

Economic Club of Colorado

Denver, Colorado

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AS PREPARED FOR DELIVERY

Good afternoon, everyone. It's great to be here and I guess I've got three separate clubs to acknowledge – the Economic Club, the Petroleum Club, and the Athletic Club. So a triple thanks for the hospitality today. I'm lucky enough to visit Colorado often, I know Denver well, and I'm glad to look around the room and see many friends.

One thing that always strikes me about Denver is the pleasant mix of old and new. You can walk the city and see so many buildings and enterprises that reflect both the past and future. There's a feeling of optimism here that Denver has never lost, and the same is true of the whole Centennial State. As much today as in the late 1800s, people come to Colorado to do big things in important industries.

Today, I want to tell you about 3 things.

1. The importance of American energy security during a critical moment in our nation's history.
2. Energy markets today – where they are, where they are going, and why we must invest in American-made energy.
3. Some recommendations to policymakers in Washington, DC, and in Colorado, on how to maintain and strengthen American energy leadership.

But, first I want to talk a little history.

Everybody's thinking these days about Ukraine, now in the third month of a vicious onslaught by Russia. The sight of one country being brutalized, and bravely defending itself, has left other nations across Europe to face some of their own strategic vulnerabilities. They're thinking hard about security, and that includes where their energy comes from.

In a tough situation, maybe it helps to recall relevant moments from our past. At the height of World War Two, our allies in Great Britain were facing a severe energy shortage. Supplies from the Middle East were hindered by enemy movements, and oil tankers were under attack by U-boats just off America's coasts.

Similar to today, the world was dealing with a brutal dictator who sought to dominate Europe. Energy played a critical role in the Allies' victory in Europe and in Japan. The lessons we learned during World War Two served our nation well for more than 60 years – we invested in homegrown energy, Presidents in both parties recognized the importance of American energy leadership, and there was a bipartisan consensus that America would be an energy leader for decades to come.

As a result of that great consensus, the United States became the world leader in oil and natural gas production. We beat out Russia and Saudi Arabia to be the source of energy the world needed. But, as is so often the case, some became complacent – energy prices were low relative to other components of our economy and energy security was high. Fast forward a bit, and a historic pandemic slowed production because of a supply and demand imbalance. Finally, recent policies from Washington, made in haste and without an appreciation for our shared history, hindered American development and investment. That's a short look at where we are and why I've been inspired to take a look back.

At every critical moment of World War Two, there is a lesson for us to remember as we deal with today's energy crisis. Japan attacked Pearl Harbor to protect their western front as they pursued their energy needs in Southeast Asia. Germany's war effort was punctuated by a lack of energy supplies as they pursued domination. Indeed, Germany literally ran out of gas as they planned their siege of Moscow. On the other side, the United States provided 90% of the oil that the allies used to win the war.

A lot has happened in the last few years, and Washington forgot those facts and other critical lessons of the past. We lived through a blissful holiday from energy history, but everything changed when Putin invaded Ukraine and suddenly energy regained the important role it should have in the minds of policymakers.

Looking ahead, if our country is going to live up to our billing as the world's energy leader, then we can look to Colorado to see how it's done. This state has been right in the middle of what we call the dual challenge – meeting America's energy needs, and doing so safely and responsibly to protect the environment and build a lower-carbon future.

In fact, Colorado is America's sixth-leading oil producer and seventh-leading natural gas producer. You've also been a state where a number of misguided policies, intended to block energy production, have been rejected, underscoring the primacy that reasonable federal policy should have over hyper-local agendas.

For Colorado's producers to do their part to help meet growing energy demand, regulatory and political certainty is a must. Permits have fallen significantly since passage of Senate Bill 181 in 2019 and follow-on regulatory actions. And the state is lagging others in energy production recovery since the pandemic. Recently, Colorado had 15 active rigs – down from a high of 33 in May 2019. State policymakers can and should take action to ensure that Colorado operators can produce the natural gas and oil needed by American families, businesses, and America's allies abroad.

API has many member companies in Colorado and we have an office right here in Denver, ably led by the great Lynn Granger. Oil and natural gas directly and indirectly add about \$46 billion to the state's GDP, support 340,000 jobs, and account for more than 13 percent of total labor income. Colorado is truly an example of the combination of abundant resources and safe, responsible development.

Environmental progress will always take active, sustained commitment – Colorado is known for that, too. And when it comes to alternative energy sources, it's a similar story. Already, 30 percent of electricity here comes from wind and solar. That puts you way ahead of most other states in achieving the all-of-the-above energy diversity we all want to see.

Your resourcefulness can be felt nationwide. In times of challenge for Western countries, it's good to remember that American ingenuity can make all the difference. The lesson is relevant today because many of our friends in Europe are making fundamental changes in energy policy. And they're able to do that only because America is here to back them up.

Right now, with Russia using energy as a weapon, American producers are helping to stabilize Europe. There's still a lot of uncertainty about this terrible war and how it will play out. But at least our friends in Europe know that some energy from Russia can be replaced by reliable energy from America.

This crisis has brought us to another moment of clarity: We see friendly nations left vulnerable, and we never want to be in that position ourselves. We see global demand overtaking supply, raising costs for everybody. Yet as complex as the picture might seem, the simple precondition for lower prices is greater supply.

As much as ever, we need to think hard about that basic economic truth, and we must act to stay in command of our energy future. That means recognizing energy from natural gas and oil as the critical strategic asset it is to America – and never taking it for granted again.

Take the U.S. pledge to increase gas exports to Europe – by 65 percent over the next six years. Sure, it can be done, and yes, we're all for it. But in this case, Washington isn't letting our industry use the tools and levers needed to meet that goal.

To get supplies on this scale to export terminals and over to Europe, we'll need two basic things – access to energy on federal lands, which is a big deal in a state like yours – and the infrastructure to move it. That means laying many miles of pipelines and getting the federal and state permits to do so. When we mention details like these, it gets politically complicated. But that's just the reality. If Europe's going to get the energy, then America will need the access and the infrastructure to get it there.

One example of taking things for granted came recently when the U.S. Secretary of Energy addressed a conference in Houston, telling the industry that America needs to pump more oil. That was good to hear, but it still doesn't make up for policies that discourage investment and impede infrastructure. As if to prove the point, late last month the White House announced even more rules to slow down permitting. The rules are so broad that they're likely to hold back transmission of energy even from renewables. Such contradictions and mixed signals only cause uncertainty, and they set our country up for more trouble down the road.

For example, the President's top climate advisor recently said: "President Biden remains absolutely committed to not moving forward with additional drilling on public lands. The challenge that we faced was that we had a court that ordered a new lease to be done. The Department of Energy had no choice but to put it out. But they also found ways to reduce the size of that and its impact. And we'll keep doing what we need to do to appeal."

Talk about mixed messages. We can't treat the oil and natural gas industry as a kind of light switch that is turned on or off to suit the political moment. Production and delivery don't work that way. Yet the overriding policy lately has been to cancel pipelines, block permits, and deny leases – all of which suppress needed investment.

It can be easy and fashionable to speak as if we hardly even need oil or natural gas anymore. But then disruptions occur, and once again everybody is staring down the truth. Now, suddenly, some policymakers want to flip the switch “on” again, but only for a short time. And as practical realities intrude, mostly what we hear from Washington is blame-shifting and excuses.

What brought prices to where they are now is a combination of bad policy, a pandemic, and lately the effects of Russia's war. These conditions led to at least one new policy – to take a million barrels a day out of the Strategic Petroleum Reserve over the next six months. But it's reasonable to ask: Why simply increase oil supply as a temporary measure by government, when America has vast underground reserves that could expand reliable supply on an ongoing basis?

To point out the obvious, what we're dealing with here is short-term thinking, disconnected from hard reality. Washington is caught up in the “here and now,” desperately improvising in the absence of a consistent, long-term energy strategy.

But there is one upside. As more Americans face the consequences of bad policy, the elements of good policy become that much more apparent and compelling. We have our best chance in years to re-center the discussion around the broadly shared objective of energy security – and of all the economic and environmental benefits that come with it.

The environmental benefits are in some ways easy to cite, because no nation has anything to compare with the phenomenal progress we've made in the United States. Suppose someone had told us 20 years ago that power generation in America would see a 30 percent decline in greenhouse emissions. We would have assumed, number one, that there must have been some sweeping government mandate to make it happen . . . and, number two, that it spelled an era of decline for the oil and gas industry.

Yet exactly the opposite is true. No such mandate was ever imposed. What happened instead was a series of technological leaps that have changed the whole energy picture, profoundly and for the better. As we transition from coal to natural gas, since 2000 the United States has become the world's leader in reducing CO2 emissions. With years of investment and a lot of ingenuity, we've shown that rising energy production doesn't have to mean ever-increasing carbon emissions.

We're a problem-solving, technology-driven industry, with some of the best engineering minds in any field. We take environmental challenges seriously; we know we're not going to impress anyone by just talking about them. Practical, real solutions are the only things that matter.

It's a big environmental achievement to reduce your surface footprint by almost 90 percent, as our industry has done in many places. It will mark another huge advance when hydrogen becomes a major energy source . . . or when methane emissions and flaring are brought down to an absolute minimum. And on both fronts, we're determined to get there.

Step by step, innovation by innovation, our members are going straight at complex problems – improving carbon capture, developing cleaner-burning fuels, and bringing new technologies to commercial scale. Our industry is investing heavily in these and other goals – and frankly, it's making us better in all that we do.

And one more point about environmental leadership: Many oil- and natural gas-producing countries don't match our progress because they don't match our standards. So it's better when the producing is done in America, where we have among the highest standards in the world.

Fortunately, we're up to the task. After all, for most of our lifetimes, this country was a net importer of crude oil. Yet by 2020, we had become a net exporter of petroleum, for the first time since the 1950s. Five years ago, the United States became a net exporter of natural gas. And we have just become the world's number-one exporter of liquid natural gas. Horizontal drilling, hydraulic fracturing, and other breakthroughs have given us access to immense reserves of oil and natural gas – reserves that will be essential deep into the future.

Setting ideology aside, most everyone knows that the world needs oil and natural gas in a big way and will for decades. The only question is where that oil and gas will come from. As our friends in Europe have learned the hard way, you don't want to rely on an energy supplier who might quickly turn hostile.

The plain fact is that if nations do not control their own energy, their fate is in the hands of others. And we must never let that happen to the United States of America.

We talked about energy security forever and then we finally achieved it. We worked hard to put America in a position of strength and greater independence. It would be foolish, and even tragic, to ever give it up.

That alone is a powerful argument for more investment, more exploration, and more innovation to keep us in a commanding position no matter what the future might bring. Energy policy does not have to be an endless series of crisis-management decisions. Our aim should be to *avoid* crises, by shaping events instead of waiting on them. Thankfully, Washington can help our industry do four things fast, and we hope you'll call or write your representatives to get to work. Taken together, we believe these policy steps can have a decisive impact.

The first is oil and natural gas production on federal lands. Up to now, the administration hasn't completed a single lease sale. At this point in his first term, President Obama had issued nearly 50. A few weeks ago, the administration did finally agree to hold a sale, but they undercut their purposes by scaling back available acreage and raising royalty fees. If the aim is to deal with rising gas prices, we're going to need a lot more movement and purpose than we're seeing right now.

Second, with America's five-year offshore leasing program about to expire next month, we need a new one fast. Not only does the law require such a plan; without one, there is no way for American producers to plan offshore development. These projects take seven or more years to bring online, so we're talking jobs, economic activity, and affordable energy that will all depend on a new offshore leasing program.

Third, the Department of Energy should continue to approve all LNG export applications and ask Congress to allow swift approval of exports to non-free-trade-agreement nations.

Finally, in Washington we need a big course correction on infrastructure. Being the world's number one energy producer will mean less and less if we're not able to move it to refineries, to users, and to shipping ports. We know how to do this safely, cleanly, and effectively. Endless regulatory obstacles and lawsuits might please some interest groups, but they are not in the best interest of our country.

After all, every citizen has a stake in America's energy leadership, because energy touches everything else in the economy.

This is an industry well-known and appreciated in Colorado. But I could also show you around places in Pennsylvania, Ohio, North Dakota, New Mexico, and elsewhere that have seen job growth and economic revival more durable and broad-based than anyone imagined was possible. That spreads out to parts and equipment suppliers, truckers, contractors, service providers, and on and on. We're talking about a powerful engine with a history of prosperity and patriotism. And I would rather keep that engine running in America than anywhere else.

Thank you very much.