Committee on Resources

Witness Statement

Testimony of Representative Steve Largent
Before the House Committee on Resources
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In response to the recent upward surge in prices at the pump, Congress and the President are scrambling to determine how to drive prices down. Suggestions include eliminating the 4.3 cents per gallon federal gas tax, pressuring OPEC nations to produce more oil, and encouraging the development of alternative energy sources. While I understand the logic and support aspects of each of these ideas, I believe the real answer may literally be right under our noses.

Developing a self-reliant energy policy.

The Administration and Congress need to focus on developing a long-term energy policy based on self-reliance. This policy must promote domestic oil and gas exploration and production. Rather than directing our efforts at short-term, "Band-Aid" fixes, we need to work to prevent future price fluctuations. We need to stop treating the symptoms of our dependence on temperamental foreign producers and work to find a long-term cure.

Every Administration since Eisenhower has concluded that the level of oil imports threatens national security. The Clinton Administration has made this observation twice. On March 24th of this year, the Administration released the results of its Section 232 analysis which concluded that imported oil poses a serious threat to our national security. Our economy is based on energy and, more specifically, petroleum. As such, America should be prepared to meet as much of this need as we can. While I support free trade and relationship-building between the United States and OPEC nations, it is unhealthy for this relationship to occur at the expense of American economic independence.

The current situation is unstable and we need to understand how vulnerable the U.S. economy is to decisions made by foreign governments. As a result of the extended low prices in 1998 and 1999, capital investment in oil production throughout the world declined. Existing production was lost. In the U.S., production dropped from 6.3 million barrels per day in 1998 to 5.9 million barrels per day in 1999. At the same time, demand increased from 14.6 million barrels per day early in 1999, and reached 15.4 million barrels per day by October 1, 1999. Logically, our production should grow as demand grows. Unfortunately, this has not been the case. And now we find ourselves victims of an energy policy dependant on the kindness of other oil producing countries.

The problems: regulations and perverse tax incentives.

During the last two years, the American oil industry has been hammered with **regulations** and **perverse tax**

incentives.

Regulations.

Regulations place ridiculous restrictions on how, where, and when producers can work. They are subject to excessive reporting and permitting rules that increase their overhead, hurt their profit margins, and decrease their likelihood of survival. Rather than having one or two big regulations that harm producers, there is a vast mosaic of rules and restrictions that interact and come from several agencies to slow down domestic production and frustrate domestic producers.

Perverse tax incentives.

Presently, there are tax penalties on domestic oil and gas production. We need to remove these penalties and replace them with a tax policy that would include expensing of geological and geophysical costs and delayed rental payments; our tax policy should include a five-year net operating loss carry back for independent producers; our tax policy should give oil producers a fair depletion rate to encourage capital investment; our tax policy should include elimination of the net income limitation and the 65 percent net taxable income limit on percentage depletion; our tax policy should change the way the Alternative Minimum Tax penalizes production. Then, we need to save marginal oil production through an aggressive tax incentive program.

Regulations and perverse tax incentives have cost the oil industry 65,000 jobs, many of which were in my state of Oklahoma. Curiously, domestic crude oil production has declined while American oil consumption has increased. Today, we import 56 percent of our crude to meet domestic demand. To give a sense of perspective, I should point out that the oil crisis of the 1970s was ignited when American dependence on OPEC hit 35 percent -- now, we are at 56 percent.

Solutions.

During the recent rise in gas prices, politicians of all stripes have expressed concern. However, those of us from oil states have been predicting such price increases for years. I am puzzled about why the Administration's response is focused on the short-term. Rather than wringing our hands and sending the Secretary of Energy overseas to plead for increased international production, we need to look at the factors that have taken gas prices to their current level.

Reduce red tape.

First, the United States needs to reduce the regulations on domestic oil producers. While there is a place for ensuring that drilling is safe for workers and the surrounding community, producers should be given the freedom to run their operations efficiently and effectively.

Understand domestic resources.

Second, the Administration and Congress should drop prohibitions on the exploration of potentially oil rich areas in the United States. Even if the Administration does not wish to develop these resources now, we should at least try to determine what kind of resources we have at our disposal in regions that are currently off-limits. Instead, the Administration avoids dealing with the clear need to open federal lands to

exploration and production. Even a recent Department of Energy report debunked the Administration's argument that opening these lands to production would be environmentally dangerous. Studies have shown that the United States has access to 213 trillion cubic feet of natural gas offshore and in the Rockies. We should be prepared to use these resources rather than dismissing them as unsafe out of hand. We need to examine tax credits for marginal wells. We need to explore the production potential of the 16 billion barrels under the Arctic National Refuge in Alaska.

The Outer Continental Shelf (OCS) is an area that stretches 200 miles out from the Atlantic, Pacific and Gulf coasts. About half the oil and one-fourth of the natural gas in the OCS region is in areas that are off-limits to exploration. While there are safety concerns about off-shore drilling, it is important to note that, since 1975, when current federal offshore safety regulations went into effect, 99.999 percent safe of the oil has reached its destination safely.

Measure economic impact of policy.

Third, the United States should examine energy policies to determine the impact that these policies will have on fuel. Just before Christmas, President Clinton implemented "Tier 2 standards" by executive order. Some have projected that these standards have raised the cost of fuel by five cents per gallon or more. Additionally, the Clinton-Gore Administration has proposed BTU taxes of 7.5 cents per gallon, and encouraged the acceptance of the Kyoto accords, which would increase prices by up to 60 cents per gallon.

In conclusion, without a strategy for reducing our addiction to Middle Eastern oil, we will continue to be vulnerable to the whims of foreign nations. To prevent future reliance on imported oil, the United States should reduce red tape on domestic producers, be willing to explore oil-rich public lands in safe ways, and make decisions on energy policy in light of the effect that they will have on consumers and our economy.

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