Testimony
United States Senate Committee on the Judiciary
"Consolidation in the Oil and Gas Industry: Raising Prices?"
March 14, 2006

Mr. John Hofmeister
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TESTIMONY
OF
JOHN HOFMEISTER
PRESIDENT, SHELL OIL COMPANY

BEFORE THE
UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY

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Chairman Specter, Ranking Member Leahy, Members of the Committee: Good morning. I appreciate the opportunity to discuss the energy issues of concern to you, to Shell and to the American people.

Shell has been producing energy in the United States for nearly 100 years. I am fiercely proud of the work of our tens of thousands of U.S. employees, and especially of the way they have stepped up to the challenges of the past year.

• Our U.S. operations are heavily concentrated in the Gulf Coast area. Hurricane Katrina knocked out more than half of our offshore production for more than three months.
• Two of our Louisiana refineries were damaged by Katrina, and two more in Texas were hit by Hurricane Rita.
• Nearly 4,600 employees were displaced by the storms.

Our people put in endless hours -- even as they dealt with their own crises -- to minimize supply disruptions to those who depend on fuel for their cars, homes and businesses.

As a recent testament to our employees' resilience and commitment to our communities, Shell's evacuated operations have returned to New Orleans.

Why am I describing all this, Mr. Chairman? Lack of access to energy resources and the hurricanes are the roots of the angst American consumers are experiencing. When supply is limited and demand is not reduced, the consequence is higher prices – in a free market that's how it works.

Growing global demand has been a major factor behind rising crude oil prices. Shell is making significant investments to meet this challenge.

Over the past five years, Shell has reinvested virtually all of our U.S. earnings into finding new supply, increasing production, improving refining capabilities and developing new technologies:

• For the past 5 years alone, Shell has invested over $1 billion per year in developing offshore oil and gas resources in the Gulf of Mexico.
• We are aggressively pursuing natural gas prospects onshore in North America, including Alaska.
• We are making significant investments in unconventional resources – oil sands in Canada, oil shale in Colorado, and new cleaner coal technologies in 12 states.

• We are investing in liquid natural gas projects that could result in 2 to 3 billion cubic feet per day of capacity by 2010.
• We are investing in renewable energy sources as well – wind energy, solar CIS thin film technology, biofuels and hydrogen.
• On the refining side, we are looking at multi-billion-dollar expansion projects equal to construction of a moderate-sized new refinery.

It takes an extraordinary level of financial strength to deploy such large amounts of capital in risky environments and a cyclical industry. Fragmented or financially insecure players cannot afford such risk. To achieve what we have set out to do, we need your help – not new barriers.

Despite the apparent size of the major investor-owned energy companies, this remains a highly competitive industry. Consider the structure of our retail gasoline business, where the Shell brand has a 12 percent market share nationwide. Roughly 90 percent of Shell branded stations is owned by independent retailers and "jobbers." Just last week I met with over 1,700 wholesalers – all independent American business men and women.

We are seeing healthy new retail competition emerging with brands such as WaWa, Sheetz, and Turkey Hill.

From the perspective of Shell's transactions experience, in markets of concern to both federal and state antitrust law enforcement agencies, mandatory divestitures were designed to prevent declines in the number of competitors or increases in concentration. And we have fully complied with such divestitures.

Prices are set on a competitive global market. The biggest component of the retail price of gasoline – about 60 cents of every dollar -- is the price of crude oil. Crude oil prices are set on the deepest and most liquid commodity market in the world. Companies of all sizes populate these markets, and investor-owned companies such as Shell provide some competitive balance to large government-owned oil companies.

The key to providing reliable and affordable energy for America's future is new supply. Some of the greatest potential untapped resources in the world are off limits here in the United States. It is ironic that some of the same voices that cry out for lower prices also advocate restricting access to domestic sources that, with today's technologies, could be developed in an environmentally responsible manner.

Beneath federal lands and coastal waters, there are estimated to be 102 billion barrels of recoverable oil and 635 trillion cubic feet of natural gas whose development is limited by federal policies. If Congress wants to address supply and help consumers, provide a way to tap these resources.

Shell is committed to meeting America's energy needs. We stand ready and willing to work with Congress cooperatively to ensure that the United States has the energy required for continued economic growth and a sustained quality of life.

Thank you.

To see the testimony of the full hearing, please visit http://judiciary.senate.gov/hearing.cfm?id=1804.