

**Committee on Natural Resources  
United States House of Representatives**

**""Harnessing American Resources to Create Jobs and Address Rising  
Gasoline Prices: Impacts on Businesses and Families""**

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Thank you, Chairman Hastings, Ranking Member Markey, and members of the Committee. I am Karen Harbert, President and CEO of the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector and region.

The mission of Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the Administration.

**What's the Problem?**

The U.S. government has a long history of sporadic attempts to respond to oil and gasoline price spikes, and frankly, has missed the mark nearly every time. Much of the lack of success can be attributed to misunderstanding of petroleum market fundamentals. Oil is the lifeblood of the global economy. As such, it is produced in over 70 countries and in 31 states here at home. Oil is largely fungible and essentially traded as a global commodity. As we have all seen recently, what happens on the other side of the world can have a profound impact on the price paid at home. This is not only true for supply disruptions, or threats of supply disruptions, it is also true for changes in demand.

After oil prices climbed to a record-high \$143 per barrel in July 2008, the U.S. and the world entered an economic recession that significantly curbed demand, causing oil prices to plummet 60% over the next seven months. Since then, much of the world began positive economic growth again, led by developing economies like China and India, resulting in a gradual increase in oil prices. Over the past two years, we have seen prices climb almost 90%. However, because demand was down in the U.S. and the increase was gradual, most Americans did not really

notice it. The recent political turmoil in North Africa and the Persian Gulf created fears of further instability and supply disruptions, and prices climbed precipitously. It is important to understand that even if the political unrest subsides and global supplies are unaffected, increased global demand has essentially set a new price floor. Given today's market fundamentals, it is difficult to see prices returning to their 2009 levels.

While the drama of political struggle has been unfolding overseas, the U.S. has been experiencing its own energy security struggle at home, fueled by regulatory uncertainty. The past two years have seen the first upturn in U.S. crude oil production in over 25 years of decline. This increase is evidence of the significant lag time to bring new production to market. For offshore production increases, much of it is due to production incentives created in the latter 1990s through the Deepwater Royalty Relief Act. The increased production is also a testament to technological advances in the oil and natural gas industry. A tremendous amount of increased production has come from unconventional formations in the inner-mountain west that were previously too expensive to produce with existing technology. Also production on private lands has greatly increased. Increased oil production coupled with decreased demand has nearly eliminated the gap between domestically produced and imported oil for the first time in 15 years. However, if we look to the future, it is not so bright.

Even while production has increased on private land, federal government actions have reduced the country's ability to produce energy resources on federal lands. From its earliest days, the Obama administration has continually taken land off the table for oil production, most notably the Gulf of Mexico. The de facto moratorium that has been put in place to prevent new oil (and natural gas) exploration and production has put the country back on a declining production trend. The Energy Information Administration (EIA) recently projected that by 2012 U.S. crude oil production will decrease by more than 90 million barrels, almost all of which is directly attributable to an expected 30% decrease from the Gulf of Mexico.

There has been much discussion of how many permits are being issued and how many more are pending. Recently, the Department of Justice filed such a brief which stipulated that 270 permits were pending for shallow water drilling and 52 permits in deep water. These numbers are significantly larger than numbers discussed by the Department of Interior, and they demonstrate the true nature and extent of the de facto moratorium in the Gulf and explain EIA's declining projections.

The administration has continually promised that the spigot will open soon for new exploration and production. However, there is no time-table much less a commitment to begin issuing permits at a sufficient rate again, leaving domestic producers in limbo and costing them millions of dollars in idled equipment and declining revenues. We have already witnessed seven deepwater rigs set sail for more hospitable climes in other countries taking jobs and tax revenue with them.

Yes, oil prices are largely set by the global market, but like all commodities, they are influenced by price signals. Turmoil in oil producing countries and regulatory uncertainty in the U.S. has forced the market to build in additional risk premiums to the price even as production has changed little. Similarly, political stability in the Middle East and greater regulatory certainty in the U.S. will signal to the oil markets that risk has decreased and prices can decline.

## **Competitiveness**

Federal policies that are hampering production are not only threatening our energy security, but also severely harming our competitiveness. The International Energy Agency (IEA) projects that global energy demand could increase by nearly 50% by 2035. It also projects that fossil fuels will account for 80% of the world's energy supply, only slightly down from today's 86%. Fossil fuels, and oil specifically, will continue to fuel the world's economies, and countries that are realizing the most economic growth are thinking and acting strategically to ensure future supplies will be available to maintain economic growth and competitiveness.

In 1970, investor-owned companies controlled 85% of the world's oil reserves. Today, it has shrunk to only 6%, with National Oil Companies and other governmental entities controlling more than 90% of the world's oil reserves. Our international strategic competitors are not only increasing their own production, but they are exploiting the tie between their governments and their oil companies to invest in new oil reserves in other countries. It is very difficult for a private corporation, no matter how large it may be, to compete against central governments. These other countries are taking positive steps to ensure they have the energy resources to fuel economic growth well into the future. We are not.

Indeed, the United States is set an opposite course. About 97% of the federal off-shore lands and 94% of federal on-shore lands are not leased. Not only has the federal government been reducing access to the country's energy resources, but it has also been making it more difficult and expensive to produce on the few areas that remain available. New and proposed regulations will add to the cost of production, making it even less competitive to produce oil and natural gas in the U.S. Even areas that are not under specific moratoria have proven to be equally inaccessible. The United States Geological Survey estimates that 30 billion barrels of oil lie off the north coast of Alaska. Even after billions of dollars have been invested in leases to explore in this area, the administration continues to erect barriers that prevent access to this tremendous resource.

The largest publicly traded oil companies are increasingly looking overseas to the remaining areas that have not already been locked up by other countries' national oil companies. Demand for oil will continue to increase as the economy recovers. Since access to federal resources is declining, more of our demand will be met by imports. Our net imports of petroleum and related products rose to \$265 billion in 2010 — a sum equivalent to more than half the U.S. trade deficit.

In short, America's access to oil, our predominant source of energy, is declining at home and abroad. The same cannot be said for our global competitors, and our ability to compete, generate investment and revenue and foster economic growth is tremendously diminished as a result.

### **Good Ideas**

This is not the first time that rising gasoline prices have turned America's attention to energy policy. The cycle is nearly as predictable as the swallows returning to San Juan Capistrano. We often hear the same solutions proposed, some helpful and some not so. However, the situation is distinctly different this time. A larger share of the burgeoning energy crisis is the direct result of federal policies. Reversing these policies presents a ready-made solution for the administration and Congress to make a positive contribution, both in the near-term and the long-term. If we had fully implemented policies proposed in the past when prices have risen, we would find ourselves in a much different situation than we do now. Congress does deserve credit for not reauthorizing its moratorium on off-shore oil and natural gas production in 2008, even if the administration has failed to capitalize on the opportunity to improve our future.

Today many of the same options would significantly benefit the country, but addressing the administration's recent actions presents a real near-term path for improving the country's situation. A Wood McKenzie study released in January emphasizes this point. It estimates that increasing access to federal energy resources would create more than 500,000 jobs, increase domestic production by 35%, and provide an additional \$150 billion in government revenue.

### **Gulf of Mexico**

Before the de facto moratorium, about one-third of domestic oil came from the Gulf of Mexico. Almost a full year after the Obama administration implemented a de facto moratorium on new exploration, this vital resource base remains in flux. Less than half the normal rate of shallow water permits has been issued even while acknowledging shallow-water operations are distinctly different from the administration's deep-water risk assessment. The administration estimated that its official moratorium would result in some 12,000 jobs being lost. A subsequent study performed by Dr. Joseph Mason, Chair of Banking at Louisiana State University, concluded that the de facto moratorium could ultimately cost nearly 25,000 jobs in the region and 35,000 nation-wide.

Mr. Chairman, the "Putting the Gulf Back to Work Act" that you recently drafted is precisely the type of proposal that can improve our energy future almost overnight. By removing many of the obstacles preventing exploration and production in the Gulf of Mexico and ensuring the Department of Interior can no longer sit on permit applications indefinitely, we can prevent those jobs from being lost, those foreign barrels of oil being imported, and provide the first glimpse of certainty the energy industry needs to increase investments in America.

## **Alaska**

The areas of the north coast of Alaska represent a tremendous resource, containing upwards of 30 billion barrels of oil. The University of Alaska Anchorage estimates that developing these resources will create 35,000 new jobs. Moreover, as production on Alaska's North Slope continues to decline, this new source of product will ensure the Trans-Alaska Pipeline will continue to run for decades to come, bringing even more oil to the rest of the country.

However, leases that have already been paid for and issued remain idle awaiting air-quality permit that has been pending at the Environmental Protection Agency (EPA) for four years. This is a perfect example of the regulatory uncertainty facing domestic producers. When leases lay idle six years after being issued, one can understand why corporations would think twice about investing the millions of dollars in projects on federal lands.

## **Canada**

We have heard much about the need for energy independence over the years, yet we hear little of reliable trading partners whose energy resources secure our energy future just as much as domestic production. More than one-third of our imported oil comes from Canada and Mexico. The proximity of these supplies and the security of our relationships with our neighbors make these imports a vital prong to our energy security. Canadian imports specifically have become an increasingly large component of our oil supply. However, we have policies in place that deter additional use of Canadian crude. Section 526 of the Energy Independence and Security Act of 2007 prohibits the U.S. government, specifically the Department of Defense, from using oil from the largest and most stable source of U.S. import, the Albertan oil sands.

This policy hinders the military's readiness, threatens our energy security, and increases greenhouse gas emissions the exact opposite the policy is intended to prevent. Make no mistake the oils sands will be developed, the question is where will the product be used. If this fuel is not imported to the United States via pipeline, it is most likely to be exported to Asia via tanker and refined under weaker emissions standards. This provision must be repealed – our national security and energy security depend on it.

Additionally, the proposed Keystone XL pipeline would bring significant quantities of Canadian crude oil to U.S. refineries, displacing imports from other, less-secure trading partners. Construction of this strategic asset will create an estimated 15,000 direct jobs immediately and ultimately foster the creation of some 250,000 more jobs. Additionally, a recent study conducted by the Perryman Group found that bringing the additional crude to the U.S. that would be carried by this pipeline would reduce non-Canadian imports, from the Middle East or Venezuela by 40%. However, the project is in limbo awaiting a Presidential Permit by the Department of State. We encourage the Congress to urge Secretary of State Clinton to issue the permit without further delay.

## **Oil Shale**

Recent technological advances have led to large increases in domestic production of unconventional oil from shale formations, especially on privately-owned lands. The advent of these technologies has helped displace oil imports, and it will significantly improve our energy security in coming years. However, the oil shale itself truly has the potential to completely turn the global oil market on its head. Oil shale is a sedimentary rock that is not as widely distributed as conventional oil-bearing formations, but it is a tremendous potential resource. The World Energy Council conservatively estimates that global reserves of oil shale amount to 2.8 trillion barrels of oil, and more than half of that (about 1.5 trillion barrels) is estimated to be in the Western United States. To put this in perspective, the world's proven conventional oil reserves are estimated at 1.3 trillion barrels. If these estimates are correct, we not only have more oil shale than all of OPEC's proved conventional oil reserves, but more than the entire world's. But it will not mean anything if we cannot get access to it.

The production of oil shale is energy intensive and has traditionally required mining techniques. This not only makes it expensive to produce, but it also has engendered opposition from special interests. With about 70% of the U.S. reserves located on federal lands, the federal government has prohibited production, and even most research, on the country's—and perhaps the world's—largest oil resource. However, as conventional oil reserves have declined or become less accessible, more research and development has been conducted to make oil shale production more efficient and with a smaller environmental footprint. Given the magnitude of this resource, it is more than prudent for the federal government to allow access to our reserves and to support additional work on improving the production process.

## **Industry Investment**

The Gulf of Mexico oil spill was a human, environmental, and economic tragedy. The administration has only exacerbated the impact by its continued de facto moratorium on off-shore exploration and production. It has done this in spite of the proactive efforts the industry has made in addressing concerns that it was not prepared to contain and mitigate future spills. The off-shore industry has invested billions of dollars in the creation of the Marine Well Containment Company and the Helix Energy Solutions Group, two interim rapid response systems that separately provide capabilities to contain up to 60,000 barrels of oil per day at up to an 8,000 foot depth. These companies have applied the lessons learned from the Gulf of Mexico oil spill last year to develop and pre-stage equipment throughout the Gulf to quickly contain any future spill. Regardless of an exemplary record and very low probabilities, we now know a significant spill can happen and a response capability exists. The country can be assured that the offshore industry is prepared to start producing domestic energy and jobs again with the highest degree of safety precautions, exceeding even the government's standards.

## **Bad Ideas: Use it or Lose it, Tap the SPR, Raise Taxes**

It seems that for every idea that would create jobs, increase our energy security, and increase federal revenues, there is one that will do the exact opposite. Every time prices increase, many of the same ideas are offered up as short-term solutions. One proposal we just heard President Obama recycle yesterday is imposing penalties on companies that are not “actively producing” on federal leases. Proposals based on this “use it or lose it” theory are just as fallacious and damaging to our competitiveness now as they have been when rejected in the past. However, this current iteration is perhaps more egregious as the administration is threatening to penalize “non-producing” leaseholders when the administration itself is refusing to issue permits to produce. Producing from new areas is very time and cost-intensive. Reducing the time period a leaseholder has to begin production adds to the risk of the investment and further discourages domestic production.

Another proposal rearing its head once again is to sell oil stocks from the Strategic Petroleum Reserve. The reserve, which was established on the heels of the 1973 Arab oil embargo, is suppose to act as a hedge against supply disruptions. It is debatable how much prices would decline if the 727 million barrels were released, but it is certain that prices would increase as soon as the releases subsided and the U.S. would be more vulnerable to the impacts of actual supply disruption.

Additionally, the Administration’s has proposed to levy almost \$90 billion of dollars of new taxes on America’s oil industry. Many in Congress also use the event of price increases to call for increased taxes on oil companies. A Wood McKenzie study released in January estimated that the proposed tax increases would lead to as many as 170,000 jobs being lost through 2014. While it is difficult to mitigate higher gasoline prices immediately, it is not difficult at all to reject tax increases that would cost so many their jobs.

Unfortunately, we have a good example of the negative consequences of such actions. The creation of a “Windfall Profits Tax” in 1980 caused domestic production to decrease and imports to increase. Prices consumers paid were relatively unaffected, but jobs were lost in the oil industry and federal royalty revenues declined. With such a great example of the impacts of these proposals, it is negligent to pursue them again.

## **What is at stake?**

If the administration and Congress do not both embrace these positive steps and reject the negative steps, Americans will pay a heavy price, not only economically but also a with greater risk to our energy security. Every one cent increase in the price of gasoline costs Americans roughly an additional \$1 billion per annum. The average American household is expected to spend \$2,800 on gasoline this year, \$850 more than 2009. Additionally, each \$10 increase in oil

prices can knock a few tenths of a percent off any increase in GDP. The quicker the increase, the more pronounced the impact on economic growth. Because of the global recession, the cumulative amount of money spent on oil has become a larger share of global GDP since most other areas of economic output have remained constant or declined. At current prices, oil accounts for nearly 5% of global GDP, a level not seen since 2008 when oil was selling at \$150.

Higher energy prices erode expendable income for America's families and marginal profits for America's businesses. At a time where we are just beginning to realize positive economic growth again, these price increases can have a profoundly negative impact. U.S. policy alone cannot recalibrate global oil markets on its own. However, U.S. policy can absolutely have a positive impact on U.S. prices just as it has had a negative impact.

As energy costs increase, businesses have less money to pay employees, new or existing. If prices remain elevated long enough, the unemployment rate can be expected to rise. This of course would be on top of the current historically high unemployment rate. As the administration and some in Congress have made calls to raise taxes on the oil and gas industry, it is also important to remember the consumer and job impacts such policies would have.

## **CONCLUSION**

Today, the official unemployment rate stands at 8.9%, and if the underemployed and long term unemployed are counted the figure could be as high as 17%. Our nation can and will recover but we cannot let rising energy prices and lack of a coherent energy strategy imperil this recovery. We need common sense policy and regulation that recognizes today's energy resources while also investing in tomorrow's technologies. We are blessed with an abundance of the conventional and unconventional fuels that will part of our energy landscape for decades. According to the Congressional Research Service, the proven recoverable reserves of American oil, natural gas and coal combined are the world's largest and the USGS estimates that our oil shale reserves could be five times as large as Saudi Arabia's reserves. Congress should ensure the energy industry has access, regulatory certainty and fair fiscal policy to transform these resources into energy to power our economy. We are also blessed with a good neighbor, Canada, and Congress should eliminate discriminatory policies endangering our ability to expand our energy trade. These steps alone will not be sufficient to meet all of our future energy needs. However, the threats to America's competitiveness and national security will only grow if we ignore the tremendous potential of our domestic resources to fuel a more secure energy future.