

STATEMENT OF

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before the

SELECT COMMITTEE ON  
ENERGY INDEPENDENCE & GLOBAL WARMING

of the

HOUSE OF REPRESENTATIVES

July 23, 2008

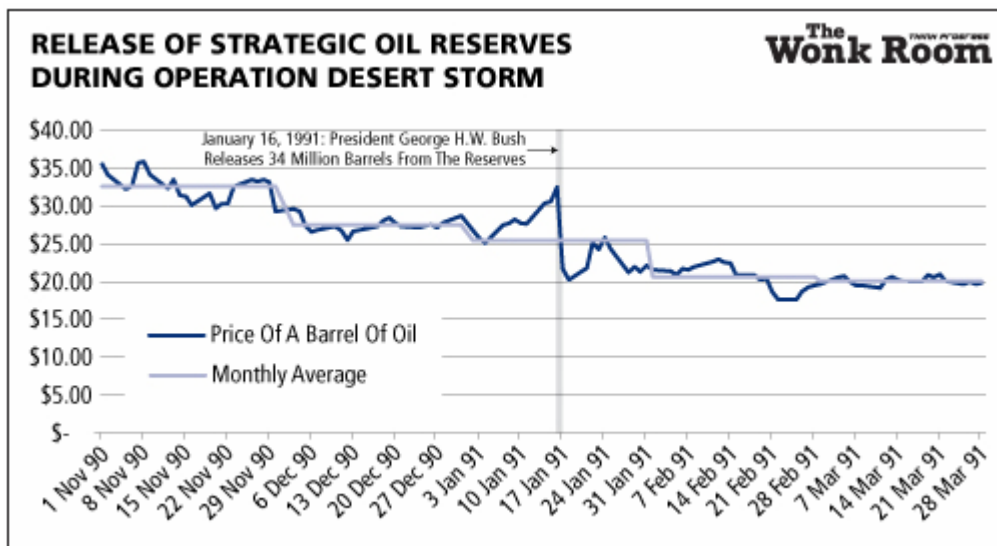
Mr. Chairman, members of the Committee, I am delighted to appear before you today to discuss what I believe is the only plausible way to give Americans immediate relief from high oil prices. I am a Senior Fellow at the Center for American Progress Action Fund here in Washington, DC where I run the blog *ClimateProgress.org*. I have published and lectured widely on oil issues, including the June CAPAF report, “Bursting the Oil Bubble: Sell Oil from the Strategic Petroleum Reserve to Lower Prices”

From 1993 to 1995, I was special assistant for policy and planning to the deputy secretary of energy, who oversaw all of DOE’s energy programs, including the SPR. I served as Acting Assistant Secretary at the U.S. Department of Energy’s Office of Energy Efficiency and Renewable Energy during 1997 and Principal Deputy Assistant Secretary from 1995 through 1998. In that capacity, I helped manage the largest program in the world for working with businesses to develop and use oil-reducing technologies. I hold a Ph.D. in physics from the Massachusetts Institute of Technology.

Like an endless rising tide, oil prices continue to climb. Beginning on January 2, when oil sold for \$100 per barrel for the first time, price records have been shattered on almost a weekly basis. Some analysts predict oil reaching \$200 per barrel by 2010.

There are very few immediate actions that government can take to stop the oil price escalator. We tried opening up most of the Gulf of Mexico to offshore drilling two years ago, but that failed miserably and oil prices have doubled since then. Ending the moratorium on coastal drilling, where there is realistically maybe one-fifth of the oil already available for drilling in the Gulf, offers no realistic hope of reducing oil prices, a point the Bush administration’s own EIA has repeatedly made.

But selling a relatively modest amount of crude oil from the U.S. Strategic Petroleum Reserve while promoting oil efficiency could pop the speculative oil price bubble and lower prices. Opening the SPR worked very well when President Bush’s father did it during Desert Storm:



It is hard for me to see how anyone who thinks oil prices will drop if we end the federal moratorium on coastal drilling – which might deliver 100,000 barrels of oil a day sometime after 2020 – could oppose releasing 500,000 barrels a day of oil starting now. Of course, the first strategy would benefit oil companies and the second strategy would benefit the American people, so that may explain who supports which policy.

Many factors are driving record oil prices. Production in some oil producing nations such as Mexico and Russia is stagnant. Other producers, such as Saudi Arabia, won't (or can't) produce much more oil because they make huge amounts of money now and suspect oil prices will be even higher in the future. President Bush and Vice President Cheney both traveled to Saudi Arabia this year to beg the sheiks to increase their oil production to ease the supply crunch and reduce prices. As with many other of their endeavors, Bush and Cheney failed. Growing demand from China and India is also contributing to high prices, but we still consume twice as much oil as the two countries combined.

Many analysts believe that the weakened dollar helped drive up the price of oil. Petroleum is sold internationally in dollars, and a weak dollar drives investors and speculators toward the purchase of commodities such as oil that will retain their value in the face of a declining dollar. Oil bought on January 2, 2008 at \$100 per barrel, for example, sells today for \$132—nearly a one-third return rate in six months. Speculators can plunk down only 5 percent to 7 percent of the purchase price for oil futures, enabling them to dramatically increasing the size of their purchase.

The U.S. Strategic Petroleum Reserve (SPR) was created in 1975 in the wake of the 1973 OPEC oil embargo to help the United States buffer against oil price shocks that have “major adverse impact on national safety or the national economy.” If current conditions – we are at war in the Persian Gulf, oil prices are soaring, the dollar is collapsing, the economy is weakening – aren't sufficient to justify releasing some oil from the SPR, I can't imagine what catastrophic set of circumstances would be.

The fact is we can easily increase supply temporarily, ease costs, and perhaps disrupt any speculators' expectation that oil prices are a safe bet for high returns. The United States sits on 705 million barrels of oil in the Strategic Petroleum Reserve. Since it is 97 percent full, we could sell a half million barrels of oil per day for a year without increasing our exposure to a catastrophic oil disruption. The SPR would still be at 75 percent capacity.

Increasing the oil supply would alter the current psychology that oil prices will continue to rise due to growing demand and fixed supply. Investors and speculators in oil contracts would see that betting on higher prices is no longer a sure thing and it could scare the quick-buck speculators out of the market.

This SPR oil sale would also generate significant funds for the federal government. The SPR oil was bought at an average price of about \$28 per barrel. It could sell for the market price, which could be anything from \$100 to \$130 per barrel. If the average sale price is \$115 per barrel, the SPR oil would generate nearly \$58 million per day. These funds could provide a rebate to low-income households, finance clean energy technologies, or expand mass transit systems, which have begun to strain under record ridership.

Since SPR's creation, there have been two emergency sales of crude oil from the SPR. After Hurricane Katrina disrupted oil flow from the Gulf of Mexico in 2005, 11 million barrels of oil were sold. In the wake of the Persian Gulf War 21 million barrels were sold in 1990-91. In 1996-97, 28 million barrels were sold for nonemergency reasons. In other words, 60 million barrels were sold over the years when the SPR contained much less oil than it does today. And the harm to low- and middle-income households of record gasoline and oil prices—which did not exist on any of these other occasions—mandates that this is an appropriate time to sell some amount of SPR oil.

Selling SPR oil should not be the only immediate action to provide relief for American families. A “fuel price oilbate” program could assist low- and middle-income families with high fuel and food prices by allowing them to recoup some of the money spent on the increased cost of gasoline since 2001. Closing outrageous tax loopholes for big oil and recovering lost oil and gas royalties from the Gulf of Mexico could pay for the program.

Since President Bush took office, the oil industry has guided his energy policies. So it's no surprise that he has not urged Americans to increase their efficiency or done anything else to help lower gasoline prices. He should use his bully pulpit, as well as launch a national oil efficiency education campaign. He should urge American consumers and businesses to take a variety of steps to reduce gasoline use, save money, and lower prices, including:

- Drive the speed limit, which could increase highway mileage up to 25 percent.
- Properly inflate tires, change air filters, and tune up cars, which could reduce gasoline use by up to 17 percent.
- Expand telecommuting and flextime.
- Combine discretionary trips and increase ride-sharing.

These simple measures could provide savings comparable to the oil released from the SPR—if President Bush and the rest of his administration worked with governors and mayors to encourage Americans to embrace them. But that might cut into big oil company profits, so it's unlikely that he would adopt such a win-win approach in his last few months in office.

Selling oil from the SPR, the fuel price oilbate program, and an efficiency push, could reduce prices and assist households most affected by high prices. A proposed “gas tax holiday” will not accomplish either goal. It would take money from the highway trust fund that is a crucial job-creating stimulus, and which our decaying transportation infrastructure requires. If not, then it would add \$11 billion to our \$317 billion deficit for the first eight months of FY 2008.

Oil companies don't have to lower prices to reflect lifting the 18.4 cents per gallon tax. Indeed, as N. Gregory Mankiw, the former chair of President Bush's Council of Economic Advisors, says, “What you learn in Economics 101 is that if producers can't produce much more, when you cut the tax on that good, the tax is kept ... by the suppliers and is not passed on to consumers.” So the gas tax holiday” would bring the most joy to the big oil companies that already have record profits.

Conservatives blame high gasoline prices on the protection of unique places from dirty oil drilling. This is a false claim. The House Committee on Natural Resources investigated this charge and found that, “Between 1999 and 2007, the number of drilling permits issued for development of public lands increased by more than 361 percent, yet gasoline prices have also risen dramatically contradicting the argument that more drilling means lower gasoline prices. There is simply no correlation between the two.”

Conservatives nonetheless want to use record gasoline prices as an excuse to drill for oil in the Arctic National Wildlife Refuge and off of the Atlantic and Pacific coasts. These would do nothing to reduce high gasoline prices. A new analysis by the Bush administration's own Department of Energy projects that drilling in the Arctic would cut gasoline prices a mere 2 cents, and not until 2025.

Oil companies have developed only one-quarter of the offshore leases they already hold in the western Gulf of Mexico. They must develop these leases before drilling off Malibu or the Chesapeake Bay. The House Committee determined that, “Development of and production from the 68 million acres currently under lease but not in production would cut U.S. imports of oil by one third.”

In response to these undeveloped leases, House leaders introduced the Responsible Federal Oil and Gas Lease Act of 2008, H.R. 6251. It would require big oil companies to either develop oil from their leases on federal public lands and waters, or give them up.

Let me drill deeper into this issue using the EIA’s analysis “Impacts of Increased Access to Oil and Natural Gas Resources in the Lower 48 Federal Outer Continental Shelf.” The oil companies already have access to some 34 billion barrels of offshore oil they haven’t even developed yet, but ending the federal moratorium on offshore drilling would probably add only another 8 billion barrels (assuming California still blocks drilling off its coast). Who thinks adding under 100,000 barrels a day in supply sometime after 2020 — some one-thousandth of total supply — would be more than the proverbial drop in the ocean? Here is the key data from EIA:

**Table 10. Technically recoverable undiscovered oil and natural gas resources in the lower 48 Outer Continental Shelf as of January 1, 2003**

<i>OCS areas</i>	<i>Crude oil (billion barrels)</i>	<i>Natural gas (trillion cubic feet)</i>
<b>Available for leasing and development</b>		
<i>Eastern Gulf of Mexico</i>	2.27	10.14
<i>Central Gulf of Mexico</i>	22.67	113.61
<i>Western Gulf of Mexico</i>	15.98	86.62
<b>Total available</b>	<b>40.92</b>	<b>210.37</b>
<b>Unavailable for leasing and development</b>		
<i>Washington-Oregon</i>	0.40	2.28
<i>Northern California</i>	2.08	3.58
<i>Central California</i>	2.31	2.41
<i>Southern California</i>	5.58	9.75
<i>Eastern Gulf of Mexico</i>	3.98	22.16
<i>Atlantic</i>	3.82	36.99
<b>Total unavailable</b>	<b>18.17</b>	<b>77.17</b>
<b>Total Lower 48 OCS</b>	<b>59.09</b>	<b>287.54</b>

Look closely. As of 2003, oil companies had available for leasing and development 40.92 billion barrels of offshore oil in the Gulf of Mexico. I asked EIA how much of that (estimated) available oil had been discovered in the last five years. They said “about 7 billion barrels have been found.” That leaves about 34 billion still to find and develop.

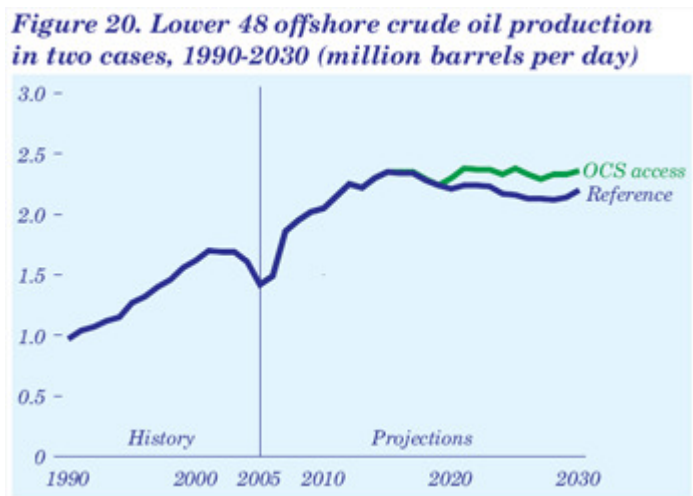
The federal moratorium only blocks another 18 billion barrels of oil from being developed. But, as you can see, most of that is off of California, which has bipartisan opposition to drilling from Republican Governor Schwarzenegger — who seems serious about his commitment to greenhouse gas reduction — and the Democratic legislature, which remembers all too well the devastating 1969 oil spill off the coast of Santa Barbara. Indeed, Karen Bass, the newly appointed speaker of the State Assembly, said, “The idea of increasing offshore drilling off the coast of California I think is absurd, and I can’t even imagine we would entertain that.” Why would they, given the risk to their beautiful coasts and their commitment to reduce statewide greenhouse gas emissions 80% by midcentury?

So that only leaves about 8 billion barrels, which is about what the world uses in three months. And that assumes every other state, including Florida, goes aggressively with offshore drilling, which is exceedingly unlikely.

Here are the assumptions EIA makes:

Assumptions about exploration, development, and production of economical fields (drilling schedules, costs, platform selection, reserves-to-production ratios, etc.) in the OCS access case are based on data for fields in the western Gulf of Mexico that are of similar water depth and size. Exploration and development on the OCS in the Pacific, the Atlantic, and the eastern Gulf are assumed to proceed at rates similar to those seen in the early development of the Gulf region. In addition, it is assumed that local infrastructure issues and other potential non-Federal impediments will be resolved after Federal access restrictions have been lifted.

And here is what EIA projects would happen to offshore oil production if the federal moratorium were eliminated and none of the states block drilling and if exploration and development of resources in those areas begin in 2012:



Essentially no extra oil beyond the reference case until 2020. And then from 2020 to 2030, the extra oil production averages about 150,000 barrels of oil a day.

But of course that's not going to happen since, as noted, absent the federal moratorium, California is not going to allow drilling off its cost. So we are almost certainly talking under 100,000 barrels a day sometime after 2020.

The bottom line is that two conservative oilmen, President George W. Bush and Vice President Dick Cheney, took office in 2001 determined to let big oil and energy companies set energy policy. Since then the price of gasoline has nearly tripled.

We need a complete change of policies to avoid far higher gasoline prices in the next decade. These changes should include an aggressive effort to commercialize and deploy super fuel-efficient vehicles and clean alternative fuels, particularly electricity consumed in plug-in hybrids. This strategy would still take many years to slash oil use and costs, reduce greenhouse gases, and enhance energy security. In the meantime, President Bush and Congress should immediately undertake the options proposed here to ease pain at the pump and assist those families most in need.

[Links to references can be found at [www.americanprogress.org/issues/2008/06/oil\\_bubble.html](http://www.americanprogress.org/issues/2008/06/oil_bubble.html)]

## ADDENDUM

### **Seven Reasons to Release Oil from the Strategic Petroleum Reserve**

On July 8, Speaker of the House Nancy Pelosi wrote President George Bush to urge him to “draw down a small portion of the oil held in the Strategic Petroleum Reserve in order to expand available supplies and help reduce the record prices.”

The White House predictably rejected this common sense suggestion that would lower oil prices—and oil industry profits. White House spokesperson Tony Fratto said that the SPR, “is not there to try to market-time and to try to manipulate prices in the market.” Yet he did confusingly acknowledge that, “as long as we keep the sources of oil off the market, we’re not going to see increases in supply...if you don’t increase supply and you only increase demand, prices are going to rise.”

There are many reasons that selling a small amount of oil from the Strategic Petroleum Reserve is our best short-term option for lowering oil prices.

**1. Record oil prices have hurt American families:** Many families’ gas costs have increased by hundreds or even thousands of dollars a year. The price of home heating oil has doubled in the past year. And the Department of Energy predicts that average electricity prices will increase by 5 percent this year, and go up 9 percent in 2009. A recent Center for American Progress analysis found that families are spending an average of 4 percent of their after-tax income on gasoline—the highest proportion in 25 years. Rural and low-income households are hurt even more because they spend an even greater proportion of their post-tax income on gasoline.

**2. Reserve oil can get to the market fast:** President Bush agreed to sell up to 30 million barrels after Hurricane Katrina. The on-line sale of this oil ended September 9, 2005, and the first oil was delivered to oil companies for refining on September 26. President Bush and many conservative congressional leaders want to drill for oil in the protected Outer Continental Shelf to address price and supply problems. Yet this “solution” would take over a decade to produce any results, and the Department of Energy says that such drilling have no impact through 2030.

**3. Reserve oil would significantly increase worldwide supplies:** The International Energy Agency believes that “these abnormally high prices are largely explained by fundamentals. Supply growth so far this year has been poor and higher prices are needed to choke off demand to balance the market.” The IEA predicts that worldwide oil demand will average 86.8 million barrels per day in 2008, while oil supply was 86.6 million barrels per day in May 2008. “OPEC countries are running close to flat out” to keep up with demand. Adding a half million barrels to the daily market would be a significant addition to the worldwide supply of 86.6 million barrels. To put this increase in perspective, compare it to President Bush and Vice President Dick Cheney’s efforts to beg Saudi Arabia to increase production. Eventually, the Saudis agreed to increase production to 9.7 million barrels per day, a total increase of 600,000 barrels per day since March 2008. Selling a half million barrels per day from the SPR would nearly double this production increase, and this additional SPR oil would only be sold in the United States. This will ease competition for the world oil supply, which should reduce prices.

**4. Past reserve releases lowered oil prices:** On January 16, 1991, on the eve of the first Gulf War, President George H.W. Bush announced that he would sell 34 million barrels from the Reserve to “minimize world oil market disruptions.” That day oil sold for \$32 per barrel. The day after the

announcement, the price dropped to \$21 per barrel. Oil remained in the \$20 per barrel range during and after the war. The Department of Energy concluded that the “partial drawdown ... help[ed] restore stability to world oil markets during the Persian Gulf War.”

**5. There is plenty of oil in the reserve to withstand a supply disruption:** The SPR has more oil than ever before—706 million barrels, which is 98 percent capacity. Selling 50 million barrels over 100 days would still leave it filled to over 90 percent capacity. This is enough oil to cope with a complete foreign supply disruption for nearly two months, assuming zero reduction in demand in the wake of such a catastrophe. Is such a supply disruption likely? No. There has never been a complete supply disruption. The last major disruption occurred nearly 30 years ago during the Iranian revolution. What’s more, the United States gets its 13.4 million barrels of oil imported daily from a diverse array of producers, including Canada (18 percent of imports), Mexico (11 percent), Saudi Arabia (11 percent), Venezuela (10 percent), and Nigeria (8 percent). This means that even if we are suddenly unable to import oil from one country, it will not affect the availability of imports from other nations, though it could affect price.

**6. Selling SPR oil would yield significant funds to help families cope with high energy prices:** Selling just 180 million barrels of oil at today’s prices would produce over \$25 billion. Even if the oil price dropped 30 percent to \$100 per barrel, selling this amount of SPR oil would still raise \$18 billion. These funds could help families cope with high energy prices via the home weatherization program, the Low Income Heating and Electricity Payment program, or via direct rebates. And these funds could promote deployment of energy-efficiency and renewable energy technologies that would reduce consumption, energy bills, and global warming pollution.

**7. Putting SPR oil on the market could help burst the speculative bubble:** There is a great debate over the role of speculators in the current price of oil. Some believe they account for one-third or more of all oil trades, and have increased the price of oil by anywhere from \$10 to \$30 per barrel. Since January 2, oil prices increased from \$100 to \$145 per barrel. This steady ascent in price makes it tempting for speculators to buy oil futures as a safe bet, particularly given that record prices have not led to more supply. Putting some SPR oil on the market in one sudden spurt could burst the speculative bubble. Investors and speculators in oil contracts could no longer assume that oil supplies will remain stagnant even as prices rise. When institutional investors and oil traders sense that the supply and price of oil might go in different directions, all bets are off.

[This addendum is a modified version of a piece written by CAPAF’s Dan Weiss. Links to references can be found at [www.americanprogress.org/issues/2008/07/eight\\_reasons\\_spr.html](http://www.americanprogress.org/issues/2008/07/eight_reasons_spr.html).]