Written Statement of Robbie Diamond
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U.S. House Committee on Ways and Means
Post Tax Reform Evaluation of Recently Expired Tax Provisions
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Dear Chairman Buchanan, Ranking Member Doggett, and distinguished members of the Subcommittee,

Thank you for offering me the opportunity to testify on this critical topic. My name is Robbie Diamond, President and CEO of Securing America's Future Energy (SAFE). For over a decade, SAFE has been committed to strengthening America's national and economic security by reducing U.S. oil dependence. This reduced reliance will lessen our nation's resulting exposure to the destructive impacts of oil price volatility. In 2006, SAFE formed the Energy Security Leadership Council (ESLC), a nonpartisan group of business and former military leaders in support of long-term policy to reduce U.S. oil dependence. The ESLC is co-chaired by Frederick W. Smith, Chairman, President and CEO of FedEx, and General James T. Conway, 34th Commandant of the U.S. Marine Corps (Ret.).

SAFE's mission is to end the nation's near-complete reliance on oil, especially in our transportation sector, as a matter of national and economic security. SAFE advocates for expanding domestic production, decreasing the oil intensity of the economy so that we get more economic output out of each barrel we consume, and, ultimately, creating greater fuel choice for consumers and businesses by promoting advanced-fuel vehicles.

Oil is a strategic commodity bought and sold on an unfree global market under the outsized influence of the Organization of the Petroleum Exporting Countries (OPEC), its member nations and other national oil companies (NOCs), which control over 80 percent of the globe's proven crude reserves. The cartel's activity over the last two years alone demonstrates its ability to manipulate the market to meet the political aims of its most powerful members, often to the detriment of American interests.

Put simply, the lack of a free market for petroleum, and the volatility that accompanies regular oil market manipulation and geopolitical instability, necessitates government policy in the interest of national security. This takes on greater significance in the context of U.S. oil dependence: The U.S. is the world's largest oil consumer, using one-fifth of daily global supply to fuel the American economy. As noted, the U.S. relies on petroleum to power 92 percent of the nation's transportation system. This renders the U.S. particularly vulnerable to oil price spikes, which in turn have a harmful effect on American businesses and consumers.

I want to take a moment and address the question of why SAFE believes there is still significant risk and vulnerability associated with oil given all the benefits our nation has received with the rise of domestic shale production. The benefits from the rapid rise in shale and a reduction in oil imports are absolutely positive and encouraging. Despite the promising outlook, shale's longer-term impact is highly uncertain. Circumstances in the oil markets are expected to change, perhaps dramatically, in the next few years. While U.S. production is expected to grow by a massive 2.5 million barrels per day (Mbd) in 2018-19, increases are forecasted to slow considerably thereafter. Output is forecast to rise by only 100,000 barrels per day in 2023.

As U.S. production slows, global demand is forecast to keep rising at a strong pace, even with continued penetration of alternative fuel vehicles. The International Energy Agency (IEA), for instance, sees global demand growing by an average of 1.2 Mbd per year through 2023, reaching 105 Mbd. Emerging markets will still dominate demand growth, and China's net crude oil imports will be double U.S. imports in five years, giving this emerging power increased influence on global prices.

At the same time, the weak oil price environment of the past few years has discouraged oil companies from making the necessary investments in future conventional capacity. Total investment in new supply fell by 25 percent in both 2015 and 2016; investment remained flat last year. The IEA recently issued a warning of higher global oil prices if conventional supply investment does not rebound quickly.

Some analysts have said that the oil market may enter a “decade of disorder” after 2020, when the world will need approximately 5 Mbd of new supply annually to compensate not only for the natural decline of existing fields but also to meet growth in global demand.

Aside from sharp declines in upstream investments, market risks will spread due to rising consumption in emerging markets, increased reliance on OPEC as it consolidates power with other producers such as Russia, and destabilizing geopolitical events. A return to triple-digit oil prices, a strong possibility, would threaten economic growth and precipitate a recession: Every recession since World War II has been preceded by or occurred concurrently with an oil price spike. It should be noted that every one-cent increase in gasoline prices reduces consumer spending by an estimated $1-2 billion. The US can put itself in a better position with increased production, but production alone cannot entirely shield us or our allies. In truth, the oil market is global in nature and a change in price due to growing demand, or a change in supply due to geopolitics or manipulation impact oil prices everywhere. This is why supply- and demand-oriented solutions remain pragmatic and fundamentally essential policy proposals.

To combat this oil market exposure, the U.S. has three main policy approaches. The first is to increase domestic oil production to power transportation here at home. Beyond domestic production of oil itself, the biodiesel tax credit supports domestic production of a liquid transportation fuel and should, therefore, be extended. Biodiesel is particularly useful because it is a drop-in biofuel that requires no additional infrastructure investment (as opposed to drop in ethanol which can require significant modifications to infrastructure).

The second is to maintain and modernize our nation’s single fuel economy standards, which have served as the country’s most effective response to global oil market volatility since their introduction in response to the 1973 oil embargo.

And the third, and most timely policy approach to discuss here today, is to provide greater fuel choice to consumers and businesses, including American-made advanced

fuels such as electricity, biodiesel, hydrogen fuel cells, and natural gas. This can be accomplished through the extension of 30C.

Extending the credits for alternative fuel vehicles and infrastructure under section 30C is, in particular, critical to diversifying our transportation fuels and maximizing the investments our country has smartly made over the last decade. The 30C tax credit provides support for infrastructure investments across a range of fuel sources (including natural gas, hydrogen, electricity, propane, diesel blends and biofuel blends) that benefit the U.S. economy, support domestic jobs and spur investment, while providing choice for consumers and businesses on the type of fuel they want to buy. As an example, the cost to fuel a plug-in vehicle is approximately half that of its conventional gasoline counterpart, generating meaningful savings for American households and businesses. This is a choice that consumers and businesses would have the opportunity to make but, without the proper infrastructure, it will be out of reach.

Diversifying our transportation fuels also helps to reduce our need to import oil. The U.S. has spent $2.5 trillion on imported oil in the last 10 years, $1.6 trillion of which has flowed directly to OPEC member states, and the nation spends an estimated $68 billion every year just to ensure the security of global oil supply lines.

Extending the 30C infrastructure credit can help overcome three early issues that can slow infrastructure deployment: (1) Existing gasoline and diesel infrastructure is often already in place giving it a direct advantage over new fuel entrants; (2) The scale of advanced fuel utilization is early and potentially insufficient to quickly cover fixed costs; and (3) Many fleet owners already have conventional fueling infrastructure available either onsite or through public stations, so new infrastructure would be an added expense.

Extending 30C will provide an important incentive to consumers and business, expand research and development, increase investment, and encourage policy changes at the state and local level, all of which will encourage the increase in the infrastructure America needs to expand advanced fuel vehicle adoption. The chart below shows the transition that infrastructure needs to make, moving from a model that is largely

dependent on manufacturer-provided infrastructure to one (upper right) where an array of fueling infrastructure are commercially viable. The result of such viability will be stronger choice for consumers of both fuels and infrastructure options.

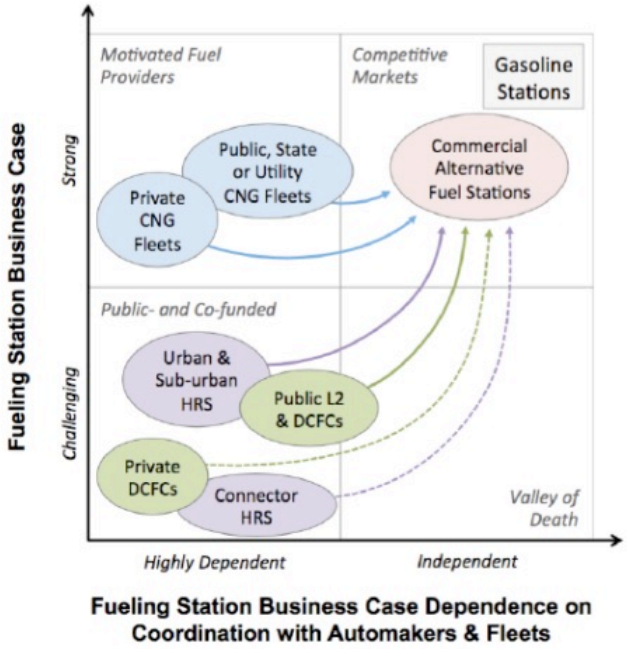

Figure 1. Summary of investment types across a spectrum of alternative fuel stations business case strengths and dependence on automaker and fleet coordination.

Investing in Alternative Fuel Infrastructure: Insights for California from Stakeholder Interviews, Marc Melaina, Matteo Muratori, Joyce McLaren, and Paul Schwabe, National Renewable Energy Laboratory, March 2017

Critical to this entire process is the ability for American innovators to have some minimum certainty that their investments will have time to develop and compete with mature technologies. One example of this issue is the Biodiesel Tax Credit (BTC), but it applies to all the other credits in a similar way. This credit, to be specific, provides an incentive of $1.00 per gallon for the blending of biodiesel with petroleum diesel. The value of these credits is ultimately distributed across the entire value chain providing benefits from rural farm communities to the ultimate consumers at the pump. Biodiesel supports job growth and economic development in rural America. There are over 64,000 jobs associated with the biodiesel industry.

When it functions properly, the BTC helps maintain pricing levels for soybean, lowers RIN cost for refiners, and supports blenders and producers, keeping them viable. This increases stability to the biodiesel value chain and allows this nascent, domestic industry minimal levels of certainty which lead to investments in research and development, as well as job creation.

However, because of the way the BTC, along with other biofuel and infrastructure tax credits, has been extended in the past, the process of providing the credit only for short periods of time—and often times retroactively—casts greater uncertainty into the market rather than providing assurances. When biodiesel producers do not know the future of the tax credit, it forces them to gamble on whether or not they think the credit will continue. That unnecessary and counterproductive lurching from one year to the next stifles innovation and artificially stretches the time the industry will need to grow into one that can compete in the marketplace on its own. The tax credits themselves are important mechanisms for increasing the domestic fuels market; but certainty is just as important.

It is clear that when the nation is dependent on a commodity like oil—that is controlled by actors who do not share our interests or values—it creates vulnerabilities. By recognizing this vulnerability, it is in our nation's best interest to support infrastructure and provide credits that will accelerate of the development of fuel options to enhance our economic and national security. For these reasons, SAFE supports extending the tax credit known as 30C and the biodiesel tax credit.

While it is unclear what oil will cost next year or even tomorrow, history tells us that oil prices operate in boom-bust cycles, and it is only a matter of time until prices rise again. We should celebrate the benefits from recent increases in domestic oil production but not be lulled into a false sense of security. The same vulnerability that destroyed 200,000 jobs in the oil patch when OPEC decided to dramatically increase production in 2014 continues today.

In addition, we cannot continue to depend on Russia, Saudi Arabia, Iran, Iraq, other Gulf States, Nigeria or Venezuela—some of the most unfree and unstable countries in

the world—for our own economic future. We should not continue to have our hands tied geopolitically or militarily, nor be forced to send our sons and daughters to secure oil supply lines or stabilize an oil-producing country in the name of global security.

In the end, if the U.S. produces significant amounts of oil, makes efficient use of what it does consume and has alternative ways to power the transport sector when oil becomes too volatile, then our nation will have achieved a level of protection from oil market manipulation that we have been pursuing for decades. Extending the tax credits under consideration today is an important part of that effort and a small price that will pay itself back in our strengthened economic and national security. Thank you.