IPAA
INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

AN INTRODUCTION FOR THE 115TH CONGRESS FIRST SESSION

Who are America's Independent Producers?

For over 85 years, IPAA has represented thousands of the nation's independent oil and natural gas producers. Independents – the primary producers of America's oil and natural gas – develop 90 percent of American wells, account for 54 percent of America's oil production and produce 85 percent of its natural gas. They support over 2 million American jobs. Independent oil and natural gas producers broke the code to open development of shale gas and shale oil – changing America's energy landscape.

How Has Oil and Natural Gas Production Benefitted America?

Jobs. Nearly two-thirds of America's independent producers are small businesses. Onshore independent producers supported 2.1 million American jobs in 2010 and offshore independents operating in the Gulf of Mexico accounted for more than 200,000 jobs in 2009, according to a study conducted by IHS Global Insight. From 2003 to 2014, the number of oil and natural gas exploration and production firms grew from 13,951 to 19,487.

Economic Benefits. Billions of dollars are injected into the American economy every year by the oil and natural gas industry through royalties, taxes, bonus payments, and salaries paid to the millions of individuals these companies employ. According to IHS Energy from 2008–13, while U.S. GDP growth averaged 1.2% per year, economic output in the oil and natural gas industry grew four times faster, at 4.7%. Over the same period, total U.S. employment declined by 0.1%, while oil and natural gas industry employment grew 4.3% per year. More broadly, the revolution in the production of shale oil and natural gas became a major contributor to the U.S. economic recovery; it is estimated by IHS to have added nearly 1% to U.S. GDP annually, on average, over those six years, explaining nearly 40% of overall GDP growth in that time.

Oil Production. *Growth in U.S. Production.* U.S. oil production reached 9.6 million barrels/day in 2015. However, decreased oil prices and other factors resulted in a drop of 450,000 barrels/day of U.S. production. Congressional action to lift the ban on crude oil exports opened world markets to American production. American oil producers responded. From exporting 9,000 barrels/day in 2003, exports averaged 523,000 barrels/day in 2016 and are averaging 676,700 in 2017. But, the current glut of oil on the world market, infrastructure limitations and transportation costs will continue to limit growth of U.S. production.

Decreases in Oil Imports. According to Energy Information Administration (EIA), net oil imports dropped from 60.3% of products supplied in 2005 to a preliminary estimate of 24.8% for 2016.

Natural Gas Production. Similarly, the natural gas market has been suppressed for several years as aggressive U.S. development generated a 100-year supply. Liquefied natural gas (LNG) exports and expanded U.S. manufacturing offer stability in this commodity. But, developing these markets and completing these projects will take years. The direction is positive. Newly permitted LNG export projects are expanding the market – growing from one TCF in 2009 to 1.8 TCF in 2016. Natural gas' market share of electricity power generation in 2015 was 33% contributing significantly to the reduction in U.S. greenhouse gas emissions.

Low Commodity Prices are Challenging the Industry and Hurting America

Jobs. Since June 2014 when oil prices peaked, the producers and affiliated industry reduced U.S. employment by more than 94,000 jobs. These have been high-paying manufacturing jobs benefitting the middle class.

Economic Implications. From June 2014 through September 2015, the market capitalization of oil and natural gas production companies fell by over $1.3 trillion. Since the beginning of 2015, 114 companies filed for bankruptcy with 70 in 2016. This loss of capital not only inhibits the ability of companies to develop projects and pay debt, it is reflected in companies' stock value. Correspondingly, the pension plans and retirement funds that make up the brunt of companies' shareholders have seen assets diminish as well – an impact that broadly falls across the nation. While historically, independent producers have reinvested as much as 150 percent of American cash flow back into U.S. production activities, the EIA estimates that from June 2014 to June 2015, 83% of companies' operating cash was being devoted to debt repayments. Capital access will continue to be a challenge for the industry and cash flow will be essential to maintain. Recovery is happening. With prices stabilizing in recent months, companies are planning to increase 2017 capital expenditures by 50 percent or more over 2016.