Energy Policy per American Petroleum Institute

Posted by Gail the Actuary on August 7, 2007 - 12:30am
Topic: Policy/Politics
Tags: corporate average fuel economy, energy legislation, natural gas, oil [list all tags]

The American Petroleum Institute (API) held a conference call with bloggers on Tuesday, July 31, to answer questions about API's position on energy legislation.

A link to a recording of the conference call (or most of it--the recording was cut off due to technical difficulties) can be found here. A transcript can be found here.

The API is not at all happy with the House legislation. One of the bloggers asked if there was anything in the 800 pages of legislation the API could support.

> Gerald Kerry (of Platts): It doesn't look like there is much of anything you could support.

> Jim Ford: That's right. This is Jim Ford with Government Affairs at API. And basically, you look at the provisions that are in the House bill, and it has a **negative impact on current and future domestic production**. It has **limitations on expanding refining capacity**. . . . So it has an **extremely negative impact**. It just far outweighs anything else that you might consider positive.

> In fact the Senate bill . . . does not have as many deep flaws as the House bill does, but it does have deep concerns still raised. The **price gouging provisions** that are in the Senate bill, . . . we believe will . . . **amount to price controls**. We know how bad price controls are from our experience in the 1970s and 80's.
>
> And then, the **increase in ethanol**. The increase in standard from the current standard to 36 billion gallons a year was done without . . . looking to check and see whether the technology is well developed enough to actually be able to provide the ethanol, particularly cellulosic ethanol, that would be required to meet the mandate. There is no way for the government to just mandate it if it can't be met. And knowing the technological breakthroughs that have yet to be made before we have adequate amounts of cellulosic ethanol economically available, that's a real concern in terms of supplying future fuel needs.

API held a blogger conference phone call on Tuesday, July 31. The subject was energy policy in general, and in particular the proposed legislation being discussed in the House of Representatives. A somewhat different version of the House legislation was passed on Saturday, August 4. The Senate passed its version of energy legislation in June. Compromise legislation will now need to be developed, taking into account both the House and Senate versions. President Bush has indicated that he may veto the resulting legislation.

The purpose of this discussion is to better understand the position of the API. It is possible that this will also give us a better understanding of the position of George W. Bush, since he is from the oil and gas industry.

Participants on the call were

Host: Jane Van Ryan, Senior Manager, Communications API
Red Cavaney -- President and CEO API
Mark Kibbe -- Senior Policy Analyst API
Erik Milito -- Office of General Counsel API
Jim Ford -- VP, Federal Relations API
Sara Banaszak -- Senior Economist API
Doug Morris -- Group Director, Upstream API
Richard Ranger -- Manager, Upstream API

Bloggers:

Anne McGregor -- Smarter Missouri Energy Policy
Jeff McIntire-Strasburg -- Treehugger
Chris Miller -- Maine Commonwealth
Geoff Styles -- Energy Outlook
Gail Tverberg -- The Oil Drum
Nate Hagens -- The Oil Drum
Robert Rapier -- R-Squared, The Oil Drum
"McQ" -- The QandO Blog
Carter Wood -- ShopFloor.org
Gerald Karey -- Platts
Pejman Yousefzadeh -- Red State

Besides the points made above, a few other points made on the call:

According to Red Cavaney of API, one of the big concerns is that there are a number of provisions in the proposed legislation that amount to a complete turn around in energy policy from the Energy Policy Act of 2005. Energy companies require very long lead times because of the nature of their operations. Rapid changes in energy policy make it difficult for oil companies to plan.

Robert Rapier asked about the rollback of tax breaks for the petroleum industry. Mark Kibbe said that these were problematic. Some of the rollbacks make costs of production in the US higher, so oil companies have the incentive to more production to non-US locations --not the intended result. Others potentially expose US oil companies to double taxation on a portion of foreign income - making them less competitive with foreign oil companies.

Chris Miller asked about royalty payments in kind. With this type of royalties, instead of determining a price equivalent for every barrel of oil pumped, royalty payments are made in oil, as a percentage of oil produced. Erik Milito, office of the general council at API, indicated that the industry is very much in favor of these, because they are easy to audit.

There was also some discussion about re-writing leases that were erroneously written. According to Red Cavaney, API is very much opposed to this, because it involves changing a signed contract. API's position is that the contracts should remain in place as they are.

Red Cavaney also discussed price gouging legislation. API is very much opposed to this, because it is very difficult to tell which price increases are lawful and which are not. API feels that it will act much like a price cap. Previous experience in the 1970s and 80s shows that such caps work poorly. Such a cap will also tend to increase the chance of outages if it discourages oil companies from finding additional supply at higher prices in time of emergency.

Robert Rapier asked about API's position on CAFE standards. API would like to stay out of this discussion - they feel it is between the auto industry and regulators.

When asked about carbon caps, Red Cavaney indicated that API is concerned that the US will adopt carbon caps, while countries like China will have none. API is concerned that if this happens, the US will be at a competitive disadvantage. Mr. Cavaney does not believe that the American public really understands the costs associated with these proposals.

When asked to sum up the position of API on the current legislation, Mr. Cavaney said that their biggest concern is that the current legislation should "Do no harm".

At this point, it is not yet clear what provisions will end up in the compromise legislation. It seems to me that one combination that would be particularly harmful from the industry's point of view would be legislation which includes both a **price gouging provision** and a **rollback of tax breaks**. The rollback of tax breaks would raise taxes for the industry. If the price gouging provision were in effect as well, it seems like it would be very difficult for the industry to pass the higher taxes through to the customer.

We have talked on The Oil Drum about the possibility of using higher taxes on gasoline and other petroleum products so as to encourage conservation. If the higher taxes on the oil industry could be passed through to the customer, it seems like the impact would be somewhat similar to higher taxes on the end products, since the higher cost would act to encourage conservation. If the oil companies can really pass the cost on, this might be a more palatable way of discouraging consumption than a direct tax. If the higher taxes cannot be passed on, they become problematic -- the oil and gas industry has a huge need for investment in the future, and removing profit which could be used for this investment seems counterproductive.