



Written Statement of

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on behalf of

National Petrochemical and Refiners Association

on

S. 1733 “The Clean Energy Jobs and American Power Act”

before the

**Committee on Environment and Public Works
U.S. Senate**

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Introduction

Good morning, Madam Chair and Senator Inhofe. My name is Bill Klesse, and I am the Chief Executive Officer, President and Chairman of Valero Energy Corporation, an independent refiner based in San Antonio, Texas. Valero has 22,000 employees, 5,800 branded marketing sites and 16 refineries in the United States, Canada and the Caribbean with a combined capacity of 3 million barrels per day (BPD). Valero is also a leader in alternative fuels and energy. We have seven ethanol plants in the Midwest with a combined capacity of 780 million gallons per year, a 50-megawatt wind farm in the Texas Panhandle, and seed investments in next-generation ethanol and biodiesel.

In addition to my role at Valero, I come before the committee today in my capacity as Chairman of NPRA, the National Petrochemical & Refiners Association, which represents more than 450 businesses that provide Americans with a reliable and diverse supply of products and services used daily at home, at work and at play. These products include gasoline, diesel fuel, home heating oil, jet fuel, lubricants and the chemicals that serve as “building blocks” in manufacturing. We make the products that get people to work, that enable us to trade our goods and services, and that provide critical building blocks for pharmaceuticals. What we produce enhances every American’s quality of life.

NPRA and I appreciate the opportunity to offer our perspective on S. 1733, the “Clean Energy Jobs and American Power Act.” As you and your colleagues understand, the implications of this legislation are far-reaching. Through my testimony today, I hope to convey to the committee, and more broadly to the American public, what these implications could mean for decades to come.

At stake are millions of American jobs, our national energy security, and the health of our economy. In the midst of a severe recession and fears of a jobless recovery, we must stay focused on these three concerns, particularly in the face of a competitive global marketplace that quickly could compromise our nation's stronghold in the energy industry.

Today's Challenges

Before outlining our perspective on pending cap-and-trade legislation, I'd like to summarize briefly the current situation for domestic refiners.

As the members of this committee know, we already live in a carbon-restricted economy. Witness the impact the recession is having on emissions and domestic energy production. EIA Administrator Richard Newell said recently that "[s]everal factors contribute to a projected reduction of nearly 6 percent in U.S. carbon dioxide emissions from fossil fuel use in 2009, primarily associated with the economic downturn."¹

The Energy Policy Research Foundation reported this month that even before domestic refiners face rising costs from carbon emissions, they will face a higher cost structure and rising international competition that threatens 2 million of the current 17.5 million barrels a day of domestic operable capacity with permanent closure.

This impact is already being felt today. One large independent refiner has announced that it will idle a New Jersey refinery while it weathers a decline in transportation fuel demand, resulting in more than 500 jobs lost. Meanwhile, Valero has been forced to close our facility in Aruba, idle units in Delaware, and reduce jobs in New Jersey and elsewhere within our company. All are casualties of the recession and a domestic policy agenda that leaves refiners at a distinct disadvantage.

¹ Timothy Gardner and Jim Marshall, "U.S. 2009 carbon emissions to fall 5.9 percent: EIA," [Reuters](#), October 6, 2009

The objective of this Congress and the Administration should be to seek *new means* for reducing emissions *without causing harm to the domestic economy*. The approaches being discussed in Washington are entirely counterproductive to lifting our economy out of the recession, reducing the staggering national unemployment rate, and even reducing global greenhouse gas emissions. S. 1733, like its House companion, H.R. 2454, would only exacerbate our current challenges by forcing U.S refiners to further reduce or even close operations in the face of rising costs and unrealistic emissions reduction targets.

For example, the direct impact to Valero refineries will be staggering, even with a price for carbon at \$20 a metric ton -- the low end of the projected range. For our stationary source emissions alone, the cost at our Delaware City refinery would be an additional \$40-\$80 million a year ... at Benicia, California, an additional \$30-\$60 million annually ... at Corpus Christi, Texas, \$45-\$92 million a year. In addition to these stationary emissions costs, both the House and Senate bills hold refiners accountable for emissions from our fuel products after they reach our consumers' hands. For Valero alone, these consumer emissions equate to 300 million metric tons per year. At \$20 a ton, that's an additional \$6 billion a year.

Industrywide, we estimate the compliance cost for process emissions, with carbon at \$20 a ton, to be \$4.1 billion a year, and the cost of consumer emissions to be \$63 billion a year, for a total cost to domestic refiners -- and potentially consumers -- of more than \$67 billion a year.

S. 1733 will drive domestic gasoline and diesel production offshore, resulting in lost jobs for American workers and the outsourcing of our nation's energy security to regions of the world that do not follow such stringent environmental protections. Simply put, this legislation will export carbon dioxide emissions to other countries and take with it American jobs. For that reason, among others, we oppose both bills in their current forms.

Valero is an independent refiner, which means we do not have oil exploration and production. Valero buys all of its oil on the open market. Therefore, Valero's profit is determined by the difference between what it pays for the oil and the price the market sets for the finished product – a margin that historically has hovered around 25 cents a gallon. The 25 cents a gallon margin gets compressed when demand falls, or when more supply enters the market. The margin is also reduced when refiners must invest in regulatory and environmental compliance costs not incurred by our international competitors.

To give you an idea, Valero has reinvested approximately **\$8.2 billion** to enhance and upgrade our refineries in the past three years. Since 1997, we have re-invested **\$3.5 billion** on regulatory and environmental compliance. To comply with regulatory and fuel specifications, we expect to spend another **\$1.4 billion** through the end of 2010. Given the significant reinvestment required to comply with additional requirements enacted each year, Congress and the Administration must consider and mitigate the impact on not only supply and cost, but on the domestic refining industry's ability to remain viable, much less profitable.

There is an assumption that because importers of refined products would also have to purchase carbon emission allowances, the rising production costs faced by U.S. refiners could be absorbed by the cost increases at refinery plants. However, according to the Energy Policy Research Foundation, the large volume of low-cost refining capacity worldwide, rising legacy environmental and biofuels costs, corporate tax policies, and demand reductions from rising fuel prices would further reduce U.S. operating capacity by an additional 2 million barrels per day. Direct and indirect employment losses would range from 40,000 to 350,000 American workers across the forecast period.

Refiners Support the Creation of American Jobs

So with all of the choices before you, it is important to spell out what America's domestic refining industry *does* support. First, we support the creation and retention of sustainable and well-paying American jobs. My company, Valero, was ranked No. 10 on *Fortune* magazine's list of the "100 Best Companies to Work For" in America in 2008. Every day, Valero's thousands of dedicated employees contribute individually to the quality and reliability goals that are at the core of our corporate philosophy. Our employees, many of whom are union members, are our most important and best asset. They also provide immense value to each of their communities through tremendous volunteer service – nearly 150,000 hours in 2008 alone.

The adverse impact of cap-and-trade legislation on these workers will be staggering. Valero refinery employees live in your state Senator Boxer and Senator Inhofe, and in the states of other members of the Committee from Delaware, New Jersey, Tennessee and Louisiana. These are real people, many who did not graduate from college, but instead learned a critical trade, and work hard every day. These workers have good health care benefits and are able to save for retirement. These workers have the opportunity to raise a family, buy a home, take a vacation, send their kids to college, and live the American dream.

Keep these workers in mind as you consider cap-and-trade legislation. As the Congressional Budget Office (CBO) stated in its September 2009 report, cap-and-trade legislation such as H.R. 2454 will "reduce economic activity through a number of different channels."² Two weeks ago, before the Senate Energy and Natural Resources Committee, CBO Director Douglas Elmendorf expanded on this point, specifically regarding the refining and petrochemical sector, stating, "[t]he industries that produce carbon-based energy — coal mining, oil and gas extraction, and petroleum refining — would probably suffer significant employment losses over time . . . Among (energy intensive) industries, employment losses in chemicals and transportation services could be relatively

² Congressional Budget Office, [The Economic Effects of Legislation to Reduce Greenhouse-Gas Emissions](#), September 2009, p. 12

large.” Mr. Elmendorf also stated that displaced workers will not likely find new jobs quickly, and that “[t]he fact that jobs turn up somewhere else for some people does not mean that there aren't substantial costs borne by people, communities (and) firms in affected industries and affected areas.”³ Other analyses have shown that significant job loss will occur as a result of cap-and-trade legislation. One examination of H.R. 2454 projects job losses of 1.8 million to 2.4 million.⁴

Projected job losses and adverse economic consequences have been too readily dismissed throughout the climate change legislative debate. Amid concerns over a jobless recovery, we can hardly afford to dismiss the potential economic harm of pending cap-and-trade legislation. The concept of “green jobs” has been promoted as an employment safety net to assist those workers who will lose their jobs. But we must question whether the quantity and quality of these jobs is enough to replace existing jobs that will be lost under proposals like H.R. 2454. Policymakers also must consider whether it is fair to ask a 15- or 20-year refining veteran with a strong career track to seek re-training in another sector that may not offer comparable salaries and benefits – a path that would clearly impact his or her lifestyle and that of his or her family.

Lawmakers also must look cautiously at policies trying to engineer job replacement. One study examining Spain’s attempt to create “green jobs” has found that at least 2.2 other jobs were lost for every “green job” created. That study projects that if the United States attempted to follow Spain’s lead, 6.6 to 11 million American jobs would be lost.⁵

Let me be clear: I am not suggesting that NPRA or Valero is opposed to the creation of “green” or any other jobs. On the contrary, with national unemployment nearing 10 percent, we simply want policymakers to first preserve existing jobs and then look for ways to create new opportunities for the American work force.

³ Douglas W. Elmendorf, [Testimony](#), United States Senate Committee on Energy and Natural Resources, October 14, 2009

⁴ National Association of Manufacturers/American Council for Capital Formation, [Economic Impact of the Waxman-Markey American Clean Energy and Security Act](#), August 12, 2009

⁵ Gabriel Calzada Álvarez Ph.D., “Study of the Effects on Employment of Public Aid to Renewable Energy Sources,” Universidad Rey Juan Carlos, March 2009

Refiners Support Consumers' Fuel Choices, Reliability and Affordability

Let me turn to what this all means for the American consumer. To put it bluntly, what is bad for business is bad for the consumer. Cap-and-trade legislation will ultimately impose large, new costs on any user of gasoline and diesel – from individual motorists and families to farmers, businesses and truckers. Driving in the United States is not seen as a luxury or a privilege. To the average American, it is a necessity, and a truly integral part of our economy.

Consumers deserve a broad and diverse menu of safe and reliable fuels. Today, Americans can take advantage of a diverse array of fuels to power vehicles for personal, business or recreational use. Today's vehicles operate primarily on traditional and proven gasoline and diesel, while emerging technologies such as smaller, more efficient batteries for hybrids and advanced forms of biofuels are still years, if not decades, away from commercial viability and affordability for the average American.

Refiners Support Enhanced Energy Security

One of our chief concerns with S. 1733 and its House companion, H.R. 2454, is the distinct competitive advantage both bills provide foreign refiners and producers, which, in many cases, are state-owned entities. The percentage of refined product imports in our nation's fuel supply has consistently increased over the past decade, rising from two percent of the market in the year 2000 to more than 10 percent in recent years.⁶ An August 24, 2009 UPI article shows the extent of foreign refiners' plans for our markets and needs:

Asia has been importing refined oil products like gasoline and diesel from the West for decades to keep the wheels of its economies rolling. But the tables may be turning as the region's two largest economies, India and China, aggressively pursue capabilities to refine imported crude on their own, not only for local use but also for export. Experts say that India and China could provide intense competition on the global market to refineries in North America and Europe, which could suffer losses and eventually close down.⁷

⁶ Energy Policy Research Foundation (EPRINC), *Do Higher Oil and Gas Taxes Pose a Threat to U.S. Energy Security?*, August 4, 2009, p. 22

⁷ Indrajit Basu, "Asian oil exports threaten U.S. refineries," [UPI](#), August 24, 2009

India, China and Europe are moving quickly to target our markets. According to a May 18, 2009

Bloomberg story:

“Europe will export to the U.S. as much gasoline as the U.S. will take,” said Andrew Reed, an analyst with Energy Security Analysis Inc. in Wakefield, Massachusetts. ... “Regardless of price, they will be looking to unload in the U.S.” ... India’s Reliance Industries Ltd. in December started a 580,000-barrel-a-day refinery in Jamnagar, with plans to export gasoline to the U.S.⁸

China and India are already poised for an economic attack on the U.S. economy. As another recent article states:

The financial crisis has left [the United States] hobbled with significant government and household debts and sharply reduced prospects for growth. Developing nations such as China, Brazil and India, on the other hand, have weathered the economic storm significantly better. So while this latest proposal [to move away from the dollar] is born of financial calculation, it is also a reflection of a new economic world order.⁹

“[A] *new economic world order.*” That is a rather ominous forecast for American consumers and businesses. The United States’ refining and petrochemical industries already face significant competition in global markets – *without the adverse effects of cap-and-trade climate change legislation.* Such policy would only increase our reliance on foreign products. One recent study concluded that H.R. 2454 would *reduce U.S. refining throughput by up to 4.4 million barrels per day.* The same analysis found that annual U.S. refining investments would decrease by up to \$89.7 billion (an 88 percent decline in investment), *causing petroleum product imports to more than double from nearly 10 percent in the baseline case to close to 20 percent under cap-and-trade legislation.*¹⁰

Certain special interest groups tie climate change to the issue of national security in an attempt to bolster support from untapped voters. Realistically, though, given the negative effect cap-and-trade legislation would have on domestic energy production and on our ability to compete globally, this alleged solution for enhanced national security is actually one of its gravest threats.

⁸ Barbara Powell and Aaron Clark, “Gasoline Ending Biggest Rally in Decade as Driving Season Opens,” [Bloomberg](#), May 18, 2009

⁹ Editorial, “The end of the dollar spells the rise of a new order,” [The Independent](#), October 6, 2009

¹⁰ American Petroleum Institute, [Waxman-Markey \(H.R. 2454\) Refining Sector Impact Assessment](#), August 24, 2009

Our national security would not benefit from increased imports of refined fuels. Our national security would not benefit from the Pentagon's reliance on military fuels produced in unstable regions of the world. More importantly, our national security would not benefit from the "new economic world order" that this legislation could bring. War can take many forms. While a world war, thankfully, does not appear to be imminent, economic warfare continues to be a significant threat -- one that should constantly be considered.

Refiners Support Realistic Policies That Preserve Our Competitiveness While Reducing Emissions

To ensure a secure, safe and reliable fuel supply for consumers, U.S. refiners strongly support a robust, balanced and realistic energy policy rooted in true fuel diversity. A realistic energy policy -- one that would truly benefit consumers and enhance energy security -- would not exclude fuels that are proven, reliable, secure, and are available today in commercial quantities. Given the global energy outlook and an ever-increasing population, debilitating the use of fossil fuels is hardly realistic. We must continue to invest in future energy technologies. But those investments must not happen at the expense of today's proven and commercially viable technologies. A realistic *environmental* policy should work in harmony with, not against, such an energy policy.

We believe that greenhouse gas (GHG) emission reduction programs should include meaningful global participation, recognizing the imbalances among national programs and global enforcement efforts. The programs should also ensure that the U.S. can continue to compete in global markets, particularly with regard to fuels, petrochemicals and other petroleum-based products. We also believe that carbon control program requirements and their timing should co-exist with statutory and regulatory requirements that increase GHG emissions from domestic industrial operations. In addition, a national GHG reduction program should preempt all state,

regional, and local programs, as well as existing federal statutes such as the Clean Air Act, Endangered Species Act, or any other federal program. Finally, we believe a national program should provide realistic emission-reduction targets that integrate diverse supplies of long-term energy sources and technologies, and should apply to as much of the U.S. economy as possible, without political preconceptions or exemptions.

Collectively, these concepts would create a far more realistic approach to reducing GHG emissions while increasing and preserving our nation's ability to compete in the global marketplace.

Conclusion

Madam Chair, your colleague from North Dakota, Senator Dorgan, described Congress' immediate challenge best when he said earlier this month, "I think standing in a deep economic hole is a difficult time to do big policy things that cause uncertainty."¹¹ S. 1733 and H.R. 2454, if enacted, would create even greater uncertainty for investment, employment and our nation's economic health. What Congress and the Administration do today and in the near future will impact investment in projects that could require 10 to 15 years to complete. The success of the businesses we represent, the livelihoods of our employees, and the success of our nation's economy depends on sound policy that advances, not inhibits, a reliable, affordable supply of energy in the domestic marketplace. As the discussion of climate change legislation and regulation progresses, Valero and NPRA and its members are ready to work with you to create a policy that will protect the interests of the American consumer, preserve the jobs of our employees, enhance U.S. competitiveness globally, and achieve our shared environmental objectives.

Thank you for your attention to our perspective. I am pleased to answer any questions that you may have about my testimony.

¹¹ Richard Cowan, "U.S. economy could worsen climate bill prospects," [Reuters](#), October 6, 2009