

**STATEMENT BY**

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**BEFORE THE UNITED STATES SENATE  
COMMITTEE ON FOREIGN RELATIONS**

**HEARING ON THE LAW OF THE SEA CONVENTION  
WASHINGTON, DC  
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Thank you, Chairman Kerry, Ranking Member Lugar and members of the Committee.

My name is Jack N. Gerard and I am the president and CEO of the American Petroleum Institute.

API is a national trade association representing more than 500 member companies in the oil and natural gas industry.

On behalf of our members and the more than 9.2 million American men and women whose jobs are supported by the U.S. oil and natural gas industry, I want to express my appreciation for the invitation to appear before you today to speak on this very important issue.

It is an issue that is important to the our member companies, to the millions of employees whose jobs these companies support, directly or indirectly, and the thousands of communities in every state of the union where these companies – and the companies that provide them goods and services – have a presence.

We agree with Secretary of State Hillary Clinton that no country is better served by this Convention than the United States.

And we agree with former Secretary of State Condoleezza Rice and other secretaries of State before her – as well as presidents of both parties who have urged accession – that joining the Law of the Sea Convention will advance America's interests.

Experts, both within the government and outside, agree that America will need more energy of all types in order to grow and to meet its growing energy demand.

Today, the U.S. relies on oil and natural gas for over 60 percent of the energy it consumes.

Since 2000, our industry has invested nearly \$2.3 trillion in U.S. capital projects to meet our country's growing demand for energy.

The significant investments made here in the United States not only support the 9.2 million jobs mentioned above, but also support millions of America's retirees through pension funds, IRAs, 401k's and other investments.

At a time when millions of Americans are unemployed, the oil and natural gas industry has been a key driver of job creation and economic activity.

It also supports 7.7 percent of U.S. gross domestic product, and has provided \$86 million dollars a day in revenues to the federal government in taxes, royalties, rental payments and other production fees.

That's more than \$30 billion per year.

And with the right policies to access more domestic oil and natural gas, there will be more jobs, and more revenue for state and federal treasuries: more than \$800 billion by 2030.

According to the Energy Information Administration, projections for 2035 show oil and natural gas will still provide nearly 57 percent of growing U.S. energy consumption – even with significant increases in renewable energy use.

So the question isn't whether we will need more oil and natural gas, but where will we get it?

Will we use our own vast energy resources or will we rely on others?

Our nation has the resources, and one of the key areas with great potential for energy production is our continental shelf.

Just last week, the Department of Interior conducted a lease sale in the Central Gulf of Mexico where 56 oil and gas companies submitted bids on 454 lease tracts and paid a total of \$1.7 billion dollars to the U.S. Treasury to secure their rights to those lease tracts.

This was in an area where there has already been plenty of production, and companies are committed in investing in this key U.S. offshore area.

Preliminary studies estimate that the U.S. extended continental shelf likely totals 1 million square kilometers and could contain resources worth billions – if not trillions – of dollars.

The U.S. Geological Survey estimates that about one quarter of the world's undiscovered oil and natural gas lies beneath Arctic waters alone, and there is also the possibility of high yields of oil and gas in the extended continental shelf off of our Atlantic and Pacific coasts.

Modern technology makes it possible today to access these resources.

With the right leadership and vision, we can take control of our energy future.

The Law of the Sea Convention provides the certainty that companies need to invest the billions required and offers the potential of greatly and definitively broadening the offshore areas from which we can access new resources to meet our nation's growing energy needs.

It will lead us to a greater energy future, with more jobs, more economic growth, higher government revenues, and enhanced energy security.

Companies spend billions annually looking for and producing oil and natural gas around the world. From 2009 to 2011, the industry spent over \$600 billion dollars in U.S. drilling and exploration activities.

They make these substantial investment decisions by weighing carefully the level of risk against the potential for returns on investment.

Because the industry must plan, invest and operate under long lead times, it is crucial that government policies including our tax framework encourage investment and provide certainty for business planning so that companies can manage their financial risk over the lifetime of the investment.

The Convention provides a clear, objective means of asserting U.S. authority and gaining international recognition of that authority, reducing the potential for jurisdictional conflicts between nations.

With greater certainty and the predictability provided by the Law of the Sea Convention, industry will have greater incentive to fully take advantage of the significant advances in technology that allow us to extend operations in to areas once considered out of reach or uneconomical. Indeed, the Convention would provide a significant incentive for industry to continue to develop the technology to push into even deeper waters in frontier areas.

Given the rapid economic and political changes sweeping the world, the U.S. can no longer afford to be left out of the process. U.S. accession would ensure that American companies that are engaged in offshore energy production remain competitive in the global market.

And, as companies that take their responsibility to their shareholders seriously, they are more likely to invest in projects they believe have the greatest certainty in their operations and the highest returns possible.

As advances in technology push us further from our shores and into areas of harsher climates, the potential for conflicts with other nations' territorial claims inevitably increases. As such, there is a more pressing need for certainty and stability in the delineation of boundaries.

Accession to the Convention would fulfill this need.

In addition, it will give the United States a seat at the table as the Commission on the Limits of the Continental Shelf continues the process of dividing up millions of square miles of offshore territory and assigning management rights to all of the world's marine resources – a process that has been described as “probably the last big shift in ownership of territory in the history of the Earth.”

Today there is no American official, no American geoscientist, sitting at the table while this important work progresses.

We can't emphasize strongly enough that the United States cannot afford to be left out of this process.

The Convention broadens the definition of the continental shelf in a way that significantly favors the United States with its broad continental margins, particularly in the North Atlantic, Gulf of Mexico, the Bering Sea and the Arctic Ocean.

In the case of the United States, this secures an additional 4.1 million square miles of ocean under U.S. jurisdiction.

That's more than 3 billion acres – an area that is larger than the U.S. land area.

It should come as no surprise that our companies are interested in taking advantage of the resources in those areas beyond 200 miles – again, on behalf of their shareholders and the millions of jobs they support – in ways that continue to demonstrate environmentally sound drilling development and production technologies.

Offshore petroleum production is a major technological triumph.

We now have development projects located in water depth in the Gulf of Mexico that not too long ago few thought possible.

New technologies are allowing oil explorers to extend their search for new resources of oil and gas out to and beyond 200 miles for the first time, providing the potential for the largest discoveries in a generation to be made in field sizes not even imagined before.

We need to get on with the mapping work and other analyses and measurements required to substantiate the extent of our shelf, and some of the best technology for accomplishing this resides in the United States.

Establishing the continental margin beyond 200 miles is particularly important in the Arctic, where there are already a number of countries vying to expand their offshore jurisdictional claims.

Such features as the Chukchi Plateau and component elevations, situated to the north of Alaska, could be claimed by the U.S. under the provisions stated in the Law of the Sea Convention. U.S. companies have a clear interest in setting international precedents by being the first to operate in these frontier areas – and to continue demonstrating environmentally sound drilling development and production technologies.

The Convention will increase certainty in a significant manner and will in turn make it much easier to decide to invest billions of dollars in future operations.

One other important consideration is our international oil trade.

U.S. companies are leading participants in the global oil market, and, in 2010, about 44 percent of U.S. maritime commerce consists of petroleum and petroleum products.

Trading routes are secured by provisions in the Convention combining customary rules of international law with new rights of passage through straits and archipelagoes.

Accession to the Convention would put us in a much better position to invoke such rules and rights.

Steady growth in the demand for petroleum throughout the world means increases in crude oil and product shipments in all directions throughout the globe.

The Convention can provide protection of navigational rights and freedoms in all these areas through which tankers will be transporting larger volumes of oil and natural gas.

From an energy perspective, we see potential future pressures building in terms of both marine boundary and continental shelf delineations and in marine transportation.

The Law of the Sea Convention will provide the necessary certainty and predictability to ensure we have access to another significant potential energy resource.

I know there is considerable concern about royalties and whether, as a result of accession to this treaty, our companies would be paying royalties to the United Nations or another international organization.

While it is true that some royalties (7% at most) would ultimately be shared with the International Seabed Authority (ISA) – an independent intergovernmental body established by the Convention, and not part of the U.N. – the U.S. would still retain all bonus bids, annual rental fees, and most of the royalties from these leases. A company would make all payments to the U.S. Government and then it would be the responsibility of the U.S. Government to share this royalty with the ISA beginning in the sixth year of production.

Over the last 10 years, oil and natural gas companies have paid to the U.S. Treasury more than \$70 billion to conduct offshore exploration and production activities.

They have paid \$15 billion in bonus bids, \$2.2 billion in rentals, and \$54 billion in royalties.

As I mentioned earlier, just last week, at the lease sale conducted in the Central Gulf of Mexico, the U.S. oil and gas industry paid \$1.7 billion dollars in bonus bids to the U.S. Government in order to secure rights to develop those resources.

If that lease sale had been conducted on our extended continental shelf after U.S. accession to the Convention, the U.S. would still receive all of those bonus bids in addition to all annual rental payments prior to production and all royalties from the first five years of production.

It is only in the sixth year of production that the U.S. would begin to share a small portion of its royalties with the International Seabed Authority.



We recognize that the royalty sharing provision is a tradeoff for the certainty that the Convention will provide and the vast economic returns that the U.S. will realize through development of its extended continental shelf.

But without the certainty provided through the Convention, the likelihood of companies investing will decrease, and the United States would likely collect little to no bonus bids, rentals or royalties at all with regard to the extended continental shelf.

Our industry also understands that there are concerns with regard to the development of the implementation policies and procedures for the Convention, particularly with regard to how the International Seabed Authority might spend the royalties it receives.

But we believe that is precisely why the Senate must approve this treaty.

Accession to the Convention now would allow the United States to participate in the drafting of these procedures and provide a leading voice in how the royalty funds are used. We cannot influence the process and ensure that our concerns are addressed if we are not sitting at the table.

Once the policies and procedures of the ISA have been established, the U.S. would have a permanent seat on the ISA Council with the power to block adoption or modification of all major rules, regulations and procedures.

Specifically, this would include the distribution of funds, the development of economic adjustment programs, and amendments to the seabed mining provisions of the Convention.

In short, no money could be spent without the complete and total agreement of the United States.

The implementation details are being hashed out today, and the negotiations are being conducted without us.

Without accession to the Convention, the United States cannot be a part of those discussions, and if we're not part of those discussions, we have no input on how the Convention will be implemented and we have no say on how the royalty funds are used, including royalties paid on production from other nations' extended continental shelf.

In short, with a seat at the table of the International Seabed Authority's Council, the United States would not only be able to exercise leadership in the expenditure of this money, it would also have veto power to block expenditures it disagrees with.

We believe the Law of the Sea Convention offers the United States the chance to exercise needed leadership in addressing these pressures and protecting the many vital U.S. ocean interests.

If the United States were not to become a party to the Convention, it could negatively affect opportunities to lay claim to vitally-needed natural resources in the Arctic and areas where other countries – Russia, for instance – have already made submissions with respect to the outer limit of their continental shelf.

Today, the United States does not participate – even as an observer – in the Commission on the Limits of the Continental Shelf. We are watching from the outside as the guidelines and protocols for conduct on the world's oceans are developed and as certain provisions of the Convention are implemented.

Over the past few years, our industry has made great strides in providing more of the energy our nation's consumers and our nation's economy need.

As our economy improves, we will need even more energy from all sources.

We are a technology-driven industry that has been able to create jobs throughout the economic downturn.

Greater access to dependable, domestic resources for exploration and production is the cornerstone of our energy future.

Accessing the resources in the extended continental shelf would be available to us under this Convention would also mean more money in the federal treasury through royalties, leases, bonus bids and tax revenue.

With certainty of access to additional offshore areas, our government could see much more in revenue and our economy would see more jobs and more growth.

Ultimately, these are components that collectively will lead to greater national security.

The oil and natural gas industry has been a bright spot in our troubled economy, accounting for 3 percent of all jobs created since 2009, while boosting America's manufacturing industries and revitalizing communities.

As an industry, we have looked at the Convention from a business perspective and supported it through the past several Administrations – under both Republicans and Democrats. Our position is one that we have held for over 15 years.

The American oil and natural gas industry is ready to step up to the plate, but in order for it to succeed, it must be allowed to play on a level international playing field.

The Law of the Sea Convention will go a great distance to provide us that level playing field.

It is good for our nation, and we urge this Committee and the Senate to give its approval.

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