

**REMARKS BY
SECRETARY DONALD L. EVANS
TO THE WORLD FUELS CONFERENCE
WASHINGTON, D.C.
SEPTEMBER 15, 2004
(Text As Prepared for Delivery)**

Thank you for that kind introduction. I'm glad to be speaking to you about our energy outlook. You see, before moving to Washington, I spent 26 years in the private sector at a publicly traded oil and gas company in Texas. I loved it . . . and I miss it.

Like the President, I moved to Midland, Texas in the 1970s. To us, the oil fields of West Texas were like nowhere else in the world. It's the place we really discovered the optimistic spirit of America and met some amazing people—they were pioneers, wildcatters, and true characters. Present day tensions over energy prices tend to overshadow the commitment and service all of you in the energy industry make to the extraordinarily high quality of life we enjoy in America.

I've traveled around the world as Commerce Secretary, and there's no mistaking the direct linkage between rising living standards and an abundant, affordable, and reliable supply of energy. Our challenge is to continue to provide and supply those needs. The media often portrays your industry in an unflattering light but I know the truth. I know the tremendous pride, commitment, work ethic, professionalism, and spirit of risk-taking on the part of the men and women serving in the oil and gas industry. All of you are serving well and America is a stronger and more secure nation because of your service. Thank you.

I've been asked to speak to the impact of global dynamics on the U.S. energy sector. All it takes is a glance at the headlines to establish the powerful economic effects that accelerating global demand is creating within the United States. Energy prices and the complications stemming from the continuous balance between supply and demand are at the crossroads of political, economic, and national security tensions in 2004.

As I said earlier, I've spent a career in the industry and I could talk about it for hours but today I want to focus on three elements: Increase in demand, the domestic implication of current supply constraints, and some possible solutions.

With an eye to the future, several things are clear. First, the global economy is placing unprecedented demands on energy supplies and that trend will only continue to accelerate as developing markets like China and India seek added energy supplies. And remember, 100 countries have moved toward free-market economies over the last 20 years and they're all focused on economic growth and development.

Second, to meet that demand, we'll need two things: Innovation and execution. We must continue investing in the innovative new technologies that allow us to extract reserves that had been considered unrecoverable only a few years before. Resources like Canadian oil sands and western Colorado oil shale. And we need to take a hard look at constructing more nuclear power plants.

We must also push through the subjective political considerations and red tape that are holding us back from fully implementing current technologies. You've all heard about the NIMBY syndrome: Not In My Back Yard. Today, the people lined up against responsible development and expansion on the part of energy companies have taken their opposition to a new level that requires a new acronym: BANANA. Build Absolutely Nothing Anywhere Near Anything.

Swelling Global Demand for Oil and Natural Gas

As an optimist I'm confident that, through the powers of creativity, innovation, technology, and resourcefulness, we'll discover the additional avenues and supplies needed to satisfy world demand.

However, the rise in global demand we've seen recently has been extraordinary and there's little or no chance that the growing economies boosting demand will appreciably slow consumption in the foreseeable future. If anything, global demand is poised to accelerate even faster. In July, China's oil imports increased by 40 percent year-over-year. By 2030, the International Energy Agency estimates that China and the U.S. will consume half of the world's energy supply. That's up from 33 percent today.

Per capita oil consumption offers a striking example of the potential growth in the Chinese marketplace. China currently ranks number 50 in per capita consumption. Singapore, with concentrated population and much higher standard of living, ranks number one. As China's cities continue to grow and its people strive for a higher standard of living their oil consumption will continue to explode.

China won't become Singapore overnight, but their leadership is aggressively pursuing economic growth and millions of new Chinese consumers are changing the face of the global economy - it is estimated that China will have more car owners than the U.S. by 2030.

Clearly, the short term reality is that continued growth in newly industrializing economies of the 21st Century will place growing demands on global energy supplies.

Now, let's drill down a little bit to examine the impact this expanding demand is having on the domestic economy.

Domestic Consequences of Higher Energy Costs and Uncertain Supplies

Higher energy prices are forcing the hand of employers to lower costs. Last month, Dow Chemical announced that high energy prices were responsible for the loss of 165 jobs. Dow's Director of West Virginia Operations said, "the energy situation, particularly natural gas and feedstock prices, placed a significant financial burden on Dow. ... And work force reductions were required to maintain the financial viability of the entire company. . ."

According to the U.S. Chemistry Council, chemical companies have lost roughly 78 thousand jobs because of higher natural gas prices. In its quarterly economic survey known as the Beige Book, the Federal Reserve cites anecdotal evidence from across America demonstrating the impact of higher energy prices. "Reports also suggested that oil prices were driving up the cost of plastics, rubber, and other petroleum-

based materials." Goodyear tells us that every \$1 per barrel increase in the price of oil costs Goodyear an extra \$20 million per year. According to API's chief economist, for every sustained \$10 per barrel increase in the price of oil, the U.S. loses about a half-a-point of GDP.

Fortunately, the unexpectedly long duration of higher prices hasn't triggered inflationary expectations on the part of American producers, according to the Fed.

The Refinery Deficit and Economic Security

The economic impact of increasing energy demand forces us to make serious assessments about our supply capacity. The Energy Department projects that the distillation capacity of U.S. refineries will increase from about 17 million bpd two years ago to about 22 bpd in 2025. But here's the problem: The increase is projected to take place solely from capacity additions at existing refineries.

We're not projected to build any new refineries in America over the next 20 years and we haven't built a new one for the last 30. This refinery deficit presents both supply and demand problems in the North American marketplace and national security implications for the United States.

To the extent that we allow our refining capacity to be concentrated within a limited number of facilities increases the likelihood that our adversaries might choose to strike at these facilities. What's needed to create an attractive environment for new refinery investment?

The first thing we should do is to stop throwing up roadblocks. Government needs to provide more regulatory certainty to refinery owners and streamline the permitting process to ensure that regulatory overlap is limited.

Solutions – The President's Energy Plan

During his 2000 campaign, President Bush recognized the energy shortfalls that threatened to compromise our economic growth. Four days after his inauguration, he formed the National Energy Task Force. He knew we needed a comprehensive strategy to focus on developing and delivering reliable and affordable energy.

The Task Force offered 105 recommendations. We have implemented about 75% of these recommendations through Administration action: We've moved to devote more resources to the Office of Energy Efficiency and Renewable Energy. We're "reorienting" many programs to achieve better results. We want to help consumers, expand the Energy Star program and identify even more products, appliances and services that exceed minimum energy efficiency standards. And we're pushing the federal government to lead by example.

The federal government, which is also the single largest user of energy, has reduced its energy use in buildings by 30 percent from the 1990s levels. And it has reduced its energy use for vehicles and equipment by 35 percent.

At the Department of Commerce, the National Institute of Standards and Technology has been an energy efficiency leader. One of the most recognizable things we do is help develop the standards that are used to create those yellow energy efficiency labels you see on new appliances.

The President has also offered some innovative proposals to address the problem, like his \$1.2 billion Hydrogen Fuel Initiative. The concept is simple and addresses our problem head on. More than two-thirds of the 20 million barrels of oil Americans use each day is used for transportation.

President Bush wants to invest in technology that would allow hydrogen to power fuel cell vehicles, without the harmful emissions. The initiative also compliments the Freedom CAR initiative, a partnership already underway with automakers to advance technology needed to produce hydrogen fuel cell vehicles.

But there's still one enormous piece of the puzzle that needs to be addressed. And that's the energy bill. It's been languishing in the Senate for months now. The House passed a comprehensive package months ago.

It is time for the Senate to stop playing political games with this bill.

In opposing the energy bill, some of the President's critics have offered a critique and solution that is unrealistic, logically unsound, and politically disingenuous. Panaceas are no substitute for action.

American exceptionalism sent men to the moon. American innovation conceived of assembly lines and harnessed nuclear power. American inventors have contributed greatly to scientific advances in energy exploration. After all, we developed the oil and gas industry here in North America.

With that in mind, I would never discount the potential of American know-how and creativity to eventually bridge the present technology gap between fossil fuels and the next generation of energy sources. However, hope for the future shouldn't be brandished as a fig leaf to obscure a pattern of purely political obstructionism that has left America weaker and less secure because it blocked development of safe and reliable sources of energy in North America.

Energy is a long lead-time industry. From discovery to production it typically takes just short of a decade to bring reserves to market.

Renewables offer great promise, but the consensus estimate of the contribution they will offer by 2020 will still be less than 10 percent of our energy needs.

We need a comprehensive energy plan in place and we need it now to give industry the predictability and support required to fulfill the potential we all believe exists.

There are some common sense measures that will make a difference, but are still being blocked in the Senate:

- Mandatory reliability standards for electricity suppliers(in the Energy Bill).
- Tax incentives for renewables (in the Energy Bill).
- Incentives to build the Alaskan natural gas pipeline.
- Support for clean coal technology.
- Environmentally sound but prudent energy exploration in the lower 48 states.
- Incentives to promote enhanced oil recovery and encourage increased production

from marginal wells.

-- Supporting responsible development in areas such as ANWR.

We know oil and gas exploration and development can now take place safely and responsibly within fragile ecosystems. The energy industry can now recover resources while treading lightly on the environment. The level of due diligence and care that companies observe is now light years beyond what it was only decades ago.

The truth of it is that we no longer must choose between energy security and environmental conservation. Families planning a trip no longer must choose between purchasing affordable gasoline and preserving a pristine wilderness at their destination: We can and should have both.

We are facing some big challenges that will play out in years not days, will touch billions of people on this planet and will require our best thinking and best efforts. Our future economic prosperity, jobs and economic security depend on having a seriousness of purpose about our energy needs for today and tomorrow. I appreciate the work you do and the contributions you make.

Thank you.