

**Questions of Senator Sheldon Whitehouse
Following the Senate Judiciary Committee Hearing
on
“Exploring the Skyrocketing Price of Oil”**

Questions for Entire Panel:

Has your company, any subsidiary, or any entity acting under common ownership or control, financially contributed to any organizations that study global warming or climate change? If so, which are those organizations and how much in total has your company given to each one?

Yes, over the course of the period 2002 - 2007, BP has invested approximately \$27 million dollars to organizations such as Princeton, Stanford, and MIT to climate change issues. 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.

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the American Legislative Exchange Council? If so, how much has it contributed? Does your company agree with the American Legislative Exchange Council’s opinion that increasing levels of carbon dioxide are not causing glaciers to retreat?

BP America does not fund ALEC, however prior to company mergers individual companies that comprise BP today may have participated with this organization. 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.

Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Cato Institute? If so, how much has it contributed? Either way, does your company agree with Cato Institute commentary that “science no longer provides justification for any rush to pass drastic global warming legislation.”?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Committee for a Constructive Tomorrow? If so, how much has it contributed? Does your company agree with the Committee for a Constructive Tomorrow that “recent glacial retreats, sea-level rise and migrations of temperature sensitive species are all within the bounds of known natural variability.”?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Annapolis Center for Science-Based Public Policy? If so, how much has it contributed? Does your company agree with an Annapolis Center for Science-Based Public Policy report that states “climate models may never be able to make greenhouse-warming predictions with certainty?”

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Acton Institute for the Study of Religion and Liberty? If so, how much has it contributed? Does your company agree with Acton Institute for the Study of Religion and Liberty commentary that it is a “myth that [global warming] is an emergency that demands a drastic cutback in CO-2 emissions” and that “making a case against CO-2 without making a case against nature is like making an omelet without breaking the proverbial egg. It is impossible.”?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Center for the Study of Carbon Dioxide and Global Change? If so, how much has it contributed? Does your company agree with the Center for the Study of Carbon Dioxide and Global Change that “there is no compelling reason to believe that the rise in temperature was caused by the rise in CO-2.”?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Frontiers of Freedom Institute? If so, how much has it contributed? Does your company agree with the Frontiers of Freedom Institute that S.2191, America's Climate Security Act, is "a hyped-up rallying cry against a 'problem' that scientists can't even agree exists in the first place."?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the George C. Marshall Institute? If so, how much has it contributed? Does your company agree with the George C. Marshall Institute that there is a "shattered consensus" on the state of global warming?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Heartland Institute? If so, how much has it contributed? Does your company agree with the Heartland Institute that "there is no consensus about the causes, effects, or future rate of global warming," and that "most climate scientists doubt the reliability of computer models and the accuracy of land-based temperature records," and that "reports by the IPCC are unreliable due to political editing and rewriting of the reports' conclusions," and that "some of the key evidence cited in past IPCC reports has been shown to be fraudulent."?

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Has your company, any subsidiary, or any entity acting under common ownership or control ever contributed to the Institute for Energy Research? If so, how much has it contributed? Does your company agree with the Institute for Energy Research that global climate change is a "craze...fueled by alarmist rhetoric and trumped up scientific claims."?

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(IPCC) peer reviewed science and conclusions. We also support the adoption of a mandatory, national, economy-wide climate policy to address future CO2 emissions.

At a time when gasoline prices were near record highs, your five companies earned record-breaking profits last year: \$116 billion. ExxonMobil made \$40.6 billion last year, which is more than the all federal highway spending and about as much as the entire credit card industry earned that year. Since 2002, your five companies have consistently broken profit records. If you continue to profit this year at the pace you did in the first quarter, you are once again poised to smash profit records, not just for your industry, but for all industries. Please explain why what, in raw numbers, may be the most profitable industry in history needs the multi-billion dollar Section 199 domestic manufacturing tax breaks enacted in 2004. Why aren't those profits adequate to provide access to capital without those tax incentives?

The Section 199 domestic manufacturing deduction was included in the American Jobs Creation Act of 2004. Although it began as an effort to modify the Extraterritorial Income Exclusion (ETI) tax rules (successor to FSC rules) which were declared illegal by the World Trade Organization, Congress ultimately expanded that goal to include the creation of US jobs. Section 199 helps spur investment in the US, which in turn, helps create new US manufacturing and production jobs. Congress recognized the importance of the thousands of jobs in the domestic oil and natural gas industry and included petroleum extraction and refining with the US as qualifying activities.

Congress is constantly reevaluating the industry's tax incentives. We would urge you to treat all competitors equally and to maintain a level playing field for all companies in the energy industry. In addition, I would recommend that if you want to encourage domestic oil and gas production, you should recognize that punitive tax regimes will encourage capital to be invested outside of the US, which is contrary to your intent.

BP supports a balanced energy policy that encourages development of alternative energy sources but also allows us to continue to responsibly develop our investment in all forms of energy in the US.

The petroleum industry operates in an unusual fashion. Your five corporations are integrated oil giants that control all stages of production and distribution. From the exploration and mining to the refinement and transportation to the moment the customer swipes her Exxon or Shell charge card at the pump, you control everything. Are you aware of any other industries that operate in this fashion? How would you respond to the suggestion that it may be time to examine whether the vertically integrated ownership structure facilitates price gouging and harms consumers? Would you support a Congressionally-directed study to examine the effects of your ownership structure?

Vertical integration is common throughout the economy and can be found in varying degrees in industries including airlines, steel, movie production, retailing and technology.

In a recent publication, the American Petroleum Institute ("API") stated that:

The oil industry is becoming less vertically integrated. According to the FTC (2004), the share of U.S. refining capacity owned by independent refiners with no

production operations was eight percent in 1990. By 2007, the share was over 21 percent.¹

The same publication also cited a 2006 FTC investigation in which the FTC found:

“no evidence indicating that refiners make product output decisions to affect the market price of gasoline. Instead, the evidence indicated the refiners responded to market prices by trying to produce as much higher-valued products as possible...The evidence collected in this investigation indicated that firms behave competitively.”²

Based on these findings, BP believes that the vertical integration structure is not harmful to consumers, but instead has resulted in benefits because of the efficient nature of the ownership structure.

As to whether BP would support a study to examine the effects of its ownership structure, in the past, BP has cooperated fully with numerous investigations. If the government elects to conduct another investigation or study, BP will cooperate.

The attached graph illustrates that the growth in profits of your five companies over the past six years has outpaced even the sharp increase in the price of gasoline. Why is your profit margin rising at a rate that is so much higher than the price of your product? How much has your company invested in research and development of coal to liquids technology for use as transportation fuel in each of the past five years? How much has your company invested in research and development of hydrogen technology for use as transportation fuel in each of the past five years? How much has your company invested in research and development of non-fossil fuel renewable energy sources for use as transportation fuel, excluding hydrogen technology, in each of the last five years?

An integrated oil company's worldwide profits are comprised of many points of information, not simply the price of one refined petroleum product – gasoline. BP has invested billions of dollars to explore and produce oil from around the world as well as to supply refined products, including gasoline, to the US and other countries. BP's profits reflect the investments made in all of these aspects of the company.

- The oil and gas industry has been cyclical. The chart provided by Senator Whitehouse in essence shows only one side of an industry price cycle. The 6 year period from 2002 through 2007 starts at a cyclical low point in oil and gas prices, and covers a period in which tightening supply/demand fundamentals led to general increases in the market value of petroleum products. Due to the long-term nature of oil and gas industry investments, it may be more appropriate to show data over an entire cycle, or perhaps several cycles.*
- "Gas Prices" presumably reflects gasoline prices a unit basis (e.g., dollars per gallon) while "Oil Industry Profits" are presumably on an absolute basis (e.g., total dollars).*

¹ “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.

² Id.

Companies who have succeeded in growing volumes over this period would show profits growing faster than gasoline prices, other factors being equal.

- The attached chart was not presented with any information regarding the source of the information presented or how the aggregated amounts were obtained. In analyzing the information in the chart with regards to the “Gas Prices” line, it is impossible to determine whether the senator used wholesale prices in the price calculation; whether there was any consideration as to taxes paid by the company or the consumer; costs associated with refining and marketing the gasoline, etc. Similarly, with regards to the “Oil Company Profits” line, there was no indication of whether the senator’s office included physical growth; whether the amounts are US only or worldwide; whether the time period was particularly selected because it was a time of a cyclical low in average industry oil and gas prices.

The chart below details the research investment in energy alternatives for BP over the last 5 years.

R&D Spend (\$m)						
	2003	2004	2005	2006	2007	TOTAL
Solar	5.4	4.0	6.1	8.2	8.2	31.9
Renewables & Alternatives / AE						
Technology (Wind, Hydrogen power)			9.4	8.3	27.7	45.4
Biofuels			5.0	7.2	14.3	26.5
Energy Biosciences Institute (CA						
Berkeley, IL Urbana)				2.5	26.0	28.5
Hydrogen for Transport	10.0	10.0	10.0	10.0	10.0	50.0
TOTAL	15.4	14.0	30.5	36.1	86.2	182.2

How much has your company invested in research and development of wind, solar, and geothermal energy in each of the last five years? Compare the answer to each of the three above questions with the aggregate compensation of your top 10 executives and, separately, your budget for travel, entertainment, and other fringe benefits.

The chart below reflects the aggregate salary and benefits of the top executives of BP whose compensation is publicly available.

Compensation (\$m)					
	2003	2004	2005	2006	2007
Salary	\$6,434	\$6,155	\$6,462	\$7,198	\$7,911
Bonus	\$8,592	\$9,612	\$7,365	\$4,021	\$10,013
Benefits	\$515	\$397	\$361	\$397	\$766
Deferred					
Compensation	\$7,362	\$8,015	\$13,727	\$8,783	\$872
Pension	\$7,886	\$9,422	\$10,529	\$7,777	\$15,917
Total	\$30,789	\$33,602	\$38,443	\$28,175	\$35,479

The table below reflects aggregate travel and entertainment expense for BP globally and in the US (rounded to the nearest \$10m).

<i>T&E (\$m)</i>	2003	2004	2005	2006	2007
<i>Global</i>	390	640	610	700	840
<i>US</i>	150	210	230	250	290