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Many U.S. energy strategies worsen income disparity -- Chevron CEO

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HOUSTON -- U.S. policies and mandates that back goals such as renewable energy lead to higher prices for people who can least afford to pay more for gasoline and power, Chevron Corp. Chief Executive Officer John Watson said yesterday.

"We do have income disparity in this country, and, frankly, we've seen growing income disparity," Watson said here at the annual IHS CERAWeek conference. "And yet, when I look at many of the energy policies that we're putting in place, it actually promotes income disparity."

Relatively wealthy people can afford to pay more for energy, as it's a smaller percentage of their budgets, Watson said. But for an average American, he said, mandates on renewable energy and higher tariffs to meet economics result in "higher prices for electricity, higher price for gasoline, in the case of biofuel mandates."

Watson's comments came during a question-and-answer session that followed prepared remarks in which he said the energy business is dealing with higher costs. Many industry projects are getting larger and more complex, he said, making \$100 a barrel the "new" \$20 a barrel for many project considerations.

In the last decade, Watson said, the world has seen continued growth including in the developing world, enabling three-quarters of a billion people to move into the middle class. That has meant more demand for energy and rising oil prices, as well as higher labor and capital costs, he said.

Dealing with costs in the energy business was the topic of a breakfast session at the conference before Watson spoke yesterday.

David Fischer, a vice president with Baker Hughes Inc., said his company has taken several approaches, including looking to reduce the number of suppliers and negotiating cost reductions. There also is an opportunity for standardization of products in some cases, he said.

Countries are realizing they need to be competitive to attract investment, Watson said, citing moves by Argentina and Mexico to improve fiscal terms and create access. Australia's stable policies give Chevron and partners confidence to invest billions of dollars, Watson said.

The billions of dollars in subsidies for renewable energy in 2012 went to a fairly small amount of energy, and places such as Germany and the United Kingdom are seeing the costs and rolling some back, Watson said.

For consumers, the reality is energy will be more expensive, he said, citing oil prices, liquefied natural gas that needs robust pricing and renewable subsidies.

More people will benefit from free trade and move into the middle class, with a possible 40 percent increase in energy demand in the next 20 years, he said. Watson said all forms of energy will be needed to meet that demand.

'Free trade wins for consumers'

Watson called himself a proud Californian, and he said being in that area has helped his understanding of the environmental community and made him more sensitive. But he said he's concerned that some policies such as a low-carbon fuel standard would result in dramatically higher prices.

He described possible oil and natural gas exports as a straightforward argument for consumers and industry. And he said free trade helped to precipitate an economic boom around the world.

"The idea that we're debating whether we should be able to export oil or gas or petrochemicals or corn or anything else seems to be a debate that was won a long time ago," he said. "Free trade wins for consumers."

On natural gas exports, Watson said the United States and Canada have sufficient supplies to export to global customers. He said some LNG projects will move forward, while others won't.

In a meeting with reporters, Watson said it would make sense for the United States to export some light oil and import heavy oil that fits better in many refineries.

The CEO began his discussion with reporters by touting a ruling in New York related to an earlier \$9.5 billion judgment against Chevron for pollution in Ecuador. Watson cited a company news release, which called it "a resounding victory for Chevron and our stockholders. It confirms that the Ecuadorian judgment against Chevron is a fraud and the product of a criminal enterprise" ([Greenwire](#), March 4).

Watson told the conference audience that abundant resources remain around the world for development. Policies need to accompany geology, technology and know-how, he said.

"If we can get all the policies right above the ground, we'll be in a position to invest and meet the needs of a growing world," he said.

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