

# “The President’s Backward Energy Policy Won’t Help Lower Gasoline Prices”

## Energy Myths & Facts

President: “I’m directing my Administration to open more than 75 percent of our potential offshore oil and gas resources.”

**FACT** **The administration is defining the status quo as progress.** The resources identified are restricted to areas in the Gulf of Mexico and the Alaska OCS that have already been leased and where the industry is already active. In fact, the administration’s latest plan for offshore development scales back on the previous plan by removing the Eastern Gulf of Mexico and areas in the Atlantic.

**The 75 percent number is deceiving because it includes only the areas we have already explored.** It excludes the entire Atlantic Coast, the entire Pacific Coast, and nearly all of the Eastern Gulf of Mexico, which have been little explored. But, if the administration would allow leasing in these areas, exploratory work would proceed, and we would have a better sense of what’s out there (probably a lot more than the administration assumes). **The fact remains that under the president’s policies, more than 85 percent of all offshore areas remain off-limits.**<sup>1</sup>

President: “Right now, American oil production is the highest that it’s been in eight years.”

**FACT** **True, but misleading.** U.S. oil production is up today because of development on private and state lands. Oil production on federal lands is flat, and oil production on federally controlled offshore areas is down. **EIA estimates that oil production in the Gulf was down 22% in 2011<sup>2</sup> and projected to be down 29% in 2012<sup>3</sup> with respect to production forecasts before President Obama’s moratorium policies were put in place.**

**Today, leasing and permitting are slow, which could depress future production.** In the Gulf of Mexico, rigs have left to work in other parts of the world taking jobs with them. In Alaska in 2008, the industry spent \$2.6 billion to obtain 487 leases in the Chukchi Sea, yet so far the administration has not allowed a single well to be drilled on any of these leases.<sup>4</sup> In the Rockies, leasing is down by 68 percent since President Obama took office, and the number of wells drilled is down by 39 percent, according to a new study by EIS Solutions.<sup>5</sup>

President: “Not only that – last year, we relied less on foreign oil than in any of the past sixteen years”

**FACT** **Unfortunately, some of the credit for this goes to the nation’s struggling economy.** The economy is requiring less oil, and less is imported as a result. Less is also imported because the industry has increased overall domestic oil production despite less production from federally managed areas.

President: “But with only 2 percent of the world’s oil reserves, oil isn’t enough.”

**FACT** **This is misleading. Reserves do not include undiscovered resource potential. According to currently available statistics, if our shale gas resources are included, the United States has the most technically recoverable oil and natural gas resources in the world, more than Saudi Arabia.**<sup>6,7</sup>

“Reserves” is a technical term that refers to oil and natural gas that has proven to be available through drilling. According to recent Energy Information estimates, our “ultimately recoverable” oil and natural gas resources are about 10 times greater than our current proven reserves.<sup>7</sup> All of these estimates do not include the vast potential of currently sub-economic shale oil, heavy oil, and natural gas hydrates that may become economically available in the future as our technology progresses.<sup>6</sup>

Nevertheless, the administration and opponents of domestic energy development continued to use the misleading “2 percent” number. Companies believe in the long-term potential of U.S. oil development. That’s why they are willing to invest many billions of dollars in new projects here at home.

President: “My Administration will take every possible action to safely develop this energy [natural gas]... America will develop this resource without putting the health or safety of our citizens at risk.”

**FACT** **Strong industry standards already exist and natural gas production from shale is highly regulated at the federal and state levels.** API’s more than 600 standards are widely used by companies in the U.S. and around the world and are frequently referenced in federal, state and international regulations. Current regulations cover well design, spacing, and operation; water use; waste management and disposal; air emissions; wildlife protection; surface impacts; and health and safety. Federal laws that already apply to shale gas production include the Clean Water Act, the Safe Drinking Water Act, the Comprehensive Environmental Response, Compensation and Liability Act (Superfund), the Clean Air Act, the National Environmental Policy Act, the Emergency Planning and Community Right to Know Act, and the Occupational Health and Safety Act.

Nevertheless, ten federal agencies are now studying, considering new limits, or in the process of layering on additional regulations and requirements directed at hydraulic fracturing, an indispensable technology used in most natural gas development. **This potential avalanche of new rules will discourage further natural gas development (if not outright prohibit it), reducing investment, reducing energy production and costing jobs.** In addition, the administration's corporate tax proposals would increase taxes on the industry by many billions of dollars, discouraging investment and harming production and jobs.

President: "I'm requiring all companies that drill for gas on public lands to disclose the chemicals they use."

**FACT** The administration doesn't need to create a new regulation. Working with state governments, companies already disclose the contents of fracturing fluids, which are mostly water and sand and very small amounts of chemicals common to household products. More companies (130 so far in more than 11,000 wells) are posting the contents of the fracturing fluids they use on the industry-sponsored website, FracFocus.org, which is run by the Groundwater Protection Council.<sup>8</sup>

President: "By the way, it was public research dollars, over the course of thirty years, that helped develop the technologies to extract all of this natural gas out of shale rock – reminding us that Government support is critical in helping businesses get new energy ideas off the ground."

**FACT** Federal research helped develop some of the technologies, but a visionary industry executive named George Mitchell, who led the Mitchell Energy firm in Texas in the 1970s, 1980s and 1990s, demonstrated how to use them, including hydraulic fracturing and horizontal drilling, to develop shale gas.<sup>9</sup>

President: "We have subsidized oil companies for a century. That's long enough."

**FACT** The U.S. oil and natural gas industry does not receive tax subsidies. It delivers \$86 million a day to the federal government in revenue, mostly income taxes.<sup>10</sup> There is not a single targeted tax credit in the Internal Revenue Code available to the oil and natural gas industry. The industry is allowed to take deductions to recover costs of doing business, which has been allowed to all businesses since the inception of our country's income tax system.

Industry success leads to massive investments in new technology and energy development. These investments support 9.2 million jobs and produce income that helps support millions of America's retirees.<sup>11</sup> By expanding these investments under more reasonable tax and access policies, we could create over one million new jobs in just seven years.

**What the administration is proposing – an \$85 billion tax hike – will impede investment in U.S. energy resources, stifle job creation, drive up imports and increase the volatility of gasoline markets.**

President: "If you're an American manufacturer, you should get a bigger tax cut. If you're a high-tech manufacturer, we should double the tax deductions you get for making your products here."

**FACT** The oil and natural gas industry manufactures most of the nation's energy products, yet the administration has been arguing that this industry – and this industry alone among American businesses – should pay more taxes. In fact, it already does under the Section 199 deduction, which allows all U.S. manufacturers to take a 9 percent deduction of their costs, while limiting the oil and natural gas industry to a 6 percent deduction.<sup>12</sup> The president has proposed doubling the existing deduction for a company like Apple – which manufactures its products overseas and whose profits are equal to those of some of the largest oil and natural gas companies – while taking it away from oil and natural gas companies, which provide millions of U.S. jobs.

Source: Obama, B. The White House, Office of the Press Secretary. (2012). Remarks by the president in state of union address Washington, D.C.: Retrieved from <http://www.whitehouse.gov/the-press-office/2012/01/24/remarks-president-state-union-address>

<sup>1</sup> BOEM Assessment of Undiscoverable Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2011

<sup>2</sup> <http://www.eia.gov/forecasts/steo/query>

<sup>3</sup> [http://www.eia.gov/oiaf/archive/aeo10/aeoref\\_tab.html](http://www.eia.gov/oiaf/archive/aeo10/aeoref_tab.html)

<sup>4</sup> [http://www.alaska.boemre.gov/lease/hlease/LeasingTables/lease\\_sales.pdf](http://www.alaska.boemre.gov/lease/hlease/LeasingTables/lease_sales.pdf)

<sup>5</sup> [http://www.api.org/news-and-media/news/newsitems/2012/jan-2012/-/media/Files/News/2012/12-January/API\\_Booklet\\_Jan\\_2012\\_v2-1.aspx](http://www.api.org/news-and-media/news/newsitems/2012/jan-2012/-/media/Files/News/2012/12-January/API_Booklet_Jan_2012_v2-1.aspx)

<sup>6</sup> Congressional Research Service, "U.S. Fossil Fuel Resources: Terminology, Reporting, and Summary" (R40872), November 30, 2010, Table 5 "Total Fossil Fuel Reserves of Selected Nations" and Table 6 "Reserves of Fossil Fuels Plus Technically Recoverable Undiscovered Oil and Natural Gas."

<sup>7</sup> U.S. Energy Information Administration, "Assumptions to the Annual Energy Outlook 2011", July 8, 2011, Table 9.1 "Technically recoverable U.S. crude resources as of January 1, 2009", Table 9.2 "Technically recoverable U.S. natural gas resources as of January 1, 2009" Available at: [http://www.eia.gov/forecasts/aeo/assumptions/pdf/oil\\_gas.pdf](http://www.eia.gov/forecasts/aeo/assumptions/pdf/oil_gas.pdf)

<sup>8</sup> <http://www.narucmeetings.org/Presentations/Hydraulic%20Fracturing,%20Mike%20Smith,%2010GCC.pdf>

<sup>9</sup> Fowler, Tom, "Exec Mitchell Laid Groundwork for Shale Gas Surge." *Houston Chronicle*, Nov. 15, 2009.

<sup>10</sup> EIA, *Energy Finance Data* <http://www.eia.gov/cfapps/frs/frstables.cfm?tableNumber=12>, ONRR, <http://www.onrr.gov/ONRRWebStats/Home.aspx>, and direct API request.

<sup>11</sup> <http://www.api.org/policy-and-issues/policy-items/jobs/economic-impacts-of-industry.aspx>

<sup>12</sup> [http://www.api.org/policy-and-issues/policy-items/taxes/-/media/Files/Policy/Taxes/Repealing\\_Tax\\_Sec199-Manufacturing-Deduction-Jobs-at-Risk.aspx](http://www.api.org/policy-and-issues/policy-items/taxes/-/media/Files/Policy/Taxes/Repealing_Tax_Sec199-Manufacturing-Deduction-Jobs-at-Risk.aspx)