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Chairman Ed Whitfield
United States House of Representatives
Energy and Commerce Committee
Energy and Power Subcommittee
2184 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Bobby Rush
United States House of Representatives
Energy and Commerce Committee
Energy and Power Subcommittee
2268 Rayburn House Office Building
Washington, D.C. 20515

Re: Energy and Power Subcommittee Hearing Entitled, “The Energy Policy and Conservation Act of 1975: Are We Positioning America for Success in Era of Energy Abundance?”

Dear Chairman Whitfield and Ranking Member Rush:

The American Fuel & Petrochemical Manufacturers (AFPM) applauds the Energy and Power Subcommittee for holding a hearing to examine the impacts of our nation’s outdated energy laws, something we believe is long overdue. When Congress enacted the Energy Policy and Conservation Act of 1975 (EPCA), the United States was reacting to the 1973 oil embargo that created significant problems for the U.S. economy. Although much of the economic upheaval was self-induced by federal interference in the market via price controls and production limiting distortions that in essence turned a manageable nuisance into a major event, EPCA established a federal energy policy that was designed to protect the nation from supply disruptions. Among many other things, EPCA placed a ban on the export of crude oil from the United States.

However, the policies under EPCA were drafted in an era where the energy outlook for the United States was much different than it is today. Our nation has witnessed extensive changes in the energy landscape over the last 40 years. Policymakers and the public have seen concern over a lack of refining capacity turn into a scenario where domestic refiners can make all the fuels to meet America’s needs, while also producing surplus refined petroleum products to export. Assumptions of exponentially rising demand and diminishing oil production have proven wrong; today, domestic transportation fuel demand is declining while oil production at home is now on track to surpass all other countries. These shifts have led to call for lifting the oil export ban, which some have pointed to as a barrier to a free market.

AFPM’s position is that a free market should drive all U.S. policy, including energy policy. While we do not oppose lifting the existing restrictions on U.S. crude oil exports, we believe Congress should look at all barriers to the free market, including the Renewable Fuel Standard (RFS) and the Jones Act. Taking a holistic approach in such a way will ensure policies are not advanced in a manner that would not only disadvantage domestic refiners in a global marketplace, but could ultimately result in severe economic disruption for large regions of the nation. I am confident that you will agree that the nation cannot



afford to repeat the miscalculations of 1975 where energy policy was established without a full understanding of the entire dynamic.

The United States faces major changes in our energy markets with little history to guide us on how to adapt to those changes. Today, domestic petroleum supply, distribution, storage, refining and demand are all making large shifts, greater than at any other point in our history. In order to have a meaningful discussion on our energy future, policymakers must consider how lifting the ban affects all parts of production, distribution and refining. Along these lines, the debate should be informed about the facts regarding U.S. capacity to refine additional domestic crude oil. One common misperception is that there is currently a glut of light crude oil and that the United States has “maxed out” on its ability to process this supply. The reality is that such a glut does not currently exist. Utilization adjustments and new investments alone will allow the domestic refining complex to process at least an additional million barrels per day of light crude oil. This figure does not take into account our ability to continue backing out existing imports of light sweet crude oil. In short, there is plenty of room for processing light sweet crude oil in our domestic refining complex and this capacity is likely to grow further. Policy discussions on modernizing our energy laws need to recognize this reality and its positive implications for U.S. energy security.

As production in the United States has increased, so too has waterborne movement of crude oil, shipments of which are subject to the Jones Act, or Merchant Marine Act of 1920. This law requires that vessels used for domestic shipping must be built in the United States, owned by U.S. citizens and crewed by at least 75 percent U.S. citizens. The Jones Act, which only applies to the transportation of goods via ships, costs our economy \$200 million per year according to the World Economic Forum. These costs could grow even higher as demand for certified tankers and barges increases while Jones Act vessels remain limited in number.

Today, shipping crude oil via a Jones Act ship costs a U.S. refiner about \$5 to \$6 per barrel compared to just \$2 to \$3 per barrel from a non-Jones Act ship intended for a European port. This puts domestic refiners at a significant disadvantage, especially when you consider the potential regional disparities this policy incentivizes. Several years ago, East Coast refineries, representing over half of the region’s refining capacity, faced closure due to rising crude oil feedstock costs and increasing competition from imported transportation fuel. However, the low cost of U.S. oil production from the Bakken region has been instrumental in keeping the remaining refineries competitive. Because domestic refiners operate in a global market, lifting the crude ban without addressing the Jones Act will give foreign competitors access to U.S. crude more cheaply than U.S. East Coast refiners, once again putting those refineries in jeopardy.

In addition to the Jones Act, U.S. refiners are also subject to the broken mandates in the RFS, another policy that inhibits a free market and should be examined when reviewing the export ban. This law requires refiners to blend increasing amounts of biofuel into the U.S. fuel supply regardless of consumer demand, what existing vehicles and infrastructure can safely handle, or if the fuels even exist in viable, commercial quantities. Foreign competitors do not face the lopsided cost and compliance scenarios that domestic refiners face with respect to this ill-crafted and harmful mandate.

While AFPM is not opposed to lifting the crude export ban, we believe that a holistic look at our energy policy in this country is critical. Currently, our energy policy is, at best, a disjointed collection of reactionary legislation that has been enacted in response to a crisis or perceived need for protection of a U.S. industry. No example is greater than the EPCA of 1975, which was a reaction to the 1973 Arab oil



embargo, and the Jones Act, which was enacted based on certain wartime considerations irrelevant in the modern era.

The United States has an opportunity to become the world's top energy producer and realize a manufacturing renaissance, but only with policies that promote the free market. Congress, therefore, should pursue U.S. policies that promote a free marketplace for all competitors and we look forward to working with you to address all anti-competitive policies.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles T. Drevna". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Charles T. Drevna
President