

Trump 2.0 and U.S. Oil Production

January 16, 2025

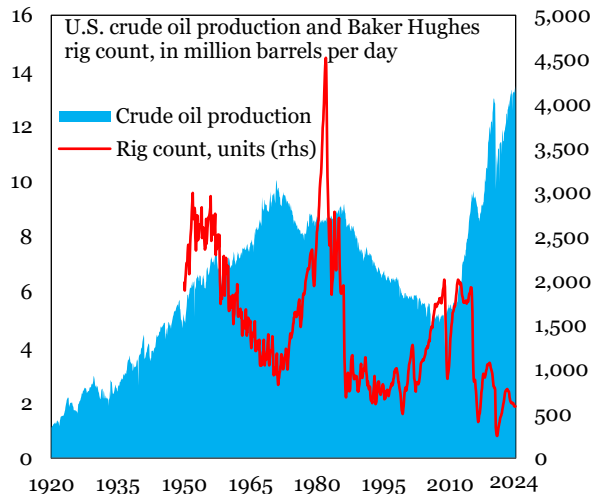
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- President Trump has consistently stated his desire to substantially increase U.S. oil production, ...
- ... however, the capacity of the U.S. oil industry to significantly boost production is unclear.
- This note is the first in a series that attempts to answer this question by carefully looking at the data.
- We start by homing in on what a new Trump administration can do on the regulatory front.
- Looking at historical data, there is plenty of scope for Trump to facilitate oil leases and reduce industry costs.
- This can be done by reducing regulation, rolling back environmental policies, and speeding up the permitting process.
- Nonetheless, the oil market is complex, and a deregulatory environment does not guarantee increasing production.

Scott Bessent, President-elect Trump’s nominee for U.S. Treasury Secretary, has touted his 3-3-3 economic plan to reduce budget deficits, boost growth, and increase energy production. The plan, modeled after Japanese Prime Minister Shinzo Abe’s “three arrows” plan, aims to reduce the budget deficit to 3% of GDP by 2028, boost growth to 3% through deregulation and pro-growth policies, and increase U.S. energy production by 3 million barrels of oil (or oil equivalents) per day. The latter point is in line with Trump’s desire to secure American “energy dominance” and independence and has garnered particular attention from our members in recent conversations.

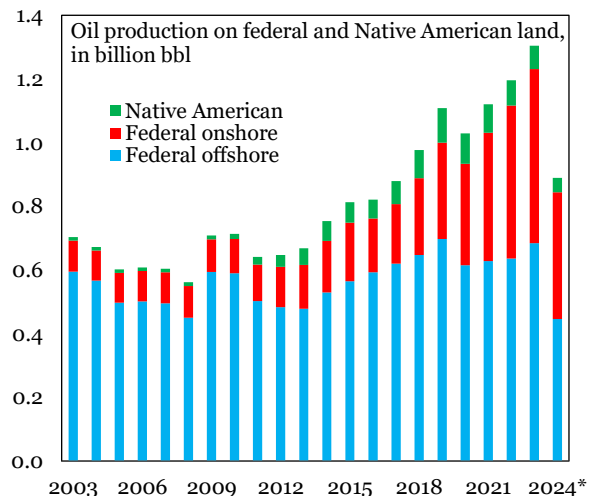
This **Global Macro Views** is the first in a series of notes aimed at assessing the feasibility of achieving this substantial increase in U.S. oil production. Our goal in these notes is not to take a position for or against an increase in U.S. oil production, but rather to look at the facts and take an impartial view about the capacity for U.S. oil companies to produce more. We broadly see two avenues for increased oil production. The first is the impact of deregulation from the incoming administration and the second is the economic viability for oil companies of producing more. This note will focus on the first point and subsequent notes will focus on the latter point.

Exhibit 1: Efficiency gains have led to greater production.



Source: EIA, Baker Hughes, IIF
 Note: Excludes Natural Gas Liquids (NGLs).

Exhibit 2: Onshore oil production has been growing.

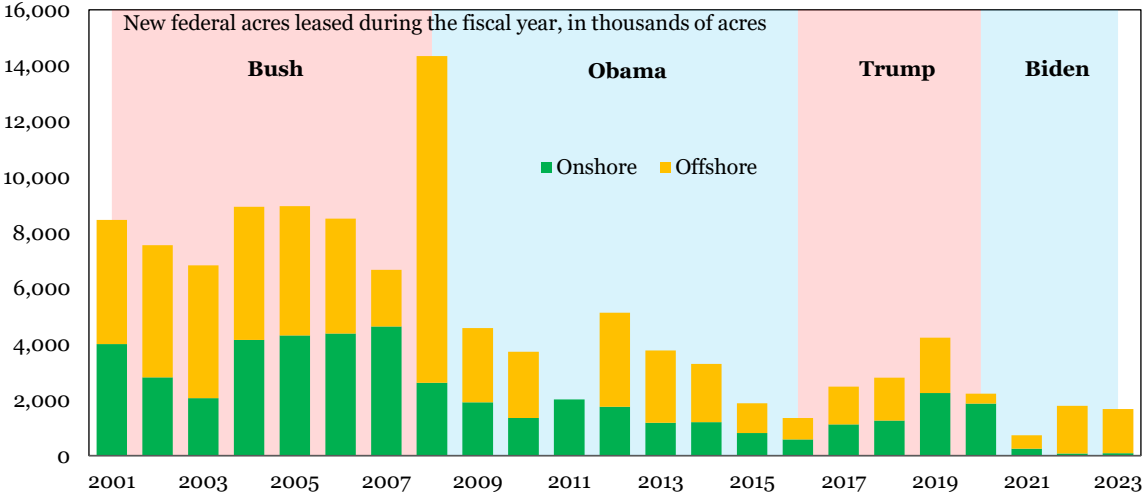


Source: U.S. Department of the Interior, IIF
 * Year-to-date, as of August 2024.

Before we begin, it is important to establish some general facts about U.S. oil production. As of this writing, U.S. oil production stands at around 13.12 million barrels per day (b/d), near historic highs, and significantly above the recent lows seen in 2009 (Exhibit 1). This figure refers only to crude oil production (our focus in these notes). Total petroleum production, which includes natural gas liquids (NGLs) and biofuels, is forecasted at around 20 million b/d for 2024 by the International Energy Agency (IEA). Regardless of the measure used, the United States is the leading producer in the world, followed by Russia and Saudi Arabia. Approximately 25% of all U.S. oil production comes from federally leased and Native American land. Of this, around 12% comes from onshore and Native American land, while 13% comes from offshore oil rigs, primarily in the Gulf of Mexico (Exhibit 2). The remaining 75% of U.S. crude oil production comes from state-owned and private land. One final point to establish is the history of U.S. production. From the early 1900s until the peak in 1970, U.S. oil production was characterized by significant investment and expansion of oil wells. After 1970, the general view in the industry was that producers had exhausted the best reservoirs, causing production to gradually decline. In the mid-2000s, significant advances in horizontal drilling and hydraulic fracturing—the shale revolution—unlocked previously unreachable oil and gas reserves. Combined with efficiency gains in existing wells, this led to a sharp increase in U.S. oil production.

It is also important to understand the federal leasing process, as new federal land leases are the most important variable when it comes to analyzing the impact that any U.S. administration can have on oil production. A typical federal lease for oil and gas production works as follows. The Department of the Interior (DOI), through the Bureau of Land Management (BLM) (onshore) and the Bureau of Ocean Energy Management (BOEM) (offshore), conducts lease sales of eligible federal land on a quarterly basis. Oil producers may request tracts of land that they would like to lease but the ultimate decision of what territory to put up for lease lies with BLM and BOEM. Once a producer successfully bids for a lease, they will proceed to perform a geological assessment of the land to see its viability for production. The American Petroleum Institute (API), the trade association for the natural gas and oil industry, estimates that this assessment can take 3-4 years for onshore leases and 7-8 years for offshore leases, which have greater engineering and logistical challenges. Once a company is ready to drill a plot of land, it submits an application for permit to drill (APD). Only after that is approved, can a company start drilling. In theory, most new wells and developed reservoirs can be brought online in a matter of months. In practice, due to permitting requirements, legal disputes, and the potential need for construction of infrastructure such as pipelines and storage facilities, this process takes years.

Exhibit 3: New federal leases have been on a declining trend, and reached a new low under President Biden.

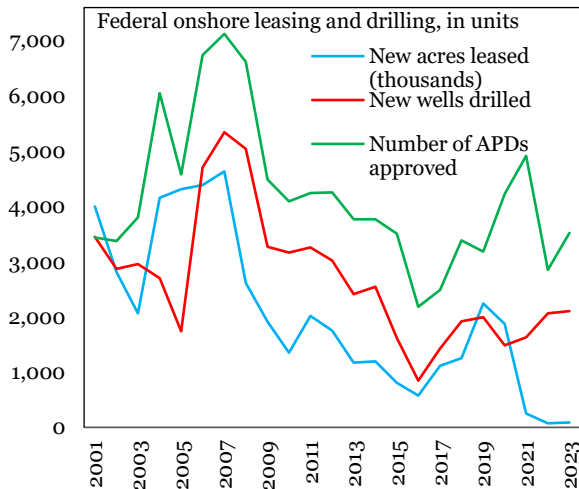


Source: Bureau of Land Management, Bureau of Ocean Energy Management, IIF
 Note: U.S. Fiscal Year runs from October-September.

Federal leases for oil and gas production in the 21st century peaked under President Bush and have gradually declined since then, though there was a noticeable uptick in new leases under the first Trump presidency (Exhibit 3). New leases hit their lowest level under President Biden, as he suspended new lease sales soon after taking office in 2021, and only picked up at the end of FY22 and FY23 when he resumed lease sales in the Gulf of Mexico. This sharp fall under President Biden is important, as new leases are a significant indicator of future oil production.

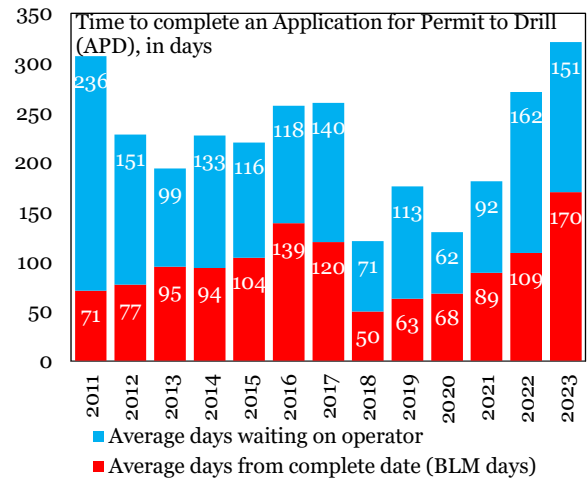
Indeed, new acres leased (blue line in Exhibit 4) is a leading indicator of wells drilled (red line) and number of APDs approved (green line). It is important to note that, even though new lease sales fell to historic lows under President Biden, new wells drilled and APD approvals remained strong. The primary reason for this is the long lead time from new leases being sold to drilling beginning. Once the logistical and legal hurdles of existing leases have been surpassed, any given U.S. administration has very little power to deny pending permit approvals, meaning that the large number of APDs approved and wells drilled during the Biden administration is primarily a function of past leases under previous administrations.

Exhibit 4: New leases are a precursor for increased drilling.



Source: Bureau of Land Management
Note: Fiscal year.

Exhibit 5: APD application timelines have increased.



Source: Bureau of Land Management
Note: Fiscal Year.

Having established how leasing on federal land works, what can a Trump administration do to increase U.S. oil production and fulfill Trump’s promise to “drill, baby, drill”? We see plenty of scope for a pro-drilling regulatory change. Below are a few non-exhaustive actions that a Trump administration can undertake upon taking office:

1. **Increase leases on federal land.** This is perhaps the most important action President Trump can undertake. As mentioned earlier, new leases are an important precursor for increased oil production. However, more important than the number of acres leased is the location of these leases. The Trump administration could focus on leasing new lands in oil rich regions that are highly desired by producers. Regions of particular interest would be the Gulf of Mexico (accounting for 56% of U.S. oil production on federal land), the Permian Basin (34% of production on federal land), and Alaska.
2. **Decrease regulations on federal lease permits.** According to the BLM, the average time to complete an onshore APD, in days, increased substantially from President Trump (FY2017 - FY2020, average of 174 days) to President Biden (FY2021 - FY2023, average of 258 days) (Exhibit 5). BLM divides the time to complete an APD into two parts. The “average days waiting on operator” tracks the time from when an operator (oil company) begins the submission process to when that submission process is finalized. The second part, “average days from complete date” is the time from the completion of an APD to when the APD is approved, these are the days that an APD spends awaiting federal approval. The latter have increased substantially from 50 days in FY2018 to 170 in FY2023. According to BLM, APDs can be deferred for a number of reasons, the most common reasons being that an operator prioritizes other leases leading to increased time in existing leases not prioritized by operators, court decisions and litigations, and lack of BLM resources. While there is no breakdown of what the most common cause of APD delays is, it is clear that a friendlier regulatory environment, along with the elimination of some environmental restrictions (e.g. methane emission regulations), would noticeably speed up the process leading to a higher turnaround for APDs. Additionally, the oil industry also blames the BLM for the increase in operator days, claiming that faulty website applications, red tape, and bureaucratic challenges added to the waiting time, although it is difficult to assess the validity of this claim.
3. **Reduced regulation on oil and gas infrastructure.** One of the primary bottlenecks of drilling oil on new land is the lack of infrastructure to transport both the crude oil, as well as the natural gas byproduct that is produced. Flaring, which is limited in the United States, has been targeted by both the Environmental Protection Agency (EPA) and the Inflation Reduction Act (IRA) in recent years. This is a policy we do not expect to see reversed, meaning that new gas and oil pipelines, as

well as new LNG terminals, will be needed if oil production increases. The Trump administration could aid these developments through market friendly policies and reduced environmental regulations that would ease the infrastructure-permitting process and end this bottleneck.

4. **Rollback recent leasing changes under the IRA.** The IRA updated a number of onshore oil and gas leasing [regulations](#), which went into effect in June 2024. Some of the most important changes are: 1) increasing the royalty rate for new oil and gas leases from 12.5% to 16.67%; 2) increasing the minimum rental rates per acre; 3) increasing minimum lease bids from \$2 per acre to \$10; 4) establishing a new fee on expression of interest of \$5 per acre; 5) eliminating non-competitive leasing on Federal lands; and 6) increasing the minimum lease bond amount (an insurance policy to make sure companies meet their environmental obligation to clean up Federal lands they lease) from \$10,000 to \$150,000. Taken as a whole and purely focusing on their impact for the oil industry, these changes make it more expensive to lease federal land. While President Trump has repeatedly stated his desire to repeal the IRA, the primary beneficiary from IRA subsidies have been Republican districts. We therefore see a wholesale elimination of the IRA as unlikely. However, any rollback of the recent changes cited above would be seen as beneficial by the oil industry, as it would lower barriers and costs.
5. **Increase ‘animal spirits’ in the oil industry.** Finally, a second Trump term could lead to increased oil production through its impact on ‘animal spirits.’ Oil investment is a long-term prospect, and so oil companies are reluctant to invest in wells or infrastructure unless the long-term viability of those investments is guaranteed. Throughout the last 4 years, the oil industry has been on the backfoot, as President Biden sought to push through the green energy transition that attempted to shift U.S. energy production away from fossil fuels and towards greener sources of energy. Having an administration that is much more pro-oil could be an incentive for large oil majors, as well as small producers, to invest more in the industry now, to gain returns in the future.

While we do see scope for significant regulatory changes that could lower barriers and costs, make it easier to obtain permits to drill on federal land, and potentially reduce the break-even prices of oil producers, this does not guarantee that we will see a significant increase in U.S. oil production over the next four years. Four important caveats have to be made.

The first is that, as noted above, it can take years, if not decades, for U.S. oil production to begin following lease sales. That means that any significant boost in oil production in the United States stemming from deregulatory policies under President Trump will most likely be seen after he leaves office. This makes the goal of increasing oil production by 3 million barrels a day (approx. a 20% increase if solely considering crude oil, 15% if you consider oil equivalents as well) extremely hard to achieve before his term ends in 2028. It is more likely that any short-term gains in oil production will come from better infrastructure (pipelines) that can improve the transportation of oil and gas and from increased production of existing wells.

Second, we expect any attempt by President Trump to overturn the IRA to face litigation, potentially limiting the scope he has to rollback existing regulations. He will also be limited in what he can achieve unilaterally. For example, President Biden just recently announced a ban on offshore drilling on 625 million acres of federal waters along the East and West Coasts, the eastern Gulf of Mexico, and portions of Alaska’s Bearing Sea. President Trump almost immediately vowed to overturn that decision. However, legal experts believe that President Trump does not have the legal authority to do this, and that only an act of Congress can overturn the ban, something that is complicated by our next point.

Third, for all the election campaign rhetoric, oil policies are still susceptible to political winds. In 2020, on the eve of the 2020 Presidential Election, President Trump extended a moratorium on offshore drilling in the Atlantic Ocean as it was heavily opposed in the key swing states of Florida, Georgia, and South Carolina. Any attempt to expand offshore drilling in these areas would be extremely unpopular and would face challenges in Congress.

Finally, and most importantly, federal policies are only half of the equation when it comes to U.S. oil production. The Federal government may increase the territory available to oil producers, but that does not mean that the oil industry will act on this availability. Oil producers are limited by not only the economic viability of producing more, but also by domestic and global demand and supply factors. These factors can heavily influence the volatile price of oil, which in turn heavily influences the ability of the oil industry to produce more. This is a topic for future notes.