STATEMENT OF BRAD MARKELL

EXECUTIVE DIRECTOR

AFL-CIO INDUSTRIAL UNION COUNCIL

Before the

COMMITTEE ON ENERGY AND COMMERCE

SUBCOMMITTEE ON ENERGY AND POWER

U.S. HOUSE OF REPRESENTATIVES

MARCH 3, 2015

Chairman Whitfield, Ranking member Rush, and Members of the Subcommittee, thank you for inviting the AFL-CIO to share its views on the important topic of 21st Century Energy Markets. The AFL-CIO is the largest labor federation in the nation, consisting of 56 unions with 12.5 million members.

Growing domestic oil production is providing the Unites States with a significant economic boost and a significant reduction in our dependence on foreign oil. The petroleum refining business is an economic powerhouse, as detailed data from the Census Bureau make clear, and as the American Petroleum Institute has documented over the years.

In July 2014, the AFL-CIO Executive Council unanimously passed a policy statement opposing lifting the existing restrictions on crude oil exports, titled "America Should Exploit the Advantages of Domestic Oil Production, Not Give Them Away[i]."

I want to spend most of my time today making sure the committee understands our views on the economic importance of the refining industry, and why it would be a bad idea for the United States to lift or significantly modify the existing restrictions on the export of crude oil

Gas Prices Likely not Affected

First, while the attention given to the effect easing restrictions on the export of crude oil would have on domestic gasoline prices is understandable, a focus on this question to the exclusion of other issues is not helpful in understanding which path the U.S. should choose.

The price of gasoline is set on the international market, and as the October 2014 Energy Information Agency report "What Drives U.S. Gasoline Prices?" says, the price of gasoline in the U.S. is best explained by the price of Brent crude oil. That report has seven key observations, including these three[ii]:

- Gasoline is a globally traded commodity and, as a result, prices and changes in prices are highly correlated across global spot markets.

- Brent crude oil prices are more important than WTI crude oil prices as a determinant of U.S. gasoline prices in all four regions studied, including the Midwest.

- The effect that a relaxation of current limitations on U.S. crude oil exports would have on U.S. gasoline prices would likely depend on its effect on international crude oil prices, such as Brent, rather than its effect on domestic crude prices.

The Economic Importance of the Refining Sector

The refining sector is an economic powerhouse, and easing restrictions on crude oil exports threatens the long-run health of the sector and the high-quality jobs it provides. The threat of these job losses is concentrated in the Gulf of Mexico states.

Simply put, if we lift the ban on crude oil exports, we will export both our oil and the jobs and economic activity associated with refining that oil. Over time, with no restrictions on the export of crude oil, the refinery sector will have meaningful incentives to increase operations outside the United States to lower both labor and environmental compliance costs. The U.S. would lose some of the jobs it has now, and fail to create jobs to process increased domestic light oil production volumes.

And the jobs that could be lost are very good jobs. According to the 2012 Economic Census performed by the Census Bureau, the average job in the refining sector paid over $100,000 per year, supported by $1.8 million in value-added per employee.[iii]

According to the Economic Census, while the industry paid its employees $9.7 billion in total compensation, it also spent $8.9 billion on professional services, repair and maintenance services, and leased employees. The industry is a significant employer of workers in building and construction trades occupations.

In 2012, refineries made over $15 billion in capital investments. Their importance to our economy goes beyond the numbers, as the American Petroleum Institute put it in 2011, when it was making the case for domestic refining:

> “The United States will depend on refining petroleum-based products for much of its energy needs for decades to come. And, domestic refineries are competing directly with petroleum product imports. Because the refining industry operates

> on a global basis, America faces the choice of either manufacturing these products at home or importing them from other countries.
>
> U.S. refinery closures would result in domestic job losses and lower government revenue in the form of taxes. It would also result in a greater reliance on foreign refineries, such as those being developed in the Middle East and India.[iv]"

Additionally, the output of U.S. refineries is critical to U.S. petrochemical manufacturing, with a large part of U.S. refinery output integrated with follow-on petrochemical manufacturing. If the U.S. refining capacity declines over time, the petrochemical industry would also likely decline, compounding the economic damage from allowing crude oil exports.

Market Instability Increases Policy Risk

This is a particularly bad time to be considering changes to crude oil export restrictions. The oil market is in the throes of a drastic realignment that we do not entirely understand, and there is a great deal of uncertainty about the short-term resolution. EIA Administrator Sieminski recently pointed out that the market-implied 95% confidence band for WTI is extremely wide - $35 to $100 per barrel in 2015 and 2016.

The amount of tight oil produced in the United States is dependent on the market price of West Texas Intermediate oil. It is unwise to consider major policy changes until the world oil market stabilizes and we understand with greater certainty how much oil can be economically produced in the United States.

It will also take some time to sort out the effects of the Department of Commerce's "clarification" of its policies regarding processed condensate. Significant exports of condensate are possible, and reports of both condensate exports and investments in condensate splitters are in the press[v].

Condensate exports of course represent volumes that could otherwise have been processed further into completed fuels in the United States, with all the same economic benefits of job creation and supply-chain spending as the rest of the refinery sector.

The Refining Sector can Retool to Use More Light Oil

Much of the discussion of oil exports focuses on the mismatch in refinery capacity, with U.S. refineries configured to handle more heavy oil and lacking capacity optimized for light oil. In this static view of the industry, the easiest fix for the "problem" is to reduce imports of light crude oil, and then export any remaining domestic light crude oil unprocessed.

Indeed, according to EIA's oil import tracking tool, imports of light oil to the U.S. Gulf Coast region have declined from 1.7 million barrels a day in 2009 to just 0.26 million barrels a day in 2014 – an 85% decline[vi].

Rather than export the domestically produced light crude oil that U.S. refineries are not optimized to process, there is another solution, one that emphasizes investment in America, and expanding employment for American workers.

In 2014, McKinsey examined the implications of increased domestic production of light, tight oil (LTO) on refiners, under scenarios where the crude oil export ban is not lifted.[vii] McKinsey believes that "…the continued growth of LTO in North America has the potential to drive a fundamental restructuring of the downstream industry in North America and beyond."

The report's 2020 scenario says that Gulf Coast refineries could see their light tight oil inputs increase to around 50% of all crude used, backing out imported crude oil. This will require refiners to remove bottlenecks in the light-ends part of their distillation units, or to add new distillation capacity optimized for light tight oil.

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

Increasing Insecurity in Oil-Producing Regions Should Counsel Caution

Political and military tensions in the Middle East are worse than they have been in decades. No one can say with any confidence what the situation will be in five or ten years. After some success in increasing oil production, Libya is again the scene of turmoil and terrorism. Nigeria faces an extremely precarious political situation and a brutal armed insurgency. Venezuela is in a political and economic crisis. The situation regarding Russia’s international relationships remains fluid and troubling.

Taken as a whole, the ongoing instability in nations crucial to the international supply of crude oil threatens the energy security and economic prosperity of the United States. After our success in reducing our dependence on imported oil, the last thing we should consider is throwing away that success by lifting the restrictions on crude oil exports.

Exporting crude oil when the U.S. will be a net petroleum importer for the foreseeable future, and when foreign sources of oil are facing considerable instability would be an ill-advised and shortsighted choice – and make no mistake, the American public knows that this is a choice that will be made here in Washington D.C.

The Best Use of Abundant Domestic Crude Oil is to Transform It into High Value Added Products that can be Sold around the World.

The position of the AFL-CIO is premised on the belief that in the end, markets win out. Economically exploitable fossil fuels do not stay in the ground, they are produced when the price is high enough.

Just as the refining sector made significant investments to handle more heavy oil, so too will investments be made to handle more light oil feedstock efficiently.

The simple question before us is where do we want oil produced in the United States to be refined and made into products? Would we prefer that billions be invested in the U.S., or overseas? Would we prefer to expand the domestic petrochemical capacity that feeds so many of our basic industries, or would we prefer that it too go off shore as the feedstock it depends on is exported?

When we refine domestic crude oil, we create high-quality jobs that the United States desperately needs. The jobs that could be created would be concentrated in areas where the refining and petrochemical industry are already situated – primarily in Gulf Coast States. If we allow exports of crude oil, that is where, especially over the long run, jobs will be lost.

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

---

[i] http://www.aflcio.org/About/Exec-Council/EC-Statements/America-Should-Exploit-the-Advantages-of-Domestic-Oil-Production-Not-Give-Them-Away

[ii] http://www.eia.gov/analysis/studies/gasoline/pdf/gasolinepricestudy.pdf

[iii] http://www.census.gov/econ/isp/sampler.php?naicscode=32411&naicslevel=5

[iv] http://www.api.org/~/media/files/oil-and-natural-gas/refining/api_case_for_us_refining_summary.pdf

[v] http://www.maritime-executive.com/article/bp-exports-super-light-crude-from-texas
http://ir.marathonpetroleum.com/phoenix.zhtml?c=246631&p=irol-newsArticle_pf&ID=1879930
http://www.reuters.com/article/2014/12/08/phillips66-condensate-splitter-idUSL1N0TS24420141208
http://www.kindermorgan.com/projects/condensate

[vi] http://www.eia.gov/todayinenergy/detail.cfm?id=19931

[vii] http://www.mckinsey.com/~/media/mckinsey/dotcom/client_service/oil%20and%20gas/pdfs/797317%20implications%20of%20light%20tight%20oil%20growth.ashx