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OBAMA'S ENERGY BUDGET: Misplaced Subsidies, Overlooked Benefits

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When it comes to energy, the Obama administration consistently promotes subsidies for "clean" energy technologies while accusing the oil-and-gas industry of benefitting from excessive taxpayer support. But in setting its policy priorities, the administration overlooks some important facts: subsidies for the oil and gas sector aren't all that big when compared to the amount of energy being produced; the vaunted "green" economy is not creating large numbers of jobs; and tens of thousands of jobs are being created by the oil-and-gas industry.

Indeed, recent advances in the technologies used for oil and gas exploration are saving the U.S. economy hundreds of millions of dollars per day, creating lots of high-paying jobs, decreasing the need for foreign oil, and spurring manufacturing growth, which is leading to billions of dollars of new investment (and even more jobs). Yet, the Obama administration is using its fiscal year 2013 budget to bash the oil and gas sector. Worse, the administration continues to insist that "clean energy" will drive America's future competitiveness.

The Obama administration is ignoring the essentiality of domestic oil and gas production, and they are doing so at a time when gasoline prices are spiking because of the specter of a military strike against Iran — some analysts are predicting a national average gasoline price of $4 or more by April.[1] Despite these realities, the budget extols the benefits of "energy independence" and the administration wants to eliminate a relatively minor set of tax preferences for the oil-and-gas sector that are helping the U.S. attain record production levels.

To be clear, all energy sources should be forced to compete, fair field, no favor. Let's eliminate all energy subsidies. But if that were to occur, the wind and solar industries would immediately go into cardiac arrest while oil, gas, and coal would continue to dominate our energy mix.

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The president's budget proclaims the benefits of energy independence while simultaneously proposing to eliminate tax treatments for the oil and gas sector that are helping the United States produce at levels not seen since the early 1970s. The philosophy behind the administration's energy policy can be found in a single paragraph (on page 103) of the budget:

> As we continue to pursue clean energy technologies that will support future economic growth, we should not devote scarce resources to subsidizing the use of fossil fuels produced by some of the largest, most profitable companies in the world. That is why the Budget eliminates inefficient fossil fuel subsidies that impede investment in clean energy sources and undermine efforts to address the threat of climate change.[2]

The reference to the "largest, most profitable companies" betrays the administration's antipathy toward the hydrocarbon sector. Apple Inc. has a market capitalization of $475 billion and boasts a profit margin of 25.8 percent.[3] Meanwhile, BP p.l.c., the biggest producer of domestic oil,[4] has a market capitalization of $147 billion and a profit margin of 6.8 percent.[5] Apple is three times as large and nearly four times as profitable as BP. Apple has virtually no manufacturing jobs in the United States. Instead, it imports nearly everything from China. By contrast, last year, the domestic oil industry exported about 1 billion barrels of crude oil and refined products[6] worth some $100 billion. Those exports are creating jobs and improving America's balance of trade.

As for the claim that fossil-fuel subsidies are what "impede investment in clean energy sources," the hard reality is that over the past few years, the oil-and-gas sector has out-innovated the solar and wind sectors. For instance, in 2006, the average domestic natural-gas well had initial production rates of 400,000 cubic feet per day. Today, the average well drilled in the Barnett Shale in Texas has initial production rates of 1.4 million cubic feet per day.

No similar improvement has been seen in the "clean energy" sectors, and thus the surge of low-cost natural gas has made wind and solar even less attractive from an economic standpoint. Travis Miller, a utility analyst at Morningstar Inc., recently told Bloomberg News that "wind on its own without incentives is far from economic unless gas is north of $6.50." The latest spot price for gas: about $2.60.[7]

If the Obama administration wants to see subsidy abuse, they should begin with the American Recovery and Reinvestment Act of 2009. Between 2009 and late 2011, under the ARRA, the administration doled out $2.6 billion in tax-free grants to just four companies, all of them board members of the American Wind Energy Association. The Spanish energy company Iberdrola got $1 billion in grants. German energy giant E.On was awarded $542.5 million. NextEra got $618 million and Terra-Gen received $467.9 million.[8]

The "clean energy" subsidies championed by Obama resulted in a run on the Treasury but precious few jobs. Terra-Gen is building the Alta Wind project in California, which will create only about 50 permanent jobs.[9] Based on the grants that Terra-Gen obtained for the Alta project, that works out to about $9 million per job. And we've already seen plenty of government-funded wreckage: Solyndra, Beacon Power, Range Fuels, Ener1.

Let's compare the taxpayer largesse for wind energy with the "unwarranted tax breaks for oil companies" that Obama wants to stop. In 2010, according to the Energy Information Administration, the total of all "energy specific subsidies and support" provided to the oil-and-gas sector totaled $2.82 billion.[10] That's a lot of money. But it's not spread among four companies, it's divided among the 14,000 oil and gas companies that are now operating in the U.S.

And thanks to horizontal drilling and hydraulic fracturing, those companies are producing huge volumes of oil and gas. Domestic oil production, which has been steadily declining for decades, is on the upswing; several analysts believe that by 2016[11] or so, production could hit 8 million barrels per day, a level not seen since the mid-1980s.[12]

Last year, natural-gas production was about 23 trillion cubic feet[13], worth about $92 billion. That's the highest gas production ever achieved in the United States, eclipsing the previous record, the 21.7 trillion cubic feet produced back in 1973.[14]

Surging gas production is driving down prices. Over the six-year period from 2003 to 2008, the years immediately before the beginning of the shale revolution, natural-gas prices averaged about $7 per thousand cubic feet.[15] The current spot price for gas is about $2.60.[16] If we round the price reduction down to $4, American consumers are now saving $264 million per day. Put another way, every 11 days, consumers are saving more from low-cost natural gas than oil and gas subsidies cost the Treasury in a year.

Meanwhile, we've seen soaring employment in energy exploration. Over the past five years, some 158,000 new oil and gas jobs have been created. And those positions pay good wages; the Pennsylvania Department of Labor and Industry says that the average wage for workers in the "core industries" operating in the Marcellus Shale is $76,918, a sum the agency says is "more than $30,300 greater than the average for all industries."[17] The agency says there are currently some 3,200 online job postings in the drilling sector. And North Dakota, home of the Bakken Shale, one of the fastest-growing oil plays in the world, has the lowest unemployment rate in the country at 3.3 percent.[18]

Rather than embrace what's happening in shale gas and shale oil, the Obama administration continues to vilify the very industry that's helping spur economic growth. America doesn't need more slogans about "clean" energy. It needs more cheap, abundant, reliable energy.

ENDNOTES

[1] Robert Channick, "Gas price spike pumping up fears," *Chicago Tribune*, February 20, 2012, http://articles.chicagotribune.com/2012-02-20/business/ct-biz-0221-gas-prices-20120221_1_chief-oil-analyst-gas-price-spike-average-gallon

[2] Full text of the budget is here: http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf

[3] See http://finance.yahoo.com/q/ks?s=AAPL+Key+Statistics, accessed February 21, 2012.

[4] See http://www.eia.gov/energyexplained/index.cfm?page=oil_home#tab2

[5] See http://finance.yahoo.com/q/ks?s=BP+Key+Statistics, accessed February 21, 2012.

[6] See http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MTTEXUS1&f=M

[7] See http://www.bloomberg.com/energy/, accessed February 22, 2012.

[8] U.S. Department of Treasury, Recovery Act, 1603 Program: Payments for Specified Energy Property in Lieu of Tax Credits, http://www.treasury.gov/initiatives/recovery/Pages/1603.aspx

[9] See http://altawindenergycenter.com/awec.html

[10] U.S. Energy Information Administration, Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2010, http://www.eia.gov/analysis/requests/subsidy/

[11] BENTEK Energy Press Release, January 20, 2012, http://www.marketwatch.com/story/bentek-energy-combined-crude-oil-production-in-the-us-and-canada-poised-to-grow-more-than-three-million-barrels-per-day-or-36-by-2016-2012-01-20

[12] See http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRFPUS2&f=M

[13] See http://www.eia.gov/dnav/ng/hist/n9070us2M.htm

[14] See http://www.eia.gov/dnav/ng/hist/n9070us2a.htm

[15] See http://www.eia.gov/dnav/ng/hist/rngwhhdA.htm

[16] See http://www.bloomberg.com/energy/, accessed February 22, 2012.

[17] Pennsylvania Department of Labor & Industry, "Marcellus Shale Fast Facts," February 7, 2012, http://www.paworkstats.state.pa.us/admin/gsipub/htmlarea/uploads/Marcellus_Shale_Fast_Facts_Viewing.pdf

[18] See http://www.bls.gov/lau/, accessed February 22, 2012.