

"The Crude Truth: Evaluating U.S. Energy Trade Policy"

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Committee on Foreign Affairs

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Statement of Michael C. Jennings

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Chairman Poe, Ranking Member Sherman, Members of the Subcommittee, thank you for the opportunity to testify on the important topic of crude oil exports.

My name is Mike Jennings and I serve as Chairman, CEO and President of HollyFrontier Corporation. HollyFrontier is an independent petroleum refiner in the United States that produces and markets gasoline, diesel, jet fuel, asphalt, heavy products and specialty lubricants. The Company is headquartered in Dallas, Texas and operates five refineries with nearly half a million barrels per day of crude oil processing capacity, producing over 18.5 million gallons of petroleum transportation fuels per day. Our company produces approximately 2.5% of the United States' daily gasoline and diesel requirements. Our refining operations are located in Cheyenne, Wyoming; El Dorado, Kansas; Artesia, New Mexico; Tulsa, Oklahoma and Woods Cross, Utah. We directly employ above 2600 people and indirectly employ a contractor base that is many times this number. The success and growth of our business has been a function of purchasing and investing in refining assets no longer viewed as being "core" to their prior owners, typically large integrated oil companies.

HollyFrontier is a merchant refiner, meaning the company does not produce its own crude or market refined products in the retail market. We are manufacturers who buy crude on the open market from producers and sell wholesale refined products to a broad variety of customer across the mid-continent, Rockies and Southwest regions. Our company sits in a unique position, drawing feedstock for our refineries from some of the most dynamic and growing energy sources in North America and providing refined products to some of the fastest growing metropolitan areas in the US.

As a merchant refiner in this position, we are intensely aware of the impact of increased production of crude in the United States and its positive impact on American consumers. We believe the expansion of domestic crude production has been a driving force in economic growth nationally, and has improved

the nation's energy security. For decades, this country has worked to become energy secure or even energy independent, and now just recently, the expansion of production from both traditional and nontraditional sources, has allowed the country to make great progress towards that goal. It has also lowered the cost of refined products for consumers at the pump; for airlines, railroads, trucking and air freight companies; and for manufacturers and construction firms. We believe the increased energy independence recently achieved has also mitigated price volatility or spikes that historically resulted from significant geo-political events. Given the great progress made in the last several years and the continued uncertainty in the global marketplace, HollyFrontier does not believe that lifting the historic ban on crude oil exports is in the best interest of our citizens or our national security.

The crude oil export ban has been a fundamental component of U.S. energy security for decades. With narrow exceptions, the law requires that oil drilled here must be refined here – helping insulate American consumers from disruptions in the oil fields and refineries of the Middle East and elsewhere. Indeed, the ongoing turmoil in Ukraine, given oil production in that part of the world, is the most recent example of how world events outside the Middle East can threaten energy security. Though great strides have been made, the United States has not yet demonstrated its independence from foreign crude. This is not my opinion or the opinion of our company; this is simply a statement of the facts based on the current supply of domestic crude and the demand created by American refiners. Today, the current total US refining capacity is just above 17 million barrels per day. U.S. domestic crude production was 7.5 million barrels per day in 2013. The US Energy Information Agency projects domestic crude production of 8.5 million barrels per day in 2014. Though this jump is a sizable one, U.S. crude production still only accounts for half of the domestic refining capacity. 50% of US refining is still being fed by imported crudes.

Supporters of a lifting of the ban on crude exports argue that such a decision would simply reflect a move toward a freer market in global supply. HollyFrontier supports the development of freer energy markets, however, it is hard to conclude that the international market for crude oil qualifies as a free market given that a large portion of this market is dominated by a volume setting cartel and key arteries to import crude freely into the United States are currently held up by the Administration. Government-run national oil companies control approximately 85% of the world's crude oil and 58% of production. In addition to these figures, and equally important to global prices, oil exports by the Organization for Petroleum Exporting Countries, or OPEC, constitute approximately 60% of the total petroleum traded internationally. EIA notes: "Due to the diverse situations and objectives of the governments of their countries, these national oil companies pursue a wide variety of objectives that are not necessarily market-oriented." The level of control of the global crude oil market by national governments and a global cartel belies any claim that the market is free and open. With its market power, OPEC effectively influences crude oil production, supplies and pricing throughout the world through quotas and other controls. The facts make clear that OPEC controls supply to maintain prices where the member countries (including Iran, Iraq, Saudi Arabia and Venezuela) want them to be. OPEC is a cartel, and its existence is designed to control crude oil prices and preserve its members' own domestic economies. Though American production has increased dramatically, it has not yet matured to the point at which it could significantly impact the price of crude in the global market. Lifting the crude export ban without dramatically revising other impediments to free trade which include the Renewable Fuels standards, the Jones Act and fiat-style exclusions on import-oriented infrastructure will come at the detriment of the American consumer, and American jobs.

The increase in American crude production has, however had the dual impact of improving our domestic energy security and lowering prices for American consumers. This phenomenon is uniquely apparent in areas served by HollyFrontier. Our consumers today pay less at the pump because the ban on crude exports results in less expensive crude available to users here in the United States. The difference can be seen when one compares the price of Mid-Continent wholesale gasoline with that of Northwest European wholesale gasoline prices, which are essentially the international market price. Mid-Continent wholesale gasoline was priced at an average \$2.72 per gallon in 2013. The North West Europe equivalent priced at \$2.89 per gallon. This is before taxes and other distortions. MidCon gasoline was \$0.17 per gallon cheaper in 2013 than the International market price, a difference mostly attributable to lower-priced crude oil available in the region. The MidCon gasoline discount to comparable North West European prices widened 30% vs 2010 levels, reflecting the new presence of discounted crude oil in the United States, partly attributable to policies limiting crude oil export. The bottom line is that cheaper domestic crude means cheaper gasoline for consumers. This differential in pricing also means that consumers pay less for heating oil, propane and other critical petroleum products.

As I have already stated, there exists a robust domestic demand for gasoline and other refined products in the region in which our company does business. 26 of the nation's 139 refineries are located in the Midwestern and Plains states. These plants process 3.7 million barrels per day of crude oil and produce 78 million gallons per day of gasoline and provide stable and high paying jobs for our workers. In this same region, gasoline demand is approximately 100 million gallons per day, a demand that is not readily shifted to other fuels or transportation sources given the predominantly rural and agricultural geography that comprises our market place. Exports could potentially raise costs and slow growth in an area of the country that is driving the American economy.

In closing, we believe that any discussion of crude oil exports must be had in the broader context of developing a comprehensive 21st century energy policy for our nation. Though the expansion of production of crude oil in the United States has positively impacted consumers and our overall energy security, it does not tell the whole story. A meaningful discussion requires not only consideration of crude oil exports; but a consideration of the mandates created by the renewable fuel standard, completion of the Keystone XL pipeline and other infrastructure to support free flow of petroleum and products, a review of the EPA's onerous Tier 3 gasoline rule, and a robust discussion on the future of domestic energy infrastructure. A holistic view is necessary in making decisions that will both shape energy policy, and help drive economic growth for decades to come.

HollyFrontier acknowledges that free trade generally increases prosperity. Therefore, should Congress determine that the United States now has sufficient oil resources to export unprocessed commodities; it must do so in concert with reconsideration of other policies related to crude and refining. A specific area of focus must be the renewable fuel standard. Insofar as our country has reached a point of security and independence in our crude supply to lift the export restrictions, it would be clear that we have no further need for the costly and inefficient crop-based fuel mandates created by the RFS to promote energy security. These bio-fuel mandates have and continue to drive up prices at the pump for American consumers and distort the price of refined petroleum products. Accordingly, I would encourage Congress to keep the RFS in mind as it debates issues associated with potential export of domestic crude.

Thank you for allowing me to appear today, and I look forward to answering any questions the Committee may have.

