HOUSE ENERGY ACTION TEAM

HEAT

To: House Energy Action Team Members

From: Majority Whip Kevin McCarthy
Chief Deputy Whip Peter Roskam
Energy and Commerce Committee Chairman Fred Upton
Natural Resources Committee Chairman Doc Hastings

Re: Memo: Impact of OPEC Actions on U.S. Energy Prices Due to the Obama Administration Policies

The Organization of the Petroleum Exporting Countries (OPEC) met on Wednesday, June 8, 2011 and rejected a request by the International Energy Agency to increase oil production levels. The Obama Administration has left America subject to the whims of OPEC by stifling domestic production through costly new regulations and bureaucratic delays in permitting that hurt families and businesses already struggling to make ends meet. In contrast, House Republicans are working to greatly reduce our dependence on foreign sources of oil by pursuing an all-the-above energy plan with a focus aimed at increasing U.S. domestic production to bring down energy prices and create jobs here at home.

Background

Oil is a vital resource for the U.S. economy, fulfilling nearly 40% of total U.S. energy demands, including 94% of the energy used in transportation and 41% of the energy used by the industrial sector. Unlike other forms of energy such as coal and natural gas, which are largely supplied from domestic sources, half of U.S. oil consumption is currently supplied from foreign sources. In 2010, 50% of net imports (25% of total U.S. consumption) came from countries that are members of the Organization of the Petroleum Exporting Countries (OPEC).

OPEC is a permanent, intergovernmental Organization, created in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five founding member countries were later joined by nine other Members: Qatar (1961); Indonesia (1962-2008); Socialist Peoples Libyan Arab Jamahiriya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973); Angola (2007) and Gabon (1975–1994).

OPEC's objective is to coordinate and unify petroleum policies among member countries, often by restricting its member states' petroleum production, which in turn artificially constrains the world's oil supply. The OPEC cartel's 12 member states possess 79.6% of the world's oil reserves, yet they produce only 34% of the world's actual oil supply. This significant amount of oil importation results in a massive transfer of wealth from the U.S. to the OPEC cartel and the artificial constraints can have a devastating effect on the global economy, especially for countries like the U.S. that are facing record unemployment levels while struggling to recover from an economic crisis.

During March of 2011, the U.S. imported 4,588,000 barrels per day from OPEC member nations. As the violence in Libya continued to affect the markets, oil prices per barrel rose as high as $106.95, meaning that in the month of March, the U.S. was paying upwards of $49,068,600 per day to import oil from OPEC member nations.

OPEC Meeting

On Wednesday, June 8, 2011, OPEC members met for the first time since the start of pro-democracy movements in the Middle East. Media reports labeled this meeting as "one of its most turbulent sessions in years" as member states failed to reach a consensus on increased oil production, leaving production levels unchanged, despite rising prices.

Saudi Arabia led a group of members who advocated an increase in oil production by 1.5 million barrels per day, which would have brought OPEC's total production to 30.3 million barrels a day. Saudi Oil Minister Naimi said that Riyadh and other Gulf producers stated that they were inclined to produce more, but that an increase in exports would be contingent on an increase in demand.

This move was blocked by six member states, led by Venezuela and Iran, who argued that factors including the weaknesses in the U.S. economy would keep global demand for oil soft.

The failure to increase production disregards the International Energy Agency's formal requests to increase production and exports and to lower prices during the summer months. Economic forecasters estimate a sustained $10 increase in the per barrel price of oil can reduce U.S. economic growth by 0.2%.

The Difference Between Democrat and Republican Energy Plans

Democrats Want to Perpetuate American Dependence on Foreign Oil. The Obama administration has slowed new American energy production to a crawling pace, refusing to grant permits and imposing costly new regulations. 2010 oil production on federal lands was 16 percent lower than the Energy Information Administration had projected it would be. The number of new oil and natural gas leases granted in 2010 was just over half the number granted in 2008. Meanwhile, the administration is proposing a series of costly regulations on refineries and other facilities that would make gasoline cost even more. Permitting delays and red tape have prevented oil and natural gas production in the Gulf of Mexico, off the coast of Alaska, in the onshore National Petroleum Reserve-Alaska, and on our energy rich public lands. Bureaucratic delays at the State Department have prevented construction of the Keystone XL pipeline from Canada to the United States, which means we are losing access to thousands of jobs and millions of barrels of oil. In fact, the U.S. Department of Energy has projected that the Keystone XL pipeline would essentially eliminate our Middle East oil imports. These actions only make our country's energy supply more vulnerable to the whims of leaders of foreign nations who clearly don't prioritize America's energy security at the top of their lists.

Republicans Want to Promote American Energy Security. Any family or small business will tell you of their concern over rising gas prices and energy costs. Through the American Energy Initiative, Republicans are calling for common-sense solutions that will increase the amount of energy produced here at home. Republicans want to cut through the red tape and break down bureaucratic barriers to American energy production, because we believe that government should be promoting America's energy resources, not blocking their development. House Committees have held dozens of hearings in the first few months of 2011 to identify the flawed policies that are standing in the way of greater American energy independence. Republicans have offered specific legislation to eliminate permitting delays, block regulations that will drive up prices, and move forward on leases to allow energy exploration and development. In the coming months, Republicans will continue working through the American Energy Initiative to promote the responsible development of all forms of energy – a strategy that will help eliminate uncertainty, bring down prices, and position America for greater energy independence now and into the future.