
American Made
ENERGY
Report to the Platform Committees

American Petroleum Institute (API)

API represents more than 500 oil and natural gas companies, leaders of a technology-driven industry that supplies most of America's energy, supports 9.2 million U.S. jobs and 7.7 percent of the U.S. economy, delivers more than $86 million a day in revenue to the federal government, and, since 2000, has invested more than $2 trillion in U.S. capital projects to advance all forms of energy, including alternatives and renewables.

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AMERICAN PETROLEUM INSTITUTE

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MESSAGE FROM JACK GERARD

Every four years, Americans exercise their right and responsibility to vote for a president, as well as a new Congress. This cornerstone of democracy is crucial to our freedom and to our way of life.

The direction of our nation's energy policy is vital to our country. Just as we the people have important choices to make at the polling place, our elected representatives and policymakers have crucial decisions to make on economic policies and programs, which will be influenced greatly by energy policy.

In addition to improving our national security, decisions to clarify policies and regulations on opening domestic resources to exploration would allow the oil and natural gas industry to create hundreds of thousands of new jobs, bolster economic growth and generate additional revenues for federal, state, and local governments.

The question is not whether we will continue to need oil and natural gas. We will. The question is: will we use our own vast energy supplies or rely on others? Will we improve our energy security as a result of developing abundant domestic supplies of oil and natural gas on federal and private lands, onshore and offshore?

These fundamental questions, and the answers to them, are behind this report to the platform committees of the Democratic and Republican parties. This publication is just one of the steps we have taken to provide important information to the voting public and policymakers. Another is our innovative Vote4Energy campaign, which is not about a political party or candidate, but instead focused on encouraging voters, all voters, to make energy a ballot box issue this year.

There is a choice when it comes to the policies that will help shape America's energy future—two paths that we can take. One leads to more jobs, higher government revenues, and greater U.S. energy security—which can be achieved by increasing oil and natural gas development right here at home. The other path would put jobs, revenues, and our energy security at risk.

We choose the first path for America, where opportunity flourishes and the nation wins.

Jack N. Gerard
President and CEO
API

AMERICAN MADE ENERGY

American Made Energy is our vision for the future. We can achieve this vision by unleashing the full benefit of developing U.S. oil and natural gas resources. But this will only happen if new policies are implemented to ensure effective regulation, if we proceed with vital infrastructure projects like the Keystone XL pipeline, and improve and accelerate the leasing and permitting process.

"The EIA projects the United States will need more than 16 percent additional energy by 2035 to sustain and grow our economy, and meet demand from the expanding population."

The oil and natural gas industry is a bulwark for the U.S. economy even in uncertain economic times, but like a runner facing a strong headwind, the energy sector is challenged by policies that force the nation to settle for less at a time when we need more; more jobs; more government revenues, and more energy security.

The unemployment rate remains stubbornly high, and the measure of the current recovery is not robust by any means. The Energy Information Administration (EIA) forecasts that real growth in the U.S. economy will average between 2.1 percent and 3.2 percent through 2035, with the unemployment rate not returning to its pre-recession average of 5.2 percent until 2022.

As we look to the future, the U.S. population is forecast to increase by about one-third over the next 25 years, from just over 300 million people today to nearly 400 million. The EIA projects the United States will need more than 16 percent additional energy by 2035 to sustain and grow our economy, and meet demand from the expanding population.

"The oil and natural gas industry currently supports nearly 9.2 million American jobs and, significantly, one of every five new private jobs created between 2003 and 2011 was supported by the oil and natural gas industry."

Meeting the needs of our ever-growing country requires more American Made Energy, including renewable resources. These valuable sources of energy, including wind, solar, and biomass, are expected to provide 13 percent of America's energy supply in 2035, up from 8 percent in 2009. As important as renewable fuels are to the country's energy mix, and even with substantial increases, EIA projects that in 2035 the total volume of fossil fuels, including oil, natural gas, and coal, will still make up 78 percent of America's energy.

"Within 15 years, American and Canadian energy supplies ... could provide 100 percent of U.S. liquid fuel needs."

These same projections show oil will remain the principal source for U.S. transportation fuel. Oil currently accounts for more than 95 percent of the energy used to power U.S. automobiles, airplanes, and ships, and will continue to fuel the rising number of motor vehicles, expected to grow 30 percent from nearly 230 million today to more than 300 million by 2035.

Fortunately, our continued strong demand for petroleum products can be met with increased production from home-grown sources.

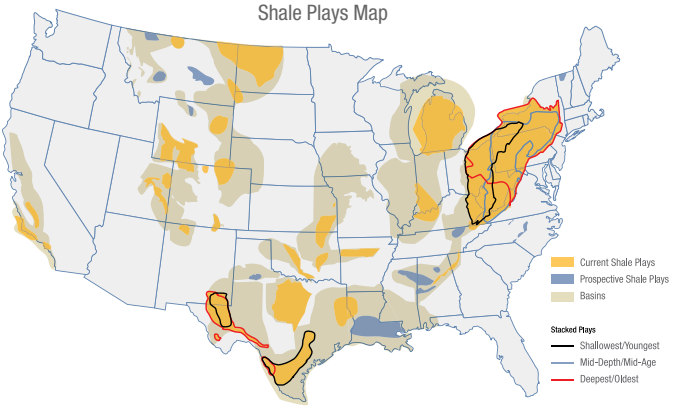
The oil and natural gas industry currently supports nearly 9.2 million American jobs and, significantly, one of every five new private jobs created between 2003 and 2011 was supported by

the oil and natural gas industry. The industry also supports 7.7 percent of U.S. gross domestic product, and delivers more than $86 million a day in revenue to the federal government. Increasing access to U.S. domestic energy resources will only add to these impressive numbers.

For the future, the promise is even greater. Economic analysts at Wood Mackenzie found that the industry could add nearly 1.4 million jobs by 2030 if the United States adopts policies that encourage development of domestic oil and natural gas resources and facilitate Canadian oil sands production, including construction of the Keystone XL pipeline infrastructure and related projects. That's three times the number of new jobs projected under current policies.

Pro-development policies could create new jobs throughout all parts of the country. If federal areas currently off-limits in parts of the Rocky Mountains were developed, more federal areas within the Gulf of Mexico were opened to development and we fully developed the Marcellus Shale some 85,000 jobs in Colorado would be created by 2030; Florida could see 100,000 new jobs by 2016; we could create 76,000 jobs in Pennsylvania, 20,000 jobs in New York, and 17,000 jobs in West Virginia by 2015.

One only needs to look at North Dakota to see the promise of domestic energy development. At 3 percent, the state has the nation's lowest unemployment rate and the state government currently enjoys a surplus of $1 billion. What is the reason for this boom? The answer is North Dakota has welcomed the implementation of horizontal drilling and hydraulic fracturing technology that has helped to tap resources in the Bakken formation, transforming once marginal oil and natural gas finds into high-performing fields.



Source: EIA, based on data from various published studies - updated May 9, 2011

Developing fields in North Dakota with safe, cutting-edge technology provides high-paying jobs, generates revenues for government to use in the community, all creating a more secure energy future for our country.

At a time of uncertainty in many oil and natural gas producing regions around the world, greater domestic production provides U.S. families and businesses a buffer against supply disruptions. Consider that within 15 years, American and Canadian energy supplies, combined with continued domestic biofuels development, could provide 100 percent of U.S. liquid fuel needs, if we have the political will to implement supportive policies. The public policies needed to realize an American Made Energy future form the core of this report and have the ability to boost North American oil and natural gas production from 18.5 million barrels of oil equivalent a day in 2010 to 32.6 million barrels by 2030, a 76 percent hike that could make North America the world's largest producer of oil and natural gas.

American Made Energy is vital for our country. Republicans and Democrats alike should support the policies outlined in this report that will lead the nation to a bright energy future.

PLATFORM RECOMMENDATIONS

With the right leadership and vision the United States can take control of its energy future. If pro-development energy policies are followed, the U.S. oil and natural gas industry could make 10 million barrels worth of added daily oil and natural gas available by 2030, generate more than 1.4 million new jobs, and create $800 billion in additional cumulative government revenue.

America has an abundance of energy resources. If shale oil and gas resources are included, the U.S. has the most technically recoverable oil and natural gas resources in the world; 24 percent more than Saudi Arabia, more than 7 times that of Brazil and 10 times more than China. These numbers do not even account for the roughly 800 billion barrels of unconventional oil resources in the U.S., like those found in the kerogen-rich deposits of western Colorado, Utah, and Wyoming.

1. Commitment to Access

Without sustained and predictable access to federal lands, there is no way to discover resources and determine their potential. The industry cannot produce what it does not know, and access is the key to both. Currently, more than 85 percent of America's offshore areas are off-limits to development. Access to these areas is vital to the industry and to our country's future energy security.

Domestic resource production could be even greater with the use of next-generation, technology-enhanced recovery from older American fields, and updated mapping to replace now outdated geological surveys. Technologies and advanced drilling methods like hydraulic fracturing and 3D and 4D seismic imaging are opening access to resources previously thought unrecoverable both onshore and offshore.

America's vast proven reserves and undiscovered resources offshore are estimated at nearly 101 billion barrels of oil and 480 trillion cubic feet of natural gas in federal areas spanning the Atlantic and Pacific Oceans, as well as the Gulf of Mexico, and the Chukchi and Beaufort Seas, according to the Bureau of Ocean Energy Management.

We Are Calling For: The opening of the eastern Gulf of Mexico; the Atlantic Outer Continental Shelf; and the Pacific Outer Continental Shelf.

More access to onshore areas is essential as well. Onshore, some 33 states hold an estimated 88.6 billion barrels of oil and 654.3 trillion cubic feet of natural gas, according to the Bureau of Land Management (BLM). Yet 60 percent of federal onshore lands are off-limits. New oil and natural gas development in portions of the Rocky Mountains and Alaska, increased shale development, and an improved regulatory environment, could create another 700,000 jobs, generate more than $12 billion in government revenue, and produce 3 million barrels of oil equivalent a day by 2030.

We Are Calling For: The opening of the Arctic National Wildlife Refuge – 1002 Area; portions of the Rocky Mountains; lifting of the drilling moratorium in New York, and timely review projects on federal land.

2. Common Sense Regulatory Structure

Access, once granted, would result in increasingly safe operations to find and develop energy reserves. Since the Gulf oil spill, API and its member companies have worked with government regulators to enhance safety and create the Center for Offshore Safety, an independent, industry-funded body to maintain the highest levels of safety performance, among other steps. New technology, improved preparation, and rapid response efforts all have made a safe industry safer in even the most challenging offshore conditions.

Worker safety and environmental precautions are also in place onshore. API has addressed safety concerns about hydraulic fracturing by developing a set of standards that cover a range of issues from well construction and water management to surface impacts and guidance for the industry on how to be a good neighbor.

The oil and natural gas industry supports common sense regulation that protects the environment without being unnecessarily burdensome and counter-productive to companies developing onshore and offshore resources. The focus for the industry is on the safety of its workers and the protection of the communities and natural surroundings where development takes place.

We Are Calling For: A federal regulatory structure that operates transparently with input from all stakeholders and that bases rulemakings on sound science.

The Renewable Fuels Standard is moving forward without regard to the existing U.S. motor vehicle fleet's capacity to safely use biofuels, the biofuel industry's ability to produce them, or the potential impacts on motor vehicles and other gasoline and diesel-powered machinery such as chain saws, including potential safety concerns.

We Are Calling For: Rulemakings that are based on a legitimate cost-benefit analysis and implementation timelines that consider economic impacts and resource availability.

EPA's Tier 3 vehicle emission proposal is being promulgated before there is a full airing of the impacts, costs and benefits of further reductions of sulfur and vapor pressure in gasoline. According to an independent analysis conducted by Baker & O'Brien, Inc., new Tier 3 requirements could boost the cost of making gasoline by up to 25 cents per gallon, close up to seven U.S. refineries, and actually increase refinery carbon dioxide emissions.

New regulations on air emissions could threaten the economic viability of some refineries, diminish U.S. fuel manufacturing capacity, and increase our reliance on imported fuels. Three U.S. refineries closed last year and significant new compliance costs on top of what existing regulations have imposed would make a difficult operating environment for refineries even more challenging.

We Are Calling For: A common sense regulatory approach that accounts for the cumulative effect of multiple regulations and avoids unnecessary and duplicative rulemakings and provides for regulatory certainty.

Shale natural gas and tight oil development is being adequately regulated at the state-level, as the federal government has acknowledged. State geologists and hydrology experts are best able to determine appropriate measures for their specific geologies and hydrologies and there is no need for duplicative and onerous federal regulation on the production of energy from shale.

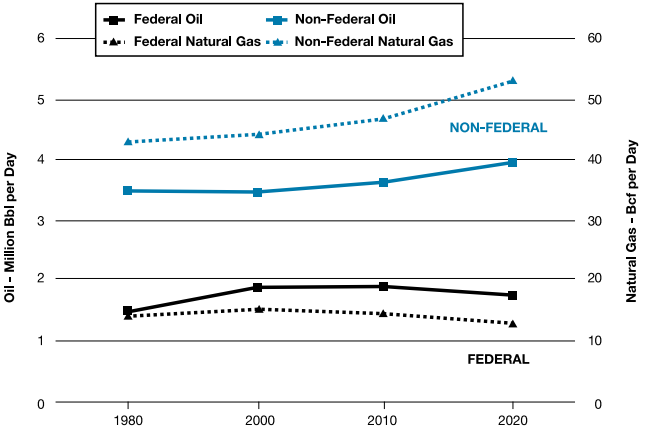
3. Invest in America's Future

The oil and natural gas industry has been a bright spot in a troubled economy, accounting for 3 percent of net job creation since 2009; while boosting America's manufacturing industries and revitalizing communities. But this tremendous contribution to economic recovery has been hampered by delays in government leasing and permitting.

The 2010 moratorium and continued slow pace of oil and natural gas project-permitting in the Gulf of Mexico are harming investment in

new oil and natural gas projects and eliminating thousands of jobs. A Quest Offshore study, sponsored by API, "The State of the Offshore U.S. Oil and Gas Industry," says that the downturn in permitting cost some 90,000 jobs in 2011, and resulted in 11 drilling rigs leaving the Gulf for other countries such as Brazil, Egypt, and Angola. The study calculates that lost investment related to the departing rigs could amount to more than $21.4 billion through 2015.

U.S. Oil and Natural Gas Production on Federal vs. Non-Federal Lands and Waters



Source: EIA, Office of Natural Resource Revenue

We Are Calling For: A more efficient and timely permitting process that encourages investment in U.S. offshore projects.

Onshore, the story is much the same. Lease sales in the West, which has been a very important region for U.S. oil and gas development, were down 70 percent in 2011 as compared to 2008. Permitting is also delayed and down on BLM-managed lands. Companies simply do not get permits to drill in a timely fashion. Permitting times have averaged more than 200 days in recent years, and depending on

the field office, it can actually take more than two years to obtain a permit. The Energy Policy Act of 2005 mandated a 30-day deadline for processing applications for permits to drill and this deadline is largely ignored.

We Are Calling For: The federal government to increase lease sales and adopt pro-access processes to improve development of U.S. oil and natural gas resources on public lands.

The United States and Canada enjoy the largest trading partnership across the longest peaceful border in the world. Getting more U.S. energy from a friendly and reliable North American neighbor would reduce U.S. reliance on energy resources from less stable regions, create American jobs, while enhancing domestic energy and national security.

The Keystone XL pipeline expansion would provide a significant boost to U.S. energy security, bringing an extra 830,000 barrels of oil per day to U.S. refineries. By adding the pipeline, our crude imports from Canada could reach 4 million barrels a day by 2020, twice what we currently import from the Persian Gulf. Further, U.S. companies provide many goods and services to Canadian oil sands development companies. Additional investment in oil sands development in Canada and expansion of pipelines and refineries in the United States could make it possible to realize an additional 500,000 U.S. jobs by 2035.

We Are Calling For: The immediate approval of the complete Keystone XL pipeline. After four years of review the federal government's own environmental assessment is that the pipeline would "have a degree of safety over any other," offering a safe, practical way to bring more Canadian oil to U.S. refineries. This is good for consumers, good for U.S. jobs, good for energy and economic security, and certainly serves our national interest.

API has more than 200 industry standards related to exploration and production activities, including a series of hydraulic fracturing documents that assist operators in well construction and integrity, water management, surface impact mitigation, and environmental protection. The industry is committed to safe and environmentally responsible development, including efforts to ensure that tight oil and natural gas development occurs with as little impact on the environment and with as much transparency as possible. We need a federal government equally committed to progress.

4. A Sustainable Energy Future

Today, the United States uses about half as much energy for every dollar of GDP as it did in 1980. Energy efficiency helps energy companies manage costs, which in turn strengthens competitiveness and brings more affordable energy products to Americans. Energy efficiency also helps improve the oil and natural gas industry's environmental performance by reducing greenhouse gas emissions.

In addition to innovation and improvements in using energy efficiently, the industry is committed to developing alternative technologies that will play an increasingly important role in our energy future even as it continues supplying the oil and natural gas that will be our nation's primary energy source for decades to come. Between 2000 and 2010, the U.S. oil and natural gas industry invested $71 billion in technologies that reduce greenhouse gases (GHG), far more than the federal government ($43 billion), and almost as much as the rest of domestic private industry combined ($74 billion).

The industry's investment in renewable energy is also significant—investments include more than $9 billion in non-hydrocarbon technologies from 2000 to 2010, which accounted for one in every five dollars invested in non-hydrocarbon energy technologies. Wind energy and biofuels ranked at the top of the oil and natural gas industry's non-hydrocarbon investments.

Given the industry's commitment and investment, it would be counterproductive to the development of new energy sources – not to mention threaten jobs, economic growth and security – to raise energy taxes on companies making major investments in tomorrow's energy.

We Are Calling For: A commitment to market based development of new energy sources, not government picking winners and losers through the tax code.

Until new energy sources are cost-competitive, to sustain the economy we will need a continued stable supply of oil and natural gas. A fundamental pillar of the U.S. income tax system is that businesses are taxed only on net income. This means that there needs to be practical and fair methods for businesses to recover costs. The policies underlying cost recovery provisions in the tax code legitimately utilized by the oil and natural gas industry are no different than those for any other industry, and are necessary to ensure continued investment to meet tomorrow's energy needs.

These cost recovery mechanisms should in no way be confused with "subsidies," i.e., direct government spending. And, unlike some forms of energy, the U.S. oil and gas industry receives no special spending credits in the tax code. Major energy producers pay at least their fair share of taxes and are a tremendous source of public revenue.

We Are Calling For: An end to calls for special, punitive taxes on the oil and natural gas industry. Misguided proposals to further increase taxes on the industry would have the unintended and negative effect of actually reducing government revenues, jeopardizing hundreds of thousands of jobs, and reducing domestic energy production.

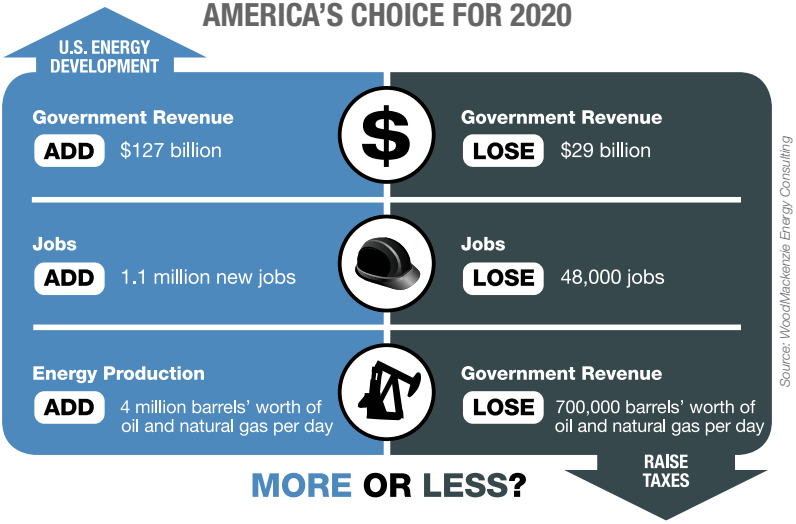
CONCLUSION

We have outlined a vision for American Made Energy where people and the economy benefit with hundreds of thousands of new jobs, increased investment in America, and billions in new revenues for government while bolstering national security.

The policy proposals to ensure these four planks of our American Made Energy platform actually happen are clear and direct. The opportunities are part of our overall proposal aimed at moving the country forward in a dramatic way, shedding go-slow approaches that hinder real opportunity.

"America has the domestic resources to meet our energy challenges. With the right leadership and vision, we can turn present-day challenges into future opportunities that will make our country stronger for generations to come."

To start, we must abandon energy rhetoric that pits one resource against another. The country requires all of our resources to thrive – oil and natural gas, coal, nuclear, wind, solar, biofuels, and more. Energy security will not happen by dividing America's energy assets, but instead we must pursue a true all-of-the-above energy strategy if we are to deliver on the promise of a new energy future.



The plan we describe here offers both the Democratic and Republican parties a fact-based, common sense path to choose when writing their statement of beliefs and principles into party platforms this summer. The party platforms are vital for voters searching for answers as to how the country would be governed by those seeking public office.

Just as political parties provide the electorate with their positions on our energy choices, we have been reaching out to voters, as well as elected officials and policymakers, on those fundamental choices, the challenges and the opportunities ahead of us, and our vision for our country's energy future.

We are doing this because an electorate that understands our energy issues will demand of all candidates, from the presidency to local offices, a commitment to honest common sense discussions of how we can realize an American Made Energy future.

America has the domestic resources to meet our energy challenges. With the right leadership and vision, we can turn present-day challenges into future opportunities that will make our country stronger for generations to come.

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