H.R. 702, LEGISLATION TO PROHIBIT RESTRICTIONS ON THE EXPORT OF CRUDE OIL

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND POWER

OF THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

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SUBMITTED MATERIAL

H.R. 702, LEGISLATION TO PROHIBIT RESTRICTIONS ON THE EXPORT OF CRUDE OIL

THURSDAY, JULY 9, 2015

House of Representatives,
Subcommittee on Energy and Power,
Committee on Energy and Commerce,
Washington, DC.

The subcommittee met, pursuant to call, at 10:02 a.m., in room 2123 of the Rayburn House Office Building, Hon. Ed Whitfield (chairman of the subcommittee) presiding.

Members present: Representatives Whitfield, Olson, Barton, Shimkus, Pitts, Latta, Harper, McKinley, Pompeo, Kinzinger, Griffith, Johnson, Long, Ellmers, Flores, Mullin, Hudson, Upton (ex officio), Rush, McNerney, Tonko, Engel, Green, Doyle, Castor, Sarbanes, Welch, Loebsack, and Pallone (ex officio).

Also present: Representative Cramer.

Staff present: Nick Abraham, Legislative Associate, Energy and Power; Will Batson, Legislative Clerk; Leighton Brown, Press Assistant; Allison Busbee, Policy Coordinator, Energy and Power; Tom Hassenboehler, Chief Counsel, Energy and Power; A. T. Johnston, Senior Policy Advisor; Brandon Mooney, Professional Staff Member, Energy and Power; Dan Schneider, Press Secretary; Christine Brennan, Democratic Press Secretary; Jeff Carroll, Democratic Staff Director; Michael Goo, Chief Counsel, Energy and Environment; Caitlin Haberman, Democratic Professional Staff Member; Rick Kessler, Democratic Senior Advisor and Staff Director, Energy and Environment; John Marshall, Democratic Policy Coordinator; and Alexander Ratner, Democratic Policy Analyst.

Mr. Whitfield. I would like to call the hearing to order this morning, and today's hearing is on H.R. 702, Legislation to Prohibit Restrictions on the Export of Crude Oil.

[H.R. 702 follows:]

I

114TH CONGRESS
1ST SESSION

H. R. 702

To adapt to changing crude oil market conditions.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 4, 2015

Mr. BARTON (for himself, Mr. CONAWAY, Mr. WILSON of South Carolina, Mr. CHABOT, Mr. BRIDENSTINE, Mr. FRANKS of Arizona, Mrs. BLACKBURN, Mr. SALMON, Mr. PITTENGER, Mr. FLORES, Mr. NEUGEBAUER, Mr. CARTER of Texas, Mr. CRAMER, and Mr. PEARCE) introduced the following bill; which was referred to the Committee on Energy and Commerce, and in addition to the Committee on Foreign Affairs, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To adapt to changing crude oil market conditions.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. FINDINGS.

The Congress finds that—

(1) the United States has enjoyed a renaissance in energy production, establishing the United States as the world's leading oil producer;

(2) the United States upholds a commitment to free trade and open markets and has consistently opposed attempts by other nations to restrict the free flow of energy; and

(3) the United States should remove all restrictions on the export of crude oil, which will provide domestic economic benefits, enhanced energy security, and flexibility in foreign diplomacy.

SEC. 2. REPEAL.

Section 103 of the Energy Policy and Conservation Act (42 U.S.C. 6212) and the item relating thereto in the table of contents of that Act are repealed.

SEC. 3. NATIONAL POLICY ON OIL EXPORT RESTRICTION.

Notwithstanding any other provision of law, to promote the efficient exploration, production, storage, supply, marketing, pricing, and regulation of energy resources, including fossil fuels, no official of the Federal Government shall impose or enforce any restriction on the export of crude oil.

SEC. 4. STUDY AND RECOMMENDATIONS.

Not later than 120 days after the date of enactment of this Act, the Secretary of Energy shall conduct a study and transmit to the Committee on Energy and Commerce of the House of Representatives and the Committee on Energy and Natural Resources of the Senate recommendations on the appropriate size, composition, and purpose of the Strategic Petroleum Reserve.

○

OPENING STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF KENTUCKY

Mr. WHITFIELD. We have one panel of witnesses this morning, and I will introduce each of you individually right before you give your opening statement. But we are very excited about this panel of witnesses because they have a great deal of expertise and can give us some insights into the positive and any negative impacts that might occur if we lift the restrictions on export of crude oil. And I would like to recognize myself for 5 minutes for an opening statement.

I want to thank, first of all, Congressman Joe Barton of Texas, Chairman Emeritus of this committee, for introducing this bill. He has bipartisan support on this bill, and it certainly raises an issue that there is more and more discussion about it around the country and around the world.

Americans believe in free trade, and our Nation has greatly benefited from policies that allow us to export our products around the world. Everyone from farmers to automakers enjoy the advantages of a global economic and customer base. However, oil does remain basically an exception to the rule. 1970s-era restrictions still prohibit most exports of American crude.

But as we all know, the reasons for these restrictions are certainly different than they were in the '70s. Most significantly, we have gone from a Nation with dwindling petroleum output to the world's number one producer of liquid hydrocarbons. In fact, American production growth has been so robust that the domestic supply of oil is now outstripping demand. This is especially true for the lighter grades of crude not suitable for most domestic refiners but still very much in demand around the world. Allowing American companies to serve this global market would provide substantial economic as well as geopolitical benefits, and that is what H.R. 702 seeks to remedy.

There has been tremendous job growth associated with increased oil and gas production over the last decade, and it should be noted that this includes many jobs far away from the Nation's oil fields, such as those manufacturing the equipment used by these energy companies. Unfortunately, we have seen the loss of thousands of direct and indirect oil jobs over the past year as supplies have exceeded demand and prices have dropped. New production is being cut back, not because of a shortage of places to drill but because of a shortage of customers.

Lifting the export restrictions and allowing the market for American oil to extend beyond our own borders could create nearly a million additional jobs, according to an estimate from a lot of different groups. Put another way, these are jobs that would already exist today if the export ban was not in place.

The pro-exports consensus is a broad one, including groups across the political spectrum, from the Brookings Institute to the Bipartisan Policy Center to the Heritage Foundation. It also includes numerous high-ranking Obama and Clinton Administration officials as well as many who served under both Bush Administrations.

Of course, one of the concerns that we always hear about is we want to be sure to keep gasoline as affordable as possible, and would this have an impact on gasoline prices? I think most people would agree that this would certainly not cause gasoline prices to increase, but that is an area that when we get into questions, I am sure we will be asking some of our witnesses about. I might also say that the Energy Information Administration, Government Accountability Office, and the Congressional Budget Office predict that oil exports would actually help lower the prices at the pump, just one more benefit of oil exports.

So we look forward to a great hearing this morning. Many members are open to the discussion, have not made any kind of decision about this, but as I have said in the beginning, there is more and more discussion about this issue around the country, and we do look forward to the testimony of our so-called experts this morning.

[The prepared statement of Mr. Whitfield follows:]

PREPARED STATEMENT OF HON. ED WHITFIELD

This morning, we will be discussing H.R. 702, a bipartisan bill introduced by Joe Barton that would lift the restrictions on the export of oil produced in the U.S.

Americans believe in free trade, and we as a nation have greatly benefitted from policies that allow us to export our products around the world. Everyone from farmers to automakers enjoys the advantages of a global customer base. However, oil remains an exception to the rule. 1970s-era restrictions still prohibit most exports of American crude.

But as we all know, the reasons for these restrictions are no longer true. Most significantly, we have gone from a nation with dwindling petroleum output to the world's number one producer of liquid hydrocarbons. In fact, American production growth has been so robust that the domestic supply of oil is now outstripping demand. This is especially true for the lighter grades of crude not suitable for most domestic refiners but very much in demand around the world. Allowing American companies to serve this global market would provide substantial economic as well as geopolitical benefits, and that is what H.R. 702 seeks to unleash.

There has been tremendous job growth associated with increased oil and gas production over the last decade, and it should be noted that this includes many jobs far away from the nation's oil fields, such as those manufacturing the equipment used by energy companies. Unfortunately, we have seen the loss of thousands of direct and indirect oil jobs over the past year as supplies have exceeded demand and prices have dropped. New production is being cut back, not because of a shortage of places to drill, but because of a shortage of customers.

Lifting the export restrictions and allowing the market for American oil to extend beyond our own borders could create nearly a million additional jobs, according to an estimate from IHS. Put another way, these are jobs that would already exist today if the export ban was not in place.

The pro-exports consensus is a broad one, including groups across the political spectrum, from the Brookings Institution to the Bipartisan Policy Center to the Heritage Foundation. It also includes numerous high ranking Obama and Clinton Administration officials as well as many who served under both Bush Administrations.

Of course, we are always concerned about keeping gasoline as affordable as possible, and some critics of oil exports have raised fears of price spikes. However, reports from the Energy Information Administration, Government Accountability Office, Congressional Budget Office and others predict that oil exports would help lower the price at the pump—just one more benefit of oil exports.

The economic arguments alone make oil exports worth pursuing, but as with LNG exports the foreign policy benefits are also very important. Our allies around the world have made clear that they would rather get their oil from America than from unfriendly and unreliable suppliers. Every barrel of U.S. oil on the world market is one less barrel that can be sold by oil-rich states like Russia and OPEC members. And to the extent we would be supplanting their oil exports, we would also be supplanting their influence.

Oil exports have the potential to be a jobs success story and a foreign policy success story, and H.R. 702 comes at a time when we can use a whole lot more of both.

Mr. WHITFIELD. With that, I would like to recognize the gentleman from Illinois, Mr. Rush for a 5 minute opening statement.

OPENING STATEMENT OF HON. BOBBY L. RUSH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. RUSH. Thank you, Mr. Chairman, for holding this important hearing today on H.R. 702, Legislation to Prohibit Restrictions on the Export of Crude Oil which was introduced by my good friend and colleague, the Chairman Emeritus of this Full Committee, on the Full Committee, Mr. Joe Barton of Texas.

Mr. Chairman, as we enter into the era of new American energy renaissance, I think that it is entirely appropriate for this subcommittee to revisit the Energy Policy and Conservation Act of 1975. This policy, which restricts the export on domestically produced crude oil, may in fact be outdated as conditions today have shifted dramatically from the 1970s when the bill was first enacted.

While I come to this issue, Mr. Chairman, of crude oil exports with an open mind, I believe that there are a variety of ways that this issue could be structured. I look forward to engaging the witnesses on the questions of lifting the ban entirely as H.R. 702 would or with conditions to protect the American consumer against unforeseen consequences.

Another option, Mr. Chairman, which we should consider is exporting crude oil regionally to targeted areas in order to maximize American diplomacy and leverage. In fact, Mr. Chairman, I am currently working on a bill that would remove limitations on the export of energy resources to Cuba. My bill would promote market access for the efficient exploration, production, storage, supply, and distribution of energy resources to our neighbor 30 miles off the coast of Florida. This would include the exportation of crude oil as well as American technology and technical assistance in developing Cuba's clean and renewable energy sectors.

Mr. Chairman, I think it is very important to look at what the effect of displacing oil from our foreign competitors and opponents and whether it be Russia or Venezuela and replacing it with U.S. energy resources, what the effect might have on our overall national security and diplomatic objectives.

So Mr. Chairman, I look forward to hearing from today's panel of witnesses on how lifting this ban might impact the American economy in terms of manufacturing, employment, gasoline prices, and imports. Mr. Chairman, in addition to examining the lasting impacts of lifting the ban, it is also important to look at the impacts to our national security and our overall global diplomacy objectives.

So Mr. Chairman, as we move forward on the path to enacting an American energy strategy for the 21st century, it is vital that we examine policies that may have run their course in light of the new realities of our time. I think today's hearing is most timely and essential to examining some of these critical and important issues, and I look forward to engaging today's witnesses. With that, I yield back the balance of my time.

Mr. WHITFIELD. Thank you, Mr. Rush. At this time I would like to recognize the Chairman of the Full Committee, Mr. Upton of Michigan, for 5 minutes.

OPENING STATEMENT OF HON. FRED UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Thank you, Mr. Chairman. America's energy picture has changed dramatically, and this committee has been working hard to keep pace. Clearly times have changed since the 1970s when the oil export ban was put into place. Few back then could have imagined a domestic oil glut that jeopardizes new drilling and the jobs that will go with it, but that is the situation that many experts say that we face today.

The energy sector has been the Nation's most significant jobs creator over the past decade, but the recent drop in oil prices, as many as 100,000 energy industry jobs, in fact, have been lost.

Proponents of the legislation that we are considering today argue that allowing American oil on the global market would boost production and bring back those lost jobs and, in fact, add quite a few more. And the demand for American oil is there, especially from our allies who want to reduce their dependence on a market dominated by unfriendly and unstable nations.

As I stated in a previous hearing with Secretary Moniz, we need to get this policy right. Yes, we do. We need to be certain that any actions taken don't have unintended consequences that negate the benefits. The question of what to do with our incredible resource abundance is a great kind of problem to have, and I look forward to working with my colleagues on both sides of the aisle on that issue.

[The prepared statement of Mr. Upton follows:]

PREPARED STATEMENT OF HON. FRED UPTON

America's energy picture has changed dramatically and this committee has been working hard to keep pace. Clearly times have changed since the 1970s when the oil export ban was put in place. Few back then could have imagined a domestic oil glut that jeopardizes new drilling and the jobs that go with it, but that is the situation many experts say we face today.

The energy sector has been the nation's most significant jobs creator over the past decade, but with the recent drop in oil prices, as many as 100,000 energy industry jobs have been lost. Proponents of the legislation we are considering today argue that allowing American oil on the global market would boost production and bring back those lost jobs and add many new ones.

And the demand for American oil is there, especially from our allies who want to reduce their dependence on a market dominated by unfriendly and unstable nations.

As I stated in a previous hearing with Secretary Moniz, we need to get this policy right. We need to be certain that any actions taken don't have unintended consequences that negate the benefits.

The question of what to do with our incredible resource abundance is a great kind of problem to have, and I look forward to working with my colleagues on this issue.

Mr. UPTON. And I would yield to other members wishing time. Mr. Barton, I yield time.

Mr. BARTON. Well, first of all, Mr. Chairman, thank you for yielding, and I want to thank Subcommittee Chairman Whitfield for hosting this hearing. I want to thank the Ranking Member Mr. Rush for the open mind that he expressed in his opening statement. This is an important issue for me obviously. The other subcommittee chairmen here, Mr. Pitts, and Mr. Shimkus, can testify that I don't show up on time to many hearings in the morning, but I am here for this one because it is a big deal.

The issue that we are debating today is the last remnant of the Carter scarcity of energy policy of the 1970s. We have a former Assistant Secretary of Energy out in the audience, Mr. Jan Mares, who was in the Reagan Department of Energy in the early '80s, and when the Reagan administration came into office, you had in place an energy policy that said America was running out of energy. And we had restricted the use of natural gas. We had put price controls on natural gas. We had done all kinds of things because we thought America was out of energy and America could not compete in energy policies.

Beginning with President Reagan and continuing through President Clinton and President Bush, we have repealed every bit of that policy except one thing that is this, the issue that America cannot export crude oil. We can export everything else in America, but we can't export crude oil. We can export refined products, but we can't export crude oil.

We have had hearings on this in the Ag Committee, the Foreign Affairs Committee, the Small Business Committee, but until today, we have not held a hearing in the committee of jurisdiction which is our committee. I think if you listen to the witnesses, especially my good friend, Ambassador Gandalovic from the Czech Republic, you will see the absolute positivism of repealing this ban. America is number one in energy production. It is number one in oil production. If we can use our energy resources strategically, it will help us in that area, but it will also help us economically as Chairman Upton has just pointed out.

So thank you, Mr. Chairman, Mr. Chairman, Mr. Rush, for agreeing to have this hearing and thank the witnesses.

[The prepared statement of Mr. Barton follows:]

PREPARED STATEMENT OF HON. JOE BARTON

Thank you Mr. Chairman——

I am so pleased that this committee is having this hearing. Our friends on the House Foreign Affairs Committee held a hearing in April. Our friends on the House Small Business Committee held a hearing in June. Our friends on the House Agriculture Committee held a hearing just yesterday.

Last year when I brought up this issue I was told to go out and educate my colleagues and garner support for my bill. Well, I've done that. And I will continue to do this until this bill is on the House floor.

As of this morning, H.R. 702 had 77 cosponsors. But what is more interesting is that those cosponsors hail from 30 states. Because as folks look at the issue and read the supply chain study by IHS, they quickly realize that this is not an oil patch issue, it is an American issue.

One point that I want to make is America is a trading county. We don't need to or should we get to zero imports before we export. Just yesterday, GAO testified that whether prices fall or stay the same, the lifting of the ban on crude oil exports will stimulate economic activity.

This ban is the last remnant of Carter's scarcity policy from the 1970s. And it just makes no sense for us to even consider allowing Iran to export crude oil while not allowing ourselves the ability to. This bill is good policy for both economic and strategic reasons.

At last count there were more than 16 major studies just since March of last year on why lifting the crude oil ban was in the best interest of America. This bill will create jobs, lower gas prices, and stabilize world energy markets.

I've said it before and I'll say it again—momentum is on our side and the facts are on our side.

Mr. BARTON. And with that, I am willing to yield another minute to anybody on our side that wishes. Mr. Mullin of Oklahoma.

Mr. MULLIN. Thank you and I want to just reiterate what my friend from Texas was saying and also point out the fact that this is about bringing stability to a market. In Oklahoma alone, we have lost 20,000 jobs since January, and you know, an entrepreneur that is able to understand what the sacrifices means is with us today sitting over there in the corner, Harold Hamm, an individual that started with absolutely nothing and was able to achieve the successes because of barriers that were lifted and taken out of place. But today we are limiting entrepreneurs like him, and this is something that we need to have an open conversation about, and I thank the chairman for bringing this to our attention. I yield back.

Mr. WHITFIELD. The gentleman's time has expired. At this time Mr. Pallone was going to make an opening statement, but I think he has been delayed. So is there anyone——

Mr. RUSH. Mr. Chairman, we want to reserve Mr. Pallone's time——

Mr. WHITFIELD. OK. All right.

Mr. RUSH [continuing]. Until he arrives.

Mr. WHITFIELD. OK. We will reserve Mr. Pallone's time when he arrives. He can give his opening statement. At this time I would like to introduce our witnesses and recognize each one of them for 5 minutes for their opening statement.

Our first witness is Mr. Petr Gandalovic, who is the Ambassador to the United States for the Czech Republic. I am just going to introduce you individually before you give your opening statement. Mr. Ambassador, we are delighted you are with us this morning, and you are recognized for 5 minutes for an opening statement.

STATEMENTS OF PETR GANDALOVIC, AMBASSADOR TO THE UNITED STATES, CZECH REPUBLIC; COMMANDER KIRK LIPPOLD, PRESIDENT, LIPPOLD STRATEGIES; W. DAVID MONTGOMERY, SENIOR VICE PRESIDENT, NERA ECONOMIC CONSULTING; AND MARK KREINBIHL, GROUP PRESIDENT, THE GORMAN-RUPP COMPANY

STATEMENT OF PETR GANDALOVIC

Ambassador GANDALOVIC. Thank you Subcommittee Chairman Whitfield, Ranking Member Rush, and members of the subcommittee. I appreciate the opportunity to be here today to provide my perspective on the utmost importance of the strategic energy alliance between the United States and Europe as energy exports from democratic countries like the United States enhance the energy security of the Czech Republic and the European Union.

Since 1989 when we reestablished our independence, we have always known that we cannot achieve true state sovereignty without having energy sovereignty. Bearing this in mind, one of the first steps of our revived independent diplomacy was to start negotiations with Germany on the building of a new transit oil pipeline that would connect us with the Western markets and diminish our previous 100 percent dependence on oil supplies from the East, namely Russia.

This truly strategic decision was successfully materialized in the IKL. It means Ingolstadt Kralupy Litvinov pipeline, which has connected us via Germany with the Italian seaport of Trieste, at the Adriatic Coast. The existence of that oil pipeline has given us the opportunity to import oil from international markets.

Nowadays, we import around one half of our oil consumption through this pipeline. It is interesting that most of this oil comes from Azerbaijan which flows via Georgia to the Turkish port of Ceyhan on the coast of Mediterranean Sea, then onto the port of Trieste in Italy and then through the Alps to Germany and finally via this IKL pipeline to the Czech Republic, or oil from Kazakhstan that follows a similar route.

What is crucial for our energy security is that the capacity of this IKL pipeline is large enough that in case of emergency we can practically cover our oil needs from other than Russia territory and potentially also from the United States.

Moreover, we have also done our homework in the area of natural gas. In the '90s, we signed a contract with Norway that diminished our 100 percent dependence on deliveries from the East. We also built the so-called Gazelle pipeline that has interconnected us, our gas transit network with the German one. Thanks to this interconnection, we have been significantly integrated with the German and European gas market, and as a result, we also buy natural gas on spot markets in Western Europe. This interconnection with Germany also provides us with an alternative supply route in case of extraordinary supply disruptions from the East.

Apart from the diversification of transit routes, we have always given particular importance to diversification of energy sources. Therefore, our energy mix has been based on nuclear energy, coal, oil, gas, hydro, and renewables.

I mentioned that energy security has always been a priority to the Czech Republic. Since 2004, we have been trying hard to emphasize the issue of energy security within the European Union in general. We made energy security one of the official priorities during our presidency in 2009. We led the negotiations during this gas crisis between Russia and Ukraine, finalized the Third EU energy package, which is the crucial component of the European energy legislation and organized the so-called Southern Corridor Summit.

Energy security has always been on top of the so-called Visegrad Group, V4, so-called. It is the grouping of countries, Czech Republic, Hungary, Slovakia, and Poland, and it is one of the official priorities of its current Czech presidency. The V4 group strives for energy sources diversification and, with its demand reaching 42 cubic meters of natural gas per year and almost 40 million tons of oil per year, accounts for an important European regional market.

As I mentioned earlier, we always keep in mind that we have to do our homework. Thanks to this approach, I am glad to be able to say that the energy security of the Czech Republic has reached a very good level. It is important to stress that our energy security is based on the assumption that access to the global markets means access to oil and gas exported by countries that see energy as business and not as a political tool. Hence, I would like to reiterate the crucial statement: The larger the number of stable democracies among the world energy exporters, the more robust the energy security of the Czech Republic and the European Union will be. Moreover, U.S. energy exports would send a strong signal to the world community that democracies stick together.

Mr. Chairman, Mr. Ranking Member, members, thank you for your attention.

[The prepared statement of Mr. Gandalovic follows:]

Testimony of Petr Gandalovič

Ambassador of the Czech Republic to the United States

Before the

U.S. House of Representatives

Energy & Commerce Committee

Subcommittee on Energy & Power

Hearing on: "H.R. 702, Legislation to Prohibit Restrictions on the Export of Crude Oil,"

July 9, 2015

Summary of the major points:

- Since 1989 when the Czech Republic (then Czechoslovakia) reestablished its independence, the Czech Government always kept in mind that it is not possible to **achieve true state sovereignty without having energy sovereignty**.
- The Czech Republic's energy security is based on the assumption that access to the global markets means access to oil and gas exported by countries that **see energy as a business and not as a political tool.**
- The **larger the number of stable democracies** among the world energy exporters, the **more robust the energy security** of the **Czech Republic** and the European Union will be.

- US energy exports would send a **strong signal to the world community that democracies stick together.**

Remarks as prepared for delivery

Thank you Subcommittee Chairman Whitfield, Ranking Member Rush, and members of the Subcommittee. I appreciate the opportunity to be here today to provide my perspective on the utmost importance of the strategic energy alliance between the United States and Europe as energy exports from democratic countries like the United States enhance the energy security of the Czech Republic and the European Union.

Since 1989 when we reestablished our independence, we have always known that we **cannot achieve true state sovereignty without having energy sovereignty**. Bearing this in mind, one of the very first steps of our revived independent diplomacy was to start negotiations with Germany on the building of a new **transit oil pipeline** that would connect us with the Western markets and diminish our previous 100% dependence on oil supplies from the East namely Russia.

This truly strategic decision has successfully materialized in the **IKL** (Ingolstadt Kralupy Litvinov) **pipeline**, which has connected us via Germany with the Italian seaport of Trieste, at the Adriatic Coast. The existence of that oil pipeline has given us the opportunity to import oil from international markets.

Nowadays, we import around **one half** of our oil consumption through this pipeline. It is interesting that most of this oil comes from Azerbaijan (which flows via Georgia to the Turkish port of Ceyhan on the coast of the Mediterranean Sea, then on to the port of Trieste in Italy and then through the Alps to Germany and finally via the IKL pipeline to the Czech Republic) or Kazachstan, following a similar route.

What is crucial for our energy security is that the capacity of this IKL pipeline is large enough that in the case of emergency we can practically cover our oil needs from other than Russia territory and potentially also from the US.

Moreover, we have also done our **homework** in the area of **natural gas**. In the nineties, we signed a contract with **Norway** that diminished our 100% dependence on deliveries from the East. We also built the so called **Gazelle** gas pipeline that has interconnected our gas transit network with the German one. Thanks to this interconnection we have been significantly integrated with the German so European gas market and, as a result, we also buy natural gas on **spot markets** in Western Europe. This interconnection with Germany also provides us with an alternative supply route in case of extraordinary supply disruptions from the East.

Apart from the diversification of transit routes, we have always given particular importance to diversification of **energy sources.** Therefore, our energy mix has been based on nuclear energy, coal, oil, gas, hydro and renewables.

I mentioned that energy security has always been a priority to the Czech Republic. Since 2004, we have been trying hard to emphasize the issue of energy security within the **European Union in general**. We made energy security one of the official priorities during our EU Presidency in 2009. We led the negotiations during the gas crisis between Russia and Ukraine, finalized the 3rd EU energy package, which is the crucial component of the European energy legislation and organized the so called Southern Corridor Summit.

Energy security has always been on top of so-called **Visegrad Group** (V4) agenda and is one of the official priorities of its current Czech Presidency (This Group consists of the Czech Republic, Slovakia, Poland and Hungary). The "V4 group" strives for energy sources diversification and with its demand reaching 42 billion cubic meters of natural gas per year and almost 40 000 000 tones of oil per year, accounts for an important European regional market. It offers business opportunities to possible new entrants into its energy market.

As I mentioned earlier, we always keep in mind that we have to do our homework first. Thanks to this approach, I am glad to be able to say that the energy security of the Czech Republic has **reached a very good level.** Despite the fact that we import more than 90% of our consumption of oil and gas and in both cases the major supplier is Russia, we are able to manage possible disruptions of deliveries from the East.

It is important to stress that our energy security is based on the assumption that access to the global markets means access to oil and gas exported by countries that **see energy as a business and not as a political tool.**

Hence, I would like to reiterate the crucial statement: The **larger the number of stable democracies** among the world energy exporters, the **more robust the energy security** of the **Czech Republic** and the European Union will be.

Moreover, US energy exports would send a **strong signal to the world community that democracies stick together.**

Mr. Chairman, Mr. Ranking Member, Members of the Subcommittee,

Thank you for your attention.

I am ready to answer your questions.

Mr. WHITFIELD. Mr. Ambassador, thanks for that opening statement. And our next witness is Commander Kirk Lippold who is retired from the U.S. Navy and is now President of Lippold Strategies, and we are delighted you are with us this morning. You are recognized for 5 minutes.

STATEMENT OF KIRK LIPPOLD

Mr. LIPPOLD. Thank you, Mr. Chairman. Mr. Chairman, Ranking Member Rush, my name is Commander Kirk Lippold. I appreciate the opportunity to testify before the subcommittee. While I may disagree with this bill, I would like to personally thank Representative Joe Barton for his dedicated support to our Armed Forces, specifically our veterans. Sir, you have made service to our Nation a source of pride for our citizens.

In my 26-year career in the Navy, I was a surface warfare officer serving on five different ships, including guided missile cruisers and destroyers to protect U.S. national security interests across the globe. Foremost among those missions was to safeguard the sea lanes of communications, or SLOCs, that facilitate the global economy, including oil imports to the United States. I have experienced firsthand, particularly in my command of the USS Cole when it was attacked by Al Qaeda terrorists during a routine refueling stop, the devastating effects of reliance on imported oil when the men and women who serve our country are placed in harm's way.

The U.S. Navy has a unique role in the world in cooperation with our allies to ensure the safe conduct of trade including in oil. Since the 1970s, we have had policies in place to encourage energy independence that include investment in energy research and efficiency, diversity of fuel inputs, and the strict regulation of oil exports. At its heart, the legislation being contemplated before this committee will have far-reaching national security implications. Before we drastically alter the law and these longstanding and successful policies, we should proceed with great caution to evaluate their real-world consequences.

The United States is still import dependent despite significant gains in domestic energy production. While the United States has experienced an impressive boom in domestic crude oil production, a blunt fact persists: The United States remains overly dependent on those oil imports. We still import a staggering amount of oil. According to the U.S. Energy Information Administration, the U.S. imports in 2014 totaled more than 2.6 billion barrels or around 30 percent of supply.

Another key point is that domestic consumption will outpace domestic production for the foreseeable future. There are significant national security benefits to decreasing our reliance on imported oil supplies. It keeps the nation focused and working toward achieving energy independence. It markedly decreases our reliance on unfriendly or dangerous regimes that do not share our interests or values. Lastly and most importantly, energy independence leaves the United States and its leaders with more workable options in achieving our foreign policy and national security objectives.

History, as always, is instructive. The original purpose of the export regulations was to bolster national security by furthering energy independence. That purpose still holds true. Lifting export regulations may have the unintended consequence of undermining our national security goal of energy independence. Given the current strategic environment, precipitously lifting the regulation of exports would not confer equal strategic benefits. Advocates of lifting the export ban frequently point to Russia's aggressive invasion in Ukraine as a ready opportunity for the use of energy diplomacy. That notion makes little sense. As an initial matter, all credible economic studies on the subject project that the vast majority of U.S. crude oil purchased on world markets would make their way to Asia, not Europe. Indeed, the number one beneficiary of lifting the ban is likely to be China, a nation whose recent activities in the Pacific and South China Sea reflect more the actions of a rival hegemon for security dominance in the transpacific region than a responsible international partner.

The United States does not need to export crude oil to influence international markets. With strict export regulations in place, other countries are better off because the United States is producing more of its own supply which increases the supply of crude outside the United States, thereby reducing prices and alleviating bottlenecks. With the export ban staying in place, the United States gets the dual national security benefits of ample supply and leverage on the international stage.

Another key consideration is the need to maintain the strong domestic refining base that provides the United States with significant and under-appreciated national security benefits. Lifting the crude export ban would expose one of America's most important industries to the unpredictable vagaries of international markets and international politics. Military assets mobilize on petroleum products, like gasoline, diesel, and jet fuel. They do not run on crude. Maintaining and expanding our robust refining base directly improves the operational flexibility the United States requires for rapid mobilization necessary for modern force projection.

While tempting, from the perspective of gaining a commercial foothold in a new market arena at this time, too many times in my career I have experienced the stark reality of our national leaders not thinking through the impact of changes in international and domestic policy. We cannot afford to wave off these potential consequences as inconsequential under the guise of market principles. The regulation of crude oil exports was put in place with the long-term objective of decreasing U.S. reliance on foreign sources of energy, specifically oil. The day may come when the United States is no longer overly dependent on oil imports and we may be in a position to change our export laws, but for the sake of national security, that day is not today.

[The prepared statement of Mr. Lippold follows:]

Statement of Commander Kirk Lippold, USN (Ret)
Hearing on Legislation to Prohibit Restrictions on the Export of Crude Oil
Before the
U.S. House Committee on Energy and Commerce
Subcommittee on Energy and Power
July 9, 2015

I. Introduction

Mr. Chairman, Ranking Member Rush, my name is Commander Kirk Lippold and I appreciate the opportunity to testify before the Subcommittee. In my 26-year career in the Navy, I was a surface warfare officer serving on five different ships, including guided missile cruisers and destroyers to protect U.S. national security interests across the globe. Foremost among those missions was to safeguard the sea lanes of communications, or SLOCs, that facilitate the global economy, including oil imports to the United States. I have experienced firsthand – particularly in my command of the USS *Cole* when it was attacked by Al Qaeda terrorists – the devastating effects of reliance on imported oil when our forward-deployed assets are placed in harm's way. The U.S. Navy has a unique role in the world in cooperation with our allies to ensure the safe conduct of trade, including in oil. Stemming from concerns born out of the oil embargo of the 1970's, we have had policies in place to encourage energy independence that include investment in energy research and efficiency, diversity of fuel inputs, and the strict regulation of oil exports. Before we adopt legislation to drastically alter these longstanding and successful policies, we should proceed with great caution to evaluate the real-world consequences.

Despite our differences of opinion on this bill, I would like to show my appreciation to Rep. Joe Barton for his dedication to supporting the armed services, specifically our veterans. Recently, he has co-sponsored active bills such as the Veterans Identification Card Act of 2015, which expands veteran's access to ID cards to verify their service, as well as the Veterans Access to Care Act of 2014, which allows veterans to receive healthcare from non-Veterans Affairs facilities. Furthermore, he has exhibited devotion to other veterans programs such as the Wounded Warrior Project, Team Red, White, and Blue, and the Fisher House Foundation. These programs have greatly benefitted the men and women that have served in the armed services and their families, making medical care and a return to the United States better for them.

II. The United States is Still Import Dependent Despite Significant Gains in Domestic Energy Production

Despite the recent impressive boom in domestic crude oil production, the fact is that the U.S. remains overly dependent on oil imports. In fact, the volume of oil that the U.S. imports is not altogether different from the import levels at the time the Energy Policy and Conservation Act was enacted in the 1970's.

While increased domestic production has reduced the total amount of oil that the U.S. imports from abroad to meet its domestic needs, we still import a staggering amount of oil. According to the U.S. Energy Information Administration (EIA), imports in 2014 totaled more than 2.6 billion barrels, or around 30 percent of supply. By all accounts, domestic consumption will continue to outpace domestic production for the foreseeable future. In its 2015 Annual Energy Outlook, EIA estimates that total imports will not fall another 10 percent until 2040 – still well short of a national policy goal to achieve energy independence.

At this point, lifting crude export regulations will generate headwinds that would likely dampen the predicted decline in imports. As U.S. supplies are exposed to a growing demand on international markets, the price discount that the U.S. has been enjoying for several years will dissipate. Imports will be relatively more competitive with domestic supplies. The likely result: greater reliance on imports than would otherwise have taken place. Independent of any specific price trajectory, the option of distributing crude oil to international buyers will eliminate discounts in shale prices that have benefited the U.S. market. To an appreciable extent, the 'discounted' price of Bakken shale (located in the northern U.S. and Alberta, Canada) is a result of infrastructure challenges in delivering oil to markets. Access to overseas markets would provide producers with a workable alternative, allowing them to increase their prices.

As numerous national security experts and U.S. Presidents have observed over the course of decades, there are significant national security benefits to decreasing our reliance on imported oil supplies. Decreasing our reliance on unfriendly or dangerous regimes has the effect of removing a significant obstacle to achieving our foreign policy and national security objectives. At its most basic, relative energy independence leaves the U.S. and its leaders more workable options when dealing with other countries. The original purpose of export regulations was to bolster national security by furthering energy independence; that purpose still holds true. Lifting export regulations may have the unintended consequence of undermining our national security goal of energy independence.

III. Security Benefits to Lifting the Ban Now are Unlikely to Materialize

Precipitously lifting the regulation of exports would not confer equal strategic benefits. Advocates of lifting the export ban frequently point to Russia's aggressive invasion in Ukraine as a ready opportunity for the use of energy diplomacy. This notion makes little sense. As an initial matter, all credible economic studies on the subject project that the vast majority of U.S. crude oil exports purchased on world oil markets would make their way to Asia, not Europe. Indeed, the number one beneficiary of lifting the ban is likely to be China, a nation whose recent activities in the Pacific and South China Sea reflect more the actions of a rival hegemon for security dominance in the Transpacific region than a responsible international partner.

Recent reports on global oil markets and pricing seem to indicate that little if any U.S. crude would flow to Europe. Light sweet crude from the U.S. is priced higher than its North Sea counterpart. As Citigroup analysts reported just a few days ago, " If the US crude export ban is removed and light sweet crude starts to flow out of the US [Gulf Coast], it would struggle to find a home in the well supplied European market. It would only add to the oversupply in the Atlantic Basin, and could hurt Brent more than it helps WTI. It could be an instance where US upstream players should be careful what they wish for."

U.S. exports would be a drop in the bucket of global crude supplies. Moreover, European refineries, especially those in Eastern Europe, are currently configured to process Russia's medium sour crude. Reconfiguring those facilities to handle American light sweet crude would be an expensive, long-term proposition. Eastern Europe also lacks the infrastructure to access U.S. crude imports. Constructing the needed European pipelines would take a great deal of time and money. Whether any U.S. oil actually reaches Eastern Europe and 'displaces' Russian supplies would depend on market factors largely unrelated to U.S. exports.

Assuming for a moment that lifting the export ban would dramatically undercut Russia's crude exports to Europe, it is far from clear that the result would be a more moderate and amiable Russian government. First, the Russian government has taken greater control of their oil companies in preparation for using that resource as a rudimentary weapon on economic influence. Second, Russian oil companies would be able to lower their prices and find alternative markets, most prominently in Asia. Third, President Putin has proven time and again that his first response to economic hardship at home is to engage in aggression abroad to stoke feelings of nationalism among his supporters. And lastly, there are a variety of ways the U.S. can marginalize Russian oil companies and curtail their diplomatic reach without resorting to a 'price shock' strategy. A good example of one workable alternative is a set of carefully crafted economic sanctions, which Congress passed and President Obama implemented in 2014 with notable results. Unlike the crude export ban, these measures can be altered rapidly in response to events and do not put our allies at risk.

Fortunately, the U.S. does not have to choose between participating in the international marketplace for petroleum products and lifting crude export regulations. Current law already allows American companies to export refined products overseas. Likewise, the federal government has the flexibility to waive regulations for crude in the form of condensates. In fact, exports of finished petroleum products have risen from 1 million barrels per day in 2005 to 2.7 million barrels per day in 2014. In particular, a robust Transatlantic trade in refined products allows our European allies to reap the benefits of our high-tech, efficient refineries at a competitive price. It allows us to satisfy our own security concerns and also address our allies' needs with the products actually needed for strategic and economic concerns abroad.

Finally, the U.S. does not need to export crude oil to influence international markets. Because increased domestic production results in reduced dependence on imports, overseas crude is then 'freed up' to be bought and sold in other markets. This market shift has the second-order effect of increasing the supply of crude outside the U.S., reducing prices and alleviating bottlenecks. Other countries are better off because the U.S. is producing more of its own supply. With the export ban in place, the U.S. gets the dual national security benefits of ample supply and leverage on the international stage.

IV. Deregulation Oil Exports Now Can Have Adverse Consequences for Security

Attempting to alter the market forces that influence the distribution of power across the world stage is always risky business, so it is important to consider the potential downside risks to any dramatic re-alignment. Let us assume for the sake of argument that advocates of lifting crude export regulations are correct, and that lifting the ban would result in large volumes of U.S. crude being sent overseas to the detriment of other producers like Russia. We must also consider the second-order effects such a change would have on U.S. allies whose economies rely on crude oil production to survive, such as Nigeria or Saudi Arabia.

Nigeria produces nearly the same type of crude oil as the U.S. Therefore, Nigeria is the country most likely to suffer if significant U.S. crude oil exports materialize. Nigeria's economy is, to put it mildly, extremely dependent on oil. Thus, it should come as no surprise that the sharp decline in the price of oil that took place in 2014 is having a dramatic impact on Nigeria's economic vitality. Their currency is appreciating, inflation is rising, and international investors are leaving. The lower oil price also cuts into government revenues, which are a critical source of basic services for the Nigerian population. Amidst this growing state of economic turmoil, security risks abound. As I'm sure every Senator on the committee is aware, the terrorist group Boko Haram retains control over large parts of the country and threatens to turn Nigeria into a failed state. Should the Nigerian economy fall into a tailspin, the consequences for international security would be dire. Boko Haram could grow in influence and manpower, filling the vacuum created by potential economic collapse. Nigeria would present a fertile training ground for extremists preparing to launch attacks against the U.S. mainland. The safety of American civilians and military personnel across northern Africa would be placed at risk.

As one of Nigeria's closest allies and its biggest trading partner, the U.S. has a tremendous interest in forestalling these outcomes. Lifting the crude export ban in an attempt to re-engineer global oil markets is more likely to exacerbate instability than it is to increase our bargaining power with Russia.

In addition, the crude export ban improves the competitiveness of U.S. refineries. When refiners have access to reliable domestic oil supplies, significant cost-savings translate into a more favorable price outlook for both refiners and U.S. consumers. This situation is a desirable one. A strong domestic refining base provides the U.S. with significant and underappreciated national security benefits. Lifting the crude export ban would expose one of America's most important industries to the unpredictable vagaries of international markets and international politics. It is axiomatic that military assets mobilize on petroleum products, like gasoline, diesel, and jet fuel. They do not run on crude. So, a change in export policy that could undermine our robust refining base directly constrains the operational flexibility we have in rapid mobilization necessary for modern projection of force.

V. Conclusion

While tempting from the perspective of gaining a commercial foothold in a new market arena at this time, the national security implications of changing the existing policy regulating the export of crude oil is rife with unknown and probably unintended consequences that must be fully considered and addressed. Too many times in my career, I have experienced the stark reality of not thinking through the impact of changes in international and domestic policy. We cannot afford to just wave-off these potential consequences as inconsequential under the guise of market principles. The regulation of crude oil exports was put in place with a long-term of objective of decreasing U.S. reliance on foreign sources of energy, specifically oil. Over the past three-plus decades, progress has waxed and waned. Today, we are in the midst of impressive new domestic production and discovery of untapped reserves. However, we continue to import virtually the same volume of foreign oil as when the regulations were passed into law. The day may come when the U.S. is no longer overly dependent on oil imports and we may be in a position to change our crude oil export policy but for the sake of national security, that day is not today.

Mr. WHITFIELD. Thank you, Commander. And our next witness is Dr. David Montgomery who is Senior Vice President for NERA Economic Consulting Group, and thanks for being with us. You are recognized for 5 minutes.

STATEMENT OF W. DAVID MONTGOMERY

Mr. MONTGOMERY. Thank you, Mr. Chairman and Ranking Member Rush. It is a privilege to appear before you today and I very much appreciate your invitation.

I have retired as Senior Vice President of NERA Economic Consulting, though I continue to work with my team there and on other things that are interesting. I found that is a great benefit of retirement.

What I would like to do in my 4 minutes and 40 seconds is give a quick overview of the major conclusions of my testimony and then just touch on a few elementary points in a little more detail.

My conclusion, and I think the conclusion of every independent study that has tried to quantify the effects of crude oil export ban, is that restrictions on crude oil exports pose a cost on the economy in several forms. They cause us to lose domestic production of crude oil that we would otherwise be able to produce. They cause a loss in investment and corresponding economic growth. They have done so for the past several years and will continue to do so.

Oil export restrictions actually lead to higher gasoline prices than we would have had in the recent past and going forward. And finally, it is my conclusion that restrictions on crude oil exports actually decrease our energy security, and I would amplify a bit on each of those points.

How is it that production is reduced? The evidence that production is reduced by restrictions on crude oil exports is the differential that we see in the market between the price of the light tight oil that is what the boom in oil production in the United States has produced. The boom in oil production has come about because we have discovered ways, the oil industry discovered ways, to produce oil from tight formations that were not previously possible to produce. That oil is light oil because that is what the production technology is able to extract, and that is what is there. The light oil is coming from Texas, from Oklahoma, from New Mexico, from North Dakota, the major sources, huge amounts of that oil, growing rapidly over the last few years. The problem is the U.S. refining sector is set up to process heavy oil, and it can't simply swap one for the other. So since the oil can't be exported, it has been stuck in the United States and its price has been depressed.

When we did our study at NERA 1½ years or so ago, the price of oil produced in North Dakota where the famous Bakken field is was selling at about the same discount from international market crudes as it is today. That means that there is a disincentive for production, and we are losing production. That is what leads in large part to the negative effects on the economy which are taking the form of less investment, less growth in the oil and gas sector. And just let me remind you that over the past couple of years the oil and gas sector has been the primary source behind economic growth overall. It has been the major growing sector in the economy. So we would lose that stimulus.

Let me turn then to the effect on consumers, gasoline prices. It only takes one sentence to raise the fear that gasoline prices will go up. It takes about four to explain why they will go down. But the key factor here is that it is net imports that matter. It is net imports that matter for the effect of the United States on world oil markets and mid-imports that matter for national security. Net imports are basically the difference between how much crude oil we produce in the United States and how much oil we consume in the United States.

Since it would take massive refinery investments to be able to use the light oil that we are now producing in the Bakken and other places in U.S. refineries, it is much more economic to export that oil than it is to expend all that money to refine the products domestically. But it makes absolutely no difference to our total call on oil markets because that is determined by how much hydrocarbon we are producing in liquid form and how much hydrocarbon we are consuming in liquid form. All the change in oil exports does is it allows us to avoid wasteful investments in refineries domestically, to use the oil here, to export that oil and actually increase the world's total oil supply. That is the important part. By removing the restrictions on crude oil exports, we will increase the world's oil supply. That will tend to drive down the price of oil on world markets of crude oil.

Now, the price of refined products is based on the price of crude oil in the world market. U.S. refineries are already exposed. They export 4 million barrels per day of products. They see prices go up and down all the time. The price of gasoline in the United States is determined by that world market. If we soften the price of crude oil in the world market, we reduce gasoline prices in the United States.

And the same thing is true of energy security. Even if we take Commander Lippold's definition of energy security—and I agree with everything else he said—we differ on the issue of whether it is imports to the United States or net imports that matter. I think it is far worse than what Commander Lippold described. The world oil market is one market. We can't just defend ships going to United States and ships coming from the United States. We are affected by the world oil price, and we will be forever because even EIA sees no prospect of oil independence in the United States. That means if there is a supply disruption anywhere, it is going to affect the United States. If there are military interventions, we are going to have to defend everybody's ships, not just ours.

But if we increase our oil exports, one of the likely consequences is Persian Gulf countries will cut back their production, and that removes a major source of risk.

I conclude my testimony at this point. Thank you.

[The prepared statement of Mr. Montgomery follows:]

Prepared Testimony of
W. David Montgomery, Ph.D.
Submitted to the
Committee on Energy and Commerce
Subcommittee on Energy and Power
United States House of Representatives
H.R.702: Legislation to Prohibit Restrictions on the Export of Crude Oil
July 7, 2015

Mr. Chairman and Members of the Subcommittee:

I am honored by your invitation to testify on the economic costs of restricting exports of crude oil. I am an economist and recently retired as Senior Vice President of NERA Economic Consulting. While at NERA, I had the privilege of leading the study of the "Economic Benefits of Lifting the Crude Oil Export Ban" that was commissioned by the Brookings Institution and released simultaneously with a Brookings Report titled "Changing Markets Economic Opportunities from Lifting the U.S. Ban on Crude Oil Exports"[1] last September. I remain affiliated with NERA as an independent economic consultant, and work with my former team on interesting projects. I appear today speaking only for myself, and all statements in this testimony represent my own opinions and conclusions and do not necessarily represent opinions of anyone at NERA or any of its clients. Nevertheless, I believe that my conclusions about the costs of oil export restrictions are supported by every other independent analysis done on the subject.

Summary

The NERA study found that across all the scenarios we examined, restrictions on oil exports

[1] Available at: http://www.nera.com/publications/archive/2014/economic-benefits-of-lifting-the-crude-oil-export-ban-.html and http://www.brookings.edu/~/media/research/files/reports/2014/09/09-8-facts-about-crude-oil-production/crude-oil-exports-web.pdf

reduce U.S. GDP, slow down job growth and recovery from the recession, and cause higher gasoline prices. Despite the very beneficial drop in world oil prices that we have experienced since that study was completed, I still conclude that restrictions on crude oil exports impose those costs on the U.S. economy, lead to less crude oil production in the U.S. and cause higher gasoline prices for consumers than there would be if these restrictions were lifted.

The clearest evidence that restrictions on exports are still limiting oil production is the fact that the price of light oil produced from the Bakken and other tight formations continues to be depressed below comparable crudes on the world market. This type of oil needs to be exported, because refineries in the U.S. were not designed to use the quantities of light crude that we now produce without costly changes in operation or equipment. The export ban prevents this kind of crude oil from reaching the world market where it has higher value. The resulting excess supply in the U.S. depresses prices of these light tight crudes, so that their production is limited to quantities that are profitable to produce at those lower prices.

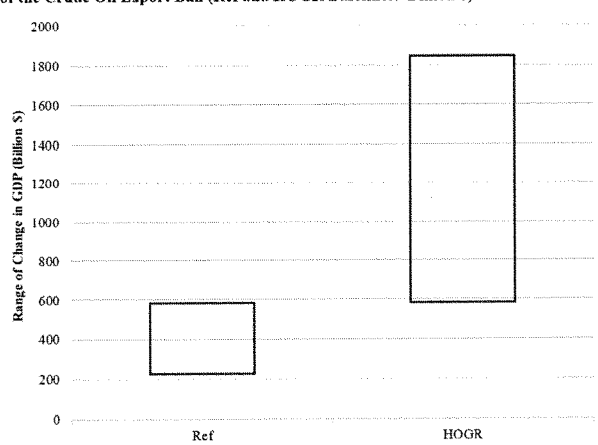
This loss in production imposes a loss on the U.S. economy that is directly attributable to continuing export restrictions. This loss takes the form of even lower investment in crude oil production than the drop in world prices would have caused, which in turn slows recovery from the recession because oil and gas investment has been the strongest driver of economic growth for the past several years. At the same time, consumers lose because the effect of putting more crude oil into world markets is to drive down world crude oil prices. Gasoline and heating oil prices in the United States are determined by world prices, because we import and export gasoline and other refined products like heating oil freely. Thus restrictions on crude oil exports also impose a cost on consumers in the form of higher gasoline prices.

Finally, restrictions on crude oil exports will lead to economic waste, if refiners incur higher operating costs and make additional investments in order to use light tight oil, even though refined products could be imported at lower cost. If instead of making these wasteful expenditures, we export light tight oil and import refined products, at least as much gasoline and heating oil would be supplied to consumers. The savings from avoiding unnecessary refinery costs and investment would be used for productive investments that produce additional goods and services for consumers.

Economic costs of import restrictions

In the NERA study, we estimated restrictions on crude oil exports will cost the economy from $200 to $600 billion in the EIA Reference Case for shale oil resources and $600 billion to $1.8 trillion in its high case.[2] I have reproduced Figure 7 from that report below:

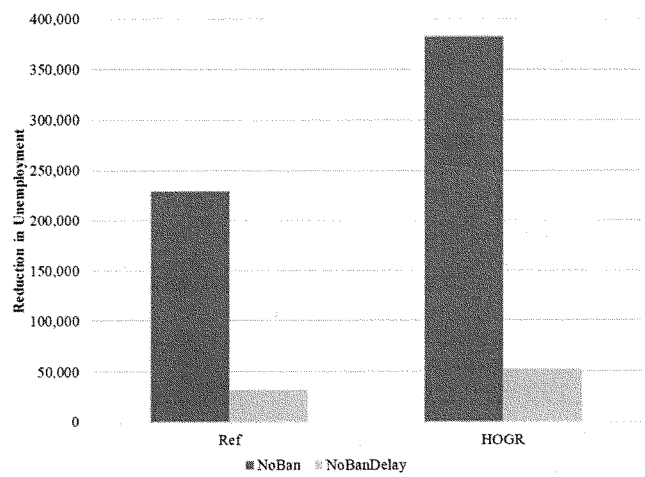
Figure 7: Range of Change in Net Present Value of GDP Resulting from the Partial or Complete Lifting of the Crude Oil Export Ban (Ref and HOGR Baselines: Billion $)[5]



[2] Expressed as present value of GDP loss to 2030 in 2013 dollars

Along with this loss in GDP, we estimated that failure to remove restrictions on oil exports will prevent creation of between 200,000 and 350,000 new jobs this year and next year by lowering investment in drilling and raising gasoline and fuel prices. I have reproduced this figure from the report below as well.

Figure 10: Average Annual Reduction in Unemployment (2015 – 2020) Resulting from the Lifting of the Crude Oil Export Ban in 2015 versus 2020 (Ref and HOGR Baselines)



For reasons I discuss later in my testimony, the drop in world oil prices since the NERA study was released has reduced some of the costs of oil export restrictions. Nevertheless, export restrictions are still artificially depressing the price of light tight oil, and therefore export restrictions are making the drop in drilling, production and employment down even larger than would it would have been without those restrictions. As a result, export restrictions still impose a cost in lost GDP, investment, and new jobs.

As world oil prices recover, export restrictions will become more and more onerous, so that the longer term benefits remain as estimated. As an important plus, getting rid of export restrictions now will enable oil production to respond quicker and gain those benefits more rapidly.

Gasoline prices

Most important, restrictions on crude oil exports impose a cost on all consumers by making prices of gasoline and heating oil higher than they need to be. Despite what is frequently claimed by opponents of crude oil exports, restrictions on oil exports do not lower gasoline prices. Every study of crude oil exports has reached the same conclusion. The NERA study found that restrictions on exports would increase gasoline prices by 8 to 12 cents per gallon. For reasons I detail later in my testimony, I estimate that under current market conditions restrictions on exports impose a cost of 2 to 3 cents per gallon on consumers.

The reason why restrictions on exports cause higher gasoline prices is very clear. By reducing production of crude oil in the U.S., export restrictions shift the balance of global oil supply and demand and prop up the world oil price. There are no restrictions on refined product trade, so that gasoline and heating oil prices in the U.S. are determined by the global market. As the price of crude on the world market falls, so do gasoline and heating oil prices. Therefore, by holding up the world price of crude oil, export restrictions also raise the price of gasoline and heating oil.

Some refiners in the U.S. do, indeed, benefit from lower crude oil prices due to the export ban. These are refiners with access to crude from Bakken and other light tight oil basins that are also among the few U.S. refineries designed to process light oil. They do indeed achieve larger profits on refining because they can sell gasoline and other products at prices determined on world markets while benefiting from the artificially depressed price of light oil in the U.S.

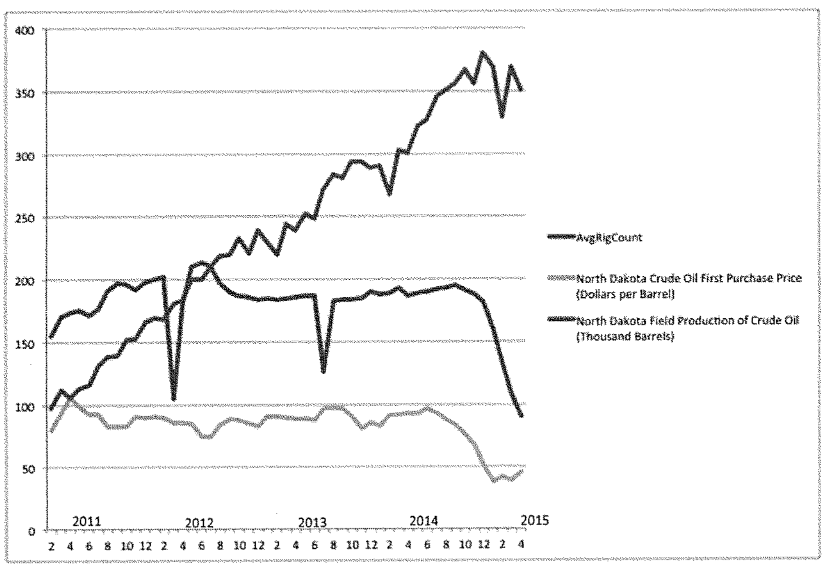
These refiners actually make two arguments: that they depend on the effective subsidy that they receive from export restrictions to operate profitably and that consumers will suffer from higher gasoline prices if the subsidy is removed. They cannot have it both ways. If they could sell gasoline at higher prices after export restrictions were removed, these refiners would suffer no harm. So when some refiners complain, correctly, that their margins would be reduced if they lost the subsidy from export restrictions, they are admitting that their customers will benefit.

Lost Production

Restrictions on exports continue to artificially depress prices received by producers of light, tight oil and cause production to be lost. The drop in production in the Bakken and other basins that we have observed since the drop in world oil prices is made worse by export restrictions.

Prior to July 2014, the world price of oil hovered around $100 per barrel. Between August and December 2014 the price of oil was roughly cut in half. This price drop has clearly affected U.S. crude oil production. The costs of restricting oil exports arise because of the effect those restrictions have on production of the kind of oil for which the U.S. has a huge technical and geological advantage over the rest of the world – light oil produced from tight rock formations from which it was impossible to extract oil economically just a few years ago. This kind of oil is produced in several basins – Bakken in North Dakota, Eagle Ford in Texas, Permian in Texas and New Mexico, and Niobrara in Colorado and Wyoming.

I will use data on prices and production in North Dakota to illustrate what has been happening. Figure 1 shows clearly that lower oil prices are having an effect. In North Dakota, prices started to drop in July 2014, and have leveled off at less than half their July 2014 level since the first of the year. As a result, the number of active rigs drilling for oil in North Dakota started a precipitous decline in September 2104, which has not halted. Production lags behind drilling, because existing wells will continue to produce for some time. In the case of tight oil, the decline rate is rapid, necessitating continued drilling to maintain production. We can see this in the drop in production from its peak in December 2014 reported by the State of North Dakota.



Source: North Dakota Industrial Commission, Department of Mineral Resources, Oil and Gas Division https://www.dmr.nd.gov/oilgas/stats/statisticsvw.asp

The EIA analyzed tight oil production and stated in its Short Term Energy Outlook issued June 7 that "Projected 2015 oil prices remain high enough to support continued development drilling in the core areas of the Bakken, Eagle Ford, Niobrara, and Permian basins. Forecast WTI crude oil prices create conditions in which continued increases in rig and well productivity and falling drilling and completion costs make resumption of onshore production growth possible in 2016. The forecast remains particularly sensitive to actual prices available at the wellhead and rapidly changing drilling economics that vary across regions and operators."

The "actual prices available at the wellhead" that concern EIA are still being depressed by export restrictions, which as a result continue to hold down U.S. production.

The differential between prices of Bakken oil in North Dakota and prices that are indicative of international oil prices gives an indication of how much oil export restrictions are depressing prices and production. That differential would be reduced if restrictions were lifted, providing the needed incentive for production to increase.

We estimated in the NERA study released in September of 2014 that restrictions on oil exports were causing production of between 1.5 and 2 million barrels per day to be lost. This finding was based, in part, on the amount by which the price of light tight oil was depressed at the time.

During the 21 months prior to completion of the NERA study on crude oil exports, the average differential between WTI and Brent spot prices was \$9.32 – that is the price of Brent exceeded that price at Cushing, OK for West Texas Intermediate crude oil by \$9.32 per barrel.[3] Since the beginning of 2015, that differential has averaged \$5.96 and the EIA predicts in its June Short Term Energy Outlook that a differential of about \$5.00 will continue through 2016.

[3] Brent and WTI spot from http://www.eia.gov/dnav/pet/pet_pri_spt_s1_d.htm

During the period January 1, 2013 through September 30, 2014, North Dakota first purchase prices averaged $4.78 lower than Texas prices, which added to the differential between WTI and Brent spot puts North Dakota about $14 below Brent. During 2015, North Dakota prices have averaged $4.28 below Texas,[4] and adding to that the more recent differential between WTI and Brent, North Dakota comes out $9.25 below Brent. If we use first purchase prices for Wyoming Sweet as an indicator of Bakken prices, we find the same thing. The differential for Wyoming Sweet below WTI is virtually the same in 2015 as in the 21 months prior to our study, and Wyoming Sweet remains $8.75 below Brent.[5]

In the NERA study, we estimated that removing restrictions on exports would reduce the differential between the price of light tight oil in the U.S. and international oil prices to under $5 per barrel. Even if that differential remained after restrictions on exports were removed, the current differential of about $9 imposes an unnecessary penalty of $4 - $5 per barrel on U.S. light tight oil. That penalty adds about 10% to the price drop experienced by producers from what prices were at the peak of North Dakota production and rig count. Looked at another way, the NERA study estimated that export restrictions depressed prices for light tight oil producers by about $15 per barrel, and that eliminating restrictions would increase production by 1.5 to 2.0 million barrels per day.[6] My current estimate is that the price distortion caused by export restrictions is about 25% as large as it was at the time of the NERA study. Still, if the production loss is proportional to the price distortion, removing export restrictions would give 25% of the benefit estimated in the NERA study. This would amount to about 400,000 to 500,000 barrels

[4] First purchase prices by state from http://www.eia.gov/dnav/pet/pet_pri_dfp1_k_m.htm

[5] Spot prices from http://www.eia.gov/dnav/pet/pet_pri_dfp2_k_m.htm

[6] See pages 39 - 44 of the NERA report.

per day of additional oil production. It is inconceivable to me that removing restrictions on oil exports would not cause a significant increase in production of light tight oil in basins like Bakken, Eagle Ford, Permian and Niobrara.

Trade and Import Dependence

Removing restrictions on oil exports would improve our balance of trade and reduce import dependence. Statements by some opponents that increased crude oil exports would somehow "dampen the decline in imports" seems to be based on failure to understand that it is net imports that matter for effects on oil markets. Our balance of trade and import dependence are functions of net imports, that is the difference between the amount exported and the amount imported.

Net imports can be defined mathematically in two equivalent ways:

Net imports = refined product consumption + refinery loss – crude production

= crude imports + product imports – crude exports – product exports.

Thus unless refined product consumption increases, any increase in crude production reduces net imports. Refined product consumption will increase if the price of refined products (i.e. gasoline and heating oil) increases, but by less than the increase in crude oil production that causes the price drop.

The quantity of oil imports, that is the amount of crude oil and refined products entering the U.S. from other countries, is by itself irrelevant to either oil prices or energy security. Only net imports matter. There is a single, global oil market and shipments of crude oil move to wherever there is demand. Whether the U.S. increases its exports or reduces its imports, the reduction in net exports is all that matters for the balance between supply by non-U.S. producers and demand for their oil. An increase in exports or an equal decrease in imports will have exactly the same effect on the world oil price.

Likewise, an increase in exports or an equal decrease in imports will have exactly the same effect on energy security, defined as the vulnerability of world oil markets to disruptions of supply. Oil producers are not tied to particular customers, so those from whom the U.S. purchases oil are not necessarily the countries whose sales will drop because of lower U.S. net imports. A key factor in this market response is how OPEC will react. If OPEC countries maintain production rates despite the addition of U.S. exports to the global market, the world oil price will fall by the largest amount. If OPEC instead cuts back production to make room for U.S. exports, the world oil price will fall less but energy security will be improved more.

This is because OPEC includes the Middle Eastern producers most at risk for military or political events that will reduce their oil production, and other producers -- Iran and Venezuela to name two – are overtly hostile to the United States. To the extent that additional U.S. oil production causes these countries to cut back their production in an effort to maintain prices, or because they cannot afford to produce at lower prices, the risk and potential size of global oil supply disruptions will be reduced. Both the drop in the world oil price and reductions in their exports will deprive hostile countries like Iran and Venezuela of revenues that the could use to the detriment of the United States.

This concludes my prepared testimony.

Mr. WHITFIELD. Thank you, Dr. Montgomery. And our next witness is Mr. Mark Kreinbihl, who is the Group President of The Gorman-Rupp Company, and we appreciate your being with us. You are recognized for 5 minutes.

STATEMENT OF MARK KREINBIHL

Mr. KREINBIHL. Thank you, Chairman Whitfield and committee members for this invitation to testify in support of lifting the ban on U.S. crude oil exports. Gorman-Rupp started in 1933 by two entrepreneurs, J.C. Gorman and H.E. Rupp in Mansfield, Ohio. Currently Jeff Gorman is our CEO and third generation. We design, manufacture, and sell pumps in the many different markets. The oil and gas market uses our equipment in several different areas, primarily for water transfer and wastewater transfer, directly or indirectly related to the energy industry.

In October of 2014, we started our planning process for our 2015 forecast budget. 2014 was a good year, and the outlook for 2015 was looking to be even better. We planned on a 12 ½ percent increase in sales with a corresponding operating budget. I have provided in my testimony a chart that correlates the number of gas and oil rigs to our incoming orders. When the price of oil went down and the number of drilling rigs were reduced, our business was impacted. A distributor in Texas was planning a major expansion until drilling activity reduced. A Canadian distributor anticipated levels of business that ended up being cut back significantly.

The combination of just these two distributors accounts for $4 million of cancelled orders on our books. The impact of our business has been a surplus of inventory and a reduction in workload. That has required the elimination of all but essential overtime. Thirteen temporary employees were terminated. These traditionally have been temp to full-time employees. We have implemented voluntary unpaid leave of absences. Wage increases were postponed due to business conditions. All hiring is scrutinized. There are 21 retirements of which only a portion will be replaced. Our full-time employees is 25 less than the end of last year. We have not hired summer help. Traditionally we hire college students bound for college of the Gorman-Rupp employees. Capital expenditures have been postponed on items that are not essential to the operation.

I put my company example forward as typical of what is happening in tens of thousands of energy supply chain companies throughout the United States. While my numbers might not make the news, the aggregate of all similar stories throughout the country has a profound impact on American workers and the total U.S. jobs and growth picture. Lifting the ban will help turn this around.

Here are several important reasons why. It would remove the competitive disadvantage and allow the United States to compete in the worldwide battle for energy market share. New production will drive substantial additional investment in products and services from crude oil supply chain, generating up to $63 billion of supply chain economic output nationally. This investment would create up to 440,000 new supply chain jobs nationally by 2018.

These export-dependent jobs and GDP growth would be widely spread throughout the American economy. They would exist in all 50 states and throughout 60 different industry sectors. Of the national supply chain gains, 10 of the top 15 states gaining jobs are non-producing states. By GDP growth, 11 of the 15 states are non-producing states.

The Energy Equipment and Infrastructure Alliance, of which my company is a member, estimate there is at least 120,000 supply chain businesses and 615,000 workers supporting American oil and natural gas production, 100,000 of which are small businesses.

The U.S. energy sector has been a leader in developing new technologies for energy exploration and extraction. Taking advantage of those technological advances before competitors do would give the U.S. energy industry incentives to innovate and become even better at finding and extracting oil and natural gas in an efficient and safe manner. Lifting the oil ban on crude oil exports is a step that could yield almost immediate results at a time when the United States continues to see sluggish growth in the kind of good jobs the energy sector provides.

Thank you again, Mr. Chairman, for inviting me to address your committee.

[The prepared statement of Mr. Kreinbihl follows:]

Statement of Mark Kreinbihl, Group President, Gorman-Rupp Company, Mansfield, OH Before the Subcommittee on Energy and Power, U.S. House of Representatives

Hearing on H.R. 702, Legislation to Prohibit Restrictions on the Export of Crude Oil July 9, 2015

Thank you, Chairman Whitfield and Ranking Member Rush, for inviting me to testify today in support of lifting the ban on US crude oil exports, as would be accomplished by the provisions of HR 702. This action will have substantial positive impact on my company, the Gorman-Rupp Company, and our employees.

Gorman-Rupp was founded in 1933 in a barn in Mansfield, Ohio as a family-led company in the business of making pumps. Although today we are a public company, we are still led by the founder's third generation, our Chairman Jeff Gorman.

I am Group President of Gorman-Rupp Pumps, which manufactures liquid transfer pumps. Our Group employs about 500 workers, mostly located in our Mansfield, Ohio facility, where we design, manufacture and test all of our pumps.

Our products are used extensively in many aspects of crude oil and natural gas drilling, production and transportation, including construction dewatering, transfer of water used in the fracking process, filling pipelines for hydraulic testing, mixing and movement of fracking liquids, recycling and disposal of process liquids and for pumping driller's mud. In addition to our focus on pumps used in energy production, we also serve other markets, including municipal, fire protection, agricultural, and construction.

Although we have enjoyed a long history in these other markets, when the US shale energy revolution took off a few years ago, it created a new and rapidly growing market for our company serving the energy sector with our line of pumps. This allowed us to expand our business and employment in the midst of a very steep recession in our traditional construction markets. Business from the energy sector caused our order volume to recover rapidly, and in fact by early 2012, while the construction sector was still quite depressed, our energy-related business caused our orders to achieve record levels.

We regularly compare the Baker-Hughes US rig count to our Mansfield incoming pump order volume, and they track remarkably closely together. See the chart at the end of this statement comparing our incoming orders with the Baker-Hughes US oil and gas rig count. In early 2012, a peak in our orders roughly coincided with rapid rig count growth to over 2,000. Our orders retreated somewhat the following year as the rig count flattened, and then re-achieved a near-record level in late 2014 when the U.S. rig count also grew back to over 1,800. At that point our plan called for a 12.5% sales growth in 2015, along with increases in employment, and operating and capital expenditures to support those higher sales.

From a point near the end of 2014 until now, as a result of our energy customers' inability to export and the resulting depressed domestic prices at which they must sell their crude oil, they have cut back dramatically on drilling activity. The US rig count plunged from about 1,800 to 800, while at the same time our orders have followed the rig count down, declining by 40% from late 2014 through this June. Currently, we are seeing activity at about 23% below our forecast, and 11% below 2014. From just two of our distributors alone, we recently had order cancellations in the amount of $4 million.

The Gorman Rupp Company goes to great lengths to avoid laying off our employees, even in the worst of times. Lower orders and sales in our energy business have resulted in a substantial reduction in our work. To adjust, we reluctantly have had to take the following steps:

1) We have eliminated all but essential overtime. Overtime is only used now if it is critical for a customer's situation.
2) For many years the company has hired temporary employees to smooth out the fluctuation in workloads. These temporary employees were then hired as full-time employees when the need was seen as permanent. Early this year, all 13 temporary employees were told they were no longer needed and were let go.
3) We have also implemented a voluntary unpaid leave of absence program that allows individuals to take some time off without pay while workload activity in their area is slow.
4) Wage increases which are traditionally provided effective the first of July have been postponed due to business conditions.
5) Hiring of new or replacement positions are at a high level of scrutiny, and are only approved where it is absolutely necessary for the position to be filled.
6) We have had 21 retirements in the second quarter of this year and many of those positions will not be filled pending improvement in business conditions.
7) Count of full time employees is currently 25 less than the end of last year.
8) It has been our tradition to hire college students from employees' families for summer jobs. This year we notified our employees that we are not in a position to do that due to business conditions.

So what can Congress do to help our business create jobs, both in our company and for our customers and our suppliers? Congress can help increase markets for American-produced crude oil by lifting the ban on crude oil exports.

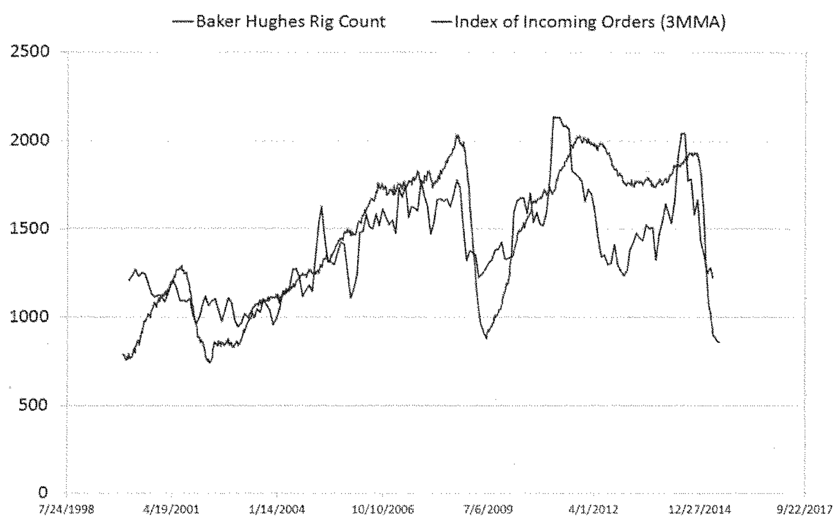
Why would that help? There are several important reasons:

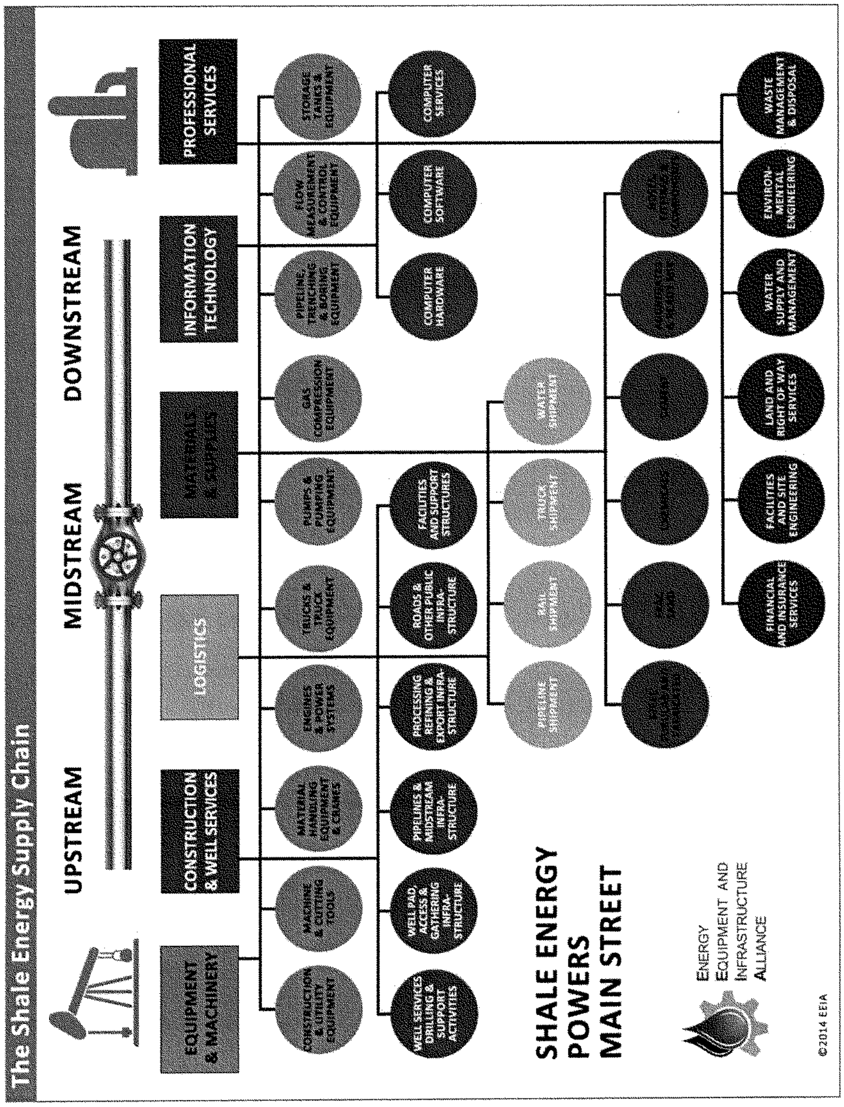
1) Crude oil moves around the world in what is a global energy market. By banning the export of crude oil, we artificially put the U.S. energy sector at a competitive disadvantage by removing exports as a potential market at a time when the US is in a world-wide battle for energy market share. IHS Economics estimates that lifting the ban would increase US crude oil production by up to 2.3 million barrels per day average between 2016 and 2030.[1]
2) This new production will drive substantial additional investment in products and services from the crude oil supply chain, generating up to $63 billion of supply chain economic output nationally.[2]
3) This investment would create up to 440,000 new supply chain jobs nationally by 2018.[2]
4) These export-dependent jobs and GDP growth are widely spread throughout the American economy. They would exist in all 50 states and throughout 60 different industry sectors. Of the national supply chain job gains, 10 of the top 15 states gaining jobs are non-producing states. By GDP growth, 11 of the top 15 states are non-producing states.[2]
5) The Energy Equipment and Infrastructure Alliance (EEIA), of which my company is a member, estimates that there are at least 120,000 supply chain businesses and 615,000 workers supporting American oil and natural gas production, of which at least 100,000 are small businesses. See the attached EEIA diagram for a description of the breadth and diversity of the industries that make up the shale energy supply chain.
6) The U.S. energy sector has been a leader in developing new technologies for energy exploration and extraction. Taking advantage of those technological advances before competitors do would continue to give the U.S. energy industry incentives to innovate and become even better at finding and extracting oil and natural gas in an efficient and safe manner.

At a time when the United States continues to see sluggish growth in the kind of good jobs that the energy sector provides, lifting the ban on crude oil exports is a step that could yield almost immediate results.

Thank you again, Mr. Chairman, for inviting me to address your committee.

[1] IHS Economics (2014). US Crude Oil Export Decision: Assessing the impact of the export ban and free trade on the US economy
[2] IHS Economics (2015). Unleashing the Supply Chain: Assessing the economic impact of a US crude oil free trade policy




The Shale Energy Supply Chain
UPSTREAM
MIDSTREAM
DOWNSTREAM
EQUIPMENT & MACHINERY
CONSTRUCTION & WELL SERVICES
LOGISTICS
MATERIALS & SUPPLIES
INFORMATION TECHNOLOGY
PROFESSIONAL SERVICES
CONSTRUCTION & UTILITY EQUIPMENT
MACHINE & CUTTING TOOLS
MATERIAL HANDLING EQUIPMENT & CRANES
ENGINES & POWER SYSTEMS
TRUCKS & TRUCK EQUIPMENT
PUMPS & PUMPING EQUIPMENT
GAS COMPRESSION EQUIPMENT
PIPELINE, TRENCHING & BORING EQUIPMENT
FLOW MEASUREMENT & CONTROL EQUIPMENT
STORAGE TANKS & EQUIPMENT
WELL SERVICES DRILLING & SUPPORT ACTIVITIES
WELL PAD, ACCESS & GATHERING INFRA-STRUCTURE
PIPELINES & MIDSTREAM INFRA-STRUCTURE
PROCESSING REFINING & EXPORT INFRA-STRUCTURE
ROADS & OTHER PUBLIC INFRA-STRUCTURE
FACILITIES AND SUPPORT STRUCTURES
COMPUTER HARDWARE
COMPUTER SOFTWARE
COMPUTER SERVICES
PIPELINE SHIPMENT
RAIL SHIPMENT
TRUCK SHIPMENT
WATER SHIPMENT
SHALE ENERGY POWERS MAIN STREET
ENERGY EQUIPMENT AND INFRASTRUCTURE ALLIANCE
FINANCIAL AND INSURANCE SERVICES
FACILITIES AND SITE ENGINEERING
LAND AND RIGHT OF WAY SERVICES
WATER SUPPLY AND MANAGEMENT
ENVIRON-MENTAL ENGINEERING
WASTE MANAGEMENT & DISPOSAL
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Mr. WHITFIELD. Well, thank you for your opening statement. And Mr. Pallone has arrived, and he is the ranking member of our Full Committee, and I would like to recognize him for 5 minutes for his opening statement.

Mr. PALLONE. Thank you. Thank you, Chairman, for bearing with me. Today we have been working on the 21st Century Cures and bringing it to the floor on a bipartisan basis, so I appreciate the opportunity.

I also wanted to thank Commander Lippold for your service to our country. As I have said before, it is not a bad idea to reconsider the merits of a policy enacted in the wake of the 1973 oil embargo. The world is very different than it was 40 years ago, and our energy picture is evolving rapidly. Domestic oil production has increased dramatically in recent years, and demand growth has slowed noticeably. The current relatively low price of oil and the increase in domestic production benefit us all. Low oil prices boost our GDP and decrease the amount Americans spend at the pump. However, there is no guarantee that these conditions will last. We still import much of our oil, and while oil prices might remain where they are, gasoline prices have already risen significantly since our March hearing on this issue.

Many factors could change the future energy picture, including geopolitical instability and international domestic market forces. These are important issues to consider before shipping the oil we produce here to countries around the world. And that is why we need to better understand where exported oil will go, whether it be to Asia, Europe, or other locations. I welcome the Czech Ambassador, and I am interested to hear about what type of U.S. oil could benefit his country as he spoke.

I believe that we need to answer a host of complicated questions before considering a wholesale dismantling of our Nation's ability to restrict oil exports as proposed in H.R. 702. First, how would lifting the ban affect the price of crude oil and therefore the price of gasoline? I don't think there is a consensus on that point, though I think my constituents would all agree the prices at the pump are still far too high. Exports may help oil companies, but will they really benefit consumers?

Second, how would such a change affect both our refinery capacity and associated jobs? How would exporting crude oil instead of finished petroleum products affect job growth in the years ahead? Some, like the steelworkers want to keep and grow those jobs in the United States. Exporting the oil could mean exporting those jobs and paying a higher price for gasoline.

Third, if we are going to export crude oil, shouldn't the American people receive some direct benefit in the form of increased revenues? Shouldn't we consider a fee on exports to ensure all Americans benefit from the exploitation and exporting of the natural resources?

And fourth, what are the environmental and climate impacts of lifting the export ban? Are we still going to put our beaches and oceans at risk just to add oil to the world market? Increasing crude exports means increasing impacts on climate change, public health and safety, property owners, and our water supplies. And we have to choose the cleanest and most sustainable path forward.

Finally, Mr. Chairman, are we really ready to treat oil as just another commodity like peanuts or grain? Because if oil is no longer something to be restricted, then isn't it also time to remove the many subsidies we have given to oil over the years in the name of national security? I never thought those subsidies were good policy. But if oil is no different than peanuts, why should it enjoy special liability exemptions under Superfund and other statutes? Why should we subsidize oil production on federal lands?

These are only some of the issues that I believe we have to address before completely doing away with the ban on exports. We shouldn't embrace short-term gains without understanding the long-term costs of our decisions because we can't afford to get it wrong.

And to that end, maybe it would be wiser to explore some smaller intermediate steps first such as easing restrictions on crude exports to our neighbors in Mexico before abruptly eliminating all our national security protections for this critical energy source.

And again, I want to thank you, Mr. Chairman, Mr. Barton, for sponsoring the bill and helping begin this discussion, and I do apologize for interrupting now the questions. But I know we are doing a lot now to get the votes for our 21st Century Cures bill, but I wanted to have the opportunity to speak on this. Thank you.

Mr. WHITFIELD. Thank you, Mr. Pallone, and that concludes our opening statements. And once again, thank you, panel members, for coming and for your statements. At this time I would like to recognize myself for 5 minutes of questions, and then we will give other members of the committee that opportunity as well.

Generally speaking, when we do consider the export of products from America, I mean, we have been quite successful, and it is quite difficult to understand how, as Mr. Barton said, we can export almost anything, but we can't export crude oil. And from my discussions with people about this issue, the two primary reasons that you hear about are, number one, oh, this is going to increase gasoline prices. And then the second reason that I have heard that some refiners have already made adjustments so that they can refine light, sweet oil that is coming primarily out of our domestic production now, and originally they were doing heavy crude and heavy, sour, and they have made these investments so they can do it. Now other refiners have not made that investment, and they are complaining that it would put them at a disadvantage.

But Dr. Montgomery, you had indicated and I have heard others say this and I would see what Commander Lippold says about it, but gasoline prices are determined by the world market price. And if more oil is being produced into the world market, you would think that that would reduce gasoline prices, and that is what EIA has said and other groups. Do you agree with that, Dr. Montgomery?

Mr. MONTGOMERY. [Audio malfunction in hearing room.]

Mr. WHITFIELD. OK. And Commander Lippold, do you have a comment on this?

Mr. LIPPOLD. Mr. Chairman, I am not an economist, so I couldn't really judge the prices. But what I can say is that obviously if you are introducing more oil onto the world market, that creates a cushion and a degree of stability from a national security perspective is obviously good because it gives the ability for nations to now take in the oil——

Mr. WHITFIELD. Right.

Mr. LIPPOLD [continuing]. And produce it. But when you are looking at our country, it is the fact that we have still got that 30 percent and we are trying to export that concerns me.

Mr. WHITFIELD. Yes. I mean, one of the arguments that you made, which I think is a little bit of a stretch myself, but you were saying that because if we put more oil into the market, the world market, you are saying that would be a disadvantage. Explain that to me once again.

Mr. LIPPOLD. Well, right now when you look at the oil that we are producing which is the light tight or light crude——

Mr. WHITFIELD. Right.

Mr. LIPPOLD [continuing]. In discussion, the refineries right now say that they have the excess capacity to be able to produce that which creates the refined product which goes out onto the market and therefore, the more you have in the market, just common sense says it is going to bring that price down. By keeping it here at home, we are able to adjust and be able to react more because we are not as dependent on other nations. It also gives us the flexibility that if we need to export refined product around the world and we are exercising that capacity within our refineries, it gives us the capability to get that product where it needs to go for any kind of an emergency for any countries, whether it is in the Pacific rim, whether it is in Eastern Europe, because if you can deliver refined product right off the bat, that is what they are going to need to make their economies and militaries be able to protect their nations.

Mr. WHITFIELD. Mr. Ambassador, all of us on this committee have had representatives from all over Europe talk about the importance of doing this for the benefit of their countries, and you are being here today to explain those benefits is particularly helpful.

Right now, how much oil is the Czech Republic consuming a day? Do you know the answer to that question? In barrels. I think you all talk about it in tons, right?

Ambassador GANDALOVIC. Our total consumption is 195,000 barrels a day——

Mr. WHITFIELD. One hundred ninety-five thousand barrels a day?

Ambassador GANDALOVIC [continuing]. Which goes, as I said, about 50 percent from Russia and another 50 percent is combined from Azerbaijan, Kazakhstan, and other smaller suppliers.

Mr. WHITFIELD. But in your discussions with other European leaders, on this issue I am assuming that the majority of them would support our efforts to lift this restriction on the export of crude oil.

Ambassador GANDALOVIC. Well, of course, as ambassador of the Czech Republic, I cannot represent or speak on behalf of other countries, but just from the perspective of the Visegrad Group, as I said, is Hungary, Poland, Slovakia, and the Czech Republic, there are members of this grouping whose dependence on Russia is almost 100 percent.

So in this respect, they would probably need to adjust their refineries and make some homework in interconnectors to be able to import other than Russian crude oil.

Mr. WHITFIELD. Right.

Ambassador GANDALOVIC. So then of course U.S. opportunity would be welcome I guess.

Mr. WHITFIELD. OK. Well, my time is expired, so Mr. Rush, I will recognize you for 5 minutes.

Mr. RUSH. I want to thank you, Mr. Chairman, and I also want to again thank the witnesses. I have a question for Commander Lippold. Commander, in your testimony you say that security benefits to changing export regulations are unlikely to materialize in the near future. Do you see any benefits to national security and our diplomacy efforts if we were to export crude oil among other energy resources to our neighbor, Cuba? Could U.S. imports to Cuba displace Venezuelan or Russian imports? And if so, what implications might that have in the region for us politically and diplomatically?

Mr. LIPPOLD. So the question that I would look, or the answer that I would give to that is going to be if we are going to be exporting it to countries to try and displace, once again we are getting into the issue, we are beginning to parse out who we want that oil to go to, and from a national security perspective, I think most people here on the committee would agree that the number one people that we need to take care of first is going to be here in the United States. If we are dependent on oil, all we are doing is while we may be giving our oil to one person as one type, we are still going to be taking in more amounts of oil to make up for the total quantity that has to be consumed within the United States.

So I don't see an immediate advantage in taking our oil and then saying, well, we will export it. We do already export through licenses a certain degree of that oil under the existing law to Canada, and we have just prevented it from going to other nations. But if we drop the thing wholesale and decide we are going to be able to export it to everyone, the ramifications in second- and third-order effects on national security and stability have not been thought through yet.

Mr. RUSH. Dr. Montgomery, I was just handed a study by the Chairman Emeritus of the Full Committee, and it is an IHS study. Are you familiar with that, IHS study that was released in March 2015?

Mr. MONTGOMERY. I am familiar with some IHS studies. You will have to describe this one a little bit more for me I am afraid.

Mr. RUSH. Well, let me just quote from it. It says in states with a diverse and mature set of supplier industries, the supply chain can account for half of the value added from lifting the export ban. Illinois, an oil-producing state with diverse supplier industries, would derive 58 percent and 54 percent of the total GDP impacts from its supply chain. Illinois consistently stands to gain from lifting the ban in all supply chain sectors examined in the IHS study.

Do you have any commentary on that which I have quoted?

Mr. MONTGOMERY. Yes. I think it is first missing the point that one of the primary benefits that comes from increasing crude oil production in the United States and oil exports is a reduction in gasoline prices which accrues to everyone in the U.S. economy. It is directly beneficial to consumers. It is money in their pockets, and it in turn provides additional income for them to spend locally in their own economies. So that is one point.

The second point though is that this emphasis on value-added I think is a misconception and is bad economics because it is mistaking costs for benefits. High value-added in the refining sector is actually means it takes more capital investment, more workers in order to produce the same amount of hydrocarbons or the same number of BTUs. And I actually think Mr. Kreinbihl used a great phrase which I am going to copy frequently. What we are really seeing here is a situation in which we can compete more effectively internationally as crude oil producers than as refiners because what we are looking at is the prospect for producing several hundred thousand barrels per day in addition to what we are producing today. Nothing is being taken away from U.S. refiners. It is true. They are already using all the light tight oil we produce today. The opportunity with removing the export ban is we can produce more crude oil which we can export which will help our balance of trade.

Now some refiners say we want that oil for ourselves. But they have to make additional investments in order to use it, which means that it costs more to export a barrel of product than it does to export a barrel of crude. So the economy benefits more from exporting the crude because we don't have to make this wasteful investment in refining. We can invest in something else, improved agricultural productivity, for something we have a comparative advantage in.

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

Mr. WHITFIELD. At this time I recognize the gentleman from Texas, Mr. Barton, for 5 minutes.

Mr. BARTON. Thank you. I want to build on what Mr. Rush just asked Dr. Montgomery, but I am going to ask the question to Mr. Kreinbihl. I have studied that study that Congressman Rush referred to, and my understanding is that what it means for a state like Illinois, if you have a manufacturing base that supplies oil field equipment and supplies pipeline equipment and supplies electrical equipment. In other words, if you have a manufacturing base and distribution base, that even though you are not producing the oil, you benefit from it. That is the kind of company and business that you are in, is that not correct, Mr. Kreinbihl?

Mr. KREINBIHL. That is correct, and I think as I have pointed out, I did provide a chart in my testimony showing the correlation between the number of drilling rigs and our incoming orders.

As I tried to mention in my testimony before, what really happens for us is it is not just the oil and gas or the crude that is exported. It is all the ancillary things that happen. They need pumps to build the hotels and dewater the construction site for that. They need pumps for transferring just water to and from the sites. And I am speaking of pumps because that is my background. But I think you can take that and use it throughout the manufacturing industry. Everybody seems to benefit from an increase in the economy and the activity that the oil——

Mr. BARTON. So a state like Illinois, which again has some oil production but is centrally located, has a manufacturing base, those small businesses and some large businesses would benefit because they would send equipment to the Bakken in North Dakota, over into Pennsylvania, even down into Oklahoma because if the drilling rigs went back into production, their business would increase. Is that not a fair assessment of what that study indicates?

Mr. KREINBIHL. That is very correct.

Mr. BARTON. OK. I want to go to Ambassador Gandalovic. Commander Lippold indicated that if we lift the ban, most of the oil production that we would export would go to Asia, and certainly Asia would be a good market. I would point out that under current law, oil that goes through the Trans-Alaska Pipeline can go to Asia right now.

You represent a part of the world that we would say would be Central Europe or Eastern Europe, and you indicated that your country specifically and the countries around you that you have economic relationships with, would want to import some of this oil. So what is your assessment of what Commander Lippold said about the benefits primarily going to Asia as compared to your part of the world?

Ambassador GANDALOVIC. Well, again, I just want to speak on behalf of the Czech Republic only, first, and second, I have to explain to you the structure, the ownership structure of the oil distribution and refinery sector in the Czech Republic.

Simply said, the pipelines and storage capacities are owned by the state while refineries and of course distribution of product is private. So we don't have, as a state, any influence on whose oil these refineries are going to buy. As a state, we have actually put in place such a system that there is more opportunities from both ends, for these refineries. So it gives us energy security to certain level that even if there is a disruption of supply from one end, there is an alternative.

So I cannot assure you that even if you pass this bill, there will be a direct purchase from our refineries, I mean from refineries that operate in the Czech Republic of the U.S. crude oil. I cannot assure and predict. I can predict that if there is an alternative coming from the United States as democratic state that doesn't use exports of natural resources as a political tool, the world itself will be a more safer place.

Mr. BARTON. My time has expired, Mr. Chairman. Thank you.

Mr. WHITFIELD. At this time I recognize Mr. Pallone, the gentleman from New Jersey, for 5 minutes.

Mr. PALLONE. Thank you, Mr. Chairman. The initial purpose of the export regulation was to protect the United States from state-owned oil actors organized through OPEC, and the oil market was not and is not today truly a free market. Oil is a commodity unlike any other, and our Nation is disproportionately impacted by oil imports.

Secretary Moniz recently expressed doubt about the wisdom and timing of lifting the crude export ban when we still import 7 million barrels of crude oil per day. And some of those barrels come from Canada and Mexico, but others come from Venezuela, Saudi Arabia, and Iraq.

So Commander Lippold, my questions are all for you. Is it in the best interest of the U.S. national security to continue relying on potentially volatile regions and nations for our oil consumption? And could lifting the export ban result in a decrease of lower priced domestic crude oil for refineries in the Northeast?

Mr. LIPPOLD. Not being an economist, I wouldn't know how it is exactly going to ripple through and affect the markets. But I can tell you from a national security perspective, the fact that we are still as dependent as we are on imported oil does have an effect on our ability to act independently on the world stage.

Mr. PALLONE. And could lifting the export ban result in further imports from the Middle East?

Mr. LIPPOLD. I don't know if we exactly know that. One of the problems is if we lift the export ban and we introduce crude onto the market, every study that is out there indicates that the vast majority of it will go to the highest bidder. Oil will always follow the path of greatest financial gain. Right now that is going to be to Asia, and that is going to have a ripple effect that goes through every part of our economy, including Gorman-Rupp. I mean the previous testimony. A few years ago, their president said that the Chinese were copying their pumps, building what they are doing, and yet we are going to be now providing them, if we export it, fuel that is going to be taking on those very industries that undermine our industrial base. That is not something we want to do.

Mr. PALLONE. I want to ask you something about refining capacity. We have heard suggestions that there is insufficient refining capacity for the light tight oils that are being produced today and that therefore we have a surplus of oil that must be exported. But do you believe that that is the case?

Mr. LIPPOLD. No, I do not. The refineries right now are indicating that they do have the excess capacity and capability to take the light tight oil and refine it for distribution.

Mr. PALLONE. So if refiners are incapable or unwilling to process this oil, then our discussion today would be different. However, in a recent survey of a majority of the American Fuel and Petrochemical Manufacturers Association's membership indicated that construction is already underway on additional refining capacity that will be able to process an additional 720,000 barrels of new light sweet crude a day. The new capacity is on track to be operational in 2016 when this outpaces EIA's oil production forecast.

So Commander, does this match your understanding of U.S. refiners' ability to handle or process our domestic light sweet crude?

Mr. LIPPOLD. It does, but I would also add onto that to say not only are they working to be able to take on more capacity by building onto the refineries that exist, but one of the key things we also have to do is look at the refining industry that goes also with the production industry as well and the amount of regulation that is imposed on them today and figure out how can that process be best streamlined so that we can in fact increase capacity on both sides to be able to make us toward that long-term goal of energy independence. Everyone talks about it, we aim toward it, and now we need to start putting some of the pieces in place because as the Czech Ambassador very well said, if you have energy sovereignty, you are going to have national sovereignty. We do not have that energy independence and sovereignty right now. We are still overly dependent on foreign oil from countries that clearly we have seen, especially over the last 15 years, do not represent our interests and values. The more we can disconnect from that, the better off our Nation will be in the long run.

Mr. PALLONE. Well, let me just ask you about the Czech Republic. I notice that the ambassador didn't clearly indicate that U.S. oil would displace Russian or European crude. If we lift the export ban, does U.S. oil flow to the Czech Republic and how would the Czech Republic benefit if at all?

Mr. LIPPOLD. I think one of the greatest problems that you would have is that they are geared to take certain amounts and types of oil and refine it. If you only have—given 195,000 barrels a day, I don't know and perhaps the ambassador could enlighten and say this is how much it is able to process the Russian crude which is medium sour versus the light tight oil that the U.S. would be sending them.

So again, one of the great capabilities that we have in our country is in our refining capacity in that we don't have to lift the export ban if we have a refined product available that if energy is used as a weapon somewhere in the world, we can turn around and export refined product to give them immediate, tangible benefit that is going to help us and give us flexibility.

Mr. PALLONE. All right. Thank you. Thank you, Mr. Chairman.

Mr. WHITFIELD. Mr. Ambassador, do you want to respond to that?

Ambassador GANDALOVIC. I just wish to say that it is a well-known fact that even in Europe there is an access capacity of refineries. So we talk of a broader picture that U.S. oil could be possibly refined in some other European refineries, not speaking of a rather small Czech market only.

Mr. WHITFIELD. At this time I recognize the gentleman from Texas, Mr. Olson, for 5 minutes.

Mr. OLSON. I thank the chair. Welcome, Dr. Montgomery and Mr. Kreinbihl. Warm greetings to our NATO ally, Ambassador Gandalovic, and a special shipmate-to-shipmate welcome to Skipper Lippold.

October 12th of 2000 at 11:18 in the morning, you took the biggest hit Al Qaida could muster. Their bombs killed 17 of your sailors and wounded 39 more. Your leadership kept the Cole afloat, and you brought her home. As we say in the Navy, Bravo Zulu, Skipper. Bravo Zulu.

Now to the matter at hand, exports of American crude oil. This debate was started in 1975 by a law that is way out of touch with 2015. I believe that American free trade is the most powerful force for freedom in the whole world, and I do see value in ending 1975's ban. I know some refiners will feel some pain if we end the ban and stop distortions of the market caused by government mandates. But once we have moved through this debate, Mr. Chairman, I hope we can take a look at other distortions of the market caused by outdated government mandates like the broken ethanol mandate. These are not linked, exports and ethanol, but they have a common problem: DC in the market.

Skipper Lippold and Dr. Montgomery, I have noticed that you all have very different opinions about crude exports causing more imports of foreign crude. You each have 1 minute to make your case. Skipper, you have the con.

Mr. LIPPOLD. Thank you, Congressman. I think when you look at the imports that we have today, when we are still importing 30 percent of our oil and the fact that it is not controlled in an open, free market, there are entities out there, whether it is OPEC or other nations that are acting as cartels that are influencing that market and will continue to have an undue influence on them, they will directly affect our national security should they choose like they did in 1973 or '73, '74, following the Yom Kippur War, to squeeze the oil supply and force an embargo and put things on us.

What we need to do is create the capacity and capability in this Nation using the oil that we have at hand to refine it here at home so that we don't remain dependent. One of the greatest concerns that I have right now is that being 30 percent, that is like saying, hey, you have completed 8 steps of a 12-step program on your recovery from addiction to oil.

Mr. OLSON. Skipper, I have to take——

Mr. LIPPOLD. And now is not the time to go to the bar and celebrate.

Mr. OLSON [continuing]. The con back. I am sorry, sir, but you are relieved. Dr. Montgomery, you are up, sir. Your response?

Mr. MONTGOMERY. Yes. I think that the first thing to remember is that removing the restrictions on crude oil exports will lead to an increase in U.S. production of crude oil. It is that increased production that would be exported. It is not a question of production being constant and oil being taken away from U.S. refineries to be shipped overseas. Instead, the problem is that we are seeing a big price differential indicating that U.S. oil is backed up in those fields and not being produced. If it can be exported, that is a net addition to the world's oil supply, and it is a net subtraction from the total call that the United States is making on the world market. And it is those net imports that matter for everything, as I said before, but in particular for national security because by reducing our net call on world oil markets, we don't help Venezuela and——

Mr. OLSON. And Dr. Montgomery, I am sorry. I have run out of time. I ask that both of you submit for the record any documents or reports that justify your position.

My final questions are for you, Ambassador Gandalovic. I doubt Mr. Putin would be very happy about America ending its ban on crude exports. How will his displeasure affect the Czech Republic?

Ambassador GANDALOVIC. Congressman, with all due respect, I would rather not comment on other nations' leaders.

Mr. OLSON. Mr. Montgomery, do you care if the comment about Mr. Putin's impact and maybe OPEC's impact if we export crude?

Mr. MONTGOMERY. Yes. I think I should have included Russia in my litany of those who will not be helped by lower world oil prices. Russia is currently dependent on its hydrocarbon exports for foreign exchange and for keeping its economy going, and both allowing unlimited LNG exports from the United States as well as removing restrictions on crude oil would take away from his economic power.

Mr. OLSON. Thank you. Go Navy, beat Army.

Mr. WHITFIELD. At this time I recognize the gentleman from California, Mr. McNerney for 5 minutes.

Mr. MCNERNEY. Thank you, Mr. Chairman. I thank Mr. Barton for bringing this issue up, and I thank the panelists for an interesting discussion this morning.

It looks like there are about three issues that are involved here: the impact on domestic prices, the impact on national security, and the environmental impact. So the first two sort of go hand in hand. Dr. Montgomery, I believe you stated that it is all about imports, net imports and net exports so that if we export more crude than we import refined product, we are on the winning side of this thing. Is that what I understood you to say?

Mr. MONTGOMERY. No. Our increased exports of crude oil would not be offset by increased imports of refined products. Unless people start consuming more gasoline because the price of gasoline has dropped, there is going to be no change in our product consumption. So it would be a net so that—to a first approximate, back of the envelope, the amount of additional oil that we produce and export is a net change. It is not going to be balanced by increased import, by increased product.

Mr. MCNERNEY. Well, I didn't mean that we were going to import more. I meant that if we export more than we import, then we are on the winning side of this thing. That is what I understood you to say. But my problem with that is that if we depend more on imported refined product, then we have to secure our sea lanes which has a very high cost that the consumers aren't going to pay at the pump but they are going to pay through our National Defense Authorization. Would you agree with that, Commander?

Mr. LIPPOLD. I think that there is going to be a certain amount of some cost that is going into any safeguarding of the sea lanes of communication for the global economy. The issue is that if you begin to increase more coming to the United States, obviously that lifeline is going to become more important for us, and yes, we would have to develop more assets to put out there. And while there may be a cost, I am certainly not going to turn down any opportunity to have more ships built to do that.

Mr. MCNERNEY. Thank you. The environmental impact is also at surface here. I think the increased production has been very good for our economy, but my concern is that the technology that we need to keep production clean—by clean I mean carbon, greenhouse gas emissions from production, greenhouse gas emissions in transportation—that they are not there to keep up with the demand that would increase if we lifted the export ban. Did I make that clear? So I guess I am concerned about the environmental impact of increased emissions, increased groundwater contamination, especially in California, if we lift this ban, you know, precipitously. Would you agree with that, Dr. Montgomery?

Mr. MONTGOMERY. Not entirely. I mean, yes, the increased activity in producing oil will produce somewhat—well, the activity of producing oil itself is not going to increase greenhouse gas emissions. Let me stop there. It is only if that increased production of crude oil does in fact reduce gasoline prices.

So first of all we have to all agree that allowing exports of crude oil would cause gasoline prices to fall. If we all agree on that, then yes, there would be some increase in consumption of gasoline in the United States. We actually calculated this in the study we——

Mr. MCNERNEY. I am not talking about consumption. I am talking about fugitive gas emissions in the production process, fugitive gas emissions in the transportation process.

Mr. MONTGOMERY. Those——

Mr. MCNERNEY. But I don't think our technology is there yet to make sure that that increased production in the United States and increased transportation in the United States and overseas is going to be carefully done. I just don't believe that we are there.

Mr. MONTGOMERY. I believe it is. I have been watching this industry for 40 years. There are occasional accidents——

Mr. MCNERNEY. Well, if that is the case, then why——

Mr. MONTGOMERY. They operate safely.

Mr. MCNERNEY. Let me regain my time. Why are they burning off so much gas in the production process?

Mr. MONTGOMERY. In the Bakken it is being burned off because they can't build the infrastructure fast enough——

Mr. MCNERNEY. Well, that is my point.

Mr. MONTGOMERY [continuing]. To move the gas out.

Mr. MCNERNEY. They don't have the infrastructure there yet——

Mr. MONTGOMERY. But that is not——

Mr. MCNERNEY [continuing]. To affect the production that is already being done. So if we increase production, then we are going to get more of that.

Mr. MONTGOMERY. We actually——

Mr. MCNERNEY. And I would like to fall back on what the Commander's observation was that the U.S. dependence on 30 percent of imported oil, we really aren't in a position to precipitously lift the ban. I think we can do it in steps, and it would make sense to increase production in exports in steps but not precipitously. We are not there yet. I will yield back.

Mr. WHITFIELD. The gentleman yields back. At this time I recognize the gentleman from Illinois, Mr. Shimkus, for 5 minutes.

Mr. SHIMKUS. Thank you, Mr. Chairman. This is a great hearing, and I appreciate those who are here. The Ranking Member Mr. Pallone really said an interesting statement. At the time that—and he is still here so hopefully I get it right. The restriction, the current restriction was based upon our desire to protect our economy against state oil interest, state-owned oil interest. That is why we did it in the '70s. The international security debate today is now we need to export oil to protect our allies against state-owned oil interest.

We are in a different era. We are in a different age. Commander, when you sailed the seven seas, I was on the West German border. My defensive position was across the border from a country that was called Czechoslovakia at that time. That country no longer exists. You have the Slovak Republic and the Czech Republic, and they are our allies. And I spent a lot of time in Eastern European issues. Just returned with the Speaker from Lithuania, Finland, Poland, and Ireland, and they want to free themselves from the grip of oil extortion by Russia.

So the world has changed, and I also take issue with the flexibility debate that you have about why we shouldn't export because you have more flexibility to respond if you have more crude oil on the world market. Recovering crude oil is not something you can do overnight. It is a time-consumed process of investigation, drilling for discovery and then drilling for recovery, and it takes a long process.

So right now the United States, we export refined product. Why do we export refined product? Does anyone know? Because we produce more than we consume. So Commander, you wouldn't ask the United States to not export refined product when we produce more than we consume, would you?

Mr. LIPPOLD. No.

Mr. SHIMKUS. OK. And so the debate on our refining capacity, and we have it, too. I have got both sides on the aisle who are trying to make this argument. But the idea is we want more crude oil on the world market. Economics 101, supply and demand. You don't have to be an economist to understand that if demand remains the same and supply increases, the price goes down. The only political fear is there are some unplanned disruption in our refinery, a fire, that there is a price spike. Then everybody gets caught by that.

So I only have 2 minutes left. I want to cover, one, Eastern European national security relies on expanded exports. Whether it is LNG or crude oil, they are begging the United States to be involved in this market for their own security. The second thing is the economic argument for pricing is sound. More crude oil on the market, demand remains the same, prices go down. And the third thing, Mr. Kreinbihl, you mentioned it, and it is true. Chairman Emeritus Barton and Mr. Rush were talking about jobs related, and we were talking about the State of Illinois. Well, Southern Illinois is exhibit number one. We are ready. We have marginal wells. We were prepared for using the new technology. Prices went down, and there is a halt in any activity of recovering from the Illinois Basin which is probably going to be one of the most productive basins in the country because now the pricing is just not there. So the local schools have lost revenue. The local counties have lost revenue. The job creators, the haulers, the steel mills have all lost the ability to create jobs because of a policy that was designed, and I will just end on this, a policy that was designed to protect us against state oil interests. Well, we don't have to fear state oil interests anymore. They have to fear us as we put our crude on the world market. So with that, Mr. Chairman, not many questions, but a statement of listening to the testimony. I yield back.

Mr. WHITFIELD. Great opening statement there. This time I would like to recognize the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman, and I would like to ask my full statement be placed in the record.

Most of you know and maybe not the panel but I represent a district in East Houston that at any given time over the last 20 years, I have had all five of our refineries in the Houston ship channel in our district. And I can tell you growing up there, this is the best time to be in the refining business in Texas that I have ever seen. And I know the issue is that most of those refineries were retooled in the '90s to handle our overseas crude, Venezuela, you name it, heavier crude because that is all we could get.

But now we are seeing some of those refineries actually retooling to take our lighter sweet that we are getting. Now it is millions of dollars of investment. It was millions of dollars to turn those refineries around from lighter crude in the '90s to heavier crude, so it is going to be that. So our engineering companies are doing very well right now.

But Mr. Montgomery, you mentioned massive refinery investment would be required in the United States. Do you know if that is occurring to handle the lighter sweet?

Mr. MONTGOMERY. Some is occurring, but not the amount it would—but my understanding when I look at studies that were done by Baker & O'Brien for EIA——

Mr. GREEN. So there is some.

Mr. MONTGOMERY. But not——

Mr. GREEN. I only have 5 minutes and I need to get to another panel.

Mr. MONTGOMERY. Got it. Got it. Yes, there is some taking place but not enough to use all of the light tight oil that could be produced if we knocked out the differential.

Mr. GREEN. My response to that, not everybody switched over to heavier crude at the same time in the mid-'90s, either.

Mr. Ambassador, when you talked about the refining capacity in the Czech Republic, and I know Europe has a lot of other refinery capabilities, but you said that to handle the lighter sweet from the United States that your refineries would also be retooled to handle that lighter sweet. Is that true for Europe in general or is it just for the Czech Republic?

Ambassador GANDALOVIC. I think and I am not an expert in this field that taking about 50 percent of non-Russian crude oil, the capacity is there to handle the light sweet.

Mr. GREEN. OK. Well, maybe I misunderstood earlier. You said that there would have to be investment to retool those refineries to handle the lighter sweet.

Ambassador GANDALOVIC. Yes, there might be disruption of deliveries from the East. Further retooling might be necessary.

Mr. GREEN. Well, again, as a policymaker in our country, I would much rather we have that investment in our refineries and even though I want to help Europe both with LNG, but right now we are doing very well sending low-sulfur diesel from Texas over to Europe. And those are the jobs that we have in my East Harris County. They are very high-paying jobs at those five refineries, and there are refineries in my area who are retooling to handle that lighter sweet to make sure we can do it because you can't move a ship very quickly, and you can't move a refining industry very quickly because of the high cost of the investment. But now we know there is enough lighter sweet coming out of the Eagle Ford in Texas and even in West Texas where we thought Midland-Odessa was dead for production. But now we are seeing just amazing production out of that, and I think you will see a lot of our refiners doing like they are doing in my own district along the coast of Texas. It is starting now, and we will see it. So if we start exporting it, we will lose some of that incentive to have these downstream jobs.

I have a district where I have a lot of folks who produce oil, too. I represent a lot of service companies, and I want them to be working in the field. But I also want to see that we have that industrial capacity in our country, like the admiral said—or Commander. I am sorry. I promoted you. You should be an admiral. But I like your testimony. We need those downstream jobs to make sure we have that industrial capacity.

My colleague from Pennsylvania has steel plants. We used to have them, but now we buy so much of our steel from everywhere else in the world. But I lost those jobs. I don't want to lose our refining capacity jobs. And again, I only have a few seconds. I support exporting LNG because we have a process for it. And granted, the Department of Energy, and this committee has looked at it, has been too slow in deciding their national interest. But I have talked to my colleague, Mr. Barton. If we want to create a system like where we don't price ourselves out of the market on exporting crude oil, like I would worry about chemical industry, we are not going to see that because we are going to make sure that exporting is in our national interest for LNG. And I think we could do the same thing for crude oil.

But again, thank you, Mr. Chairman.

Mr. WHITFIELD. At this time——

Mr. GREEN. I could spend all day with the panel.

Mr. WHITFIELD. Yes. At this time I recognize the gentleman from Pennsylvania, Mr. Pitts, for 5 minutes.

Mr. PITTS. Thank you, Mr. Chairman. Mr. Ambassador, how has the use of energy, you know, by regional players, shaped the Czech energy policy and planning?

Ambassador GANDALOVIC. How has the use of——

Mr. PITTS. Energy diplomacy or energy as a political weapon. I don't know, however you want to categorize it. How has that shaped Czech energy policy and planning?

Ambassador GANDALOVIC. Our main policy is diversification. So we do not want to rely on one energy resource technologically and geographically or I would say in terms of foreign supplies. It applies on our domestic energy policy is so as I mentioned before in my testimony, we wish to develop both nuclear as well as conventional energy sources. Also we put a lot of emphasis on renewables. But we do not exaggerate their importance. So mix and diversity is our policy.

And the same thing applies on resources of energy that we do not have in our country, oil and gas. Speaking of gas, you may also have noticed that Visegrad Group countries, the four countries I mentioned, about 1 ½ years ago turned a letter to Speaker Boehner to initiate relaxation of U.S. strict export policies on gas export. So the same logic that applies to gas exports, I believe would apply on our position and position of other Visegrad Group countries on the U.S. policy of limitation of crude oil exports.

Mr. PITTS. Thank you. Commander Lippold, would you explain again your assertion that lifting the export ban would increase reliance on foreign imports? The Energy Information Administration, leading experts, academics in the energy field all seem to agree that removing the U.S. crude export ban would likely increase U.S. production an reduce imports. What is the basis of your assertion?

Mr. LIPPOLD. When you produce more oil and you put it on the world market, that oil is going to go wherever the highest bidder is going to take it. So we can't control where it is going to go, whether it is to Eastern Europe and our partner allies over there that may need it because of energy weapon—being used as a weapon. For example, Russia. Every study that I have read says that the majority of that oil is going to go to the highest bidder. Right now that is going to be China. Obviously, that has huge national security implications. When I look at the oil that would be produced and the fact that we have it, necessity is going to be the motherhood of invention. We are going to be able, whether it is through fracking or other things—I have never said don't ever lift this ban. What I am saying is if you just immediately drop it, we have not thought through those national security effects.

Right now one of the things that I worry about is that I think everyone on the committee would agree. We would like to have a national energy policy that is dovetailed and marries in with a national security strategy protected with a national military strategy. But when you look at if we were to just open it and do it, all we have are studies. There have been conflicting studies on what that effect would be. There have been conflicting studies on the price impact it would have. What it doesn't do is that when you are still 30 percent dependent on oil to begin to start exporting that oil overseas when we have not even solved our energy independence here at home, it doesn't make common sense.

Mr. PITTS. Thank you. Dr. Montgomery, you discussed the cost and investments domestic refiners must make relative to costs associated with exporting crude. In short, can you tell us what would make the U.S. economy more efficient, refining more crude or allowing for exports?

Mr. MONTGOMERY. Unquestionably allowing for exports. Essentially what we are doing with the crude oil export restrictions is raising gasoline prices in order to subsidize a select group of refiners. In essence, the crude oil export restrictions are price controls. They are price controls on a particular kind of oil. The refiners I think can see that they are benefiting from that because otherwise they wouldn't have any reason to oppose lifting the export restrictions.

So I think we will have some refinery investment which will take up some light tight oil, but it is still going to strand a great deal of oil that could otherwise be produced because without those price controls and without those subsidies, U.S. refiners can't compete selling all of the light tight oil in the world market without a subsidy.

Mr. PITTS. Thank you. My time has expired.

Mr. WHITFIELD. At this time I recognize the gentleman from Pennsylvania, Mr. Doyle, for 5 minutes.

Mr. DOYLE. Thank you, Mr. Chairman, and thanks for holding this hearing. I find it very interesting and fascinating.

You know, I have been in Congress 21 years, and I have heard colleagues on both sides of the aisle constantly talk about the goal of making our country energy independent so that we could free ourselves from having to import oil from the Middle East and Venezuela. And the reason we don't export oil is because we were importing so much. It seems kind of crazy, at least in Pittsburgh, that you would talk about exporting something that you are still importing.

And I want to say another thing, too. There is no urgency to do this. I would like to put into the record an article that appeared in the Financial Times just 2 days ago entitled Oil Market Throws Cold Water on U.S. Export Ban Push.

When we talk about letting the market work, this is very interesting. It says the oil market has thrown cold water on the push to repeal the ban. The price of U.S. crude has been remarkably strong against global grades, undermining the contention that export restrictions have imprisoned domestic supplies and forced producers to sell at deep discounts.

Last week the spot price of light Louisiana sweet crude on the U.S. Gulf of Mexico Coast was $61 per barrel, more than the price of $59.09 for Dated Brent from the North Sea.

The article concludes by saying, in an analyst from Citigroup, if the U.S. crude export ban is removed and light sweet crude starts to flow out of the U.S. Gulf Coast, it would struggle to find a home in the well-supplied European market. It would only add to the oversupply in the Atlantic Basin and could hurt Brent more than it helps WTI. It could well be an instance where U.S. upstream players should be careful for what they wish for.

So Mr. Chairman, I think that we can slow this process down. There is no urgency to do this and start to consider some of the ramifications if we just simply open up, lift this ban which will never be put back in place again. I would say to my Pennsylvania colleagues, by the way, to be careful what this does to our refineries in Philadelphia because it damages them greatly, and a lot of that has to do a little bit with the Jones Act which I will get into later. But I think we ought to slow this process down.

Why wouldn't we be talking about taking this excess light sweet crude and tooling up our refinery capacity to keep it here in the United States and eventually over time become the energy independent country that we keep telling our constituents we want to be? I mean, this doesn't make a lick of sense to me as policymakers who are supposed to be thinking 20, 30, 40 years down the road for the next generation, not how can we make a quick buck on the disparity in oil prices. I mean, that is not our job. Our job is to look after the future of our country, not to look after how people need to make some more money in the oil industry.

I have a couple questions. Did I go over my whole 5 minutes or has that clock been running? There is no way I spoke 8 minutes and 50 seconds, Mr. Chairman so——

Mr. WHITFIELD. I think you have spoken too long, Mr. Doyle.

Mr. DOYLE. I mean, were you just so enraptured with my speech that you forgot to put the clock on. I think the only——

Mr. WHITFIELD. Let me just say, you were mesmerizing.

Mr. DOYLE. I think I only used a couple seconds. Let me ask the panelists. The Energy Information Administration reference case from 2014 projects that U.S. tight oil production, which is the type of oil largely responsible for this oil boom, is going to increase in the coming years and peak at about 4.8 million barrels a day in 2021. This was up from 3.5 million barrels a day in 2013, and it has been a huge increase from where we were in the year 2000. However, except in the high resource case, production then begins to decline.

Commander Lippold, are you concerned that this legislation essentially permanently lifts the ban, even though we may start to see a decrease in oil production as early as the 2020s?

Mr. LIPPOLD. Sir, that would clearly be one of the considerations that needs to be taken into place as the long-term predictions on what our oil production capacity is going to be and the fact that if you lift this ban precipitously and take it off, that the ramifications that it would have exactly on the point you made—what is our national security impact going to be 20 to 30 years from now—needs to be thought through. That is why I say let's take a longer, slow down the approach, and take a look at either a phased-in or a more thought-out process.

Mr. DOYLE. Yes, I mean, do you think there is a more responsible way to allow for some of this oil to be exported? I mean, is there a different mechanism that we could do this for? And do you think we should just keep the ban in place?

Mr. LIPPOLD. I think one of the great things about our Nation is that we in fact have the capacity that we are developing this oil, that it is going to be out there, and that we are now going to have a greater degree of flexibility of aiming and working toward that energy independent country that we want to be. But I think that we shouldn't lift it immediately. Could it be lifted at some point, absolutely yes. Should we lift it at some point? Absolutely. Less regulation is better for the country as a whole.

Mr. DOYLE. Thank you. We saw changes to refineries in the 1970s to process new types of oil, and I know that some of the refineries in my home State of Pennsylvania have made those structural changes to process the new oil we are benefiting from today. I have read that a large number of refineries will follow suit to benefit from the oil boom. I think many refineries are going to start to make these structural changes in the coming years.

Commander Lippold, I am a strong supporter of Americans working and of organized labor, and I would like if you would comment on how the Jones Act plays in this? Because I have talked to my refineries up in Philadelphia in my State, and there is some concern that because of, you know, U.S. flag ships, the Jones Act, it may actually cost more money to take that light sweet crude up to our refineries in Pennsylvania than it would be to send them over to Europe. And that is going to cost a lot of high-paying union jobs that we sustain families on that we are very proud of in Western Pennsylvania. And I want to know the effect of that because I have got colleagues on this committee from Pennsylvania, two Pennsylvanians on the other side of the aisle, that I think want to hear what the effect this is to Pennsylvania refineries.

Mr. LIPPOLD. I have not studied, Congressman, the effect of what the Jones Act would have knowing that that oil be transported. I haven't run the analysis to find out what the economic costs would be to ship that oil overseas versus keeping it in the United States to a certain degree because if you look at it, if we were to start pushing, though, one of the things you have to consider if we do drop the Jones Act or we impact in some way or if we change the export, lift the export ban, is obviously it is going to have an impact on the American shipbuilding industry as well. That is one of those ramifications or ripple effects that we need to think through and——

Mr. DOYLE. Dr. Montgomery, how about your analysis of how the Jones Act plays in this?

Mr. MONTGOMERY. We did actually look at that, and on that I agree with you completely. If the Jones Act were even lifted for shipments of crude oil between U.S. ports, a great deal more of the oil that we could produce—a great deal more of the light tight oil would go to U.S. refineries in the Mid-Atlantic than it will with the Jones Act in place. So yes, the Jones Act is clearly hurting the refineries in Pennsylvania, and lifting the Jones Act, along with removing the export restrictions, would keep a lot more of that crude——

Mr. DOYLE. Well, let me make it clear. We have no intention of lifting the Jones Act in the United States Congress, just so that that is clear. That is not going to happen. But it is going to negatively impact our refineries in Pennsylvania.

Mr. Chairman, I would just end by asking that we put this article from the Financial Times into the record and to say that the studies I have seen of the refineries in Europe is that they are actually designed to process medium sour oil, not light sweet crude. I don't think most of Europe is going to benefit from this at all. Thank you.

Mr. WHITFIELD. We would like to get a copy of that, without objection.

I might also say that the record is going to be open for 10 days, and we are also working for an accumulation. There have been so many articles written on this issue, and we are going to enter all of those into the record because we want a full record. And our staff is working with some groups to compile that list of articles now. So thank you.

Mr. DOYLE. Thank you.

Mr. WHITFIELD. At this time I would like to recognize the gentleman from Ohio, Mr. Latta, for 5 minutes.

Mr. LATTA. Well, thank you, Mr. Chairman, and thanks very much for the panel. It has been a very interesting discussion today, and we appreciate your patience for taking our questions and listening to us. But if I could start, Dr. Montgomery, with a couple of questions for you, I just want to just double-check some facts here. We were talking right now, fortunately the numbers are coming down, that we are at about 27 percent of our oil is being imported in this country. Is that correct?

Mr. MONTGOMERY. Yes.

Mr. LATTA. And I think if my quick check here is that that is back to the lowest number that we have done since 1965. And is it correct that we are using about 18.7, 18.9 million barrels of oil a day in the United States?

Mr. MONTGOMERY. It sounds like the right number, yes.

Mr. LATTA. OK. Well, we will assume that is correct.

Mr. MONTGOMERY. Yes.

Mr. LATTA. OK. And if you take that 27 percent of the oil that we are importing, you know—another quick number, is it correct hat Canada is our largest supplier of imported oil?

Mr. MONTGOMERY. Yes.

Mr. LATTA. OK. And then would Mexico, where would they fall? Are they close to second? Third? Somewhere in that?

Mr. MONTGOMERY. Mexico has trouble with production sometimes, but yes. And basically, Western Hemisphere sources aside from Venezuela are where we get most of our oil.

Mr. LATTA. OK. So we have been very fortunate in the last few years that we have weaned ourselves really off of the imported oil from maybe more from the Middle East. We are looking at the Canadian and Mexican oil being really pretty much our main area, probably over 50 percent then. We are close to it today. Would you calculate that number at that?

Mr. MONTGOMERY. Yes. Yes. We get only occasional shipments from the Middle East at this point.

Mr. LATTA. OK. Thank you very much. Mr. Kreinbihl, we are almost neighbors. I am from Wood County, and you are from down in Mansfield, Richland County. And in my district in Northwest Ohio, I have got 60,000 manufacturing jobs. And we have had a boom in the State of Ohio because of the Utica shale. Now, I don't think that Utica has quite made it into Richland County or they have found the discoveries there yet. But I know that there have been questions that came to you a little bit earlier. But could you go back into it a little bit because again, when you look at the jobs that are produced, especially the jobs in your industry, could you get into that a little bit more about what the Utica has meant in the production in the State of Ohio and also with the shale development over in Pennsylvania with the Marcellus, how that has helped your business?

Mr. KREINBIHL. There has been quite a bit of activity in both of those, the Utica and the Marcellus. I guess what I would point out to answer that question is the chart that the Energy Equipment and Infrastructure Alliance provided, and it really shows the number of different manufacturers and suppliers that are involved in this industry. And being in Ohio, I have seen some of the growth. As a matter of fact, as I drove over here yesterday, I was in traffic with some of the equipment that was being moved through the State. So it has an effect that as there is more activity going on, whether it is pumps or something else, there is just a lot of activity all over from a manufacturing and supply standpoint. Does that answer your question?

Mr. LATTA. And because also, and off the top of my head I can't think of it, but like in unemployment numbers in the last several years, how is Richland County doing in the Mansfield area?

Mr. KREINBIHL. Richland County, we have lost a General Motors plant here recently. So Richland County has been really suffering with unemployment. I will tell you that a college roommate of mine lives over in Caroline County or Caroline, Ohio, and there is a lot of activity over there and it was really booming until the price of oil went down.

Mr. LATTA. Well, thank you very much. Mr. Ambassador, if I could, in my remaining time, just ask a couple of quick questions. You know, some of us on the committee have been privileged to be able to meet with a lot of, especially Eastern and Central European, leaders, and the discussion you had about the diversification that your country is looking at, why do you think—and we have heard this and we have had certain members like Mr. Shimkus and some others bring this up. Why is it that Europe is looking to the United States for energy needs into their future?

Ambassador GANDALOVIC. Well, as I said, the more resources of energy that are coming from stable democracies in this matter from the United States as an ally moreover, the better for us countries that are relying on supplies from the outside.

Mr. LATTA. Thank you very much. Mr. Chairman, my time has expired, and I yield back.

Mr. BARTON [presiding]. We thank the gentleman from Ohio. I now recognize the gentlelady from Florida for 5 minutes.

Ms. CASTOR. Well, thank you, Mr. Chairman, and welcome to the witnesses. Thank you for your testimony today. My overriding concern is with the American consumer and with America's national security, and it doesn't make a lot of sense to me to export American crude oil to the People's Republic of China while increasing costs to American consumers and refiners.

Commander Lippold, first of all thank you for your service to our country. You have a very distinguished record of service, and I heard you loud and clear that you pointed out that the United States still imports a staggering amount of oil, and you have urged us to be cautious, to consider the real-world consequences. You say, while tempting from the perspective of gaining a commercial foothold in a new market arena at this time, the national security implications of changing the existing policy, regulating the export of crude oil is rife with unknown and probably unintended consequences. That must be fully considered and addressed. Now, you have spent a lot of your career on international security concerns. Can you talk to us a little bit about what is happening in China, they are increasing cyber security attacks, whether state-sponsored or not, what is going on in the South China Sea, especially their reclamation of islands and lands to seemingly want greater control over the shipping channels. What is happening with China's military strategy?

Mr. LIPPOLD. What you are seeing in China today is a country who has taken their economic power and wealth and is beginning to expand it on a, first, regional basis to gain greater influence over the countries that are around there. China has always viewed the South China Sea as their lake. They view that as entirely their territory. They tend to ignore the territorial limits at 12 miles or the exclusive economic zone that goes out to 200 miles. They say that they can expand it if it is disputed. They are the big guy on the block, so they will do what they want. And that is what you are seeing with the building of the islands there today.

While we have tried to engage with the Chinese, and I think we should continue to engage with them on a very positive basis where and when possible, clearly they have taken actions recently that are not in accordance with our interests or values, whether that has been in cyber warfare, how they are dealing with things regionally, how they have dealt with us economically, and obviously Gorman-Rupp has unfortunately been a beneficiary of their trademark violations and in stealing our equipment and knowhow, American knowhow.

So on a variety of fronts we just need to engage with them positively where we can and punish them where we have to in order to make sure that they behave responsibly in the international community.

Ms. CASTOR. I mean their international strategic plans have been quite interesting. I can't help but think back to when I traveled to Afghanistan, and all of the American money, the treasure, the lives that we poured into that country and then it was pointed out that it was China that was exploiting their minerals. The same is happening all across the globe, where the Chinese reach is just enormous, into Africa, into South America. And I don't know why the United States of America would be party to supplying China, the largest importer of petroleum across the globe, why we would help them gain that strategic foothold. I take your advice very seriously, and I think it should give this committee something to think about. Thank you, and I yield back the balance of my time.

Mr. BARTON. The gentlelady yields back. We now go to the gentleman from Mississippi, Mr. Harper.

Mr. HARPER. Thank you, Mr. Chairman. If I could start with Dr. Montgomery? Dr. Montgomery, there was a moment in questioning earlier ago that you were trying to answer about the flaring excess at production and the impact increases in production might have, and I don't think you got a chance to finish that. Did you care to comment on that further?

Mr. MONTGOMERY. I did. Thank you very much. What I wanted to say was that we looked at this and did some computations in the study that we did at NERA, and what we found is that using an oil export ban to try to limit field emissions or greenhouse gas emissions associated with fuel consumption is about the worst possible climate policy you could think of.

The administration just announced that it thinks that a ton of CO_2 does $36 worth of damage. Well, we calculated that the economic benefits of oil exports that you would lose through the ban amount to several hundred dollars per ton for every ton of CO_2 emissions that you could avoid that way. There are so many other ways to reduce greenhouse gas emissions and to deal with the problems of appropriate regulation at the field that the oil export ban should be at the bottom of anybody's list as a tool for environmental policy.

Mr. HARPER. Let me ask you this. Are oil export restrictions one of the main reasons why West Texas Intermediate Crude trades about $5 less per barrel than its international competitor, Brent?

Mr. MONTGOMERY. For a time there was a problem with pipeline capacity for moving it. At this point, I think that is exactly the reason. The same thing is true of Bakken in North Dakota trading below Brent. It is because the only—and in fact, in the last couple of weeks, well, in the last day or two Bakken has actually popped up to being pretty much equivalent to Brent and what the news reports were saying was that priced U.S. refiners out of the market.

So the fact is that, yes, it is the fact that it is not economical to be used in the United States that drives that price——

Mr. HARPER. In my home State of Mississippi, we have the Tuscaloosa Marine Shale that was really beginning to take off. The cost per well was going down, and then of course, the price drops out and production stops. And that has been an issue. But I have seen estimates that show that eliminating the discount that we just talked about would incentivize a significant amount of investment in the United States. IHS estimates perhaps as much as $750 billion over the next 10 to 15 years. What impact would that have on the U.S. economy broadly and who would benefit?

Mr. MONTGOMERY. That kind of investment is basically a driver for economic growth. The slow growth that we have had in the past few years has almost—we wouldn't have even have had that were it not for the investment that was going on in the oil and gas industry, and as Mr. Kreinbihl has described, that investment produced stimulates activity throughout the economy, not just people working on drilling in the oil fields. It provides us with lower cost energy, and it is a driver of economic growth.

So that investment, as long as it is driven by the market and is not driven by government subsidies to refiners through effective price controls.

Mr. HARPER. Thank you.

Mr. MONTGOMERY. So all investment is not the same. The market-driven investment that we have seen because of a technological revolution in the oil and gas industry, that clearly drives the economy forward. Taking money out of consumers' pockets to subsidize a set of refiners doesn't.

Mr. HARPER. Thank you, Dr. Montgomery. Mr. Kreinbihl, if I could ask you a question? If the export ban were to be lifted, how would you change your business plan to adjust for the more positive outlook?

Mr. KREINBIHL. We have our business plan already in place for—as I mentioned, last year when we looked at our business plan for this year and we have to look at, OK, if things increase a certain percentage or decrease a certain percentage——

Mr. HARPER. Sure.

Mr. KREINBIHL [continuing]. What do we do? What it would mean for us is making sure that we hire the people that can create the product——

Mr. HARPER. Let me ask this because——

Mr. KREINBIHL [continuing]. Supply the market——

Mr. HARPER [continuing]. My time is almost up. How quickly would you see that positive impact? How quickly?

Mr. KREINBIHL. I don't know that I can comment on that. It depends on how quickly the oil rigs get back into when the demand increases.

Mr. HARPER. OK.

Mr. KREINBIHL. There is quite a bit of supply now.

Mr. HARPER. My time has expired. I yield back.

Mr. BARTON. The gentleman's time has expired. We now recognize the distinguished gentleman from Iowa for 5 minutes.

Mr. LOEBSACK. Thank you, Mr. Chairman. This has been a very, very wonderful hearing. I think we have all learned quite a bit, and I want to thank all the panelists. Although my colleague from Texas is no longer here, Mr. Olson, one thing we can agree on, and I have expressed this concern directly to General Dempsey when I was on the Armed Services Committee as a proud father of a stepson and daughter-in-law, both Naval Academy grads, although they are in the Marine Corps now, but go Navy nonetheless, Commander.

Also, Ambassador Gandalovic, good to see you as always. For 8 years I have proudly represented Cedar Rapids, Iowa. No longer, but they have a wonderful, of course as you know, the National Czech and Slovak Museum there. So thank you for being here today as well. I do want to start out with you, Ambassador. If you could, because I realize a lot of what is going on here, the proposal to lift the ban on crude oil exports is based on a concern for our national security, for the national security of the countries where hopefully the oil would be going. Whether it would or not is not a question. Can you talk a little bit about the national security interests at stake here for the Czech Republic when it comes to where you get your oil, where it might come from if this ban were to be lifted?

Ambassador GANDALOVIC. Well, again, since the changes in 1989, we saw energy delivery and energy sovereignty as a part of our national security, and this is why we put such an emphasis on diversification. And so in my whole testimony, it is of course representing a country that has done all possible measures to enlarge opportunities and diversify resources of energy. It is not my role here to tell you, the United States, what you do with your national security, but I am representing a country that is prepared to accept deliveries, even from the United States, as or when or if the ban is lifted, and it is actually convinced that those deliveries would benefit to our national security as it is coming from an ally.

Mr. LOEBSACK. Thank you. And again, I feel for you as the ambassador. You are not a politician, yet you have been kind of put in the middle of this here today, and I thought you have done a very good job representing your country and serving as the ambassador and not a politician today. So thank you very much for what you have done today as far as your testimony is concerned.

Look, we had another hearing on this issue a while back, not on this particular bill but on the issue of lifting the ban on export. And I stated at the time that my biggest concern, not unlike others up here today, is our national security, U.S. national security. Everyone here knows that prior to 1973 America had essentially a drain America first oil policy. I think we can all acknowledge that, driven by the Seven Sisters, driven by domestic interests here in the United States and pursued by Congress and pursued by the various administrations up to that point. So I have a real concern myself about lifting this ban from that standpoint given that we still import 30 percent of our oil, given all the other considerations. I understand the economic arguments. I get all that, markets are going to drive prices, all those things. But at the same time, I just think we have to be very careful that we don't do something in the short term which, while it may benefit certain actors in the United States, private industry, in particular in the oil industry, that we, not as my colleague from Pennsylvania expressed his concern on this same issue, that we look down the road, that we don't do something now in the short term that is going to have a very, very negative effect on our national security, on our economic security, on the security of the United States. That is why I do appreciate your testimony, Commander. And again, I appreciate the testimony of everybody here because you are all coming at this from different perspectives, and we have to take into account all those perspectives. There is no question about that.

But I do have a question as to—and I stated this question when we had the previous hearing similar to this, is there any guarantee if we lift this ban that the oil is going to go where we might want it to go from our national interests perspective? And Mr. Chair, I see I am at the end of my time or near the end of my time, so if I don't get to an answer, I would like to request answers in writing from the panelists.

Mr. BARTON. Without objection.

Mr. LOEBSACK. Commander? I am sorry.

Mr. BARTON. Without objection.

Mr. LOEBSACK. OK. Thank you.

Mr. BARTON. Are you yielding back now?

Mr. LOEBSACK. If you need me to I will.

Mr. BARTON. Well, your time has expired.

Mr. LOEBSACK. OK. I yield back. Thank you, Mr. Chair. Thank you. Thank you for your help.

Mr. BARTON. I am a little rusty at this, see, but we are only supposed to get 5 minutes. The gentleman from West Virginia is recognized for 5 minutes.

Mr. MCKINLEY. Thank you, Mr. Chairman. And thank you for your patience, the panel. Almost 2 hours ago there was a remark that was made, and I have heard it over the last few years that if we are going to have exports, we ought to at least tax it or get some kind of fee on that export. And all I can say is, with all due respect to those that want to tax our exports, that will require a Constitutional amendment because there is a prohibition under Article 1, Section 9, paragraph 5 in the Constitution that says no tax or duty shall be laid on articles exported from any state. So I just want everyone to understand. As much as some people might want to take advantage, you just can't do that.

So some of my questioning is looking for consistency. We seem to be here in Congress often picking winners and losers. I don't like that, and in this consistency we—I come from a coal state. We export a lot of coal, and now we are in the process—and actually, if I can stay on coal just for a minute. With this increasing demand for coal around the world, we haven't seen a rise in the price of coal. Coal has been a very stable marketplace to have that product. So I reject some of that notion that if we export it, we are going to see a rise in price because I haven't seen that with coal. And now we have got the argument that seems to be moving on LNG, that we are finally, finally, going to start exporting our natural gas, both for diplomatic purposes and economically. What is the consistency here that if we say it is all right to export coal and natural gas but we have made—the government is going to get involved here and say we are not going to export oil, is that consistent? So Commander, I am just curious because you seem to be the designated contrarian for this panel. Do you support the export of coal?

Mr. LIPPOLD. I think you have to look at it in the total context of energy security and what we are capable of producing and what nations need around the world. Right now, we are still importing 30 percent of our oil, and until we reach that point——

Mr. MCKINLEY. Just on coal. Just on coal. Do you support the exporting of coal?

Mr. LIPPOLD. I will be honest, sir. I am not familiar with coal——

Mr. MCKINLEY. OK.

Mr. LIPPOLD [continuing]. And the industry.

Mr. MCKINLEY. We export——

Mr. LIPPOLD. So it would be——

Mr. MCKINLEY [continuing]. About——

Mr. LIPPOLD [continuing]. Inappropriate for me to comment.

Mr. MCKINLEY. We export about 15 percent of what we produce in coal because obviously this administration doesn't like us burning coal in America. So we have found we have got markets overseas to produce that.

What about LNG? Is your view consistent that you would also pose exporting LNG?

Mr. LIPPOLD. Again, I have not gotten into LNG, although I will look at it and having studied it to a small degree, when you look at our ability to export and have an immediate impact especially on the Eastern European countries that are overly dependent on Russian gas, that is a critical national security issue that we are contributing positively toward and should continue to work for us, especially as we develop more fields and have that excess capability in our system where we are taking not only of our needs that are being met but now can give it to other nations as well.

Mr. MCKINLEY. I appreciate it. I know we have been running over here long so I yield back the balance of my time.

Mr. BARTON. The gentleman yields back. We now go to Mr. Tonko for 5 minutes.

Mr. TONKO. Thank you, Mr. Chair. And I would like to see us become less dependent on oil, imported or domestic, but that has not yet been achieved. Until it is, I think we need to proceed cautiously. This is not just another commodity. It has one we have paid a high price for in blood, treasure, and other environmental and social costs.

So Commander Lippold, I appreciate your testimony and your perspective on this important issue. As I understand it, Venezuela and Saudi Arabia have the largest proven reserves of oil, more than 250 billion barrels and that Saudi Arabia's oil has production costs that are lower than ours, among the lowest globally. And given that situation, it seems difficult to assess much about the overall direction for the price of oil without a sense of what the Saudis plan to do.

I also imagine that since a number of countries rely on oil revenues to meet their obligations, they will continue to produce and sell into the market, even if that means they may be selling below their production costs. So I don't see how increasing exports of the U.S.-produced crude is going to have much impact on the global price of oil. And given that during that period, the period that our crude oil export ban has been in place, we have seen significant increases and decreases in prices at the pump. I doubt consumers will see a net benefit from lifting the export ban.

I can see that this change could alter decisions about whether to continue investing in domestic refining capacity. I can see that it can alter decisions about whether to drill additional domestic wells, and I think it will also influence decisions about investments in oil pipeline or oil-transporting rail cars.

So Commander Lippold, in his testimony, Dr. Montgomery refers to the prospect that the refiners would make additional investments to refine more light oil as economic waste. But those investments create domestic construction and related manufacturing jobs and maintain or create domestic jobs in the refining industry. My question to you is, is there strategic value in keeping a strong domestic refining industry?

Mr. LIPPOLD. Absolutely, yes.

Mr. TONKO. And you indicated in your testimony that you believe lifting the export ban would lessen the trend to declining imports. Would you expand upon that a bit?

Mr. LIPPOLD. If you look at if we were to increase the capacity of the refiners here in the United States, while they have some excess capacity right now to take in the light tight oil that is being produced here in the United States, if we create the conditions and they expand that capacity going from the heavy sour to the light sweet, that is going to give us an ability to refine it here in the United States which is going to lessen the dependence on oil that we have to import in order to meet U.S. domestic needs.

Mr. TONKO. Thank you. And if drilling slows down, we may reduce the immediate benefits to some in the oil sector, but it may give us a chance to catch up on other things we need to do to better adapt to the new production areas, for example in the areas of transportation and pipeline safety. The oil isn't going anywhere. If it is still in the ground, it is still available for our use. In a sense, it maintains another form of strategic reserves. Would you agree with that?

Mr. LIPPOLD. I would agree to that with a caveat and that is while it may be there, just as with any industry, you are now asking industries like Gorman-Rupp to be able to keep a capacity available so that if we decided we needed to exercise use of that strategic reserve that they could immediately tool up and be able to expand it. That is a consideration you have to look at is do we have the capability and capacity in the industrial base to maintain that in addition to keeping those strategic reserves in the ground. That has to be thought through, and again, this goes back to the point of my argument which is before we lift that ban, this is one of those second- and third-order effects that we need to look at is how do we maintain that industrial capacity that if we have to exercise use of that strategic reserve, can we and how quickly can we get our industrial base to tool up to be able to do that?

Mr. TONKO. Yes. Well, lifting the export ban clearly would benefit the oil production sector by drilling and other ancillary services. It would maintain or expand growth in pipeline investments and rail investments. These sectors have done very well, and the boom has spurred tremendous growth. But it has come at a cost. My constituents, for example, are very alarmed at the rapid rise in the number of oil trains rolling through our region. They do not believe that investments in safer rail cars and contingency plans for dealing with accidents have kept pace with the increase in oil production. If now we are incurring these costs only to export the oil, support for expanded domestic production will be even less popular than it is already in non-oil producing areas of the country.

And so I just share these concerns with the committee and here at this hearing because they are real and they are lived through each and every day. And with that, Mr. Chair, I yield back.

Mr. BARTON. The gentleman yields back. Mr. Cramer, who has been here the whole time, is not a member of the subcommittee. So he is going to have to wait until the two other members of the subcommittee ask their questions. We now go to Mr. Markwayne Mullin of Oklahoma.

Mr. MULLIN. Thank you, Chairman, and thank you for having this very important hearing. As I alluded to earlier, Oklahoma has lost 20,000 jobs since January. Obviously we are a rich state in our fossil fuels, and it is very important. It drives our economy. And to have this conversation to me, as a business owner, I am just sitting there scratching my head. And Commander, I hear what you are saying, and I understand your point of view. But strategically speaking, when we start talking about our allies, I mean, we are forcing South Korea right now who we are still heavily invested in to buy oil from countries that aren't exactly friendly to us right now. How is that possibly a good idea? How is it that if we can't at least, at least, export crude oil to our allies, don't we weaken their hand when we make them dependent on those that don't' exactly have our country's best interests in mind?

Mr. LIPPOLD. Well, if you are to use that as the bottom line, we would be in trouble in a number of areas in what we——

Mr. MULLIN. Well, it is not the bottom line, sir. It is where we are at. It is the point. I am not talking about everything. We are talking about export of oil, of a commodity that we have an abundance amount of right now and a commodity that honestly, we are running out of storage in the United States. We are at record-level storages, and we are holding onto it. We have plays that we haven't even started in. We without doubt could be the number one producer, not because of government intervention. In fact, they are choking us because of the entrepreneurial spirit. We have the ability to strengthen the hand of our allies and strengthen our relationship with our allies across the country for providing them a commodity that they are in desperate need of. We have got the Czech sitting right beside you. Is that not an opportunity to strengthen their hand by taking them off the dependent of an unstable and unreliable Russia right now?

Mr. LIPPOLD. I think one of the concerns goes back, sir, to the fact that, once again, if we don't look out for our interests first, while our allies may be important, at the end of the day, we are the ones that are still going to be vulnerable and dependent, and we have seen that with exactly the impact that has affected your state.

When you look at a country, or not a country but a cartel, principally driven by Saudi Arabia that can influence the world oil market in the way they do by depressing prices, by putting more on there, not reducing their production quotas, and allowing that to happen, even if we put our oil on the market——

Mr. MULLIN. Commander, you are——

Mr. LIPPOLD [continuing]. They still have the capacity to lower that down and——

Mr. MULLIN. Well, Commander, you are making my point——

Mr. LIPPOLD [continuing]. Make those prices depressed.

Mr. MULLIN [continuing]. Because as a business owner, to stabilize the market, you put more players in it. Competition strengthens the sword of an entrepreneur. We allow them to control it because they are the only player on the market. We have reserves. We have the ability to go out there and not compete but beat. You are talking about our economy and our security of our Nation? Unemployment brings insecurity. Security is when we have a strong financial stability inside our country. We have lost 20,000 jobs and yet we have it underneath our feet, and we can't get it because we don't have a place to take it to. We are putting it in storage as I alluded to earlier. We put it in storage which we are running out of storage capacity.

It is absolutely crazy to think that we limit the ability of entrepreneurs. That is the only thing driving our economy at the so-called recovery we are having. We are limiting their ability. We are not talking about the '70s anymore. We are not talking about running rogue on stuff that—depleting our oil. The technology has changed. The world has changed, and the world is in desperate need of another player in the world market so we are not held by the cartel of the Middle East.

Right now our refineries, 30 percent of our refineries in the United States are owned by foreign entities, and they can bring their oil to us? They can buy our refineries? They can refine their oil? They have a place to bring it to and yet we limit ourselves. From a strategic point of view, sir, I find it very hard to buy into your argument when we are not able to shore up our own allies at this time, at this critical time. We have an opportunity to become a world leader. All we have to do is loosen the rope just a little.

Thank you for being here, and I yield back.

Mr. BARTON. We thank the gentleman. I apologize to Mr. Johnson. I thought Mr. Mullin was here before. So I erroneously allowed him to go first. But we now recognize the distinguished gentleman from the great State of Ohio and a catcher on the Congressional Baseball Team.

Mr. JOHNSON. Go Bucks, who got no playing time in this month's game by the way. We can talk about that next time.

Mr. BARTON. Obviously a managerial mistake.

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate the time. I want to take just a minute to talk about the incredible journey these past few years have meant for the folks I represent in Eastern and Southeastern Ohio where the vast majority of the exploration and production of shale development have been occurring in the State.

Thanks largely to the oil and gas industry, unemployment in shale counties has fallen some 66 percent since 2010. Counties in my district which have historically seen higher unemployment rates than both the State or the national average are now driving down the State's overall unemployment rate. But certain challenges are now coming into play, challenges that have recently caused about 1,000 rigs to be laid down across the United States resulting in an estimated 150,000 layoffs.

That said, we have an opportunity to address these challenges, and I believe it starts by looking at our outdated energy policies, many of which were crafted when America's energy resources were considered scarce. That is why legislation like the LNG Permitting Certainty and Transparency Act that passed the House back in January which helps America harness our natural energy abundance by requiring DOE by law to act on pending LNG export applications in a timely fashion is so very much needed and important.

This legislation would stop Washington from further delaying job creation at home and will help positively influence global politics abroad. And after much thought, I believe the current crude oil exports restrictions are also standing in the way of real economic and geopolitical benefits. As you all well know, GAO recently testified that removing these restrictions could increase domestic production to an additional 130,000 to 3.3 million barrels per day from 2015 to 2025 while decreasing consumer fuel prices. Lifting the ban would also create American jobs, and like the LNG Permitting Certainty and Transparency Act, it would strengthen America's geopolitical hand globally.

So while I understand that lifting these restrictions will cause some bumps in the road, it is hard to ignore the numbers contained in the GAO's report along with other recent reports, and I think if we go about this the right way, we can smooth out those bumps in the road so that everybody in America wins and we take our rightful place as the world's leader in energy exports.

And so with that, Mr. Barton, even though you didn't play me in the game, I am going to forgive you for that. I would be happy to lend my name to H.R. 702——

Mr. BARTON. Well, thank you.

Mr. JOHNSON [continuing]. To support your bill.

Mr. BARTON. We will have to rectify managerial mistake.

Mr. JOHNSON. All right. We will work on that. We will work on that next year.

Mr. BARTON. All right.

Mr. JOHNSON. I will be back. Now, onto a few questions. Mr. Kreinbihl, in your testimony—and I know you have got a business in Mansfield, right?

Mr. KREINBIHL. Yes.

Mr. JOHNSON. And you have got a friend who owns a business I think in Carroll County as well?

Mr. KREINBIHL. Yes.

Mr. JOHNSON. In your testimony, you touched on many of the harmful impacts that the export ban has had on your business such as laying off workers and wage stagnation. Do you know of other companies who have been similarly affected by the export ban, and what do they have to say about it?

Mr. KREINBIHL. I think there are many suppliers in the industry that are affected by it. A lot of the suppliers to us are affected by how our business is and whether they are supplying us castings or any of the raw materials that we buy, it is affecting them also.

Mr. JOHNSON. OK. Would you expect these negative impacts on your business to continue getting worse if the ban is not lifted?

Mr. KREINBIHL. It seems like as the number of rig counts go down that our business is directly correlated to that, yes.

Mr. JOHNSON. OK. Well, to the extent that you can, and I understand that it may be hard to quantify, can you give us some idea to what extent the export ban has hurt your business, your ability to expand and invest?

Mr. KREINBIHL. I think if we lifted the ban we would create the marketplace for then the economy to pick up and generate business and the need for supplying that market with our equipment and equipment like ours.

Mr. JOHNSON. OK. So basically, your sales would go up you think as the market expands I guess?

Mr. KREINBIHL. Yes, and again, our sales are very much correlated to the number of rigs and the activity out there.

Mr. JOHNSON. OK. All right. Well, thank you very much, gentlemen. And Mr. Chairman, I yield back.

Mr. BARTON. We thank the gentleman from Ohio. We are now going to turn to the gentleman from New York City, the Big Apple, the late-arriving but always welcome, Mr. Engel, 5 minutes.

Mr. ENGEL. Thank you very much, Mr. Chairman, and thank you for always being concerned with this important issue. So I want to thank the chairman, ranking member, for holding this important hearing on the current ban against crude oil exports.

Let me first of all say the United States has more influence over global energy production today than we have had in generations, and that is a terrific thing. It is certainly vital that we pursue a smart and responsible course for energy production distribution. If we develop our energy resources while vigorously protecting the health and safety of all Americans, our Nation can realize enormous economic and energy security benefits.

Mr. Barton knows, because he and I have discussed this, that I have been interested and continue to be interested in the geopolitical aspects of this, the fact—and our ambassador can attest to the fact that Europe is so dependent on Russian oil, and that if the United States were to lift a ban, it might make Russia less important. And I think that is a good thing, given the way they have acted in Ukraine and in Eastern Europe. And so I think that to help wean Europe off of Russian energy, this might be a good thing.

So I am particularly interested in the global ramifications of lifting our crude oil ban and the impacts it would have on jobs and the economy in the United States.

Now, since we held the hearing on this issue last December, I note that two unions, the Laborers International Union of North America and the International Union of Operating Engineers, split from the AFL–CIO position and now support lifting the crude oil import ban, export ban. Mr. Barton and I have had discussions about this.

So we heard as testimony today that if we lift the ban on crude exports, then the vast majority of U.S. crude purchased on world market would make its way to Asia, not Europe. I also read a Wood Mackenzie report from March of this year that concludes the same thing. So let me ask you, Dr. Montgomery, do you agree with the conclusion that if we lift the ban, the vast majority of our crude oil exports would go to Asia? And if you do, does it matter?

Mr. MONTGOMERY. Yes and no. I am sorry, but yes. Asia is a large market, but it is not one we are particularly well set up to serve. I mean we would be moved if the refining is taking place in the Gulf Coast and Mid-Atlantic. That is a long way to get to Asian markets. So basically I think it is extremely hard to predict exactly where a physical barrel of oil is going to move mainly because it is irrelevant in thinking about the global market. Whether we load a ship in the United States and follow that ship around Cape Horn or the Cape of Good Hope or the Suez Canal to get it to Asia or whether that oil goes to Czechoslovakia freeing up some oil that Czechoslovakia might have purchased from Russia to move to Asia, it is all going to have exactly the same effect. It is not where the barrels go. It is how much there is in the total world market.

Mr. ENGEL. So let me ask Commander Lippold. I think he will disagree, but let me hear your disagreement. Commander, do you agree with Dr. Montgomery?

Mr. LIPPOLD. There are certain——

Mr. BARTON. You have got to put your microphone—you have got to push the button.

Mr. LIPPOLD. Yes. Sorry, sir. I would say yes and no. While the oil goes in there and we can't trace where that barrel of oil would go, clearly you put more oil onto the world market, the highest bidder is going to get that oil, and transportation costs will be absorbed in that total thing. Right now the majority of that oil is predicted to go to Asia and studies indicate that.

Mr. ENGEL. So let me ask about imports. Despite the recent increase in domestic crude oil production, the volume of oil of the U.S. imports is not drastically different from the time the ban was put into place in the 1970s. The U.S. Information Administration, according to them, imports in 2014 totaled more than 2.6 billion barrels or around 30 percent of supply. So testimony today, we have heard that lifting the crude oil export ban would result in a greater reliance on imports than would otherwise have taken place. So I would like to ask Dr. Montgomery and Commander Lippold, do you agree? Dr. Montgomery?

Mr. MONTGOMERY. No, I do not believe that—I mean, I do not believe that lifting the export ban would lead to an increase in imports. I look at net imports. The additional production that we would be exporting will be far larger than any conceivable increase that we might have in refined product imports.

So on balance, we are going to reduce—our import position is going to improve if we export the crude oil.

Mr. ENGEL. Commander?

Mr. LIPPOLD. I believe that if you are going to start exporting and you are still importing 30 percent, that fact isn't changing. It still affects our national security in a negative way because we are not achieving that goal of energy independence.

Mr. ENGEL. Ambassador, may I ask you one quick question? Do you agree with my premise that if the United States exported more oil, it would help to wean Europe off of Russian energy?

Ambassador GANDALOVIC. Congressman, I cannot assure you that in the Czech Republic refineries would start buying American crude oil once you possibly lift the ban, but the mere possibility that there is an alternative from the deliveries from the East would definitely strengthen our security and not only the Czech Republic but the entire Europe.

Mr. ENGEL. I know other countries agree with you and the Czech Republic about these things. Mr. Barton, we will continue to have conversation. Thank you.

Mr. BARTON. We appreciate your testimony and your attendance. Last but not least, the longsuffering gentleman from North Dakota, Mr. Cramer, is recognized for 5 minutes.

Mr. CRAMER. Thank you, Mr. Chairman, and thank you for introducing the bill and thanks to all of you for your patience because you have been here and you haven't even left. And I have been able to go up and get out a couple of times.

I want to hone in on this issue of the impact of a free market on everybody because we sort of pick where we want to pick and pick situations. I mean for one of the examples, Commander, you have referenced Asia a number of times. It might surprise people to know that in 2013 the United States exported nearly 50 million barrels of refined petroleum products to China. I don't find that offensive any more than I would find selling oil to China offensive.

But my understanding of a free and open market and its impact on security in the world is you have used the word—Commander, you have used the word energy independence many times in the context of national security. I frankly think that that is only half of the formula. I think energy security is different than energy independence.

For example, and Mr. Mullin raised the point, I think we have established that we import roughly 27 percent of the oil that we refine in the United States. He raised the point that 30 percent of our refining capacity is foreign owned, largely by the people that are exporting or we are importing the oil from. I don't see a lot of incentive for them to change their refining and retooling their refining to take our oil when the whole reason they own those refineries is to import their own oil.

So we export a lot of things out on the Atlantic Ocean that we import back on the Pacific Ocean other than oil. We do that regularly in agriculture products. We have pasta plants in North Dakota that buy low-cost durum from Canada, and our farmers sell higher-priced durum to producers in Minnesota. I mean, that is how a free market works to the benefit of everybody, and I think we are missing some of that.

I would be interested to know—perhaps Mr. Montgomery, you can start—this issue of the 30 percent ownership, foreign ownership of our refineries, whether you find it offensive or not offensive.

That is relevant, is it not, in the context of this discussion of energy security and energy independence?

Mr. MONTGOMERY. To me the importance of that is that those foreign owners are actually benefitting economically from having access to the U.S. market and are richer than they would be, and I think that if our enemies are poorer, that is better for the United States.

But those assets are still in the United States. The fact that they might be owned by LUKOIL or by Venezuela doesn't make them not available to us should there be a national emergency or should we—if we went to war with Venezuela. It wouldn't change the operation of their refineries if we had to take the bullet.

Mr. CRAMER. And I would agree. I don't mean to imply that I am offended by it. I am not offended by it, but in the context of this discussion. Anybody else on that topic including you, Commander, since I am sort of jabbing you a little bit on the issue?

Mr. LIPPOLD. Well, yes. Thank you. It goes actually to the heart of what I have talked about which is when you look at energy independence and we look at developing as part of a national security strategy and having an energy policy, when you look at those refineries and 30 percent being owned by foreign interests, when you look at 30 percent of our oil or 27 being imported into the United States, if you want to look at it at a free-market perspective, we don't have a free market. There are always going to be a certain degree of regulations on what we control, goes where, to whom, and under what conditions. That is part of what government's function is, to ensure that there is a certain degree of level playing field not only internally to the United States but externally to the United States.

So I would look at it and I wouldn't necessarily be concerned about that 30 percent ownership and what they are doing. It is what is going to be available and what conditions are we creating for our people in the United States to perhaps push that 30 percent out and create those jobs for the United States and for the money to end up here in the United States——

Mr. CRAMER. But I guess I see in this case the regulation creating an uneven playing field to the disadvantage of the American producer. And that is sort of the whole point in the whole issue.

I want to ask, Mr. Ambassador, you have said a couple times or referenced this. I want to ask it in a real specific question. Do you believe, representing just your country, that the world would be safer if the United States was a force or a player in the global marketplace, being the stable, reliable provider of crude oil?

Ambassador GANDALOVIC. Yes, I do believe that, and I have tried to prove that in my testimony.

Mr. CRAMER. You have done very well. Let me ask quickly, Commander, since I have a couple seconds. Do you think that displacing heavy sour crude from Venezuela with heavy sour crude from Alberta, Canada, would be better and more in the national interest than—would it make it safer?

Mr. LIPPOLD. If importing it——

Mr. CRAMER. From Canada rather than Venezuela?

Mr. LIPPOLD. I think any time we are taking something not from Venezuela it is for our best interests.

Mr. CRAMER. Thank you. I appreciate your support for the Keystone Pipeline. With that, I yield back, Mr. Barton.

Mr. BARTON. The gentleman's time has expired. That is all the members. No other members present to ask questions. We will keep the record open for the requisite number of days——

Mr. RUSH. Mr. Chairman, if you would, Mr. Chairman, before we——

Mr. BARTON. The gentleman from Illinois.

Mr. RUSH [continuing]. Conclude, the question that—I do have a question.

Mr. BARTON. Well, then we will recognize——

Mr. RUSH. One final question because I am interested in Commander Lippold's reference in his written statement where he said that Nigeria and the impact that lifting the ban would have on the Nigerian government and its fight against extremists. The impact, this impact on Nigeria, can you be more explicit about that? That is of concern to me.

Mr. LIPPOLD. Yes. What you are referring to is the fact that Nigeria produces, along with Azerbaijan, the same type of light sweet crude that we do. If the export ban is lifted, one of the second-order effects you will have is you are now introducing a larger quantity of that oil onto the world market that is going to affect their market share, potentially depressing prices. Clearly, Nigeria being as overly dependent upon oil to support their economy, it is going to have a ripple effect. If the price goes down, they are not going to be able to maintain the type of economy that they need to keep their nation functioning. They are clearly faced with a clear and present danger with the terrorist group Boko Haram. They would take advantage of potential economic instability to try and destabilize if not topple that government which would have ramifications. And this again, sir, goes back to the core of my argument. This is one of those second- and third-order effects. Before we precipitously just lift the ban and move forward, it has to be thought through.

A point that was made a few minutes ago was that, let's lift the ban and we will deal with the bumps in the road. I too, many times in my military career, lived through the consequences of that happening with national leadership making those kinds of decisions. We need to be not reactive but instead plan ahead for what we are going to do. If we think through what the ban is going to do, there hopefully will come a day where we can lift it and do that. But today is not the day because we have not thought through those effects.

Mr. RUSH. Dr. Montgomery, do you have a counter to that argument? And Mr. Chairman, I want to thank you so much for your liberalism.

Mr. BARTON. Be careful how you use that word. But we will let Dr. Montgomery answer that question.

Mr. MONTGOMERY. Thank you, Mr. Rush. Two brief comments. One, to paraphrase, no economic plan survives contact with the market, and this notion that we can plan out all the consequences of a change in policy I think is a fantasy. What we have to do is look at the basic principles of free trade and the way in which our ability to buy and sell goods internationally has benefitted the economy for hundreds of years.

As far as Nigeria goes, again, there are unintended consequences in every direction. We have frequently analyzed the consequence of lower world oil prices on different regions of the world. The fact is, most countries in Africa are oil importers rather than oil exporters. They are the poorest countries in the world. Anything that we do to reduce the world price of oil is going to benefit those poorest countries in the world because they need it and they will pay less for it if we put more oil on the market and make it cheaper.

Mr. RUSH. Thank you, Mr. Chairman.

Mr. BARTON. Thank you. I am so tempted using the power of the chair, which I currently have, to say that a quorum is present. I ask unanimous consent to move the bill as is, call for the ayes, the ayes have it, and the bill is reported out. But that would not be proper form.

Mr. RUSH. It sure wouldn't be, Mr. Chairman.

Mr. BARTON. I won't do that. I do want to first—I have some business. We would ask that three letters from the Energy Equipment and Infrastructure Alliance, the U.S. Chamber of Commerce, and America's Natural Gas Alliance be put into the record, without objection.

Mr. RUSH. No objection.

Mr. BARTON. OK.

[The information appears at the conclusion of the hearing.]

Mr. BARTON. I would also ask to thank our panelists. And before we close this hearing, just put a little bit more context on this, we have had a good discussion today. We talked a lot about exports and imports. I want to put some information in the record from the Energy Information Agency, and we import about 9 million barrels of petroleum products a day, but we export about 4 million. So on a net basis, it is about 5 million barrels per day of imports. Of those 5 million barrels, about 3.5 million come from Canada and Mexico who are geographically adjacent to the United States. In fact, Canada is the number one source of our oil imports. Number two is Saudi Arabia. It is a little over a million barrels a day. Last year, U.S. production increased over a million barrels a day, and if we were to repeal the ban on crude oil exports—now this is an opinion. This is not a fact. I believe that we could easily increase domestic production another million to 2 million barrels a day in the next year or 2 years.

So if you really think about it, we do have the ability to move from a time in the 1970s when we had to import oil from overseas. We have been as high as 74 percent of our oil coming from overseas. We now have the capability that the only oil we import is not by necessity but because of economic availability. That is a real possibility. That is not fantasy. And removing the ban on crude oil exports puts the market in play. I don't discount what Commander Lippold has said, but I do believe if you let markets operate and let the world's largest producer, which is the United States of America, let our producers have the choice to sell domestically to domestic refiners or to sell on the world market. They are going to produce more. And if they produce more, there is going to be more competition, there is going to be more stability, there is going to be less reliance on unstable sources or sources that are in unstable parts of the region.

So we talk about imports and the Commander's facts are correct, but if you look at it from a net import basis and given the capability of our domestic producers to produce, we for all intents and purposes have the capability to be energy independent in the real near-term. And I think that is important in the debate.

Chairman Whitfield has asked me to indicate and so has Chairman Upton that this is an issue that has got a real chance to be marked up. No decisions have been made yet obviously, but it is something that is under active consideration.

With that, again, I want to thank the panelists, and this hearing is adjourned.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

July 8, 2015

Shale Energy Supply Chain Industries and Workers Support Crude Oil Exports

Honorable Fred Upton, Chair
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515

Honorable Edward Whitfield, Chair
Subcommittee on Energy and Power
United States House of Representatives
Washington, DC 20515

Honorable Frank Pallone, Jr., Ranking Member
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515

Honorable Bobby Rush, Ranking Member
Subcommittee on Energy and Power
United States House of Representatives
Washington, DC 20515

Dear Chairmen Upton and Whitfield, and Ranking Members Pallone and Rush:

The undersigned organizations represent the industries and workers that build and supply shale energy infrastructure, including construction, equipment, components and materials, technology, professional services and logistics – in other words the Shale Energy Supply Chain. Members of our organizations create the facilities that produce, transport and process the remarkable and growing abundance of crude oil, natural gas and liquids from shale that has transformed America into an energy superpower in a few short years. In the process the supply chain has created over 600,000 jobs and contributed over $170 billion annually to the American economy, dedicated to supplying shale energy operations.

This transformation has played out on America's Main Street as well as in energy producing areas. Our members operate in all fifty states – where tens of thousands of predominantly smaller local and regional businesses and their workers join with large corporations to contribute to opportunity and prosperity in their communities as they supply the unconventional energy revolution. The supply chain in fact provides three jobs for each one created at the producer level. Today these contributions are in jeopardy. Jobs are being lost and investments are being reduced or redirected overseas because American producers are prevented from exporting American crude oil.

We want to convey our strong support for H.R. 702, to adapt to changing crude oil market conditions, and applaud the bi-partisan effort to end the obsolete restriction on crude oil exports. Opening global markets to U.S. producers will support added domestic production that will create hundreds of thousands of new jobs and contribute tens of billions of GDP dollars in the supply chain within the next few years. At the same time, we will put downward pressure on domestic fuel prices, while we provide our allies and trading partners with an alternative to sourcing energy from unfriendly and unstable sources.

We look forward to engaging our members in support of your efforts to end the export ban, and encourage you to consider the great potential of the voices of the shale energy supply chain in building strong bipartisan support for ending this counterproductive and obsolete policy.

Sincerely,

ENERGY
EQUIPMENT AND
INFRASTRUCTURE
ALLIANCE

[redacted]

Energy Equipment and Infrastructure Alliance
Toby Mack, President & CEO

[redacted]

American Rental Association
John McClelland, Vice President, Government Relations

[redacted]

American Road & Transportation Builders Association
T. Peter Ruane, President and CEO

American Council of Engineering Companies
David A. Raymond, President CEO

American Pipeline Contractors Association
J. D. Lormand, Executive Director

[redacted]

American Supply Association
Michael Adelizzi, Executive Vice President

[redacted]

Associated Equipment Distributors
Brian P. McGuire, President & CEO

[redacted]

Associated General Contractors of America
Stephen Sandherr, Chief Executive Officer

[redacted]

Association of Equipment Manufacturers
Dennis Slater, President & CEO

[redacted]

Distribution Contractors Association
Robert Darden, Executive Vice President

[redacted]

Industrial Minerals Association - North America
Darrell Smith, Executive Vice President

James T. Callahan
General President

[redacted]

The INGAA Foundation, Inc.
Donald F. Santa, President & CEO

[redacted]

Laborers' International Union of North America
Terry O'Sullivan, General President

[redacted]

Leslie Beyer, President & CEO
Petroleum Equipment and Services Association

[redacted]

Portland Cement Association
James G. Toscas, President & CEO

National Utility Contractors Association
Bill Hillman, Chief Executive Officer

[redacted]

Material Handling Equipment Distributors Association
Liz Richards, Executive Vice President

[redacted]

Metals Service Center Institute
M. Robert Weidner III, President & CEO

National Electrical Contractors Association
John M. Grau, Chief Executive Officer

[redacted]

National Industrial Sand Association
Darrell Smith, Executive Vice President

[redacted]

National Ready Mixed Concrete Association
Robert G. Garbini, President & CEO

[redacted]

National Stone Sand and Gravel Association
Michael W. Johnson, President & CEO

[redacted]

National Tank Truck Carriers
Daniel R. Furth, President

CHAMBER OF COMMERCE
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R. BRUCE JOSTEN
EXECUTIVE VICE PRESIDENT
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1615 H STREET, N.W.
WASHINGTON, D.C. 20062-2000
202/463-5310

July 7, 2015

The Honorable Ed Whitfield
Chairman
Subcommittee on Energy and Power
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

The Honorable Bobby Rush
Ranking Member
Subcommittee on Energy and Power
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Whitfield and Ranking Member Rush:

The U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and dedicated to promoting, protecting, and defending America's free enterprise system, strongly supports H.R. 702, legislation to "adapt to changing crude oil market conditions," and applauds the Subcommittee for holding a hearing on this crucial bill.

No area of the U.S. economy has changed more dramatically over the last decade than the energy sector. Since 2006 the amount of oil produced in the U.S. has increased more than 90%. That 4.2 million barrel per day increase is larger than the annual production of every other country, save Saudi Arabia and Russia. In 2006 the U.S. imported about two-thirds of all the crude it consumed, and today that has been winnowed down to just over 40% and declining.

This massive change has outgrown U.S. energy policy, and H.R. 702 would correct the most harmful example, the ban on oil exports. The prohibition on U.S. crude oil exports is a 40 year old vestige of a by-gone era and must be repealed immediately. This ban was instituted in the shadow of the Arab oil embargo that brought the U.S. economy to a grinding halt. The purported rationale for the ban was that the U.S. was not self-reliant enough on its own production to consider exporting any domestically produced oil. However, much has changed in the subsequent 40 years since the ban was erected with the passage of the Energy Policy & Conservation Act of 1975.

Thanks to favorable geology and continuing innovation by the American oil and gas industry, the U.S. maintains more than 200 years of technically recoverable oil and over 500 years of in-place oil. Together with massive natural gas and coal reserves, the U.S. has the largest energy resource base in the world. The policy of prohibiting trade of U.S. oil is not consistent with having the largest energy reserves in the world. Nor do any of the other countries with the largest energy reserves prohibit export of their domestically produced oil.

One of the concerns that many have voiced about exporting U.S. oil is the impact on consumers. Thankfully, this question has been investigated thoroughly by the Government Accountability Office as well as several think tanks and independent energy analysts, and every report has concluded that exporting U.S. crude would cause gasoline prices to decline, not increase.

These reports all found that allowing U.S. oil exports would add supply to the global oil market. Additional supply puts downward price pressure on the price of crude. Because gasoline is predominantly priced globally, a cheaper price for crude (gasoline's predominant feedstock) would put downward price pressure on gasoline.

Not only would consumers benefit from lower priced transportation fuels, but according to a recent IHS report, allowing U.S. oil exports would support an average of 400,000 jobs per year, generate an additional $1.3 trillion in government revenue through 2030, and add $265 in additional disposable income to every American household.

Over the past eight months, the drop in oil prices has led to more than 1,000 rigs to be laid down, resulting in an estimated 150,000 lay-offs. Much of this pain was unnecessary. The export ban denies U.S. oil producers the higher price at which globally traded crude is priced. If domestic producers could export and negotiate that higher global price, a significant number of potential U.S. wells that are now uneconomic would get spudded, putting thousands back to work.

Additionally, allowing U.S. exports would help deleverage countries that use their respective crude oil market dominance to negatively influence countries that must rely on imported oil. The world has witnessed how Russia has used oil and natural gas exports to force countries in Europe and Asia to acquiesce to its geopolitical and economic demands. Bringing U.S. oil to those markets would not completely displace Russian exports, but would provide a much stronger negotiating position for importers, most of which are strategic U.S. allies.

Exporting oil would benefit the U.S. economy and reduce the influence of countries and groups that use oil exports for purposes inconsistent with America's geopolitical and national security interests. The Chamber commends Congressman Barton and Congressman Cuellar for their leadership on this issue and their desire to bring U.S. policy into this millennium. The Chamber strongly supports H.R. 702 and urges the Subcommittee to consider and swiftly report the legislation favorably.

Sincerely,

[redacted]

R. Bruce Josten

cc: Members of the Subcommittee on Energy and Power
The Honorable Henry Cuellar

anga
America's
Natural Gas
Alliance

July 7, 2015

The Honorable Fred Upton
2183 Rayburn House Office Building
United States House of Representatives
Washington, DC 20515

The Honorable Frank Pallone
237 Cannon House Office Building
United States House of Representatives
Washington, DC 20515

Dear Chairman Upton and Ranking Member Pallone,

I write on behalf of America's Natural Gas Alliance (ANGA) to express our support for H.R. 702, which removes restrictions on the export of crude oil. Representing North America's leading independent natural gas exploration and production companies, ANGA works with industry, government, and customer stakeholders to ensure the continued availability of natural gas and to promote the increased use of this abundant domestic resource for a clean and secure energy future.

Through innovation and ingenuity, the men and women of the oil and natural gas industry have helped transform America's energy outlook, significantly benefiting our nation's economy, environment and energy security. Enacting H.R. 702 will help continue our energy progress by lifting trade restrictions on America's abundant oil resources. This legislation will help strengthen America's position in the global energy marketplace and in turn will strengthen economic investments that have helped spur thousands of jobs across the United States and created an energy renaissance. Finally, this legislation will also enhance America's national security and the security and stability of our strategic international alliances.

For the above-stated reasons, we urge the passage of H.R. 702. We look forward to working with you and your colleagues to continue to address this issue.

Please do not hesitate to contact me with any questions.

Sincerely,

[redacted]

Frank J. Macchiarola
Executive Vice President, Government Affairs

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Dear Congressman:

On behalf of Americans for Tax Reform I urge you to support H.R. 702, a bill introduced by Congressman Joe Barton (R-Tex.), which would repeal the outdated federal ban on crude oil exports.

The current ban on the export of crude oil is a relic of 1970's policy, enacted in response to fears of a domestic energy shortage. Nearly four decades later domestic production is at an all time high and the U.S. is now one of the world's leading producers of oil and natural gas. In fact, production in a number of individual states is outpacing some of the world's top energy-producing nations.

This renaissance in domestic production has led to a decline in U.S. dependence on foreign imports and an increasing domestic supply. As a result the U.S. has shifted from a nation concerned over energy scarcity in the 1970's to a nation of energy abundance today.

Allowing the export of U.S. crude would lead to growth in the energy sector, the benefits of which would ripple throughout the economy. Studies show lifting the ban would add hundreds of thousands of jobs annually and billions to GDP while also reducing domestic gas prices. Allowing crude exports is also projected to have far-reaching impacts in virtually every state, not just producers, as a result of the sprawling production supply chain.

H.R. 702 would allow the U.S. to fully realize the benefits of increased domestic energy production. Specifically, H.R. 702 would prohibit federal officials from imposing or enforcing any restriction on the export of crude oil and would require the Secretary of Energy to study and make recommendations on the appropriate size and composition of the Strategic Petroleum Reserve.

H.R. 702 also comes at an extremely important time with the U.S. moving to lift sanctions on Iran that would allow for increased exports of Iranian crude, a move that would put the U.S. at a competitive disadvantage.

It is for these reasons that I urge you to support H.R. 702 to lift the ban on crude oil exports.

Sincerely,

[redacted]

Grover G. Norquist
President
Americans for Tax Reform

July 20, 2015

<table>
<tr><td>The Honorable Fred Upton
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Washington, DC 20515</td><td>The Honorable Frank Pallone, Jr.
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
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Dear Chairman Upton and Ranking Member Pallone:

As representatives of U.S. refineries, we would like to express our support for ending the 30-year old ban on U.S. crude oil exports. The U.S. is about to become the world's largest crude oil producer, due partly to the shale revolution. Allowing U.S. crude oil access to world markets will help expand American exports in general, create benefits for our economy and U.S. consumers, and promote a more resilient global oil market.

In the 1970s, the U.S. faced a scarcity of domestic oil production and was heavily reliant on crude oil imports from other parts of the world. Much has changed in the past 30 years. Innovation and technology has spurred a new era of abundance in the U.S., allowing for a dramatic increase in crude oil production and a precipitous reduction in our crude oil imports. Withholding U.S. crude oil from the global market has created market distortions and inefficiency. Repealing the outdated ban on U.S crude oil exports would resolve these flaws.

Crude oil is the feedstock refiners are reliant upon to produce clean gasoline, diesel and home heating oil for American consumers and the global market. Allowing the export of U.S. crude oil will promote increased investment in domestic crude production and greater domestic supply for U.S. refiners. Further, it will allow for a healthy and vibrant global oil market which will not only benefit our refining sector but aid our economy, keep our skilled workers going strong and add to our tax revenues. Repealing the current artificial market constraints will have long term economic and energy security benefits.

Additionally, American consumers would benefit from the export of crude oil, according to studies by the Government Accountability Office (GAO) and Brookings Institution. The GAO found U.S. consumer fuel prices could fall if exports were permitted because the expanded outlet for oil would boost investments and global supplies. Brookings Institution found that allowing U.S. crude exports would increase domestic oil production, resulting in better job opportunities and greater economic benefits for the country.

U.S. crude oil in storage is near record high levels. By allowing producers to ship the excess overseas to meet global demand, American consumers can benefit from more intense competition among oil suppliers.

We urge policy makers to consider our views as refiners and consumers of crude oil, and take action to enable the export of domestic crude oil. Ending the outdated ban on crude exports is needed to ensure that investment in this country continues to grow and boost domestic production to provide Americans with greater job opportunities and economic benefits.

Sincerely,

[redacted]

Jerry Wascom
President
ExxonMobil Refining & Supply Company

[redacted]

Gary Yesavage
President
Chevron Manufacturing

[redacted]

Douglas Sparkman
Chief Operating Officer
BP Fuels North America

[redacted]

Lori Ryerkerk
Executive Vice President, Global Manufacturing
Shell