

U.S. Senate Judiciary Committee
Hearing on “Exploring the Skyrocketing Price of Oil”
Written Questions from Senator Richard J. Durbin

Questions for all witnesses

1. Please provide a table displaying, for each year since 2000:

- the names of the top five most highly compensated individuals in your company for that year (with compensation defined to include salary, bonuses, benefits, stock options, in-kind gifts, deferred compensation, and other remuneration); and
- the amount of compensation received by each of those individuals, broken down by amount and type of compensation.

Please see separate pdf attachment for response to Q1.

2. Please provide a table displaying the following information for your company for each year since 2000:

- revenue
- net income
- return on equity
- total capital investment
- oil development investment
- refinery investment
- alternative energy research and development
- cash holdings
- marketing expenses

\$millions unless noted	2000	2001	2002	2003	2004	2005	2006	2007
Revenue	148,062	174,218	187,721	164,653	192,024	239,792	265,906	284,365
Net Income	10,435	8,755	6,333	12,666	17,007	22,111	21,104	18,941
Return on Equity	16.4%	13.4%	9.8%	19.1%	23.3%	28.2%	25.6%	21.2%
Total Capital Investment	11,107	13,167	13,303	13,597	13,810	13,938	16,910	19,194
Oil Development Invest.	4,545	6,849	7,224	7,537	7,270	7,678	9,109	10,153
Refinery Investment	572	826	1,066	835	825	843	1,270	2,274
Alternative Energy R&D	15	15	16	19	16	35	40	91
Cash Holdings	1,831	1,808	1,735	2,056	1,359	2,960	2,590	3,562
Marketing Expenses*	na	na	na	418	470	507	447	541

*This reflects all advertising, sponsorship, promotions, trade marketing and market research

3. Several weeks ago, the Wall Street Journal’s Market Watch quoted an industry analyst as estimating that about \$25 to \$30 of the price per barrel of crude oil may be attributed solely to speculation.

- a) Does your internal research support that analysis?
- b) What in your view is the price per barrel that can be justified purely by the supply and demand in the market?

c) What steps do you think should be taken to protect consumers from the effects of excessive speculation in the trading markets for oil?

BP agrees with the CFTC, which has concluded that “there is little evidence that changes in speculative positions are systematically driving up crude oil prices.” In his April 3, 2008 testimony before the Senate Committee on Energy and Natural Resources, CFTC Chief Economist Jeffrey Harris stated:

Given the relative stability of the makeup of participants and their positions in the markets and the absence of evidence that speculation has caused oil price changes, it appears that fundamentals provide the best explanation for crude oil price increases. These fundamentals can be either broad factors that affect many markets—like the value of the dollar or general inflation fears—or factors particular to a market—such as strong demand from China and India for crude oil and other commodities. In addition, geopolitical events, such as tensions involving Venezuela, Nigeria, Iran, Iraq, Turkey and the Kurds have affected commodity markets, especially the energy and precious metals markets.

The price of crude oil reflects the forces of supply and demand as they exist at any given time – it is not possible to say what the price of crude oil “should be” apart from those market forces of supply and demand.

BP believes that the market oversight and enforcement powers exercised by the CFTC, as described in the April 3, 2008 testimony of Mr. Harris, are effective tools to protect the public from unlawful manipulation of prices. In addition, BP generally supports regulatory proposals that make the markets we trade in more efficient, more liquid and more transparent.

4. In your testimony, you claim that consolidation in the oil industry has been necessary to enable your company to compete globally. However, a 2004 GAO study found that consolidation and mergers in the oil refinery industry, “generally led to higher wholesale gasoline prices in the United States.” As a result of all the mergers, the largest five oil companies now control 55% of the refining market, and the largest 10 dominate 81%.

- a) In your view, how has market concentration in the refinery industry affected the price of gasoline?
- b) Do you see a link between market concentration and reduced refinery production?
- c) How much would increased refinery production lower gasoline and diesel prices?

BP agrees with the Federal Trade Commission that the GAO report should not be relied upon in making policy. As stated by the FTC:

The GAO report still contains major methodological mistakes that make its quantitative analyses wholly unreliable. It relies on critical factual assumptions that are both unstated

and unjustified, and it presents conclusions that lack a quantitative foundation. Simply stated, the GAO report is fundamentally flawed.¹

Even if you take the conclusions of the GAO Report at face value, the GAO concluded that two of the transactions studied led to decreases in wholesale prices and the results from one of the transactions was inconclusive. This suggests that in at least some cases, integration can lead to lower prices. In the absence of any clear metric as to which transactions will lead to lower prices and which will lead to higher prices, any disincentive for further integration has the potential to lead to economic inefficiencies and higher costs for consumers.

(a) It is not market concentration that has affected the price of gasoline, but the price of supplies, including crude oil, electrical power, and organic and inorganic materials used to make gasoline. In fact, the American Petroleum Association (“API”) recently reported that the FTC has found that concentration in the industry remains low to moderate and vertical integration has been decreasing.²

(b) No. According to API, there has been increased production even though there are fewer refineries. In its recent report, the API stated:

Since 1985, U.S. refining capacity has increased by 20 percent even though there are 57 fewer refineries. Because the infrastructure to bring crude in and get products out is in place, it is more cost effective to add on to a refinery than to build a new one. The elimination of subsidies under the government price and allocation controls in 1981 led to the closure of many smaller, less efficient refineries throughout the 1980s and 1990s.

According to the U.S. Energy Information Administration, current domestic refinery expansion plans will boost domestic refining capacity by another 800,000 per day by 2012, the equivalent of four new refineries. Moreover, a number of refinery modification or expansions have been announced to handle increased processing of heavier crude oils, including oil derived from Canadian oil sands. This additional crude from Canada – a reliable, nearby source – should enhance our domestic energy security.³

(c) No refinery can run full out all the time. As I testified, BP’s refineries are currently running at 88 – 89% of available capacity. Without a change in the price of basic supplies, including crude, as well as change in the worldwide demand for gasoline, diesel and other transportation products, refinery production levels will not have a significant impact on the price of gasoline.

5. In the last couple of weeks, we have seen the release of a handful of reports that claim that our use of ethanol has displaced a certain amount of gasoline from the nation's pool of transportation

¹Prepared Statement of the Federal Trade Commission titled “Market Forces, Anticompetitive Activity, and Gasoline Prices: FTC Initiatives to Protect Competitive Markets,” presented by William E. Kovacic, General Counsel, Before The Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs Committee on Government Reform United States House of Representatives (July 7, 2004) at 8.

² “America’s Oil and Natural Gas Industry: The Facts About Oil Industry Mergers, Market Power and Fuel Prices: An API Primer,” May 12, 2008, page 5.

³ Id., page 9.

fuels, and that the displacement of more expensive gasoline with less expensive ethanol has resulted in lower consumer prices at the gas pump. These experts say that the savings have been between 15-20%, which would translate into about \$400-\$600 of savings per family or about \$50 billion to \$75 billion saved nationwide.

- a) What is the effect on retail gasoline prices of cheaper ethanol being blended into gasoline?

While growing volumes of ethanol in US gasoline reduce oil consumption, it is difficult to calculate the direct impact of these volumes on retail gasoline prices. The degree of savings depends on the price of the respective inputs: Ethanol, which depend on corn prices; and gasoline, which depend on crude oil prices.

- *Greater use of ethanol could in theory benefit consumers two ways: Through lower cost (if ethanol is cheaper than gasoline) and through the impact of reduced oil demand on oil prices.*
- *With the two fuels competing, economic theory tells us that prices for the two should tend to equalize—which is what we say today (see below).*

Currently ethanol prices (per gallon) are lower than gasoline prices. However, the fact that ethanol has one-third less energy per gallon than conventional gasoline must be taken into account when assessing the cost-competitiveness of the respective fuels. DOE/EIA data shows that the wholesale price of conventional gasoline at the US Gulf Coast now stands at \$3.27/gal (May 28).

- *Spot ethanol prices can vary widely by location; at the US Gulf Coast ethanol costs about \$2.55/gallon (source: Ecwin). Adjusting for the lower energy content, this is equivalent to a wholesale gasoline price of \$3.83/gallon.*
- *When ethanol's advantaged tax treatment is taken into account, this suggests that, on an energy-adjusted basis, ethanol is priced very close to gasoline, at least on the US Gulf Coast.*
- *Relative prices have been volatile in recent years, in part due to sharp swings in both corn and crude oil prices. In 2006, for example, ethanol was more expensive than gasoline.*

The second benefit for US consumers could come via reducing oil demand and therefore reducing oil prices.

- *Current ethanol use in the US averages roughly 550,000 barrels per day (b/d). After correcting for the lower energy content of ethanol, this is equivalent to displacing about 370,000 b/d of gasoline—roughly 0.5% of world oil consumption.*
- *At the margin, lower oil consumption should result in lower oil prices, but the net effect depends on whether reduced consumption is offset by supply reductions by OPEC producers.*

- b) If the renewable fuels mandate were waived this year and nine billion gallons of ethanol were removed from the market, additional petroleum would need to be "found" to replace this fuel. Some economists say that prices would increase by as much as 50 cents to 80 cents per gallon based on standard calculations. Based on your historical observations, would you expect to see that large of an increase?

See response to 5(a) above. The market impact of removing ethanol from the gasoline supply pool will be the reverse of the effect seen above and will be largely determined by OPEC's ability to respond to the increase call on oil to supplement the loss of ethanol volumes.

- c) One of the challenges to making production and the mandate sync up is associated with the infrastructure needed to develop the biofuels industry. What is your position regarding higher blend levels of ethanol and the deployment of pumps capable of dispensing E-85?

BP supports research efforts to demonstrate the compatibility of ethanol blends greater than 10% on the in-use vehicle fleet. Higher blend rates will be important to allow the industry to meet the progressively higher RFS mandate levels since penetration of E-85 compatible vehicles will not be sufficient to allow the industry to meet its RFS requirements with only an E-85 supply option. BP currently doesn't offer an E-85 branded product but allows branded distributors and retailers to offer an unbranded product under the canopy, in properly labeled, stand-alone dispensers. Similarly, BP does allow advertising of an unbranded E-85 product. Currently, no new E-85 pumps have been approved for installation as Underwriter Laboratories has yet to certify the safety of dispensers for E-85 service. We expect installations to resume once UL certification is received.

Questions for Robert A. Malone

1. What carbon offset options has BP considered for the BP Whiting refinery expansion?

BP will address carbon emissions at the Whiting refinery when the Congress creates a framework that allows a fair and transparent carbon price to be established so that affected industries may make informed decisions concerning control options, infrastructure investments and operational parameters.

BP has long advocated for the creation of a single, mandatory US greenhouse gas emissions registry and a national policy that would establish a market price for carbon. Market-based programs will deliver the greatest and fastest reductions at the least cost. Individual project carbon offsets are not a surrogate for a comprehensive national carbon policy and would create competitive distortions in the market-place.