

Energy Security and Climate Change: The Case for Engagement

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Ladies and gentlemen, I am pleased to have this opportunity to discuss two of the greatest challenges facing society and our industry in the 21st century – energy security and climate change.

The energy industry must be actively involved as society strives to develop effective policies to address these issues. Traditionally, we have had much to say about energy security -- particularly in arguing for expanded access to resources.

But now, there is another crucial debate raging – how to reduce the human-caused greenhouse gas emissions that contribute to climate change. The outcome has the potential to change the nature of our industry – and affect all that we do as energy producers. Because of this, we no longer have the luxury of standing on the sideline.

The case for engagement

The facts are these:

- First, scientific consensus is growing that carbon emissions from fossil fuels play a role in climate change.
- Equally important, media coverage has hardened public perceptions. Calls for action are gaining force.
- And finally, new regulations to reduce emissions are being enacted in a number of countries -- including the U.S. at state levels.

U.S. federal legislation may be just a year or two away. So the train is leaving the station without the industry onboard. Why should we care? Because we have a responsibility to provide sustainable energy -- and rising concerns over climate change are likely to seriously constrain our ability to do so. For example:

- Access to resources is becoming more restricted all the time.
- Proposed coal-fired plants are failing to obtain permits.
- Refinery expansions are being opposed.

Concerns over carbon emissions play a role in all these roadblocks. This is occurring at a time when we must develop new supplies -- and build more infrastructure -- in order to prevent future energy shortages.

Here in the U.S. -- and in other countries -- we are unlikely to be allowed to take these steps unless a coherent climate-change policy is enacted. Such a policy would meet the public's growing desire to take action on climate issues. And that, hopefully, would be a start toward easing the anti-development sentiment that plagues us today.

Becoming part of the solution

Another reason for engagement is that the energy industry should be part of the solution.

- We have the best understanding of the energy supply chain.
- Our knowledge of fuels can help in research to reduce their carbon intensity.
- We can offer technical insight and economic realism to the policies that come from government.
- In addition, climate change and energy security are complex global issues. We operate in the global economy every day, which gives us real-world expertise.
- And finally, we have the skills to make carbon capture and storage a reality. Like expertise in sub-surface geology; gas compression, liquefaction and injection; using CO₂ in enhanced oil recovery; pipeline construction; drilling and so on.

In short, we can help drive this emerging technology. Now, consider what would happen if we do **not** engage.

First, we would lose the option of influencing policy, and our concerns would be marginalized. The end result could be flawed policies that cost too much -- that erode energy security -- and that jeopardize the health of both the economy and the environment. We would also risk even greater alienation from the public -- something that has cost the industry dearly in recent years.

Finally, from the standpoint of the U.S., if the country continues opposing the growing worldwide desire to take action, it risks a further loss of geopolitical influence. This would cause incalculable damage to efforts to fight terrorism, encourage trade and so forth. For all these reasons, the energy industry must be at the table to encourage action and shape workable, balanced solutions.

The policy challenges

Let's talk about the policy challenges.

Despite rising international concern over energy and climate, the world addresses these issues through uncoordinated approaches. Meanwhile, the U.S. has missed opportunities to show leadership because it lacks a coherent approach to either problem.

For example, it does not have a comprehensive national energy policy -- even though recent legislation did take some important steps on renewable fuels and vehicular economy. But it did nothing to improve access to fossil fuels -- the backbone of current and even future energy supplies.

On top of that, the legislation may have gone too far in one respect. It mandated a level of biofuels use that is so high, it will require technology that is not yet ready. This threatens our ability to meet the supply mandates.

Meanwhile, in the absence of federal climate change legislation, individual states such as California are enacting their own. A patchwork approach will not achieve the country's overall environmental goals. And it will have the unintended consequence of increasing the cost of environmental improvement.

For these reasons, the U.S. needs a strong, consistent and mandatory national framework to manage carbon emissions. One that is unencumbered by diverging state and regional initiatives. Without this framework, rising public concern over climate change threatens our energy security by contributing to further access restrictions.

Much of the remaining U.S. potential for low-cost conventional oil and natural gas lies in areas that are off limits. These include the Atlantic and Pacific offshore areas, the eastern Gulf of Mexico and the Rocky Mountains. Meanwhile, the energy exporting nations are increasingly closing access to all but their own national companies.

In the relatively few areas that the international industry can still enter, the resources available are increasingly in unconventional forms -- such as heavy oil or oil shale. These are higher on the carbon-intensity curve, which adds to climate concerns and strengthens the anti-development movement. This movement will only grow as we are forced to rely on more unconventional oil to meet consumer demand. The consequence could be even further restrictions on access -- and the spiral downward would accelerate.

For all these reasons, the U.S. and other nations clearly need national climate change policies -- policies that also enable energy development.

Climate change can not be successfully addressed by itself. Otherwise, energy shortages would result and lead to demands for more development -- defeating the original goal of reducing emissions. Similarly, energy security can not be successfully addressed alone. That would lead to increased carbon emissions and rising climate concerns -- defeating the original goal of increasing production.

We must address both together -- and neither will be easy.

- We need bridging strategies -- such as expanding the role of natural gas.
- We need new technologies to produce energy and capture carbon.
- We need greater access to both conventional and unconventional resources.
- We need more refining capacity.
- And we need to realistically educate the public on a simple fact -- that it will take many years to develop alternative sources at the scale required for sustainable economics.

What the industry should do

What should our industry do? It should engage in the process to develop a coherent government framework for addressing both energy and climate. In short, we should take a seat at the table. And ideally we could then help shape the policies that are being developed even as we speak.

We can let this process proceed without us -- at our peril. Or we can join it. To do so, we must be willing to work cooperatively with governments, other industries, academia, community groups and NGOs.

The industry must also recognize that the ways it provides energy must change. For example:

- In the near term, we should reduce the carbon intensity of our own energy consumption. We can do this by continually improving efficiency -- and using more low-carbon and renewable fuels.
- Over the long term we will need to use carbon capture and storage.
- We should help develop these and other innovations.

An example is the ConocoPhillips E-Gas technology. It converts coal into a synthetic natural gas that burns cleanly, and can lower the cost of carbon capture. This is a dual solution that addresses both issues. Other dual solutions are needed.

What government should do

Of course, there is much that government must do. Here in the U.S., and in other countries as well, it should fully assess the ultimate local energy potential. It could then knowledgably determine which lands are best utilized for energy. Hopefully, this would lead to the opening of more acreage.

Energy development in these new areas should be conducted under stringent environmental oversight. This will be a necessity for earning public approval. The industry has no reason to fear such oversight. It has the modern technology and practices to operate in an environmentally responsible manner.

Government's involvement in these issues should occur under clear ground rules. It should ----

- First, recognize that the energy and climate challenges are interdependent. Then deal with them in a consistent and coordinated manner.
- Second, it should ensure a transparent process. Government must help inform and educate the public.
- Third, in countries with dueling political parties, the crafting of policies should be non-partisan. The job will be tough enough without political grandstanding.
- Next, government should seek comprehensive national solutions, rather than have individual regions or states draft their own initiatives. This piecemeal approach could result in more costly, less efficient, and environmentally ineffective policies.
- Government should also guard against creating conflicting and overlapping regulations.
- The new rules should preserve or even strengthen the international competitiveness of domestic industries -- including energy.

- And finally, countries should recognize the need for international linkage of their climate programs. This would ensure that the best and most effective global investment choices are selected. In fact, this is the best way to achieve the desired emissions reductions,

Moving now to specific actions, government should implement a mandatory framework that sets a value on carbon avoidance. This framework should be implemented in phases, to match development of new technologies.

Government should not try to pick “winners” among the competing technologies. Let the market choose the best, most-efficient energy sources. Throughout this process, government should incorporate review mechanisms to assess the effectiveness and economic impact of its actions. The measures implemented should be economy-wide, rather than industry specific.

Here in the U.S., government should strive for a national solution that will influence international policy as well. The economy needs a carbon price signal. Most of the current U.S. proposals are for cap and trade. Such a system should recognize that carbon offsets are available not only here, but worldwide. These offsets must be environmentally sound, verifiable, permanent and enforceable. The use of global offsets could help reduce the overall cost of compliance -- and could provide an effective means of development assistance.

Another key step by government would be to make fossil fuels more environmentally acceptable. It could do this by promoting carbon capture and storage. To do so, government must first create a regulatory framework that incorporates sufficient economic incentives.

It would have to be realistic about the costs -- which will be significant. The regulations should reflect the fact that potential investors need certainty on the rules of engagement. They should also grant relief from the liability issues that threaten to delay development. In short, we need a well-defined framework so we can make appropriate investment decisions.

And finally, government should work in partnership with the industry to fund demonstration projects. These are needed to prove the scalability and economics of carbon capture and storage.

Next, government should encourage the use of low-carbon energy sources, starting with nuclear power. To do this, waste disposal solutions should be finalized. And government should sponsor research into advanced reactor and fuel-processing technology.

Another area where progress is needed is advanced second-generation renewable fuels. Government should help fund research into the more efficient non-food feedstock sources. Here in the U.S., it should also remove the tariff on imported Brazilian ethanol.

And finally, government can help promote technological innovation. It can do this by encouraging greater private investment through its tax policies -- while directly funding more research itself. And it can increase its support of education -- particularly in the technical skills that are so critical to our energy future.

Conclusion – there is hope

In conclusion, none of these steps will be easy for anyone -- our industry, government or the public -- to accept and undertake. But there are reasons for hope.

For example, there is a broad desire to address both energy security and climate change. That comes with caveats. The public does not understand the effort required, what is needed, or the cost. We will not know if people are willing to pay this cost until government formulates a plan and conveys it to the public in a transparent way. A way that should not place blame or responsibility on any one sector.

We should also take encouragement from the fact that our industry has awakened to the need to engage the public. We are fortunate too that the world still has enormous untapped energy potential. There are promising technologies available to bring these resources to market -- while also reducing carbon emissions.

The real job in front of us is helping inspire the political will to address both problems in realistic and effective ways. In many respects, the public is out in front of government in the desire for progress. But government will eventually catch up.

So now is the time to engage in the debate. We have much to offer, and there is still time to influence the outcome.

Thank you.

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