

As Prepared For Delivery

Jack Gerard – President and CEO, American Petroleum Institute
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Thank you very much, Shelby, and thank you, ladies and gentlemen, for joining us here early in the New Year.

I am particularly glad to be talking about something as important as “The State of American Energy” at the Newseum. This building is devoted to the chronicling of events in the world’s history—events that in some cases defined generations, or moments that are part of our identity as Americans.

The greatest moments in our history occur when we overcome challenges, or when we recognize and take advantage of opportunities.

In my remarks today, I want to focus on the challenges and opportunities before our country related to energy—and how what we do this year could have a profound impact on our country’s energy future ... and with it, our economic prosperity.

And while this particular story has yet to be written for the Newseum, at this moment in time, our options for the future are quickly coming into focus.

Today we’re issuing The State of American Energy. A report that provides our industry’s perspective on energy and economic issues and the way the two are inextricably linked.

This report captures the challenges and opportunities ahead of us.

On the one hand, even in this challenging economic climate—one where people are looking for ways to create jobs, boost revenue and spur investment—our industry has a great story to tell. Consider just a few highlights from the last year.

- In 2010, oil and natural gas companies created 57,000 new jobs in Pennsylvania and West Virginia alone as part of the Marcellus Shale natural gas development. These are good-paying, stable jobs that are in high demand right now.
- The number-one ranking in Gallup’s “Job Creation Index” belongs to North Dakota, thanks to its record-breaking oil production numbers.
- Last year, oil and natural gas companies’ investments in U.S. capital projects for this decade hit the two trillion dollar mark.
- Finally, this industry provides the U.S. Treasury, on average, with well over \$95 million each day in taxes, rent, royalties and bonus payments.

But on the other hand, without policies that encourage the continued safe and reliable production of our domestic oil and natural gas resources, the story will get much gloomier.

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Our report contains a wealth of facts and figures about the state of American energy. But its conclusion is this: Energy growth is economic growth. Energy security is economic security. And when we invest in energy, we invest in America.

And today ... after a year in which we faced and ultimately met unprecedented challenges ... I'm glad to say that the state of American energy has been strong... but it will remain strong only if policymakers chart a course of opportunity and certainty.

With the right policies in place at all levels of government, our industry stands ready to be the engine of economic growth and recovery this country needs in 2011—and for decades to come.

With a rising world population and developing economies demanding more resources, we will see the global demand for energy rise significantly. But rising energy demand means that economies are growing and that billions of people around the world are ascending out of poverty and gaining access to a better quality of life.

The International Energy Outlook 2010 projects that world energy consumption will grow nearly 50 percent between 2007 and 2035.

And based on government projections, oil and natural gas will continue to provide more than half of total U.S. and global energy needs until 2035 and beyond.

These numbers clearly demonstrate that meeting this growing demand for energy of all types—including oil and natural gas—will require more safe and reliable exploration and production ... including right here in the U.S.

Our industry supports 9.2 million American jobs. That includes 2.1 million workers directly employed exploring, producing, refining, transporting and marketing oil and natural gas.

The number also includes 7.1 million workers whose jobs support the oil and natural gas industry.

Equipment suppliers, construction companies, management specialists and food service businesses are all tied to the industry, and many of them are small to medium-sized businesses.

Every sector of the economy depends on affordable energy ... every business owner, every worker ... every household and family member ... every consumer depends on affordable, reliable supplies of oil and natural gas.

Who are these 9.2 million workers ... and the millions of Americans who benefit from oil and natural gas?

You can see some of them if you look around the room.

These are images of real people whom we have featured in our new "I'm One" advertising campaign, which launches this week on Capitol Hill—in the Capitol South metro station—and then rolls out as a national campaign to further educate and engage the public on important energy policy issues.

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The ads feature the workers, the consumers, the homeowners and others who are part of the American story of the oil and natural gas industry.

This is why I mentioned earlier that American energy and the American economy are inextricably linked.

The state of American energy must be strong in order for the American economy to thrive.

How then do we strengthen the state of American energy?

For starters, there are vast reserves of domestic resources that are currently off-limits to exploration and production: billions of barrels of oil and trillions of cubic feet of natural gas ... onshore and off.

And those estimates are most likely conservative given our past experience and new advanced technologies.

Accessing these U.S. resources could improve our energy security by making us less reliant on others, generate an additional \$1.7 trillion in government revenue over the life of the resources and create hundreds of thousands of new jobs.

In areas where we do have access, we need to responsibly expand production. Natural gas is a good example.

I mentioned earlier that last year our industry created 57,000 jobs in Pennsylvania and West Virginia alone as part of the Marcellus Shale development.

That's good news, to be sure, but it's just the tip of the opportunity iceberg, since expanding the Marcellus natural gas development could create 280,000 additional jobs and an additional \$6 billion in government revenue over the next decade.

Similar success stories are playing out in other parts of the country like Northern Louisiana, Texas, Arkansas and Colorado, where our companies are unlocking huge, new discoveries of natural gas.

We can build and maintain an even more vibrant natural gas sector. With a clean burning, abundant and affordable resource, the political will must be there to make it a reality.

Two more energy sources deserve mentioning. The first is Canadian oil sands. Greater oil sands production, from a friendly, nearby neighbor like Canada, could create more than 340,000 new American jobs and economic benefits that could add up to \$34 billion to our GDP by 2015.

The second is oil shale. Increased oil shale production could add as many as 100,000 new jobs, millions in tax revenues, and royalties and lease payments topping \$2 billion a year.

And our industry is also researching, developing and marketing alternative and renewable sources of energy, including solar, geothermal, biofuels, fuel cells, hydrogen power and wind energy. We invested \$58.4 billion in low- and zero-carbon emissions technologies from 2000 to 2008. That's more than either the federal government or all other U.S.-based private industries combined.

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We can and should be doing all of these things to improve the state of American energy, and our economy. And we can and are doing them safely.

Last year's tragedy in the Gulf brought new attention to the risks associated with doing what the men and women in our industry do every day.

In the days and weeks after the incident, I'm proud of the way the industry responded. The industry responded quickly, moving vessels, materials and manpower to the area.

We immediately brought together industry experts from around the world and created task forces to identify ways we could enhance the focus on safety, even before we knew the cause of this disaster.

The task forces' recommendations are already helping to improve safety through development of new industry standards and through incorporation in new government regulations.

We redoubled our commitment to safety – something we've been focused on for the more than 60 years we've been in the Gulf—with more than 42,000 wells.

We've developed the technologies, standards and best practices that have helped ensure that workplace safety and environmental stewardship remain at the forefront of the offshore development process.

And while the strength of our existing system is precisely why incidents like the one last year are rare, there is always room for improvement. That's why work on advancing safety will never be "done"; we will continually strive to improve our performance.

The commitment to improve safety while we continue to explore and develop our resources must be paramount—for both industry and government—because more domestic production of oil and natural gas both onshore and offshore is critical to jobs for Americans, a stronger economy, enhanced energy security ... and will help solve a pressing problem: the federal budget deficit.

On the economic front, the progress we have made and the opportunity for future growth depends, in part, on the policy choices we make now.

The right policies ... those that create a clear, positive climate for investment ... will help us realize gains in job creation and economic growth, generating increased revenues to government.

But the wrong policies will put these gains at risk.

Over the past few years, revenues to the U.S. Treasury from lease sales have decreased, due in part to a lack of opportunities.

Our industry is eager to initiate new projects. But without an adequate level of business certainty, with concerns about policies that might curtail this industry's ability to access new resources, those projects might never get off the drawing board.

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Companies need to know they can get access to the domestic resources where oil and natural gas can be developed.

They need clear guidelines from policymakers on what is required to gain permits and on the rules for safe and reliable operations.

But we also cannot keep the industry on indefinite “hold” while the regulatory process is improved.

When questions linger about whether new projects can move forward, where U.S. regulatory certainty is lacking, those projects move elsewhere.

We’ve already seen some companies send their idled Gulf rigs to waters off the coast of Africa and South America—and other companies are discussing plans to relocate their Gulf rigs to places where exploration and production continue.

And as these rigs leave us, so do the jobs and revenue they create.

A policy environment that creates opportunity and certainty for all energy sources will help drive us to recovery. Anything else will idle it.

So the way I see it, our policymakers are at a crossroads.

They face two choices: One leads us forward and promotes jobs, investments, revenue and growth... or one that takes us backward, threatening the progress we’ve made and closing the door on future opportunities.

Choosing the right path requires making the right choices in two critical areas.

The first is access.

I’ve discussed what greater access to our domestic energy reserves would mean for America’s economy.

Our nation will require more oil and natural gas for decades to come. A lot of it will come from deep sea wells—and if it doesn’t come from here, then we’ll import it.

This is why we oppose the recent decision by the Department of the Interior to delay the next Five-Year Plan for offshore leasing, the placing of large areas of domestic oil and natural gas off-limits, and the slow pace of permitting—both onshore and off—in areas where exploration and production are allowed.

Closing the eastern Gulf and the Atlantic and Pacific coasts to offshore drilling and exploration—and delaying development in Alaska—sends job creation elsewhere ... and it closes the door on economic growth.

Countries around the world understand this. Some are creating the right climate for energy investment – both within their borders and off their coasts—while others are securing global oil and natural gas resources.

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We hear much about China and how they're securing their own energy future.

We can look at Brazil, home to some of the largest offshore oil finds in the last decade, finds that are believed to hold as much as 100 billion barrels of oil. Brazil recently announced that between now and 2014 it will invest \$224 billion to double production by 2020. About 95 percent of that investment will stay in Brazil.

U.S. oil and natural gas companies stand to benefit from this development and could play a role in helping Brazil meet its target.

But we should be increasing production here at home; we should welcome new investments; we should be creating jobs and revenue here.

At a time when we are attempting to reduce the deficit and put more Americans back to work, closing off Outer Continental Shelf development opportunities is the wrong choice.

And it's one we will be feeling the effects of for years.

The second area where making the right decision is critical: taxes.

There's been significant political debate about federal spending levels and government revenues ... particularly how to cut spending and increase revenues to pay for important programs.

One suggestion has been to increase taxes on the oil and natural gas sector.

U.S. oil and natural gas companies are already an important source of government tax revenues; they pay their share—and more.

Our industry pays an effective tax rate of 48.4 percent of pre-tax, net income – nearly double what other industries pay. In 2008, it paid more than \$95 billion in income taxes alone.

Still, some believe that more taxes on the industry equals more money for federal programs.

But today we're releasing a new economic analysis by Wood Mackenzie that shows why that's not the case. We've provided copies of this analysis on your table.

Here's what this study shows—increasing taxes on the oil and natural gas industry actually decreases government revenue.

In the long run, the negative economic consequences of higher taxes more than offset any short-term tax revenue gains.

An additional \$5 billion in new, annual taxes—similar to what's been proposed by the administration, or some in Congress—could actually decrease cumulative government revenue by \$128 billion by 2025.

And even worse, higher taxes could result in the loss of tens of thousands of jobs between now and 2025.

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In 2014 alone, we'd lose 170,000 of these jobs.

However, the oil and natural gas industry can still provide the answer the government is looking for.

The study concludes if we open areas that are currently off-limits to development, we could create more than 500,000 jobs throughout the economy and generate an additional \$150 billion in government revenue by 2025.

What that says to me is this: We can either take momentum away from recovery, or put it behind American prosperity.

We can watch jobs and billions of dollars in federal revenue disappear, or we can welcome 500,000 new jobs and \$150 billion in new money.

The public understands this ... on election night this fall, one poll showed that 60 percent of voters oppose an increase in taxes on the oil and natural gas industry; 54 percent said an increase could destroy jobs.

They were right.

We are ready, as an industry, to help this country achieve the energy and economic security it needs.

But to reach our fullest potential, we must be clear on the kinds of policies that will shape the American economy of the future, and Congress and policymakers at all levels of government make the decisions that will get us there.

The American people sent a message last November. They want policymakers focused on an agenda that promotes growth. And they want job creation at the forefront.

We want the same things. And we're committed to working with the administration and the new, 112th Congress to make them happen.

I've spent a lot of time today talking about what could be, or how the oil and natural gas industry is poised to do more for our energy and economic future.

But imagine we were instead looking back at a time when we got energy policy right.

Imagine looking back and pointing to new energy projects and increased production, resulting in new jobs, increased corporate investment and government revenue while continuing to improve efficiency and environmental performance.

Imagine looking back and seeing a policy climate that allowed us to improve our energy security here at home and enhance America's competitiveness abroad.

The Newseum is dedicated to chronicling the most seminal moments in American history ... the way we overcame challenges ... or defined greatness.

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The story of how we overcome this challenge has yet to be written. But other countries are writing theirs. And the development of new and additional energy sources, both at home and around the world, plays a leading role in their narratives.

Right now we sit at a crossroads.

What we're faced with today is choosing between the future we want to see—with jobs and economic growth and revenue generation as part of it all ...

Or the future that will be handed to us if we continue on the current course—one that involves more imports, more expensive energy, more deficits.

Let's make the right choice and set the right agenda.

And then, let's get right to work on a story we can all be proud of ... and one that will be chronicled here in this wonderful building as an American success story.

I believe that we can and I'm confident we will.

Thank you very much.

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