CONGRESS OF THE UNITED STATES
JOINT ECONOMIC COMMITTEE
CONGRESSMAN KEVIN BRADY
RANKING REPUBLICAN HOUSE MEMBER

NEWS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY

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Oil Prices and the Economy

I am pleased to join in welcoming the witnesses testifying before us today on oil prices and the economy.

Oil prices have plunged during the recession but have started to increase more recently due to greater optimism about the economic outlook. While some of this recent optimism may be questionable given the latest data on retail sales and business investment, it is reasonable to think that the economy will be in recovery by next year, especially given the huge injections of money and credit by the Federal Reserve.

The key challenge to energy policy now, given the long lead time involved, is the need for investment in exploration and production to meet oil demand over the longer term, as opposed to an oil price spike in the short term. Nonetheless, as the international economy recovers, it is likely that oil prices will increase.

In considering this issue, it is important to note that state-controlled oil companies in OPEC and Russia account for three quarters of world oil reserves. These state-controlled companies, not private firms, are behind periodic attempts to manipulate the global oil market and exert monopoly power to hold up prices. Whatever the lasting success of these efforts, there is little doubt that state-controlled oil companies are a major force in the world oil market. There are also other state-to-state projects underway such as the attempts to arrange financing for the Brazilian national oil company by the Chinese government.

OPEC's cuts in oil production to hold up prices are only one of many reasons we should want to encourage oil production in North America. The U.S. and Canada together hold 15 percent of the world's proven oil reserves, 200 billion barrels, and their resource potential is much greater. The U.S. can and must do much more to expand domestic production of oil as well as natural gas.

Technologies such as hydraulic fracturing, seismic imaging enhanced by geopositioning satellite systems, and steerable drilling with gyroscopic guidance systems together can significantly expand economically recoverable oil and gas reserves. Steerable drilling allows precision drilling along variable trajectories without repositioning the drilling rig, which is particularly beneficial offshore. Furthermore, when horizontal drilling was combined with fracturing in the early years of this decade, large volumes of natural gas became recoverable from rock formations that previously had been regarded as depleted or could not be tapped with conventional methods.

Instead of encouraging U.S. oil and gas production, the federal government has placed excessive limits on exploration and drilling, including effectively making off-shore drilling impossible in many areas. The Administration would further penalize oil and gas production by the imposition of a variety of new energy taxes.

The Treasury justifies these tax increases by arguing that the lower taxation under current law, "encourages overproduction of oil and gas, and is detrimental to long term energy security," at least partly because it boosts "more investment in the oil and gas industry than would occur under a neutral system." With all due respect, a policy designed to suppress U.S. oil and gas production is absurd. The Treasury notes that the lower taxation under current law is, "also inconsistent with the Administration's policy of reducing carbon emissions and encouraging the use of renewable energy sources through a cap and trade program."

Thus it appears that the counterproductive nature of the Administration proposal is not an unintended consequence, but a result of deliberate design. Congress should block these tax increases precisely because they would undermine oil and gas investment and production, as the Treasury itself concedes. These traditional sources of energy are the bridge we need to the future of renewable energy.

We are all in favor of seeking renewable energy sources, so long as they are economically viable. However, we should not be seeking to suppress traditional energy production that we know is economically viable. According to the Energy Information Administration (EIA), the truth is that oil, gas, and coal provide most of the energy in the U.S. economy, and will continue to do so for many years. Tax increases targeting U.S. energy production, including the cap and trade tax, would weaken our economy, undermine U.S. competitiveness, and lower American living standards for decades to come.

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