

Committee on Natural Resources
U.S. House of Representatives
“Offshore Drilling: Industrial Perspectives on the Outer Continental Shelf”

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Thank you, Chairman Rahall, Ranking Member Hastings, and members of the House Committee on Natural Resources. I am Karen Harbert, President and CEO of the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region.

Overview

I appreciate the Committee holding a series of hearings on the issue of offshore drilling, and in particular your effort to seek perspectives from a broad array of individuals and groups. The mission of Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the Administration.

Offshore drilling – like many other issues in the energy policy arena -- too often winds up pitting people against one another and dividing them into simplistic camps labeled either ‘pro-environment’ or ‘pro-oil’. The reality is that our country is ill-served by narrow approaches that only look to benefit a single side of this debate. Our nation’s energy, environmental and economic future are all intertwined with one another, and we need comprehensive policies that will address all three.

The goal of my testimony today is to provide some balance to this issue, and to put offshore drilling into its proper context relative to our nation’s needs and its current policies.

The U.S. Needs a Comprehensive Approach to Energy

Earlier this month, the committee heard from representatives of environmental and commercial groups, and yesterday you heard from representatives from states. Many of those testifying at both hearings stressed the importance of continued development of renewable energy sources such as solar and wind, and to this I would say that we couldn’t agree more. There is no question that renewable sources of energy need to play a greater role in our energy mix.

But those who would say that we can attain energy security without oil are as incorrect as those who would say that we can drill our way out of our current energy challenges. The only way we can effectively meet our energy demands is with an approach that includes a myriad of sources – including oil, gas and renewables.

But beyond new sources of energy, America needs a new approach to energy. We need an energy strategy that takes into account the many challenges that need to be addressed in both the short- and long-term. What guides the Institute is our desire to see policymakers embrace a comprehensive, consensus-driven approach to energy policy.

To that end, last summer the Institute unveiled 13 pillars upon which any comprehensive energy reform effort should be built. Among them were, increasing research and development of clean energy technologies, and expanding domestic oil and gas exploration and production. These pillars are:

1. Aggressively Promote Energy Efficiency;
2. Reduce the Environmental Impact of Energy Consumption and Production;
3. Invest in Climate Science to Guide Energy, Economic, and Environmental Policy;
4. Significantly Increase Research, Development, and Demonstration of Advanced Clean Energy Technologies;
5. Immediately Expand Domestic Oil and Gas Exploration and Production;
6. Commit to and Expand Nuclear Energy Use;
7. Commit to the Use of Clean Coal;
8. Increase Renewable Sources of Electricity;
9. Transform our Transportation Sector;
10. Modernize and Protect U.S. Energy Infrastructure;
11. Address Critical Shortages of Qualified Energy Professionals;
12. Reduce Overly Burdensome Regulations and Opportunities for Frivolous Litigation; and
13. Demonstrate Global Leadership on Energy Security and Climate Change.

As a follow up, the Institute unveiled a *Blueprint for Securing America's Energy Future* that built on these pillars and provided specific recommendations for how Congress and the Administration should craft a comprehensive energy plan. In November, we presented to the incoming Administration and Congress a detailed implementation plan that included timelines for each recommendation and identified who in our government has the responsibility for taking action.

Congress and the new Administration have made research and development funding of clean energy technologies a priority, as evidenced in the major commitment made in the stimulus package that was recently signed into law.

It is our belief that investing in research and development of new technologies will ultimately pay major dividends. But it is important to remember that government should not be in the business of picking technology winners and losers and that research and development – while critically important – takes time. It is also critical to find the

appropriate roles for government and the private sector. The role of the private sector in our future energy security is paramount and we should not seek to crowd out their participation, capital, innovations or expertise.

Just as we can't ignore the promise of renewable energy sources, we also can't ignore the reality of our continued need for oil. When it comes to energy, our nation can't afford an either/or approach - because the bottom line is that we need all types of conventional, unconventional and renewable energy - through diversification comes improved energy security.

Therefore, in addition to our expanding the role for renewable and clean energy,, investing in clean coal technologies and expanding nuclear power, we also recommend permanently ending the remaining moratoria on exploration and production of oil and natural gas in the Outer Continental Shelf and on federal lands onshore. For 30 years, 85 percent of America's oil and natural gas resources have been placed off-limits to exploration and production and this clearly has not benefitted the American economy or the average American consumer. The restrictions we have placed on the production of our own domestic oil and natural gas resources are a significant self-inflicted wound to our security and prosperity.

Oil Will Continue to Play an Important Role in Meeting our Energy Demands

The Committee is well aware of the challenges we face when it comes to energy. Between now and 2030, global demand for energy could increase by more than 50 percent, and by as much as 20 percent here in the United States. If we fail to develop the supplies needed to meet this demand, there will be catastrophic consequences for our global competitiveness, our economy and our quality of life.

The fact is that oil will remain the backbone of our national and global economy for the foreseeable future. Despite the valuable progress being made in the development of new energy sources and technologies, there is still no viable substitute for oil.

The aggressive energy policies that Congress has passed over the last several years concede that oil is going to play a critical role for years to come. The Energy Independence and Security Act of 2007 (EISA) amended the Renewable Fuel Standard to require the use of 36 billion gallons of renewable fuel annually by 2022. This was projected to be roughly 20 percent of U.S. transportation needs. So even under this innovation-driven policy, we are assuming that 80 percent of our transportation needs will still be met by oil in the year 2022. While the Institute has issued several recommendations to transform our transportation sector, such as extending tax credits for plug in hybrids and including second generation biofuels like cellulosic ethanol in the blenders' tax credit, we nevertheless realize that the United States will continue to be dependent on oil for years to come.

Domestic Sources of Oil and Gas are Critical for our Economy and National Security

According to the International Energy Agency (IEA), between 2007 and 2030, 64 million barrels per day of gross capacity - which is the equivalent of six times the current capacity of Saudi Arabia - will need to be installed in order to meet the growth in oil demand and offset the inevitable decline in production from existing fields.

Unless the U.S. acts to develop its own resources, the IEA further projects that this growth in capacity will be predominantly filled by OPEC countries in the Middle East. We already see that other nations are moving quickly to secure and stabilize their future oil supplies. Last week, China entered into an oil-for-loans agreement with Russia. These types of agreements are a reminder that as long as there is a demand for oil, capital will continue to flow into the countries that can supply it.

Between 2007 and 2030, the IEA also estimates globally, \$6.3 trillion in new investments will need to be made in oil and gas. Thus, if the United States fails to explore and develop its own oil resources, we are potentially turning away trillions of dollars in capital investments. This is an opportunity that we could ill afford to lose during an economic boom, let alone during the trying economic circumstances we are currently facing.

The United States already imports roughly 60 percent of our oil from foreign nations, which is nearly double the amount we imported in the 1970s. And in 2008, the United States sent between \$400 and \$700 billion overseas for imported oil.

It is in America's best interest from an economic and national security perspective to have a stable supply of energy, including oil and gas, and thus we can no longer afford to ignore the billions of barrels that lie off our shores. It is estimated that America's Outer Continental Shelf (OCS) contains 86 billion barrels of oil and 420 trillion cubic feet of natural gas. That estimate is conservative since previous surveys were conducted decades ago. The technologies available today and in the future will allow us to better map these regions, better access their supplies of oil and natural gas, and do it all in an environmentally responsible manner.

Consider that in 1981, when the OCS moratorium was first implemented, typewriters were on every desk, people were still listening to music on record albums, and the easiest way to get directions was to buy a map at the gas station. Today, we rely on personal computers and the Internet, mp3 players, and GPS devices. Just as technology has the power to change and improve the way we live, it also has the power to change and improve the way we get our energy. The mongering fear that some engage in when it comes to expanding domestic production is neither factually accurate nor productive to a meaningful dialogue on our energy future.

Policymakers Must Take Action to Address our Energy Challenges

It is time to embrace the reality that our energy challenges will require a long term, comprehensive approach that outlasts political cycles or economic ups and downs.

In addition to permanently ending the OCS moratorium as a means of providing legal and regulatory certainty on the issue, there are still other important steps that Congress and the Administration must take - and other steps they must avoid - to ensure that our nation is able to realize the full benefits of these important resources.

It is important to remember that the energy business is capital intensive. A new offshore production platform typically costs in excess of \$500 million to construct and hundreds of millions of dollars per year to operate. Before companies will make these types of investments, they need to be certain that they will be allowed to finish what they start.

I mentioned before that the United States sent a minimum of \$400 billion overseas for imported oil in 2008. If even a fraction of that money could be kept and invested here in the United States, it could make a huge impact. A recent ICF International study showed that if energy development were permitted in the previously off-limits areas of the Outer Continental Shelf (OCS), Arctic National Wildlife Refuge (ANWR) and a small portion of the Rockies it would lead to the creation of 160,000 new jobs. In addition there are significant royalty revenues associated with these opportunities.

Second, Congress should make sure that states are well compensated for any exploration or production taking place off their shores. Under current law, the federal government shares 27 percent or less of revenues from oil and natural gas production within the first three nautical miles of federal waters off of the state boundary and zero beyond that. We recommend bringing all coastal states in line with Gulf of Mexico states, which were granted a higher percentage share of 37.5 percent of the revenue for new leases off its coast under the Gulf of Mexico Energy Security Act in 2006.

Third, Congress should reject additional so-called "Use It or Lose It" leasing provisions. Such provisions would be duplicative, unnecessary and ultimately set back the exploration and development of the OCS. "Use It or Lose It" is already the law of the land. Companies purchasing a lease already have a time period that they must act within, and having invested billions of dollars on a lease, they are already heavily incentivized to see it produce sooner rather than later. Exploring and developing a lease takes time, and adding additional, punitive "Use It or Lose It" provisions would make it less likely that companies would want to invest in these areas.

Fourth and finally, the Administration and Congress should not allow bureaucratic processes to slow down our path to energy security. The Institute is carefully following the Interior Department's recent action to extend the public comment period by six months and delay until this fall the review of proposed leasing plans for future oil and gas exploration and production on the OCS. We naturally agree with Secretary Salazar's recent statement that America requires a comprehensive energy plan, but such a plan must include a pathway for greater supplies of proven energy sources like oil.

Our nation faces some extraordinary energy challenges in the years ahead, but these challenges are also an opportunity. If we embrace a comprehensive approach and enact

smart policies, we can lay the groundwork for energy security, environmental protection and economic prosperity.

Thank you.