Statement by Harold Hamm

Chairman and Chief Executive Officer

Continental Resources, Inc.

House Committee on Foreign Affairs Hearing

"The Geopolitical Potential of the U.S. Energy Boom"

March 26, 2014

Chairman Royce, Ranking Member Engel and Members of the Committee, my name is Harold Hamm. I serve as Chairman and Chief Executive Officer of Continental Resources, an Oklahoma City-based independent oil and gas exploration and production company. It's an honor to address you today on the critical subject of crude oil and natural gas exports. As Chairman of the Domestic Energy Producers Alliance and as CEO of the company that co-developed the first field ever drilled exclusively with horizontal drilling, and the company that is the largest leaseholder and most active driller in the Bakken Play, I was in the unique position to be one of the first to see American energy independence on the horizon three years ago. And as technology continues to advance and new supplies of natural gas and premium crude oil are discovered, today I see first-hand what's necessary to continue this American oil and gas renaissance and ultimately achieve energy security for our country. I appreciate you inviting me to share my experience and insight with you here today.

In October 2011, DEPA put a stake in the ground and predicted American energy independence by 2020.[1] America's independent oil and gas producers have unlocked the technology and resources that make this a reality. As a result, we can today mark the recent 40th anniversary of the OPEC oil embargo by ending the era of energy scarcity in America and, along with it, ending the last of shortsighted regulations passed during that period.

The federal laws passed in the 1970s artificially controlled the supply, demand, and price of U.S. energy and brought about unintended consequences. For example, one law even banned the use of natural gas as a boiler fuel and mandated U.S. power plants switch to a less environmentally friendly alternative, coal.[2] Today America is still struggling to rectify the aftermath of this rash regulation.

In the years since the enactment of these laws, our elected officials have recognized our global energy industry has changed dramatically. Thankfully, in response to these changes, legislators have repealed or let expire nearly all post-embargo regulations save two: the Energy Policy and Conservation Act of 1975 and the Export Administration Act of 1979, which together essentially ban crude oil exports.

[1] Stephen Moore, "How North Dakota Became Saudi Arabia," Wall Street Journal (October 1, 2011)

[2] Powerplant and Industrial Fuel Use Act of 1978 (Repealed in 1987)
http://www.eia.gov/oil_gas/natural_gas/analysis_publications/ngmajorleg/repeal.html

As the world has changed and other similar, post-embargo legislation has been phased out, the question has to be asked, "Why does the United States, a nation historically very supportive of free trade, continue to impose export barriers for domestic crude oil and natural gas?" Free world commerce in energy is vital to the U.S. for many reasons. First, when the government attempts to manipulate the market, unintended consequences and distortions occur. Second, exports will allow America's unconventional oil and natural gas activity to reach its full potential and create millions of jobs at home. Third, by building out oil and gas infrastructure and export capabilities at home, America will never again be held hostage by the energy policy of rogue nations and neither will our European friends and allies around the world.

We have known forever that when you place unnecessary obstacles like import and export restrictions in any chain of products, it causes a knot in that chain. And the resulting inefficiencies cause ripples that result in higher prices for consumers throughout our society and across the entire world. But America has a history of righting earlier wrongs. In the 1980s and early 1990s, natural gas controls were overturned, and the final chapter is about to become a reality. Let's not hold back now. Today, the U.S. has only one LNG export facility, located in Alaska. Seven additional export facilities in the continental U.S. have recently been approved for non-Free Trade Agreement (FTA) exports, with the first slated for completion by the end of 2015. Twenty-four proposed facilities and other potential sites are awaiting permit approval for LNG export to non-FTA countries.

Making America a world leader in LNG exports is a worthy goal, but the truth of the matter is these new export terminals will not be up and running for some time. If we want to have an overnight impact on today's global events, we can immediately begin exporting crude oil, which does not have the same infrastructure constraints. With the 1970s-era rules still in place, however, producers must prove hardship in order to receive a license from the Commerce Department to export crude beyond North America. Why should any industry be singled out and required to prove hardship in order to participate in free markets? Domestic refiners certainly don't have to.

The popular belief is that we're not exporting petroleum. Nothing could be further from the truth. Major oil companies, which are domestic refiners, are exporting petroleum products like gasoline and diesel with no limitations. In fact, recent EIA data shows the U.S. is exporting more than 4 million barrels of petroleum products per day.[3] Why shouldn't independent producers be allowed to do the same? Are we to be their milk cows? That would be like telling American farmers they can't export wheat, yet allowing Pillsbury to export all the flour they want.

[3] Total exports of petroleum and other liquids reached 4.4 million bpd in December 2013, according to recent EIA data. http://www.eia.gov/dnav/pet/pet_move_exp_dc_nus-z00_mbblpd_m.htm

So you can see, it isn't a question of whether we should allow petroleum exports – we already are. The real question is why should one link in the chain benefit arbitrarily from distortions caused by laws restricting free commerce?

When you consider the potential for job creation, it really puts these distortions into perspective. Refining doesn't create jobs. Once a refinery is built, it takes the same number of employees to run it at 75% of capacity as it does at 100%. Jobs can only be added through the supply side, or upstream industry. And unlike most dividend-paying refining companies, many independent oil and gas producers reinvest 100% of their earnings into new American projects and jobs.

At a time when unemployment sits at nearly 7% and, more importantly, U.S. labor force participation has fallen to just 63%,[4] unconventional upstream oil and natural gas activity has added jobs for millions of Americans – both directly and indirectly through energy service and equipment companies. It has also served as a job multiplier for our nation's growing chemical and manufacturing industries. To this point, a recent IHS[5] report issued in September 2013 on unconventional oil and gas found that:

- Employment attributed to unconventional oil and gas and petrochemical activity currently supports more than 2.1 million jobs. IHS projects it to grow to 3.3 million jobs by 2020 and 3.9 million jobs by 2025.
- In 2012, the unconventional oil and gas and petrochemical industries contributed nearly $284 billion to GDP. IHS projects this to grow to $468 billion in 2020 and $533 billion by 2025.
- Unconventional energy increased U.S. household disposable income by $1,200 in 2012. IHS projects the contribution to increase to $2,000 per household in 2015 and $3,500 per household in 2025.
- Unconventional energy activity and employment contributed more than $74 billion in government revenues in 2012 and is projected to increase to $138 billion per year in 2025.

It's worth noting, however, that the oil and natural gas business is very capital intensive, and these figures just mentioned are predicated upon maintaining current tax provisions. Without current law regarding intangible drilling costs (IDCs) and percentage depletion,[6] producers

[4] Bureau of Labor Statistics. http://data.bls.gov/timeseries/LNS11300000. As of February 2014.

[5] IHS "U.S. Unconventional Oil and Gas Revolution to Increase Disposable Income by More than $2,700 per Household and Boost U.S. Trade Position by More than $164 billion in 2020, New IHS Study Says," September 4, 2013. http://press.ihs.com/press-release/economics/us-unconventional-oil-and-gas-revolution-increase-disposable-income-more-270. Accessed September 24, 2013.

[6] IDCs represent typical and ordinary business expenses within the oil and gas industry. This provision is not a tax subsidy or loophole. IDCs permit a portion of the costs of drilling a well to be deducted fully in the year those costs are incurred, rather than being capitalized over several years. Percentage depletion is akin to typical depletion

would not be able to generate the capital necessary for the continued growth in domestic drilling and production activity.

Beyond its economic benefits, supporting domestic oil and natural gas production is vital for our national security. Indeed, the growth in domestic energy production over the past several years has contributed to a significant drop in U.S. reliance on imported oil.[7] But national security and oil exports are not mutually exclusive; in fact, they go hand-in-hand. The authorization of oil exports promotes investment in additional energy resource and infrastructure development at home, enabling our nation to better control its own energy future. In the age of America's oil and natural gas renaissance, true energy security is no longer measured by the quantity of spare oil and gas immediately on hand; rather, it is defined by the infrastructure available to produce these commodities in a time of national or international emergency.

Energy independence doesn't mean being isolationist. As we've seen in Cuba, Venezuela and North Korea, closed societies don't work. Energy independence means energy security. It means a chance for America to step back into a global leadership role by creating a world of balanced interdependency as opposed to dysfunctional interdependency. And it means no one can choke off supply, turn on the tap, or otherwise distort the market.

This is particularly relevant today, as Russia has occupied recent headlines with its aggressive actions in the Crimean Peninsula. The U.S., and in particular, E.U. nations have weighed punitive measures against the fear of potential repercussions, including the choking off of valuable Russian energy supplies to Europe. Some commentators have said that U.S. LNG exports to Europe may be used to counter this. Indeed, Russia's "energy weapon" is primarily one of gas, not oil. However, while opening LNG exports is a noble goal and one that we as a country are actively working towards, the fact is the infrastructure to undertake large-scale overnight LNG exports does not currently exist.

While Russian gas displacement with U.S. LNG may not yet be achievable, crude oil exports *are* possible immediately and may be used as a diplomatic tool to weaken the influence of our geopolitical adversaries. Unlike natural gas exports, crude oil exports are easier to accomplish because the commodity is already in a liquid state, meaning complex liquefaction facilities and cryogenic LNG tankers and terminals are not required. U.S. oil exports would serve to dampen global price volatility and reduce the leverage wielded by global players like Russia and OPEC nations that do not always share our best interests. Indeed, exports would allow America to gain back the foreign policy ground that's been lost since the Reagan presidency.

Rather than employ near-term punitive measures, the solution is to continue promoting the development of our domestic oil and gas industry while lifting the ban on crude oil exports.

---

taken by other industries, except that the depletion is available throughout the economic life of a well because of the depleting nature of oil and gas..

[7] Bureau of Economic Analysis, "U.S. Trade in Goods (IDS-0182)." Accessed July 12, 2013.

This would, in turn, weaken the long-term influence of our global adversaries and smooth global energy price volatility. In doing so, we would diminish the ability of all nations to roil markets in pursuit of self-serving ambitions.

In conclusion, world energy markets have drastically changed since America was shaken by the twin oil price shocks following the OPEC oil embargo and Iranian Revolution in the 1970s. But due to the hard work and ingenuity of men and women in this country, our nation has recovered from those dark times. Now we need to focus our efforts on doing away with the reactionary crude export ban that was enacted during that era, a ban that was largely symbolic in the first place, as we had no oil to export. Americans and consumers worldwide will all benefit from lower prices at the pump and lower home heating and cooling bills when oil and gas distribution channels become more efficient and competitive. Finally, by immediately lifting crude export restrictions, America can provide greater world energy security today, ensuring we aren't held hostage by energy weapons and neither are our friends.