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June 15, 2022

President Joe Biden
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President,

We are writing in response to your June 14, 2022, letter to several U.S. refining companies regarding fuel prices and U.S. refining capacity. The U.S. refining industry is one of the safest and most efficient in the world, operating among the highest environmental standards. We are committed to reliably meeting Americans' energy demands and keeping the market well supplied in this moment and for decades to come.

Our industry is dedicated to providing affordable, reliable, and sustainable fuels and other petroleum products for Americans and our global allies, as we have done for decades, including throughout the COVID pandemic when many of our companies experienced enormous financial losses. Last year, Americans drove an estimated 3.2 trillion miles on America's roads and highways in 275 million registered vehicles. This year and next year, U.S. gasoline demand is expected to increase to nearly 8.9 mmb/d – or 373.8 million gallons per day.

With a global energy crunch underway, much focus has been placed on crude oil supply and demand. Yet crude oil has no utilitarian value until it runs through a refinery and gets processed into fuels like wholesale gasoline, diesel, and jet fuel. Because of this, it is not an overstatement to say that energy security requires a strong refining sector.

AFPM, API, and our member companies appreciated the opportunity to make contact with your administration — as recently as this week — both to share data and analysis on what is happening in global energy markets and to provide concrete and practicable solutions for addressing today's high-price environment. Our analysis and that of independent experts include the following seven realities:

1. **Refined product prices are determined on the global markets.** Crude oil is always the top contributor to the prices U.S. drivers see at the pump. Monthly data from the U.S. Energy Information Administration (EIA) shows that crude oil is 60 percent of the price of gasoline, 17 percent is refining costs, 12 percent is federal and state taxes, and 11 percent is distribution and marketing. Refined products from crude are globally traded commodities, priced in a competitive global market. Refined product prices are set by the marginal supply costs of bringing the incremental barrels of products to market. U.S. refiners have been operating at historically high utilization rates and producing about as much product as they have over the past five years. Particularly on the East Coast, which has lost 70 percent of its pre-2009 refining capacity, incremental supplies have historically been imported from international markets to

supplement domestic manufacturing. However, the cost of refining in other nations is currently higher. European refiners, for example, are now paying at least three times as much for natural gas, a primary refinery energy source, than U.S. refineries.

2. **U.S. refineries are operating at or near maximum utilization.** According to the EIA, U.S. refineries are running at 94 percent of capacity — among the highest in the world — and are producing more gasoline and diesel than current U.S. demand. Moreover, many facilities have safely delayed projects and/or maintenance so as to not take production offline and instead continue to provide supplies and build inventories.

3. **About half of U.S. refinery shutdowns are conversions to renewable fuel production.** Other important suppliers to the U.S., including refineries in Canada, are being similarly converted. Our companies are proud of these investments and believe in the future of lower-carbon liquid transportation fuels, both renewable and traditional. These investments cannot be easily or quickly undone.

4. **U.S. refining is a long-cycle business.** Refiners do not make multi-billion-dollar investments based on short-term returns. They look at long-term supply and demand fundamentals and make investments as appropriate. To that end, following on your campaign promise to "end fossil fuel," consider just some of the policy and investment signals being sent by various federal agencies and allied state governments to the market about our refining industry:
    - EPA just finalized a light duty vehicle standard that incentivizes at least 17 percent electric vehicle sales by 2026. For context, in the first quarter of this year, EV sales accounted for less than 5 percent of new car sales, despite rising gasoline prices. Similarly, NHTSA's new fuel economy standards project to reduce gasoline consumption by more than 200 billion gallons through 2050.
    - The administration has encouraged California and other states to go even further, working to prohibit the sale of new gasoline-powered vehicles in just over a decade, with aggressive interim targets.
    - Other federal agencies are following through on your campaign promises to make capital formation more expensive for traditional energy projects. This is clear in both words and actions, and the most recent example is the current Securities and Exchange Commission rulemaking on climate risk disclosures.
    - Multiple federal agencies continue to make it more difficult to build and maintain energy infrastructure projects, whether traditional or renewable. The Council on Environmental Quality recently decided to discard commonsense permitting changes through the National Environmental Policy Act, for example.
    - EPA just set Renewable Fuel Standard (RFS) volumes at the highest levels ever, which by its nature is designed to reduce demand for refined petroleum products and incentivizes gasoline and diesel exports.

5. **Even if refiners could bring more refining capacity online despite these challenges, the result could be higher demand and higher costs for crude oil**. Without corresponding increases in crude oil production, any benefit from incremental refining capacity would be essentially

nullified by the increased crude oil demand and likely higher price. That's why it's important to increase crude oil production. This global crude oil supply issue is not likely to be solved quickly, even if more refining capacity were available.

6. **Current market conditions are complex and require a closer look.** Your letter conflates refining margins with crack-spreads, which do not account for operating costs that are being driven higher by record inflation. The timing and reasons for shutdowns of several refineries, including the Philadelphia Energy Solutions and Shell Convent refineries, were primarily due to lack of buyers willing to continue operating the facilities as petroleum refineries given growing rhetoric about the long-term viability of the industry.

7. **U.S. refiners are, in fact, adding new U.S. refining capacity where it makes business sense**. For example, ExxonMobil is expanding the capacity at its Beaumont, TX refinery and Valero at its Port Arthur, TX refinery for a combined total of 300,000 barrels per day.

Today's situation did not materialize overnight and will not be quickly solved. Although the Russian invasion is undoubtedly exacerbating the situation, today's challenges are largely the result of high crude prices due to 1) a supply/demand imbalance, 2) logistics reshuffling as the world emerges from the pandemic, strong consumer demand, the ban on Russian products, and 3) policy decisions made at the federal and state levels over many years and by successive administrations. To protect and foster U.S. energy security and refining capacity, we urge to you to take steps to encourage more domestic energy production, including promoting infrastructure development, addressing escalating regulatory compliance costs, allowing all technologies to compete to reduce emissions, modernizing fuels policies, and ensuring capital markets are functioning for all participants.

Our members and we share your desire to address fuel prices for all Americans, and welcome further discussions with you and your administration on ways to do so as quickly as possible.

Sincerely,

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