Transcript

Clarence P. Cazalot Jr.: Speech before the Detroit Economic Club

“Delivering America's Energy Security”

Michael, Thank you for that kind introduction.

Good afternoon ladies and gentlemen. I want to thank the Detroit Economic Club for this opportunity and to thank you for taking time out of your very busy schedules to be here with us this afternoon. I certainly hope to make it worth your while.

I want to talk to you about a very serious subject... Delivering America’s energy security.

There’s a lot of discussion today about energy independence.

My view is that energy independence is neither possible nor is it desirable. In fact, calling for energy independence creates uncertainty amongst our international trading partners and hinders investment in new international energy supplies.

The real key for us is energy security, which I define as having an adequate, reliable and sustainable supply of energy to meet the needs and aspirations of private citizens, commercial enterprises and public sector functions.

Part of that security, though, means that we need to ensure environmental sustainability and that the cost of our energy is similar to that of other nations so we can maintain our economic competitiveness.

I want to begin this discussion with a global overview of energy supply and demand.

There’s one indisputable fact that impacts not only our nation but the world as a whole: quite simply it is that global demand for energy will continue to increase dramatically, driven in large part by world population growth from 6.5 billion people today to 8 billion by 2030 and the strong desire of developing countries to achieve economic prosperity.

Secure, affordable, accessible and ample supplies of energy are absolutely essential to both economic growth and a reasonable standard of living. So it’s only natural to expect that the developing countries, with both their growing economies and populations, are going to drive increased energy demand.

The world’s two most populous countries, China and India, are the best examples of this and we’ve all seen in recent times how aggressive both of these countries have become in seeking to increase and diversify their future energy supplies.

Let’s put some numbers around this.

The International Energy Agency projects that global energy demand will increase over 50 percent between 2007 and 2030. About 70 percent of the increase is going to be in developing countries, and those countries just happen to rely primarily on lower cost fossil fuels.

This projected 50 percent growth isn't unconstrained. It actually assumes significant efficiency improvements and a reduction in energy intensity. Without these assumed efficiency gains, demand would almost double by 2030.

To meet this demand growth reliably … we're going to need substantial increases in the supplies of all forms of energy.

Let's take a look at current and future demand by the various energy sources.

Today fossil fuels comprise 80 percent of global energy usage: oil and gas are 60 percent; coal is 20 percent; and all other forms of energy comprise the remaining 20 percent.

As you would expect and hope, there will need to be more dramatic growth in non-fossil fuel energy sources than has been seen historically. Sources such as nuclear power, renewable fuels, biofuels, hydro, geothermal, wind and solar energy … these are all important parts of the equation.

Yet, the fastest growing major energy sources are going to be natural gas and coal driven by rising demand for electricity. Demand for coal is being largely driven by growth in the developing countries, particularly in Asia-Pacific. China, just for example, starts up a new coal-fired power plant every ten days.

The bottom line is by 2030, despite all the rhetoric to the contrary, the International Energy Agency projects that fossil fuels will still comprise about 80 percent of the world's energy usage.

So, against this backdrop, within this context, the question is: how does the U.S. and the world as a whole secure access to sufficient quantities of reliable, affordable energy and do so, very importantly, while safeguarding the environment? My comments today are going to focus on the U.S. and I'll start with the key role Michigan will play.

I applaud Governor Granholm's initiative that searches for a comprehensive means to put energy to work to build competitiveness in Michigan. Marathon has had more than 75 years of experience in this state, from the Albion-Scipio field, to the Prairie du Chien gas play, to the age of ethanol. We continue to see a promising future for Michigan energy – ranging from new fuels to potential new projects at our Detroit refinery.

Speaking of the refinery, I want to acknowledge and thank the local leaders here, including the City Council, the City Administration, the State officials and agencies, business leaders, unions and many others in supporting tax abatement incentives for the refinery upgrade expansion. This has been a true partnership and we are appreciative of their efforts.

And that extends to the Michigan Congressional Delegation. We've worked closely with Congresswoman Kilpatrick. And I credit Congressman John Dingell, who spoke here in May. He has been a key player in climate discussion from the beginning and has put forward meaningful proposals on climate change legislation.

But energy security won't be easy. For you… for Michigan. . .or for our nation as a whole.

If our nation is to achieve energy security, and very importantly, as I've said before, maintain economic competitiveness and not let our standard of living slip, we can no longer tolerate the misleading and often inaccurate rhetoric and quick fixes. We need a well-reasoned, fact-based comprehensive energy strategy that is fully integrated and consistent with both a climate change plan and U.S. foreign policy.

What I want to do today is briefly outline what I believe the three major components of this strategy should be along with some examples of what my industry and my company are doing.

First, the cheapest and most plentiful form of new energy is energy efficiency and conservation. Reasonable progress has been made in the past. In fact, if you look back, the U.S. economy has doubled since the 1970s, while our energy use has only increased about 25 percent. But much more can be done. To give a sense of the potential impact, a six percent reduction in energy use would effectively reduce U.S. crude oil imports by a third.

I think efforts to increase energy efficiency should focus on a few key areas:

The first is to improve vehicle fuel economy. The auto industry overall supports increased efficiency. But what's needed are technologically-feasible standards, sufficient lead-time and a level playing field among competitors. The oil and auto industries can work better together here to promote well-reasoned, comprehensive, fact-based policies.

We also have to reduce energy consumption in the residential and commercial sectors through more aggressive building codes and appliance standards.

And lastly, we need to increase the efficiency of our industrial sector.

To the latter point, my industry is taking action:

Five years ago, America's oil and gas companies made a pledge to the government that we'd improve energy efficiency in our refineries by 10 percent over 10 years. Because energy accounts for more than half of our operating cost, we've always been attentive to maximizing efficiency gains. And I'm pleased to report that the industry is making progress toward that goal of improved efficiency.

For our part, at Marathon we estimate that over the last four years our refineries have improved efficiency by 4½ percent.

In recognition of what we've done, the Environmental Protection Agency gave its energy star award for energy efficiency to Marathon's refineries in Texas, Ohio, Minnesota and Louisiana.

The second key component of an energy security strategy, in my opinion, is diversity of supplies.

Diversity comes in two forms: geographic diversity in terms of where we source our oil and gas from, and the second part is diversity in terms of the alternative forms of energy that we use.

A couple of points as to oil and natural gas:

First, as I indicated before, oil and gas will remain the dominant sources of energy for a very long period of time due in large part to significant cost and infrastructure advantages.

Second, despite what peak oil theorists may say, there is more than ample oil and gas resource in the world to meet this demand.

Right here in North America, the Canadian oil sands hold great resource potential for the future.

In the Athabasca Region of Northern Alberta, there is an estimated 175 billion barrels of recoverable crude bitumen – or heavy oil – which amounts to three-quarters of North American petroleum reserves.

It is in this region that Marathon has recently invested almost $7 billion to acquire an interest in the Athabasca Oil Sands Project to mine the bitumen, and ultimately link this world-class oil resource with our U.S. refineries. In fact, Marathon's Detroit refinery may likely become a destination for refining some of the Canadian bitumen.

Putting together long-term solutions to economically produce the multi-billion barrel, long-life reserves of the Canadian oil sands is how we will help meet American energy demand.

Nonetheless, as we look around the globe, access to other oil and gas resources by U.S. companies is becoming increasingly difficult and costly due to increased competition from foreign companies. There is an intense wave of nationalism by those countries that control about 80 percent of the world's proven oil and gas reserves. You've no doubt seen what's happened to several U.S. oil companies recently in Venezuela.

It may surprise you but the largest U.S. oil and gas companies, often referred to in a negative fashion as "big oil," are really quite small when compared to our global competitors.

In fact, U.S. oil companies only hold about 6 to 8 percent of the world's proven oil and gas reserves. That's not big oil.

So it's critical for us all to recognize that our nation is in a tough global competition for new supplies of oil and gas … and that U.S. oil and gas companies are indeed our best ally in this battle. It simply makes no sense to further hinder our ability to compete by restricting access to new areas, unfair taxation, regulation, or other restrictive policies.

The other aspect of diversity I talked about is really encouraging development of alternative and renewable sources of energy.

America's oil and natural gas companies have made major investments in alternative forms of energy. Over the last five years in just the U.S. and Canada, we've poured $12 billion into renewable, alternative and advanced non-hydrocarbon technologies.

In fact, if you add up all the various types of emerging energy technologies, over the last five years our industry has invested almost $100 billion. And that number is more than two-and-a-half times as much as the amount by the federal government and all other U.S. companies – combined.

We know that energy diversity shows promise on many fronts.

Our industry has invested heavily to meet and exceed federal requirements for ethanol-blended gasoline. Last year, as an industry, we used 5.4 billion gallons of ethanol – 25 percent more than what was required. And, we're certain the industry is going to top that amount in the future.

Marathon also has an expanding ethanol investment program that is designed to increase our ability to manufacture, blend and distribute this growing component of our U.S. transportation fuel mix.

We were one of the first to see the potential of ethanol. Marathon is, we believe, the largest blender of ethanol in the Midwest, one of the first U.S. oil companies to initiate its own ethanol production operations, a leader in quality testing of ethanol, and a pioneer in creating the infrastructure necessary to push ethanol into more and larger markets in the Midwest and Southeast.

We're investing in both transportation and storage assets in all of our terminals, such that by the middle of 2008, we will have the capacity to blend to an E-10 level, or 90 percent gasoline and 10 percent ethanol, across our entire network from the tip of Florida to the northern most reaches of Minnesota.

And to make sure we remain in a leadership position and have access to the ethanol that we need, we're adding manufacturing capacity.

In the first quarter of next year, we expect production to start at a new joint venture ethanol plant that we're building in Greenville, Ohio. Its annual capacity will be 110 million gallons of ethanol.

Marathon believes a nationwide goal of E-10 makes great sense because it can be accommodated within the existing vehicle fleet and within our distribution systems.

But government policy, while well-meaning, is at odds with this goal. A significant number of states have laws with specifications for gasoline that are difficult to meet with ethanol blends. Real world experience suggests that these restrictions on ethanol blending afford no meaningful protection to consumers, but these laws remain on the books as an impediment to the rollout of E-10. Marathon is working hard to encourage uniform and defensible fuel specifications.

On the flip side, there's legislation being considered in Congress that would require mandated levels of ethanol use that can't be achieved with corn-based ethanol and would require technological breakthroughs such as cellulosic ethanol in order to meet those kinds of levels. It's a promising but very uncertain technology, both as to its timing and its cost.

Let me turn to other alternatives. I believe solar and wind energy have important roles to play and will grow in use in those specific locales where they are abundantly available. In fact, GE, a major wind turbine manufacturer, expects 8 to 10 percent annual growth in that worldwide market.

Nuclear energy is not exactly a new energy source either, but we must use technology to help overcome the challenges of cost and waste disposal, along with perceived safety issues, so that nuclear energy can play a much larger role than it currently does or is even envisioned. I think there's tremendous opportunity to do much more here, particularly as we focus on how we can provide energy without emitting CO2.

To wrap up on alternative energy sources, none of these options alone will meet our needs, but each will have its own niche and in total, they are capable of increasing the supply and diversity of energy sources.

The third key component of a U.S. energy security strategy is technology.

Technology is vitally important in increasing the supply of energy, in moderating demand, and in protecting the environment.

Operations at our refinery here in Detroit – Michigan's only refinery – would not be possible without truly remarkable technological savvy. Breaking and reforming molecules under high pressure and high-temperature is not magic …it's now standard operating practice.

In 2005, we completed some $300 million of investment in Detroit for clean fuels technology and expansion that helped bring an additional one million gallons a day to Midwest markets. America got the fuel when it counted most.

In the future, as I mentioned previously with respect to our Canadian oil sands project, we're thinking of bringing that heavy oil right here to Detroit, which will necessitate investment that will create more than 130 full-time jobs, plus the uplift in contractor jobs during construction.

We are also committed to being a good neighbor and to completing the project with the same safety, efficiency and environmental sensitivity that Marathon has demonstrated in the past.

But whether it's refining the product . . . or finding the base hydrocarbon, the technology we employ today is truly amazing.

However, in my view, no area of innovation or technology development is higher priority than carbon capture and sequestration, or CCS.

As I indicated earlier, fossil fuels – oil, natural gas and coal – are going to continue to be the dominant sources of energy for the U.S. and the world for a long time.

So in order to protect the environment, we must capture and permanently sequester a large fraction of the CO2 produced by burning these fossil fuels.

While most of the technologies for CCS are essentially available, much remains to be done in improving the capture stage, demonstrating feasibility on a very large scale, and lowering the cost.

There are several major CCS projects underway around the world today that hopefully will point the way forward on this critical technology.

Before I close, let me address those who maintain that U.S. oil and gas companies aren't doing enough to increase supplies of refined products and protect the environment.

I want to cite two quick examples...

Example one...

Since 2000, U.S. refiners have invested about $20 billion to almost completely eliminate sulfur from gasoline and diesel. $8 billion of that amount was for ultra low sulfur diesel, which is the cleanest diesel fuel supplied in the world today, and which permits Detroit now to sell new generation clean diesel vehicles that are 25 percent more efficient than the alternatives. I think it's also important to point out that this was $20 billion of investment that has no economic return. It didn't result in lower costs, it didn't result in new volumes, it was simply a stay-in-business investment. If you want to keep that refinery going, you've got to make that investment in cleaner fuels.

The second example is specific to Marathon.

We're investing $3.2 billion to expand our refinery in Garyville, Louisiana, which just happens to be the last refinery built in the U.S. in 1976. This project, when completed in the fourth quarter of 2009, will expand the refinery by 180,000 barrels per day. Taking it from 245,000 barrels per day to 425,000 barrels a day.

What that means for the market is that we will be producing an additional 7.5 million gallons of clean transportation fuels each day to help meet our customers' growing need for energy.

Across our industry we're maximizing refining outputs. Thus far in 2007, despite some unplanned outages at a few refineries, we have produced record amounts of gasoline in order to respond to an unexpected increase in demand.

So in closing...I simply want to say that I've been in the oil and natural gas industry for over 34 years. I've seen a lot of change in the business. But at no time in my career have I experienced a time of more dramatic and rapid change than what's happening today.

And I don't know a lot of things about the future, but I do know this … the pace and complexity of change is only going to increase.

But dramatic change in my industry shouldn't just be of interest to me. This change is touching all of us because our country's economic prosperity and competitiveness are in large part dependent on access to ample supplies of affordable, reliable energy.

That being the case, we need balanced solutions that include slowing the rate of growth in energy demand, providing increased supplies of energy from diverse sources, all the while minimizing the impact on our environment. Which again brings me back full circle to the three areas we need to concentrate on – efficiency...diversity of supply...and technology.

So if any of your friends who aren't here today ask you what that guy from Marathon had to say, please tell them that I spoke about America's need for energy security.

To me and the more than 28,000 colleagues at Marathon, and frankly all of our colleagues throughout the industry, energy security isn't a glib phrase that can be used in speeches or posted on our web site or hung on office walls.

Rather, energy security is what our work is all about as we deliver affordable, reliable energy that's vital to the economic well-being of our country and the world.

Thank you.