



Statement of

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before the

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Chair DeGette, Ranking Member Griffith, and Members of the Subcommittee, thank you for the opportunity to be here today to discuss Shell's response to the invasion of Ukraine, the global energy disruption caused by the invasion, and our efforts to address rising energy costs in the United States in the context of the urgent need to address climate change and the energy transition. Shell is committed to finding solutions to ensure a reliable, accessible, and secure energy supply for the United States and the world, while helping society move toward a lower-carbon future. The war in Ukraine and the resulting pressure on oil price and supply underscore the need to accelerate the energy transition, but also the critical role hydrocarbons will play in the transition, one that spares society the economic shocks it is experiencing today.

Shell strongly condemns the unprovoked attack on Ukraine, and we have acted swiftly in response. In March, Shell announced that it would withdraw from all Russian hydrocarbons, including crude oil, petroleum products, gas, and liquefied natural gas, in a phased manner, including a halt to spot purchases of Russian crude. This includes our intent to exit our equity partnerships in Gazprom-related joint ventures, and to end our involvement in the Nord Stream 2 pipeline. The phased withdrawal from our downstream operations in Russia is being planned with a priority on the safety of our staff and operations, in line with relevant legal obligations. We are also changing our crude oil supply chain to remove Russian volumes, working in close consultation with governments.

The societal challenges we are facing today highlight the dilemma between putting pressure on the Russian government over its atrocities in Ukraine and ensuring a stable, secure, and accessible energy supply around the world. We will continue to work with governments across the world as they assess the incredibly difficult challenges presented by responding to the war in Ukraine while managing the effects on the global energy supply.

As we discuss Shell's response to current energy challenges, it is important to note that Shell USA, Inc. is the U.S. subsidiary of Shell plc, headquartered in the United Kingdom, and the companies that Shell plc directly and indirectly owns, or in which it invests, are separate legal entities. As you might expect, I am most familiar with the activities of Shell USA, but the energy challenges we are facing today are global and our discussion will necessarily encompass activities beyond Shell in the United States.

The global energy disruption caused by the invasion of Ukraine has highlighted the importance and difficulty of moving toward a future in which global economies are less dependent on fossil fuels. In this regard, we believe Shell's Powering Progress strategy continues to be the right approach, and we remain committed to helping society achieve its goal of net-zero emissions. Ensuring energy security and simultaneously promoting the global energy transition to lower-carbon sources is the critical challenge of our time.

Shell recognizes that rising energy prices, as a result of building pressure on oil supply, pose significant challenges for consumers and businesses. Shell is focused on doing our part to ensure a reliable supply of energy products and mitigate the disruptions caused by efforts to move away from Russian hydrocarbons in the global marketplace, carefully working to comply with laws and sanctions and in consultation with governments.

Because oil is a global commodity, Shell does not set or control the price of crude oil. Similarly, Shell does not set or control the price that consumers pay. Indeed, it would be illegal for Shell to do so because nearly all Shell-branded retail stations in the United States are owned by independent operators who set their own prices in the marketplace.

Numerous governmental and nongovernmental examinations, including by the Federal Trade Commission and the Energy Information Administration, have concluded that crude oil prices are the primary factor in determining gasoline prices. Shell is therefore focused on providing the United States and the world with a stable, reliable, and accessible supply of the oil and gas needed to meet society's energy needs, which is the most direct and significant contribution we can make to stabilize energy prices in the near term.

### **Market Dynamics**

Energy security for the United States and its allies has been brought into stark focus over the past month. Stability and sustainability of global supply has deteriorated – requiring realistic and resilient solutions for the immediate, medium, and long term. Working together, industry, governments, policymakers, and consumers must move toward a world that meets a growing global energy demand with lower-carbon energy sources that will help stabilize supply against highly disruptive scenarios like the one we are currently facing. The events unfolding in Ukraine and the global response to the crisis have made it clear that this transition will continue to pose challenges.

To be clear, the mismatch of oil supply and demand predates the crisis in Ukraine. The onset of the Covid-19 pandemic initially caused unprecedented global economic contraction, including a historic drop in demand for transportation fuels. The most dramatic example of that came in spring 2020 when the crude oil market collapsed and the benchmark price for U.S. West Texas Intermediate went into negative pricing for the first time in history. The drop in demand resulted in a surplus of supplies of transportation fuels such as gasoline, diesel, and jet fuel, requiring refineries to reduce production rates or shut down. In some instances, those shutdowns became permanent.

Today, demand has recovered and is now surpassing pre-pandemic levels for many transportation fuels. But refinery throughput has not yet caught up with the post-pandemic surge in demand. The loss of Russian supply from the global market has only added pressure on an already strained refining industry that has yet to fully catch up with increasing demand.

### **Withdrawal from Russia**

In response to the invasion of Ukraine, Shell announced our intent for a phased withdrawal from our involvement in Russian hydrocarbons, including crude oil, petroleum products, gas, and liquefied natural gas. Shell announced the intent to exit our joint ventures with Gazprom and related entities. This complex process is underway, and the global energy market's reliance on Russian energy means it will take time to eliminate Russian hydrocarbons completely. Critical challenges need to be addressed along the way – from ensuring the safety of our staff, partners, and operations, to the need to sustain the supply of fuels that are essential to communities across Europe.

Although the overall consumption of Russian crude oil in the United States is relatively small, the loss of Russian feedstocks and gasoline blending components will have effects in the United States. The challenge is that feedstocks are needed to supplement some grades of crude oil and are part of refinery secondary units along the U.S. Gulf Coast, where they are upgraded to gasoline and diesel. Alternatives to some Russian feedstocks are very limited and in high demand. Refinery production of gasoline and diesel will reduce with the loss of Russian feedstocks and become more economically challenging as refiners compete for a limited pool of alternatives.

### **Price of Gasoline**

There are more than 13,000 service stations in the United States that carry the Shell brand. We are very proud of these stations and their operators, but Shell neither controls nor owns these stations. Although they possess a license to carry our brand, nearly all Shell retail service stations are independently owned and operated in your communities. Each of these independent businesses is responsible for setting the local retail price of gasoline within the relevant competition and consumer protection regulatory framework.

Shell's wholesale gasoline prices are defined by the markets in which we operate, taking into account the costs of the refined fuel that we produce and acquire for distribution to wholesalers. When the price at the pump goes up, that increase is driven by higher costs earlier in the supply chain in the costs of crude oil, refining, and distribution. Additionally, the price at the pump reflects local market conditions, such as local wages, salaries, and benefits, lease payments and overhead, and state and local fees and taxes.

### **Responding to the Crisis**

Shell already had in progress actions that will allow us to respond to the current crisis. In the Gulf of Mexico, Shell recently started production at PowerNap, a subsea development with an estimated peak production of 20,000 barrels of oil equivalent per day. PowerNap is a tie-back

to the Shell-operated Olympus production hub in the prolific Mars Corridor. We also expect to bring online a new production platform, Vito, by the end of this year. The Gulf of Mexico is a strong example of a strategic national asset that can play a key role in stabilizing supply and accelerating the transition to net-zero carbon emissions. Oil produced from the Gulf of Mexico has one of the lowest greenhouse gas intensities in the world.

Today's crisis and the pressure on hydrocarbon supplies and prices reveal the urgent need to accelerate the energy transition, and also make plain the continued need for stable supply as we transition. Shell offers three thoughts regarding the challenges posed by today's environment.

First, we cannot depart from the path toward diversification and lower-carbon sources. We are committed to our Powering Progress strategy and to helping society achieve its goal of net-zero emissions. In support of this, we are diversifying our own portfolio into a wide array of new energy sources, including several key recent developments:

- Shell's recent acquisition of solar and energy storage provider Savion, based in Kansas City, Missouri, with projects in 27 states.
- Substantial wind power investments and partnerships in Texas and offshore Massachusetts and New Jersey, including our recent \$390 million investment in a 50% stake in a block in the New York Bight, an offshore wind project that will support an estimated 1.5 gigawatts of commercial wind generation, enough to power nearly 700,000 New York and New Jersey homes.
- Renewable natural gas ventures in Oregon, Idaho, and Kansas.

Second, the government should continue to advance the approval of LNG export permits in the United States to supply our allies. Additionally, accelerating the permitting of otherwise ready oil and gas projects would bring new supplies of oil and gas online within weeks or months. For example, in the Gulf of Mexico, where Shell is the largest federal leaseholder, we have encouraged the departments of jurisdiction to complete processing on permits for about ten development wells that we believe are ready to be issued. This production, if it is permitted to proceed, has the potential to bring substantial new production online in approximately six to twelve months.

Third, the Interior Department should end its pause on federal oil and gas leasing and instead direct urgent attention to accelerating and completing its legal and administrative work necessary to restart federal lease sales, along with appropriate environmental safeguards, especially in the Gulf of Mexico, which is among the lowest greenhouse gas intensive production in the world.

Importantly, this effort must be complemented by support for and deployment of carbon capture and storage technology, including the timely completion of a regulatory structure for offshore storage and more efficient permitting of onshore CO<sub>2</sub> storage. It should also include the

continuing and intensifying improvement of energy efficiency of the upstream and downstream production processes.

### **Policy for Progress**

Even in the current crisis, Shell is unwavering in its commitment to the energy transition. The market challenges presented by the reduction of Russian oil and gas in the global market present an opening for policymakers to look for a realistic pathway that would blunt the disruptive effects of the ongoing crisis and accelerate the transition to a lower carbon future.

Shell has long advocated for an economy-wide carbon price as the most efficient way to reduce greenhouse gas emissions while preserving jobs and the economy. Shell believes carbon pricing can rapidly and substantially affect behavior because it would operate in conjunction with other market signals in the U.S. economy. We recognize the political sensitivity of this policy in the current high-price environment. But we also recognize the critical and long-term market signals a carbon price can send that high fuel prices alone do not deliver. Shell testified in favor of the Waxman Markey American Clean Energy and Security Act and supported passage of the bill in the House in 2009. We also supported regional pricing proposals such as the Regional Greenhouse Gas Initiative in the northeast and the Transportation and Climate Initiative in the northeast and mid-Atlantic. Shell advocated to preserve the Obama administration's CAFE standards for 2017 to 2025 model years. We advocated for continued direct regulation of methane and supported the leak detection and repair frequency established by the Obama administration. In 2017, Shell privately and publicly urged the United States to remain in the Paris Agreement.

Most recently, we have publicly supported a number of provisions in the pending infrastructure legislation related to addressing climate change. We also support key climate provisions contained in the budget reconciliation. Shell's support for climate provisions in both proposals includes support for zero-emission vehicles and related infrastructure, the production and use of clean hydrogen as well as hydrogen infrastructure for multiple sectors, improvements to 45Q, measures to develop a sustained offshore wind program, and modernization of our power grid to support more renewables. In all instances, we have engaged constructively to improve design elements and advance the climate proposals we support. We have also sought to advance recent discussions about creating a carbon tax through budget reconciliation.

In 2020, Shell published *A US Net-Zero CO<sub>2</sub> Energy System by 2050*, a scenario that describes a possible path for decarbonizing the U.S. energy system. Shell has engaged with Congress and the Biden administration on our ideas, and we continue to advocate for workable climate policies that would support the United States' aim to achieve net-zero emissions by 2050.

### **Looking Ahead**

With the war in Ukraine, the United States finds itself at an inflection point. Our decisions today to balance energy security with the urgent need to support the energy transition will determine our nation's energy future. Now is the time to employ our unparalleled natural

resources and ingenuity to confront the supply crisis while building a more diverse, lower-carbon energy system for the future.

Shell recognizes that recent events have led to volatile oil and natural gas prices, and corresponding swings in energy company profitability. Shell's strategy looks far beyond these episodic swings. While taking appropriate steps to meet current and foreseeable needs, we simultaneously look to the longer term, and the need to help transition society toward the lower carbon future that we all must achieve. Shell will continue to invest in clean energies like wind, solar, and hydrogen, and innovations like carbon capture. We will continue to work with our customers to help them decarbonize. We are committed to helping society achieve a low-carbon future.

Thank you for the opportunity to be here today. I would be happy to answer your questions.