TESTIMONY

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LIFTING THE CRUDE OIL EXPORT BAN

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Chairman Shelby, Ranking Member Brown, Members of the Committee. I want to thank you for inviting me to testify today on the critical issue of crude oil exports.

My name is Leo Gerard and I am the International President of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union – the Steelworkers or USW for short. I am also a sitting Vice-President on the AFL-CIO Executive Council and co-chair of their Legislation and Policy Committee. There are 850,000 members of our union – more than 30,000 of whom are employed in the domestic oil and refining industry - and we are the largest industrial union in North America.

While I will focus on the fact that USW represents workers at sixty-three (63) of the nation's refineries, which accounts for two-thirds of domestic refining capacity across the country, I can guarantee that over 99 percent of our membership has a stake in the crude oil export ban. Congress cannot overlook the negative impact lifting the crude oil ban will have on fuel prices, economic security, and jobs.

THE BACKGROUND

Many arguments in favor of lifting U.S. export controls are based on free market ideology in a world where the largest proven oil reserves are controlled by countries that use an international cartel to influence prices for political reasons. The Organization of the Petroleum Exporting Countries (OPEC) significantly influences oil prices and has used that power to adversely impact US producers and consumers. U.S. export controls were put in place because of actions taken by OPEC nations when they embargoed oil exports to the United States. Forty years later the Saudi Arabians, who hold the whip hand at OPEC, feeling threatened by shale oil production, got the cartel to agree to pump crude oil into the market to drop crude oil prices – which have fallen by over 57 percent in the last year. [1] It should be noted that Iran is part of this cartel to influence crude prices. Whether Congress approves the Iran deal or not, OPEC will continue to influence global oil prices. Our response should not be to give away the strategic advantage our country has, with its world-leading refining complex.

United States oil production increased 46 percent between 2011 and 2014. There has not been a three-year increase that large since before the Depression. The United States is producing more oil today than at any point in the past 20 years.[2] Even so the United States remains by far the world's largest importer of crude oil, with over 7.9 million barrels per day of crude imported in the third week of this month.[3]

[1] http://www.vox.com/2014/12/16/7401705/oil-prices-falling
[2] http://www.nytimes.com/2014/01/25/business/us-oil-production-keeps-rising-beyond-the-forecasts.html?_r=0
[3] http://www.eia.gov/dnav/pet/pet_move_wkly_dc_NUS-Z00_mbblpd_w.htm

The increased extraction of crude oil has led to a significant decrease in imports of oil products into the U.S. as refiners use domestic crude. A 19 percent decrease in crude oil imported into the U.S. occurred between 2009 and 2014.

Oil Imports Decreased Significantly From 2009 to 2014 in Thousand Barrels

Year	2009	2010	2011	2012	2013	2014	% change
	3,289,675	3,362,856	3,261,442	3,120,755	2,821,480	2,677,911	19

Growing domestic oil production is providing the United States with a significant economic boost and a measurable reduction in our Nation's dependence on foreign oil. In 2014, about 27 percent of the petroleum consumed by the United States was imported from foreign countries, the lowest level since 1985.[4]

However the U.S. is still nowhere near self-sufficient in oil. In fact, Secretary of Energy Moniz recently stated that the U.S. imports seven million barrels of crude oil per day to meet domestic demand, an amount that is again on the increase. That is more oil imported today than when the export ban was enacted in 1975. Secretary Moniz also noted at a recent House Energy & Power Subcommittee hearing that for every barrel of oil the U.S. would export, we would have to import a barrel to replace it. Meaning, an increase in crude oil exports could lead to another increase in crude oil imports.

CONSUMERS WILL SUFFER IF THE CRUDE OIL EXPORT BAN IS LIFTED

U.S. Consumers currently benefit from the lower oil prices caused by OPEC's efforts to control global prices. These savings are substantial with estimates of about $209 billion per year in consumer savings. This translates to $1,064 per driver and $2,182 per family.

As for domestic production, lifting the crude oil export ban will not only hurt refiners and refinery jobs, lifting the ban will impact prices at the pump and eliminate the discount American consumers currently enjoy because of the crude oil export ban. The penalty for the consumer as a result of lifting the export ban would add up to $25 billion per year, or $125.00 per driver and $257.00 per family. In extreme cases it could cause US refineries to close, which could endanger supplies of other refined products such as home heating oil in the Northeast.

Our nation's oil refineries not only are a vital source for the fuel needed by America's consumers, they also supply necessary fuel and raw materials to America's industries, including chemicals, plastics, and tires; industries that are crucial to the US economy and in which the USW alone represents about 100,000 members.

[4] http://www.eia.gov/tools/faqs/faq.cfm?id=32&t=6

The public understands this. Hart Research polling conducted in December of 2014 shows that after hearing both sides of the debate, seven (7) in ten (10) voters prefer investing in refinery capacity at home over lifting restriction on the export of domestic oil. In addition, 82% of voters support a proposal that would require oil companies to use oil that is produced in the U.S. from public lands and offshore to meet energy needs here at home instead of exporting U.S. oil to foreign countries.[5] Over the last month, more than 10,000 USW members have signed petitions or have written letters to their members of Congress urging the United States to retain the export ban.

REFINERY INVESTMENTS MEAN JOBS

The growth in domestic crude isn't moving global benchmark prices, but it has been keeping U.S. gasoline prices down slightly, as new US capacity means it is possible for U.S. refiners to access U.S. landlocked crude. This has fostered significant development and investment across our nation's refining sector.

For example in the 2012, USW members at key refineries in the Philadelphia area were facing layoffs and permanent closures of their refineries. The east coast was facing a loss of over half of its domestic refining capacity. An economic analysis on the loss of east coast refining in the Philadelphia area showed an impact of more than 36,000 jobs (direct and indirect) and over $550 million in lost revenue for state and local entities. In addition, supplies of vital home heating oil to the region were put at risk.

Thankfully our union - working with federal, state and local officials - found buyers for two of the three refineries. The Carlyle group invested hundreds of millions of dollars into a rapid tank car unloading facility at the former Sunoco refinery in Philadelphia. Moving Bakken fuel from North Dakota to the east coast decreased crude oil imported from Nigeria, an OPEC nation, by over 90 percent. In addition <u>refined</u> products imported into the east coast also decreased from 1.5 million barrels in 2010 to just over 1 million barrels in 2013 as the refineries ramped up to full production.[6] The export ban kept thousands of workers employed in the region and backed out not just OPEC crude oil but also ensured that more refined product would be made on our shores.

U.S. refiners are making investments to realign their processes to specialize in the lighter domestic crudes that are produced here from shale formations. This realignment will allow for greater refining efficiency and increased production. For example, U.S. refiners have added 100,000 additional barrels per day of capacity just in the last year. A recent analysis,

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[5] http://crudecoalition.org/app/uploads/2015/02/HART-POLL-me11457_cap_us_oil.pdf
[6] http://blogs.platts.com/2013/05/17/us-east-coast-oil-refineries-enjoy-a-stirring-comeback/

based on a survey of refiners indicates that the industry plans to step up its consumption of light domestic crude by more than 730,000 barrels per day over the next two years.[7]

What does this refinery investment look like? If the crude export ban stays in place, refinery investments of about $8.7 billion over a 10-year period are forecast to bring in some $14.6 billion of additional revenues. These projects are located in multiple states from Texas to Montana to California to West Virginia.[8]

What does this investment and annual refining look like in terms of employment and wages for refining work? 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.

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, which among others includes a significant number of workers in building and construction trades occupations.

VALUE-ADDED PRODUCT

U.S. refineries are exporting more value-added refined product now than ever before. Our members are not only producing most of the oil for domestic consumers but are expanding into the global market because of the crude oil export ban. This has meant increased domestic refinery investment, increased employment, and higher utilization rates at refineries.

For example, U.S. exports of refined petroleum products to Latin America have soared over the past decade as strong economic growth in the region boosted demand while inadequate refinery investment limited supply. Mexico, a country which I'm tired of seeing US jobs move to, is the biggest buyer of U.S. oil products importing 646,000 bpd in the first four months of this year, up 25 percent from 2014. Brazil, the second-biggest buyer of U.S. petroleum products, increased its purchases by one percent to 220,000 bpd in the first four months of the year. The U.S. exported 153,000 barrels per day to Columbia in the January – April 2015 period.[9]

We should not trade this strategic manufacturing advantage for short term producer gains.

[7] http://fuelfix.com/blog/2015/03/18/report-refiners-can-handle-the-flood-of-light-u-s-crude/
[8] http://www.bakerobrien.com/bakerobrien2/assets/File/B&OB%20LTO%20Capacity%20Study.pdf
[9] http://in.reuters.com/article/2015/07/17/oil-latam-imports-idINL1N0ZI2K520150717

LIFTING THE CRUDE OIL EXPORT BAN MEANS MORE REFINED OIL IMPORTED INTO THE U.S.

Let's be clear, exporting a natural resource to have it refined overseas and imported back into the U.S. is a net job loser for America. One only has to look at the world's largest oil-refining hub project, the Jamnagar Oil Refinery in India, which boasts on the company's web site that the gasoline produced at the facility is "for export, primarily to the United States and Europe" to get a sense on where U.S. refining jobs will go if we lift the export ban.[10]

In addition Saudi Arabia, Kuwait, the U.A.E., Qatar, Bahrain and Oman will raise their combined refining capacity to 5.4 million barrels per day this year, an increase of 17 percent from 2014, according to Vienna-based JBC Energy GmbH. These Persian Gulf countries will be able to process six million barrels per day by 2020, according to reliable estimates.[11]

Digging into the archives of some of the organizations that want to lift the ban, we find they have given very good reason why the ban should not be lifted. The American Petroleum Institute had this to say in 2011, at a time 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.
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> 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. "[12]

DOMESTIC REFINING WITH U.S. LABOR, ENVIRONMENTAL, AND HEALTH AND SAFETY LAWS NOT QATAR'S

Oil refining is dangerous work. In the last round of bargaining with refiners, our union fought successfully to increase health and safety standards and safety training programs at US refining facilities. We fought to better manage fatigue standards and for a fair return on the work our members provide for the refining industry. Over the past five years, twenty-seven (27)

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[10] http://www.bechtel.com/projects/jamnagar-oil-refinery/

[11] http://www.bloomberg.com/news/articles/2015-03-16/saudi-arabia-will-need-more-oil-to-feed-local-refinery-expansion

[12] http://democrats.energycommerce.house.gov/sites/default/files/documents/Testimony-Markell-EP-Energy-Markets-2015-3-3.pdf

USW members in the domestic refining sector have died.[13] As a union, we do everything we can in the way of training our members and consistently pushing for stronger health and safety standards to prevent these needless deaths. Unfortunately, the strong standards governing occupational health and safety the U.S. requires of industries like refining are not universal across the globe.

Lifting the crude oil export ban will send crude oil into countries that do not sustain the same environmental, labor, health and safety standards that we strive for and require as a nation. I know how many workers died refining the products U.S. consumers used because of OSHA reporting requirements. Do we really want American crude, already extracted at a heavy cost to workers lives, to be refined in places like Qatar? A report by Qatar's government found 964 deaths of migrant workers from just India, Nepal and Bangladesh in 2012 and 2013 but the press has been unable to verify those accounts and they are likely higher. The International Trade Union Confederation has called the state "a country without a conscience".[14] Which country would you rather have the gas in your car come from?

OTHER DEVELOPMENTS

It will also take some time to sort out the effects of the Department of Commerce's "clarification" of policies regarding processed condensate. Robust exports of condensate are possible, and reports of both condensate exports and investments in condensate splitters highlight significant domestic investment. While condensate exports represent volumes of oil that could otherwise have been processed into completed fuels in the United States, the investments in splitters are not small projects. For example, Magellan Midstream Partners LP has invested $400 million in a 100,000 bpd condensate splitter to fall under the Department of Commerce's guidelines.[15]

Refiners face the implementation of a number of regulatory standards in the near future which will require facility investments; Tier 3 automotive and fuel standards, the Renewable Fuels Standard (RFS), EPA state implementation plans, and other regulations will require significant but attainable modernization efforts. The domestic crude export ban continues to provide independent refiners with a significant cost advantage to allow modernization that will ensure the long-term viability of U.S. refineries and jobs.

[13] http://www.usw.org/blog/2015/the-words-of-dead-workers
[14] http://www.washingtonpost.com/blogs/wonkblog/wp/2015/05/27/a-body-count-in-qatar-illustrates-the-consequences-of-fifa-corruption/
[15] http://www.ogj.com/articles/2014/12/epa-approves-magellan-s-corpus-christi-splitter-project.html

FEDERAL INVESTMENT IN INFRASTRUCTURE COULD INCREASE EFFICIENCY

Our members want to take U.S. crude, refine it for U.S. consumption, and create value-added products for the US market and for export. However, to do so, investment in improving and repairing our transportation and energy infrastructure, which includes pipelines, needs to be a priority. Refiners say their biggest constraints aren't at their facilities but in the infrastructure that delivers crude to them. A recent report on the U.S. refinery system done by the American Fuel & Petrochemical Manufacturers highlights that U.S. refining is not a bottleneck to producing and using more very light U.S. crude oil over the next few years. Instead the report highlights an "inadequate delivery infrastructure [that] has delayed U.S. refinery access to the new production."

Before we explore shipping domestic extracted crude overseas, we should be looking at how to better foster oil pipeline infrastructure, and increase the close to $14 billion in investments that took place last year.[16] Improving the paths for domestic crude to reach U.S. coastal markets will further advantage US refining, and make much more sense than allowing crude exports.

STEEL PRODUCTS NOT IMPACTED FROM LIFTING THE CRUDE OIL EXPORT BAN

As the largest union in not just the oil industry but also the largest union in paper, rubber, chemicals, glass and steel, we had to carefully weigh our position on the impacts of lifting the crude oil export ban. We are currently in bargaining for new labor agreements in steel. The global overcapacity in steel manufacturing has hammered the U.S. industry. Many of you supported our Oil Country Tubular Good (OCTG) trade case and I want to address why we believe lifting the crude oil export ban is no quick fix for the U.S. steel industry. First lifting the ban provides no guarantee that domestic steel companies will manufacture the OCTG that goes into shale production. At the height of OCTG demand, domestic steel producers filed a trade case and the International Trade Commission found that the domestic industry's market share decreased from 53.7 percent in 2010 to 50 percent in 2012. This decline was even more remarkable given the increase in domestic production capacity during this period. [17]

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[16] http://www.ogj.com/articles/print/volume-112/issue-9/special-report-pipeline-economics/crude-oil-pipeline-growth-revenues-surge-construction-costs-mount.html

[17] http://www.kslaw.com/imageserver/KSPublic/library/publication/2014articles/3-26-14_Law360.pdf

Steel pipe inventories were already at astronomical levels prior to the OPEC caused oil crash, as importers brought in large amounts of pipe to avoid OCTG tariffs.[18] This has created a glut from which we have yet to recover and more importers continue to enter the market.

Lifting the crude oil export ban will mean that crude oil will go to countries such as China. This will only provide an added benefit to a nation that consistently engages in trade practices that undermine U.S. jobs and manufacturing and currently has over 600 million tons of excess steel capacity. [19]

WHO IS ON THE SIDE OF WORKERS AND CONSUMERS?

For too long I've seen our country trade away USW jobs with unbalanced trade agreements, inadequate enforcement of our trade laws, and lack of real investment in our infrastructure, workers and industries. Unintentionally, Congress created an industrial policy with the crude oil export ban and by Congress lifting that ban, working families will see increased gas prices at the pump, layoffs at refineries, and economic devastation in refinery communities.

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" . A copy of the policy statement is attached to my written remarks but the last sentence sums up our position on why the crude oil export ban needs to stay in place. "American ingenuity and hard work have put the United States in the fortunate position of being the world's top oil producer and far and away the world's top oil refiner, and has given the America people more energy security than we have had in decades. The AFL-CIO believes the nation should build on this success to create prosperity and restore the middle class."[20]

Thank you for your time and I look forward to any questions you may have.

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[18] http://www.metalbulletinresearch.com/Article/3319862/Inventory-overhang-prevents-OCTG-price-increases-Americas-Market-Analysis.html

[19] http://crudecoalition.org/us-crude-oils-next-stop-china/

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