EMBARGOED UNTIL APRIL 26, 2012 at 2:15 p.m.

Statement of

The American Petroleum Institute (API)

Before the

U.S. Congress Joint Economic Committee

On

“Gas Prices in the Northeast: Potential Impact on the American Consumer Due to Loss of Refining Capacity”

April 26, 2012

Good afternoon. My name is Bob Greco and I am Group Director of Downstream and Industry Operations for the American Petroleum Institute (API). Thank you for the opportunity to speak at this hearing today.

API represents all aspects of America's oil and natural gas industry. The industry supports 7.7 percent of our economy, 9.2 million jobs, and millions of Americans who hold ownership stakes through pension funds, retirement accounts, and investments.

Refineries are critically important to our nation. They make the fuels that virtually all Americans use and that help drive our economy. They contribute to our energy and national security. And they provide jobs for tens of thousands of Americans and substantial revenue to local, state, and federal governments.

The recent refinery closures in the Northeastern U.S. are a matter of great concern. They have the potential to impact families, communities, and other manufacturing industries, and to reduce tax revenues. We very much regret that.

It's also important, however, to understand the reasons why refining is such a challenging business and why closures sometimes occur – and to also know that the refining industry is resilient and will continue to supply the products that all Americans need.

Refining is highly competitive. It has also traditionally been a low-profit margin industry faced with a heavy slate of regulations over the decades involving many billions of dollars in environmental investment and compliance costs. Because of these and other factors, some refineries – often after sustained periods of financial losses – have had to shut down. About 75 U.S. refineries have closed since 1985.

As this has happened, however, the remaining larger, more efficient facilities have expanded capacity so that total U.S. refining capacity has actually increased by 13 percent. This has allowed the sector to continue to reliably provide Americans with the fuels they need.

The ability of our industry to add capacity and to produce and deliver larger amounts of gasoline and other products over a flexible distribution network – and also to draw on imported products when necessary – will help us continue to supply markets here.

The higher prices we see now also have been a challenge to our refineries. Rising global demand and Middle East tensions have pushed the cost of crude oil higher. The cost of crude oil is the single biggest factor in the price of gasoline – accounting for about three-fourths of the pump price excluding gasoline taxes – and is the largest cost incurred by refineries.

Refiners have struggled to pay higher crude prices to make products for American markets at a time when U.S. demand has been relatively weak because of (1) the recession and its aftermath, and (2) the federal ethanol blending mandates. This has severely pushed down margins and has negatively affected the refining sector.

Refining is a difficult business. But we can make better energy policy choices that can help the industry remain a reliable, stable supplier of affordably priced fuels and keep its workers employed.

Good policy choices mean sensible regulations, fair tax policies, and sufficient access to the crude oil from which all refined products are made. Decisions made in Washington, D.C., are a big part of this equation, but so are those made by local and state governments, such as state requirements for ultra-low sulfur home heating oil.

Excessive rules can raise costs and make it harder for our refineries to compete and stay in business. Policies – such as those embraced by the current administration over the past three years – that limit crude oil production in the United States or prevent ready supplies from being imported from Canada put upward pressure on crude oil prices that eventually affect refineries and those who consume the gasoline, diesel fuel, and other products they make.

That's why we have been calling on the Administration for a change of course.

We've urged them to expand access to America's vast oil and natural gas resources on public lands that could also add supplies to markets and put downward pressure on prices.

We've urged them to approve the Keystone XL pipeline, which could deliver from Canada very large additional supplies of crude oil to U.S. refineries that serve U.S. consumers.

We've called for more sensible, cost-effective regulations that show a practical regard for potential impacts on industry facilities and to the people who work there or who depend on the products they make.

We've asked the EPA in particular to reconsider a virtual blizzard of new poorly thought-out, unnecessary, and even counterproductive rules that could threaten our refining sector. For example, refiners are facing an impending "blend wall" where the mandates to blend ethanol into gasoline will soon exceed our ability to safely use these fuels in existing vehicles. Moreover, refiners are also required to blend into the gasoline supply advanced biofuels that do not yet exist, or pay a fee when they cannot meet the mandates. This policy is regulatory absurdity, and effectively amounts to a hidden tax on gasoline manufacturers.

Another example is the so-called Tier 3 rules for further sulfur reduction in gasoline. EPA has yet to demonstrate any air quality benefits from reducing sulfur by the amount being considered, and an analysis by the respected energy consulting firm Baker & O'Brien shows that implementing the new requirements could increase refinery greenhouse gas emissions because of the use of energy-intensive hydro treating equipment to remove sulfur from the gasoline.

The Baker & O'Brien study also found that US refiners could face $10-17 billion of up-front capital costs and $5-13 billion of recurring annual operating expenses under several Tier 3

scenarios. That could translate to increases between 6 cents and 9 cents per gallon in the cost of manufacturing gasoline. If a vapor pressure reduction requirement is included, the cost increase could be as much as 25 cents per gallon, and four to seven US refineries might close because their owners could not make the required investments to meet the new requirements. While the sulfur reduction requirement alone, with an upfront cost of nearly $10 billion and an annual operating cost of $2.4 billion, probably would not lead to refinery closures, these additional, unjustified costs would only further weaken the competitiveness of domestic refiners.

Of course, diminished domestic fuel manufacturing capacity would lead to increased reliance on imported petroleum products from foreign refineries that may be operating under substantially less stringent environmental standards than exist in the United States—all for what would be at best modest incremental environmental benefits here at home.

Decisions made in Washington, D.C., can have a big impact on refiners and the fuel market, but so can those made by state and local governments. For example, the current New York state requirement for ultra-low sulfur home heating oil is unjustified may impact the reliable supply of home heating oil this winter. Fortunately the state legislature is reconsidering this draconian reduction, and we urge New York to so quickly before the requirements go into effect this summer.

U.S. refineries are under pressure for a combination of reasons, and increased regulatory costs are certainly a factor. The discourse on environmental protection in this country should not be cast as being either for it or against it, which is really a straw man debate, but instead should focus on making regulation more efficient so it materially benefits the environment without impeding economic growth unnecessarily, and avoids hindering other environmental improvements inadvertently.

Existing refinery regulations and fuel requirements clearly contribute to a cleaner environment and safer workplace, but, unnecessary, inefficient, and excessively costly requirements hamper our ability to provide and distribute fuels to America, while also employing hundreds of thousands of people and enhancing our national security. We have already seen some refineries close, at least in part due to the cumulative impact of environmental controls.

The U.S. oil and natural gas industry has invested over $209 billion since 1990 toward improving the environmental performance of its products, facilities and operations. In the year 2009 alone, $12.4 billion was spent implementing new technologies, creating cleaner fuels, and funding ongoing environmental initiatives. 52% of the industry's environmental expenditures in 2009 targeted air pollution abatement, meeting or surpassing the requirements of the 1990 Clean Air Act.

In light of the environmental progress the nation has experienced, we therefore urge the Administration to take a step back on Tier 3 and its other proposed rules. We must be sure that

new regulatory proposals are necessary, properly crafted, practical, and fair to allow US refiners to remain competitive, preserve good paying refinery jobs, and ensure our energy security.

America's refineries are a critical part of the nation's industrial bedrock and a part of the fabric of the communities in which they operate. They make products that are absolutely indispensable to America. They are vital to our national security.

Our policy makers must understand this for this vital sector of our economy to continue serving America the best it can.

Thank you.