HARNESSING AMERICAN RESOURCES TO CREATE JOBS AND ADDRESS RISING GASOLINE PRICES: IMPACTS ON BUSINESSES AND FAMILIES

OVERSIGHT HEARING

BEFORE THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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OVERSIGHT HEARING ON "HARNESSING AMERICAN RESOURCES TO CREATE JOBS AND ADDRESS RISING GASOLINE PRICES: IMPACTS ON BUSINESSES AND FAMILIES."

Thursday, March 31, 2011
U.S. House of Representatives
Committee on Natural Resources
Washington, D.C.

The Committee met, pursuant to call, at 10:02 a.m. in Room 1324, Longworth House Office Building, Hon. Doc Hastings [Chairman of the Committee] presiding.

Present: Representatives Hastings, Duncan of Tennessee, Bishop, Lamborn, Wittman, McClintock, Thompson, Denham, Tipton, Gosar, Southerland, Landry, Fleischmann, Markey, Kildee, DeFazio, Napolitano, Holt, Grijalva, Costa, Luján, and Sutton.

STATEMENT OF HON. DOC HASTINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

The CHAIRMAN. We will come to order. The Chairman notes the presence of a quorum. The Committee on Natural Resources is meeting today to hear testimony on Harnessing American Resources to Create Jobs and Address Rising Gas Prices: Impacts on Businesses and Families. Under Rule 4[f], opening statements are limited to the Chairman and Ranking Member of the Committee so that we can hear from our witnesses more quickly.

However, I ask unanimous consent to include all Members' opening statements if they desire to have them submitted by the close of business today. Without objection, so ordered. The Chair will now recognize himself for his opening statement.

Similar to the Summer of 2008, today's escalating gas prices are affecting the way American families budget and the way small businesses operate across this country. The Energy Information Agency (EIA), an agency within the Department of Energy, already projects that the national average price of gasoline will be $3.56 this year. This is over a 90 percent increase from the $1.85 per gallon in January 2009. Any increase in gas prices impacts our economy.

According to a study by Cameron Hanover, every penny increase in the price of gasoline costs consumers a cumulative $4 million per day. This means that the 60-cent increase in gas prices since the beginning of the year has cost American families a total of approximately $7.3 million. Higher gasoline prices have always had a ripple effect through our economy. For example, high gasoline prices cause family vacations to be canceled. That impacts tourism and the restaurant and hospitality industries that are vital to local economies. These businesses, in turn, reduce their hiring and their purchases.

Our government should take steps to address rising gasoline prices by developing our own American energy resources. Unfortunately, since taking office, President Obama and his Administration have done exactly the opposite and have repeatedly blocked access to American energy. I wish the President would show the same enthusiasm for U.S. energy production as he has shown for foreign energy production in countries such as Brazil. While speaking in Brazil about their recent oil discoveries, President Obama said, and I quote, "When you are ready to start selling, we want to be one of your best customers."

The President should instead focus on creating American energy and American jobs. Republicans, meanwhile, are actively moving forward with solutions to expand American energy production. As part of the House Republicans' American Energy Initiative, I recently introduced three bills aimed at increasing offshore energy production. Reversing President Obama's Offshore Moratorium Act requires the Administration to lease in areas containing the most oil and natural gas and a goal of producing 3 million barrels of oil by 2027. This would reduce imports by one-third.

Yesterday, the President also announced the goal of cutting imports by one-third. We share this goal, but we clearly have different ways of getting there. President Obama has a "drill nowhere new" plan. Republicans have a "drill smart" plan. The second bill, Putting the Gulf Back to Work Act, would end the de facto moratorium in the Gulf by setting a firm timeline for the Secretary to act on permits, and my third bill, The Restart the American Leasing Act Now, would require that lease sales be held on offshore Virginia and the Gulf of Mexico that were canceled or delayed by the Obama Administration. Because of the Administration's action, 2011 will be the first year without an offshore lease since 1958.

As we learned at a recent hearing in this Committee, the Congressional Research Service calculates that the U.S. has the most potential natural gas, oil and coal reserves in the world. It is imperative that America starts developing more of these energy resources to create jobs and to help jumpstart our struggling economy. Ultimately, America has a choice to either develop our own energy resources, or allow our economy to be subject to the whims of unfriendly foreign sources of energy.

It is unfortunate that the threat of $4 or $5 gasoline has to be the impetus for this conversation. But if nothing is done, eventually, $5-a-gallon gasoline won't be a threat, it will be a reality. With that, I yield back my time and recognize the gentleman from Massachusetts, Mr. Markey.

[The prepared statement of Chairman Hastings follows:]

Statement of The Honorable Doc Hastings, Chairman, Committee on Natural Resources

Similar to the summer of 2008, today's escalating gasoline prices are affecting the way American families' budget and the way small businesses operate across the country. The Energy Information Administration (EIA)—an agency within the Department of Energy—already projects that the national average price of gasoline will be $3.56 per gallon in 2011. This is over a 90 percent increase from $1.85 per gallon gasoline in January 2009. Any increase in gasoline prices impacts our economy. According to a study by Cameron Hanover, every penny the price of gasoline increases, it costs consumers a cumulative $4 million per day. This means that the 60 cent increase in gas prices since the beginning of the year has cost American families a total of approximately $7.3 billion.

Higher gasoline prices also have a ripple effect on our economy. For example, when high gasoline prices cause family vacations to get canceled, that impacts the tourism, restaurant and hospitality industries that are vital to local economies. These businesses in turn reduce their hiring and purchases. Our government should take steps to address rising gasoline prices by developing our own American energy resources. Unfortunately, since taking office, President Obama and his Administration have done exactly the opposite and have repeatedly blocked access to American energy.

I wish the President would show the same enthusiasm for U.S. energy production as he has shown for foreign energy production in countries such as Brazil. While speaking in Brazil about their recent oil discoveries, President Obama said, "*When you're ready to start selling, we want to be one of your best customers.*"

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As we learned at a recent hearing in this Committee, the Congressional Research Service calculates that the U.S. has the most potential natural gas, oil and coal resources in the world.

It's imperative that America starts developing more of these energy resources to create jobs, help jump start the struggling economy and strengthen our national security.

Ultimately, America has a choice to either develop our own energy resources or allow our economy to be subject to the whims of unfriendly foreign sources of energy. It is unfortunate that the threat of $4 or $5 gasoline has to be the impetus for this conversation but if nothing is done, eventually $5 gasoline won't be a threat—it will be the reality.

STATEMENT OF HON. EDWARD MARKEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. MARKEY. Thank you, Mr. Chairman, very much. When John Lennon penned the song "Imagine" in 1971, it was an anthem for dreamers in search of a Utopia here on Earth. Forty years later, we will hear today about the pursuit of another imaginary Utopia with the majority and the oil industry harmonizing on the same refrain, imagine. Imagine a world where the price of oil is determined by a free market and where an increase in domestic drilling might lower the price for consumers. Imagine a world where President Obama is locking up our domestic resources and preventing American oil production.

Imagine there was no BP oil spill, and that isn't easy even if you try, and imagine that the majority is truly for an "all of the above" energy strategy and that they are serious about developing renewable energy on public lands. Unfortunately, these are all dreams. The oil market isn't free. It is a rigged monopoly, manipulated by a cartel that is draining the wealth out of the American economy. Any increase in the domestic production of oil can simply be offset by cuts in OPEC production so that the price remains as high as possible.

The Administration is not locking up public lands and preventing energy production. Forty percent of all public lands and 60 percent of the public lands in the lower 48 are currently open to energy development. Roughly 80 percent of all oil and gas resources on the Outer Continental Shelf are in areas where drilling is allowed. Our domestic oil production is at its highest level in nearly a decade. As a result, the five largest oil companies made nearly $1 trillion in profits over the last decade while consumers paid record prices at the pump.

With oil prices sky high and with 61 million acres of public land under lease on which they have not yet even started producing oil, the coming decade is looking to be just as profitable for big oil and just as painful for the American people. There is no de facto moratorium. The temporary pause on new deepwater wells in the Gulf occurred in the wake of the worst environmental disaster in American history. Once industry finally demonstrated that it had the capacity to actually cap a deepwater blowout, the Interior Department issued the first deepwater permit within 11 days. In the last month, the Department has issued seven deepwater permits, exceeding the monthly average from 2009, before the BP spill.

The majority is not supporting an energy policy that would move us toward renewable energy. In reality, the majority's plan could be called "Oil Above All." Thus far, this Committee has held seven hearings on oil, and none on renewable energy. This comes on the heels of the Bush-Cheney renewable energy moratorium on public lands that led to zero permits for solar development and only four permits for wind projects being issued over an eight-year period.

Yesterday, President Obama laid out a path to reduce our foreign oil imports by a third and lay the foundation for a transition to clean energy. In the short term, we should release oil from the Strategic Petroleum Reserve, which has a proven record of lowering prices and helping consumers, and is the one weapon we possess against OPEC. And we should increase, not cut, funding for the Commodities Futures Trading Commission so that it can implement the law and rein in excessive speculation in energy markets, which will also help consumers.

In imaginary land, it may be possible to base our nation's energy policies on bumper sticker slogans. In the real world, we need responsible energy policies that respond to the great economic national security and environmental threats rather than a one-dimensional oil-above-all strategy that has been given to us. It is time to move away from an imagined drilling Utopia and work cooperatively on real solutions to the real energy problems that we face. Thank you, Mr. Chairman.

[The prepared statement of Mr. Markey follows:]

Statement of The Honorable Edward J. Markey, Ranking Member, Committee on Natural Resources

When John Lennon penned the song "Imagine" in 1971, it was an anthem for dreamers in search of a utopia here on Earth.

Forty years later, we will hear today about the pursuit of another imaginary utopia with the majority and the oil industry harmonizing on the same refrain: "Imagine."

Imagine a world where the price of oil is determined by a free market and where an increase in domestic drilling might lower the price for consumers.

Imagine a world where President Obama is locking up our domestic resources and preventing American oil production.

Imagine there was no BP oil spill. And that isn't easy, even if you try.

And imagine that the majority is truly for an "all of the above" energy strategy, and that they are serious about developing renewable energy on public lands.

Unfortunately, these are all dreams.

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As a result, the 5 largest oil companies made nearly $1 trillion in profits over the last decade while consumers paid record prices at the pump. With oil prices sky high and with 61 million acres of public land under lease on which they have not yet even started producing oil, the coming decade is looking to be just as profitable for Big Oil and just as painful for the American people.

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In imaginary land it may be possible to base our nation's energy policies on bumper-sticker slogans. In the real world, we need responsible energy policies that respond to the great economic, national security, and environmental threats that a one-dimensional "Oil Above All" strategy has given us. It is time to move away from an imagined drilling utopia, and work cooperatively on real solutions to the real energy problems we face.

The CHAIRMAN. I thank the gentleman from Massachusetts, and now we will hear from our witnesses. We have with us The Honorable Bill Graves, President and CEO of the American Trucking Association and former Governor of the Sunflower State, I might add; Ms. Karen Alderman Harbert, CEO of the Institute for 21st Century Energy, U.S. Chamber of Commerce; Mr. Don Shawcroft, President of the Colorado Farm Bureau representing the American Farm Bureau; and Mr. Michael J. Fox, Executive Director of Gasoline and Automotive Service Dealers of America.

Like all of our witnesses, you have written testimony, and that will be included in the record, but we ask that you keep your oral remarks to five minutes. Talking about the five-minute lights, that little mechanism in front of you has a green light, a yellow light and a red light. When the green light is on, that means your five minutes has started. When the yellow light comes on, that means there is one minute left, and when the red light comes on, that means that the five minutes have expired. I just ask that you keep to that time if you can, and you do have to press the button on the mics, so with that, Governor Graves, you may begin.

STATEMENT OF HON. WILLIAM GRAVES, PRESIDENT & CEO, AMERICAN TRUCKING ASSOCIATION

Mr. GRAVES. Chairman Hastings, Congressman Markey, members of the Committee, thanks for the opportunity to testify this morning. The trucking industry is essential to freight transportation and the nation's economy. We deliver virtually all the consumer goods in the United States. We employ nearly 7 million Americans in trucking-related jobs. It is an extremely competitive industry comprised largely of small businesses. The hearing title focuses on gasoline, but I am going to direct my remarks to the price of diesel fuel, which of course is the lifeblood of trucking.

This year, trucking will consume over 35 billion gallons of diesel fuel and is on page to spend $135.8 billion, which is about $35 billion more than was spent in 2010. Each penny increase in the price of diesel costs the trucking industry an additional $356 million a year. High fuel prices impact trucking companies both directly and indirectly. Many companies have difficulty recovering the full cost of rapid diesel price increases. However, eventually these higher costs are passed on to consumers.

In addition, as consumers are forced to spend more money on energy and their every essentials, they have less money to spend on consumer goods, which translates to a reduction in the demand for freight transportation services and reduces trucking company revenues. The impact high fuel prices have on the trucking industry is depicted on a chart that is, I think, displayed overhead and perhaps is in the packet as well, which shows the close correlation between diesel price increases and trucking company bankruptcies. The bottom line is that as a result of this dramatic increase in the price of diesel we do expect an increasing number of trucking companies to fail.

There is no single solution to high oil prices. We are not going to be able to either simply conserve or to drill our way out of this crisis. We are going to have to do both. My written testimony advances several recommendations to incentivize conservation. Demand reduction is a very important part of a comprehensive energy strategy. These policy initiatives include a national maximum speed limit of 65 miles per hour allowing safe and more productive trucks, investing in highway infrastructure to reduce congestion and supporting research for new fuel efficient truck technologies. Recognizing Committee jurisdiction, I am going to focus the remainder of my remarks on the supply side.

The dramatic increase in the price of oil is fed by the perception that over the next few years there will be a shortage of oil. For this reason, in addition to investing alternative fuels and reducing the demand for petroleum, Congress and the Administrative should embrace measures to increase our domestic production of crude oil. We produce 30 percent of our oil from the Gulf of Mexico. We believe Congress should urge the Department of the Interior to issue both shallow-and deepwater drilling permits in the Gulf. We also believe Congress should direct the Administration to include the Atlantic and Eastern Gulf in the environmental impact study for the upcoming leasing program.

We need to fully develop our oil shale resources in Colorado, Utah and Wyoming. We should invest in coal-to-liquid and gas-to-liquid technologies to take advantage of our vast domestic coal and natural gas resources. We also need to promote the use of natural gas, but LNG-powered trucks cost almost twice as much, so a financial incentive, such as a tax credit, may be needed to encourage the purchase of these vehicles. In addition, we would encourage Congress to incentivize the construction of standardized LNG refueling stations and provide a weight variance from the Federal gross vehicle weight limits for trucks to accommodate the increase in weight associated with LNG technology.

ATA appreciates this opportunity to be present, and I am going to be pleased to answer any questions that you may have, and I will yield back the balance of my time, Mr. Chairman.

[The prepared statement of Mr. Graves follows:]

Statement of William P. Graves, President and Chief Executive Officer, American Trucking Associations, Inc. (ATA)

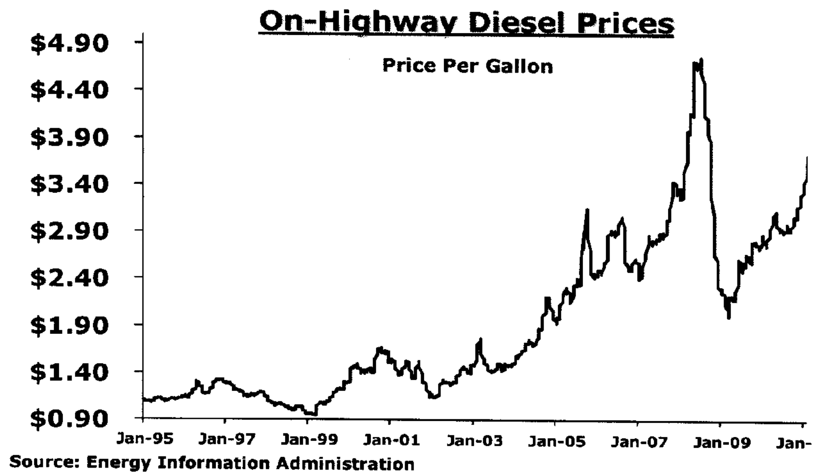
Chairman Hastings, Congressman Markey and Members of the Committee:

My name is Bill Graves, and I am the President and Chief Executive Officer of the American Trucking Associations. Prior to joining ATA, I spent 22 years in Public service in the State of Kansas, highlighted by two terms as Governor. However, it's my trucking heritage, and not my political history, that I am representing today. My father, and his father, started Graves Truck Lines in 1935 at the height of the Great Depression. I was fortunate to have been raised in the industry and I attribute much of the success I've had in my professional and political careers to the "trucking" values I've learned along the way: the importance of safety, the value of customer service, the essentiality of trucking, and the value of being involved in an Association at both the state and national levels.

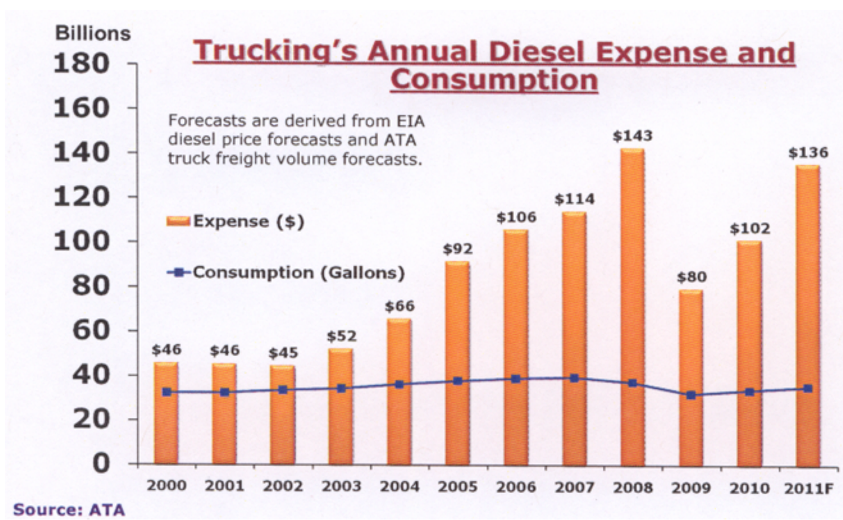
The American Trucking Associations (ATA) is the national trade association of the trucking industry. Through its affiliated state trucking associations, affiliated conferences and other organizations, ATA represents more than 37,000 trucking companies throughout the United States.

The trucking industry is the backbone of this nation's economy with nearly 7 million Americans working in trucking-related jobs. Trucks move 70% of our Nation's freight tonnage and earn 82% of the nation's freight revenue. The trucking industry delivers virtually all of the consumer goods in the United States. We are an extremely competitive industry comprised largely of small businesses. Roughly 96% of all interstate motor carriers operate 20 or fewer trucks.

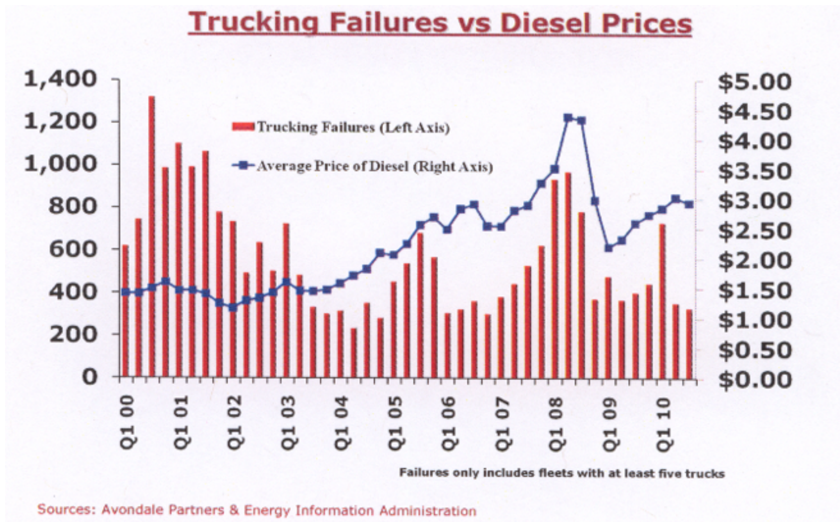
The hearing title focuses on gasoline, but I will direct my remarks to the price of diesel fuel, which is the lifeblood of the trucking industry. This year, the trucking industry will consume over 35 billion gallons of diesel fuel. This means that a one-cent increase in the average price of diesel costs the trucking industry an additional $356 million a year in fuel expenses. The national average price of diesel fuel is currently over $3.90 per gallon, which is nearly $1.00 more than just one year ago.



The trucking industry is on pace to spend $135.8 billion on fuel this year. This is $34.3 billion more than we spent in 2010 and $56.3 billion more than in 2009.



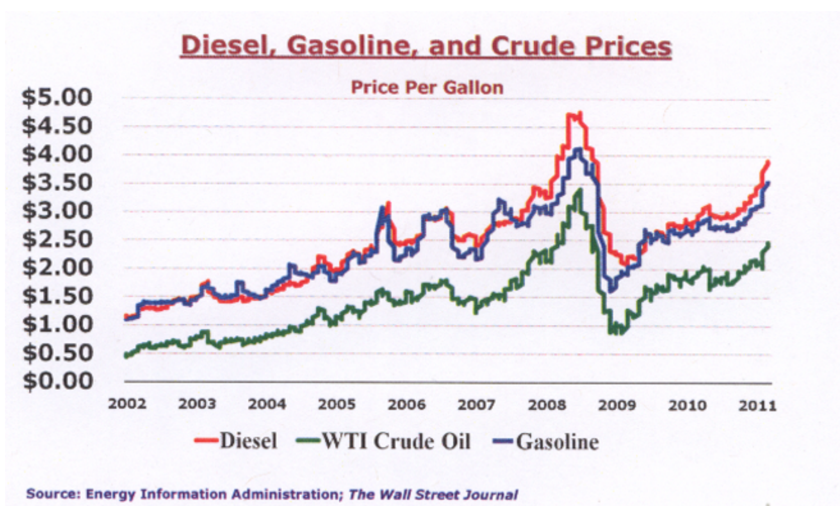
Today it costs approximately $1,200 to refuel a long-haul, over-the-road truck. As a result of this dramatic increase in the price of diesel, we expect an increasing number of trucking companies to fail. Despite the widespread use of fuel surcharges, the price of diesel fuel and motor carrier failures are highly correlated.



This hardship surprises few in the industry. For many truckers, fuel has surpassed labor as their largest operating expense. Trucking is a highly competitive industry with very low profit margins. Our industry cannot simply absorb these rapid increases in fuel costs and eventually these costs must be passed through to our customers. So not only do high fuel prices devastate truckers, but they harm consumers who are forced to pay higher prices for food, clothing and other basic necessities.

A. Why has the Price of Diesel Increased?

Diesel fuel is a commodity that is refined from petroleum. Like most commodities in a competitive marketplace, its price is determined by supply and demand. The following chart demonstrates the close correlation between the price of petroleum and the prices of gasoline and diesel fuel.



With the exception of a brief period following Hurricanes Katrina and Rita in 2005, the prices of gasoline and diesel have paralleled the price of petroleum.

The recent run-up in petroleum product prices, including gasoline and diesel, is the result of a confluence of factors.

First, domestic oil production is under siege. The U.S. is the third largest oil producer in the world; however, our production of domestically produced oil from Alaska and the Gulf of Mexico is declining and new sources of production have been placed off limits for environmental reasons. Drilling moratoria, the refusal by the Department of the Interior (DOI) to process drilling permits, multi-year environmental impact studies, and political decisions that declare vast amounts of American energy resources on federal lands off limits to energy production have all taken their toll on U.S. petroleum production and—will have an even greater impact on future production. Each year our existing wells yield less oil. This natural depletion reduces domestic production by 3% annually. Without a concerted effort to drill more wells, domestic oil production will continue to fall and the U.S. will have to import an increasing percentage of its crude oil. Indeed, this year, as a result of aggressive government intervention, domestic oil production in the Gulf of Mexico is expected to fall by 16%.[1] Current U.S. regulatory policy has put the country on a path towards declining domestic supplies and has led speculators to conclude that crude oil will soon be in short supply. This has resulted in an unnecessary increase in the current price of oil at a time when the supply of oil is adequate to meet current demand.

Second, recent events in North Africa and the Middle East have reminded us of how vulnerable our energy supply is to geo-political events beyond our control. While current supplies appear to be adequate to satisfy global demand, the fear that revolution will spread to other oil producing nations in the region has contributed to a spike in crude oil prices. This recent geo-political instability and its impact upon petroleum prices should serve as a wake-up call to reduce our dependence on foreign oil.

Third, there has been a dramatic decline in the value of the dollar. Since oil is denominated in dollars, a portion of the increase in the price of oil can be attributed to the fall in the value of the dollar relative to other world currencies.

Fourth, there has been a significant increase in investments petroleum futures by non-commercial participants. This increased speculation may be partially responsible for the increase in commodities prices. We note that the last Congress passed financial reform legislation and that Commodity Futures Trading Commission (CFTC) is in the process of drafting regulations to implement new authority to curb excessive speculation.

Lastly, federal and state biodiesel mandates have contributed to higher diesel prices. This year, the federal Renewable Fuel Standard (RFS) mandates that 800 million gallons of biomass-based diesel fuel be blended into the diesel fuel pool. Because biodiesel costs significantly more than Ultra Low Sulfur Diesel (ULSD) fuel, this federal mandate increases the country's diesel fuel bill by more than a billion dollars annually. In addition to the federal RFS requirements, diesel consumers are forced to pay higher prices due to state biodiesel consumption mandates that distort fuel distribution efficiencies and disadvantage consumers that refuel in those states.

It is clear that our energy crisis is a complicated problem that requires a comprehensive solution. Against this backdrop, we greatly appreciate the opportunity to discuss actions that Congress can take to help address the soaring price of diesel fuel.

B. A Comprehensive Solution

The fuel crisis we face today is severe. There is no single solution to high oil prices and Congress must embrace a multifaceted approach to resolving this problem. We are not going to be able to either simply conserve *or* drill our way out of this crisis. Instead, we must embrace a "we need it all" approach that focuses on the following recommendations to increase our domestic crude oil supplies and incentivize conservation measures.

1. Recommendations to Increase Supply

For the foreseeable future, the trucking industry will continue to depend upon the diesel engine and an adequate supply of diesel fuel to deliver America's freight. Presently, there is no affordable technology that is capable of replacing the efficiency of the diesel engine for heavy duty trucks. As our population continues to grow and other nations continue to industrialize, the global demand for diesel fuel will continue to increase.

The dramatic increase in the price of oil is fed by the perception that over the next few years there will be a shortage of oil. For this reason, in addition to investing in alternative fuels and reducing the demand for petroleum, Congress and the

[1] Source: American Petroleum Institute, *citing* Energy Information Administration, *Short-Term Energy Outlook* (March 8, 2011)

administration must both embrace measures to increase our domestic production of crude oil.

Increasing access to—and production of—American crude oil supplies will help lower diesel fuel prices. To achieve this goal we need to begin environmentally responsible exploration for crude oil in the Arctic National Wildlife Reserve and Outer Continental Shelf. We also must begin developing the oil shale resources in Colorado, Utah and Wyoming and eliminating the barriers to utilizing coal-to-liquid technologies to take advantage of our vast domestic coal resources. The technology exists to ensure that these resources are developed in a manner that protects the environment.

Drilling for oil in Alaska and the Gulf of Mexico, or mining oil shale in Colorado, Wyoming and Utah requires multiple government approvals and permits. The fact that the Bureau of Land Management, Bureau of Ocean Energy Management Regulation and Enforcement, EPA, the Fish and Wildlife Service, National Oceanic and Atmospheric Administration, and the Army Corps of Engineers (just to name a few) each have the ability to unilaterally stop energy development projects is a very large reason for declining U.S. production and the diesel and gasoline price surges that we are experiencing today. These redundant processes present multiple opportunities for special interest groups to derail energy development projects.

The debate over whether to drill in these areas of the United States has been ongoing for decades. In light of geopolitical instability, the growing demand for energy in Asia and Europe, as well as the development of new drilling techniques and more robust environmental safeguards, it is time to change these policies and develop these critical domestic resources. As Congress considers reforming our domestic energy policy, we should keep in mind that Clean Air Act permits, Clean Water Act permits and land use development permits, all of which contain a host of environmental protections, are preferable to importing oil from Venezuela or off the coast of Cuba with virtually no environmental protections and adverse implications for U.S. energy security.

Congress and the administration must reverse the current policies that have declared vast areas of American energy resources off-limits and have led to the perception that the U.S. will begin to produce even less oil and become increasingly dependent on imports to satisfy the demand for transportation fuels.

a. Develop U.S. Offshore Petroleum Resources. Notwithstanding the Administration's stated intent to encourage the development of additional domestic petroleum resources, DOI has taken numerous actions that will impede our ability to maintain (and grow) our domestic production of crude oil.

Twenty-nine percent of our domestically produced oil comes from the Gulf of Mexico. As we approach the one-year anniversary of the Macondo blowout, it is important that we analyze the steps that have been taken to minimize the already small risk that a similar event could occur in the future. The federal government has stepped up its regulatory oversight of Gulf drilling operations and implemented new regulations and safety requirements. Simultaneously, the petroleum industry has invested over a billion dollars in new technologies to enhance its oil spill response capabilities and ensure that oil from a future spill can be captured to avoid significant environmental damage.[2] As this was occurring, the administration imposed a moratorium on drilling in the Gulf of Mexico. When a federal court overturned the moratorium, the administration ignored the court's decision and unilaterally decided to stop issuing drilling permits. As a result, U.S. oil production in the Gulf of Mexico is expected to decline by 16% this year. DOI recently issued five deepwater drilling permits and we hope that this signals the administration's intent to reverse course and permit the continued development of this critical domestic energy resource. *Congress should require DOI to issue both shallow and deepwater drilling permits in the Gulf of Mexico.*

In March 2010, the administration canceled lease sales in the Beaufort and Chukchi Seas and withdrew Bristol Bay from the existing offshore leasing program. Two months later, the administration canceled a Virginia offshore lease sale and the remaining 2010 Gulf of Mexico lease sales. These areas were previously studied and determined to be viable areas for the safe and environmentally responsible production of crude oil.

The administration recently narrowed the scope of the areas to be studied in connection with the 2012–2017 Outer Continental Shelf (OCS) leasing program to remove large areas in the Atlantic and the eastern Gulf of Mexico from the scope of the environmental analysis. DOI's declaration that it will not even study these areas amounts to willful blindness and risks great harm to the fragile U.S. economic re-

[2] New York Times, http://www.nytimes.com/2010/07/22/business/energy-environment/22response.html?_r=1 (July 2010)

covery. Studying these areas is not a decision to develop them; it simply ensures we understand the environmental implications of drilling there. Ultimately, DOI and the affected states may determine not to develop certain areas, but that determination must be an informed decision, which will not happen if politics displaces science and areas are declared off limits before they are even studied. *Congress should require the administration to include these OCS regions in the environmental impact study underlying the 2012–2017 OCS leasing program.*

b. Develop U.S. Onshore Petroleum Resources. To improve our domestic energy security and lower diesel fuel prices, onshore energy production also must be encouraged.

Oil shale deposits in the Rocky Mountains are estimated to contain 800 billion barrels of oil and there are vast conventional oil and natural gas resources on federal lands in the West. Yet these resources are being systematically removed from the nation's energy portfolio. The administration reduced the size of commercial oil-shale leases by 87% and cancelled oil and gas leases on 77 parcels in Utah, even though these parcels had already been subjected to the required environmental analysis.[3] The administration also suspended 61 leases in Montana. *Congress should require the administration to proceed with the development of these domestic energy resources.*

Three months ago, the administration designated nearly 200,000 square miles of Alaska as critical habitat for the polar bear. The breadth of this designation is unprecedented and will preclude the development of our on-shore oil and gas resources in Alaska. In addition, the Arctic National Wildlife Refuge (ANWR) remains off limits to oil and gas development. Allowing the development of 2,000 out of almost 20 million acres is necessary to balance environmental interests with our need to enhance domestic energy security. Moreover, the failure to move forward with energy projects in Alaska exposes the Trans-Alaska Pipeline System to supply shortages that create operational challenges. *Congress should require the administration to embrace a sensible approach to oil and gas development in Alaska that balances energy and environmental interests and takes into consideration the desires of the citizens of Alaska.*

c. Canadian Oil Sands. Although located outside U.S. borders, the Canadian oil sands represent a secure source of oil that currently accounts for 9% of the oil we consume. To ensure our continued access to this strategic resource, *Congress should require the administration to approve the permit for the Keystone XL pipeline.* The development of Keystone XL will provide a stable, long-term supply of crude oil from Canada—one of our strongest and most loyal allies—to refineries in the United States. Upon completion of Keystone XL, it is estimated that the Canadian crude being transported to the United States through the pipeline system will approach 1.1 million barrels per day. This is equal to roughly half the crude oil we import from the Middle East. Keystone XL would create jobs and increase tax revenue for state and local governments along the pipeline route.

d. Renewable Fuels. The trucking industry supports the development of alternatives to diesel fuel, including the voluntary use of renewable diesel that meets the ASTM D975 diesel standard—the fuel that trucks were engineered to operate on. Biofuels represent a potential fuel source that could increase the domestic supply of diesel fuel; however, they are significantly more expensive than petroleum-derived diesel fuel and present several operational challenges for the trucking industry. Even if the price were equivalent, first generation biodiesel yields a ten percent energy penalty compared to ULSD, gels in cold weather, and requires increased truck maintenance obligations. As such, federal and state mandates to use biodiesel disadvantage diesel fuel consumers.

There is a significant difference between first generation biodiesel and renewable diesel. Renewable diesel uses renewable feedstock to produce a biofuel that is substantially similar to petroleum-derived ULSD fuel. It has equivalent energy content to ULSD, better cold weather performance than biodiesel, and can be transported through our existing pipeline system, which lowers its distribution costs. Today, the most cost effective way to produce renewable diesel is to co-process it in a modern petroleum refinery. Yet, the first generation biodiesel producers have successfully lobbied to create economic barriers to the development of this high quality next generation renewable fuel by denying this fuel equivalent treatment under the tax code. These economic disincentives built into the tax code also discourage the development of new processes (*e.g.,* algae-based bio oil) to make renewable diesel. *Congress should remove the barriers to co-processed renewable diesel (and other middle distillates) and embrace a technology neutral approach to biofuel production. To ensure*

[3] Source: American Petroleum Institute (March 2011).

that trucking companies are insulated from poor performing alternative fuels, Congress should require all on-road diesel fuel to meet the ASTM D–975 standard.

While on the subject of biodiesel and renewable diesel, we support a tax credit that helps narrow the cost differential between ULSD and renewable diesel; however, *Congress should eliminate this credit for renewable fuel that is produced in the U.S., and subsequently exported for consumption outside the U.S.* While the last Congress eliminated the "splash and dash" loophole on foreign produced biodiesel, the American public would be outraged if they knew that their tax dollars were still being spent to subsidize biodiesel that is ultimately exported for foreign consumption. Biodiesel blending tax credits should be contingent upon the fuel being consumed in the U.S.

e. Natural Gas. Another alternative fuel of interest to the trucking industry is natural gas. While compressed natural gas (CNG) is being used for light and medium trucks on relatively short routes, CNG does not appear to provide sufficient range for the long-haul, heavy truck. There are, however, a very limited number of centrally refueled long-haul trucks operating successfully on liquid natural gas (LNG). This fuel may not be appropriate for trucks engaged in long-haul, irregular routes, which would require a robust LNG refueling infrastructure.

While there are numerous challenges associated with a switch to natural gas, there are three significant hurdles that must be overcome to increase the penetration of this alternative fuel. First is the significant price premium for natural gas vehicles. Currently, a truck that runs on LNG costs almost twice that of a comparably equipped diesel truck. Second, is the need for financial assistance in building out a robust, competitive, standardized refueling infrastructure. LNG refueling stations can cost a million dollars or more to construct. Third, there is a significant weight penalty associated with this technology, which can reduce payload and affect productivity in weight sensitive applications. To address these hurdles, *Congress should enact natural gas vehicle tax credits to offset the significant cost differential between diesel trucks and trucks that operate on LNG.* This could facilitate the economies of scale in production of these heavy trucks to bring the initial costs down. *Congress also should incentivize the construction of LNG refueling stations and ensure that the industry embraces a single refueling standard to overcome refueling compatibility issues. Congress should provide a weight variance from the federal gross vehicle weight limits to accommodate the increase in weight associated with LNG technology.* These measures could reduce our reliance on petroleum, enhance our energy security, and reduce long-term operating costs of some trucking sectors.

f. One National Diesel Fuel Standard. While gasoline moves people, diesel fuel moves our economy. Due to the uniquely interstate nature of diesel fuel, Congress should take extraordinary steps to ensure that no state enacts a boutique *diesel* fuel mandate. Today, California and Texas require special boutique diesel fuel blends. These unique blends cost more to produce and prevent diesel fuel from simply being transported from one jurisdiction to another in times of shortage. In addition, boutique fuels are typically produced by only a handful of refineries, which results in less competition, higher refining margins, and ultimately higher fuel prices.

While Congress took steps to curb the proliferation of boutique fuels as part of the Energy Policy Act of 2005, the Act created a loophole for states seeking to enact renewable fuel mandates. To date, seven states have enacted biodiesel mandates and several others are considering this course of action. In light of the biomass-based diesel mandate included as part of the expanded federal renewable fuel standard (RFS), Congress should preempt state biodiesel mandates. These duplicative state mandates are not needed to ensure a strong domestic biodiesel industry and will simply create an economic environment where biodiesel producers can charge extraordinarily high prices for their product—insulated from the checks and balances of a competitive market. The federal RFS guarantees that 1 billion gallons of biodiesel will be consumed domestically—the free market must be allowed to operate to ensure that this mandate is achieved in the most cost effective manner possible. State biodiesel mandates will distort the free market and prevent biodiesel from being consumed in those parts of the country where it is most economical to do so. *Congress must preempt state biodiesel mandates as inconsistent with our national interest and efforts to promote the cost effective production and use of biofuels.*

2. Recommendations to Reduce Demand

Reducing the nation's consumption of diesel fuel will reduce the overall demand for petroleum and should result in lower prices for petroleum products.

a. Control Speed. The typical heavy-duty diesel truck travels between 5 and 7 miles on a gallon of diesel, depending upon load, route, equipment and drivers' skill. Speed has a direct correlation to fuel consumption. In fact, for each mile per hour that a truck travels above its optimal fuel efficiency point, its fuel economy decreases by 1/10 of a mile per gallon. For example, a truck traveling at 65 mph that is capable of achieving 6 miles per gallon, will achieve only 5 miles per gallon when traveling at 75 mph. Reducing speed has a positive impact on fuel consumption in both cars and trucks. For this reason, *Congress should establish a national speed limit of 65 mph for all vehicles.*

ATA also has petitioned the Administration to require that all new trucks be equipped with factory-installed devices that electronically limit the truck's maximum speed to 65 mph. The National Highway Traffic Safety Administration has agreed to begin a rulemaking in 2012. Given the significant benefits, we believe action should be taken sooner. In addition to the fuel conservation benefit from ensuring that trucks do not exceed this speed, we are confident that this measure will further reduce the number of truck-related fatalities that occur on our nation's roadways.

b. Address Congestion and Highway Infrastructure. Americans waste a tremendous amount of fuel sitting in traffic. According to the most recent report on congestion from the Texas Transportation Institute, in 2009, drivers in metropolitan areas wasted 4.8 billion hours sitting in traffic, and burning 3.9 billion gallons of excess fuel at a cost of $115 billion. The cost to the trucking industry was $33 billion. ATA estimates that if congestion in these areas was eliminated, nearly 32 billion gallons of fuel would be saved and carbon emissions would be reduced by 314 million tons over a 10-year period. *Congress should invest in highway infrastructure improvements that eliminate major traffic bottlenecks, with a specific focus on bottlenecks that have the greatest impact on truck traffic.*

c. Enhance Truck Productivity. By reducing the number of trucks needed to move the nation's freight, the trucking industry can reduce fuel consumption, which would produce significant environmental benefits. More productive equipment—where it is consistent with highway and bridge design and maintenance of safety standards—is an additional tool that should be available to states. A recent study by the American Transportation Research Institute found that use of these vehicles could reduce fuel usage by up to 39%, with similar reductions in criteria and greenhouse gas emissions. The reduction in truck vehicle miles traveled on highways such as the New York Thruway, Massachusetts Turnpike, Florida Turnpike, and on roads throughout the Western United States, has lowered the amount of fuel burned in these states. *Congress should provide flexibility to the states, with federal oversight, to allow the use of more productive trucks.*

d. Support Truck Fuel Economy Standards. The Energy Information and Security Act of 2007 requires EPA and NHTSA to promulgate fuel economy standards for commercial medium- and heavy-duty trucks. This congressional mandate is being implemented through the rulemaking process. ATA supports truck fuel economy standards as the preferred method of controlling greenhouse gas emissions from our industry, provided that the standards set are technologically and economically feasible, do not compromise truck performance, and provide manufacturers sufficient stability and lead time for production.

e. Reduce Main Engine Idling. The Federal Motor Carrier Safety Administration (FMCSA) *Hours-of-Service* regulations require mandatory off duty rest periods. Many over-the-road drivers rest in the sleeper berth compartment in their truck cabs and need to cool or heat the cab to rest comfortably. In extremely cold weather, truck drivers also will idle their engines to prevent the engine block from freezing. Argonne National Laboratory estimates that the average long-haul truck idles for 1,830 hours per year. With hundreds of thousands of these trucks on the road, idling has a significant impact on fuel consumption and the environment. The U.S. Environmental Protection Agency (EPA) estimates that idling trucks consume approximately 1.1 billion gallons of diesel fuel annually.

Several options are currently available to reduce engine idling. Auxiliary power units (APUs) are among the most popular choices in anti-idling equipment providing climate control (heating and cooling), engine preheating, battery charging, and power for household accessories without use of the truck's main engine. APUs have been proven by the Federal Highway Administration to save up to one gallon of fuel per hour of idling and to substantially reduce emissions and greenhouse gases.

While reducing main engine idling is a laudable goal, three major barriers stand in the way of trucking companies purchasing such equipment for their daily use: (1) the failure to grant exceptions for the additional weight associated with anti-idling equipment, (2) the imposition of a federal excise tax on the purchase of such devices, and (3) the actual cost of the devices themselves.

Since idling reduction equipment will add weight to a truck, many fleets cannot afford to reduce their cargo capacity to compensate for the installation of idle reduction equipment on a truck. To address this concern, Congress authorized a 400-

pound weight exemption for trucks equipped with idle reduction equipment under Section 756 of the *Energy Policy Act of 2005*. While Congress' intent was to mandate this exemption, the Federal Highway Administration (FHWA) has determined that states "may" adopt the exemption on a voluntary basis. FHWA's interpretation of the weight exemption gives states the option of whether to allow the exemption or not. To date, 32 states have passed legislation recognizing the 400-pound weight tolerance and a handful of states are exercising enforcement discretion. *Congress should clarify that the 400-pound weight exemption is applicable to idling reduction equipment nationwide.*

While APUs are a proven alternative to main engine idling, most trucking companies just cannot afford purchasing devices that can cost up to $10,000 per unit. *Congress should provide tax credits or grants to expedite the introduction of idling reduction equipment.*

f. Fully Fund EPA's SmartWay Program. In February 2004, the freight industry and EPA jointly unveiled the SmartWay Transport Partnership, a collaborative voluntary program designed to increase the energy efficiency and energy security of our country while significantly reducing air pollution and greenhouse gases. The program, patterned after the highly-successful Energy Star program developed by EPA and DOE, creates strong market-based incentives that challenge companies shipping products and freight operations to improve their environmental performance and improve their fuel efficiencies. To become a partner a fleet must commit to reduce fuel consumption through the use of EPA-verified equipment, low-viscosity lubricants, or other measures. Participation in the program doubles each year and by 2012, the SmartWay program aims to save between 3.3 and 6.6 billion gallons of diesel fuel per year. EPA predicts SmartWay participants will also reduce their annual greenhouse gas emissions by 48 million tons of CO_2 equivalents.

SmartWay is a unique resource that reviews the use of new technologies that are proven to reduce fuel consumption and then uses market incentives to promote their deployment. Although the program is a demonstrated success story, its future funding remains uncertain. *Congress should add a specific line item appropriation for SmartWay and increase our investment in this program to facilitate its expansion.*

g. Support Research and Development of New Technologies. As we look toward the future, the trucking industry will be pressured to further conserve fuel. The industry will find it difficult to do this without new affordable technologies. Technology advancements have stalled for many years and an infusion of funding into an organized research program will be critical to developing the next generation of more efficient and lower carbon-emitting trucks. To address this issue, *Congress should fund research and development in the areas of new engine technologies, aerodynamics, tires, batteries, hybrids, cab insulation, anti-idling equipment, and alternative fuels.*

* * * * *

ATA appreciates this opportunity to offer our insight into measures that the country should take to help address high diesel fuel prices.

The CHAIRMAN. Governor, thank you very much. You set a very, very high standard on brevity, but we appreciate that. Ms. Harbert, you are recognized.

STATEMENT OF KAREN ALDERMAN HARBERT, CHIEF EXECUTIVE OFFICER, INSTITUTE FOR 21ST CENTURY ENERGY, U.S. CHAMBER OF COMMERCE

Ms. HARBERT. Thank you, Chairman Hastings and Ranking Member Markey and members of the Committee for this opportunity. Oil is the lifeblood of the global economy produced in over 70 countries and 31 states. The International Energy Agency projects that fossil fuels will still account for 80 percent of the world's energy supply in 2035. The EIA has just upped its average price for gasoline this year to $3.70. Every one-cent increase in the price of gasoline costs Americans roughly a billion dollars a year. The average American household is expected to spend $2,800 on gasoline this year, $850 more than in 2009.

Additionally, each $10 increase in oil prices can knock a few tenths of a percent off any increase in GDP. Today, about 97 percent of the Federal offshore lands and 94 percent of Federal onshore lands are not leased. As a result, our net imports of petroleum and of related products rose to $265 billion in 2010. That is about half of the U.S. trade deficit. There are some good policy options. The current price escalation is distinctly different from the previous price increases in two ways. First, we now understand the abundance of our domestic resources.

The Congressional Research Service says the proven recoverable reserves of American oil, natural gas and coal combined are the world's largest, and the U.S. Geological Survey estimates that our oil shale reserves could be five times as large as Saudi Arabia's proven reserves. Second, our larger share of the burgeoning energy crisis is the direct result of Federal policies. From the earliest days, the Obama Administration has continually taken land and water off the table for oil and gas production, canceling leases in Utah and Montana and Wyoming, imposing a moratorium in the Gulf of Mexico and proposing a leasing plan out to 2017 that takes more resources off the table in the Atlantic, the Gulf and Alaska.

A Wood Mackenzie study released in January estimates that increasing the access to these reserves would actually create 500,000 jobs and $150 billion in revenue. Reversing these policies presents a ready-made solution to this Congress and the Administration. In the Gulf of Mexico, the Administration has said it has lifted the moratorium in the Gulf, but has done it in word and not in deed. The EIA projects a 30-percent decrease in production in the Gulf by 2012. We have only witnessed seven deepwater rigs set sail for other countries just recently, and they have only issued seven deepwater permits.

Recently, the Department of Justice filed a brief which stipulated that 270 permits were pending for shallow-water drilling and 52 for deepwater. This validates the EIA's projections. The Gulf of Mexico was a tragedy, and industry has stepped us, has invested billions of dollars to create rapid response systems. Mr. Chairman, the Putting the Gulf Back to Work Act that you recently drafted, which ensures the Department of the Interior can no longer sit on permit applications indefinitely, will prevent those jobs from being lost and more foreign barrels from being imported.

Alaska. The areas north of Alaska contain upwards of 30 billion barrels of oil. However, leases that have already been paid for and issued remain idle while they await an air quality permit from the EPA. This is a perfect example of the regulatory uncertainty facing our domestic producers. Canada, our most reliable and largest supplier of imported oil, the President recognized that yesterday and its huge potential, yet we have Section 526 on the books which can prohibit the U.S. Government and specifically the Department of Defense from using this valuable resource. We should repeal that provision immediately.

Additionally, the Keystone Pipeline, which would bring significant quantities of Canadian oil to our market and create jobs immediately is being held up at the Department of State. We urge the Congress to encourage the Department of State to permit this project. On oil shale, we potentially hold half of the global oil shale reserves in the world. Yet, 70 percent of these reserves are located on Federal lands. The government should be directed to allow access to these reserves and to better understand them and to better support the additional work to extract them safely and environmentally sustainably.

However, there are three bad ideas that we should not pursue, and if pursued would have negative impacts on our economy and our economic security. One we have heard from the Administration and the Congress which is use it or lose it, in fact imposing penalties on companies that are not actively producing. A leaseholder is classified as non-producing while it is undertaking government-required seismic and environmental review. Penalizing companies for being responsible seems to be egregious and will only push them overseas. Another proposal is releasing oil from the Strategic Petroleum Reserve. This will do nothing to reduce prices and will leave us vulnerable to future disruptions.

Last, the Administration has proposed to levy almost $90 billion of new taxes on America's oil industry. We have tried this before in 1980, and what did it do? It reduced domestic production. It increased our imports and reduced Federal revenues, so in conclusion, today, America's unemployment rate rests at 8.9. With energy prices on the rise, businesses and consumers have less spending flexibility. We cannot let these rising prices and a lack of a coherent energy policy to imperil our economic recovery. We need common-sense policies, and Congress should ensure that the industry has access, regulatory certainty and a fiscal policy to transform these resources to power our economic recovery. Thank you.

[The prepared statement of Ms. Harbert follows:]

Statement of Karen A. Harbert, President & Chief Executive Officer, Institute for 21st Century Energy, U.S. Chamber of Commerce

Thank you, Chairman Hastings, Ranking Member Markey, and members of the Committee. I am Karen Harbert, President and CEO of the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector and region.

The mission of Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the Administration.

What's the Problem?

The U.S. government has a long history of sporadic attempts to respond to oil and gasoline price spikes, and frankly, has missed the mark nearly every time. Much of the lack of success can be attributed to misunderstanding of petroleum market fundamentals. Oil is the lifeblood of the global economy. As such, it is produced in over 70 countries and in 31 states here at home. Oil is largely fungible and essentially traded as a global commodity. As we have all seen recently, what happens on the other side of the world can have a profound impact on the price paid at home. This is not only true for supply disruptions, or threats of supply disruptions, it is also true for changes in demand.

After oil prices climbed to a record-high $143 per barrel in July 2008, the U.S. and the world entered an economic recession that significantly curbed demand, causing oil prices to plummet 60% over the next seven months. Since then, much of the world began positive economic growth again, led by developing economies like China and India, resulting in a gradual increase in oil prices. Over the past two years, we have seen prices climb almost 90%. However, because demand was down in the U.S. and the increase was gradual, most Americans did not really notice it. The recent political turmoil in North Africa and the Persian Gulf created fears of further instability and supply disruptions, and prices climbed precipitously. It is important to understand that even if the political unrest subsides and global supplies are unaffected, increased global demand has essentially set a new price floor. Given today's market fundamentals, it is difficult to see prices returning to their 2009 levels.

While the drama of political struggle has been unfolding overseas, the U.S. has been experiencing its own energy security struggle at home, fueled by regulatory uncertainty. The past two years have seen the first upturn in U.S. crude oil production in over 25 years of decline. This increase is evidence of the significant lag time to bring new production to market. For offshore production increases, much of it is due to production incentives created in the latter 1990s through the Deepwater Royalty Relief Act. The increased production is also a testament to technological advances in the oil and natural gas industry. A tremendous amount of increased production has come from unconventional formations in the inner-mountain west that were previously too expensive to produce with existing technology. Also production on private lands has greatly increased. Increased oil production coupled with decreased demand has nearly eliminated the gap between domestically produced and imported oil for the first time in 15 years. However, if we look to the future, it is not so bright.

Even while production has increased on private land, federal government actions have reduced the country's ability to produce energy resources on federal lands. From its earliest days, the Obama administration has continually taken land off the table for oil production, most notably the Gulf of Mexico. The de facto moratorium that has been put in place to prevent new oil (and natural gas) exploration and production has put the country back on a declining production trend. The Energy Information Administration (EIA) recently projected that by 2012 U.S. crude oil production will decrease by more than 90 million barrels, almost all of which is directly attributable to an expected 30% decrease from the Gulf of Mexico.

There has been much discussion of how many permits are being issued and how many more are pending. Recently, the Department of Justice filed such a brief which stipulated that 270 permits were pending for shallow water drilling and 52 permits in deep water. These numbers are significantly larger than numbers discussed by the Department of Interior, and they demonstrate the true nature and extent of the de facto moratorium in the Gulf and explain EIA's declining projections.

The administration has continually promised that the spigot will open soon for new exploration and production. However, there is no time-table much less a commitment to begin issuing permits at a sufficient rate again, leaving domestic producers in limbo and costing them millions of dollars in idled equipment and declining revenues. We have already witnessed seven deepwater rigs set sail for more hospitable climes in other countries taking jobs and tax revenue with them.

Yes, oil prices are largely set by the global market, but like all commodities, they are influenced by price signals. Turmoil in oil producing countries and regulatory uncertainty in the U.S. has forced the market to build in additional risk premiums to the price even as production has changed little. Similarly, political stability in the Middle East and greater regulatory certainty in the U.S. will signal to the oil markets that risk has decreased and prices can decline.

Competitiveness

Federal policies that are hampering production are not only threatening our energy security, but also severely harming our competitiveness. The International Energy Agency (IEA) projects that global energy demand could increase by nearly 50% by 2035. It also projects that fossil fuels will account for 80% of the world's energy supply, only slightly down from today's 86%. Fossil fuels, and oil specifically, will continue to fuel the world's economies, and countries that are realizing the most economic growth are thinking and acting strategically to ensure future supplies will be available to maintain economic growth and competitiveness.

In 1970, investor-owned companies controlled 85% of the world's oil reserves. Today, it has shrunk to only 6%, with National Oil Companies and other governmental entities controlling more than 90% of the world's oil reserves. Our international strategic competitors are not only increasing their own production, but they are exploiting the tie between their governments and their oil companies to invest in new oil reserves in other countries. It is very difficult for a private corporation, no matter how large it may be, to compete against central governments. These other countries are taking positive steps to ensure they have the energy resources to fuel economic growth well into the future. We are not.

Indeed, the United States is set an opposite course. About 97% of the federal offshore lands and 94% of federal on-shore lands are not leased. Not only has the federal government been reducing access to the country's energy resources, but it has also been making it more difficult and expensive to produce on the few areas that remain available. New and proposed regulations will add to the cost of production, making it even less competitive to produce oil and natural gas in the U.S. Even areas that are not under specific moratoria have proven to be equally inaccessible. The United States Geological Survey estimates that 30 billion barrels of oil lie off the north coast of Alaska. Even after billions of dollars have been invested in leases to explore in this area, the administration continues to erect barriers that prevent access to this tremendous resource.

The largest publicly traded oil companies are increasingly looking overseas to the remaining areas that have not already been locked up by other countries' national oil companies. Demand for oil will continue to increase as the economy recovers. Since access to federal resources is declining, more of our demand will be met by imports. Our net imports of petroleum and related products rose to $265 billion in 2010—a sum equivalent to more than half the U.S. trade deficit.

In short, America's access to oil, our predominant source of energy, is declining at home and abroad. The same cannot be said for our global competitors, and our ability to compete, generate investment and revenue and foster economic growth is tremendously diminished as a result.

Good Ideas

This is not the first time that rising gasoline prices have turned America's attention to energy policy. The cycle is nearly as predictable as the swallows returning to San Juan Capistrano. We often hear the same solutions proposed, some helpful and some not so. However, the situation is distinctly different this time. A larger share of the burgeoning energy crisis is the direct result of federal policies. Reversing these policies presents a ready-made solution for the administration and Congress to make a positive contribution, both in the near-term and the long-term. If we had fully implemented policies proposed in the past when prices have risen, we would find ourselves in a much different situation than we do now. Congress does deserve credit for not reauthorizing its moratorium on off-shore oil and natural gas production in 2008, even if the administration has failed to capitalize on the opportunity to improve our future.

Today many of the same options would significantly benefit the country, but addressing the administration's recent actions presents a real near-term path for improving the country's situation. A Wood McKenzie study released in January emphasizes this point. It estimates that increasing access to federal energy resources would create more than 500,000 jobs, increase domestic production by 35%, and provide an additional $150 billion in government revenue.

Gulf of Mexico

Before the de facto moratorium, about one-third of domestic oil came from the Gulf of Mexico. Almost a full year after the Obama administration implemented a de facto moratorium on new exploration, this vital resource base remains in flux. Less than half the normal rate of shallow water permits has been issued even while acknowledging shallow-water operations are distinctly different from the administration's deep-water risk assessment. The administration estimated that its official moratorium would result in some 12,000 jobs being lost. A subsequent study performed by Dr. Joseph Mason, Chair of Banking at Louisiana State University, concluded that the de facto moratorium could ultimately cost nearly 25,000 jobs in the region and 35,000 nation-wide.

Mr. Chairman, the "Putting the Gulf Back to Work Act" that you recently drafted is precisely the type of proposal that can improve our energy future almost overnight. By removing many of the obstacles preventing exploration and production in the Gulf of Mexico and ensuring the Department of Interior can no longer sit on permit applications indefinitely, we can prevent those jobs from being lost, those foreign barrels of oil being imported, and provide the first glimpse of certainty the energy industry needs to increase investments in America.

Alaska

The areas of the north coast of Alaska represent a tremendous resource, containing upwards of 30 billion barrels of oil. The University of Alaska Anchorage estimates that developing these resources will create 35,000 new jobs. Moreover, as production on Alaska's North Slope continues to decline, this new source of product will ensure the Trans-Alaska Pipeline will continue to run for decades to come, bringing even more oil to the rest of the country.

However, leases that have already been paid for and issued remain idle awaiting air-quality permit that has been pending at the Environmental Protection Agency (EPA) for four years. This is a perfect example of the regulatory uncertainty facing domestic producers. When leases lay idle six years after being issued, one can understand why corporations would think twice about investing the millions of dollars in projects on federal lands.

Canada

We have heard much about the need for energy independence over the years, yet we hear little of reliable trading partners whose energy resources secure our energy future just as much as domestic production. More than one-third of our imported oil comes from Canada and Mexico. The proximity of these supplies and the security of our relationships with our neighbors make these imports a vital prong to our energy security. Canadian imports specifically have become an increasingly large component of our oil supply. However, we have policies in place that deter additional use of Canadian crude. Section 526 of the Energy Independence and Security Act of 2007 can prohibits the U.S. government, specifically the Department of Defense, from using oil from the largest and most stable source of U.S. import, the Albertan oil sands.

This policy hinders the military's readiness, threatens our energy security, and increases greenhouse gas emissions the exact opposite the policy is intended to prevent. Make no mistake the oils sands will be developed, the question is where will the product be used. If this fuel is not imported to the United States via pipeline, it is most likely to be exported to Asia via tanker and refined under weaker emissions standards. This provision must be repealed—our national security and energy security depend on it.

Additionally, the proposed Keystone XL pipeline would bring significant quantities of Canadian crude oil to U.S. refineries, displacing imports from other, less-secure trading partners. Construction of this strategic asset will create an estimated 15,000 direct jobs immediately and ultimately foster the creation of some 250,000 more jobs. Additionally, a recent study conducted by the Perryman Group found that bringing the additional crude to the U.S. that would be carried by this pipeline would reduce non-Canadian imports, from the Middle East or Venezuela by 40%. However, the project is in limbo awaiting a Presidential Permit by the Department of State. We encourage the Congress to urge Secretary of State Clinton to issue the permit without further delay.

Oil Shale

Recent technological advances have lead to large increases in domestic production of unconventional oil from shale formations, especially on privately-owned lands. The advent of these technologies has helped displace oil imports, and it will significantly improve our energy security in coming years. However, the oil shale itself truly has the potential to completely turn the global oil market on it head. Oil shale is a sedimentary rock that is not a widely distributed as conventional oil-bearing formations, but it is a tremendous potential resource. The World Energy Council conservatively estimates that global reserves of oil shale amount to 2.8 trillion barrels of oil, and more than half of that (about 1.5 trillion barrels) is estimated to be in the Western United States. To put this in perspective, the world's proven conventional oil reserves are estimated at 1.3 trillion barrels. If these estimates are correct, we not only have more oil shale than all of OPEC's proved conventional oil reserves, but more than the entire world's. But it will not mean anything if we cannot get access to it.

The production of oil shale is energy intensive and has traditionally required mining techniques. This not only makes it expensive to produce, but it also has engendered opposition from special interests. With about 70% of the U.S. reserves located on federal lands, the federal government has prohibited production, and even most research, on the country's—and perhaps the world's—largest oil resource. However, as conventional oil reserves have declined or become less accessible, more research and development has been conducted to make oil shale production more efficient and with a smaller environmental footprint. Given the magnitude of this resource, it is more than prudent for the federal government to allow access to our reserves and to support additional work on improving the production process.

Industry Investment

The Gulf of Mexico oil spill was a human, environmental, and economic tragedy. The administration has only acerbated the impact by its continued de facto moratorium on off-shore exploration and production. It has done this in spite of the proactive efforts the industry has made in addressing concerns that it was not prepared to contain and mitigate future spills. The off-shore industry has invested billions of dollars in the creation of the Marine Well Containment Company and the Helix Energy Solutions Group, two interim rapid response systems that separately provide capabilities to contain up to 60,000 barrels of oil per day at up to an 8,000 foot depth. These companies have applied the lessons learned from the Gulf of Mexico oil spill last year to develop and pre-stage equipment throughout the Gulf to quickly contain any future spill. Regardless of an exemplary record and very low probabilities, we now know a significant spill can happen and a response capability exists. The country can be assured that the offshore industry is prepared to start producing domestic energy and jobs again with the highest degree of safety precautions, exceeding even the government's standards.

Bad Ideas: Use it or Lose it, Tap the SPR, Raise Taxes

It seems that for every idea that would create jobs, increase our energy security, and increase federal revenues, there is one that will do the exact opposite. Every time prices increase, many of the same ideas are offered up as short-term solutions. One proposal we just heard President Obama recycle yesterday is imposing penalties on companies that are not "actively producing" on federal leases. Proposals based on this "use it or lose it" theory are just as fallacious and damaging to our competitiveness now as they have been when rejected in the past. However, this current iteration is perhaps more egregious as the administration is threatening to penalize "non-producing" leaseholders when the administration itself is refusing to issue permits to produce. Producing from new areas is very time and cost-intensive. Reducing the time period a leaseholder has to begin production adds to the risk of the investment and further discourages domestic production.

Another proposal rearing its head once again is to sell oil stocks from the Strategic Petroleum Reserve. The reserve, which was established on the heels of the 1973 Arab oil embargo, is suppose to act as a hedge against supply disruptions. It is debatable how much prices would decline if the 727 million barrels were released, but it is certain that prices would increase as soon as the releases subsided and the U.S. would be more vulnerable to the impacts of actual supply disruption.

Additionally, the Administration's has proposed to levy almost $90 billion of dollars of new taxes on America's oil industry. Many in Congress also use the event of price increases to call for increased taxes on oil companies. A Wood McKenzie study released in January estimated that the proposed tax increases would lead to as many as 170,000 jobs being lost through 2014. While it is difficult to mitigate higher gasoline prices immediately, it is not difficult at all to reject tax increases that would cost so many their jobs.

Unfortunately, we have a good example of the negative consequences of such actions. The creation of a "Windfall Profits Tax" in 1980 caused domestic production to decrease and imports to increase. Prices consumers paid were relatively unaffected, but jobs were lost in the oil industry and federal royalty revenues declined. With such a great example of the impacts of these proposals, it is negligent to pursue them again.

What is at stake?

If the administration and Congress do not both embrace these positive steps and reject the negative steps, Americans will pay a heavy price, not only economically but also a with greater risk to our energy security. Every one cent increase in the price of gasoline costs Americans roughly an additional $1 billion per annum. The average American household is expected to spend $2,800 on gasoline this year, $850 more than 2009. Additionally, each $10 increase in oil prices can knock a few tenths of a percent off any increase in GDP. The quicker the increase, the more pronounced the impact on economic growth. Because of the global recession, the cumulative amount of money spent on oil has become a larger share of global GDP since most other areas of economic output have remained constant or declined. At current prices, oil accounts for nearly 5% of global GDP, a level not seen since 2008 when oil was selling at $150.

Higher energy prices erode expendable income for America's families and marginal profits for America's businesses. At a time where we are just beginning to realize positive economic growth again, these price increases can have a profoundly negative impact. U.S. policy alone cannot recalibrate global oil markets on its own. However, U.S. policy can absolutely have a positive impact on U.S. prices just as it has had a negative impact.

As energy costs increase, businesses have less money to pay employees, new or existing. If prices remain elevated long enough, the unemployment rate can be expected to rise. This of course would be on top of the current historically high unemployment rate. As the administration and some in Congress have made calls to raise taxes on the oil and gas industry, it is also important to remember the consumer and job impacts such policies would have.

CONCLUSION

Today, the official unemployment rate stands at 8.9%, and if the underemployed and long term unemployed are counted the figure could be as high as 17%. Our nation can and will recover but we cannot let rising energy prices and lack of a coherent energy strategy imperil this recovery. We need common sense policy and regulation that recognizes today's energy resources while also investing in tomorrow's technologies. We are blessed with an abundance of the conventional and unconventional fuels that will part of our energy landscape for decades. According to the Congressional Research Service, the proven recoverable reserves of American oil, natural gas and coal combined are the world's largest and the USGS estimates that our oil shale reserves could be five times as large as Saudi Arabia's reserves. Congress should ensure the energy industry has access, regulatory certainty and fair fiscal policy to transform these resources into energy to power our economy. We are also blessed with a good neighbor, Canada, and Congress should eliminate discriminatory policies endangering our ability to expand our energy trade. These steps alone will not be sufficient to meet all of our future energy needs. However, the threats to America's competitiveness and national security will only grow if we ignore the tremendous potential of our domestic resources to fuel a more secure energy future.

The CHAIRMAN. Thank you very much for your testimony. I gave you a little bit of time because of the generous time that Governor Graves had left over.

Ms. HARBERT. Thank you for that fair and balanced treatment.

The CHAIRMAN. Mr. Shawcroft, you are recognized.

STATEMENT OF DON SHAWCROFT, PRESIDENT, COLORADO FARM BUREAU, TESTIFYING ON BEHALF OF THE AMERICAN FARM BUREAU FEDERATION

Mr. SHAWCROFT. Thank you, Mr. Chairman, good morning. Good morning members of the Committee and particularly Representatives from Colorado. My name is Don Shawcroft. I am President of the Colorado Farm Bureau, and I am here today to testify on behalf of the American Farm Bureau Federation, a grassroots organization representing a diverse range of agricultural producers from all 50 states and Puerto Rico. I am a rancher from the San Luis Valley in Southern Colorado. Thank you for holding this hearing and inviting me today.

We appreciate the opportunity to share the impact that high fuel costs have on our nation's farm and ranch families. America's farmers and ranchers continue to work hard to produce the safest, most abundant food supply in the world. Unfortunately, our nation's dependence on foreign sources of fuel threatens our livelihood. The prices of energy-related imports and interest rates most affect U.S. agriculture's bottom line on an annual basis. Over the past 11 years, it has been true that some sectors of agriculture have seen good prices for their products.

Farmers and ranchers have little, very little, ability, if any, to pass on to the purchasers of our products our cost of business, including those for fuel, fertilizer, seed and agricultural chemicals. That is why the Farm Bureau believes that the United States should be focused on energy independence, and develop and employ a diversity of broad-based domestic energy supplies. Last week, farm diesel fuel used in tractors and combines to plant and harvest crops was on average $3.47 per gallon in Colorado.

Just last night, a news anchor was complaining about how it cost him more than $60 to fill his gas tax in his car. I would like to tell you a little bit about that reality in filling tanks on tractors and combines. Last week, at those prices, it would cost over $930 to fill a Case 9370 tractor that is used to till the land, and it would over a $1,050 to fill the tank on a new John Deere 9870 combine used to harvest those crops. Please understand that is not just a one-time fill any more than you just fill a tank on a car one time if you make a trip. It takes many times of filling those tanks in order to do the work on a farm.

Like many ranchers, I face a challenge which is slightly different than filling tractors. I have pickups that have to be filled with gas or diesel. I have trucks that have to be filled with diesel. I am not fortunate enough to have enough land in one place to keep my livestock there year round. Therefore, I must cumulatively transport those cattle hundreds of miles during a year so that they will have adequate grazing. In order to move them safely, I must load them in semi-tractors and trailers that take a lot of fuel. A fuel bill for one truck can be over $500 for just one trip.

It also affects rural Colorado as well and rural United States. My local school district has reported to me that they traveled 148,340 miles with their buses last year. Keep in mind, that is not a lot of buses. It is a small school district. At the current cost of fuel, that is approximately $65,000 for a small school district. Definitely a challenge.

Given the hype about food versus fuel, I am sure you have heard a lot of claims about ethanol's impact on gasoline prices. To be clear, ethanol production has no impact on the cost of a barrel of crude oil. In fact, as oil prices rise, ethanol becomes more important keeping gasoline costs lower, but the price of a barrel of crude certainly impacts all aspects of agriculture including putting fuel in your tanks and food on your tables.

Farm Bureau energy policy is clear. We support a diverse domestic energy portfolio for this country that should include all forms of energy, domestic oil and gas production, clean coal technology, next generation nuclear technology and various renewable energy opportunities. All these energy components represent pieces of a puzzle that we can put together to solve the problem and so that we can become more independent in our energy production.

We urge you to take the steps needed to make our country energy independent. We need a commitment to domestic oil and gas production that must include production for our most energy-rich areas such as the Outer Continental Shelf, the 1002 area of the Arctic National Wildlife Refuge and even the Piceance Basin in my home state of Colorado. Please continue to develop all sources of energy, and please continue the tax incentives for ethanol, biodiesel and the approved increase in the current ethanol blend of 15 percent. Thank you for the opportunity you have given me to testify. I look forward to your questions.

[The prepared statement of Mr. Shawcroft follows:]

Statement of Don Shawcroft, President, Colorado Farm Bureau, Testifying on Behalf of the American Farm Bureau Federation

My name is Don Shawcroft, President of the Colorado Farm Bureau. I am here today on behalf of the American Farm Bureau Federation (Farm Bureau). Farm Bureau is a grassroots organization representing a diverse range of agricultural producers from all 50 states and Puerto Rico. I am a rancher from the San Luis Valley in Colorado.

Farm Bureau appreciates the opportunity to share the impact that high fuel costs have on our nation's farm and ranch families. These prices affect not only our businesses, but our families and communities as well. America's farmers and ranchers work hard to produce the safest, most abundant food supply in the world; unfortunately our nation's dependence on foreign sources of fuel threatens our livelihood.

Our businesses rely on fuel: Diesel to run our tractors and harvesters, gasoline for our pickups, natural gas and petroleum used to manufacture our fertilizer, herbicides and pesticides. Profitability in agriculture is affected greatly by high fuel prices, whether they are caused by instability in other parts of the world or increasing demand from emerging nations. That is why Farm Bureau believes that the United States should be focused on energy independence.

Our grassroots members, representing all 50 states and Puerto Rico and all sectors of agriculture, believe that we must develop and employ a diverse, broadbased domestic energy supply. We support the development and implementation of a comprehensive national energy policy, which includes conservation, efficiency, exploration and research and provides for the domestic production of traditional and renewable energy sources. Opening and using new sources of petroleum, along with existing and future home-grown fuels, should keep current and future generations of Americans safe from the economically devastating effects of our dependence on foreign energy.

Over the past 11 years, we have seen very volatile oil and natural gas prices due to a variety of factors. Although some sectors of agriculture have seen good prices for their products, their profitability is hindered by high energy costs. Farmers and ranchers have little, if any, ability to pass our costs of business, including those for fuel, fertilizer, seeds and agricultural chemicals, on to our customers.

Farmers have been impacted particularly hard by the rising costs of inputs needed to grow their crops. According to the USDA Economic Research Service (ERS) farmers can expect to pay almost 85 percent more than they paid in 2000 just to put their crops in the ground this spring. The ERS calculates the operating costs per planted acre—or cash costs—of the country's most produced crops. This data includes the costs of seeds, fertilizer, chemicals, fuel and electricity, repairs and interest on operating capital. It does not include the cost of labor for the farmers or an employee, the cost of land, the cost of property taxes or the cost of insurance. The ERS data shows that in 2011 corn farmers can expect cash costs that are 85 percent higher than their costs in 2000. Similarly, cotton farmers can expect to see a 77 percent increase and rice farmers a 72 percent increase. ERS has been tracking this data for grain sorghum since 2003. Grain sorghum producers have seen their cash costs rise more than 77 percent in 8 years.

Fertilizer and Chemical Costs

Farmers and some ranchers depend on fertilizer to enhance the nutrients in their soil to produce the safest and most abundant food supply in the world. Unfortunately, we have seen fertilizer prices skyrocket due to a rise in the costs of natural gas and crude oil, increasing demand from emerging countries and a decline in domestic fertilizer production.

Natural gas accounts for 70 percent to 90 percent of the cost of producing anhydrous ammonia, a key source of nitrogen fertilizer. The sharp rise in natural gas prices and the resulting curtailment of U.S. fertilizer production has had a dramatic impact on fertilizer prices throughout the marketing chain and, in particular, at the farm level. According to ERS, between 2000 and 2011 the fertilizer costs for rice rose 125 percent, cotton rose 175 percent and corn rose 197 percent. The fertilizer costs for grain sorghum have risen 127 percent.

As U.S. fertilizer production has slowed, we have become increasingly dependent on foreign sources of the product. According to The Fertilizer Insitute (TFI) two of the components of fertilizer, nitrogen and potash, are usually imported from other countries. Current fertilizer prices are expected to surge this spring due to the costs of transporting the imported components and growing demand from other countries. According to TFI, the United States was the fourth largest consumer of fertilizer for fiscal years 2007 and 2008. The top three consumers were China, the rest of the world and India. Brazil came in fifth, followed by Indonesia.

Additionally, the Environmental Protection Agency (EPA) is now pursuing policies which would replace coal and other fossil fuels with natural gas for electricity production. While many factors go into determining fertilizer prices, the natural gas price is a principal component. Should EPA's policies have the effect of pushing natural gas prices higher, we anticipate those costs will combine with other factors into pushing fertilizer prices higher. In addition to making it difficult for domestic manufacturers of fertilizer to make a profit, these policies will make farmers even more dependent on others for our farm inputs.

Natural gas and crude oil spikes have a dramatic impact on the costs of the herbicides and pesticides that we use to protect our crops. According to ERS, the cost of agricultural chemicals increased 58 percent for rice and 19 percent for cotton since 2000, and 24 percent for grain sorghum since 2003. On the other hand, the cost of chemicals for corn decreased by 1 percent.

Fuel Costs

As President of Colorado Farm Bureau, I spend a lot of time talking to the corn and potato farmers who grow two of our state's largest crops. Last week, farm diesel fuel used in tractors and combines to plant and harvest these two crops was, on average, $3.47 per gallon in Colorado.

I know from conversations with farmers and ranchers in other parts of the country that they also struggle with rising diesel costs. Like all transportation fuels, the price of farm diesel varies from state to state. Most states do not publish these prices, with Illinois being the exception. According the USDA–Illinois Department of Ag Market News, the average price of farm diesel in Illinois rose from an average of $1.70 per gallon in March 2009, to an average of $3.56 per gallon in March 2011. That is a 103 percent increase in price over the past two years.

Most Americans are feeling sticker shock caused by high gasoline prices when they fill their automobile's tank. There is no term in the English language to accurately describe what farmers and ranchers feel every time they put diesel in the tanks of their farm equipment. I have a couple of examples based on the price in Colorado last week.

The fuel capacity on a CaseIH 9370 tractor is 270 gallons, which results in a $936.90 price tag every time the tank is filled. A new John Deere 9870 STS has a fuel capacity of 305 gallons. At last week's prices the cost of that tank of fuel is $1,058.35. Depending on the number of acres being covered, farmers and ranchers have to fill those tanks multiple times just to complete the work on one field or pasture. Due to the fracturization of land, we have many fields to cover.

Ranchers face a different set of challenges caused by high oil prices. Like many ranchers, I have to keep my herd on several parcels of land, which requires daily trips between pastures to check on the health and safety of my animals and to feed and water them.

Throughout the year, I have to move cattle hundreds of miles to ensure that they have adequate grazing land. In order to move the cattle safely, I must use multiple semi-trailers and make multiple trips. The semis typically have 300 gallon capacity fuel tanks. Depending on the length of the trip and the terrain we must cover, fuel efficiency varies and affects the numbers of times I have to refuel these trucks on one trip. The fuel bill for just one truck can be over $5,000 on just one trip. Ranchers in other parts of the country face similar issues

Gasoline prices in my area are $3.49 per gallon. I use a lot of gasoline in the engines of the vehicles and equipment needed to run my business. It makes more sense for me to have the gasoline delivered to my ranch rather than going to town every time I need to refuel. However, convenience costs—specifically, $3.52 per gallon.

Given the hype about "food v. fuel," I am sure you have heard a lot of claims made about ethanol's impact on gasoline prices. It is a myth that ethanol is a factor in the high cost of gasoline. Ethanol production has no impact on the cost of a barrel of crude oil. In fact, as oil prices rise, ethanol becomes more important to keeping gasoline costs lower. At $40 per barrel for oil, the energy value of corn in terms of British Thermal Units (BTU) produced is roughly $2.50 per bushel; at $100 per barrel, that same bushel of corn is worth more than $6.50. This is strictly the energy value of the corn as fuel, not as a value added product that has been converted into valuable livestock feed and a fuel able to be mixed with gasoline and fully functional in our automobiles.

Farm Bureau believes that renewable fuel production can help make our country energy independent, generate good jobs in rural communities, and help keep farming and ranching fiscally sound. We support the goal of the 25x'25 Alliance to generate 25 percent of our nation's energy supply from our nation's farms, ranches and other working lands by 2025.

High gasoline costs have impacts on farm and ranch families that go beyond production costs. Many of our families depend on off-farm employment to supplement their agricultural income and allow them to continue to feed the world. The jobs are rarely just a few miles from home. Steadily increasing gas prices are eating away at these families' fiscal health. Beginning farmers and ranchers can be hit hardest by this situation.

Rural school budgets have also taken a beating from the high cost of gasoline. Our school buses must travel long distances to transport our children to and from school every day. Rural schools' ability to fund and provide quality education for our children is being eaten away by high fuel costs.

Officials at my local school district told me that our school buses traveled 148,340 miles in the 2009–2010 school year. Those buses averaged 8 miles per gallon. According to my math, that comes out to 18,542 gallons of gas. Calculated at the current retail price in my town, the yearly cost of fuel for the district is almost $ 65,000—a potentially devastating outlay for a rural school district.

In addition to endangering the futures of our children, this situation can create additional tax liabilities for farmers and ranchers. Many school districts rely heavily on funds gained from property tax revenue. As landowners, we bare a great deal of the costs for our rural schools—schools that have educated generations of many of our families. However, property tax increases chip away at our profitability and reduce our ability to provide for our families and the families of our employees.

Solutions

We must renew America's commitment to domestic oil and gas production. Energy rich repositories such as the Outer Continental Shelf, the Bakken Oilfields and the Arctic National Wildlife Refuge must be explored and opened for oil and gas production. The advancements made in oil and gas-drilling technology will increase the environmental protections for capturing energy feedstocks. Additionally, we must increase domestic oil refining capacity and diversify the geographic locations of those refineries.

We must continue to develop all sources of renewable energy. These sources must play a vital role in securing America's energy security. As with drilling techniques, much advancement has occurred in the production of renewable energy sources such as ethanol, biodiesel, biomass, wind and solar energy.

We must do more to make home-grown energy available to American consumers, including implementing the approved increase of the current ethanol blend rate to 15 percent and building a biofuel infrastructure which includes blender pumps and biofuel pipelines. We must continue to provide incentives, such as the tax credits currently in place, to encourage the production of biodiesel fuels.

American agriculture needs reliable and reasonably priced fuels in order to maintain its ability to feed, clothe and fuel the world. We urge you to take the steps needed to make our country energy independent. The livelihoods of our families, our communities and our businesses depend on it.

Thank you for the opportunity to testify. I look forward to your questions.

The CHAIRMAN. Thank you, Mr. Shawcroft. Our last witness is Mr. Fox, and you may proceed, Mr. Fox.

STATEMENT OF MICHAEL J. FOX, EXECUTIVE DIRECTOR, GASOLINE & AUTOMOTIVE SERVICE DEALERS OF AMERICA, INC.

Mr. FOX. Good morning, Chairman Hastings, Ranking Member Markey, members of the Committee. My name is Michael J. Fox, and I am the Executive Director of the Gasoline and Automotive Service Dealers of America, the trade association representing gasoline retailers, and we thank you for the opportunity to come here this morning. Our industry, and specifically our members, are still attempting to recover from the boom-and-bust commodity cycles of the past from Hurricane Katrina to the most recent runup in crude oil and gasoline prices. Gasoline retailers stand bewildered in the face of such surging and volatile prices. Sales volumes and consumer demand have not returned to normal demand cycles.

The housing bubble, unemployment crisis and slow post-2008 economic recovery have continued to strain businesses and consumer pocketbooks and have caused retail stations to close at alarming rates. Those remaining still struggle with the additional capital requirements, diminished profitability and general business uncertainties brought on by higher wholesale prices and ever thinning margins due to higher production costs and credit card/

debit card swipe fees. Gasoline retailers feel the effects of higher crude prices and higher wholesale fuel costs instantly.

A gasoline retailer is like a consumer who fills up the car weekly, except high-volume retailers need to fill up daily or every other day, and their gasoline tanks are 8,500 gallons, not 20 gallons like a consumer. Most retailers are not free to shop for the best price daily as consumers can when not happy with one particular retailer's price that day. Most retailers have fuel supply agreements that make them captive customers of the major oil companies or middle men called distributors.

Even when a retailer is supplied by a distributor, most times that distributor is a captive customer of major oil. More locked in captive customers equal larger big oil profit. The facts are clear. Big oil profits are huge and growing no matter what the economic climate or troubles come out such as the tsunami in Japan, the collapse of Wall Street and subsequent big bank bailouts. We continue to see big oil profit while small gasoline retailers, consumers and of course our economy struggle.

I am aware that Congress is currently debating measures to address rising gasoline prices and to bring relief to small businesses like ours and our customers that depend so much on our product for their livelihoods and general mobility. I commend this Committee and the Congress and both sides of the aisle for their commitment to this endeavor. It is certainly both in the interest of your constituents and the interest of our broader economic well being. Unfortunately, there is no magic bullet that will lower the price of gasoline tomorrow.

However, that is not to say no government solution will bring consumers relief at the pump. First and foremost, Congress can and should take additional steps to address excessive speculation and opaque market activity in the energy derivatives market. As a founding member of the CMOC or Commodities Market Oversight Coalition, members have been advocating for complete transparency, accountability and oversight in the energy trading markets.

CMOC is an informal coalition whose participating members represent an array of business, consumer interests that advocate in favor of government policies that promote stability and confidence in the commodities market and that the preserve, the interest of bona fide hedgers, consumers and the broader economy. Excessive speculation is the greatest concern to our members. While speculation in and of itself is not a bad thing, in a transparent and well-functioning energy market, it provides the hedging community with the necessary liquidity and facilitates price discovery. However, when said speculation is driven to excess, it creates volatile markets, unprecedented price swings, diminished the ability of commercial hedgers to manage price risk associated with commodities such as gasoline and dislocates market prices from supply and demand fundamentals.

There are some that argue that the business community and commercial end users of derivatives are united in their oppositions to reform limits on speculation. This is also not true, and I am proof of that here today. I also urge you to look at the thousands of comments sent from businesses and consumers alike to the

CFTC on Monday in support of proposed rules on speculation written under mandate by Congress in the Dodd-Frank Act. You will note however the financial community banks, hedge funds and pensions profit from excessive market volatility and speculation at the expense of captive customers, retailers, business owners and of course our economy.

Once the CFT implements the necessary reforms provided by Congress in the Dodd-Frank Act which, simply put, assures complete transparency and bans all types of excess speculation and provides that Congress resist ideological crusades to repeal these forms and instead affords the CFT the support, the resources and the funding to do the job intended. Congress will send a clear message that markets will hear loud and clear, and unlike many other solutions being considered by Congress, the effect will be immediate. I look forward to addressing all your questions and appreciate the time that you have afforded me here today.

[The prepared statement of Mr. Fox follows:]

Statement of Michael J. Fox, Executive Director, Gasoline & Automotive Service Dealer's of America, Inc., Connecticut Based Trade Association Representing Gasoline Retailers, Automotive Repair Shops, Body Shops, Towing Operators & Car Washes

Honorable Chairman Hastings, Ranking Member Markey and members of the committee; thank you for the opportunity to testify before you today on rising gasoline prices and the negative impact on small family-run businesses and what can be done to provide effective short- and long-term relief for both the small business gasoline retailers and the customers they serve.

My name is Michael J. Fox and I currently serve as the Executive Director of the Gasoline & Automotive Service Dealer's of America, Inc. (or GASDA, Inc.) a trade association who members are responsible for pumping over 1.4 billion gallons of gasoline in the State of Connecticut. In Connecticut and nation-wide, most gasoline retailers are small, family-owned and operated-businesses that are involved in their local communities. In Connecticut, they provide employment for approximately 4,000 people.

Our industry and specifically our members are still attempting to recover from boom and bust commodity cycles of the past, from hurricane Katrina to the more recent run-up in crude oil and gasoline prices. Gasoline retailers stand bewildered in the face of such surging and volatile prices. Sales volumes and consumer demand have not returned to normal demand cycles. The housing bubble, unemployment crises and slow post-2008 economic recovery have continued to strain businesses and consumer pocketbooks, and have caused retail stations to close at alarming rates. Those remaining still struggle with the additional capital requirements, diminished profitability and competitiveness, and general business uncertainties brought on by higher wholesale prices and the ever thinning margins due to higher product costs and credit and debit card swipe fees.

Gasoline retailers feel the effects of higher crude prices and higher wholesale fuel costs instantly. A gasoline retailer is like a consumer who fills up the car weekly, except some high volume retailers need to fill up daily or every other day and their gasoline tank is 8500 gallons, not 20 gallons. Most retailers are not free to shop for the best price daily as a consumer can when not happy with one particular retailers price that day. Most retailers have fuel supply agreements that make them captive customers of the "Major Oil" companies or middlemen called "distributors." Even when a retailer is supplied by a distributor, most times that distributor is a captive customer of "Major Oil." A big reason Major Oil is and has been exiting the direct serve market. More locked in captive customers equals larger Big Oil Profits. The facts are clear, Big Oil profits are huge and growing no matter what the economic climate or troubles come about, such as the tsunami in Japan, the collapse of Wall Street and subsequent Big Bank bailouts. . .we continue to see Big Oil profit while small gasoline retailers and consumers struggle.

I am aware that the Congress is currently debating measures to address rising gasoline prices and to bring relief to small businesses like ours and our consumers that depend so much on our product for their livelihoods and general mobility. I commend this committee and the Congress, and to both sides of the aisle, for the commitment to this endeavor. It is certainly both in the interests of your constituencies and the interests of our broader economic well-being. Unfortunately, there is no immediate "magic bullet" that will lower the price of gasoline tomorrow, however that's not to say that there are no government solutions that will bring consumers some relief at the pump.

I. Addressing "Excessive Speculation" in the Energy Derivatives Marketplace

First and foremost, Congress can and should take additional steps to address "excessive speculation" and opaque market activity in the energy derivatives markets. As a founding member of the Commodity Markets Oversight Coalition (or CMOC), GASDA members have been advocating for complete transparency, accountability and oversight in the energy trading markets. CMOC is an informal coalition whose participating members represent an array of business and consumer interests that advocate in favor of government policies that promote stability and confidence in the commodity markets and that preserve the interests of *bona fide* hedgers, consumes and the broader economy.

We commend the Congress for the reforms that it included in the 2008 Close the Enron Loophole Act, which was championed by Congressman Peter Welch of Vermont, and the 2010 Dodd-Frank Wall Street Reform Act, which included comprehensive commodity trading reform under Title VII of the Act. The reforms of the Dodd-Frank Act are designed to bring energy derivative trading out in the open through mandatory reporting and clearing requirements, and to subject such trades to oversight by the Commodity Futures Trading Commission (CFTC), including prohibitions on fraud, manipulation and excessive speculation, all of which over-the-counter trading has been free from since these markets were deregulated in 2000.

"Excessive speculation" is of the greatest concern to my members. While speculation is in and of itself not a bad thing—in a transparent and well functioning energy marketplace, it provides the hedging community with necessary liquidity and facilitates price discovery. However, when said speculation is driven to excess, it creates volatile markets, unpredictable price swings, diminishes the ability of commercial hedgers to manage price risks associated with a commodity such as gasoline, and dislocates market prices from supply and demand fundamentals.

There are some that argue that such a conclusion is "fantasy" and assert that there are no reputable academic or governmental studies that provide evidence that speculation can every be harmful or "excessive." This is not true. I have included for the record a list a sampling of 58 studies, reports, and analyses that show the affects that excessive speculation and market opacity have had on the commodity markets. I have also included a recent study by Stanford that is exceptionally conclusive.

There are some that also argue that the business community and commercial end-users of derivatives are united in their opposition to reform and limits on speculation. This is also not true and I am here as proof. I also urge you to look at the thousands of comments sent from businesses and consumers alike to the CFTC on Monday in support of a proposed rule on speculation limits, written under mandate by the Congress in the Dodd-Frank Act. You will note, however, see much support from the financial community that profit from excessive market volatility and speculation *(banks, hedge funds, pensions)* at the expense of others *(captive customers, retailers, consumers, business owners).*

Some argue that for every gallon of gasoline, consumers are paying a "speculative premium" of as much as $1 per gallon as a result of excessive speculation in the crude oil and gasoline markets. Congress could immediately remove this "speculative premium" by:

- Supporting the implementation of authorities provided the CFTC under the Dodd-Frank Act, especially comprehensive transparency requirements, rules to strengthen prohibitions on fraud and manipulation, and meaningful position limits designed to protect against the burdens of excessive speculation;
- Fighting efforts to strip funding from this agency at a time in which additional resources are needed to implement these new reforms and to respond to ever changing global and domestic market conditions and trading practices;
- Considering legislation to restrain or limit the involvement of "index funds" and other so-called "passive investors," whose buy-and-hold strategies have severely disrupted price discovery and caused volatile swings in the price of gasoline; and by
- Reforming the tax code to close loopholes currently being exploited by Wall Street commodity traders that allows them to pay little or no taxes on their speculative profits while commercial hedgers are taxed at higher rates.

Once the CFTC implements the necessary reforms provided by the Congress in the Dodd-Frank Act, which simply put assures complete transparency and "bans all types of excessive speculation" and provided the Congress resists ideological crusades to repeal these reforms and instead affords the CFTC the support, resources and funding to do the job intended—Congress will sending a clear message that the markets will hear loud and clear. And, unlike many other solutions being considered by Congress, the effect will be very immediate.

II. Releasing from the Strategic Petroleum Reserve (SPR)

A release from the Strategic Petroleum Reserve (SPR) will also have an immediate but short term positive impact, unlike reforms of the commodities markets, which would have both an immediate and permanent impact on the marketplace. However, this solution should not be ignored. It is just smart policy. Even a small release of 30 or 100 million barrels will have the immediate effect of driving some bullish and speculative activity out of the marketplace and help signal somewhat of a much needed correction to an overly emotional market.

Some argue there should be no release from the SPR because there is no present or imminent supply disruption or surge in demand. Yet, these same critics also say that speculation is not at fault because there is a global supply and demand problem, and/or they argue that there is a domestic supply and demand problem that requires increased domestic drilling. I just don't understand this logic. A small SPR release is just simply in the interests of small businesses, consumers and the struggling economy, especially in light of the delayed reforms at the CFTC, market irrationalities and world events.

III. Implementation of a Long-term Domestic Energy Policy

This SPR release worked during Katrina and at other times in our history because it bought time and immediate relief to struggling consumers until the damaged refineries could get back up and running and pipe lines repaired. Such releases from the SPR are a good idea and good timing but without a long-term strategy of increased domestic energy production and decreased reliance on foreign energy, it is only a short-term fix.

Once the commodity markets are repaired, our nation can and must turn its attention to its energy policy. But not before. We must have functional, transparent and responsive commodity markets that can hear and respond affectively, much as the stock markets would do to signals from Washington and market-makers. Any announcement of a comprehensive long term energy policy of domestic energy production increases and alternative energy solutions must be heard loud and clear by markets in order for them to have the intended result. Otherwise, it could serve the same affects of an SPR release—Washington acts, the market responds, and then only days later rumors of another "crisis" drives speculators back into the markets and the prices surge again.

There is much the Congress can do but it should walk the walk, not just talk the talk. Measures to address rising gasoline prices that are explored by this committee and this Congress must be backed up by hard, concrete actions that can be measured by results. Otherwise this is just another form of "speculation" and that is what we are trying to eliminate. Let's return to markets that are responsive to cold, hard supply and demand fundamentals and then give them the supply needed to meet the demand through a smart and effective domestic energy policy—something that is, indeed, long overdue.

Thank you for the opportunity to come here and speak to you today and I will answer any questions you may have.

The CHAIRMAN. Thank you, Mr. Fox, and thank all of you for your testimony. We will now begin a round of questioning. Each Member will have five minutes, and I will recognize myself for five minutes, and I would like to ask a question of all of you. All of your testimony talked on different nuances and different things that we could do, but there is a fundamental issue here it seems to me, and I just want to know if you agree with me, and that is if you have a shortage of something, that tends to rise the prices, so one of the antidotes for that is to increase the supply.

Greater supply tends to bring down the price of whatever commodity you are talking about, and I just want to ask all of you very quickly to you agree with that assessment starting with you, Governor Graves?

Mr. GRAVES. Certainly, Chairman, and of course I agree with the President's efforts reducing our import of foreign oil. It seems to me like we have to do three things. We have to conserve more. We have to basically find alternatives, and we have to maintain domestic production as we transition into our future.

The CHAIRMAN. Ms. Harbert?

Ms. HARBERT. I agree. We live in a global oil market. It is not controlled by one entity or another. It is a global commodity, and we need to send the market short-term and long-term signals that there would be more supplies that we have a more predictable market over the longer term.

The CHAIRMAN. Mr. Shawcroft?

Mr. SHAWCROFT. Mr. Chairman, I would agree also with the single caveat that not only supply but the reliability of that supply and reducing volatility in that supply, and you talk about speculation that definitely influences that price.

The CHAIRMAN. Mr. Fox?

Mr. FOX. I agree, but the problem that we fact today is with the speculators in the market that we have today. More production, I am afraid that the speculators will just take over that increased supply. If we look at the inventory levels of crude oil today and gasoline, we are above the five-year average. That is a market fundamental that should see prices dropping but because of speculators in the market, we are seeing prices increase. I think if you times increased production, a release from the Strategic Petroleum Reserve along with an announcement of real market reforms due to speculation and provide funding for the CFTC, we would see prices tank.

The CHAIRMAN. Well, the reason I ask that question, and I know it was pretty fundamental because it is a supply equation, and let me go back a bit. In 2008, when gas prices were up above $4.00 a gallon, you all probably painfully remember that, I certainly do, there were moratoria, a Presidential moratorium and a Congressional moratorium, and both of those ended in 2008, and yet the prices dropped down, and I think this plays into I think, Mr. Harbert, what you said, and probably you all alluded to, crude is an international commodity and what we did with ending those moratoria was send a signal to the market that we are going to utilize the resources we have. Therefore, the market reacted, including the speculators, and prices dropped.

We seem to be in a different situation now, but the bills that I introduced, for example, and again, Ms. Harbert, you alluded to the fact of the huge reserves that we have, I alluded to that in my opening remarks, if we drill domestically smart where we know there are tremendous reserves, would that not suggest that we will get probably a more supply online quicker rather than later if we know where these potential resources are. I will just ask that to all of you because we are not doing that in our country right now, so, Governor, let me start with you and go right down the line.

Mr. GRAVES. Well, certainly I agree, Mr. Chairman. Again, I come to this hearing not so much in search of 25-cent a gallon fuel. I come to this hearing in search of some stability in the fuel markets and again some guidance or hope that we are starting a more pragmatic transition into what our future is going to look like, and our transportation industry has relied upon petroleum-based products forever, and we are more than interested in transitioning to new sources of fuel, new sources of power, but it is not something that it is like a light switch that just goes on and it changes over night.

In the meantime, we absolutely don't have a fuel that will move 80,000 pounds over the Rocky Mountains other than diesel fuel, so our concern again is not seeking cheap fuel. Our concern is seeking some stability in the fuel available to us for the near term.

The CHAIRMAN. Yes. Very quickly because time is running out.

Ms. HARBERT. I think what you are talking about is becoming more self-reliant, and according to the IEA, $26 trillion in investment is needed to meet the growing world energy demand. I think the question is, is any of that money going to be coming here, or are we putting policies in place that will discourage that investment from happening here. An investment to bring those molecules to the surface will happen in other countries, and those jobs will be created elsewhere, and they should be created here.

The CHAIRMAN. Mr. Shawcroft.

Mr. SHAWCROFT. Again, Mr. Chairman, as I stated in my testimony, we believe that all forms of energy need to be brought online as soon as possible.

The CHAIRMAN. Mr. Fox?

Mr. FOX. I agree, Mr. Chairman, and I just would like to say that if we go on a path of increased drilling, you are certainly right on when you say target where the product is, but if we create alternate energy sources, that will create additional competition which would drive the price down even further.

The CHAIRMAN. I agree. That is why I have been an advocate of all of the above energy plan. I finally have to say I remember 25-cent gasoline by the way. Date myself. Gentleman from Massachusetts recognized.

Mr. MARKEY. I think I was behind you at that pump. Mr. Fox, in the Republican HR-1, their first bill this year, their budget, they left in $18 billion for loan guarantees for nuclear power, but zeroed out all the loan guarantees for wind and solar and renewable energy. Is that a good strategy, or would you like to see loan guarantees in their for renewables as well?

Mr. FOX. Absolutely would like to see loan guarantees for renewables. Again, any increase in competition——

Mr. MARKEY. I got you. Thank you. How about you, sir?

Mr. SHAWCROFT. I presume you are speaking to me?

Mr. MARKEY. Yes.

Mr. SHAWCROFT. Thank you, Mr. Markey.

Mr. MARKEY. $18 billion for nuclear and then they took all the money out for wind and solar for loan guarantees. Do you think we should keep in the competition that exists amongst all these energy technologies?

Mr. SHAWCROFT. There should be technology, and certainly competition, but we believe that all forms of energy need to be pursued.

Mr. MARKEY. Thank you, so zeroing out wind and solar is not a good idea, would you agree with that?

Mr. SHAWCROFT. No, I wouldn't.

Mr. MARKEY. OK. Good. How about you, Karen?

Ms. HARBERT. The nuclear loan guarantees were passed by bipartisan Congress.

Mr. MARKEY. No, but what I am saying—

Ms. HARBERT. And the renewable guarantees, they received an enormous amount of loan guarantees in the stimulus package.

Mr. MARKEY. No, I appreciate that, but you support taking out the loan guarantee money for wind and solar?

Ms. HARBERT. I did not say that. I said that they had received a much greater amount of loan—

Mr. MARKEY. No. I am asking you if you support taking out the loan guarantee money for wind and solar and leaving it in for nuclear? That is all I am asking you.

Ms. HARBERT. We supported the stimulus package which in it had huge loan guarantees for the renewable technologies.

Mr. MARKEY. OK. So you do support it?

Ms. HARBERT. And we need renewable technologies.

Mr. MARKEY. OK. Thank you. I appreciate that. Mr. Graves?

Mr. GRAVES. Congressman Markey, a Governor from Kansas supports sun and wind power.

Mr. MARKEY. Thank you. Thank you. I appreciate that, so, Mr. Fox, the CFTC regulations are being promulgated as we speak. However, the majority actually has now cut funding for the CFTC by more than a third in HR-1. If we were to cut funding for the CFTC and hamper its efforts to issue and enforce these new regulations, would that lead to higher energy prices for consumers? Would speculators rest easier if they knew that the funding wasn't there to police them?

Mr. GRAVES. The fastest way to $6 gasoline is to cut the funding to the CFTC.

Mr. MARKEY. So you do believe it would lead to excessive speculation?

Mr. GRAVES. Yes, sir.

Mr. MARKEY. OK. Now, earlier this month, we heard from the former Administrator of the Energy Information Administration during the Bush Administration, Guy Caruso. He has been quoted as saying that oil prices would be reduced by $5 to $10 per barrel by deploying the Strategic Petroleum Reserve depending upon the timing and the volume of the deployment. Do you agree that deploying the Strategic Petroleum Reserve could have that type of impact on prices?

Mr. GRAVES. I know we have seen that in the past, but when we have deployed the SPR before, we had issues such as refineries being down due to Hurricane Katrina so we could monitor and see when those refineries were coming back online. I believe any release of the Strategic Petroleum Reserve timed along with proper funding and proper CFTC authorization would drive prices down to that level and more.

Mr. MARKEY. Great. In 2008, the American Trucking Association testified before the select Committee on Energy Independence. In that testimony, the American Trucking Association, and I quote, said that, "The ATA has asked the Administration to release oil from the Strategic Petroleum Reserve. While we know that the

Strategic Petroleum Reserve does not contain enough oil to permanently alter the supply of crude oil in the marketplace, we believe that strategic releases of the SPR could temporarily increase the supply of crude oil and hopefully help restore rational behavior to the petroleum markets.”

This type of government intervention could drive speculators out of the market and help ensure that petroleum prices are once again driven by supply and demand. Do you agree with that Governor Graves?

Mr. GRAVES. I do, Congressman.

Mr. MARKEY. Yes, so the deployment of the Strategic Petroleum Reserve can in fact have an impact on the attitude and the actions of speculators out in the marketplace.

Mr. GRAVES. It can, Congressman, and I said my concern goes beyond that to long-term stability in pricing.

Mr. MARKEY. Ms. Harbert, could you tell me which nation we get the most oil from, and we know it is the Canadians. Canada made a decision some years ago that it was going to try to turn sand that had low concentrations of tar mixed in with it into oil. Very expensive, consumes massive amounts of oil, and it turns out that cooking the tar out of the sands takes quite a bit of energy. It is so environmentally damaging that the European Union is moving to prevent tar sands oil from entering the European market, but nevertheless with oil prices above $100 a barrel, this production has meant huge profits for Shell and BP and other companies.

My question to you is looking at the greenhouses gases as they are being produced out of that source, do you think that there is a reason for the United States to ask for additional environmental protections to be built into that methodology of producing oil?

Ms. HARBERT. Well, first of all, I appreciate your acknowledgment that Canada is a hugely important trading partner with the United States and has the potential to grow as the President recognized that yesterday, and having that resource right across our border and having the potential to grow it I think needs to be recognized in light of our growing energy security challenges. I do think we want to see the oil sands continue to make improvements in the way that they are extracted and the way they are transported, but make no mistake any policy you put in place on this side of the border will not deter their continued production.

Those oil sands are going to be developed, and they are going to be sold. The question for us is do they come here where we have high emission standards and high refining standards, or are they put on tankers, going across large seas and refined in areas where they don’t have high emissions requirements, so I think that also is a fundamental part of the equation that needs to be taken into account.

Mr. MARKEY. Thank you, Ms. Harbert.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from Colorado, Mr. Lamborn?

Mr. LAMBORN. Thank you, Mr. Chairman. Thank you all for being here, and I especially want to welcome the witness from Colorado. It is good to talk to you.

Mr. SHAWCROFT. Thank you.

Mr. LAMBORN. This Committee is well represented by representatives from Colorado. I think there are four that I know of off the top of my head on both sides of the aisle, so thank you for being here. I have a question for you based on your written testimony. In it you point out that we are increasingly dependent on foreign imports of fertilizer and its components due to the decline in U.S. fertilizer production, so if there is clearly a market for fertilizer in this country, why is domestic production declining, and the second part of that question is what does that mean for the consumer, the Americans who enjoy our agricultural products?

Mr. SHAWCROFT. The cost of production overseas is definitely less than it is here in the United States, and that is the reason that it comes from out of the United States. Ninety-five percent of fertilizer production, particularly ammonia, that cost comes from natural gas. That is why we believe at the American Farm Bureau we need to develop all sources of energy, including natural gas. What it means to consumers? Definitely an increase in fertilizer, increase our costs, but as I stated in my oral testimony, we as farmers and ranchers have a very, very limited ability to pass that cost on to the purchasers of our products. Does that answer your question?

Mr. LAMBORN. Yes, and I appreciate your being here today. It is always good to see someone from my home state of Colorado, and, Mrs. Harbert, I have a couple questions for you. What new regulations have the Obama Administration imposed on energy production in the Gulf of Mexico since the BP oil spill that, in your opinion, go beyond what is necessary to ensure environmental responsibility? I know some of what they addressed was to prevent another spill, but some people have said they over-reacted, or they imposed regulations that didn't directly address what happened at BP.

Ms. HARBERT. I think the policy framework in the Gulf has been one of shutting down production, and we do need to take into account what happened in the spill, and appropriate safety procedures need to be put in place, and the industry did step up to the table, invested billions and now has systems in place that the Department of the Interior has certified are adequate, even exceed their requirements for response.

They are putting currently and are promulgating regulations and so the industry has yet to have a clear idea of what type of criteria they are going to have to meet, and that is very difficult to make investment decisions when you don't know what your requirements are going to be. Regulations continue to be promulgated by the Department of the Interior and will continue to be, as I have said, until the remainder of this year.

They are continuing environmental reviews, environmental regulations that are making the production in the Gulf of Mexico, quite frankly, remain in flux, and the industry has only received in deep water seven permits, permits that were already issued before. They have been reissued, so there is nothing new going on in the Gulf because no new exploration will be happening until they know what criteria they have to meet.

Mr. LAMBORN. OK. Thank you, and let me just interject a comment here. I am really pleased to join with Chairman Hastings in introducing three what I believe are very important pieces of legislation to address the deregulatory gridlock that has occurred in the

Gulf of Mexico in particular, and that will speed up permitting and help open up some areas that previously were open, but I think have arbitrarily been closed for production, so I look forward to that legislation.

Let me ask you a question about the Strategic Petroleum Reserve, Ms. Harbert. Do you believe that this short-term action, if it is taken, of tapping into that is good considering the long term, and are there better things that could be done to lower the price of gasoline and the cost on consumers other than tapping in to this reserve?

Ms. HARBERT. The Strategic Petroleum Reserve holds 40 days of American demand, and so we should be very careful of how we use it because we really have it there as an insurance policy for when there is a severe supply disruption of which we do not have right now, so the little amount of oil that we would put out in the market, the short-term signal, will do nothing to ease the long-term price increase. It is increasing because demand is increasing.

China and India are pushing up the demand for oil in the world, and as we look around the world where the demand is coming from, from the developing countries, that is not expected to end, so a short-term solution to a much longer long-term problem is not a solution, and so we really need to think about the longer-term implications of how to address the fundamental problem, which is we don't have adequate supply, and we can be part of that solution, or we can choose to actually import more from other countries.

Mr. LAMBORN. OK. Thank you very much. Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman yields back his time. The gentlelady from California, Mrs. Napolitano.

Mrs. NAPOLITANO. Thank you, Mr. Chairman. There are a lot of questions that I would have, and time will not permit me to ask all of them, but we know that drilling is not going to solve the issue. I think we need to look for more alternative ways to produce the energy that is necessary whether it is for farming or for running the diesel fuel trucks or the equipment that is needed in farms. I have been to some of the research institutions where they are using algae trying to produce fuel for John Deere. I am not sure if you are aware of that, but that is something futuristic, and who knows? Maybe that will come to fruition some day.

Mr. Shawcroft, if the entire Outer Continental Shelf were open to drilling, it only increases oil production by 1.6 percent by the year 2030 and peak .787 barrel per day, reduce world prices by 70 cents per barrel. The BLM spaced it out of 41 million acres already under lease onshore, only 12 million acres, less than one-third, or 30 percent, is actually in production. In the last two years, U.S. has increase oil production by more than a third.

In 2010, the Bureau of Ocean Management offered 37 million acres in the Gulf. However, oil companies are only producing 6.5 million acres, which is 70 percent, so wouldn't it be possible that we can't continue to rely on oil production and should be focusing time and funding to renewable energies to supplant our needs, and I do agree with your statement energy independence should be our nation's focus, and I think that this Administration has been doing that very well.

Again, on the research, those are issues that are critical for me, and then to the farmers is additional improvements in manufacturing and producing the largest crops, especially when it deals to water, and the Ranking Member, and water and power, and water is a commodity we no longer have too much of, so I will lay it on you, and if you will address those?

Mr. SHAWCROFT. Thank you, ma'am. Mrs. Napolitano, as well as the Committee, several issues you have raised certainly we do believe in developing renewable energies, and we believe that even futuristic energies that are being developed now we need to be working on those things so that when they become economically viable, and they really provide a solution or a supplement to our need today, that needs to be pursued.

You raise the issue of leases and production. There is another important component that I believe hasn't been mentioned very clearly today and that is the permitting process. Just because an oil company has a lease in an area does not mean that they have a permit to extract what we need out of those lands.

Mrs. NAPOLITANO. They may not have applied for those permits.

Mr. SHAWCROFT. That is true, and if they do not, as I think Ms. Harbert mentioned, they may not know exactly what the rules of the game so to speak are going to be, and that is an uncertainty of which oil companies are not willing to take. We face the same thing as far as uncertainty as to what our fuel costs are going to be for the coming growing season. I am very troubled by the fact that diesel fuel very likely will be over $4.00, maybe over $5.00 a gallon for the summer when we move our cattle to and from the range. Last year it cost us $4.00 per loaded mile. This year, I don't know what it will be, $5, $6? It is a very scarey situation. Did I answer your questions adequately ma'am?

Mrs. NAPOLITANO. Sort of. Kind of. Anybody else? I have limited time, so I wanted to make sure that I had an opportunity for somebody else to answer.

Ms. HARBERT. I think we agree on a number of the points that you just raised. We are going to need multiple options going forward to secure our energy future, but that doesn't mean shutting off the options we have today. I think I would comment on your estimate about the amount of oil that might be on the outer continental shelf. That is based on 35-year old data and has not been updated yet, and we need access to the shelf for the industry who is best positioned really to know, as was mentioned earlier, about where are the highest probability potential reservoirs, and so we are going to need lots of options. Let us use today's and invest in tomorrow's as well.

Mrs. NAPOLITANO. Thank you. Mr. Fox, the Administration's 2012 budget requests $4 per acre-foot for non-producing Federal oil and gas leases, which would provide incentive for the oil and gas companies to produce more resources. The HR-927, the United States Exploration on Idle Tracks introduced by our Ranking Member and Representative Holt also institutes this fee and repeals deep gas industry royal relief. Is your organization supportive of the budget requests and of this provision in the legislation, and if not, what improvements can/should be made?

Mr. FOX. I don't know enough about that particular provision to answer that question accurately.

Mrs. NAPOLITANO. OK. Thank you very much. Thank you, Mr. Chair.

The CHAIRMAN. I think the gentlelady. The gentleman from Tennessee, Mr. Fleischmann, is recognized.

Mr. FLEISCHMANN. Thank you, Mr. Chairman. Ladies and gentlemen, welcome. Thank you for your testimony today. I represent the third district of Tennessee. The largest city there is Chattanooga. Chattanooga is an outstanding trucking hub and, Governor Graves, I want to say it as a great privilege to have great trucking companies in Chattanooga, and trucking is so critically important and vibrant to our economy to the distribution of goods in this country, and I am proud to be an advocate for those companies.

Governor, I have a question to start with you, sir. Higher oil prices will undoubtedly have an impact, sir, on small businesses across America. In addition this distinguished Committee, I also serve on the Small Business Committee in Congress, and I would like to know, sir, if you could please speak to the cost of higher fuel prices to the companies you represent. How specifically will this affect other costs associated with these companies, sir, and how long these businesses will be able to survive under the current conditions, sir?

Mr. FOX. Well, I mean, I think everyone knows that the last couple of years have been just bad generally for all businesses but certainly the trucking industry, which is predominantly very, very small, independent owner/operators, small family businesses with five or fewer trucks. I mean, the UPSes and the FedExes are the exception. Very candidly, many have fallen out of the business already just simply due to the economic downturn, and I think what we are struggling with right now is that a lot of people put off capital investment decisions the last couple of years because they simply didn't have the money to buy new equipment.

We are faced with a lot of new regulatory issues on driver safety, training requirements, and so we are looking at increasing driver pay. There are a whole bunch of things right now that have been teed up. The timing, you might say, it is not good in that there are a number of things we need to do in our industry to upgrade our fleets, take advantage of new clean diesel technologies, things like that, and we are facing a moment with rising fuel prices when we actually need whatever cash we have available to go out and take care of our normal business, so it is hard enough for the very well-established big firms. It is going to be impossible for a lot of the small firms.

Mr. FLEISCHMANN. Thank you, sir. Ms. Harbert, I have a question for you, ma'am. Can you please tell me about how many jobs have been lost in the United States in the last few months as an impact of higher gas prices and how many business you have heard from at the chamber that have been negatively impacted by these high prices, ma'am?

Ms. HARBERT. Well, thank you for that question, Congressman. I don't know that we have any scientific data yet because it takes some time for that to be accumulated, but we do know that we have 13.9 million people unemployed in this country, and we know we are not addressing that gap with high energy prices because businesses aren't hiring. They are paying their energy bills, and so we know that over the next 10 years, we have to create 20 million new jobs, and if we don't have affordable energy, we won't be able to meet the employment needs of our nation.

I think while we don't have the month-to-month data, we are certainly getting, my phone certainly rings off the hook with, small and medium size, and this is all around the country, that have a great desire to contribute to our economy but are really, really struggling.

Mr. FLEISCHMANN. I understand. Thank you. As a followup question, as you many of you all know, I continue to oppose higher taxes across the board in this country. One area I would like to ask you ma'am, can you speak to how higher prices on the oil industry proposed by this Administration would affect jobs in the United States?

Ms. HARBERT. Absolutely. Right now, I mean, American has one of the highest corporate income tax rates of the world to begin with, and then to go ahead and single out an industry and levy additional taxes on top of that in a global energy market, which is very competitive, will only force our American energy companies to go elsewhere and develop those resources, those jobs, and those revenues for other countries rather than here, and so we will see a great deal of jobs lost in the energy industry, which employees about 9.2 million today.

We will begin to see them having to make very difficult decision of moving overseas, investing overseas when other countries are lowering their tax rates to incent people to come to their countries. We saw the President in Brazil. Brazil is inviting people to come there and develop, and companies are responding because it is attractive to invest in Brazil. We are not seeing that type of response here in the United States because we are contemplating raising taxes on that industry upon which we rely.

Mr. FLEISCHMANN. Thank you. Mr. Chairman, I yield back.

The CHAIRMAN. I thank the gentleman. The gentleman from Arizona, Mr. Grijalva.

Mr. GRIJALVA. Thank you, Mr. Chairman. Mr. Fox, we hear a lot about the importance of free market in our economy, and justifiably so. Markets are an essential part of our system, but I think we overlook the realities and the histories of specific industries, such as the oil industry. Would you call the oil market in the pure sense of the word a free market?

Mr. FOX. No, sir.

Mr. GRIJALVA. Do you want to elaborate on that, please?

Mr. FOX. When you look at the industry itself, when you talk about big oil, I think you have to break the industry down in segments. Big oil today talks about a free market and free-market system, and they have it. They are allowed to go wherever they can obtain the cheapest commodity, crude oil, overseas or here in the United States, so they can put it through the refineries at the cheapest cost to the them. Once that product is refined and delivered to the middle men or the distributors and to our retailers, we are locked in as a captive customer with supply contracts. We are not free to go around and find the cheapest price.

More importantly, the excuse of that is because they want to ensure integrity of the product. Let me give you an example. I was a Mobile Oil retailer for 20 years. Forty-first highest volume Mobile retailer in the United States. I could find Mobile product in the State of Connecticut where I was based 20 cents a gallon cheaper, but I was restricted because I had a contract directly with Mobile Oil Corp., so in essence, I was going to a middle man saving 20 cents a gallon when going direct to the manufacturer of the product, I paid the highest price for that produce. There is something wrong with that. I don't think that is a free-market system.

Mr. GRIJALVA. And your opinion, Mr. Fox, let me continue, the Dodd-Frank bill. Does it do enough to address the speculation concerns that you were talking about earlier in your testimony?

Mr. FOX. I think the argument out there today if we implement the Dodd-Frank bill the way it is supposed to be implemented, and that is the argument that is out there, how it is supposed to be implemented, there are some problems and issues that we see with the current proposed CFTC proposals. I think we need to strengthen them. More importantly, I think we have to need to make sure that the funding is there for the CFTC. Unfortunately, here in Washington, you get two shots at the apple. You have to fight real hard to get proper legislation passed, and once you are able to accomplish that against the K Street lobbyists, then you have to fight for the funding, so we can pass the bill in its proper form, but if we don't get the funding, we can't do the job. You can't do one without the other.

Mr. GRIJALVA. Thank you. One last one, Mr. Fox, in the first question I think you responded to part of this, but as a representative of gasoline retailers, someone who is intimately involved with the weird intricacies of the international oil market, is there something I think about this oil market that we talked about in the first question that you wish the American public understood better or knew?

Mr. FOX. I think I wish the public knew that it is not your local gasoline retailer. We are the sounding board for the consumer when they come in. I think what happens is the news and the media does a great job saying gasoline prices went up say 15 cents a gallon today, yet the local retailer may go up 20 cents, and that may be because of a state tax, which is on a percentage basis, so my wholesale costs went up 15 cents, now my credit card just increased another five cents, and on top of that, if I have a percentage-based tax in my state, I have to increase it even more, so the end cost to me is not 15 cents. The raw cost is.

By the same token, in Connecticut, when we reduced the gasoline tax, we had the highest in the nation, and I sponsored legislation to reduce that highest gas tax in the nation, the tax only went down 14 cents, yet the retail price of gasoline went down 20 cents. That is what I don't think the consumer or people in Congress or our local legislators understand very well.

Mr. GRIJALVA. Thank you very much. I yield back, Mr. Chairman.

The CHAIRMAN. All right. I thank the gentleman for yielding back. The gentleman from Colorado, Mr. Tipton?

Mr. TIPTON. Thank you, Mr. Chairman, and I would like to thank all of our panel for being here and just kind of quick comment, Mr. Fox, when you are talking about not seeing free markets, I feel the pain here when I have to pay rent in Washington, D.C. I don't see free markets here either in terms of it. I would certainly like to express especially my deep appreciation for Don Shawcroft being here out of the Colorado Farm Bureau. I am your proud representative, was just in the San Luis Valley not long ago and appreciate all of the efforts that the Farm Bureau makes on behalf of our state and the citizens of our country and what our potato crop does for generating revenues for this country as well, and thank you so much for your testimony and being here.

Mr. SHAWCROFT. Thank you. I am glad to be here.

Mr. TIPTON. Now, Don, I would like to ask you just a couple of questions here that obviously rising gas prices affect margins of companies that rely on transportation, to be able to deliver the goods as you were noticing and then any aspect of their business really. That is a cost that you are going to have. Over the past few years, we have seen an increase in regulations, particularly the farm industry is paying a huge price for this I think in terms of EPA regulations, dust particulate, whatnot that they are coming up with now, increased restriction on drivers, on capacities, rising equipment costs overall.

Would you like to comment how these things all combined, all combined, is this making businesses even more sensitive to the rising fuel costs that we are now seeing?

Mr. SHAWCROFT. Thank you, Mr. Tipton. Certainly, every cost that comes along affects your bottom line. It is even more difficult than agriculture because not only does it affect what you are actually having to pay for, but it is also affecting what happens to your product once it leaves your farm or ranch. You mentioned the transportation cost. The transportation cost involved in the agricultural product once it leaves the farm is tremendous. It is probably the largest component of what a retail market, individual consumer goes in and pays for that product.

The other issues, certainly regulatory issues are tremendous. There is a proposal right now that if we have to apply for an NPDES permit in order to spray pesticides close to bodies of water, and certainly Ms. Napolitano mentioned adequately the need for water, and Colorado water is vital. If we spray pesticides that is labeled according to FIFRA near that body of water, we may be required to apply for an NPDES permit. We are told that if we do that, that NPDES may cost as much as $23,000 for a single individual to obtain. That is a cost that is very difficult to bear.

Mr. TIPTON. And these are costs that particularly our farm and ranch communities cannot truly pass on?

Mr. SHAWCROFT. That is right. We are a price taker. When we sell our product, when we purchase products, we purchase them at full retail price just as anybody else.

Mr. TIPTON. So if I juxtapose that a little bit to the Governor's comment in regards to we are seeing trucking companies go out of business, then really with regulations that we have here in this country, are we threatening the food supply of this country simply because you aren't going to be able make it as a farmer and rancher?

Mr. SHAWCROFT. Absolutely. Not only are you threatening the food supply, but you are also threatening the fiber, the basic of a rural community.

Mr. TIPTON. Right.

Mr. SHAWCROFT. That farm, if it is next to a source of development, is very much a threat in going out of business because if you just can't make it, and it is the only source of income, or in fact if it isn't your only source of income, but you just finally say I have had it, I cannot stand the additional expense, and the simply way out, I am ready to retire, is to sell and let it be developed.

Mr. TIPTON. OK. I would kind of like to ask you a little more I guess philosophical sort of a question.

Mr. SHAWCROFT. Sure.

Mr. TIPTON. As an American, is it smarter for us to be able to buy food that is grown in this country, or should we be relying on food grown outside of our country?

Mr. SHAWCROFT. Absolutely smarter to have that product in the United States as much as we can.

Mr. TIPTON. Great, so what you are saying—

Mr. SHAWCROFT. We are a country who loves to have food, whatever we want to eat all year long, 365 days a year.

Mr. TIPTON. So would it be sensible by that extension for us to be able to develop our resources to be able to provide our fuel? We may have that global economy out there for fuel prices, but if that supply given the turmoil in the Middle East cuts off those sources coming into our country, would it be good common sense maybe to develop our resources right here in the United States?

Mr. SHAWCROFT. Absolutely. As I stated, we need to develop all sources of energy.

Mr. TIPTON. Great. And let us see. I did also have a question I think it was for Mr. Graves, and it was your comment are those fuel costs, are those passed on to the consumer, and how is that impacting prices on struggling families, moms and dads, grandmas and grandpas that are having a tough time paying their bills?

Mr. GRAVES. Well, I would say that initially small operators have a difficult time passing through fuel costs. They especially get hit hard, especially when it spikes up quickly. Again, some of the more sophisticated companies have contracts structured in such a way that they more easily pass through fuel surcharge costs. Ultimately, when things stabilize, everybody adjusts their rates accordingly, and, I mean, we are not benevolent operations. We are not recreational. We are in it for a business, and it gets passed through to consumers, and everybody pays.

Mr. TIPTON. Great. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from New Jersey, Mr. Holt.

Mr. HOLT. Thank you, Mr. Chairman. Mr. Fox, it is the local retailers that are catching the brunt of the dissatisfaction right now with the high gasoline prices, and I wanted to pursue the line that you have been talking about. Do you think that big oil companies, the production companies, feel that they are in a partnership with the retailers? In other words, do they share their good fortune their times of tens of billions of dollars in profit with the local retailers?

Mr. FOX. I think they do a tremendous job of talking the talk, and a terrible job of walking the walk of what they are saying. In fact, if you look at big oil, they are exiting the retail market. Exxon Mobile just recently sold off all of the gasoline retailers in the State of Connecticut. They made promises to them for over eight years, and every single one of those retailers just feels like they were used and abused and sold off.

Mr. HOLT. A lot of the talk over the last day or so or actually recent weeks, even here in this Committee, has suggested that it is the failure of the offshore licensing and permitting that is responsible for $3 and $4 a gallon gasoline. I would like to pursue that and understand how that could be. Governor Graves, is it true that domestic oil production is about the highest it has been in a decade and about double what it was for each of the previous four years, six, seven, eight nine?

Mr. GRAVES. Well, that is not a subject that I am expert on, but from what I understand, our production has essentially just about plateaued in that the issue becomes what are we going to do? Wells deplete over time.

Mr. HOLT. Well, let me just ask. I have here a graph. It probably doesn't show up for you or for the people looking, but in fact, U.S. domestic oil production is about the highest it has been in a decade, but even more to the point, it is about double what it was in 2005, 2006, 2007, 2008, so I think there is something going on here other than domestic oil production, and you have touched on this before, a couple of you, with regard to speculation. Now, obviously there is a place for this, for price discovery, and there is a place for hedging. Mr. Fox, do you happen to have any figures or any familiarity with the degree to which this is pure speculation or this is a matter of useful price discovery?

Mr. FOX. I spent last night reading a recent 385-page report and was amazed to find out that right on page 1 it said that prior to 2000, before deregulation came in, that about 70 percent of all of the speculation that was done in the energy markets was for bona fide hedgers, in other words people that used and utilized the product, and after deregulation, we have completed flipped that. It is now 70 percent pure speculators. If that is not factual evidence that speculation is the problem, I don't know what anyone will ever believe is.

Mr. HOLT. OK. Now, I guess I would like to ask you to repeat for the record something I think I heard you say a few minutes ago that removing the ability of the regulators, particularly the Commodity Futures Trading Commission, would do more to increase prices at the pump than anything else. Could you put it in your words what it was you said?

Mr. FOX. Yes, I think you enjoyed my comment where I said the fastest way to $6 retail gasoline prices was to not fully fund the CFTC and not impose the Dodd-Frank regulations. That is the fastest way to get to $6 gasoline.

Mr. HOLT. So you are saying that it is speculation in the financial markets, manipulation of the big companies that are having a much greater effect than whether there are leases granted offshore or permits granted for more drilling?

Mr. FOX. I think those speculators will use all those debates and arguments, I have coined a new phrase, to use fear over facts, and that is how we will get to $6 with the speculators in the market.

Mr. HOLT. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Time of the gentleman has expired. The gentleman from Florida, Mr. Southerland, is recognized.

Mr. SOUTHERLAND. Thank you, Mr. Chairman. Mr. Fox, let me ask you regarding your retailers, and I think you have been a retailer?

Mr. FOX. Yes, sir.

Mr. SHAWCROFT. As a small business owner that you have been, and obviously your association with many others, when you look at your pro forma of your small business going forward and the investment that you have, and I am not familiar with your business, I don't know if you are still in or have been in, but what is an acceptable profit margin for a retailer/distributor that you represent or that you owned?

Mr. FOX. I can tell you that the word "acceptable" certainly doesn't come into play because the consumer kind of adjusts our profit margin for us. The average is about 10 cents a gallon. The problem with that is that is a 10-cent gross margin. As gasoline prices, the retail price, continues to escalate, credit card fees take up anywhere from seven to eight cents of that, and then environmental costs eat up the rest.

Mr. SOUTHERLAND. Yes, but clearly in a retail storm, you have a business.

Mr. FOX. Right.

Mr. SOUTHERLAND. And you have revenues that come into your business?

Mr. FOX. Correct.

Mr. SOUTHERLAND. Not just through gas, but, I mean, through all kind of things. I mean, all the products on your P&L at the end of the year, what is an acceptable profit margin for the business?

Mr. FOX. We probably operate somewhere in the neighborhood of seven to nine percent total.

Mr. SOUTHERLAND. OK. And I am a small business owner, and that kind of resonates I think across specialties in our small businesses, seven to nine percent, so would you describe the profits of oil companies because I hear that all the time? Would you say those profits are in billions of dollars?

Mr. FOX. Yes.

Mr. SOUTHERLAND. OK. Well, if you think that it is acceptable to have a six-, eight-, to nine-percent profit margin for your business, then why is a similar profit margin not acceptable for all businesses?

Mr. FOX. Because the CEO of a service station doesn't get $450 million in salary, and that is perfectly relevant.

Mr. SOUTHERLAND. No, no. And that is great, but it is relative, and so if an oil company has to spend, and I am not on a board. Again, I am a small business owner, but a profit margin is a profit margin is a profit margin, and when I hear detractors and people that want to harm oil companies, they always talk about the dollar figure, the billions, the billions, the billions, but they never, ever talk about it and analyze it as a business person would in terms of a profit margin. If you have to spend $100 billion to earn a profit margin of five, but I never hear it put in those terms.

Mr. FOX. What does that have to do with the amount of money that company spends with the CEO that spends 30 hours a week on the golf course making $450 million——

Mr. SOUTHERLAND. Sir, look. I will tell you this. You are getting down in the weeds. It doesn't matter what a private company——

Mr. FOX. I guess if the expense doesn't matter by lowering the profit margin, I don't know what will.

Mr. SOUTHERLAND. What a company wants to pay, and what a Board and private stockholders want to pay a CEO is their business. You don't have to buy their oil. You don't have to buy their gas, but to demonize companies that have a six percent, seven percent, Exxon 8.8, Chevron, 9.8, BP 6.6, I think is a bit disingenuous when all of us in the small business world recognize that on a great day if we could obtain a six-, seven-, eight-percent profit margin as you claim is acceptable for your business, why are you choosing different standards? Business is business is business, and it discredits your argument.

Mr. FOX. I don't think it is does, sir, and I will explain it to you very simply. When you say if I don't like their profit margins, don't buy their gas, don't buy their oil, I don't know how I would get to work. I don't know how I would do the job that I am supposed to do, so we talk about that they operate in the free market, but they operate under a captive customer system, so again I think it is very relevant when a CEO working 90 hours makes $450 million, and that lowers that profit margin to seven percent, and a service station owner working 90 hours, makes $60,000 a year. I think that is relevant. You may not, but I do, and I guess we will just agree to disagree.

Mr. SOUTHERLAND. We will agree to disagree. The Ranking Member made a comment about imagine, and I enjoy his comments. I really do, but one thing I don't imagine, I didn't imagine last the gas prices in my neighborhood gas station increase 13 cents in one day. I didn't imagine that President Obama stated that we have to have higher gas prices as a necessary component to move America off of oil, and that is what we have. It is almost like he planned it this way, and so I thank you for being here. I thank you for facing the heat.

We will disagree, and that is OK. I think through our disagreement we can find common ground hopefully, but not at the expense of hard work and honest dealings, and success usually shows up in the form of money, not debt, and I think that applies across any business.

Mr. FOX. I will agree with your last comment there that no one should be forced off of something through higher prices. I will agree with you there.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from New Mexico, Mr. Luján.

Mr. LUJÁN. Mr. Chairman, thank you very much, and I certainly believe that suggesting, Mr. Chairman, and I haven't read anywhere that President Obama, as part of any of his agenda, said he wants higher prices at the pump for any American. I think that is just ridiculous as we talk about this notion of an economic recovery, and we need to make sure that we are doing all that we can to be able to see what we can do, and, Mr. Chairman, I think it is important that as I have——

The CHAIRMAN. Would the gentleman yield?

Mr. LUJÁN. Yes, sir.

The CHAIRMAN. I think that the gentleman from Florida was alluding to a speech that then candidate Obama made specifically in San Francisco about the cost of energy prices where he made the statement that Americans would necessarily have to have higher energy prices, and he was referring to the Cap and Trade legislation that of course only passed the House, but I think the gentleman from——

Mr. LUJÁN. Mr. Chairman, I think you for making the important distinction that the President was not referring to fuel prices at the pump. I appreciate that very much.

The CHAIRMAN. No. If the gentleman will yield, it was higher energy prices, and I think that is what the gentleman from Florida mentioned, but I appreciate the gentleman yielding.

Mr. LUJÁN. I appreciate that, Mr. Chairman, and, Governor Graves, thank you very much for being here as well, sir. In addition to your responsibilities with working with the Trucking Association, do you also have a trucking company?

Mr. GRAVES. Not any longer.

Mr. LUJÁN. I think that not any longer still allows you to answer some of these questions then, Governor. With some of the folks that are members of the Trucking Association, can you let me know on average what maybe the profits were that they made last year, the dollar amounts?

Mr. GRAVES. Well, if you get to double digits, you are one of the very, very best. I would say most of them aspire the five to six percent, but on average, I would say a lot of them are down in the two or three pennies.

Mr. LUJÁN. And what does that translate to in dollars, the largest, the strongest trucking company in America?

Mr. GRAVES. Well, I mean, again, we represent everyone from UPS and FedEx, which is in the billions, to single independent, owner/operator-type companies.

Mr. LUJÁN. Very good, so would it surprise you, Governor, that the oil and gas industry last year made $77 billion when our trucking companies who are suffering at the price at the pump got nowhere near that?

Mr. GRAVES. No, I mean, and I think just picking up on the previous conversation that took place, I mean, as a Governor, I have appreciated companies that have come into my state. My fiend, Boone Pickens, who owned the preponderance of natural gas holdings in the Hugoton Field, you spend an enormous amount of money. It is like any business venture. The investment that goes in to actually producing those products is pretty substantial, so that is a great thing about America.

Mr. LUJÁN. And, Governor, I think this is somewhere where we agree that the Gas Company Association appreciates that we could be able to get to more fuel associated with natural gas for our trucks. Is that something that there is some agreement there?

Mr. GRAVES. We are certainly interested in the development of natural gas. I met with Mr. Pickens and explained to him three things. First of all, the trucks are very expensive, about double what the current models are. There is a weight penalty carrying that additional fueling system, and there is no fueling infrastructure in this nation to support across the road trucking, but a number of our members are embracing natural gas. In fact, I think that is what the President is going to see tomorrow at his visit to the UPS facility in Maryland.

Mr. LUJÁN. Thank you, Governor, and, Ms. Harbert, you said you were in favor, and the Chamber is in favor of free markets, is that yes or no?

Ms. HARBERT. Yes.

Mr. LUJÁN. So should there be $31 billion in taxpayer subsidies to support the oil-free market?

Ms. HARBERT. Well, I think there is a prejudice right there, that there is a subsidy.

Mr. LUJÁN. Yes or no. Chairman? Just a yes or no, Ms. Harbert, because we used a little bit of my time having a little back and forth with the Chairman.

Ms. HARBERT. Well, I think we need to understand what your definition of a subsidy is a tax treatment. Does the pharmaceutical industry get a subsidy because they have any tax treatment?

Mr. LUJÁN. I guess that is a no?

Ms. HARBERT. What is your definition of a subsidy?

Mr. LUJÁN. Mr. Chairman, reclaiming my time. Ms. Harbert, maybe I will submit the question in writing, and I will see if I can get a yes or no that way. I think it is important to note that if we stop $31 billion in taxpayer subsidies over the next few years, we have seen that over the top five oil and gas companies made a trillion over the last five years. As has been pointed out time and time again through the hearing, we have heard that there is no production going up in the United States.

Under President Obama's Administration, in 2009 and 2010, according to the U.S. Energy Information Service, it is the highest in a decade. We need to talk about the reality of what is plaguing the country, and fortunately, I think that we are going to be able to get to the bottom of this, and I would hope that as we talk about policy, even if we have a disagreement on how much we should open up drilling anywhere in the United States that we would at least carefully look at what speculators are doing to impact prices at the pump.

When I go home, Mr. Chairman, a few seconds for your indulgence, people are tired of the fighting and bickering back forth, and I know you hear it as well as I do, Mr. Chairman, we all do, and there seems to be an area where at least some ideas that just because they are offered with someone whose party begins with a D and the other whose party begins with an R or the Independents around the country that these are some things that we can get to the bottom of, and, Mr. Chairman, these hearings are extremely useful when we get answers to these questions understanding we only have a few minutes to ask them rather than just trying to come up with an answer that doesn't answer the question.

I appreciate very much the time that we get a chance to visit, and I respect the Chairman very much as well, and I thank you for the time as well. Thank you, Mr. Chairman.

The CHAIRMAN. Time of the gentleman has expired. The gentleman from Arizona, Mr. Gosar?

Dr. GOSAR. Thank you. Governor, in best-case scenario, I heard the Ranking Member talk about imagine a technology. Best-case scenario probably is natural gas. What kind of timeframe are we talking about for a fundamental infrastructure, particularly for the west?

Mr. GRAVES. Well, I think they are well on their. I mean, there has been a number of companies that have embraced natural gas. I mean, we have seen it in our municipal bus fleets. There is a lot of that being deployed in the refuge industry. Anybody that is working in an around sort of a confined metro area that can establish fueling stations and runs essentially an in-and-out kind of operation. I start out dispatched in the morning to go do a mission. When I am done, I go back to my home base, and I have a fueling opportunity there.

I mean, I think, in my vision, again you would have to still build a viable business model, but some day as you take metropolitan areas like the Los Angeleses and the Phoenix and the Salt Lakes and the Denver, as those natural gas fueling stations begin to build out, eventually we will be in a position for a long-haul vehicle to leave one of those locations, travel across to the other one and be confident there is fuel available when they get there. How long will that take? I don't know. That may depend in large on the decisions that you all make about the government's support for building out that kind of infrastructure because it is going to be very expensive.

Dr. GOSAR. But wouldn't you say the West is kind of the stepchild to the East in regards to that?

Mr. GRAVES. Well, I mean, I think, again, the major parcel companies are all starting to look at natural gas for metropolitan deliveries, and it is even happening on the East Coast as we speak, so, again, everybody is watching their bottom line, but I think everybody recognizes that Mr. Pickens has done a great job of promoting, and more power to him, that it is an optional fuel for our industry in the future.

Dr. GOSAR. I agree, but it is more metropolitan, and, I mean, Arizona had one of these debacles with natural gas. I mean, it cost the state well in excess of $2 billion in incentives and wasn't probably thought out real well, and particularly with vast rural areas in rural Western America, it makes it almost cost-prohibitive and more anti-competitive, would you not say?

Mr. GRAVES. A the moment, it is cost prohibitive.

Dr. GOSAR. And wouldn't you say it is probably at least a decade away?

Mr. GRAVES. I would guess that if in my lifetime I see a deployment of a lot of natural gas commercial vehicles, that would be marvelous.

Dr. GOSAR. Wonderful. Ms. Harbert, competition is really the basis of economics, right, and once you have monopolies, we have big problems. With what we are seeing with this technology or actually lack of technology to be honest with you, and particularly out in the West, and we have lots of independent truckers, the profit margins on the independents are closer to two to three percent, so when we are talking about trying to push higher gas prices and looking at energy alternatives, we are actually predisposing a monopoly, are we not?

Ms. HARBERT. Well, I think we are also predisposing higher prices, and in today's economy, that is a big problem for small-and medium-sized businesses and American families. What we need to be doing is looking at the whole set of resources and ensuring that there are the most options on the table so the consumer has some choice, the efficiency of the market works, and we deliver maximum product to our advantage. We do also need to invest in technologies. The reason we need to invest in technologies though is not to force them into the marketplace. It is to bring down the costs so that they can more effectively compete in the marketplace, so I think we are all pro technology.

I think it is a way to actually invest in technology. The purpose is to bring down the cost over time so that we can effectively complete in the marketplace and have more options, not fewer.

Dr. GOSAR. And so I am getting to that technology incentive, so a lot of it is done through tax breaks, is it not?

Ms. HARBERT. In many a different industries I think it is.

Dr. GOSAR. Because that is the only way you are going to get people to go into those areas. I mean, I am a dentist, so we are tech savvy, and you have to have the new toy. The only difference between men and boys are the price of their toys, but——

Ms. HARBERT. But it depends. I mean, you can't subsidize anything forever. We can't afford it, so for early market makers and new emerging technologies, do they need an incentive to actually get out into the marketplace? Yes and perhaps, but do we and can we afford to subsidize those forever, and the answer is no, so we have to push those things to be more efficient and cost effective.

Dr. GOSAR. In the current environment, do you see us picking and choosing which are winners and losers in the energy industry?

Ms. HARBERT. Absolutely.

Dr. GOSAR. Thank you. I yield back the balance of time.

The CHAIRMAN. The gentleman yields back his time. The gentleman from Oregon, Mr. DeFazio?

Mr. DEFAZIO. Thank you, Mr. Chairman. Ms. Harbert, you mentioned as a factor in these very, excessively high fuel prices the very high U.S. corporate tax rate. Can you name one major energy producer who paid that statutory maximum?

Ms. HARBERT. I don't have access to all——

Mr. DEFAZIO. I don't believe there is one.

Ms. HARBERT. I don't know their tax returns, but I think it——

Mr. DEFAZIO. OK. Well, then how about let us go to Exxon Mobile. How much did they pay in U.S. taxes last year, income taxes?

Ms. HARBERT. You certainly must have——

Mr. DEFAZIO. On their record profits, how much did they pay in U.S. income taxes?

Ms. HARBERT. Sir, I don't work for Exxon Mobile, so I don't know the answer. You must have something in front of you that could help us.

Mr. DEFAZIO. OK. Well it has been in the press. I am sure you read the Journal and the Times and other things. They paid nothing. In fact, they accumulated tax carry forwards for future years' profits.

Ms. HARBERT. So I guess we are discounting the amount of money Exxon Mobile invested to bring the product to market.

Mr. DEFAZIO. No. Excuse me. Excuse me. You are making a point about the high statutory rate. Nobody but suckers pays that rate, some poor little corporation based here in the U.S. The multinationals on average pay a fraction of that. They keep their profits overseas, and Exxon Mobile paid zero income taxes in the United States last year, the year before, the year before and the year before, and they had very large profits, so please don't mention again that it is the high statutory rate that they don't pay that drives the excess prices.

Now let us go to the issue of whether or not we are operating in a free market, and I brought this up a couple of weeks ago, and the head of the U.S. Energy Information Administration, they are pretty oil friendly, he said that even if the U.S. was to significantly increase production, OPEC would decrease production because they have set price targets, which is something I have been onto for years. They set a target. Now, that violates the WTO.

I have asked the Clinton Administration to file a complaint at the WTO. They demurred. I asked the Bush Administration to file complaint at the WTO against OPEC. Three of them are members, two are observers wanting membership. They demurred. I have asked the Obama Administration. They demurred. Now, does anybody think we really have a free market here when OPEC can manipulate and set a price. I mean, they are very overt about it. Does anybody agree that perhaps we should use our trade agreements and file a complaint against their price fixing?

Mr. FOX. I don't believe we have a free market, and yes, I think you should.

Mr. DEFAZIO. OK. Anybody else? OK.

Mr. FOX. I believe my home state Senators recently introduced legislation in the Senate that would allow OPEC to be sued.

Mr. DEFAZIO. OK. Great. Well, I had a bill in the House last time. I will do it again this time, but a bipartisan problem with this issue. No one want to take on OPEC.

Ms. HARBERT. OPEC's share of the global energy supply is going down, not up. Non-OPEC supply is going up. We have an opportunity to be a growing contributor to the non-OPEC supply if we open up for exploration and production here.

Mr. DEFAZIO. OK. Thank you very much.

Ms. HARBERT. The reason we have increased production today is based on what happened in 1990.

Mr. DEFAZIO. Thank you. That is excellent. Thank you. Thank you. Ma'am, I didn't ask you a specific question. I am reclaiming my time. I asked the question of the panel. You don't believe we should take on OPEC I take, and we shouldn't file a trade complaint even though they are violating the World Trade Organization agreements? You don't believe we should file a complaint, right?

Ms. HARBERT. We will look forward to what the Obama Administration has to say.

Mr. DEFAZIO. Well, the Bush Administration, the Clinton Administration. It is bipartisan. You represent businesses. You represent the free market. How about your supporting my proposal and the proposal of the Senator from Connecticut that we sue through the WTO OPEC for price fixing and market manipulation? Yes or no? Yes or no?

Ms. HARBERT. I think that requires a lot of legal analysis. I am happy to have——

Mr. DEFAZIO. OK. OK. Ma'am, your answer is no. Now let us go to one other quick question here, and that would be, Mr. Fox, some have been saying gee, the Enron amendment doesn't really matter the fact that most of the people in the market were like you, sir, a farmer, and they might or might not take ultimate delivery, or they were hedging their production costs. Now we have massive speculation in these energy markets, incredible volatility. There is right now no shortage of oil around the world, but the price somehow is creeping over $4 a gallon. I just got to wonder what is really going on here, and one would think that perhaps it has something to do with speculation, so other than Mr. Fox, does anybody agree that we should get rid of the Enron Amendment altogether, go back to the status quo ante, which is basically you are hedging your producer? Sir, you are a farmer.

Mr. SHAWCROFT. Yes, I am.

Mr. DEFAZIO. You may use hedging yourself.

Mr. SHAWCROFT. I certainly believe that we should do all that we can to lower the price of gas and the price of diesel.

Mr. DEFAZIO. OK.

Mr. SHAWCROFT. We need to be careful about what we do and what the unintended complications are, unintended consequences are.

Mr. DEFAZIO. Right.

Mr. SHAWCROFT. Just—WTO, I certainly would support WTO and pursuing that if that is what is in the best interest for the overall picture of the country.

Mr. DEFAZIO. Great. OK. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from California, Mr. Denham.

Mr. DENHAM. Thank you, Mr. Chairman. I also wanted to quote another small piece out of the press. San Francisco Gate, deal with it. We will need oil and gas for decades, and one of the paragraphs it says, "Obama also says the industry is getting big bucks and subsidies each year. Not true. Like any business, oil and gas companies qualify for tax deductions, but they are far less generous than those enjoyed by the majority of energy companies. True, oil and gas companies receive Federal energy R&D funding, but on average, electric technologies and renewables like wind and solar receive more than 22 times as much funding. Ethanol and biofuels are subsidized at a level 190 times that of oil and natural gas."

To get back to a point that the Ranking Member made, I agree in balance, too. We need wind and solar. We have that in the Central Valley of California, but we also have hydro and biomass. Would each of you not agree that is an important part of our energy portfolio and should also be considered as green energy?

Mr. FOX. I agree we have to look at everything, but the problem that you have is everybody is just saying OK, if one industry gets billion dollars, we should get a billion dollars and another billion dollars and another billion dollars, and the problem with that is——

Mr. DENHAM. But I am not saying anything about subsidies. As part of our green portfolio, hydro and biomass, two green facilities in my area, do you agree that should be considered as part of our overall portfolio?

Mr. FOX. Yes, sir, anything that increases competition.

Mr. DENHAM. Thank you. Do you also agree?

Mr. SHAWCROFT. Absolutely. We need to pursue anything that is in fact renewable. Hydro is one of the best renewable sources we have.

Mr. DENHAM. Thank you. Renewable energy but not considered as part of the green energy.

Mr. SHAWCROFT. I understand that.

Ms. HARBERT. We have broad differences across our country, and so we need to recognize the broadest definition possible that recognizes the Southeast is not like the Northwest.

Mr. DEFAZIO. Thank you.

Mr. GRAVES. Yes.

Mr. DEFAZIO. Thank you. I appreciate the quick answers since we are short on time. The main part of my questions here today are on job losses that we see not only throughout Central Valley but throughout the nation. I represent an area that has some of the highest unemployment in the entire nation. We are at about 20 percent, a lot of that due to environmental regulations that shuts off our water and closes down our farms, but I am a farmer, and I am one of the fortunate ones that not only has water, but I have a permanent crop.

I grow almonds, and I have the opportunity to hold my crop in a warehouse and not ship it until the prices come up, but some of my friends that have been forced to pull out all of their trees, if they are fortunate enough to get the water allocation that they are under contract for, they plant a row crop. With the high cost of gas right now, they are now looking at can I afford to put a row crop in, or do I just let the ground go fallow, which again, when you have 20 percent unemployment, will continue to drive up that unemployment rate.

Just a quick response from Mr. Shawcroft. What type of job loss do you expect to see nationally from farm economy just due to the gas price whether it is at $4 and if it escalates to $5, how many more farmers will just not plant or plant, but then not harvest because of the increase in cost?

Mr. SHAWCROFT. I really can't give you a figure. It really depends on the individual situation. For us, ourselves, you have something that is permanent. Cattle, you can't just get and out of the cattle business instantly. You have an investment in that genetics. You have an investment in what you have been able to put together. It is very difficult to jump in and out. It would have to be a decision based on individual situations. I understand that California in particular is facing a real challenge as far as this fuel cost, planting cost. They are looking at can I even afford to plant the crop, or should I just give it up for the year?

Mr. DENHAM. Yes, and, Mr. Shawcroft, if you could provide us back any numbers that the Farm Bureau has on loss of crops or revenue or jobs, most importantly jobs, with the escalation of gas prices, that would be helpful.

Mr. SHAWCROFT. I would be glad to do that.

Mr. DENHAM. All right. And as well for the Trucking Association, Mr. Graves. All of those crops that aren't going to be planed, they are obviously not going to be shipped, and even in my case, I am going to hold everything in the warehouse because I can't afford to ship it right now. How many jobs do you think we lost through our farm economy just not shipping during this time of high gas prices?

Mr. GRAVES. Well, I am not going to have a very good answer that one. I mean, we simply know that we are all struggling to pull ourselves out of the economic doldrums, and to whatever extent fuel prices put the breaks on that, it is bad for everyone in all segments of U.S. business.

Mr. DENHAM. Thank you, and I do the family shopping when I am at home, and I had the same question for the Chamber. I know all of our Ag prices are going to go up, all of our Ag commodities, everything that goes through the grocery stores as well as many other products. Will the Chamber have any numbers on what we expect to see the job loss due to the high escalation in gas prices at $4 and especially if it gets up to $5 this summer on the job loss associated with that?

Ms. HARBERT. Well, we certainly know what it does to disposable income and the reduction there and the contraction, and people will not be spending on things that will require transportation, more planting, et cetera, so it reverberates through the entire supply chain, and that is really hard in the very short term to put numbers on it, but we will certainly do our best.

Mr. DENHAM. Thank you. I mean, this is one more impact that is going to hit the Central Valley really hard. We are going to see a much greater job loss here than the rest of the Nation and you guys getting back to us on the job loss that we expect nationwide would be very helpful. Thank you.

The CHAIRMAN. The time of the gentleman has expired. The gentleman from Michigan, Mr. Kildee?

Mr. KILDEE. Thank you, Mr. Chairman. Governor Graves, Mr. Fox has said earlier that excessive speculation is significantly driving up prices for consumers. Do you agree that speculation is increasing energy prices?

Mr. GRAVES. Yes, I do.

Mr. KILDEE. Governor Graves, would you agree with Mr. Fox that cutting funding for the CFTC to promulgate and enforce new regulations to rein in speculation could lead to higher prices?

Mr. GRAVES. I would oppose cutting the funding, yes.

Mr. KILDEE. Thank you. I appreciate your brief and succinct answers. Thank you. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. I think the gentleman for yielding back his time. The gentleman from California, Mr. McClintock is recognized.

Mr. MCCLINTOCK. Thank you, Mr. Chairman. Much has been made by our friends on the other side that oil production is higher now than it has been in a decade. I think it needs to be pointed out that there is an enormous lead time from lease to development to production, which means that higher production today is a result of decisions that were made years and years ago. It is not a reflection of current policy. The current policy of this Administration has been highly restrictive, and there is concern that is quite deliberate. We have had a little bit of discussion about that today.

Mr. Chairman, I would ask for permission to enter into the record an exchange between CNBC's John Harwood and Senator Barack Obama in June of 2008. Harwood asks him, "So, could the high oil prices help us?" His response is, "Well, I think I would have preferred a gradual adjustment," so it is becoming of great concern that the restrictive policies of the Administration are specifically designed to gradually increase the price of oil and gasoline in this country.

The CHAIRMAN. Without objection, that will appear in the record.

Mr. MCCLINTOCK. Thank you. We have been talking a lot about opening up the Strategic Petroleum Reserve. Isn't the real Strategic Petroleum Reserve of the United States the vast, vast petroleum resources that we have locked without our own borders? Should we be releasing that reserve? I ask each of you that question.

Mr. SHAWCROFT. I would certainly support that.

Mr. FOX. I would support that.

Mr. GRAVES. Yes.

Ms. HARBERT. No.

Mr. MCCLINTOCK. No, you would not? You don't think we should be developing our vast petroleum reserves?

Ms. HARBERT. I am sorry. I thought you said release the Strategic Petroleum Reserve. I misunderstood you. No, we should——

Mr. MCCLINTOCK. I am thinking of the real petroleum reserve of this country.

Ms. HARBERT. Real. I am sorry. Absolutely——

Mr. MCCLINTOCK. Shale oil reserves that are three times the proven reserves in Saudi Arabia, for example.

Ms. HARBERT. I recant what I said, and I fully support the development of domestic resources.

Mr. MCCLINTOCK. Well, let me go on and ask you another question, Ms. Harwood. The Administration contends that the vast acreage that has been leased already is sitting idle. You touched upon this in your remarks, but I would like you to elaborate on it. The implication is that we don't need to lease new lands for oil exploration and production because the oil companies are currently lackadaisically sitting on enormous acreage of leased land they are not even using.

Ms. HARBERT. I think it is important to get some facts on the table. That is inaccurate because a lease by this Administration is considered idle if it is going through the government-required reviews and environmental studies, which we all want to see done. It is not considered active until the molecules come out of the ground, so all of the money and all of the studies and all of the environmental reviews are considered part of the ancillary activities. Therefore, they are considered idle.

On the contrary, actually of all of the acreage that we have, which came off of moratorium in 2008, only 3 percent has been leased offshore. A scant amount of our acreage has actually been leased. We have a tremendous opportunity if we can get those leases put out for least, put out for the industry to actually invest in and create those jobs here at home, so we have to get some facts on the record. Nobody is sitting on leases. They are doing the required permitting process to actually——

Mr. DENHAM. So the only reason those leases are considered inactive by the government is because of government-imposed restrictions and requirements that are holding up the development of those lands?

Ms. HARBERT. They are going through the government-required permitting process.

Mr. DENHAM. One thing that I do agree with my friends on the other side about is subsidies. I don't think we ought to be subsidizing any form of energy production whether it is nuclear, oil, wind or solar. Governor Graves spoke of government mandates to force conservation and taxpayer subsidies for mandates like natural gas vehicles. Don't American consumers deserve accurate price signals so that they can make rational decisions about what fuels to use and what equipment to buy?

I mean, prices convey a wealth of data, everything from the political situation in the Middle East to piracy in Somalia to steel prices, shipping costs, substitute fuel costs, bribery rates in Venezuela, American drilling moratoriums. All of these and infinitely more data go into the price signals. They make it possible for consumers to make rational decisions. Why would we want to distort those price signals and deny consumers the ability to make rational decisions in the marketplace?

Ms. HARBERT. I think we all agree that a free market certainly works the best, and a transparent market works the best. I think we have to be clear about what we are talking about in subsidies. One man's subsidy is another man's tax treatment. Depreciation is treated in the oil and gas industry differently than it is treated in a different industry, and so if we are going to single out an industry and all of a sudden change their tax treatment that every other element of our private sector enjoys, then we are doing that.

We are singling out and penalizing, so we need to be careful out singling out industries and changing the rules of the game. Depreciation is depreciation is depreciation. It is different per industry, but it shouldn't be changed across the board.

Mr. DENHAM. I see my time has expired.

The CHAIRMAN. The time of the gentleman has expired. The gentlelady from Ohio, Ms. Sutton.

Ms. SUTTON. Thank you, Mr. Chairman. This first question is for Mr. Fox. Mr. Fox, Exxon paid zero in income taxes last year. As a small business owner, did you pay income taxes last year?

Mr. FOX. Yes, ma'am.

Ms. SUTTON. I thought so. Did you receive any subsidies, billions of dollars of subsidies?

Mr. FOX. No, ma'am.

Ms. SUTTON. OK. I just heard the comment one man's subsidy is another man's, I think, tax treatment, and so we see what the tax treatment that you as a small business owner are getting in contrast to what Exxon has been able to accomplish for themselves with those helping them do their bidding. I would just to like to say about the evidence. We are here and we are hearing the claims that opening up new, more publicly owned lands, both onshore and offshore to conventional energy production will lower energy prices, but the evidence doesn't seem to support that conclusion.

We have heard a lot about 2010 domestic natural gas production reached an all-time high, and domestic oil production reached its highest levels in nearly a decade. We know there are a lot of lands that are available for drilling. There are millions of acres of lands already leased, but not being drilled, and even as oil prices surge, which we have heard a lot here today, the Federal government continues to provide billions of dollars in subsidies to the well-established and well-healed oil industry.

It is clear that these subsidies and what we are doing now, coupled with the increased production has failed to insulate the American consumer from energy price fluctuations. We cannot continue to subject American families to the outrageous and inexplicable increase in prices at the pump, so the question is, a number of you mentioned energy independence and the freedom from prices by expanded drilling, but what about Canada?

Canada produces 3.3 million barrels a day and consumes almost 2.2 million barrels a day. Canada is a big net exporter sending a lot of fuel, for example, into U.S. gas tanks, but prices at Canadian pumps have tracked with ours since 2007, and both nations have been pulled up and down and up again by roller coaster gas prices. Canada, with its fast resources and small population can't drill its way out of price runups, so why should the American people believe when you say that they should expect a different outcome in this nation, and if we could just be very brief in our answers, and, Mr. Fox, I will let you sit this one out.

Mr. FOX. Thank you.

Mr. GRAVES. Well, I said earlier that I don't think I am here today seeking cheap fuel. I am here seeking a dependable supply of diesel fuel for the foreseeable future, and the thing for our industry specifically that is really disruptive is the price spikes, and what I think we are fearful of is that if we start sending signals as a government that we are going to start to move away from a willingness to develop domestic oil, that is only going to further drive prices up which in turn we pass through to consumers and make quality of life here much more unaffordable.

Ms. SUTTON. I thank the gentleman for your answer. Of course, as the facts show though, we haven't shied away from domestic production because we have seen the increase in the past year as just articulated, but I appreciate your response. If I could just move on because the time is so limited, and this is very simple because this is a yes or no question. If we were to open up new and more and what in some cases appear to be environmentally sensitive areas to additional and new drilling, is it your opinion that the

American people should believe that OPEC can't and won't counter the impacts of new supply through production adjustments?

Ms. HARBERT. I am not here representing OPEC and won't speak for them. What I will say——

Ms. SUTTON. I asked for your opinion. That is all.

Ms. HARBERT. The world price for oil is set on the global market and that we will certainly have a positive contribution to make by amplifying our supply contribution to that, and we will be able to import less. Therefore, we will be spending less money overseas. We spent $265 billion last year on importing oil. We would like to see more of that money actually invested here to create jobs here.

Ms. SUTTON. Would anybody like to answer?

Ms. HARBERT. I mean, that would be an inoculation, I think it would be——

Ms. SUTTON. I thank you. I thank you, but would anybody like to answer the question that I asked?

Mr. SHAWCROFT. My response would be supply as well as the price of oil is determined by many factors. We need to apply all that we can. We need to bring all sources of energy to the table. Whether OPEC is going to change that or not, that is certainly their decision. What we do in this country does in fact impact the prices that we pay at the pump.

Ms. SUTTON. So it is really important that we be diverse in our approach to energy?

Mr. SHAWCROFT. On both sides of the scale, ma'am.

Ms. SUTTON. Thank you, sir. Would you like to add?

Mr. FOX. My opinion is OPEC will do whatever it needs to do to keep price ranges in the target that they want it in.

Ms. SUTTON. I thank you.

The CHAIRMAN. I thank the gentlelady. The gentleman from Pennsylvania, Mr. Thompson is recognized.

Mr. THOMPSON. Thank you, Chairman. We have heard a lot of discussion this afternoon, and some of it I think was confusing subsidies with treatment of the tax code, and I will be the first to suggest that our tax code in this country is broken. Hopefully, we can do something about that, but that said, I also just want to point out in terms of what does make a difference in gasoline prices from figures, in May of 2008, gasoline prices at the pump was over $4 a gallon, and the Presidential moratoria was lifted in June of 2008 followed by, and I wasn't here at the time, but my comment isn't about time, Congressional moratoria was removed for October 1, 2008.

You know the price at the pump was $1.75, so don't tell me that the policies that we do here in Washington don't have an immediately effect on gas prices. My first question is we created the Department of Energy a long time ago, and among all the purposes, I assume that part of the purpose is to make sure that we have reliable and affordable energy for this country, something to do with energy security as well. Very important.

Very quickly, and then my second question we will have lots of time to talk about, but given that fact, what letter grade would you give the Federal government policy for providing affordable and reliable energy since that time? How well have we done? What letter grade would you put? A through F. Governor, do you want to start?

Mr. GRAVES. I would probably pick somewhere around C to C-.

Ms. HARBERT. For today's energy, D. For tomorrow's potential energy, they have ranked very high in spending a lot of money on that.

Mr. THOMPSON. OK.

Mr. SHAWCROFT. Overall, I would go in with C-, maybe even down to D.

Mr. FOX. F.

Mr. THOMPSON. All right. Very good. Here is the opportunity for you to give a little more of a comment, just quickly, you all bring expertise to the table in this issue in terms of how energy affects our business or families. What is your top priority that you would include in a national energy plan that would really accomplish the mission of providing affordable and reliable energy to both our families and our businesses, your top item. We will start with Mr. Fox and go that direction.

Mr. FOX. I think we have to develop a comprehensive energy plan that we don't talk about during an election cycle that we actually do and we actually mean. We have to start walking the walk and get rid of the political talk we talk. That is the most important thing we do. We have been here today for a couple of hours, and all we keep doing is talking about the other side and the other side and the other side. Get rid of the other side. Get rid of the word Republican, Democrat and start talking about the issues. It is the only thing the American consumer and the people care about.

Mr. THOMPSON. So something credible that would actually be implemented?

Mr. FOX. Yes, sir.

Mr. THOMPSON. OK.

Mr. SHAWCROFT. First off, I would say pursue all sources of energy, and the second thing, and particular to that, would be to eliminate what speculation you can eliminate and certainly eliminate as much regulation as you possibly can. Let people go out and get it.

Mr. THOMPSON. OK. Thank you.

Ms. HARBERT. There is a reason why the American private sector is sitting on a bunch of capital. It is not because they want to put it under their bed sheets. It is because of the regulatory uncertainty and the problems in getting permitting to actually put their capital to work, so we need permit streamlining, we need regulatory certainty so we can get some energy generation, transmission, distribution and new production online.

Mr. THOMPSON. OK.

Mr. GRAVES. I would say it is the concern that I would like to see more discussion about the transition from essentially a petroleum-driven economy to an alternatively fueled economy. I think we all know we are going that way, but again, my industry doesn't see that we are going to be there anytime soon, and in the near term, we need diesel fuel to run trucks.

Mr. THOMPSON. Right. My next question, there is a difference between subsidizing something, which I see as pushing into the commercialization prematurely because if you take the government rug away, and there are many examples of that today, solar and wind is a part of that, if you pull that subsidy rug away it collapses and research and development, which is extremely important because we should always be looking for the future. Is that something that you agree with? What are your thoughts in terms of are we over-subsidizing versus really we should be focusing our assets on research and development versus prematurely commercializing?

Mr. FOX. I think subsidizing research and development is very important, but when we subsidize innovation, I think we have to put the checks and balances in place to make sure we are not subsidizing failure, but we incentivize success.

Mr. THOMPSON. OK.

Mr. SHAWCROFT. I certainly agree with that. Subsidies can play a definite, necessary role in the research and development in certain industries.

Ms. HARBERT. We should be investing in research and development, but in the area of subsidies, we need to be looking at ways that actually lessen the burden on the taxpayer, that are more deficit-neutral like providing perhaps concessionery financing that would be paid by the developer rather than actually relying on straight-up subsidies that are paid for by the taxpayer. There are lots of opportunities to do that. It does not need to be just straight tax credits and tax subsidies, much more market-friendly, deficit-neutral ways to do it.

Mr. TIPTON. OK. Thank you, Chairman.

The CHAIRMAN. The time of the gentleman has expired. Our last questioner is a gentleman from Louisiana, Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chairman. Ms. Harbert, do you know how much taxes Petrobras pays?

Ms. HARBERT. I do not. I do not.

Mr. LANDRY. Mr. Fox?

Mr. FOX. I don't.

Mr. LANDRY. No? OK. I don't know why we pick on our U.S. companies. Let me ask you also, Mr. Fox, do you know where the profits of Petrobras are?

Mr. FOX. No, sir.

Mr. LANDRY. How about the profits of Saudi, Amoco, any at OPEC?

Mr. FOX. No, sir.

Mr. LANDRY. No? But you got not problems with them making profits?

Mr. FOX. I wouldn't say I don't. I have a problem with the method in which they obtain those profits through non-traditional, free-market methods.

Mr. LANDRY. What would you say to those members of OPEC who fly around in those big jets and come party in the United States and all that. I mean, do you think that is just terrible of them?

Mr. FOX. I don't think anybody flying around in a jet that hasn't earned is wrong. I just think when you can't treat OPEC like you can treat any other business in the world when they operate through a cartel. You would never let me as a gasoline retailer get together with all my retailers in the United States and fix the retail price of gasoline. You would pass legislation to prevent that.

Mr. LANDRY. So you think Exxon colludes with OPEC?

Mr. FOX. No, sir, I didn't say that.

Mr. LANDRY. Well, but you had a problem with the profits, and you had a problem with the salaries of Exxon officials and oil and gas officials, but you don't have a problem with OPEC's profits? I am just trying to make sure we level the playing field here.

Mr. FOX. I absolutely agree on leveling the playing field. I have a problem when you make a comparison that Exxon Mobile's profits are about seven to eight percent, and you say a gasoline retailer's profits are seven or eight percent, and you compare those two and saying I am complaining about it. What I am complaining about is how you got down to that seven or eight percent was to pay the CEO $450 million for doing a 90-hour job, and the service station retailers gets paid $60,000 for doing it, and the CEO has a private jet and flies that Sheik from OPEC here.

Mr. LANDRY. Isn't that what America is all about, about that American dream, about that kid that might not have it real good who maybe grows up in a poor family and works his way all the way to the top, and shouldn't he be able to make as much money as he possibly can and work as less hours as he can if he is that smart and that good? I mean, should we destroy the American dream to put your equation into play here? I mean, I don't know? I mean, just answer yes or no?

Mr. FOX. I can't.

Mr. LANDRY. OK.

Mr. FOX. He is not that smart. He is not that good.

Mr. LANDRY. Really? OK. Well, are you a member of PMAA?

Mr. FOX. No, sir.

Mr. LANDRY. NACS?

Mr. FOX. No, sir.

Mr. LANDRY. OK. See, I did business with gasoline retailers for a long, long time. Now, isn't it true that when prices rise, it puts a pinch on you all?

Mr. FOX. Yes, sir.

Mr. LANDRY. OK. Isn't it true though that when prices fall, you make a lot more money?

Mr. FOX. I would say to you when prices are low, we make a reasonable profit margin, and when prices escalate, we get screwed.

Mr. LANDRY. Well, but is it when prices are lower, or is when the prices are falling that you make your biggest profit margin?

Mr. FOX. No, sir, I disagree. In today's market, I disagree with you.

Mr. LANDRY. I disagree with you. That is not from my experience, and look. I want you to know, I have no problem with you making a profit.

Mr. FOX. I am just saying to you in today's market——

Mr. LANDRY. I have no problem. I would like you to make 10, 15, 20 percent.

Mr. FOX. I think your statement five to 10 years ago was correct on falling prices. I think your statement today is wrong.

Mr. LANDRY. Now let me ask you a question. What would an all-electric automobile market do to your industry?

Mr. FOX. Destroy it.

Mr. LANDRY. OK. Could you tell me that again what an all electric car market would do what to your business?

Mr. FOX. Destroy it. I am a fossil fuel seller.

Mr. LANDRY. All right.

Mr. FOX. It doesn't mean I wouldn't support an electric vehicle as long as I could provide the electric service.

Mr. LANDRY. Gasoline to it, right? That is right. If you could provide the gasoline, you don't care about whether it is electric or not.

Mr. FOX. If I could provide the alternative fuels that are being developed today in a free and open market, I am all for it.

Mr. LANDRY. Right. That is right.

Mr. FOX. But when you restrict me from doing that because you pass legislation to do that, I have a problem with it.

Mr. LANDRY. Well, let me just get the one last question, and you all can pick who answers. We have heard from the Administration and from across the aisle that increasing domestic production will not help our gas prices in the short term, but in what term will alternative energy proposals begin to affect gas prices? Is it a short term, long term? Can we do an alternative project right now that is going to just make the price of gas just start falling?

Mr. SHAWCROFT. Anything that we do, alternative or not, is going to have a time lag.

Mr. LANDRY. Thank you. But I am just curious.

Mr. SHAWCROFT. Anything.

Ms. HARBERT. All alternatives today are more expensive than the resources we have available that are conventional, so that is a fact.

Mr. LANDRY. Right. The demand should increase—increasing the demand. Real quick. I am about to run to out of time.

Mr. SHAWCROFT. The obvious flip-side of that question is we need to start developing it now, or you won't have it in the future.

Mr. LANDRY. Right. Real quick. I am about to run out of time. Does increasing supply in the market, would that have an effect short-term? Would it be quicker to increase supply than it would be to go to an alternative energy? Would that have a quicker impact on gas prices?

Mr. SHAWCROFT. Yes. I believe so, yes.

Mr. LANDRY. Yes? OK.

Ms. HARBERT. Market responds to signals like that.

The CHAIRMAN. The time of the gentleman has expired. I want to thank the panel very, very much for your testimony. As you can see by the give and take from all the Members, this is an issue that we are hearing from from our constituents, and it is an issue that frankly I believe needs to be resolve, and I think it needs to be resolved in a bi-partisan way. I certainly agree with the sentiments that all of you have said, but sometimes other issues get in the way. That is the nature of living in a free society, and I don't think any of us would trade that however, so we will have to work our way through that.

I hope, as I mentioned in my opening statements that whatever action we take is not going to be a constant reaction to $5 gasoline, which would probably be a short-term fix. We need a long-term fix, and that is why I mentioned, and others have mentioned, and you have all alluded to, we need an all-of-the-above energy plan, and I have been talking about that for some time, but we certainly can't ignore the abundance of the resources that we have within our country right now.

If we utilize those resources, from this Member's point of view, we will send a very, very strong signal to the energy market that the United States is serious about becoming less dependent on foreign energy sources, and I think that is good for the American consumer, so thank you all for being here, and without objection, the Committee will stand adjourned.

[Whereupon, at 1:35 p.m., the Committee was adjourned.]

[Additional material submitted for the record follows:]

[The prepared statement of Mr. Duncan follows:]

Statement of The Honorable John J. Duncan, Jr., a Representative in Congress from the State of Tennessee

In my absence, I submit this statement to the House Committee on Natural Resources:

Similar to my colleagues on the Committee, I am concerned about the rising gas prices that we continue to see in this country. This is an issue that affects almost everyone in our nation directly and affects the rest of our citizens indirectly. Prices will continue to rise as long as this de facto moratorium continues as "law of the land". I am extremely disappointed in this Administration and their unwillingness to produce energy in this country. President Obama has recently visited Brazil and has congratulated them on their efforts of off-shore drilling practices. This "there not here" approach is out of touch and absolutely ridiculous. Frankly, I want to know "why not here?" and "why not now?" As a former small business owner, I know that if I had the ability to do a job myself, it would be more efficient and would also save my company money. Wake up, Mr. President! We have the ability to produce and explore energy here in the United States through off-shore and deepwater drilling, as well as our resources in ANWR. Let's drill here and drill now. This will be more efficient, will produce American jobs, and will save our nation tremendous amount of money.

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