

NATIONAL PRESS CLUB LUNCHEON WITH JAMES MULVA

SUBJECT: JAMES MULVA, CEO AND PRESIDENT OF CONOCOPHILLIPS WILL DISCUSS ACHIEVING ENERGY SECURITY AND ADDRESSING CLIMATE CHANGE

MODERATOR: SYLVIA SMITH, PRESIDENT, NATIONAL PRESS CLUB

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SYLVIA SMITH: (Sounds gavel.) Good afternoon. My name is Sylvia Smith. I'm the Washington editor of the Ft. Wayne *Journal Gazette* and president of the National Press Club.

We're the world's leading professional organization for journalists. And on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those of you who are watching on C-Span or listening on XM Satellite Radio.

We're celebrating our 100th anniversary this year, and we've rededicated ourselves to a commitment to the future of journalism through informative programming, journalism education, and fostering a free press worldwide. For more information about the National Press Club, please visit our website at www.press.org.

We're looking forward to today's speech, and afterward, I'll ask as many questions from the audience as time permits.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From you're right, Jim Ostroff, a reporter for Kiplinger; Dan Berman, editor of *Environment and Energy Daily*; Mike Burnham,

senior reporter for Greenwire; Bill Loveless, chief editor of McGraw-Hill's energy division; Red Cavaney, senior vice president of government and public affairs for ConocoPhillips, and a guest of our speaker; Melissa Charbonneau, vice chairwoman of the Speakers Committee.

And we'll skip over our speaker for just a minute. Donna Leinwand, a reporter for *USA Today*, organizer of today's luncheon (thank you, Donna) and, I will tell you, the newly elected president of the Press Club; Llewellyn King, host of *Washington Chronicle*; Rick Dunham, Washington bureau chief of *The Houston Chronicle*; and Steve Geyman(?), financial editor of Bloomberg News. Welcome to all of you. (Applause.)

During his campaign, President-Elect Barack Obama made a lot of energy-related promises. He pledged to create five million jobs by investing \$150 billion dollars over the next decade to build clean energy future. He promised to get a million U.S.-built plug-in hybrid cars on the road by 2015. And he said he would implement an economy-wide cap-and-trade program to reduce greenhouse gas emissions by 80% by 2050.

All of these ambitious plans are likely to mean big changes for the environment, oil companies, and consumers. Topsy-turvy prices last year confounded consumers who are undoubtedly relieved that prices at the pump have dropped from last summer's high of \$4.11 a gallon. Those prices, though, have marketplace consequences. Government figures show Americans drove 100 billion fewer miles in 2008 than they had the year before, and of course bought less gas driving the price down.

But cheaper gas has meant that oil companies have scaled back on exploration and production. Global oil production is expected to drop this year. Last year, the International Energy Agency said it would take more than \$1 trillion dollars in annual investments to fund enough fossil fuel to avoid shortages. This may mean future price hikes.

Today's speaker, ConocoPhillips chairman and CEO, James Mulva, has spoken out for years on the role energy companies should take to halt climate change and cut greenhouse gases, while making sure the U.S. has enough energy to fuel its economy. ConocoPhillips, third largest U.S. oil company, supports a government-imposed framework for reducing greenhouse gases, and is the only major U.S. energy company which belongs to the U.S. Climate Action Partnership. Mulva will be one of more than a dozen CEOs testifying Thursday before the Energy and Commerce Committee about the Partnership's cap-and-trade proposal.

At the time of Phillips' merger with Conoco six years ago, the company said it would focus on sustainable energy and good environmental stewardship, a decision, Mulva says, that is critical for the company's financial viability. Here's what he told the Institute for Energy Law in a speech last year: "Our industry is viewed as a barrier to action on climate change. If we remain silent on climate change or oppose remedial efforts, we will contribute further to public mistrust."

He urges energy companies to contribute to solving climate change issues by sharing knowledge about fuel that can help in research to reduce carbon intensity and offering technical and economic advice to the government. Mulva, aside from a stint in the Navy, has spent his entire career with energy company. He joined Phillips Petroleum in 1973, which merged with Conoco in 2003. He became chairman of ConocoPhillips in 2004, and has been chairman and CEO since 2004.

He has undergraduate and graduate degrees from University of Texas. However, he remains true to his birthplace of Green Bay, Wisconsin as a loyal fan of the Green Bay Packers. Please help me in giving a warm National Press Club welcome to James Mulva. (Applause.)

JAMES MULVA: Thank you, Sylvia, for those nice words. Ladies and gentlemen, as a visitor to Washington, I feel a keen sense of history in the air. On Pennsylvania Avenue, workers are putting final touches on the grandstands for next week's inauguration. In just seven days, our new President will take office. President-Elect Obama is personally very impressive. His confidence and calmness are reassuring. The transition process has been smooth. And talented people are joining his staff and his Cabinet.

Meanwhile, though, on Main Street across America, the public recognizes that we face staggering challenges that really cannot be deferred, among them the global economic slowdown, the U.S. recession and job losses, the financial and credit crisis. They're affecting everyone. And the world's geopolitical hotspots continue to smolder. We must meet these challenges head-on, so there is a thirst for new leadership. I know I speak for everyone here in saying that we all want success for the new President and his Administration. We all want to see our problems successfully addressed and overcome.

The question is, how should we go about it? A year or even six months ago, with gasoline prices triple what they are today, energy security was on the A-list of the vital issues addressing the Administration, Congress, and the worldwide public. So was climate change. Now, they have taken somewhat of a backseat, replaced by the new challenges that we're facing.

But complex issues are often very much interrelated. For example, by restricting energy development at home, we export dollars for imports, which means we also export jobs, the trade balance worsens, the dollar weakens, and government tax revenues fall. Otherwise, what may be considered minor geopolitical events then become-- in oil-producing regions become more urgent strategic threats.

One of the solutions that President-Elect Obama has suggestion is the creation of a green energy economy. This is intended to help address energy security, climate change, and job creation. We agree that we must reduce the environmental footprint of energy production and consumption. But we must also be realistic about the cost of green energy, also about its true potential and how long it will take for commercial-scale supply contributions.

The same time, we must be realistic about society's needs. Our economy requires readily available energy today, not just the promise of it ten or twenty years from now. This energy must be reasonably and competitively prices when compared to energy costs in other countries. And finally, we must avoid inadvertently creating unattainable public expectations. An energy transition will not occur overnight at little cost and with no inconvenience.

So how can we reconcile these realities with the concept of a green energy economy? We should start with the basics by enacting a balanced national energy policy. Now, you may be surprised to learn that the U.S. does not already have one. There have been a number of constructive energy bills passed by Congress over the years. But when taken collectively, they did not ultimately solve the country's energy dilemma. The problem is that none of these bills dealt comprehensively with all the issues surrounding energy uses and sources. They never encompassed all forms of energy. They never took the opportunity to incent and inspire increased supply. They also never sought to reduce demand by encouraging greater energy efficiency.

Instead, they chose winners and losers. They focused on the supply sources that seemed to be most popular at that point in time. They ignored or even penalized other potential sources. For example, today's popular and politically appealing choice is alternatives and renewable energy. But what about all the other sources that actually make up the bulk of our supplies? Given our past history, it should be clear that we need a different approach. We need a comprehensive policy that incorporates four principles.

And the first is broad supply diversity, greater energy efficiency. Third is technological innovation, and fourth, sound environmental stewardship, including addressing climate change. I'll explain starting with supply diversity.

We need more energy in all forms. ConocoPhillips strongly supports development of alternative and renewable sources like solar, wind, geothermal, biofuels, and others. But there is, to borrow a well-known phrase, an inconvenient truth. We also need more fossil fuels – oil, natural gas, and coal – as well as more nuclear power. Alternative energy cannot come online fast enough at the scale required to replace these sources, not for decades to come.

So the U.S. must encourage more domestic oil and natural gas development. It could easily do so by opening for exploration some of the promising areas that are now off-limits. The public overwhelmingly agrees. Although the 27 year-old offshore drilling moratorium has expired, there are still needless restrictions. And some in Congress even want to re-impose the ban. This would be, in our opinion, a mistake of historic proportions. The central and western Gulf of Mexico today yield 25% of domestic production of oil and natural gas. This keeps hundreds of billions of dollars at home that would otherwise go for imports.

There also may be substantial potential for oil and gas resources in eastern Gulf of Mexico and off the Atlantic and Pacific coast. But it's time for us to find out just what may be there. A comprehensive energy policy should also encourage development of non-traditional fossil fuels such as oil sands, oil shale, and natural gas hydrates. These sources are abundant and are located within our borders or very nearby.

For example, Canada's oil sands are one of the world's largest hydrocarbon deposits. They hold more than eight times current U.S. reserves. And available volumes could grow with new technology. The U.S. is the logical market for this oil. It already flows to refineries in the Midwest for processing. This creates jobs, generates income, tax revenue, and increases regional fuel supplies.

But there are some who want to stop this oil from coming here. They object to the carbon intensity and the impact of development. Canada and its citizens have already weighed the pros and cons. They are devising environmental standards that will account for the resulting greenhouse gas emissions. So the oil sands will be developed. Either we bring this oil here to the U.S. from a secure and friendly source, or watch it go to other countries instead.

Now the second tenet of a comprehensive policy must be improving our energy efficiency. Since the 1970s, The United States has doubled its economic output per unit of energy consumed. That's great progress, but we can still do far much more. The public is driving less, so gasoline demand is down. There is also greater awareness of the need for energy efficiency at home and at work. Now,

government could inspire further improvement through public education and by enacting broader efficiency standards.

Third, the new policy should promote innovation by encouraging research and development. Industry is making substantial investments already. Government can encourage further private investment by granting incentives. We also need public investment in technologies that realistically can't be funded by industry, such as those that require very long lead times or highly advanced science. Examples would include natural gas hydrates, nuclear fusion fuel cells. We would benefit, too, also from greater support in our educational system, particularly in the scientific and engineering disciplines. Otherwise, we anticipate a shortage of industry technical personnel in the future.

And fourth, we must achieve these priorities while serving as good environmental stewards. As part of this, our industry must invest in cleaner forms of energy. For example, ConocoPhillips is one of North America's leading producers of clean burning natural gas. We also blend ethanol into our gasoline. We produce renewable diesel fuel from surplus animal fats and vegetable oils. And we are researching next generation biofuels. We are developing new materials for the lithium ion batteries that will be used in electric cars. And we're also considering investments in other energy sources.

To summarize, we believe that as the U.S. pursues a green energy economy, its policies should encourage development of all forms of energy. They should promote energy efficiency, technical innovation, and environmental protection. Oil and natural gas have a vital role to play in this energy equation. They will continue as our leading energy sources for the foreseeable future. They will help bridge the gap from today until alternative, and renewable energy becomes more fully available.

By producing more energy here at home, we would strengthen our national industrial base and help with respect to leading the economic recovery. We would create jobs, generate government tax and royalty revenue, and help relieve the(?) balance the trade deficit. Conventional fossil fuels can also be relatively green themselves. Natural gas is abundantly available today. Hopefully gas from hydrates will prove viable in the future.

A stronger domestic energy industry would also be an even more effective technology incubator. For example, our company has developed a proprietary technology to turn coal into cleaner burning gas. We are researching biofuels that would utilize existing infrastructure such as refineries, pipelines, and marketing outlets. This approach would make new biofuels less expensive and less destructive to our way of transportation distribution and life.

In addition, the industry's expertise lends itself to the developed of carbon capture and storage capability. We have a lot of technology and applicable experience that can relate to such a function. This could become one of the key solutions to greenhouse gas emissions.

Now, this brings me to climate change, which is another interrelated issue. We believe that the public will not allow new energy development unless resulting carbon impact is addressed. Conversely, the public will not favor reductions in carbon emissions, if, as a result, energy prices are forced upward too much or too fast. Both issues must be addressed, therefore, together.

Now, ConocoPhillips, as Sylvia indicated, belongs to the U.S. Climate Action Partnership. This is a coalition of businesses, environmental groups that share a vital belief. We believe that time is not on our side in terms of climate change, that each year the U.S. delays controlling its emissions, the greater the future risk. So USCAP is calling for a mandatory national framework to slow, stop, and then reverse the growth of greenhouse gas emissions. In the absence of this framework, ConocoPhillips, like many other companies, is voluntarily managing our emissions. We are improving the efficiency of our facilities, our refineries. We have a climate change plan that calls for new control processes and technologies, also calls for identifying potential investment opportunities in low or zero carbon businesses. Additionally, we also are pretty active traders of carbon in Europe and Canada.

But voluntary efforts are not going to be enough. And neither is the current patchwork of state initiative. They very widely create overlaps and inefficiencies. Instead, we need a single, consistent national program. In two days, USCAP will release its comprehensive climate policy recommendations. They should convey a-- Well, these recommendations were hammered out during about two years of hard work, analysis, debate, and compromise. They should convey a high degree of credibility and merit because of the broad and diverse membership of USCAP. It includes manufacturers of products from cars to medical devices to pharmaceuticals. They are energy producers and electric utilities. They are companies engaged in mining, financial services, and consulting. They are prominent environmental organizations.

In short, there's a broad representation of the business and industry, and of the environmental community. So the consensus recommendations are neither a one-sided, pro-industry approach, nor a solely pro-environmental approach. They are balanced. They can and should serve as a guide to Congress as it creates climate policy. I will not preempt USCAP by providing specific details, but I can tell you that the recommendations, they're substantive and will be widely communicated to Congress, the Obama Administration, and to the public.

There's one final area in which the energy industry must do more. And that is addressing our place in society. You know, obviously, society needs energy, and it powers nearly all economic activity. That's not going to change even as the sources evolve over time. There will always be entities that supply energy, and energy will always have some cost associated with it. Unfortunately, our industry has been tarred by misperceptions on energy prices and profits. It's always tempting to blame us whenever energy prices rise.

However, prices respond to world supply and demand, and should be pretty clear at this point in time. Some of the public understands this and so does the media. Unfortunately, too many in government choose to ignore the facts. They ignore that U.S. policy contributes to supply challenges, and thus, from time to time, price increases. There also is a lack of recognition of the scope, scale, and size of the projects necessary to bring on additional supplies. Easy to find energy has already been found and developed. It's the more difficult is ahead of us. And lack of knowledge of that development time that major projects require-- Many things that we do are not six, twelve months. They're three, four, and most likely, five and six years, and sometimes ten years to develop. Investment decisions must be made and billions of dollars spent years in advance of the project startup.

As for the record profits of the past few years, they have now deflated. Few people know that since the year 2000, oil industry returns on investment only kept up with the average of the S&P 500. They had lagged behind for many years. But the concern over the absolute size of profits has inspired a fixation on taxing the industry. Our effective tax rate is already twice that of manufacturing companies in general.

An example, the recent financial bailout contained new tax provisions that impact only the oil industry. We are relieved at President-Elect Obama's recent statement that a windfall profits tax is no longer on his agenda. We further urge that future legislation not single out the oil and natural gas sector alone to pay for alternative energy, or for reducing carbon emissions. This is vital because we must retain adequate financial capability. We need to continue to make multi-billion dollars of new investments, provide new jobs, develop new technology, and find oil and natural gas that our country needs. Our industry should be recognized for what it is; we are an asset that is essential to the national security and economic health of our country.

So I conclude. As we look forward to the coming week, I want to stress once again that ConocoPhillips is ready, willing, and eager to work with the new Administration. We join in congratulating President-Elect Obama on his historic achievement in winning the presidency. And we offer our support for his efforts to address the country's challenges. We understand the current intense focus on economic recovery, but we also urge Congress and the incoming Administration

to remember the economic importance of sound energy and climate policies. They are key to our long-term prosperity and the wellbeing of our country. We need comprehensive, well thought out policies, and we need them soon.

So thank you very much for listening to my presentation. And Sylvia, I think we're ready for the questions and response. (Applause.)

MS. SMITH: Questioner says, the USCAP group promotes mandatory emission caps that are pretty aggressive. What will be the cost of such caps and the cost of the USCAP's plan overall? Can we the taxpayers afford it in the current economic climate?

MR. MULVA: It's difficult to say exactly what the cost will be. But obviously USCAP and other programs and groups are working to slow, stop, and then reverse the amount of greenhouse gas emissions. But what is important is to be a transparent process. Whatever we put in place, it's transparent. It does identify, what is the cost of carbon? It's fair, transparent, consistent. So difficult to say at this point in time what the cost will be. But to address the cost of energy and addressing climate change, we know it's going to add cost for energy. But we want to do it in a way that's transparent, in a way that minimizes the impact to the growth, development of our economy, our standard of living, and takes the volatility out of the cost of energy.

MS. SMITH: Can you explain that last point a little bit? How does something like this take the volatility out?

MR. MULVA: Well, the thing that we want to do is to, as best we can, is-- to broader energy policy, and that is, develop all forms of energy. So the extent that we have more energy diversity, the most supply we have, if we have a better balanced relationship with supply and demand, and backup supplies, by regions, by the country, and by the world, that tends to take the volatility out of the cost of energy.

Then the other thing is, application of consistent government and fiscal policies so that we don't get into different routines of how much investment from one time to another, so we can plan our investments and add to our supply. And then we want to design a climate change approach, policy (that USCAP has been working at) that's designed in a way, if it's done properly, will lead to also supporting that we take the volatility on the impact on cost. So it's supply/demand, more supply, diversity of supply, and designing a good program that addresses climate change.

MS. SMITH: How do you persuade some politicians who may not acknowledge the concept of global warming to embrace the necessity of such green steps?

MR. MULVA: Well, I think that's one of the things that many, many people and many companies and many environmental groups and active constituencies, we're all doing, and that is to keep talking and talking with anyone who has some doubts or concerns. We think the science is quite clear. We also think that it's going to take a lot of investment and it's going to take a lot of commitment. It's going to have cost. The way that we address this is that we have to make known from every source and way we can, what are the issues associated with climate issues? And talk, and education, and communication is really the best way to sort through that problem.

MS. SMITH: ConocoPhillips is the only major oil company to belong to USCAP. How do you persuade other oil companies to join you?

MR. MULVA: Well actually, there are other companies, energy companies that participate. We have Shell and BP. They're not U.S. domicile. They're headquartered companies. But on the other hand, whether it's ConocoPhillips or the other U.S. integrated oil companies, we all basically share the same objective. And that is, we want to put in place an approach that can address greenhouse gas emissions in a way that we can address this without-- having a transparent process, cost of carbon, and not adversely impacting development of our economy and standard of life, and take the volatility out of the cost of addressing energy and climate change.

So even though we're a member of USCAP, we felt ConocoPhillips, it was important to us. The train is leaving the station. People are formulating their views and opinions. And USCAP will be quite influential with respect to what ultimately is crafted by the new Administration, by Congress. And we think it's important as a provider of energy that we participate in this process. So whether you participate with USCAP or other forums or whatever, we all have the same objectives. And that's really what we were trying to do.

MS. SMITH: Last week, the CEO of Exxon Mobil called for a carbon tax rather than a cap-and-trade program. Why does your company support cap-and-trade? And would you offer your perspective on a carbon tax?

MR. MULVA: Well, carbon tax is another way of addressing greenhouse gas emissions. Cap-and-trade is one way. Carbon tax is another. Cap-and-trade is another, and carbon tax. Both can work. It's really, the devil's in how well they are designed. And so the importance is, what do we think is best way(?) design(?)? What is the best way to have a transparent market and cost? And what

can drive the ultimate objective, which is to slow, stop, and ultimately reverse the amount of greenhouse gas emissions that we have?

So a carbon tax is one approach. And then cap-and-trade is another. We're quite familiar with it. The objectives are quite similar. But cap-and-trade is something that we think is better understood and probably has a higher probability of acceptance through the political process and by the public domain at this point in time. But either approach could work. It's how well they are designed, and ultimately what is decided by-- through the political process, is right way to approach climate change.

MS. SMITH: So cap-and-trade wins out merely by being more pragmatically possible?

MR. MULVA: Well, I don't know. I mean, which one is pragmatic? What I tried to say, you could do either one. It can work in terms of addressing greenhouse gas emission, climate change. We just felt that, in terms of design, that's how best-- Either one would work, but what best can-- design is-- devil's in the details, or, how are they designed? So whichever one is designed the best is going to have the best probability of addressing the ultimate objectives. And we look at it, we think there's a predominance of a view towards cap-and-trade. And we're working ourselves, as our company, with USCAP, with constituencies and the member participation. We felt that this is going to be one approach that we really want to understand very well and have influence with respect to the opinion-makers, and ultimately what's done in climate change through the Obama Administration, and ultimately Congress.

MS. SMITH: You mentioned that USCAP's proposals were developed by consensus. If you were king of the world, what else would be in it?

MR. MULVA: Well, I'm certainly not king of the world.

MS. SMITH: Well, if you were....

MR. MULVA: I think it's probably not appropriate at this point in time, because I've talked quite a bit about USCAP. And I don't want to preempt the rollout of the blueprint of USCAP, which is coming in two days. But I pretty well said what I'd like to really comment with respect to USCAP at this point in time. And in terms of-- It is a compromise. Obviously you can look at the members from an environmental perspective, from utility, from a user, a producer of energy, from pharmaceuticals, to carmakers, to whatever. There are different objectives and different views.

So the objectives are the same, but how you participate and craft, so there's where the compromise comes. It's not appropriate for me to get into the details of what the different issues may be and where the compromise is. That probably can come with the rollout of USCAP, but you have a pretty good idea where the different parties were coming from with respect to, ideally, what their objectives might be.

MS. SMITH: You mentioned in your talk about the importance for the government to encourage efficiency. Can you sketch out your call for what those-- how that might look? Are you talking about government requiring its fleets to have a higher gas mileage or be hybrid or use lighting? Or, what are you talking about?

MR. MULVA: Well, first of all, what really is important about energy efficiency, when we look at this past summer, when gasoline prices at the pump went higher than \$4.00 a gallon, the issue was supply. And so when we look at supply, one of the things that can really have an immediate impact on the relationship with supply and demand is if we use energy more efficiently.

So if we reduce our requirements for energy, all forms of energy, that has a positive impact with respect to supply and demand. And the second thing is, is when you look at climate change and greenhouse gas emission, that's one of the-- probably the most efficient, quickest way to reduce greenhouse gas emission. From both a price standpoint and from a greenhouse gas emissions, efficient use of energy has got to be right at the top of the list in terms of addressing all of these interrelated issues.

And when I say 'interrelated', from my opening comments, if we press and do only, and work on supply, we can increase supply. But we have to also address climate change. But you want to just address climate change and have the price of energy go-- you've got to work with both. They're interrelated at the same point in time.

And so when you say, what can we be doing, whether it's transportation, how we heat our homes, how we build our homes, our facilities, our manufacturing, our distribution, transportation, every aspect that touches-- And everything we do pretty much in life touches energy, where saying, we should address energy efficiency at home and at work and everything that we do.

MS. SMITH: Questioner says, what three to five steps should each of us and each workplace take to reduce our carbon footprint?

MR. MULVA: Well I guess part of it comes when we-- companies that we work for or with as employees. One of the things we want to do is when we

develop and make investments in new facilities or look at renovating or upgrading our existing facilities, whether they're manufacturing facilities or pipelines, transportation or they're office buildings, we should be looking at, how can we insulate them better? How can we operate them more efficiently with technology and optimization? How can we, in our own homes, more efficient utilization of the energy in our homes, more efficient air-conditioning, heating, insulation, turn the lights out when we don't need to be using energy? When we use transportation, can we do more carpooling? Can we coordinate use of our trips? Do we have more efficient automobiles? All of these things are ways in which we can be more efficient, participate and contribute individually in our own way, both in our work environment, as well as our home life.

MS. SMITH: Do you have an electric car or hybrid?

MR. MULVA: No, I don't have an electric car or a hybrid. But I will have to say that they're becoming more and more interesting as a performance, the expected performance of these new forms of transportation become available. I would have to say that the hybrid seems to be a form of transportation that's something that looks pretty-- is very serious and very promising as we look out over the next years and decade to come. Obviously electric vehicles, another source of transportation. But I don't own one today, but I suspect as time goes on, probably will.

MS. SMITH: What percent of ConocoPhillips's development budget is in alternative renewable forms of energy?

MR. MULVA: Well, we spend about \$500 million dollars a year towards technology. Some-- a good portion of that technology is just to support our existing businesses, because we have to continue to upgrade our technology for the reasons I said, whether it's energy efficiency, technology, whatever. And then we spend several hundred million dollars a year in pure research. And pure research is looking for the new forms of alternatives, renewables. Some of the funds are allocated to that.

So that's where we-- the amount of money that we spend and allocate to new forms of energy. But most of our capital budget and spending is to our traditional business, which is to add to finding and developing economically, around the world, as well as from a cost point of view, and from a climate change point of view, oil and natural gas.

MS. SMITH: You mentioned this briefly, but whatever happened to the grease-o-hol ConocoPhillips was developing with Tyson Foods?

MR. MULVA: Well, we take animal fats and we make diesel. We do some of that at this point in time, not a great deal of volume, but we do it at one, and hopefully two of our refineries. Volumes are small, but most important, we're learning and getting experience. And that's what we're really trying to do, is continue to upgrade, research, and get more familiar with how we are able to do this.

MS. SMITH: Do you have a timeframe for when your investment in alternative energy will return profits?

MR. MULVA: No, I don't, because at that point in time, what we're really looking for is breakthroughs in technology. And so we have-- The industry has always been great in terms of development of technology, and a commitment on a sustained basis, year after year. So we're looking at continuing to put millions of dollars, and I know the industry as a whole, billions of dollars, into development of technology. We're looking for, not just incremental things. We're looking for the real breakthrough in technologies that we can be doing things in an area of biofuels. Seems to make a lot of sense to be making ethanol out of something other than food supply.

And so we think that that's something that we all are working on, as our company and other companies are, is a form of a breakthrough. In terms of profits, patient(?) in that regard. A lot has to do with, what is the cost of energy? But it really comes down to technology. How are we able to develop the technology that tells us, which are the new forms of energy? That's one of the points that we think is very important. It's not pick winners and losers, and, we want this kind of product or this kind of technology. Let technology develop over time the breakthroughs that tells us, which are the best forms of alternative or renewable energies that we really want to put the money to? So we think that's important.

MS. SMITH: Does ConocoPhillips plan to halt or scale back oil and gas production projects given the global economic slowdown and sharp drop in fossil fuel prices? If so, where?

MR. MULVA: Well, we have-- continue to have pretty large capital spending programs. And we make commitments, multi-year commitments around the world. And a good share of our budget and capital spending is in North America, and particularly in the lower 48 states. So those commitments are made years in the past, and we don't change those commitments. So many of the things that we spend-- commit to go over a multi-year period of time. And so we also have a financial structure and capability that we see ourselves-- We see the volatility of oil prices and natural gas prices, that we invest and recognizing that it

goes up and it goes down. But it really doesn't alter very much, our capital spending going forward.

To some extent, we ratchet down some of our new opportunities because we look at them and we question whether-- how valuable they will be. Will they be profitable? But we never like to give up the opportunity of doing them at some point in time in the future. And sometimes we have to hold up some of our projects because we don't get the permits. That's one of the things that came up over the last several years, the U.S. particularly. We have a lot of new infrastructure requirements, putting in new pipelines, adding refining capability and capacity, that we've gone, in some cases, multi-years trying to get the permit, when in case of expanding capacity at our refinery, we're adding capacity and lowering emissions. And that, it took a lot of time for us to get permits.

So yes, we'll probably spend less in our capital spending going forward. In fact, our company will be making announcement, next week or so what our capital spending program for 2009 will be. But we don't alter. We're in the business for the long-term. We don't alter too much, our capital spending.

MS. SMITH: Can you give us a percentage difference then that you'll be announcing for '09?

MR. MULVA: No. That'll come out when we announce the number. I know you come from Ft. Wayne and you're very persistent, but I don't-- You'll get that in a few days time when we ultimately-- Then you can compare, what we announce our capital spending will be in 2009 with what we've done in 2008.

MS. SMITH: Do you expect ConocoPhillips to lay off anyone this year, or at least pull back on hiring geologists, geoscientists, engineers, and so forth, the questioner says, the very people the industry has been scrambling to find for the last five years?

MR. MULVA: Well, I'm not going to comment on our headcount and what happens with respect to our employees and all. But you make a good point. Over the last decade or two, two decades, oil prices and natural gas prices have gone up and down along with refinery margins. The result has been that we've had quite a number-- with the aging workforce in the industry, we've lost a lot of technical expertise and experience. And so we also went through the last decade or two where other industries, dot com and communications and other things, seem to be more exciting to youth coming out of our academic institutions, and yet we have so much technology associated with our industry.

So we do have to be very cognizant, make sure that we have the right number and the right people to run our company, invest and grow our company,

today, tomorrow, and in the future. So it's a valid point. We want to make sure that we're efficient. So I'm not saying-- We'll have to adjust the workforce for what we need today and what we see that we need three or five years from now.

One of the things that is of interest, and that is, usually when you go through periods of time when we know that we're going through a pretty difficult, challenging recession, is a great time to be looking and adding new talent to a company.

MS. SMITH: Questioner says that, I just returned from England where I drove a diesel car, rented a diesel car that achieved 55 miles per gallon. Would you support tougher CAFE standards in the U.S.? And would a dollar or two additional cost per gallon of gas help? Would that kind of tax help?

MR. MULVA: Well, Europe is-- dieselization of Europe has come because that's the way the rules and regulations have been, is to promote a dieselization. Result of that is, the growth of the gasoline demand in Europe has gone down over the period of time. And we have some pretty substantial imports of gasoline from the refineries in Europe, which gives us product that helps us with respect to supply.

In terms of CAFE standards, I think what I'd really like to go to is-- What we need to be doing is, with respect to transportation, automobiles, trucks, whatever we have in transportation, we should be stressing-- We've got to make it more efficient. Have to make it more efficient, not at the expense necessarily of safety. And when we address efficiency, we also want to make sure that we address greenhouse gas emissions.

MS. SMITH: Questioner says, what long-term price of oil do you use for evaluating capital expenditures?

MR. MULVA: Well, last summer we felt that oil price, it went up to \$147 dollars a barrel, we felt was far too high, and certainly too volatile, too quick. We also look at what has happened. We understand with respect to the recession of our country and essentially the worldwide recession, the demand for oil and natural gas and refined product is down. But I believe, and I think many in our industry believe, that the price that we see today has gone lower, lower than we would have expected, and more quickly. Just as it went up, it's gone down pretty quickly.

So when we plan and make our investment for the long-term, we understand and address that we have to see the price environment we see today — could it go lower? Yes. It could go lower. But longer term, we see somewhat higher-- we plan for somewhat higher oil, gas prices than we see today, along

with somewhat better refining margins...(inaudible) not a lot better, because we know that if it's better, we could certainly respond and handle that. But we think that the prices we see today will ultimately respond somewhat better. And we believe that we need to see somewhat higher oil, natural gas, and refined product prices, so as to continue to promote long-term investment.

And we look at the cost of bringing on new sources of energy, new source of oil, natural gas. Most of the easy to find oil and natural gas, already been found. So we have to go into more adverse climatic conditions, deeper waters, hostile climate conditions, development of a gas pipeline from Alaska. It's going to take a lot of investment. So we think that we need to see somewhat better prices than we see today to continue to promote those-- development of those resources and make those investments.

MS. SMITH: What are you hearing from foreign oil-producing nations in the Mideast and elsewhere about their interest and commitment to developing greener technology?

MR. MULVA: Well, the countries in the Middle East, as well as in the Caspian and Russia and other-- in the Far East, understand that the world expects and is demanding-- want energy, want energy from all sources. And the energy that's being developed must be clean, must be cleaner from-- And they recognize a need for technology.

So irrespective of where you go, the people around the world who are energy suppliers and providers, understand the need to supply energy, and it must be clean. And so irrespective of where you go, I don't see really a difference in that regard.

MS. SMITH: I'm startled by that. Internationally there's agreement on this and not a change from country to country?

MR. MULVA: Well, if you're a oil producer from a producing nation, you know that, long-term, what's important is that you have oil resources, natural gas resources that are required in the world. And it's going to take decades to come for us to, in a meaningful way, change the utilization that we have of fossil fuels — oil, natural gas, and coal.

So if you're a producing nation, what you see that's important, that this is a resource in your country, that acceptance of that resource for decades to come, it must be produced and development at a reasonable cost. It must meet environmental expectations that are getting more restrictive and cleaner from one year, one period of time to the next. That's understood by the producing nations.

MS. SMITH: About three years ago in a letter to Senator Richard Lugar, you said gas mileage is better with regular gas, not E85, and there, “remains a number of E85 fuel quality and regulatory concerns.” Is that still the case?

MR. MULVA: Well, E85 was quite popular. And yet when you-- it doesn't have the same mileage as traditional gasoline or gasoline with ethanol, about ten percent ethanol. And so we were merely trying to make the point, is we're not against E85. We support E85. But one of the things that it does is, you don't get the same mileage. You've got to compare the mileage of E85 as compared to gasoline that might have eight, nine, or ten percent ethanol.

And the other thing is, you have to have the right kind of automobile to run the E85. And less than ten percent of the automobiles in The United States are able to take E85. And so we just felt that, till we-- And that was pretty costly to put in place. Now in terms of retail outlets, you may see the Shield(?), the Phillips, or Conoco or 76. But most of the retail outlets, we really don't own retail outlets. Those are owned by independent businesspeople. And it's a pretty substantial investment to be made by incorporating, having the wherewithal and the separation and the tanks to do E85. So the distribution required some investment.

We're not against E85. We just want to make sure that everyone knows that there's differential in terms of mileage that has an impact with ultimately the same, maybe the same amount of cost, and that you have to have the right automobile to run E85.

MS. SMITH: Is ConocoPhillips still in talks with Gazprom on efforts to develop Alaska's natural gas resources?

MR. MULVA: Well, we work with Gazprom to be developing and working with them, and opportunities around the world. But with respect to the Alaska gas pipeline, the Alaska gas pipeline is something that ultimately our country needs. We need to get developed. It's good for Alaska. It's good for North America. It's good for our country because of indigenous resources. Ultimately, the gas pipeline is going to be-- needs to be built. I believe it will be built. And it will be built by the participants, which is primarily the large producers up in Alaska, which is our company, BP, and Exxon Mobil, along with the state, whether there's a pipeline company involved. But I don't see Gazprom being involved with respect to the Alaska gas pipeline.

MS. SMITH: Questioner wants to know what projects ConocoPhillips has in the Caspian area, particularly Kazakhstan? And what do you think about business opportunities there?

MR. MULVA: Well, as an international energy company, Kazakhstan and the Caspian has a great deal of resources, resource that can be oil as well as natural gas. And we are a participant, small participant in the Kashagan development. The Kashagan is offshore Caspian. It's the largest project, largest found developed here in the last 30, 40 years. Here recently, there's some very large exploration finds offshore Brazil. But Kashagan is a very large project. Our experience in Kazakhstan has been good. We look forward ultimately, the development of the Kashagan project. And we're also looking for new opportunities.

And just recently, we, along with Mubadala of Abu Dhabi are going to be working with KazmunayGas, which is the state oil and gas company of Kazakhstan, on an offshore block called the 'N' block. So Kazakhstan has been a good experience for our company. And we look to be making multi-billion dollars of investments in Kazakhstan. And we see them as a very significant energy provider of oil and gas to the region, but to the world.

MS. SMITH: What concerns do you have about the news of the last two weeks with Russia denying as to go to Ukraine and to Europe?

MR. MULVA: Well, first and foremost, we're an energy company. We understand the political implications of-- everywhere we go and things that we do. As an energy company, I think it's probably appropriate for me not to be commenting on that. Our experience of investment in Russia, we own 20% of Lukoil, and we're a partner in a large oil development which started developing oil way up in Siberia.

So we think one of the best things-- It's been a good experience for our company. These issues are very complex. They go on with respect to the flow of natural gas and sale of natural gas, flowing and trans-- across a number of countries into Europe. It's pretty difficult, complex subject. But what we do believe is that companies like ourselves, and our industry, that goes in and makes investment, one of the best things that we can do is, by making investments, we develop economic relationships and investment. And secondment, transfer of employees back and forth between companies and countries is one of the best ways to create and foster better communication, better investment, and better relationships. So I think that's really what I would say on that.

MS. SMITH: Do you think that "drill here/drill now" is a concept that's DOA for the next four years?

MR. MULVA: Well, the real issue is access. And as I said in my presentation, a number of comments, we know-- we feel very certain that there's pretty high probability of oil and gas resources in the Gulf of Mexico and areas

that have been restricted and off-limits to our industry. We think there are also quite a bit of new areas off the Atlantic and Pacific coast, offshore. And we know there's quite a bit of oil and gas resources that we could develop onshore in the lower 48 that are restricted.

Now, the issue is concern about environmental performance. And I'd urge you to really take a look at the environmental performance of our industry, and the footprint of our operations, and the technological advancements that have, by geometric proportions in terms of footprint of how much smaller, and our performance, and how well it's been. We believe that we could be going to these restricted areas and we can be developing, find and develop. But first and foremost, we should at least go out and see what we have. Don't restrict. We should go out and find out what we have, and then make a conscious decision and judgment. Should it be developed?

But our industry, our company, we believe that we have the capability and experience that we can develop these resources and not in any way really compromise safety and environmental performance.

MS. SMITH: Do you expect the Administration or Congress to re-implement the ban on offshore drilling?

MR. MULVA: I don't know whether they will. As I said, I hope there's real good, real serious discussion before they consider doing that, because for the reasons I said. I know that communications with members of the transition team, of the Obama, President-Elect Obama's Administration, I believe will-- along with Congress, will really sit down and talk this through. Because it's so important with respect to our energy security.

And the other thing that's important is, to the extent that we develop our own indigenous resources, leads to more investment, more jobs, more revenue to the Federal government, to the states, and less money is spent for imports of energy. So we think that before any consideration of continued restrictions, we need to have a really well-discussed discussion on all aspects of this. Because we believe, our industry believes that we can-- there's a lot of resource potential that should be developed and can be done without compromising safety, security, or environmental standards.

MS. SMITH: Is ConocoPhillips pulling back on its Canada operation amid the current oil price environment?

MR. MULVA: Well, some of the things that we have, the long-term projects and commitments, we're not pulling back at all. But some of the smaller things, where you make small investment, drill wells, we have quick production,

you look at that and you look at the price, and you look at the cost of drilling. And you have to ask yourself if it has a quick payback or it has the investment return or it has no return. Well, you'd say, "Well, maybe now is not the time to do it. We'll just defer and do that another year in the future."

MS. SMITH: What do you do with the Native American lands in that exploration in Canada?

MR. MULVA: Well first, we, whether it's Native American lands or any other restrictions, we don't do anything unless we have approvals by all partners, constituencies, Native Americans, Federal governments, state government, local government. So want to make sure everyone understands — we never make an investment, conduct operations unless we have a concurrence in approval by all constituencies.

MS. SMITH: We're almost out of time, but before asking the last question, have a couple of important matters to take care of. Let me inform our members of future speakers. On January 23rd, Senator Mitch McConnell of Kentucky, who is the Senate Republican leader, will discuss the agenda for the 111th Congress. And on February 10th, we have Dolly Parton, the Grammy Award-winning singer/songwriter and philanthropist.

And second, I'd like to present our speaker with the coveted National Press Club coffee mug.

MR. MULVA: Thank you.

MS. SMITH: And for our last question, because of ConocoPhillips's Oklahoma roots and Texas home, we have to ask you, should Texas or Oklahoma have been chosen to play in the BSC championship game? (The toughest question of the day.)

MR. MULVA: No, it's not tough at all — yes, either one of them should. But obviously, we-- big supporters. We-- our heritage, and we come from Oklahoma and Texas. And so football is a big thing down, that part of the world. And so I don't know quite how to-- What was the question? It says, how-- Well, they were chosen to play-- Oklahoma's chosen to play in the BCS bowl.

MS. SMITH: Yeah, but should they have been?

MR. MULVA: I think it's time to conclude your meeting.

MS. SMITH: Toughest question. Thank you so much. (Applause.) Thank you so much, Mr. Mulva, for coming today. I'd also like to thank National Press

Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today's lunch. Also thanks to the Press Club Library for its research.

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Thank you much for coming. We are adjourned. (Gavel sounds.)

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