



# United States Senate Committee on Energy & Natural Resources

Chairman Jeff Bingaman

Democrat - New Mexico

March 17th, 2011

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## BINGAMAN ON GASOLINE, OIL PRICES

"I wanted to take these few minutes to discuss high oil and gasoline prices. I think when we get to our respective states this next week we're going to find that many of the people we represent are understandably concerned about the rising price of gasoline at the pump. And they have good reason to be concerned.

"Sen. Murkowski and I hosted a Senate-wide briefing on Tuesday afternoon, with three top oil industry analysts. We had Dr. Richard Newell, the head of the Energy Information Administration; we had Mr. Bob McNally, who was part of the Bush Administration's White House team on energy markets; and Mr. Frank Verrastro, who is the head of the Energy and National Security Program with the Center for Strategic and International Studies and they gave their insights and perspectives on what was causing the current rise in world oil markets.

"While they each highlighted different factors that are important in explaining how we've come to find oil prices at levels that we haven't seen since 2008, it struck me that there were a two factors in particular that none of them highlighted as important to current prices.

"The starting point for the discussion was one fundamental truth: the primary driver of the price for gasoline at the pump is the price of crude oil. [This chart](#) was one of the key ones used by EIA Administrator Newell. It shows the price trends since 2005 for gasoline (in yellow) and crude oil (in green). While some past gasoline price spikes can be attributed to phasing out the additive MTBE, for the last 3 years, gasoline price movements have exactly tracked global crude oil prices. The idea that our gasoline prices are high today because of some policy of the Obama Administration is just not supported by the facts.

"The reasons for the current crude oil price increase are equally straightforward. In listening to each of the analysts highlight the factors he thought was important in explaining why crude oil prices are up to levels that we haven't seen since 2008, I was struck by two explanations that have been advanced in many political speeches about oil and gas prices here that none of the expert analysts highlighted as important to current prices.

"First, none of these experts highlighted the Administration's permitting process in the Gulf of Mexico as being a significant factor in world oil markets. I asked the Dr. Newell whether the current pace of permitting had any implication for EIA's short term price forecast, and his answer was refreshingly direct: he said, "No." And I would point out that neither of his co-panelists disagreed with him.

"Second, any anticipated Environmental Protection Agency (EPA) regulation of greenhouse gas emissions at refineries was not included in any of the presentations as a driver behind the current increased in prices. In fact, more broadly, neither the EPA nor any kind of U.S. regulatory actions were discussed as important to

understanding world oil prices. I know some of my colleagues are concerned that we haven't built a new refinery in the United States since the 1970s. I would like to assure them that the data suggest that their concerns are not well-founded. Demand for refined products is believed to have peaked in the United States. At the moment, 17 percent of our existing refinery capacity in this country stands idle, and that's not because of environmental regulations, but it's because demand for refined products has come down. In my opinion, it does not make a lot of sense to be debating whether we need new refineries when we're not using all of the capacity that we have in existing refineries.

"So having explored those factors that are not influencing oil price movements, I'd like to spend a few minutes discussing the factors that are contributing to increased oil and gasoline prices.

"The bulk of the discussion at the briefing that we held on Tuesday about high oil prices was about what is going on in the Middle East and North Africa. It should be obvious that this is the major force driving oil prices, but there seems to be some question about it at the moment, so let me be clear about what we were told. When the world's key oil producing and exporting region, which is the Middle East and North Africa, is unstable, world oil markets are also unstable. When political unrest threatens major chokepoints in the world oil transit routes, world oil prices react, as they have. When a Member of the Organization of Petroleum Exporting Countries (OPEC) stops exporting oil, which has virtually occurred in the case of Libya, world oil markets react. When there are fears that a nearby neighbor and close ally of Saudi Arabia, home to the world's largest spare oil production capacity, might begin a series of political upheavals in the Persian Gulf region, world oil markets react as well.

"As you can see from [this chart](#), oil prices are very sensitive to these kinds of developments. Oil prices went up as regime change was realized in Egypt, amid concern about access to the Suez Canal. Prices quickly came down again as it looked increasingly unlikely that traffic through the Canal would be disrupted.

"Then Libya became the first major oil exporting country to be affected by the wave of popular uprisings spreading throughout the Middle East and North Africa, and oil prices reacted immediately, indicating market concerns that the situation might get worse before it got better. Indeed, it has gotten worse, as now virtually all Libyan oil exports have stopped. Sanctions against Khaddafi's government, combined with chaos on the ground in Libya so far have driven Libyan oil exports to near zero, with little hope for improvement in the near future.

"We are just beginning to face a potential further escalation of tension in the region. On Monday, Saudi Arabia sent some troops across the causeway onto its island neighbor Bahrain, and this has added to the tension. World oil markets have reacted to this tension, with expectations – I am avoiding using the more politically-loaded term "speculation," although I do believe that word is equally appropriate – that the situation is at risk of getting worse before it gets better.

"Into this uncertain environment, we now have a new source of even greater uncertainty, that is, the earthquake and the ensuing tsunami and nuclear disaster that have struck the island nation of Japan– all of that introduced the possibility that the world's second-largest economy might be consuming a lot less oil in the near term than we had assumed. And world oil markets are reacting again this time by falling back below \$100 per barrel, as of this morning, as we try to better understand the size and scope of the disaster that our Japanese friends and allies are facing.

"But what can Congress do to help ease the burden of high prices for U.S.

consumers, when oil prices are determined mostly outside our borders? I think a realistic, responsible answer has to be focused on becoming less vulnerable to oil price changes over the medium- and long-term. And we become less vulnerable by using less oil.

"I do believe that increased U.S. oil production can and will play a significant role in world oil markets. The United States does have fairly modest resources, compared to much of the world. Our base of proven reserves is small. Many people have observed over the years that the United States has less than 2 percent of the world's proven reserves.

"Despite our relatively modest resource base, the oil and gas industry in the United States has led the world in developing state of the art technology for oil exploration and production. Thus, our companies are continuing to get more oil out of the ground and into world oil markets than any of us would have believed possible. To use a boxing metaphor, we are "punching above our weight" in oil and gas production, thanks to the technology lead that our companies have developed. According to Energy Information Administration, oil production in North Dakota has risen by 150 percent since 2005, from the Bakken shale formation. This is due to the advent and application of new drilling technology. It is a success story that we all can celebrate.

"Let me now talk about this [third chart](#). Indeed, oil production is up strongly across the United States in the last few years. This chart demonstrates that current increases in oil production are reversing decades of declines. We have not had to change any environmental laws or change protections that apply to public lands to get those increases.

"But, let us not forget that, even with U.S. production strongly increasing, oil prices have also increased. While domestic oil production plays an important role in ensuring the energy security of the country, its contribution to the world oil balance is just not sufficient to bring global oil prices down. It is therefore not a complete answer to the high oil and gasoline prices that tax our consumers and that threaten our country's economic health.

"This leads me to conclude that the key to reducing our vulnerability to world oil prices and volatility is for us to find ways to use less oil. We need to diversify our sources of transportation fuel. We need to set ourselves on the right path, as we did when we passed the Energy Independence and Security Act of 2007. That law required us to make our vehicles more efficient, and to shift toward relying more on renewable fuel.

"This [final chart](#) here shows the EIA's long-term forecast for U.S. dependence on imported oil: what they predicted our level of dependence would be just before the Energy Independence and Security Act was passed, and then again what they predicted this past December.

"There are two main features of this graph that I think are particularly noteworthy.

- First, prior to the enactment of the Energy Independence and Security Act, EIA had been predicting that U.S. reliance on imported oil would continue to increase. In large part, because of the biofuels and the fuel efficiency policies we included in the Act, the latest forecast shows that our reliance on imported oil probably peaked in 2005, in fact, and is now going down and will continue to go down for the rest of the forecast period, out to 2035.
- Second, the amount of oil that we now will not need to import, or will be able

to save, because of the Energy Independence and Security Act of 2007, amounts to about 26 billion barrels. The difference between the blue line and the red line – that is, the amount of imported oil before and after the Act – amounts to about 26 billion barrels, according to EIA. This is greater than total U.S. proven oil reserves, which stand at 23 billion barrels. I hope we can all agree that this is a significant success.

“How do we continue on this path toward reduced oil dependence? I’ll conclude by highlighting three key goals that I hope we can focus on in the Senate in the coming weeks. First, we need to enable further expansion of our renewable fuel industry, which is currently facing infrastructure and financing constraints. Second, we need to move forward the timeline for market penetration of electric vehicles. Finally, we need to make sure we use natural gas vehicles in as many applications as make sense based on that technology.

“Every barrel of oil that we displace from the transportation sector, and that we therefore do not need to consume in the United States, makes our economy stronger, not to mention our personal pocketbooks, and less vulnerable to the volatility of the current marketplace.

“We need to keep drilling; we’re good at it, and it is helpful to have more supplies on the world market, and I am not arguing against that. But at the same time, we need to recognize that the long-term solution to this challenge is to move away from such great dependence on oil. This is a strategic vision that President George W. Bush, who previously had worked in the oil industry, clearly articulated in his 2006 State of the Union Address. We subsequently proved in Congress in 2007, the year after that State of the Union, that we have the ability to make significant changes in our energy consumption, and that it is possible to mobilize a bipartisan consensus to do so.

“The bipartisan path that we laid out in the Energy Independence and Security Act of 2007 is the right approach. As part of whatever bipartisan approach we take to energy in the weeks and months ahead, we need to continue moving in that direction.”

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