ConocoPhillips

Energy Answers

# Limited Access to Energy Resources

Growing populations and expanding economies, especially in developing countries, are forecast to increase world energy demand by about 50 percent by 2030. While the most authoritative estimates suggest that fossil fuels are expected to remain the dominant sources capable of meeting this growing demand, ConocoPhillips believes that society needs greater contributions from all energy sources, including alternatives and renewables. The reality is, however, that oil and natural gas will remain the primary source of energy for years to come, providing a reliable bridge while alternative energy sources are developed to large-scale commercial capability.

Additionally, although global oil and gas resources are generally abundant, new untapped supplies are located in remote areas subject to severe climatic conditions (such as the arctic), present difficult recovery and development challenges (like deepwater), or are in unconventional forms (such as oil sands). Geopolitical factors increase investment risk and also can limit our access to these resources. Some of our core strengths as a company represent competitive advantages in such a market, such as our expertise in arctic exploration, coal gasification and sulfur removal. However, our ability to find and develop new supplies relies largely on continued access to resources, particularly in our own backyard.

This summary explains the major access issues faced by companies like ConocoPhillips, what we are doing in response, and how the U.S. government can help. We encourage you to share this information with anyone interested in having a conversation on energy.

## Resource Nationalism

- Popular perception is that international oil companies (IOCs) control the global oil market. In reality, IOCs like ConocoPhillips have direct access to only 7 percent of the world's conventional oil and gas reserves.
- If we partner with government-owned national oil companies (NOCs) like Saudi Aramco, we could potentially gain access to another 12 percent, however, competition for these opportunities is fierce.
- World oil supplies are increasingly controlled by foreign governments and their national companies.
- In many countries where we operate, we are being subjected to tax increases, unilateral changes of agreements, and even nationalization in extreme cases – creating an increasingly challenging operating environment.

## Restricted Access

- The United States produces only 42 percent of the roughly 21 million barrels of oil it uses each day, so the majority of our oil must be imported – leaving us vulnerable to supply disruptions.
- Access to resources is severely restricted within the United States, which seriously undermines U.S. energy security.
- Promising areas closed to drilling include the eastern Gulf of Mexico, the Atlantic and Pacific offshore, and parts of Alaska and the western United States.
- Some restrictions are reasonable, such as in highly sensitive environmental areas like national parks, but most are not.
- The off-limits areas hold an estimated 80 billion net equivalent barrels of oil and gas resources – enough to double U.S. reserves.
- They remain off-limits despite the industry's advanced technology, modern operating methods and good environmental record.

## What the U.S. Government Should Do

- Work with the energy industry to develop a sound energy policy, as well as fair tax practices that enable the industry to compete in the global marketplace for access to energy resources.
- Open areas for exploration that currently are off-limits.
- Oversee drilling to ensure sound environmental stewardship.
- Acknowledge that industry technology and operating practices have made quantum leaps in the years since the drilling moratoria were enacted.
- Facilitate the building of critical energy infrastructure.
- Streamline duplicate and overlapping federal and state laws and overly long and difficult regulatory processes.

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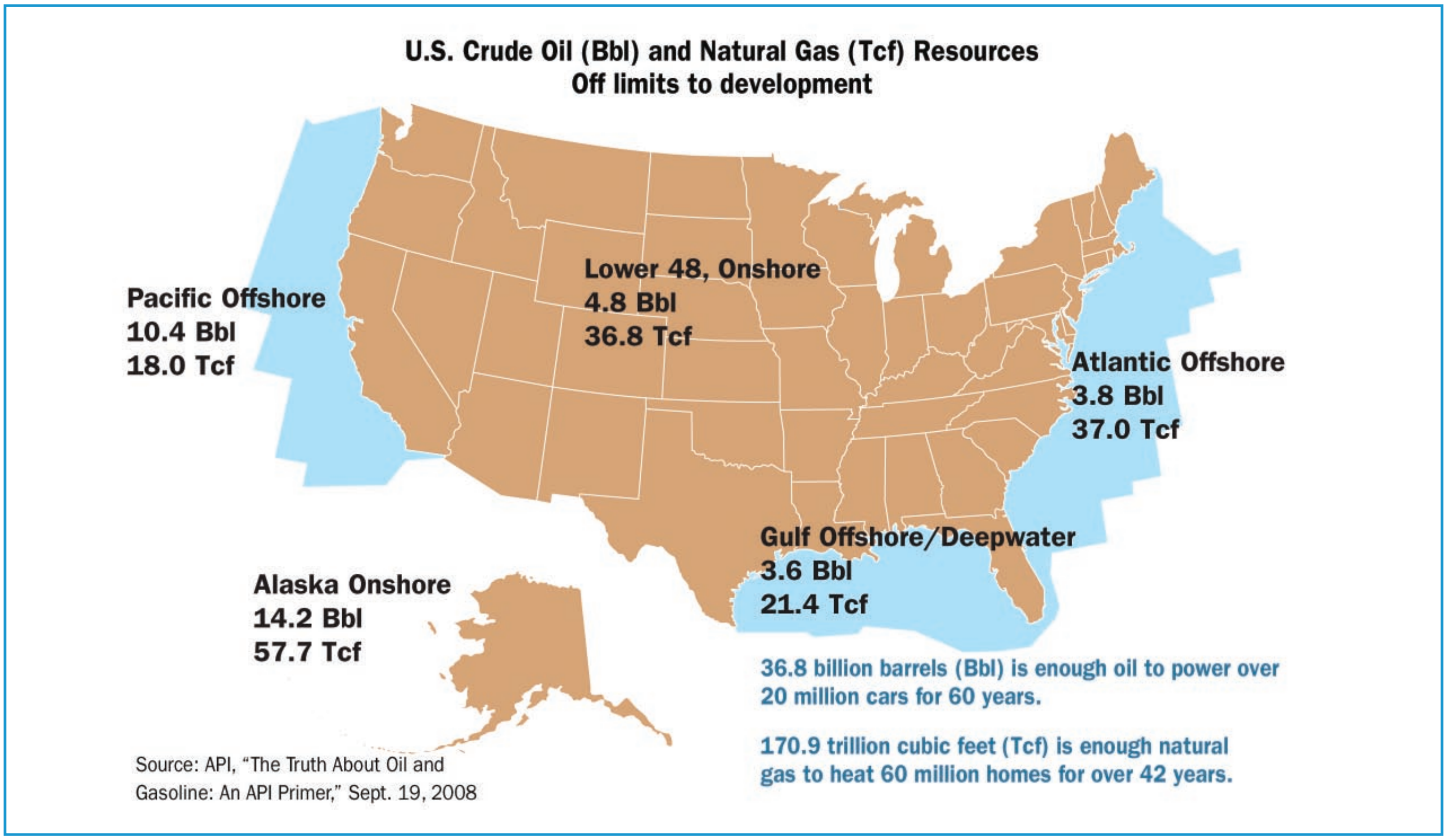


## What ConocoPhillips Is Doing

- Investing significant capital to develop oil and gas resources in North America – more than $6 billion in 2008.
- Increasing our exploration inventory of promising leases. For example, earlier this year we spent nearly $1 billion on leases in the Gulf of Mexico and Chukchi Sea.
- Producing from 69 percent of our current leases as of year-end 2007, and actively investigating, analyzing and developing the remaining inventory.
- Investing heavily in new technology in order to increase recovery and develop previously inaccessible or high-cost resources, such as the Canadian oil sands, which are projected to become an increasingly important source of oil for the United States.
- Expanding production from the oil sands through intensive research to improve output and reduce the environmental and carbon footprint.
- Expanding and integrating our energy transportation infrastructure, with new oil and gas pipelines under construction, and a proposal to build a pipeline that will bring natural gas from Alaska's North Slope to the Lower 48 states. All will improve domestic energy security.
- Building relationships with a number of national oil companies, thus improving access to energy for consumers worldwide. For example, we recently signed a Memorandum of Understanding with Petrobras, the leading Brazilian energy company. Through this agreement, we hope to identify opportunities to work together in oil and gas exploration, production, refining, marketing and transportation projects, as well as sugar-based ethanol production, transportation and marketing projects.
- Leveraging our expertise to secure new unconventional opportunities. Recently, we announced a successful bid to acquire a 50 percent interest in Origin Energy's coal bed methane reserves located in Australia. This opportunity capitalizes on our experience in coal bed methane production in the San Juan basin, our liquefied natural gas (LNG) liquefaction technology and experience, and our understanding of the Asian LNG markets.

**For more in-depth information on these issues and more, go to** ***www.conocophillips.com/energyanswers***.