



Statement of

The American Petroleum Institute (API)

Before the

Subcommittee on Counterterrorism and Intelligence

Committee on Homeland Security

United States House of Representatives

On

“The Implications of Refinery Closures for U.S. Homeland Security and
Critical Infrastructure Safety”

March 19, 2012

Field Hearing

Neumann University, Aston, PA

Good morning. 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 here in Pennsylvania 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 people in this area and 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 these high raw material costs to make products for American markets at a time when demand has been relatively weak because of the recession. This has severely pushed down margins and has negatively affected all refineries.

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.

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 can help drive up 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 help drive down 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 or unnecessary rules affecting our refining sector, including, for example, a rule that forces refiners to blend in gasoline – or pay a fee for not doing so – advanced biofuels that do not yet exist.

And we've challenged billions of dollars in proposed tax increases on an industry that already pays vast sums to the government at far higher effective rates than most other industries.

The U.S. oil and natural gas industry's earnings are in the billions, it is true, but the industry's profit margins, or earnings per dollar of sales, are in line with other U.S. manufacturing industries. What our companies earn goes to investing in new production and new facilities, running our companies, paying our employees, and delivering more than \$86 million a day to the federal government in revenue. These earnings also provide a fair return on investments to our owners – the tens of millions of Americans who own our companies in their 401(k)'s and IRAs or receive income from government pension funds invested in oil and gas stock.

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.