This story is taken from Sacbee / Business.

Shell Oil president: Increase domestic drilling

Shell president says industry not to blame for high gas prices.

By Dale Kasler - dkasler@sacbee.com
Published 12:00 am PDT Tuesday, April 15, 2008

The president of Shell Oil Co. said Monday his industry isn't to blame for the high price of gasoline and said America must drill for more domestic oil even as it develops biofuels and other alternative sources.

In an interview with The Bee and a speech to an alternative-fuels conference in Sacramento, John Hofmeister hailed the potential of new forms of ethanol and other futuristic fuels but also delivered an old-school message: Conventional fuel from crude oil will continue to dominate for the foreseeable future.

"We see no alternative" in the short run, he said in his keynote speech to the Low Carbon Fuels conference at the Convention Center.

And unless companies like Shell are allowed to produce more oil from domestic sources, the industry will have to import more and prices will stay high, he said. Although critics have been blasting the oil companies for record profits, Hofmeister said oil companies can't be faulted for prices that hit a statewide average of $3.80 a gallon, another record, for self-serve regular.

Rather, the high cost of crude, which closed Monday at $111.76 on the New York Mercantile Exchange, is the major culprit, he said in an interview. Crude is responsible for some 70 percent of the price of gasoline, he said.

And California's higher-than-average fuel taxes are a key reason why the state's average is considerably higher than the national average, he added. The U.S. average is $3.37.

Some environmentalists and other critics say more domestic oil drilling will harm the environment and postpone the movement to alternative fuels. "We need to kick our petroleum habit," said Bonnie Holmes-Gen, senior policy director for the American Lung Association of California. "The solution is to promote advanced clean, alternative fuels."

But Hofmeister said America must develop alternatives and drill for more oil at the same time. In fact, if domestic drilling doesn't pick up, millions of Americans will suffer the burden of ever-higher prices.

"If we're not allowed to drill our own natural resources, then by public policy from the U.S. government we're saying to consumers, 'You're just going to have to pay more because we refuse to develop our own natural resources,' " he said. "If we don't change the underlying conditions over the short term to produce more hydrocarbons, I don't see any solution."

Hofmeister, who is retiring this summer as head of the U.S. arm of Royal Dutch Shell, said his company is pouring money into developing new fuels, including ethanol based on wood chips and straw instead of corn. But at the same time, Shell and other companies face considerable hurdles – technological and logistical – in bringing those fuels to market.

"Ideas are around the corner, innovation is around the corner," but real-world practical solutions are still many years off, Hofmeister said.

In many cases, "the technologies are immature, the manufacturing processes are not yet developed," he said.

Low-carbon fuels refers to an executive order signed by Gov. Arnold Schwarzenegger to reduce the carbon content of motor fuel. But Hofmeister said the logistics of commercializing low-carbon technology can be daunting.

One small example: Hofmeister said Shell spent three years trying to convince a New York City suburb to allow one of its retail stations to sell a new hydrogen-based fuel. The suburb wouldn't budge, and Shell had to sell the product from behind a wire fence at an industrial-style wholesale storage site, he said.

That kind of unappealing setting makes it far more difficult to market the product to consumers, he said.

Nonetheless, he and other industry executives said they're committed to pursuing low-carbon alternatives to conventional fuels. But executives said government regulations aimed at combating global warming could harm the economy unnecessarily.

"We're not challenging the goals," said Cathy Reheis-Boyd, chief operating officer of the Western States Petroleum Association, a Sacramento-based trade and lobbying group. "The … challenge is to meet the goals and not tank the economy."

The state's most significant global-warming law, AB 32, requires a 29 percent cut in greenhouse gas emissions by 2020.

Go to: Sacbee / Back to story