

Center for American Progress Action Fund



Daniel J. Weiss

Senior Fellow

Center for American Progress Action Fund

Testimony on

**"Harnessing American Resources to Create Jobs and Address Rising Gasoline
Prices: Family Vacations and U.S. Tourism Industry"**

House Committee on Natural Resources

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Chairman Hastings, Ranking Member Markey, and members of the Committee, thank you very much for the opportunity to testify today on “Harnessing American Resources to Create Jobs and Address Rising Gasoline Prices: Family Vacations and U.S. Tourism Industry.”

My name is Daniel J. Weiss. I am a Senior Fellow at the Center for American Progress Action Fund, a tax exempt organization dedicated to improving the lives of Americans by transforming progressive values and ideas into policy.

High oil and gasoline prices exact a real economic toll on American families, as well as on travel-related businesses. They make everything more expensive, including driving, air travel, food, and clothing. Families may travel fewer miles or take shorter trips to offset higher gasoline or other fuel prices.

Last year Americans paid an average of [\\$3.53 for a gallon of gas](#)—the highest since 1976. High prices continue this year. [Gasoline](#) averaged \$3.87 per gallon ending the week of March 19. This is a 53 cent increase since January 2—a 16 percent bump. Average weekly gasoline purchases this year have been some of the [fewest in 11 years](#), but families still spent \$3.7 million more on gasoline the week ending March 9, 2012, than they did the week ending January 2.

My testimony will provide analysis and data related to the following factors in high oil and gasoline prices.

- High oil and gasoline prices yield high profits for big oil companies.
- These companies receive \$40 billion in unnecessary tax breaks.
- The Ryan budget perpetuates these tax breaks while cutting programs that reduce oil dependence.
- The largest oil companies have record profits but produce less oil.
- The United States increased exports of finished petroleum products.
- Refinery closures contribute to higher gasoline prices.
- The United States is saving and producing more oil.
- The price of oil is set on a global market.
- Associated Press analysis found no correlation between more domestic oil production and gasoline prices.
- Expansion of drilling on protected lands and waters could hurt local economies.
- Selling some reserve oil and cracking down on Wall Street speculators could provide temporary relief from high prices.
- **Conclusion: end Big Oil tax breaks, and use funds to invest in reduction of oil use.**

High prices yield high profits for Big Oil

These high gasoline prices enrich oil companies. Last year’s high prices boosted Big Oil profits. The [big five oil companies](#)—BP, Chevron, ConocoPhillips, ExxonMobil, and Shell—made a combined record profit of \$137 billion in 2011. These companies had nearly \$60 billion in cash reserves, too. Together they made more than [\\$1 trillion in profits](#) from 2001 through 2011.

“[Pumped and Quartered](#),” a Center for American Progress regression analysis of gasoline prices and Big Oil company profits, found that every 1 cent increase in gasoline prices generated \$200 million in profits for the big five companies.

Big Oil tax breaks unnecessary

The high gasoline prices in the first quarter of 2012 suggest that the big five companies will reap even larger profits this year compared to their record-setting haul last year. These companies will also receive a major portion of the coming decade’s [\\$40 billion in tax breaks for Big Oil](#). Congress should eliminate these tax breaks and instead invest these scarce dollars in the development and commercialization of technologies that will reduce oil and gasoline use, including electric vehicles and public transportation.

For instance, ending the tax breaks could provide revenue for the [Electric Drive Vehicle Deployment Act, H. R. 1685](#), sponsored by Representatives Judy Biggert (R-IL) and Ed Markey (D-MA) would provide incentives for a “race to the top” for communities to deploy electric vehicles.

In 2005 [President George W. Bush](#) supported the elimination of big oil tax provisions when he said, “I will tell you with \$55 oil, we don’t need incentives to the oil and gas companies to explore. There are plenty of incentives. What we need is to put a strategy in place that will help this country over time become less dependent.”

Ryan budget keeps Big Oil tax breaks; cuts investments that reduce oil dependence

[House Budget Committee Chairman Paul Ryan](#)’s (R-WI) proposed FY 2013 budget resolution takes the opposite approach. It would retain these Big Oil tax breaks while slashing billions of dollars of investments in alternative fuels and clean energy technologies that would serve as substitutes for oil and help protect middle-class families from volatile energy prices as well as create jobs.

The [Office of Management and Budget](#) warned that the Ryan budget could devastate clean energy investments:

Clean energy programs would be cut by 19 percent over the next decade, derailing efforts to put a million electric vehicles on the road by 2015, retrofit residential homes to save energy and consumers money, and make the commercial building sector 20 percent more efficient by 2022.

In addition, the Ryan budget would [cut transportation funding](#) by more than one-third in 2013, with public transit—buses, subways, and trains—likely to be a major target. Such a steep revenue decrease would reduce accessibility and affordability of public transportation, which would increase demand for gasoline and drive up its price. The [American Public Transportation Association](#) reported that “transit reduces annual fuel use by the equivalent of 4.2 billion gallons of gasoline.”

In short, the Ryan budget compounds the cost of high oil and gasoline prices by slashing investments in alternatives that lessen oil demand and reduce costs for the middle class.

Big five companies make more money, produce less oil

In the midst of making record profits, Big Oil is producing less oil. Even though 2011 had a record average annual oil price, the big five companies produced 6 percent *less* oil worldwide than in 2010. The average annual oil production by the big five companies was 12 percent lower in 2012 than in 2006, which is like emptying one of every eight oil barrels. Fortunately, total United States domestic production was 570,000 barrels per day – or 11 percent – higher in 2011 compared to 2006, according to the [Energy Information Administration](#).

Part of their lower production may be due to the thousands of unexplored or undeveloped leases held for federal lands and waters. A [Department of the Interior analysis](#) concluded that:

More than 70 percent of the tens of millions of offshore acres under lease are inactive, neither producing nor currently subject to approved or pending exploration or development plans. This includes almost 24 million inactive leased acres in the Gulf of Mexico, which potentially could hold more than 11 billion barrels of oil.

Out of a total of over 38 million leased onshore acres, almost 22 million leased onshore acres that are not being used.

Increase in gasoline exports

Big Oil companies are also exporting gasoline and diesel fuels to other nations. Last year the United States [exported an average of 2.9 million barrels](#) per day of finished petroleum products. This was the first time since 1949 that the United States was a net exporter of refined petroleum products, and the [Energy Information Administration](#) reports that gasoline exports were more than 62 percent higher in 2011 compared to 2010. The [Congressional Research Service](#) recently determined that

Preliminary data suggest that finished motor gasoline exports have averaged about 600,000 b/d in the first seven weeks of 2012. For context, U.S. gasoline consumption is about 8.7 million b/d.

This means that gasoline exports are 7 percent of gasoline consumption in 2012, up from 5 percent in [2010](#).

Some of the exported fuel was refined from Mexican oil and sent back there. But some of it was from oil produced here, and could have expanded domestic gasoline and diesel supplies. The [Energy Information Administration](#) reports that

Driven by changes in world markets and global refining economics, U.S. gasoline exports began rising in 2010, and by December of that year, were two-thirds higher than those just one year earlier, an upward trend that continued into 2011.

Last week, [Senator Robert Menendez \(D-NJ\)](#) introduced the [American Oil for American Families Act, S. 2211](#). It says that

Petroleum extracted from public land in the United States (including land located on the outer Continental Shelf), or a petroleum product produced from the petroleum, may not be exported from the United States.

The export of petroleum is already effectively banned in the United States.¹ The ban on exports of refined products from petroleum produced from public lands or waters could increase the supply of gasoline and diesel fuel here, and therefore reduce prices. The House of Representatives should consider similar legislation.

Refinery closures contribute to high gasoline prices

In addition to exports, refinery closures are tightening gasoline supplies, particularly in the Northeast and West Coast. [EIA reports](#) that “two East Coast refineries idled capacity due to poor economics.” These refineries are owned by ConocoPhillips and Sunoco, and represent nearly one-quarter of the “operating crude unite capacity” in the East Coast.

More ominously, a Sunoco refinery in Philadelphia—which has another quarter of the East Coast capacity—plans to close by July 1, 2012, if it is not bought. EIA warns, “If the Sunoco Philadelphia refinery closes, price impacts are highly uncertain. If areas cannot be adequately supplied in the short term, prices can spike.”

These aren’t the only refineries whose closure may spark higher gasoline prices. The West Coast has also experienced refinery closures. EIA reports that “refinery closures, outages, and a lack of access to less expensive crude oil reduced inputs in 2011 to refineries in PADDs 4 and 5 [Rocky Mountain and West Coast areas, respectively] and helped drive down utilization rates.”

All of these occurrences—lower production by the big five, undeveloped leases, increased exports, and closing refineries—can contribute to higher gasoline prices.

The United States is saving and producing more oil yet gasoline prices are high

The recent spike in oil and gasoline prices is not a first-time event. Fortunately, we are now better prepared to withstand its impact because we are using less oil. [Gasoline demand](#) is the second lowest since 1997, due to the vehicle fuel economy standards adopted by President Obama in 2009.

We are also producing more of our own oil. For the first time since President Clinton, the United States is producing a majority of the oil we rely on to power our vehicles and economy. We are less reliant on other nations for oil and send less of our treasure abroad. [The New York Times](#)

¹ The [Congressional Research Services](#) notes that “Domestically produced crude oil cannot be exported as per provisions of the Energy Policy and Conservation Act as well as several other statutes. There are a few exceptions including for crude of foreign origin, crude exports to Canada, or where the President determines it is in the national interest to allow exports (15 CFR 754.2).”

reported, “In 2011, the country imported just 45 percent of the liquid fuels it used, down from a record high of 60 percent in 2005.”

The [Energy Information Administration](#) determined that in 2011 the United States produced more oil from its federal lands and offshore waters than the last three years of the George W. Bush administration.

Oil price set on a global market

This progress, however, cannot mask the fundamental fact that we rely too much on a single fuel whose price is set on a global market controlled by the Organization of Petroleum Exporting Countries, a cartel. The [Federal Trade Commission](#) found that:

Over 70% of the world’s proven oil reserves are in Organization of Petroleum Exporting Countries (OPEC) member countries. OPEC attempts to maintain the price of oil by limiting output and assigning quotas. These actions by OPEC would be a criminal price fixing violation of the U.S. antitrust laws if done by private firms.

This leaves us extremely vulnerable to volatile prices or international events beyond our control. And the price of oil is responsible for [nearly three-quarters of the price of gasoline](#).

AP study determined that “drill, baby, drill” would have no impact on gasoline prices

Whenever oil and gasoline price spikes occur, Big Oil and its political allies revive their demand for “drill, baby, drill.” But because oil prices are set by this world market, more domestic drilling cannot alter the world price.

To test whether more U.S. drilling would lower gasoline prices, the [Associated Press](#) just completed an exhaustive analysis of 36 years of monthly U.S. oil production and gasoline price data. AP found that there is:

No statistical correlation between how much oil comes out of U.S. wells and the price at the pump. If more domestic oil drilling worked as politicians say, you'd now be paying about \$2 a gallon for gasoline. Instead, you're paying the highest prices ever for March.

Expansion of drilling on protected lands and waters could hurt local economies

If Big Oil and its allies are successful expansion of drilling into previously protected federal lands and offshore waters could have a significant economic cost if there is an oil blowout or spill. The expansion of oil drilling on public lands, which are supposed to be for multiple uses, could impair uses that create economic activity.

For instance, a [U.S. Forest Service](#) analysis found that “spending by recreation visitors in areas surrounding National Forests amounts to nearly \$13 billion each year.” This spending supports 226,000 jobs. [Hunters and anglers](#) generate \$76 billion in economic activity and support 1.6

million jobs annually. Significant portions of their recreation occur on public lands that some want to open to drilling.

Similarly, a dramatic increase in offshore drilling off our Atlantic and Pacific Coasts and the eastern Gulf of Mexico poses a serious threat to existing jobs and industries that comprise the backbone of these coastal economies.

The BP Deepwater Horizon disaster underscored that dependence on oil puts our economy at risk every time there is a natural or manmade event that disrupts our oil supply or spills it into our waters or lands. For instance, a [Natural Resources Defense Council](#) report found that the Gulf of Mexico saw a 39 percent decline in commercial fishing catches overall between 2009 and 2010, representing a \$62 million loss in dockside sales.

Family vacations generate significant economic activity, and can be directly linked to the health of coastal waters. David Beckman, water program director for the Natural Resources Defense Council, told the [Christian Science Monitor](#):

Beach going and resort attendance is big business in America – especially on Fourth of July weekend. Some 450 million people will visit over 3,000 US beaches this year [2011].

Florida is another example of the great economic value of ocean and coastal activities besides drilling—all of which are put at risk by expanded offshore drilling in its Gulf Coast. [Florida's](#) tourism, fish and wildlife, ports, and defense-related industries generate more than \$175 billion in economic benefits and more than 2.2 million jobs annually.

The Joint Ocean Commission's report "[America's Ocean Future](#)" found that as of 2007, more than 85 percent of California's gross domestic product and nearly 12 million jobs derived from economic activity in the state's coastal estuarine areas. Its beaches are valued at between \$1.5 and \$3 billion per year. Targeting the Pacific Coast for expanded offshore drilling puts California's iconic beaches—and the tourism and recreation industries they support—in serious danger.

[Selling some reserve oil and cracking down on Wall Street speculators could provide temporary relief](#)

There is a proven tool to provide some temporary relief now from high prices. Selling a small amount of oil from the Strategic Petroleum Reserve in coordination with sales from International Energy Agency reserves would boost world oil supplies. Such a sale has occurred under the last four presidents and has lowered oil and gasoline prices every time. This can cut prices and burst the "bubble" caused by Wall Street speculators driving up oil prices for a quick profit.

Even the recent rumors of a reserve oil sale reduced prices. [Bloomberg](#) reported "Oil fell ... on reports that President Barack Obama discussed a release from the U.S. Strategic Petroleum Reserve with UK Prime Minister David Cameron."

Wall Street speculators' reactions contributed to the price drop, and demonstrate the urgency of regulators enforcing rules to reduce speculators' ability to boost prices. The Commodities Future Trading Commission must crack down on large Wall Street speculators to reduce their impact on volatile, high oil prices.

Conclusion: End Big Oil tax breaks, invest in reduction of oil use

Our last two presidents recognized that there are no quick fixes to reduce high oil or gasoline prices. In 2008 [President George W. Bush](#) said that “if there was a magic wand to wave, I’d be waving it” to lower prices.

Last month [President Obama](#) said that “there are no silver bullets short term when it comes to gas prices—and anybody who says otherwise isn’t telling the truth.” [He also noted](#) that the United States uses 20 percent of the world’s annual oil consumption but has only 2 percent of the reserves.

Today’s hearing on the impact of high gasoline prices is like the rerun of a bad movie. It’s up to you to change the finale. In lieu of wands, bullets, or slogans, this long-term problem requires long-term solutions. Congress needs to enact an “all of the above” strategy that includes slashing oil dependence by supporting the doubling of vehicle fuel economy standards, investing in alternative fuels, rejuvenating our public transportation infrastructure, and paying for it by ending Big Oil tax breaks. The American people would give this ending a standing ovation.

This testimony builds upon the analysis of Center for American Progress Action Fund colleagues Richard Caperton, Michael Conathan, Donna Cooper, Pat Garofalo, Jessica Goad, Christy Goldfuss, Kate Gordon, Seth Hanlon, Brad Johnson, Tom Kenworthy, Kiley Kroh, Stephen Lacey, Rebecca Leber, Rebecca Lefton, Noreen Nielsen, John Podesta, Joe Romm, and Jackie Weidman. The work of then-CAPAF colleagues Sima Ghandi and Valeri Vasquez also contributed to this testimony. Any errors are the author’s alone.

Why are oil and gasoline prices so high?

On January 2 the [price of a barrel of West Texas Intermediate, or WTI, crude](#) was \$103 per barrel. On February 28 WTI cost \$107 per barrel—a \$4 or 4 percent increase. Brent oil on the European market rose from \$111 to \$124 during this time—a 12 percent jump.

[Gasoline averaged \\$3.78 per gallon](#) for the week ending February 27—an increase of 42 cents or 13 percent—since the New Year. The Energy Information Administration, or EIA, reports that in January 2012, the price of crude oil was responsible for [three-quarters of the cost of a gallon of gas](#). When oil prices climbed, so did gasoline prices.

One obvious source of higher prices is tension in the Persian Gulf. Sanctions on Iran meant to convince it to abandon its quest to develop a nuclear weapon led it to “rattle its saber” by threatening to prematurely cut off its oil exports to Europe and other nations—those that will cease buying Iranian oil as of July 1. For instance, on February 19 [Iran](#) announced that it would stop oil sales to England and France. Although these two nations buy very little Iranian oil, fear that Iran would stop supplying other more dependent countries boosted the [spot price for oil by \\$3 per barrel](#) overnight.

The Congressional Research Service concurred with this assessment. Its report, “Rising Gasoline Prices 2012,”¹ determined that, “In early 2012, developments around Iran and their implications for global oil supply have been a key factor in recent oil and gasoline price changes.”

The production decline in Libya due to the successful war to oust Muammar Gaddafi continues. According to [CBS News](#):

Libya says it has boosted oil production to 1.4 million barrels per day in February, in a sign that the country is inching closer to pre-civil war output levels. The Oil Ministry says that figure is 100,000 barrels per day higher than the previous month.

This is 12 percent less than Libya’s prewar production of 1.6 million barrels per day.

In a [February 29, 2012, report to Congress](#), EIA concluded the world oil market has tightened in 2012 due to more demand and supply interruptions:

Global liquid fuels consumption is at historically high levels. . . . continued growth [in Europe] is expected. Unusually cold weather in Europe contributed to tighter markets by increasing the demand for heating oil, particularly during February.

The world has experienced a number of supply interruptions in the last two months, including production drops in South Sudan, Syria, Yemen, and the North Sea. Both the United States and the European Union (EU) have acted to tighten sanctions against Iran. . . . there is some evidence that these measures may already be causing some adjustments in oil supply patterns.

Wall Street speculators drive up prices

Tension in the Persian Gulf and minor supply disruptions are not the sole cause of high oil and gasoline prices. This is also evidence that Wall Street speculators are taking advantage of fears about future supply disruptions to drive up prices. [Bloomberg Businessweek](#) noted that, “Strangely, the current run-up in prices comes despite sinking demand in the U.S.” It cites Tom Kloza, chief oil analyst for the Oil Price Information Service, who says that speculators are helping to drive up oil prices:

Much of the increase is due to speculative money that’s flowed into gasoline futures contracts since the beginning of the year, mostly from hedge funds and large money managers. “We’ve seen about \$11 billion of speculative money come in on the long side of gas futures,” [Kloza] says. “Each of the last three weeks we’ve seen a record net-long position being taken.”

An analysis of oil trades by [McClatchy newspapers](#) concluded that Wall Street speculators are “behind sharply rising oil and gas prices.” It determined that:

While tension over Iran has ratcheted up over the last few months, the price of oil and gasoline has leaped far beyond conventional supply and demand variables. Financial speculators are piling into the market, torquing the Iranian fear factor into ever-higher prices.

Historically, financial speculators accounted for about 30 percent of oil trading in commodity markets, while producers and end users made up about 70 percent. Today it's almost the reverse.

A McClatchy review of the latest Commitment of Traders report from the Commodity Futures Trading Commission, which regulates oil trading, shows that producers and merchants made up just 36 percent of all contracts traded in the week ending Feb. 14.

That same week, open interest, or the total outstanding oil contracts for next-month delivery of 1,000 barrels of oil (about 42,000 gallons), stood near an all-time high above 1.486 million. Speculators who'll never take delivery of oil made up 64 percent of the market.”

The role of Wall Street speculators driving up prices in 2012 is consistent with evaluations of previous price spikes. [Commodity Futures Trading Commissioner Bart Chilton](#) recently cited numerous independent studies that indicate excessive Wall Street speculations played a significant role in earlier events.

On March 6, the [Washington Post](#) examined whether speculation is driving up oil prices. It found that

“Many analysts agree that trading activity is pushing up oil prices over and above what supply and demand would normally dictate — and much of this has been driven by fear

over a possible conflict with Iran. ‘Speculation has inflated oil prices by more than 30%,’ says Fadel Gheit, an oil analyst at Oppenheimer & Co.

“That’s in line with other estimates: A [recent paper](#) (pdf) by the Federal Reserve Bank of St. Louis found that ‘financial speculative demand shocks’ were responsible for at least 15 percent of the huge run-up in oil prices between 2004 and 2008.”

Oil executives also understand that Wall Street speculation drives up oil prices. At a hearing before the [Senate Finance Committee](#) on May 12, 2011, Sen. Maria Cantwell (D-WA) asked ExxonMobil CEO Rex Tillerson, “What do you think the price would be today, if it was based on fundamentals of just supply and demand?” He responded: “it’s going to be somewhere in the \$60 to \$70 range.” At the time of the hearing, [WTI crude oil](#) was selling for \$98 a barrel—55 percent to 63 percent more than Tillerson’s predicted range.

Higher gasoline prices means higher profits for Big Oil companies

Higher gas prices mean that money is flowing out of Americans’ wallets and pocketbooks and straight into the coffers of Big Oil companies. A recent Center for American Progress analysis, [“Pumped and Quartered: As American Families Pay 25 Cents More for a Gallon of Gas, Big Oil Earns \\$5 Billion More in Profits.”](#) quantified this phenomenon. It found that each 1 cent rise in the average quarterly, or three-month, price of a gallon of gas corresponds to a \$200 million increase in quarterly profits of the big five oil companies—BP, Chevron, ConocoPhillips, ExxonMobil, and Royal Dutch Shell.²

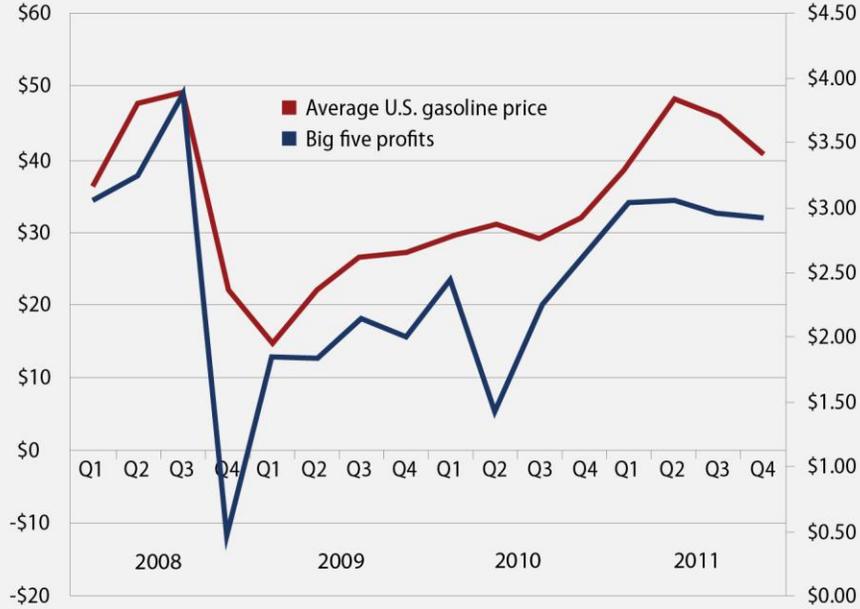
CAP analyzed the past four years of average [quarterly gas prices](#) and total profits for the five largest oil companies and not surprisingly, oil company profits are closely linked to gas prices. While gas prices aren’t the only factors influencing profits, they are a significant indicator. What’s more, we can confidently predict how much money each penny increase in gas prices transfers from consumers to the big five oil companies.

FIGURE 1

Oil profits increase when gas prices go up

Quarterly big five oil company profits, in billions of dollars

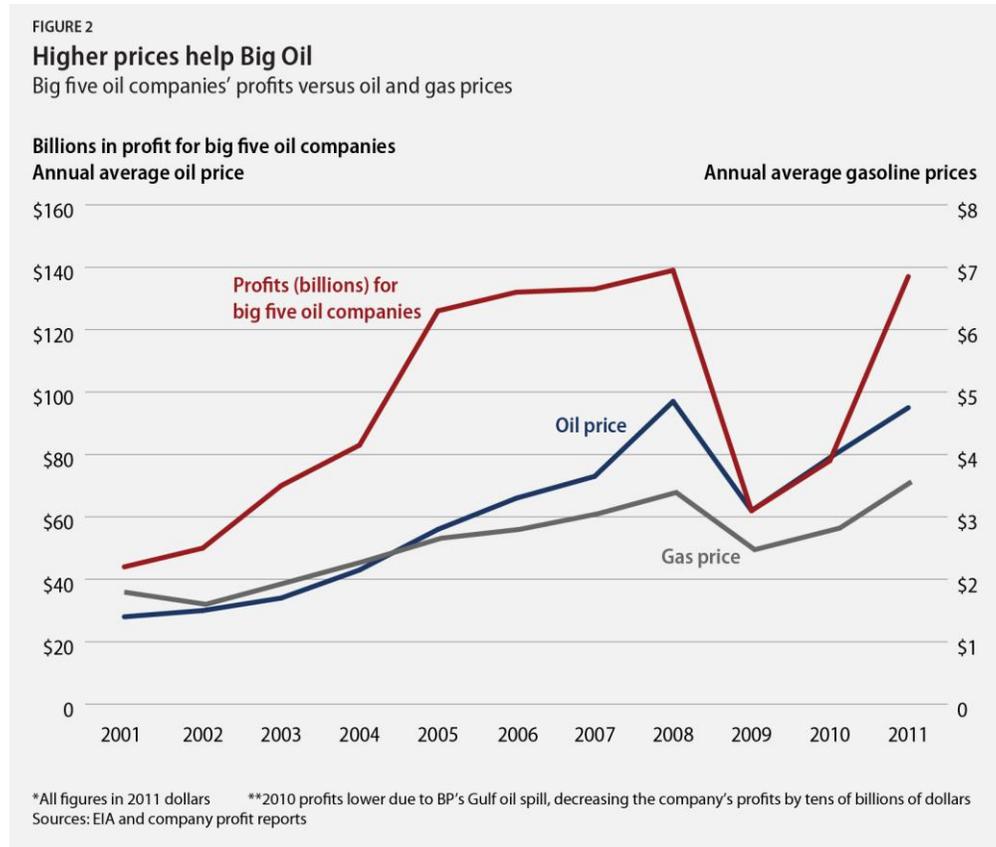
Quarterly average gasoline price, in dollars



Source: Energy Information Administration; BP, Chevron, ExxonMobil, Royal Dutch Shell, and ConocoPhillips Quarterly Profit Reports

Big Oil made record profits in 2011: Billions in tax breaks unnecessary

In 2011 the five largest oil companies combined made a record-high \$137 billion in profits—up 75 percent from 2010. They made [\\$1 trillion in profits from 2001 through 2011](#).



A CAP analysis, “[Big Oil’s Banner Year](#),” identified these highlights from the big five’s activities in 2011 (see figures 3 through 6):

- They produced 4 percent *less* oil and “oil equivalent” in 2011 compared to 2010.
- They spent a total of \$38 billion—or 28 percent—of their profits to repurchase their own stock.
- They are sitting on more than \$58 billion in cash reserves as of the end of 2011.
- They spent \$1.6 million on campaign contributions and [\\$65.7 million on lobbying efforts](#).
- For every [\\$1 spent on lobbying](#) in Washington, the big five received \$30 worth of tax breaks.

FIGURE 3

Profits up, production down

Big Oil's profits soar as oil-equivalent production decreases from 2010 to 2011

Company	Total profit, 2010 (in billions)	Total profit, 2011 (in billions)	Percent increase in profit from 2010 to 2011	Oil-equivalent production, 2010 (millions of barrels per day)	Oil-equivalent production, 2011 (millions of barrels per day)	Percent change in production from 2010 to 2011
BP	\$(4)	\$26	114%	3.8	3.5	-10%
Chevron	\$19	\$27	42%	2.8	2.7	-3%
ConocoPhillips	\$11	\$12	9%	1.9	1.7	-9%
ExxonMobil	\$31	\$41	31%	4.4	4.5	1%
Shell	\$20	\$31	54%	3.3	3.2	-3%
Total	\$78	\$137	75%	16.2	15.6	-4%

Source: Company profit reports

FIGURE 4

Big Oil helps itself

Total stock repurchases by company, 2011

Company	Total profit, 2011 (in billions)	Total stock repurchase, 2011 (in billions)	Percentage of 2011 profit used for repurchase
BP	\$26	-	-
Chevron	\$27	\$4	16%
ConocoPhillips	\$12	\$11	89%
ExxonMobil	\$41	\$22	53%
Shell*	\$31	\$1	4%
Total	\$137	\$38	28%

Source: Company profit reports

FIGURE 5
Big Oil doesn't need their tax breaks
 Cash assets and profits by company, 2011

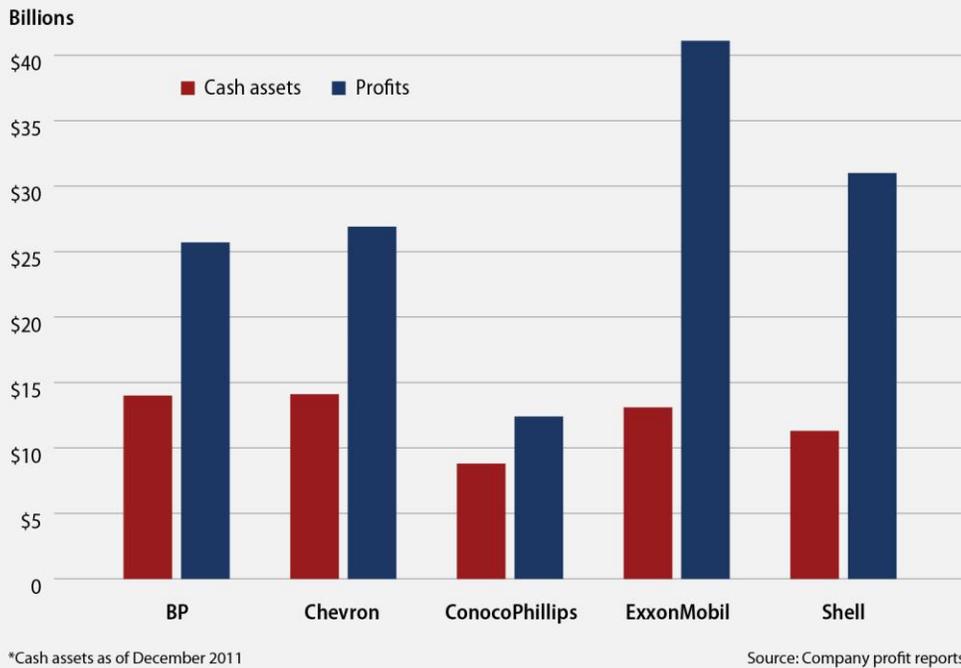


FIGURE 6
Big Oil woos Congress
 Lobbying expenditures and campaign contributions in 2011

Company	Lobbying (in millions)	Campaign contributions
BP	\$8.1	\$98,804
Chevron	\$9.5	\$467,996
ConocoPhillips	\$20.6	\$216,365
ExxonMobil	\$12.7	\$872,694
Shell	\$14.8	-
Total	\$65.7	\$1,655,859

*Royal Dutch Shell has not yet made any 2011-2012 campaign contributions.
 Source: "Lobbying Spending Database Oil & Gas, 2011," available at <http://www.opensecrets.org/lobby/indusclient.php?id=E01&year=a>.

Big Oil receives billions of dollars in unnecessary tax breaks

The tax code has numerous breaks big for oil and gas companies. These are simply subsidies that are delivered through the tax code, but they are essentially no different from government spending programs that provide money directly.

Here's a summary of the major oil and gas tax breaks and their cost to taxpayers over a decade:³

- Percentage depletion: \$11.2 billion
- Domestic manufacturing deduction for oil production: \$18.2 billion
- Expensing of intangible drilling costs: \$12.5 billion
- "Dual-capacity taxpayer" rules for claiming foreign tax credits: \$10.8 billion
- Amortization of geological and geophysical expenditures: \$1.4 billion
- "Last-in, first-out" accounting for oil companies: as much as \$22.5 billion

An analysis by Citizens for Tax Justice, "[Corporate Taxpayers & Corporate Tax Dodgers 2008-10](#)," determined that biggest U.S. oil and gas companies paid an average effective federal income tax rate of 15.7 percent from 2008 to 2010.⁴ This compares favorably to

"The average effective tax rate for all 280 companies [studied] was only 18.5 percent. For the past two years, 2009 and 2010, the effective tax rate for all 280 companies averaged only 17.3 percent, less than half of the statutory 35 percent rate."

[The American Petroleum Institute, or API, claims](#) that eliminating these tax loopholes for the oil and gas industry would "lose jobs ... and energy production." Yet higher oil prices and profits, combined with huge reserves and tax breaks, yielded lower, not higher, employment and oil production.

In 2011 the Democrats on the House Natural Resources Committee released "[Profits and Pink Slips: How Big Oil and Gas Companies are Not Creating U.S. Jobs or Paying Their Fair Share](#)." This report revealed:

Despite generating \$546 billion in profits between 2005 and 2010, ExxonMobil, Chevron, Shell, and BP combined to reduce their U.S. workforce by 11,200 employees over that time.

Nor are many of these net revenues used for oil production. The report found that "among the Big 5 oil companies, less than 10 percent of profits are reinvested into exploration of new oil deposits."

The report also concluded that:

The oil and gas industry is a mature and highly profitable sector that is no longer in need of generous tax breaks or royalty free drilling. The \$43.6 billion in tax subsidies that the industry is set to receive over the next decade will not help consumers with rising energy costs.

Tax breaks to Big Oil same as government grants

These tax breaks are [“tax expenditures”](#) that provide taxpayer-funded subsidies to Big Oil companies via the federal tax code instead of through direct grants. Whether in the form of special exemptions, deductions, or credits, these loopholes are essentially federal spending programs administered by the Internal Revenue Service.

Big Oil and their lobbyists will falsely cry [“tax hike”](#) should Congress attempt to remove these special interest provisions to reduce the deficit. The dollar amount given out to each company is kept hidden since IRS information is not made public.

Economists have recognized that there is no meaningful difference between tax expenditures and programs that spend money directly. Whether that annual \$4 billion subsidy for oil and gas—at a time when oil companies are posting huge profits—is spent directly or through special tax code provisions, the end result is that the oil companies are \$4 billion better off every year—and the federal deficit is \$4 billion larger every year.

Fortunately, the fact that tax expenditures are government spending is recognized more and more by conservative economists and politicians. Former President Ronald Reagan’s [chief economic advisor](#), economist Dr. Martin Feldstein, [noted that](#):

These tax rules—because they result in the loss of revenue that would otherwise be collected by the government—are equivalent to direct government expenditures. If Congress is serious about cutting government spending, it has to go after many of them. Cutting tax expenditures is really the best way to reduce government spending.

Former Senate Budget Committee Chair Pete Domenici (R-NM) and former Congressional Budget Office Director Dr. Alice Rivlin [agree](#):

Many tax expenditures substitute for programs that easily could be structured as direct spending. When structured as tax credits, they appear as reductions of taxes, even though they provide the same type of subsidy that a direct spending program would, and like a spending program, must be financed either by tax increases, cuts in other spending programs, or increases in the deficit that pass the cost to future generations.

House Ways and Means Committee Chair [Dave Camp](#) (R-MI) agreed that tax breaks are another way of providing direct support for industry:

[W]e must admit that not all of [recent] spending has been through increased appropriations or expanded entitlements; much of it has been through the backdoor proliferation of “tax expenditures”—provisions that technically reduce someone’s tax liability, but that in reality amount to spending through the tax code.

Before becoming speaker of the House, Rep. John Boehner (R-OH) [echoed this belief](#):

We need to take a long and hard look at the undergrowth of deductions, credits, and special carve-outs that our tax code has become. And yes, we need to acknowledge that what Washington sometimes calls tax cuts are really just poorly disguised spending programs that expand the role of government in the lives of individuals and employers.

In 2011 Speaker Boehner [reiterated](#) his concern about them in an interview with ABC News:

It's certainly something we should be looking at. We're in a time when the federal government's short on revenues. We need to control spending but we need to have revenues to keep the government going. They ought to be paying their fair share.

Last year, [ConocoPhillips CEO Jim Mulva](#) testified before Congress, saying that, "with respect to oil and gas exploration and production, we do not need incentives."

Revenue from Big Oil tax breaks could benefit middle class instead

[Seventy-four percent](#) of Americans agree with the president's desire to eliminate tax breaks for the oil and gas industry. They understand that there are more important priorities than assisting some of the most profitable companies in the world.

Instead of benefiting oil companies that reward senior executives, board members, and stockholders, these taxpayer funds should be invested in projects that benefit all Americans. A [University of Massachusetts study](#) found that investment in clean energy creates anywhere from two to four times more direct and indirect jobs compared to the same investment in oil and gas production.

Let's put these tax breaks in context. In 2011 [the House-passed FY 2012 budget](#) would have cut Medicare funding by \$30 billion over 10 years. Ending these tax breaks would save \$40 billion over that same time period.

On an annual basis, ending the [\\$4 billion](#) in annual tax breaks for big oil and gas companies could pay for:

- The salaries of [72,000 high school teachers](#) earning an average of \$55,000 per year
- [Pell Grants](#) for [more than one million](#) aspiring college students
- [Solar energy systems for 135,000 homes](#), costing an [average of \\$15,000](#), which would reduce carbon dioxide pollution by 175,000 metric tons annually

Last September while addressing economic growth and deficit reduction, [President Barack Obama](#) noted that as we cut federal program funding to reduce the budget deficit, "Either we gut education and medical research, or we've got to reform the tax code so that the most profitable corporations have to give up tax loopholes that other companies don't get. We can't afford to do both."

Independent analyses debunk Big Oil’s defense of tax breaks

As to be expected, Big Oil will not give up its tax breaks without a fight, even if it means paying for junk analysis by hired guns. Some Big Oil allies claim that eliminating tax breaks for Big Oil companies will increase oil and gasoline prices. The [Congressional Research Service](#) debunked this false claim, finding that “there is little reason to believe that the price of oil, or gasoline, consumers face will increase” from an end to subsidies.

Another example is the 2011 release of [“Repealing Tax Deductions on U.S. Energy Companies Exacerbates Federal Deficit, Increases U.S. Debt”](#) by Joseph Mason, a professor at Louisiana State University. The report was “prepared with the support of the American Energy Alliance,” which receives oil industry funds. The study unabashedly relies on other oil-industry funded research to buttress its false claims.

In the report Mason attempts to evaluate the impact of eliminating two special subsidies enjoyed by the oil industry:

- Domestic manufacturing deductions for oil production under Section 199 of the U.S. tax code
- The treatment of so-called “dual capacity taxpayers” who claim foreign tax credits, including oil companies

These are both arcane tax loopholes that reaped oil companies \$29 billion over the past decade. Section 199 is the [domestic manufacturing deduction](#) designed to help beleaguered manufacturers by providing an incentive to keep their facilities and jobs in the United States. Big Oil successfully lobbied to be included in this tax break, but it should not apply to oil companies for several reasons. These include the capital-intensive nature of oil production, the relative mobility of investments, and, of course, the level of profitability—there are vast differences between the oil industry and traditional U.S. manufacturing.

[Dual-capacity taxpayer](#) rules for claiming foreign tax credits allow companies that do business abroad to deduct from their tax bill any income taxes paid to other governments. The rules are supposed to prevent oil and other companies from claiming credit for royalty payments to foreign governments, which are fees for the privilege of extracting natural resources. But the current rules have been significantly weakened so that now oil companies can reap credits on “taxes” that are, in substance, royalty payments for extracting oil.

Mason’s claims that eliminating these two oil company tax breaks would increase the federal budget deficit were debunked by multiple independent government analyses. The [Congressional Budget Office](#), or CBO, working with the Congressional Joint Committee on Taxation, determined that:

The other revenue proposals in the President’s budget whose effects are included in this analysis would raise revenues by \$174 billion, on net, over the next 10 years [include] ... reducing tax preferences for the production of fossil fuels (\$41 billion).

An earlier [Joint Committee on Taxation, or JCT](#), analysis of removal of the Section 199 tax deduction also found that it would generate federal revenue and reduce the deficit.

The Joint Committee on Taxation estimates that removal of the [Section 199] credit for major integrated oil and gas producers would bring in \$9.433 billion in federal revenue over the next eleven years.

The [U.S. Department of Treasury's](#) “General Explanation of the Administration’s Fiscal Year 2012 Revenue Proposals”—known as “The Greenbook”—also determined that eliminating these provisions would generate revenue. The analysis found that eliminating Section 199 provision would generate \$18.3 billion over a decade (see page 147 of the report) and modifying the dual capacity rules would generate \$10.8 billion through 2021 (page 146), for total savings of \$29.1 billion. (The CBO and JCT also estimate that the president’s international tax proposals, including the “dual-capacity taxpayer” reform, would raise a combined \$133 billion over 10 years.)

The [Congressional Research Service](#) also recently concluded that ending these two (and other) tax breaks for the five largest oil companies would raise billions of dollars of revenue.

The bottom line: Unbiased revenue estimators at four government agencies all drew the same conclusion—eliminating these two tax breaks for Big Oil companies would generate billions of dollars in revenue for the federal government.

How does Louisiana State University’s Mason come to a different conclusion? It may be due to his false assumptions about the Obama administration’s energy policies. He wrongly claims that it is the administration’s policy to “creat[e] a tax drag on economic growth in an attempt to engineer a social shift away from fossil fuels.” So at every decision point he incorrectly assumes that the administration’s goal is to keep oil prices high and production low.

But there is a more fundamental reason why Mason’s report reaches the opposite conclusion from four government entities. Much of his analysis relies on previous claims made by Big Oil-funded organizations. In his paper there are more than two-dozen references to the views of the American Petroleum Institute, officials from specific oil companies, the Institute for Energy Research, and the American Energy Alliance, or AEA. All of them produce conflicted research due to the source of their funding.

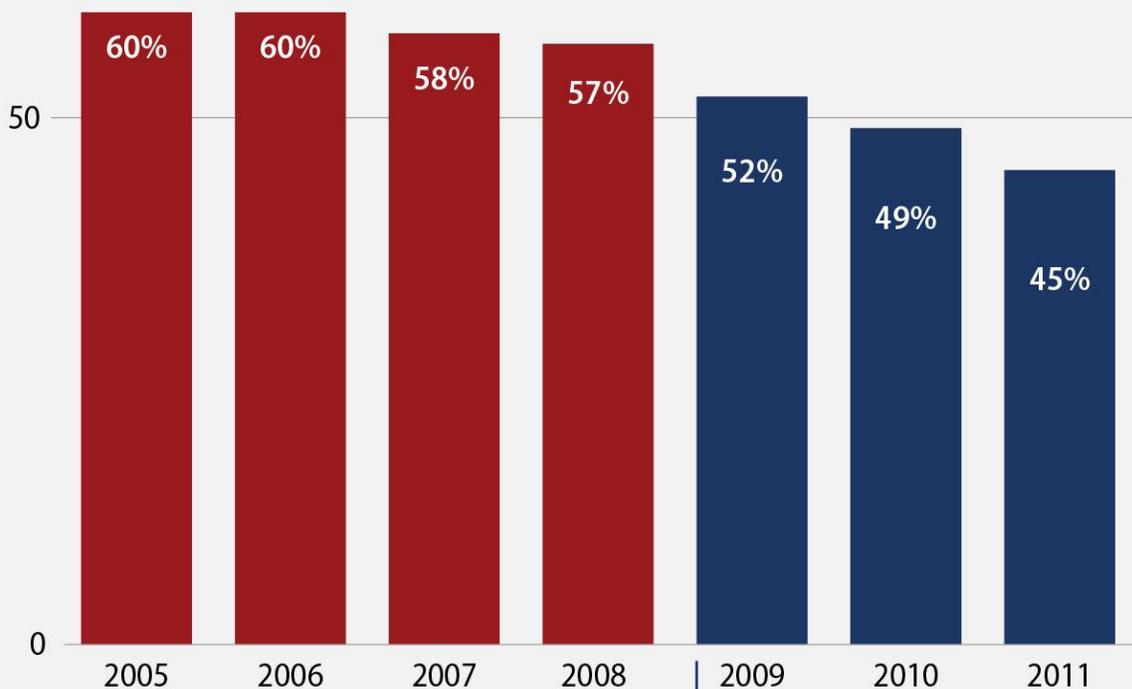
United States producing more oil

Some people contend that the United States is experiencing high oil and gasoline prices because we do not produce enough oil. This is misguided. The United States is producing significantly more oil than in recent years. In 2010 the [United States produced a majority of its oil](#) for the first time since the [Clinton administration](#). In 2011 the [United States produced the most crude oil](#) since 2003, growing by 110,000 barrels per day compared to 2010—a 2 percent rise in a single year.

FIGURE 7

U.S. dependence on foreign oil declining

Net imports as a share of domestic consumption



Source: The White House

President Barack Obama takes office

The amount of oil drilling rigs has dramatically increased since early 2009. An analysis by my CAP colleague [Michael Conathan, Director of Ocean Policy](#), found that:

When President Obama took office in 2009, there were fewer than 400 drilling rigs operating in the United States, a number that dwindled to fewer than 200 by April 2009.

Since then, even as his administration conducted a wholesale review of drilling regulations in the aftermath of the worst offshore oil spill in the nation's history—the BP Deepwater Horizon oil catastrophe in the Gulf of Mexico—the number of oil rigs operating in the United States has [quadrupled](#).

The [Houston Chronicle](#) reported that, “including those in natural gas fields, the United States now has more rigs at work than the entire rest of the world.”

This increase in production under President Obama also created an additional [75,000 jobs in oil and gas production](#), according to Bureau of Labor Statistics data.

Additionally, [EIA](#) predicts that U.S. oil production will further increase in the coming year. And this production should continue to rise in the coming years because the administration is permitting more offshore oil production. After the BP Deepwater Horizon oil disaster, the administration required offshore rigs to employ new safety measures on rigs drilling in the Gulf of Mexico. Since then:

The administration has approved hundreds of permits for drilling in the Gulf of Mexico, including:

- 308 permits for deep water drilling activities for 94 unique wells in the Gulf of Mexico and;
- 113 permits for shallow water wells in the Gulf of Mexico.

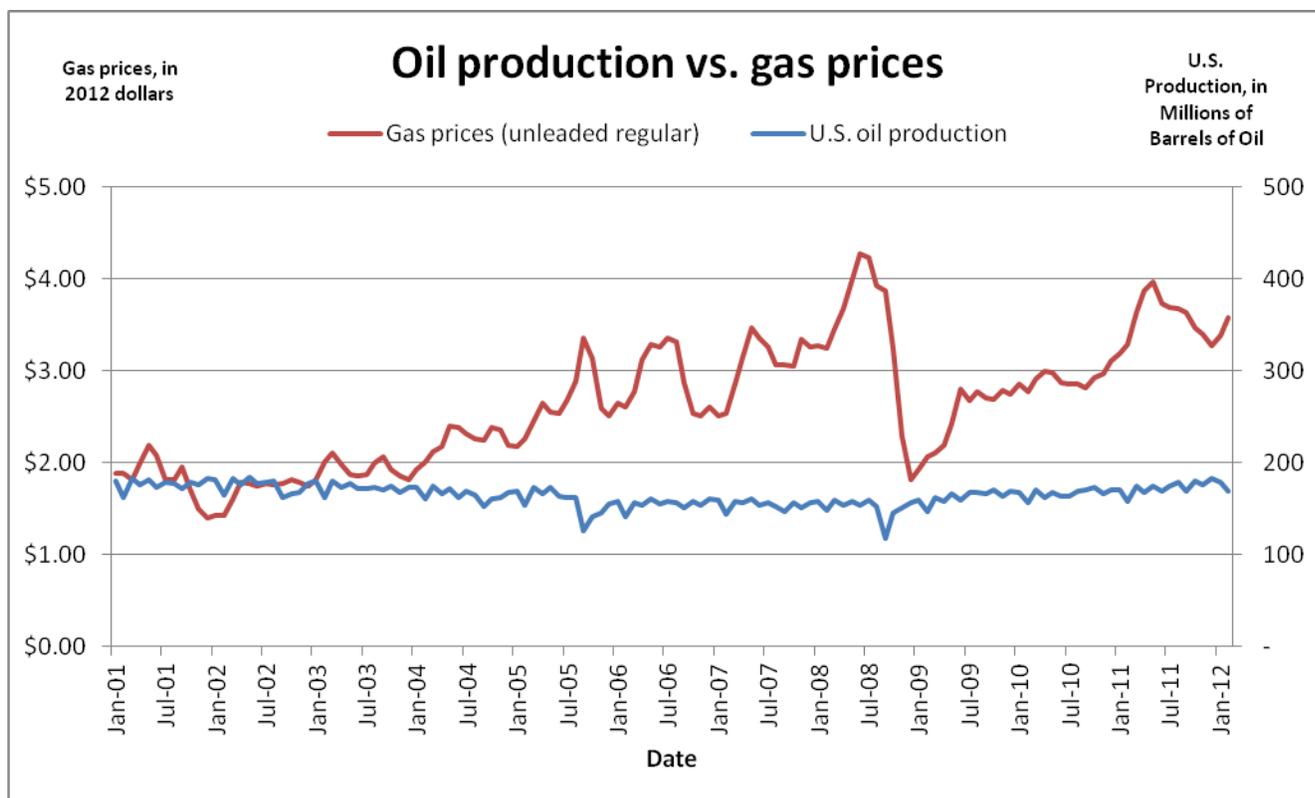
[There is] now permitting at levels seen before the Deepwater Horizon oil spill, all while meeting these important new standards.

As offshore oil and gas production expands, it is imperative that Congress increase the \$75 million liability cap for future offshore oil spills, blowouts and disasters. This is about five hours of the big five companies' 2011 profits. The damages from the BP Deepwater Horizon disaster will cost at least [\\$40 billion](#) for cleanup and to compensate people and businesses for economic damages to Gulf Coast residents and businesses. The current liability cap is far too tiny should a similar disaster occur, even with the implementation of the new rig safety standards. Companies that experience an oil spill or worse should be liable for all damages. This liability responsibility provision was included in the [Consolidated Land Energy and Aquatic Resources \(CLEAR\) Act, H.R. 3534](#), which passed the House in 2010.

No federal policy changes are necessary to produce even more American oil. [Three-quarters of the offshore oil](#) in the continental United States is already open to production. Yet in March 2011 the Department of the Interior [released a report](#) revealing that two-thirds of oil-and-gas companies' existing offshore leases and more than half of their onshore leases are not under production.

The significant increase in oil production, however, has not lowered gasoline prices. The [Associated Press](#) cites Christopher Knittel, a professor of energy economics at MIT. It reported his assessment that

“American oil production is about 11 percent of the world's output, so even if the U.S. were to increase its oil production by 50 percent — that is more than drilling in the Arctic, increased public-lands and offshore drilling, and the Canadian [Keystone XL] pipeline would provide — it would at most cut gas prices by 10 percent.”



Source: [Associated Press Study](#)

United States using less oil

In addition to producing more oil, the United States is using less oil. In 2011 the United States consumed an [average of 18.8 million barrels per day](#). This is the second-lowest consumption level since [1997](#). In the month ending on February 3, 2012, we registered [the lowest average gasoline consumption](#) in 11 years—since February 2001. This gasoline consumption is considerably lower than the period from May 2008 through July 2008, when gasoline prices rose to a record nationwide average of \$4.11 per gallon.

Seventy percent of all U.S. oil use is for transportation. Lower oil consumption is due in part to the first improvement in vehicle fuel economy standards in more than two decades, put in place by [President Obama in 2009](#). A January 2012 study from [the University of Michigan Transportation Research Institute](#) found that the “fuel economy of new vehicles continues to rise.” Specifically:

The average fuel economy of current model year vehicles is 14 percent higher than just four years ago.

For all 2012 light-duty vehicles (cars, pickup trucks, minivans, vans and SUVs) offered for sale, average mpg is 21.5, compared to 18.9 mpg for model year 2008 vehicles. The averages were 21.2 for 2011, 20.7 for 2010 and 19 for 2009.

Model year 2011 cars go [7 percent farther on a gallon of gas](#) compared to those made in 2008. And these savings will grow through 2016, when the average car will meet a standard of 35.5 miles per gallon—a 30 percent improvement from the 2010 standard.

In 2011 the administration finalized the [first-ever fuel economy standards for work trucks, buses, and other heavy vehicles](#) beginning in 2014. The White House determined that these standards “will save American businesses who operate and own these commercial vehicles approximately \$50 billion in fuel costs over the life of the program.” The new standards will save more than 500 million barrels of oil, too.

Later this year the administration—with the support of the major auto manufacturers and the United Auto Workers union—plans to finalize fuel economy standards for passenger vehicles manufactured from 2017–2025. By 2025 [cars and light trucks will go twice as far](#) on a gallon of gas compared to 2010 vehicles. These standards will save more than 2 million barrels of oil per day. Drivers of model year 2025 passenger vehicles will save \$8,200 in lower gasoline purchases over the life of their vehicle compared to 2010 vehicles.

[EIA’s latest projections](#) found that the United States will import less oil thanks to the aforementioned oil production and greater vehicle efficiency—not including the proposed 2017–2025 fuel economy standards.

U.S. dependence on imported petroleum liquids declines in the AEO2012 Reference case, primarily as a result of growth in domestic oil production by more than 1 million barrels per day by 2020; an increase in biofuels use to more than 1 million barrels per day crude oil equivalent by 2024; and modest growth in transportation sector demand through 2035.

Proposed fuel economy standards covering vehicle model years 2017 through 2025 that are not included in the Reference case would further reduce projected liquids use and the need for liquids imports.

The rescue of General Motors and Chrysler, initiated by former [President George W. Bush](#) and completed by President Obama, [saved 1 million jobs](#). In addition, the restructuring of these companies led them to develop and manufacture more fuel-efficient models attractive to drivers, particularly when gasoline prices are high. [The New York Times](#) reported that the auto companies continue to prosper despite high gasoline prices.

“Our product portfolio now contains some of the most fuel-efficient vehicles in our company’s history,” Reid Bigland, the head of United States sales for Chrysler, said in a statement. “A few years ago, higher fuel prices were a major threat to our total vehicle sales, whereas today, those higher prices have become far less of an issue.”

A March 5 [New York Times](#) editorial reiterated that finding by noting that, “Two byproducts of the automobile bailout were the carmakers’ acceptance of sharply improved fuel economy and a new commitment to building cars that can meet those standards.”

This is an important contrast to 2008 when record-high gasoline prices contributed to a decline in auto sales. [President Obama](#) noted this difference last week. He said that General Motors and Chrysler are:

Not just building cars again—they're building better cars. Thanks to new fuel efficiency standards we put in place, they're building cars that will average nearly 55 miles per gallon by the middle of the next decade. That's almost double what they get today. That means folks will be able to fill up every two weeks instead of every week, saving the typical family more than \$8,000 at the pump over time. That's a big deal, especially as families are yet again feeling the pinch from rising gas prices.

Immediate relief: Sell a small amount of oil from the Strategic Petroleum Reserve

There are very few policy measures that can rapidly reduce oil and gasoline prices, but selling oil from the Strategic Petroleum Reserve to oil companies can help, particularly if coordinated with the sale of some reserves from other nations. [The reserve was created in 1975](#) as a hedge against serious oil supply disruptions such as the Arab oil embargo of 1973–1974. It has a capacity of 727 million barrels of oil and is currently 96 percent full with [696 million barrels](#).

Presidents have the authority to sell reserve oil under the following circumstances described in the [Energy Policy and Conservation Act](#):

Drawdown and sale of petroleum products from the Strategic Petroleum Reserve may not be made unless the President has found drawdown and sale are required by a severe energy supply interruption or by obligations of the United States under the international energy program.

(2) For purposes of this section, in addition to the circumstances set forth in section 3 (8), a severe energy supply interruption shall be deemed to exist if the President determines that -

(A) an emergency situation exists and there is a significant reduction in supply which is of significant scope and duration;

(B) a severe increase in the price of petroleum products has resulted from such emergency situation; and

(C) such price increase is likely to cause a major adverse impact on the national economy.

There have been [reserve oil sales](#) under every president since 1991:

- President George H.W. Bush, along with some of our allies, sold reserve oil before the first Iraq war in anticipation of supply disruptions that did not materialize.
- The Republican Congress mandated two sales of reserve oil in 1996 to reduce the federal budget deficit.
- President George W. Bush sold oil in 2005 after Hurricanes Katrina and Rita disrupted production in the Gulf of Mexico.
- Last year President Obama sold 30 million barrels of reserve oil to offset the disruption of Libyan oil production during its civil war. Our partners in International Energy Agency, or IEA, nations sold 30 million barrels of their reserve oil, as well. (The IEA is an intergovernmental organization dedicated to responding to physical disruptions in the supply of oil, as well as serving as an information source on statistics about the international oil market and other energy sectors.)

Multinational reserve oil sales reduce oil and gasoline prices. (see chart below) For instance, last year [the administration](#) announced its sale of SPR oil on June 23 with completion on September 30. The IEA sale occurred during this time too. From the time of the announcement to the time of final sale, the price of WTI crude oil dropped by 17 percent, while the price of gasoline fell by 6 percent. Such a decline would reduce \$4 per gallon gasoline to \$3.76 per gallon.

There is also a legitimate concern about adequate oil reserves in case of a severe Iranian supply disruption, but we have ample supplies in the SPR to withstand it. [Iran exports 2.2 million barrels of oil per day](#) worldwide, and none of it comes to the United States. The United States could replace these Iranian exports to other nations for 60 days, and our reserves would still be 80 percent full. And after completely offsetting a 180-day disruption in Iranian oil supplies, the SPR would still be 40 percent full.

Iran has also threatened to cut off the [Strait of Hormuz](#) through which 17 million barrels of oil travel every day. This is about one-fifth of worldwide consumption. There is enough oil in the SPR that the United States could replace this oil for three weeks, and its reserves would still be half full. The bigger challenge in that scenario is that the SPR can release no more than 4.4 million barrels per day.

We must ensure that there is adequate reserve oil in case of a severe supply disruption. Selling 30 million to 50 million barrels of oil to offset recent disruptions would still leave the reserve at least 90 percent full. And the Congressional Research Service cautioned that:

Being too cautious about the use of the SPR may mean its full value is never utilized. Further, market participants, including oil exporting countries, may discount the possibility that the United States would use this policy tool.

Long-term relief: Modern fuel economy, alternative fuels, and transportation investments

Even as we produce more and use less oil at home, oil prices remain subject to the global market. The 2011 disruption in Libya's oil production sent prices climbing. This year, Iran's saber-rattling to use oil as a weapon to defend its nuclear program is roiling markets. This destructive

price volatility will continue to harm our economy and Americans if we continue to depend on a product with few substitutes where we consume 20 percent of the annual supply but only 2 percent of its resources. The ultimate path to long-term relief is to dramatically reduce our reliance on oil.

The United States must develop modern fuel economy standards to make cars go much farther on a gallon of gas. As noted above, the administration will soon finalize fuel economy standards for passenger vehicles manufactured from 2017–2025. If the standards are kept strong, they will save more than 2 million barrels of oil per day. Congress must resist pleadings of special interests to reduce or delay these standards since they will only increase gasoline consumption and prices.

In addition to much-improved vehicle fuel economy standards, we must begin the investment in cars and trucks powered by other fuels. Passenger vehicles could use readily available, increasingly clean electricity. Plug-in hybrids and all electric vehicles consume little or no gasoline. The Chevrolet Volt and Nissan Leaf are two early users of these fuels. During their first year of production, their combined sales were twice as large as the now familiar [Toyota Prius hybrid during its first year](#).

As with cell phones, desktop computers, and other innovative new technologies, there will be bumps along the road to widespread commercialization. For instance, bad publicity for the Volt due to overstated concerns about the potential for fires has inhibited sales. Nonetheless, February 2012 sales were significantly higher than January sales. Despite GM's temporary halt in production to sell some existing inventory, it still plans to sell [45,000 Volts in 2012](#) – six times more than last year.

There is a long history of government support for the infrastructure essential to grow pioneering technologies, from FM radio to telephones. Electric vehicles, too, would benefit from such assistance with recharging infrastructure. The Electric Drive Vehicle Deployment Act of 2011, [H.R.1685](#), sponsored by Rep. Judy Biggert (R-IL), would provide financial assistance to states for the deployment of electric vehicles.

Electricity is not a practical alternative to power heavy trucks. Many experts believe, however, that natural gas can power these vehicles. A [Center for American Progress analysis](#) determined that a transition to natural gas trucks and buses could reduce oil use by at least 1.2 million barrels per day. The [NAT GAS Act, H.R.1380](#), sponsored by Rep. John Sullivan (R-OK) and 181 bipartisan cosponsors, would provide incentives to convert trucks to natural gas, as well as create a refueling infrastructure for natural gas vehicles. The Senate companion bill, [S.1868](#), sponsored by Sens. Bob Menendez (D-NJ) and Richard Burr (R-NC), would fund these incentives with a small fee on the sale of liquefied or compressed natural gas.

Investments in buses, subways, and trains can also reduce our dependence on oil and create jobs. Public transportation saves the U.S. 900,000 automobile fill-ups per day, which equal [4.2 billion gallons of gasoline per year](#). Every \$1 billion of investment in public transportation infrastructure supports 36,000 jobs in a variety of industries – construction, finance, insurance, real estate, retail and more.

Despite these overwhelming benefits, our public transportation infrastructure is woefully underfunded. A recent CAP report [“Meeting the Infrastructure Imperative: An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation’s Infrastructure,”](#) by Donna Cooper found that an additional investment of \$15.7 billion annually is needed to meet our most urgent public transportation infrastructure needs. This would increase oil savings and create jobs.

Unfortunately, the pending [House transportation bill](#) would undermine our existing [transportation infrastructure](#). It would end the 30-year practice of allocating a small portion of the federal gas tax for transit funding. It would replace this predictable funding source with reliance on [lower, speculative revenue from future oil drilling](#). The [American Public Transit Association](#) predicts that the House bill will

“Lead to additional deferred maintenance, leading to less reliable service, fewer transit extensions, higher fares and potentially fewer riders.”

This significant cut in transit ridership would force more people to drive, using more gasoline to travel. This additional demand would likely increase gasoline prices.

Lifting protection for special places won’t reduce oil or gasoline prices

Some people are calling for more oil drilling in protected places to reduce gasoline prices, though they disingenuously neglect to mention that it takes [seven years for new offshore oil drilling to produce any oil](#). And [EIA](#) found that opening up the currently protected Atlantic and Pacific Coasts won’t have an impact on price. EIA also predicts that it will take [10 years to produce oil](#) from the Arctic National Wildlife Refuge in Alaska.

Don’t get me wrong. More American oil production benefits us in several ways. First, producing more and importing less would help our balance of trade. In 2010 it was estimated that [oil imports](#) were nearly half of our trade deficit. The nearly \$1 billion sent overseas daily to purchase oil is money that will not recirculate here or create more economic growth.

Purchasing less foreign oil also enhances our national security. Canada and Mexico are our two largest importers. But a [CAP analysis](#) found one in five barrels of oil consumed in the United States in 2008 came from nations classified as “dangerous or unstable.”

These are real economic and security benefits to our nation, and higher oil production should continue. At the same time, more U.S. production will not lower prices because oil prices are set on a worldwide market price, with the active participation of the Organization of Petroleum Exporting Countries, or OPEC, cartel. A significant production increase by one country could be offset by a reduction by another nation so that the price remains the same.

In fact, some oil-producing nations believe that some oil producers want to stabilize prices around \$100 per barrel. In an interview with CNN, [Saudi Arabian Oil Minister Ali al-Naimi](#) said that, "Our wish and hope is we can stabilize this oil price and keep it at a level around \$100" for the average barrel of crude oil. Saudi Arabia and other OPEC countries have the ability to raise or lower their production to accomplish this goal.

[Ken Green, resident scholar with the conservative American Enterprise Institute](#), explained that crude oil is a global commodity whose price will be unaffected by new U.S. production. Last year Greenwire reported that:

“The world price is the world price. Even if we were producing 100 percent of our oil,” Green said, if prices increase because of a shortage in China or India, “our price would go up to the same thing... We probably couldn't produce enough to affect the world price of oil,” he added. “People don't understand that.”

Green also astutely predicted that some politicians would exploit higher oil prices to boost Big Oil's desire to drill on fragile lands and in coastal waters. “We're likely to see a replay of the McCain-Palin ‘drill, baby, drill,’ ‘drill here, drill now.’ It will probably be a cause célèbre for the party.” His warning was prescient—those same cries are occurring this year as well.

Green is correct. Allowing production into protected, fragile places will not lower oil and gasoline prices today, tomorrow, next year, or the year after that.

State Department: Keystone pipeline won't increase production or lower prices

Other oil industry advocates claim that completing the Keystone XL pipeline from Alberta, Canada, to the Gulf of Mexico would both increase oil supplies and reduce prices. The State Department's analysis of the project found that neither assertion is accurate.

The [State Department's final “Keystone XL Assessment”](#) concluded that it would not increase oil supply or lower prices:

WORLD and ETP studies indicate that building versus not building Keystone XL would not of itself have any significant impact on: U.S. total crude runs, total crude and product import levels or costs. (emphasis original)

The State Department analysis determined that the pipeline would only have a tiny impact on the price of crude and other products:

Under the KXL scenario, delivered prices for [oil sands] ... into PADD3 Gulf Coast are lower than under the No KXL case and those for PADD2 [Midwest], higher. The effect is limited, no more than around \$0.70/bbl.

The analysis acknowledges that the pipeline would actually raise gasoline prices in the Midwest since it would eliminate the current oil glut there that has kept prices lower. [Bloomberg](#) cautions that, “TransCanada Corp.'s Keystone XL oil pipeline ... risks raising prices as much as 20 cents a gallon in the Midwest, Great Plains and Rocky Mountains.” At the same time, there may be a decrease in gasoline prices in the Gulf region because of the increase in oil supply there.

[Time magazine's](#) analysis concurred that Keystone would have almost no impact on gasoline prices. “Keystone would have little immediate [price] effect, especially since there's already sufficient pipeline infrastructure in place for the next few years.”

Additionally, there are indications that a portion of the [oil sands](#) piped through Keystone to Gulf Coast refineries will be refined into products for export rather than kept here for American drivers. At a December 2, 2011, hearing before a subcommittee, [Rep. Ed Markey \(D-MA\)](#) asked the [CEO of pipeline-owner TransCanada](#) whether he would agree to keep all refined products from oil sands in the United States. He declined.

One way to ensure that Keystone adds a marginal amount of oil to U.S. supplies is to require that the oil and its refined products be sold here—not exported. On February 15 [Rep. Markey offered an amendment to H.R. 3408](#) to “ensure that if the Keystone XL pipeline is built, the oil that it transports to the Gulf of Mexico and the fuels made from that oil remain in this country to benefit Americans.” The [amendment failed 173–254](#), which means that some of the oil sands will be exported.

Some advocates of building this pipeline claim that it would also help lower gasoline prices because this project is “shovel ready.” This is also false. The Keystone pipeline isn’t even map ready yet since its [route through Nebraska](#) has yet to be decided. And there has been no assessment of the potential harm to adjacent air, water, and land from its construction and operation once it is sited.

In fact, there is a growing controversy over building the pipeline in places where the route is already mapped. The [Los Angeles Times](#) reported on the conflict between landowners and TransCanada:

Canadian company that wants to build the 1,660-mile structure [is] going to court to force the cooperation of landowners who don’t want it crossing their land.

The issue has brought conservative tea party groups out rallying alongside environmentalists opposed to tar sands oil production, united behind [Julia Trigg] Crawford’s attempt to keep the pipeline from crossing her 600-acre farm in the town of Direct, near Paris, where she fears it could contaminate the creek that irrigates her fields.

This controversy suggests that construction is not “shovel ready” outside of Nebraska either.

The bottom line is that the State Department and other independent analyses determined that the Keystone XL pipeline won’t increase U.S. oil supplies, reduce gasoline prices, or even transport any oil anytime soon.

Other dubious proposals won’t reduce gasoline prices but will harm public

There are several other perennial proposals made by special interests that they claim would reduce oil and gasoline prices but in reality would only harm the economy or public health. One dubious idea is to suspend the 18-cents-per-gallon federal gasoline tax in an effort to lower prices. There is no guarantee, however, that Big Oil companies would pass these savings along to drivers. The Congressional Research Service warned that:

The market response to a cut in the excise tax would be a tendency to reduce consumer prices by an amount less than or equal to the tax cut. Issues related to market structure and economic conditions may result in refiners not passing on the full benefit of the tax reduction to consumers.

More significantly, suspending the gas tax would deprive states of funds to pay for badly needed highway repair and transit projects. The gasoline tax is already too low to support our transit needs. A recent CAP report, "[Meeting the Infrastructure Imperative](#)," found that an additional \$63 billion per year over the next decade is necessary to repair our roads, bridges, rail, and transit systems. Eliminating these infrastructure funds would also [cost jobs](#) when our economy is still recovering.

Another regular proposal to lower gasoline prices is to waive the summer pollution reduction requirements for gasoline in metropolitan areas with severe smog problems. These standards reduce some of the smog forming components in gasoline. Abandoning them might [reduce gasoline costs by only a few cents per gallon](#) but would increase smog that harms children, seniors, and others. In addition to human suffering, such a step would have real economic costs due to additional health care expenditures and lost productivity.

¹ Congressional Research Service, "Rising Gasoline Prices 2012" (2012).

² Richard Caperton and Jackie Weidman at CAP ran a regression analysis with the nominal values for average quarterly gas prices (the independent variable) and quarterly oil company profits (the dependent variable) from 2008 through 2011. This showed a coefficient of 20.3, meaning that when average gas prices change by \$1 over a quarter, big five profits change by \$20 billion. The p-value for this analysis is 0.000117, which indicates a statistically significant positive relationship between the two values. The data and calculations are available upon request.

³ For more information about each of these provisions, see: Seth Hanlon, "Big Oil's Misbegotten Tax Gusher: Why They Don't Need \$70 Billion from Taxpayers Amid Record Profits" (Washington: Center for American Progress, 2011), available at http://www.americanprogress.org/issues/2011/05/big_oil_tax_breaks.html

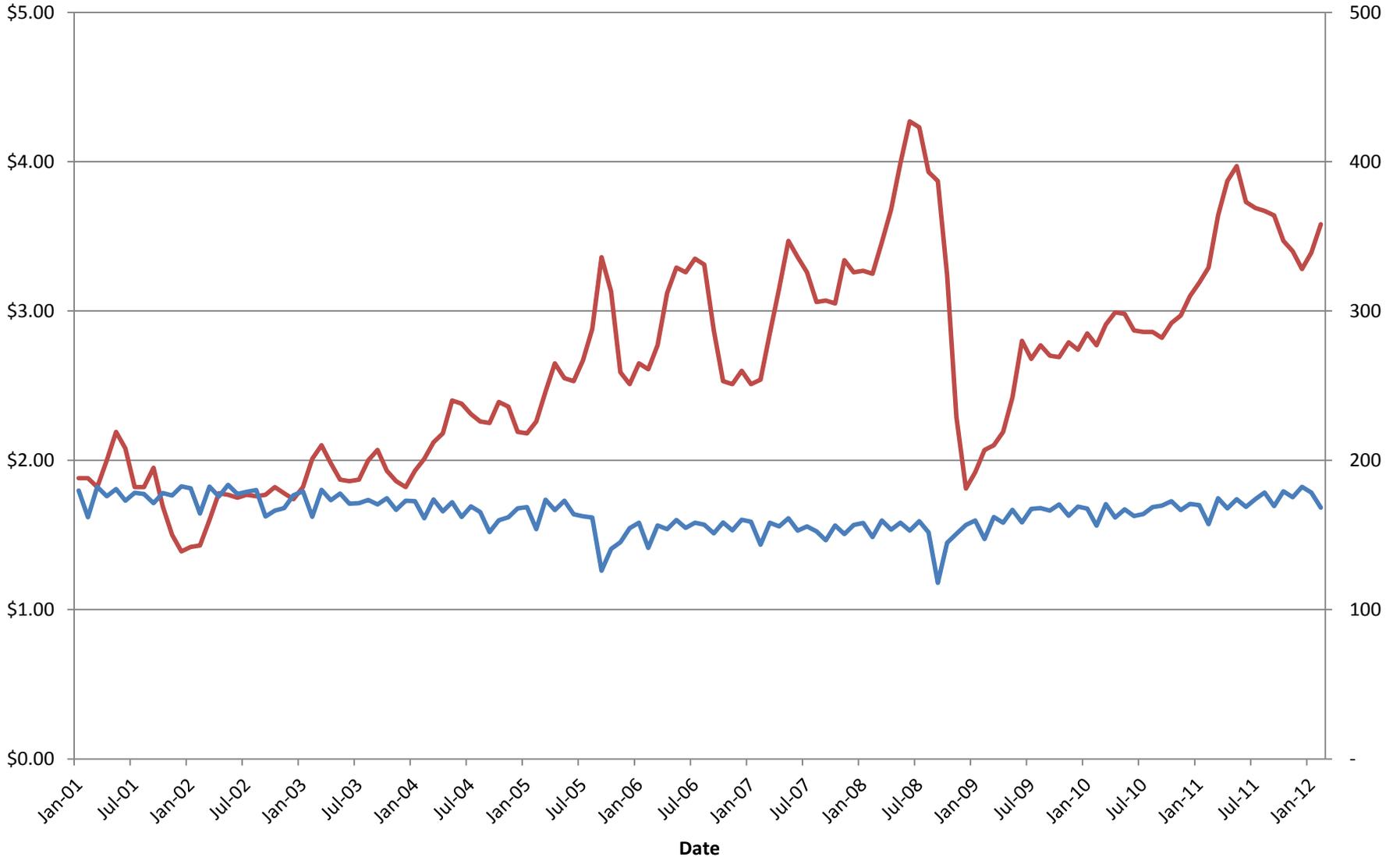
⁴ P. 30

Oil production vs. gas prices

Gas prices, in
2012 dollars

U.S. Production, in
Millions of Barrels
of Oil

Gas prices (unleaded regular) U.S. oil production



Source: Associated Press Report