Questions of Chairman Patrick Leahy
Following the Senate Judiciary Committee Hearing

"Exploring the Skyrocketing Price of Oil"

Questions for Entire Panel:

1. Mr. Hofmeister testified last week that the price of crude oil should be in the range of $35 to $65 a barrel. If the price of crude oil on the world market returned to that competitive level, what could your company charge for a gallon of gas and remain profitable?

> *The largest single component of retail gasoline price is the price of crude oil. In fact, DOE reported data from 1985 – 2007 show that 95% of the variability in gasoline prices is due to changes in crude oil prices. However, future gasoline prices will also be influenced by refinery performance, the introduction of biofuels and the level of imported product. Using industry composite statistics compiled by EIA and API, a crude price of $65 may indicate a retail gasoline price of approximately $2.57/gallon. This is detailed below:*

Crude oil cost ($65/bbl)	*$1.55/gallon*
Federal, State excise taxes	*$0.47*
Refining costs	*$0.30*
Distribution/Marketing	*$0.25*
Composite gasoline price	*$2.57/gallon*

2. Each of your companies is vertically integrated from oil exploration and production through refining and retail gasoline sales. I understand that the price of crude oil is set on the world market, and that your companies, for the most part, sell the crude oil they produce on the market and then buy back the crude oil that they refine. I further understand that each of your companies refines more oil than it produces.

The efficiencies that come from vertical integration, however, should include the ability to refine the oil that you produce in a manner that is less expensive than if purchased in the commodities market.

> (a) What is your company doing to make vertical integration work for consumers?
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> (b) If your company refined only the oil that it actually produced, rather than buying and selling on the world market, what price could it charge for a gallon of gas today and remain profitable?
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> *(a) As an integrated oil company, BP is in a position to invest billions of dollars in high-risk, long-term investments for exploration, development and technology. In most years, oil companies do not receive a very large return on those investments. On average, the returns realized by oil companies are significantly below those of biotechs, financial firms and computing industries in particular and all industry in general, despite the level of risk undertaken. By making these investments, BP can then work to insure that it has a secure*

supply of crude oil and other energy sources to better supply its customers.

(b) The price for crude oil is set by global forces of supply and demand, rather than the cost of production. 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.*

BP's refining business in the U.S. purchases most of the crude oil it processes from third parties, and it must pay the prevailing market prices for that crude. Similarly BP's refining business pays the prevailing market price when it uses BP's equity crude production. For BP's exploration and production business to unilaterally lower its equity crude prices to its refineries would leave BP vulnerable to claims relating to royalty payments owed to state and federal governments, severance taxes owed statte governments, , below-cost pricing, unfair business competition, bad faith, and other reputational issues from governments, distributors, and competitors. Furthermore, BP does not and cannot set the retail price of gasoline at the vast majority of its branded outlets – the retail price is set by independent business persons such as jobbers and dealers who own those sites. If BP wholesaled the gasoline to those independent business persons at below market prices, there would be no assurance the retail price would be set below the market price in the trade area. It would most likely result as increased margin for the station owners.

3. How much has each of your companies spent, directly or indirectly, on studies and reports on climate change? Please specify the studies and reports produced with your companies direct or indirect support.

BP has been active in promoting national, mandatory, entity wide climate policies and provided funding to academic organizations in support of these goals; over the course of the period 2002 - 2007, BP has provided approximately $27 million dollars to organizations such as Princeton, Stanford, and MIT to research options for addressing the issue of climate change. BP believes that human activity is contributing to CO2 increases and global climate change. BP supports the Intergovernmental Panel on Climate Change (IPCC) peer reviewed science and conclusions. We also support the adoption of a mandatory, national, economy-wide climate policy to address future CO2 emissions.