

# **Obama moves to increase domestic oil production**

*Action unlikely to affect prices at the pump anytime soon.*

**Darlene Superville and Dina Cappiello, Associated Press, 6-15-11**

WASHINGTON — Amid growing public unhappiness over gas prices, President Barack Obama is directing his administration to ramp up U.S. oil production by extending existing leases in the Gulf of Mexico and off Alaska's coast and holding more frequent lease sales in a federal petroleum reserve in Alaska. But the moves won't calm spiraling prices at the pump any time soon.

Obama said Saturday that the measures "make good sense" and will help reduce U.S. consumption of imported oil in the long term. But he acknowledged anew that they won't help to immediately bring down gasoline prices topping \$4 a gallon in many parts of the country, and an oil industry analyst agreed.

"There is practically nothing that Washington can do that would materially change the price of fuel in this country," said Raymond James analyst Pavel Molchanov, noting that the United States produces about 5 percent of the world's petroleum while consuming about 20 percent. "Given that imbalance, there is simply no policy shift that could plausibly come from the federal government that can significantly change that dynamic."

An oil industry group praised Obama's move as a first step with a "couple of positive nuggets" but contended that more was needed to boost oil production.

Erik Milito, upstream director for the American Petroleum Institute, called in a statement for more access to key shale reserves and construction of a pipeline that would import crude from Canadian oil sands.

Sen. Robert Menendez, D-N.J., who is opposed to drilling off the Atlantic coast, expressed concern about possible dangers to the environment. "I think it is disappointing he would pursue a strategy that comes with considerable risk while offering no hope of driving down gas prices," Menendez said in a statement.

Obama's announcement followed passage in the Republican-controlled House of three bills -- including two this week -- that would expand and speed offshore oil and gas drilling. Republicans say the bills are aimed at easing gasoline costs, but they too acknowledge that benefits won't come fast.

The White House had announced its opposition to all three bills, which are unlikely to pass the Democratic-controlled Senate, saying the measures would undercut safety reviews and open environmentally sensitive areas to new drilling.

But Obama is adopting some of the bills' provisions.

Answering the call of Republicans and Democrats from Gulf Coast states, Obama said in his weekly radio and Internet address that he would extend all Gulf leases that were affected by a temporary moratorium on drilling imposed after last year's BP oil spill. That would give companies additional time to begin drilling.

The administration had been granting extensions case by case, but senior administration officials said the Interior Department would institute a blanket one-year extension.

New safety requirements put in place since the BP spill also have delayed drilling in Alaska, so Obama said he would extend lease terms there for a year as well. An oil lease typically runs 10 years.

Lease sales in the western and central Gulf of Mexico that were postponed last year will be held by the middle of next year, the same time period required by the House. A sale off the Virginia coast still would not happen until 2017 at the earliest. But Obama said he would speed up environmental reviews so that seismic studies to determine how much oil and gas lies off the Atlantic Coast can begin.

To further expedite drilling off the Alaskan coast, where such plans by Shell Oil Co. have been delayed by an air pollution permit, Obama said he would create an interagency task force to coordinate the necessary approvals. He also will hold annual lease sales in the vast National Petroleum Reserve on Alaska's North Slope. Officials said the most recent sale was last year, but that they had not been held on any set schedule.

The moves come as Americans head into the summer driving season and gas prices remain high. A gallon of regular cost \$3.97 on average nationwide

Saturday, according to the AAA, Wright Express and Oil Price Information Service. That's up from \$3.81 a month ago and \$2.88 a year ago, but it's about a penny less than a week ago.

The price of gasoline increased every day between March 23 and May 6 for a total of about 30 percent, essentially tracking a 35 percent rise in crude oil prices that started in mid-February as investors pushed more and more money into commodities. Refinery shutdowns also contributed. And gas prices tend to rise every spring as refineries follow federal regulations to produce summer gasoline blends that evaporate less readily but are more expensive to make.

Molchanov said global oil prices also have risen because the global supply and demand picture has tightened the past few months due to volatility in the Middle East and North Africa.

Even if the U.S. government started offering new leases in Alaska and new areas of the Gulf or off the East Coast, it would probably take at least a year to start drilling and then another five years for that to translate into barrels of production, the analyst said. Wells that can produce quickly tend to be small.

"Even if all that works out, it still would not materially change global oil supply, and therefore would not materially change fuel prices in this country or any other," Molchanov said. "In the grand scheme of things, none of this changes the reality of \$4 gasoline at the pump."

House Natural Resources Committee Chairman Doc Hastings of Washington, sponsor of the three measures that recently passed the House, said it was "ironic" that Obama "is now taking baby steps in our direction" after the White House and congressional Democrats criticized the bills.

"The president is finally admitting what Republicans have known all along, that increasing the supply of American energy will help lower prices and create jobs," Hastings said.

Philip Johnson, a petroleum engineer and University of Alabama professor, cautioned that new leases offer no guarantee that a company will find oil. Leases give a company permission to explore an area and set limits for what the company can do.

"You've got strong suspicions because you know what the underground structure looks like," he said. "But until you stick a hole in it you don't know what's in that structure."

Johnson noted, for instance, that while there are about 3,000 producing wells in the Gulf of Mexico in U.S. waters, about 50,000 wells have been drilled including many that have been emptied.

Obama on Saturday also reiterated his call on Democrats and Republicans to vote to eliminate \$4.4 billion in taxpayer subsidies to oil and gas companies.

Industry advocates, including most Republicans in Congress, have argued that doing away with the tax breaks will raise companies' cost of doing business, crimp their investment in exploration and production and lead to higher gas prices.

The 41 U.S. oil and gas companies that break out their federal taxes said they paid Uncle Sam \$5.7 billion in 2010, more than any other industry, according to data compiled by Compustat. Exxon alone paid \$1.3 billion.

The industry's federal tax bill would rise 70 percent without the subsidies, but it would remain highly profitable: Oil companies' combined pre-tax profits could hit \$200 billion this year.

In the weekly Republican message, Alabama Rep. Martha Roby said it's time for Washington to get serious about the challenges facing the country, including straightening out its finances and tackling the gas price issue. She praised the House for passing measures to expand domestic energy production "because when we're talking about energy, we're talking about jobs."

"The greatest threat to our economy, job creation, and the future of our children is to do nothing," Roby said. "We have to act. It is what we were sent to Washington to do."