Insights on America's Energy Policy: Caution and Candor
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Good Afternoon,

I'd like to start by thanking Barry and the USEA for including me in an event that has become as regular as the State of the Union, only a lot more insightful. I'm especially appreciative because as many of you know, I will be retiring as president of AFPM this year.

Naturally, that decision has prompted a bit of reflection on industries of which I have been fortunate to be a part of for the last 44 years. Knowing that the exit door is near also affords a certain amount of candor – yes, I know – when have I ever been accused of being short on candor? In the time allotted here, I'd like to provide an assessment of the nation's energy policy - or lack thereof - and a snapshot of some of the obstacles to policy that will allow us to truly embrace our abundant, efficient, easily accessible and affordable energy resources. But let me begin by offering blunt caution to the industry.

Open a newspaper or a magazine, listen to the nightly news, or view it on Al Gore's internet and you're likely to encounter a viewpoint that says that the fossil fuels industry is an increasingly obsolete dinosaur. The storyline is that fossil fuels have reached the pinnacle and are now in a steady decline inevitably to be replaced by so-called "alternative" sources of energy. We can expect this type of doomsday – and factually inaccurate – rhetoric from those who would have our economy and ultimately our national security placed in jeopardy and from their apologists in the liberal media. What's hard to accept, though, is when that talk comes from certain quarters of the industry. Not only is that attitude simply not justifiable, but it is foolish.

Winston Churchill once described an appeaser as one who feeds a crocodile, hoping it will eat him last. The fact is that while fossil fuels may be a dinosaur in a quasi-technical sense of the word, it will be fossil fuels that continue to raise the standard of living for billions – and that's billions with a "b" – of deserving people around the world. Long after everyone in this room is gone, it will still be fossil fuels providing affordable sources of energy and the power that brings essential services to every corner of the world.

We must also reject a prevailing condescending attitude evoked by those that would suggest they know best. Consider for example, what transpired at the recent climate change talks in Lima, Peru where Secretary of State John Kerry remarked that, "Coal and oil may be cheap ways to power an economy today in the near term, but I urge nations around the world … to look further down the road." He advised nations to "consider the real, actual, far-reaching costs that come along with what some think is the cheaper alternative." Concluding that "It's not cheaper."

Well, yes Secretary Kerry – it is – just ask Google. And speaking of Secretary Kerry, last week he resurrected a very less than dulcet Sweet Baby James to proclaim to France and the rest of Europe that "You've Got a Friend". Well Mr. Secretary, I also suggest that the U.S. has a friend. It is fossil fuels that have propelled this great nation to the economic, health, social, technological, and military status that is the envy of the world. And it will be fossil fuels that will continue this dynamic for a long, long time.

Unfortunately, when it comes to energy and the climate this Administration is intent to ignore facts when they don't support its objectives. For example, EPA's proposes carbon dioxide reductions of 30 percent to 2005 levels by 2030 by initially placing emission limits on coal-fired power plants. This rule stands to be the most expensive in our nation's history and will provide little or no health or environmental benefits. It will also drive up consumer electricity rates. In fact, 43 states will see double-digit electricity price increases and another 14 states can expect potential increases of 20 percent according to recent analysis.

The air quality in the United States has and will continue to improve significantly without this extreme proposal. Although this rule does not directly impact my industry, it concerns me greatly. If the EPA succeeds in finalizing this rule, mark my word, regulations on refineries are close behind.

Through innovation and technological breakthroughs, this industry has evolved and will continue to do so. Of course the market will not remain stagnant and our industry along with other entrepreneurs are investing in other energy resources. But, we must resist the urge to acquiesce to government policies that pick winners and losers under the irrational belief that "green" energy changes the scorecard. We simply can't bet our country's economic future on technologies that don't exist.

With respect to a comprehensive energy policy, I would suggest that the United States is decades overdue for one. What we have today instead is a litany of legislative and regulatory consequences enacted as quick fixes in response to one crisis after another. It's much like little kids playing soccer. When the ball is on one side of the field, everyone runs to that side, when it's on the other side, they all run over to it – no one really covers the field.

This strategy – such that it is – transcends decades and administrations. For example, President Carter's energy policy was to light a fire, put on a sweater and not to hang Christmas lights. But there's more. In response to the 1979 oil embargo, President Carter and Congress agreed to a jump-start program to develop synthetic fuels. The resulting $88 billion crash program embodied in the Synthetic Fuels Corporation certainly lived up to its name in a peculiar way. It indeed crashed. It crashed because it was a panic response to a surprise, and it crashed because the economics of the next few quarters took hold. It was a political reaction to economic uncertainty. It was following the soccer ball.

Well, the time has come to begin a dialogue on the need for a robust energy policy built upon the principals of a free and open market; one that will best serve the interests of American consumers.

We must start by ending the practice of regulating in silos because the benefits of any one action are not adequately weighed against inevitable consequences, or to put it another way, the issue of cause and effect is unilaterally ignored. Let me give you the latest example – one that belongs in the "well that didn't take long" file. Amid falling oil prices there are those that say the time is ripe for a carbon tax with little thought given to the obvious – that what goes down will go back up. Oil is a fungible commodity, and we must look at policies through a long term lens – not just from this week's headlines. What does the potential impact of such a reversal in price look like to the economy?

While lower prices at the pump may be good for consumers in the short run, economists understand that a carbon tax would stifle commerce, investments and jobs. According to a study by the National Association of Manufacturers, a carbon tax will significantly impact manufacturing output, with energy-intensive manufacturing sectors dropping as much as 15 percent. Also consider that the Congressional Budget Office, along with various other studies, has found that a carbon tax would be regressive, imposing larger burdens on lower-income households than on their higher-income counterparts. Maybe those households just need a little encouragement from Secretary Kerry that in the end, it's all for a greater cause.

Or consider the restrictions on crude oil exports, the result of the 1970s oil embargos and subsequent government interference which turned a nuisance into a catastrophe. Those policies paralyzed America and subjected the nation to years of political intimidation.

Today's vibrant U.S. oil production has been the proverbial game changer in terms of fostering our energy independence from unstable regions of the world. Imagine what consumers would be paying at the pump today without America's increased production. It has also led to calls for lifting the ban with some even suggesting that U.S. refineries cannot handle the increased production. Let me emphatically correct that misperception right now: U.S. refiners are successfully processing today's supply of crude oil and in fact, have additional capacity for at least another million barrels per day of light crude. Better yet, refiners have the capacity to substitute even more imported crude for that produced here.

So don't use domestic refiner's as an excuse to call for the export of crude oil. That day may, no, it probably will come, but not in weeks or months. It may take years and given the current situation with supply and demand—a topic I will focus on a bit later—domestic refiners can use all the domestic crude now being produced as we continue to address the distribution system throughout the U.S. Don't diminish a free market argument with "facts" not in evidence.

AFPM does agree with proponents who argue that the crude oil export ban is a free market barrier, but it is far from the only one. So too is the egregious Jones Act, which for 95 years has controlled how commodities are transported between U.S. markets. It is an antiquated piece of protectionism that has insulated the domestic maritime industry from competition at the expense of American industry and consumers.

Our position is clear – any discussion of lifting the crude oil export ban must include a debate about repealing or revising other regulatory barriers like the Jones Act.

Here again, we must resist the tendency to regulate in silos. Calls to lift the crude export ban have given no consideration to the impact of such a move on East Coast refineries who have been at a competitive disadvantage for years because of the Jones Act. Right now it is three times more economical to ship oil from the Gulf Coast to Canada than to Northeast refineries because oil must reach Philadelphia and New York through Jones Act vessels. Given that the United States has only 90 Jones Act vessels and only a subset of those can legally move oil between U.S. ports, it isn’t hard to understand that demand has squeezed capacity and driven up costs.

Visualize this. Two ships depart from the Gulf Coast – one is a Jones Act vessel; the other a non-Jones Act ship both headed up the East Coast. The Jones Act ship is destined for Philadelphia, while the non-Jones Act ship veers right for Europe. The transport cost for the Philadelphia-bound ship is $5 to $6 per barrel compared to just $2 to $3 per barrel for the non-Jones Act ship intended for a European port. A $3 a barrel cost difference is equivalent to a 7-cents-per-gallon product price difference – more than enough for foreign refiners to process that crude and sell the gasoline back to the Northeast for less cost than our refiners would incur.

It has become more than a little irritating to hear those that believe the Jones Act is “untouchable.” Well, the same can be said about a number of issues that are important to the industry and to consumers and we have a responsibility to try. Only a few short years ago, many would have thought a debate about lifting the crude export ban to be unfathomable, but look where we are today. Despite what some would have you believe, the Jones Act is NOT “untouchable.”

Should Congress allow crude exports, but not in turn repeal the Jones Act, the fallout will be felt not only by East Coast refineries, but by the millions of consumers they serve. Fewer refineries, in particular concentrated in a single geographical region, is not a good thing. The economic and market implications are real.

AFPM will continue beating the drum on the need to remove various barriers to free trade in the context of energy policy debates on Capitol Hill. And I’m encouraged because the more that people learn about antiquated laws like the Jones Act, the more its very absurdity is exposed. The ban on crude exports and the Jones Act are both barriers to free trade and they are inexorably linked and must be addressed in tandem.

Finally, I cannot recall the last time I gave a speech that did not include mention of my favorite free market barrier – the Renewable Fuel Standard and today will be no different. AFPM's position on the RFS is clear and unwavering – Congress must act on this ill-advised set of obsolete and unnecessary mandates. No government policy should be based on mandates – none.

Our industry welcomes free market competition, but such competition cannot occur if impeded by market distorters including, mandates, subsidies and tax credits. The refinery sector does not get nor do we want subsidies, despite some of the false information fossil fuel opponents regularly propagate. The same unfortunately cannot be said for others in the energy space, including alternative fuels.

Meanwhile, EPA has become paralyzed with an inability to manage the RFS.

In November 2014 EPA finally announced its decision on the 2014 Renewable Volume Obligations of the RFS. Their decision – was no decision. Instead, EPA intends to issue RVOs for 2014, 2015 and 2016 together some time in 2015.

We know from 9 years of experience that the law is broken and it would appear so too does EPA. During a December House Oversight Committee hearing, EPA's Janet McCabe time and again addressed concerns raised by both proponents and opponents of the RFS by pointing out that the agency is doing what Congress has directed by law to do. The industry and EPA are looking to Congress for a solution.

Headway has been made. In 2014, a majority of Members of Congress put their name on record supporting changes to or an outright repeal of the RFS. AFPM and others opposed to the RFS were also encouraged by EPA's acknowledgment of the blend wall. What immediate impact this new Congress will have on the future of the RFS remains to be seen, but it is clear to us that bi-partisan support continues to build for repeal or major reform; it is only a matter of time.

In closing, and as I mentioned before, I'd like to talk about the imbalances in supply and demand, but not in the true economic sense or what we are now witnessing in both domestic and global oil markets. Rather, there's too much reliance on government actions and not enough exercising of market-based realities and solutions. There's way too much blue-skying the future and not enough focus on the present. The final imbalance is that we have too much anxiety these days and not enough confidence in ourselves.

I suggest that our confidence ought to be high, not because the energy world is stable, but because all of us in this business have jumped a lot of barbed wire fences over the years, and each time we've left a piece of our pants behind. But in the process we've gotten smarter, tougher and better equipped to deal with whatever comes our way.

I suggest that our confidence ought to be high, not because we have all the technological and financial solutions to our problems, but because we have men and women with an abundance of talent and commitment willing to work together on the opportunities and obligations that we all share.

And I suggest that our confidence ought to be high, not because the task is going to be easy, but because all of us in the business of fossil fuels have always shown the ability to be at our best when challenged.

So let's summarize our state of energy in January 2015 in that we have an invitation to use our combined leadership, our technology, our confidence and our common sense to encourage the balanced interests of the combined fossil fuels industries. Let's not sidestep this invitation, but RSVP with a firm commitment to work together to achieve it.

We’re used to challenges, and now we have a few more. And relying on government to pave the way is fraught with peril. But those of us who believe in the benefits of a common sense balance of energy, environment, and economics—we have the invitation, the opportunity, and the obligation right here in front of us.

It’s time to find out how good we really are.

Thank you.