SECURING AMERICA'S
FUTURE ENERGY

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Senate Energy and Natural Resources Committee
Testimony of General James T. Conway, Co-Chairman, Energy Security Leadership Council
Securing America's Future Energy
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Chairman Balderson, Ranking Member O'Brien, and Distinguished Senators:

Thank you for the opportunity today to discuss the Organization of Petroleum Exporting Countries (OPEC), the longstanding manipulation of global oil markets by the OPEC cartel and government-owned oil companies, and the grave threats to our national and economic security created by the market volatility they induce.

My name is General James T. Conway, and I served as the 34th Commandant of the United States Marine Corps, retiring in 2010 after 40 years of service. It is an honor to offer this testimony as co-chairman of the Energy Security Leadership Council for Securing America's Future Energy (SAFE), which I lead with Fred Smith—Founder, Chairman, and CEO of FedEx. SAFE is an organization committed to reducing the United States' dependence on foreign oil for the acute national security and economic vulnerabilities it creates for this country.

Oil is the lifeblood of the American transportation sector, with more than 90 percent of transportation running on petroleum. Consequently, transportation fuels the United States' dependence on oil, as the sector accounts for almost 70 percent of national petroleum consumption. Oil is also a globally traded commodity: Changes in oil supply or demand anywhere affect prices everywhere.

The global oil market is subject to unpredictable—and anti-free market—behavior from oil-producing countries, most notably government-owned or nationalized oil companies and members of the OPEC cartel. The United States first experienced this economically painful and dangerous vulnerability during the 1973 oil embargo. Approximately three-quarters of the world's proven oil reserves are held by government-owned national oil companies—many of whose investment decisions are motivated by non-market factors and many of whose political objectives we do not share. In the last 10 years alone, the United States has sent $1.6 trillion of oil revenues to OPEC member states. These countries and other petrostates use that revenue to maintain autocratic rule, fund military spending at cross-purposes with American interests, and support initiatives that do not align with American values.

The undeniable economic importance of oil exacerbates the damage to American security interests. With more than 50 percent of daily oil supplies transiting one of several international chokepoints, the U.S. military bears the ultimate burden both in lives and money of protecting these energy flows—because the volatility produced by an oil supply shock would be catastrophic globally. This responsibility carries a price tag of between $75 billion and $90 billion per year. It is an extreme cost of American blood and treasure.

Domestically, the unconventional oil revolution helped this country recover from the Great Recession and drove economic growth in Ohio and other states that suffered the worst of the economic downturn.

Yet in 2014, in response to growing U.S. shale production and competitiveness, OPEC members colluded to maintain and increase their own high levels of production—a decision out of step with historical precedent. The cartel increased output by 1.2 million barrels per day, nearly half of which was pumped by Saudi Arabia—causing drastic, rapid reductions in the price of oil. This was a deliberate strategy by the oil-producing cartel to drive U.S. shale oil producers out of business, eliminate competition, and perpetuate OPEC's domination of the oil market.

The strategy worked. Across the country, American oil companies drastically cut costs—with shale producers slashing capital expenditures by as much as 50 percent. Across 2015, companies took an extraordinary number of oil rigs offline. Good, well-paying American jobs were lost almost overnight across the oil and gas sector.

These effects were felt bitterly in Ohio—as S.C.R 14 recognizes. Ohio's oil production fell by 11.5 percent by 2016. The number of producing rigs fell by 74 percent. Ohioan oil and gas workers were hit worst: Over the course of 2015 alone, jobs fell by 24.5 percent. An academic study has claimed that nearly 8,000 jobs will have been lost over the long term. These losses borne by Ohio families have been the product of foreign manipulation of unfree markets.

The costs of OPEC's anti-free market activities are still unfolding. With enduring low oil prices over the last few years, constrained investment has become the new normal in the oil and gas sector—both in the United States and internationally. In September, the U.S. Energy Information Agency released its 2017 International Energy Outlook which projected the return of $80 per barrel oil within five years and a continuing steady rise in prices after that point. In scenarios with shocks to supply or growth in demand, prices could rise as high as $175 per barrel within five years. The International Energy Agency's Oil Industry and Markets head has warned of continuing underinvestment and the attendant risk that we will return to cripplingly high prices.

As demand rises and oil inventories are drawn down, prices will rise. And when that happens, years of underinvestment will have left us severely unprepared. After destroying stable American jobs in oil and gas, OPEC and petrostate price-fixing will affect every American who pays at the gas pump. It is likely not a matter of if, but simply when.

Oil price volatility will produce secondary effects on the automobile industry, a vital sector of Ohio's economy. Automakers have invested in cutting edge technologies, the value of which is undone when oil prices spike and collapse in succession. Artificially low prices driven by the OPEC cartel warped economic incentives on vehicle models purchased by consumers, and the 2008 oil price spike saw the bankruptcy of both GM and Chrysler in the financial crisis. Theses price swings exacerbated by the OPEC cartel hurt American consumers and automobile manufacturers.

We all must reckon with the persistent threat to our national security and economic vitality posed by the OPEC cartel and petrostate national oil companies. To date, our national political leaders have not done so. As an energy-producing state—and one disproportionately affected by the price volatility an unfree market exacerbates—Ohio must call attention to this grave threat and call on Congress and the President to investigate and counter the cartel.

On behalf of the Energy Security Leadership Council, I commend you for considering this critical and timely issue for American national security and economic prosperity. Accordingly, we urge you to support and vote for Senate Concurrent Resolution 14.