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4 H.R. 702, LEGISLATION TO PROHIBIT RESTRICTIONS ON THE EXPORT

5 OF CRUDE OIL

6 THURSDAY, JULY 9, 2015

7 House of Representatives,

8 Subcommittee on Energy and Power

9 Committee on Energy & Commerce

10 Washington, D.C.

11 The Subcommittee met, pursuant to call, at 10:02 a.m.,

12 in Room 2123 of the Rayburn House Office Building, Hon. Ed

13 Whitfield [Chairman of the Subcommittee] presiding.

14 Members present: Representatives Whitfield, Olson,

15 Barton, Shimkus, Pitts, Latta, Harper, McKinley, Pompeo,

16 Kinzinger, Griffith, Johnson, Long, Elmers, Flores, Mullin,

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17 Hudson, Upton (ex officio), Rush, McNerney, Tonko, Engel,
18 Green, Doyle, Castor, Sarbanes, Welch, Loeb sack, and Pallone
19 (ex officio).

20 Also present: Representative Cramer.

21 Staff present: Nick Abraham, Legislative Associate,
22 Energy and Power; Will Batson, Legislative Clerk; Leighton
23 Brown, Press Assistant; Allison Busbee, Policy Coordinator,
24 Energy and Power; Tom Hassenboehler, Chief Counsel, Energy
25 and Power; A. T. Johnston, Senior Policy Advisor; Brandon
26 Mooney, Professional Staff Member, Energy and Power; Dan
27 Schneider, Press Secretary; Christine Brennan, Democratic
28 Press Secretary; Jeff Carroll, Democratic Staff Director;
29 Michael Goo, Chief Counsel, Energy and Environment; Caitlin
30 Haberman, Democratic Professional Staff Member; Rick Kessler,
31 Democratic Senior Advisor and Staff Director, Energy and
32 Environment; John Marshall, Democratic Policy Coordinator;
33 and Alexander Ratner, Democratic Policy Analyst.

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34 Mr. {Whitfield.} I would like to call the hearing to
35 order this morning, and today's hearing is on H.R. 702,
36 Legislation to Prohibit Restrictions on the Export of Crude
37 Oil. We have one panel of witnesses this morning, and I will
38 introduce each of you individually right before you give your
39 opening statement. But we are very excited about this panel
40 of witnesses because they have a great deal of expertise and
41 can give us some insights into the positive and any negative
42 impacts that might occur if we lift the restrictions on
43 export of crude oil. And I would like to recognize myself
44 for 5 minutes for an opening statement.

45 I want to thank first of all Congressman Joe Barton of
46 Texas, Chairman Emeritus of this committee, for introducing
47 this bill. He has bipartisan support on this bill, and it
48 certainly raises an issue that there is more and more
49 discussion about around the country and around the world.

50 Americans believe in free trade, and our Nation has
51 greatly benefitted from policies that allow us to export our
52 products around the world. Everyone from farmers to
53 automakers enjoy the advantages of a global economic and

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54 customer base. However, oil does remain basically an
55 exception to the rule. 1970s-era restrictions still prohibit
56 most exports of American crude.

57 But as we all know, the reasons for these restrictions
58 are certainly different than they were in the '70s. Most
59 significantly, we have gone from a Nation with dwindling
60 petroleum output to the world's number one producer of
61 liquid hydrocarbons. In fact, American production growth has
62 been so robust that the domestic supply of oil is now
63 outstripping demand. This is especially true for the lighter
64 grades of crude not suitable for most domestic refiners but
65 still very much in demand around the world. Allowing
66 American companies to serve this global market would provide
67 substantial economic as well as geopolitical benefits, and
68 that is what H.R. 702 seeks to remedy.

69 There has been tremendous job growth associated with
70 increased oil and gas production over the last decade, and it
71 should be noted that this includes many jobs far away from
72 the Nation's oil fields, such as those manufacturing the
73 equipment used by these energy companies. Unfortunately, we
74 have seen the loss of thousands of direct and indirect oil

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75 jobs over the past year as supplies have exceeded demand and
76 prices have dropped. New production is being cut back, not
77 because of a shortage of places to drill but because of a
78 shortage of customers.

79 Lifting the export restrictions and allowing the market
80 for American oil to extend beyond our own borders could
81 create nearly a million additional jobs, according to an
82 estimate from a lot of different groups. Put another way,
83 these are jobs that would already exist today if the export
84 ban was not in place.

85 The pro-exports consensus is a broad one, including
86 groups across the political spectrum, from the Brookings
87 Institute to the Bipartisan Policy Center to the Heritage
88 Foundation. It also includes numerous high-ranking Obama and
89 Clinton Administration officials as well as many who served
90 under both Bush Administrations.

91 Of course, one of the concerns that we always hear about
92 is we want to be sure to keep gasoline as affordable as
93 possible, and would this have an impact on gasoline prices?
94 I think most people would agree that this would certainly not
95 cause gasoline prices to increase, but that is an area that

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96 when we get into questions, I am sure we will be asking some
97 of our witnesses about. I might also say that the Energy
98 Information Administration, Government Accountability Office,
99 and the Congressional Budget Office predict that oil exports
100 would actually help lower the prices at the pump, just one
101 more benefit of oil exports.

102 So we look forward to a great hearing this morning.
103 Many members are open to the discussion, have not made any
104 kind of decision about this, but as I have said in the
105 beginning, there is more and more discussion about this issue
106 around the country, and we do look forward to the testimony
107 of our so-called experts this morning.

108 [The prepared statement of Mr. Whitfield follows:]

109 ***** COMMITTEE INSERT *****

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110 Mr. {Whitfield.} With that, I would like to recognize
111 the gentleman from Illinois, Mr. Rush for a 5-minute opening
112 statement.

113 Mr. {Rush.} Thank you, Mr. Chairman, for holding this
114 important hearing today on H.R. 702, Legislation to Prohibit
115 Restrictions on the Export of Crude Oil which was introduced
116 by my good friend and colleague, the Chairman Emeritus of
117 this Full Committee, on the Full Committee, Mr. Joe Barton of
118 Texas.

119 Mr. Chairman, as we enter into the era of new American
120 energy renaissance, I think that it is entirely appropriate
121 for this subcommittee to revisit the Energy Policy and
122 Conservation Act of 1975. This policy, which restricts the
123 export on domestically produced crude oil, may in fact be
124 outdated as conditions today have shifted dramatically from
125 the 1970s when the bill was first enacted.

126 While I come to this issue, Mr. Chairman, of crude oil
127 exports with an open mind, I believe that there are a variety
128 of ways that this issue could be structured. I look forward
129 to engaging the witnesses on the questions of lifting the ban

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130 entirely as H.R. 702 would or with conditions to protect the
131 American consumer against unforeseen consequences.

132 Another option, Mr. Chairman, which we should consider
133 is exporting crude oil regionally to targeted areas in order
134 to maximize American diplomacy and leverage. In fact, Mr.
135 Chairman, I am currently working on a bill that would remove
136 limitations on the export of energy resources to Cuba. My
137 bill would promote market access for the efficient
138 exploration, production, storage, supply, and distribution of
139 energy resources to our neighbor 30 miles off the coast of
140 Florida. This would include the exportation of crude oil as
141 well as American technology and technical assistance in
142 developing Cuba's clean and renewable energy sectors.

143 Mr. Chairman, I think it is very important to look at
144 what the effect of displacing oil from our foreign
145 competitors and opponents and whether it be Russia or
146 Venezuela and replacing it with U.S. energy resources, what
147 the effect might have on our overall national security and
148 diplomatic objectives.

149 So Mr. Chairman, I look forward to hearing from today's
150 panel of witnesses on how lifting this ban might impact the

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151 American economy in terms of manufacturing, employment,
152 gasoline prices, and imports. Mr. Chairman, in addition to
153 examining the lasting impacts of lifting the ban, it is also
154 important to look at the impacts to our national security and
155 our overall global diplomacy objectives.

156 So Mr. Chairman, as we move forward on the path to
157 enacting an American energy strategy for the 21st century, it
158 is vital that we examine policies that may have run their
159 course in light of the new realities of our time. I think
160 today's hearing is most timely and essential to examining
161 some of these critical and important issues, and I look
162 forward to engaging today's witnesses. With that, I yield
163 back the balance of my time.

164 [The prepared statement of Mr. Rush follows:]

165 ***** COMMITTEE INSERT *****

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166 Mr. {Whitfield.} Thank you, Mr. Rush. At this time I
167 would like to recognize the Chairman of the Full Committee,
168 Mr. Upton of Michigan, for 5 minutes.

169 The {Chairman.} Thank you, Mr. Chairman. America's
170 energy picture has changed dramatically, and this committee
171 has been working hard to keep pace. Clearly times have
172 changed since the 1970s when the oil export ban was put into
173 place. Few back then could have imagined a domestic oil glut
174 that jeopardizes new drilling and the jobs that will go with
175 it, but that is the situation that many experts say that we
176 face today.

177 The energy sector has been the Nation's most significant
178 jobs creator over the past decade, but the recent drop in oil
179 prices, as many as 100,000 energy industry jobs in fact have
180 been lost.

181 Proponents of the legislation that we are considering
182 today argue that allowing American oil on the global market
183 would boost production and bring back those lost jobs and in
184 fact add quite a few more. And the demand for American oil
185 is there, especially from our allies who want to reduce their

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186 dependence on a market dominated by unfriendly and unstable
187 nations.

188 As I stated in a previous hearing with Secretary Moniz,
189 we need to get this policy right. Yes, we do. We need to be
190 certain that any actions taken don't have unintended
191 consequences that negate the benefits. The question of what
192 to do with our incredible resource abundance is a great kind
193 of problem to have, and I look forward to working with my
194 colleagues on both sides of the aisle on that issue.

195 [The prepared statement of Mr. Upton follows:]

196 ***** COMMITTEE INSERT *****

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197 The {Chairman.} And I would yield to other members
198 wishing time. Mr. Barton, I yield time.

199 Mr. {Barton.} Well, first of all, Mr. Chairman, thank
200 you for yielding, and I want to thank Subcommittee Chairman
201 Whitfield for hosting this hearing. I want to thank the
202 Ranking Member Mr. Rush for the open mind that he expressed
203 in his opening statement. This is an important issue for me
204 obviously. The other subcommittee chairmen here, Mr. Pitts,
205 and Mr. Shimkus, can testify that I don't show up on time to
206 many hearings in the morning, but I am here for this one
207 because it is a big deal.

208 The issue that we are debating today is the last remnant
209 of the Carter scarcity of energy policy of the 1970s. We
210 have a former Assistant Secretary of Energy out in the
211 audience, Mr. Jan Mares, who was in the Reagan Department of
212 Energy in the early '80s, and when the Reagan administration
213 came into office, you had in place an energy policy that said
214 America was running out of energy. And we had restricted the
215 use of natural gas. We had put price controls on natural
216 gas. We had done all kinds of things because we thought

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217 America was out of energy and America could not compete in
218 energy policies.

219 Beginning with President Reagan and continuing through
220 President Clinton and President Bush, we have repealed every
221 bit of that policy except one thing that is this, the issue
222 that America cannot export crude oil. We can export
223 everything else in America, but we can't export crude oil.
224 We can export refined products, but we can't export crude
225 oil.

226 We have had hearings on this in the Ag Committee, the
227 Foreign Affairs Committee, the Small Business Committee, but
228 until today, we have not held a hearing in the committee of
229 jurisdiction which is our committee. I think if you listen
230 to the witnesses, especially my good friend, Ambassador
231 Gandalovic from the Czech Republic, you will see the absolute
232 positivism of repealing this ban. America is number one in
233 energy production. It is number one in oil production. If
234 we can use our energy resources strategically, it will help
235 us in that area, but it will also help us economically as
236 Chairman Upton has just pointed out.

237 So thank you, Mr. Chairman, Mr. Chairman, Mr. Rush, for

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238 agreeing to have this hearing and thank the witnesses.

239 [The prepared statement of Mr. Barton follows:]

240 ***** COMMITTEE INSERT *****

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|

241 Mr. {Barton.} And with that, I am willing to yield
242 another minute to anybody on our side that wishes. Mr.
243 Mullin of Oklahoma.

244 Mr. {Mullin.} Thank you and I want to just reiterate
245 what my friend from Texas was saying and also point out the
246 fact that this is about bringing stability to a market. In
247 Oklahoma alone, we have lost 20,000 jobs since January, and
248 you know, an entrepreneur that is able to understand what the
249 sacrifices means is with us today sitting over there in the
250 corner, Harold Hamm, an individual that started with
251 absolutely nothing and was able to achieve the successes
252 because of barriers that were lifted and taken out of place.
253 But today we are limiting entrepreneurs like him, and this is
254 something that we need to have an open conversation about,
255 and I thank the chairman for bringing this to our attention.
256 I yield back.

257 [The prepared statement of Mr. Mullin follows:]

258 ***** COMMITTEE INSERT *****

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259 Mr. {Whitfield.} The gentleman's time has expired. At
260 this time Mr. Pallone was going to make an opening statement,
261 but I think he has been delayed. So is there anyone--

262 Mr. {Rush.} Mr. Chairman, we want to reserve Mr.
263 Pallone's time--

264 Mr. {Whitfield.} Okay. All right.

265 Mr. {Rush.} --until he arrives.

266 Mr. {Whitfield.} Okay. We will reserve Mr. Pallone's
267 time when he arrives. He can give his opening statement. At
268 this time I would like to introduce our witnesses and
269 recognize each one of them for 5 minutes for their opening
270 statement.

271 Our first witness is Mr. Petr Gandalovic, who is the
272 Ambassador to the United States for the Czech Republic. I am
273 just going to introduce you individually before you give your
274 opening statement. Mr. Ambassador, we are delighted you are
275 with us this morning, and you are recognized for 5 minutes
276 for an opening statement.

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277 ^STATEMENTS OF PETR GANDALOVIC, AMBASSADOR TO THE UNITED
278 STATES, CZECH REPUBLIC; COMMANDER KIRK LIPPOLD, PRESIDENT,
279 LIPPOLD STRATEGIES; W. DAVID MONTGOMERY, SENIOR VICE
280 PRESIDENT, NERA ECONOMIC CONSULTING; AND MARK KREINBIHL,
281 GROUP PRESIDENT, THE GORMAN-RUPP COMPANY

|

282 ^STATEMENT OF PETR GANDALOVIC

283 } Ambassador {Gandalovic.} Thank you Subcommittee
284 Chairman Whitfield, Ranking Member Rush, and members of the
285 subcommittee. I appreciate the opportunity to be here today
286 to provide my perspective on the utmost importance of the
287 strategic energy alliance between the United States and
288 Europe as energy exports from democratic countries like the
289 United States enhance the energy security of the Czech
290 Republic and the European Union.

291 Since 1989 when we reestablished our independence, we
292 have always known that we cannot achieve true state
293 sovereignty without having energy sovereignty. Bearing this
294 in mind, one of the first steps of our revived independent

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295 diplomacy was to start negotiations with Germany on the
296 building of a new transit oil pipeline that would connect us
297 with the Western markets and diminish our previous 100
298 percent dependence on oil supplies from the East namely
299 Russia.

300 This truly strategic decision was successfully
301 materialized in the IKL. It means Ingolstadt Kralupy
302 Litvinov pipeline, which has connected us via Germany with
303 the Italian seaport of Trieste, at the Adriatic Coast. The
304 existence of that oil pipeline has given us the opportunity
305 to import oil from international markets.

306 Nowadays, we import around one half of our oil
307 consumption through this pipeline. It is interesting that
308 most of this oil comes from Azerbaijan which flows via
309 Georgia to the Turkish port of Ceyhan on the coast of
310 Mediterranean Sea, then onto the port of Trieste in Italy and
311 then through the Alps to Germany and finally via this IKL
312 pipeline to the Czech Republic, or oil from Kazakhstan that
313 follows a similar route.

314 What is crucial for our energy security is that the
315 capacity of this IKL pipeline is large enough that in case

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316 of emergency we can practically cover our oil needs from
317 other than Russia territory and potentially also from the
318 United States.

319 Moreover, we have also done our homework in the area of
320 natural gas. In the '90s, we signed a contract with Norway
321 that diminished our 100 percent dependence on deliveries from
322 the East. We also built the so-called Gazelle pipeline that
323 has interconnected us, our gas transit network with the
324 German one. Thanks to this interconnection, we have been
325 significantly integrated with the German and European gas
326 market, and as a result, we also buy natural gas on spot
327 markets in Western Europe. This interconnection with Germany
328 also provides us with an alternative supply route in case of
329 extraordinary supply disruptions from the East.

330 Apart from the diversification of transit routes, we
331 have always given particular importance to diversification of
332 energy sources. Therefore, our energy mix has been based on
333 nuclear energy, coal, oil, gas, hydro, and renewables.

334 I mentioned that energy security has always been a
335 priority to the Czech Republic. Since 2004, we have been
336 trying hard to emphasize the issue of energy security within

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337 the European Union in general. We made energy security one
338 of the official priorities during our presidency in 2009. We
339 led the negotiations during this gas crisis between Russia
340 and Ukraine, finalized the Third EU energy package, which is
341 the crucial component of the European energy legislation
342 and organized the so-called Southern Corridor Summit.

343 Energy security has always been on top of the so-called
344 Visegrad Group, V4, so-called. It is the grouping of
345 countries, Czech Republic, Hungary, Slovakia, and Poland, and
346 it is one of the official priorities of its current Czech
347 presidency. The V4 group strives for energy sources
348 diversification and with its demand reaching 42 cubic
349 meters of natural gas per year and almost 40 million tons
350 of oil per year, accounts for an important European regional
351 market.

352 As I mentioned earlier, we always keep in mind that we
353 have to do our homework. Thanks to this approach, I am glad
354 to be able to say that the energy security of the Czech
355 Republic has reached a very good level. It is important to
356 stress that our energy security is based on the assumption
357 that access to the global markets means access to oil and

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358 gas exported by countries that see energy as business and not
359 as a political tool. Hence, I would like to reiterate the
360 crucial statement: The larger the number of stable
361 democracies among the world energy exporters, the more robust
362 the energy security of the Czech Republic and the European
363 Union will be. Moreover, U.S. energy exports would send a
364 strong signal to the world community that democracies stick
365 together.

366 Mr. Chairman, Mr. Ranking Member, members, thank you for
367 your attention.

368 [The prepared statement of Mr. Gandalovic follows:]

369 ***** INSERT A *****

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370 Mr. {Whitfield.} Mr. Ambassador, thanks for that
371 opening statement. And our next witness is Commander Kirk
372 Lippold who is retired from the U.S. Navy and is now
373 President of Lippold Strategies, and we are delighted you are
374 with us this morning. You are recognized for 5 minutes.

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|

375 ^STATEMENT OF KIRK LIPPOLD

376 } Mr. {Lippold.} Thank you, Mr. Chairman. Mr. Chairman,
377 Ranking Member Rush, my name is Commander Kirk Lippold. I
378 appreciate the opportunity to testify before the
379 Subcommittee. While I may disagree with this bill, I would
380 like to personally thank Representative Joe Barton for his
381 dedicated support to our Armed Forces, specifically our
382 veterans. Sir, you have made service to our Nation a source
383 of pride for our citizens.

384 In my 26-year career in the Navy, I was a surface
385 warfare officer serving on five different ships, including
386 guided missile cruisers and destroyers to protect U.S.
387 national security interests across the globe. Foremost among
388 those missions was to safeguard the sea lanes of
389 communications, or SLOCs, that facilitate the global economy,
390 including oil imports to the United States. I have
391 experienced firsthand, particularly in my command of the USS
392 Cole when it was attacked by Al Qaeda terrorists during a
393 routine refueling stop, the devastating effects of reliance

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394 on imported oil when the men and women who serve our country
395 are placed in harm's way.

396 The U.S. Navy has a unique role in the world in
397 cooperation with our allies to ensure the safe conduct of
398 trade including in oil. Since the 1970s, we have had
399 policies in place to encourage energy independence that
400 include investment in energy research and efficiency,
401 diversity of fuel inputs, and the strict regulation of oil
402 exports. At its heart, the legislation being contemplated
403 before this committee will have far-reaching national
404 security implications. Before we drastically alter the law
405 and these longstanding and successful policies, we should
406 proceed with great caution to evaluate their real-world
407 consequences.

408 The United States is still import dependent despite
409 significant gains in domestic energy production. While the
410 United States has experienced an impressive boom in domestic
411 crude oil production, a blunt fact persists: The United
412 States remains overly dependent on those oil imports. We
413 still import a staggering amount of oil. According to the
414 U.S. Energy Information Administration, the U.S. imports in

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415 2014 totaled more than 2.6 billion barrels or around 30
416 percent of supply.

417 Another key point is that domestic consumption will
418 outpace domestic production for the foreseeable future.
419 There are significant national security benefits to
420 decreasing our reliance on imported oil supplies. It keeps
421 the Nation focused and working toward achieving energy
422 independence. It markedly decreases our reliance on
423 unfriendly or dangerous regimes that do not share our
424 interests or values. Lastly and most importantly, energy
425 independence leaves the United States and its leaders with
426 more workable options in achieving our foreign policy and
427 national security objectives.

428 History, as always, is instructive. The original
429 purpose of the export regulations was to bolster national
430 security by furthering energy independence. That purpose
431 still holds true. Lifting export regulations may have the
432 unintended consequence of undermining our national security
433 goal of energy independence. Given the current strategic
434 environment, precipitously lifting the regulation of exports
435 would not confer equal strategic benefits. Advocates of

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436 lifting the export ban frequently point to Russia's
437 aggressive invasion in Ukraine as a ready opportunity for the
438 use of energy diplomacy. That notion makes little sense. As
439 an initial matter, all credible economic studies on the
440 subject project that the vast majority of U.S. crude oil
441 purchased on world markets would make their way to Asia, not
442 Europe. Indeed, the number one beneficiary of lifting the
443 ban is likely to be China, a nation whose recent activities
444 in the Pacific and South China Sea reflect more the actions
445 of a rival hegemon for security dominance in the transpacific
446 region than a responsible international partner.

447 The United States does not need to export crude oil to
448 influence international markets. With strict export
449 regulations in place, other countries are better off because
450 the United States is producing more of its own supply which
451 increases the supply of crude outside the United States,
452 thereby reducing prices and alleviating bottlenecks. With
453 the export ban staying in place, the United States gets the
454 dual national security benefits of ample supply and leverage
455 on the international stage.

456 Another key consideration is the need to maintain the

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457 strong domestic refining base that provides the United States
458 with significant and under-appreciated national security
459 benefits. Lifting the crude export ban would expose one of
460 America's most important industries to the unpredictable
461 vagaries of international markets and international politics.
462 Military assets mobilize on petroleum products, like
463 gasoline, diesel, and jet fuel. They do not run on crude.
464 Maintaining and expanding our robust refining base directly
465 improves the operational flexibility the United States
466 requires for rapid mobilization necessary for modern force
467 projection.

468 While tempting from the perspective of gaining a
469 commercial foothold in a new market arena at this time, too
470 many times in my career I have experienced the stark reality
471 of our national leaders not thinking through the impact of
472 changes in international and domestic policy. We cannot
473 afford to wave off these potential consequences as
474 inconsequential under the guise of market principles. The
475 regulation of crude oil exports was put in place with the
476 long-term objective of decreasing U.S. reliance on foreign
477 sources of energy, specifically oil. The day may come when

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478 the United States is no longer overly dependent on oil
479 imports and we may be in a position to change our export
480 laws, but for the sake of national security, that day is not
481 today.

482 [The prepared statement of Mr. Lippold follows:]

483 ***** INSERT B *****

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484 Mr. {Whitfield.} Thank you, Commander. And our next
485 witness is Dr. David Montgomery who is Senior Vice President
486 for NERA Economic Consulting Group, and thanks for being with
487 us. You are recognized for 5 minutes.

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|

488 ^STATEMENT OF W. DAVID MONTGOMERY

489 } Mr. {Montgomery.} Thank you, Mr. Chairman and Ranking
490 Member Rush. It is a privilege to appear before you today
491 and I very much appreciate your invitation.

492 I have retired as Senior Vice President of NERA Economic
493 Consulting, though I continue to work with my team there and
494 on other things that are interesting. I found that is a
495 great benefit of retirement.

496 What I would like to do in my 4 minutes and 40 seconds
497 is give a quick overview of the major conclusions of my
498 testimony and then just touch on a few elementary points in a
499 little more detail.

500 My conclusion, and I think the conclusion of every
501 independent study that has tried to quantify the effects of
502 crude oil export ban, is that restrictions on crude oil
503 exports pose a cost on the economy in several forms. They
504 cause us to lose domestic production of crude oil that we
505 would otherwise be able to produce. They cause a loss in
506 investment and corresponding economic growth. They have done

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507 so for the past several years and will continue to do so.

508 Oil export restrictions actually lead to higher gasoline
509 prices than we would have had in the recent past and going
510 forward. And finally, it is my conclusion that restrictions
511 on crude oil exports actually decrease our energy security,
512 and I would amplify a bit on each of those points.

513 How is it that production is reduced? The evidence that
514 production is reduced by restrictions on crude oil exports is
515 the differential that we see in the market between the price
516 of the light tight oil that is what the boom in oil
517 production in the United States has produced. The boom in
518 oil production has come about because we have discovered
519 ways, the oil industry discovered ways, to produce oil from
520 tight formations that were not previously possible to
521 produce. That oil is light oil because that is what the
522 production technology is able to extract, and that is what is
523 there. The light oil is coming from Texas, from Oklahoma,
524 from New Mexico, from North Dakota, the major sources, huge
525 amounts of that oil, growing rapidly over the last few years.
526 The problem is the U.S. refining sector is set up to process
527 heavy oil, and it can't simply swap one for the other. So

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528 since the oil can't be exported, it has been stuck in the
529 United States and its price has been depressed.

530 When we did our study at NERA 1-1/2 years or so ago, the
531 price of oil produced in North Dakota where the famous Bakken
532 field is was selling at about the same discount from
533 international market crudes as it is today. That means that
534 there is a disincentive for production, and we are losing
535 production. That is what leads in large part to the negative
536 effects on the economy which are taking the form of less
537 investment, less growth in the oil and gas sector. And just
538 let me remind you that over the past couple of years the oil
539 and gas sector has been the primary source behind economic
540 growth overall. It has been the major growing sector in the
541 economy. So we would lose that stimulus.

542 Let me turn then to the effect on consumers, gasoline
543 prices. It only takes one sentence to raise the fear that
544 gasoline prices will go up. It takes about four to explain
545 why they will go down. But the key factor here is that it is
546 net imports that matter. It is net imports that matter for
547 the effect of the United States on world oil markets and mid-
548 imports that matter for national security. Net imports are

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549 basically the difference between how much crude oil we
550 produce in the United States and how much oil we consume in
551 the United States.

552 Since it would take massive refinery investments to be
553 able to use the light oil that we are now producing in the
554 Bakken and other places in U.S. refineries, it is much more
555 economic to export that oil than it is to expend all that
556 money to refine the products domestically. But it makes
557 absolutely no difference to our total call on oil markets
558 because that is determined by how much hydrocarbon we are
559 producing in liquid form and how much hydrocarbon we are
560 consuming in liquid form. All the change in oil exports does
561 is it allows us to avoid wasteful investments in refineries
562 domestically, to use the oil here, to export that oil and
563 actually increase the world's total oil supply. That is the
564 important part. By removing the restrictions on crude oil
565 exports, we will increase the world's oil supply. That will
566 tend to drive down the price of oil on world markets of crude
567 oil.

568 Now, the price of refined products is based on the price
569 of crude oil in the world market. U.S. refineries are

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570 already exposed. They export 4 million barrels per day of
571 products. They see prices go up and down all the time. The
572 price of gasoline in the United States is determined by that
573 world market. If we soften the price of crude oil in the
574 world market, we reduce gasoline prices in the United States.

575 And the same thing is true of energy security. Even if
576 we take Commander Lippold's definition of energy security--
577 and I agree with everything else he said--we differ on the
578 issue of whether it is imports to the United States or net
579 imports that matter. I think it is far worse than what
580 Commander Lippold described. The world oil market is one
581 market. We can't just defend ships going to United States
582 and ships coming from the United States. We are affected by
583 the world oil price, and we will be forever because even EIA
584 sees no prospect of oil independence in the United States.
585 That means if there is a supply disruption anywhere, it is
586 going to affect the United States. If there are military
587 interventions, we are going to have to defend everybody's
588 ships, not just ours.

589 But if we increase our oil exports, one of the likely
590 consequences is Persian Gulf countries will cut back their

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591 production, and that removes a major source of risk.

592 I conclude my testimony at this point. Thank you.

593 [The prepared statement of Mr. Montgomery follows:]

594 ***** INSERT C *****

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|

595 Mr. {Whitfield.} Thank you, Dr. Montgomery. And our
596 next witness is Mr. Mark Kreinbihl who is the Group President
597 of The Gorman-Rupp Company, and we appreciate your being with
598 us. You are recognized for 5 minutes.

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|

599 ^STATEMENT OF MARK KREINBIHL

600 } Mr. {Kreinbihl.} Thank you, Chairman Whitfield and
601 committee members for this invitation to testify in support
602 of lifting the ban on U.S. crude oil exports. Gorman-Rupp
603 started in 1933 by two entrepreneurs, J.C. Gorman and H.E.
604 Rupp in Mansfield, Ohio. Currently Jeff Gorman is our CEO
605 and third generation. We design, manufacture, and sell pumps
606 in the many different markets. The oil and gas market uses
607 our equipment in several different areas, primarily for water
608 transfer and wastewater transfer, directly or indirectly
609 related to the energy industry.

610 In October of 2014, we started our planning process for
611 our 2015 forecast budget. 2014 was a good year, and the
612 outlook for 2015 was looking to be even better. We planned
613 on a 12-1/2 percent increase in sales with a corresponding
614 operating budget. I have provided in my testimony a chart
615 that correlates the number of gas and oil rigs to our
616 incoming orders. When the price of oil went down and the
617 number of drilling rigs were reduced, our business was

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618 impacted. A distributor in Texas was planning a major
619 expansion until drilling activity reduced. A Canadian
620 distributor anticipated levels of business that ended up
621 being cut back significantly.

622 The combination of just these two distributors accounts
623 for \$4 million of cancelled orders on our books. The impact
624 of our business has been a surplus of inventory and a
625 reduction in workload. That has required the elimination of
626 all but essential overtime. Thirteen temporary employees
627 were terminated. These traditionally have been temp to full-
628 time employees. We have implemented voluntary unpaid leave
629 of absences. Wage increases were postponed due to business
630 conditions. All hiring is scrutinized. There are 21
631 retirements of which only a portion will be replaced. Our
632 full-time employees is 25 less than the end of last year. We
633 have not hired summer help. Traditionally we hire college
634 students bound for college of the Gorman-Rupp employees.
635 Capital expenditures have been postponed on items that are
636 not essential to the operation.

637 I put my company example forward as typical of what is
638 happening in tens of thousands of energy supply chain

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639 companies throughout the United States. While my numbers
640 might not make the news, the aggregate of all similar stories
641 throughout the country has a profound impact on American
642 workers and the total U.S. jobs and growth picture. Lifting
643 the ban will help turn this around.

644 Here are several important reasons why. It would remove
645 the competitive disadvantage and allow the United States to
646 compete in the worldwide battle for energy market share. New
647 production will drive substantial additional investment in
648 products and services from crude oil supply chain, generating
649 up to \$63 billion of supply chain economic output nationally.
650 This investment would create up to 440,000 new supply chain
651 jobs nationally by 2018.

652 These export-dependent jobs and GDP growth would be
653 widely spread throughout the American economy. They would
654 exist in all 50 states and throughout 60 different industry
655 sectors. Of the national supply chain gains, 10 of the top
656 15 states gaining jobs are non-producing states. By GDP
657 growth, 11 of the 15 states are non-producing states.

658 The Energy Equipment and Infrastructure Alliance, of
659 which my company is a member, estimate there is at least

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660 120,000 supply chain businesses and 615,000 workers
661 supporting American oil and natural gas production, 100,000
662 of which are small businesses.

663 The U.S. energy sector has been a leader in developing
664 new technologies for energy exploration and extraction.
665 Taking advantage of those technological advances before
666 competitors do would give the U.S. energy industry incentives
667 to innovate and become even better at finding and extracting
668 oil and natural gas in an efficient and safe manner. Lifting
669 the oil ban on crude oil exports is a step that could yield
670 almost immediate results at a time when the United States
671 continues to see sluggish growth in the kind of good jobs the
672 energy sector provides.

673 Thank you again, Mr. Chairman, for inviting me to
674 address your committee.

675 [The prepared statement of Mr. Kreinbihl follows:]

676 ***** INSERT D *****

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|

677 Mr. {Whitfield.} Well, thank you for your opening
678 statement. And Mr. Pallone has arrived, and he is the
679 ranking member of our Full Committee, and I would like to
680 recognize him for 5 minutes for his opening statement.

681 Mr. {Pallone.} Thank you. Thank you, Chairman, for
682 bearing with me. Today we have been working on the 21st
683 Century Cures and bringing it to the Floor on a bipartisan
684 basis, so I appreciate the opportunity.

685 I also wanted to thank Commander Lippold for your
686 service to our country. As I have said before, it is not a
687 bad idea to reconsider the merits of a policy enacted in the
688 wake of the 1973 oil embargo. The world is very different
689 than it was 40 years ago, and our energy picture is evolving
690 rapidly. Domestic oil production has increased dramatically
691 in recent years, and demand growth has slowed noticeably.
692 The current relatively low price of oil and the increase in
693 domestic production benefit us all. Low oil prices boost our
694 GDP and decrease the amount Americans spend at the pump.
695 However, there is no guarantee that these conditions will
696 last. We still import much of our oil, and while oil prices

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697 might remain where they are, gasoline prices have already
698 risen significantly since our March hearing on this issue.

699 Many factors could change the future energy picture,
700 including geopolitical instability and international domestic
701 market forces. These are important issues to consider before
702 shipping the oil we produce here to countries around the
703 world. And that is why we need to better understand where
704 exported oil will go, whether it be to Asia, Europe, or other
705 locations. I welcome the Czech Ambassador, and I am
706 interested to hear about what type of U.S. oil could benefit
707 his country as he spoke.

708 I believe that we need to answer a host of complicated
709 questions before considering a wholesale dismantling of our
710 Nation's ability to restrict oil exports as proposed in H.R.
711 702. First, how would lifting the ban affect the price of
712 crude oil and therefore the price of gasoline? I don't think
713 there is a consensus on that point, though I think my
714 constituents would all agree the prices at the pump are still
715 far too high. Exports may help oil companies, but will they
716 really benefit consumers?

717 Second, how would such a change affect both our refinery

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718 capacity and associated jobs? How would exporting crude oil
719 instead of finished petroleum products affect job growth in
720 the years ahead? Some like the steelworkers want to keep and
721 grow those jobs in the United States. Exporting the oil
722 could mean exporting those jobs and paying a higher price for
723 gasoline.

724 Third, if we are going to export crude oil, shouldn't
725 the American people receive some direct benefit in the form
726 of increased revenues? Shouldn't we consider a fee on
727 exports to ensure all Americans benefit from the exploitation
728 and exporting of the natural resources?

729 And fourth, what are the environmental and climate
730 impacts of lifting the export ban? Are we still going to put
731 our beaches and oceans at risk just to add oil to the world
732 market? Increasing crude exports means increasing impacts on
733 climate change, public health and safety, property owners,
734 and our water supplies. And we have to choose the cleanest
735 and most sustainable path forward.

736 Finally, Mr. Chairman, are we really ready to treat oil
737 as just another commodity like peanuts or grain? Because if
738 oil is no longer something to be restricted, then isn't it

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739 also time to remove the many subsidies we have given to oil
740 over the years in the name of national security? I never
741 thought those subsidies were good policy. But if oil is no
742 different than peanuts, why should it enjoy special liability
743 exemptions under Superfund and other statutes? Why should we
744 subsidize oil production on federal lands?

745 These are only some of the issues that I believe we have
746 to address before completely doing away with the ban on
747 exports. We shouldn't embrace short-term gains without
748 understanding the long-term costs of our decisions because we
749 can't afford to get it wrong.

750 And to that end, maybe it would be wiser to explore some
751 smaller intermediate steps first such as easing restrictions
752 on crude exports to our neighbors in Mexico before abruptly
753 eliminating all our national security protections for this
754 critical energy source.

755 And again, I want to thank you, Mr. Chairman, Mr.
756 Barton, for sponsoring the bill and helping begin this
757 discussion, and I do apologize for interrupting now the
758 questions. But I know, you know, we are doing a lot now to
759 get the votes for our 21st Century Cures bill, but I wanted

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760 to have the opportunity to speak on this. Thank you.

761 [The prepared statement of Mr. Pallone follows:]

762 ***** COMMITTEE INSERT *****

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763 Mr. {Whitfield.} Thank you, Mr. Pallone, and that
764 concludes our opening statements. And once again, thank you,
765 panel members, for coming and for your statements. At this
766 time I would like to recognize myself for 5 minutes of
767 questions, and then we will give other members of the
768 committee that opportunity as well.

769 Generally speaking, when we do consider the export of
770 products from America, I mean, we have been quite successful,
771 and it is quite difficult to understand how, as Mr. Barton
772 said, we can export almost anything, but we can't export
773 crude oil. And from my discussions with people about this
774 issue, the two primary reasons that you hear about are,
775 number one, oh, this is going to increase gasoline prices.
776 And then the second reason that I have heard that some
777 refiners have already made adjustments so that they can
778 refine light, sweet oil that is coming primarily out of our
779 domestic production now, and originally they were doing heavy
780 crude and heavy, sour, and they have made these investments
781 so they can do it. Now other refiners have not made that
782 investment, and they are complaining that it would put them

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783 at a disadvantage.

784 But Dr. Montgomery, you had indicated and I have heard
785 others say this and I would see what Commander Lippold says
786 about it, but gasoline prices are determined by the world
787 market price. And if more oil is being produced into the
788 world market, you would think that that would reduce gasoline
789 prices, and that is what EIA has said and other groups. Do
790 you agree with that, Dr. Montgomery?

791 Mr. {Montgomery.} [Audio malfunction in hearing room.]

792 Mr. {Whitfield.} Okay. And Commander Lippold, do you
793 have a comment on this?

794 Mr. {Lippold.} Mr. Chairman, I am not an economist, so
795 I couldn't really judge the prices. But what I can say is
796 that obviously if you are introducing more oil onto the world
797 market, that creates a cushion and a degree of stability from
798 a national security perspective is obviously good because it
799 gives the ability for nations to now take in the oil--

800 Mr. {Whitfield.} Right.

801 Mr. {Lippold.} --and produce it. But when you are
802 looking at our country, it is the fact that we have still got
803 that 30 percent and we are trying to export that concerns me.

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804 Mr. {Whitfield.} Yeah. I mean, one of the arguments
805 that you made, which I think is a little bit of a stretch
806 myself, but you were saying that because if we put more oil
807 into the market, the world market, you are saying that would
808 be a disadvantage. Explain that to me once again.

809 Mr. {Lippold.} Well, right now when you look at the oil
810 that we are producing which is the light tight or light
811 crude--

812 Mr. {Whitfield.} Right.

813 Mr. {Lippold.} --in discussion, the refineries right
814 now say that they have the excess capacity to be able to
815 produce that which creates the refined product which goes out
816 onto the market and therefore, the more you have in the
817 market, you know, just common sense says it is going to bring
818 that price down. By keeping it here at home, we are able to
819 adjust and be able to react more because we are not as
820 dependent on other nations. It also gives us the flexibility
821 that if we need to export refined product around the world
822 and we are exercising that capacity within our refineries, it
823 gives us the capability to get that product where it needs to
824 go for any kind of an emergency for any countries, whether it

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825 is in the Pacific rim, whether it is in Eastern Europe,
826 because if you can deliver refined product right off the bat,
827 that is what they are going to need to make their economies
828 and militaries be able to protect their nations.

829 Mr. {Whitfield.} Mr. Ambassador, all of us on this
830 committee have had representatives from all over Europe talk
831 about the importance of doing this for the benefit of their
832 countries, and you are being here today to explain those
833 benefits is particularly helpful.

834 Right now, how much oil is the Czech Republic consuming
835 a day? Do you know the answer to that question? In barrels.
836 I think you all talk about it in tons, right?

837 Ambassador {Gandalovic.} Our total consumption is
838 195,000 barrels a day--

839 Mr. {Whitfield.} One hundred ninety-five thousand
840 barrels a day?

841 Ambassador {Gandalovic.} --which goes, as I said, about
842 50 percent from Russia and another 50 percent is combined
843 from Azerbaijan, Kazakhstan, and other smaller suppliers.

844 Mr. {Whitfield.} But in your discussions with other
845 European leaders, on this issue I am assuming that the

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846 majority of them would support our efforts to lift this
847 restriction on the export of crude oil.

848 Ambassador {Gandalovic.} Well, of course, as ambassador
849 of the Czech Republic, I cannot represent or speak on behalf
850 of other countries, but just from the perspective of the
851 Visegrad Group, as I said, is Hungary, Poland, Slovakia, and
852 the Czech Republic, there are members of this grouping whose
853 dependence on Russia is almost 100 percent.

854 So in this respect, they would probably need to adjust
855 their refineries and make some homework in interconnectors to
856 be able to import other than Russian crude oil.

857 Mr. {Whitfield.} Right.

858 Ambassador {Gandalovic.} So then of course U.S.
859 opportunity would be welcome I guess.

860 Mr. {Whitfield.} Okay. Well, my time is expired, so
861 Mr. Rush, I will recognize you for 5 minutes.

862 Mr. {Rush.} I want to thank you, Mr. Chairman, and I
863 also want to again thank the witnesses. I have a question
864 for Commander Lippold. Commander, in your testimony you say
865 that security benefits to changing export regulations are
866 unlikely to materialize in the near future. Do you see any

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867 benefits to national security and our diplomacy efforts if we
868 were to export crude oil among other energy resources to our
869 neighbor, Cuba? Could U.S. imports to Cuba displace
870 Venezuelan or Russian imports? And if so, what implications
871 might that have in the region for us politically and
872 diplomatically?

873 Mr. {Lippold.} So the question that I would look or the
874 answer that I would give to that is going to be if we are
875 going to be exporting it to countries to try and displace,
876 once again we are getting into the issue, we are beginning to
877 parse out who we want that oil to go to, and from a national
878 security perspective, I think most people here on the
879 committee would agree that the number one people that we need
880 to take care of first is going to be here in the United
881 States. If we are dependent on oil, all we are doing is
882 while we may be giving our oil to one person as one type, we
883 are still going to be taking in more amount of oil to make up
884 for the total quantity that has to be consumed within the
885 United States.

886 So I don't see an immediate advantage in taking our oil
887 and then saying, well, we will export it. We do already

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888 export through licenses a certain degree of that oil under
889 the existing law to Canada, and we have just prevented it
890 from going to other nations. But if we drop the thing
891 wholesale and decide we are going to be able to export it to
892 everyone, the ramifications in second- and third-order
893 effects on national security and stability have not been
894 thought through yet.

895 Mr. {Rush.} Dr. Montgomery, I was just handed a study
896 by the Chairman Emeritus of the Full Committee, and it is an
897 IHS study. Are you familiar with that, IHS study that was
898 released in March 2015?

899 Mr. {Montgomery.} I am familiar with some IHS studies.
900 You will have to describe this one a little bit more for me I
901 am afraid.

902 Mr. {Rush.} Well, let me just quote from it. It says
903 in states with a diverse and mature set of supplier
904 industries, the supply chain can account for half of the
905 value-added from lifting the export ban. Illinois, an oil-
906 producing state with diverse supplier industries, would
907 derive 58 percent and 54 percent of the total GDP impacts
908 from its supply chain. Illinois consistently stands to gain

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909 from lifting the ban in all supply chain sectors examined in
910 the IHS study.

911 Do you have any commentary on that which I have quoted?

912 Mr. {Montgomery.} Yes. I think it is first missing the
913 point that one of the primary benefits that comes from
914 increasing crude oil production in the United States and oil
915 exports is a reduction in gasoline prices which accrues to
916 everyone in the U.S. economy. I mean, it is directly
917 beneficial to consumers. It is money in their pockets, and
918 it in turn provides additional income for them to spend
919 locally in their own economies. So that is one point.

920 The second point though is that this emphasis on value-
921 added I think is a misconception and is bad economics because
922 it is mistaking costs for benefits. High value-added in the
923 refining sector is actually means it takes more capital
924 investment, more workers in order to produce the same amount
925 of hydrocarbons or the same number of BTUs. And I actually
926 think Mr. Kreinbihl used a great phrase which I am going to
927 copy frequently. What we are really seeing here is a
928 situation in which we can compete more effectively
929 internationally as crude oil producers than as refiners

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930 because what we are looking at is the prospect for producing
931 several hundred thousand barrels per day in addition to what
932 we are producing today. Nothing is being taken away from
933 U.S. refiners. It is true. They are already using all the
934 light tight oil we produce today. The opportunity with
935 removing the export ban is we can produce more crude oil
936 which we can export which will help our balance of trade.

937 Now some refiners say we want that oil for ourselves.
938 But they have to make additional investments in order to use
939 it which means that their costs--it costs more to export a
940 barrel of product than it does to export a barrel of crude.
941 So the economy benefits more from exporting the crude because
942 we don't have to make this wasteful investment in refining.
943 We can invest in something else, improved agricultural
944 productivity, for something we have a comparative advantage
945 in.

946 Mr. {Rush.} Thank you. I yield back, Mr. Chairman.

947 Mr. {Whitfield.} At this time I recognize the gentleman
948 from Texas, Mr. Barton, for 5 minutes.

949 Mr. {Barton.} Thank you. I want to build on what Mr.
950 Rush just asked Dr. Montgomery, but I am going to ask the

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951 question to Mr. Kreinbihl. I have studied that study that
952 Congressman Rush referred to, and my understanding is that
953 what it means for a State like Illinois, if you have a
954 manufacturing base that supplies oil field equipment and
955 supplies pipeline equipment and supplies electrical
956 equipment. In other words, if you have a manufacturing base
957 and distribution base, that even though you are not producing
958 the oil, you benefit from it. That is the kind of company
959 and business that you are in, is that not correct, Mr.
960 Kreinbihl?

961 Mr. {Kreinbihl.} That is correct, and I think as I have
962 pointed out, I did provide a chart in my testimony showing
963 the correlation between the number of drilling rigs and our
964 incoming orders.

965 As I tried to mention in my testimony before, what
966 really happens for us is it is not just the oil and gas or
967 the crude that is exported. It is all the ancillary things
968 that happen. They need pumps to build the hotels and dewater
969 the construction site for that. They need pumps for
970 transferring just water to and from the sites. And I am
971 speaking of pumps because that is my background. But I think

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972 you can take that and use it throughout the manufacturing
973 industry. Everybody seems to benefit from an increase in the
974 economy and the activity that the oil--

975 Mr. {Barton.} So a State like Illinois, which again has
976 some oil production but is centrally located, has a
977 manufacturing base, those small businesses and some large
978 businesses would benefit because they would send equipment to
979 the Bakken in North Dakota, over into Pennsylvania, even down
980 into Oklahoma because if the drilling rigs went back into
981 production, their business would increase. Is that not a
982 fair assessment of what that study indicates?

983 Mr. {Kreinbihl.} That is very correct.

984 Mr. {Barton.} Okay. I want to go to Ambassador
985 Gandalovic. Commander Lippold indicated that if we lift the
986 ban, most of the oil production that we would export would go
987 to Asia, and certainly Asia would be a good market. I would
988 point out that under current law, oil that goes through the
989 Trans-Alaska Pipeline can go to Asia right now.

990 You represent a part of the world that we would say
991 would be Central Europe or Eastern Europe, and you indicated
992 that your country specifically and the countries around you

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993 that you have economic relationships with, would want to
994 import some of this oil. So what is your assessment of what
995 Commander Lippold said about the benefits primarily going to
996 Asia as compared to your part of the world?

997 Ambassador {Gandalovic.} Well, again, I just want to
998 speak on behalf of the Czech Republic only, first, and
999 second, I have to explain to you the structure, the ownership
1000 structure of the oil distribution and refinery sector in the
1001 Czech Republic.

1002 Simply said, the pipelines and storage capacities are
1003 owned by the state while refineries and of course
1004 distribution of product is private. So we don't have as a
1005 state any influence on whose oil these refineries are going
1006 to buy. As a state, we have actually put in place such a
1007 system that there is more opportunities from both ends, for
1008 these refineries. So it gives us energy security to certain
1009 level that even if there is a disruption of supply from one
1010 end, there is an alternative.

1011 So I cannot assure you that even if you pass this bill,
1012 there will be a direct purchase from our refineries, I mean
1013 from refineries that operate in the Czech Republic of the

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1014 U.S. crude oil. I cannot assure and predict. I can predict
1015 that if there is an alternative coming from the United States
1016 as democratic state that doesn't use exports of natural
1017 resources as a political tool, the world itself will be a
1018 more safer place.

1019 Mr. {Barton.} My time has expired, Mr. Chairman. Thank
1020 you.

1021 Mr. {Whitfield.} At this time I recognize Mr. Pallone,
1022 the gentleman from New Jersey, for 5 minutes.

1023 Mr. {Pallone.} Thank you, Mr. Chairman. The initial
1024 purpose of the export regulation was to protect the United
1025 States from state-owned oil actors organized through OPEC,
1026 and the oil market was not and is not today truly a free
1027 market. Oil is a commodity unlike any other, and our Nation
1028 is disproportionately impacted by oil imports.

1029 Secretary Moniz recently expressed doubt about the
1030 wisdom and timing of lifting the crude export ban when we
1031 still import 7 million barrels of crude oil per day. And
1032 some of those barrels come from Canada and Mexico, but others
1033 come from Venezuela, Saudi Arabia, and Iraq.

1034 So Commander Lippold, my questions are all for you. Is

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1035 it in the best interest of the U.S. national security to
1036 continue relying on potentially volatile regions and nations
1037 for our oil consumption? And could lifting the export ban
1038 result in a decrease of lower priced domestic crude oil for
1039 refineries in the Northeast?

1040 Mr. {Lippold.} Not being an economist, I wouldn't know
1041 how it is exactly going to ripple through and affect the
1042 markets. But I can tell you from a national security
1043 perspective, the fact that we are still as dependent as we
1044 are on imported oil does have an effect on our ability to act
1045 independently on the world stage.

1046 Mr. {Pallone.} And could lifting the export ban result
1047 in further imports from the Middle East?

1048 Mr. {Lippold.} I don't know if we exactly know that.
1049 One of the problems is if we lift the export ban and we
1050 introduce crude onto the market, every study that is out
1051 there indicates that the vast majority of it will go to the
1052 highest bidder. Oil will always follow the path of greatest
1053 financial gain. Right now that is going to be to Asia, and
1054 that is going to have a ripple effect that goes through every
1055 part of our economy, including Gorman-Rupp. I mean the

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1056 previous testimony. A few years ago, their president said
1057 that the Chinese were copying their pumps, building what they
1058 are doing, and yet we are going to be now providing them, if
1059 we export it, fuel that is going to be taking on those very
1060 industries that undermine our industrial base. That is not
1061 something we want to do.

1062 Mr. {Pallone.} I want to ask you something about
1063 refining capacity. We have heard suggestions that there is
1064 insufficient refining capacity for the light tight oils that
1065 are being produced today and that therefore we have a surplus
1066 of oil that must be exported. But do you believe that that
1067 is the case?

1068 Mr. {Lippold.} No, I do not. The refineries right now
1069 are indicating that they do have the excess capacity and
1070 capability to take the light tight oil and refine it for
1071 distribution.

1072 Mr. {Pallone.} So if refiners are incapable or
1073 unwilling to process this oil, then our discussion today
1074 would be different. However, in a recent survey of a
1075 majority of the American Fuel and Petrochemical Manufacturers
1076 Association's membership indicated that construction is

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1077 already underway on additional refining capacity that will be
1078 able to process an additional 720,000 barrels of new light
1079 sweet crude a day. The new capacity is on track to be
1080 operational in 2016 when this outpaces EIA's oil production
1081 forecast.

1082 So Commander, does this match your understanding of U.S.
1083 refiners' ability to handle or process our domestic light
1084 sweet crude?

1085 Mr. {Lippold.} It does, but I would also add onto that
1086 to say not only are they working to be able to take on more
1087 capacity by creating the--by building onto the refineries
1088 that exist, but one of the key things we also have to do is
1089 look at the refining industry that goes also with the
1090 production industry as well and the amount of regulation that
1091 is imposed on them today and figure out how can that process
1092 be best streamlined so that we can in fact increase capacity
1093 on both sides to be able to make us toward that long-term
1094 goal of energy independence. Everyone talks about it, we aim
1095 toward it, and now we need to start putting some of the
1096 pieces in place because as the Czech Ambassador very well
1097 said, if you have energy sovereignty, you are going to have

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1098 national sovereignty. We do not have that international--we
1099 do not have that energy independence and sovereignty right
1100 now. We are still overly dependent on foreign oil from
1101 countries that clearly we have seen, especially over the last
1102 15 years, do not represent our interests and values. The
1103 more we can disconnect from that, the better off our Nation
1104 will be in the long run.

1105 Mr. {Pallone.} Well, let me just ask you about the
1106 Czech Republic. I notice that the ambassador didn't clearly
1107 indicate that U.S. oil would displace Russian or European
1108 crude. If we lift the export ban, does U.S. oil flow to the
1109 Czech Republic and how would the Czech Republic benefit if at
1110 all?

1111 Mr. {Lippold.} I think one of the greatest problems
1112 that you would have is that they are geared to take certain
1113 amounts and types of oil and refine it. If you only have,
1114 you know--given 195,000 barrels a day, I don't know and
1115 perhaps the ambassador could enlighten and say this is how
1116 much it is able to process the Russian crude which is medium
1117 sour versus the light tight oil that the U.S. would be
1118 sending them.

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1119 So again, one of the great capabilities that we have in
1120 our country is in our refining capacity in that we don't have
1121 to lift the export ban if we have a refined product available
1122 that if energy is used as a weapon somewhere in the world, we
1123 can turn around and export refined product to give them
1124 immediate, tangible benefit that is going to help us and give
1125 us flexibility.

1126 Mr. {Pallone.} All right. Thank you. Thank you, Mr.
1127 Chairman.

1128 Mr. {Whitfield.} Mr. Ambassador, do you want to respond
1129 to that?

1130 Ambassador {Gandalovic.} I just wish to say that it is
1131 a well-known fact that even in Europe there is an access
1132 capacity of refineries. So we talk of a broader picture that
1133 U.S. oil could be possibly refined in some other European
1134 refineries, not speaking of a rather small Czech market only.

1135 Mr. {Whitfield.} At this time I recognize the gentleman
1136 from Texas, Mr. Olson, for 5 minutes.

1137 Mr. {Olson.} I thank the chair. Welcome, Dr.
1138 Montgomery and Mr. Kreinbihl. Warm greetings to our NATO
1139 ally, Ambassador Gandalovic, and a special shipmate-to-

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1140 shipmate welcome to Skipper Lippold.

1141 October 12th of 2000 at 11:18 in the morning, you took
1142 the biggest hit Al Qaida could muster. Their bombs killed 17
1143 of your sailors and wounded 39 more. Your leadership kept
1144 the Cole afloat, and you brought her home. As we say in the
1145 Navy, Bravo Zulu, Skipper. Bravo Zulu.

1146 Now to the matter at hand, exports of American crude
1147 oil. This debate was started in 1975 by a law that is way
1148 out of touch with 2015. I believe that American free trade
1149 is the most powerful force for freedom in the whole world,
1150 and I do see value in ending 1975's ban. I know some
1151 refiners will feel some pain if we end the ban and stop
1152 distortions of the market caused by government mandates. But
1153 once we have moved through this debate, Mr. Chairman, I hope
1154 we can take a look at other distortions of the market caused
1155 by outdated government mandates like the broken ethanol
1156 mandate. These are not linked, exports and ethanol, but they
1157 have a common problem: DC in the market.

1158 Skipper Lippold and Dr. Montgomery, I have noticed that
1159 you all have very different opinions about crude exports
1160 causing more imports of foreign crude. You each have 1

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1161 minute to make your case. Skipper, you have the con.

1162 Mr. {Lippold.} Thank you, Congressman. I think when
1163 you look at the imports that we have today, when we are still
1164 importing 30 percent of our oil and the fact that it is not
1165 controlled in an open, free market, there are entities out
1166 there, whether it is OPEC or other nations that are acting as
1167 cartels that are influencing that market and will continue to
1168 have an undue influence on them, they will directly affect
1169 our national security should they choose like they did in
1170 1973 or '73, '74, following the Yom Kippur War, to squeeze
1171 the oil supply and force an embargo and put things on us.

1172 What we need to do is create the capacity and capability
1173 in this Nation using the oil that we have at hand to refine
1174 it here at home so that we don't remain dependent. One of
1175 the greatest concerns that I have right now is that being 30
1176 percent, that is like saying, hey, you have completed 8 steps
1177 of a 12-step program on your recovery from addiction to oil.

1178 Mr. {Olson.} Skipper, I have to take--

1179 Mr. {Lippold.} And now is not the time to go to the bar
1180 and celebrate.

1181 Mr. {Olson.} --the con back. I am sorry, sir, but you

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1182 are relieved. Dr. Montgomery, you are up, sir. Your
1183 response?

1184 Mr. {Montgomery.} Yes. I think that the first thing to
1185 remember is that removing the restrictions on crude oil
1186 exports will lead to an increase in U.S. production of crude
1187 oil. It is that increased production that would be exported.
1188 It is not a question of production being constant and oil
1189 being taken away from U.S. refineries to be shipped overseas.
1190 Instead, the problem is that we are seeing a big price
1191 differential indicating that U.S. oil is backed up in those
1192 fields and not being produced. If it can be exported, that
1193 is a net addition to the world's oil supply, and it is a net
1194 subtraction from the total call that the United States is
1195 making on the world market. And it is those net imports that
1196 matter for everything, as I said before, but in particular
1197 for national security because by reducing our net call on
1198 world oil markets, we don't help Venezuela and--

1199 Mr. {Olson.} And Dr. Montgomery, I am sorry. I have
1200 run out of time. I ask that both of you submit for the
1201 record any documents or reports that justify your position.

1202 My final questions are for you, Ambassador Gandalovic.

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1203 I doubt Mr. Putin would be very happy about America ending
1204 its ban on crude exports. How will his displeasure affect
1205 the Czech Republic?

1206 Ambassador {Gandalovic.} Congressman, with all due
1207 respect, I would rather not comment on other nations'
1208 leaders.

1209 Mr. {Olson.} Mr. Montgomery, do you care if the comment
1210 about Mr. Putin's impact and maybe OPEC's impact if we export
1211 crude?

1212 Mr. {Montgomery.} Yes. I think I should have included
1213 Russia in my litany of those who will not be helped by lower
1214 world oil prices. Russia is currently dependent on its
1215 hydrocarbon exports for foreign exchange and for keeping its
1216 economy going, and both allowing unlimited LNG exports from
1217 the United States as well as removing restrictions on crude
1218 oil would take away from his economic power.

1219 Mr. {Olson.} Thank you. Go Navy, beat Army.

1220 Mr. {Whitfield.} At this time I recognize the gentleman
1221 from California, Mr. McNerney for 5 minutes.

1222 Mr. {McNerney.} Thank you, Mr. Chairman. I thank Mr.
1223 Barton for bringing this issue up, and I thank the panelists

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1224 for an interesting discussion this morning.

1225 It looks like there are about three issues that are
1226 involved here: the impact on domestic prices, the impact on
1227 national security, and the environment impact. So the first
1228 two sort of go hand in hand. Dr. Montgomery, I believe you
1229 stated that it is all about imports, net imports and net
1230 exports so that if we export more crude than we import
1231 refined product, we are on the winning side of this thing.
1232 Is that what I understood you to say?

1233 Mr. {Montgomery.} No. Our increased exports of crude
1234 oil would not be offset by increased imports of refined
1235 products. Unless people start consuming more gasoline
1236 because the price of gasoline has dropped, there is going to
1237 be no change in our product consumption. So it would be a
1238 net so that--to a first approximate, back of the envelope,
1239 the amount of additional oil that we produce and export is a
1240 net change. It is not going to be balanced by increased
1241 import, by increased product.

1242 Mr. {McNerney.} Well, I didn't mean that we were going
1243 to import more. I meant that if we export more than we
1244 import, then we are on the winning side of this thing. That

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1245 is what I understood you to say. But my problem with that is
1246 that if we depend more on imported refined product, then we
1247 have to secure our sea lanes which has a very high cost that
1248 the consumers aren't going to pay at the pump but they are
1249 going to pay through our National Defense Authorization.
1250 Would you agree with that, Commander?

1251 Mr. {Lippold.} I think that there is going to be a
1252 certain amount of some cost that is going into any
1253 safeguarding of the sea lanes of communication for the global
1254 economy. The issue is that if you begin to increase more
1255 coming to the United States, obviously that lifeline is going
1256 to become more important for us, and yes, we would have to
1257 develop more assets to put out there. And while there may be
1258 a cost, I am certainly not going to turn down any opportunity
1259 to have more ships built to do that.

1260 Mr. {McNerney.} Thank you. The environmental impact is
1261 also at surface here. I think the increased production has
1262 been very good for our economy, but my concern is that the
1263 technology that we need to keep production clean--by clean I
1264 mean carbon, greenhouse gas emissions from production,
1265 greenhouse gas emissions in transportation--that they are not

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1266 there to keep up with the demand that would increase if we
1267 lifted the export ban. Did I make that clear? So I guess I
1268 am concerned about the environmental impact of increased
1269 emissions, increased groundwater contamination, especially in
1270 California, if we lift this ban, you know, precipitously.
1271 Would you agree with that, Dr. Montgomery?

1272 Mr. {Montgomery.} Not entirely. I mean, yes, the
1273 increased activity in producing oil will produce somewhat--
1274 well, the activity of producing oil itself is not going to
1275 increase greenhouse gas emissions. Let me stop there. It is
1276 only if that increased production of crude oil does in fact
1277 reduce gasoline prices.

1278 So first of all we have to all agree that allowing
1279 exports of crude oil would cause gasoline prices to fall. If
1280 we all agree on that, then yes, there would be some increase
1281 in consumption of gasoline in the United States. We actually
1282 calculated this in the study we--

1283 Mr. {McNerney.} I am not talking about consumption. I
1284 am talking about fugitive gas emissions in the production
1285 process, fugitive gas emissions in the transportation
1286 process.

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1287 Mr. {Montgomery.} Those--

1288 Mr. {McNerney.} But I don't think our technology is
1289 there yet to make sure that that increased production in the
1290 United States and increased transportation in the United
1291 States and overseas is going to be carefully done. I just
1292 don't believe that we are there.

1293 Mr. {Montgomery.} I believe it is. I have been
1294 watching this industry for 40 years. There are occasional
1295 accidents--

1296 Mr. {McNerney.} Well, if that is the case, then why--

1297 Mr. {Montgomery.} They operate safely.

1298 Mr. {McNerney.} Let me regain my time. Why are they
1299 burning off so much gas in the production process?

1300 Mr. {Montgomery.} In the Bakken it is being burned off
1301 because they can't build the infrastructure fast enough--

1302 Mr. {McNerney.} Well, that is my point.

1303 Mr. {Montgomery.} --to move the gas out.

1304 Mr. {McNerney.} They don't have the infrastructure
1305 there yet--

1306 Mr. {Montgomery.} But that is not--

1307 Mr. {McNerney.} --to affect the production that is

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1308 already being done. So if we increase production, then we
1309 are going to get more of that.

1310 Mr. {Montgomery.} We actually--

1311 Mr. {McNerney.} And I would like to fall back on what
1312 the Commander's observation was that the U.S. dependence on
1313 30 percent of imported oil, we really aren't in a position to
1314 precipitously lift the ban. I think we can do it in steps,
1315 and it would make sense to increase production in exports in
1316 steps but not precipitously. We are not there yet. I will
1317 yield back.

1318 Mr. {Whitfield.} The gentleman yields back. At this
1319 time I recognize the gentleman from Illinois, Mr. Shimkus,
1320 for 5 minutes.

1321 Mr. {Shimkus.} Thank you, Mr. Chairman. This is a
1322 great hearing, and I appreciate those who are here. The
1323 Ranking Member Mr. Pallone really said an interesting
1324 statement. At the time that--and he is still here so
1325 hopefully I get it right. The restriction, the current
1326 restriction was based upon our desire to protect our economy
1327 against state oil interest, state-owned oil interest. That
1328 is why we did it in the '70s. The international security

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1329 debate today is now we need to export oil to protect our
1330 allies against state-owned oil interest.

1331 We are in a different era. We are in a different age.
1332 Commander, when you sailed the seven seas, I was on the West
1333 German border. My defensive position was across the border
1334 from a country that was called Czechoslovakia at that time.
1335 That country no longer exists. You have the Slovak Republic
1336 and the Czech Republic, and they are our allies. And I spent
1337 a lot of time in Eastern European issues. Just returned with
1338 the Speaker from Lithuania, Finland, Poland, and Ireland, and
1339 they want to free themselves from the grip of oil extortion
1340 by Russia.

1341 So the world has changed, and I also take issue with the
1342 flexibility debate that you have about why we shouldn't
1343 export because you have more flexibility to respond if you
1344 have more crude oil on the world market. Recovering crude
1345 oil is not something you can do overnight. It is a time-
1346 consumed process of investigation, drilling for discovery and
1347 then drilling for recovery, and it takes a long process.

1348 So right now the United States, we export refined
1349 product. Why do we export refined product? Does anyone

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1350 know? Because we produce more than we consume. So
1351 Commander, you wouldn't ask the United States to not export
1352 refined product when we produce more than we consume, would
1353 you?

1354 Mr. {Lippold.} No.

1355 Mr. {Shimkus.} Okay. And so the debate on our refining
1356 capacity, and we have it, too. I have got both sides on the
1357 aisle who are trying to make this argument. But the idea is
1358 we want more crude oil on the world market. Economics 101,
1359 supply and demand. You don't have to be an economist to
1360 understand that if demand remains the same and supply
1361 increases, the price goes down. The only political fear is
1362 there are some unplanned disruption in our refinery, a fire,
1363 that there is a price spike. Then everybody gets caught by
1364 that.

1365 So I only have 2 minutes left. I want to cover, one,
1366 Eastern European national security relies on expanded
1367 exports. Whether it is LNG or crude oil, they are begging
1368 the United States to be involved in this market for their own
1369 security. The second thing is the economic argument for
1370 pricing is sound. More crude oil on the market, demand

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1371 remains the same, prices go down. And the third thing, Mr.
1372 Kreinbihl, you mentioned it, and it is true. Chairman
1373 Emeritus Barton and Mr. Rush were talking about jobs related,
1374 and we were talking about the State of Illinois. Well,
1375 Southern Illinois is exhibit number one. We are ready. We
1376 have marginal wells. We were prepared for using the new
1377 technology. Prices went down, and there is a halt in any
1378 activity of recovering from the Illinois Basin which is
1379 probably going to be one of the most productive basins in the
1380 country because now the pricing is just not there. So the
1381 local schools have lost revenue. The local counties have
1382 lost revenue. The job creators, the haulers, the steel mills
1383 have all lost the ability to create jobs because of a policy
1384 that was designed, and I will just end on this, a policy that
1385 was designed to protect us against state oil interests.
1386 Well, we don't have to fear state oil interests anymore.
1387 They have to fear us as we put our crude on the world market.
1388 So with that, Mr. Chairman, not many questions, but a
1389 statement of listening to the testimony. I yield back.
1390 Mr. {Whitfield.} Great opening statement there. This
1391 time I would like to recognize the gentleman from Texas, Mr.

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1392 Green, for 5 minutes.

1393 Mr. {Green.} Thank you, Mr. Chairman, and I would like
1394 to ask my full statement be placed in the record.

1395 [The prepared statement of Mr. Green follows:]

1396 ***** COMMITTEE INSERT *****

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|

1397 Mr. {Green.} Most of you know and maybe not the panel
1398 but I represent a district in East Houston that at any given
1399 time over the last 20 years, I have had all five of our
1400 refineries in the Houston ship channel in our district. And
1401 I can tell you growing up there, this is the best time to be
1402 in the refining business in Texas that I have ever seen. And
1403 I know the issue is that most of those refineries were
1404 retooled in the '90s to handle our overseas crude, Venezuela,
1405 you name it, heavier crude because that is all we could get.

1406 But now we are seeing some of those refineries actually
1407 retooling to take our lighter sweet that we are getting. Now
1408 it is millions of dollars of investment. It was millions of
1409 dollars to turn those refineries around from lighter crude in
1410 the '90s to heavier crude, so it is going to be that. So our
1411 engineering companies are doing very well right now.

1412 But Mr. Montgomery, you mentioned massive refinery
1413 investment would be required in the United States. Do you
1414 know if that is occurring to handle the lighter sweet?

1415 Mr. {Montgomery.} Some is occurring, but not the amount
1416 it would--but my understanding when I look at studies that

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1417 were done by Baker & O'Brien for EIA--

1418 Mr. {Green.} So there is some.

1419 Mr. {Montgomery.} But not--

1420 Mr. {Green.} I only have 5 minutes and I need to get to
1421 another panel.

1422 Mr. {Montgomery.} Got it. Got it. Yes, there is some
1423 taking place but not enough to use all of the light tight oil
1424 that could be produced if we knocked out the differential.

1425 Mr. {Green.} My response to that, not everybody
1426 switched over to heavier crude at the same time in the mid-
1427 '90s, either.

1428 Mr. Ambassador, when you talked about the refining
1429 capacity in the Czech Republic, and I know Europe has a lot
1430 of other refinery capabilities, but you said that to handle
1431 the lighter sweet from the United States that your refineries
1432 would also be retooled to handle that lighter sweet. Is that
1433 true for Europe in general or is it just for the Czech
1434 Republic?

1435 Ambassador {Gandalovic.} I think and I am not an expert
1436 in this field that taking about 50 percent of non-Russian
1437 crude oil, the capacity is there to handle the light sweet.

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1438 Mr. {Green.} Okay. Well, maybe I misunderstood
1439 earlier. You said that there would have to be investment to
1440 retool those refineries to handle the lighter sweet.

1441 Ambassador {Gandalovic.} Yes, there might be disruption
1442 of deliveries from the East. Further retooling might be
1443 necessary.

1444 Mr. {Green.} Well, again, as a policymaker in our
1445 country, I would much rather we have that investment in our
1446 refineries and even though I want to help Europe both with
1447 LNG, but right now we are doing very well sending low-sulfur
1448 diesel from Texas over to Europe. And those are the jobs
1449 that we have in my East Harris County. They are very high-
1450 paying jobs at those five refineries, and there are
1451 refineries in my area who are retooling to handle that
1452 lighter sweet to make sure we can do it because you can't
1453 move a ship very quickly, and you can't move a refining
1454 industry very quickly because of the high cost of the
1455 investment. But now we know there is enough lighter sweet
1456 coming out of the Eagle Ford in Texas and even in West Texas
1457 where we thought Midland-Odessa was dead for production. But
1458 now we are seeing just amazing production out of that, and I

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1459 think you will see a lot of our refiners doing like they are
1460 doing in my own district along the coast of Texas. It is
1461 starting now, and we will see it. So if we start exporting
1462 it, we will lose some of that incentive to have these
1463 downstream jobs.

1464 I have a district where I have a lot of folks who
1465 produce oil, too. I represent a lot of service companies,
1466 and I want them to be working in the field. But I also want
1467 to see that we have that industrial capacity in our country,
1468 like the admiral said--or Commander. I am sorry. I promoted
1469 you. You should be an admiral. But I like your testimony.
1470 We need those downstream jobs to make sure we have that
1471 industrial capacity.

1472 My colleague from Pennsylvania has steel plants. We
1473 used to have them, but now we buy so much of our steel from
1474 everywhere else in the world. But I lost those jobs. I
1475 don't want to lose our refining capacity jobs. And again, I
1476 only have a few seconds. I support exporting LNG because we
1477 have a process for it. And granted, the Department of
1478 Energy, and this committee has looked at it, has been too
1479 slow in deciding their national interest. But I have talked

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1480 to my colleague, Mr. Barton. If we want to create a system
1481 like where we don't price ourselves out of the market on
1482 exporting crude oil, like I would worry about chemical
1483 industry, we are not going to see that because we are going
1484 to make sure that exporting is in our national interest for
1485 LNG. And I think we could do the same thing for crude oil.

1486 But again, thank you, Mr. Chairman.

1487 Mr. {Whitfield.} At this time--

1488 Mr. {Green.} I could spend all day with the panel.

1489 Mr. {Whitfield.} Yeah. At this time I recognize the
1490 gentleman from Pennsylvania, Mr. Pitts, for 5 minutes.

1491 Mr. {Pitts.} Thank you, Mr. Chairman. Mr. Ambassador,
1492 how has the use of energy, you know, by regional players,
1493 shaped the Czech energy policy and planning?

1494 Ambassador {Gandalovic.} How has the use of--

1495 Mr. {Pitts.} Energy diplomacy or energy as a political
1496 weapon. I don't know, however you want to categorize it.
1497 How has that shaped Czech energy policy and planning?

1498 Ambassador {Gandalovic.} Our main policy is
1499 diversification. So we do not want to rely on one energy
1500 resource technologically and geographically or I would say in

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1501 terms of foreign supplies. It applies on our domestic energy
1502 policy is so as I mentioned before in my testimony, we wish
1503 to develop both nuclear as well as conventional energy
1504 sources. Also we put a lot of emphasis on renewables. But
1505 we do not exaggerate their importance. So mix and diversity
1506 is our policy.

1507 And the same thing applies on resources of energy that
1508 we do not have in our country, oil and gas. Speaking of gas,
1509 you may also have noticed that Visegrad Group countries, the
1510 four countries I mentioned, about 1-1/2 years ago turned a
1511 letter to Speaker Boehner to initiate relaxation of U.S.
1512 strict export policies on gas export. So the same logic that
1513 applies to gas exports, I believe would apply on our position
1514 and position of other Visegrad Group countries on the U.S.
1515 policy of limitation of crude oil exports.

1516 Mr. {Pitts.} Thank you. Commander Lippold, would you
1517 explain again your assertion that lifting the export ban
1518 would increase reliance on foreign imports? The Energy
1519 Information Administration, leading experts, academics in the
1520 energy field all seem to agree that removing the U.S. crude
1521 export ban would likely increase U.S. production and reduce

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1522 imports. What is the basis of your assertion?

1523 Mr. {Lippold.} When you produce more oil and you put it
1524 on the world market, that oil is going to go wherever the
1525 highest bidder is going to take it. So we can't control
1526 where it is going to go, whether it is to Eastern Europe and
1527 our partner allies over there that may need it because of
1528 energy weapon--being used as a weapon. For example, Russia.
1529 Every study that I have read says that the majority of that
1530 oil is going to go to the highest bidder. Right now that is
1531 going to be China. Obviously, that has huge national
1532 security implications. When I look at the oil that would be
1533 produced and the fact that we have it, necessity is going to
1534 be the motherhood of invention. We are going to be able,
1535 whether it is through fracking or other things--I have never
1536 said don't ever lift this ban. What I am saying is if you
1537 just immediately drop it, we have not thought through those
1538 national security effects.

1539 Right now one of the things that I worry about is that I
1540 think everyone on the committee would agree. We would like
1541 to have a national energy policy that is dovetailed and
1542 marries in with a national security strategy protected with a

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1543 national military strategy. But when you look at if we were
1544 to just open it and do it, all we have are studies. There
1545 have been conflicting studies on what that effect would be.
1546 There have been conflicting studies on the price impact it
1547 would have. What it doesn't do is that when you are still 30
1548 percent dependent on oil to begin to start exporting that oil
1549 overseas when we have not even solved our energy independence
1550 here at home, it doesn't make common sense.

1551 Mr. {Pitts.} Thank you. Dr. Montgomery, you discussed
1552 the cost and investments domestic refiners must make relative
1553 to costs associated with exporting crude. In short, can you
1554 tell us what would make the U.S. economy more efficient,
1555 refining more crude or allowing for exports?

1556 Mr. {Montgomery.} Unquestionably allowing for exports.
1557 Essentially what we are doing with the crude oil export
1558 restrictions is raising gasoline prices in order to subsidize
1559 a select group of refiners. In essence, the crude oil export
1560 restrictions are price controls. They are price controls on
1561 a particular kind of oil. The refiners I think can see that
1562 they are benefiting from that because otherwise they wouldn't
1563 have any reason to oppose lifting the export restrictions.

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1564 So I think we will have some refinery investment which
1565 will take up some light tight oil, but it is still going to
1566 strand a great deal of oil that could otherwise be produced
1567 because without those price controls and without those
1568 subsidies, U.S. refiners can't compete selling all of the
1569 light tight oil in the world market without a subsidy.

1570 Mr. {Pitts.} Thank you. My time has expired.

1571 Mr. {Whitfield.} At this time I recognize the gentleman
1572 from Pennsylvania, Mr. Doyle, for 5 minutes.

1573 Mr. {Doyle.} Thank you, Mr. Chairman, and thanks for
1574 holding this hearing. I find it very interesting and
1575 fascinating.

1576 You know, I have been in Congress 21 years, and I have
1577 heard colleagues on both sides of the aisle constantly talk
1578 about the goal of making our country energy independent so
1579 that we could free ourselves from having to import oil from
1580 the Middle East and Venezuela. And the reason we don't
1581 export oil is because we were importing so much. It seems
1582 kind of crazy, at least in Pittsburgh, that you would talk
1583 about exporting something that you are still importing.

1584 And I want to say another thing, too. There is no

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1585 urgency to do this. I would like to put into the record an
1586 article that appeared in the Financial Times just 2 days ago
1587 entitled Oil Market Throws Cold Water on U.S. Export Ban
1588 Push.

1589 You know, when we talk about letting the market work,
1590 this is very interesting. It says the oil market has thrown
1591 cold water on the push to repeal the ban. The price of U.S.
1592 crude has been remarkably strong against global grades,
1593 undermining the contention that export restrictions have
1594 imprisoned domestic supplies and forced producers to sell at
1595 deep discounts.

1596 Last week the spot price of light Louisiana sweet crude
1597 on the U.S. Gulf of Mexico Coast was \$61 per barrel, more
1598 than the price of \$59.09 for Dated Brent from the North Sea.

1599 The article concludes by saying, in an analyst from
1600 Citigroup, if the U.S. crude export ban is removed and light
1601 sweet crude starts to flow out of the U.S. Gulf Coast, it
1602 would struggle to find a home in the well-supplied European
1603 market. It would only add to the oversupply in the Atlantic
1604 Basin and could hurt Brent more than it helps WTI. It could
1605 well be an instance where U.S. upstream players should be

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1606 careful for what they wish for.

1607 So Mr. Chairman, I think that we can slow this process
1608 down. There is no urgency to do this and start to consider
1609 some of the ramifications if we just simply open up, you
1610 know, lift this ban which will never be put back in place
1611 again. I would say to my Pennsylvania colleagues, by the
1612 way, to be careful what this does to our refineries in
1613 Philadelphia because it damages them greatly, and a lot of
1614 that has to do a little bit with the Jones Act which I will
1615 get into later. But I think we ought to slow this process
1616 down.

1617 Why wouldn't we be talking about taking this excess
1618 light sweet crude and tooling up our refinery capacity to
1619 keep it here in the United States and eventually over time
1620 become the energy independent country that we keep telling
1621 our constituents we want to be? I mean, this doesn't make a
1622 lick of sense to me as policymakers who are supposed to be
1623 thinking 20, 30, 40 years down the road for the next
1624 generation, not how can we make a quick buck on, you know,
1625 the disparity in oil prices. I mean, that is not our job.
1626 Our job is to look after the future of our country, not to

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1627 look after how people need to make some more money in the oil
1628 industry.

1629 I have a couple questions. Did I go over my whole 5
1630 minutes or has that clock been running? There is no way I
1631 spoke 8 minutes and 50 seconds, Mr. Chairman so--

1632 Mr. {Whitfield.} I think you have spoken too long, Mr.
1633 Doyle.

1634 Mr. {Doyle.} I mean, were you just so enraptured with
1635 my speech that you forgot to put the clock on. I think the
1636 only--

1637 Mr. {Whitfield.} Let me just say, you were mesmerizing.

1638 Mr. {Doyle.} I think I only used a couple seconds. Let
1639 me ask the panelists. The Energy Information Administration
1640 reference case from 2014 projects that U.S. tight oil
1641 production, which is the type of oil largely responsible for
1642 this oil boom, is going to increase in the coming years and
1643 peak at about 4.8 million barrels a day in 2021. This was up
1644 from 3.5 million barrels a day in 2013, and it has been a
1645 huge increase from where we were in the year 2000. However,
1646 except in the high resource case, production then begins to
1647 decline.

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1648 Commander Lippold, are you concerned that this
1649 legislation essentially permanently lifts the ban, even
1650 though we may start to see a decrease in oil production as
1651 early as the 2020s?

1652 Mr. {Lippold.} Sir, that would clearly be one of the
1653 considerations that needs to be taken into place as the long-
1654 term predictions on what our oil production capacity is going
1655 to be and the fact that if you lift this ban precipitously
1656 and take it off, that the ramifications that it would have
1657 exactly on the point you made--what is our national security
1658 impact going to be 20 to 30 years from now--needs to be
1659 thought through. That is why I say let's take a longer, slow
1660 down the approach, and take a look at either a phased-in or a
1661 more thought-out process.

1662 Mr. {Doyle.} Yeah, I mean, do you think there is a more
1663 responsible way to allow for some of this oil to be exported?
1664 I mean, is there a different mechanism that we could do this
1665 for? And do you think we should just keep the ban in place?

1666 Mr. {Lippold.} I think one of the great things about
1667 our Nation is that we in fact have the capacity that we are
1668 developing this oil, that it is going to be out there, and

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1669 that we are now going to have a greater degree of flexibility
1670 of aiming and working toward that energy independent country
1671 that we want to be. But I think that we shouldn't lift it
1672 immediately. Could it be lifted at some point, absolutely
1673 yes. Should we lift it at some point? Absolutely. Less
1674 regulation is better for the country as a whole.

1675 Mr. {Doyle.} Thank you. You know, we saw changes to
1676 refineries in the 1970s to process new types of oil, and I
1677 know that some of the refineries in my home State of
1678 Pennsylvania have made those structural changes to process
1679 the new oil we are benefitting from today. I have read that
1680 a large number of refineries will follow suit to benefit from
1681 the oil boom. I think many refineries are going to start to
1682 make these structural changes in the coming years.

1683 Commander Lippold, I am a strong supporter of Americans
1684 working and of organized labor, and I would like if you would
1685 comment on how the Jones Act plays in this? Because I have
1686 talked to my refineries up in Philadelphia in my State, and
1687 there is some concern that because of, you know, U.S. flag
1688 ships, the Jones Act, it may actually cost more money to take
1689 that light sweet crude up to our refineries in Pennsylvania

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1690 than it would be to send them over to Europe. And that is
1691 going to cost a lot of jobs, high-paying union jobs that we
1692 sustain families on that we are very proud of in Western
1693 Pennsylvania. And I want to know the effect of that because
1694 I have got colleagues on this committee from Pennsylvania,
1695 two Pennsylvanians on the other side of the aisle, that I
1696 think want to hear what the effect this is to Pennsylvania
1697 refineries.

1698 Mr. {Lippold.} I have not studied, Congressman, the
1699 effect of what the Jones Act would have knowing that that oil
1700 be transported. I haven't run the analysis to find out what
1701 the economic costs would be to ship that oil overseas versus
1702 keeping it in the United States to a certain degree because
1703 if you look at it, if we were to start pushing, though, one
1704 of the things you have to consider if we do drop the Jones
1705 Act or we impact in some way or if we change the export, lift
1706 the export ban, is obviously it is going to have an impact on
1707 the American shipbuilding industry as well. That is one of
1708 those ramifications or ripple effects that we need to think
1709 through and--

1710 Mr. {Doyle.} Dr. Montgomery, how about your analysis of

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1711 how the Jones Act plays in this?

1712 Mr. {Montgomery.} We did actually look at that, and on
1713 that I agree with you completely. If the Jones Act were even
1714 lifted for shipments of crude oil between U.S. ports, a great
1715 deal more of the oil that we could produce--a great deal more
1716 of the light tight oil would go to U.S. refineries in the
1717 Mid-Atlantic than it will with the Jones Act in place. So
1718 yes, the Jones Act is clearly hurting the refineries in
1719 Pennsylvania, and lifting the Jones Act, along with removing
1720 the export restrictions, would keep a lot more of that crude--
1721 -

1722 Mr. {Doyle.} Well, let me make it clear. We have no
1723 intention of lifting the Jones Act in the United States
1724 Congress, just so that that is clear. That is not going to
1725 happen. But it is going to negatively impact our refineries
1726 in Pennsylvania.

1727 Mr. Chairman, I would just end by asking that we put
1728 this article from the Financial Times into the record and to
1729 say that the studies I have seen of the refineries in Europe
1730 is that they are actually designed to process medium sour
1731 oil, not light sweet crude. I don't think most of Europe is

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1732 going to benefit from this at all. Thank you.

1733 Mr. {Whitfield.} We would like to get a copy of that,

1734 without objection.

1735 [The information follows:]

1736 ***** COMMITTEE INSERT *****

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|

1737 Mr. {Whitfield.} I might also say that the record is
1738 going to be open for 10 days, and we are also working for an
1739 accumulation. There have been so many articles written on
1740 this issue, and we are going to enter all of those into the
1741 record because we want a full record. And our staff is
1742 working with some groups to compile that list of articles
1743 now. So thank you.

1744 Mr. {Doyle.} Thank you.

1745 Mr. {Whitfield.} At this time I would like to recognize
1746 the gentleman from Ohio, Mr. Latta, for 5 minutes.

1747 Mr. {Latta.} Well, thank you, Mr. Chairman, and thanks
1748 very much for the panel. It has been a very interesting
1749 discussion today, and we appreciate your patience for taking
1750 our questions and listening to us. But if I could start, Dr.
1751 Montgomery, with a couple of questions for you, I just want
1752 to just double-check some facts here. You know, we were
1753 talking right now, you know, fortunately the numbers are
1754 coming down, that we are at about 27 percent of our oil is
1755 being imported in this country. Is that correct?

1756 Mr. {Montgomery.} Yes.

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1757 Mr. {Latta.} And I think if my quick check here is that
1758 that is back to the lowest number that we have done since
1759 1965. And is it correct that we are using about 18.7, 18.9
1760 million barrels of oil a day in the United States?

1761 Mr. {Montgomery.} It sounds like the right number, yes.

1762 Mr. {Latta.} Okay. Well, we will assume that is
1763 correct.

1764 Mr. {Montgomery.} Yes.

1765 Mr. {Latta.} Okay. And if you take that 27 percent of
1766 the oil that we are importing, you know--another quick
1767 number, is it correct that Canada is our largest supplier of
1768 imported oil?

1769 Mr. {Montgomery.} Yes.

1770 Mr. {Latta.} Okay. And then would Mexico, where would
1771 they fall? Are they close to second? Third? Somewhere in
1772 that?

1773 Mr. {Montgomery.} Mexico has trouble with production
1774 sometimes, but yes. And basically, Western Hemisphere
1775 sources aside from Venezuela are where we get most of our
1776 oil.

1777 Mr. {Latta.} Okay. So we have been very fortunate in

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1778 the last few years that we have weaned ourselves really off
1779 of the imported oil from maybe more from the Middle East. We
1780 are looking at the Canadian and Mexican oil being really
1781 pretty much our main area, probably over 50 percent then. We
1782 are close to it today. Would you calculate that number at
1783 that?

1784 Mr. {Montgomery.} Yes. Yes. We get only occasional
1785 shipments from the Middle East at this point.

1786 Mr. {Latta.} Okay. Thank you very much. Mr.
1787 Kreinbihl, we are almost neighbors. I am from Wood County,
1788 and you are from down in Mansfield, Richland County. And in
1789 my district in Northwest Ohio, I have got 60,000
1790 manufacturing jobs. And you know, we have had a boom in the
1791 State of Ohio because of the Utica shale. Now, I don't think
1792 that Utica has quite made it into Richland County or they
1793 have found the discoveries there yet. But I know that there
1794 have been questions that came to you a little bit earlier.
1795 But could you go back into it a little bit because again,
1796 when you look at the jobs that are produced, especially the
1797 jobs in your industry, could you get into that a little bit
1798 more about what the Utica has meant in the production in the

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1799 State of Ohio and also with the shale development over in
1800 Pennsylvania with the Marcellus, how that has helped your
1801 business?

1802 Mr. {Kreinbihl.} There has been quite a bit of activity
1803 in both of those, the Utica and the Marcellus. I guess what
1804 I would point out to answer that question is the chart that
1805 the Energy Equipment and Infrastructure Alliance provided,
1806 and it really shows the number of different manufacturers and
1807 suppliers that are involved in this industry. And being in
1808 Ohio, I have seen some of the growth. As a matter of fact,
1809 as I drove over here yesterday, I was in traffic with some of
1810 the equipment that was being moved through the State. So it
1811 has an effect that as there is more activity going on,
1812 whether it is pumps or something else, there is just a lot of
1813 activity all over from a manufacturing and supply standpoint.
1814 Does that answer your question?

1815 Mr. {Latta.} And because also, and off the top of my
1816 head I can't think of it, but like in unemployment numbers in
1817 the last several years, how is Richland County doing in the
1818 Mansfield area?

1819 Mr. {Kreinbihl.} Richland County, we have lost a

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1820 General Motors plant here recently. So Richland County has
1821 been really suffering with unemployment. I will tell you
1822 that a college roommate of mine lives over in Caroline County
1823 or Caroline, Ohio, and there is a lot of activity over there
1824 and it was really booming until the price of oil went down.

1825 Mr. {Latta.} Well, thank you very much. Mr.
1826 Ambassador, if I could, in my remaining time, just ask a
1827 couple of quick questions. You know, some of us on the
1828 committee have been privileged to be able to meet with a lot
1829 of especially Eastern and Central European leaders, and the
1830 discussion you had about the diversification that your
1831 country is looking at, you know, why do you think--and we
1832 have heard this and we have had certain members like Mr.
1833 Shimkus and some others bring this up. Why is it that Europe
1834 is looking to the United States for energy needs into their
1835 future?

1836 Ambassador {Gandalovic.} Well, as I said, the more
1837 resources of energy that are coming from stable democracies
1838 in this matter from the United States as an ally moreover,
1839 the better for us countries that are relying on supplies from
1840 the outside.

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1841 Mr. {Latta.} Thank you very much. Mr. Chairman, my
1842 time has expired, and I yield back.

1843 Mr. {Barton.} [Presiding.] We thank the gentleman from
1844 Ohio. I now recognize the gentlelady from Florida for 5
1845 minutes.

1846 Ms. {Castor.} Well, thank you, Mr. Chairman, and
1847 welcome to the witnesses. Thank you for your testimony
1848 today. My overriding concern is with the American consumer
1849 and with America's national security, and it doesn't make a
1850 lot of sense to me to export American crude oil to the
1851 People's Republic of China while increasing costs to American
1852 consumers and refiners.

1853 Commander Lippold, first of all thank you for your
1854 service to our country. You have a very distinguished record
1855 of service, and I heard you loud and clear that you pointed
1856 out that the United States still imports a staggering amount
1857 of oil, and you have urged us to be cautious, to consider the
1858 real-world consequences. You say while tempting from the
1859 perspective of gaining a commercial foothold in a new market
1860 arena at this time, the national security implications of
1861 changing the existing policy, regulating the export of crude

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1862 oil is rife with unknown and probably unintended
1863 consequences. That must be fully considered and addressed.
1864 Now, you have spent a lot of your career on international
1865 security concerns. Can you talk to us a little bit about
1866 what is happening in China, whether it is--they are
1867 increasing cyber security attacks, whether state-sponsored or
1868 not, what is going on in the South China Sea, especially
1869 their reclamation of islands and lands to seemingly want
1870 greater control over the shipping channels. What is
1871 happening with China's military strategy?

1872 Mr. {Lippold.} What you are seeing in China today is a
1873 country who has taken their economic power and wealth and is
1874 beginning to expand it on a, first, regional basis to gain
1875 greater influence over the countries that are around there.
1876 China has always viewed the South China Sea as their lake.
1877 They view that as entirely their territory. They tend to
1878 ignore the territorial limits at 12 miles or the exclusive
1879 economic zone that goes out to 200 miles. They say that they
1880 can expand it if it is disputed. They are the big guy on the
1881 block, so they will do what they want. And that is what you
1882 are seeing with the building of the islands there today.

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1883 While we have tried to engage with the Chinese, and I
1884 think we should continue to engage with them on a very
1885 positive basis where and when possible, clearly they have
1886 taken actions recently that are not in accordance with our
1887 interests or values, whether that has been in cyber warfare,
1888 how they are dealing with things regionally, how they have
1889 dealt with us economically, and obviously Gorman-Rupp has
1890 unfortunately been a beneficiary of their trademark
1891 violations and in stealing our equipment and knowhow,
1892 American knowhow.

1893 So on a variety of fronts we just need to engage with
1894 them positively where we can and punish them where we have to
1895 in order to make sure that they behave responsibly in the
1896 international community.

1897 Ms. {Castor.} I mean their international strategic
1898 plans have been quite interesting. I can't help but think
1899 back to when I traveled to Afghanistan, and all of the
1900 American money, the treasure, the lives that we poured into
1901 that country and then it was pointed out that it was China
1902 that was exploiting their minerals. The same is happening
1903 all across the globe, where the Chinese reach is just

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1904 enormous, into Africa, into South America. And I don't know
1905 why the United States of America would be party to supplying
1906 China, the largest importer of petroleum across the globe,
1907 why we would help them gain that strategic foothold. I take
1908 your advice very seriously, and I think it should give this
1909 committee something to think about. Thank you, and I yield
1910 back the balance of my time.

1911 Mr. {Barton.} The gentlelady yields back. We now go to
1912 the gentleman from Mississippi, Mr. Harper.

1913 Mr. {Harper.} Thank you, Mr. Chairman. If I could
1914 start with Dr. Montgomery? Dr. Montgomery, there was a
1915 moment in questioning earlier ago that you were trying to
1916 answer about the flaring excess at production and the impact
1917 increases in production might have, and I don't think you got
1918 a chance to finish that. Did you care to comment on that
1919 further?

1920 Mr. {Montgomery.} I did. Thank you very much. What I
1921 wanted to say was that we looked at this and did some
1922 computations in the study that we did at NERA, and what we
1923 found is that using an oil export ban to try to limit field
1924 emissions or greenhouse gas emissions associated with fuel

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1925 consumption is about the worst possible climate policy you
1926 could think of.

1927 The administration just announced that it thinks that a
1928 ton of CO2 does \$36 worth of damage. Well, we calculated
1929 that the economic benefits of oil exports that you would lose
1930 through the ban amount to several hundred dollars per ton for
1931 every ton of CO2 emissions that you could avoid that way.
1932 There are so many other ways to reduce greenhouse gas
1933 emissions and to deal with the problems of, you know,
1934 appropriate regulation at the field that the oil export ban
1935 is just about at the--should be at the bottom of anybody's
1936 list as a tool for environmental policy.

1937 Mr. {Harper.} Let me ask you this. Are oil export
1938 restrictions one of the main reasons why West Texas
1939 Intermediate Crude trades about \$5 less per barrel than its
1940 international competitor, Brent?

1941 Mr. {Montgomery.} For a time there was a problem with
1942 pipeline capacity for moving it. At this point, I think that
1943 is exactly the reason. The same thing is true of Bakken in
1944 North Dakota trading below Brent. It is because the only--
1945 and in fact, in the last couple of weeks, well, in the last

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1946 day or two Bakken has actually popped up to being pretty much
1947 equivalent to Brent and what the news reports were saying was
1948 that priced U.S. refiners out of the market.

1949 So the fact is that, yes, it is the fact that it is not
1950 economic to be used in the United States that drives that
1951 price--

1952 Mr. {Harper.} You know, in my home State of
1953 Mississippi, you know, we have the Tuscaloosa Marine Shale
1954 that was really beginning to take off. The cost per well was
1955 going down, and then of course, the price drops out and
1956 production stops. And that has been an issue. But I have
1957 seen estimates that show that eliminating the discount that
1958 we just talked about would incentivize a significant amount
1959 of investment in the United States. IHS estimates perhaps as
1960 much as \$750 billion over the next 10 to 15 years. What
1961 impact would that have on the U.S. economy broadly and who
1962 would benefit?

1963 Mr. {Montgomery.} That kind of investment is basically
1964 a driver for economic growth. The slow growth that we have
1965 had in the past few years has almost--we wouldn't have even
1966 have had that were it not for the investment that was going

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1967 on in the oil and gas industry, and as Mr. Kreinbihl has
1968 described, that investment produced stimulates activity
1969 throughout the economy, not just people working on drilling
1970 in the oil fields. It provides us with lower cost energy,
1971 and it is a driver of economic growth.

1972 So that investment, as long as it is driven by the
1973 market and is not driven by government subsidies to refiners
1974 through effective price controls.

1975 Mr. {Harper.} Thank you.

1976 Mr. {Montgomery.} So all investment is not the same.
1977 The market-driven investment that we have seen because of a
1978 technological revolution in the oil and gas industry, that
1979 clearly drives the economy forward. Taking money out of
1980 consumers' pockets to subsidize a set of refiners doesn't.

1981 Mr. {Harper.} Thank you, Dr. Montgomery. Mr.
1982 Kreinbihl, if I could ask you a question? If the export ban
1983 were to be lifted, how would you change your business plan to
1984 adjust for the more positive outlook?

1985 Mr. {Kreinbihl.} We have our business plan already in
1986 place for--as I mentioned, last year when we looked at our
1987 business plan for this year and we have to look at, okay, if

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1988 things increase a certain percentage or decrease a certain
1989 percentage--

1990 Mr. {Harper.} Sure.

1991 Mr. {Kreinbihl.} --what do we do? What it would mean
1992 for us is making sure that we hire the people that can create
1993 the product--

1994 Mr. {Harper.} Let me ask this because--

1995 Mr. {Kreinbihl.} --supply the market--

1996 Mr. {Harper.} --my time is almost up. How quickly
1997 would you see that positive impact? How quickly?

1998 Mr. {Kreinbihl.} I don't know that I can comment on
1999 that. It depends on how quickly the oil rigs get back into
2000 when the demand increases.

2001 Mr. {Harper.} Okay.

2002 Mr. {Kreinbihl.} There is quite a bit of supply now.

2003 Mr. {Harper.} My time has expired. I yield back.

2004 Mr. {Barton.} The gentleman's time has expired. We now
2005 recognize the distinguished gentleman from Iowa for 5
2006 minutes.

2007 Mr. {Loebsack.} Thank you, Mr. Chairman. This has been
2008 a very, very wonderful hearing. I think we have all learned

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2009 quite a bit, and I want to thank all the panelists. Although
2010 my colleague from Texas is no longer here, Mr. Olson, one
2011 thing we can agree on, and I have expressed this concern
2012 directly to General Dempsey when I was on the Armed Services
2013 Committee as a proud father of a stepson and daughter-in-law,
2014 both Naval Academy grads, although they are in the Marine
2015 Corps now, but go Navy nonetheless, Commander.

2016 Also Ambassador Gandalovic, good to see you as always.
2017 For 8 years I have proudly represented Cedar Rapids, Iowa.
2018 No longer, but they have a wonderful, of course as you know,
2019 the National Czech and Slovak Museum there. So thank you for
2020 being here today as well. I do want to start out with you,
2021 Ambassador. If you could, because I realize a lot of what is
2022 going on here, the proposal to lift the ban on crude oil
2023 exports is based on a concern for our national security, for
2024 the national security of the countries where hopefully the
2025 oil would be going. Whether it would or not is not a
2026 question. Can you talk a little bit about the national
2027 security interests at stake here for the Czech Republic when
2028 it comes to where you get your oil, where it might come from
2029 if this ban were to be lifted?

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2030 Ambassador {Gandalovic.} Well, again, since the changes
2031 in 1989, we saw energy delivery and energy sovereignty as a
2032 part of our national security, and this is why we put such an
2033 emphasis on diversification. And so in my whole testimony,
2034 it is of course representing a country that has done all
2035 possible measures to enlarge opportunities and diversify
2036 resources of energy. It is not my role here to tell you, the
2037 United States, what you do with your national security, but I
2038 am representing a country that is prepared to accept
2039 deliveries, even from the United States, as or when or if the
2040 ban is lifted, and it is actually convinced that those
2041 deliveries would benefit to our national security as it is
2042 coming from an ally.

2043 Mr. {Loebsack.} Thank you. And again, I feel for you
2044 as the ambassador. You are not a politician, yet you have
2045 been kind of put in the middle of this here today, and I
2046 thought you have done a very good job representing your
2047 country and serving as the ambassador and not a politician
2048 today. So thank you very much for what you have done today
2049 as far as your testimony is concerned.

2050 Look, we had another hearing on this issue a while back,

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2051 not on this particular bill but on the issue of lifting the
2052 ban on export. And I stated at the time that my biggest
2053 concern, not unlike others up here today, is our national
2054 security, U.S. national security. Everyone here knows that
2055 prior to 1973 America had essentially a drain America first
2056 oil policy. I think we can all acknowledge that, driven by
2057 the Seven Sisters, driven by domestic interests here in the
2058 United States and pursued by Congress and pursued by the
2059 various administrations up to that point. So I have a real
2060 concern myself about lifting this ban from that standpoint
2061 given that we still import 30 percent of our oil, given all
2062 the other considerations. I understand the economic
2063 arguments. I get all that, you know, markets are going to
2064 drive prices, all those things. But at the same time, you
2065 know, I just think we have to be very careful that we don't
2066 do something in the short term which while it may benefit
2067 certain actors in the United States, private industry, in
2068 particular in the oil industry, that we not as my colleague
2069 from Pennsylvania expressed his concern on this same issue,
2070 that we look down the road, that we don't do something now in
2071 the short term that is going to have a very, very negative

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2072 effect on our national security, on our economic security, on
2073 the security of the United States. That is why I do
2074 appreciate your testimony, Commander. And again, I
2075 appreciate the testimony of everybody here because you are
2076 all coming at this from kind of different perspectives, and
2077 we have to take into account all those perspectives. There
2078 is no question about that.

2079 But I do have a question as to--and I stated this
2080 question when we had the previous hearing similar to this, is
2081 there any guarantee if we lift this ban that the oil is going
2082 to go where we might want it to go from our national
2083 interests perspective? And Mr. Chair, I see I am at the end
2084 of my time or near the end of my time, so if I don't get to
2085 an answer, I would like to request answers in writing from
2086 the panelists.

2087 Mr. {Barton.} Without objection.

2088 Mr. {Loebsack.} Commander? I am sorry.

2089 Mr. {Barton.} Without objection.

2090 Mr. {Loebsack.} Okay. Thank you.

2091 Mr. {Barton.} Are you yielding back now?

2092 Mr. {Loebsack.} If you need me to I will.

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2093 Mr. {Barton.} Well, your time has expired.

2094 Mr. {Loebsack.} Okay. I yield back. Thank you, Mr.
2095 Chair. Thank you. Thank you for your help.

2096 Mr. {Barton.} I am a little rusty at this, see, but we
2097 are only supposed to get 5 minutes. The gentleman from West
2098 Virginia is recognized for 5 minutes.

2099 Mr. {McKinley.} Thank you, Mr. Chairman. And thank you
2100 for your patience, the panel. Almost 2 hours ago there was a
2101 remark that was made, and I have heard it over the last few
2102 years that if we are going to have exports, we ought to at
2103 least tax it or get some kind of fee on that export. And all
2104 I can say is, with all due respect to those that want to tax
2105 our exports, that will require a Constitutional amendment
2106 because there is a prohibition under Article 1, Section 9,
2107 paragraph 5 in the Constitution that says no tax or duty
2108 shall be laid on articles exported from any state. So I just
2109 want everyone to understand. As much as some people might
2110 want to take advantage, you just can't do that.

2111 So some of my questioning is looking for consistency.
2112 We seem to be here in Congress often picking winners and
2113 losers. I don't like that, and in this consistency we--I

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2114 come from a coal state. We export a lot of coal, and now we
2115 are in the process--and actually, if I can stay on coal just
2116 for a minute. With this increasing demand for coal around
2117 the world, we haven't seen a rise in the price of coal. Coal
2118 has been a very stable marketplace to have that product. So
2119 I reject some of that notion that if we export it, we are
2120 going to see a rise in price because I haven't seen that with
2121 coal. And now we have got the argument that seems to be
2122 moving on LNG, that we are finally, finally, going to start
2123 exporting our natural gas, both for diplomatic purposes and
2124 economically. What is the consistency here that if we say it
2125 is all right to export coal and natural gas but we have made--
2126 -the government is going to involve here and say we are not
2127 going to export oil, is that consistent? So Commander, I am
2128 just curious because you seem to be the designated contrarian
2129 for this panel. Do you support the export of coal?

2130 Mr. {Lippold.} I think you have to look at it in the
2131 total context of energy security and what we are capable of
2132 producing and what nations need around the world. Right now,
2133 we are still importing 30 percent of our oil, and until we
2134 reach that point--

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2135 Mr. {McKinley.} Just on coal. Just on coal. Do you
2136 support the exporting of coal?

2137 Mr. {Lippold.} I will be honest, sir. I am not
2138 familiar with coal--

2139 Mr. {McKinley.} Okay.

2140 Mr. {Lippold.} --and the industry.

2141 Mr. {McKinley.} We export--

2142 Mr. {Lippold.} So it would be--

2143 Mr. {McKinley.} --about--

2144 Mr. {Lippold.} --inappropriate for me to comment.

2145 Mr. {McKinley.} We export about 15 percent of what we
2146 produce in coal because obviously this administration doesn't
2147 like us burning coal in America. So we have found we have
2148 got markets overseas to produce that.

2149 What about LNG? Is your view consistent that you would
2150 also pose exporting LNG?

2151 Mr. {Lippold.} Again, I have not gotten into LNG,
2152 although I will look at it and having studied it to a small
2153 degree, when you look at our ability to export and have an
2154 immediate impact especially on the Eastern European countries
2155 that are overly dependent on Russian gas, that is a critical

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2156 national security issue that we are contributing positively
2157 toward and should continue to work for us, especially as we
2158 develop more fields and have that excess capability in our
2159 system where we are taking not only of our needs that are
2160 being met but now can give it to other nations as well.

2161 Mr. {McKinley.} I appreciate it. I know we have been
2162 running over here long so I yield back the balance of my
2163 time.

2164 Mr. {Barton.} The gentleman yields back. We now go to
2165 Mr. Tonko for 5 minutes.

2166 Mr. {Tonko.} Thank you, Mr. Chair. And I would like to
2167 see us become less dependent on oil, imported or domestic,
2168 but that has not yet been achieved. Until it is, I think we
2169 need to proceed cautiously. This is not just another
2170 commodity. It has one we have paid a high price for in
2171 blood, treasure, and other environmental and social costs.

2172 So Commander Lippold, I appreciate your testimony and
2173 your perspective on this important issue. As I understand
2174 it, Venezuela and Saudi Arabia have the largest proven
2175 reserves of oil, more than 250 billion barrels and that Saudi
2176 Arabia's oil has production costs that are lower than ours,

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2177 among the lowest globally. And given that situation, it
2178 seems difficult to assess much about the overall direction
2179 for the price of oil without a sense of what the Saudis plan
2180 to do.

2181 I also imagine that since a number of countries rely on
2182 oil revenues to meet their obligations, they will continue to
2183 produce and sell into the market, even if that means they may
2184 be selling below their production costs. So I don't see how
2185 increasing exports of the U.S.-produced crude is going to
2186 have much impact on the global price of oil. And given that
2187 during that period, the period that our crude oil export ban
2188 has been in place, we have seen significant increases and
2189 decreases in prices at the pump. I doubt consumers will see
2190 a net benefit from lifting the export ban.

2191 I can see that this change could alter decisions about
2192 whether to continue investing in domestic refining capacity.
2193 I can see that it can alter decisions about whether to drill
2194 additional domestic wells, and I think it will also influence
2195 decisions about investments in oil pipeline or oil-
2196 transporting rail cars.

2197 So Commander Lippold, in his testimony, Dr. Montgomery

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2198 refers to the prospect that the refiners would make
2199 additional investments to refine more light oil as economic
2200 waste. But those investments create domestic construction
2201 and related manufacturing jobs and maintain or create
2202 domestic jobs in the refining industry. My question to you
2203 is, is there strategic value in keeping a strong domestic
2204 refining industry?

2205 Mr. {Lippold.} Absolutely, yes.

2206 Mr. {Tonko.} And you indicated in your testimony that
2207 you believe lifting the export ban would lessen the trend to
2208 declining imports. Would you expand upon that a bit?

2209 Mr. {Lippold.} If you look at if we were to increase
2210 the capacity of the refiners here in the United States, while
2211 they have some excess capacity right now to take in the light
2212 tight oil that is being produced here in the United States,
2213 if we create the conditions and they expand that capacity
2214 going from the heavy sour to the light sweet, that is going
2215 to give us an ability to refine it here in the United States
2216 which is going to lessen the dependence on oil that we have
2217 to import in order to meet U.S. domestic needs.

2218 Mr. {Tonko.} Thank you. And if drilling slows down, we

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2219 may reduce the immediate benefits to some in the oil sector,
2220 but it may give us a chance to catch up on other things we
2221 need to do to better adapt to the new production areas, for
2222 example in the areas of transportation and pipeline safety.
2223 The oil isn't going anywhere. If it is still in the ground,
2224 it is still available for our use. In a sense, it maintains
2225 another form of strategic reserves. Would you agree with
2226 that?

2227 Mr. {Lippold.} I would agree to that with a caveat and
2228 that is while it may be there, just as with any industry, you
2229 are now asking industries like Gorman-Rupp to be able to keep
2230 a capacity available so that if we decided we needed to
2231 exercise use of that strategic reserve that they could
2232 immediately tool up and be able to expand it. That is a
2233 consideration you have to look at is do we have the
2234 capability and capacity in the industrial base to maintain
2235 that in addition to keeping those strategic reserves in the
2236 ground. That has to be thought through, and again, this goes
2237 back to the point of my argument which is before we lift that
2238 ban, this is one of those second- and third-order effects
2239 that we need to look at is how do we maintain that industrial

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2240 capacity that if we have to exercise use of that strategic
2241 reserve, can we and how quickly can we get our industrial
2242 base to tool up to be able to do that?

2243 Mr. {Tonko.} Um-hum. Well, lifting the export ban
2244 clearly would benefit the oil production sector by drilling
2245 and other ancillary services. It would maintain or expand
2246 growth in pipeline investments and rail investments. These
2247 sectors have done very well, and the boom has spurred
2248 tremendous growth. But it has come at a cost. My
2249 constituents, for example, are very alarmed at the rapid rise
2250 in the number of oil trains rolling through our region. They
2251 do not believe that investments in safer rail cars and
2252 contingency plans for dealing with accidents have kept pace
2253 with the increase in oil production. If now we are incurring
2254 these costs only to export the oil, support for expanded
2255 domestic production will be even less popular than it is
2256 already in non-oil producing areas of the country.

2257 And so I just share these concerns with the committee
2258 and here at this hearing because they are real and they are
2259 lived through each and every day. And with that, Mr. Chair,
2260 I yield back.

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2261 Mr. {Barton.} The gentleman yields back. Mr. Cramer,
2262 who has been here the whole time, is not a member of the
2263 subcommittee. So he is going to have to wait until the two
2264 other members of the subcommittee ask their questions. We
2265 now go to Mr. Markwayne Mullin of Oklahoma.

2266 Mr. {Mullin.} Thank you, Chairman, and thank you for
2267 having this very important hearing. As I alluded to earlier,
2268 Oklahoma has lost 20,000 jobs since January. Obviously we
2269 are a rich state in our fossil fuels, and it is very
2270 important. It drives our economy. And to have this
2271 conversation to me, as a business owner, I am just sitting
2272 there scratching my head. And Commander, I hear what you are
2273 saying, and I understand your point of view. But
2274 strategically speaking, when we start talking about our
2275 allies, I mean, we are forcing South Korea right now who we
2276 are still heavily invested in to buy oil from countries that
2277 aren't exactly friendly to us right now. How is that
2278 possibly a good idea? How is it that if we can't at least,
2279 at least, export crude oil to our allies, don't we weaken
2280 their hand when we make them dependent on those that don't
2281 exactly have our country's best interests in mind?

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2282 Mr. {Lippold.} Well, if you are to use that as the
2283 bottom line, we would be in trouble in a number of areas in
2284 what we--

2285 Mr. {Mullin.} Well, it is not the bottom line, sir. It
2286 is where we are at. It is the point. I am not talking about
2287 everything. We are talking about export of oil, of a
2288 commodity that we have an abundance amount of right now and a
2289 commodity that honestly, we are running out of storage in the
2290 United States. We are at record-level storages, and we are
2291 holding onto it. We have plays that we haven't even started
2292 in. We without doubt could be the number one producer, not
2293 because of government intervention. In fact, they are
2294 choking us because of the entrepreneurial spirit. We have
2295 the ability to strengthen the hand of our allies and
2296 strengthen our relationship with our allies across the
2297 country for providing them a commodity that they are in
2298 desperate need of. We have got the Czech sitting right
2299 beside you. Is that not an opportunity to strengthen their
2300 hand by taking them off the dependent of an unstable and
2301 unreliable Russia right now?

2302 Mr. {Lippold.} I think one of the concerns goes back,

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2303 sir, to the fact that, once again, if we don't look out for
2304 our interests first, while our allies may be important, at
2305 the end of the day, we are the ones that are still going to
2306 be vulnerable and dependent, and we have seen that with
2307 exactly the impact that has affected your state.

2308 When you look at a country, or not a country but a
2309 cartel, principally driven by Saudi Arabia that can influence
2310 the world oil market in the way they do by depressing prices,
2311 by putting more on there, not reducing their production
2312 quotas, and allowing that to happen, even if we put our oil
2313 on the market--

2314 Mr. {Mullin.} Commander, you are--

2315 Mr. {Lippold.} --they still have the capacity to lower
2316 that down and--

2317 Mr. {Mullin.} Well, Commander, you are making my point--
2318 -

2319 Mr. {Lippold.} --make those prices depressed.

2320 Mr. {Mullin.} --because as a business owner, to
2321 stabilize the market, you put more players in it.
2322 Competition strengthens the sword of an entrepreneur. We
2323 allow them to control it because they are the only player on

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2324 the market. We have reserves. We have the ability to go out
2325 there and not compete but beat. You are talking about our
2326 economy and our security of our Nation? Unemployment brings
2327 insecurity. Security is when we have a strong financial
2328 stability inside our country. We have lost 20,000 jobs and
2329 yet we have it underneath our feet, and we can't get it
2330 because we don't have a place to take it to. We are putting
2331 it in storage as I alluded to earlier. We put it in storage
2332 which we are running out of storage capacity.

2333 It is absolutely crazy to think that we limit the
2334 ability of entrepreneurs. That is the only thing driving our
2335 economy at the so-called recovery we are having. We are
2336 limiting their ability. We are not talking about the '70s
2337 anymore. We are not talking about running rogue on stuff
2338 that--depleting our oil. The technology has changed. The
2339 world has changed, and the world is in desperate need of
2340 another player in the world market so we are not held by the
2341 cartel of the Middle East.

2342 Right now our refineries, 30 percent of our refineries
2343 in the United States are owned by foreign entities, and they
2344 can bring their oil to us? They can buy our refineries?

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2345 They can refine their oil? They have a place to bring it to
2346 and yet we limit ourselves. From a strategic point of view,
2347 sir, I find it very hard to buy into your argument when we
2348 are not able to shore up our own allies at this time, at this
2349 critical time. We have an opportunity to become a world
2350 leader. All we have to do is loosen the rope just a little.

2351 Thank you for being here, and I yield back.

2352 Mr. {Barton.} We thank the gentleman. I apologize to
2353 Mr. Johnson. I thought Mr. Mullin was here before. So I
2354 erroneously allowed him to go first. But we now recognize
2355 the distinguished gentleman from the great State of Ohio and
2356 a catcher on the Congressional Baseball Team.

2357 Mr. {Johnson.} Go Bucks, who got no playing time in
2358 this month's game by the way. We can talk about that next
2359 time.

2360 Mr. {Barton.} Obviously a managerial mistake.

2361 Mr. {Johnson.} Thank you, Mr. Chairman. I appreciate
2362 the time. I want to take just a minute to talk about the
2363 incredible journey these past few years have meant for the
2364 folks I represent in Eastern and Southeastern Ohio where the
2365 vast majority of the exploration and production of shale

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2366 development have been occurring in the State.

2367 Thanks largely to the oil and gas industry, unemployment
2368 in shale counties has fallen some 66 percent since 2010.
2369 Counties in my district which have historically seen higher
2370 unemployment rates than both the State or the national
2371 average are now driving down the State's overall unemployment
2372 rate. But certain challenges are now coming into play,
2373 challenges that have recently caused about 1,000 rigs to be
2374 laid down across the United States resulting in an estimated
2375 150,000 layoffs.

2376 That said, we have an opportunity to address these
2377 challenges, and I believe it starts by looking at our
2378 outdated energy policies, many of which were crafted when
2379 America's energy resources were considered scarce. That is
2380 why legislation like the LNG Permitting Certainty and
2381 Transparency Act that passed the House back in January which
2382 helps America harness our natural energy abundance by
2383 requiring DOE by law to act on pending LNG export
2384 applications in a timely fashion is so very much needed and
2385 important.

2386 This legislation would stop Washington from further

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2387 delaying job creation at home and will help positively
2388 influence global politics abroad. And after much thought, I
2389 believe the current crude oil exports restrictions are also
2390 standing in the way of real economic and geopolitical
2391 benefits. As you all well know, GAO recently testified that
2392 removing these restrictions could increase domestic
2393 production to an additional 130,000 to 3.3 million barrels
2394 per day from 2015 to 2025 while decreasing consumer fuel
2395 prices. Lifting the ban would also create American jobs, and
2396 like the LNG Permitting Certainty and Transparency Act, it
2397 would strengthen America's geopolitical hand globally.

2398 So while I understand that lifting these restrictions
2399 will cause some bumps in the road, it is hard to ignore the
2400 numbers contained in the GAO's report along with other recent
2401 reports, and I think if we go about this the right way, we
2402 can smooth out those bumps in the road so that everybody in
2403 America wins and we take our rightful place as the world's
2404 leader in energy exports.

2405 And so with that, Mr. Barton, even though you didn't
2406 play me in the game, I am going to forgive you for that. I
2407 would be happy to lend my name to H.R. 702--

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2408 Mr. {Barton.} Well, thank you.

2409 Mr. {Johnson.} --to support your bill.

2410 Mr. {Barton.} We will have to rectify managerial
2411 mistake.

2412 Mr. {Johnson.} All right. We will work on that. We
2413 will work on that next year.

2414 Mr. {Barton.} All right.

2415 Mr. {Johnson.} I will be back. Now, onto a few
2416 questions. Mr. Kreinbihl, in your testimony--and I know you
2417 have got a business in Mansfield, right?

2418 Mr. {Kreinbihl.} Yes.

2419 Mr. {Johnson.} And you have got a friend who owns a
2420 business I think in Carroll County as well?

2421 Mr. {Kreinbihl.} Yes.

2422 Mr. {Johnson.} In your testimony, you touched on many
2423 of the harmful impacts that the export ban has had on your
2424 business such as laying off workers and wage stagnation. Do
2425 you know of other companies who have been similarly affected
2426 by the export ban, and what do they have to say about it?

2427 Mr. {Kreinbihl.} I think there are many suppliers in
2428 the industry that are affected by it. You know, a lot of the

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2429 suppliers to us are affected by how our business is and
2430 whether they are supplying us castings or any of, you know,
2431 the raw materials that we buy, it is affecting them also.

2432 Mr. {Johnson.} Okay. Would you expect these negative
2433 impacts on your business to continue getting worse if the ban
2434 is not lifted?

2435 Mr. {Kreinbihl.} It seems like as the number of rig
2436 counts go down that our business is directly correlated to
2437 that, yes.

2438 Mr. {Johnson.} Okay. Well, to the extent that you can,
2439 and I understand that it may be hard to quantify, can you
2440 give us some idea to what extent the export ban has hurt your
2441 business, your ability to expand and invest?

2442 Mr. {Kreinbihl.} I think if we lifted the ban we would
2443 create the marketplace for then, you know, the economy to
2444 pick up and generate business and the need for supplying that
2445 market with our equipment and equipment like ours.

2446 Mr. {Johnson.} Okay. So basically, your sales would go
2447 up you think as the market expands I guess?

2448 Mr. {Kreinbihl.} Yeah, and again, it is correlated to--
2449 our sales are very much correlated to the number of rigs and

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2450 the activity out there.

2451 Mr. {Johnson.} Okay. All right. Well, thank you very
2452 much, gentlemen. And Mr. Chairman, I yield back.

2453 Mr. {Barton.} We thank the gentleman from Ohio. We are
2454 now going to turn to the gentleman from New York City, the
2455 Big Apple, the late-arriving but always welcome, Mr. Engel, 5
2456 minutes.

2457 Mr. {Engel.} Thank you very much, Mr. Chairman, and
2458 thank you for always being concerned with this important
2459 issue. So I want to thank the chairman, ranking member, for
2460 holding this important hearing on the current ban against
2461 crude oil exports.

2462 Let me first of all say the United States has more
2463 influence over global energy production today than we have
2464 had in generations, and that is a terrific thing. It is
2465 certainly vital that we pursue a smart and responsible course
2466 for energy production distribution. If we develop our energy
2467 resources while vigorously protecting the health and safety
2468 of all Americans, our Nation can realize enormous economic
2469 and energy security benefits.

2470 Mr. Barton knows, because he and I have discussed this,

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2471 that I have been interested and continue to be interested in
2472 the geopolitical aspects of this, the fact--and our
2473 ambassador can attest to the fact--the fact that Europe is so
2474 dependent on Russian oil, and that if the United States were
2475 to lift a ban, it might make Russia less important. And I
2476 think that is a good thing, given the way they have acted in
2477 Ukraine and in Eastern Europe. And so I think that to help
2478 wean Europe off of Russian energy, this might be a good
2479 thing.

2480 So I am particularly interested in the global
2481 ramifications of lifting our crude oil ban and the impacts it
2482 would have on jobs and the economy in the United States.

2483 Now, since we held the hearing on this issue last
2484 December, I note that two unions, the Laborers International
2485 Union of North America and the International Union of
2486 Operating Engineers, split from the AFL-CIO position and now
2487 support lifting the crude oil import ban, export ban. Mr.
2488 Barton and I have had discussions about this.

2489 So we heard as testimony today that if we lift the ban
2490 on crude exports, then the vast majority of U.S. crude
2491 purchased on world market would make its way to Asia, not

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2492 Europe. I also read a Wood Mackenzie report from March of
2493 this year that concludes the same thing. So let me ask you,
2494 Dr. Montgomery, do you agree with the conclusion that if we
2495 lift the ban, the vast majority of our crude oil exports
2496 would go to Asia? And if you do, does it matter?

2497 Mr. {Montgomery.} Yes and no. I am sorry, but yes.
2498 Asia is a large market, but it is not one we are particularly
2499 well set up to serve. I mean we would be moved if the
2500 refining is taking place in the Gulf Coast and Mid-Atlantic.
2501 That is a long way to get to Asian markets. So basically I
2502 think it is extremely hard to predict exactly where a
2503 physical barrel of oil is going to move mainly because it is
2504 irrelevant in thinking about the global market. Whether we
2505 load a ship in the United States and follow that ship around
2506 Cape Horn or the Cape of Good Hope or the Suez Canal to get
2507 it to Asia or whether that oil goes to Czechoslovakia freeing
2508 up some oil that Czechoslovakia might have purchased from
2509 Russia to move to Asia, it is all going to have exactly the
2510 same effect. It is not where the barrels go. It is how much
2511 there is in the total world market.

2512 Mr. {Engel.} So let me ask Commander Lippold. I think

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2513 he will disagree, but let me hear your disagreement.

2514 Commander, do you agree with Dr. Montgomery?

2515 Mr. {Lippold.} There are certain--

2516 Mr. {Barton.} You have got to put your microphone--you
2517 have got to push the button.

2518 Mr. {Lippold.} Yes. Sorry, sir. I would say yes and
2519 no. While the oil goes in there and we can't trace where
2520 that barrel of oil would go, clearly you put more oil onto
2521 the world market, the highest bidder is going to get that
2522 oil, and transportation costs will be absorbed in that total
2523 thing. Right now the majority of that oil is predicted to go
2524 to Asia and studies indicate that.

2525 Mr. {Engel.} So let me ask about imports. Despite the
2526 recent increase in domestic crude oil production, the volume
2527 of oil of the U.S. imports is not drastically different from
2528 the time the ban was put into place in the 1970s. The U.S.
2529 Information Administration, according to them, imports in
2530 2014 totaled more than 2.6 billion barrels or around 30
2531 percent of supply. So testimony today, we have heard that
2532 lifting the crude oil export ban would result in a greater
2533 reliance on imports than would otherwise have taken place.

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2534 So I would like to ask Dr. Montgomery and Commander Lippold,
2535 do you agree? Dr. Montgomery?

2536 Mr. {Montgomery.} No, I do not believe that--I mean, I
2537 do not believe that lifting the export ban would lead to an
2538 increase in imports. I look at net imports. The additional
2539 production that we would be exporting will be far larger than
2540 any conceivable increase that we might have in refined
2541 product imports.

2542 So on balance, we are going to reduce--our import
2543 position is going to improve if we export the crude oil.

2544 Mr. {Engel.} Commander?

2545 Mr. {Lippold.} I believe that if you are going to start
2546 exporting and you are still importing 30 percent, that fact
2547 isn't changing. It still affects our national security in a
2548 negative way because we are not achieving that goal of energy
2549 independence.

2550 Mr. {Engel.} Ambassador, may I ask you one quick
2551 question? Do you agree with my premise that if the United
2552 States exported more oil, it would help to wean Europe off of
2553 Russian energy?

2554 Ambassador {Gandalovic.} Congressman, I cannot assure

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2555 you that in the Czech Republic refineries would start buying
2556 American crude oil once you possibly lift the ban, but the
2557 mere possibility that there is an alternative from the
2558 deliveries from the East would definitely strengthen our
2559 security and not only the Czech Republic but the entire
2560 Europe.

2561 Mr. {Engel.} I know other countries agree with you and
2562 the Czech Republic about these things. Mr. Barton, we will
2563 continue to have conversation. Thank you.

2564 Mr. {Barton.} We appreciate your testimony and your
2565 attendance. Last but not least, the longsuffering gentleman
2566 from North Dakota, Mr. Cramer, is recognized for 5 minutes.

2567 Mr. {Cramer.} Thank you, Mr. Chairman, and thank you
2568 for introducing the bill and thanks to all of you for your
2569 patience because you have been here and you haven't even
2570 left. And I have been able to go up and get out a couple of
2571 times.

2572 I want to hone in on this issue of the impact of a free
2573 market on everybody because we sort of pick where we want to
2574 pick and pick situations. I mean for one of the examples,
2575 Commander, you have referenced Asia a number of times. It

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2576 might surprise people to know that in 2013 the United States
2577 exported nearly 50 million barrels of refined petroleum
2578 products to China. I don't find that offensive any more than
2579 I would find selling oil to China offensive.

2580 But my understanding of a free and open market and its
2581 impact on security in the world is you have used the word--
2582 Commander, you have used the word energy independence many
2583 times in the context of national security. I frankly think
2584 that that is only half of the formula. I think energy
2585 security is different than energy independence.

2586 For example and Mr. Mullin raised the point. I think we
2587 have established that we import roughly 27 percent of the oil
2588 that we refine in the United States. He raised the point
2589 that 30 percent of our refining capacity is foreign owned,
2590 largely by the people that are exporting or we are importing
2591 the oil from. I don't see a lot of incentive for them to
2592 change their refining and retooling their refining to take
2593 our oil when the whole reason they own those refineries is to
2594 import their own oil.

2595 So we export a lot of things out on the Atlantic Ocean
2596 that we import back on the Pacific Ocean other than oil. We

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2597 do that regularly in agriculture products. We have pasta
2598 plants in North Dakota that buy low-cost durum from Canada,
2599 and our farmers sell higher-priced durum to producers in
2600 Minnesota. I mean, that is how a free market works to the
2601 benefit of everybody, and I think we are missing some of
2602 that.

2603 I would be interested to know--perhaps Mr. Montgomery,
2604 you can start--this issue of the 30 percent ownership,
2605 foreign ownership of our refineries, whether you find it
2606 offensive or not offensive. That is relevant, is it not, in
2607 the context of this discussion of energy security and energy
2608 independence?

2609 Mr. {Montgomery.} To me the importance of that is that
2610 those foreign owners are actually benefitting economically
2611 from having access to the U.S. market and are richer than
2612 they would be, and I think that if our enemies are poorer,
2613 that is better for the United States.

2614 But those assets are still in the United States. The
2615 fact that they might be owned by LUKOIL or by Venezuela
2616 doesn't make them not available to us should there be a
2617 national emergency or should we--if we went to war with

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2618 Venezuela. It wouldn't change the operation of their
2619 refineries if we had to take the bullet.

2620 Mr. {Cramer.} And I would agree. I don't mean to imply
2621 that I am offended by it. I am not offended by it, but in
2622 the context of this discussion. Anybody else on that topic
2623 including you, Commander, since I am sort of jabbing you a
2624 little bit on the issue?

2625 Mr. {Lippold.} Well, yes. Thank you. It goes actually
2626 to the heart of what I have talked about which is when you
2627 look at energy independence and we look at developing as part
2628 of a national security strategy and having an energy policy,
2629 when you look at those refineries and 30 percent being owned
2630 by foreign interests, when you look at 30 percent of our oil
2631 or 27 being imported into the United States, if you want to
2632 look at it at a free-market perspective, we don't have a free
2633 market. There are always going to be a certain degree of
2634 regulations on what we control, goes where, to whom, and
2635 under what conditions. That is part of what government's
2636 function is, to ensure that there is a certain degree of
2637 level playing field not only internally to the United States
2638 but externally to the United States.

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2639 So I would look at it and I wouldn't necessarily be
2640 concerned about that 30 percent ownership and what they are
2641 doing. It is what is going to be available and what
2642 conditions are we creating for our people in the United
2643 States to perhaps push that 30 percent out and create those
2644 jobs for the United States and for the money to end up here
2645 in the United States--

2646 Mr. {Cramer.} But I guess I see in this case the
2647 regulation creating an uneven playing field to the
2648 disadvantage of the American producer. And that is sort of
2649 the whole point in the whole issue.

2650 I want to ask, Mr. Ambassador, you have said a couple
2651 times or referenced this. I want to ask it in a real
2652 specific question. Do you believe, representing just your
2653 country, that the world would be safer if the United States
2654 was a force or a player in the global marketplace, being the
2655 stable, reliable provider of crude oil?

2656 Ambassador {Gandalovic.} Yes, I do believe that, and I
2657 have tried to prove that in my testimony.

2658 Mr. {Cramer.} You have done very well. Let me ask
2659 quickly, Commander, since I have a couple seconds. Do you

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2660 think that displacing heavy sour crude from Venezuela with
2661 heavy sour crude from Alberta, Canada, would be better and
2662 more in the national interest than--would it make it safer?

2663 Mr. {Lippold.} If importing it--

2664 Mr. {Cramer.} From Canada rather than Venezuela?

2665 Mr. {Lippold.} I think any time we are taking something
2666 not from Venezuela it is for our best interests.

2667 Mr. {Cramer.} Thank you. I appreciate your support for
2668 the Keystone Pipeline. With that, I yield back, Mr. Barton.

2669 Mr. {Barton.} The gentleman's time has expired. That
2670 is all the members. No other members present to ask
2671 questions. We will keep the record open for the requisite
2672 number of days--

2673 Mr. {Rush.} Mr. Chairman, if you would, Mr. Chairman,
2674 before we--

2675 Mr. {Barton.} The gentleman from Illinois.

2676 Mr. {Rush.} --conclude, the question that--I do have a
2677 question.

2678 Mr. {Barton.} Well, then we will recognize--

2679 Mr. {Rush.} One final question because I am interested
2680 in Commander Lippold's reference in his written statement

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2681 where he said that Nigeria and the impact that lifting the
2682 ban would have on the Nigerian government and its fight
2683 against extremists. The impact, this impact on Nigeria, can
2684 you be more explicit about that? That is of concern to me.

2685 Mr. {Lippold.} Yes. What you are referring to is the
2686 fact that Nigeria produces, along with Azerbaijan, the same
2687 type of light sweet crude that we do. If the export ban is
2688 lifted, one of the second-order effects you will have is you
2689 are now introducing a larger quantity of that oil onto the
2690 world market that is going to affect their market share,
2691 potentially depressing prices. Clearly, Nigeria being as
2692 overly dependent upon oil to support their economy, it is
2693 going to have a ripple effect. If the price goes down, they
2694 are not going to be able to maintain the type of economy that
2695 they need to keep their nation functioning. They are clearly
2696 faced with a clear and present danger with the terrorist
2697 group Boko Haram. They would take advantage of potential
2698 economic instability to try and destabilize if not topple
2699 that government which would have ramifications. And this
2700 again, sir, goes back to the core of my argument. This is
2701 one of those second- and third-order effects. Before we

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2702 precipitously just lift the ban and move forward, it has to
2703 be thought through.

2704 A point that was made a few minutes ago was that, you
2705 know, let's lift the ban and we will deal with the bumps in
2706 the road. I, too many times in my military career, lived
2707 through the consequences of that happening with national
2708 leadership making those kinds of decisions. We need to be
2709 reactive--not reactive but instead plan ahead for what we are
2710 going to do. If we think through what the ban is going to
2711 do, there hopefully will come a day where we can lift it and
2712 do that. But today is not the day because we have not
2713 thought through those effects.

2714 Mr. {Rush.} Dr. Montgomery, do you have a counter to
2715 that argument? And Mr. Chairman, I want to thank you so much
2716 for your liberalism.

2717 Mr. {Barton.} Be careful how you use that word. But we
2718 will let Dr. Montgomery answer that question.

2719 Mr. {Montgomery.} Thank you, Mr. Rush. Two brief
2720 comments. One, to paraphrase, no economic plan survives
2721 contact with the market, and this notion that we can plan out
2722 all the consequences of a change in policy I think is a

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2723 fantasy. What we have to do is look at the basic principles
2724 of free trade and the way in which our ability to buy and
2725 sell goods internationally has benefitted the economy for,
2726 you know, hundreds of years.

2727 As far as Nigeria goes, again, there are unintended
2728 consequences in every direction. We have frequently analyzed
2729 the consequence of lower world oil prices on different
2730 regions of the world. The fact is, most countries in Africa
2731 are oil importers rather than oil exporters. They are the
2732 poorest countries in the world. Anything that we do to
2733 reduce the world price of oil is going to benefit those
2734 poorest countries in the world because they need it and they
2735 will pay less for it if we put more oil on the market and
2736 make it cheaper.

2737 Mr. {Rush.} Thank you, Mr. Chairman.

2738 Mr. {Barton.} Thank you. I am so tempted using the
2739 power of the chair, which I currently have, to say that a
2740 quorum is present. I ask unanimous consent to move the bill
2741 as is, call for the ayes, the ayes have it, and the bill is
2742 reported out. But that would not be proper form.

2743 Mr. {Rush.} It sure wouldn't be, Mr. Chairman.

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2744 Mr. {Barton.} I won't do that. I do want to first--I
2745 have some business. We would ask that three letters from the
2746 Energy Equipment and Infrastructure Alliance, the U.S.
2747 Chamber of Commerce, and America's Natural Gas Alliance be
2748 put into the record, without objection.

2749 Mr. {Rush.} No objection.

2750 Mr. {Barton.} Okay.

2751 [The information follows:]

2752 ***** COMMITTEE INSERT *****

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2753 Mr. {Barton.} I would also ask to thank our panelists.
2754 And before we close this hearing, just put a little bit more
2755 context on this, we have had a good discussion today. We
2756 talked a lot about exports and imports. I want to put some
2757 information in the record from the Energy Information Agency,
2758 and there are--we import about 9 million barrels of petroleum
2759 products a day, but we export about 4 million. So on a net
2760 basis, it is about 5 million barrels per day of imports. Of
2761 those 5 million barrels, about 3.5 million come from Canada
2762 and Mexico who are geographically adjacent to the United
2763 States. In fact, Canada is the number one source of our oil
2764 imports. Number two is Saudi Arabia. It is a little over a
2765 million barrels a day. Last year, U.S. production increased
2766 over a million barrels a day, and if we were to repeal the
2767 ban on crude oil exports--now this is an opinion. This is
2768 not a fact. I believe that we could easily increase domestic
2769 production another million to 2 million barrels a day in the
2770 next year or 2 years.

2771 So if you really think about it, we do have the ability
2772 to move from a time in the 1970s when we had to import oil

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2773 from overseas. We have been as high as 74 percent of our oil
2774 coming from overseas. We now have the capability that the
2775 only oil we import is not by necessity but because of
2776 economic availability. That is a real possibility. That is
2777 not fantasy. And removing the ban on crude oil exports puts
2778 the market in play. I don't discount what Commander Lippold
2779 has said, but I do believe if you let markets operate and let
2780 the world's largest producer, which is the United States of
2781 America, let our producers have the choice to sell
2782 domestically to domestic refiners or to sell on the world
2783 market. They are going to produce more. And if they produce
2784 more, there is going to be more competition, there is going
2785 to be more stability, there is going to be less reliance on
2786 unstable sources or sources that are in unstable parts of the
2787 region.

2788 So we talk about imports and the Commander's facts are
2789 correct, but if you look at it from a net import basis and
2790 given the capability of our domestic producers to produce, we
2791 for all intents and purposes have the capability to be energy
2792 independent in the real near-term. And I think that is
2793 important in the debate.

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2794 Chairman Whitfield has asked me to indicate and so has
2795 Chairman Upton that this is an issue that has got a real
2796 chance to be marked up. No decisions have been made yet
2797 obviously, but it is something that is under active
2798 consideration.

2799 With that, again, I want to thank the panelists, and
2800 this hearing is adjourned.

2801 [Whereupon, at 12:45 p.m., the Subcommittee was
2802 adjourned.]