

Supporting Research on Potential Economic Impact of 3-D: Domestic Jobs, Domestic Energy and Deficit Reduction Act of 2011

There seems to be a number of misunderstandings regarding the United States' resource potential (and thus job potential) as well as a fundamental flaw in much of the economic analysis supporting current Administration policy. Private industry job creation continues to lag, as the regulatory environment and access to resources continues to become more difficult. This is despite massive new government spending and a "stimulus" package in excess of \$780 billion.

The provided information is intended to help with the apparent disconnect in understanding between wealth generation and government spending. While government spending can temporarily create jobs, the money used by the government has to be generated somewhere else in the economy (via wealth generation). This document is intended to show the importance of understanding that U.S. resources are not only abundant, but that the economic potential is vastly beyond the imagination of many, and that private industry and communities can create jobs through access to resources and agencies issuing permits, rather than through massively subsidized industries.

CRS Report on U.S. Resources

According to the Congressional Research Service (CRS) not only are U.S natural resources abundant, but only Russia comes close to the energy endowment of America.¹ In fact, in combined natural resources (coal, oil, natural gas, etc.) no country exceeds the endowment of the United States. To develop these resources and the resultant private industry jobs U.S. businesses need merely to be given access to the resources. Unfortunately, current Administration policy is locking up these resources and preventing American businesses from accessing and developing what belongs to the people.

Economic Analysis Supporting 3-D, Domestic Jobs, Domestic Energy and Deficit Reduction Act of 2011

OCS

Thanks to thorough economic analysis by the American Energy Alliance we have an idea of just how extensive the job and revenue potential is from OCS development.² This research found that the potential of the OCS alone could sustain "1.2 million new, full-time jobs per year over 30 years" as well as "contribute more than \$8 trillion to GDP and supply more than \$2.2 trillion in incremental tax receipts." These jobs do not require subsidies or mandates – access to the OCS merely needs to be authorized.

The federal government estimates that Alaska's Outer Continental Shelf holds 27 billion barrels of oil and 132 trillion cubic feet of natural gas, over twice the amount produced at

¹ *U.S. Fossil Fuel Resources: Terminology, Reporting, and Summary*, Congressional Research Service, Gene Whitney, Carl E. Behrens, Carol Glover, October 28, 2009.

² *American Energy Alliance Study, The Economic Contribution of Increased Offshore Oil Exploration and Production to Regional and National Economics*, Joseph R. Mason, February, 2009.

Prudhoe Bay, which has been supplying the US with a significant percentage of its production since the 1970s.

AN Arctic OCS Study on National Impacts by Northern Economics and Institute for Social and Economic Research (ISER) at the University of Alaska finds the following:³

- Development of oil and gas resources in Alaska's Outer Continental Shelf (OCS) areas could yield nearly 9.9 billion barrels of oil and 14.7 trillion cubic feet of natural gas.
- An annual average of 54,700 new jobs would be created and sustained through the year 2057, with 68,600 during production and 91,500 at peak employment.
- A total of \$145 billion in new payroll would be paid to employees through the year 2057, including \$63 billion to employees in Alaska and \$82 billion to employees in the rest of the United States.
- A total of \$193 billion in government revenue would be generated through the year 2057, with \$167 billion to the Federal government, \$15 billion to the state of Alaska, \$4 billion to local Alaska governments, and \$6.5 billion to other state governments.
- The development scenarios assume "no major regulatory impediments or delays," but ongoing regulatory impediments and delays have stalled exploration since 2007.

ANWR

Analysis from Arctic Power shows that opening up ANWR to oil and gas production could create approximately 730,000 jobs⁴ and could generate over \$114 billion in royalty revenue plus another \$95 billion in corporate income tax revenue.⁵ In addition, the *Three-D Act* would create a trust fund for renewable and alternative energy. As wealth is generated from domestic production we could invest it in newer technologies rather than perpetuate borrowing and deficit spending to support research and development in these fields.

Current Regulatory Policies Frustrating Job Creation

One of the broader challenges to private job creation are the befuddling actions by the Department of Interior and the Environmental Protection Agency. The combined new regulatory and permitting programs not only stifle economic development, but they also retard the investment of private capital to create private jobs. In fact, some of these actions will destroy private industry jobs and cripple any chance of economic recovery. We provide the below examples of business killing policy:

³ <http://www.northerneconomics.com/pdfs/ShellOCS/National%20Effects%20Report%20FINAL.pdf>

⁴ Arctic Power; <http://www.anwr.org/features/pdfs/employment-facts.pdf>

⁵ CRS Memorandum, *Possible Federal Revenue Estimates From Oil and Gas Production In Areas Currently Off-Limits*, September 5, 2008.

- Department of Interior-
 - Slow walking (or otherwise restricting) Oil Shale Permits and Other Onshore Leases⁶⁷
 - Slowing OCS Leasing⁸
 - Cutting off water to farmers in CA⁹¹⁰
- Environmental Protection Agency-
 - CO2 Regulation under the Clean Air Act¹¹
 - Slowing permits for Alaska OCS¹²¹³
 - Plans for NEPA review requiring climate change considerations¹⁴
- Gulf Drilling and Obama/Salazar Moratorium

Many of you have read about the ongoing challenges with permitting for oil and gas drilling in the Gulf of Mexico. The slow pace of permitting is having a direct and extremely negative impact on Gulf States and the country as a whole. Interior Department's leaders continue to lock up significant income, revenue and jobs through the Obama Administration's ongoing "de facto" moratorium on offshore drilling permits.

Before the Macondo blowout, permits were issued at a rate of approximately 10 per week. Subsequent to the lifting of the moratorium in October, BOEMRE has yielded a single permit for deepwater activities.

- The economic impacts reveal that a **complete shut-down of deepwater drilling** would:
 - Reduce direct and indirect employment in the oil & gas and its service industries by 93,000 jobs— every year through 2035.
 - Reduce an additional 82,000 jobs every year through 2035 in non oil & gas related industries due to less income in the economy.

⁶ <http://republicans.resourcescommittee.house.gov/News/DocumentSingle.aspx?DocumentID=134670>

⁷ <http://republicans.resourcescommittee.house.gov/News/DocumentSingle.aspx?DocumentID=134651>

⁸ <http://republicans.resourcescommittee.house.gov/News/DocumentSingle.aspx?DocumentID=145473>

⁹ *Measuring the Employment Impact of Water Reductions*, Richard Howitt, Josué MedellínAzulara, Duncan MacEwan, Department of Agricultural and Resource Economics and Center for Watershed Sciences, University of California, Davis, September 28, 2009.

¹⁰ <http://www.kmph.com/Global/story.asp?S=11298670>

¹¹ *The EPA's Global Warming Regulation Plans*, Nicolas Loris, The Heritage Foundation, January 20, 2010. <http://www.heritage.org/Research/EnergyandEnvironment/wm2768.cfm>

¹² http://begich.senate.gov/public/index.cfm?p=PressReleases&ContentRecord_id=ceaf179a-04df-44b0-a36c-45a2c3d49a53

¹³ <http://www.whataboutalaska.org/>

¹⁴ *No Basis' for Excluding Climate Impacts From NEPA Reviews*, CEQ Says, Noelle Straub, New York Times, January 15, 2010.

- Reduce annual GDP by over \$20 billion per year or a cumulative impact of approximately \$500 billion in the next 25 years.
- Reduce long-term U.S. oil production by 27 percent.
- Increase long-term U.S. foreign oil imports by 19 percent.

Groppe, Long & Littell estimates show that over 23 wells per month are needed to maintain current production levels in the shallow water Gulf of Mexico. Since the Moratorium was lifted on shallow water drilling, the BOEM has approved permits for new wells at a pace of 1.8 per month

Six deepwater rigs have departed the Gulf:

1. Discoverer America's Transocean, to Med/Black Sea
2. Ocean Baroness, Diamond Offshore, semi-submersible rig, to Brazil
3. Ocean Confidence, Diamond, to West Africa
4. Ocean Endeavor, Diamond, to Med/Black Sea
5. Stena Drilling, to Eastern Canada
6. Transocean, Marianas, to West Africa

According to ODS, another five are scheduled to leave the US GOM by April 1st. As well, new well drilling has fallen from 20 in the first quarter of 2009 to 1 in the 4th quarter of 2010.

The worst case scenario is that the backlog of permitting delays continues, leading to strained resources and long-term economic harm to the Gulf region. A new study by the consultancy Wood Mackenzie forecasts as many as 125,000 jobs losses and as much as 680,000 barrels of oil equivalent Gulf production a day could be at risk if delays continue. At a price of \$100 a barrel, that is quite a bit of economic growth, jobs, and tax revenues.

Permits being withheld through agency action that would be issued:

- Forces Interior to reissue all permits/leases for projects it withdrew in 2009 and 2010 in Utah and Montana.¹⁵
- Forces EPA to reissue the CWA permit for Spruce No. 1 mine in West Virginia.¹⁶
- Forces Interior to provide full water allocations to Central Valley farmers.
- Forces the State Department to issue all permits necessary to move forward with the Keystone XL Pipeline Project

¹⁵ <http://www.americansolutions.com/drill/2011/01/top-five-things-obama-has-done-to-raise-gasoline-prices.php>

¹⁶ <http://statejournal.com/story.cfm?func=viewstory&storyid=91378>

Keystone XL Pipeline

Stimulus:

- Over \$20 billion in new spending for the US economy (includes indirect economic activity)
- Over \$9.6 billion in total output

Job Creation:

- 13,000 direct construction and manufacturing related American jobs
- Indirect impact includes over 118,000 person years of employment

Taxes

- Approximately \$600 million in government revenue during construction:
- \$5.2 billion - cumulative property taxes paid during operational life of the pipeline

Brief Summary on Wealth and Job Creation and How Green Jobs are Not Meeting Their Promise

There appear to be a number of reasons why the “green” economy has not sprouted at the pace many had predicted. Some of the stimulus money that was intended to spur green jobs seems to have disappeared into a black hole.¹⁷ Despite this fact uncompetitive industries that fail to generate wealth and tax revenue are pushing for more mandates and more subsidies. The challenge is that they may be forcing out more competitive, revenue-generating, industries. This is not a strategy for economic success.

Government intervention does not necessarily mean that the fruits of that intervention will produce wealth-generating businesses.¹⁸ One of the more significant myths being perpetuated by current policy is that government mandates are a substitute for free markets, and that subsidized technological interventions will somehow create a bustling economy in communities across the United States.¹⁹ However, such assumptions are flawed for two reasons. First, the subsidies required for these new mandated industries will not replace the lost revenues to federal, state and local governments of industries that are taxed at multiple levels and generate massive amounts of wealth. Secondly, green jobs can only promote employment growth so long as the subsidies to create them can be sustained.

¹⁷ *Stimulus Funds for Green Energy Projects Going Offshore along with Other U.S. Manufacturing*, Institute for Energy Research, November 6, 2009. <http://www.instituteforenergyresearch.org/2009/11/06/stimulus-funds-for-green-energy-projects-going-offshore-along-with-other-u-s-manufacturing/>

¹⁸ *Fake “Green” Work*, John Stossel, Fox Business, December 29, 2009.

<http://stossel.blogs.foxbusiness.com/2009/12/29/fake-%E2%80%9Cgreen%E2%80%9D-work/>

¹⁹ *Green Jobs Myths*, Andrew P. Morriss, William T. Bogart, Andrew Dorchak and Roger E. Meiners, UNIVERSITY OF ILLINOIS LAW AND ECONOMICS RESEARCH PAPER SERIES NO. LE09-001,

We provide these examples in the United States of the challenges “green” industries face:

1. Solar Energy in Massachusetts- in the case of Evergreen Solar, MA taxpayers gave \$58 million in subsidies, incentives and grants...to watch jobs go overseas.²⁰
2. Wind Energy in Texas- as the referenced case shows, massive government investment in green technologies do not necessarily create jobs in the United States.²¹
3. Solar Energy in Florida- as the referenced case shows, the cost of this green project was not only expensive and required significant subsidies, the long-term jobs created were limited.²²

International experiments with green jobs initiatives have also met with little success. China, on the other hand, has made an aggressive effort to secure energy resources around the world.²³ This likely is a major reason for China’s 2009 economic expansion of 8.7%.²⁴ China is not only investing in renewable energy, but they are wisely investing in natural resources and securing energy and mineral resources all over the world. The U.S. is extremely fortunate for its abundant resources and the energy and job potential available domestically. We provide the below examples of the challenges other countries have found in expanding their “green” economies:

Spain:²⁵

- Only 1 in 10 of the jobs actually created through green investment is permanent.
- Since 2000, Spain has spent €571,138 (\$753,778) to create each “green job,” including subsidies of more than €1 million (\$1,319,783) per wind industry job.

²⁰ *Evergreen Solar to shift some operations to China*, Erin Ailworth, The Boston Globe, November 4, 2009.

http://www.boston.com/business/articles/2009/11/04/evergreen_solar_to_shift_some_operations_to_china/

²¹ *Schumer Seeks to Block Stimulus Money for Chinese-Backed Texas Wind Farm*, TOM ZELLER JR. AND KEITH BRADSHAW, New York Times, Tuesday, January 19, 2010.

²² *Highest Cost Generating Plant Comes On Line in Florida to Obama Fanfare*, Canada Free Press, Institute for Energy, October 26, 2009. <http://www.canadafreepress.com/index.php/article/16224>

²³ *China Secures Oil and Gas Resources; U.S. Prefers to Wait for Green Energy*, Institute for Energy Research, December 14, 2009. <http://www.instituteforenergyresearch.org/2009/12/14/china-secures-oil-and-gas-resources-u-s-prefers-to-wait-for-green-energy/>

²⁴ *China's growth accelerates to 10.7 percent in 4Q*, Joe McDonald, Associated Press, January 21, 2010. <http://apnews.myway.com/article/20100121/D9DC3L701.html>

²⁵ *Running of the Bull: U.S. “Green Jobs” Rhetoric Runs Smack Dab Into Hard Lessons From Spain*, Institute for Energy Research, March 31, 2009. <http://www.instituteforenergyresearch.org/2009/03/31/running-of-the-bull-us-green-jobs-rhetoric/>

- Those programs resulted in the destruction of nearly 113,000 jobs elsewhere in the Spanish economy.
- Each “green” megawatt installed destroyed 5.39 jobs in non-energy sectors of the Spanish economy
- The total over-cost -- the amount paid over the cost that would result from buying the electricity generated by the renewable power plants at market prices -- between 2000 and 2008 amounts to 7,918.54 million Euros (\$10 billion).
- The total subsidy spent and committed to these three renewable sources amounts to €28,671 million (\$36 billion).
- Consumer energy costs in Spain would have to be increased 31 percent to repay the debt generated by the green jobs subsidies.

Germany:²⁶

- Financial aid to Germany’s solar industry has now reached a level that far exceeds average wages, with per worker subsidies as high as \$240,000.
- In 2008, the price mark-up attributable to the government’s support for “green” electricity was about 2.2 cents per kWh. For perspective, a 2.2 cent per kWh increase here in the US would amount to an average 19.4% increase in consumer’s electricity bills.
- Government support for solar energy between 2000 and 2010 is estimated to have a total net cost of \$73.2 billion, and \$28.1 billion for wind. A similar expenditure in the US would amount to about half a trillion dollars.
- Green jobs created by government actions disappear as soon as government support is terminated, a lesson the German government and the green companies it supports are beginning to learn.
- Government aid for wind power is now three times the cost of conventional electricity.

Denmark:²⁷

- Government subsidy of wind producers over the past decade amounts to roughly \$376 million per year. As the decade has advanced, the rate of new building in Denmark has declined sharply -- and to maintain their sales, just as in Spain, manufacturers

²⁶ *Economic impacts from the promotion of renewable energies: The German experience*, Prof. Dr. Christoph M. Schmidt, Rheinisch-Westfälisches Institut für Wirtschaftsforschung, October 2009.

²⁷ *WIND ENERGY THE CASE OF DENMARK*, Center for Politiske Studier, September 2009.

- have been forced to concentrate on exporting their technology to foreign markets (USA) where the subsidy potential is higher.
- Employment: The public subsidy in Denmark per wind-related job created is 600,000-900,000 DKK per year (\$90,000-\$140,000 USD). This subsidy constitutes 175-250 percent of the average pay per worker in the Danish manufacturing industry.
 - Electricity rates: Thanks to a combination of expensive base power, taxes and additional charges, Danes pay more for their electricity than anyone in the European Union.
 - Emissions: The wind power exported from Denmark saves neither fossil fuel consumption nor CO2 emissions in Denmark, where it is all paid for. By necessity, wind power exported to Norway and Sweden supplants largely carbon neutral electricity in the Nordic countries. No coal is used, nor will you find power-related CO2 emissions in Sweden and Norway.
 - Exports: Over the last eight years West Denmark has exported (couldn't use), on average, 57 percent of the wind power it generated and East Denmark an average of 45 percent. Denmark sells this power to its neighbors at almost no cost, asking only that its neighbors sell some of their baseload power back to Denmark on the frequent occasions in which the wind does not blow there.

Conclusion

According to a recent study by Black & Veatch, in 2034, a mix of coal, natural gas and other fossil fuels will supply 68 percent of the nation's energy needs, compared to 76 percent today.²⁸ That means that natural resources will still need to be developed, as a significant portion of America's energy portfolio, and that production and the resultant jobs can either happen domestically or abroad. Accordingly, it might be useful to think of the U.S. resource potential as a way of funding America's energy future. The options include more mandates, subsidies and increased debt, or authorizing access to existing U.S. resources for America's future and the significant job and revenue potential it represents. The *3-D, Domestic Jobs, Domestic Energy and Deficit Reduction Act of 2011* is a viable option, and its honest consideration is appreciated.

²⁸ *Fossil Fuel Use in 2034? Not Much Different*, Todd Woody, NY Times, January 15, 2010.
<http://greeninc.blogs.nytimes.com/2010/01/15/fossil-fuel-use-2034-not-much-different/>