



# CRS Issue Statement on Oil and Natural Gas Markets

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The sudden plunge of crude oil and gasoline prices in the second half of 2008 eased the urgency of legislative efforts to deal with high prices. In the 111<sup>th</sup> Congress, the energy focus shifted toward alternative energy sources and related policies regarding global climate change, but a number of oil and gas issues and questions remained to be resolved. Primary among them was the issue of increasing domestic production of conventional oil and gas resources, particularly the long-standing moratorium on oil and gas leasing on much of the Outer Continental Shelf, which the 110<sup>th</sup> Congress allowed to expire.

Another issue of legislative interest was the role of unregulated speculation in oil markets and the consequential affect on gasoline prices. During the dramatic run-up of crude oil prices in the first half of 2008 many Members complained that there was little government oversight and practically no effective regulation of the commodities market that could detect or prevent excesses. This sentiment continues to stimulate legislative proposals, even though the speculative bubble has burst.

In the longer run, some of the market forces that led to the oil price run-up are still present, though subdued by the present economic downturn. The market perception over the past five years was that production capacity has not increased at the same rate as demand. When world economies begin to recover, demand for oil may be expected to resume its climb, bringing the same forces into play that were present during the past five years. Other factors that remain uncertain are threats to international oil supplies from conflict in the Middle East or in Africa, and the need for further infrastructure development in refineries, pipelines and facilities for handling liquefied natural gas. The production of natural gas from unconventional deposits is increasing, but the viability and impact of developing unconventional oil resources such as tar sands and oil shale remain uncertain.

Thus, to anticipate the consequences of price extremes or volatility in the oil and natural gas markets, the Congress will continue to seek mitigating measures to offset price impacts on the U.S. transportation system and electricity generation, and will therefore continue to require current information about market trends and reliability of supply for both oil and natural gas.

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