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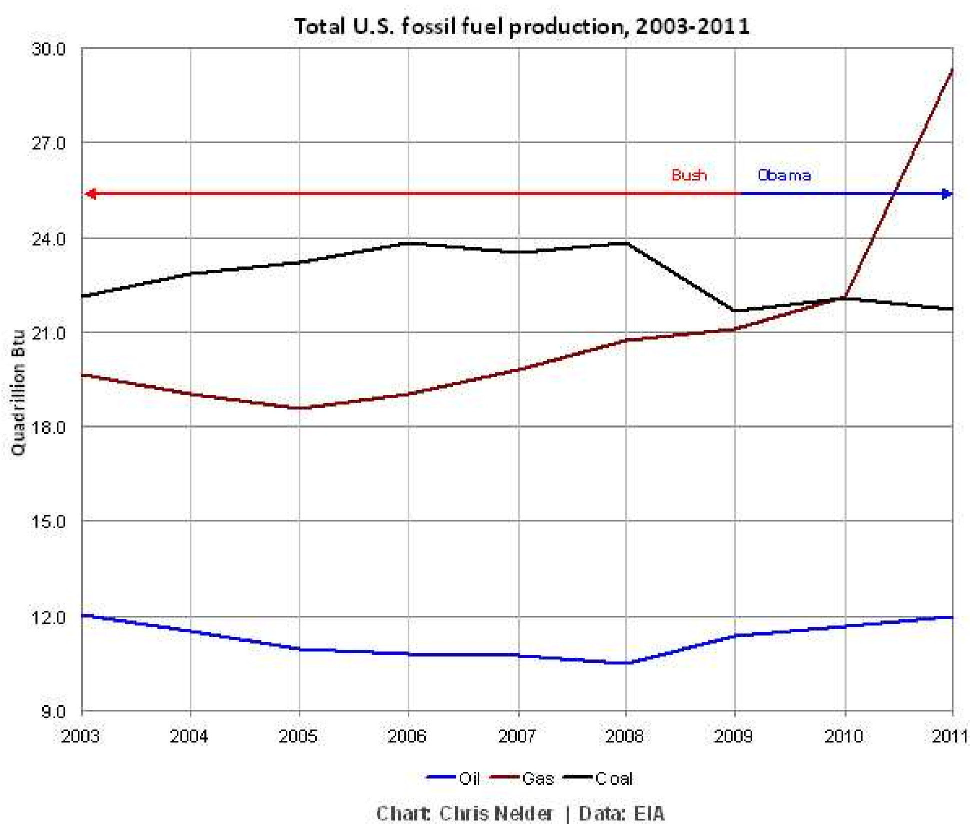
Scoring the rhetoric on Obama's energy policies

By Chris Nelder | March 21, 2012, 5:00 AM PDT

Election-year politics have bombarded the American public with conflicting stories about President Obama's energy policies. The president takes credit for increasing fossil fuel production under his administration, while the fossil fuel industry blames him for falling production. So what's the truth?

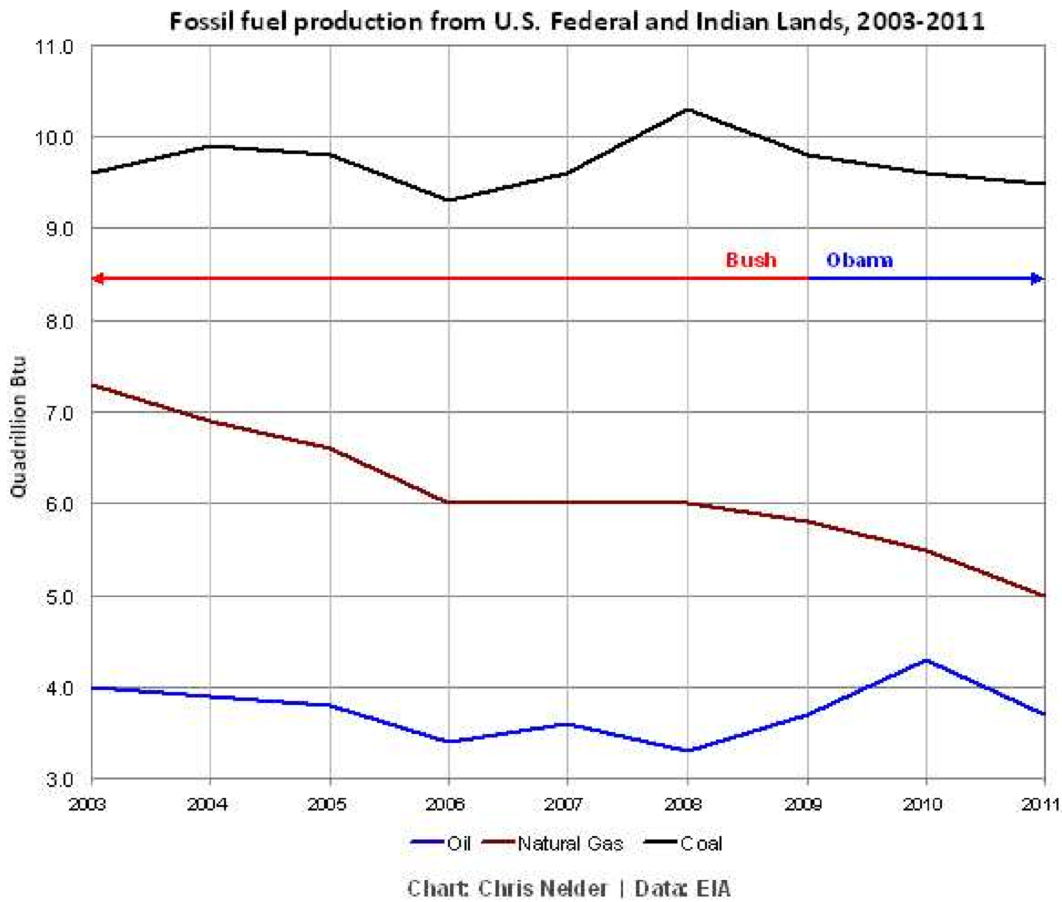
As always, I'll begin with the data.

Consider this chart of U.S. fossil fuel production from 2003 through 2011:

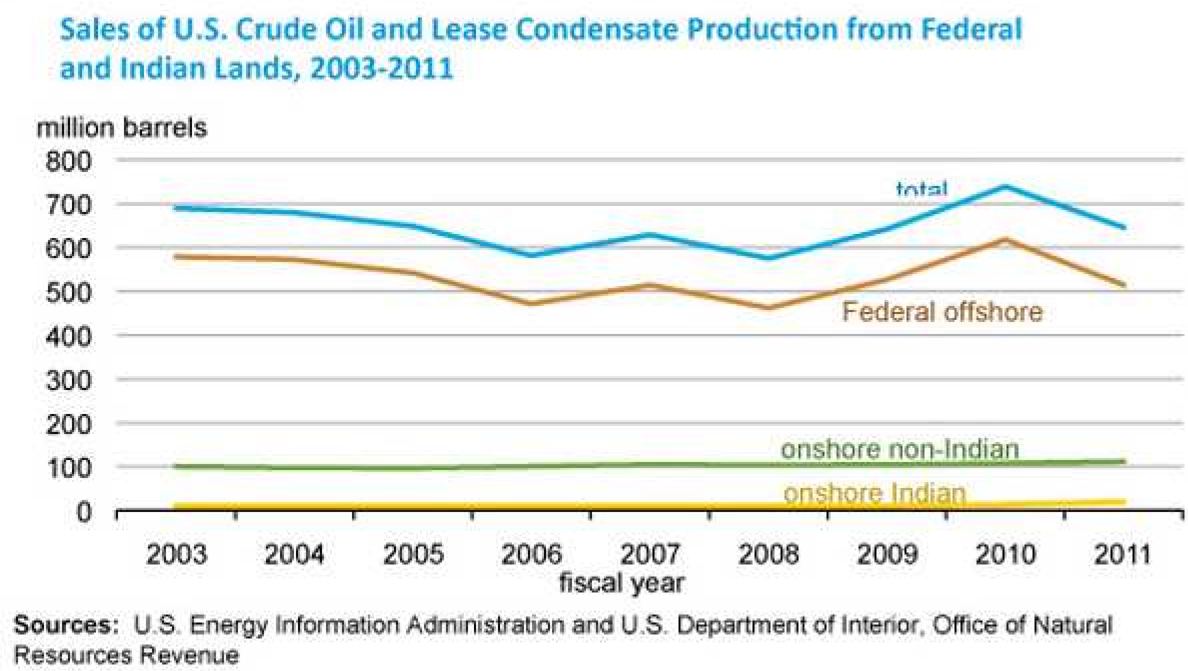


Most of our domestic fossil fuel production is on private and state lands, however. Federal regulations do affect production on private lands to a limited extent, but on the whole that production is the result of market demand for those fuels.

Where federal policies have more influence is on production from federal lands, which is what draws most of the criticism about the president's policies. Here's a chart of production on federal and Indian lands:



Of that production, the vast majority is oil, and nearly all of it comes from offshore:



With those charts in mind, let's score the rhetoric about the president's policies.

President Obama's rhetoric

As an example of President Obama's rhetoric, I'll use his weekly address to the nation on March 17.

"The truth is, the price of gas depends on a lot of factors that are often beyond our control. Unrest in the Middle East can tighten global oil supply."

True. There is no real dispute there.

"Growing nations like China or India, adding cars to the road, increases demand."

True. I explored the data on this issue two weeks ago.

The president then went on to discuss the influence of speculators on the price of oil. While speculators do influence the oil market, they are probably responsible for only the last 10 to 15 percent of the price in an upward or a downward spike, as I explained three weeks ago. Speculators do not completely control the oil markets; they only come in when there is a tradeable opportunity, and they are probably seeing one now as spare capacity has fallen to critically low levels. However, regulators have been extremely tentative about implementing restrictions on speculation even in the aftermath of the crushing volatility of 2008. Despite the president's boasts about implementing policies to "bring energy markets out of the shadows and under real oversight," they have hardly closed the door on speculators. On the other hand, I agree with the president that rolling back his reforms would be a mistake. I'll score the point about speculators as**Political Pandering** — not false, but not entirely true, nor particularly relevant.

The president next discussed his ambition to eliminate the $4 billion in annual subsidies to the oil and gas industry. I support this initiative. An industry that's been around for 150 years should be able to stand on its own two feet and compete without any public support. However, those subsidies are really rather irrelevant. As I explained in October, that $4 billion is barely a rounding error on the structural subsidy the oil industry receives by virtue of our commitment to a transportation regime based on cars and roads. Real reform would be transitioning transportation to rail. I'll score this point as **Valid, but Political Pandering**.
The president then made an oblique reference to some of the Republican presidential candidates:

"It's easy to promise a quick fix when it comes to gas prices. There just isn't one. Anyone who tells you otherwise – any career politician who promises some three-point plan for two-dollar gas – they're not looking for a solution. They're just looking for your vote."

True. I discussed that in December.
"The answer isn't just gonna be to drill more, because we're already drilling more. Under my administration we're producing more oil here at home than at any time in the last eight years."

True, but little credit to him. As you can see from the top chart above, that's true, if just barely. In 2011, the U.S. produced 5.67 million barrels a day (mbpd) of oil, versus 5.42 mbpd in 2004. But, our production is just about dead even with where it was *nine* years ago, at 5.68 mbpd. And as you can see from the second chart above, production from federal lands is slightly lower than where it was eight years ago. The credit for our increased oil production since President Obama took office owes mainly to renewed drilling in federal waters in the Gulf of Mexico, which resumed when President Bush dropped the longstanding moratorium against it near the end of his term in July 2008, right after oil prices hit a record $147 a barrel. A little over half a million barrels a day of that increased production owes to "tight oil" production from shale on private and state lands, primarily in the Bakken Shale in North Dakota.
"We've quadrupled the number of operating oil rigs to a record high."

True, but nothing to brag about. As I discussed last month, the rig count is so high primarily because the productivity of shale oil wells is so low. You have to drill thousands of wells to come up with a mere half a million barrels per day. The high rig count says more about how poor the remaining prospects are than it does about a renewed vigor for domestic production.
"We've opened millions of acres of land, and offshore, to develop more of our domestic resources."

True, but not pertinent. What the industry really wants is access to more of the federal waters of the Outer Continental Shelf, which I'll discuss in a moment. Most of the onshore federal lands aren't actually prospective. As Shell ex-CEO John Hoffmeister said on CNBC in July 2008: "The industry is pursuing the leases it has, but to be blunt, the prospective nature of many of those leases is very low. And you don't go drill oil where you know it doesn't exist."

"We can't just rely on drilling. Not when we use more than 20 percent of the world's oil, but still only have just 2 percent of the world's known oil reserves."

Basically true. The president is referring here to conventional oil reserves. If one counts our unconventional resources (which are not "proved reserves"), as the oil industry likes to do, then we have significantly more than 2 percent of the world total. However, as I have discussed at length in this column, unconventional resources are not equivalent to conventional oil, and they come at much lower production rates, with significantly — perhaps intolerably — higher prices.

"If we don't develop other sources of energy, and the technology to use less energy, we'll continue to be dependent on foreign countries for our energy needs."

True. The president went on to discuss his support for a transition from fossil fuels to renewable energy sources, which I believe to be of vital importance, and his push for higher fuel economy standards. However, current federal policies aren't moving nearly quickly enough in that direction, and are aiming far too low. For example, as I explained two weeks ago, we'll never catch up with Asia in our quest for greater fuel economy. They'll always be able to outbid us in a future of persistently expensive oil.

"Since I took office our dependence on foreign oil has gone down every single year. In 2010, for the first time in 13 years, less than half the oil we use came from foreign countries."

True, but nothing to brag about. Our oil imports have declined because our consumption has declined, which is almost entirely a result of the recession, not greater efficiency, and not substantially greater domestic supply.

The fossil fuel industry's rhetoric

To represent the fossil fuel industry's rhetoric, I'll use a new commentary from the Institute for Energy Research, a not-for-profit organization that bills itself as an impartial, unbiased champion of unfettered free markets, but which is funded primarily by the oil industry. Its staff has ties to the Republican Party and other right-wing and libertarian organizations like the Koch Foundation, the Cato Institute, and the American Enterprise Institute. IER's founder and CEO, Robert Bradley Jr., spent 16 years working for Enron, including seven as its director of public policy analysis, and wrote speeches for its CEO, Kenneth Lay. He is a longstanding and outspoken proponent of oil and gas, and an opponent of renewables.

IER made hay of a new report from the Energy Information Administration (EIA) which "was prepared in response to recent requests" from unnamed parties, and summarized our fossil fuel production on federal and Indian lands since 2003.

Fossil fuel (coal, oil, and natural gas) production on Federal and Indian lands is the lowest in the 9 years EIA reports data and is 6 percent less than in fiscal year 2010.

True, but not because of President Obama. Oil and gas production on federal and Indian lands has been in long-term decline — including throughout President Bush's term in office — due to natural depletion. Coal production is just below where it was in 2003. As I detailed in January, Appalachian coal production has been declining since the early 1990s due to natural depletion, so the remaining coal is increasingly expensive to produce. Coal's recent decline owes to a combination of the recession, increased requirements for emissions controls on coal-fired power plants, and being undercut by cheap natural gas.

The IER obscures these realities by aggregating all three fuels into a single line chart, and ignoring the issue of natural depletion.

Crude oil and lease condensate production on Federal and Indian lands is 13 percent lower than in fiscal year 2010.

True, but what of it? Oil production on these lands was in decline throughout the Bush years, and actually increased under the first two years of Obama's administration. Most of the decrease was in federal offshore, and of the 104 million barrel decline there from 2010 to 2011, the vast majority owed to reduced production in the Gulf of Mexico in the aftermath of the Macondo well disaster in April 2010.

The big picture is clear that government policies undertaken by the Obama Administration have produced a significant decline in offshore oil production on federal lands in fiscal year 2011. That is certainly not a way to increase domestic production of oil and keep oil and thus gasoline prices in check.

True, but twists the facts. On the whole, as the above charts show, oil and gas production has actually been higher under the Obama administration than it was under the Bush administration, and the policies around the exploitation of federal lands have not been radically different under the Obama administration. The IER may have preferred that the Obama administration carry on like nothing had happened after the biggest oil spill in U.S. history, but that would have been neither realistic nor advisable under any environmental or political calculus. In fact, the Obama administration opened up new drilling in the Gulf of Mexico less than a year after the blowout, and recently approved 500 leases for drilling in the Arctic that were held up since 2008.

Our reality

The fossil fuel industry's harping about limits on federal properties is couched in overblown and deliberately confusing rhetoric, but what it's really about is access to more of the Outer Continental Shelf.

According to the EIA report, which actually counts sales and not production, offshore federal production of oil (crude plus lease condensate) in fiscal year 2011 was 514 million barrels, onshore production was 112 million barrels, and production on Indian lands was a negligible 19 million barrels. **The only serious remaining prospects are in federal waters.** In the usual EIA production data, federal offshore oil production was 528 million barrels in the 2011 calendar year.

To put that in perspective, 528 million barrels is equivalent to 1.45 mbpd. The U.S. consumed 18.8 mbpd of oil in 2011. Therefore, all the fuss about Obama's policies is really about wanting to increase that portion of our supply that meets just **7.7 percent** of our demand. Oil production from all federal and Indian properties, both onshore and offshore, meets just 9.4 percent of our demand. The oil and gas industry would like you to believe that if the government just got off their backs, they could hugely increase that share, even while battling the relentless toll of natural depletion. This is, quite simply, false. If we turned the remaining federal waters into a pincushion we could manage a modest increase, but it would certainly not give us energy independence.

As Steve LeVine quipped this week, what we are seeing now is “The Second Law of Petropolitics” in action: The party out of power always blames the party in power for high gasoline prices. The blame was somewhat less shrill during the Bush years, since the oil and gas industry tends to be right-wing, but as I detailed in July 2008, the Democrats were clamoring for a release of oil from the Strategic Petroleum Reserve, vowing to crack down on speculators, and even suggesting that we sue OPEC, while President Bush moaned that he couldn’t wave a magic wand and make more oil appear.
In short, there is absolutely nothing new here. The reality is dusty, dull, dour, and totally unsaleable politically. After 150 years of intensively applying the world’s best extraction technology, we have nearly sucked our land dry, and the only remaining good prospects are offshore. If all limits on drilling were removed, including in the Outer Continental Shelf and the Alaskan National Wildlife Refuge, some estimates show that we might increase US oil production by 2 or 3 mbpd at most. That new production would probably take 10 years to come online, and 15 years or more to reach maximum output. It would be hardly noticeable as it compensated for the loss of oil production due to depletion. Barring export restrictions, much of it would be sold to the highest bidder, which is Asia. If it lowered prices at all, it would be by a few pennies per gallon.

Presidents have very limited latitude on domestic oil production, and they can do next to nothing about gasoline prices. No matter which party is in power, we are always and inextricably tied to a global market for oil and gasoline. There are no real supply-side solutions, no matter how desperately we want there to be, and no matter who’s promising them. As we enter the twilight years of oil, our only serious option is to reduce our consumption.

Which brings me to the photo at top. Artist Gregory Lent took that photo in India this week andposted it on Twitter with the comment, “[A] lot of monkeys can turn on a tap but I never met one who thought to turn one off.”
Indeed.