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BLUEY & BURNETT: More oil would mean smaller deficit

By blocking drilling, Obama turns down billions in needed revenue

By Robert Bluey and H. Sterling Burnett - The Washington Times

With the price of oil at more than $100 per barrel, higher gasoline prices are eating into Americans' budgets. Consumers, however, are not the only ones losing out. The various taxes, lease revenues and royalty payments to federal, state and local governments for oil and gas production on public lands is a significant source of revenue - among the largest sources outside of the personal income tax. Yet, the Obama administration stubbornly clings to a "no new production in our backyard policy" - while blaming oil companies for high prices.

The truth is, by the government's own estimates, due to declining production at existing wells and bureaucratic delays on new wells, the federal government is forfeiting revenues of more than millions of dollars per day. The losses will grow significantly if the federal government does not sell new drilling leases on the Outer Continental Shelf and on other public lands this year.

Oil supplies are increasingly uncertain due to political unrest in the oil-rich Middle East, and U.S. budget deficits and the national debt are at all-time highs. Now is the time to expand domestic oil production.

In the aftermath of the Deepwater Horizon oil spill, the Obama administration issued a temporary moratorium on offshore drilling and then on May 30, 2010, extended it to a six-month ban on deepwater drilling in the Gulf of Mexico. At the same time, the administration announced that it would not be opening new areas off the East and West Coasts to production and it also canceled planned lease sales off the north coast of Alaska. In the Gulf alone, the moratorium suspended work on 33 wells in various stages of construction and halted new lease sales and suspended permitting for leases already offered. Though federal courts struck down the moratorium twice, the government did not lift it until Oct. 12, 2010. Since then, oil companies have complained of a "permitorium," - the government is deliberately slowing the process of issuing permits.

For example, Interior Secretary Kenneth L. Salazar canceled a Gulf lease sale last October and has postponed until 2012 an auction of leases in the central Gulf of Mexico originally scheduled for March. Another auction planned for October in the western Gulf could also be delayed until 2012. This could be the first year since 1965 that the federal government did not sell leases in the Gulf.

While no new production is allowed, the U.S. Energy Information Administration projects a decline of 240,000 barrels per day in oil production from existing production in the Gulf of Mexico this year.

A lack of new leases means the government will collect less rent. Offshore leases currently generate more than $200 million in rent payments per year.In addition to lease payments, oil companies pay an 18.75 percent royalty to the federal government on the oil produced. With oil currently trading above $100 a barrel, that equals $4.7 million in lost revenue each day. If the government's own projections are accurate, that would amount to $1.7 billion this year.

Royalties, leases and rent make up a sizable amount of revenue each year. For example, in 2008, the offshore industry paid $237 million in rent, $8.3 billion in royalties and $9.4 billion for bids on new leases. By comparison, last year those numbers dropped, while rent increased modestly to $245 million, royalties fell by more than half to $4 billion and lease bids fell by approximately 90 percent to just $979 million. This year, if no leases are offered, lease bids will fall to zero - from $9.4 billion to zero in just three years.

Voters are demanding the federal government balance its budget. Revenue from new oil production would help. While reducing gas prices, the oil produced would also result in payments to federal, state and local government that could be used to reduce deficits or the amount of cuts legislators are considering, or both. The time for delay is over. The Obama administration should pick up the pace of new permits for exploration and production off America's coast and on areas currently off-limits.

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