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"Impacts of COVID-19 on the Energy Industry"
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Introduction

Chairman Murkowski, Ranking Member Manchin and members of the Committee, thank you for the opportunity to testify today. My name is Frank Macchiarola, and I am senior vice president of Policy, Economics and Regulatory Affairs at the American Petroleum Institute (API).

API is the national trade association representing America's oil and natural gas industry. Our 600 members - from fully integrated oil and gas companies to independent companies - comprise all segments of the industry. API members are producers, refiners, suppliers, retailers, pipeline operators and marine transporters as well as service and supply companies providing much of our nation's energy.

The subject of today's hearing, "Impacts of COVID-19 on the Energy Industry" is an important one, as our nation faces a combined public health threat in the form of a pandemic, and a significant economic downturn.

To date, total COVID-19 cases in the United States stand at nearly two million, with total U.S. deaths surpassing 112,000.¹ And, our nation's employment statistics indicate a decline of approximately 20 million jobs since February.² Over the same time period, employment in the extractive industries, a category which includes: oil and gas, and support activities for mining, pipeline transportation, other related industries and some non-oil and gas sector jobs declined by 130,000 jobs.³

Oil and Natural Gas Industry During COVID-19

At the outset, it is important to briefly note some of the response efforts of the men and women of the oil and natural gas industry to address the COVID-19 pandemic. Our industry is helping provide much-needed relief and support to communities in a variety of ways. API members have

¹ "Coronavirus Disease 2019 (COVID-19): Cases in the U.S. Last updated June 10, 2020. Centers for Disease Control and Prevention, <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>.

² "The Economics Daily: Employment up 2.3 million in May, but still down 19.6 million since February. June 9, 2020. U.S. Bureau of Labor of Statistics, <https://www.bls.gov/opub/ted/2020/employment-up-2-point-5-million-in-may-2020-but-still-down-19-point-6-million-since-february.htm>

³ US Bureau of Labor Statistics, Current Employment Statistics, <https://www.bls.gov/ces/>

donated more than \$100 million to relief efforts, including support to local food banks, hospital systems and many non-profit organizations. Additionally, to assist health-care professionals and first responders on the frontlines battling this pandemic, the oil and natural gas industry provided gasoline cards, vouchers and discounts on fuels. And, the oil and natural gas industry supplied personal protective equipment and medical gear to hospitals, nursing homes and health-care providers to help protect against the spread of the coronavirus.⁴ Additionally, our industry produces critical raw materials such as polypropylene, used to produce masks and gowns, and isopropyl alcohol for hand sanitizers and disinfectant products.⁵ Across the country, our industry continues to provide the energy and products the nation needs during this time of crisis.

The conditions created by COVID-19 present substantial business and operational challenges for the oil and natural gas industry including an unprecedented market imbalance, a significant commodity price decline and heightened efforts to maintain strong operational integrity in the face of the pandemic. While the recent lifting of stay-at-home policies designed to prevent the spread of the coronavirus has resulted in increased petroleum demand and a stabilization in the markets, difficulties persist. In particular, uncertainty remains as to the speed and scope of the recovery in transportation and thus the outlook for jet fuel and gasoline demand. We remain confident that economic recovery and oil demand are inextricably linked, and we see signs of recovery and demand increases continuing into the second half of 2020. Our industry remains resilient in the face of these challenges and we are committed to providing the affordable, reliable and cleaner energy that people need to sustain everyday life, enhance standards of living and increase prosperity around the world.

A strong U.S. oil and natural gas industry is essential to maintaining our nation's economic vitality. Over the past decade, the emergence of the United States as the world's leading producer of oil and natural gas has strengthened our energy security and driven economic growth while reducing emissions. The oil and natural gas industry supports more than ten million American jobs and over seven percent of the overall U.S. economy.⁶ Since 2010, cumulative capital investment in the industry exceeded two trillion dollars⁷ and the average annual salary of oil and natural gas workers is approximately \$108,000 – nearly double the national private sector average.⁸ Additionally, as economies around the world expand, global consumption of oil and natural gas will continue to grow. Over the next thirty years, the world's population is estimated to grow by approximately two billion people.⁹ With greater global economic expansion and an increase in the size of middle class populations, world energy usage is estimated to increase by nearly fifty percent by 2050, with more than half of that demand coming from oil and natural gas.¹⁰ As the world

⁴ API, <https://www.api.org/news-policy-and-issues/pandemic-information/industry-response>. June 2020.

⁵ ExxonMobil, "A Message from Darren Woods" <https://corporate.exxonmobil.com/News/COVID-19-ExxonMobils-response/message-from-Darren-Woods>

⁶ PWC "Impacts of the Natural Gas, Oil and Petrochemical Industry on the U.S. Economy in 2018" May 2020.

⁷ Oil and Gas Journal.

⁸ U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages.

⁹ United Nations: Department of Economic and Social Affairs. June 17, 2019.

<https://www.un.org/development/desa/en/news/population/world-population-prospects-2019.html>

¹⁰ U.S. Energy Information Administration, "International Energy Outlook 2019 with projections to 2050" September 24, 2019 <https://www.eia.gov/outlooks/ieo/pdf/ieo2019.pdf>

recovers from the COVID-19 pandemic and its associated economic impacts, the oil and natural gas industry will be essential to that recovery and we stand ready to do our part.

Market Impacts of COVID-19

In assessing the market impacts of COVID-19, it is first important to recognize that several unique supply and demand factors coincided to create an historic market decline. Some of these factors were the result of long-term trends while others served to change market conditions rapidly. At its core, the sharp commodity price decline was the result of an oversupplied market and a swift, steep decrease in demand for petroleum products.

With respect to the supply side of the equation, for over three years the OPEC-plus alliance had agreed to crude oil production cuts as output from the United States increased significantly during that same time period.¹¹ Non-compliance from some alliance countries during that time frame, including Russia, were a precursor for the events that took place in early March of this year. In the midst of a drastic reduction in global oil demand from the COVID-19 outbreak, OPEC-plus nations met in Vienna, Austria, on March 5, 2020.¹²

At the Vienna meeting, Russia declined to approve OPEC's proposal to cut production by an additional 1.5 million barrels per day (applied on a pro-rata basis with OPEC members reducing one million barrels per day and non-OPEC nations the other five hundred thousand barrels per day), in addition to the 1.7 million barrels per day reduction agreed upon in December of 2019.¹³ Saudi Arabia responded immediately by discounting prices and announcing production increases sending the price of oil on a steep decline of around 60 percent for the first quarter of 2020 and pushing oil to a 21-year low during April.¹⁴

In an effort to increase its market share in the midst of the pandemic, Saudi Arabia produced a record 11.3 million barrels of oil per day in April, a month which also saw a record decline in global oil demand.¹⁵ Finally, weeks after the early March actions in Vienna, and with pressure from the Trump Administration and Congress, OPEC-plus nations agreed to production cuts of 9.7

¹¹ Tom DiChristopher, Sam Meredith. "OPEC and allies agree to cut oil production by 1.2 million barrels per day" CNBC.com. December 7, 2018.

<https://www.cnbc.com/2018/12/07/opec-meeting-saudi-arabia-and-russia-look-to-impose-production-cuts.html>

¹² Organization of Petroleum Exporting Countries, *The 178th (Extraordinary) Meeting of the Conference of the Organization of the Petroleum Exporting Countries (OPEC)* Vienna, Austria, March 5, 2020.

https://www.opec.org/opec_web/en/press_room/5865.htm

¹³ Sam Meredith, "OPEC+ fails to agree on massive supply cut, sending crude prices to 2017 lows" CNBC.com <https://www.cnbc.com/2020/03/06/opec-meeting-coronavirus-weighs-on-oil-demand-as-oil-prices-fall.html> March 6, 2020.

¹⁴ William Watt, "What's Next for Oil after Prices go Negative? Saudi, other prices expected to do more to curb supply" MarketWatch <https://www.marketwatch.com/story/whats-next-for-oil-after-prices-go-negative-saudis-other-producers-expected-to-do-more-to-curb-supply-2020-04-21> April 21, 2020.

¹⁵ Organization of the Petroleum Exporting Countries "OPEC Monthly Oil Market Report" May 13, 2020 (56).

million barrels per day taking effect on May 1. On Saturday June 6, OPEC-plus agreed to extend these oil production cuts through the end of July.¹⁶

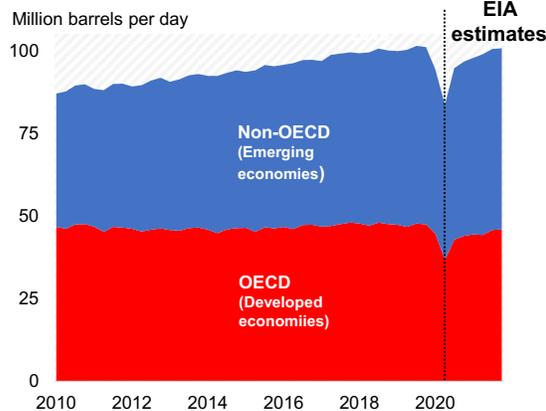
In the United States, crude oil production has responded to market signals during the past three months. In the week ending June 5, U.S. crude oil production was 11.1 million barrels per day, a decrease of 1.9 million barrels per day from the last week of March.¹⁷

The data also shows that the supply side was the much smaller piece of the equation. While the supply response is helpful – it has lagged – and still pales in comparison to the steep and swift demand declines for oil. On the demand side, U.S. oil demand was 17.6 million barrels per day in the week ended June 5, an increase of 3.8 million barrels per day over the low point in the week of April 10, but still well below the pace of 20.2 million barrels per day throughout 2019, according to the Energy Information Administration (EIA).¹⁸

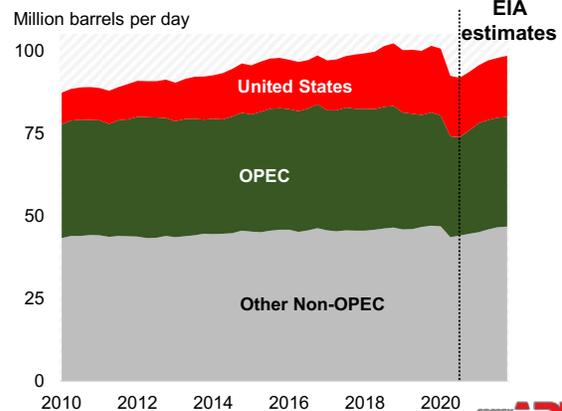
Global oil demand fell faster than supply, and EIA expects relatively faster demand recovery after Q2 2020

• EIA projects U.S. production to decline, offset by other Non-OPEC nations and OPEC to global markets

Global crude oil and liquids consumption



Global crude oil and liquids production



Globally, the dynamic of a more rapid and substantial demand response has also prevailed. EIA currently projects 2020 oil demand will decline by 8.3 million barrels per day as a result of global

¹⁶ Benoit Faucon, Summer Said, David Hodari. “OPEC, Allies Finalize Deal to Extend Oil-Output Cuts” The Wall Street Journal. <https://www.wsj.com/articles/opec-finalizes-deal-to-extend-oil-output-cuts-11591456992>. June 6, 2020.

¹⁷ Energy Information Administration “EIA Weekly Petroleum Status Report” (June 10, 2020).

¹⁸ Id.

containment measures around COVID-19.¹⁹ Oil demand in April, which is widely expected to be the lowest point, was estimated by EIA at 21.3 million barrels per day lower than a year ago – down to the lowest level since 2002.²⁰ However, EIA also projects a relatively more rapid recovery for demand than supply, which underscores the importance of an energy policy in the United States that allows markets to work and thus helps enable U.S. producers to ramp back up as the economic recovery progresses.

Government and Public Policy Response

From the outset of the COVID-19 pandemic, it was essential that the oil and natural gas industry continue to supply the nation with fuel without interruption to our operations and supply chains. On March 20, 2020, API President and CEO Mike Sommers wrote to President Donald Trump and the nation’s governors, highlighting the critical role our industry plays in providing affordable and reliable energy to American families and businesses.²¹ As federal and state restrictions and guidelines took effect to prevent the spread of the coronavirus, API requested that the Administration work with states to ensure they recognized the industry’s essential role in providing the necessary fuels to deliver products and services in a timely fashion across the country. API encouraged states to follow U.S. Department of Homeland Security guidance designating oil and gas industry workers as essential critical infrastructure workforce,²² promoting the ability of such workers to continue operations to the fullest extent possible during periods of social distancing and closure orders and directives. Our industry appreciates the support received at the federal, state and local levels to ensure continuity of operations and workforce during this critical time.

Additionally, during the week of March 23, API wrote to several relevant federal departments and agencies expressing our industry’s commitment to prioritizing safe and reliable operations and requesting assistance in temporarily waiving non-essential regulatory compliance obligations in coordination with state agency counterparts as necessary.²³ Recognizing the potential for limited personnel capacity as a result of social distance guidance from Centers for Disease Control and Prevention and state stay-at-home orders, our industry requested temporary relief through enforcement discretion, waivers or revised compliance timeframes in response to the COVID-19 pandemic. Our industry appreciates the guidance received at the federal and state levels related to such requests.

¹⁹ Energy Information Administration. “EIA: Short-Term Energy Outlook”
<https://www.eia.gov/outlooks/steo/report/>
(June 9, 2020).

²⁰ Id.

²¹ Letter, Michael J. Sommers, API to President Donald J. Trump, March 20, 2020.
<https://www.api.org/~media/Files/News/Letters-Comments/2020/3202020-API-Letter-to-President-Trump.pdf>

²² Christopher C. Krebs, “Memorandum on Identification of Essential Critical Infrastructure Workers During COVID-19 Response” (official memorandum), Washington D.C. United States Department of Homeland Security, March 19, 2020. <https://www.cisa.gov/sites/default/files/publications/CISA-Guidance-on-Essential-Critical-Infrastructure-Workers-1-20-508c.pdf>

²³ Letter, Frank J. Macchiarola, API to U.S. Environmental Protection Agency Administrator Andrew Wheeler, March 23, 2020. <https://www.api.org/~media/Files/news/2020/03/Letter-to-Admin-Wheeler-3-23-20.pdf>

With respect to policy, API has been clear from the outset of this historic crisis that we are not seeking industry-specific financial assistance or legislative authorizations as a result of the market disruption caused by the COVID-19 pandemic. We support Congressional action through the CARES Act in providing broad economic stabilization across the U.S. economy in the form of measures to maintain systemic liquidity and promote continued employment.²⁴ And, we support efforts at the U.S. Department of the Treasury and the Federal Reserve to ensure systemic liquidity across the economy.

As the steep drop in oil demand continued and concerns grew regarding the availability of adequate commercial oil and petroleum product storage capacity, the U.S. Department of Energy (DOE) cancelled plans to sell oil into the market from the Strategic Petroleum Reserve (SPR). On April 2, 2020, DOE announced plans, under existing legal authority, for a solicitation to make available up to 30 million barrels of SPR oil storage capacity.²⁵ DOE ultimately leased 23 million barrels of oil storage capacity in the SPR, with 15 million barrels already delivered, helping to alleviate the domestic market imbalance.²⁶ API continues to support the Administration’s use of existing authorities to effectively manage the SPR.

On March 27, 2020, the U.S. Environmental Protection Agency (EPA), in consultation with DOE, issued a waiver of certain fuel standards under the Clean Air Act to “minimize or prevent the disruption” of an adequate supply of gasoline throughout the United States, delaying the transition to summer gasoline at fuel distribution terminals on May 1 and at retail stations on June 1.²⁷ EPA allowed terminals and retailers to distribute fuel covered by the waiver until supplies were depleted. Additionally, forty-four states responded in-kind, issuing waivers to help alleviate this potential disruption to fuels markets. API supports these efforts to minimize or prevent disruptions in fuels markets across the nation.

Finally, there were several policies proposed by some during the market disruption that API strongly opposes. While the dramatic decrease in global crude oil demand and accompanying market contraction is significantly concerning, we do not support specifically targeted federal relief measures in energy markets. The value of free markets and private enterprise serve as the foundation of our industry and as such we are not seeking industry-specific financial relief. While conditions of oversupply impacted global markets, the market disruption created by COVID-19 is principally driven by broader economic contraction and significantly reduced demand for petroleum-based products. Further, we believe that short-term measures, though well-intentioned, are likely to be ineffective and may produce longer-term systemic harm. As recent weeks have

²⁴ Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, Pub. L. No. 116-136 (2020).

²⁵ U.S. Department of Energy. <https://www.energy.gov/articles/us-department-energy-make-strategic-petroleum-reserve-storage-capacity-available-struggling> (April 2, 2020).

²⁶ U.S. Department of Energy. <https://www.energy.gov/articles/doe-announces-crude-oil-storage-contracts-help-alleviate-us-oil-industry-storage-crunch> (April 14, 2020).

²⁷ Letter, U.S. Environmental Protection Agency Administrator Andrew Wheeler to Governors and Mayor Bowser, May 1, 2020 Fuel Waiver Concerning Summer Gasoline. <https://www.epa.gov/sites/production/files/2020-03/documents/nationwidefuelwaiverconcerningsummergeasoline.pdf> (May 27, 2020).



shown, the most effective way to address this market disruption is through economic stabilization and a safe and swift return to economic activity.

In keeping with our free market-based principles, we discourage retaliatory trade measures that could disrupt global markets. In addition to substantial global interests within the U.S. oil and natural gas industry, U.S. refiners require diverse crude slates, including from imports, to deliver essential petroleum products to American consumers. Additionally, U.S. producers avail themselves of international markets to meet global energy demand. It is essential that we sustain these markets, particularly during this disruptive time. On April 1, 2020, API President and CEO Mike Sommers and AFPM President and CEO Chet Thompson wrote to President Donald Trump noting the importance of the refining sector to the broader U.S. economy and cautioning against policies that would impose supply constraints, such as quotas, tariffs, or bans on foreign crude that would exacerbate this difficult situation and jeopardize American competitiveness.²⁸ The oil and natural gas industry appreciated the Administration's opposition to such measures.

Additionally, API successfully opposed petitions to impose production quotas on oil producers in Texas, Oklahoma and North Dakota demonstrating that market forces were already in motion to resolve supply and demand imbalances.²⁹ By its nature, supply tends to respond slower than demand, but the U.S. still experienced an unprecedented supply response in the form of lower drilling activity and oil production. For the week ending June 5, EIA data showed that U.S. oil production fell by two million barrels per day from its peak in mid-March.³⁰ Government intervention, which spreads the proverbial pain in different ways than competitive markets, would be counterproductive and disproportionately harm efficient producers – potentially hindering future productivity and our ability to ramp back up to meet global oil demand as economic recovery takes hold.

Conclusion

The conditions created by the COVID-19 pandemic present significant business and operational challenges for the oil and natural gas industry. A public health crisis and an accompanying global economic contraction resulted in a major disruption in oil markets. During a period of oversupply, our industry suffered a substantial reduction in oil demand that was both swift and steep and caused a significant commodity price decline.

While several unique factors coincided to create these unprecedented conditions, our industry has experienced difficult times before. The resilience and innovative spirit that defined America's oil and natural gas industry throughout its history remains alive and strong in the essential workforce that continues to deliver the energy and products Americans need to keep us moving forward through this crisis.

²⁸ Letter from Michael J. Sommers, API and Chet Thompson, AFPM to President Donald J. Trump, April 1, 2020. <https://www.afpm.org/system/files/attachments/Joint-AFPM-API%20letter-to-President-Trump-04-01-2020.pdf>

²⁹ Testimony of R. Dean Foreman, API before the Railroad Commission of Texas <https://www.rrc.state.tx.us/media/57237/cmts-recvd-apr14-conf-api.pdf> (April 8, 2020)

³⁰ Energy Information Administration "EIA Weekly Petroleum Status Report" (June 10, 2020).



Our priority remains the safety and health of our workers and the communities in which we work and live. As our nation recovers from this public health crisis and economic downturn, the oil and natural gas industry is committed to providing our nation – and billions of people around the world – with more affordable, reliable and cleaner energy for better years to come.

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