API

BLOGGER CONFERENCE CALL

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00:14 JANE VAN RYAN: Well, I know we're going to have a few more people join us. Let's get started, because I know that Gary's time is somewhat limited today. Let me tell you that this call will be about a half an hour, maybe slightly longer than that, so if you will, keep your questions rather short. I'm going to open it up with a couple of questions. And let me remind you of what the general ground rules are.

Before you ask a question, please identify yourself. That helps us when we then put the transcript together. And we will post the transcript and the audio file early next week – perhaps late Monday or early Tuesday. Gary will begin with an opening statement.

If you have any questions that you can't get in, send me a message by e-mail. I have my Blackberry with me, so I'll try to get them in. We have add – two more people join us, may I ask who just came on board?

01:04 BRIAN WESTENHAUS: Brian Westenhaus.

01:05 MS. VAN RYAN: Hey, Brian, nice to hear your voice today.

01:09 BOB MCCARTY: Bob McCarty.

01:10 MS. VAN RYAN: Great, thanks, Bob. And someone else?

01:15 PETER CARLOCK: Peter, from "OPNTALK."

01:17 MS. VAN RYAN: Great. Wonderful, Pete. Okay. One thing that you might want to bear in mind is that if you're not speaking and you don't intend to ask a question or whatever, put your phone on mute, and I think that may help. If we have feedback – we're starting to get a little bit of feedback now. So, in any case, why don't we get started? I think everyone online now has basically heard the ground rules, so Gary, if you'd like to begin, you can start your opening statement.

01:52 GARY LUQUETTE: Thanks, Jane. I'll be very brief because I am interested in trying to take as many questions as possible this morning. I think everyone's aware that we had an opportunity earlier this week to address the House Committee of [Natural] Resources around the OCS access issue, but I think the questions and answers eventually took a much broader topic, so I thought it was a very good exchange. In essence, my message was, we are appreciative of the economic challenges facing the country today and we think our oil and gas industry can have a very positive impact in that space by adding jobs, potentially increasing revenues from new discoveries that would come from open access and at the same time driving America's dependence on foreign sources of crude down to kind of help with energy security.

And of course, that has a direct bridge to national security. So overall, we felt we could be really part of working in the solution space that they were looking for. And then we had a healthy question and answer session with them, and I think overall, I would say I felt very positive that questions were being asked – very good questions – around how we could fit into that space and at the same time kind of help them with their agenda to move towards a greener fuel slate, longer term and also how we might work in the aspect of climate change and what they're trying to do around that. So overall, very good discussion and I think I'll stop there and Jane, allow you to facilitate questions and answers.

03:44 MS. VAN RYAN: Very good. Thank you so much, Gary. One thing that I'd like to do here, before we completely open this up to questions, we have one blogger who isn't going to be able to stay on the phone very long and has submitted two brief questions. Let's start with those very quickly. First of all, following your appearance before the House Committee on Natural Resources, do you sense that Chairman Rahall and members of the committee truly understand how their potential actions might harm both the nation's energy security and the economy as a whole?

04:18 MR. LUQUETTE: Jane, we're still getting a lot of feedback on my line, I don't know if you're hearing that as well?

04:23 MS. VAN RYAN: We're getting a little bit here, not very much, fortunately.

04:27 MR. LUQUETTE: Okay.

04:27 MS. VAN RYAN: One more thing, those of you who are listening, if you could put your phone on mute that probably would help.

04:35 MR. FELMY: We suspect it was one of the – we didn't hear this until one of the last three called in. So for those of you, if you have a – you know – something, kind of a feedback or something, I think that's what we're getting in terms of the interruption.

04:50 MR. LUQUETTE: Sometimes, it can even be a computer that is providing that feedback, so even if you could mute your computer, that might help as well.

05:00 MS. VAN RYAN: Good point.

05:01 MR. LUQUETTE: Okay, so the question was, you know, was I of the opinion that they were listening and really appreciated some of what it was the industry representatives were suggesting to them. And I would say, Jane, my response to that is, I'm optimistic. I was encouraged, because I thought there were some very good questions, so I think many of the members of this committee were keenly interested in understanding how increased access might lead to increased supply, how that increased supply might play into the climate change agenda, the national security and energy security agenda, the economic and jobs agenda. So I would say, you know, generally, I was encouraged by the quality of the questions and the desire by many members of this committee to try to take something away.

06:00 MS. VAN RYAN: All right, let me move to the question, and if I might, Gary. Can you describe a worst-case scenario for the nation's oil and gas industry if the 111th Congress and President Obama agree to reinstate the drilling moratoria?

06:18 MR. LUQUETTE: Well, I think all that means, Jane, is that what we can look forward to is a heavier reliance on foreign sources of oil to continue to sustain our way of living and our economy until the fuel mix transitions longer term into something that represents a higher percentage of renewable and alternatives.

And so worst-case scenario is, if you're highly – more highly dependent on foreign sources of oil, it means we'll be more exposed to price spikes associated with civil unrest in other parts of the country that are supplying oil -- and disruptions, potentially even going back to situations where you might not have enough product to meet demand, and going back to some of the lines that we saw back in the days of the Arab oil embargo. So there are risks there, and in addition, I think there are economic risks for the country as well. It means more dollars going offshore, away from the U.S. to satisfy the crude oil and gas demand, which means that that's jobs and revenues that are going outside instead of staying inside.

07:42 MS. VAN RYAN: Very good. We'll now I'll open this up to questions from everyone who's on the line. Who'd like to go first?

07:48 BEAR: This is the Bear here. Good morning, Gary, how are you?

07:51 MR. LUQUETTE: Good morning.

07:53 BEAR: All right. I got the impression – I did watch the entire hearing proceedings – all three hours of it, and I commend you guys for your opening statements, because they were right, right on the money. But I had the impression that we don't know what is out there because you have been limited to your seismics and whatever other technology that you have. Wouldn't it be a think – a good think-ahead kind of concept to say, let's go seismic every where and find out whatever it is – what's out there?

08:33 MR. LUQUETTE: That would be a great start. I appreciate that suggestion, and it is something that we tried to suggest in both our oral testimonies and in the written testimony that was submitted. You know, before you start making arbitrary decisions – and that's what it is, today, the issue of access, the issue of buffer zones and all of these things that are being debated in Congress are very arbitrary, because we really don't know what the tradeoffs are. So we have suggested to Congress that, why don't we get some data, and then we can make informed choices on what those tradeoffs are.

I'll bring another thing to your attention, and if you hung in there the full three hours, you might remember this: there was a time in the '60s where the Minerals Management Service assessed the potential of the greater Gulf of Mexico as somewhere in the range of six to eight billion barrels of ultimate potential. That is now over 45 billion, and we're not done yet with discoveries there. So it just goes to show, you really don't know, but if you do have resource potential, typically what we've learned over our history is that those resource estimates continue to climb as ingenuity and technology tends to discover and unlock more and more of that potential.

10:00 BEAR: Gary, I would say that is 100 percent the way it's got to go. There is no environmental impact or anything of that nature from doing a survey, is there?

10:11 MR. LUQUETTE: That's correct. I mean, that is a very, very low impact and something that could be done in fairly short order, and it's something that we would like to see industry and government work together in trying to map out how to do that. You couldn't cover all of the acreage in a very short period of time because it's so vast, but working with the industry, the limited data we have, we could point to areas of higher interest and start there and then eventually, over time, as you suggest, we could cover all of that open acreage.

10:45 BEAR: I don't want to hog the show, but I want to ask you one more question and then I'll let the rest of the people go. Tell me, because of today's economy, jobs, dollars, royalties – it doesn't seem that the impact of what is out there in drilling will do for this economy registers and sinks home.

11:11 MR. LUQUETTE: Well, apparently it doesn't, because opening up the OCS wouldn't require the government to give up one thing in terms of financial benefit. We're not looking for subsidies, we're not looking for a handout. If they would just open the acreage up that has been covered under moratoria over the last few decades, we would be able to increase jobs, we believe, on the order of 160,000. That's in addition to what we employ today, which is around 1.7 million directly and another four million indirectly in our industry, and it's estimated that, you know, based on some very, very conservative estimates, that with the discoveries that would be envisioned from this open acreage, that we could eventually generate $1.7 trillion in incremental revenues to the government. So these are big numbers and –

12:11 BEAR: Gary, it's astounding numbers, considering that the – the deficit hole that we are in. I'll get off for awhile now and let somebody else ask their questions.

12:23 GEOFF STYLES: Gary, I've got a related question. This is Geoff Styles from "Energy Outlook." The budget that the president delivered to the Congress yesterday raised the issue of increasing taxes and royalties on the industry. Together with the relatively low oil prices today, even if access to these significant reserves in the off – formerly off-limits areas were opened up, is there enough economic incentive there to sustain deepwater drilling with the kind of costs that are associated with that?

12:56 MR. LUQUETTE: Well, that's a great question. Clearly, whatever the economics were before, if the President's proposal were to go through, it's going to make it that much more challenging. So you know, I'm still optimistic.

I've just had a chance to start looking at some of the impacts that are in the President's proposal, and it really is taking us in the wrong direction. I mean, if you just step back and you think about things in a more practical sense, when you're looking for an industry to step up and do more in terms of investment and you recognize that those investments are going to go into areas that are more and more technology challenged or economically challenged because these new areas don't have the benefit of existing infrastructure and other things, it just seems to be counter to a practical approach to levy additional taxes on this industry.

So I don't think it's going in the right direction, I don't think it's going to create the jobs and have the financial impact that could be had with the right sort of fiscal package. So I'm disappointed, but again, this is a proposal, and we, and I know other members of industry are going to be dialoguing with members of Congress to make sure they see that this is moving us in the wrong direction.

14:26 MR. STYLES: Thank you.

14:27 DEVIL'S ADVOCATE: Gary, this is Devil's Advocate from "Copious Dissent." At the beginning of your opening, you brought up the issue of climate change. Don't you think that maybe accepting the general premise that man is causing this climate change is the reason why we're not able to drill in these places when it makes perfect economic sense?

14:44 MR. LUQUETTE: I think you cannot ignore the issue of climate change, and certainly Chevron and the members that sat before the committee earlier this week all acknowledged that it's something we're going to have to work collaboratively with the government in trying to, to resolve that, and I think without exception, everyone on the committee supported working with government to try to cap greenhouse gas emissions. And there were a lot of things that industry has done to lower its emissions and to improve environmental performance with specific emphasis in the area of emissions and lowering emissions. So you can't, you can't ignore the fact that, you know, that increased access in the climate-change issue, you have to reconcile that. And I think there is a way forward where we can do that. We have to do it –

15:42 DEVIL'S ADVOCATE: Is that –

15:43 MR. LUQUETTE: Go ahead.

15:43 DEVIL'S ADVOCATE: Is that because of it being a political issue or it being a factual issue? Because I'm going to be attending the international conference on climate change, and from the data that I've seen, there's absolutely no evidence that man is causing this global warming or climate change or whatever you want to call it.

15:59 MR. LUQUETTE: Yeah, this is an issue that could be debated forever, and whether there's enough data to support it or not, our, you know, perceptions of government and perceptions of the public become our reality, and we have to operate in that space. And so there's a way –

16:15 DEVIL'S ADVOCATE: That's what I understand. Okay.

12:17 MR. LUQUETTE: Yeah. And so there is a political component to it, and I think what we've got to do is make sure that we make reasonable and rational decisions that support lowering overall greenhouse gas emissions but doing that in a way that doesn't devastate the economy or the industry.

16:36 DEVIL'S ADVOCATE: Thanks, Gary.

16:37 MR. CARLOCK: This is Peter from "OPNTalk."

16:41 MR. LUQUETTE: Good morning, Peter.

16:42 MR. CARLOCK: Good morning. And I do also commend you on your testimony. It was perfect, I thought. You know, I'm all for a clean planet. I got a three-year-old son, Joshua, and I want him to grow up in a clean earth, but – and – but you guys got a 25-year history of no spills, no pollution. You know, we can argue if global warming is manmade or a scam, I believe it's a scam. But I really want to talk about the numbers for a second, and going back to the economy.

I think one of the problems that the oil industry is having such a hard time with is, most average American is not going to see a million dollars in their bank account in their lifetime. So when the oil company comes out and says, we have a $10 billion profit and somebody comes right behind them and says, well, we're going to take some of that and give it to you, because it's not fair, you know, you get a lot of people that, without thinking, give applause and cheer to that. But they're not looking at the real numbers. I mean, we have the President right now that, if you do the math, is up to around $3 trillion in spending.

Your industry right now, as you just stated, kind of stole my thunder there, 1.8 million workers directly with you, another four – so now we're up to 5.8 million workers employed directly or indirectly by the oil industry itself. If the moratoria remains lifted, we're talking another 160,000 jobs – and these are real jobs, not laying side at federal buildings or hanging curtains. This is career-oriented, long-lasting jobs. And then when you add in the 1.7 trillion (dollars), would that not go a long way in helping the economy based on facts instead of possibilities of, well, maybe and if and whatever?

18:47 MR. LUQUETTE: Well, you brought up some good points. You know, let's start with the profits picture, because I know Congresswoman Capps mentioned that towards the end of our session, and I'm a little disappointed that because we were late in the day and they were anxious to wrap up and move on to other very busy things they had to do, I don't think our industry representatives did a good job of addressing that when she intimated that the profits were very large for the panelists that were sitting in the room.

I will say that as you all appreciate, this is a very capital-intensive business. We have to make very, very large bets with no guarantee of return because of the risky nature of our investments. And you know, for Chevron, for instance, this is public information, we earned $22.8 billion in 2008, and you know the public hears that number and they say, my goodness. That is a windfall profits, and I think wealth redistribution, some of that probably makes sense. But we also invested over $23 billion in 2008, and we're going to do a similar amount of investments in 2009.

And I can assure you, with where energy prices are today, we're not going to be earning anywhere near where our investment levels are. And that's not unique to Chevron; many, many people in industry are plowing money back in and making multibillion dollar bets to try to continue to keep this U.S. supply going. I have a project that we are very proud of here at Chevron that we're going to commission sometime midyear called the Tahiti Project. This project has been nearly 10 years in the making. Chevron and its partners have invested over $6 billion to date, and we have not generated one dollar of revenue from that project.

And I think, oftentimes, people use the large numbers on the earnings side to incite this windfall-profits notion without talking about the investment side and the big bets that we're making to try to keep supply going. And so I think if we could do a better job of couching profits in the same light as investments I think people would better understand what we're all about.

21:23 MR. CARLOCK: Well, yeah. And, also, just as a follow-up, during your testimony you brought out some numbers that nobody ever reports like 13.3 billion (dollars) that went to suppliers and small businesses. So they are benefiting directly from that.

And one number I just love is 75 million (dollars) to U.S. charities. There's a lot of people out there that like to spend other people's money. And they can't brag that they've spend $75 million on U.S. charities. So I just – try as hard as I may to see the other side of this, when you look at all of the facts and you look at all of the numbers, yes, you've got big profit. But you're spending big money to get those profits. And it's not just benefiting the oil industry itself, but benefiting, you know, I think we were up to almost 6 million jobs that are long lasting. We're able to move ahead and not be held back by unfair regulation.

22:30 MS. VAN RYAN: Hey, Peter?

22:32 MR. CARLOCK: Yeah.

22:32 MS. VAN RYAN: You want a job? (Chuckles.)

22:36 MR. CARLOCK: I just like truth and facts better than rhetoric; it's –

22:42 MS. VAN RYAN: I understand. Hey, I think we're going to have to move on, though, because I know that Gary's time is limited and we have a number of other people on the call. Anyone else have a question?

22:50 MR. RHODES: Yes, Steve Rhodes with the Republican Temple. I don't know if this question is best-served towards John or towards Gary, but you've probably heard about Ray LaHood and the proposed – I guess they want to charge a per-mile surcharge on these vehicles just for commuting to work or wherever. I just wanted to get either one of your take on that issue.

23:17 MR. FELMY: This is John. I could briefly just note, you know, the API position on taxes such as that has been that we do not oppose those types of taxes, whether they're called excise taxes or some other form in terms of per-mile charges and so on, as long as they're used for infrastructure development. That's been our position.

That being said, one has to remember that excise taxes are obviously – they can easily get collected. They are something that's been around for a long time. But they are highly regressive and a per-mile charge could be even more regressive given that we have a lot of folks who drive a long way from rural areas to urban centers for employment.

And so, before you move on any of those propositions, I'd strongly recommend you look at, just as we recommend with everything, let's look at the economic impacts, in particular, the distributions impacts because we've been told, you know, quite frankly, that the Congress is very, very sensitive to that.

Finally, the implementation of a per-mile charge is one that can be especially troubling if it requires a mandate of a GPS in your system. I mean, you know, that's Big Brother. So one has to be very cognizant of that.

24:40 MR. RHODES: Okay, thank you, John. Last question – and I guess this would go towards Mr. Luquette, I guess there's been rumblings about President Obama shutting down some oil-drilling leases, I guess on the mainland and perhaps offshore as well. Is there a status report that you may have in reference to that?

25:04 MR. LUQUETTE: I don't know of any specific proposals that have been put forward that would point towards shutting down operations on leases and licenses that have already been issued. I think what we have heard is a lot of the discussion is around opening access to areas that have been, in the past, kept off limits. And most of what I've heard has been in that vein.

25:37 MR. RHODES: Okay. I'm not sure if that's a good or bad thing because, again, I've heard that Obama wants to shutdown some leases regardless of arguments from either side of the aisle. I don't know if it's a political thing, but that's what I've heard.

25:53 MS. VAN RYAN: We'll keep an eye on that, Steve. Thank you. Anyone else have a question?

25:59 MS. TVERBERG: This is a question – this is Gail – this is a question more for John Felmy. Have you looked at all at the new tax provisions and how they might impact some of the smaller producers that we have. It seems to me that they may be the ones that are hit more than the bigger companies like Chevron.

26:23 MARK KIBBE: Actually, I'm going to jump in – this is Mark Kibbe – I'm our federal relations director and I work on taxes. There are indeed a number of the provisions that the Obama budget proposes that would impact a lot of the small producers. Actually, to be frank, they didn't leave anything out, anything out there that potentially benefits increased investment in this country, creating jobs in this country, producing more energy in this country with respect to oil and gas; they've got it in here and it's not good stuff.

One, the expensing of intangible drilling costs, they call it: That is a critical tax provision that's been in place since 1918. And, again, like a number of provisions in here, are targeted at incentivizing or at least keeping U.S. oil and gas projects competitive from an economic standpoint with those abroad. We're all talking about, let's reduce our reliance on imported oil, let's produce more energy here at home, create jobs at home.

These are things that, if taken away, are going to have the direct opposite impact. There's other specific things that target the small folks: elimination of percentage depletion is one that does strictly only benefit small producers; that's proposed to be eliminated. And then there's others. I'm not sure if you want – if you want to go through all of them, I'd be glad to, but there's – needless to say they've targeted big, small and everybody in between.

28:03 MS. TVERBERG: Right. And when you have a lot of our natural gas especially produced by the small producers.

28:09 MR. KIBBE: Absolutely, absolutely.

28:12 MS. VAN RYAN: I have another question I could insert here. Gary, if you have a moment, I'm assuming you still have a little more time with us today.

28:20 MR. LUQUETTE: You bet, Jane. Go ahead.

28:21 MS. VAN RYAN: Good, thank you. This gets to the question of – well, let me just read to you what I have from a blogger who sent this to me by e-mail: "If the economy is such that we have sub-$40-a-barrel oil and $4 per MCF gas for many years, what amount of domestic oil and gas resource could be procured at a price that society can afford to pay?" And they are also saying in which the oil companies can continue to make a profit. I think what they're looking for is that break-even point, that place where costs perhaps reach the value of the energy that's being produced.

29:04 MR. LUQUETTE: Right. And that's a very good question. You know, if you take today's prices – on average, $40-per-barrel oil and $4 gas – you know, it wasn't too long ago where that would constitute a very good price and represent an adequate margin for investors to continue to plow money into the business to prop up supply.

The challenge we have now is that our cost structure, the cost of doing business, has increased significantly as crude oil and natural gas prices increase greatly here over the last couple of years. So now, all of a sudden, you have this acute drop back to $40 and $4 and the costs have not come down to reflect that market. So many things that in 2006 would have been economic at these prices now are marginally economic or un-economic and, thus, you're seeing a retrenchment in activity in many sectors.

So what has to happen is, costs are going to have to come down to reflect the new realities of the marketplace and these new prices. And then I think we would see a healthy rebound in activity levels once costs kind of came back into line. And I think, to be honest with you, $40 oil, $4 gas, if we were to open up access and allow us to continue to push domestic supply, would be enough to represent a decent price, commodity price, for the consumer.

30:54 MS. TVERBERG: Do you think that you – excuse me, this is Gail Tverberg – do you think that the unconventional natural gas can really be up at that level? The numbers we've seen are more like $8 would be needed.

31:05 MR. LUQUETTE: Well, it depends on which one of the unconventional shale plays you're talking about. I think some are going to be economic at the $4 threshold, although that represents the more lucrative shale gas targets and then others it would take $8 in order to make it work. But, again, the key is, if your costs come down and technology kicks in – and that's what's happening on onshore gas – people are really starting to be able to figure out how to drill and complete these complex wells more efficiently and less expensively.

And I think as they do this, somewhere in that $4 to $8 range is going to enable pretty significant investment if those costs can come down and stay down.

31:59 MS. VAN RYAN: Anyone have a question for Gary? If not, I've got one, but I certainly want to give the bloggers online an opportunity.

32:08 MR CARLOCK: I could talk all day, but I'll yield.

32:09 MS. VAN RYAN: All right. (Chuckles.) Here's one that was sent to me by one of the bloggers: "What effect will result from Obama's preference for alternative energy sources on the administration's 'friendliness'" – and that's in quotation marks – "for oil and natural gas."

I think this goes to the heart of this question about the Obama administration pushing very hard for renewables. Gary, can you talk about what the economic impact might be or the impact could be on the industry?

32:45 MR. LUQUETTE: Yeah, well, I mean, this is the critical issue. I think what we tried to do in our testimony earlier this week was to try to communicate to our friends in Congress – and we've also communicated that directly to Obama and his team – is that everybody wants cleaner, more abundant energy. We all support that. Although we have a segment of our industry that is focused primarily on oil and gas, many of our multinational companies that are working in the U.S. understand that the total energy equation, longer term, is going to have to represent a broader mix of fuels including cleaner fuels. So everybody is on the same page.

I think where the administration might be a little mistaken right now is how fast you can move there and what the consumer impact is going to be depending on those different scenarios. So if we discourage, through higher taxation or less access to oil and gas resources, and the objective is to move faster to the alternatives and renewables, that's going to come at a significant cost to the government and to the American taxpayer and consumer because there's just – in order for it to move in a scale that would have a significant impact on the total energy equation, it's just not possible. It's going to take time. It's going to take a lot of investment and there's just not enough capacity in that space today to develop the technology, to do the research and to scale up the manufacturing facilities to produce this energy.

So you’re either going to have an acute change in prices that is going to really, really impact the consumer in a negative way or you’re going to have huge supply disruptions where people won’t be able to get the energy they need in order to do their business and lead their lives the way they’ve come to want to lead their lives.

So it’s a huge impact. It’s a huge issue and I think it’s a misconception out there that we as an industry are going to have to continue to dialogue with the administration and make sure they understand what’s doable.

35:20 MR. SUMMERS: This is Dave at Bit Tooth. I wonder if I could just follow up on that. Do you have any real sense as to when biofuels are going to have what you call a significant impact on domestic production?

35:32 MR. LUQUETTE: Well, I think biofuels have already had a fairly substantial impact in the transportation fuel sector. So there’s good news there. But the problem we’re having now with the conventional biofuels that are using food sources as the feedstock is that we’re starting to see an adverse impact on availability of those commodities in the marketplace for the consumers as well as a pretty acute impact on the price paid. For instance, we’ve seen that in the corn prices and the knock-on effect on all of the products that use corn in the manufacturing process. So I think there’s been a pretty profound impact.

So I think what we’re seeing is, you’re starting to see kind of this delicate balance between food and fuel, so there’s interest now in moving to non-food-related biofuels feedstocks, but that is an inefficient process, it’s going to take a lot more research and development in order to perfect that and make that commercially available at a price that the consumer is willing to pay.

36:47 MR. SUMMERS: Is Chevron doing very much in the field?

36:50 MR. LUQUETTE: Well, we’re doing – yeah, we’re doing a lot in that field; we’ve got some partnerships with different universities and we’ve got a big partnership with Weyerhaeuser now where we’re looking at trying to use different sorts of materials – waste products from the timber industry, for instance – and trying to use that to move away from some of the food sources.

37:17 MR. WESTENHAUS: Brian Westenhaus. You mentioned earlier that you had $23 billion in investment last year?

37:24 MR. LUQUETTE: That’s correct, Brian.

37:27 MR. WESTENHAUS: How much was left on the table? Was it a percentage or a factor or an order of magnitude that you can’t address?

37:33 MR. LUQUETTE: When you say, “left on the table,” what does that mean?

37:35 MR. WESTENHAUS: Investments you’d like to do that the capital’s not there.

37:39 MR. LUQUETTE: Oh, well, I mean there's always more opportunities than there's dollars to invest; that's how we run our business. It gives us the opportunity to high-grade the investment portfolio and respond to differences that happen in the marketplace after the budgets are set. But I will say, last year's budget and what we're looking at this year is very, very adequate for a company of Chevron's size to continue to invest in both the upstream and the downstream sectors and allow us to continue to grow production volume globally. I guess there's not big regrets there, Brian. I think that's a very good budget; one that I personally felt, when I looked at my North American portfolio, I got more than my fair share of that $23 billion.

38:33 MR. WESTENHAUS: So you feel as though you're adequate – you know, there's adequate funds to do the things that have to be done and the things that should be done.

38:40 MR. LUQUETTE: That's right.

38:41 MR. WESTENHAUS: Okay.

38:44 BEAR: This is Bear again. Can I ask John a question?

38:48 MS. VAN RYAN: I'm sorry, John had to run out, but there may be someone else here that –

38:50 BEAR: Okay, well, I sort of wanted to follow up on that mileage tax that people are talking about. If a person lives at a great distance and does a lot of traveling, they buy more gas. And if you look at your gas pump every day, it's 18.4 cents a gallon goes to the federal government and God knows how many different state and local municipalities have their fingers in the till.

I recently did an article that – and computed a lot of average usage, you know, with the amount of gasoline we burn and the rest of that – the Transportation Department is collecting over $100 billion a year just on gas taxes, and now they want to add a mileage tax? It just seems insane to me.

39:46 MR. KIBBE: Yeah, this is Mark Kibbe again. I think Ray LaHood's proposal was to begin a transfer from a traditional per-gallon gas tax to a mileage gas tax, but again, you know, with the federal government you never know. They always hate to get rid of any tax, so there's always –

40:06 BEAR: Did you ever see them get rid of a tax?

40:08 MR. KIBBE: Yeah, well, point well taken. We've never seen it, certainly in this industry.

40:12 MR. STYLES: Can I follow up with a question for Gary? Yeah, this is Geoff Styles again. Gary, there's an analysis that the Department of Energy did looking at the potential impact of expanding access to the OCS, and I guess you'd have to say that that analysis is controversial at least, but they concluded that expanded access would only result in a net increase in production in the U.S. of about 200,000 barrels per day, over and above the base case.

Now, when I look at that, I can only assume that they're concluding that we're drilling-constrained rather than opportunity-constrained, and that, in effect, what would end up happening is that the portfolio of opportunities that you look at would get high-graded to a slightly higher level, but that not a lot of additional drilling would happen. How would you respond to that kind of analysis, and do you have specific responses to the EIA analysis – the DOE analysis – that I'm referring to?

41:18 MR. LUQUETTE: It's probably been too long since I read the report to comment on specifics, but I certainly have a little different view and I think our colleagues in industry share this view. First of all, those values are very low. Our own internal assessment would suggest that if they opened up just the OCS alone, and using conservative resource estimates, we think that figure would be north of a million barrels a day, and that's substantial.

When you think about it, in the best of times – this is when prices were moderate, OPEC's spare capacity, which essentially represents almost global spare capacity, was 4 million barrels a day. In the height of the energy squeeze last year, that surplus capacity was down to 2 million barrels a day. And we're seeing conservatively, just in the OCS – this excludes the onshore federal lands – we could get north of a million barrels. And I think that's conservative, because what our history has told us is, as you get into these basins and make these discoveries, technology advancements follow that and over time, you find ways to improve recovery – that it is substantial.

So I think some of these low estimates that – or the length of time that it takes to get at this stuff – sometimes I think they're put out there for self-serving purposes and it is to say, doing nothing is justified. And I think we don't know, and I think our first person that asked the question was around, we really don't know and what we ought to do is work together on an assessment so we can deal with data in making informed decisions about leasing and developments is a very, very wise approach. We really don't know, but I think the potential is enormous.

43:26 MR. STYLES: Yeah, and I think you've really hit on the crux of the issue here, because the conclusion that the opponents of drilling – of expanded drilling – took away from that estimate was that the impact of additional access on prices would be negligible and that therefore, it wasn't worth whatever additional risk would be involved in terms of environmental consequences. If the impact is material, that whole equation changes.

43:56 MR. LUQUETTE: And I think that's what's missing from all this; we need to get data in the hands of the public, in the hands of the politicians, so that we can start dealing with informed choices and people can start making good tradeoff decisions. You know, it's very easy to say, well, it's insignificant or it would take too long, so let's do nothing. But I think we need to start putting before everyone what that true potential is.

We don't have a lot of data today, but I think we could make a good cut at it. But what we'd like to suggest is, let's get the data, let's get the seismic, let's get state-of-the-art data and let's work together with government and develop those things so then we can start making informed decisions.

44:52 MS. VAN RYAN: Do we have any other questions? Any follow-up questions to that? Gary, how are you doing on time?

44:58 MR. LUQUETTE: Jane, I'm doing okay. Got a few more minutes if we need to.

45:02 MS. VAN RYAN: Wonderful. Anyone have any questions at this point?

45:10 MR. SUMMERS: This is Dave at "Bit Tooth" again. Just looking at the cap-and-trade impact on the industry, if the new administration is looking at raising $80 billion a year from cap-and-trade, and you figure that the automobile industry produces about 25 percent of the nation's carbon, that means you're going to – or we are going to – get hit with about $20 billion worth of additional cost somewhere in the structure. And do you see that having any impact on demand down the road?

45:54 MR. LUQUETTE: I don't know who's best positioned to take this one on. I'm clearly representing the exploration and production function, but I think it's a pretty safe assumption that as these costs flow down to the consumer, it obviously is going to have some effect on demand. I think it's anyone's guess as to what that trip point is, but certainly last summer and into the fall, when we saw gasoline prices approaching and, in some places, eclipsing four dollars a gallon, it did have a suppressing effect on demand in the transportation sector.

46:37 MS. VAN RYAN: Any additional questions? Dave, did you have a follow-up to that? Unfortunately, John Felmy had to rush out.

46:44 MR. SUMMERS: Okay, perhaps – anyway, because I was just looking at the EIA figures on demand this week and it seems to be that demand is coming back to about where we were this time last year as prices have dropped off, even in the face of recession. Is that something that you've seen also, or is that just an artifact of the EIA database?

47:07 MR. LUQUETTE: No, I think that's pretty real. I think what you've had is a combination of the overhang of the high prices that we saw middle-to-late last year combine now with a very, very weak economy and low consumer confidence right now. And I think the effect is, we're going to see a two-year period here in the U.S. where you're going to see demand numbers actually shrinking. The thing that I would encourage all of you to keep in mind as you engage others in industry on this issue is, when you think about supply and demand, you've got to have a total, global perspective on things.

And so we're not going to see declines in demand globally; you're going to see it locally. But I think in global context, you're still going to see some progress being made on the demand side because there are literally billions of people that are trying to move to a middle-class way of life, and this means just the basic necessities – moving from bicycles to automobiles and electrification of their homes and running water.

So there is going to be a period of time where we're going to move out of this global recession and then you're going to see double-digit growth rates internationally, especially in Asia and some of the areas where you've had these strong growth rates. And that is just going to swamp what's going on in the U.S. And of course, if you're importing 66 percent of your energy from abroad, that means you're going to be competing against these strong growth sectors for a limited supply.

49:00 MR. SUMMERS: Thank you.

49:04 MS. VAN RYAN: Any other questions?

49:12 MR. LUQUETTE: Well, Jane, it sounds like we might be at the end.

49:13 MS. VAN RYAN: It does indeed, and I certainly appreciate the fact that you've stayed with us as long as you have. That's terrific. It's been a good discussion. Just to close up this particular blogger conference call, then, let me remind you that we'll be posting a transcript and an audio file early next week. I'll be sending the links to those documents to everyone on the call. And if you have any other questions for either Gary or anybody here at API, send me an e-mail. We'll be happy to help. And, Peter, you and I are going to have to talk. We've got to give you a job. (Laughter.) Thank you all very much. Have a great weekend everybody.

(END)