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Testimony on
"Tapping America's Unconventional Oil Resources for Job Creation and Affordable Domestic Energy: Technology and Policy Pathways"

House Committee on Science, Space, and Technology
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Chairman Hall, Ranking Member Johnson, and members of the committee, thank you very much for the opportunity to testify today on "Tapping America's Unconventional Oil Resources for Job Creation and Affordable Domestic Energy: Technology and Policy Pathways."

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.

In my testimony, I will address the impacts that new technologies and the expansion of domestic oil supply may have on oil and gas markets in the near-term; some of the factors that determine the price of gasoline at the pump; policy and technology pathways that may lessen the impact of high energy prices on consumers; and the ways environmental and workforce safeguards have impacted domestic oil production and prices in recent years.

I will also address some valuable recommendations by the National Petroleum Council in its report, "Prudent Development: Realizing the Potential of North America's Abundant Natural Gas and Oil Resources."

The impact of new technologies on oil supply and prices

Oil price set on a global market

The most important contributor to high gasoline prices is high oil prices. The Energy Information Administration estimates that the cost of crude oil was 72 percent of the cost of a gallon of gas in February 2012. The price for a barrel of West Texas Intermediate crude oil was 3 percent higher in March 2012 compared to March 2011. Brent crude oil—a lighter, sweeter oil sold in Europe but often used to produce gasoline on the East Coast—was 9 percent higher compared to a year ago.

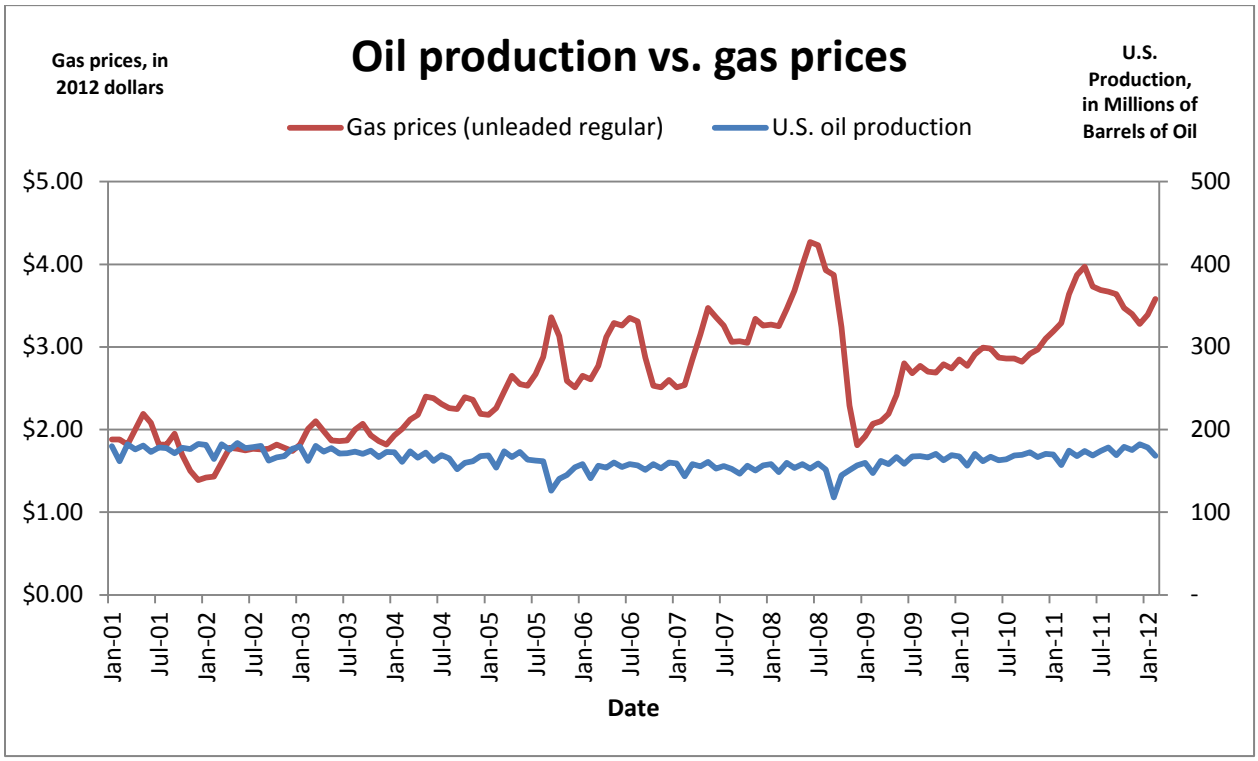
Oil prices are set on the global market, which is controlled by the Organization of Petroleum Exporting Countries, a cartel. The Federal Trade Commission found that:

> 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.

AP study determined that expanded domestic production 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 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.

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

High oil and gasoline prices exact a real economic toll on American families and businesses. In 2011 Americans paid an average of $3.53 for a gallon of gas, and the high prices continue this year. Gasoline averaged $3.94 per gallon through the week of April 9. This is a 63-cent increase—a 19 percent bump—since January 2. Average weekly gasoline purchases this year are 4 percent lower than they were a year ago, yet families still spent $5.5 million more on gasoline the week ending April 9 than they did the week ending January 2.

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 modern vehicle fuel economy standards adopted by President Barack Obama in 2009—the first increase in more than 20 years. By 2016 the average car will use one-third less gasoline per mile compared to cars in 2010. The second round of standards will double fuel economy to 54.5 miles per gallon in 2025 compared to 2010. This will reduce

oil consumption by 2 million barrels per day. The typical owner of a 2025 model car will spend $8,000 less on gasoline compared to an owner of a 2010 vehicle.

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* reported in March that, "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 generated 3.7 quadrillion Btus of energy from crude oil produced from federal lands and waters compared to 3.3 quadrillion Btus in 2008—a 12 percent increase in production. And 2011 production from federal areas was higher than it was from 2006 through 2008 during the George W. Bush administration. What's more, the oil rigs in federal waters met significantly more protective worker and environmental-safety standards than before the BP oil tragedy in 2010.

A March 20, 2012, Congressional Research Service report reiterated the increase in oil production on federal lands under President Obama:

> On federal lands, there was also an increase in production from 2008-2009 and another increase in 2010 (258,000 b/d [barrels per day]), then a decline in 2011. Overall, oil production on federal lands is up slightly in 2011 when compared to 2007.

Similarly, the Columbia Journalism Review on March 22 reported that,

> The average productivity on federal land and waters during the four Bush years, 2003-2008, was 634 million barrels per year. During the three Obama years, 2009-2011, it was 676 million barrels.

In other words, average annual oil production from federal lands and waters was 5 percent higher under President Obama than it was under President Bush.

The increase in oil production—due horizontal drilling and hydraulic fracking in places such as the Bakken Shale in North Dakota and Eagle Ford in Texas. These technologies were developed with federal research dollars, and benefit our security and economy. Last December the Washington Post reported that

> There's no denying the extraordinary economic return on taxpayer investments. Shale gas is likely to allow the United States to go from net gas importer to net gas exported over the next decade.

Producing more and using less oil reduces foreign oil imports and our trade deficit, creates jobs, saves families money on gasoline bills, and boosts economic growth by spending more oil dollars at home.

More domestic production from these new shale oil plays will not lower oil prices because prices are set on the world market. As long as oil prices remain high, so will gasoline prices.

The cause of high oil and gas prices

Presidents have little impact on gasoline prices

Because of this global, cartel-controlled market, the president of the United States has little control over oil prices. A March 10 *Wall Street Journal* article noted that,

> U.S. gasoline prices, like prices throughout the advanced economies, are determined by global market forces. It is hard to see how Mr. Obama's policies can be blamed.

The Cato Institute, a free-market think tank, came to a similar conclusion in early March:

> Is President Obama responsible for the spiraling price of gasoline? Republicans say yes, but the facts say no. … Why have gasoline prices increased since the start of the year? The simplest explanation is that the price of crude oil has increased.

Worldwide trends don't suggest high oil prices

Domestic oil production is high, and demand is low. Yet oil and gasoline prices are high. We know that oil markets don't follow normal supply-and-demand rules partly because there are few substitutes for oil, and also because its price is set by the OPEC cartel. We also know that there are other factors that contribute to oil prices in a world market such as concerns about potential supply disruptions due to natural disasters or political turmoil in the Persian Gulf. But even when we take all the normal factors into account, it doesn't add up.

Worldwide trends don't offer much of a clue, either. The Energy Information Administration reports that worldwide consumption in the first quarter of 2012 is essentially unchanged from the fourth quarter of 2011, though it is about 1 percent higher than a year ago. Yet the April 10 price of West Texas Intermediate crude oil—sold in the United States—was $101 per barrel. Brent oil on the European market was $120 per barrel—or 5 percent higher than last year.

There have been some relatively minor supply disruptions in Syria, South Sudan, and Yemen, according to a February 2012 report by the Energy Information Administration. Libyan production is also at 81 percent of its pre-civil war capacity. And Saudi Arabia—the world's largest oil producer—has raised its output by about 600,000 more barrels per day than in 2011. Despite great tensions with Iran over its nuclear weapons program, there has not yet been a supply disruption in the Persian Gulf.

Canada is seeing inexplicably high gasoline prices too. *The Edmonton Journal* on March 30 reported that,

> Canadians are paying some of the highest prices they ever have for gasoline, even though the amount that fuel makers pay for the crude oil that goes into making it has been in decline for months. … Data from Statistics Canada on Thursday showed the price processors pay for crude oil fell 2.4 per cent in February from January, but the cost of gasoline from refiners rose 3.9 per cent. It was third straight month crude oil prices have declined and second straight month gasoline prices have increased.

Wall Street speculators are driving up world oil prices

On February 14 Bloomberg Businessweek noted that "rising gas prices: not demand driven." It cited Tom Kloza, chief oil analyst for the Oil Price Information Service, who says that speculators are helping to increase oil prices, and, in turn, gas prices:

> Much of the increase [in oil prices] 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."

Further, a February 21 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, torqueing 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.

Wall Street speculators' role in 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. He also noted that nearly all of these speculators' trades are betting on higher, not lower, oil prices. Chilton recently said that, "CFTC data says that massive passive long speculators have shorts outnumbered 12 to one."

On March 5 *The Washington Post* reached a similar conclusion about speculation in current and previous oil price shocks:

> 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.

Even oil executives 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."

In fact, at the time of the hearing WTI crude oil was selling for $98 per barrel—40 percent to 63 percent more than Tillerson's predicted range.

To decrease the impact of Wall Street speculators on oil and gasoline prices, the Commodity Futures Trading Commission must use the tools at its disposal to crack down on them. It must use its authority to set "position limits" to restrict the amount of oil Wall Street speculators can control in the market. In addition, Congress must ensure that the commission has the money needed to put enough cops on the beat to enforce the law. Those who would cut commission funding are in effect helping Wall Street speculators drive up oil and gasoline prices.

Are oil companies rigging gasoline prices?

How can this discrepancy be explained? Even some leading oil experts express bewilderment about high oil prices. Reuters just reported that oil specialists found that high oil prices are inconsistent with current levels of supply and demand:

> The reality today is that the market is well oversupplied. OPEC production has been rising consistently since September and will probably continue rising further," said Colin Smith, energy strategist at VTB Capital.

Similarly, on April 2 *The Wall Street Journal* determined that,

> "There is no shortage of crude oil in the global markets and current prices aren't justified by demand-supply fundamentals," Qatar's energy and industry minister said Monday, easing concerns over supply constraints.

> "Oil producers are committed to supplying. When you look at demand-supply, there is no evidence of a shortage of oil anywhere in the world," Mohammed Bin Saleh Al Sada told reporters. "When it comes to price … there are so many elements—not necessarily part of fundamentals of supply and demand—but other factors."

Many Americans believe Big Oil companies are responsible for these "other factors" and suspect these giant corporations have rigged gasoline prices in their favor. Could they be on to something?

Certainly oil companies have an incentive to support high gasoline prices. A March 1, 2012, report by the Congressional Research Service determined that higher gasoline costs

> Yield a windfall for crude oil producers because the rise in gasoline prices is driven primarily by higher crude oil prices.

Further, a Center for American Progress analysis compared five years of gasoline price data with quarterly Big Oil profits and found that a 1-cent increase in gasoline prices led to $200 million in profits for the largest oil companies (on a quarterly basis).

To be sure, there is no smoking barrel that demonstrates Big Oil is rigging the game to raise gasoline prices. But many of the actions they've taken have the suspicious effect of boosting prices. The following factors suggest that Big Oil companies, with help from Wall Street

speculators, are taking steps that tilt the gasoline-price playing field in their favor, which in turn increases costs for middle-class families:

- The five biggest oil companies made record profits in 2011, as average annual nationwide gasoline prices hit a 36-year high. Yet these companies also produced less oil.
- Every 1-cent increase in gasoline price yields $200 million in profit (on a quarterly basis) for the largest oil companies.
- U.S. exports of refined petroleum products doubled in the past five years.
- Oil companies are holding thousands of unexplored or undeveloped leases in federal lands and waters.
- Oil companies are also closing refineries, threatening to slash fuel supplies.
- Big Oil companies will receive $40 billion in unnecessary tax breaks over the next decade.
- Wall Street speculators are trading twice as many oil futures as commercial end users.

For more information about each of these factors, see the Center for American Progress report "Are Oil Companies Rigging Gasoline Prices?"

Americans have a right to be suspicious that the gasoline game is fixed. Right now we have more domestic production, less demand, and no major supply disruptions, which should ease gasoline price pressure. Yet Big Oil companies are making higher profits, lowering production, sitting on thousands of unused leases, exporting more refined products, and shuttering refineries, which, combined with excessive Wall Street speculation, are all energy industry actions that tend to boost gasoline prices. Clearly the $40 billion of Big Oil tax breaks are wasted revenues that could be invested in technologies that reduce oil use, and which would lower families' spending on gasoline.

Policies that could reduce gas prices

Support investments that reduce oil use

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. We consume 20 percent of global annual supply but we only have 2 percent worldwide reserves. The ultimate path to long-term relief is to dramatically reduce our reliance on oil. The most effective way to reduce pain at the pump is to reduce our oil use so that we pump less.

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 efficient, 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 these pleas 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 new electricity-powered vehicles. The Volt was named "2011 Motor Trend Car of the Year." During its first year of production, its combined sales were twice as large as the now-familiar Toyota Prius and Honda Insight hybrids in their first years.

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. In March Chevrolet sold more Volts than in any previous month. Despite GM's temporary halt in production so as to sell some existing inventory, it still plans to sell 45,000 Volts in 2012—six times more than last year.

Despite the Volt's recognition as an innovative, impressive vehicle, it has suffered attacks from conservatives, who sound like they are rooting for General Motors to fail, even though this plug-in hybrid technology could dramatically reduce oil use and pain at the pump. These condemnations are equivalent to assaulting the first cell phones, desktop computers, or iPads for being too big, too expensive, or too limited—common concerns with brand new game-changing technologies. Those who criticize the Volt in their attempts to score political points should be ashamed of their attacks on American ingenuity and innovation.

The Volt and other innovative American oil savings technologies require enhanced infrastructure to speed their adoption. There is a long history of government support for the infrastructure that is essential to grow pioneering technologies, from FM radio to telephones. Electric vehicles would likewise benefit from such assistance with recharging infrastructure. The Electric Drive Vehicle Deployment Act of 2011, H.R.1685, sponsored by Reps. Judy Biggert (R-IL) and Ed Markey (D-MA) would provide financial assistance to states for the deployment of electric vehicles.

Investments in buses, subways, and trains can also reduce our dependence on oil and create jobs. Public transportation saves the United States 900,000 automobile fill-ups per day, which equals 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 also 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.

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

The House-passed FY 2013 budget resolution, authored by Rep. Paul Ryan (R-WI), would worsen pain at the pump by slashing billions of dollars of investments in transit, alternative fuels, and clean energy technologies that would reduce oil consumption. Such investments help protect middle-class families from volatile energy prices and create jobs. Instead, the budget would retain $40 billion in tax breaks for Big Oil.

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.

Selling some reserve oil could provide temporary relief

The Wall Street Journal, Cato Institute, and a survey of economists by the University of Chicago Booth School of Business, noted that President Obama's policies cannot affect gasoline prices. There is a proven tool, however, that can provide some temporary relief from high prices in the short term. Selling a small amount of oil from the Strategic Petroleum Reserve in coordination with sales from International Energy Agency reserves could immediately expand the world oil supplies by millions of barrels over a month or two.

The Strategic Petroleum Reserve is 96 percent full. Selling a small amount of reserve oil in conjunction with our allies—say 45 million barrels each—would still leave the reserve 90

percent full. It's important to note that the 104th Congress under then-Speaker of the House Newt Gingrich sold 28 million barrels of reserve oil in 1996 to reduce the budget deficit when the reserve was less than 80 percent full.

Selling SPR oil can temporarily lower oil and gasoline prices by bursting the "bubble" caused by Wall Street speculators betting that oil prices will continue to rise due to fears of supply disruption in the Persian Gulf. Such a sale has occurred under the past four presidents and has lowered oil and gasoline prices every time. This can cut prices and burst the bubble—even recent rumors of a reserve oil sale reduced prices. On March 15 Bloomberg reported:

> Oil [prices] fell … on reports that President Barack Obama discussed a release from the U.S. Strategic Petroleum Reserve with UK Prime Minister David Cameron.

Crack down on Wall Street speculators

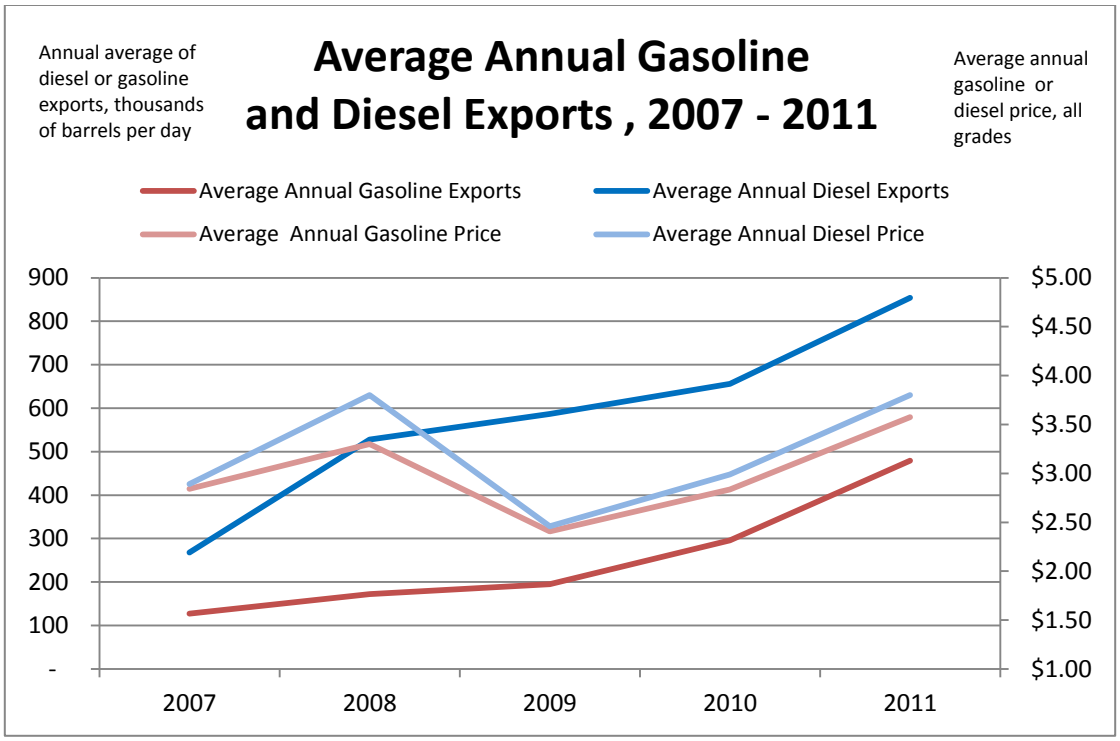
Another measure that would lower oil and gasoline prices would be to lessen Wall Street speculators' ability to drive up prices. Many experts believe that these speculators—who never intend to take possession of the oil whose contracts they buy—are driving up oil prices to make a quick profit, preying on the fears of commercial end users who attempt to lock in a favorable future price.

Higher gasoline exports raise gasoline prices?

While imports are down, exports of refined petroleum products are up. In 2011 the United States exported an average of 2.9 million barrels per day of petroleum products and was a net exporter for the first time since 1949. The Energy Information Administration reports that gasoline exports were more than 62 percent higher in 2011 compared to 2010, and the Congressional Research Service recently determined that gasoline exports continue to grow in 2012.

Gasoline exports are 7 percent of gasoline production in 2012, up from 5 percent in 2010. As of March 30, 2012, the United States exports an average of 956,000 barrels of diesel per day. This is a 46 percent increase from the annual average for 2010, when we were exporting 656,000 barrels a day.

Big Oil companies are largely behind this export boost, selling significantly more gasoline and diesel fuels to other nations. On March 27 *The Wall Street Journal* reported two of the big five oil companies—ConocoPhillips and Shell—are "more focused on exporting U.S.-produced fuel to markets where there is greater demand." Energy Information Administration data indicates that gasoline and diesel exports rose as their prices rose. (see graph)



The Energy Information Administration notes that "record gasoline exports do not appear to be driving gasoline prices." But it also points out that "Gulf Coast refiners have a competitive advantage in some world markets." These companies make more money exporting refined products to Europe and South America than by to selling them to American citizens.

Gulf Coast refiners use West Texas Intermediate crude oil, which is now typically $18 to $22 cheaper per barrel than the Brent crude, which is used by European refiners. This makes U.S. refined fuels cheaper compared to European products. Although the Energy Information Administration did not find a direct link between exports and higher gasoline prices, exporting fuel rather than selling it here could deprive us of inventory that could help ease price pressure.

The export of crude oil produced in the lower 48 states is already effectively banned. Limiting exports of refined products from petroleum produced from public lands or waters—as some have proposed—could increase the supply of gasoline and diesel fuel here and potentially reduce prices.

Rep. Markey just introduced a bill in the House to prevent the export of refined products made from oil produced in publicly owned lands or waters. It is the "Keep America's Oil Here Act," H.R. 4325. Rep. Markey noted that,

> The oil below taxpayer-owned lands belongs to the American people, and should stay here in America to help American consumers and strengthen our national security.

The United States had a ban on the export of crude oil produced in the north slope of Alaska from 1973–1995. Instead, this oil was sent to the West Coast, increasing supplies there. In 2005

the Congressional Research Service found indicators that West Coast gasoline prices were lower during the export ban:

> When Alaskan oil exports ceased, the gasoline price differential between the West Coast and the national average did decline, at least for a few years.

It is unclear whether a new ban on exports of products refined from oil from public lands and waters would make a significant difference in gasoline prices, as the Alaskan ban seemed to do for at least some time. The Congressional Research Service wrote that,

> To what degree prohibiting gasoline exports would reduce prices is unclear. Some contend that there may be a decline in gasoline prices if gasoline exports were restricted. Others [such as the American Petroleum Institute] suggest there will be no decline in gasoline prices if such measures were adopted.

But certainly an additional domestic supply of gasoline and diesel produced from American oil on our soil and in our waters would not raise prices—and it might just lower them. The bottom line is that it makes little sense to send to other countries refined fuels made from oil produced on federal lands and waters at a time of rising gasoline prices.

The impact of public health and work safety standards on price

After BP tragedy, new safety measures adopted while drilling returns to normal

The BP Deepwater Horizon disaster was the worst offshore oil spill in the nation's history. It tragically took the lives of 11 men, and 210 million gallons of oil bled into the Gulf of Mexico, with a long-term economic and biological impact that is still unknown. Gulf Coast residents and businesses have or will receive a total of at least $22 billion in compensation for economic harm from this disaster.

In the wake of this unprecedented calamity, the U.S. Department of the Interior called a time-out on offshore drilling to make sure that there were no other tragedies waiting to happen. The bipartisan National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling conducted a thorough investigation of this disaster and essentially concluded that this time-out was a vital step:

> The immediate causes of the Macondo well blowout can be traced to a series of identifiable mistakes made by BP, Halliburton, and Transocean that reveal such systematic failures in risk management that they place in doubt the safety culture of the entire industry.
>
> Deepwater energy exploration and production, particularly at the frontiers of experience, involve risks for which neither industry nor government has been adequately prepared, but for which they can and must be prepared in the future.

> To assure human safety and environmental protection, regulatory oversight of leasing, energy exploration, and production require reforms even beyond those significant reforms already initiated since the Deepwater Horizon disaster.

The Department of the Interior has adopted a number of reforms to enhance worker and drilling safety, as well as "continu[ing] to process permits to drill as efficiently as is safely possible." Since October 12, 2010, the Bureau of Safety and Environmental Enforcement approved 84 percent of the new and revised deep-water well permits.

Even with the new safety measures, offshore oil rigs are returning to their pre-BP disaster numbers. On April 10 Reuters reported that,

> Gulf of Mexico oil drillers will be busier this year than at any point since the BP oil spill in 2010 that upended their industry and soiled their reputation along with parts of the marshy Louisiana coast.
>
> Eight more deepwater rigs are expected in the Gulf this year, based on what oil companies tell contractors … Such an influx would bring the active deepwater [rig] count to 29, just short of the level before the well blowout two years ago this month that killed 11 people.

While the Obama administration has taken strides to improve the safety of offshore drilling, Congress has not. It is irresponsible that the liability limits for economic damages from offshore oil spills remains an embarrassingly low $75 million. This is less than 0.5 percent of the $13.8 billion BP has already paid in claims for damages from the Deepwater debacle.

Put another way, in 2011 the big five oil companies earned $137 billion in profits—the $75 million appropriated by Congress represents about five hours of profits for these corporations. A higher liability limit would further encourage companies to more closely follow safe operating procedures. This unconscionably low limit is completely insufficient to change behavior.

As previously noted, it is important to remember that there was more oil produced from federal lands and waters in 2011 than in any of the last three years of the Bush administration—and these rigs are safer now, too. It is fairly clear that these safety measures have had no impact on high oil and gasoline prices.

Allowing more pollution from gasoline won't lower gasoline prices

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 contaminants produced by gasoline combustion such as nitrogen oxides and volatile organic compounds that form ground level ozone (smog) in the presence of sunlight. The American Lung Association warns that ozone causes "increased risk of premature death," "asthma attacks," and "increased susceptibility" to heart- and lung-related problems. Children, seniors, and those with respiratory ailments are most vulnerable to harm from smog.

According to an EPA analysis, abandoning these cleaner gasoline rules might reduce gasoline costs by only a few cents per gallon but would increase the 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 worker productivity.

The Congressional Research Service recently concurred that relaxing these clean fuel standards would require other polluters to make steeper, more expensive pollution reductions:

> Relaxing these standards long-term may require states that use special blends as part of their plan to meet NAAQS [National Ambient Air Quality Standards that protect public health] to come up with alternative—potentially more commercially costly—means to meet air quality targets.

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 Steele City, Nebraska, 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 [per barrel].

This level of reduction translates to roughly a penny and a half per gallon of gasoline.

In addition, the State Department 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 XL to Gulf Coast refineries will be made into products for export rather than kept here for American drivers. At a December 2, 2011, hearing before a subcommittee, Rep. Markey 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—and 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 all or some of the oil sands can 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 publicly announced. 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.

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. The Energy Information Administration found that opening up the currently protected Atlantic and Pacific coasts won't have an impact on price. The administration 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 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, a resident scholar with the conservative think tank American Enterprise Institute, explained that crude oil is a global commodity whose price will be unaffected by new U.S. production. In 2011 Greenwire reported that Green said,

> 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.

The National Petroleum Council safety recommendations would increase support for production

The National Petroleum Council report, titled "Prudent Development," has critical recommendations that would increase the ability of Big Oil and gas companies to produce resources without harming public health, hunting and fishing, and other environmental values. It noted in its letter to Secretary of Energy Steven Chu that,

> Positive outcomes of increased North American natural gas and oil resources can only be realized if developed prudently.
>
> Realizing the benefits of natural gas and oil depends on environmentally responsible development … in all circumstances.

The report describes "environmentally sustainable" in broad terms to include well construction and operation, wastewater disposal, truck traffic and emissions, and land use. It notes that,

> Environmental sustainability encompasses impacts such as air and water pollution that directly affect public health, as well as these and other impacts affecting ecosystem vitality, biodiversity, habitat, forestry, and fisheries' health, agriculture and the global climate.

The pollution from surface activities could have serious impact in areas far beyond the well pad. For instance, a peer-reviewed study in the *Proceedings of the National Academy of Sciences* released on April 9 determined that methane pollution from natural gas production and use could be greater than originally understood. Joseph Romm wrote in *Climate Progress* that,

> Methane [is] a very potent greenhouse gas, though with a much shorter lifetime in the atmosphere than CO2, which is emitted by burning fossil fuels like natural gas. Recent studies suggest a very high global warming potential (GWP) for CH4 vs. CO2, particularly over a 20-year time frame.

The PNAS study reported that, "it appears that current [methane] leakage rates are higher than previously thought" and "reductions in ch4 leakage are needed to maximize the climate benefits of natural gas." This is the type of problem that the National Petroleum Council believes that government must help address through more research, establishment of science-based pollution reduction standards, and vigorous enforcement of them.

The council also strongly advocates a greenhouse gas pollution reduction regime. The United States, it argues, needs a, "mechanism for putting a price on greenhouse gas emissions that is economy-wide, market-based, predictable, [and] transparent."

Finally, the council noted that an essential element of protecting public health and the environment is ensuring that federal and state agencies overseeing shale oil and gas fracking have the resources necessary to enforce the law. It says that,

> Regulators at the federal and state level should have sufficient funding to ensure adequate personnel, training, technical expertise, and effective enforcement.

Sustainable production is an essential element in efforts to dramatically expand the production of shale oil and gas. As you know, a major blow-out or spill on land could quickly sour public support for production of these newly available resources. In addition to threatening public health and local economies, such an event could taint other companies conducting similar operations even if they comply with safety rules and employ best practices.

Unfortunately, the hired advocates for these companies frequently argue for the opposite—the weakest, narrowest possible protection standards, claiming that its multibillion-dollar member companies cannot afford to fully protect public health and safety. This argument lacks credibility when the big five oil and gas companies made $1 trillion in profits from 2001 to 2011. When oil that costs an average of $15 per barrel to produce sells for $100 per barrel, a small increase in production costs to protect people from toxic chemicals in their air and water, deadly diesel particles, and an increase in climate change pollutions is a cost-effective investment.

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.