Senate Republican Conference

Recess Packet

SENATE REPUBLICAN CONFERENCE
Lamar Alexander, Chairman
John Cornyn, Vice Chairman

SENATE
REPUBLICAN
CONFERENCE

110th Congress

LAMAR ALEXANDER, CHAIRMAN

Dear Colleague,

This has been a very challenging session, with the economic crisis facing our country and other issues. I hope the work we've done over the past few days will help restore confidence in our economy and get America moving again. As we head into the autumn work period, we must continue to focus on the challenges facing our economy, as well as the high energy costs burdening millions of American families.

To assist you in your messaging efforts, the Senate Republican Conference staff has prepared a recess packet on energy and the economy that includes messaging points, suggested events to hold in your state, and policy background information. The packet also includes some brief materials contrasting our efforts in the 110th Congress with those of the Democratic majority. I hope you and your staff find this information useful as we reassure the American people that Republicans will do everything we can to restore the vibrancy of our economy and lower the price at the pump.

If you need assistance during this work period, feel free to contact me, or your staff may contact the Conference office at 202-224-2764.

I look forward to working with you when we return.

Sincerely,

Lamar

Energy

Republicans Ready to Act, Democrats Won't

Economics 101: Supply and Demand

- Supply of oil is not growing as fast as demand
- So prices are going up

Democrats Ignore Supply

- Ignore half the law of supply and demand
- Focus only on using less
- Propose begging Saudi Arabia for more oil
- Say “No, we can’t” to more American energy

Republicans will do BOTH

- Find more energy at home – offshore, shale, biofuels, renewables
- Use less foreign oil – plug-ins, fuel efficiency, green buildings
- Say “Yes, we can” to more American energy

Time to Act

- Let's begin today
- President Kennedy: 10 years to get to the moon
- Once we start, speculators will get nervous
- Prices will stabilize

Find More, Use Less

$4 per gallon gasoline hurts Americans

• Squeezing family budgets

• Stressing communities and businesses

• Threatening jobs

Find More

• Deep sea exploration

• Western oil shale

• Advanced biofuels

• Renewables: wind, solar, geothermal

Use Less

• Plug-in electric and hybrid cars and trucks

• Fuel efficiency standards

• Green buildings

• “Smart” electric meters

Real Results

• Lower gas prices

• More energy independence

• Stop sending billions of dollars to the Middle East

Gas Price Reduction Act

Find More, Use Less

Promote Deep Sea Exploration for American Oil and Natural Gas

- Allow states to explore for deep sea oil and natural gas 50 miles or more from the coast.
- Could provide America with billions of barrels of oil and boost state budgets by billions of dollars for conservation.
- With two-thirds of Americans now in favor of deep water exploration, it's clear that Americans would rather get oil from Virginia than from Venezuela.

Tap America's Vast Western Oil Shale Resources

- American oil shale resources could provide our country with over 800 billion to two trillion barrels of oil, more than three times the reserves of Saudi Arabia.
- Repeal a federal moratorium on the Department of Interior's development of oil shale regulations so Americans can have the option of getting their oil from states like Wyoming, Colorado, and Utah rather than from Middle Eastern countries seeking to do us harm.

Use Less Gasoline and Diesel with Plug-In Electric Cars and Trucks

- Increase use of plug-in electric cars and trucks to use less gasoline and diesel fuel. With plug-in vehicles, the first 40 miles of travel can be powered by electricity before the combustion engine kicks in.
- Increase research and development for advanced batteries to maximize electricity range and use less gas.
- Provide direct loans for advanced battery manufacturing facilities.
- Encourage the federal government to increase its purchases of plug-in hybrid vehicles.

Strengthen U.S. Futures Markets

- Address speculation through increased transparency in energy futures markets.
- Authorize increased funding and staff for the Commodity Futures Trading Commission (CFTC).
- Direct the President's Working Group on Financial Markets to study the international regulation of commodities markets.
- Codify CFTC action on position limits and transparency for foreign boards of trade.
- Require the CFTC to gather information on index traders and swap dealers.

Access to Drilling Polling Results

73% of Americans believe that given new advances in technology, we can increase drilling for oil and natural gas off the coast of the U.S. and still protect the environment.

--Taken September 24, 2008, this bi-partisan survey of 1,000 registered voters was conducted by the team of Tony Fabrizio, Fabrizio, McLaughlin & Associates and Keith Frederick, Frederick Polls.

CNN/Opinion Research Corporation Poll. Aug. 29-31, 2008. Adults nationwide.

"How do you feel about increased drilling for oil and natural gas offshore in U.S. waters? Do you strongly favor, mildly favor, mildly oppose or strongly oppose increased offshore drilling?" N=521, MoE ± 4.5 (Form A)

	Strongly Favor	Mildly Favor	Mildly Oppose	Strongly Oppose	Unsure
	%	%	%	%	%
8/29-31/08	52	22	11	13	1
7/27-29/08	46	23	12	18	-
6/26-29/08	48	25	15	12	1

"Do you favor or oppose allowing drilling for oil in the Arctic National Wildlife Refuge in Alaska?" **N=510, MoE ± 4.5 (Form B)**

	Favor	Oppose	Unsure
	%	%	%
8/29-31/08	59	39	2

CBS News/New York Times Poll. Aug. 15-19, 2008. N=1,012 adults nationwide. MoE ± 3. RV = registered voters

"Would you favor allowing increased drilling for oil and natural gas off the U.S. coast, or do you think the costs and risks are too great?"

	Favor	Costs, Risks Too Great	Unsure
	%	%	%
8/15-19/08	62	28	10
7/31 - 8/5/08 RV	64	28	8

20 Ways to Get Your Energy Message Out This Fall

With high gas prices continuing to dominate the news cycle, events you host in your state will give reporters a local angle to the story. If you need assistance setting up a local event, the Senate Republican Conference staff is available to consult with your staff.

1. Tour your state as part of a "High Gas Prices Tour"

Senators George Voinovich and Kit Bond have both held statewide tours to talk directly to constituents about efforts to lower gas prices. Packaging energy events as a "tour" will show the public that high gas prices are your top priority. You could even drive an electric or hybrid car to reach stops on the tour. Some stops to consider making on the tour could include:

- Police station or fire department
- Rail or bus station
- Truck stop
- Family farm
- Manufacturing facility
- Family-owned restaurant
- Food bank
- Gas station that has run out of gas

2. Highlight constituents who are doing their part to "Use Less"

Each month, Senator Richard Lugar profiles a student, professional, scholar, or member of the business community who has demonstrated leadership and initiative in taking concrete action to reduce America's dependence on foreign oil. In addition to having their profiles posted on Senator Lugar's website, Lugar Energy Patriots receive a certificate and a letter of congratulations. Following the announcement, your office can send out a press release to the local paper announcing how innovative the person has been in using less energy.

3. Visit a business to talk about conservation

Senator Mel Martinez visited a UPS facility in Central Florida to discuss ways the company is using less energy. This gave Senator Martinez a chance to discuss ways that constituents can reduce their demand for energy through conservation efforts.

4. Hold an energy forum in your state

Set up the forum to look like an official hearing. Bring in experts to talk about conservation, alternative sources of energy, and the need for more domestic energy. Let the experts do a short speech and take questions from audience members. Invite the press and do interviews following the forum. Conference staff can help your office secure Administration experts to speak at events in your state.

5. Schedule time to call in to radio stations throughout the state

During rush hour, you have a captive audience who will be very interested in hearing about your efforts to lower gas prices. Senator Chuck Grassley dominates Iowa radio by reaching out on a consistent basis to radio talk shows. Utilize this format by scheduling calls to multiple stations in all markets across your state to maximize your visibility on this issue. If you alert the Conference office in advance, the segment can be recorded for your office to post on your website.

6. Solicit and share your constituents' stories about high gas prices

Reach out to your constituents and ask them to tell you their stories about how the rising cost of energy is affecting their daily lives. Share these personal stories at every event you attend. Senator Mike Crapo e-mailed constituents and got hundreds of responses that he mentions in media interviews to add a personal angle to why he is fighting to lower gas prices.

7. Write on op-ed on high gas prices

Submit an op-ed to state newspapers talking about the impact of high gas prices on the family budget and the ways you have been working to lower energy costs for your constituents. Senator Roger Wicker wrote one for the *Natchez Democrat* in Mississippi to talk about the provisions of the Gas Price Reduction Act that will help lower gas prices for Mississippians. Follow up with another op-ed on the need for our country to focus more on conservation and alternatives.

8. Travel with a floor chart that has your top-line messaging

Senator Voinovich traveled around Ohio recently with a floor chart highlighting the Republican top-line message of "Find More, Use Less." At each stop, photographers were able to capture the senator with our winning message behind him. The graphics team in the Conference office can design a chart that can be easily shipped back to your state.

9. Host a roundtable with small business owners

Let small business owners tell you their stories about how high gas prices are affecting them and their employees. Spend the first part of the event listening and then discuss your efforts to help small businesses by lowering gas prices.

10. Test-drive a plug-in electric car or hybrid

Show your commitment to using alternative sources of energy by test-driving a hybrid or electric car. This event creates a great visual for the media and shows your efforts to look beyond oil. When Senator Alexander attended an event in Nashville with hybrid and electric cars, TV and print outlets from across the state covered the event.

11. Tour an alternative energy facility in your state

Set up a visit at a solar, wind, or advanced biofuels facility and meet with the employees who work there. Invite the press along to talk about building a bridge to our country's energy future and how you have supported alternative energy in the Senate.

12. Meet with farmers

Not only can you talk to farmers about how the high cost of gasoline and natural gas is affecting them, but you can also discuss topics like switchgrass and cellulosic ethanol and the importance of looking to new agricultural technologies for fuel.

13. Visit a nonprofit

Organize a visit to your local food bank, Meals on Wheels program, or faith-based organization to talk about how the high price of gas has resulted in a decline of volunteers, a decline in donations, or an increase in costs. Take a tour of the facility and then have a media availability with the leaders of the nonprofit.

14. Visit a university research facility

Meet with academics who are doing research on new energy technologies. This will give you a chance to provide a local angle to the national story.

15. Blogger pen and pad or conference call

This event will give you the opportunity to reach out to bloggers in your state and will give you a chance to talk about how Democrats are opposed to legislation that would lower gas prices. You can also give them a preview of your statewide schedule for August.

16. Highlight the local decline in tourism that could be reversed by lower gas prices

Visit with leaders at a local tourist destination that is suffering because fewer people are traveling due to high gas prices.

17. Hold a tele-town hall

Reach out to areas of your state that you may not be able to be in during the August recess. Let your constituents know about all of the activities you are working on to lower gas prices. For assistance in setting up a tele-town hall, your staff can contact the Conference staff.

18. Meet with local fishermen on a dock

Talk with local fishermen about how the high cost of gas is raising the cost of fuel for boats and taking a toll on their livelihood. Invite the media to a local pier or dock to get the personal story of how the energy crisis is hitting this industry.

19. Host an event at a school

Meet with teachers, principals, and bus drivers to talk about how high gas prices are affecting local school districts. This event will give you a chance to talk about how some school districts are cutting the school week down to four days or reducing bus service in order to conserve energy. This event gives you a chance to have a press availability outside near a school bus for a good visual.

20. Meet with local mayors

Host a roundtable with local mayors to talk about how gas prices are affecting local municipalities and your efforts to lower gas prices.

RPC BULLETIN
U.S. Senate Republican Policy Committee

July 29, 2008

Producing More American Energy: Allow the Senate to Vote for Action to Lower Gas Prices

According to polling data, 77 percent of the American people now support "drilling for oil in the Gulf of Mexico."[1] In addition, when it comes to addressing energy and gas prices, 59 percent of Americans believe that it is incumbent on Congress to "take the lead."[2] Senate Republicans have shown that leadership by putting forward a plan that would produce more energy here at home by utilizing America's offshore resources and oil shale, and that would encourage conservation through the use of hybrids and plug-in vehicles.[3] Unfortunately, Senate Democrats, who have opposed efforts to increase production in the past, are preventing the Senate from voting on this legislation.

Historically, the United States Senate has allowed significant debate and an open amendment process on issues affecting domestic energy production. That has been the case even when Democrats and Republicans held opposing views on this issue. As the charts on the following page demonstrate, the Senate has voted many times over the last 15 years on measures that would encourage or restrict U.S.-based energy production in the Outer Continental Shelf (OCS) and in the Arctic National Wildlife Refuge (ANWR).

As the first chart demonstrates, Senate Republicans have generally supported deep-sea exploration which would have increased U.S. energy production and helped reduce our nation's dependence on foreign oil, while Democrats have generally voted against those measures.[4] Despite these policy differences, the Senate has voted numerous times on the issue, including in 1992 when the price for a gallon of gasoline was $1.01 per gallon, in 2001 and 2003 when the price of gas hovered around $1.50 per gallon, and even as recently as last year and earlier this year as gasoline prices rose from $3.00 to $3.72 per gallon.

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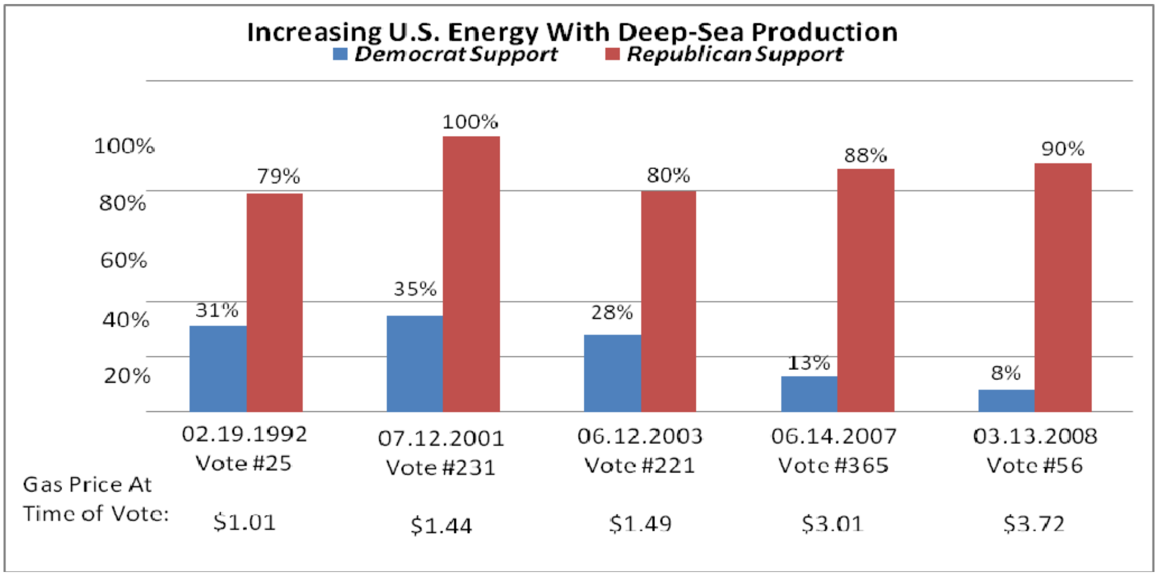
[1] Fox News Opinion/Dynamics Poll, June 17-18, 2008. See: http://www.pollingreport.com/energy.htm

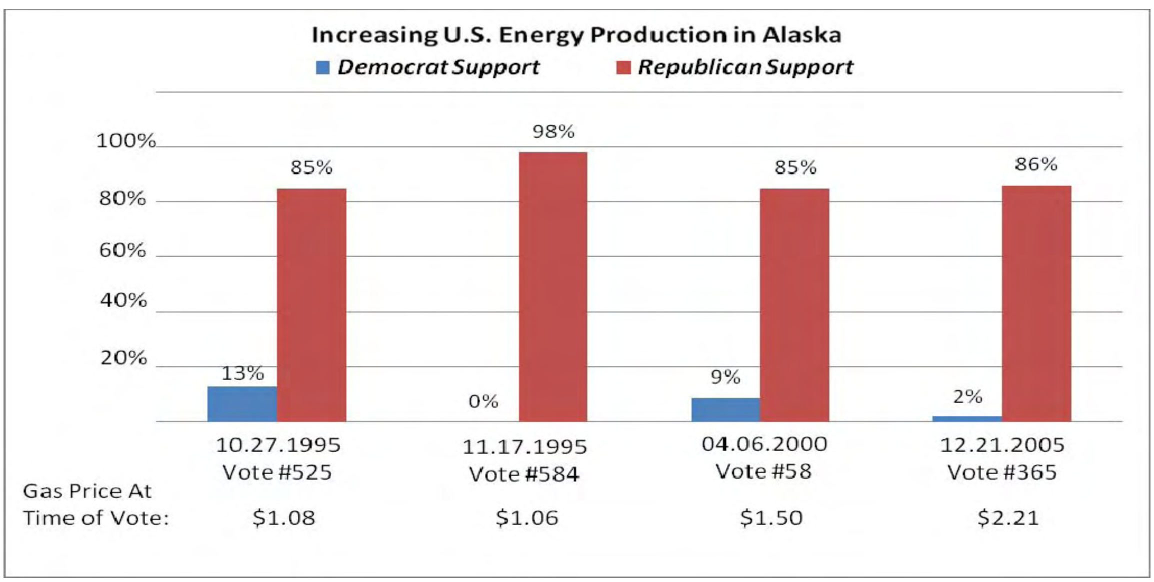
[2] NBC News/*Wall Street Journal* Poll, June 6-9, 2008.

[3] S. 3202, The Gas Price Reduction Act of 2008.

[4] Additional information regarding these votes, and other energy production votes that have occurred between 1992 and 2008, are available from the Republican Policy Committee.



The second chart demonstrates that Republicans have also generally supported increasing domestic energy production in ANWR while Democrats have generally opposed those efforts to increase domestic energy production. This chart reveals that from 1995 to 2005, when the cost of gas ranged from $1.08 to $2.21, the Senate voted numerous times on measures affecting domestic energy production.[5]



These two charts demonstrate that Senators have historically been able to offer and obtain votes on amendments affecting energy production. But today, when the American people are suffering as a result of near record gas prices and the American public supports more exploration, the Senate is being prevented from voting on Republican amendments to increase U.S. energy production.

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[5] Additional information regarding these votes, and other energy production votes that have occurred between 1992 and 2008, are available from the Republican Policy Committee.

exploration, the Senate is being prevented from voting on Republican amendments to increase U.S. energy production.

With Near Record High Gas Prices, Republicans Say "Yes, We Can" to U.S. Energy

What Democrats Have Said:

Democratic leaders have spoken out against not only increasing domestic energy production but also against oil and gas as a whole. For example:

- Senate Majority Leader Harry Reid has said: "Coal makes us sick. Oil makes us sick…. We've got to stop using fossil fuel."[6]
- Senator Richard Durbin said in a colloquy with Senator Patty Murray that drilling "makes the problem worse,"[7] to which Senator Murray replied: "I would say to my colleague that drilling for oil is a false promise…."[8]
- When asked by CNN's Wolf Blitzer during a television interview if she would allow "offshore drilling to come up for a vote on the House floor," House Speaker Nancy Pelosi responded by saying, "I have no plans to do so."[9]
- Senator Robert Byrd said the following after cancelling an appropriations markup after Republican Senators indicated an amendment would be offered to end the congressional production moratorium: "Given the uncertainty in how the oil and gas drilling issue is currently playing out on the Senate floor, I have decided to postpone the July 24th appropriations markups at this time."[10]
- Senator Barack Obama said earlier this month that lifting the federal offshore drilling ban was "another example of short-term political posturing from Washington, not the long term leadership *we need to solve our dependence on oil*."[11]
- The *Washington Post* recently reported that: "[Senator] Schumer suggested that… Congress will not move on a larger energy plan until after the election."[12]

What Democrats Have Proposed:

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[6] *Investor's Business Daily*, "Fossil Fool," July 1, 2008 (quoting Senator Reid in Fox News interview). Available here: http://www.ibdeditorials.com/IBDArticles.aspx?id=299804021452063. See also, *The Wall Street Journal*, "Democrats Against Drilling," July 24, 2008.

[7] Senator Richard Durbin, *Congressional Record*, July 24, 2008, S7212.

[8] Senator Patty Murray, *Congressional Record*, July 24, 2008, S7212.

[9] House Speaker Nancy Pelosi with Wolf Blitzer, CNN's The Situation Room, July 17, 2008.

[10] Senator Robert Byrd, Press Release following cancellation of markup.

[11] *Associated Press*, "Obama Criticizes McCain on Offshore Drilling," June 20, 2008 and *The Hill's Blog Briefing Room*, "Obama & McCain Battle over Offshore Drilling," June 17, 2008.

[12] *Washington Post*, "Oil May Become GOP's 2008 Issue," July 27, 2008.

Despite stating that they support increasing domestic energy production, Senate Democrats have introduced an energy bill that contains no new production. Instead, the majority has brought a "speculation only" bill to the floor with the promise that regulating energy trading would help lower gas prices.[13] Unfortunately, the Democrats' legislation fails to include any provisions to increase domestic energy supplies or which would reduce demand with conservation. In addition, this approach fundamentally fails to treat the real cause of high energy prices. As Warren Buffett has stated: "But it's not speculation, it is supply and demand…. We don't have excess capacity in the world anymore, and that's what you're seeing in oil prices."[14]

<u>What Democrats Have Enacted So Far:</u>

The American people should also keep in mind that not only has this Congress failed to enact policies to encourage domestic energy production, which would result in a corresponding reduction in America's dependence on foreign oil, this Congress has also taken several steps to actively discourage America's ability to produce more energy here at home, namely:

- Enacting a ban on offshore drilling in last year's omnibus appropriations bill;
- Enacting a ban on the publication of final regulations to allow for the production of energy from oil shale in last year's omnibus bill; and
- Enacting a prohibition against federal agencies utilizing fuel derived from synthetic sources, such that the Air Force would be unable to purchase and use fuel derived from coal-to-liquids technology.[15]

Conclusion

At a time when the American economy is suffering and American families are feeling the pinch, Congress is paralyzed by inaction. Senate Republicans have a plan that would ensure the U.S. can "Find More Supply, Use Less Energy." This comprehensive plan, which addresses both supply and demand, has the support of the American people and the support of a majority of Congress. In the past, Congress would have been permitted to vote on amendments that would increase U.S. energy production. Today, unfortunately, congressional efforts to pass this plan so the President can sign it into law have stalled.

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[13] S. 3268, Stop Excessive Energy Speculation Act of 2008.

[14] Warren Buffett, Chairman & CEO of Berkshire Hathaway, interview with Becky Quick, CNBC's Power Lunch,
June 25, 2008.

[15] Public Law 110-161, Consolidated Appropriations Act of 2008 (H.R. 1234) (see sections 104, 105 and 433) and Public Law 110-140, Energy Independence and Security Act of 2007 (H.R. 6).

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SENATE REPUBLICAN POLICY COMMITTEE

July 22, 2008

Senate Republicans: Supplying What the American People Are Demanding – Lower Gas Prices

Executive Summary

- American consumers, family-owned businesses, and the U.S. economy as a whole are suffering as a result of high gas prices.

- High energy prices are a result of increasing global demand in the face of tightening supply, factors driven primarily by China and India's increased demand for petroleum.

- Economic and business leaders like Federal Reserve Chairman Ben Bernanke and Warren Buffett, Chairman and CEO of Berkshire Hathaway, agree that the rise in gas prices is not the result of speculation but rather is a function of supply and demand.

- Senate Republicans have proposed The Gas Price Reduction Act, a comprehensive plan to "Find More, Use Less," which includes provisions to:
  - Increase U.S. based supplies of energy by expanding production from the outer continental shelf and through the use of oil shale.
  - Reduce U.S. demand for foreign oil through conservation efforts such as a shift to plug-in hybrid vehicles that can run on electricity instead of petroleum.
  - Ensure that energy futures markets are operating fairly and efficiently by increasing transparency and by providing for better market oversight.

- By contrast, Senate Democrats do not have a comprehensive plan. Their proposed legislation focuses on "Speculation Only" while doing nothing to increase supply or decrease demand. As a result, the Democrats' plan will not provide America's families with any relief from high gas prices.

- There is only one plan in the United States Senate that will increase supply and lower demand in a way that will provide relief to consumers. That plan is The Gas Price Reduction Act offered by Senate Republicans.

Introduction

The American people are suffering as a result of high energy prices. Today's high energy prices are being caused by the fact that global demand is outpacing available supply. In an attempt to address high prices, two different plans have been proposed in the Senate.

Senate Republicans have proposed The Gas Price Reduction Act, a balanced and comprehensive approach that would address both supply and demand. This bill would help lower gas prices in the short term, ensure that America has enough supply to meet our long term needs, and encourage conservation by reducing demand for oil.[16] At a time when energy experts are saying the cause of high prices is a result of supply and demand, Senate Democrats have put forward a bill that fails to produce one additional drop of oil and also fails to encourage conservation.[17] The Democrats' bill instead focuses only on oil speculation and is, therefore, not comprehensive. Their bill ignores the laws of supply and demand and fails to provide a way forward for American energy security.

The solution to high energy prices requires that America begin finding more supply while using less. An increase in supply can and should come from both traditional and alternative sources. Finding a way to increase supply is not just a matter of energy security; it is also a matter of economic and national security. As a result, the Republican energy bill is the right plan at the right time to solve America's energy crisis.

Rise in Oil Prices Fueled by Growth in Global Demand

America, like other countries, relies on energy to grow the economy and to create jobs. In order to meet our needs, America must buy energy in the global marketplace. The price we pay for energy is affected by both global supply and global demand. In recent years, global supplies have tightened while global demand has risen dramatically. As a result, prices have also increased dramatically.

Global Demand Continues to Grow: Driven by Economic Growth in India and China

According to the Energy Information Administration (EIA), global demand for oil has grown substantially over the past 15 years, fueled primarily by economic growth in India and China. From 1994 to 2007, global demand has grown from about 68.87 million barrels per day (bbl/day) to 85.54 million bbl/day. EIA projects that global demand will continue to increase to 87.76 million bbl/day by 2009.[18]

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[16] S. 3202, the *Gas Price Reduction Act of 2008*.
[17] S. 3268, the *Stop Excessive Energy Speculation Act of 2008*.
[18] http://tonto.eia.doe.gov/cfapps/STEO_Query/steotables.cfm?periodType=Annual&startYear=2005&startMonth=1&endYear=2009&endMonth=12&tableNumber=6. See also, International Energy Agency (IEA), *Monthly Oil Market Stocks Assessment*, June 10, 2008.

China and India's increased demand for energy has grown substantially in recent years and will continue to grow well into the future. In 2008, China's demand for oil is projected to grow by 5.5 percent.[19] Looking into the future, China's demand is projected to continue to grow dramatically. From 2006 to 2030, China's consumption is projected to double to 15.69 million bbl/day and its imports are projected to grow 4 to 5 times higher to 10.9 million bbl/day.[20] Likewise, in 2030, India's consumption is projected to be 4.37 million bbl/ per day, which is nearly double its 2006 consumption of 2.49 million bbl/day.[21]

Economic experts have concluded that limited supply, in the face of this rise in global demand, is the cause of high gas prices. At the same time, these experts have expressed doubt that addressing speculation alone will have a substantial effect on the price of oil. For example, Warren Buffett has said: "But it's not speculation, it is supply and demand…. We don't have excess capacity in the world anymore, and that's what you're seeing in oil prices."[22]

In addition, last week Federal Reserve Chairman Ben Bernanke testified:

> [I]f financial speculation were pushing oil prices above the levels consistent with the fundamentals of supply and demand, we would expect inventories of crude oil and petroleum products to increase as supply rose and demand fell. But in fact, available data… show[s] notable declines over the past year. This is not to say that useful steps could not be taken to improve the transparency… only that such steps are unlikely to substantially affect the prices of oil or other commodities in the longer term.[23]

As a result, American consumers can expect to see sharp increases in gas prices unless worldwide oil supplies are able to continue to keep pace with increasing demand.

Supplies Have Tightened

Uncertainties in global supplies have eroded the expectation that supply can meet global demand. Supply fears have been fueled by EIA's revelation that, so far in 2008, non-OPEC production has fallen short of expectations by nearly 630,000 bbl/day:

> Faster declines in older fields and delays in expansion projects have limited supply growth. At the beginning of this year, non-OPEC supply growth was projected to rise by 860,000 bbl/d in 2008 and by over 1.5 million bbl/d in 2009.

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[19] IEA, *Oil Market Report*, p. 15. Congressional Research Service (CRS), "China's Economic Conditions," CRS Report for Congress RL33534, updated June 27, 2008 and Energy Information Administration (EIA), *Annual Energy Outlook 2008*, June 2008.
[20] EIA, *Annual Energy Outlook 2008*, p. 148. See also, CRS Report for Congress RL33534.
[21] Id.
[22] Warren Buffett, Chairman & CEO of Berkshire Hathaway, interview with Becky Quick, CNBC's Power Lunch, June 25, 2008.
[23] Ben Bernanke, Chairman of the Federal Reserve Board of Governors, in testimony before the Senate Committee on Banking, Housing, and Urban Affairs, July 15, 2008.

Production is now expected to rise by only 230,000 bbl/d in 2008 and by 830,000 bbl/d in 2009.[24]

Meanwhile, OPEC production in the second quarter expanded by only 100,000 barrels per day, from 32.2 million bbl/day in the first quarter to 32.3 million bbl/day in the second quarter.[25]

Surplus oil production capacity, a critical measure of how much supply could expand to meet additional demand or make up for sudden supply interruptions, is about half of the 10-year average surplus production capacity. EIA data shows that between 1997 and 2007, OPEC's average surplus capacity was 2.93 million bbl/day. EIA estimates that OPEC's 2008 surplus oil production capacity will reach only 1.55 million bbl/day.

Near-term excess production estimates are even lower. EIA estimates that surplus capacity in the third quarter of 2008 will average only 1.2 million bbl/day, well below the projected 2008 average and about 40 percent of the 10-year surplus production average.[26] This surplus production margin represents just over 3 percent of OPEC production in the third quarter, and about 1.4 percent of 2008 projected OPEC and non-OPEC total production.[27] According to EIA, "(a)ny industry operating at close to 99 percent of capacity will remain vulnerable to surprises that either boost consumption or disrupt production. Such surprises would place additional upward pressure on prices and contribute to oil price volatility."[28]

A Comprehensive Republican Plan: Find More, Use Less

Experts agree that addressing the current energy crisis requires a comprehensive approach that: provides additional supply to a tight market; addresses demand by encouraging conservation through new technology like plug-in hybrids; and increases transparency in the energy markets to ensure those markets are functioning properly.

Find More Supply to Meet U.S. Energy Needs

The Republican bill will ensure America is producing sources of American-made energy by using more of our own energy resources. This responsible and environmentally sound approach will open up deep sea exploration and permit the development of oil shale as an energy source. The Gas Price Reduction Act will lift the congressional moratorium on deep sea exploration by allowing states to explore for oil and natural gas 50 miles or more off the U.S. coast. The Pacific and Atlantic regions of the Outer Continental Shelf (OCS), which would be eligible for leasing activities under the Republican plan, hold an estimated 14 billion barrels of oil and 55 trillion cubic feet of natural gas. Exploration and production activities are currently prohibited in these areas. If the U.S. were to increase domestic production by just 1 million

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[24] EIA, *Short Term Energy Outlook*, July 8, 2008.
[25] Id.
[26] EIA, *Short-Term Energy Outlook, 2008*.
[27] EIA *Short-Term Energy Outlook, 2008*, OPEC and non-OPEC petroleum production tables.
[28] EIA, *Short-Term Energy Outlook*, *2008*.

barrels of oil per day, domestic production would increase by 20 percent and our dependence on foreign oil would be cut by 9 percent.[29]

The Republican bill also encourages more domestic production by lifting the federal moratorium on oil shale development. Oil shale contains a petroleum-like liquid called kerogen, which can be heated in a process called "retorting," to cause the rock to release the kerogen so it can be used like conventional petroleum.[30] America's oil shale resources could provide at least 800 billion barrels of oil equivalent; total oil shale resources could exceed 2 trillion barrels of oil equivalent. The Department of Interior was scheduled to release final regulations for commercial oil shale leasing by the end of 2008; unfortunately, last year the Democrats placed a federal moratorium on the completion of the final regulations for oil shale development on federal lands in an end-of-year omnibus appropriations bill.[31]

Reducing Demand with the Use of Hybrid Cars and Plug-In Hybrid Vehicles

The Republicans' comprehensive energy plan also seeks to reduce America's demand for oil by encouraging the increased use of hybrid and plug-in hybrid vehicles. By increasing reliance on plug-in vehicles, America could transform its transportation sector from vehicles that depend on foreign oil to vehicles that instead depend on domestic electricity. The benefit to U.S. consumers is that this shift would protect consumers from the impacts of rising gas prices caused by increased global demand and would also lessen America's dependence on foreign oil.

The U.S. transportation sector currently uses about 68 percent, or 14 million bbl/day, of the 20.9 million bbl/day of oil supplied to the United States each year.[32] Motor gasoline accounts for most of this consumption with nearly 9 million bbl/day. The Gas Price Reduction Act helps the transportation sector move away from gasoline dependence toward a more secure future. It includes incentives to foster the domestic manufacturing supply base for hybrid vehicle batteries, the technology where innovation and improvement is most needed. Manufacturing hybrid batteries here in America will help lower their price, helping to make them affordable for all consumers.

It is important that America begin to take the steps that will allow our economy to transition to new sources of energy to drive our transportation sector. Until these technologies become more widely available, America will continue to remain dependent on oil and American consumers and businesses will face the potential of further rising gas prices caused by continuing increases in global demand.

Ensuring a Well-Functioning Futures Market

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[29] Senate Energy and Natural Resources Committee document, "Oil and Gas Leasing on the Outer Continental Shelf, Background and Impact."

[30] Senate Energy and Natural Resources Committee document, "Oil Shale, 'The Rock That Burns' Background and Impact."

[31] Public Law 110-161, Consolidated Appropriations Act of 2008 (H.R. 1234). Section 433 of the Act provided that no funds in the Act could be "used to prepare or publish final regulations regarding a commercial leasing program for oil shale resources on public lands pursuant to Section 369(d) of the Energy Policy Act of 2005 (Public Law 109-58) or to conduct an oil shale lease sale" pursuant to such section.

[32] CRS, "Energy: Selected Facts and Numbers," CRS Report for Congress RL31849, May 1, 2008.

The Gas Price Reduction Act also increases transparency and ensures the proper functioning of energy futures markets. This bill increases the number of "cops on the beat" by increasing Commodity Futures Trading Commission (CFTC) resources. It includes adding 100 full-time employees tasked with increasing public transparency in the futures markets to address the role speculators can play in the oil market. The Republican bill also increases market transparency by requiring traders to provide critical data on key futures markets and maps a way forward on effective regulation.

The bill sets requirements for allowing foreign boards of trade the ability to access market participants located in the U.S. who want to enter trades directly into a foreign board of trade's market system. Specifically, the bill requires the foreign board of trade to: (1) make public comparable daily information as is required for the contract against which it settles on the fully registered exchange; (2) adopt position limits or position accountability levels for speculators as are required for the contract against which it settles on the fully registered exchange; and (3) provide information regarding speculative and non-speculative trading in the contract to the CFTC to allow publication of its Commitments of Traders report for the contract against which it settles.

The bill requires the CFTC to establish routine reporting requirements for index traders and swap dealers in energy transactions. The CFTC is also required to make public the positions and the value of index funds and other passive, long-only positions in the energy futures markets, broken out by type of investment and made available every month. The Republican plan also requires the CFTC to make public the positions and the value of index funds and other passive, long-only positions in the energy (and agricultural) futures markets, broken out by type of investment.

Finally, the Republican bill requires the President's Working Group on Financial Markets (PWG) to conduct a study to analyze similarities and differences between regulations applied by various global regulators relative to energy commodity trading. Within 120 days of enactment, the PWG must submit a report to appropriate committees in Congress describing these differences and providing recommendations to improve openness, transparency, and other elements necessary for a properly functioning market.

The Democrats' "Speculation Only" Plan Misses the Mark

America needs a comprehensive energy policy that will increase the supply of energy produced here at home while also decreasing American demand. In short, America needs a bold and comprehensive energy plan that will find more supply and use less. The American people deserve legislation that will provide relief at the pump in the short term while providing energy security and energy independence over the long term.

The Democrats' "Speculation Only" bill has been criticized because it fails to meet any of these criteria. The Democrats' bill focuses solely on regulating speculation but does nothing to reduce demand by encouraging conservation. In addition, the Democrats' bill fails to produce any new sources of energy. The way to curb speculation that oil prices will continue to rise, is to pass legislation to encourage an increases in supply. This would produce the fastest drop in the price of oil to the extent speculation has fueled the rise.

Rising gas prices have been caused by rising global demand without a corresponding increase in global supply. The Democrats' bill fails to address both supply and demand. At a time when the world needs more supply to lower prices, the Democrats' bill fails to provide even one additional ounce of supply. As a result, the Democrats' bill misses the mark when it comes to moving America towards lower energy prices and energy independence.

Conclusion

American consumers and businesses are suffering as a result of high gas prices. For too long, America has been dependent on foreign oil. The pain many Americans are experiencing at the pump is a result of rising global demand in the face of constant supply. A responsible solution to this energy crisis, and a solution to America's dependency on foreign oil, is a comprehensive approach that seeks to both increase the supply of energy produced here at home while decreasing U.S. demand on foreign oil. By transforming the U.S. transportation sector so that it runs on domestic sources of energy, America can free itself from dependency on foreign oil and ensure stable prices for American consumers. The Republicans' Gas Price Reduction Act is the only bill that achieves all of these goals.

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PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

An Opportunity for an Immediate and Lasting Impact on Oil Prices

Senate Democrats have attributed record oil prices to a number of factors, ranging from price gouging to their new theory of "idle leases." But they have yet to realize that the leading factor driving oil prices, an imbalance between supply and demand, will best be resolved by increasing the production of American energy reserves.

Supply, or the perception of supply, has an impact on short-term changes in the price of oil:

- June 13, 2008: Reports of a Saudi Arabian decision to boost production by 200,000 barrels per day.
  Oil prices drop by $1.88 per barrel.
- June 18, 2008: Nigerian militants attack a production facility owned by Royal Dutch Shell.
  Oil prices rise by $2.67 per barrel.

Over time, the amount by which potential supply exceeds physical demand – known as spare production capacity – has a significant impact on long-term trends in the price of oil:

- In the 1980s, with spare production capacity reaching 15 percent, the price of oil ranged from $15 to $20 per barrel. In the past several years, as spare production capacity fell to as little as 2 or 3 percent, oil prices have soared to record highs, and currently stand at more than $130 per barrel.
- The correlation is clear: when spare production capacity is high, resulting in a comfortable margin between supply and demand, oil prices tend to be low. When spare production capacity is low, oil prices tend to be high.

Democrats have already acknowledged that an increase in the supply of oil will reduce prices:

- Democrats have repeatedly called on the President to encourage Saudi Arabia to raise its production by 1 million barrels per day. They have introduced legislation that would allow lawsuits to be filed against OPEC, and some hope to use arms shipments as leverage for greater production.
- Instead of forcing the President to ask a foreign nation to increase its production, those in Congress should pass legislation that enables greater production to take place in America.

Congress must pass more than symbolic measures to increase supply:

- In May 2008, Congress took a very small step by suspending fills to the Strategic Petroleum Reserve. This bipartisan measure returns 70,000 barrels of oil to the world market each day, but will have very minimal, if any, impact on oil prices.
- A much larger increase in supply will be necessary to have an appreciable effect. Unfortunately, on the same day that 97 Senators voted to suspend SPR fills, 56 voted against a plan that would allow billions of barrels of American oil to be brought to market.

If Congress agreed to dramatically increase the supply of oil, a market shift would follow:

- As noted above, the price of oil dropped by $1.88 per barrel when the market first learned that Saudi Arabia planned to increase production by 200,000 barrels per day. Many experts believe prices could fall further as that increase comes on-line and supply rises.

- If the U.S. announced that it intends to produce up to 24 billion barrels of its own oil, we should expect a significant, positive impact on oil prices.
- Speculation is largely based upon what investors expect to happen on the world oil market in terms of supply and demand. A decision by the Congress to increase supply will have a dramatic impact on these expectations and the speculators who make investments based upon them.

The anti-supply decisions of the past have led to the record energy prices of today:

- Republicans anticipated this energy crisis, and tried to avert it. In 1995, Congress passed legislation to open a small part of the Arctic Coastal Plain to exploration and production activities. President Clinton vetoed that bill, and today, America's daily oil production is 1 million barrels below what it could be.
- Democrats argue that it will take too long for production from ANWR and the OCS to come online. These claims echo the mistaken thinking of the past, and are not realistic about the need for oil going forward. Production would already be occurring in many of those areas if Democrats had not blocked previous legislative efforts to open them.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF
Plenty of Room and Plenty of Reasons to Increase Domestic Supply

The Majority regularly distorts the extent of America's oil and gas potential. They have indicated their belief that an increase in domestic supply could not be sustained, and, further, that such an increase would make little to no difference in prices at the pump. But greater production is not only possible – it is necessary to achieve the bipartisan goals of lower energy costs and expedited development of clean energy technologies.

Democrats claim that the United States has just two to three percent of the world's proven oil reserves. This is an incomplete representation of the amount of oil that can be produced domestically:

- America's proven oil reserves total 21.8 billion barrels, but an additional 116 billion barrels are classified as "undiscovered" or "undeveloped" beneath federal lands.
  - The Outer Continental Shelf (OCS) contains 8.55 billion barrels of proven reserves. Undiscovered resources, which are considered to be technically recoverable, total 85.88 billion barrels.
- Senate Democrats are also choosing to ignore America's tremendous unconventional oil resources. An estimated 800 billion barrels of oil shale – equivalent to 60 percent of the world's proven oil reserves – exist in the western United States.

Together, America's existing reserves and potential resources represent a reliable and affordable supply of energy that will last long into the future:

- The 116 billion barrels of "undiscovered" or "undeveloped" oil beneath federal lands is equivalent to nearly 24 years worth of imports at current levels.
  - If the 94 billion barrels of oil contained in the OCS are produced at a rate of 1 million barrels per day, those deposits would last for an estimated 260 years.
  - Many claim that the oil beneath the Arctic Coastal Plain would only supply our nation for six months. This would require production to average 57 million barrels per day, which is neither possible nor practical. A much more reasonable rate of production – an average of 1 million barrels per day – could be sustained through 2037.
  - America's oil shale deposits could fully replace conventional oil supplies for more than 100 years at current rates of consumption.

In 2008, nearly 60 percent of America's oil will come from abroad. The consequences of this arrangement are increasingly dire:

- Record oil prices, combined with our heavy dependence on foreign suppliers, have led to an unprecedented transfer of wealth that is literally making our nation poorer. We will send more than $400 billion overseas for oil this year alone, and more than $10 trillion abroad through 2030 at current prices.
- This dependence has a number of negative impacts that ripple throughout our economy:
  - In April 2008, oil imports accounted for nearly half of our nation's $61 billion trade deficit.
  - The National Defense Council Foundation has estimated that our dependence on imported oil reduces domestic employment by more than 2.2 million jobs.

America will cross the bridge to a post-fossil fuel era, but our ability to do so quickly is contingent upon a strong economy and a secure supply of conventional energy:

- A steady supply of oil and other fossil fuels will be necessary to ensure continued economic growth as clean energy technologies are developed and deployed. EIA projects that global consumption of petroleum-based liquid fuels will increase by more than 40 percent between 2004 and 2030.

- Congress has passed three major energy bills in the past three years, but their most important provisions – including higher fuel economy for vehicles, increased use of advanced biofuels, and a nuclear renaissance in America – will take years or even decades to fully realize.
- According to EIA, solar energy was subsidized at a rate of $24.34 per kilowatt hour in 2007, with wind power at $23.37 per kilowatt hour. These technologies are critically important, but they are also hugely expensive and impossible to commercialize overnight. In the near term, we will use oil, and the question becomes whether we will continue to import greater amounts or produce more of our own.

Senate Energy and Natural Resources Committee, Republican Staff

"Diligent Development" of Oil and Gas Leases
Background and Impacts
Contact: Matt Letourneau, 202-224-6977

Recent polls show that nearly 70 percent of Americans support increased production of domestic oil and gas reserves. Some Democrats in Congress claim to be part of this growing majority, but their latest energy proposals reveal a **fundamental lack of understanding** of how energy resources are brought to market in the first place.

Congressional Democrats have introduced legislation (S.3133; H.R.6256; H.R.6251) to charge American companies a tax for "sitting on" their oil and gas leases. They claim that penalizing companies that produce energy will increase supplies and decrease prices.

It should be noted that the "use it or lose it" argument originated with an environmental group that has filed four major lawsuits in the past four years to stop development on existing leases. They make this argument as an attempt to create cover for their opposition to the opening of new areas to development.

The facts tell a different story on leasing. First, the number of acres leased is far less than the number of acres off-limits to production. Second, leaseholders already have every incentive to produce oil and gas. Finally, the production process takes time—it is expensive, complex, often unpredictable, and requires careful consideration every step of the way.

How many oil and gas leases are there? How much land is leased compared to the amount off limits?

- <u>The amount of land that has been leased for oil and gas production pales in comparison to the amount of federal land that has been placed off-limits to production</u>. According to the Bureau of Land Management and Minerals Management Service, respectively, energy-related activities are prohibited on **777 million acres of land.**
- In Fiscal Year 2007, companies held approximately 67,700 oil and gas leases covering **93.7 million acres of land** on and offshore. Of these, approximately 30,000 leases covering 25.7 million acres were considered to be producing leases under the Democrats' definition.

How does current law encourage leaseholders to produce oil and gas?

- Aside from high oil and gas prices, there are several incentives that encourage companies to produce from the lands they lease. Companies have **a limited timeframe to begin production; must comply with a variety of laws and regulations; and must adhere to the terms of their leases.**
- Failure to produce or failure to comply can result in the termination of a lease, and considerable lost costs for a company:
  - Companies pay an initial fee for each of their leases, and an additional fee for each year of the lease period. These upfront costs, which are a significant

source of federal revenue, **ensure that companies begin exploration and development activities as soon as possible in order to maximize the value of their leases**.

- The Secretary of the Interior already has statutory authority to cancel a lease whenever a company "fails to comply" with existing law, regulations, or the terms of a lease.
- Lease terms range from 5 to 10 years. If production has not commenced by the end of that period, the leased land is returned to the government – but companies' outlays are not reimbursed.

The terminology used by Democrats represents a fundamental misunderstanding of leasing:

  - **The term "non-producing" is misleading, because it leaves out all the exploration that must occur before production.** Acreage that is leased but is not producing according to the Democrats' definition often becomes producing acreage over the course of the lease. Because we don't know the full extent and exact location of our resources, there is no way to fully understand where production can occur until drilling.

- Exploration that occurs before production includes:
  - Pre-drilling surveys and computer imaging, completion of environmental studies, and consideration of applications for permits; adding 1-2 years to the process. Drilling a single test well to determine if commercial production is possible. Depending on geology, depth, and seasonal environmental restrictions, this can take up to a year.
  - Assessing the results from the initial well. If a decision is made to proceed with further wells, time is required to plan the field development, gather equipment and secure additional environmental work and applications for permits to drill; adding 2-5 years to the process.
- In addition to determining the potential and cost-effectiveness of a lease, companies face a number of additional hurdles throughout the pre-production process:
  - **Lawsuits**: Environmental groups, local landowners, state governments, and other entities have challenged development activities that are planned in their areas. These lawsuits can delay production by months or years, and sometimes halt development altogether.
  - **Regulatory Compliance**: Even after a development decision has been made, production cannot begin immediately. Additional environmental requirements must be met, and additional permits must be obtained.
  - **Labor, Equipment, and Infrastructure Shortages**: A company that decides to produce oil and gas in a leased area may face supply chain shortages that further delay production. In 2005, for example, oil and gas companies announced that a

shortage of drilling rigs would impede their ability to produce oil and gas for years to come.

If companies are penalized for "non-producing" leases, what are the likely consequences?

- **Democrats' latest proposal would function as a tax on energy producers,** and disrupt companies' ability and willingness to develop domestic oil and gas reserves. By decreasing domestic production, this would increase our nation's reliance on foreign energy and significantly weaken our energy security:
    - Increasing the cost of holding a lease would discourage companies from bidding on leases and holding on to them for the duration of the leasing period. **In turn, this would reduce oil and gas exploration, and domestic production would decline.**
    - To satisfy demand and make up for lost production, America would be forced to import greater amounts of foreign oil and gas. This would cost our nation hundreds of billions of dollars per year, and companies would shift good-paying jobs and investment dollars overseas as they pursue more attractive projects.
- **Instead of dreaming up deceptive excuses for opposing more production, Democrats should work together with Republicans to increase the exploration and development of America's most promising resources.**

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Setting the Record Straight: "68 Million Acres" is Incorrect and Misleading

Background Information

In June 2008, House Natural Resources Committee Chairman Nick Rahall (D-WV) released a report claiming that 68 million acres of land leased for oil and gas activities are "sitting idle." Since then, this number has been used repeatedly by Senate Democrats to explain their opposition to opening new lands for development.

The simple fact is that both this number, and the arguments Democrats apply it to, are wrong. Prior to producing, dozens of requirements for permits and plans must be met; seismic testing must be completed; and litigation must be resolved. As a result of these factors, development production from an onshore lease requires an average of 11 years, and up to $3 billion in pre-production expenditures. Deepwater leases in the Gulf of Mexico require an average of 9.5 years to reach development production, and can cost up to $5.7 billion dollars.

How was the "68 million acres" number calculated?

- There is no good answer to this question. According to C. Stephen Allred, Assistant Secretary for Lands and Minerals Management at the Department of the Interior, "The [House Natural Resources] report does not reference specific locations for much of the data and therefore we cannot ascertain where each of the numbers was derived. It appears the report took raw data, some of which can be found on the Department websites, and then used various formulas to reach certain conclusions. The report does not disclose the assumptions or formulas used."

- Secretary Allred continues, "The views contained in the report are based on a misunderstanding of the very lengthy regulatory process. The existence of a lease does not guarantee the discovery of, or any particular quantity of oil and gas. To truly determine this, lessees must develop data and eventually explore their leases which requires numerous permits involving compliance with various environmental laws and regulations. This process often takes months or years. In addition, lessees undertake a vast array of business steps prior to making a decision to move a lease into production, and must obtain another set of Federal and State permits to do so."

Is the "68 million acres" figure a fair reflection of the energy exploration and production process?

- Simply put, no. The facts tell a much different story on leasing. Some 44 percent of the leases that have been issued are already producing oil and gas, and energy companies are in the process of exploring their remaining leases to determine the energy potential of those lands.

- The exploration process takes time – it is expensive, complex, often unpredictable, and requires careful consideration every step of the way. And even after a company chooses to proceed with exploration and development activities, they still face a variety of legal and procedural hurdles that must be overcome before energy production can begin.

- In any given year, the leases that a given company holds will be at different points in the development process. In 2007, for example, Anadarko reports that it held 611 leases, and that nearly 80 percent of those leases were in the "exploration phase":
  - 493 leases were in the exploration phase;
  - 66 leases were held by production;
  - 52 leases will either be drilled or expire in 2008; and
  - 20 leases were returned to the federal government.

How long does it take companies to complete the plans, permits, and other activities required for onshore production? How much does it cost to complete these steps?

- It takes an average of 11 years for the average onshore lease to begin development production. The costs associated with each lease range from $519 million to $3 billion.

How long does it take companies to complete the plans, permits, and other activities required for offshore production? How much does it cost to complete these steps?

- It takes an average of 9.5 years for the average deepwater Gulf of Mexico lease to begin development production. The costs associated with each lease range from $1.3 billion to $5.7 billion.

Why does it take so long, and cost so much, to begin producing energy from leases? What are the steps in the onshore and offshore leasing processes?

- Offshore development of oil and gas leases is a complex process. In addition to the millions in initial capital that need to be invested, and no guarantee of actual production, the developers must go through a litany of federal and state government requirements.

- A federal lease holder has to complete nearly 40 plans and permitting processes throughout the life of a lease. The initial Application for Permit to Drill process alone can take up to three years to complete.

Typical Plans and Permits Required to Bring a Lease to Production:

- Oil and Gas Lease
- Geological and Geophysical Exploration Permit
- Exploration Plan
- Coast Guard Compliance Review for Mobile Drilling Units (offshore leases)
- Oil Spill Response Plan (offshore leases)
- Oil Spill Financial Responsibility (offshore leases)
- Hydrogen Sulfide Plan (some locations)
- Coastal Zone Management Consistency Determination (offshore exploration activity)
- Army Corps of Engineers Permit (navigation and national security)
- EPA National Pollutant Discharge Elimination System Permit
- EPA Air Emissions Permit (some locations)
- Marine Mammals/Endangered Species Permits from NOAA or FWS (some offshore locations)
- Application for Permit to Drill (exploratory wells)
- Application for Permit to Modify (any changes in drilling program)
- Application for Permit to Modify (to plug and abandon exploration wells)
- Deepwater Operations Plan (for some offshore locations)
- Conservation Information Document (for some locations)
- Coast Guard Structural Review (for offshore floating production systems)
- Certified Verification Agent Review (for some locations)
- Development Plan or Development Operations Coordination Document (depending on location)
- Pipeline Right-of-Way
- Coastal Zone Management Consistency Determination (offshore development activity)
- Application for Permit to Drill (development wells)
- Application for Permit to Modify (any changes in development drilling program)
- Application for Permit to Modify (to plug and abandon development wells)
- Platform Removal Application
- Pipeline Decommissioning Application
- National Environmental Policy Act (NEPA) Review (may be required several times)
- Land Use Plan Conformance
- Surveys (Cultural & Wildlife)
- Tribal Consultation (in areas historically used by Indian tribes, or if they have "expressed interest" in proposed projects)
- Endangered Species Act Consultation (if endangered species are present)
- Right-of-Way Grant

Other Federal, State, or Local Permits and Plans

- Air Emission Permit
- National Pollutant Discharge Elimination System Permit
- Section 404 Permit
- Storm Water Prevention Plan
- Underground Injection Control Permit
- Spill Prevention Countermeasure Control Plan

Are there any other impediments that limit companies' ability to explore for and produce energy?

- Yes. There is a wide range of additional challenges that companies must face before oil and gas can be produced and brought to market. Many of the permits and plans listed on the previous page can be challenged in court, which adds to the cost of a lease and lengthens the timeframe to production.

- In floor statements on the floor of the Senate, Senator Lisa Murkowski and Senator John Barrasso outlined the difficulties associated with energy production in Alaska and Wyoming, respectively. Here are just a few of the challenges that companies face in each of these states:

The State of Alaska

- **Limited Exploration Season**: The 2007-2008 exploration season on Alaska's North Slope ran from December through May, but according to the Alaska Department of Environmental Conservation, even this short season was impacted by additional limitations:
    - Companies could not commence activities in the eastern and lower foothills until January 24, and had to be out of those areas by May 16.
    - Access was restricted until the ground temperature was at least 5 degrees below centigrade, to a depth of 30 centimeters, and until 9 inches of snow has fallen to preserve surface vegetation.

  Together, these factors limit the exploration season to no more than two or three months per year, or between 20 and 30 months for a typical 10-year lease.

- **High Costs to Drill Wells**: In the Naval Petroleum Reserve-Alaska (NPR-A), it costs between $50 million and $100 million to drill an exploratory well. Many of these wells do not strike oil, and will not lead to any production.

The State of Wyoming

- **Limited Exploration Season**: The exploration season is limited to just 10 weeks in some parts of the state. It begins on August 16 and ends in October.

- **Delays in Permit Processing**: As of June 2008, more than 2,500 applications to drill were awaiting federal approval in Wyoming's Powder River Basin. Companies have already paid to lease these lands, but are not allowed to drill for oil or gas until the APD process has been completed.

- **Other Delays**: More than 850 drilling permits have been delayed as a result of "policy development, environmental delays, and even litigation."

Democrats Make False Energy Production Claims

Democratic Plan #1—<u>Use It Or Lose It</u>— Democrats would raise fees on energy companies not drilling on current leases and bar them from getting new leases.

Myth #1: Democrats contend that 68 million acres of federal lands currently leased for oil and gas exploration and development are not actively being used and are consequently "non-producing" leases.

FACT: Under current law[33], federal energy lease holders already must produce oil or natural gas within five to ten years after drilling on the federal land begins.

FACT: The 68 million acre figure comes from a Democrat House Natural Resources Report that does **<u>NOT</u>** reference specific locations for much of the data, nor does it include the specific formulas used to analyze raw data they used to arrive at the 68 million acre figure.

FACT: C. Stephen Allred, Assistant Secretary for Lands and Minerals Management at the Interior Department, stated "**the views contained in the report are based on a misunderstanding of the very lengthy regulatory process. The existence of a lease does not guarantee the discovery of, or any particular quantity of oil and gas.** To truly determine this, lessees must develop data and eventually explore their leases, which requires numerous permits involving compliance with various environmental laws and regulations. This process often takes months or years. "

FACT: Energy companies are in the process of exploring "non-producing" leases to determine the energy potential of those lands by moving through a development process that includes a combination of 39 plans and permits that on average take 11 years to complete onshore, and 9.5 years to complete offshore.

FACT: The development costs associated with these onshore leases range from $500 million to $3 billion and $1 billion to $5 billion offshore. As such there is a huge economic incentive for these companies to explore their leases.

FACT: The term "non-producing" is misleading, because it leaves out all the exploration that must occur before production. Acreage that is leased but is not producing according to the Democrats' definition often becomes producing acreage over the course of the lease. Because we don't know the full extent and exact location of our resources, there is no way to fully understand where production can occur until drilling.

Democratic Plan #2—<u>Strategic Petroleum Reserve (SPR)</u>—Democrats would release 70 million barrels of oil from the SPR.

Myth #2: Democrats contend this release will immediately reduce gas prices.

FACT: The United States consumes more than 20 million barrels of oil a day. Therefore, the Democratic plan would address America's gas crises for a whopping three and half days.
FACT: Opening up the SPR would have no impact on domestic production, which is ironic because the argument in favor of the release is premised on the idea that supply matters.

FACT: Releasing roughly ten-percent of the SPR would jeopardize national security by increasing our vulnerability to an oil supply disruption. Geopolitical instabilities among and within producing

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[33] 30 U.S.C. 226(e) and 43 U.S.C. 1337(b)

countries, terrorist threats, and natural disasters present a significant risk to the international oil market. These risks, coupled with the current tight market supply, exacerbate our vulnerability to a supply shock that would jeopardize our country's economy and security. These same risks are also the reason we need to be able to remove the restrictions on our domestic resources in an effort to become energy independent.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Oil and Gas Leasing on the Outer Continental Shelf
Background and Impacts

How much oil is produced on the Outer Continental Shelf?

- Oil and gas leasing activities take place on approximately 43 million acres on the OCS, which amounts to just 2.4 percent of the federally-managed portion of these submerged lands. A total of 8,000 leases combine to produce about 15 percent of America's natural gas supply and about 27 percent of America's oil supply.
- According to the Minerals Management Service, "the OCS is projected to contribute nearly 40 percent of U.S. domestic oil production" by 2011.

How much oil does the Outer Continental Shelf contain?

- A February 2006 report released by the Department of the Interior estimated OCS reserves to be 8.5 billion barrels of oil, and 29 trillion cubic feet of natural gas. Undiscovered resources may total 86 billion barrels of oil and 420 trillion cubic feet of natural gas. Altogether, this resource potential represents 60 percent of America's undiscovered oil, and 40 percent of our undiscovered natural gas.
- The Pacific and Atlantic regions of the OCS, which would be eligible for leasing activities under the Gas Price Reduction Act of 2008, hold an estimated 14 billion barrels of oil and 55 trillion cubic feet of natural gas. Exploration and production activities are currently prohibited in these areas.

How would OCS development impact domestic production?

- U.S. oil production has steadily declined since 1970, when it was nearly 10 million barrels per day, to 5.1 million barrels per day in 2007.
- The U.S. consumed an average of 20.7 million barrels of oil per day in 2007, and the EIA projects that total U.S. liquid fuels consumption will increase to 22.8 million barrels per day by 2030.
- If 1 million barrels of oil are produced per day, undiscovered OCS resources could produce a stable, reliable, and affordable supply of domestic oil for decades.
- Producing an additional 1 million barrels per day from the Atlantic and Pacific OCS would increase domestic oil production by nearly 20 percent for nearly 40 years.

How would OCS development impact oil imports?

- In 1973, the U.S. imported 6.0 million barrels of oil per day, or 34.8 percent of its total supply. By 2007, these numbers had risen dramatically: the U.S. imported 12.0 million barrels of oil per day, or 58.2 percent of its total supply.
- The EIA projects that net domestic oil imports will be 11.1 million barrels per day in 2030. Producing an additional 1 million barrels per day from the OCS could reduce this dependence by 9 percent.

How would OCS development impact the American economy?

- The domestic oil and gas industry directly and indirectly employs nearly 8 million Americans. Oil and gas development in the Pacific and Atlantic regions of the OCS would help sustain those jobs, and create thousands more, while contributing billions of dollars to our economy.

- According to the MMS, federal revenues from offshore activities exceeded $7 billion in Fiscal Year 2007. These revenues were distributed to the U.S. Treasury; state governments; the Land and Water Conservation Fund; and the National Historic Preservation Fund.
- OCS lease sales also generate substantial revenues. Three major sales for OCS oil and gas leases have taken place in the past six months, and together raised more than $9 billion in federal revenues.

Senate Energy and Natural Resources Committee, Pete Domenici, Ranking Member

Oil and Gas Leasing in the Arctic National Wildlife Refuge

Background and Impacts

How much oil does ANWR contain?

- In 1998, the U.S. Geological Survey estimated that there are between 5.7 billion and 16.0 billion barrels of technically-recoverable oil in ANWR, with a mean estimate of 10.4 billion barrels. This calculation assumed a market price of $30 per barrel of oil.
- At a rate of 1 million barrels per day, ANWR's reserves could produce oil for our nation for more than 28 years. If production began tomorrow, the oil reserves beneath the Coastal Plain would last through 2036.

How would ANWR impact domestic production?

- U.S. oil production has steadily declined since 1970, when it was nearly 10 million barrels per day, to 5.1 million barrels per day in 2007.
- The U.S. consumed an average of 20.7 million barrels of oil per day in 2007, and the EIA projects that total U.S. liquid fuels consumption will increase to 22.8 million barrels per day by 2030.
- Production in ANWR is projected to average 1 million barrels per day, which would increase domestic oil production by nearly 20 percent for nearly 30 years.

How would ANWR impact oil imports?

- In 1973, the U.S. imported 6.0 million barrels of oil per day, or 34.8 percent of its total supply. By 2007, these numbers had grown significantly: the U.S. imported 12.0 million barrels of oil per day, or 58.2 percent of its total supply.
- The EIA projects that domestic oil imports will be 11.1 million barrels per day in 2030. ANWR production of 1 million barrels of oil per day would reduce this dependence by 9 percent.

How would ANWR impact the American economy?

- Oil and gas development in ANWR would create hundreds of thousands of jobs in America, and contribute billions of dollars to our economy. These benefits would directly affect all 50 states – not just Alaska.
- According to the EIA, the U.S. spent more than $327 billion to import oil in 2007. In 2008, many experts anticipate that this number will surpass $400 billion. ANWR production would help stem this unprecedented transfer of wealth by keeping hundreds of billions of dollars within our economy.
- In February 2008, America's trade deficit was $62.3 billion. Petroleum imports accounted for $32.5 billion, or 52 percent of that total. By reducing oil imports by approximately 30 million barrels per month, ANWR production would reduce that deficit and help stabilize our balance of trade.
- In 1990, when the average price of oil was $24.53 per barrel, the Wharton Economics Forecasting Associates estimated that resource development in ANWR would create 735,000 jobs in America. The National Defense Council Foundation has placed this number at more than 1 million new jobs.
- In 2002, an EIA study estimated ANWR could contribute up to $350 billion to the U.S. economy. In December 2007, the Congressional Research Service estimated that federal revenues from ANWR development could total $152.9 billion if the price of oil stays at $100 per barrel.

PREPARED BY THE SENATE ENERGY COMMITTEE – REPUBLICAN STAFF

Oil Shale -- Background and Impacts

What is oil shale?

- According to the Argonne National Laboratory, "the term oil shale generally refers to any sedimentary rock that contains solid bituminous materials called kerogen that are released as a petroleum-like liquid when the rock is heated."
- The kerogen content of oil shale varies widely, from less than ten gallons per ton to more than 100 gallons per ton. To be considered recoverable, it must yield at least 15 gallons per ton of rock.
- Oil shale is converted to liquid fuel through a process known as retorting, which involves heating a rock formation to a high temperature and then separating the oil that is produced. This may be accomplished through in-situ processes, which occur underground, or at the surface after extraction.
- With oil prices now above $130 per barrel, concerns about the economic feasibility of oil shale have faded. Mining and surface retorting of oil shale is projected to be cost-effective at oil prices above $54, with in-situ retorting viable at prices higher than $35 per barrel.

How extensive are the United States' deposits of oil shale?

- While the U.S. is known as the "Saudi Arabia of coal," our deposits of oil shale may be much greater. According to the Department of Energy, "America's total oil shale resources could exceed 6 trillion barrels of oil equivalent." Total resources could exceed 2 trillion barrels of oil equivalent in the Green River Formation in Colorado, Utah, Wyoming, and elsewhere.
- Of this amount, at least 800 billion barrels of oil equivalent are technically recoverable. At current rates of consumption, those resources are equivalent to a 106-year supply of conventional oil.

Why is oil shale important to America's energy supply mix?

- Global oil consumption is rising rapidly, but U.S. production has fallen to its lowest level since 1947. If America does not reduce its heavy dependence on foreign oil, our nation will become even more vulnerable to geopolitical instability, supply shortages, and energy market volatility in the years ahead.
- Alternative fuels, particularly those made from oil shale, can provide an affordable and reliable replacement for petroleum long into the future. Because oil shale can be used to create diesel fuel, jet fuel, and naphtha (gasoline), it could become a significant source of energy for our transportation sector.

How have congressional Democrats sought to delay the development of this vital resource?

- The Energy Policy Act of 2005 directed the Department of the Interior to issue final regulations for commercial oil shale leasing by the end of 2008, in order to provide industry with a 'road map' for development and financial assurance to potential investors.
- Last year, Democrats on the House Interior Appropriations Subcommittee inserted language into the omnibus spending bill that effectively places a one-year moratorium on the completion of final regulations.
- In May 2008, during the Senate Appropriations Committee's markup of the Fiscal Year 2008 Supplemental Appropriations bill, Senator Wayne Allard offered an amendment to lift the moratorium. The amendment was defeated on a strict party line vote, with 14 Republican members in support but 15 Democrats opposed.
- Continued obstructionism will prevent the timely release of final regulations and, ultimately, progress on oil shale production. Companies seeking to invest billions of dollars in oil shale development are asking to know the "rules of the road" as soon as possible.

SENATE ENERGY COMMITTEE – REPUBLICAN STAFF
Plug-In Hybrid Electric Vehicles
Background and Impacts

What are plug-in hybrid electric vehicles?

There are four main categories of advanced vehicle technologies: fuel cell vehicles, electric vehicles, hybrid electric vehicles, and plug-in hybrid electric vehicles.

- According to the Department of Energy, plug-in hybrid electric vehicles, or PHEVs, "combine the benefits of electric and hybrid electric vehicles. Like electric vehicles, they plug into the electric grid and can be powered by the stored electricity alone. Like hybrid electric vehicles, they have engines that enable greater driving range and battery recharging."
- The current generation of PHEVs can run on electric power for a limited range, after which the vehicles' combustion engines can be engaged to travel additional distances. As improved batteries become available, the all-electric range of these vehicles will be extended to 40 or more miles.

What are the benefits of PHEVs?

PHEVs will offer a wide range of benefits to individuals and our nation as a whole. They will reduce our dependence on foreign oil, our greenhouse gas emissions, and the costs associated with driving. Their commercialization will significantly advance our energy security and economic strength.

- **Reduced Dependence on Foreign Oil**
  - Nearly 70 percent of the oil consumed in America is used in the transportation sector. Petroleum currently accounts for 96 percent of the fuels used to power our vehicles.
  - By utilizing electricity, and smaller amounts of petroleum-based fuels, PHEVs will have much higher fuel economy compared to traditional vehicles. This will reduce our dependence on foreign oil and, at the same time, our overall consumption of oil.

- **Reduced Greenhouse Gas Emissions**
  - America's transportation sector produces approximately 28 percent of our nation's annual greenhouse gas emissions. Each passenger vehicle on the road emits an average of 5.2 metric tons of carbon dioxide per year.
  - According to the Department of Energy, "the environmental benefits of PHEVs depend in part on the source of electricity from which the PHEVs are charged. If the electricity comes from efficient power plants, the benefits can be substantial. One U.S. study projected an average 42% carbon emissions reduction from mileage driven on electricity instead of gasoline."
- **Reduced Operating Expenses**
  - Gasoline now costs more than $4.00 per gallon, but in January 2008, residential electricity rates averaged just 10.2 cents per kilowatt hour. Because PHEVs use a combination of electricity and traditional fuels, they will not only use less fuel, but also less expensive fuel.

- Consumers will be able to recharge their PHEVs by simply plugging them into an electrical outlet. This power can be drawn from a variety of domestic resources, including coal and nuclear energy.

How can the government help advance PHEV technologies?

- Several American automobile manufacturers – including Chevrolet, Ford, and General Motors – have announced plans to produce PHEVs in the near future.
- Despite these efforts, the U.S. has fallen behind other nations when it comes to the development of the most critical component of PHEVs – the advanced battery. By 2010, South Korea plans to produce lithium ion batteries for hybrid vehicles, and expects them to attain a 50 percent market share by 2012.
- The federal government can help reverse this trend, increase domestic production of advanced batteries, and support U.S. companies that are developing PHEVs. Incentives can be provided to make battery production more efficient and more affordable. Similar efforts can be made to increase the recycling of batteries used in PHEVs.

Economy

How to Get Our Country Moving Again

This is about Main Street, not Wall Street

- Taxpayers must be protected first.

- Stronger oversight – so Congress and the American people can watch this like a hawk.

- Debt reduction – All revenues that the government earns from re-selling mortgages and mortgage-related securities must go toward the debt, not back into the federal piggy bank to be spent on pet projects.

- No "Golden Parachutes" – No corporate executives should be allowed to get rich off the taxpayers' dime.

When will this end? How do we get our country moving again?

1. When we have a balanced energy plan that both finds more American energy and uses less.

2. When we stop spending money we don't have for projects we don't need and start reducing the federal deficit.

3. When we take action to stabilize our financial institutions.

A Rescue Plan for Main Street

A Proposal to Get America Moving Again

- This economic recovery plan gives us an opportunity to halt an immediate crisis that will hurt millions of families, retirees, and businesses. By stopping the Wall Street meltdown from spreading to Main Street, we can prevent long-term damage to Americans' savings, home values, and livelihoods.

- The American people who were not involved in creating this mess need to be protected from the mistakes of those who were.

- We must put politics aside and act immediately to get America moving again.

- The plan will help restore confidence and prevent a worsening spiral by turning around the troubled assets at the root of the problem.

- This plan will help provide security for all Americans with home mortgages, bank accounts, small businesses, credit card debt, educational loans, or retirement investments.

- Republicans have many serious questions about this plan. But this is the only plan we have seen so far that aims to protect Americans on Main Street — to protect their homes, their savings, their retirement plans – and protect endangered jobs and small businesses.

Imminent Danger to the Economy

- Our financial system is in imminent danger. This is a serious problem.

- According to investor Warren Buffett: In a Reuters article, Buffett called government action "absolutely necessary" to help pull the financial system out of an "economic Pearl Harbor." He said the plan "is absolutely necessary, in my view, to really avoid going over the precipice."

- According to Jim Cramer, MSNBC Wall Street analyst: "This plan is about stopping foreclosures, which are happening, according to the Senate, at about 10,000 a day in our great country. This is why this Paulson plan is such a must ... That's why the stock market tanks whenever it seems stalled or watered down ... This plan must be passed, if we are to avoid the Great Depression 2."

Renewable Energy and Job Protection Act

Tax Incentives to Protect Americans' Wallets
& Promote Clean Energy Independence

This is a bipartisan deal to extend over $100 billion in tax relief to American families and small businesses during these tough economic times.

By also encouraging alternative energy technologies, it takes an important step toward a balanced energy policy. We must also find more energy by drilling for the oil we already have here at home.

This legislation will:

- protect millions of middle-class American families from an AMT tax increase.
- encourage production of clean renewable energy from solar, cellulosic ethanol, and other alternatives to move the United States down the path of energy independence.
- encourage a new generation of vehicles powered by plug-in hybrid technology and biofuels to wean the United States off foreign oil.
- provide tax relief for Midwestern flood victims in Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, and Wisconsin.
- extend the state and local sales tax deduction for taxpayers in states that don't receive deductions because their state has no income tax.
- extend the research and development tax credit to encourage companies to develop new technologies in the U.S. rather than overseas.

- According to Federal Reserve Chairman Bernanke, 100 banks are on the brink of failure, and if we don't act we will be in a recession. He testified before the Senate Banking Committee: "I believe if the credit markets are not functioning, that jobs will be lost, that our credit rate will rise, more houses will be foreclosed upon, GDP will contract, that the economy will just not be able to recover in a normal, healthy way."

- According to Treasury Secretary Hank Paulson: "The market turmoil we are experiencing today poses great risk to US taxpayers. When the financial system doesn't work as it should, Americans' personal savings, and the ability of consumers and businesses to finance spending, investment and job creation are threatened."

Real Impact on Main Street if We Fail to Act

- Families and businesses alike rely heavily on financial markets.

- Families borrow to purchase homes, cars, appliances, furniture, and other consumer durables (or simply to go out to dinner).

- And families invest in financial markets, in pension funds, 401ks, and other retirement accounts that seniors, especially, depend on.

- Businesses borrow for various essential reasons as well—for everything from overcoming short-term cash flow problems (like making payroll) to investing in new workers, new equipment, or new ideas.

- A collapse of the financial markets would prevent consumers and businesses from getting the funds they need to consume and invest—undermining two key drivers of the U.S. economy. The impact?
    - dramatic reduction in standard of living;
    - harder to pay for gas, food, and utilities;
    - workers and families would earn less;
    - inability to save for retirement;
    - inability to pay for college;
    - loss of savings;
    - loss of retirement funds;
    - new home mortgages unavailable; and
    - home prices fall and property tax receipts decline, leading to dramatic cuts in funding for schools.

An Investment, Not a Bailout

- Under Secretary Paulson's proposal, the government would purchase foreclosed mortgages and mortgage-related securities and thereby free financial institutions to start lending again and grow our economy. Later, with confidence restored, we will resell these mortgages.

- According to Congressional Budget Office Director Peter Orszag: "Over time, the net cash disbursements under the program would be substantially less than $700 billion because, ultimately, the government would sell the acquired assets and thus generate income that would offset at least much of the initial cost."

- The 2009 deficit is <u>not</u> going to increase by $700 billion if we pass this plan to grant this new authority to the U.S. Treasury.

- It will be some time – years – before we know whether this action will result in a loss or even a profit to the government. That's because the assets acquired by the government may go up in value as confidence in our financial markets increases.

- If there is a loss, it will only be a percentage of the assistance the government provides.

- In the S&L crisis, the federal government through the Resolution Trust Corporation – RTC – recovered nearly 80 cents on each dollar of assistance that it had to lay out initially.

Must Include Taxpayer Protections, Oversight, and No "Golden Parachutes"

- Republicans have many serious questions about this plan.

- This is no time to play politics. The plan must be simple, clean, and bold – free of the typical Washington goodie bag of pet projects.

- The plan must include greater oversight and transparency.

- Corporate executives who got us into this mess shouldn't be allowed to pad their pockets while taxpayers foot the bill.

- This crisis shows the need for Washington to tighten its belt and undertake real fiscal reform.

- No one is happy about this situation. But this is the only plan we have seen so far that aims to protect Americans on Main Street — to protect their homes, their savings, their retirement plans – and protect endangered jobs and small businesses.

BUDGET COMMITTEE

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MARKET CRISIS: THE HIGH STAKES OF INACTION
Why Market Stabilization Matters to the American Economy

-- "You can either inject money now, or we can let the system unwind and the cost in comparison down the road would be astronomical, both in terms of personal dislocation—people losing their jobs—and in terms of lost revenue to the federal government."
Senate Budget committee ranking member Judd Gregg, Associated Press, September 19, 2008.

ECONOMIC CONFIDENCE AT A CROSSROADS

- The American economy is facing a critical turning point as bad debt threatens to paralyze U.S credit markets and financial institutions. U.S. financial markets are teetering toward collapse, putting every aspect of the economy into jeopardy.

- Confidence in financial markets is eroding. Investors are withdrawing deposits from investments once thought to be safe and sound, while financial institutions are left struggling to obtain the financing necessary for businesses to operate day-to-day—buying inventory, keeping the lights on, and paying employees so they can feed their families.

- As Federal Reserve Chairman Ben Bernanke recently warned, if we fail to address our on-going problem with troubled mortgage-related securities, the nation will almost certainly fall into recession.

- If that recession were similar in magnitude to the recessions we have experienced since the early 1970s, the unemployment rate would balloon to between 7.4 percent and nearly 8 percent, throwing 2.0 to 2.7 million more workers on the unemployment lines. Unfortunately, the current potential for economic calamity far outweighs those previous recessions—they simply provide context for something much worse.

- Letting the economy slide into a severe recession has the potential to usher the U.S. into a "lost decade" of sluggish economic growth (similar to that faced by

Japan throughout the 1990s). We could witness economic losses totaling $7.3 trillion, far exceeding the cost of acting today to put our financial markets in order.

WHY WALL STREET IMPACTS MAIN STREET

- Businesses rely on the financial markets for their daily operations, purchasing inventory, writing paychecks, as well as their long-term investments that enable businesses to grow.

- A collapse in the financial markets would affect the commercial paper market that funds short-term loans which help businesses and companies pay for inventory and maintain production (i.e., no paper, no credit, no confidence, no loans).

- Without the ability to borrow money for both short- and long-term investments, businesses can't:
    - expand production;
    - hire new workers;
    - keep workers already employed; or
    - open new businesses (vital to economic growth).

- Families and businesses alike rely heavily on financial markets. Families borrow to purchase cars, appliances, furniture, and other consumer durables (or simply to go out to dinner). Businesses borrow for various essential reasons as well—for everything from overcoming short-term cash flow problems to investing in new equipment or new ideas. A collapse of the financial markets would prevent consumers and businesses from getting the funds they need to consume and invest—undermining two key drivers of the U.S. economy. The impact?
    - dramatic reduction in standard of living;
    - harder to pay for gas, food and utilities;
    - workers and families would earn less;
    - inability to save for retirement;
    - inability to pay for college;
    - loss of savings;
    - loss of retirement funds;
    - new home mortgages unavailable; and
    - home prices fall, property tax receipts decline, leading to dramatic cuts in funding for schools.

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Budget Impact of Financial Rescue

Perspective Preparation: The Summer Baseline Deficit update by the Congressional Budget Office (CBO) this year projected a deficit in 2009 of $438 billion based on laws enacted through August 2008. Many have asked how recent actions by the Federal government to stabilize the United States financial markets will affect the deficit in upcoming years.

Below is a budget perspective that will offer a summary of federal relief proposed for or extended to major financial entities in the U.S., discuss the difference between the actions of the Federal Reserve and the Federal Treasury, as well as how this activity could impact the U.S.

Summary of Federal Action Taken on Major Financial Institutions in 2008:

- **Bear Stearns** *(unilateral intervention by the Federal Reserve)*: The Federal Reserve announced in March a $29 billion line of credit available to JP Morgan (through an LLC called Maiden Lane) to buy Bear Stearns. In return, collateral is pledged against the loan in the event there is a default.

- **Fannie Mae and Freddie Mac** *(Congressional action allowing Treasury intervention)*: Congress enacted legislation in July, and the US Treasury Secretary used that authority in September to announce the Treasury is prepared to provide up to $100 billion in assistance to each of the two Government Sponsored Enterprises (GSEs).

- **AIG** *(unilateral intervention by the Federal Reserve)*: In September, the Fed makes $85 billion line of credit available to AIG. In exchange, AIG will repay the Fed first at an interest rate exceeding 11%, and the Fed will own 79.9 percent of AIG's stock.

- **Market Stabilization (MS) Proposal** *(requires Congressional action and Treasury implementation)*: The proposed legislation would give the Secretary of the Treasury the authority to purchase mortgage-related assets. The measure limits the amount of mortgage-related assets the Treasury may purchase to $700 billion outstanding at any given time. The authority would expire after two years.

The *Deficit* Question of the Day: How will all the interventions involving the Fed and Treasury affect the deficit for 2009 (or beyond)? For example, does the deficit for 2009 go up by, say, $1 trillion ($315 billion + $700 billion) because of action in 2008 related to the GSEs, Bear Stearns, AIG, and the MS proposal?

The *Less-than-a-Trillion Dollar* Answers: The deficit will NOT increase by over $1 trillion in 2009. Instead, the deficit impact in the outyears is expected to be much, much less than the total initial amount of resources that Treasury and the Fed are using (or are asking to use) to address these financial market problems.

The key to thinking about how these four sets (if you take the GSEs as one entity for simplicity of discussion) of loans affect the federal budget deficit is to distinguish between the gross cash flows of this assistance (gross cash out in loans, gross repayments of cash back in later) and the net difference between the cash out and repayments in (aka profit or loss on the loans).

A *profit* on the loans will actually *reduce* future deficits. (The eventual sale of any positive-value stock in these companies that the Treasury or Fed may own would also increase the profit the federal government would see from these arrangements, thereby decreasing the deficit.)

But any *loss* on the loans will *increase* the deficit in the year the loss is recognized by the Treasury or the Fed. Let's take each one in turn to see how it works.

Federal Reserve Action:

Background: The Fed is not even on the books of U.S. budget. Though created by the federal government, the Federal Reserve is an independent entity – it is a bank – that has deposits that earn interest and that makes loans (always collateralized) to borrowers who repay with interest. Total assets of the Fed are approximately $895 billion, but these do not appear in the U.S. budget. Only the profits that the Federal Reserve makes from its transactions are turned over to the Treasury as federal revenues, which in turn are part of the annual deficit calculation. Typically, the Fed turns about $30 billion in profits per year over to Treasury as federal revenues.

Bear Stearns

- The Fed first intervened in March to prevent the market from having to digest a failed Bear Stearns.

- At the end of June, the Fed extended nearly $29 billion in credit to Maiden Lane LLC, which was formed to acquire bad assets of Bear Stearns and manage them to minimize financial market disruption and to maximize the repayment of loans over the 10-year repayment period.

- The first repayment due under the loan terms is June 26, 2010. To the extent the loan is repaid with interest, the Fed will not suffer a loss. If some of the loan is not repaid, the Fed holds $30 billion in collateral and is in first position to be paid, and so still may not suffer a loss depending on the amount of recovery from the collateral.

- So we won't know for a few years whether the loan is on track to being repaid or whether the Fed will suffer a loss on the loan. If the Fed ultimately does report some of the loan as a loss, that will then affect the Fed's profit for that year. If the Fed's profit decreases because of a loss on a loan, then the federal deficit in a year would increase by only that amount of the loss.

AIG

- Next, take the more recent case of AIG. Most people are saying that the Federal government just spent $85 billion and seem to think the deficit has already gone up by that amount. The truth is that the $85 billion commitment has no direct or immediate impact on the deficit.

- While the Fed agreed to provide up to $85 billion in credit to AIG, thus far this credit line has been tapped for only $28 billion. The Fed has demanded a high interest rate that, combined with the fact that the Fed now owns 80% of the stock of the company and has extra collateral pledged under the loan, is likely to incentivize AIG to repay in full before the two-year term of the repayment period has expired.

- This suggests that it is unlikely the Fed will lose money on this arrangement. If the Fed makes money because of the high interest rate, it will increase its profits above the typical $30 billion per year, and that would reduce the federal deficit.

The Treasury Action

Background: Unlike the Federal Reserve, Treasury actions appear directly on the books of the U.S. budget. The Treasury is responsible for the cash management needs of the U.S. government. If the Treasury needs cash to liquidate federal obligations (i.e., issue checks or make outlays) or to provide working capital for Treasury operations or federal direct loan programs, then Treasury can borrow the cash (up to the limit on the debt) by holding an auction of Treasury securities.

Fannie Mae/Freddie Mac

- The law Congress enacted over the summer gave the Treasury secretary broad authority to provide assistance to the housing GSEs without specifying any numerical constraints on the authority.

- Since then, Paulson has announced that he is initially prepared to provide up to $100 billion in "assistance" to each GSE. Assistance could take the form of providing a loan, buying their stock, or buying their mortgage-backed securities (MBS).

- Thus far, the Secretary has implemented none of these actions, although he has announced Treasury will be buying $5 billion in MBS from the GSEs.

- It is unclear how Treasury will set the price it pays to the GSEs for the MBS (the GSEs will then be able to take the cash Treasury pays and will be able to purchase new MBS for new home loans to be made). If the principal and interest repayments on the MBS perform and return to the Treasury what it paid up-front for the MBS, then the Treasury will have a wash.

- If the Treasury pays too much or the loans in the MBS do not perform then Treasury will suffer a loss and the federal deficit will increase. (If the Treasury pays too little and the loans in the MBS perform far better than expected, the Treasury will make money.) The same concept applies to any loans that Treasury might make to the GSEs directly.

Market Stabilization – Paulson Proposal

- The 3-pages of legislation proposed by the Treasury Secretary would give him broad authority to purchase assets from the market. The proposal appears to have already undergone some change on its way to quick enactment, but some of its key elements follow.

- The legislation would give the Secretary of the Treasury the authority to purchase mortgage-related assets, though his authority to purchase such assets would be limited to $700 billion outstanding at any one time. This authority would expire after two years.

- The debt limit would be increased by $700 billion -- from $10.615 to $11.315 trillion.

- CBO and OMB plan to reflect this authority as a federal credit instrument (the government would be buying loans or securities made up of loans). That means that instead of showing the effects of this authority on a cash basis, which is the norm for most transactions in the federal budget, the budget will reflect these effects on a "credit reform" basis, which is the legal requirement for displaying loan programs.

- That means that, even if the Treasury Secretary goes out and spends the whole $700 billion on mortgage-related assets in 2009, the federal outlays will not go up by $700 billion, and the deficit will not increase by $700 billion.

- Instead, OMB and CBO will estimate the amount that they expect the Treasury will lose (or even gain?) in buying and then selling these assets, and will record that difference as part of the deficit calculation. For example, if the Treasury buys $700 billion in assets in 2009, and CBO and OMB expect Treasury will eventually sell them for $600 billion over, say, the next 10 years, then they will estimate the deficit in 2009 will be $100 billion higher than otherwise.

- If the actual sales of those assets in the future yield more or less than the $600 billion initially estimated, then the deficits measured in future years will go down or up (respectively) as a result of the actual experience in selling the assets (compared to the initial estimate of $100 billion).

- So for example, if we learn 10 years from now that we eventually sold all the assets for $650 billion, then the deficit effect of this bill will be recorded as a deficit increase of $100 billion in 2009 and a deficit decrease of $50 billion in 2019. If instead we learn 10 years from now that we eventually sold all the assets for only $500 billion, then the deficit effect of this bill will be recorded as a deficit increase of $100 billion in 2009 and a deficit increase of another $100 billion in 2019.

Summary to the Trillion Dollar Question:
The 2009 deficit is not going to increase from $438 billion to $1.4 trillion because of these actions taken by and authorities available to the Treasury and the Fed.

For most of the actions, it will be some time – years – before we know whether these entities suffered a loss or came out ahead. Under some of the arrangements (AIG), it is highly likely the federal government will come out ahead. Under some others, there is more of a possibility of a loss, but the loss will be only a percentage of the initial assistance level provided (in the S&L crisis, the federal government through the Resolution Trust Corporation – RTC – recovered nearly 80 cents on each dollar of assistance that it had to lay out initially).

Better estimates of the deficit effect are impossible until more info is available on how Treasury will use its GSE and MS (if enacted) authority and until more time passes to assess the true value of the mortgages that underlie all the assets in question.

Understanding the Financial Crisis

9/23/08

We are in the Midst of a Serious Financial Market Crisis

- Financial markets and banks depend on confidence. The markets are in the midst of a severe crisis of confidence. Last week, extreme risk aversion resulted in investors pulling billions in deposits from money market funds that are widely seen as safe, liquid investments. More troubling, major providers of critical short-term financing for financial and non-financial companies withdrew from the market, creating potential rippling effects throughout the economy.

- Investors are concerned that there is serious risk of a systemic financial collapse. Because of this concern, there is a wholesale flight to cash and U.S. Government securities. Fundamentally sound financial institutions and blue chip industrial companies are struggling to obtain critical financing. Without decisive action, a systemic crisis could become a self-fulfilling prophecy.

  A systemic financial crisis would have serious negative impacts on Americans' everyday lives and economic well-being. When businesses and financial institutions can't finance their normal operations, the implications to the economy are severe. Families lose access to their savings and are unable to borrow to finance a home, a car, a college education, or other important investments. Businesses unable to access short and long-term financing cease operations and do not invest. New job creation slows significantly, credit becomes scarce, and current jobs are at risk.

- A comprehensive approach is needed to restore confidence and enhance market stability — case-by-case solutions are no longer enough.

Last Week Dramatically Showed the Impact of Fear

A freezing up of our financial markets will spill over into real economic activity – threatening the jobs and livelihoods of everyday Americans.

- Investors last week fled to the safety of U.S. Treasury securities. Even very safe assets—including overnight loans to blue chip companies — were being dumped. Many investors wanted to hold only U.S. Treasury securities and this demand led the interest rate on 3-month government borrowing to fall to nearly zero — to 0.03 percent on September 17 from 1.68 percent 12 days earlier. Moreover, the rate on the 4-week bill traded at one point *below* zero percent given the unparalleled demand for Treasuries.

- Flight from money market mutual funds. Money market mutual funds are among the investments that American families believe are the least risky. These funds are viewed as very liquid and safe, and the expectation is that, no matter what, you will always get back whatever amount of money you put in. Last week one money market fund "broke the buck" – meaning it could not assure investors that they would get back every dollar they put in. This was only the second time in history that a money market mutual fund had "broken the buck." Fear quickly spread to other money market mutual funds, and investors pulled an unprecedented $335 billion out of such market funds within days.

- To meet these redemptions, these funds were forced to quickly sell financial assets for cash where liquidity existed. This put further downward pressure on asset prices. Some funds announced plans to close or to halt investor withdrawals, further spreading fear among money fund investors. This cycle threatened to put at risk the savings that millions of Americans rely on for everything from daily spending to long-term investments.

- Pressure on commercial paper issuers. Commercial paper is short-term debt issued by many companies, financial and non-financial, to finance ongoing business operations. Money market funds are large investors in commercial paper. When investors began to withdraw investments from money market funds, the funds sold assets where there were buyers (e.g. Treasury and Agency). This created additional challenges for commercial paper as a source of financing for U.S. companies suddenly shrank.

- Even some of the largest blue chip U.S. industrial companies faced unexpected difficulties securing necessary, normal funding. Business activity in the United States would be severely compromised without access to short-term financing: companies may not meet payrolls or buy supplies or equipment.
  - The amount of commercial paper outstanding fell by $75 billion in the week ending Wednesday, September 17—a decline of more than one-third the average weekly issuance in the first half of 2008.
  - Ever more fearful investors were only willing to lend overnight, rather than lending for a few weeks or months as they normally do. This further increased businesses' uncertainty about funding. Overnight interest rates spiked to over 6 percent from less than 3 percent a week before.

- Banks under severe funding pressure. The interest charged on lending between banks doubled over the week. Foreign exchange swap markets used by overseas banks to borrow dollars effectively seized, and implied interest rates on overnight dollar funding materially increased before central banks intervened to add liquidity.

- Flight from investment banks. Investors that fund the operations of investment banks began pulling their money out of the remaining independent investment banks. Investment banks play an important role in helping companies in the United States and around the world access capital markets for the financing they need to undertake long-term investments. Millions of Americans also rely on investment banks to invest and safeguard their everyday savings and their retirement assets.

- Signs of capital flight. Foreign investors began to withdraw money from U.S. capital markets. If continued, this would have had serious consequences --- taking productive resources away from our economy, and potentially contributing to higher interest rates and inflation.

- Stock markets plummeted. Between September 5 and 17, the capitalization of stocks in U.S. markets fell by $1.3 trillion. This put downward pressure on family savings at a time when consumers were already burdened by the slow labor market, declining home values, and high energy prices.

  - Roughly 50 percent of American families hold stock either directly or indirectly, and roughly 50 percent have retirement accounts.

- o Private pension plans, including defined benefit and defined contribution plans hold over $5.6 trillion in financial assets. More than $4.2 trillion of these assets are in corporate stocks and mutual funds. (Flow of Funds, L118)

- o The Investment Company Institute estimates that 401(k) plan assets were over $3 trillion in 2007. 401(k) participants in their 20's hold nearly 80 percent of assets in equities; participants in their 60's over 60 percent.

- o Sixty-seven percent of U.S. household heads between 63 and 73 have some type of private pension. (Center for Retirement Research)

- o Over 50 percent of full-time workers participate in a pension plan. (Center for Retirement Research)

- o Over 46 million American households have over $4.7 trillion saved in IRAs. (ICI)

- o As of July 2008, there was over $11.5 trillion invested in mutual funds, nearly $3.5 trillion money market accounts (ICI).

Financial Market Troubles Affect All Americans

- Capital markets matter for everyone—they affect everything from home loans, to student loans, retirement savings, and insurance. Businesses rely on capital markets to fund daily expenses and long-term investments. If financial markets collapse there will be an economic contraction affecting Americans jobs and livelihoods as consumers will be unable to finance essential purchases and businesses will not be able to operate and expand.

- The decline in housing prices is the root cause of the financial market turmoil and remains a risk to the economy. Billions of dollars of illiquid mortgage assets remain on the balance sheets of financial institutions, because of this illiquidity these assets are clogging U.S. credit markets. Until this issue is resolved the financial system and economy remain at risk.

- The financial market turbulence also puts the housing market at greater risk. A lack of mortgage financing will put further pressure on home prices and result in more foreclosures as struggling homeowners would be unable to refinance mortgages. Turning the corner on housing is essential to restoring long-term economic growth.

- Millions of Americans have their savings in money market mutual fund accounts, which are considered one of the safest investments. A run on these accounts threatens more than $3 trillion of American families' and businesses' money, and deprives our market of an important source of liquidity.

- Businesses need to access the financial markets to fund their normal operations. Difficulties in markets such as commercial paper will result in economic losses as even strong, well-managed businesses will be unable to fund on-going operations. This put small businesses, growth and job creation at risk at a time when the economy is still dealing with headwinds from the housing correction and the impact of high energy prices.

Without Action, Our Economy is Threatened

- Household consumption is 70 percent of the U.S. economy and is already weakened as families felt pressed by the soft job market, sliding home values, and high energy prices. A credit disruption would reduce consumer spending across the board.

- Business investment would be severely compromised if there is a systemic financial crisis. Companies depend on credit to meet payrolls, finance inventories, and maintain production lines. Normal operations of virtually every business in America are threatened without decisive action.

- Economic growth is threatened unless we act. Jobs would be lost. Consumer income would decline, setting off further rounds of reduction in GDP and jobs.

How the Democrats Created the Financial Crisis

By Kevin A. Hassett
Posted: Monday, September 22, 2008

The financial crisis of the past year has provided a number of surprising twists and turns, and from Bear Stearns Cos. to American International Group Inc., ambiguity has been a big part of the story.

Why did Bear Stearns fail, and how does that relate to AIG? It all seems so complex.

But really, it isn't. Enough cards on this table have been turned over that the story is now clear. The economic history books will describe this episode in simple and understandable terms: Fannie Mae and Freddie Mac exploded, and many bystanders were injured in the blast, some fatally.

Fannie and Freddie did this by becoming a key enabler of the mortgage crisis. They fueled Wall Street's efforts to securitize subprime loans by becoming the primary customer of all AAA-rated subprime-mortgage pools. In addition, they held an enormous portfolio of mortgages themselves.

In the times that Fannie and Freddie couldn't make the market, they became the market. Over the years, it added up to an enormous obligation. As of last June, Fannie alone owned or guaranteed more than $388 billion in high-risk mortgage investments. Their large presence created an environment within which even mortgage-backed securities assembled by others could find a ready home.

The problem was that the trillions of dollars in play were only low-risk investments if real estate prices continued to rise. Once they began to fall, the entire house of cards came down with them.

Turning Point

Take away Fannie and Freddie, or regulate them more wisely, and it's hard to imagine how these highly liquid markets would ever have emerged. This whole mess would never have happened.

It is easy to identify the historical turning point that marked the beginning of the end.

Back in 2005, Fannie and Freddie were, after years of dominating Washington, on the ropes. They were enmeshed in accounting scandals that led to turnover at the top. At one telling moment in late 2004, captured in an article by my American Enterprise Institute colleague Peter Wallison, the Securities and Exchange Commission's chief accountant told disgraced Fannie Mae chief Franklin Raines that Fannie's position on the relevant accounting issue was not even "on the page" of allowable interpretations.

Then legislative momentum emerged for an attempt to create a "world-class regulator" that would oversee the pair more like banks, imposing strict requirements on their ability to take excessive risks. Politicians who previously had associated themselves proudly with the two accounting miscreants were less eager to be associated with them. The time was ripe.

Greenspan's Warning

The clear gravity of the situation pushed the legislation forward. Some might say the current mess couldn't be foreseen, yet in 2005 Alan Greenspan told Congress how urgent it was for it to act in the clearest possible terms: If Fannie and Freddie "continue to grow, continue to have the low capital that they have, continue to engage in the dynamic hedging of their portfolios, which they need to do for interest rate risk aversion, they potentially create ever-growing potential systemic risk down the road," he said. "We are placing the total financial system of the future at a substantial risk."

What happened next was extraordinary. For the first time in history, a serious Fannie and Freddie reform bill was passed by the Senate Banking Committee. The bill gave a regulator power to crack down, and would have required the companies to eliminate their investments in risky assets.

Different World

If that bill had become law, then the world today would be different. In 2005, 2006 and 2007, a blizzard of terrible mortgage paper fluttered out of the Fannie and Freddie clouds, burying many of our oldest and most venerable institutions. Without their checkbooks keeping the market liquid and buying up excess supply, the market would likely have not existed.

But the bill didn't become law, for a simple reason: Democrats opposed it on a party-line vote in the committee, signaling that this would be a partisan issue. Republicans, tied in knots by the tight Democratic opposition, couldn't even get the Senate to vote on the matter.

That such a reckless political stand could have been taken by the Democrats was obscene even then. Wallison wrote at the time: "It is a classic case of socializing the risk while privatizing the profit. The Democrats and the few Republicans who oppose portfolio limitations could not possibly do so if their constituents understood what they were doing."

Mounds of Materials

Now that the collapse has occurred, the roadblock built by Senate Democrats in 2005 is unforgivable. Many who opposed the bill doubtlessly did so for honorable reasons. Fannie and Freddie provided mounds of materials defending their practices. Perhaps some found their propaganda convincing.

But we now know that many of the senators who protected Fannie and Freddie, including Barack Obama, Hillary Clinton and Christopher Dodd, have received mind-boggling levels of financial support from them over the years. Throughout his political career, Obama has gotten more than $125,000 in campaign contributions from employees and political action committees of Fannie Mae and Freddie Mac, second only to Dodd, the Senate Banking Committee chairman, who received more than $165,000.

Clinton, the 12th-ranked recipient of Fannie and Freddie PAC and employee contributions, has received more than $75,000 from the two enterprises and their employees. The private profit found its way back to the senators who killed the fix. There has been a lot of talk about who is to blame for this crisis. A look back at the story of 2005 makes the answer pretty clear.

Oh, and there is one little footnote to the story that's worth keeping in mind while Democrats point fingers between now and Nov. 4: Senator John McCain was one of the three cosponsors of S.190, the bill that would have averted this mess.

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Wall Street Journal - editorial

September 24, 2008

The Paulson Sale

As the cost of the credit panic becomes clearer, Americans are furious and have every right to be. The political and financial classes created this mess, and now taxpayers are being asked to save the day. We wish there were a way around this outcome, but the price of doing nothing now is likely to be far higher both for taxpayers and the cause of free markets.

The reality is that last week we had a global panic that included a flight from even basic financial assets like money-market funds and commercial paper. This was not Hank Paulson's invention. Panics are real events. If allowed to become crashes, they can have terrible economic consequences. We were lucky to forestall a crash last week, but the underlying sickness has to be addressed to avoid a recession, perhaps even a deep one.

The core of that sickness is a large capital hole in the financial system, and private capital alone can't fill it. A variety of mortgage securities are underpinned by housing assets that are falling in value. Those losses are real and will have to be written off eventually.

Private capital is vital but won't be forthcoming as long as no one knows what those assets are worth and which firms might fail. Public capital will be needed to refinance the banking system, whether through the FDIC or some other mechanism. Anyone who thinks otherwise doesn't understand the extent of this problem.

Treasury Secretary Paulson's plan would address the core sickness of those toxic securities. The point is to create a market when one doesn't exist, as well as a holding capacity and time to work out the assets. Real-estate securities are inherently sticky. Yet on bank balance sheets, they must either be written down or held like a ball and chain that inhibits other lending. The Treasury has the luxury of patience to buy and hold securities until they rise in price when home prices stabilize.

In that sense, the $700 billion isn't spending per se, like Medicare, but will instead be used to purchase these troubled assets. The risk to taxpayers is real, to be sure, especially because Mr. Paulson isn't telling anyone how Treasury intends to buy the assets. His concept of a "reverse auction" would let banks bid securities against a Treasury offer of cash -- say, $50 million. This is better than a flat-price purchase, but it still puts banks in a superior bargaining position based on what they know about the assets.

The better idea is an open auction. This would let private buyers join Treasury in bidding for bank securities. Taxpayers wouldn't have to buy all bad securities first, and, as the market develops, those that Treasury does buy would rise in price. Treasury could even make money on the resale.

Deriding bailouts is politically potent, but the truth is that taxpayers are at risk whether or not the Paulson plan passes. The Federal Reserve's balance sheet is distended with crummy collateral, plus an $85 billion loan to AIG and a $29 billion guarantee for Bear Stearns securities. More bank failures are likely, as housing prices keep falling. Moonlighting as a bailout agency isn't the Fed's job and only undermines its credibility on the dollar. The Paulson plan puts these taxpayer obligations where they belong -- with the Treasury.

Another misconception is that the credit problem will vanish if only Treasury suspends "mark-to-market" accounting -- as if those bad assets wouldn't still exist. The banks themselves would know they still have this bad paper and aren't likely to engage in much new lending. Investors also don't trust the bank marks now; imagine what they'll think if the U.S. declares that cooking the books is official policy. Mark-to-market has surely contributed to this mess and needs to be revisited. But to toss it aside wholesale now would risk turning banks into the zombies of Japan's lost decade.

Another weird objection is that the program will have no "oversight." Hello? Within a month, the problem would be too much oversight, as Congress tries to second-guess every asset purchase and sale. That's especially true if Treasury were to try and use these purchases to "recapitalize" the banks by overpaying for the assets.

Mr. Paulson has to understand this will never fly politically. Unless Treasury buys assets at the market price and in a transparent way, Congress will bludgeon him or his successor for every transaction that looks like a steal for Wall Street.

There is a better -- and more transparent -- way to put public capital into the banks while protecting taxpayers: through the Federal Deposit Insurance Corp. The FDIC has long had the power to handle failed banks. But in 1991, Congress passed the Federal Deposit Insurance Corporation Improvement Act (FDICIA) that limited the FDIC's ability to provide assistance to struggling but still solvent banks.

The exception is when there is a risk to the entire financial system. In that case, the President, Treasury Secretary and two-thirds of the Fed board can authorize such open-bank aid. The current moment would seem to qualify. Yet the White House has so far refused to trigger this exception and let the FDIC work with the likes of Wachovia, Morgan Stanley, and others before they crash and burn.

Whether or not the Paulson plan passes, President Bush should sign the FDICIA waiver. This would allow Treasury and the FDIC to inject new capital into banks early enough to prevent failures; in return, the feds could impose some discipline in the form of management dismissals and preferred stock or warrants that would protect taxpayers when the banks recover. This also beats the Congressional idea of attaching taxpayer warrants to the Paulson plan, which will be much harder to administer to hundreds of banks as opposed to one at a time through the FDIC.

Even if the Paulson plan passes Congress, this needs to be part of the strategy to stabilize the financial system. And if the Paulson plan fails on Capitol Hill, this is the only Plan B around.

Don't get us wrong. While the Paulson plan has risks in both design and execution, we support it as a way to defend the larger financial system if it can be passed in clean enough form to create a market. The plan has the potential to work better than Mr. Paulson made it sound with his dour salesmanship Tuesday that this is all "embarrassing for the United States of America." That isn't the way to inspire confidence among the American people.

What Americans deserve to hear is that, despite 13 months of credit turmoil, our resilient economy is still standing; and that this $700 billion will be the best money Congress appropriates this year if it prevents a recession and crash.

Report Card

Report Card for the 110th Congress

Energy

Majority Leader Reid: *"The American people want their Congress to help lower gas prices, make us more energy independent and reduce global warming emissions, and we look forward to passing bipartisan energy legislation that does just that." (Press Release, 6/15/07)*

Republican Solutions

- 44 Republicans co-sponsored the Gas Price Reduction Act, which would boost American energy production by one-third through offshore exploration and western states' oil shale and reduce imported oil by one-third by making it easier for millions of Americans to drive plug-in electric cars and trucks.
- Due to Republican pressure and the insistence of the America people, the bans on offshore drilling and on oil shale exploration were lifted.

Democrat Mismanagement

- Gas prices have risen by one dollar and sixty-one cents from the $2.20 price per gallon when Democrats were elected to control of Congress in November 2006.
- Democrats tried and failed to impose the equivalent of a 53-cent-per-gallon gas tax increase through their ill-conceived global warming legislation.

Spending

Majority Leader-Elect Reid: *"We need … a commitment to fiscal responsibility so our government stops bleeding red ink." (Democratic Radio Address, 11/17/06)*

Republican Solutions

- 27 Republicans co-sponsored the Stop Over-Spending (S.O.S.) Act, which would create new forces to restrain federal spending, reduce the deficit, and gain control of the federal budget process.
- Republicans have long called for a line-item veto tool that would allow the president to target wasteful spending.
- Republicans have pushed for a two-year budget cycle, which would allow Congress to spend more time on oversight.
- Republicans would establish a Bipartisan Entitlement Commission to review the current and long-term solvency of Social Security, Medicare, and Medicaid.

Democrat Mismanagement

- Under Democrat leadership, this fiscal year's budget deficit has risen to $407 billion. Worse still, the CBO projects that next year's deficit will rise to a record $438 billion.[i]
- Under Democrat leadership, Congress passed 11,610 member-sponsored projects in spending bills for fiscal year 2008 at a cost to taxpayers of $17.2 billion, which is the second-highest number of earmarks since Citizens Against Government Waste began counting 18 years ago. In the Senate, Democrat earmarks account for 60% of the total at a cost of $9.5 billion.[ii]

Economic Management

Majority Leader Reid: *"Democrats are continuing to deliver on our promises to strengthen our economy …" (Press Release, 10/16/07)*

Republican Solutions

- Republicans pressed for appropriate and serious reforms of Fannie Mae and Freddie Mac, which could have prevented the subprime mortgage crisis from spinning out of control.
- Republicans fought for improved disclosure requirements and transparency, increased risk-based regulatory oversight, and creation of a greater separation between the taxpayers and the business operations of these firms without causing financial dislocation or upsetting the mortgage markets.

Democrat Mismanagement

- Fannie Mae and Freddie Mac's enormous acquisition of deeply troubled mortgage debt has been responsible for much of our present financial crisis. Unfortunately, the poor choices of these two government-sponsored enterprises were abetted by Democrats, who refused to appropriately reform them.
- Over the last 10 years, the top five recipients of Fannie Mae and Freddie Mac campaign contributions have all been Democrats: Chris Dodd, John Kerry, Barack Obama, Hillary Clinton, and Paul Kanjorski. Furthermore, during this election cycle, Democrats received nearly $620,000 from these two sources.[iii]

Taxes

CBS News' Bob Schieffer: *"Are you going to raise taxes? Is it inevitable that taxes be raised?"*
Majority Leader-Elect Reid: *"The answer is no." ("Face the Nation," 11/12/06)*

Republican Solutions

- 26 Republicans co-sponsored the Invest in America Act in April 2007 to make permanent the tax cuts of 2001 and 2003 and reassure taxpayers that taxes will remain low.
- In addition to making those reduced tax rates permanent, the measure would have fully repealed the death tax, fully repealed the Alternative Minimum Tax, made permanent the current capital gains and dividends tax rates, made permanent the current increased limits on small business expensing, and made permanent the research and development tax credit.

Democrat Mismanagement

- Democrats have refused to take action to prevent the largest tax increase in American history by renewing the 2001 and 2003 tax cuts. Allowing the cuts to expire would add $1,900 to the tax bill of a family of four with an income of $60,000. 43 million families with kids would have to pay an average tax increase of $2,323.[1]

Productivity and Openness

Majority Leader Reid: *"We are going to work longer hours, we are going to work full weeks, we are going to have votes on Mondays and Fridays." (Associated Press, "Democrats Vow 5-Day Workweek ... Sort Of," 1/4/07)*

Republican Solutions

- Republicans have insisted on a vigorous debate and an open amendment process on the most important issue facing the American family budget: energy and high gas prices.

Democrat Mismanagement

- Under Democrat leadership, the Senate voted on fewer days in 2008 than in the previous four election years. The Senate actually has had more days where it claimed to be in session but held no votes than it has had days with votes.[v]
- Under Democrat leadership, the Senate voted more often to cut off debate and amendment last year than in any other first session of a Congress in at least the last 38 years.[vi]
- Democrats' Senate leadership tried to end debate nine times last year before it could even begin.[vii]

Iraq and the War on Terror

Majority Leader Reid: *"Democrats will continue to fight to makes [sic] America more secure." (Press Release, 4/16/07)*

Republican Solutions

- Republicans unanimously supported the confirmation of General Petraeus first as commander of U.S. forces in Iraq and now as commanding officer of the Central Command.
- Republicans resisted Democrat attempts to withdraw troops from Iraq by arbitrary deadlines that ignored the views of our commanders and the situation on the ground.

Democrat Mismanagement

- Democrats allowed crucial terrorist surveillance legislation to expire for months before renewal, despite the warning of Intelligence Committee Chairman Rockefeller (D-WV) that "the quality of the intelligence that we are going to be receiving is going to be degraded."

Judges

Then-Minority Whip Reid: *"It is a myth that judges are not traditionally confirmed in Presidential election years. It is simply not true." (Congressional Record S1214, 3/7/00)*

Republican Solutions

- Republicans, recognizing the need to fill judicial vacancies, in particular the seven Circuit Court vacancies deemed judicial emergencies[viii], pressed for timely hearings and fair up-or-down votes for all judicial nominees.

Democrat Mismanagement

- Democrats have confirmed fewer judges during the final two years of President Bush's term than Congress did in the final two years of the Clinton, H.W. Bush, Reagan, or Carter administrations.

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[1] "CBO sees budget deficit rising next year," *Reuters*, 9/11/08.
[1] "2008 Congressional Pig Book Summary," Citizens Against Government Waste.
[1] Lindsay Renick Mayer, "Fannie Mae and Freddie Mac Invest in Democrats," Center for Responsive Politics, 7/16/08.
[1] Jeanne Sahadi, "Bush: 43M families hurt if tax cuts expire," CNNMoney.com, 6/2/08.
[1] The number of days the Senate has been in session so far this year (141 days and counting) is consistent with the historic average for the number of days of session in a 2nd Session of Congress (140 days in the last 5 Congresses), but the Senate will have actually held votes on far fewer days than normal. Going back to 2000 (in even years), the Senate has held votes, on average, on 65 percent of the days the Senate has been in session. This year, the Senate has held votes on only 49 percent of the days the Senate has been in session.
[1] In the first session of this Congress, 14% of all roll call votes were cloture votes. Nearly 23% of all votes this year have been cloture votes. Cloture votes represent nearly 17% of all roll call votes in the 1st and 2nd sessions of this Congress combined.
[1] Senate Democrats filed cloture 9 times on the same day a bill or substitute amendment text was made available to the Senate.
[1] Judicial emergencies are defined by the non-partisan Judicial Conference of the United States as "Any vacancy in a court of appeals where adjusted filings per panel are in excess of 700; OR any vacancy in existence more than 18 months where adjusted filings are between 500 to 700 per panel."

Senate Republican Conference

Recess Packet

SENATE REPUBLICAN CONFERENCE
Lamar Alexander, Chairman
John Cornyn, Vice Chairman