

**Climate Change: The Case for Engagement**  
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**Houston, Feb. 21, 2008**

Ladies and gentlemen, thank you sincerely for honoring me. The John Rogers Award has gone to 38 people before me, some of them industry legends. I am honored to join them. It is also my pleasure to be with you tonight. After all, our industry could not function without you. We could not do deals, navigate the government maze, or operate every day without your wise counsel. So let me thank the attorneys in this room for all that you contribute to our industry and our society.

Now, let's talk about a topic that will occupy a lot of your time in the future. This morning, you heard about the convergence of the energy security and climate change issues. Tonight, we'll narrow this down to climate change and why our industry must enter the debate over solutions.

ConocoPhillips is very concerned about the potential impact of carbon emissions. In fact we support a government-imposed mandatory framework to reduce those emissions. We also belong to the U.S. Climate Action Partnership and are the only U.S. major to do so. Further, we are directing technology investments into this arena. So we are often asked to explain our position – to present our case for engagement.

**The case for engagement**

To do so, let's go back to 2003, a year after Phillips and Conoco merged. At that time we drafted nine commitments to our stakeholders. They included focusing on sustainable energy, transparency in reporting, safety and environmental performance, ensuring our financial viability and so on.

Now consider that:

- Scientific consensus is growing that carbon emissions play a role in climate change.
- Equally important, media coverage has hardened public perceptions. Calls for action are gaining force.
- And finally, state regulations to reduce emissions are already emerging. Federal legislation may be just a year or two away.

So the train is leaving the station without the industry onboard.

You might ask, why should we care? Because these public concerns play directly to our commitment to environmental stewardship. In addition, they could also constrain our operations ---- which would undermine our financial viability.

You might now ask, how? Consider these facts:

- Access to resources is becoming more restricted.

- Proposed coal-fired plants are failing to obtain permits.
- Refinery expansions are being opposed, and so are pipelines, transmission lines and LNG terminals.

Concern over carbon emissions contributes to these objections.

Yet now is when we should be developing new supplies and building infrastructure in order to prevent future shortages. We are unlikely to be allowed to do so. That is, unless the U.S. enacts a coherent climate-change policy, one that alleviates the public's concerns. Hopefully this would ease the anti-development sentiment that plagues us today.

Unfortunately, our industry is viewed as a barrier to action on climate change. Remember too that the public knows little about how we work, the magnitude of our investments or the promise of our technology. If we remain silent on climate change, or oppose remedial efforts, we will contribute further to public mistrust.

However, climate change is not just a public relations opportunity. It is also a business opportunity – and our industry should be part of the solution.

- After all, we understand 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 governmental policies.
- In addition, there are complex global issues involved, and we operate in the global economy every day.
- And finally, we have the skills to make carbon sequestration a reality.

In short, we can help drive this emerging technology.

Now, consider what will happen if we do not engage. First, we would lose the option of influencing policy. Our concerns would be marginalized. The resulting flawed policies could harm U.S. energy security, as well as the economy and the environment. Our industry would remain alienated from the public – which costs us dearly.

Finally, if the U.S. continues opposing the worldwide desire for action, it risks a further loss of geopolitical influence. This would damage the nation's efforts to fight terrorism, encourage trade and so forth.

For all these reasons, we must be at the table to encourage action and shape workable, balanced solutions. We can let this process proceed without us ---- at our peril. Or, we can participate. Now, let's move to the steps that government must take.

### **What government should do**

First, it should implement a mandatory federal framework that sets a price for carbon avoidance. This could be done either through a tax, or a cap-and-trade system. It should be implemented in phases, to match technological progress.

We also need a regulatory framework to guide implementation of carbon sequestration. It would cover the opening of access to federal lands that offer storage potential, and resolve legal liability.

These two frameworks would enable industry to “do the right thing.” We could invest in emissions reductions – and sequestration – without fear of becoming uncompetitive.

We need a uniform federal approach instead of the differing state legislation now emerging. And when this approach is developed, it should incorporate linkages to international initiatives, including the unlimited use of qualified carbon offsets. This will be essential to lowering costs and maintaining competitiveness.

Hopefully, all nations will recognize the benefits of a global solution. Otherwise, we could see emitting activities move from countries with strict carbon regulations to those with none at all.

As government does this, it must avoid creating conflicting and overlapping regulations – sound familiar? The challenge for regulators will be to comprehend the complex interactions of the new rules. For example, a cap-and-trade system along with standards for low-carbon and renewable fuels would impose a lot of new constraints on the market. If the regulators guess wrong, they could cause supply shortages.

So government should also use look-back provisions and adjust the rules if necessary. This would ensure that the new policies actually meet their emissions and economic goals.

Also, the regulations must not be allowed to get ahead of the technology. Otherwise, this would likely cause spikes in the price of carbon avoidance. Again, look-back provisions would help prevent this.

Next, any new regulations must assure equitable tax treatment. Government should not use emissions goals to punish unpopular industries – like energy. If we face new taxes or harsher treatment, we could be forced to redirect more investments outside the U.S.

Another key requirement is fiscal certainty. Once the rules are established, we need continuity in order to justify long-term investment. So after the effectiveness of the regulations is verified, government must not continually change them in response to short-term events.

All of this must occur in an atmosphere of transparency and fairness. Consumers as well as industry should have input and know what to expect. As part of this commitment, government must be forthcoming on the cost of emissions reductions. Until then, we can not know if the public will be willing to pay the price of addressing climate change. And if it is not, then the politicians will be forced to back off. Unfortunately, the U.S. would not meet its emissions goals, even though we would have already made substantial investments.

Now, let's look ahead to specific actions that the rules should encourage. The best way to reduce emissions is by using less energy. So a key objective should be promoting energy efficiency. Government could do this by enacting strict performance standards not only on cars, but also on buildings, appliances and other products. Government should also encourage greater use of low-carbon fuels, beginning with natural gas. This would help reduce emissions.

In addition, gas can serve as a potentially abundant bridging fuel until new energy sources are available in sufficient quantities.

We should increase use of ethanol made from sugar and second-generation feedstocks like switchgrass. And we need more wind, solar and nuclear power.

However, it is dangerous to overestimate how quickly society can switch to low-carbon and renewable sources. Even in a severe carbon-reduction scenario – the IEA 450-part-per-million case for those who follow this issue – hydrocarbons would still supply two-thirds of world energy in 2030. So government must encourage continued development of oil and gas during a long transition period. The ideal way to do this would be by expanding access to resources.

Otherwise, there will be energy shortages. Politicians would then be forced to focus exclusively on expanding supplies regardless of the emissions impact. This too would defeat the original emissions goals.

Currently, much of North America's remaining oil is unconventional in nature – and more carbon intensive. The oil sands in Canada are a good example. They can meet about 20% of U.S. oil demand by 2020. But we face opposition to development due to their high carbon content, and the surface impact. So we are turning to technology.

To reduce the surface footprint, we are using in-situ steam recovery instead of mining. We are also using smaller drilling pads. To reduce water consumption, we are making steam generation more efficient, and recycling 90 percent of the water used. To reduce consumption of natural gas to produce steam, we are looking at alternative sources, such as gasifying petroleum coke into a cleaner-burning fuel. Or perhaps one day using nuclear power as a heat source. And finally, to reduce carbon emissions, we are researching the possible use of sequestration.

The oil sands are a classic example of using technology to transform hydrocarbons into more sustainable, cleaner resources.

## **Conclusion**

Clearly, our lawmakers have a challenging job ahead. They have to hit their emissions targets without undermining energy supply and the economy.

Those of us here tonight have a vital role in this process. It begins with making the decision as individuals, companies and an industry to engage in the debate on solutions to climate change. We must then offer the insights gained through our real-world experience in delivering energy.

But our role is not just to speak. We must also listen. The debate has substantial scale and high intensity. We have been somewhat isolated from it. So we have much to learn about the concerns of those outside our industry, and their determination.

The years ahead will pose great challenges for us. But there will be great opportunities as well to develop the new technologies and areas of business that I mentioned. That is why ConocoPhillips believes we must voice our opinions. We must engage. Our industry has much to offer, and there is still time to influence the outcome.

Thank you.

**END**