm
	Emerson Electric Company	March 2, 10 am
	El Paso Energy Corporation*	
	Canadian Electricity Association	March 26, 4 pm
	Edison Electric Institute*	
Ken Lay	Enron Corporation	February 22, 5 pm and April 17 (w/VP)
Alan Richardson	American Public Power Association Executive Committee	March 20, 3:30 pm
	Teamsters	April 20, 11 am
OTHER MEETINGS		
	Teamsters	April 20, 11 am
	Electric Vehicle Association of the Americas	February 1
	Assistant Deputy Minister of Energy for Canada	
	Canadian Deputy Secretary of Energy	
The Honorable David Karnes, Former Senator, Nebraska	Kutak Rock LLP	
Tim Peckinpaugh	Van Ness Feldman	
	Arctic Slope Regional Corporation (Van Ness Feldman client)	
	Sandia National Laboratories	
Scott Sklar	Executive Director, Solar Energy Industries Association	
Kyle Simpson	Morgan Meguire LLC	
Angolan Ministers		
Paul Cicio	Dow Chemical	March 7 and March 21, 8:30 pm*
J.J. Brown	Alternate Fuels	March 7
	California Independent Petroleum Association Executive Board	March 12
	British Deputy Head of Mission	March 12
Former Congressman Laughlin		
Former Representative Susan Molinari	EXELON	March 12
Beth Fowler	Nils Olsen	March 16
	Northwest Energy Caucus (w/VPOTUS)	
	American Farm Bureau (Speech)	March 21
	California Agriculture Leadership Program	March 22
John Runyan	International Paper	March 22

Erin Schaffer	International Paper	March 22
Kevin Lynch	Pacific Corp	March 28
Alan Richardson	Pacific Corp	March 28
	Venezuelan Delegation	April 5
Steve Griles-Renewable Energy	Calthness	April 5
	EPSA*	
Former Congressman Bliley	Independent Gasoline Marketers Assn.	
Jon Doggett	American Farm Bureau	March 6, 3:00pm
Robin West		March 7, 3:00pm
Linda Stuntz (Former Deputy Secretary of Energy)		March 16, 2:00pm
Mark Kerrigan		March 16, 2:00pm
Robert Priddle	International Energy Agency	April 17, 11:00am
Rob Goldstein	Princeton Plasma Physics	April 18, 4:30pm
	Business Council for Sustainable Energy	April 18, 4:30pm
ENERGY EFFICIENCY GROUPS		
William Badger + 2	Washington Council Ernst and Young	March 13, 10:00am
Charles Samuels	Association of Home Appliance Manufacturers	March 13, 10:00am
Douglass Horstman	Maytag Corporation	March 13, 10:00am
Ayssondra Campaigne* [sic--spelled differently above]	Natural Resources Defense Council*	March 13, 10:00am
Edward Osann	American Council for an Energy Efficient Economy	March 13, 10:00am
David Hamilton	Alliance to Save Energy	March 13, 10:00 a.m.

*=more than one meeting listed

NOTE: Some organizations were listed as having meetings with the Energy Task Force but no individual names were given. Many of the meetings which occurred were not recorded with a specific date. Spellings of names and organizations listed are taken directly from the document.

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Ms. SUTTON. With respect to Shell Oil, Sir Mark Moody-Stuart, Steven Miller. Do you know them?

Mr. HOFMEISTER. Yes. And I said in my earlier testimony that there were meetings in the White House with my predecessors in the new Administration, but that had nothing to do with any task force.

Ms. SUTTON. Okay.

Mr. SIMON. And I think that might be the difference here, Congresswoman, is that there are meetings that take place between us and government official, but not in the capacity of that task force.

Ms. SUTTON. So we are talking about semantics here.

Mr. SIMON. No, no.

Ms. SUTTON. What is called a task force and what isn't.

Mr. SIMON. I don't think we are talking about semantics at all. I think what is referenced there is Mr. Rouse had presented our energy outlook, which was public knowledge. It was out in the public. It was shared with the press. It is shared with Congress.

There was no intention there to try to influence policy in that task force.

Ms. SUTTON. Okay. Well, I would disagree that that is the way that it appears to either certain Members of Congress, certainly, or the American people. And what this is entitled is "Energy Task Force Meetings Participants," this document.

So if you are telling me that this is different than the other meetings that you had and that you were having meetings, but we are calling them different things, and that is how you get all of this information to work out together in a way that, in some minds, might appear consistent, it just doesn't look consistent to me and I am sure it doesn't look consistent to a lot of people and the American public.

And it is extraordinarily troubling, as we see this and then we see gas prices where they are and we have the answers during this hearing which has been, obviously, very long and I am sure not all that pleasant for you, certainly not all that pleasant for us, and certainly not all that pleasant for the American people given the subject matter of what we are doing here today.

I just want to do this one more time.

Mr. Simon, did somebody from Exxon Mobil meet in the White House as part of the Vice President's energy task force or in other meetings that were going on simultaneously in the same time period early in the Bush administration to discuss energy policy?

Mr. SIMON. We did not have any meeting in relationship to that task force.

Ms. SUTTON. Did you hear my question? Or any other meetings that were going on——

Mr. SIMON. We had meetings all the time with government officials.

Ms. SUTTON. In the White House during the early days of the Bush administration.

Mr. SIMON. I think our Chairman had a meeting with Vice President Cheney at one time, but it wasn't in connection with that task force. That is what I am trying to say, Congresswoman.

Ms. SUTTON. Was there a separate subject other than energy policy and what the views of Exxon Mobil might be?

Mr. SIMON. It was to share a public document that is our energy outlook that we share with everybody every year.

Ms. SUTTON. And that was all, it was just to——

Mr. SIMON. That is it.

Ms. SUTTON [continuing]. Hand them a copy of that document and that was it.

Mr. SIMON. That was it.

Ms. SUTTON. How about you, Mr. Malone? Do you recall a meeting?

Mr. MALONE. No, I do. Again, I was not there when our former chief executive had the meeting. It was not with the Cheney task force, but it was during that time period of your question.

Our meeting that I was present at was not with the Cheney task force, but it was with a staff member. Peter Davies is our global chief economist. We were presenting our statistical review material with him.

Ms. SUTTON. And the staff member that you met with was to the energy task force staff?

Mr. MALONE. No. It was not a member of the energy task force.

Ms. SUTTON. Just a member of the Vice President's staff.

Mr. MALONE. Correct.

Ms. SUTTON. Sir?

Mr. LOWE. No one from Phillips Petroleum Company at the time or, subsequent to that, ConocoPhillips. I think I have seen references to Conoco representatives, but I am not aware of those.

Ms. SUTTON. Mr. Robertson, anything to add?

Mr. ROBERTSON. I stand by what I have already said.

Ms. SUTTON. Mr. Hofmeister?

Mr. HOFMEISTER. Sir Mark Moody-Stuart and Steve Miller, in the normal course of business, did have discussions, as I have testified, and, subsequent to that, I have had meetings with my boss with the vice president.

I think that is good business and I know of no prohibition in law that would prevent members of a company from meeting with elected officials in the White House.

Ms. SUTTON. Thank you, sir.

I yield back.

Mr. CONYERS. The Chair recognizes the very polite gentleman from Tennessee, who has yielded to two Congresswomen in one afternoon.

Mr. COHEN. Thank you, Mr. Chairman. I appreciate that description and, yes, I did yield to two women. I want that to be noted well.

Just a couple of questions. Do any of you all—let me start with Mr. Hofmeister, just in general.

Do you have any idea how much oil we use every day or in a year, what percentage of oil we use, that is consumed in this country, what percentage might be the oil that we use in the military in Iraq?

Mr. HOFMEISTER. Well, I know that Americans use 10,000 gallons of oil a second in this country, which is about 20 million barrels a day.

The amount of oil consumed in Iraq, I have no idea.

Mr. COHEN. Anybody have any idea, any ballpark figure? No.

Do any of you drill any oil in Iraq? Nobody drills in Iraq.

Do you know who is drilling in Iraq?

Mr. Robertson?

Mr. ROBERTSON. Well, the Iraqi oil company is a great big operation and they drill in Iraq.

Mr. COHEN. Do you have any idea how much they drill?

Mr. ROBERTSON. No. But I think they produce about—it is obviously been varying, but I think the produce up to 2 million barrels a day.

Mr. SIMON. It is about 2.2 million barrels a day.

Mr. COHEN. And where is that going? Is it being used there in Iraq, do you have any idea?

Mr. SIMON. No. I think a good bit of that is being exported.

Mr. COHEN. It is being exported. And so they would be making, theoretically, a lot of money on what they are making in oil, as you are, as well, the Iraqi government.

Mr. SIMON. I have no way of knowing what their balance is or how much they are making on that.

Mr. COHEN. But supply and demand is what determines what they are going to be making, isn't that correct? And supply is down and demand is up. So they must be doing pretty good.

Mr. SIMON. I would believe they would be getting market price for that.

Mr. COHEN. You all are getting a whole lot of criticism from us and from the American public, but don't you think a whole lot of that criticism that the American public has got in outrage about the price of oil should be directed toward the Middle Eastern sheiks and Saudis and the people we spend all the money and lives going over there?

Mr. SIMON. No, I don't believe that at all. When you look at our dependence on imports, again, about 60 percent of our petroleum consumed in this country is on imports.

When you look at where that comes from, only about 15 percent of our imports come from the Middle East. But the rest of it comes from other parts of the world and when you look at the market today in contrast to what I think some people would believe, it is well supplied.

We are not short of supplies. We have 35 refineries around the world and there is not a single one of those that is having any trouble finding the crude and feed stocks to fill up those refineries.

So we can be angry about it and we can frustrated about it, I understand that, but I don't think we point the finger at them. It is a world market situation.

Mr. COHEN. Don't they help set the price?

Mr. SIMON. I think the market sets the price.

Mr. COHEN. Okay. That is just a disagreement, I guess, we have. Let me ask you this. A few years ago, Mr. Raymond made $400 million 1 year, Mr. Simon.

Now, is that money you all have already paid out or are we still paying his $400 million for that year?

Mr. SIMON. Well, we have the stock programs that we have pay out over 5 and 10 years. So all of that has not even been vested yet. So that is still being paid out.

And I think that was a misconception that he received $400 million in cash the year that he retired, and that just wasn't accurate at all.

About 10 percent of that, a little over 10 percent was actually applied to the year, that year, and much of that, about 75 percent, didn't even pay out for 5 to 10 years.

A lot of the rest of it was what he had earned over the previous 10 years, which hadn't vested yet, and then he had a pension that was calculated the same way that everybody else's pension is calculated in our corporation.

And people keep throwing that $400 million number up and, quite frankly, it is just misrepresented, and I think quite unfair.

Mr. COHEN. And just for the record, what was his position?

Mr. SIMON. He was the chairman of Exxon Mobil.

Mr. COHEN. And he left in what year?

Mr. SIMON. He left in 2005.

Mr. COHEN. And he did get a package, though, however, if it is 5 years or 6 years. The package, apparently $400 million, seems to be accepted.

Mr. SIMON. No, that is not accurate. It wasn't a package. It wasn't a package. He received a pension of about $98 million, which was calculated based on his years of service and a formula that is applied to everyone else. That is not a package.

He received compensation, cash compensation in that year. The total amount of compensation in that year was $42 million out of the $400 million that you are talking about.

Seventy-five percent of that didn't pay out for 5 or 10 years into the future. It was applied to a number of years. In that year, it was $42 million, not $400 million.

Mr. COHEN. Well, to be honest with you, I think $42 million is—even if you are a baseball player or a rock star or whatever——

Mr. SIMON. Well, I understand that, but I do think—I just wanted to clarify that it wasn't all in 1 year and was not a package.

Mr. COHEN. Has Exxon done anything to assure that that won't happen again, that that kind of payout package won't happen? Have you reformed your pension package in any way or your compensation?

Mr. SIMON. Again, it was not a package. It was a pension calculated the same way as everybody else's is, and we have not modified that.

Mr. COHEN. How was his pension calculated?

Mr. SIMON. It is based on the years of service and then a multiple and I would be happy to give you that formula, if you would like it. It is calculated the same way mine is going to be calculated and everyone else.

Mr. COHEN. Congratulations.

Mr. SIMON. Believe it, it won't be that high for me, but——

Mr. COHEN. It will be comfortable.

Mr. SIMON. I am not saying—I am not underpaid. I am well paid, I am well compensated, and I understand that. But, again, when you look at our compensation and you look at other people in comparable positions of responsibility, an independent committee of the board determines that, looking outside, compensating our execu-

tives commensurate with what others are being compensated in similar positions.

Mr. COHEN. What is the God pod?

Mr. SIMON. The God pod?

Mr. COHEN. Yes.

Mr. SIMON. I am not sure.

Mr. COHEN. It is an Exxon term, isn't it?

Mr. SIMON. I am not familiar with it. I guess I am not a part of it, I don't know.

Mr. COHEN. You are not a part of it. I think I saw something, maybe it is here. It is suggested that $50.6 million at ConocoPhillips and the gentleman from ConocoPhillips here, Mr. Lowe, you are the vice president, et cetera.

This was the figure for the chief executive. Do you know what the chief executive at ConocoPhillips made last year?

Mr. LOWE. No. I know it is on page 36 of the proxy, though, because I looked at my compensation last night on page 36 of the proxy. But I don't recall what his compensation was.

Mr. COHEN. Whatever they are, I think we have made our point through the day, Mr. Chairman, that the compensation——

Ms. JACKSON LEE. Would the gentleman yield?

Mr. COHEN [continuing]. Compensation has been extremely good, the profits have gone up extremely high.

I still have a problem understanding why the profits have to be that great if you are just saying that it is just supply and demand. Somewhere there is profit and the profit is paid for at the pump by the consumer, and that is what has got people and the airlines and business and folks buying food where the food prices have gone up.

The price of gas has affected the entire economy and really we have to do something other than just the idea of drill, drill, drill.

Ms. JACKSON LEE. Would the gentleman yield for a moment?

Mr. COHEN. I will yield to the lady.

Ms. JACKSON LEE. The crux of what we are all trying to get to is if we give you more, if we give you the drilling off of the Gulf, if there is some consensus between Mr. Keller and myself or Mr. Keller and Mr. Cohen from Tennessee that drilling can occur off the coastline of Florida, we are perplexed as to why then we can't match that drilling, what you are asking us for, one of those points Mr. Lowe made, to a lower price of gasoline or gas at the pump.

Then the second part of that is there is a war in Iraq. Has the war in Iraq helped generate a greater opportunity for access to resources to any of your companies and have the policies in Iraq, if you will, been such that it creates opportunities for American companies?

Start with you, Mr. Simon, if the gentleman would yield for their answers.

Mr. SIMON. I apologize, Congresswoman, I forget the first question.

Ms. JACKSON LEE. The first one was if we give you the—if Republicans and Democrats, whoever agrees with drilling come together and say you now can go off the coast of Florida, I am compromising, I think ANWR doesn't generate much, somebody said it lowers the price $0.01 if you go into ANWR.

But if you go off the coast of Florida, OCS off the coast of Florida and your supply goes up, are you going to tell me that we can get a lower price at the pump?

And in Iraq, has the Iraq war contributed to better access to energies in Iraq? Is their policy such that you are getting a greater supply potentially out of Iraq?

Mr. SIMON. In terms of access, first of all, I do not agree with the $0.01 associated with ANWR. I don't know where that came from.

Ms. JACKSON LEE. It is documented here and I don't want to pursue that, but I believe it is 16 billion, I think, 16 billion barrels and they say over 20 years, it might lower it by $0.01.

Mr. SIMON. But when you look at——

Ms. JACKSON LEE. There are 83 billion elsewhere. So let's talk about the OCS.

Mr. SIMON. When you look at what is off limits today, and I have seen numbers of 30 billion barrels of oil and 125 trillion cubic feet of gas, what I think we can assure you is, if given access to that, it will have downward pressure on the price paid at the pump.

What I cannot tell you or guarantee you is it will be lower or higher than where it is today, but I can assure you it would be lower than it would otherwise be if we are not given access. That is what we all can say, because it would add plus supplies and plus supplies are going to put downward pressure on prices, because it puts downward pressure on the crude price, which today constitutes about 75 percent of the price that your constituents and our customers are paying at the pump.

In terms of Iraq, I am not aware—I am not in a position to say whether it is helped or hurt us, what the policy is. I will say that we are currently in discussions of a technical agreement with the Iraqis, which we are in pursuit of. We will see how that plays out.

Ms. JACKSON LEE. Mr. Malone?

Mr. MALONE. Just to your last question, we are in the same place. It is competitive and we are having technical discussions.

Ms. JACKSON LEE. But has the Iraq war contributed to your ability to get access to those resources?

Mr. MALONE. Not that I am aware of.

Ms. JACKSON LEE. And would the offshore Florida addition—you could not see a vision of lower prices because of the increased supply?

Mr. MALONE. Again, it would clearly put downward pressure on the crude price with additional supply in the market, absolutely.

Ms. JACKSON LEE. That is a lower price answer. You have just given me a potential lower price at the pump.

Mr. MALONE. Yes.

Ms. JACKSON LEE. A potential lower price at the pump because of that. And I have only said offshore Florida, by the way. I just wanted to make sure.

Mr. Lowe?

Thank the gentleman for yielding.

Mr. LOWE. Getting access to the outer continental shelf would be extremely well received. It would generate hundreds of millions of dollars in lease sales and it would bring added supplies.

Iraq, while the opportunities are not there today, the resource potential there is enormous and if we would have access to Iraq to develop the oil there, that would be very substantial in helping.

Ms. JACKSON LEE. But you would not—are you suggesting the war helps you get access?

Mr. LOWE. At this point, we are in the same boat as everyone else. We are trying to look at signing technical agreements to help the Iraqis get their——

Ms. JACKSON LEE. I understand. But did the war contribute to helping you get access?

Mr. LOWE. Well, we had no access before.

Ms. JACKSON LEE. So you would have supported the war in order to get access to oil.

Mr. LOWE. That is putting words in my mouth. I think that is inappropriate. No. All I am saying is——

Ms. JACKSON LEE. I am just asking if that is what you are saying.

Mr. LOWE. No. What I am saying is we had no access to Iraq before and there is tremendous resource there, whoever develops it. There is tremendous resource there that could add to supply.

Ms. JACKSON LEE. And did you tell me that the amount would go down at the pump if you had access in OCS off the coast of Florida?

Mr. LOWE. That is correct.

Ms. JACKSON LEE. Mr. Robertson?

Mr. ROBERTSON. What I can tell you about Florida is I don't know whether—I think it would be a great benefit to the America people to drill offshore of Florida.

We have drilled offshore of Florida and we found natural gas. I believe that, from my knowledge, it is more natural gas offshore of Florida than oil.

If we found oil, it would have the impact that the gentleman said. It would reduce the world market price of oil, I think.

If we found gas, the same people that are paying the gasoline bills are also buying electricity and if we could produce gas offshore of Florida, which we plan to do, that would substitute for LNG that is being brought in from the rest of the world.

The United States, natural gas market actually is pretty isolated. And so additional supplies in the U.S. will bring prices down.

Bringing LNG from Angola is very expensive. So drilling offshore of Florida, finding natural gas would bring down electricity bills in Florida, which is the same kinds of consumers we are talking about that are paying for gasoline.

So I think in both cases, in oil, it is a world market, it would depress the world market. In gas, it is much more of an American market and that would have a bigger impact and that would be very important.

So drilling offshore of Florida would bring jobs to the United States, lots of them, would bring resources to the United States in the gas market and if we found oil, it would certainly help depress the price of gasoline.

Ms. JACKSON LEE. And that all would be based on an agreement. You couldn't go there if we didn't get a consensus in this Congress and in the population.

Mr. ROBERTSON. Well, everywhere we go, we have to the agreement of the community before we can do it.

Ms. JACKSON LEE. And Iraq?

Mr. ROBERTSON. In Iraq, like everybody else, we are in discussions with the Iraqis in terms of technical support. The Iraqis, if and when they pass a petroleum law and allow people to compete for access there, then if the security situation is adequate, Chevron will certainly see whether we can do something there.

I have no idea what the circumstances would have been had there not been a war and that is all I can say. That is all I know about that circumstance.

Ms. JACKSON LEE. Mr. Hofmeister?

Mr. HOFMEISTER. With respect to the potential of more access in the eastern Gulf of Mexico, I would stand by my prior statements that more supply would bring less pressure on future oil prices, and I believe that would have beneficial impact across the board, to the whole global supply chain, not only to the American.

With respect to Iraq, Shell was in Iraq for many, many years, until the Iraqi government at the time nationalized the oil company in Iraq. Shell was asked to leave. We did leave.

There is a new government today in Iraq. If that government invited us to participate in the oil industry, I think Shell would look forward to that opportunity.

Ms. JACKSON LEE. I thank the gentleman for yielding.

Mr. COHEN. Thank you.

Let me just ask, how many of you all do business with Halliburton? All of you?

Mr. SIMON. I am sure we do, as well.

Mr. COHEN. What does Halliburton do for you all?

Mr. Lowe?

Mr. LOWE. They provide technical services.

Mr. COHEN. How much do you think your contract with Halliburton is a year, approximately?

Mr. LOWE. I don't know for sure, but it would be a few hundred million dollars, I would guess.

Mr. COHEN. Were you there when Vice President Cheney was involved with Halliburton? Were you with your company?

Mr. LOWE. I was not part of the upstream part of the business.

Mr. COHEN. Anybody part of the industry when Vice President Cheney—you were?

Mr. SIMON. I was part of the industry, but I was not in the upstream part of the business.

Mr. COHEN. You weren't.

Mr. Robertson, you were. How much business do you all do a year with Halliburton?

Mr. ROBERTSON. I couldn't tell you the exact number, but——

Mr. COHEN. Give or take.

Mr. ROBERTSON [continuing]. I am sure it is hundreds of millions of dollars.

Mr. COHEN. Hundreds of millions. And Mr. Cheney was involved at that time.

Mr. ROBERTSON. He was the CEO of the company.

Mr. COHEN. Right. So you dealt with him a bit.

Mr. ROBERTSON. I don't deal with him.

Mr. COHEN. You didn't. Okay. We don't either, but——

Mr. ROBERTSON. But we deal with Halliburton every day in hundreds of places around the world and certainly have dealt with him when he was the chairman and CEO of the company.

Mr. COHEN. With the price of oil going up, the crude oil and the profits of the oil companies going up, does Halliburton necessarily make more money as part of this whole scheme?

Scheme is the word, but——

Mr. ROBERTSON. Halliburton sells services. So to the extent that we contract to Halliburton to do oil field services, to help us produce wells, to help us in a myriad of different services, for every service they provide us, we pay them a contracted fee.

So if there is more activity, if we are spending more capital to find more barrels of oil or TCFs of gas around the world and there is more production, Halliburton, certainly, that is their business.

Mr. COHEN. So if we drill off of Florida or we drill in the ANWR, Halliburton is going to make a lot of money, aren't they?

Mr. ROBERTSON. Well, I don't know whether it is going to be Halliburton. Service companies, whether it is Schlumberger or Halliburton or Baker Hughes or a myriad of others, they will compete for the business.

Mr. COHEN. Is Halliburton the biggest of those three companies?

Mr. ROBERTSON. No.

Mr. COHEN. They are not.

Mr. ROBERTSON. No.

Mr. COHEN. But they are up there.

Mr. ROBERTSON. Yes, they are up there, but they are not the biggest.

Mr. COHEN. It is just kind of hard to believe, it is almost surreal that we are defending the salary and saying that this man didn't make $400 million, he only made $42 million.

$42 million comes to over $100,000 a day, even if you worked on Saturday and Sunday—$100,000 a day.

There is something wrong with that type of salary and even if it is just $42 million, it is obscene when people are having to pay $4 a gallon. The whole salaries are just obscene.

Does Halliburton do anything in renewables at all? Do you all have any idea? Are they strictly oil?

Mr. ROBERTSON. I am certainly not aware of whether they do or do not, but, again, their business is a service business. They provide services on request and that is more of their business than producing a product by itself.

Mr. COHEN. Who did Mr. O'Reilly work with?

Mr. ROBERTSON. Who did he work with?

Mr. COHEN. Is he still the CEO?

Mr. ROBERTSON. Yes.

Mr. COHEN. And what was his salary last year?

Mr. ROBERTSON. Well, his salary, I just described my salary of $2.5 million in salary and bonuses. Last year, it was $5.2 million in salary and bonus.

Mr. COHEN. O'Reilly's?

Mr. ROBERTSON. And on top of that, he got some options and performance shares that will be valuable depending on the performance of the company.

Mr. COHEN. When I read in the New York Times that maybe his salary was $37 million, when you put it all together, in 2006, would that be accurate?

Mr. ROBERTSON. That number, $31 million, is the number in the proxy, but it includes appreciation of awards that he got previously.

Mr. COHEN. And that is, again, about $100,000 a day.

Mr. ROBERTSON. But he didn't earn $31 million in——

Mr. COHEN. No, I am sure he didn't earn it. Thank you.

Thank you, Mr. Chairman.

I want it to be noted that I yielded to three different beautiful, intelligent women.

Mr. CONYERS. All in the same day.

Mr. COHEN. That is right. It was a great honor.

Ms. JACKSON LEE. We should end on that good note. When he says something like that, that should be for the record, Mr. Chairman.

Mr. CONYERS. Well, I want to thank the witnesses for their experience and knowledge and, most of all, their endurance. We appreciate the testimony you have given and I think this is a very important hearing.

And we look forward to you feeling free to make any additional communications with us to go into the record or not into the record, if there are any things that you want to amend or any corrections you want to make to your oral testimony, we will be happy to accept it.

And, again, thanks for your contribution to the subject matter.

And the hearing is adjourned.

[Whereupon, at 4:51 p.m., the Task Force was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

House Committee Hearings on Gas and Oil Prices and Related Issues

Energy and Commerce

May 6, 2008 - The Renewable Fuels Standard: Issues, Implementation, and Opportunities
April 10, 2008 - Strengths and Weaknesses of Regulating Greenhouse Gas Emissions Using Existing Clean Air Act Authorities
Feb. 13, 2008 - H.R. 3754: Authorizing Supplemental Environmental Projects to Incent Reductions of Diesel Emissions
June 7, 2007 - Legislative Hearing on Discussion Draft Concerning Alternative Fuels, Infrastructure, and Vehicles
Apr. 18, 2007 - Alternative Transportation Fuels: An Overview
Mar. 14, 2007 - Climate Change and Energy Security: Perspectives from the Automobile Industry
Feb. 28, 2007 - A Review of the Administration's Energy Proposal for the Transportation Sector

Select Committee on Energy Independence and Global Warming

April 24, 2008 - Pumping up Prices: The Strategic Petroleum Reserve and Record Gas Prices
March 31, 2008 - Drilling for Answers on Oil and Gas Prices, Profits, and Alternatives
November 7, 2007 - Shock and Oil: Where Military Concerns Meet Consumer, Climate Crises
Select Committee Hearing Talks to Oil "War Games" Experts, Highlights America's Oil Dependence Problem
July 17, 2007 - WEST WING STAR ROB LOWE TO TESTIFY FOR PLUG-IN HYBRID CARS
Select Committee Chairman Markey Brings Actor, Experts, Officials Highlight Potential of 150 MPG Vehicles
May 9, 2007 - HEARING BRINGS GAS PRICE HEARTACHE TO CONGRESS
AS PRICES BREAK RECORDS, PERSONAL STORIES FROM

John E. Lowe
Executive Vice President
Exploration & Production

Petroleum 3020
600 North Dairy Ashford (77079-1175)
P.O. Box 2197
Houston, TX 77252-2197
phone 281.293.2281

ConocoPhillips

June 27, 2008

The Honorable John Conyers, Jr.
Chairman, Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Conyers:

I am attaching our company's response to the follow-up question you asked me to address in your June 17, 2008 letter. Please direct any further questions on this response to Jeff Reamy, in our Washington, D.C. office. His telephone number is (202) 833-0922.

We appreciated the opportunity to share our views on the energy security challenges that the U.S. is facing and what we believe this nation needs to do about it. We look forward to further dialogue with the House Committee on the Judiciary on this important topic.

Sincerely,

John E. Lowe

Committee on the Judiciary
U.S. House of Representatives
Written Question from Representative John Conyers, Jr.

Questions for John Lowe

1. **Please provide the Committee with information summarizing your total compensation last year. Please break out salary, bonuses, estimated value of perquisites associated with your position, stock and option grants, (and their vesting schedule) and any other forms of compensation.**

We report the compensation of our CEO, CFO and three other most highly compensated officers in accordance with the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") each year in our publicly available filings with the SEC. In response to your request, we have included, as Exhibit A, information which reflects the compensation reported for John Lowe in the Summary Compensation Table of our proxy statement relating to our annual meeting of stockholders for 2007. In our publicly available filings, our Summary Compensation Tables include important information in the accompanying narrative and footnotes to the Summary Compensation Table and, therefore, we would direct your attention to this information in our proxy statements. To assist your review of this information, please note the information provided in Exhibits A and B.

- Compensation amounts voluntarily deferred or contributed by the Company to a deferred compensation plan by Mr. Lowe are included in the Summary Compensation Table, including earnings on these deferred amounts.

- The amounts considered by our Compensation Committee for annual or program-specific awards both in setting targets and making awards are not necessarily reflected in the amounts shown on the "Stock Awards" and "Option Awards" rows of the Summary Compensation Tables reproduced in Exhibit A. This difference occurs primarily because the numbers in the "Stock Awards" and "Option Awards" rows do not reflect solely the values of awards made for a particular year while the amounts considered by our Compensation Committee reflect solely the values of awards made for a particular year or program. These numbers in these rows include the Financial Accounting Standards Board Statement No. 123(R), "Share-Based Payment" (FAS 123(R)) expense recognized by us in the year for all outstanding stock and option awards, which, because of the current "hold-until-retirement" feature of our restricted stock/restricted stock unit programs, can be a substantial amount. Because we currently require our executives to hold restricted stock and restricted stock unit awards for an extended holding period (until retirement for program periods commencing prior to 2009 or, for program periods ending after 2010, the earlier of retirement and at least 5 years following completion of the program period), any appreciation in our stock price during a given year results in our recognizing the value of such appreciation with respect to certain previously-earned awards in our financial statements, and

therefore, in the compensation amounts reported above. Therefore, for your convenience, we have also included, as Exhibit B, a supplemental table reproduced from our proxy statement for 2007 reconciling the targeted and awarded amounts considered by our Compensation Committee under each of our compensation programs for John Lowe with the amount that is required to be reported for 2007 under the SEC rules for the Summary Compensation Table, as reproduced in Exhibit A.

With respect to benefits afforded Mr. Lowe, our senior executives participate in the same basic benefits package as our other U.S. salaried employees. This includes a basic benefits package consisting of retirement, medical, dental, vision, life insurance and accident insurance plans, as well as flexible spending arrangements for health care and dependent care expenses. Perquisites provided to Mr. Lowe and other of our senior executives that are not broadly available to U.S. salaried employees, make up a portion of "All Other Compensation" in Exhibit A.

Exhibit A

Summary Compensation Table Disclosure

2007 (2008 Proxy)		J.E. Lowe EVP, Exploration and Production
Salary	$	660,400
Non-Equity Incentive Plan Compensation	$	888,638
Option Awards	$	670,000
Stock Awards	$	2,634,613
Change in Pension Value and Nonqualified Deferred Compensation Earnings	$	705,492
All Other Compensation	$	119,749
Total	$	5,678,892

Supplement to Summary Compensation Table

Exhibit B

	2007 J.E. Lowe	
	Target	Actual
Salary	$ 660,400	$ 660,400
VCIP - Feb 2008	605,365	888,638
Stock Options - 2007	975,150	975,156
PSP III - Feb 2008	907,168	3,566,226
Total Compensation Awarded in 2007	$ 3,148,083	$ 6,090,420
Items attributable to FAS 123(R):		
-Mark to market, amortization and true-ups on prior awards	N/A	2,634,613
-Accruals on future awards	N/A	-
-Amount to be recognized in other periods on PSP III	N/A	(3,566,226)
-Amortization of prior year option awards	N/A	378,353
-Amount to be recognized in future years on stock option award	N/A	(683,509)
Other Items:		
Change in pension value	N/A	705,492
All other compensation	N/A	119,749
Amount per Summary Compensation Table	N/A	$ 5,678,892

Shell Oil Company
Government Relations
1401 Eye Street, NW, Suite 1030
Washington, DC 20005
Tel 202 466 1400
Fax 202 466 1498
Email Sara.Glenn@shell.com

July 9, 2008

The Honorable John Conyers, Jr.
Chairman, House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

Attn: Matthew Morgan

Dear Mr. Chairman:

On June 17, 2008, you wrote to Mr. John Hofmeister, former President of Shell Oil Company. Because Mr. Hofmeister has retired from Shell, he asked me to respond to your question:

> **1. Please provide the Committee with information summarizing your total compensation last year. Please breakout salary, bonuses, estimated value of perquisites associated with your position, stock and options grants (and their vesting schedule), and any other forms of compensation.**

Records of compensation for the top five highest paid executives can be found in the Directors Remuneration Report section of the Royal Dutch Shell plc Annual Report and Form 20-F for the year ended December 31, 2007. John Hofmeister, who retired as President, Shell Oil Company, on June 30, 2008, was not one of the five highest paid executives in Royal Dutch Shell, so his compensation is not listed in that document and is not a matter of public record. Although not public record, we are providing compensation information for Mr. Hofmeister per your request.

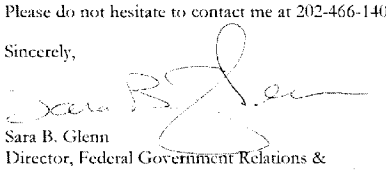
Chairman John Conyers
July 9, 2008
Page Two

In 2007, Mr. Hofmeister received:

$880,000	Base Pay
$795, 000	Performance Bonus, paid in March 2007 for 2006 performance
$12,000	Car Allowance
$2,014,143.57	Cash from exercise of stock options granted in previous years.
22,500	Performance Share Award. Total share grant to be determined at the end of the 3-year vesting period based on company performance and discretion of the Board.

Please do not hesitate to contact me at 202-466-1400 if you have additional questions.

Sincerely,



Sara B. Glenn
Director, Federal Government Relations &
Senior Counsel, Upstream

Robert A. Malone
Chairman & President

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July 16, 2008

The Honorable John Conyers Jr.
Chairman
House Committee on the Judiciary
2138 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Conyers:

I am writing in response to your letter of June 17 seeking the detail disclosure of the compensation I receive from BP. BP is not required to disclose my compensation publicly as part of its annual reporting or 10-K filings. Nevertheless, in response to a similar question I received during testimony before the Senate Judiciary Committee on May 21, I acknowledged that my compensation package exceeded $2 million annually.

I would be happy to meet with you privately to provide additional details regarding my compensation if you so desire. Additionally, I have attached a table detailing the compensation of the BP executives whose compensation is currently publicly disclosed.

Should you have further questions, please do not hesitate to contact me or Mike Brien, the acting head of BP's Washington, DC office at 202-785-4888.

Regards,

Amounts in Thousands	2007 (Converted to US$ at Year Average Exchange Rate)							
	Salary	Bonus	Other Benefits	Total Annual	Long-Term	Total Direct	Pensions	Total Comp
Executive Directors								
Dr. A B Hayward	$1,754	$2,524	$28	**$4,306**	—	**$4,306**	$7,850	**$12,156**
Dr. D C Allen	$1,000	$1,078	$26	**$2,104**	—	**$2,104**	$500	**$2,604**
I C Conn	$1,162	$1,396	$90	**$2,648**	—	**$2,648**	$1,730	**$4,378**
Dr. B E Grote	$1,175	$1,551	$10	**$2,736**	—	**$2,736**	$311	**$3,047**
A G Inglis	$1,112	$1,600	$376	**$3,088**	—	**$3,088**	$3,354	**$6,442**
Directors Leaving the Board in 2007								
Lord Browne of Madingly	$1,062	$1,242	$170	**$2,474**	$872	**$3,346**	($296)	**$3,050**
J A Manzoni	$646	$622	$66	**$1,334**	—	**$1,334**	$2,468	**$3,802**

US$/GBP Exchange Rate used to convert GBP data to US$ = 2.00