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21ST CENTURY ENERGY MARKETS:

HOW THE CHANGING DYNAMICS OF

WORLD ENERGY MARKETS IMPACT

OUR ECONOMY AND ENERGY SECURITY

TUESDAY, MARCH 3, 2015

House of Representatives,

Subcommittee on Energy and Power,

Committee on Energy and Commerce,

Washington, D.C.

The subcommittee met, pursuant to call, at 1:28 p.m., in Room 2123, Rayburn House Office Building, Hon. Ed Whitfield [chairman of the subcommittee] presiding.

Present: Representatives Whitfield, Olson, Barton, Shimkus,

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Pitts, Latta, Harper, McKinley, Pompeo, Kinzinger, Griffith, Johnson, Ellmers, Flores, Mullin, Hudson, Upton (ex officio), McNerney, Tonko, Green, Castor, Sarbanes, Welch, Loebsack, Pallone (ex officio).

Staff Present: Nick Abraham, Legislative Clerk; Charlotte Baker, Deputy Communications Director; Leighton Brown, Press Assistant; Allison Busbee, Policy Coordinator, Energy & Power; Tom Hassenboehler, Chief Counsel, Energy & Power; Brandon Mooney, Professional Staff Member, Energy & Power; Tim Pataki, Professional Staff Member; Chris Sarley, Policy Coordinator, Environment & Economy; Christine Brennan, Minority Press Secretary; Jeff Carroll, Minority Staff Director; Michael Goo, Minority Senior Counsel, Energy and Environment; Caitlin Haberman, Minority Professional Staff Member; Ashley Jones, Minority Director, Outreach and Member Services; Rick Kessler, Minority Senior Advisor and Staff Director, Energy and Environment; and Tim Robinson, Minority Chief Counsel.

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Mr. Whitfield. I would like to call the hearing to order this afternoon, and certainly want to thank our panel of witnesses. We look forward to your testimony and your insights. And also we will appreciate the opportunity to ask you questions after you finish your opening statement.

Today's hearing is entitled "21st Century Energy Markets: How the Changing Dynamics of World Energy Markets Impact Our Economy and Energy Security." And I would like to recognize myself for a 5-minute opening statement.

When it comes to energy markets, the transformation over the last decade has been dramatic. In fact, several longstanding energy trends have completely reversed themselves. America has gone from declining oil and natural gas production to unprecedented increases that now make us the world's largest energy producer and a potential exporter.

As a result, fears about rising import dependence and skyrocketing energy prices have been replaced with surging domestic supplies that are driving down prices so low, in fact, that they are now discouraging additional drilling in the U.S.

The downstream changes have been every bit as dramatic. Domestic refineries, a number of which were optimized to handle imported crude, now have the option of transitioning to use more North American oil. And for manufacturers, the offshoring trend has stalled and, in fact, some of the manufacturing capacity that has been forced overseas by competitive pressures is now returning to America because of low energy prices. And North America's new energy supplies have necessitated a major infrastructure build-out in order to deliver this energy to the consumers and businesses that need it.

The changes also have significant geopolitical implications. Many of our energy-importing allies were resigned to growing dependence on OPEC and other unfriendly exporters, like Russia, but now they see America as a potential new source of reliable and affordable energy supplies. As a result, America has the opportunity to influence the geopolitical situation of these countries that used to dominate global energy markets and assert our own influence instead.

There is no question that America's oil and natural gas boom has been very good news for America, but that is not to say that it doesn't bring new concerns. We have simply traded one set of challenges for another. Unfortunately, our energy policy is largely based on old laws rooted in assumptions of scarcity and may no longer be up to the task of addressing these new challenges and taking full advantage of emerging opportunities.

So with these changing times, we think it is essential that we visit these laws, look at new opportunities, and whether or not it is in the best interest of America to bring about these changes or not.

So today we are going to continue that discussion by exploring current and evolving energy markets. We hope to be able to better assess where we are and what new policies may be needed. Our existing energy policy was not created overnight, nor will any changes to it happen overnight. This will be a thorough and deliberative process and one in which all affected parties will be heard.

Thank you very much. I yield back the balance of my time. And I recognize the gentleman from California, Mr. McNerney, for 5 minutes.

[The prepared statement of Mr. Whitfield follows:]

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Mr. McNerney. I want to thank Chairman Whitfield and Ranking Member Rush for holding this hearing. Oil markets are changing rapidly. We have reduced oil and gasoline prices, increased domestic oil production. At the same time we have seen oil prices plummet from $100 a barrel to under $50 a barrel, and this has led to great savings for the American consumers.

But we have learned in California that prices at the pump don't always track the price of crude. For example, in my State we have seen the steepest increase in gasoline prices in history. It went from 20 cents a gallon overnight in San Francisco and Los Angeles last Thursday to Friday, and prices in Sacramento rose over 40 cents per gallon in 1 week.

So soaring wholesale gas costs are prompting higher retail prices at service stations and state refineries are switching over to pricier seasonal blends, while at the same time refinery problems have effectively lowered capacity.

Given that we are experiencing these spikes at a time the rest of the Nation is enjoying lower gasoline prices, I think it is important to mention the dangers of depending on just one source of fuel for our transportation needs.

We should consider carefully the potential problems that could arise if we decide to alter our approach to managing crude oil resources. When we talk about exporting crude oil, we are mainly taking about the light sweet crude that comes from tight shale formations. To extract this resource requires a tremendous supply of another very precious resource, especially in California, namely, water. In my State, in my region, we know all too well how important water conservation is and how dwindling water resources can really harm our economy and our way of life.

I am concerned that until we develop new, more efficient, and environmentally protective ways to use and conserve water in hydraulic fracturing, we will be wasting an endangered resource mainly to ship another resource abroad for the financial gain of a few. I think we need to carefully weigh the safety of our drinking water and irrigation supplies before we begin to extract crude and bypass U.S. refineries in order for producers to obtain slightly higher prices abroad.

Low oil prices, combined with additional domestic production, decreases our reliance on foreign oil, which often comes to us from unstable regions of the world. I believe a major factor in this equation should be on supporting and enhancing our efforts at conservation.

And this brings me back to the hazards of being dependent on one source of fuel for our transportation needs. It is time we diversify our fuel sources. We have made great strides in improving our fuel economy in the last 5 years. It is time to start improving our fuel options. We should be looking more toward plug-in hybrids, fully electric vehicles, natural gas, and even hydrogen-based transportation.

I know that in recent years a barrel of crude oil produced in the United States has sold for less than a barrel of crude oil in the world market. I am interested to hear both sides of the debate on how allowing export of U.S. crude will affect both the global and the U.S. oil and gasoline markets, and equally important, how regional markets in the U.S. could be affected.

We should also consider whether rushing into short-term production of as much oil as possible is the best strategy for our long-term national security. In the wake of the 1973 oil embargo, we created the Strategic Petroleum Reserve so that in the event of a worldwide unrest we would have petroleum to continue operating and to protect our national security. We should consider whether our oil fields in North Dakota and Texas might serve a similar purpose in the future.

Finally, I want to consider the threat of climate change and how increased production, refining, and export of the new American oil fuels will impact the Earth's future climate.

Mr. Chairman, I look forward to hearing the witnesses, and I yield back.

Mr. Whitfield. Thank you very much.

[The prepared statement of Mr. McNerney follows:]

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Mr. Whitfield. At this time I recognize the chairman of the full committee, Mr. Upton, for 5 minutes.

The Chairman. Well, thank you, Mr. Chairman.

Energy markets are changing, and they are changing for the better. America is producing more while using and importing less, and the energy boom is translating into a jobs boom, and that is not a bad thing, not just in energy production, but also energy infrastructure and manufacturing.

The combination of increased domestic oil supplies and decreased demand not only strengthens our energy security, but it also presents new opportunities for energy diplomacy. The days of energy-exporting aggressors like Russia exerting uncontested geopolitical influence may be numbered now that America is emerging as an energy superpower.

And while the overall effects of our domestic energy abundance are overwhelmingly positive, yes, they do create some challenges and complications when viewed under the lens of our existing federal energy policy. For example, the recent drop in oil prices has been great news for consumers in Michigan and across the country who are finally getting a break at the gas pump after several years of prices above $3 and $4 a gallon. But at the same time, current prices pose a challenge for producers, their employees, and their communities in which they live, and in fact some energy workers, thousands of them, have already lost their jobs.

Couple these changes with a new global petroleum landscape of enduring complexity and emerging volatility, it only further reinforces the point that the time to examine these issues is now.

Clearly, the changes in energy markets affect different parties in different ways, and Congress needs to be aware of all of the impacts before considering any modifications to energy policy. That is why we took a very careful and deliberate approach on the issue of natural gas exports in the last Congress. For more than a year before we proposed legislation to expedite LNG export approvals, we thoroughly studied the potential impacts on natural gas producers and on users like manufacturers and consumers. We acted only after listening to all the interested parties and concluding that LNG exports would be beneficial for the economy and a net jobs creator, and we passed it in a bipartisan way.

We also heard from many foreign policy experts and embassy officials about LNG exports and concluded that they promised significant geopolitical benefits. And I would note that with Russia once again threatening to cut off Ukrainian natural gas supplies, I believe that enactment of our LNG bill can't come soon enough.

When it comes to revisiting the 40-year-old restrictions on oil exports, we will take the same deliberative approach. We recognize that the export of oil and other liquid hydrocarbons presents different issues than natural gas. That is why we again are undertaking a thorough review and will consider all the perspectives, including producers, refiners, and consumers.

That is the purpose of today's hearing and why we are soliciting public comments on changing energy markets. If we choose to change the law on exports of oil and other liquids, it will only happen after an open review of the current policy. Our energy abundance has greatly changed energy markets and presents a wonderful number of new opportunities, and we will consider carefully our approach to all of them.

And I yield to the chairman emeritus of the full committee, Mr. Barton.

[The prepared statement of The Chairman follows:]

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Mr. Barton. Thank you, Mr. Chairman.

First of all, I want to compliment you on the statement that you just made. I appreciate what you said about deliberative process and keeping an open mind and having hearings like this so that we can get all the facts.

The United States is probably the most blessed Nation in the world in terms of energy resources. Some of the people at the table before us have helped to develop those resources. Others have helped to conserve them and make sure that they are produced in an environmentally safe fashion.

As we go forward in this Congress, we need to work together, hopefully in a bipartisan fashion, to craft an energy policy that is acceptable to all sides and is acceptable to this great country. We have a tremendous opportunity in the world markets today because of our abundance of energy and the way we are producing it in an environmentally efficient fashion, and I look forward to hearing the testimony of the witnesses, Mr. Chairman.

And I will yield 30 seconds to anybody who -- Mr. Flores, if he wants it, or Mr. Johnson. Anybody?

Then, Mr. Chairman, I yield back.

Mr. Whitfield. Gentleman yields back.

[The prepared statement of Mr. Barton follows:]

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Mr. Whitfield. Some of the members are leaving because we do have one vote on the House floor, but before that I would like to recognize the gentleman from New Jersey, Mr. Pallone, ranking member, for a 5-minute opening statement.

Mr. Pallone. Thank you, Chairman Whitfield.

Our energy picture is rapidly evolving. Worldwide crude oil prices are at their lowest level in 5 years. U.S. gas prices have been hovering around $2 per gallon and domestic oil production has increased dramatically in recent years, while the growth of demand has slowed noticeably. And all this is good news for consumers in the near term.

These changes reflect in part the all-of-the-above energy strategy that this administration has pursued, ranging from additional exploration and production of fossil fuels to development of alternative energy sources and increased fuel efficiency standards for our cars and trucks. The administration has also recently taken steps to facilitate the export of liquefied natural gas and other petroleum products.

The current low oil prices benefit us all in many ways. Overall, low oil prices increase our GDP and decrease the amount Americans spend on energy, particularly at the pump. EIA projects that U.S. households will spend about $750 less in 2015 than in 2014 and about $450 less in 2016 than in 2014, and the increase in U.S. production is meant to decrease imported oil with significant geopolitical implications. For the first time in decades, we have some ability to be partial price makers rather than price takers.

However, these conditions are but a snapshot in time and there are many factors that could change the energy picture dramatically in the future. Lower oil prices can impact the economics of additional domestic production. Geopolitical instability can adversely affect our allies and our Nation. Crude oil prices can fluctuate based on global and domestic market forces. Although it is possible that we experience sustained low oil prices, it is also possible that oil prices and gasoline prices will rise over time.

Last December this subcommittee held hearings on the decades-old crude oil export ban. I believe it is entirely fair to consider the merits of a policy that was enacted in the wake of the 1973 oil embargo. This is a very different world than it was in 1973, but I do not believe a clear picture has yet emerged as to what policies we should pursue. Therefore, while this is a topic worthy of our examination, we need to act carefully and act based on fact. That is the essence of good policy and of regular order, which I will continue to insist on before we take legislative action.

Last year the administration issued guidance that certain petroleum condensates could be exported without the typical restrictions reserved for crude oil exports. While these rulings remain controversial, it is clear that the administration retains the authority to authorize crude oil exports in specific circumstances, and some companies have already started to export petroleum condensates, but the extent of such exports remains uncharted.

If we are to consider a more wholesale listing of the ban on exports, there are numerous questions that need to be answered.

First, how would lifting the ban affect the short- and long-term price of crude oil, and, therefore, the price of gasoline? I don't believe there is a consensus on that point.

Second, how would such a change affect both our refinery capacity and the balance of jobs. Refinery capacity is a critical element of our infrastructure and can be an important source of middle-class jobs. In fact, both parties have long bemoaned the lack of new refineries in this country.

How would exporting crude oil instead of refining and exporting finished petroleum products affect potential job growth in the years ahead? Is the rush to export crude oil beneficial to small refineries, as well as to large, integrated oil companies?

And, finally, what are the environmental and climate impacts of lifting the export ban? In 1973 we did not yet have the Trans-Alaska Pipeline or widespread use of horizontal drilling techniques, we did not have large-scale domestic oil production in North Dakota, and we had not yet tapped into the oil and gas from other shale plays. But we also had not experienced the Exxon Valdez or the BP Deepwater Horizon oil spills. The term fracking was not in the common vernacular. Oil and gas pipelines weren't sprouting up in backyards, parks, and farmland the way they are today. And most importantly, the concentration of CO2 in our atmosphere had not yet topped 400 parts per million.

In today's world it is no longer wise to consider energy policy as distinct from environmental policy. They are linked. Each is a facet of the other. Increasing crude oil exports means increasing domestic production of crude oil with attendant impacts on climate change, on public and worker safety, on property owners, and on protection of our above- and below-ground water supplies. Too often we eagerly embrace short-term profits and benefits without understanding the costs of our actions. We should not make such a mistake again here. Instead, we should take the long view to ensure we fully understand the enduring consequences of our actions and choose the cleanest and most sustainable path forward, and that is the essence of commonsense energy policy.

So thank you, Mr. Chairman. I look forward to hearing from the witnesses, I guess when we return from the vote. Thank you.

Mr. Whitfield. Mr. Pallone, thank you very much.

[The prepared statement of Mr. Pallone follows:]

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Mr. Whitfield. And I want to apologize to our panel of witnesses once again. We think we only have one vote. There may be a second vote. But we very a five-star cafeteria downstairs, and it is open until 2:30. But we hope to be back here by 15 or 20 after 2 at the latest. So thank you all for your patience, and we look forward to your testimony as soon as we come back.

They told me to tell you to stay close. So don't go too far. So we will adjourn until that time.

[Recess.]

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[2:05 p.m.]

Mr. Whitfield. Call the hearing back to order. Rather than introduce all the witnesses at once, I am going to simply introduce you and then recognize you for your opening statement.

Our first witness will be Adam Sieminski, who is the Administrator, United States Energy Information Administration. Certainly no stranger to testifying before the Energy and Commerce Committee.

So, Mr. Sieminski, you are recognized for 5 minutes.

STATEMENTS OF ADAM SIEMINSKI, ADMINISTRATOR, U.S. ENERGY INFORMATION ADMINISTRATION; JOHN KINGSTON, PRESIDENT, MCGRAW-HILL FINANCIAL GLOBAL INSTITUTE; AMY JAFFE, EXECUTIVE DIRECTOR, ENERGY AND SUSTAINABILITY, UNIVERSITY OF CALIFORNIA, DAVIS; SCOTT SHEFFIELD, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, PIONEER NATURAL RESOURCES; CHARLES DREVNA, PRESIDENT, AMERICAN FUEL & PETROCHEMICAL MANUFACTURERS; GRAEME BURNETT, SENIOR VICE PRESIDENT FOR FUEL OPTIMIZATION, DELTA AIRLINES; AND BRAD MARKELL, EXECUTIVE DIRECTOR, AFL-CIO INDUSTRIAL UNION COUNCIL

STATEMENT OF ADAM SIEMINSKI

Mr. Sieminski. Chairman Whitfield, Mr. McNerney, and members of the subcommittee, thank you for the opportunity to be here today to address changing dynamics in the world energy markets. The Energy Information Administration is the statistical and analytical agency with the Department of Energy. By law, EIA's data analyses are independent of approval by any other federal office or employee, so the views expressed here today should not be construed as representing those of the Department of Energy or any other federal agency. My testimony focuses on EIA's oil market outlook and its economic implications and it draws heavily on our short-term energy outlook. I want to talk a little bit about prices, demand, and the overall outlook.

Since the middle of last year the global supply of oil has exceeded global consumption, leading to growth in oil inventories and a major decline in prices. In January the monthly average price for West Texas Intermediate crude was $47 a barrel -- that was kind of down towards the bottom or at least the most recent bottom -- down from an average of $106 a barrel in June of 2014. Prices turned up in February with WTI, West Texas Intermediate, and Brent, respectively, averaging $51 and $58 a barrel. The recent rise likely reflects some optimism regarding the pace of market rebalancing, including lower rig counts, drilling, and capital expenditures on the supply side, and some positive news on the global economy that impacts demand.

Global supply of crude oil and other liquids grew more than 2 million barrel per day in 2014, 75 percent of that from the United States alone. In 2015 and 2016 EIA sees non-OPEC supply continuing to grow under our price forecast, but more slowly. Lower costs should help support activity in the lower 48 State shale oil plays that have contributed to the majority of the recent U.S. production growth.

The trend of slow decline in Alaskan production is expected to continue, while federal offshore production, especially in the Gulf of Mexico where development projects have long lead times, grows due to projects recently brought online and startups that are scheduled for 2015 and 2016. Net in 2016 is we still see U.S. production rising close to the historic high in 1970.

EIA expects economic growth to drive a pickup in global consumption through 2016, lead by China and the non-OECD Asian countries. Consumption in Japan, Europe, and Russia, on the other hand, is expected to continue to decline. The rest of the OECD countries, led by the United States, is expected to grow modestly, and lower oil prices should add to demand growth.

Recent prices of futures and options contracts suggest an unusually high level of price uncertainty with the implied 95 percent confidence interval for market expectations for WTI prices at the end of this year ranging from $32 to $108 a barrel. Mr. Chairman, I remember back in December when I was here one of the members said, that is a really big range you are talking about, and I said, yes, it is. And that is what the market is saying, that is what investors are saying. There is a huge amount of uncertainty, and I think during the opening remarks some of those uncertainties were mentioned, geopolitical events, what is happening with the economy, and so on. Absent further sanctions or unplanned disruptions, EIA's average price forecast for this year is $55 a barrel and for next year about $71 a barrel.

Now, there is some good news, and the good news is that consumers are receiving a direct benefit from lower oil prices. U.S. regular gasoline retail prices, which were $3.36 a gallon average in 2014, are now more than $1 below that. The average household is expected to spend $750 less for gasoline this year than in 2014. If that household has more than one vehicle or if you live in an area where you are on oil heat or propane heat you will even be saving more.

Mr. Chairman, I want to take the last few seconds and just mention some of the things that we are doing at EIA that I know members here in this committee have been very interested in.

EIA has undertaken a huge effort to improve the quality and timeliness of our data and analyses. We just launched a monthly survey to improve estimates of both the volume and quality of oil production, that should help with this question of oil exports, related to which we are working with the producing States through the Groundwater Protection Council, which is developing a national database of well level data.

Next month, EIA plans to begin publishing monthly information on movement of crude oil by rail, another important topic. We have also begun working with our counterparts in Canada and Mexico on validating cross-border flows of energy, improved infrastructure mapping, and energy trade.

Recognizing the growing connection between the U.S. and global energy markets, we are redeploying resources to extend our international data analysis capabilities. And one key focus area is global oil demand growth, that has significant implications for future oil prices, and petroleum product and crude oil exports. Another is word supply and demand for natural gas, which we will determine the extent of opportunities for the United States given everything that is happening with LNG and LNG exports.

Mr. Chairman, I want to thank you again for the opportunity to testify here, and I will look forward to the rest of the day.

Mr. Whitfield. Thank you very much, Mr. Sieminski.

[The prepared statement of Mr. Sieminski follows:]

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Mr. Whitfield. Our next witness is Mr. Scott Sheffield, who is the chairman and chief executive officer of Pioneer Natural Resources.

And, Mr. Sheffield, you are recognized for 5 minutes, and the red lights will come on when the time is up. So thank you.

STATEMENT OF SCOTT SHEFFIELD

Mr. Sheffield. Thank you, Mr. Chairman. Chairman Whitfield, Mr. McNerney, committee members, it is great being here today. I represent Pioneer Natural Resources and its 4,000 employees. We are one of the most active independents in the U.S. I have 40 years experience as a petroleum engineer, 30 years as CEO of Pioneer.

What is interesting today, listening to Netanyahu's speech, what brought home to me is that I was raised in Tehran, Iran. That was the big topic today. I spent over 10 years traveling to Tunisia as we had an office in North Africa. What hasn't changed in the last 40 years, the world is very still very dependent upon Middle Eastern and North African crude.

What has changed in the U.S. is this piece of rock -- which I left one at your table -- is that we have actually found six world class oil fields. This represents the Wolfcamp field in west Texas. It is now the U.S.' largest oil field that we have found, over 75 billion barrels. We used to get 50 barrels a day out of this. Now we are getting over 2,000 barrels a day out of this rock with new technology.

The shale revolution has been a game-changer for this country. We now are the largest liquids producer in the world, surpassing Saudi Arabia and Russia. We have almost doubled production from 5 million barrels a day to 9.3 million barrels a day since 2008, reduced imports from 60 percent to 30 percent in a very short timeframe. We have been the largest job creator in the country for over the last 6 years.

Also, we have reduced the trade deficit. Our industry $200 billion annually. A combination of less imports, but we are refining and sending out over 4 million barrels a day of refined products. In addition, one-third gasoline that we refine is being exported.

This is my fifth downturn in my career since 1981. We have seen over 900 rigs drop from a high of 2,000, almost 50 percent, we have seen 50 billion of CAPEX reductions by the industry over the last 2 months going into 2015, industry layoffs of over 50,000 workers and continuing, leading to flattening to declining production going into 2016 at current prices. The strategy of OPEC is to preserve and grow market share. I can promise you, OPEC loves the export being in place in the U.S.

Let me explain how oil is traded and how it works. For my entire career sweet crude internationally, sweet crude domestically traded at the same price. Over the last 3 years we have seen a big variance of $10 to $15 per barrel in those prices. Today it is $11 a barrel in those prices.

There is no benefit for consumers. Consumers are paying world gasoline prices. Through studies that Adam has done at EIA and other independent studies, that has been proven, that the U.S. consumer is paying a world gasoline price based on international oil prices.

Allowing U.S. crude to be sold overseas would increase global supply, causing gasoline prices to decline. So, for instance, if you lifted the ban today, we put 300,000 barrels a day on the market, it would compete with OPEC, it would lower the price of the international crude. The domestic price would move toward it, like it has over the last 30, 40 years.

Removing the crude ban allows U.S. producers to compete. Just a $10 swing in price makes a difference of this country growing or declining $2 million barrels a day. A great example, Pioneer was the first company to export processed condensate last summer through a Commerce Department confirmation. We are actually realizing $8 a barrel higher price by exporting to Europe, Japan, South Korea. We are taking that cashflow, drilling more wells, more production, more jobs in this country.

With the ban lifted, U.S. remains the largest producer, lowers gasoline cost, adds U.S. jobs, increases government revenues, and what is most important, is selling oil to our allies in Europe, Japan, South Korea, reducing dependence, their dependence on Iran and Russia.

It is important to act now. If you lifted the ban today, I can promise you Pioneer would add more rigs today, more jobs, more U.S. investment, and the other 7,000 independents in this country would do the same.

Thank you very much.

Mr. Whitfield. Thank you, Mr. Sheffield.

[The prepared statement of Mr. Sheffield follows:]

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Mr. Whitfield. At this time, I would like to introduce Mr. Charles Drevna, who is the president of the American Fuel and Petrochemical Manufacturers.

Welcome, and you are recognized for 5 minutes.

STATEMENT OF CHARLES DREVNA

Mr. Drevna. Chairman Whitfield, Mr. McNerney, and members of committee, thanks for the opportunity to provide AFPM's view on trends in today's energy markets.

I want to leave you with a couple of key messages today. First, I think we can all agree it is incredible that the U.S. is at a point where we are able to have a real conversation about lifting the crude export ban. Seems like just yesterday when the committee was hearing testimony from a trove of peak oil alarmists, and I was cautioning against market-interfering and counterproductive initiatives, including the RFS.

Now, 7 years later, over the same time, we are producing more than 70 percent of our oil and it is projected to go higher. Imports are down, 66 percent to about 45 percent. But when you take out Canada and Mexico from that equation, we are down to around 20 percent of imports. This is nothing but great news for our economy and the consumers, with the noted exception that 7 years later the assumptions used to promote the RFS have been proven invalid and the RFS continues to inhibit free markets and consumer choice.

Takes me to my second key message. The distribution and refining systems are undergoing significant and rapid changes. These changes are happening for the most part because new production is not connected to the refinery delivery infrastructure that existed prior to the shale oil boom. As a result, upstream producers, midstream distributors, and refiners are rapidly adapting existing infrastructure while investing in new infrastructure, whether via pipeline or rail.

Changing market dynamics have also impacted the economics of many refineries, including those along the east coast that were literally days away from closure. The ability of these refiners to utilize Bakken crude is a great example of this revitalized energy industry.

The refining industry is also undergoing more significant change. The U.S. is home to the largest and most advanced refining complex in the world. That is a fact that should give all concerned with economic growth and national security an enormous amount of comfort. We produce about 20 percent of the world's fuel and since 2009 we have been a net exporter of petroleum products. With new domestic supplies coming on, the industry is undergoing even more changes to accommodate this vital resource.

Leads me to my third message. You may have been led to erroneously believe that refiners are unable to process the light crude being produced. I am here today to categorically state that the refining industry is well equipped to handle all the increased production expected to come online in the coming years. Refiners already have significantly reduced imports, increased utilization rates, changed their crude mix, and invested in additional refining modifications to utilize more light crude.

For example, Turner Mason estimates that if the economics continue to be favorable, an additional 900,000 barrels per day of capacity is possible with existing capacity and the investments already planned. This would ensure refiners have the capacity to use all new crude for at least the next several years.

Of course, an adverse regulatory regime and changing market dynamics could render this bright future moot. Whether it is market-distorting legislation and regulations, the manufacturing renaissance-destroying ozone NAAQS, or others in a litany of uneconomic and conflicting regulations, U.S. refiners continually face uncertainty in the way global competition doesn't. As gasoline demand continues to drop in the coming decades, refiners will be increasingly dependent on export markets, which means competing penny by penny, gallon by gallon with global competitors who are subject to a very separate set of rules.

I mention all this to set up my final point, which is that after AFPM believes that the right energy policy for America is based in free markets, which lower cost and increased benefits to consumers. As a result, AFPM does not necessarily oppose lifting the crude export ban. However, AFPM strong believes that a holistic energy policy that addresses other anti-free market policies at the same time is essential. Going back to what Chairman Upton stated, we have to get this thing right in a holistic approach, not do it piecemeal in a vacuum. We have done that for too long in this country on energy policy, such as it is.

For instance, with the restrictive Jones Act shipping requirement in place and the world without the crude export ban, it would be cheaper to ship a barrel of crude from Houston to a European refiner than it would be to ship it to the Monroe facility. This makes zero sense.

As Congress debates lifting the ban, I urge you not to make the mistakes of the past by narrowly focusing on one issue and leaving it in a wake of unintended consequences in the market. We have time to gather the facts and develop a more holistic approach.

Thank you. I would be happy to answer any of your questions.

Mr. Whitfield. Thank you, Mr. Drevna.

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[The prepared statement of Mr. Drevna follows:]

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Mr. Whitfield. Our next witness is John Kingston, who is the president of McGraw Hill Financial Global Institute.

Great to see you again, and you are recognized for 5 minutes.

STATEMENT OF JOHN KINGSTON

Mr. Kingston. Thank you. Chairman Whitfield, Congressman McNerney, and members of the subcommittee, good afternoon and thank you for inviting me to share the views of the McGraw Hill Financial Global Institute. I am the newly appointed president of the institute.

We are McGraw Hill Financial's thought leadership platform. MHFI provides independent benchmarks, credit ratings, portfolio and enterprise risk solutions and analytics, and is home to some of the most iconic brands in U.S. finance, economics, and business, including Standard & Poor's Rating Service, S&P Capital IQ, S&P Dow Jones Indices, Platts, and J.D. Power.

Prior to being appointed president of the institute, I spent more than 29 years with Platts, the MHFI brand that provides the energy industry with independent news, analysis, and benchmark price assessments that are used as the basis for billions in energy commerce throughout the globe. I hope to provide you with helpful insight from all of our brands, as well as additional unique insights from the institute.

Over the last 30 years, oil prices have seen several booms and busts. However, the price slide of recent months is like no other. In 1998-1999 the boom-bust cycle could be attributed mostly to the Asian financial crisis and the collapse in demand from that region. The price collapse of 1985-1986 bears more resemblance to the current cycle. Key producers like Saudi Arabia were determined to recapture market share against a backdrop of some increases in supply and some cuts in demand. Despite the similarities, the mid-1980s did not feature the enormous North American-generated increases in supply that we are witnessing today.

While the Saudis and their Gulf allies are determined to hang on to market share this time, this is not the immediate reason for the price to climb. Instead, it is the growing imbalance between supply and demand that finally combined this year to send the market plunging. It would have happened earlier had there not been so much disruption of international supply lines due to various political reasons.

Once Libya came back toward 1 million barrel per day in June and July, that tenuous balance could hold no more. It is interesting to note that since that surge out of Libya, that country's output has fallen back significantly, yet the price remains at depressed levels. So while there are global factors contributing to the drop in oil prices, none compare to the scale of what the U.S. shale revolution has done in just a few short years.

It is important to note that the amount of capacity in the world that is on the sidelines because of political issues is enormous. One recent estimate put it at about 4.5 million barrels a day. It starts with small countries like South Sudan and Syria, and it rises up to averages close to a million barrels a day in Iran due to sanctions and Libya due to civil war. And this does not even take into account where political mismanagement of a country's industry can and sometimes has given it a productive capacity far less than what it should be. Venezuela is obviously in this category. If there was any sort of significant move toward peace in these areas, since the cost of production in most of those regions are all significantly less than the U.S., oil prices would come under even greater pressure.

The price slide has raised repeated questions just about how cost competitive the U.S. industry can be in the lower price environment and also raises the question of the competitiveness of U.S. crude exports should they be allowed. It is safe to assume that some, if not all refiners around the world probably have some models about how U.S. crudes would perform in their facilities if exports were allowed.

The rise in U.S. crude exports to Canada, mostly via rail, indicates that Canadian refiners at least are finding U.S. crudes to be attractive. If they weren't, those export numbers would be falling, not rising.

So as to how U.S. crudes will do battle in an international market if export bans were lifted, all we can say is we will see. And I have some numbers to talk about later.

I will now turn my focus to the impact the current pricing environment is having on U.S. producers. Based on earning calls, MHFI's subsidiary S&P Ratings is seeing a 35 percent CAPEX expenditure cut this year. Those numbers go up to 50 percent in some cases, down to 10 percent for the major producers. And many are running capital expenditure budgets that just hold on to maintenance levels.

This year S&P does not expect the price impact on companies to translate to significant debt defaults, although reducing CAPEX certainly affects the employment market. The oil and gas sector has been aggressively adding jobs during the economic recovery. During that period job growth for the oil and gas industry was 39 percent, as opposed to the 8 percent growth in the U.S. job market overall. However, the industry showed job losses of 2,000 in January, and regions that are heavily reliant on the energy sector could see a greater negative impact on employment.

While the regional impact of oil prices will differ, in the near-term low oil prices are a boon, though, for the overall economy.

According to S&P's U.S. economist, savings could tally up to $87.6 billion for the national economy. That is $1,000 for the average household in 2015 alone.

Out in the State capitals operating budgets appear safe in the short term. In the long term, however, given a long-term secular slide in oil prices, States will need to react by altering their fiscal management. No two States are alike, even ones with similarly sized oil-producing industries. Therefore, many questions need to be answered, such as what oil price and production level did the State assume in their budget.

I am glad to provide more information on any of these issues discussed here today or any others offered by MHFI in the question and answer session or any time in the future. Thank you.

Mr. Whitfield. Thanks, Mr. Kingston.

[The prepared statement of Mr. Kingston follows:]

******** INSERT 2-4 ********

Mr. Whitfield. At this time I recognize Ms. Amy Jaffe, who is executive director of the Energy and Sustainability Program at the University of California Davis.

And you are recognized for 5 minutes.

STATEMENT OF AMY JAFFE

Ms. Jaffe. Thank you very much, Chairman Whitfield and Representative McNerney, for this excellent opportunity to address the committee. I look forward to our discussions. I am going to focus my remarks on the geopolitical aspects of the questions at hand.

But before I turn to that, I just wanted to make the point, also in the geopolitical context, that markets react to stimulus. So we had a very high oil price artificially imposed into the market by OPEC. That created opportunities for companies like Mr. Sheffield's companies to pursue unconventional resources, more expensive resources. As a result, we are having this boom in the United States. Over time we learn by doing so the cost of producing the expensive oil comes down.

That put OPEC back in a bind, right? So they thought they had the upper hand, Russia thought it had the upper hand, Iran thought it had the upper hand, and all of a sudden the market responded.

So now we are at a juncture where Saudi Arabia had an opportunity. The markets responding, they have to come up with a strategy, they have to decide what strategy to come up with, and they have a unique opportunity to row the boat in the same direction as the United States and use a lower oil price to put geopolitical pressure on countries like Russia and Iran to come to the peace table and have negotiations on serious conflicts we are seeing in the Middle East and elsewhere. And I do believe that our allies in the Gulf Cooperation Council had those goals in mind when they set the policy to create a market share war in the market.

We now have an opportunity as the United States to leverage that opportunity and to lead from the front. And we know from watching what is happened in the markets when OPEC tried to hold the price up and we have other kinds of barriers into the market that it is like the little boy with his finger in the dike. You can put your finger in the dike in one place, but if there is pressure from the water there will be a crack somewhere else and the water will pour out somewhere else. That is sort of how the export ban is, right?

We now have 430 million barrels of oil, close to historic highs, sitting in storage in the U.S. southwest. At Cushing, Oklahoma, alone we have 49 million barrels. That is near the record high in history in the United States of 42 million barrels, right? So to say that the refining industry feels like over the next 3 years they will be able to refine those barrels, that doesn't help us now. We have this giant stockpile of oil that is sitting with no place to go.

And that is a market inefficiency. And we need to think about the way that markets balance. Refineries have accidents, and when we have a refinery accident all the crude oil that was going to go through that refinery has to go somewhere else or it has to sit in storage. We had put the ban in place at a time when there was no futures market, there was no hedging, there was no transparent pricing, right? We are in a totally different market today and we need to think about the inefficiencies that we create.

We are exporting gasoline. And we import gasoline, so we are a major participant in the global market for gasoline. The idea that somehow holding something in, like having our finger in one part of the dike, is going to product consumers from the global trends in gasoline is ridiculous because we are both an importer and an exporter, so all our gasoline prices are subject to international market prices.

We just had a refinery accident in California. The pressure that that puts on the California market comes. And if we are exporting gasoline from California, then that contributes to the supply balance in the State, right? We cannot pretend that exports of gasoline don't affect the price of gasoline but our crude import costs do. That is sort of a ridiculous way of thinking about a market.

So my point to you is, for the United States to hoard our oil, for oil to be trapped now in inventory unnecessarily, I mean, companies are scrambling around trying to find another tank, and U.S. prices are depressed by $10 a barrel compared to the international market. So we really need to think forwardly about whether our export and import policies are consistent with our desire to help our allies, Europe and in Asia, to be able to remain independent of the energy weapon and the kinds of things we see today in the market coming from Russia and other countries, and we need to reconsider all of our policies for trade and energy in that context.

Thank you very much.

Mr. Whitfield. Thank you, Ms. Jaffe, very much.

[The prepared statement of Ms. Jaffe follows:]

******** INSERT 2-5 ********

Mr. Whitfield. At this time I would like to recognize Mr. Brad Markell, who is the executive director of the AFL-CIO Industrial Union Council.

Mr. Markell. It is a mouthful.

Mr. Whitfield. Welcome. And you are recognized for 5 minutes.

STATEMENT OF BRAD MARKELL

Mr. Markell. Chairman Whitfield, Mr. McNerney, and members of the subcommittee, thank you for inviting the AFL-CIO to share its views on the important topic of 21st century energy markets.

Growing domestic oil production is providing the United States with significant economic boost and a significant reduction in our dependence on foreign oil. In July 2014, the AFL-CIO Executive Counsel unanimously passed a policy statement opposing lifting the existing restrictions on crude oil exports, which I reference in my written statement.

Our view is clear: Easing restrictions on crude oil exports threatens the long-run health of the refinery sector and the high quality jobs it provides. Simply put, if we lift the ban on crude oil exports, we will export both our oil and the jobs and economic activity associated with refining that oil. The threat of these job losses is concentrated in the Gulf of Mexico States.

I want to raise a key point, one that I haven't heard discussed. If the export restrictions are lifted, the amount of oil exported will over time far exceed the amount needed to balance the current refinery capacity that is optimized for medium and heavy oil. Refinery workers and their communities would be subject to the same offshoring trends that have devastated domestic manufacturing, from textiles, to apparel, footwear, autos, steel, electronics, and on and on.

And the jobs that could be lost are very good jobs. According to the 2012 Economic Census, the average job in the refining sector paid over $100,000 per year, supported by over $1.8 million in value added per employee. These are exactly the kind of jobs we should be striving to keep in the United States.

Some of these jobs are threatened by the recent Department of Commerce clarification of its policies regarding processed condensate, which may have already effectively breached the export restrictions, without a single hearing, public notice, or public comment. It seems clear that lots of very minimally processed oil will be exported.

Much of the discussion on oil exports focuses on the mismatch in refinery capacity, and in this static view of the industry the easiest fix for the problem is to reduce imports of light crude oil and then export any remaining domestic light crude unprocessed.

Rather than export domestically produced light crude oil that refineries are not optimized to process, there is another solution, one that emphasizes investment in America and expanding employment opportunity for American workers. In 2014, McKinsey examined the implications of increased domestic production of light, tight oil on refineries under scenarios where the crude oil export ban is not lifted. McKinsey believes that, quote, "The continued growth of light, tight oil in North America has the potential to drive a fundamental restructuring of the downstream industry in North America and beyond."

Domestic production of oil is projected to remain above 8 million barrels a day through at least 2035. The question is not whether this oil will be produced, but where it will be refined. It should be refined in the U.S. so we can reap the full bounty of jobs, economic activity, and the energy security that our increased production of crude oil makes possible.

As the American Petroleum Institute put it in 2011 when making the case for domestic refining, quote, "Because the refining industry operates on a global basis, America faces the choice of either manufacturing these products at home or importing them from other countries."

The position of the AFL-CIO is premised on the belief that in the end markets win out. Economically exploitable fossil fuels do not stay in the ground, they are produced when the price is high enough. The simple question before us is, where do we want oil produced in the United States to be refined and made into products? Would we prefer that billions be invested in the U.S. or overseas? Would we prefer to create management, engineering, craft occupation and production employment in the U.S. or overseas?

For the AFL-CIO, the choice is clear: We are unabashedly for creating as many American jobs as we can from the increased domestic production of oil. That means keeping the current crude oil export restrictions in place, not sending crude oil and the job it creates overseas.

Thank for your time and I look forward to any questions.

Mr. Whitfield. Thank you, Mr. Markell.

[The prepared statement of Mr. Markell follows:]

******** INSERT 2-6 ********

Mr. Whitfield. At this time I would like to recognize as our final witness Dr. Graeme Burnett, senior vice president for fuel optimization at Delta Airlines and also chairman of the board of Monroe Energy.

So, Dr. Burnett, you are recognized for 5 minutes.

STATEMENT OF GRAEME BURNETT

Mr. Burnett. Thank you. Good afternoon, Chairman Whitfield, Ranking Member McNerney, and members of the committee. Thank you for inviting me to testify before you today. I would ask that my full remarks be included in the record.

I have been involved in the refining industry in locations around the globe for over 30 years. I am currently the senior vice president for fuel optimization at Delta Airlines, and in this position I manage Delta's jet fuel supply, as well as serve as chairman of the board of Monroe Energy, the company that owns and operates Delta's refinery in Trainer, Pennsylvania. Delta Airlines purchased and restarted the idled Trainer refinery in 2012 in order to manage our largest expense, jet fuel, and has created over 400 jobs.

We, like over airlines, participate in oil markets on a daily basis. So we believe that as an end user of crude oil and as a refiner we are uniquely positioned to comment on the longstanding crude export law. We strongly believe the current law remains a critically important policy that provides significant benefits to American consumers.

As a result of increased domestic production, the U.S. is importing less crude, which means that we are already directly impacting the global supply-demand picture without the need for exports and prices have tumbled as a result.

The EIA has projected the average American household will spend about $750 less on gasoline in 2015 compared to the prior year, in addition to equally significant savings on home heating oil. Estimates have suggested that the total windfall to American consumers could top $230 billion in 2015. These savings go straight back into American consumers' pockets, allowing them to use those savings on goods and services, thus stimulating the economy.

On the other hand, the oil and gas production sector is still less than 1 percent of GDP. Compare that with consumer spending, which is 68.5 percent of GDP. Current crude oil export policy has broad-based economic value.

So the question arises, why would any policymaker want to risk jeopardizing the current consumer benefits we are experiencing and institute a policy that would benefit only a narrow sector of the economy? Oil producers want to export crude to get higher prices. Producers claim that U.S. refineries cannot absorb new U.S. production, and that is simply a myth. Energy experts Baker O'Brien have conclusively demonstrated that the U.S. refining industry has been investing to absorb all the projected increase of domestic production through the end of the decade, resulting in lower fuel prices, creating jobs at home, and increasing energy security.

Let's not forget the U.S. continues to import 33 percent of its crude oil needs from outside of North America. Unlike LNG, there is no real excess requiring export as it can all be used at home. Should Congress eliminate restrictions on crude oil exports, lawmakers also risk endangering energy security because repeal of current law would mean refineries in Europe could buy U.S. crude at a lower cost than refineries located on the east cost. Lower freight rates enable them to refine the crude and send products back to the northeast at a lower cost, leading to closure of domestic refining capacity.

Energy security is not just about producing enough crude oil for the Nation's needs. Energy security is about maintaining the domestic refining capability to transform that feedstock into the products we consume here in America. Put simply, lifting the ban will benefit European refinery workers at the expense of thousands of American jobs while endangering U.S. refining capacity that is critical to our national security.

OPEC is a cartel and the global crude oil market is not a free market. Crude oil price is ultimately controlled by a few oil-producing states. Exporting crude oil will not reduce OPEC's power, which represents about 60 percent of the total petroleum traded worldwide. Saudi Arabia's decision last year not to cut production and allow prices to crash clearly demonstrates that they are the controlling factor for crude price.

Furthermore, it is imperative to remember that public opinion overwhelmingly supports leaving the crude oil export law in place. Polls in New Hampshire and nationwide are showing that large majorities of voters across party lines oppose exporting more U.S. oil to foreign countries.

So Delta's position is clear: There is no imperative to lift the ban. If export restrictions are lifted, feedstock costs will rise, U.S. refining capacities will be reduced, jobs will be lost, and the consumer will pay higher prices at the pump. It is better for America to maintain present law and export the refined products. Our Nation's economic and security interests are best served by allowing American refiners to add value to crude oil here and become less reliant on foreign crude oil from unstable and unfriendly countries.

Thank you for this opportunity to testify before the committee.

I look forward to answering any member questions.

Mr. Whitfield. Well, Dr. Burnett, thank you.

[The prepared statement of Mr. Burnett follows:]

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Mr. Whitfield. And thank all of you for your statements. We appreciate it very much.

As I said in the beginning, this is sort of an informational-type hearing because we want to focus more thoroughly on this issue of the pros and cons of lifting the export of crude oil ban.

Let me just ask a generic question here. First of all, how many other countries in the world that produced a significant amount of crude oil prohibit the export of it? Are there some countries that do prohibit the export of their crude oil?

Mr. Kingston. None that I know of, though Russia will have an export tax that sometimes they will really ratchet up if they want to keep the oil in-house. They would just raise that tax so high that it becomes uneconomic to try to send it anywhere else.

Mr. Whitfield. Okay. Okay. So I know that we are exporting a significant amount of refined products, gasoline, diesel fuel, condensates, and so forth. And do any of you feel like that because we are doing that that it is putting pressure or causing gasoline prices to go up? Gasoline prices have been going down, and we are, I guess, exporting a large amount of gasoline products today and diesel.

Did you want to make a comment on that, Mr. Drevna?

Mr. Drevna. I appreciate it, Mr. Chairman.

I think it is fraught with peril when you start talking about what prices are going to do. Whether crude oil or product prices, as Mr. Sheffield said, prices are based upon the international market.

What we have been able to show by taking a crude oil product, refining it here in the United States, and exporting it is a couple of things. It shows we are globally competitive, it shows we can keep jobs here, and keep those refineries running at optimal levels. That is the benefit of the exports. Without being able to export a finished product -- mostly diesel too, some gasoline, but mostly diesel -- we are able to keep those refineries up and running, and that is a national security thing.

If I may say one other thing, sir, I think what we don't need to have this devolve into is an upstream versus downstream kind of debate. We are all in this together. And the only thing that we are asking is that, whatever you do, you look at the whole picture and just not one time perhaps when there is some, because of some contango going on in the markets, that we have an overflow of stored crude.

So let's take our time, take a breath, and look at this think going forward and not just one snapshot in time. Thank you.

Ms. Jaffe. I would like to also address that question. It is obviously a ridiculous thing to say, but because we are exporting gasoline it doesn't affect the price. Obviously, if we banned gasoline exports we would get gasoline buildup in storage and that would depress

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the price of gasoline. And we have a particular problem in the State of California, for example. In different refining areas in the southwest maybe there is a little bit more flexibility, but in California where there aren't a lot of pipelines to bring refined products, whenever we have a refining accident or problem it immediately hits consumers in the State. And there are difficulties because you can't necessarily be cost effective to bring ships around because of the Jones Act and so forth. Those things actually are affecting California refiners exactly today.

And I don't know what the statistics are for how much gasoline is being exported from California, but I can tell you that when Chevron had their Richmond accident, and when it caused this sudden burst in gasoline prices that were very difficult for average Californians, the industry was still exporting from California diesel fuel and gasoline.

So it is a market, and I think that is sort of what was the point of my remarks, which is that if we are going to talk about a market dynamic we have to look exactly, I agree with Mr. Drevna, we have to look across the entire market. But it is not clear to me why we would have a restriction on crude oil but not a restriction on products. I mean, it seems to me that we believe in free trade or we don't believe in free trade, and I am not sure why we are picking one product over another.

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Mr. Kingston. I want to kind of bring those two statements together. Mr. Drevna talked about refineries, they are better off operating at a high level. And then what Amy said was that, yes, if you export, if you stop the exports you would have a gigantic buildup of gasoline and it will push the price of gasoline down. The problem is it would also push down the economics of running those refineries.

So at a certain point you can't make the refineries run. So if you have some kind of restriction that floods the market and you don't have demand to meet, and demand is not going to rise that fast, you are going to have terrible economics and you are going to have refineries start to cut down.

This is why we all benefit from letting these refineries run at the highest level they can. If that means that they are going to export some, that is great. You know, in this country we have had minimal growth in gasoline consumption, minimal growth really in energy consumption, and there have been some year-to-year comparisons where we are down for the year. That is kind of a good thing. I think almost everybody agrees that unless it is being brought about by a weak economy, that is generally a good thing, it is a function of efficiency, et cetera.

So you have got this world-class refining sector. If you want it to run, if want to create the jobs that the gentleman from the AFL-CIO talks about, let 'em rip. Let this great refining sector run at a high level. And if that means exports so be it.

Mr. Whitfield. Well, my time has expired. At this time I recognize the gentleman from California, Mr. McNerney, for 5 minutes.

Mr. McNerney. Thank you, Mr. Chairman.

I thank the witnesses for your statements. I appreciate Mr. Drevna's comment about looking at the big picture and taking our time to make the decision correctly to benefit our country the most.

I want to sort of paint a broad picture here. For opening up exports I see two big benefits. One is geopolitical. We can help Ukraine and the Baltic countries and a lot of the countries that are having problems because of their suppliers. Another benefit is it is going to create jobs in drilling, it is going to create profits for companies. Those are significant benefits.

On the other hand, my concerns are right now the domestic prices are pretty low for natural gas and for petroleum, and that gives our manufactures a real leg up. And I see a manufacturing renaissance, an opportunity for a manufacturing renaissance in this country. So I don't want to give that away. I mean, we have the potential to create millions of jobs in manufacturing with a current price differential that gives our country an opportunity to create those manufacturing jobs.

The other concern I have is environmental groundwater contamination, a big problem potentially in California where the groundwater is so valuable. And also climate change. I mean, encouraging more production, encouraging more consumption, it is going to create more greenhouse gas, it is going to put us farther down that dangerous path.

So that is sort of a broad brush. Does anyone want to comment on my observations here? Mr. Sheffield.

Mr. Sheffield. Yes, Mr. McNerney, a couple on the water side. We are having droughts out of west Texas too, just like California. We started focusing on brackish water zones, we are going below the water table out in west Texas. We found a lot of water that we can use from the brackish standpoint. We have also signed major agreements with the cities of Odessa and we are working on Midland to use effluent water. Our goal is to use no fresh water after a period of time of about 5 years.

On the environmental issues, we are going all out to install vapor recovery units to capture all the methane. We are working with EDF at Fred Krupp. I visit him all the time in regard to looking at ways to again capture all methane at the sites when we frack wells and so on. So the industry is going all out on both methane emissions and also using other sources of water besides fresh water.

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Mr. McNerney. Well, I appreciate that, and I think most of the players are willing to go down that path. They are willing to make the extra investment. There may be a couple of bad players out there, and it is going to be up to the way that we regulate that market to make sure that the bad players don't do much damage and hurt the reputation of the industry as a whole.

So that is something I hope to work with my colleagues on in the future to make sure that we do that.

Mr. Kingston. I would like to address the gasoline price. You know, this is not just theoretical. We had a Brent-WTI spread that for years and years WTI was over Brent. And then as the boom got going in the U.S. and crude stocks built up, not just in Cushing but everywhere, that price plummeted, and I think at its widest WTI was $27 below Brent.

There was no evidence at all that that lowered the price of gasoline in the U.S., because as numerous commentators, including the recent Brookings Institute study have shown, the price of gasoline in the U.S., because the U.S. is a gasoline importer and an exporter, as a result of that we are tied to the world market. The world market is therefore ultimately tied to the price of Brent crude oil.

Mr. McNerney. So there is no differential between American gas prices and the world gas prices? There is a differential --

Mr. Sheffield. Ultimately, on a spot wholesale level, I mean, yes, there is a difference, but ultimately if one gets too cheap to the other they will just gather it up and export it to the other place. So they stay within a range. But the crude price, because a lot of that crude was stranded at Cushing, dropped significantly below the price of Brent and the price of gasoline did not follow.

If the case is to be made that keeping a large supply of crude here in the U.S. lowers gasoline prices, it would have happened. It is not just theoretical. We had the experiment. Nobody set out to have the experiment, but we had it, and there was no evidence at all that that kept the price of gasoline in check.

Mr. McNerney. Mr. Markell.

Ms. Jaffe. Let me just add one thing about our relationship with the Europeans.

Mr. Markell. Well, I recognized Mr. Markell first.

Mr. Markell. So this focus on gas prices is something I wish we could get off the table. It is important. I own two SUVs, I am very concerned about gas prices. But it is very clear that U.S. gas prices are set internationally based on those spot markets. There is a small swing from market to market and as the gap gets too wide then it closes. From my point of view, it kind of takes the focus off the jobs and economic angle that I think we are not paying enough attention to.

So there is a lot of talk about gasoline prices. To me, the question is settled. U.S. gas prices are set on the international market and whether we export crude or don't export crude, that is going to be the truth in the future as well.

Mr. McNerney. I have run out of time.

Mr. Olson. [Presiding.] The chair now recognizes himself for 5 minutes of questions. Welcome to our experts.

December 22 of 1975, Gerald Ford signed the law that created the export ban we are talking about today. To show you the change in America that has happened since that time, that very next day he signed a bill to try to make our country adopt the metric system of measurement. The metric system. That world has been turned upside down and our energy world has been turned upside down since that time.

We have seen a boom in oil production that means some parts of America are seeing some tremendous benefits, places like my own State of Texas and North Dakota. Energy means amazing opportunities for these small towns. But we have also seen the impacts on the global economy. Our reliance on foreign oil is slipping away faster and faster and faster, more than we could ever have dreamed 5 years ago. This benefits our trade balance, our energy security, and our economic growth. These are huge benefits and they are real.

Growing supply has slashed the price of oil. That is great for

Americans at home because the price is so low at the pump, but for my hometown of Houston this has meant good people have lost thousands and thousands of good-paying American jobs. It is a simple fact that fewer rigs are working and less money is being invested.

Market forces and global politics are hitting my hometown hard, but this town, Washington, is adding to the trouble. In this environment we shouldn't be making it harder to drill. And that is why it is time we fix pipeline permitting. Energy means nothing if we can't get it to the markets. And further, the Endangered Species Act should be a protection, not a weapon. And we should be more open to safe offshore development. And we need to keep our rules on our refineries reasonable. And that is why I am an unspoken critic of the ethanol mandates.

Lastly, today I agree that is important to consider the ban on most crude exports, but exported oil won't be a cure-all. But free trade is very important and no law should be above scrutiny, and this committee is at a very point in this early conversation.

My first question is for every panelist. I hear from the oil producers that their oil is trapped. They say its unfairly marked down compared to global prices. I hear from refiners who say the opposite. They argue there is plenty of capacity and they are expanding every day to take more and more American crude.

Which statement, one of three, best sums up your views about these two opposing views? Number one, we have enough refining capacity to absorb light oil. We are there. Number two, we have more light oil than can be refined reasonably or absorbed currently. And number three, we have the right amounts of oil and capacity in our refineries, but not enough pipelines to get from A to B.

So three choices. Mr. Sieminski, you are first, sir, one, two, or three, with some comments if you want to.

Mr. Sieminski. Chairman Olson, thank you. Well, I think your number three, that we don't have enough pipelines, I think that was the case for oil from Cushing, Oklahoma, 3 or 4 years ago, but the infrastructure to bring oil south from Cushing to the Gulf Coast I think is now in a lot better shape. So that leaves me with one or two.

I would say, sir, that it is a combination. I think that the capacity to refine the crude oil is probably there, but not at an equal price between Brent and WTI. So in other words, if the West Texas Intermediate price is discounted it enough, then refiners would be happy to take a lot of it.

Mr. Olson. I am sorry, sir, my time is up.

One-point-five for you, Mr. Sheffield, one, two or three, please. I am pretty sure you are probably going to be a one, you have the capacity.

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Mr. Sheffield. Yes, I think what we are not hearing from the refiners is the economic penalty. They invested $85 billion to redo their refineries because they all thought light sweet crude was declining and we would never find it again. It was all going to be heavy crude from Canada, heavy crude from Mexico, heavy crude from Venezuela. They invested $85 billion. So to refine light sweet crude, they have to charge an economic penalty.

Secondly, they are keeping the $10. They are not passing on the $5 of it back to the producers to create jobs or $5 back to the American consumer. So I think it is obvious for me.

Also, I left out a key point, you brought up pipelines, is that what is interesting about the law in 1975 is that Canada -- I love Canada, we had an office there -- Canadian producers, they can use our storage, they can use our refiners, and they can apply for a license to export their crude oil.

RPTR YORK

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[3:04 p.m.]

Mr. Olson. And I have used my time as the chairman overly. So I will yield back the balance of my time and give my time now to Mr. Barton -- or are we going to go -- I am sorry. Oh. Gene. I am sorry.

Mr. Green from Texas is recognized.

Mr. Green. Well, I think it is appropriate that you have four Texans left over while we have that one vote on the House floor. So Congressman Flores and Joe Barton and I.

I want to thank the chair for doing the hearing today and thank our witnesses.

We are here to discuss an important issue in the district I represent. Because I have at any given time -- our district lines change in Texas all the time. I have had five refineries in my district, from Exxon in Baytown to Valero in the City of Houston. And so this is a balancing act.

I am looking at our refineries now having the best margins that they have had that I can remember, and the price of gas is reasonable, $2.15 a gallon, $2.10, in Houston. But I also have a whole bunch of jobs that come from the Baker Hughes, the Halliburtons, and everyone else who are actually so -- and I understand the problem. We are trying to balance it. We want the refinery margins, but we also want to keep those folks working in the oil patch. And so that is where the balance come from.

And, if we can, we will see how it works. But, Administrator Sieminski, it is good to see you again, and thank you for the good work you all do.

You mentioned that EIA is composing a study that would discuss crude oil in exports. Where are you at on that study?

Mr. Sieminski. Congressman, we have got -- we have done this study on what drives gasoline prices, and I think you heard a number of people talk about the results of that. Gasoline in the U.S. seems to be set more in the international market rather than elsewhere. We are looking at options for petroleum refineries process additional light sweet crude oil. We will have that study out in about a month.

We have also a study underway to look at the implications of increased crude oil exports on the refining system, in general, and we will have that out, I think, sometime in April.

We also published an oil import tracking tool that makes it easier to see some of the changes that have taken place down in Texas and Louisiana.

So I would say over the course of the next 6 to 8 weeks we will have -- we will have two or three more big studies out.

Mr. Green. Well, Congress doesn't move that fast. I think we will probably be able to see those studies before they do.

Mr. Sheffield, first of all, thank you and Pioneer for some of the things you are doing because it makes it easier -- when I drive through Eagle Ford, I hate to see the flaring for lots of reasons, environmentally, but, also, I know somebody is not getting paid for that product that they are producing. And we have pipeline issues and transmission issues there.

What does the world condensate market look like for U.S. exporters? I know the Department of Commerce is doing that. Is that kind of a safety valve for what we need? Because we have a current procedure for exporting condensate. Are we having some success in that?

Mr. Sheffield. Yes. We are exporting 20,000 barrels a day now at Pioneer of condensate, and it is going to Japan, South Korea, and Europe. They need it.

About 8 weeks ago there were some articles written about that the market is closed. That is because, for a period of about a week, the international sweet price and the domestic sweet price narrowed to about $2 for just a period of 2 or 3 days, and now it is widened back.

And that will allow -- most experts are thinking that we can export about 200,000 barrels a day out of the Eagle Ford.

Several other companies have been approved to be able to go and export their process condensate. And so that process will continue. And it will probably -- it helps us for about 6 months on this inventory so that the biggest issue is the sweet crude from the Bakken sweet crude from Colorado in the Niobrara and the sweet crude from the Permian Basin.

Mr. Green. Okay. How long does it take Department of Commerce to review Pioneer's application to export the condensate, the regulatory delay, and the timeframe?

Mr. Sheffield. Yes. It took a few weeks.

Mr. Green. That's amazing. We are waiting for exporting on LNG for years.

Mr. Sheffield. Obviously, we were very pleased.

Mr. Barton. [Presiding.] Keystone proposal. Let's --

Mr. Green. Oh, yeah. Well, and I know there was some testimony about -- I actually have the -- two of the huge tanks that Keystone has built in Channelview, Texas. And you are right about getting the Cushing crude oil down there, but we still need it to come from Canada across the border.

But the export numbers you are talking about, 20,000 and up to

200,000 -- you know, the five refineries off and on I have represented because I am real familiar with them -- they all have been retooled in the 1990s to do the heavier crude -- Venezuela, Mexico -- and we don't have small refineries in our area. In fact, all of them have been expanded over the years.

We probably have the smallest, about 200,000, 250,000 barrels a day. And I remind people even from TransCanada, if that is a 750,000-barrel-per-day, we use over a million just in East Harris County to do it.

Charlie.

Mr. Drevna. Thanks, Congressman.

I would like to make a comment about the retooling and the billions of dollars that we invested, which is true. But I think there is another myth out there circulating that, you know, the only thing those refiners do is just suck up all the heavy crude and that is all they use. They use a mix.

And we are pretty good at what we do, just like Mr. Sheffield's company is really good at what they do. We have -- you know, we use light crude, we use middle grade, and we use heavy. And we can take more -- more light by backing out the middle, backing out some heavy.

So it is not one of those all-or-nothing kind of things. Like I say, we have been doing this for a long time, and we can take the extra crude.

And given what Adam Sieminski was talking about, I disagree somewhat that -- "Okay. Well, we are okay. We have got some pipelines going and we are good and we can go home." No. There is still -- there is still -- we are pretty good -- we were pretty good going north and south. We found out that we weren't. We are awful going east and west, and probably always will be awful for a long -- you know, for a long time.

Mr. Barton. The gentleman's time is expired.

Mr. Green. I am out of time. But, Ms. Jaffe, it is always good to have you before our committee. I like to have a Texan from out in California.

Mr. Barton. The chair is going to recognize himself for 5 minutes because I actually think it is my turn. So I am going to do that. We are doing the Pony Express. Yeah. You know, we have a vote on. So we are going to vote coming back and changing the chairmanship.

Mr. Sieminski, could you tell the subcommittee how many barrels per day of refined products we export and how many barrels a day of refined products we import?

Mr. Sieminski. Well, I could get the exact numbers for you for the record, Congressman, but the total amount of exports is now up to 3.5, 4 million barrels a day of products. And --

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Mr. Barton. But is it fair to say we are exporting more than we are importing?

Mr. Sieminski. We are a net exporter of products.

Mr. Barton. Net exporter.

Mr. Sieminski. That is correct. By a small amount.

Mr. Barton. Okay. Thank you, sir.

So if we were to eliminate the ability to export refined products, that would not be a good thing?

Mr. Sieminski. I think Mr. Drevna said that refiners are actually benefiting through capacity, and Mr. Kingston -- that having the ability to export products actually allows you to run your domestic refinery system efficiently.

Mr. Barton. Better. Yeah.

Mr. Sieminski. Yeah. And that actually works to the advantage --

Mr. Barton. We are for exports of refined products.

Mr. Sieminski. That is correct.

Mr. Barton. Now, Mr. Sheffield, I need -- I mean, you all know this, but I am the sponsor of the bill to repeal the ban on crude oil exports. So I am pro crude oil exports. I think you all know that, but I guess in full disclosure.

You testified, Mr. Sheffield, that, if all companies -- all producers were allowed to either sell in the domestic market or sell in the world market crude oil, that while you would get a slight increase in your price domestically, the overall world price would at least be pressured to go down because you would be competing against the Russians and the OPEC nations in the world market and, since U.S. production is going up, that would overall bring the world price down -- or tend to bring the world price down. Is that correct?

Mr. Sheffield. Exactly. Anytime you put more supply in the international market, especially at this point in time, you are going to bring the international price down.

Mr. Barton. So it may be counterintuitive to some, but if we allow crude oil exports, at least over time we are going to stabilize world prices and probably bring them down because we are increasing U.S. domestic crude oil production. Is that correct?

Mr. Sheffield. Exactly. And lower gasoline prices for the American consumer.

Mr. Barton. Mr. Drevna, you and I know each other real well. I was very gratified to hear your testimony that your association is not automatically opposed to the repeal of the ban on crude oil exports.

What would need to be done to expedite that? You had some qualifications, and I just want you to be able to put those on the record.

Mr. Drevna. Absolutely, Congressman.

When you look at -- as I said earlier, if you look at just lifting the ban on the exports of crude oil in a vacuum, there are a lot of other tangential things that must be looked at so we don't try to solve one problem and create two or three others. And chief among them is the Jones Act.

Now, I know everyone is going to say you can't repeal the Jones Act. Well, you can't even talk about it. Well, I think it is time we talk about it.

Mr. Barton. Well, we can talk about it.

Mr. Drevna. Yeah. In the context of the crude oil -- you know, we have had four or five refineries -- some shut down, but we have three or four or five others that were -- I mean, days -- I am literally days away from shutting down on the East Coast. Bakken crude -- getting that Bakken crude there saved them.

So what all I am saying is, you know, for 40 -- ever since we had this thing in 1975 and the Arab oil embargoes, we have been having an energy policy here in the country that sort of goes -- it lurches from crisis to crisis, and we never look at anything holistically.

Mr. Barton. So you just want to look at the whole picture.

Mr. Drevna. Look at the whole picture and see what it does to the total economics. If the price of crude goes up somewhat and it is still okay, fine. But --

Mr. Barton. I have got 30 seconds. I want to go to Mr. -- Dr. Burnett -- I am sorry -- not Mr. Burnett.

Delta is the Delta Airlines. Correct?

Mr. Burnett. Correct.

Mr. Barton. But does the parent company own the Delta refinery or are you a subsidiary of the --

Mr. Burnett. Yeah. Monroe Energy is a wholly owned subsidiary of Delta Airlines.

Mr. Barton. Okay. Now, does Delta Airlines use the total production of the Delta refinery?

Mr. Burnett. The way it works is that all refineries produce gasoline, diesel, as well as jet fuel. So we use the jet fuel directly into the New York Harbor to our airport hubs there.

Mr. Barton. But some of your refinery capacity results in refined products that you sell to others, and probably some of that is overseas. Now, I don't know that.

Mr. Burnett. No. What we do is we actually swap with Phillips 66 in traffic euro. We swap the gasoline and diesel for jet fuel in other locations. So we have a virtual jet refinery of about 170 barrels a day.

Mr. Barton. Your refinery would oppose us restricting your refined products to only going to Delta. Correct?

Mr. Burnett. Correct.

Mr. Barton. I just want that on the record.

And my time has expired.

Mr. McNerney, have you asked questions already?

Mr. McNerney. Yes, I have.

Mr. Barton. You have.

Then we are going to go to -- no, sir. I just -- I remember that you have to go minority, majority. That is all.

The chair recognizes the distinguished gentleman from Illinois, Mr. Shimkus, for 5 minutes.

Mr. Shimkus. Thank you, Mr. Chairman.

Great hearing. It is a great discussion. And, of course, a lot of us have been talking about this. And I do believe -- and I have mentioned this even in the last couple Congresses -- you put more crude oil on the world market, world market price should go down. Pricing would be from Brent versus a captive West Texas intermediary anymore.

I think the political concern is what Mr. Sieminski and I talked about on California prices. If we do this, but then some other variable raises the gasoline prices, not a supply and demand debate, but, politically, people are going to say, "See what you did. You exported the crude oil and gas prices went out."

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It is very hard for politicians to be able to -- without a 5-second sound byte, to be able to explain the macro- and the microeconomic issues that we are involved with. So that is probably why we are not going as fast on this as we are doing with LNG issues, which makes a -- it is an easier argument.

I want to talk just quickly -- because Mr. Drevna opened the discussion on the Jones Act. The Coast Guard Admiral Paul Zukunft recently said -- and I will just take one of the quotes -- "I think at the end of the day it would put our entire U.S. fleet in jeopardy where our fleet of roughly 80-plus international U.S.-flagged vessels will rapidly go to zero. And then there is a time of crisis. Who are we going to charter to carry out our logistics? Very difficult if we don't have U.S.-flagged ships."

And, you know, we are having this big internal Homeland Security debate right now -- I think the bill probably just passed -- and national security issues. U.S.-flagged vessels on our inland waterway systems is a have-to. We are just not going to have -- especially in the inland waterway systems, which my district borders the Mississippi, it borders the Ohio, it borders the Wabash. Just the national security implications of that I think is difficult to do.

So does anyone disagree with that analysis? Just -- Charlie.

Mr. Drevna. No. I don't disagree, Congressman. You have to realize, though, what we are talking about from the refining sector is solely the international fleet. You know, and we are free-marketers.

Mr. Shimkus. Yeah. But you are talking maybe from New Orleans or Texas to New England -- to the New England coast.

Mr. Drevna. Right.

Mr. Shimkus. Saying that that is international, but it is really national.

Mr. Drevna. Well, but we have international ships coming in and out of there every day.

Mr. Shimkus. But they are not going from U.S. port to U.S. port.

Mr. Drevna. Exactly.

Mr. Shimkus. I mean, we are -- so, anyway, I think it is a very difficult proposition.

Ms. Jaffe, I have been involved -- I am headed to Lithuania next week for the 25th anniversary. I deal with Eastern European issues. That is why the LNG -- I am going to go visit the LNG terminal.

Talk through the international security implications for our allies, first of all, who are held hostage by extortionists who are not our friends, and, also, the -- and so I got it confused.

Because in that we put more competitive crude oil on the market, what does that do to our enemies and their ability to do the things that they are doing? Can you talk to that a little bit.

Ms. Jaffe. Yeah. So I think you raise a very interesting, important point. All of the oil that has been disrupted recently -- Libyan oil where we now have ISIS attacking near the Kirkuk oil field -- that would -- when Iraq oil gets disrupted or Libya's oil gets disrupted now, that hurts the supplies going to Europe. That gives Russia a tighter stranglehold on the supplies that they provide to Europe.

So our goal, as their ally and as a world leader and as a believer in free markets, should be not only to make sure that we have enough oil here in the United States, but, also, that we are leading from the front on making sure that powers like the Russians or Iran are not able to use oil and gas as a geopolitical lever, as a weapon.

Mr. Shimkus. And the import terminals in, like, Europe as a whole, there is more crude oil import locations than what you would have on LNG east to west. Is that safe to say?

Ms. Jaffe. You know, I mean, Europe is a market. I mean, I think the interesting thing about the LNG export question -- I mean, that seems obvious because we have this fear that the Russians would cut off natural gas supply to Europe. That would be --

Mr. Shimkus. Not a fear. A truth.

Ms. Jaffe. Yeah. Absolutely.

So my point to you is, but on the crude oil side, Europe has actually lost their supplies from Libya. And I think the President a year, 2 years ago correctly released supplies from the strategic petroleum reserve to loosen up the light crude market at the time we were importing still because we want to help out our allies from Europe and we don't want to see Europe having shortages.

So, ultimately, we have to concern ourselves. We need to look at, if there is a refinery on the east coast of the United States whose economics are questionable, you know, is that how we are going to run our foreign policy. We are going to have our foreign policy be orientated to keep one refinery open in the United States because we have these allies.

And during Rita and Katrina -- I will speak as a Texan for a moment -- you know, Europe lent us the gasoline that we needed to be able to reevacuate people and bring them back and forth safely to Texas, you know. And we are now telling them that we don't want to provide them with any supply because there might be a competitive advantage for one refiner? That doesn't make sense.

Mr. Burnett. I would like to respond somewhat to that because supply disruptions in Libya and elsewhere do affect the price of crude oil, but there is plenty of crude oil supply available in the world. That is why we have a low price today. The issue for our friends and allies in Eastern Europe and elsewhere is LNG and product availability, not crude oil.

Mr. Whitfield. [Presiding.] The gentleman's time is expired.

At this time I recognize the -- who is next on the list? The gentleman from Iowa, Mr. Loebsack, is recognized for 5 minutes.

Mr. Loebsack. Thank you, Mr. Chair.

Sorry that we have had to run back and forth. I think whoever is in charge of this institution wants to make sure we get our 10,000 steps in today. And so I really appreciate -- and I haven't been able to listen to all of the testimony. I apologize. Just back and forth. A lot of meetings in the process, too. I have a lot of questions on this, as you might imagine.

I do want to start out with Ms. Jaffe, if I could. First of all, I got my PhD at UC Davis. So I am glad you are there. But it was in political science. And the West Village, you know, is quite an undertaking, being a net zero energy undertaking, and I commend UC Davis for doing that. And I don't know if you have -- you must have some role in that. I know that you are in the graduate college of management. But thank you for being here today.

And I kind of want to explore maybe with not just you this whole geopolitical thing that Congressman Shimkus brought up and others.

First of all, which specific countries are we talking about that we can help if we are allowed to do so? Which countries?

Ms. Jaffe. Well, I think that, ultimately, we are in a global market. Right? But when we have disruptions, the disruptions -- and we are not out of the woods with international disruptions.

The militias that are funded by ISIS have made a decision that they are going to try to capture as many oil fields as possible inside Syria and Iraq. You know, the response towards that has been, you know, not 100 percent effective.

We have the civil war in Libya which is disrupting exports. You could have a civil war, as we know, from watching events around the Middle East and in Africa. There is many different places where oil supply can get disrupted.

Mr. Loebsack. But what --

Ms. Jaffe. And the people that it is hurting is -- that is why the price of Brent crude, which is the global marker --

Mr. Loebsack. Right.

Ms. Jaffe. -- is now $10 higher than our prices here in the United States. Because those are the countries -- Europe and those are the countries that are losing their supply.

Mr. Loebsack. But are we talking about specifically Ukraine or -- I mean, where are we talking about where we can help folks so that they are not being extorted by Russia and whatever -- you know, the arguments that are being made on that.

Ms. Jaffe. I think it is any country in Europe that has a refinery. I mean, it is the whole continent. And it also affects availability of supply to Asia as well.

Mr. Loebsack. So how does that -- I mean, how do we then, practically speaking, put into effect that kind of a policy other than lifting the ban? How does it happen, then, that we can help those countries? Because we never really hear sort of specifically how that works.

Ms. Jaffe. Well, we have several different tools.

First of all, we now have this surge in light crude oil production in the United States. We have light crude oil sitting in the strategic petroleum reserve. There is no --

Mr. Loebsack. I am sorry. But I just want to be more specific. Maybe somebody here can be specific.

How does that oil then get to where we want it to go? You know, how does that happen if we have a policy that lifts the --

Ms. Jaffe. Well, we have to lift the export ban to be able to be an effective player in the global market.

Mr. Loebsack. Right.

That enables that to happen. But how does it happen specifically?

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Mr. Kingston. Well, I would like to point something out. It is entirely possible that you could lift the export ban and nothing happens.

Mr. Loebsack. Right.

Mr. Kingston. But that doesn't mean that it is an empty gesture.

Mr. Loebsack. Right.

Mr. Kingston. I think back to the fight in the late 1990s over the lifting of the ban on exporting Alaskan crude, and there was a lot of effort put into this Congress to get that to be lifted. BP spent a lot of money. At Platts, we wrote a lot of stories on it, and they lifted it. And they made a lot of effort at selling -- and after about 3, 4 months, the Asian refiners said, "You know what? We don't really like this stuff. It doesn't work that well."

Mr. Loebsack. I mean, because things are happening in the Ukraine that might not allow for this actually to happen. It depends upon the situation.

Mr. Kingston. But there is really a kind of a positive thing to it. Mr. Drevna mentioned Turner Mason before. They are a very highly respected engineering consulting firm, and we have a partnership with them for many years. And every day we publish refinery yields and netbacks and refining margins.

And if you look at the domestic crudes, they are consistently the biggest winners in refining margins and not just because of the low price.

Mr. Loebsack. Right.

Mr. Kingston. So it is entirely possible that the export ban could be lifted and still the refineries in the U.S., which have certainly a big advantage in transportation costs and a big advantage in fuel costs because they are using cheaper natural gas to run it as opposed to oil in another part of the world -- they are just the winners in this battle.

But the fact that the possibility of exporting it is there tends to keep things in check. So the advantages that you would get from, let's say, maybe keeping a lid on the Brent price, which affects gasoline price -- that advantage still exists and, meanwhile, the refineries are still operating. So the jobs that the AFL-CIO is concerned about, they still exist, too. So the refineries can still win this battle even if the export ban is lifted.

Mr. Loebsack. Yeah. I will just tell you for the record that the concern I have -- and you can say it is irrational that this is nothing like what it was prior to 1973 and 1974. But go back -- we had a Drain America First policy. We all remember that before the crisis back in the 1970s, the first crisis.

And just for the record, I have a lot of concerns that we not get into a situation like that. I know it is completely different in many ways. We have more sources of oil here domestically and around the world, that sort of thing, and we didn't even have North Sea oil back then. But I still have a real concern about that. I just want you folks to be aware of that from a national security perspective. I think we have to be thinking about that.

I do want to ask Mr. Drevna and Dr. Burnett about oil prices going down now, understanding how markets work. Obviously, we know that oil prices aren't going to stay at the current level forever.

So what strides is the industry taking towards future energy investments instead of asking for us to lift exports in terms of expanded drilling operations, et cetera? What are you doing to prepare for future spikes? I guess that is the question.

Mr. Drevna. Well, from the refining side, you know, we are continuing to upgrade. We are continuing to -- not a technical term -- we are continually changing the valves and making sure we can use the abundance of supply that we have here in the country today.

So that is why I say it -- but are we there yet? We are getting there very closely, again, because of what we talked about earlier, you know, the -- unfortunately, the midstream distribution center was not built in this country to handle what we have today.

It is going to take time for us to get caught up, but not that much time. So, you know, we are putting lot of money and a lot of effort into upgrading the refinery so they can use the light sweet crude.

One last thing I would mention. We talk about the upstream folks winning, the refining folks winning. This is not a win/lose game. We should be talking about what is best for America and the American consumer and what is best for energy and national security. Then everybody wins.

Mr. Loebsack. Thank you.

And thank you, Mr. Chair.

Mr. Whitfield. At this time I recognize the gentleman from Texas, Mr. Flores, for 5 minutes.

Mr. Flores. Thank you. Had an equipment malfunction.

Chairman Whitfield, thank you for holding today's hearing on this timely issue.

Several major studies over the last year, including CBO, Brookings and Columbia University, all agree on a key issue: American consumers and households will benefit if we repeal the outdated ban on crude oil exports.

Some have countered that, if we lift the ban, OPEC will simply respond by cutting production, stabilize the price in their favor. I think clearly that the most recent actions by OPEC rebut that assertion, and I don't think it is appropriate to try to reassert it at this point in time.

Also, we have seen in recent months OPEC wants to keep market share by maintaining production even in a low-price environment, and they hope to undercut U.S. shale producers, thereby reducing the incentive to reinvest in a business.

The Brookings Institution, along with respected economic consulting firm NERA, looked at different OPEC scenarios, cuts of production and maintaining current production levels.

And here is what they concluded: "The benefits of lifting the ban depend on the energy market conditions and how other oil suppliers, especially OPEC, respond."

And then they go on and say -- the key phrase they said is, "What is most important is our finding that in all of these modeling scenarios there are positive gains for U.S. households."

And so the shale revolution in the United States has fundamentally altered the global energy picture, and I think we owe it to hard-working American families and the consumers to facilitate the continuing improvements that we are seeing in this market.

Columbia University also reached a similar conclusion, stating, "While in the past market observers have generally assumed OPEC will offset a large share of non-OPEC production to defend prices, current OPEC behavior in response to the U.S. shale boom casts doubts on the cartel's ability or desire to offset non-OPEC supply."

Mr. Sheffield, like you, I went through five of these downturns. I had counted four, but you are right. I recounted after you said five. It is five.

Mr. Kingston, my first question is for you. What is your view of OPEC's potential reaction if we were to lift the ban on crude exports?

Mr. Kingston. Well, I think you said it in your answer.

OPEC is certainly not going to change its policy now, which is to hold on to market share just because the export ban is lifted, particularly, as I mentioned earlier, I don't think you can necessarily count on how much oil is going to go out the door.

I think certainly, as Mr. Sheffield pointed out, you know, the light condensate doesn't have a great market in the U.S. So that would continue to flow. But that doesn't look like that needs a change. The Commerce Department has clarified that.

So if you are talking about, you know, crude out of the gulf coast or whatever, how much would OPEC cut, it doesn't change really the global supply-and-demand balance.

Mr. Flores. Thank you. And try to keep your answers short because I have several questions for each of you.

Would you agree that opening new markets for U.S. oil producers would be good for both the U.S. and our allies, regardless of what OPEC

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does? I think you answered that affirmatively. So yes.

Mr. Kingston. Yes. I would agree with that.

Mr. Flores. Mr. Burnett, given that the U.S. shale revolution and OPEC's recent response to keep market share, on what basis can you assert unequivocally that OPEC will respond by cutting production if U.S. crude oil can be bought and sold in the global marketplace?

Mr. Burnett. Historically, Saudi Arabia and OPEC have cut production to maintain market prices.

Mr. Flores. But they haven't this time.

Let me move on to the next question.

You make more products than just jet fuel. Right?

Mr. Burnett. Yes.

Mr. Flores. You refine the full distillation scheme. So do you export any jet fuel?

Mr. Burnett. We do not export jet fuel.

Mr. Flores. Okay. Do you export any other refined products?

Mr. Burnett. We occasionally export some diesel and some gasoline, but it is mostly swapped for jet fuel in other locations.

Mr. Flores. Would it be appropriate to stop you from exporting those other refined products?

Mr. Burnett. I am sorry?

Mr. Flores. Would it be appropriate to stop you from exporting any of those other refined products?

Mr. Burnett. Of course not.

Mr. Flores. Okay.

Mr. Burnett. It is a free market. Products are in a free market.

Mr. Flores. If we said that you could no longer sell those refined products and you were forced to sell them only in the U.S., what would happen to pump prices?

Mr. Burnett. What would happen if refineries are not allowed to export gasoline or diesel is that you would start cutting back refineries and closing refineries.

Mr. Flores. Okay.

Mr. Sheffield --

Mr. Burnett. So, ultimately, the prices will go back up.

Mr. Flores. That is perfect. That goes right to where I want you to go.

Mr. Sheffield, if we keep the ban on crude oil and keep prices depressed, what does that do to reinvestment in the upstream industry?

Mr. Sheffield. I think you will see the drop of 900 rigs go to a drop another 1,000 rigs. It will lead to significantly declining production, and this country will be importing 60 percent, 70 percent, 80 percent of our oil from the Middle East.

Mr. Flores. And so, Ms. Jaffe, if that happens, who gets hurt?

Ms. Jaffe. All I can say, sir, is I am in the same direction as you. In either case, when you ban and try to do something to twist the market around, the consumer is the one that gets hurt.

Mr. Flores. That is exactly where I am going.

So does anybody disagree with me that, if you put -- well, I am out of time -- if you put artificial constraints on the market of any kind, whether it is upstream, downstream, midstream, or anywhere else, you hurt the American consumer and hard-working families who have been crushed under this economy for the last 6 years?

Thank you. I yield back.

Mr. Whitfield. Gentleman yields back.

At this time I recognize the gentleman from New York, Mr. Tonko, for 5 minutes.

Mr. Tonko. Thank you, Mr. Chair.

I don't think there is any doubt that there are competing private interests at stake as we attempt to answer the question of whether or to what extent we should allow exports of domestically produced crude oil. The real question is whether it is in the national interest and the public interest, for that matter, to do so.

Even with new drilling technologies, the United States has lower proven reserves and higher production costs than many other oil-producing countries and we still use a lot of petroleum products.

Mr. Sieminski indicates in his testimony that -- and I quote -- "The implied 95 percent confidence interval for West Texas intermediate crude oil calculated for the current short-term energy outlook ranges between $32 per barrel to $108 per barrel."

Now, there is no insult intended here for the Energy Information Agency. That doesn't seem very helpful. Basically, EIA is saying that, "We have no idea what the price per barrel is going to be."

So, Dr. Burnett and Mr. Drevna, how do you or your member companies make investment decisions in the face of this price volatility? Does the price matter less than other factors? Perhaps is demand for specific refined products the controlling dynamic? Just how do you make those decisions?

Mr. Drevna. Sir, you make them on what you think the demand is going to be. The refiners are somewhat different than our friends and colleagues in the upstream segment. We operate on demand. You know, if the price of crude is here or here or somewhere in the middle, it is going to depend on what the demand is and what we see that demand.

As Mr. Sieminski will tell you, since a theory back in 2007, when we connected two dots and drew the demand through the roof, that has collapsed over the years. So we have had to scramble. We have had to do some different things. So it all depends on what we call that spread.

So we make decisions based on what we think the demand is going to be, what we think the regulations are -- or what they are, and what we can do to adjust that spread to, A, provide the product, B, pay our employees, C, keep the equipment going, and, D, make a profit.

Mr. Tonko. Thank you.

Dr. Burnett.

Mr. Burnett. Yeah. What we do is we look at the fundamentals, supply-demand balance, to set what we expect the crude oil price to be over a longer term. Refinery investments are done over many years.

So we have to try and take a forward position on what the crude oil price is going to be based on fundamentals and then, as Mr. Drevna said, look at the demand side of products and try to get an estimate of what those differentials or what we call cracks are and look at the economics of each project based on those assumptions.

Mr. Tonko. Does the fact that we have an export ban increase or reduce the uncertainty that you will see a return on refinery investment?

Mr. Burnett. I think what the industry needs is certainty on what the legislative outlook is going to be. The problem is uncertainty.

Mr. Tonko. And Mr. Drevna?

Mr. Drevna. Yeah. I mean, we do, as most industries in this country do, a really good job of handling economic uncertainty. What we don't do a good job and can't do a good job is handling regulatory and legislative uncertainty because that just creates paralysis.

Mr. Tonko. So some order of predictability as to what that operating climate is is important?

Mr. Drevna. Absolutely. Because, as Dr. Burnett mentioned, these investments aren't made on a 2- or 3-year basis or on an election-cycle basis. They are made on a long-term basis.

Mr. Tonko. And if a low oil price sends a signal to slow production of domestic oil, what is the problem with doing that from a national perspective? Anyone?

Mr. Sheffield. We actually gave an exhibit to our testimony that we filed the last Friday by PIRA, and it shows a wide range of prices, from $40 up to about $100, and the effect of $10 swinges.

And $10 swings is the difference between 2-million-barrel-a-day loss in this country or a 2-million-barrel-a-day gain. So it is a great chart to look at that is filed in our testimony.

Mr. Tonko. Does anyone else have a comment on any of that? Dr. Burnett?

Mr. Burnett. Yeah. I think that I need to go back and say that, if you lift the ban right now, the effect on the global supply and demand really is a zero-sum gain because you export more, but you will be importing more.

So the issue is: When is the demand cycle going to pick up enough to support prices and enable domestic production to increase again?

And so we are looking at -- you have to look the world growth and GDP over the next few years to make that determination.

Mr. Tonko. Thank you so much.

I see my time is up. So I will yield back. Thank you, Mr. Chair.

Mr. Olson. [Presiding.] Gentleman yields back.

The chair recognizes the gentleman from Ohio, Mr. Johnson, for 5 minutes.

Mr. Johnson. Thank you, Mr. Chairman. You caught me off guard there for a second. Let me move my chair.

Well, thank you, gentlemen, for joining us today.

Mr. Chairman, before I get started with my questions, I would like to ask that a letter from the Ohio Oil and Gas Association expressing their members' support for lifting the crude export ban be submitted for the record.

Mr. Olson. Without objection, so submitted.

This is a preliminary, unedited transcript. The statements within may be inaccurate, incomplete, or misattributed to the speaker. A link to the final, official transcript will be posted on the Committee's website as soon as it is available.

[The information follows:]

******** COMMITTEE INSERT ********

Mr. Johnson. Gentlemen, as you know, I live in energy-rich eastern and southeastern Ohio. You have all heard of the Marcellus and the Utica shale. You can't turn a corner there without seeing the renaissance in energy production.

As you know, we passed a bill here in the House dealing with streamlining and quickening the liquid natural gas export permitting process.

I would like to hear from each of you. What are the most significant differences, both pro and con, domestic and geopolitical, to LNG exports versus crude exports?

The folks back at home, where we have a wealth of that resource, both of them, would like to know. And we will just start down at the end.

Sir, if you would like to take a first crack at it.

Mr. Sieminski. Sure. Probably the most important thing in looking at the future prospects for LNG exports is what the price of oil is going to be because, internationally, the reason the U.S. can export LNG into the global markets is we had a big spread between the U.S. price of natural gas and the world price of natural gas because, in most places outside of the United States, natural gas prices are tied contractually to oil prices.

So as oil prices came down or have come down, that is actually going to put some pressure on the idea of exporting LNG from the U.S. So it would make it less profitable to do that.

Mr. Johnson. Okay.

Mr. Sheffield. Yes, Mr. Johnson. We both have ample supplies of natural gas. We have too much of it in this country now. We have 150-, 200-year supply of natural gas, and we have got a long supply now, finding over 100 billion barrels of recoverable oil in several key fields, in addition to liquid-rich plays in the Utica and the Marcellus, which is where people are focused.

We need to lift the ban on oil. We need to be able to export it and expedite LNG so there is plenty. Europe needs it. The rest of the world -- Japan, South Korea -- they all need it.

How can you ask Japan and South Korea not to take Iranian crude when we will not export them oil? Europe is taking 40 percent of their needs from Russia oil. They need exports from the U.S. in addition to LNG.

Mr. Johnson. Okay. Thank you.

Sir.

Mr. Drevna. Congressman, it is interesting because, you know, when you look at the LNG, you know, we have an abundance. We have more than we need. And, you know, this body did the right thing in passing the legislation to export it.

We are still in that "maybe we are here, maybe we are there" stage. Mr. Sheffield mentioned we have got a lot. But do we have a lot right now? And how long would that last?

You have to look at the oil export. And, again, I am not saying we shouldn't export. I am saying just look at everything in total.

The world supply, you know, is a big barrel and everybody takes what they want. The more we produce here, the less we have to export. That will have an impact on prices, just like the shale boom has already had an impact on global prices.

Imagine what prices would be today -- and I am not the, you know, fortune teller -- but imagine what prices would be today if we hadn't had the entrepreneurs like Mr. Sheffield and his company to get this stuff to market. With all the stuff that is going on in the global market, we would still be 40, 50, 60 percent. So we have had an impact on global prices.

Mr. Johnson. Okay.

Mr. Drevna. One thing we are saying is let's do it the right way.

Mr. Johnson. Okay. Mr. Kingston.

Mr. Kingston. Two things.

One area where I see the big difference is that allowing crude exports would affect an international benchmark, Brent, to which we are tied, because our gasoline market is ultimately tied to Brent. It would work to probably push down the Brent price. Therefore, there is a benefit to us.

In the case of LNG, you are not going to be pushing down -- you would be pushing down an international benchmark that doesn't affect us. As Mr. Sieminski noted, there are other prices out there. They would be affected. Our Henry Hub price would probably rise.

But I think where it is a benefit to the U.S. is I get very concerned about the problem of stranded gas, where the U.S. just simply has so much gas that you start to see a rollback in production, you start to see wells shut in, you start to see workers go somewhere else. And you just need that safety valve to make sure that industry can keep running.

Mr. Johnson. Okay. Ms. Jaffe.

Ms. Jaffe. So I agree with what Mr. Kingston said, but I would add the following thing. And I respect the other panelists who have made this point. We are really arguing about who gets the margin. Right?

We are not really arguing about, if you put a lot of gasoline in the market, that eventually lowers the price that refiners in other locations can pay for crude oil and eventually brings the price down. So, either way, when you are having oil exit the United States in any form, it will eventually bring the price down.

So we are arguing about who gets the margin. And what I would say to you -- and, you know, it would take a careful study -- is that, if a refinery operates at 88 percent of capacity or 85 percent of capacity, that doesn't affect how many people get employed there. If Mr. Sheffield lays off 100 rigs, a lot of people lose their jobs.

Mr. Johnson. Ms. Jaffe, I am sorry to cut you off, but I know I am out of time.

Mr. Chairman, can Mr. Markell and Dr. Burnett respond to this? Can you indulge me?

Mr. Olson. Without objection.

Mr. Johnson. Mr. Markell.

Mr. Markell. So the big difference is that, in crude oil, there is a lot of downstream processing and a lot of jobs. And, with all due respect, it is not just about the margins. It is about who gets the paycheck, how much overtime they get and, ultimately, how many people are employed.

With LNG, there is minimal downstream processing, minimal downstream jobs. We are not importing it. And, from our point of view, we are looking for a price that is somewhere in the middle where we can keep the manufacturing competitiveness that we have. But certainly we have got a lot of stranded gas, and we need to find a way to build the pipelines to get it out.

Mr. Johnson. Thanks, Mr. Markell.

Dr. Burnett.

Mr. Burnett. I think there are two major differences between crude and LNG. One is, as you heard, LNG is a real excess in the U.S. Crude oil is not. We are still importing 33 percent.

The other major difference is that LNG is sold into an absolutely free open market. Crude is still controlled by OPEC, whether you like it or not. They still can impact the price up or down. So there are two major differences.

Mr. Johnson. Okay. Thank you.

Thank you, gentlemen.

I yield back.

Mr. Olson. The gentleman's time is expired.

The chair recognizes the gentleman from Oklahoma, Mr. Mullin, for 5 minutes.

Mr. Mullin. Thank you, Mr. Chairman.

And I would like to thank, you know, our panel that is in front of us today because this is a very important topic. It is something that probably we should have discussed a few years back. But for Congress's point of view, we are right on time.

I want to talk to Mr. Burnett for just a second. I am kind of confused here why you would be so worried about our crude oil exports when, apparently, you are not too worried about exporting gas and diesel.

When we are talking about you thinking the prices are going to go up, we haven't seen that happen while your company, I am assuming, as you said a while ago when Mr. Flores was talking to you, that you export oil and diesel. Don't you?

Mr. Burnett. Okay. The issue is that, if you lift the export ban, you are going to enable European refiners who are currently struggling to have a more sustained life and you --

Mr. Mullin. So can your company not compete with them?

Mr. Burnett. And the problem is that we cannot compete with them because they can buy their U.S. crude oil cheaper than I can in Trainer. They can then refine it and send it back to the Northeast cheaper than we can make it because of freight rates. So they can put us out of business.

Mr. Mullin. Well, we are not hearing that from the other refineries. I mean, your other companies -- there is other refineries that actually support this.

So I am saying that your company can't compete with them?

Mr. Burnett. The people that are supporting this are probably integrated oil companies. All of the independent merchant refiners like ours are part of the crude coalition, are against crude exports.

Mr. Mullin. Are you not buying that same crude to be able to produce gasoline and diesel?

Mr. Burnett. We are buying domestic crude --

Mr. Mullin. Are you not bound to compete with those refineries at that time?

Mr. Burnett. I am sorry?

Mr. Mullin. I mean, are you not bound to compete with your oil and gas -- I mean, your diesel and gasoline?

Mr. Burnett. What you have heard, I think, repeatedly is that product prices on the Northeast are set by Brent price.

Mr. Mullin. Sure.

Mr. Burnett. And so the European refiners are selling gasoline and diesel at a Brent price, but they can export it to the Northeast lower than we can produce it because of freight rates.

Mr. Mullin. Well, I guess I am just not quite wrapping my head around it just yet. Hopefully, I will because, to me, it is kind of contradicting yourself. And, I mean, I appreciate business. So the last thing I want to do is put any businesses out of business.

But you have 400 jobs, and we have roughly 350,000 jobs, using a rough figure, that supports the idea of bringing that crude oil to you to begin with. And I think your company could possibly -- I am not in the business -- but could compete, maybe, without have to be -- and just indulge me here for a second. And I don't mean to be frank, but it almost sounds a little bit selfish.

Mr. Burnett. We want to compete on a level playing field. By lifting the export bans without dealing with other issues, it makes us uncompetitive.

Mr. Mullin. Well, I obviously don't know your business as well as you do, but there is other refineries that are saying they can compete with it.

Mr. Sheffield, can you enlighten me a little bit. You talked about storage capacity and the buildup, about the capacity running out. Can you expand on that.

Mr. Sheffield. Yes. Cushing storage -- I know Amy Jaffe said it is around 50 million barrels -- is at an all-time high. There is recent pipelines installed by Enbridge called the Flanagan South, and that is bringing a lot of oil down from Canada.

So at the same time our sweet crude from our shale plays, some in Oklahoma, the School play, and, also, the Mississippi Lime play, everything, Niobrara Play, the Bakken play, they are all moving toward Cushing before it gets to the gulf coast.

So storage is at a high. I know the Plains All American CEO, Mr. Armstrong, stated that we have about 60 to 90 days of storage left at Cushing.

Gulf coast, what we called PADD 3, it is filling up, too. It is over 210 million barrels, and it could be filled up shortly also over the next several weeks.

So it is a big issue. It is what Turner Mason says: The wall is coming, and it is coming faster. And that is why we have wide crude prices today.

Mr. Mullin. So if we were to lift exports, you would feel like there would be a little bit more stability in the markets, not necessarily being able to -- I am switching gears with you and going from storage capacity to stabilizing the market with the big swing that we see right now in the prices. I mean, they will jump up $10 and they will go down $10.

Do you think, if we were to be able to control our own destiny, by having the exports out, by being able to compete and have a competitor against OPEC, would we be able to see more stability coming to the market?

Mr. Sheffield. Yes. Like I said, a $10 swing, we would put more rigs to work. I know 7,000 other independents would put more rigs to work. They would do it in Oklahoma.

That would help stabilize U.S. production and actually increase it over the next several years. OPEC loves the fact that we have an export ban, I promise you. We are playing right into their strategy.

Mr. Mullin. Thank you.

My time is out. I appreciate your time.

Thank you.

Mr. Whitfield. [Presiding.] Thank you.

At this time I recognize the gentleman from Kansas, Mr. Pompeo, for 5 minutes.

Mr. Pompeo. Great. Thank you, Mr. Chairman.

And thank you all for bearing with us today.

Mr. Burnett, you said that you want the ban on crude oil exports, but not on condensate, not on other products you produce. Right?

Mr. Burnett. No. That is not quite what I said.

Mr. Pompeo. All right.

Mr. Burnett. Crude oil.

Mr. Pompeo. Crude oil. Right.

Now, Delta sells airplane tickets. So should we put an export ban on not allowing foreigners to purchase airplane tickets?

Because that would help consumers, too, because American consumers would have that empty seat out there. There would be less competition for the seat. Prices would be lower. Right? Be good.

Mr. Burnett. We want an open playing field both in refining and in airlines.

Mr. Pompeo. Right.

What you really want is you want the things you sell to be available to be sold on the marketplace at the highest price you can get and the things that you purchase to be price-controlled. That is what you are really advocating for here today.

And I have heard lots of different comments. Mr. McNerney says $50 is pretty low for crude. Mr. Drevna, you said you are not a fortune teller. I have got reports from Goldman Sachs not 24 months old that said crude is going to be at 200 bucks a barrel.

Truth is we have no idea, none of us collectively, and we shouldn't worry about that. It shouldn't trouble us that we don't know.

You know, Mr. Markell, you said we have got to keep the price in the middle. The middle of what? I mean, that is not a question. That is a rhetorical. I do have a question for you for you, though.

Mr. Markell. LNG. Not crude.

Mr. Pompeo. So where should we keep crude oil prices? High or low? You want middle for LNG. Where do you want crude oil prices?

Mr. Markell. I don't have an opinion on where crude should be.

Mr. Pompeo. Yeah. None of us should have an opinion. This is the unstated joke from so much of what I have heard from the folks in --

Mr. Markell. It is in the boost of our economy and low oil prices is --

Mr. Pompeo. Yeah. Maybe that is is right.

Goldman now thinks oil might go to 20 bucks a barrel, by the way. These are smart people who are putting their own money at risk, which is very different than us. We are putting everyone else's money at risk.

The person who has the best chance to get it right is them, and they are just wrong a lot. And that is okay. That doesn't trouble me. But we shouldn't put a set of policies in place that feign any knowledge on our part about what is really going to go on.

Let's go the other way. Mr. Sheffield, your export product is price-controlled. We have an export ban. Right? That is a price control. Would you agree? Crude?

Mr. Sheffield. Crude.

Mr. Pompeo. Right? We can't export it. It is a ban. It is a price control.

Your inputs -- steel, labor, all kinds of chemicals that you use -- are any of those price-controlled or are you subject to market forces? Do you have to compete globally to purchase your inputs?

Mr. Sheffield. It is market forces. Then what is interesting by the comments about the -- from the laborers is that we have added over 2 million jobs over the last several years with this shale boom, and a lot of that is in the steel industry, too.

Mr. Pompeo. You bet.

Union employees. Right?

Mr. Sheffield. Yes.

Mr. Pompeo. In the steel industry. Good union workers getting paid good salaries. Yeah. No. I -- I think that is right.

Mr. Sheffield, you had a chart, and I want to make sure I understood it. You had a chart that I think disagreed with what Mr. Markell said. He said that this oil will be produced anyway. Right?

The idea was, even if we leave the ban in place, you are going to go ahead and produce this crude. And your chart seems to suggest otherwise, and I am just trying to reconcile these two ideas.

Mr. Sheffield. Yes. This is from a group, PIRA, out of New York. At roughly $50 a barrel, we will lose about 2, 2 1/2 million barrels a day.

And so what is going to happen? They are not going to get it from us. They are going to get it from Saudi Arabia, Iran if they can, or other countries in North Africa. They are going to import it again.

Mr. Pompeo. I appreciate that.

Mr. Drevna, you said in your testimony, if we were to move forward with lifting the export ban, that your organization would want to see other anti-free market policies addressed at the same time. You mentioned RFS. You talked a little bit about the Jones Act.

I assume it is the case that, if we got to the Jones Act and we got to RFS, you would be thrilled to see the crude oil export ban lifted as well.

Mr. Drevna. Congressman, as I said, we are basically free-marketers. As a matter of fact, if I look up and down the panel, we are probably the most free-marketers sitting here because --

Mr. Pompeo. You are not including up this direction here.

Mr. Drevna. No. No. No. No. No. No.

No. We want a free market and a level playing field for all U.S. industries.

Mr. Pompeo. Thank you.

Mr. Chairman, I yield back.

Mr. Whitfield. The gentleman yields back.

At this time I recognize the gentleman from Virginia, Mr. Griffith, for 5 minutes.

Mr. Griffith. Thank you, Mr. Chairman. I appreciate that very much.

In January, the Department of the Interior released a draft Offshore Leasing Plan covering 2017 to 2022, which proposed opening part of the Atlantic, including areas off the coast of Virginia, my home State.

Although I represent the mountains and the cold territory and

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don't have the coast, I do obviously care about what happens in Virginia very much, and they would open that up for oil and gas leasing.

Mr. Sieminski, I would have to ask: They have made it 50 miles off the shore of the coast. DOD had some concerns there, and I am just curious.

Does your organization have any idea of whether or not DOD has had problems in the Gulf of Mexico dealing with oil exploration or natural gas exploration?

Mr. Sieminski. Well, I am from the Department of Energy.

Mr. Griffith. I understand.

Mr. Sieminski. The opening of those leases -- I mean, I think that we are now seeing production rising in the Gulf of Mexico, and that is, you know, in the aftermath of the Macondo spill.

I think the issues associated with offshore leasing tend to be environmentally oriented. There are some people that are concerned about the impacts on water and the environment and, generally, climate.

Mr. Griffith. And, generally, we believe, if you open up the mid-Atlantic, you would agree -- or the data indicates that there is an abundant energy source out there even though we don't have any recent data --

Mr. Sieminski. Yeah. From time to time EIA has looked at what the resource base is around the United States, and there is a possibility that there are both oil and gas resources in the mid-Atlantic.

Mr. Griffith. And the last time any real research was done was back in, I believe, about 1980, and it takes about 10 years to go from start to finish and we are just now getting started. But we are 50 miles out, which it would be better, I think, if we were closer in. I find that interesting.

And you all wouldn't have any way of knowing this, but I voted on my first resolution as a member of the Virginia legislature in 2004, requesting that we go down this road. And am I not correct that it takes about 10 years to go from start to finish and that, if we had started in 2004 when the legislature first --

Mr. Sieminski. In the offshore area, that is very typical.

Mr. Griffith. And so, if we had started then, we would already be seeing both tax revenues and jobs and all kinds of things in the eastern part of the State. Wouldn't that be accurate?

Mr. Sieminski. I think the first thing that would happen is we would probably end up updating all of that geologic information with modern 3D seismic technology and that kind of thing.

So the up-front part is actually spending money. Now, there are jobs associated with that. Whether the revenues come in depends on what you find and how quickly you can produce it.

Mr. Griffith. There is a pretty good indication that we have got a fair amount of natural gas and at least a little bit of oil.

Even based on the older technologies, that showed up; did it not?

Mr. Sieminski. Yes. I mean, we know that there is oil and gas in eastern Canada and -- and those trends tend to move right down the coast.

Mr. Griffith. And the Canadians are already -- they have already got their straw dipped into that pool, don't they?

Mr. Sieminski. That is correct.

Mr. Griffith. Yeah. So one might argue that the Canadians are getting fuel out of that source and selling it back. It might actually be flowing up to Canada from --

Mr. Sieminski. Well, it is a pretty long way from --

Mr. Griffith. I agree. I agree.

Mr. Sieminski. That would be a big straw.

Mr. Griffith. I just want to see my folks getting some advantage out of all this.

I will open this up for anybody who wants to take it. I think I already know the answer.

But if the United States is getting more oil and more natural gas, what impact would that have on, say, Russia, Iran, ISIS, even China? Who wants to take that?

Mr. Sieminski. Well, my microphone is turned on. I usually try to avoid answering questions.

But let me comment that, when you listen to the panel here, Congressman Griffith, I think that more production on the market, regardless of its source, is going to tend to lower prices and benefit consumers.

So, you know, that is true whether it is natural gas or oil or airline tickets. I mean, the more that you can put out there, the better off consumers are.

Mr. Griffith. But when a country is basing a big part of its liquidity on energy and all of a sudden a new giant rises up or gets extra strength, that, in essence, would mean that at least for the Chinese, the Russians, and maybe even ISIS, that it will negatively impact their ability to do things that we might be opposed to. Would you not agree?

Mr. Sieminski. That certainly -- I mean, one of the factors that is out there -- one of the -- very quickly, on looking at the time, this question of why there is this wide range of views of oil prices, whether it is, you know, $20 or $30 or $100 and over, a lot of that has to do with not being able to pin down answers to many of these geopolitical questions.

Is Venezuela going to have a problem in the near term producing their 2 million barrels a day of oil? What about Iraq? And because of ISIS, what about production outages in places like Libya?

And then, on the downside, it is things like the economy in China and whether or not Libya's going to return to the market. And it is true. Nobody has the -- it is not -- EIA doesn't have the answers to that.

Mr. Griffith. Nobody does.

Mr. Sieminski. Nobody has the answers.

Mr. Griffith. If I might, Mr. Chairman, indulge.

But aren't we better off if the United States is controlling more of that by having more production? Because then, if the Venezuelans do something or if there is a problem somewhere else, at least our own internal economy is not negatively impacted as much.

And aren't we in a much better position today than we were just 5 years ago? And, hopefully, we will be in an even better position 10 years from now.

Mr. Sieminski. I suspect that everybody on this panel would agree with you.

Mr. Griffith. And I would say to you that, when this first started, our new boom in energy, which we can continue to use, particularly if we open up the mid-Atlantic and keep looking for ways to do this -- I used to feel that maybe my children wouldn't have the economy that we had.

Now I believe, if we don't screw it up here in Washington, our children and our grandchildren and our great-grandchildren can live in the United States, where we are still the number one economic Nation in the world.

With that, I yield back.

Mr. Kingston. Can I just say one thing? I just want to separate one country that you mentioned.

This is a benefit to China. I mean, you mentioned Russia, Iran, ISIS, this hurts. This helps China. Huge net importer.

Mr. Griffith. Okay.

Mr. Whitfield. At this time I recognize the gentleman from Mississippi, Mr. Harper, for 5 minutes.

Mr. Harper. Thank you, Mr. Chairman.

And thanks to each of you for being here and taking time to discuss what is a very important issue.

And, if I may, Mr. Drevna, I wanted to ask you a couple of questions in the time that I have, since Mr. Griffith used up most of my time.

Mr. Griffith. I am sorry.

Mr. Harper. Hey, you needed some more time. That is it.

First of all, I want to say, you know, we appreciate each of you being present. But particularly, Mr. Drevna, I thank you that you are here to share AFPM's insight on this issue.

I would like to focus my time on your testimony. In your written statement, you noted that your organization is not opposed to lifting the ban on crude exports, but you mentioned two public policies, two areas in particular, that should be considered during this debate.

So I would like for you to elaborate a little bit more on the RFS and the Jones Act and how they are related in this debate on the crude oil export ban.

Mr. Drevna. Thank you.

And I only get 5 minutes to elaborate on the RFS. As the chairman can attest to, it is probably not enough time.

But, in any event, if you are going to talk about a free and open market, if you are going to talk about consumer protection and consumer choice, if you are going to talk about getting the economy moving, the RFS, as I said in my written statement and my oral testimony, it is -- in 7 short years, it has become an anachronism.

All the assumptions that were made back in the day where the ESA 2007 was passed, where EIA had gasoline demand going through the roof, and that has plummeted some 43 percent over those years, where we have a volumetric and not a percentage basis where we have, you know, 36 billion gallons, where the thought was, "Well, we are going to eliminate or reduce foreign energy sources."

RPTR DEAN

EDTR WILTSIE

[4:07 p.m.]

Mr. Drevna. We are doing that because of companies like Mr. Sheffield's, not because we are producing ethanol. As a matter of fact, we are producing ethanol and we are exporting it and we are importing it. You know, what is the point?

The environmental benefits have shown to be, if not nil, negligible -- if not negligible, negative. So it is time to look at that because it is not a free market. Let the consumer decide. Do they want more ethanol or biodiesel in their gas tank or they don't?

On the Jones Act -- and, again, this is a -- whose ox is going to be gored is what you have to decide if you lift the ban today without looking at the Jones Act. It is not going to be -- it will be a zero-sum gain. There will probably be some job gains on this side. There will be job losses on the other side. That is a fact.

So at least know the facts before you make the decision, and that is all we are asking. Again, we are not opposed to it, but, you know, for energy security and national security, let's do it all. Let's have all the above and not what we have now with all of the above and none of the below -- or very little of the below. So that is basically what we are trying to say, Congressman.

Mr. Harper. Thank you very much. Out of mercy, I will yield back.

Mr. Whitfield. The gentleman yields back. That concludes the questions.

Once again, I want to thank the panel of witnesses. We do appreciate your insights. This is an interesting question, and certainly, with the changes taking place, we want to look at it thoroughly. So we may be calling you again very soon.

We will keep the record open for 10 days. And that will adjourn today's hearing.

And thank you all very much for your participation.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned.]