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Profiting from Pain at the Pump

Oil Industry Executives Claim Biden Administration Keeps Gasoline Prices High, Put Shareholders Before Public

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If you're frustrated by what you're paying for gasoline these days, you have both Vladimir Putin and the U.S. oil industry to blame. On Capitol Hill and in the press, fossil fuel lobbyists and corporate executives have repeatedly criticized the Biden administration for the soaring price of oil and gasoline, falsely claiming that President Joe Biden's policies have deterred domestic production.

Behind the scenes, oil industry CEOs are telling a different story. In conference calls with investors, oil executives are clear about their intentions: They're actually quite happy to be making easy profits from high oil and gas prices and putting off the transition to clean energy for as long as possible.

The message comes in bland business-school phrases such as "capital discipline," "cash flow-driven return of capital framework," and "shareholder return program." But the meaning of these opaque buzzwords is the same: Drivers pay more. Drillers rake in the cash.

There is a reason for the fossil fuel industry's approach. Although oil and gas companies are enjoying windfall profits now, they lost a ton of money between 2010 and 2020, mainly by borrowing way too much to fund an expansion of drilling using expensive oil and gas fracking technology, which resulted in unsustainable overproduction and massive losses when oil prices plunged, as they did two years ago at the start of the pandemic.

Investors Take Precedence

The fracking boom of the past 15 years turned the U.S. into the world's largest crude oil producer and kept the price at the pump low for consumers. But it proved to be a colossal financial disaster, and investors have long been frustrated

by years of bankruptcies and paltry long-term returns. Investors have appreciated the change. "With the exception of the past year, this has been a lousy area to invest in for the past decade. It looked like a double-black-diamond ski slope on the way down and a bunny slope on the way up," said Bill Nygren, manager of Oakmark Fund told Morningstar, the investment research firm. "We're very pleased with what we see in the industry. Companies are producing more cash and returning a higher percentage of it to the shareholders."

Quotes from oil industry executives show how the U.S. drilling industry has drilled far less and began to generate massive windfall profits as oil prices surged. Oil industry executives now say they are focused on pleasing shareholders and running their operations with an eye on making money — rather than simply funding expansion that ends up putting a glut of oil on the market and depressing prices. A few examples:

Scott Sheffield, CEO of Pioneer Natural Resources: "We have committed to our long-term shareholders, we'll be growing zero to five percent regardless of the oil price .... Regardless of whether it's 150 dollar oil, 200 dollar oil, or 100 dollar oil, we're not going to change our growth plans." Source: Bloomberg News interview.

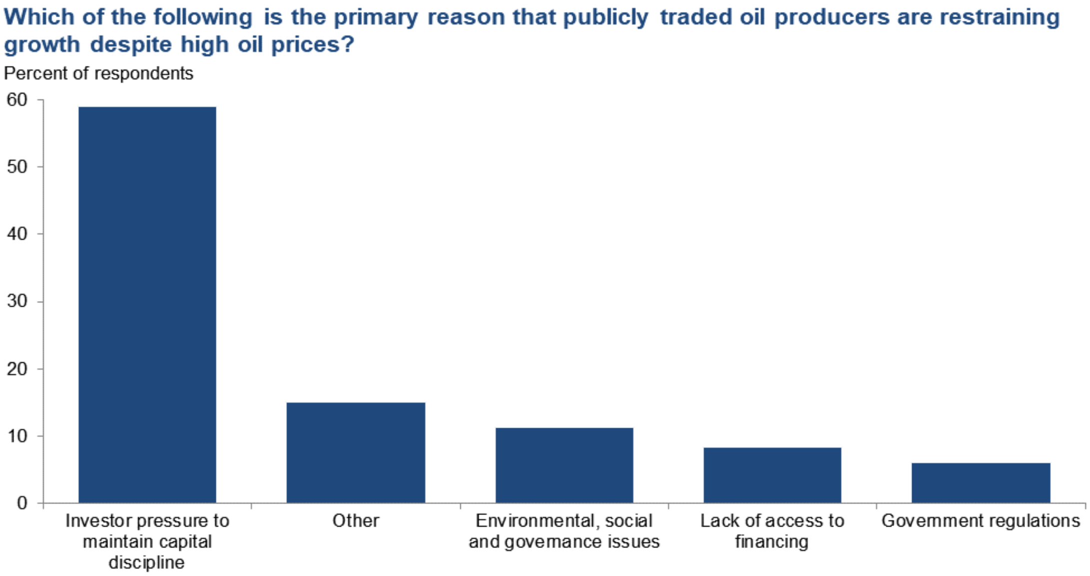
Travis Stice, CEO of Diamondback Energy: "We have no reason to put growth before returns…And as a result, we will continue to be disciplined, keeping our oil production flat this year… We've spent the last decade consuming capital and now we've got a little bit of sunshine in us where we can return that capital to our investors that have been waiting patiently and sometimes impatiently for this return." Source: Transcript of February 23 earnings call.

Ben Dell, managing partner, Kimmeridge Energy Management: "The only question investors should ask is why on earth would they want any U.S. [oil producer] to grow?... The sector has been working. Cash flow is getting returned. This is not the time to change the [new] business model." Source: Wall Street Journal.

Vicki Hollub, Occidental Petroleum CEO: "I feel now that we do need to return cash to the shareholders in the form of dividends or buybacks, especially during the better cycles," she said. Source: CNBC, quoting remarks from an industry conference.

Rick Muncrief, Devon Energy CEO: "We're not going to be the first ones to the starting line … We're going to try to keep production levels flat." Source: February 28 Bloomberg TV interview.

It is clear from these executives' quotes, and many more collected by the investigative watchdog group Documented, that fossil fuel executives are putting their shareholders and profits first. That conclusion is supported by a survey published last week by the Federal Reserve Bank of Dallas. It found that nearly 60 percent of executives from 132 oil and gas companies found that investor pressure, rather than the other issues commonly cited by the industry, is the main reason oil producers are restraining growth.



NOTE: Executives from 132 oil and gas firms answered this question during the survey collection period, March 9–17, 2022.
SOURCE: Federal Reserve Bank of Dallas.

Yet on Capitol Hill, oil and gas industry lobbyists present a narrative that is completely disconnected from the reality described by the industry's own executives. The American Petroleum Institute shamelessly seized upon the Russian invasion to argue in favor of expanded oil drilling and natural gas exports. It has continued to push disingenuous talking points, working with Republican allies on Capitol Hill to blame the Biden administration for spiking gasoline and oil prices.

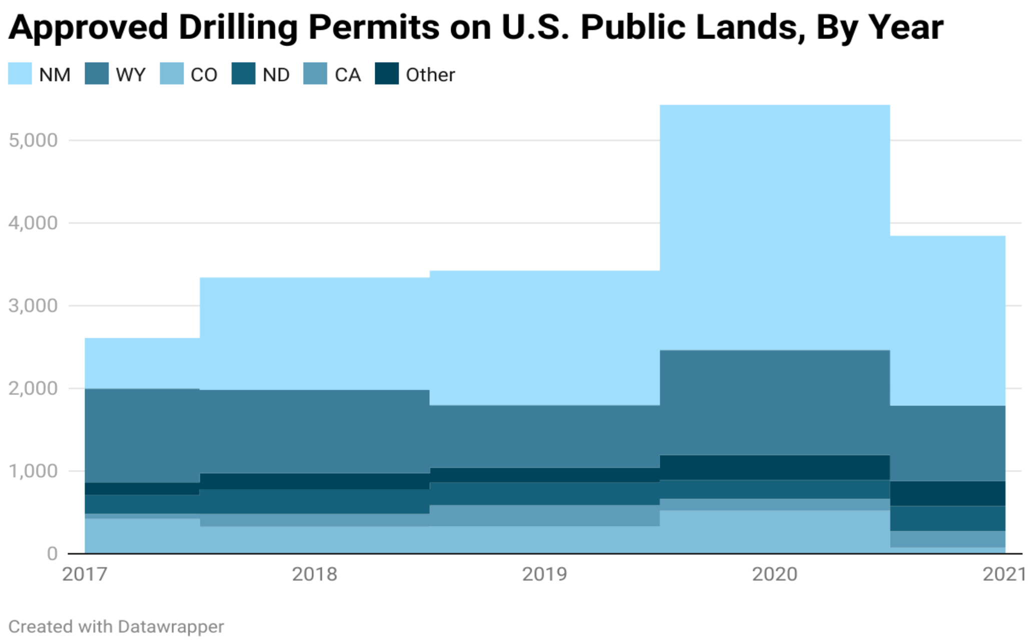
The industry's playbook is clear: grumble about the Biden Administration, ignore climate change, downplay the dramatic growth of clean alternatives and electric transportation, push for looser regulations, promote pet projects such as drilling in Alaska and lock in drilling for as long as possible.

The industry is pushing to approve more methane gas export terminals to European countries moving away from Russian gas. One industry executive even argued in the New York Times that the Biden administration should speed permitting and environmental reviews of such projects, “to make sure things happen quickly without micromanaging everything.” He made this claim despite decades of pollution and damage to vulnerable communities living near industrial facilities in the Gulf Coast region. The executive, Charif Souki of Tellurian Inc., should encourage banks to make loans to such projects, , a move that would politicize the bank lending process. Souki conveniently neglected to mention that ramping up exports of gas would continue to raise costs for U.S. consumers who pay far less for gas than Europeans. Exports could even lead to the revival of shuttered coal-fired power plants, which became unprofitable due to the boom in cheap fracked gas.

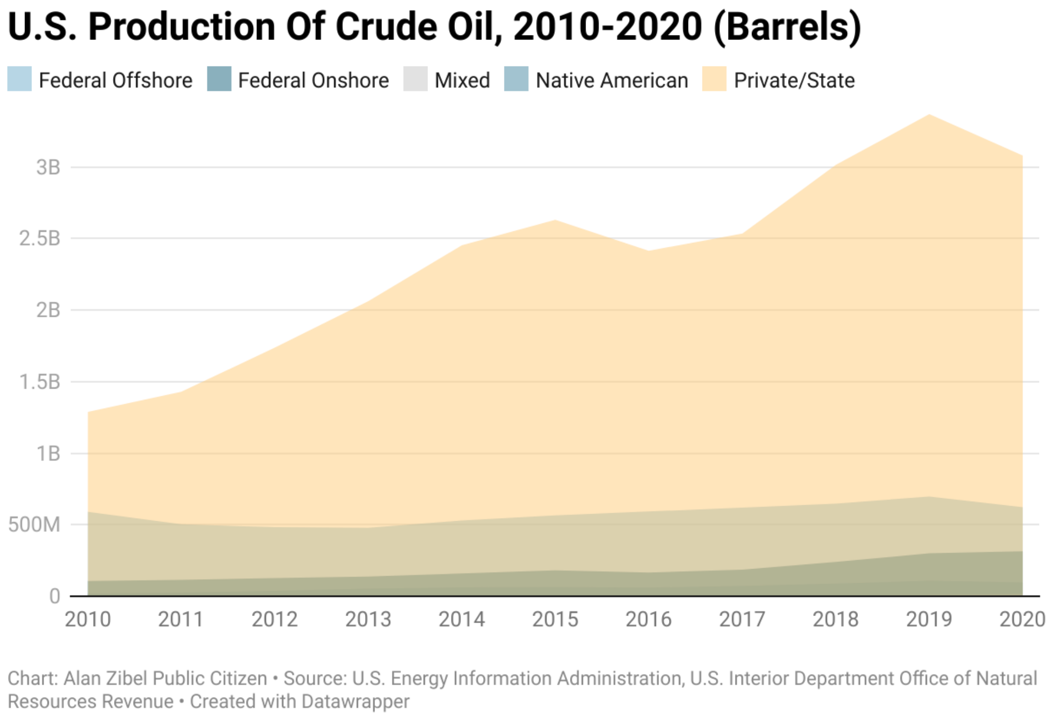
On Capitol Hill, Republicans and oil industry executives are continuing to complain about Biden administration policies. A House Republican forum this month, entitled “Pain At the Pump: Biden’s War on American Energy,” aimed at driving home the disingenuous message that the Biden administration bears responsibility for a global surge in oil prices. No alternative points of view were presented, and serious discussion of how to ramp up renewable energy — as is happening in Europe — was completely absent.

“From day one, the Biden Administration’s attacks on American oil and natural gas producers have been relentless,” said Dan Naatz, a lobbyist for the Independent Petroleum Association of America. “The President has sought to shackle our industry with new taxes, increased regulations and limit access to federal onshore and offshore lands for oil and natural gas development.”

This claim simply doesn’t pass the smell test. While the Biden administration has rightly tried to put the brakes on new leasing of federal lands and waters to give time for a serious analysis of the climate impacts, drilling has continued under Biden at a level that has disappointed many in the climate movement. According to federal data analyzed by Public Citizen, the number of drilling permits issued on federal lands last year exceeded three out of four years of the Trump administration, except for 2020, when the industry was rushing to submit permit applications, no doubt realizing that the Trump era could soon end.



Though the Biden administration is indeed taking climate change seriously, the administration's energy policy remains in limbo — moving away from the Trump era of blatant climate denial and fossil fuel giveaways but still uncertain in its direction. Biden's energy secretary, Jennifer Granholm, has been promoting electric vehicles and renewable power and says that moving the U.S. economy off fossil fuels is a long-term goal, but has still emphasized the need for the oil industry to ramp up short-term domestic production. "We are on war footing, we are in an emergency, and we have to responsibly increase short-term supply where we can right now to stabilize the market," Granholm said during an energy conference in Texas.



The federal government does not have a magic wand to wave to immediately impact domestic production. After all, drilling on private and state lands makes up about 75 percent of overall U.S. production, and the industry already has nearly 9,000 permits approved for drilling on federal lands. Total U.S. oil production is expected to hit an all-time high next year.

Despite these facts, Republican lawmakers and oil industry allies continue to claim, falsely, as they have in the past, that the Biden administration's "hostile rhetoric" toward the oil and gas industry stifled investment in the domestic oil industry. They are likely to spend the coming months pushing for long-sought regulatory giveaways that have little, if anything, to do with the current price of crude oil or gasoline.

Kathleen Sgamma, president of the Western Energy Alliance, has argued that litigation from environmental groups was delaying the issuance of drilling permits and pressure from activists has been stifling lending to the oil and gas industry. "We can't develop a well — which is multi-millions of dollars for each well — if we can't get access to lending, access to credit and capital." Sgamma told House lawmakers. Never mind the fact that many lenders, such as Wells Fargo, are still making plenty of loans to the oil sector.

Rep. Michael Burgess (R.-Texas) falsely claimed that the Biden administration's decision to rejoin the Paris agreement on climate change and cancel a permit for the Keystone XL pipeline had impacted oil prices. "This is all because President Biden spent a year vilifying and waging war on American energy companies," Burgess moaned, ignoring the reality that oil prices are set on global markets and tend to swing based on worldwide expectations of supply and demand.

"We had energy dominance and we threw it away," lamented Rep. Buddy Carter (R. Ga).

The reality, however, is that the only thing the oil and gas crowd has thrown away is their own credibility.

Conclusion

Oil and gas companies and their allies in Congress desperately want to continue business as usual. Using wildly exaggerated rhetoric and scare tactics, the industry will continue to mislead the public about the impact of Biden administration. Lawmakers in Congress, the Biden administration and the public at large must recognize the industry's deceptive tactics and push aggressively to move the nation — and the world — away from the fossil fuels that have so devastated our planet. The Biden administration must not dial back on its commitment to mitigate climate change, despite heavy pressure from the fossil fuel industry. It must speed the transition to renewable energy and ensure the oil and gas industry can no longer exploit public resources for profit.