The Economic Club of New York

115th Year
689th Meeting

Michael Wirth
Chairman and Chief Executive Officer
Chevron Corporation

December 1, 2022

In-Person/Hybrid Event

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Co-Anchor, "Squawk Box", CNBC
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Introduction

President Barbara Van Allen

So we're going to go ahead and get started. I know we have a few stragglers that are caught in the traffic. As you all know, the Christmas tree was lighted yesterday, so today is the big day where everybody likes to drive by and see the tree at Rockefeller Center. I know I walked by yesterday. It was just beautiful. So I recommend everybody, try to get a minute to go by and see it today.

So, good afternoon and welcome to the 689th meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here with all of you in our milestone year. We just celebrated our 115th anniversary the other night and that was just a wonderful occasion. And I know a number of you here in the room were there as well.

For those that don't know it, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social, and political issues. We've had more than 1,000 prominent guest speakers appear before the Club over the last century and that includes today. A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse, rising, next-gen business thought leaders who are joining us today, as well as students from the CUNY Graduate Center, the NYU Stern

School of Business, the Gabelli School of Business, and Harvard University, all of whom are joining us virtually. As a reminder, we are now taking applications, both for our 2023 Fellows Class as well as for our new national digital Fellows Program, which the board just voted to allow us to proceed with in 2023.

So I want to just say how honored I am to be able to welcome our special guest, Mike Wirth. Mike has been the Chairman of the Board and Chief Executive Officer of Chevron Corporation since 2018. He served as Vice Chairman of the Board in 2017 and as Executive Vice President of Midstream & Development from 2016 to 2018, where he was responsible for the shipping, supply and trading, as well as the pipeline and power operating units, as well as Chevron's strategy, business development, and corporate affairs.

Previously, Mike was EVP of Downstream & Chemicals from 2006 to 2015, and President of Global Supply and Trading from 2003 to 2006. He joined Chevron as a design engineer in 1982. He holds a bachelor's degree in chemical engineering from the University of Colorado.

Mike serves on the Board of Directors of Catalyst. He is Chairman of the Board of the American Petroleum Institute. He's a member of the National Petroleum Council as well as the Business Roundtable of course, the World Economic Forum International

Business Council, and the American Society of Corporate Executives.

The format today is a conversation, and we're delighted to have Club Trustee and CNBC's Becky Quick joining us to do the honors. As a reminder, this conversation is on the record and we do have media on the line. Without further ado, Becky, Mike, I turn it over to the two of you.

Conversation with Michael Wirth

BECKY QUICK: Barbara, thank you very much. Good afternoon everybody. And, Mike, thank you very much for being here. I like to think that this is one of those situations where it's better that we're lucky than being good, because we booked this a long time in advance, but I can't think of anybody I'd rather hear from right now when you consider what's been happening with oil prices, the idea that there's an OPEC Plus meeting coming up on Sunday, and then on Monday you have these sanctions that are set to begin. Not to mention the talk of, is there going to be an oil cap coming from the western nations and is it going to be $60? So with all of that in the background, how are you doing?

MICHAEL WIRTH: Well, it's a real pleasure to be here. So, Barbara, thank you for the nice introduction, and it's great to celebrate 115 years with you and the other members.

It is an interesting time, Becky. I've been in the oil business for 40 years, and I can't recall, and this is going through wars, terrorists attacks, recessions, pandemics, you name it, and I don't think there's ever been a time where there are more moving parts and kind of tectonic forces that seem to be converging around these energy markets.

And so it's an uncertain time, it's an unpredictable time. It's an important part of the global economy. And certainly as you look at the situation in Europe, energy security, economic security are also very clear and present priorities. And so it's a fun and interesting time to be in this industry and it's also incredibly challenging.

BECKY QUICK: Let's just walk through. When Mike and I talked last week or the week before about what we'd be discussing here, I just thought let's walk through the economics of oil prices, why we are where we are. What are moving things? What will drive them lower or what will push them higher? Just walk us through because there are so many moving pieces right now.

MICHAEL WIRTH: Yes, so normally it's a globally-traded commodity. And so you have supply and demand and the prices tend to be set by fundamentals. When there's more supply than there is demand, the prices go down. And when the reverse is the case, prices go up. We're in a situation now, we're coming out of the pandemic. Supply had contracted because in 2020, we couldn't store all the oil that was being produced and so we actually had to shut in wells. We had to slow down activity and nobody knew how long that would last. As we've then come out of the pandemic with vaccines and economic recovery, demand globally has surged. And there are a few exceptions to this. But the energy systems then had to run to try to catch up so prices have moved up as we've been in a tighter market with lower inventories around the world and all the different commodities that are part of these markets.

So that's the backdrop then for the current situation, which is the war in Ukraine, the risks that that poses to energy markets. And on the demand side, the downside case would be further economic softness in China related to lockdowns and Covid. Clearly there are some dynamics at play that are pushing against that. And then a global slowdown. You know, clearly, I think Europe is probably in a recession right now. The U.S. is in a slower economy than we were in a few quarters back and we may or may not be headed into a recession next year. But that's kind of on the demand side what could buffer these forces.

On the supply side, most of the risks are up. And so, you mentioned that we have sanctions and a price cap that are supposed to come into play on Monday. The sanctions are pretty clearly adopted and agreed. The price cap is not clear yet and still being worked, here just a few days before it goes into effect. The risks there are that that either takes supply off the market or pushes it to more distant markets that could increase logistics and associated risk. The Russian reaction to the price cap and the sanctions is unknown and they certainly have made statements to the effect that they did not intend to supply to customers that were complying with the price cap. So that would take supply off the market.

The U.S. has been releasing a million barrels a day out of its Strategic Petroleum Reserve for the last six months. That's slated to come to an end in December, which is in effect taking a million barrels of current supply daily out of the market. And then we have the uncertainty around the OPEC Plus meeting on Sunday where at their last meeting they surprised some people by reducing their targets by two million barrels a day production. It probably came down by less than that. But there are a lot of issues on the supply side that would tend to pull supply back or constrain supply and so I think, on balance, it's a market that's really hard to call. It can go either way. But I think more of the risk is skewed on the upside over the next period of time than to the downside.

BECKY QUICK: There are so many questions that come out of that. Let's kind of focus on each of those issues one by one. If you start with the first thing you listed, China and the Covid lockdowns. Today, it sounds like China is trying to loosen some of those restrictions in reaction to the huge protests that they've seen from their people. They're not calling it that. They're saying that this is just improved from the zero Covid for the most part, but it sure seemed like, to me, when they are no longer whisking people away and saying that you have to go if you've tested positive, that there is a bit of a relaxing. They're saying Omicron is less dangerous than some of the other strains and that feels like it's the beginning of an opening. Is that kind of the sense you get?

MICHAEL WIRTH: Well, the news out of China continues to evolve almost on a daily basis as you say. And I think there was a general belief that once we got passed the Party Congress and President Xi could see his way into the future, that some of these things that had been constraining the economy may be relieved. I think, you know, it's been pretty widely reported, the level of immunity in the Chinese population is lower than it is around much of the rest of the world. I think the vaccine hasn't been as effective in China as the vaccines developed elsewhere.

And certainly the vulnerable population there appears to be more vulnerable than in the rest of the world today, and a large population and a finite number of beds and ability to treat people. It's a very difficult, I think, path for the country to navigate because at least the data that you see would suggest there's a widespread presence of infection in a population that is not very immune, which creates very real risks which most of the world had dealt with a couple of years ago and we've largely moved beyond that. You've got a billion and a half people, give or take, that may still be in the middle of what we were seized up with two years ago. And so I don't know, Becky, how that plays out. It's really hard to call.

BECKY QUICK: You mean even if they wanted to loosen things up, Covid could have a worse impact there and that could slow it down.

MICHAEL WIRTH: I think that's the fear, yes.

BECKY QUICK: All right, so let's talk about the OPEC Plus meeting this weekend. It's crazy that that meeting is happening on Sunday, the day before all of these other issues happen. So OPEC Plus is trying to kind of anticipate what the western nations are going to do come Monday. What's your best guess, and the pressures that they're kind of facing? People say this is a standoff. They don't want to help us. They don't like this administration. But really they're feeling like they're under siege too with oil prices, especially given what the federal reserve has done.

MICHAEL WIRTH: Yes, I mean OPEC Plus is a relatively newer construct. OPEC has been around for a long time. The non-OPEC nations that have found some alliance with OPEC is relatively recent. And, by and large, with maybe an exception during the early days of the pandemic, they seem to have really focused on trying to stabilize markets. And supply and demand data around the world is pretty opaque in the energy markets, and I think OPEC has got about a good a view as anybody into understanding where those two things are. And their stated objective is not to necessarily meet a price but it's to try to ensure markets are reliably supplied and stable. So I think the move that they made at their last meeting at the time was criticized by some, but it would appear in retrospect now with a little bit of time that their assessment of supply and demand may have been pretty good, as markets kind of bounced around but have largely been stable subsequent to that.

I think in this meeting they're going to be trying to, it's almost unknowable what happens in response to the sanctions and China. And I think they've switched the meeting from in-person to virtual, which would suggest they anticipate a more straightforward conversation that they can do virtually. Many people are opining that this means they just kind of maintain the status quo with the plan to perhaps convene an emergency session if there's some unexpected dislocation in the markets. I don't have any unique inside information that would suggest that is or is not accurate. But I think they really have tried to be stewards of a stable market, and I would expect that's what they're going to be talking about again this weekend, against a real backdrop of uncertainty.

BECKY QUICK: I mean if they give themselves the out of an emergency meeting later that allows them to see how it plays out and then return to it. Okay, let's talk a little bit more about the SPR, the Strategic Petroleum Reserve. This is not something that was ever created to try and manipulate market prices as much as it was supposed to be an emergency measure. That's not how we've used it lately.

MICHAEL WIRTH: It certainly, you know, this year has been used to try to reduce upward pressure on prices. That has happened previously under other administrations. This isn't the only administration that's used it that way. The draw-down has been much larger and more sustained than we've seen in the past so it's taken the reserve to much lower levels than we've had historically, which is a concern because it really is there to provide support in the event of a real supply outage. Which the last time we saw, we were talking here just a little bit ago, is when we had gasoline lines and real shortages in this country, which was in the 70s. So there's a big part of our population that has never seen those days and has an assumption that supply is always reliable.

If it becomes, if we really do see a shortage, those reserves become very important for our security, for our economy. And in that scenario, the world is going to be competing for scarce reserves and we're going to want to have control over ones that can keep our economy supplied. So I think it's at a level right now that we really wouldn't want to see it go any lower, and eventually it should be rebuilt over time. It's going to have to come in a market where there's a lot of other competing forces for that supply.

BECKY QUICK: We were at $73 and change for WTI earlier this week. I think the administration is now saying $70 is where they would refill it. I remember hearing $72 or even $75 at earlier levels. If we flirt with $73, $70, even $69, do you think they'd fill it and fill it quickly or how does that work? I don't even understand.

MICHAEL WIRTH: Yes, the Department of Energy has certain latitudes to begin refilling. In the past, at times there have been congressional authorizations required, associated with some of that as well. So I'm actually not an expert on the mechanics of how that would happen. But I think the thing that I would observe is trying to set a price at which you would refill is not necessarily a wise move. Oil prices are hard to predict. And that price will be higher, then it will be lower than that.

There was an idea floating a while back that the U.S. might guarantee that they would pay X, say $70, which I think was intended to send a signal to our industry to try to invest more.

BECKY QUICK: That's what Amos Hochstein told us on Squawk Box.

MICHAEL WIRTH: Yes, the reality is the price of the day has nothing to do with our investment decisions. And so if we wanted to guarantee a $70 price for oil, I can go to financial markets and I can hedge that today. I can enter in the futures contracts and guarantee that, but that's not how we run our business. So we look at a long-term outlook for supply, demand and price and invest accordingly. And the other thing that would happen is there would be times when the price would go below $70, and if the U.S. is paying $70, they're taking the taxpayers' money and you're paying more than you should to refill the reserves.

And so I think there ought to be a plan over time to refill on a steady basis and not necessarily tie it to any particular price point because it's just impossible to call. And I don't think it sends a signal to the industry that is meaningful. But it should be refilled. I think it needs to be refilled carefully because we're in a world that's tight on inventory today and purchasing from the U.S. government, you take a million barrels of supply that's currently going into the market out, when the releases stop, if you were to start to refill it at a million barrels a day, you've swung balances two million barrels a day just through that action. And that's, you know, in a market that's as delicate as this one is, that would have upward price implications.

BECKY QUICK: How many barrels a day does the globe use?

MICHAEL WIRTH: 100, 100 million.

BECKY QUICK: So 2%, this would be roughly, and change.

MICHAEL WIRTH: Yes, and at the margin, it's the difference between two very large numbers but those big numbers are very finely balanced, so that's a big swing.

BECKY QUICK: Yes, I mean if you hear about the Saudis cutting an extra 500,000 barrels, it does move WTI pretty significantly. All right, you said that that's not, you know, these assurances from the administration, that's not why you run your business the way that you do, not how you decide how you allocate your capital. How do you decide? Because I think at this point you've indicated that your Cap-X is going to be, what is it, $15 billion to $17 billion annually. If you went back to pre-pandemic numbers, you guys were looking at more like $19 billion to $22 billion. So what happened to get you to those decisions?

MICHAEL WIRTH: So, we pulled spending down during the pandemic because like everybody else we didn't know how the world would play out and there was, you know, shrinking demand for our product, even though what we're producing today, we were investing more to produce more. It didn't make a lot of sense. As we've seen things stabilize, we pulled down from that kind of $20 billion range to as low as $11 billion, so kind of just about in half. We've been gradually stepping that back up. This year, our budget is $15 billion.

And what we found during this period of time is we've become more capital-efficient. And so we can conduct the same amount of activity, drill the same number of wells, advance the same amount of work for less capital. So we've got a range that's lower because we're actually more capital-efficient than we were before. We can deliver the same outputs. And we're in a mature industry, we're not in a growth industry like a tech company. So we don't get valued on revenue. We don't get valued on the rate of growth. We get valued on earnings and cash flow and kind of traditional bases. And we need to deliver strong returns. We're a capital-intensive industry. And we need to return cash to shareholders, and I'll shareholders look to the dividend, which we've raised for 35 years in a row. They look to share repurchases as another way for us to return cash to shareholders. So we balance all those things out and we look to grow cash flow and value for investors, meet market demand, but do it in a way that's responsible in a mature industry and that maintains the capital discipline that's really essential over the long cycle in order to create value.

BECKY QUICK: One of the things that has changed the equation, I would say, over the last ten years or so, has been ESG and pressure that comes to make sure that people are investing in ways that are going to be green. And you can call that a lot of different things. You've got the SEC looking at greenwashing, whether the stuff washes out or not. I know that you all at Chevron have been doing things to try and work in alternative energies as well. But how does that play into it? What do you hear from Wall Street right now? What kind of pressure do you get to invest in those things? What kind of pressure do you get to not drill more?

MICHAEL WIRTH: So, you know, when we talk about ESG, I often go back to a book that I keep on my desk in my office. It's a book called, *The Standard Oil Spirit.* It was written in 1923, 99 years ago. And it's a small, little hardcover book. And in it, it talks about protecting the environment. In it, it talks about the social contract a company has with its people, with its workforce, with its communities. And in it, it talks about good governance.

Now this is 100 years ago. This is before the term ESG had come into favor. And what I call it is this is about how to run a business in a proper way, in a responsible way. So I'm a big fan of ESG principles, because I think that's an important thing that a company needs to recognize is you not only have to serve your shareholders, but you have to serve your communities. You have to protect the environment. You have to run the company in a way that's responsible for your employees and other stakeholders.

I think what's happened is ESG has become kind of really a polarizing principle as opposed to one that brings people together. And it's part of a debate where everything has been pulled to extremes and you're either, you're either for preserving the planet or you're for destroying the planet. You're either in favor of a diverse workforce or you're, you know, absolutely opposed to any kind of diverse. And the reality is it's a big, complicated world. You have to work on all of these things to move them along.

And so what I hear from our mainstream shareholders and, of course, we have shareholders across the spectrum that we engage with and listen to, is they want to see us do things to protect the environment, to reduce our carbon emissions. And we're investing a lot of money to do that. They want to see us engage in communities and with our workforce in a way that respects the differences and creates opportunities for everybody. And they want to see good governance so we don't have some sort of financial blowup or other problem because we haven't had governance. But they're not necessarily arguing that we go do extreme things.

And some of the loudest voices oftentimes are the ones that are the furthest from the center. Most of our shareholders are down the middle of the fairway and we engage in conversations all the time about how we advance our business to create value and do it in a responsible way. So I hope we can have a more balanced conversation on these things. I hope that the lessons that are being, kind of learned or can be observed that are underway in Europe, when it comes to energy, where they've created a vulnerability for their economy, for their security, because they focused on one part of the energy equation, the environment and not the others – affordability and security – I hope we can learn those lessons to have a more balanced discussion and more balanced policies as we go forward.

BECKY QUICK: Well, let's talk about that. The policies that were pushed in Europe, what were they specifically that you think were most problematic? What policies would you like to see from the United States and from other governments to make sure that you think we're following that path?

MICHAEL WIRTH: Yes, so I'll use Germany as the prime example because I think they're kind of at ground zero of this. They've had a policy called Energiewende, which is a very wind and solar-focused renewable energy policy to advance renewables in Germany, which is good. What it ended up doing is in a country which is a northern European country, which doesn't get as much sunshine as some others, which the wind doesn't always blow in, it has built up at a pretty high cost, renewable energy components to their economy, which needs to be supplemented by other reliable base-load power when the wind is not blowing and the sun is not shining.

But what they did is they shut down coal-fired power, which can do that. They shut down nuclear, which can do that. And they banked solely on a promise that the Russian gas supply would be there whenever they needed it. It would affordable. It would be reliable. And, you know, Churchill, before World War I, when he was Vice Admiral for the Royal Navy, he said, security in oil – at the time they were talking about war, they're on the verge of world war – lies in diversity and diversity alone. And the point being, don't become so reliant on a particular source of energy that you exclude others because you need to have some flexibility in the system. Germany took all of that out of their system and became reliant on Russia. We see that was not a wise choice.

In our country, I think the lesson we can take from that, we're blessed with abundant resources, energy resources in this country and the best companies in the world, and the highest standards for how we operate. And our industry is a force for good in society, we're a force for good on the planet. Heat, light, mobility, mechanized agriculture all rely on the products that we bring to society. We can be a big part of advancing a lower carbon energy system as we meet the needs of today's economy and build the systems that will supply tomorrow's economy in a lower carbon way. We can do that in a way that's balanced, that can reduce some of these risks and can enable an orderly transition.

So a lot of times you hear the term, a just transition. Some of these terms are not very well defined. You know, what is a just transition? It's kind of in the eyes of the beholder. What I try to talk about is an orderly transition, which is one that is stable, that's predictable, where supplies are reliable, where markets are stable and prices are not as volatile as what we've seen right now, and we deliver a lower carbon energy system. I asked our company to do two things. And every employee in our company would tell you the answer to this question. Higher returns, lower carbon. We need to generate higher returns because we've got to create value for our shareholders and we've got to deliver lower carbon because that's what the world expects. You've got to do them both at the same time, and it can be done. But you have to do it with a balanced approach.

BECKY QUICK: You mentioned all the advantages that the United States has. Where are our weaknesses? Where are the real vulnerabilities that we have right now?

MICHAEL WIRTH: Well, I'll point to one that has gotten a lot of attention, and that is permitting. For the people that would like to see our industry go away, one of the strategies has been to use a variety of techniques to stop infrastructure from being built. And the best way to do that is to frustrate the permitting process upfront. And there's kind of a very complex regulatory environment to get permits to build, not just a pipeline in this country, but to build a port, to build high voltage transmission lines to take wind and solar from where you can generate electricity to where it's needed. And it's become very difficult to build things. It's very expensive and it takes a lot of time.

And so even if you were, I'll set aside our industry, if you want to see wind and solar grow even faster in this country and see the grid respond in a way that can support that, we need to build a lot of transmission infrastructure which right now gets stopped because the people that don't want to see anything built anywhere are able to just stop everything. And so durable and meaningful permitting reform so you protect the environment, you go through the right reviews, but you don't just add almost unending cost and time, would be a huge step forward.

And then I think you want to trust markets. This country has got, I travel around the world, I meet with people in a lot of countries who look at the U.S. and observe. You have the most talented people. You have the greatest universities. You have the deepest capital markets. You have the rule of law. And you have all these energy resources. Your economy should be just unbridled. Why is it that your policies don't want to take advantage of all the resources that you have? And I think balanced policies, an economy-wide price on carbon, for instance, would help us reduce emission and provide the myriad of energy sources that are going to be required in the future in a way that's efficient and much more stable and sustainable.

BECKY QUICK: Well, what's the answer? Is it politics? Why don't we want to take advantage of those things? What gets gummed up? What has to change?

MICHAEL WIRTH: Well, I think politics are a part of it. You know, it's interesting, most countries that I deal with, energy is really important and they understand it, and they have a very clear point of view on policy because they're either a big importer and their economies are reliant on it. So think Japan, Korea. They've got a very clear view on how they think about energy. Or their economy depends on export revenue. So you can think Saudi Arabia. You can think some of the West African countries. But around the world, most countries, either rely for an input to their economy or it's a big part of their export economy.

The U.S. has both the blessing and kind of the curse of being the world's largest producer and the world's largest consumer and it can afford to be a little sloppy because we're both. And because we've got all these great companies and deep capital markets, industry and the economy kind of responds to and ameliorates some of the effects of a lack of policy continuity and clarity over time. I think policy continuity and clarity over time would actually be a real, it would contribute more strength to our economy. We've been lazy about it.

BECKY QUICK: Spoiled children obviously. We've had it too easy. So if it swings from administration to administration with the furthest wing of each party kind of controlling things as it comes through, how do you, as a business, make decisions about billion dollars' worth of investments that have to take place over a decade or longer?

MICHAEL WIRTH: Carefully. You have to, you know, number one, our capital is mobile and so we can invest anywhere in the world. And because we have a big portfolio, there oftentimes are places where the pendulum is swinging in a way that you say that risk is increasing and it's too great to make a multi-billion commitment until we can see some more clarity. So we've got other places where we can invest the money. And so you manage it through managing your portfolio and your exposure to some of these things.

The second thing that we do is we look at it through time and have to have some beliefs that, over time, economics and rational thought prevails and that we don't get overly influenced by Drill, Baby, Drill, or No More Drilling, both of which we've heard in the political discourse here. And say, you know, the reality is these are going to be important resources to the economy. There's some degree of development that will be supportive. Let's be smart about where we do it, and let's be smart about how we do it. And let's not overreact to the current political rhetoric. Let's try to see to a longer term. But it does, I've got to say, it does have an influence on the decision-making process.

BECKY QUICK: I would say the political risk has to be playing a much bigger factor. If you're talking about spending less in Cap-X, again $15 billion to $17 billion versus $19 billion to $22 billion pre-pandemic, you can say that, yes, we are more efficient so we're getting a lot more for our money than we used to. But you've also said that you think the pressures for oil prices are to the upside over time. And if you thought it was a slam-dunk, you'd be spending even more.

MICHAEL WIRTH: You're right. And part of that, and I'm doing meetings with investors this week, and one of the conversations that we have is they'll say what's the case for spending more? And we can grow at the rate we're spending now, but you can argue if we see a sustained period of higher commodity prices, all other things being equal, you would invest more into that, right? I look at two signals. I look at a signal from the commodity markets, which are saying green light, invest more. And I look at equity markets, where our shareholders are not saying that.

Our sector has outperformed the rest of the economy this year, but it doesn't mean we're a highly valued company. We're just less low-valued than we were before. The multiple on earnings or cash flow for our industry is still in the single digits. The S&P 500 has kind of been double digits. Tech companies are still in the 20s. We still aren't even seeing the signal from equity markets that there's confidence in the full value of our company as recognized by them.

And most shareholders I talk to, when I say, what if we hit the accelerator on our investment, they say that adds risk. That makes me less likely to want to invest in your company and own your shares. Because in part, they're influenced by what they hear and their perception of the long-term risk that is created. And I have the question where people say, look, you've got a government trying to put you out of business, why would you put more money into this country right now with a government that's expressly trying to stop you from doing that?

BECKY QUICK: It seems like it's a vicious cycle at this point, though, where you have your shareholders telling you don't do it. Then you have the White House saying, okay, you are profiteering on this, Exxon, they said – luckily for you, you didn't get targeted – but this Exxon makes more money than God, I think was a direct quote from Joe Biden. You've got an angry administration and politicians who are calling out to say they want to do more to step in. Like maybe they do a windfall profits tax. So it seems like you've got to pay attention to all these constituencies and only push it so far in one direction or another.

MICHAEL WIRTH: We do. It's a balancing act, Becky. It's not easy. And, you know, on the subject of a windfall profits tax, the desire here is to have lower prices and more supply. A windfall profit tax will deliver the opposite. It was tried in the 80s by President Carter. It didn't deliver the revenue that was expected, and it didn't deliver more production. It delivered less production. Most things that you want more of, you don't add taxes to. Things you want less of; you want less smoking, you raise taxes on cigarettes. If you want less oil production, you could raise taxes on it. If you want more, that's probably not the right thing to do. So we live in a world where there's a lot of opinions. There's a lot of rhetoric. And it does induce some conservatism in decision-making, and a bias from shareholders who say, why don't you just send the cash to me and then let's see how this plays out.

BECKY QUICK: So the politicians who are calling for these things, the windfall profits tax, are they playing to populism? Are they stupid? What is it?

MICHAEL WIRTH: Oh, boy, Becky, I don't know if I want to answer that. Look, you know, one of the things, maybe there's a way I can say this. One of the jobs I have as somebody who has grown up in this industry is to try to help people that have not grown up in this industry understand it better. And so I engage with people from both sides of the aisle at all levels of governments to try to help them understand the likely impacts of certain policy actions. Not to try to talk our book, but to share the knowledge that I have about how our industry really works.

And the reality is a lot of the people that work in government don't have deep backgrounds in the private sector. They tend to have a lot of experience maybe in law, in politics, but they may not understand how markets work. They may not understand how capital is really allocated and how these supplies get to market. So I try and talk to people to help them understand that. One of the issues we've been doing a lot of work on recently has been this idea of an export ban on products because there's a concern about heating oil here in the Northeast. And the reality is, you know, that one of the ideas that's been floated to ban the export of products from the United States in order to try to keep supplies more available for the Northeast has a very real risk of creating higher prices and lower supplies, not the reverse, if you understand how commodity markets work.

And so I've spent time with the Secretary of Energy and others in the Energy Department trying to help them understand how these markets work, how the products flow, why things go in the direction they do, the specifications on quality for products, some of the rules around shipping create the commerce patterns that exist. And if they were to intervene in these markets, there are things they could do that could make it better and there are things that they could do that would make it worse. But they haven't grown up in the industry so they don't know.

BECKY QUICK: Are you talking about the Jones Act?

MICHAEL WIRTH: I am, on shipping. Yes, so for those that wouldn't be familiar with it, there's a law called the Jones Act, which has been on the book for 100 years, which requires movements from one domestic port to another domestic port to be done on a U.S.-built, U.S.-owned, U.S.-crude, U.S.-flagged ship. The cost of that is about four times the cost of an internationally-flagged tanker. And so you see a limited number of these vessels in service in the U.S. and at times when you need to move more products – we've seen this during hurricanes, for instance, where there's been big dislocations – the government can waive that, which allows you to bring foreign-flagged ships into service in the U.S. and move things more quickly and more economically from one part of the country to another. Waiving that would enable products to flow from the Gulf Coast to the Northeast, for instance, more easily than they do today.

BECKY QUICK: And is there, like an open reception when you talk to people in government about this?

MICHAEL WIRTH: There's an interest to learn. And I think we all, as human beings, have our own kind of starting point and beliefs, inner biases that we have, a view of how the world works. And so that's, as I say, we try to sit down and I try to engage with people and just help them understand how the world works as we experience it, and that may be at odds with how others think it works or believe it should work. And sometimes what we wish would happen or we think happens is different than what really happens, and I try to bridge the gap between those two to help inform better policy choices.

BECKY QUICK: How much time do you spend talking to people in Washington and other world governments? How much of your job is that?

MICHAEL WIRTH: Oh, a lot more than I thought I would. Because it's, I was meeting with the *New York Times* not long ago and mentioned that we've gone from the obituary page, you're yesterday's news, you're going to go away, we're going to bury you, to the front page. It's important again around the world. And so we have exposure to some of the dynamics going on in the war in Ukraine and what that means. So I've spent time with the politicians in that part of the world on those issues. I've spent a lot of time in Washington, D.C. It's more time than I spend with shareholders.

BECKY QUICK: Liquified natural gas, the exports of that have been helping our European allies in a big way as Russia has cut them off. But every once in a while, you hear those rumblings again that if prices are too high here, politicians don't want to see the exports of that be allowed. They want to shut that down. What would that mean?

MICHAEL WIRTH: I think it would be very bad for Europe. We have a lot of natural gas in this country, and we have a certain amount of export capacity. And Europe is in a real bind. And average people in Europe are seeing their energy bills go up an extraordinary amount, and in many countries there's a lag effect where they hold them stable for a while before they go up. But there's a lot of people in Europe that live on fixed pensions and things like that and this is incredibly, incredibly difficult. I think, as an ally, it's important that we're doing everything we can to support Europe and support the supply of energy and try to bring prices down. And an export ban on diesel fuel, an export ban on natural gas that's driven purely by domestic considerations alone would be, I think, the wrong thing to do with respect to our allies.

BECKY QUICK: Does that seem to get a fair read when you talk to people in Washington? And does it depend on which branch of the government you're talking to?

MICHAEL WIRTH: Yes, it does. And, you know, there's many governments. There's kind of one notional government, but there's many governments within it and many different points of view within it. And I think different departments and agencies, different individuals see these things differently because they have kind of different drivers and priorities in their world. So you try to work across all those different dimensions and relationships that you have.

BECKY QUICK: Yesterday, again, we spoke with Amos Hochstein from the White House and he was laying out his views, just saying he talks to the oil companies and the CEOs pretty frequently. And when pushed, he said, yes, this is not going away. Our reliance on fossil fuels is not going away in the next two to three years, which I thought was one way of looking at it. Larry Fink was speaking yesterday at Andrew's DealBook Conference and he said we're going to be reliant on fossil fuels for at least the next 70 years. I think that's part of the big question is trying to figure out how long we will be using fossil fuels and how much it makes sense for you all to continue to make these billion dollar-plus investments. Where would you put it in terms of our reliance on fossil fuels?

MICHAEL WIRTH: I'm with Larry. It's going to be decades. And I'll give you just an example of, you hear a lot of talk about the energy transition and it sounds as if it's happening immediately and it'll be done by the end of this decade or there's a lot of round numbers, by 2030-this, by 2040-that. Twenty years ago, and there's a couple of different sources of data so there are tiny variations, the world, roughly 84% of the world's primary energy usage was fossil fuels: coal, oil, natural gas. Twenty years later, trillions of dollars in investment, a lot of progress in wind and solar and electric vehicles, we've gone from 84% to 82%. So that shows you the rate of change. It shows you the scale of the energy system.

What was really hard for a lot of people to understand is the scale of what keeps the lights on, the trains running, the planes flying, the Amazon truck delivering to your house every day. And this happens around the world for 8 billion people, only a billion or so who live like we do. And a lot of this discussion happens where the people who live like we do, you know, are having the conversation. There's another two to three billion people in kind of the emerging middle class in developing countries are beginning to experience a lifestyle that most of us grew up in. And there's another four to five billion people on the planet that probably in their lifetime will never see it. There's a billion people on this planet that don't have electricity. There's two and a half billion people that still cook indoors with biomass or animal dung and the air quality and the health conditions that come with that are just heartbreaking.

And so it's a big planet with a lot of needs, and we have to help advance good solutions for everybody. And, you know, economic prosperity, energy security, and environmental protection all matter. But if you go to Sub-Saharan Africa, the priorities are different than they are in Western Europe. And we have to respect the fact that in a country that needs clean water, sanitation, a functional medical system, better schools, an economy that creates jobs and progress and wealth, to deal with their priorities we need to meet

them on their terms as opposed to impose our view on those countries.
And I travel to a lot of places that are very sad in terms of the quality of life, and we try to make it a little bit better by investing in the economy, creating jobs, and helping advance economic progress. But, you know, First World solutions in Third World settings don't always work. And so that's part of the pace and it's part of why I think Larry says it's many decades, not just a few years, I think that's the reality of how things are really likely to unfold.

BECKY QUICK: It's a rich conversation to have when you're turning up the air-conditioning on your private jet to be saying you can't have these things. Let's talk about Venezuela. This was a huge decision, but the United States government said, yes, you can go ahead and go back to getting things to work in Venezuela. But what does it actually mean? This is six months where you're allowed to kind of fix the oil fields and go back in and try to put things back together.

MICHAEL WIRTH: Yes, I would say that a little bit of the reaction probably has been more huge than I think the decision really is. Just for context for everybody in the room, our country has operated in Venezuela for most of the last 100 years. We were expropriated for a period of time and then came back in. Venezuela was the jewel of Latin America at the end of the last century. Wonderful education system, brilliant people, vibrant economy. And it also happens to have more oil and gas resources than

Saudi Arabia. It sits in this hemisphere. The U.S. refining system on the Gulf Coast is designed to run feedstocks that come from Venezuela.

So we have tried to hang in there through the difficulties that it's experiencing recently, to maintain the people, the capacity to help build that economy back as things improve one day. The Trump administration put sanctions on to try to choke off revenue to the Maduro regime, somewhat analogous to what you see going on with this idea about price cap. It hasn't worked that well. Oil is still going into the market. It's going to other customers that aren't subject to or don't care about the U.S. sanctions.

And what the government has now decided is to loosen some of the sanctions imposed by the Trump administration. The primary effect is it will allow some of that Venezuelan oil to flow back to the U.S., which will help the U.S. refining system, which can use it. We're owed a fair amount of money because we set up some loans and financing for our partners down there, which we never have been repaid on. And so we can also use some of the revenue from these crude sales to help retire a non-trivial pile of debt that we'd like to see paid back.

And so I think in the short term, Becky, it's probably crude flows that we'll see change a little in the world. And after six months, I think it's probably more dependent upon the political process which we're not involved in. If things seem to be going in a good direction, perhaps these get broadened and extended further. But we're not likely to be coming in with investment and drilling and a campaign that grows production in the next six months. There's a lot of work that's required to do that, and I think we'll have to see further actions out of the U.S. government and probably on the ground in Venezuela that allow us to kind of move in that direction.

BECKY QUICK: Maduro has already been pretty critical of it not being enough from his country's perspective. How tight is it? Do you think sanctions will be released? How much of it just depends on how we feel about Saudi Arabia or China at that point?

MICHAEL WIRTH: So there are only a few places in the world, I think, where you can say, wow, you could actually try to bring production back in at some scale here in the next few years. Saudi Arabia is one. That hasn't gone so well. Iran is another one. The negotiations on the JCPOA have not gone that well. The United States is one and we've got reasons why that's, it's growing, but maybe not as fast as it could. Venezuela is one.

So I think there's logic behind this if you're looking at it through the lens of energy supply to the world. I haven't seen what President Maduro has said about it. I think the sanctions have become kind of the tool of choice in many cases for foreign policy, and they're not particularly effective. But once they're in place, they get very sticky and they're hard to release. And I think that's probably what happens here in Venezuela is we see perhaps gradual relaxation and extension of some latitude for us to work. And then, of course, like I say, we're going to go into it with our eyes wide open to do things in a way that's safe, that protects the environment, and that manages risk and exposure for our company.

BECKY QUICK: There are a lot of questions that came in from Club members and I'd like to get to a few of them because they're good questions. The first one is, when does Chevron think peak Permian production will be reached? And does Chevron have a plan to plateau output at any time or does that depend on price?

MICHAEL WIRTH: Yes, so the Permian is truly a national treasure in terms of energy security. It has gone from almost no production and kind of yesterday's news to the center of oil production in this country. It probably peaks sometime in the 2030s. There's still a lot of running room. Our production is growing. We've gone from 100,000 barrels a day a decade or so ago to 700,000 barrels a day to a million barrels a day in 2025 and something between a million and a million and a half probably by the end of this decade. We'll probably plateau it somewhere in that range. We could keep growing it, but it consumes a lot of capital and there's a point at which it's so big – and we're a big company but that's a lot in one place for us. So we'll probably level that out somewhere between a million and a million and a half barrels a day in the 2030s. I think the industry production probably plateaus somewhere in that time frame as well.

BECKY QUICK: What can Chevron do to help with the energy situation in Ukraine? You touched a little bit on that.

MICHAEL WIRTH: Yes, you know, we're doing what we can to bring energy to Europe. We're bringing liquified natural gas from Angola, from Equatorial Guinea. We've signed some contracts to bring LNG to Europe. It'll be the second half of this decade by the time the projects get built so it doesn't help immediately. We've got a big position in the Mediterranean, in the water offshore at Israel, two beautiful natural gas fields that currently provide natural gas into the economies of Israel, Egypt and Jordan. Take a lot of coal out of the power system there and have some real positive benefits.

We'd like to try to get some of that gas to Europe, so we're advancing a number of different projects that could do that. They take time. They would probably deliver LNG into Europe the second half of this decade. So we're doing what we can out of our existing infrastructure. We're advancing capital projects that can do more, but they all have a time scale measured in years.

BECKY QUICK: This question came in...oh, sorry...

MICHAEL WIRTH: So the question was about a sensitivity analysis for growth if China recovers and the globe sees a recession. Yes, I'd have to go back and work with our team to see. We run a lot of these cases and we're just finishing up our business, annual business planning process right now. You know, I'll give you just a data point to think about. During the depths of Covid, 95% of the people in the world were stuck inside, schools were closed. Nobody's going to a ball game. The world went from 100 million barrels a day of oil demand to 84 or so, somewhere in the 80s. So, in the most kind of restrictive set of conditions we've ever seen, oil demand came down but still was very, very large.

And so in a recession, which would be much less extreme than what we went through in 2020, what typically has happened in past recessions is you'll see demand flatten out or come off by maybe a million barrels a day, but all the forces of development and economic progress, population growth, continue to push energy demand up and it tends to kind of push right through a recession with some flattening, but then it comes back pretty quickly. And I think that's what we're likely to see in a recession if we see one in '23.

BECKY QUICK: If you're getting your plans ready for next year right now in terms of what you're expecting, your budgets and things, I know it's just a guess, but what is your estimate, your kind of internal number that you're looking at for oil prices next year?

MICHAEL WIRTH: You know we don't actually share that publicly, Becky, because we buy and sell companies and assets too, and if I know what somebody else thinks the price will be, it's an advantage in negotiating. And so I try not to give that advantage away to others.

BECKY QUICK: Okay, let me ask you one more. You said that meeting with the government or governments around the globe has taken up a lot more of your time in this job than you anticipated. What other surprises have you seen in your job in terms of demands on your time?

MICHAEL WIRTH: So, you know, we've been out of favor with investors so I've spent a lot more time with investors than I had anticipated I would. During Covid, the need for communication with our workforce was enormous and so we used all the tools that you're all familiar with to do very frequent town hall meetings, all-hands meetings with employees all over the world. One of the interesting things, you know, we had a pandemic plan on the shelf so we were ready. In fact, we had...

BECKY QUICK: You did?

MICHAEL WIRTH: Yes, it went back to SARS. After SARS, we actually had a printed pandemic plan that we drilled. And so we activated a global response system in

February of 2020. It had like 50 different regional response centers in place. We were a source of information for our employees in many countries where they weren't getting information from their governments. And we have health professionals on our staff and we were able to provide the best current information. Of course, it all kept evolving over time. So managing through a pandemic and the impacts of that certainly took a lot more time than I expected.

I would say, maybe to put them in a category of spending, a lot of the external requirements have been even greater. And I've talked to my predecessors, the three-prior people in my job all live within five or six miles of where I live and I see them quite often still, and they're incredibly generous with their lessons and insights and history that they can share with me. And they will tell me that they never had the external demands on their time that exist today. They didn't have 24-hour news channels. They didn't have social media. They didn't have this hyper-polarized government situation. They didn't have index funds and people like, you know, Larry Fink, that had a broad platform to speak from, and I spend a lot of time with Larry. So it's the external demands that have been much different than they were before.

BECKY QUICK: So what do you spend less time on, besides sleep?

MICHAEL WIRTH: Well, it's kind of that. Yes, internal operations, I've had to delegate to our people to run the business. I've actually restructured here, this year, to enable me to delegate more of the very important nuts and bolts of running our business that you have to pay close attention to or bad things can happen. But I have other people that can do those things. There are certain places where the CEO can get in for conversations that are hard for others to get in, so I have to do what I can uniquely do, and then I've had to trust our people and delegate more from an operating standpoint than I thought I would.

BECKY QUICK: Well, I want to thank you very much for your time today. Mike Wirth, we really appreciate it.

MICHAEL WIRTH: Thank you, Becky.

PRESIDENT BARBARA VAN ALLEN: Well, many thanks to you both. I think we learned a lot about energy today. And I hope you enjoyed the conversation as much as we all did listening. I think we'll pick up on this next week probably when we have Joe Manchin here.

Just speaking of the future, next week we have a webinar with Sukhinder Singh Cassidy, who is the incoming CEO of Xero. We also, obviously in addition to Senator Manchin, and there are seats still available December 8th and that will be a dinner. We will have our first Holiday Party. The Economic Club is known for business meetings, but we're going to have a Holiday Party that evening, December 12th, here at the University Club. So if your schedules permit, do come. And then please keep track of our website and our calendar. We are now confirming '23 events. I think we have four that we're soon to announce.

And, as always, we like to thank our Centennial members whose contributions help to make our programming possible. So thank you all for being here. Thank you, who are joining us virtually, for joining us. We'll see you soon. And for everyone in the room, please enjoy your lunch. Thank you.