Here are 3 reasons why Big Oil can't just drill more to ease the pain at the gas pump

Brittany Cronin - NPR Business

A statue of a pumpjack and drilling rig sits next to a gas station in Odessa, Texas, on March 13. Joe Raedle/Getty Images

U.S. oil companies are under pressure to drill more, but they are constrained in how much they can do. It might seem like a logical fix. With domestic gasoline prices surging this month, oil producers could just drill more, right here in the United States.

President Biden, who has a complicated history with the oil industry, seems on board. Although his administration is looking to countries such as Saudi Arabia to pump more oil, as well as potentially easing sanctions on Iran and Venezuela, he still believes U.S. oil producers are well equipped to boost production.

After all, the U.S. is the world's top oil producer, and gas prices hit a record high this month, above $4 a gallon (though that's not adjusted for inflation).

"The oil and gas industry has millions of acres leased. They have 9,000 permits to drill now. They could be drilling right now, yesterday, last week, last year," Biden said this month while announcing a ban on Russian oil imports.

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Turns out, however, that getting U.S. producers to drill for more oil is easier said than done. Top oil executives warn they won't be able to ramp up U.S. production anytime soon.
"I would say that we're in a really dire situation here," said Vicki Hollub, president and CEO of Occidental Petroleum, at the CERAWeek energy conference this month.

Here are three main challenges that U.S. oil producers are facing to boost oil output.
It's the supply chains, stupid

The first challenge is operational.
Drilling additional wells is not as simple as turning a spigot and watching oil gush out.

U.S. crude production currently stands at 11.6 million barrels per day, according to the latest data from the U.S. Energy Information Administration. That's below March 2020 levels, when the country was producing 13 million barrels per day of crude oil.

Gas prices have surged to a nominal record high after Russia's invasion of Ukraine. Stefani Reynolds/AFP via Getty Images

Farzin Mou, vice president of intelligence at Enverus, an energy analytics company, warns that boosting supply was not easy even before the coronavirus pandemic wreaked havoc on the supply chain.

"The point from which you drill a rig to the point that you can turn it online, it takes about six to eight months typically," she said.

Now add in the difficulties that oil producers are facing to procure materials like sand and steel, and it becomes clearer that producers are unlikely to provide a quick fix to current gas prices.

In fact, Mou says she doesn't expect to see additional oil on the market until next year.

The shortage of workers impacts the oil industry too
The number of workers producing oil and gas had been steadily decreasing since 2015.

Then when the pandemic started and demand for oil fell off a cliff, lots of workers were laid off. Employment in the sector dropped from 137,000 workers in February 2020 to 113,000 a year later, according to data from the Bureau of Labor Statistics.

Stacey Morris, director of research at energy data provider Alerian, said those people may not come back.

"They've probably had to go on and find something else to do because their job in the oil industry went away," she said.

Morris also said there has been a "graying of the oil patch," meaning the workforce is getting older.

Last year, oil and gas producers recovered about half of the jobs lost, but there are still about 12,400 fewer workers producing oil and gas as there were before the pandemic.

And that's going to make it harder for oil companies to staff the additional wells needed to pump more oil.

Gasoline tanker trucks drive down a road near an oil refiner in El Paso, Texas, on Dec. 10, 2021. Patrick T. Fallon/AFP via Getty Images.

Investors could push back
However, the biggest factor for U.S. oil producers may simply be fear.

Over the last decade, U.S. oil production saw tremendous growth. But when prices crashed in 2014, investors lost big money. Oil prices are notoriously volatile, with the industry often suffering from boom-and-bust cycles.

But in the last few years, investors have been making clear to oil producers that they should not sink money into additional drilling in pursuit of the next oil boom. Instead, they want companies to pay back investors.

ENERGY

Some CEOs Are Hearing A New Message: Act On Climate, Or We'll Cut Your Pay

Exploration and production companies have responded by recording explosive dividend growth.

According to the Morningstar U.S. Market Index, the average dividend in dollars per share has grown from $14 in 2018 to $40 in 2021, an increase of more than 180%.

"Energy companies were very afraid to ramp production because they were going to get punished by investors," said Morris, of data provider Alerian.

And it's those same investors that may now prevent oil companies from boosting production too much, even as others push for a "drill, baby, drill" approach.