



RSC Outlook: The Impending Pain at the Pump

Coming Soon to Your Local Gas Station - \$5 Dollar a Gallon Gas!

February 25, 2011

Price of Oil Spikes: Spurred by the instability in North Africa and Middle East, the price of crude oil peaked at over \$100 per barrel on Wednesday for the first time since October of 2008. Originally sparked by the overthrow of President Ben Ali in Tunisia, instability and uncertainty has spread throughout the region, affecting at least twelve nations. As foreign policy experts continue to debate how this change will affect U.S. foreign policy into the future, it has become evident these events will have an immediate effect on the U.S. economy and consumers.

Since trading began for the week on Tuesday, the price of crude oil jumped a [total of 13%](#) in just the first three days of trading for the week. Prices of regular gasoline have risen almost 12 cents per gallon during February. [The Energy Information Agency](#) shows the U.S. weekly average price of gas per gallon is up 55 cents from a year ago. At an average of \$3.28 a gallon, this is the highest price per gallon (adjusted for inflation) of gas in the month of February since 1990. The RSC has compiled just a few facts on the region and how it relates to the price of gas at home:

- **Regional Capacity:** Many Americans are aware that Libya engaged in a nuclear program during the 1980s and 1990s, but some may be surprised to learn it supplies approximately 1.7 million barrels of oil and natural gas liquids per day (90% exported to Europe), holds the most oil reserves in Africa, and is the world's 15th largest crude exporter. The U.S. accounts for 3% of Libyan exports. According to the [Barclay's](#), about two-thirds of its daily oil production has already been suspended.

Saudi Arabia, which currently exports around 8 million barrels per day, is the world's largest exporter of oil. Iran is the world's third largest exporter of oil at 2.5 million barrels per day. The United States is the third largest producer of oil at 9 million barrels per day, but consumes approximately 18 million per day according the Energy Information Agency. Click [here for an interactive map](#) provided by the EIA with information on oil consumption, exports, and imports by nation.

- **Ghosts of Gas Prices Past:** According to Michael Sabino, a professor at St. John's University, "Today's situation is reminiscent of the 1970s... the price of oil will now jump in direct relation to one of its oldest barometers - political tension in the Middle East." The fear from most analysts of the energy sector is that if this continues to spread and affect nations like Iran or Saudi Arabia, price fluctuations could become as dramatic as those during the Arab Oil embargo.
- **How Could This [Compare](#) to 2008? *Not So Great:*** Some analysts argue that even if the price of a barrel of crude oil reaches prices similar to the peak of 2008 levels (\$147),

consumers and business would not be able to absorb the higher gas prices because unemployment has been over 9% for 21 straight months (first time since the Great Depression), Democrats ran up \$2.7 trillion of deficit spending in 2009 and 2010, and the President proposed a deficit of \$1.6 trillion for FY 2011. Additionally, increasing gas prices restrain economic growth because they translate to higher prices for goods and services. Higher food prices, transportation prices, commodity prices, and heating prices, have the ability to significantly deter any hope of reaching an economic recovery soon.

- ***Frightening Future:*** Just the other day, Nomura International released an [analysis](#) speculating that if ***only Libya and Algeria were to suspend oil operations, “we could see \$220 price per barrel.”*** Obviously, the situation in Libya remains tumultuous as [Muammar Gaddafi](#) attempts to hold on to power and reportedly orders increasingly violent measures, including firing tear gas and live rounds into crowds of people. As Gadhafi [stated in a long rambling](#) speech, “I am a fighter, a revolutionary ...I will die as a martyr at the end.” It has been reported that the President of Algeria, which produces up to 1.8 million barrels per day, would soon end a 1992 state of emergency declaration after protesters have demanded government reform. This is a situation similar to the demands that forced Egyptian President Mubarak into exile.

Only They Didn't Do It Themselves: The fact of the matter is that very little can directly be done by the United States to achieve immediate stability in the region to lower gas prices. Additionally, some would agree that regime change in some of these countries – like Iran – would be a good thing for our international interests. Unfortunately, the U.S. could have taken domestic measures that would have minimized severe economic impact that is predicted. Democrats in Congress and the Obama Administration have repeatedly blocked and bullied their way to develop an energy policy that has undermined our economic recovery and way of life.

- ***Short-Sighted Solutions:*** Democrats continue to believe a constructive energy policy is to throw subsidies to wind and solar technology, and do not understand that a responsible solution to lead us to energy independence is a [comprehensive plan](#) that recognizes America's reliance on oil and natural gas (that will continue for decades to come, as it supplies about sixty percent of our national energy needs).
- ***Drill Baby Drill? Cease and Desist!*** Before House Democrats lost their four year reign of power, they consistently endorsed legislation ***that makes the United States more dependent on foreign sources*** of energy. After they passed legislation to impose a national energy tax under H.R. 2454, they followed with a plan to impose additional mandates to restrict oil and gas exploration in the United States.

Not to be outdone, the Obama administration has been impeding domestic energy production imposing a de facto ban on OCS exploration that could last up until at least 2012, despite the fact the legislative moratoria on most OCS exploration has been lifted since 2008. The administration is even going so far as to ignore a federal judge who ruled it in contempt of court for imposing a second moratorium. Last week, a federal court ordered the DOI to reach a decision to grant at least five permits for deep-water drilling projects in the Gulf of Mexico

- ***Bureaucratic Bully Pulpit:*** Even if the overwhelming opposition of the American people gave Congress pause to enact a national energy tax, the EPA has imposed ***many new mandates and rules*** that are just as devastating to the economy by creating dozens of energy taxes through bureaucratic fiat. Additionally, the EPA has denied approval for,

based on an increase of green house gas emissions, a new pipeline between Canada and the U.S. The Keystone pipeline expansions would run from the Alberta Province to refineries along the Gulf Coast by 2013. The pipeline is estimated to have a capacity of 500,000 barrels per day, create 13,000 direct jobs, and support hundreds of thousands of additional jobs, [according](#) to the American Petroleum Institute.

Conservative Solutions: By 2015, the world needs to find an additional 7 million barrels per day of oil above and beyond all the exploration projects currently in the pipeline. Many conservatives have consistently proposed expanding energy exploration and extraction on the OCS, the lands under the waters surrounding the United States (up to 200 miles), most of which have been statutorily off limits to energy development until last year.

The Department of the Interior (DOI) released a comprehensive [inventory](#) of OCS resources in February of 2006 that estimated reserves of 8.5 billion barrels of oil (replacing Saudi imports for over 20 years) and 29.3 trillion cubic feet (tcf) of natural gas. Another 86 billion barrels of oil and 420 tcf of natural gas are classified as undiscovered resources. With advances in technologies that have made OCS development cleaner, safer, and more efficient, leases are estimated to be able to produce up to approximately 1.4 million barrels of oil per day.

- **Energy Independence:** The OCS has estimated reserves of 8.5 billion barrels of oil (replacing Saudi imports for over 20 years) and 29.3 trillion cubic feet (tcf) of natural gas and another 86 billion barrels of oil and 420 tcf of natural gas are classified as undiscovered resources, according to the [MMS](#).
- **Job Creator:** With a nationwide unemployment rate almost at one in every ten Americans, development in the former moratoria areas of the Outer Continental Shelf, and other restricted areas in the Arctic National Wildlife Refuge and the Rockies (including oil shale), would directly create 160,000 new jobs by 2030 according to [ICF International](#).
- **Economic Stimulator:** The OCS would produce \$8 trillion in economic output and \$70 billion in additional wages each year according to the [American Energy Alliance](#).

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