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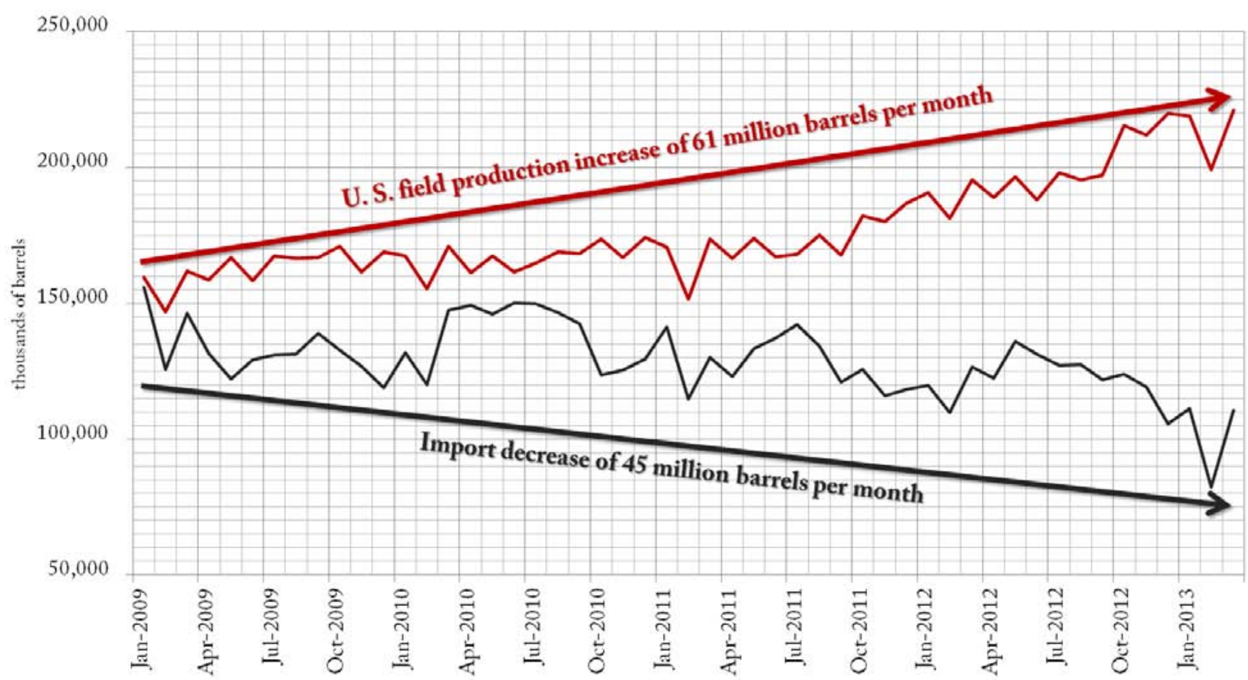
U.S. Shale Oil Revolution "Grave Concern" for OPEC

America's shale oil revolution is loosening the grip of the Organization of the Petroleum Exporting Countries (OPEC) on global oil markets, moderating oil prices, and propelling our nation toward energy self-sufficiency. Over the past four years, U.S. oil production soared by 30 percent, and U.S. oil imports from OPEC members fell by 26 percent, as hydraulic fracturing and horizontal drilling enabled energy producers to tap previously inaccessible shale oil resources. In May, domestic crude output exceeded imports for the first time in 16 years, and domestic crude inventories climbed to their highest level in 82 years. Last year, crude oil production increased by 790,000 barrels per day -- the largest increase in annual output since the beginning of the industry in 1859. This market about-face is all the more remarkable because the shale oil revolution has taken place on state and private lands, not on federal lands where President Obama and Senate Democrats continue to restrict oil production.

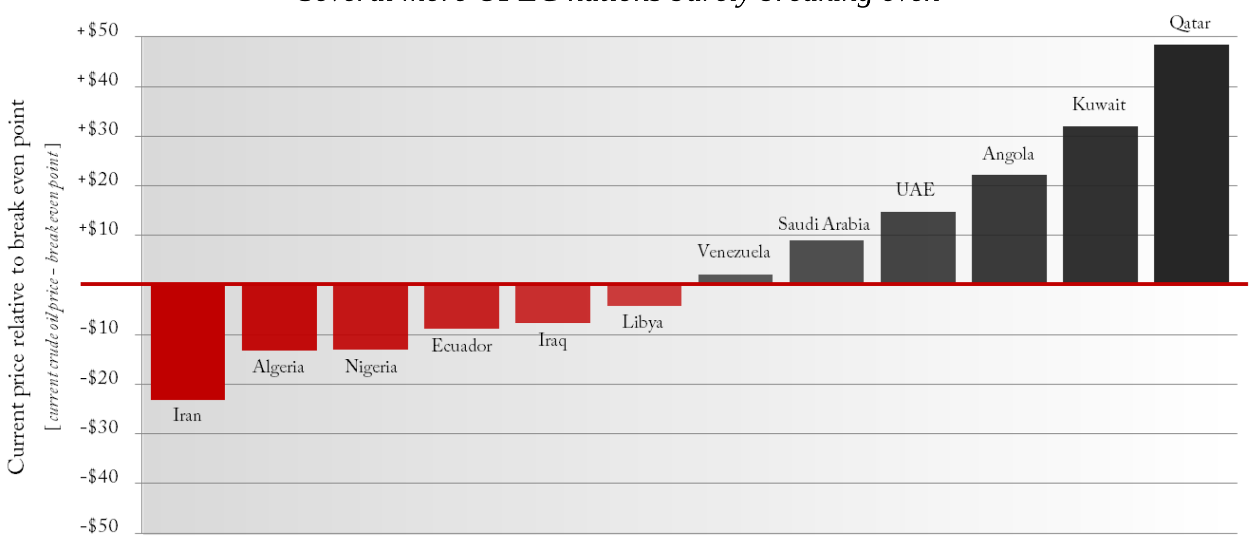


Rising U.S. Production Moderates Prices, Makes OPEC Sweat

OPEC members are increasingly unnerved by America's shale oil revolution. At a recent OPEC meeting, a delegate from the Persian Gulf confessed, "We are heading toward some problems." The oil minister from Nigeria, whose exports to the U.S. fell by 59 percent over the last two years, called it a "grave concern." The envoy from Iran, which does not supply the U.S. market but is affected by it, complained that rising U.S. shale oil production combined with tepid demand is bringing "the price down." If the price of oil falls below $100 a barrel, the Venezuelan oil minister will push for a cut in OPEC production. OPEC members are sufficiently worried that they plan to study the projected effects of the very U.S. oil industry they used to dismiss.

OPEC members are most troubled by the downward pressure on oil prices from booming North American supply and softening global demand. The Wall Street Journal has summarized the problem: Each OPEC member has a "break even" price at which oil must sell for that country to balance its budget. In the past decade, these break-even prices rose rapidly as OPEC countries directed oil revenues towards massive investments in infrastructure projects and, more recently, in expanded social programs meant to stave off upheaval caused by the Arab revolutions around them. The higher spending of OPEC countries has left them vulnerable to a drop in prices.

Current oil prices already below break even price for six OPEC nations
Several more OPEC nations barely breaking even



Source: Arab Petroleum Investments Corporation

Rising U.S. shale oil production helps reduce the price of Brent crude, the benchmark for international oil prices. "There's a fairly significant, long-standing relationship between spare production capacity in OPEC and what the pricing environment is for oil," according to Energy Information Administration Administrator Adam Siemenski at a conference in May. "So the 2 million barrel per day increase in U.S. oil production that surprisingly took place over the last five years has resulted in higher OPEC spare capacity, and undoubtedly, has been a factor in why Brent oil prices are $103-$104 per barrel rather than $125-$130." Shaving $25 off the price of Brent crude moderates prices at the pump for U.S. drivers since the price of crude oil accounts for 65 percent of the price of gasoline. It also weakens OPEC's stranglehold over global oil markets as its member countries increasingly divide over whether OPEC should cut production to preserve prices above break-even levels.

As U.S. Adds Supplies to Global Markets, Oil Prices Mitigate

OPEC members currently produce up to 30 million barrels per day of crude oil -- about [34 percent]() of the world's total oil supply. Some experts argue that OPEC's ability to reduce this oil production enables it to offset global oil supply gains from, and to negate downward pressure on global oil prices by, rising U.S. production. But "the uneven impact of the North American supply surge makes a collective response -- such as a coordinated production cut to support prices -- more difficult" for OPEC members who are each subject to different break-even oil price levels, according to an [analysis]() in the Wall Street Journal. "Iran, Venezuela and Algeria, who need high oil prices to cover domestic spending and offset falling production, have regularly clashed with Gulf countries led by Saudi Arabia, who have the financial strength to withstand lower prices."

Joint Economic Committee Republican staff [point out]() that "it is not reasonable to assume that OPEC acts only on price and not export volume, since its revenue is the product of both." So "it is reasonable to assume that OPEC will not fully offset substantial increases in the U.S. oil supply, which means there will be downward pressure on the price." Moreover, growing U.S. reliance "on indigenous supply and less on imports certainly can mute the impact of volatility in overseas supply" and enable the Strategic Petroleum Reserve to provide even more market protection should an oil embargo, blocked shipping lane, conflict in Syria, or other emergency raise global oil prices.

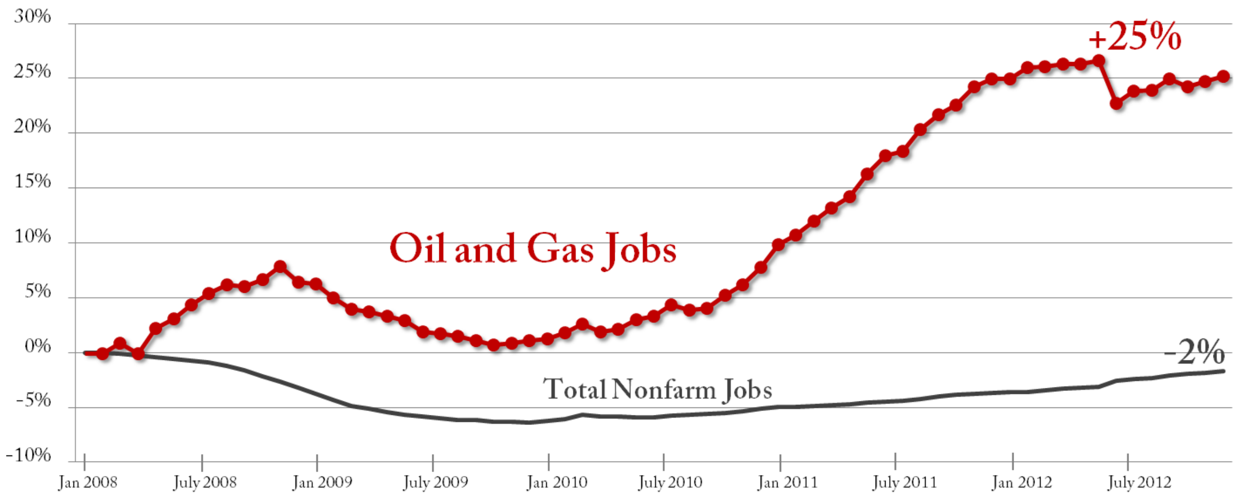
"The supply shock created by a surge in North American oil production will be as transformative to the market over the next five years as was the rise of Chinese demand over the last 15," the International Energy Agency says. It [projects]() that North America will provide 40 percent of new supplies, while OPEC's contribution will slip to 30 percent.

U.S. Shale Oil Revolution Creates Prosperity

America's shale oil revolution is a bright spot in an otherwise struggling economy. Even during the weak recovery, as President Obama's anti-growth policies led to unemployment rates of 10 percent, the shale oil industry supported 845,929 U.S. jobs. The industry contributed more than $116 billion to U.S. GDP in 2012. If developed to its full potential, it is estimated that the shale oil industry will generate 1.4 million direct, indirect, and induced U.S. jobs and almost $188 billion for the U.S. economy in 2035. Together with shale gas production, the shale oil industry will contribute more than $5.1 trillion in capital expenditures and more than $2.5 trillion in government revenues from 2012 to 2035. (An interactive map with state specific impacts of shale energy development is available here.)

The shale oil industry is just one piece -- albeit a critical one -- of the overall U.S. oil and natural gas industry, which supports more than nine million jobs and more than seven percent of U.S. GDP. According to the World Economic Forum, nine percent of all jobs created in 2011 were in the oil and gas sector. Since the beginning of 2008, jobs in oil and gas extraction alone have soared by 25 percent while total nonfarm jobs have declined by two percent.

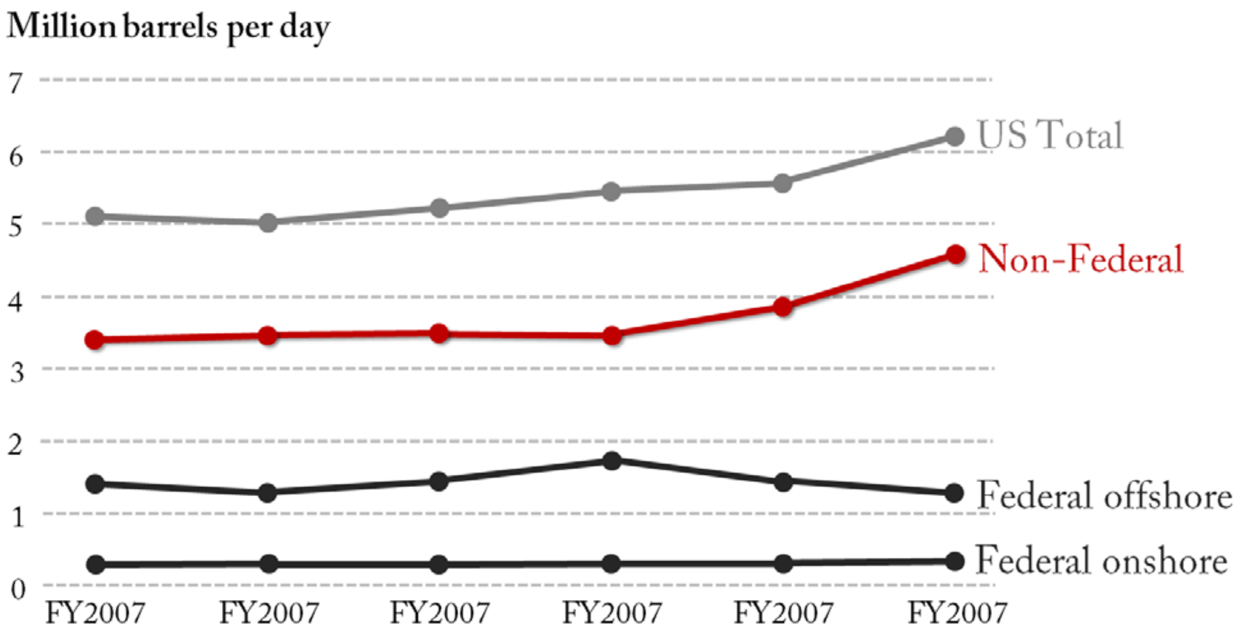
Oil and Gas Jobs a Rare Bright Spot in Obama's Struggling Economy



Democrats Should Join the Revolution

Despite the industry's success and its importance to our economy, President Obama and Senate Democrats continue to block the shale oil revolution from federal lands. They have used moratoriums, "permitoriums," and leasing plans to deny the American people billions of dollars in public revenue and thousands of jobs. On federal lands Washington controls, crude oil production was 18 percent lower in fiscal year 2012 than fiscal year 2010, when it peaked at 723 million barrels largely due to the previous Administration's policies. Instead of embracing the shale oil revolution and the unsurpassed economic prosperity it generates, the President and Senate Democrats persist in attempts to undermine it. They continue to propose policies that would raise taxes, increase regulation, and further restrict access to oil resources on federal lands, making oil-based energy like gasoline more expensive for American consumers.

U.S. Oil Production Rises on Non-Federal Lands But Falls on Federal Lands Due to Obama Policies



Source: Congressional Research Service

America’s shale oil revolution serves as a vital tool in moderating global oil prices and blazing a path for our nation toward energy self-sufficiency. By any metric, it plays a central role in creating economic prosperity otherwise absent from the Obama economy. The President and Senate Democrats should stop restricting domestic oil production and pushing policies that will make energy less affordable. Instead, they should join Republicans in creating policies that reduce our need for foreign oil, restrain global oil prices, restore economic growth, and return Americans to work.