

Annual Scotiabank CAPP Energy Symposium Keynote Address – April 6, 2021
Frank J. Macchiarola, Senior Vice President – Policy, Economics, and Regulatory Affairs
American Petroleum Institute

Good morning, I want to thank Tim and Pruyn and the teams at CAPP and Scotiabank for the invitation to speak at today's energy symposium. This is a premiere event for the oil and natural gas industry, institutional investors and the media, and I am grateful for the opportunity to be a part of it.

My name is Frank Macchiarola and I am senior vice president of policy, economics, and regulatory affairs at the American Petroleum Institute.

API is a US trade association representing all aspects of the oil and natural gas industry. Our mission is to promote safety across the industry globally and to influence public policy in support of a strong, viable US oil and natural gas industry. In many ways, we do this by partnering with other industry trade associations throughout the United States and internationally. I am pleased to continue our collaboration with Tim and his outstanding team at CAPP.

I will speak with you this morning about three topics.

First, API's recently released Climate Action Framework. Second, a brief policy outlook on US energy and the environment; and third, a study that API is releasing today conducted by ICF that highlights the valuable trading relationship in petroleum liquids between Canada and the United States.

We gather, virtually, at a consequential time for the energy sector. As the global recovery continues from the pandemic and the public health, social and economic consequences, we have seen a gradual, yet consistent, return to pre-pandemic conditions in the oil markets.

At the end of the first quarter of 2021, crude oil spot prices were around \$60 per barrel WTI, approximately double in value from one year ago. Just last week, OPEC-Plus agreed to gradually boost oil output over the next three months, reflecting an expectation of a return to oil demand as COVID-19 vaccinations gain momentum.

But just yesterday, the near 5% retreat in oil prices, amid demand concerns, reminded us that difficulties persist in this global effort to defeat the virus and end the pandemic. We are not out of the woods yet, as several countries around the world continue to see increased rates of COVID-19. Additionally, there are global concerns about emerging variants and additional lockdowns, including in Canada. It is clear, however, that the world has a brighter outlook than a year ago.

In the United States, petroleum demand was 20.3 million barrels per day for the week ended March 26th, a nearly 14% year-over-year increase.

Global productivity has returned, with third-party estimates of 4.7% global economic growth year-over-year for 2021 and 4% global economic growth year-over-year for 2022. And with it, global oil demand continues to return, as EIA projects that the oil demand recovery over the next two years could be the largest two-year increase since 1950. That is the brief short-term outlook.

Over the coming years, the most significant issue the oil and natural gas industry will face is the question of how to meet the challenge of providing affordable and reliable energy for the world's growing demand, while addressing the risks of climate change.

We know that the world will continue to use oil and natural gas for decades to come. The United Nations estimates that global population will rise from nearly 8 billion people to nearly 10 billion people over the next three decades, and this growing population will need energy to enhance standards of living. According to the IEA, over a similar time period, approximately half of the growing world energy demand will be met by oil and natural gas.

Many challenges, and opportunities, lie ahead and that is why I am pleased to discuss API's recently released climate action framework, which will hopefully guide industry and policymakers in the United States as we help meet these challenges and seize these opportunities.

Two weeks ago, API released the Climate Action Framework. This is a compendium of policies and industry initiatives that serve as the foundation for our discussions with the Biden administration and Congress as they consider a new Nationally Determined Contribution for the Paris Agreement.

The framework consists of five components that encompass: actions industry can take to reduce our own emissions in operations, actions the US federal government can take, and lower carbon choices that our industry can offer to consumers.

The five points are as follows:

First, *Accelerating Technology and Innovation*. The US federal government has taken significant steps in the funding of basic research, development and deployment for technologies such as carbon capture utilization and storage, hydrogen and other low and zero-carbon technologies. We propose specific areas in which the federal government can do more to drive this needed innovation.

Second, *Further Mitigate Emissions from Operations*. We recognize the important steps the oil and natural gas industry will continue to make in reducing emissions in our own operations.

Therefore, our industry proposes tangible forward-leaning initiatives to address upstream methane and flaring, and downstream refinery emissions.

Third, *Endorse Carbon Pricing*. We believe a well-designed, economy-wide federal carbon price is the most impactful policy to address the risks of climate change. The policy should be viewed through the lens of lowest cost emission reductions, with the goal of reducing regulatory duplication and ensuring interoperability with other climate regimes. Principles such as consumer transparency, flexibility in time and application, and ensuring US competitiveness must guide this policy.

Fourth, *Advancing Cleaner Fuels*. On electricity policy, the US federal government must recognize that natural gas is the current, and likely future, primary driver of CO₂ emissions reductions. The federal government must value US natural gas in policymaking and advance the global benefits that US LNG will play well into the future. On transportation fuels, we seek to advance an approach that promotes technology-neutral policies at the federal level that drive CO₂ emission reductions in the transportation sector using a holistic approach for fuels, vehicles and infrastructure systems.

Fifth, on *Climate Reporting* we do not seek to create an additional bureaucracy or another reporting regime, but rather we will work to provide support for our industry to establish consistency and transparency in reporting sustainability to stakeholders.

The increased focus on climate change both in government and the private sector is a clear indication that much has changed in the United States, even over the past year. Perhaps the most significant change is the shift from the Trump administration to the Biden administration. On policies dealing with energy and the environment, the Biden administration is principally focused on addressing climate change through agencies and departments across the government. We saw this in their very first days in office through a series of executive orders dealing with climate change, and through a recently announced legislative push for an infrastructure package.

Two areas where I would like to focus on briefly provide insight into the lens through which the Biden administration will view and address these issues.

First, on the leasing moratorium. In his first days in office, President Biden issued an executive order that among other actions placed a moratorium on new oil and natural gas leasing on federal lands as the US Department of the Interior undertakes a comprehensive review of the program. Under the auspices of a review of climate risks and greater return to the taxpayer, the administration has paused new leasing in areas that provide 22% of our nation's oil production and 12% of our nation's natural gas. This is a major policy shift, and if the moratorium turns into a significant curtailment or ban on leasing, API projects this will have serious and negative consequences for our nation's economic growth, employment and energy security. Imports will rise, jobs will be lost, important federal and state revenues will decline, and such a policy will

not have a meaningful impact on reducing emissions. We expect an interim report over the summer updating the public on the US Department of the Interior's review. We will continue to urge the Biden administration to expedite this review and reinstate federal leasing for oil and natural gas.

Secondly, on Keystone. In another disappointing action, on his very first day, President Biden revoked the presidential cross-border permit for the Keystone XL Pipeline. With the stroke of a pen, the new administration put energy workers out of a job by shutting down this important project. Thousands of other jobs will never see the light of day. The Keystone XL decision is detrimental to both Canada and the United States and it underscores that the contributions of pipeline projects, whether economic, national security, or environmental, are greater than the projects themselves and should be a critical part of any plan to improve our nation's infrastructure.

The Keystone XL pipeline would have run from Western Canada into the United States, carrying crude oil needed by many US refiners on the Gulf Coast and supporting thousands of jobs along the way. These are not energy jobs alone. Immediately after President Biden's decision, business owners and residents along the pipeline route expressed concern about job losses and economic uncertainty that would result from the project's cancellation.

The pipeline cancellation was very disappointing. And I would note that the decision, much like the leasing ban, is likely to produce minimal, if any, emissions reductions. Oil demand will remain. But the negative consequences of this decision, actually serve to highlight the essential relationship between Canada and the United States when it comes to trade, and specifically petroleum. The study we are releasing today shows just how valuable this relationship is and I am grateful for the opportunity to present our findings to you.

The ICF study, commissioned by API, examines several aspects of the US - Canada petroleum trade. And here are three important findings.

First – US and Canadian petroleum markets are increasingly integrated,

Second – This increased integration strengthens North American energy security; and

Third – The integration of US and Canadian petroleum markets yields meaningful economic benefits throughout the United States.

On the integration of markets, the US - Canada petroleum liquids trade doubled over the past decade, from approximately 1 billion to 2 billion barrels annually. During that same period, imports of US crude oil to Eastern Canadian refineries increased ten-fold. Today, US crude oil accounts for more than 45% of total refinery crude runs in Eastern Canada. In addition, much of the domestic Canadian crude run at Eastern Canadian refineries is shipped from Western Canada on pipeline systems that pass through the United States before entering Eastern

Canada. In total, roughly 80 to 90% of all oil refined in Eastern Canada either comes from or passes through the United States.

Shifting now to the US, refineries in the United States are a natural market for Western Canadian heavy oil production because many of these facilities in the US Midwest and Pacific Northwest can be easily accessed by pipeline and are, in some cases, hundreds of miles closer than refineries in the more populous Eastern Canada. Between 2010 and 2019, imports of heavy Canadian crude oil to US refineries increased 145%. Likewise, Eastern Canada is a natural destination for some US production out of the Bakken.

Taken as a whole, US-Canada petroleum liquids trade is about 10-20% of total trade, approximately the same size as the US-Canada auto trade. It is staggering to consider that each country relies on the other for approximately 15% of total petroleum liquids supply. US crude oil made up 72% of Eastern Canada's crude imports in 2019 and Canada supplied 58% of US heavy crude oil imports in 2019. These figures highlight why the USMCA is so critical and why API was proud to support and help advance this important trade agreement.

The petroleum markets integration between Canada and the US increases the energy security of both countries. The IEA defines energy security as: "the uninterrupted availability of energy sources at an affordable price."

Both countries have been able to reduce reliance on OPEC.

Increased imports of Canadian crude oil in tandem with booming domestic production allowed US refiners to significantly reduce crude oil imports from OPEC by 70% from 2010 to 2019.

Increased imports of Canadian heavy oil allowed US refiners to reduce heavy oil imports from OPEC suppliers, such as Venezuela and Saudi Arabia, by 67% between 2000 and 2019.

Of course, imports from OPEC could be further reduced with the completion of new pipeline capacity to ship heavy oil from Western Canada to the US Gulf Coast.

Increased imports from the US to Eastern Canada have largely crowded out imports from OPEC, which have fallen 68% from 2010 to 2019.

Finally, on the economic benefits to the US, refining heavy Canadian crude oil provides billions in economic benefits to US refiners. In fact, annual benefits grew from \$4.0 billion in 2015 to \$6.1 billion in 2019.

Economic benefits accrue to refiners throughout the US, contributing significantly to state economies. Just a few examples of these economic benefits in 2019 include: \$2.2 billion in Illinois, \$773 million in Minnesota and \$60 million in Delaware.

It is clear from this study that enhanced trade between our two nations has produced a paradigm shift. For years, policymakers have talked about North American energy security. We now have it. We have it because of this important trade relationship coupled with the ingenuity of the oil and natural gas industry on both sides of the border. We must collectively urge policymakers to value this partnership and to promote this important trade relationship that has been so beneficial to our two great countries.

Thank you again to Tim and Pruyn for the opportunity to be here, and I look forward to the question-and-answer session.