Week in News: November 17-23, 2008

Interior Dept. takes action after scandal
AP, November 22, 2008;
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NC lawmakers to create offshore drilling committee
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Drill, Dems, Drill
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Gas Prices Spiral Down to Near $2
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UPDATE 3-Oil firms to store crude on ships as oil tanks
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Court Says Shell Can't Drill Near Alaska
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Oil industry's role in an economic recovery called vital
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Interior Dept. takes action after scandal
AP, November 22, 2008;
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WASHINGTON (AP) — The Interior Department has taken disciplinary action against more than a half dozen workers who accepted lavish gifts, partied and in some cases had sex with employees from the energy companies they regulated.

The actions announced Friday range from a warning letter to termination. The Interior Department would not confirm how many employees were fired, citing privacy.

The eight employees at one time worked in a Denver Minerals Management Service office in charge of collecting billions of dollars in federal oil royalties.

An Interior Department Inspector General investigation issued in September referred to a "culture of substance abuse and promiscuity" in the office from 2002 through 2006. During that time, the report found that some employees were getting drunk and having sex with oil company personnel. The report also highlights instances where co-workers in the office used cocaine and marijuana.

Much more widespread were the golf and ski trips, snowboarding lessons and concert tickets workers in the office accepted from oil companies. Nearly a third of the 55-person staff in the Denver office had accepted gifts, but only nine workers had exceeded the $20-per-gift limit or $50-a-year threshold on outside gifts.

MMS Director Randall Luthi said in a statement Friday that "the behavior of some MMS employees prior to 2007 was clearly inappropriate and warranted strong administrative action."

Eight of those workers were still employed with the agency when the scandal broke, but not in the same office.

Interior Secretary Dirk Kempthorne had vowed to take swift action to squelch what he called an "ethics storm." But disciplinary procedures for civil servants prevented him from taking action for at least a month.

NC lawmakers to create offshore drilling committee
Forbes, November 21, 2008; http://www.forbes.com/feeds/ap/2008/11/21/ap5726102.html

By GARY D. ROBERTSON

The state Legislature will study whether offshore drilling is feasible, a move that could put the state in a better position to respond if the federal government moves to allow more exploration.

Senate leader Marc Basnight, who opposes drilling due to environmental concerns, said Thursday the changing views of President-elect Barack Obama and Gov.-elect Beverly Perdue toward drilling contributed to forming a study committee likely comprised of lawmakers and energy experts.

"I have opened myself up to this review and this study," Basnight, a Democrat from coastal Dare County, told reporters. "I believe we should be on a fact-finding mission, one that will provide the kind of information that is now lacking."

House Speaker Joe Hackney, D-Orange, also supports the joint House-Senate panel, spokesman Bill Holmes said. The committee isn't likely to finish its work by the time the Legislature adjourns next summer but Basnight said it could present interim information to the General Assembly.

The prospects for offshore oil and natural gas development grew this year as gasoline reached $4 per gallon. Congress in September lifted 27-year-old bans on oil and gas leases in federal waters off both the Atlantic and Pacific coasts.

Last week, the U.S. Department of the Interior announced it is examining the environmental impact of drilling off Virginia's coastline.

The General Assembly couldn't block exploration off the North Carolina coast outright but the state can ensure federal actions follow the state's coastal regulatory plans, according to the state Department of Environment and Natural Resources.

Drill, Dems, Drill
Investor’s Business Daily, November 21, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1501&status=article&id=312162826617129

Energy: That an Alaskan senator-elect wants to drill in ANWR is not a surprise. That he's a Democrat is. Were high oil prices what helped push Detroit over the edge?

There were many reasons for the collapse of the domestic auto industry. We have mentioned the high labor costs and bloated union contracts. Others have blamed the manufacture of cars and SUVs no one wanted to buy. We'd also point out that, thanks to OPEC and Congress, fewer people could afford to buy them even if they wanted to. Detroit didn't die just because corporate CEOs had a penchant for private jets.

As long as gasoline was relatively inexpensive, SUVs were all the rage. They afforded us the comfort and safety we sought, particularly after corporate fuel economy standards were forcing Detroit to make smaller and less-safe vehicles. Fuel economy standards did little to reduce our dependence on foreign oil but did raise significantly the cost of operating such vehicles. So did high gas taxes.

As Steve Milloy of junkscience.com points out, SUV popularity made a company such as Ford highly profitable and accounted for a 57-fold move in its stock price from 1982 to 1999. It was SUVs that helped the auto industry meet the United Auto Workers' demands for ever higher wages and benefits.

Yet the industry failed to recognize the connection between cheap gas and auto sales. Automakers pushed, not for more domestic drilling, but for more environmental regulation and conservation. At the 2004 New York auto show, for example, Ford CEO Bill Ford urged higher gas taxes to reduce fuel consumption. Huh? Doesn't that also increase the cost of driving?

Detroit and companies such as Ford did nothing to fuel their cars, but much to fuel the environmental hysteria that blocked offshore drilling, shale oil extraction and drilling in oil-rich ANWR.

Ford issued a report stating the company "views stabilization of greenhouse gases in the atmosphere and energy security as critical and business-related issues that warrant precautionary, prudent and early action."

How one achieves energy security without domestic oil production is anybody's guess. The Kyoto Protocol has been documented as an economy- and job-killing waste of time in a world that is cooling on its own. How is that a key business goal?

Gas is cheaper now, but money still flows overseas to unfriendly and unstable places and thugs like Venezuela's Hugo Chavez. Domestic production is still stifled. Energy and auto jobs are both in jeopardy in an economy starving for cheap and abundant domestic energy. The move to put corn in our cars has not helped auto sales.

Connecting the dots between energy and economic growth is Alaska's new senator, Democrat Mark Begich. At a news conference in Anchorage, of which he was the mayor, Begich announced he was "a supporter of drilling in ANWR." This may not seem surprising for an Alaskan politician, but it is surprising for a Democrat.

Begich, who succeeds long-term Republican incumbent and state icon Ted Stevens, told reporters: "For the last 28 years, there hasn't been a Democrat sitting in the caucus talking about ANWR. My goal is to educate them about how big ANWR is to this state."

And hopefully how important it and other domestic sources of energy are for this country.

"I'm definitely different from a New York Democrat — you can bet on that," Begich told the New York Times. He knows caribou and other critters have thrived despite drilling in Prudhoe Bay, 60 miles west of ANWR. Oil from ANWR could meet all New York's petroleum needs for 34 years, news that should be fit to print.

Gas Prices Spiral Down to Near $2
WSJ, November 21, 2008; http://online.wsj.com/article/SB122722595127246035.html?mod=dist_smartbrief

Soft Economy Saps Driving Demand, Upends Debate Over Alternate-Energy Policy

By ANA CAMPOY
Crude-oil prices sank below $50 a barrel, and the average cost of a gallon of gasoline at the pump hovered just above $2, a free fall in prices that is reverberating through the economy.

The sudden reversal -- the fastest and sharpest since 1980, when the government began tracking monthly gasoline prices -- is bringing relief to some and complicating business for others. Tumbling energy prices led October's 1% decline in consumer prices, deepening concerns about a long recession.

Earlier this year, skyrocketing oil prices pulled gasoline to its highest inflation-adjusted level ever, surpassing prices reached during the oil crisis in the early 1980s. The jump, arriving in tandem with soaring food prices, hit consumers hard and stoked fears of inflation.

The price shock began to change Americans' behavior. Cost-conscious drivers gave up solo commutes to ride buses and trains, made fewer trips to stores and restaurants, and started buying smaller cars.

But the global economy, roiled by a spreading credit crisis and falling demand for goods and services, has worked to deflate energy prices even faster than they rocketed upward early this year. In July, crude oil settled, at a peak of $145.29 a barrel and retail gasoline peaked at an average of $4.114 a regular gallon. Now, prices are less than half those levels.

The price for crude-oil futures dropped $4, or 7.5%, to $49.62 a barrel Thursday on the New York Mercantile Exchange, the lowest settlement level since May 23, 2005. Gasoline-futures prices fell to their lowest level in their traded history, shedding 10 cents a gallon to $1.007. And at the pump, the average national gasoline price dropped to $2.02 a regular gallon, according to auto club AAA. In 23 states, gasoline already is selling for less than $2 a gallon, and is down to $1.72 a gallon in Missouri.

The last time consumers paid less than $2 at the pump was March 2005, when a regular gallon cost an average $1.99, based on AAA data.

Some government officials and environmentalists are worried the plummeting prices are reversing any energy-conservation gains realized in the past year, when high prices forced Americans to cut back. The economic case for investing in renewable energy, which was looking cheaper, compared with soaring fossil-fuel costs, now is less compelling.

Suddenly, public debate has shifted from trying to find ways to lower prices and give consumers a break to wondering whether federal gasoline taxes should be raised to support higher prices.

President-elect Barack Obama said this week it is even more important to curb Americans' appetite for oil now that prices are cheaper. "Oil prices go up, gas prices at the pump go up, everybody goes into a flurry of activity. And then the prices go back down and suddenly we act like it's not important," he said during a television interview. "As a consequence, we never make any progress."

So far, though, the worsening economy appears to be an even stronger curb on driving as consumers hunker down and businesses contract. The U.S. Energy Information Administration expects full-year gasoline demand to fall 3% this year, which would mark the sharpest annual decline since 1980. And though gasoline prices continue to sink, forecasters expect demand to fall again next year.

Even those who can afford to drive more are holding back over fears of a prolonged recession, or the possibility that prices will ricochet upward again.

"It seems like [prices] dropped like a rock overnight," said Kristin Cartwright, as she filled up her Ford Expedition in Dallas Thursday. The 42-year-old stay-at-home mom said it worried her that she can't figure out what is causing the wild price swings. So she is keeping her driving to a minimum.

Unquestionably, the lower gasoline prices are a relief amid an otherwise grim outlook for households and businesses that consume fuel, as well as the retailers that rely on consumer spending. The drumbeat of dire economic news has sharply curtailed consumer spending as people worry about their jobs and conserve their money.

Javier Amador, a 36-year-old carpenter in Dallas, where regular gasoline is selling for about $1.85 a gallon, said spending less on gasoline will help him afford a nicer Christmas for his family. But after the holidays, one of Mr. Amador's New Year's resolutions is to save money. Although he has a steady job, talk of layoffs among other construction workers is making him nervous.

"It's like a chain: If one company doesn't have work, then there's less work for others, and it could trickle down to my company," he said.

Mark Perry, a professor of economics at the University of Michigan in Flint, sees lower energy prices as a continuing stimulus for the economy. Adjusting for inflation, consumers are paying less for gasoline now than they have paid throughout much of the past century.

He estimated that at current consumption rates, Americans save $1.38 billion a year for every penny gasoline prices drop. That is about $290 billion since gasoline prices peaked in mid-July, and more than the tax rebates Americans received in the mail earlier this year.

"Everybody is saving whenever they fill up, and this will free up additional funds and resources they can use instead of just putting gas in their car," Mr. Perry said.

Discount retailers, which have many low-income customers who cut back on purchases as gasoline prices rose, are now seeing a rebound effect. Though overall retail sales fell 2.8% in October, cheaper gasoline helped Wal-Mart Stores Inc. post a 9.8% jump in profit for the third quarter ended Oct. 31, sharply outpacing its peers.
But cheaper energy is hurting others. Refiners are getting squeezed, because gasoline prices fell faster than prices for the crude oil they use to make the fuel. In an effort to pare losses, many refiners have cut back gasoline production and are delaying expansion projects.

Ethanol producers also are suffering. Like refiners f oil-based gasoline, they face weaker demand for their products as drivers pinch on fuels.

Analysts have been slashing 2009 profit forecasts for global oil companies, as falling energy prices quickly deflate recent record-setting revenue. Oil companies will be rethinking certain high-cost development projects to see whether they still make sense at $50-a-barrel oil.

Most immediately, companies will likely cut back spending on hefty share-buyback programs. Exxon Mobil Corp., for one, has been spending about $8 billion a quarter buying up its own shares.

The companies also are expected to delay signing contracts for steel, engineering and oil-field equipment in order to push down prices that were inflated along with crude oil in the past couple of years. "The more they defer projects, the quicker they deflate these costs," says Fadel Gheit, an oil analyst at Oppenheimer & Co.

Eroding demand for fuel contributed to crude oil's fall below $50 a barrel Thursday, as U.S. crude inventories rose more than expected this week, requiring oil companies to leave millions of barrels of oil in storage.

Economists have found that, in the short run, a 10% reduction in gasoline prices boosts consumption by a slender 0.2% to 0.5%, says John Cook, director of the petroleum division at the EIA. But when hit with a 10% decline in gross domestic product -- a measure of a nation's economic health -- consumption falls a much steeper 4% to 6%. As consumers spend less, companies see their business shrink, which also lessens demand for fuel. Lower sales mean fewer trucks are needed to transport goods across the nation.

UPDATE 3-Oil firms to store crude on ships as oil tanks

Reuters, November 20, 2008; http://www.reuters.com/article/marketsNews/idUSLK20575220081120

By Luke Pachymuthu

DUBAI- Oil companies plan to store millions of barrels of crude at sea as they wait for demand to pick up and prices to rise.

So far oil companies have booked ships capable of holding up to 10 million barrels, brokers have said, more than the daily output of top exporter Saudi Arabia.

On Thursday U.S. oil trader Koch and Royal Dutch Shell (RDSa.L: Quote, Profile, Research, Stock Buzz) were the latest to confirm bookings of additional Very Large Crude Carriers (VLCC), brokers said.

The companies were not immediately available for comment.

Brokers said the cost of hiring vessels at current depressed rates would be less than the gains from waiting for an upturn in crude prices and in refiners' profit margins.

More oil and trading firms were also considering floating storage, they said.

"If you're looking at it from a cost perspective, just float the oil. The way to make money is to buy long and then go short," one trader said.

U.S. crude CLc1 has fallen more than $90 from its July peak above $147 a barrel as the slowing economy hurts global oil demand.

Some of the vessels were to load crude in the North Sea, the first time large volumes have been placed in floating storage there since the oil price crashed to below $10 a barrel in 1998.

"All this oil has to go somewhere, especially if the refiners aren't running at capacity," a Singapore-based crude oil trader said.

Koch has booked VLCC the Dubai Titan, with capacity to hold over two million barrels, for storage off the U.S. Gulf Coast. They added that Koch had already taken two other VLCCs for storage in the U.S. Gulf.

Oil major Shell (RDSa.L: Quote, Profile, Research, Stock Buzz) has booked a second supertanker to store North Sea crude, ship brokers said.

They said Shell would use the Front Crown to load North Sea crude in the second week of December. The vessel will travel east to Indonesia's Karimun Islands, where oil is often transferred from supertankers to smaller vessels for delivery.

Shell booked another supertanker last week to take two million barrels from the North Sea for storage in the U.S. Gulf.

OPEC PRODUCERS

Although prompt delivery oil is very weak at around $50 a barrel on Thursday CLc1, its lowest level since January 2007. Contracts for March and April next year are above $53.

That has triggered some speculation big oil producers in the Organization of the Petroleum Exporting Countries could also store crude on ships for later sale.

But for Middle Eastern exporters, responsible for the bulk of any OPEC output cut, it is still cheaper to keep the oil in the ground.

"The only reason as a producer you would pay money to put crude in floating storage would be if you would otherwise struggle to get it out of the ground," said one Gulf industry source.

Court Says Shell Can't Drill Near Alaska
NYT, November 20, 2008; http://www.nytimes.com/2008/11/21/business/21shell.html?_r=1

By JAD MOUAWAD

A federal appeals court on Thursday blocked Royal Dutch Shell from drilling oil wells off Alaska's North Slope after finding that the Interior Department had failed to conduct an environmental study before issuing the company's drilling permit.

In a long-awaited ruling, the court said that the Minerals Management Service, the federal agency in charge of offshore leasing, had violated the 1970 National Environmental Policy Act by failing to take a "hard look" at the impact that offshore drilling would have on bowhead whales in the Beaufort Sea as well as indigenous communities on the North Slope.

The decision canceled Shell's permit to drill at a prospect called Sivulliq, about 16 miles off northern Alaska, and ordered the agency to begin the process from scratch.

"There remain substantial questions as to whether Shell's plan may cause significant harm to the people and wildlife of the Beaufort Sea region," the United States Court of Appeals for the Ninth Circuit, in San Francisco, said in its ruling. One judge, Carlos T. Bea, on the three-judge panel dissented.

Environmental groups, including the Alaska Wilderness League, as well as the North Slope Borough, which represents the indigenous Inupiat people, had sued to stop Shell from drilling, claiming that the company's plans to send icebreakers, drill ships and vessels to conduct seismic surveys might harm bowheads. The whales migrate through the Beaufort Sea twice a year and are the basis of the Inupiat community's subsistence culture.

The decision is a costly setback for Shell, which had waged a vigorous campaign to expand offshore exploration in Alaska. The company recently spent $2.1 billion to acquire leases in the Chukchi Sea, after spending $84 million to buy leases in the Beaufort Sea. The company said it would review its options.

"We believe the M.M.S. did a thorough job and that Shell has met or exceeded requirements for responsible Arctic exploration," the company said in a statement. "Shell is committed to operating safely and responsibly and will continue to comply with all regulatory requirements."

The oil industry had been looking at the case as a test on how to tap the Arctic's hydrocarbon potential, and offset declines from the onshore Prudhoe Bay oil field. It comes at a time of renewed public debate in the country about opening other offshore tracts for exploration.

Charles Clusen, the director of the Alaska project at the Natural Resources Defense Council, one of the plaintiffs in the case, said the ruling left it to the next administration to decide how offshore drilling would be conducted in the nation's Arctic region.

"This is really a signal that Shell's plan was simply too much, too fast, and too shoddy," Mr. Clusen said. "By this decision, the court has opened the door to a new administration to take a whole new approach, and hopefully a more precautionary approach, to America's Arctic and make sure we don't lose endangered species."

In a statement, the Minerals Management Service said it was disappointed by the ruling and defended its environmental review process.

MMS reports record disbursals during fiscal 2008
Oil and Gas Journal, November 20, 2008;
http://www.ogj.com/display_article/346019/7/ONART/none/GenIn/1/MMS-reports-record-disbursals-during-fiscal-2008/

Nick Snow

WASHINGTON, DC, Nov. 20 -- The US Minerals Management Service disbursed a record $23.4 billion to state, American Indian, and federal accounts from onshore and offshore energy production during fiscal 2008, Interior Secretary Dirk A. Kempthorne said on Nov. 20.

Disbursements from royalties, rents, and bonuses from production on federal land shattered the fiscal 2007 total of $11.6 billion and broke the previous record of $12.8 billion established in 2006, he added.

"Particularly in today's economic environment, these revenues represent an increasingly important source of funding for many federal, state, and tribal budgets," Kempthorne said. Funds disbursed to individual states and tribes support projects ranging from infrastructure improvements and capital works to funding for education, he noted.

Kempthorne attributed the record disbursements to higher energy prices during the 12 months ended Sept. 30, 2008, and the more than $10 billion in bonus bids paid by companies to lease tracts in the Gulf of Mexico and offshore Alaska as well as from onshore lease sales.

As part of the total, a record $2.59 billion was distributed to 35 states as their share of federal revenue collected from energy production within their borders; $17.3 billion went to the US Treasury, and $534 million went to 34 Indian tribes and 30,000 individual Indian owners, MMS said.

Wyoming led the states receiving payments at more than $1.27 billion, followed by Colorado at nearly $178.38 million, Utah at nearly $173.84 million, and California at nearly $103.45 million, the agency indicated.

American Petroleum Institute President Jack N. Gerard said the record payments demonstrate the importance of domestic oil and gas production to the US economy. "These revenues are only a fraction of the economic benefits states receive from oil and gas development. This development also provides well-paying jobs and a big boost to the local economies in the form of increased retail sales and other business opportunities," he observed.

"Imagine how much more revenue and jobs could be generated for the benefit of all Americans if Congress and the Obama administration listen to the American people and put America's vast oil and gas resources, including those that have been subject to federal moratoriums, to good use to strengthen our nation's economy and energy security. Given what we know about our nation's potential resources, total royalties that could be collected over the life of all our nation's resources could reach $880 billion," Gerard said.

Court voids Shell's Beaufort Sea drilling plan
Reuters, November 20, 2008; http://www.reuters.com/article/rbssEnergyNews/idUSN2042978520081120

By Yereth Rosen

ANCHORAGE, Alaska, Nov 20 (Reuters) - The 9th Circuit Court of Appeals on Thursday blocked a major oil-drilling program in the Beaufort Sea, ruling that federal officials failed to address environmental impacts when they granted permission to Shell Oil (RDSa.L: Quote, Profile, Research, Stock Buzz) to drill wells over a three-year period.

The U.S. Minerals Management Service did not properly consider the risks of oil spills, disturbance to migrating whales, disruptions to the traditional hunting lifestyle of Inupiat Eskimos and other potential harms from Shell's program to drill at a prospect known as Sivulliq, the court ruled.

Before authorizing drilling, the agency must start anew with its review and perhaps launch a full-scale environmental impact statement rather than a more abbreviated environmental assessment, the court ruled.

"There remain substantial questions as to whether Shell's plan may cause significant harm to the people and wildlife of the Beaufort Sea region," the ruling said.

The long-awaited decision followed a temporary order issued last year that halted Shell's drilling at Sivulliq, about 16 miles (25 km) off the coast of northern Alaska. The prospect, once called Hammerhead when it was drilled decades earlier, is known to hold oil, but it was abandoned in the past for economic reasons.

The ruling was in response to a pair of combined lawsuits filed by environmental and Native groups, the North Slope Borough and the Alaska Eskimo Whaling Commission.

"Before we take the leap and turn the Arctic Ocean into an oil field, we first need to take a fuller look at what the potential impacts will be," said Eric Jorgensen, a Juneau-based attorney for Earthjustice, the environmental law group that represented some of the plaintiffs.

Officials from Shell and the Minerals Management Service were not immediately available for comment.

Exploration at Sivulliq is part of an aggressive program by Shell to develop oil and gas resources in Alaska's federally managed outer continental shelf, an area where there has been little development to date.

The company spent $2.1 billion earlier this year for exploration rights in the remote Chukchi Sea off Alaska's northwest coast, on top of a combined $83.7 million spent to acquire Beaufort Sea exploration rights in MMS lease sales held in 2005 and 2008.

Shell has also launched a broad program to conduct seismic tests in the Chukchi and Beaufort to gather geological data needed in advance of drilling.

The Alaska outercontinental shelf holds an estimated 26.6 billion barrels of undiscovered recoverable crude oil and 132 tcf of undiscovered recoverable natural gas, according to the most recent MMS resource estimate. Nearly all of that is in the Chukchi and Beaufort Seas, according to the resource estimate.

Oil industry's role in an economic recovery called vital
Houston Chronicle, November 19, 2008; http://www.chron.com/disp/story.mpl/business/6122264.html

By BRETT

Energy policy issues may not have the same momentum they did this summer, when gasoline prices reached $4 a gallon, but the incoming Obama administration and Democratic Congress would do well to recognize that the oil and gas industry still has a role to play in getting the U.S. economy back on track, the industry's top lobbyist said Wednesday.

Expanded oil and gas drilling not only could increase domestic energy supplies and reduce dependence on foreign oil, it also would create jobs and boost government coffers, Jack N. Gerard, the new chief executive of the American Petroleum Institute, told reporters during a media briefing in Houston.

Big royalty take
He estimates state and federal governments eventually could collect $880 billion in oil and gas royalty money from existing leases and areas that are now off-limits to drilling.

"When we look at the challenges before us today, we believe the oil and gas sector is clearly part of the solution to that challenge," he said.

That's why he hopes President-elect Barack Obama will begin crafting an energy plan, alongside a plan to fix the ailing economy, during his first 100 days in office.

Advocate for access
API, a Washington-based trade group that represents some of the world's largest oil companies, has long advocated greater access to U.S. lands and waters for drilling. Now it is casting expanded exploration as a tool for revitalizing the U.S. economy, which has taken center stage with policy makers.

The message coincides with the arrival of the first Democratic president in eight years and the party's stronger grasp on Congress, where new Democratic senators and representatives were swept into power by voters concerned about the direction of the economy.

But Gerard notes that, while gasoline now is around $2 a gallon, energy issues have not taken a backseat to the economy.

At least two-thirds of Americans in recent exit polling said they supported increased offshore drilling, while 50 percent of Obama voters expressed support for it, he said.

What’s more, Democrats in Congress recently have shown a willingness to open more territory to drilling.

This week, House Majority Leader Steny Hoyer of Maryland suggested that the Democratic leadership would not seek to re-impose the congressional ban on oil and natural gas leasing in federal waters, which was allowed to expire last summer.

Yet the oil and gas industry does not have the same tailwind on the issue as it did this summer, when oil prices reached nearly $150 a barrel and pump prices topped $4 nationwide, said Bruce Bullock, director of the Maguire Energy Institute at Southern Methodist University in Dallas.

“The recognition of the need is still there, but the urgency is not what it was,” he said.

To get the ear of lawmakers, the industry should broaden its approach, balancing its call for increased access to domestic oil and gas supplies with promotion of energy efficiency and conservation, he said.

Gerard acknowledged the need to improve the industry’s communication and perception, which has taken a beating in recent years as oil giants posted record profits and pump prices hit new peaks. He said that will be one of his chief goals.

‘Energy is everything’

“We are the backbone of our economy. Energy is everything and without energy, particularly low-cost energy, which we’ve become accustomed to in this country, all the great things we’re able to accomplish that have made us the envy of the world would not be possible,” Gerard said.

Gerard replaced Red Caveney, who retired as API’s president and CEO on Oct. 31 to join Houston-based ConocoPhillips. Caveney now works in Washington as the oil giant’s senior vice president of government and public affairs.

Before API, Gerard served as CEO of the American Chemistry Council, the main trade group for the chemical industry.

North Carolina to watch Virginia's oil hunt

The Sun News, November 19, 2008; http://www.myrtlebeachonline.com/news/local/story/676287.html

Beach group analyzes offshore drilling

By Steve Jones

Coastal North Carolina residents could get an idea of what to expect from offshore oil and natural gas drilling by watching what happens to an area off the Virginia coast that is currently being offered for lease.

The state of Virginia wants to know what might be down there and has begun what will be a multiyear process that could produce exploratory or production wells.

Even if a significant find is made, though, a 5-foot 8-inch person couldn't see a 150-foot high drilling rig that was 18 miles offshore, according to Lisa Flavin of the American Petroleum Institute.

The offshore area Virginia is exploring is the first on the East Coast to be opened as decades-old moratoriums on drilling expire and U.S. drivers feel desperate for a shield against the world oil market.

Flavin was one of several speakers to address offshore drilling at the second day of the annual meeting of the N.C. Beach, Inlet and Waterways Association in Carolina Beach.

Some alternative to oil is needed for the longterm, Flavin agreed, but oil and natural gas that are trapped in offshore fields may be the supply needed to tie the now to the future.

"We need to do something," she said. "We need to develop alternate sources."

As many as 70 percent of N.C. residents want to see the state and nation exploit whatever energy sources may be available off their coast. But while coastal residents want the same kind of energy future of inlanders, their concerns are greater over how offshore drilling could potentially disrupt their lives.

Environmental concerns about the drilling are not great, but that could partly be due to the fact that not enough is known about any potential oil- and gas-producing area.

When Mobil Oil leased an area off Cape Hatteras in the 1980s, for instance, the state learned that 26 of 27 species of East Coast-based seabirds feed and mate only in a nearby section of the ocean, said University of North Carolina at Wilmington professor Larry Cahoon, another speaker at Tuesday's session. Further, the state found that because of the convergence of the Gulf Stream flowing northeast and the Virginia current flowing south, that section of the ocean was an important feeding ground for the blue fin tuna.

Other scientists are concerned about how drilling might affect deep sea coral reefs off the coast.

Should a spill occur at Mobil's proposed drilling site, Cahoon said, scientists have determined that the slick would flow onto the N.C. coast, 45 miles away.

Still, there are potential benefits to the drilling.

For one, a discovery potentially would affect the domestic supply of oil, a decade or more down the road. Additionally, there could be direct payments to the state, and potentially counties, from lease payments and drilling volume. There would be good-paying jobs.

Before any of that happens, said Renee Orr of the U.S. Minerals Management Leasing Service, there would be four formal processes that would look at leasing, exploration, development and drilling.

No leases will be offered off North Carolina before at least 2010 or 2012, depending on when the next five-year lease program opens. The current program, which began in 2007, will end in 2012. If leased areas are not producing when leases expire, Orr said, they are returned to the leasing service for potential future activity.

The look at offshore drilling is the second time recently that a formal discussion was held about the potential for coastal energy production. The first was a wind power forum the Coastal Resources Commission staged at its September meeting in Sunset Beach.

Broad drilling ban to stand
AP, November 18, 2008;
http://www.google.com/hostednews/ap/article/ALeqM5gB6bi0EyTozdEPy0KGisTQNaS2PQD94HL66G0

By H. JOSEF HEBERT

WASHINGTON (AP) — House Democrats have no interest in restoring the broad ban on oil and gas development off the Atlantic and Pacific coasts but will seek to "delineate areas available for drilling" when Congress returns next year, the second-ranking Democrat in the House said Tuesday.

Majority Leader Steny Hoyer of Maryland made clear in remarks at the National Press Club that some limits on offshore drilling will be pursued.

Congress in October ended a quarter-century ban on drilling in 85 percent of the nation's offshore federal waters from New England to the Pacific Northwest.

"Nobody is suggesting that we return to the same position (of an across-the-board ban)," said Hoyer, saying that no proposals are being made to reinstate the 26-year-old ban on drilling in Atlantic and Pacific federal waters.

But Hoyer said that "there will be real discussion on the parameters on which drilling will be pursued."

President-elect Barack Obama has said he would supported some limited expansion of offshore oil and natural gas development if states adjacent to that offshore drilling approve and if it is part of a broader energy plan aimed at moving the country toward greater use of alternative, nonfossil energy sources and greater efficiency.

Currently, virtually all Outer Continental Shelf drilling occurs in the central and western Gulf of Mexico.

While the broad drilling bans, which were first enacted by Congress in 1981, may be history, lawmakers must still work out details about such issues as revenue sharing with states and whether some environmentally or economically sensitive areas should be protected from energy companies.

Without a system of sharing federal royalties with states, it is unlikely many states — if any — would endorse drilling off their coasts.

In September, the House passed legislation to allow offshore drilling along the full length of both the Atlantic and Pacific coasts, but preserved a 50-mile wide coastal buffer that remained off limits. The bill died in the Senate.

However, the broad drilling ban was allowed to expire in October. The Interior Department estimates those waters contain at least 18 billion barrels of oil, about half of it off the California coast.

"I think there will be efforts to look at further ways to delineate areas available for drilling," said Hoyer.

Hoyer declined to say when the House might take up legislation to deal with climate change, although he said "there is a consensus" among Democrats and with the incoming Obama administration "that we must address that issue ... in a decisive and effective way..." to substantially cut heat-trapping greenhouse gases.

"We will work with the president-elect, Obama, when he becomes president, to determine the timing," said Hoyer.

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7 N.J. pols seek to stop potential offshore drilling off Virginia
Courier Post Online, November 18, 2008; http://www.courierpostonline.com/article/20081118/NEWS01/81118045/-1/bryant

By RAJU CHEBIUM

WASHINGTON - Seven Democratic New Jersey lawmakers want the Bush administration to reverse itself and stop the first step in a bureaucratic process that could result in oil and gas drilling off the Virginia coast in 2011 or later.

Sens. Frank Lautenberg and Robert Menendez, and House members Rush Holt of Hopewell Township, Frank Pallone of Long Branch, Albio Sires of West New York, Donald Payne of Newark, and Bill Pascrell of Paterson wrote to the Minerals Management Service, along with three other congressmen from elsewhere.

They asked MMS Director Randall Luthi to reconsider his decision to seek public comments on a proposal to award drilling leases off Virginia. The MMS decided to seek input on Nov. 12, earlier than envisioned under a previous plan.

"We recognize that the Bush administration has long supported energy exploration in this area, but we do not believe that this administration should begin a process that it simply cannot complete before President-elect Obama takes the oath of office in less than 70 days," the lawmakers wrote today.

In addition to raising environmental concerns, drilling in the region coast also worries the Defense Department because the proposed lease site is close to where the Navy conducts training and tests weapons, the lawmakers wrote.

"It is especially disappointing given that MMS itself estimates that the amount of technically recoverable oil and natural gas in the entire Mid-Atlantic Planning Area would only produce enough for one month of domestic use. To put our beaches, our fishing and our tourism economy at risk for such minimal resources is shortsighted," the lawmakers wrote.

President Bush lifted a drilling ban for much of the nation's coastline, including the Atlantic region, and Congress did not renew its ban this year.

The MMS didn't immediately return a telephone call seeking comment today.

The agency has characterized the 45-day public comment period as "the first step in the multi-year leasing process to hold a sale for acreage offshore Virginia." The public comment was initiated in response to a request Virginia Democratic Gov. Tim Kaine, who is curious "in knowing what resources may be off its coastline," Luthi was quoted as saying in a statement issued a week ago.
The actual sale of the lease is proposed for 2011.

House Dems have no plans to reinstate full moratorium, Hoyer says
E&E News, November 18, 2008; http://www.eenews.net/eenewspm/2008/11/18/7/

Alex Kaplun

House Majority Leader Steny Hoyer (D-Md.) said today that he believes Democratic leaders will not make an effort to completely restore the ban on offshore oil and gas drilling, though he does expect a push to reinstate some restrictions.

Speaking to reporters this morning, Hoyer did not offer any specifics on exactly what kinds of changes Democrats would pursue and emphasized that some areas will remain available to drilling. "I think there will be efforts to look at future ways to delineate areas available for drilling," Hoyer said. "I don't believe there will be an effort to restore the moratorium across the board."

Republicans -- and some Democrats and environmental groups -- have floated the idea that the expanded Democratic majority will seek to impose major restrictions on offshore drilling next year. But such a push may still be politically difficult for many Democrats, particularly for those freshman and second-term lawmakers who said during the fall campaign that they favored a repeal of the ban.

"I don't think that there's any interest at this point in time ... that we return to the position that we were in on Sept. 28," Hoyer said, referring to the day Congress passed a continuing resolution without an extension of the moratorium.

Meanwhile, Hoyer outlined a series of energy initiatives that he believes will be priorities in the early days of the next Congress, including addressing climate change, expanding use of renewables and ensuring continued improvements in vehicle fuel efficiency.

"On global warming ... inaction will cost us greatly and is not an option," Hoyer said. "The longer we wait to act on emissions, the more painful -- and expensive -- the consequences will be."

Hoyer added that he believes there is a general consensus on climate change within the Democratic Party and in the incoming Obama administration.

Meanwhile, Sen. Dianne Feinstein (D-Calif.) today said that she would seek to reimpose some limits on offshore drilling but declined to speculate on the fate of such efforts in the 111th Congress.

Feinstein chairs the panel of the Appropriations Committee that oversees the Interior Department budget. Interior's annual spending bills have been the vehicle for the annual congressional moratoria that lapsed at the end of September.

Bingaman Sees Opening for New Energy Policy
iStockAnalyst, November 18, 2008; http://www.istockanalyst.com/article/viewiStockNews+articleid_2810293.html

(Source: Albuquerque Journal)By Michael Coleman Journal Washington Bureau

WASHINGTON -- Sen. Jeff Bingaman, D-N.M., said Monday the new Democratic Congress and White House should push an aggressive energy agenda that includes more conservation and clean power production as well as a stronger commitment to curbing climate change.

Bingaman, who chairs the Senate Energy and Natural Resources Committee, drew more than 200 journalists, policy wonks and foreign diplomats to a speech he gave Monday at the Center for Strategic International Studies.

"We have a real opportunity in the 111th Congress to make serious progress on dealing with energy issues," said Bingaman, who as chairman of the energy panel has often been at odds with the Republican-controlled White House on issues including renewable energy funding and climate change legislation.

"President-elect Obama has made this a priority in his campaign and made a commitment to solving our energy problems," he added.

Bingaman outlined six pri- orities he will pursue in the new Congress: Deploying clean energy, boosting energy efficiency, producing more oil and gas, increased innovation, making energy markets more transparent, and protecting the environment.

He said he will encourage Congress to adopt new federal policy requiring utilities to generate a percentage of their energy from clean sources such as wind or solar.

"I think we finally have the opportunity to see such a policy adopted and implemented," Bingaman said. "A national renewable electricity standard will enhance the diversity of our domestic electricity generation and it will position the United States to regain the world technology lead in these areas."

But Bingaman, who hails from an oil- and gas-producing state, also said the United States should drill more -- at least until the transition to new, reliable power sources is well under way.

"We need to recognize that it will take time ... (and ensure) that our country has an adequate supply of traditional fuels as we go through this," he said.

In an interview after his speech, Bingaman said he would be unlikely to support renewing a moratorium on offshore drilling that Congress allowed to lapse before this month's elections. However, he said the federal government should pay for an extensive inventory of what the offshore areas contain before leasing or drilling haphazardly.

"As a general matter we need to develop more of our resources on the Outer Continental Shelf," Bingaman said.

He said areas off the coast of Florida remain off-limits under law signed by President Bush, and that should be reconsidered.

"That hasn't been a part of the debate and I think it should be,' he said.

Bingaman said the government can do much more to encourage energy conservation among drivers, homeowners and large business owners. He called the current effort "very weak."

The senator also worried that falling gasoline prices will discourage consumers from buying more fuel efficient vehicles, but he stopped short of endorsing a gasoline tax to keep fuel prices high.

"The politics of any kind of tax are problematic," he said.

Decision to Explore for Drilling Sites Off Virginia Coastline Renews Debate
CQ Today, November 17, 2008;
http://www.cq.com/document/display.do;jsessionid=FB4F53711F69ECE9DE14C3793F24914D.upolu?matchId=68236020

By Avery Palmer

The Interior Department's decision to explore possible oil and gas leasing off the coast of Virginia has set the stage for a renewed debate over offshore drilling in the next Congress.

A longstanding statutory moratorium on drilling in Pacific and Atlantic waters lapsed without congressional action in October, which means that, combined with President Bush's lifting of an administrative ban, the government can now allow production as close as three miles offshore. The statutory and administrative changes came amid intense pressure from Republicans to respond to this summer's record-high gas prices.

The Minerals Management Service announced last week that it was gathering information for a possible lease sale 50 miles off the Virginia coast. The proposal drew concern from Democratic Virginia Gov. Tim Kaine, who had sought exploration for natural gas but not oil.

And the pair of Democrats who will represent Virginia in the new Senate say that if drilling takes place, they want to pass a new law giving states a share of royalties. With the exception of four Gulf Coast states, offshore leasing revenue now goes straight to the federal government.

“Revenue-sharing is an essential part of the equation and a real opportunity for Virginia,” said Jessica Smith, a spokeswoman for Sen. Jim Webb. She said the revenue could be used to fund clean-energy technologies and “much-needed transportation and infrastructure projects across the state.”

Sen.-elect Mark Warner backs oil and gas drilling off the Virginia coast with appropriate safeguards and also supports revenue-sharing, said spokesman Kevin Hall.

Under the proposal, the Virginia lease would not begin until 2011, and it will be up to the incoming Obama administration whether to proceed. Meanwhile, Congress will debate whether to allow unlimited offshore drilling or impose new restrictions.

A coalition of 20 senators is expected to revive a compromise plan that fizzled in the weeks before the election. As proposed, it would allow Virginia, North Carolina, South Carolina and Georgia to opt in to drilling at their discretion and give them a share of the royalties.

“I plan to build on the work that we began with the ‘Gang of 20’ initiative to increase domestic drilling and share revenue with the states that support domestic energy production,” said Mary L. Landrieu, D-La., who led earlier efforts to get Gulf States a share of offshore royalties.

Although Webb did not sign on to the plan, it has bipartisan support from many senators along the East Coast and elsewhere. Incoming North Carolina Democrat Kay Hagan was “an early and ardent supporter” of the proposal, said spokeswoman Colleen Flanagan. Hagan unseated Republican Elizabeth Dole, who was a Gang of 20 member.

A Landrieu aide noted that the end of the ban does not guarantee that any drilling will actually take place. States have broad authority to file lawsuits that could block the leasing process, and without revenue-sharing they have little incentive to cooperate, the aide said. Lawmakers also could try to add riders to spending bills to prohibit drilling off their states’ coasts.

It is also questionable whether the Democratic leadership will be interested in reviving the offshore-drilling debate anytime soon. Republicans arguably scored political points when they kept it on the table over the summer, and Congress may decide to move to other energy issues — such as an effort to promote low-carbon technologies.

Senate Energy and Natural Resources Chairman Jeff Bingaman, D-N.M., is working on a comprehensive bill that could be out in draft form early next year.

Bingaman wants to “wait and see how the new administration proceeds with the offshore-drilling issue,” said spokesman Bill Wicker. “It’s not a priority in terms of the legislation we’re working on.” Bingaman also opposes state revenue-sharing, arguing that royalties belong to all 50 states.

On the House side, Natural Resources Chairman Nick J. Rahall II, D-W.Va., plans to hold hearings early next year. He wants to determine “whether Americans really want leasing just three miles offshore with no further fiscal accountability in royalty management, and without dedicating those leasing revenues to alternative fuels,” said spokeswoman Allyson Groff.

The House also could revisit legislation (HR 6899) that passed the chamber last year but was not taken up by the Senate. It would allow drilling more than 100 miles offshore, and more than 50 miles offshore at a state’s request, without any provisions for revenue-sharing.

When it comes to deciding how to proceed, much will be in the hands of the Obama White House. The new president will have the option of reinstating an executive moratorium on drilling. Otherwise, the new administration will prepare a five-year plan to propose additional offshore areas that could be available for leasing. President-elect Barack Obama said during the campaign that he could support some drilling as part of broader energy legislation.

Environmentalists want Obama to “very seriously consider” reinstating the moratorium, said Mike Daulton, legislative director at the Audubon Society. They have many likely allies in Congress, including West Coast lawmakers who do not want to allow drilling offshore.

“The current situation is untenable,” he said. “We don’t believe there’s any support for only three miles of protection for our beaches and coastal communities.”

But oil industry officials think public opinion is on their side. Several recent polls have shown increasing support for new offshore drilling.

“You’ve got to look at what the American people have asked for,” said Charles Drevna, president of the National Petrochemical and Refiners Association.

House Minority Leader John A. Boehner, R-Ohio, called the Virginia leasing proposal “a small but important step forward on America’s path to energy independence and comprehensive energy reform.”

Concerns emerge about environmental effects of wave-energy technology
Seattle Times, November 17, 2008;
http://seattletimes.nwsource.com/html/localnews/2008399727_oceanenergy17m.html

By Michelle Ma

What started out as a mad dash to extract energy from the ocean's waves and tides has slowed to a marathoner's pace — complete with a few water breaks and sprained ankles along the way.

In the past three years, more than 100 preliminary permits have been issued nationally for wave- and tidal-energy projects, and nearly 100 more are pending approval. But only one has won a license to operate — a small wave-energy development off Washington's northwest coast.

That project is still awaiting state and federal permits, and its British Columbia-based developer, Finavera Renewables, doesn't know when the first devices will go in the water. It doesn't help that a wave-power buoy the company was testing off the Oregon coast unexpectedly sank last year.

Tapping the power of waves and tidal currents to generate electricity is promoted as one of many promising alternatives to the fossil fuels that contribute to global warming.

But no one knows exactly how the technologies will behave in the water, whether animals will get hurt, or if costs will pencil out. The permitting process is expensive and cumbersome, and no set method exists for getting projects up and running.

"The industry is really young, and everything is hodgepodged right now," said Jim Thomson, an oceanographer at the University of Washington's Applied Physics Lab who is involved in tidal research.

A new report that collected findings from dozens of scientists raises concerns about the impact wave-energy developments could have on the ocean and its critters. Wave-energy buoys could alter the food chain or disrupt migrations, the report says.

Still, developers, regulators and researchers are moving forward. A 2.25-megawatt project off the coast of Portugal went on line this fall, becoming the world's first commercial wave-energy development in operation. It can supply 1,500 households with electricity.

The first commercial wave-energy park in the U.S. could go in off Reedsport, Ore., within the next two years.

Tidal energy has yet to go commercial, but devices have been tested in Ireland and Canada. Turbines have been placed in New York's East River, and a demonstration project is planned for the Bay of Fundy off Northeastern U.S.

In the Northwest, the Snohomish County Public Utility District (PUD) has narrowed its search for tidal-power sites in Puget Sound, although the PUD doesn't expect to have a test project in the water for another two years.

Race to develop

Dozens of developers have staked claim to plots in the ocean and in waterways that could provide wave and tidal energy. But despite the jostle for space, getting projects off dry land has proved difficult.

Wave-power generators use the up-and-down motion of the ocean's swells to produce electricity. Tidal generators act like underwater windmills, spinning as the tides move in and out.

To get small projects in the water quicker federal regulators recently created a five-year pilot license for tidal and wave developments. That's meant to help developers gather data they need to launch future projects, said Federal Energy Regulatory Commission spokeswoman Celeste Miller.

Yet even with a more streamlined process, no one has applied for the pilot license, Miller said. Finavera received its license for the 1-megawatt Makah Bay wave project before this option became available.

Given the unknowns in a young industry, it's not surprising projects are taking longer than some developers would like, said Myke Clark, senior vice president of business development for Finavera.

His company encountered another hurdle when Pacific Gas and Electric's agreement to buy power from a planned Finavera wave-energy project off California was rejected last month by the state's Public Utilities Commission.

Regulators said the rates were too high and the buoy technology not yet ready.

Clark said the decision wouldn't affect Finavera's Makah Bay project.

Research under way

Researchers from the University of Washington and Oregon State University hope that a new national marine renewable-energy research center in the Northwest will help answer questions about tidal and wave energy.

A federal grant provides $1.25 million annually for up to five years. The UW will continue research on tidal energy in Puget Sound, while OSU will focus on wave energy.

"The feeling is that a lot of questions being asked now are only questions that can be answered with a responsible pilot [project]," said Brian Polagye, who is pursuing his doctorate in mechanical engineering at the UW.

Locally, researchers want to see where marine life in Puget Sound congregates and to create a standard way to evaluate sites around the country to determine which would be good candidates for tidal-energy projects.

Admiralty Inlet, between Whidbey Island and Port Townsend, is the likely spot for the Snohomish County PUD's small test project set to launch at least two years from now, said Craig Collar, the PUD's senior manager of energy-resource development.

The inlet's tides are strong, and the area is large enough to accommodate a tidal project without interfering with other activities such as diving and ferry traffic.

Finavera wants to install four wave-energy buoys in Makah Bay in the Olympic Coast National Marine Sanctuary to test its technology. Developers also plan to monitor the project for effects on wildlife and shoreline habitat, keeping an eye on federally listed species such as the marbled murrelet, a small bird that dives for food.

Finavera doesn't intend to continue the project after its five-year license expires. Still, if the company can negotiate a purchasing agreement with the Clallam County Public Utility District, homes in the area could use the wave-generated power while the project is in the water, Clark said.

The Makah Nation wants to see what effect the project might have on the environment before deciding whether wave energy is a viable long-term option, said Ryland Bowechop, tourism and economic-development planner for the tribe.

The buoys would sit just offshore from the tribal headquarters in Neah Bay.

"We are always concerned because our livelihood is the ocean," Bowechop said.

Concerns linger

The environmental effects of wave and tidal energy are largely unknown and require more studies, dozens of scientists concluded after meeting a year ago at OSU's Hatfield Marine Science Center in Newport, Ore.

The group was concerned that electromagnetic cables on the ocean floor could affect sea life, and that buoys could interfere with whale and fish migration.

Large buoys might actually attract more fish, but the marine ecosystem could be altered if more predators move in. Buoys also could disrupt natural currents and change how sediment is moved. Shorelines might be affected as energy is taken from the waves.

Even if environmental concerns are checked, costs to extract the power remain high. Wave energy costs at least 20 cents per kilowatt hour to generate, compared with 4 cents per kilowatt hour for wind power, said Annette von Jouanne, leader of OSU's wave-energy program. Wind energy used to be much more expensive 20 years ago.

In comparison, coal-generated power costs about 5 cents per kilowatt hour, and power from dams can be as low as 3 cents, said Roger Bedard, ocean-energy leader with the nonprofit Electric Power Research Institute.

Tidal-energy costs are harder to determine because there aren't any projects trying to sell electricity, Bedard said.

Fishermen have their own worries. They fear that wave and tidal projects could further reduce access to fishing grounds, said Dale Beasley, a commercial fisherman in Ilwaco, Pacific County, and president of the Columbia River Crab Fisherman's Association.

"There's so many things coming at the ocean right now," he said.

Beasley says the industry wants a say in how wave- and tidal-energy projects are developed.

"Coastal communities are going to have to figure out a way to deal with this, and if they don't, the character of the coast will change dramatically," he said.

Outer Continental Shelf oil drilling, con: America's oil market won't change
Grand Forks Herald, November 17, 2008;
http://www.grandforksherald.com/articles/index.cfm?id=93363&section=Opinion

By Robert Kaufmann

BOSTON — The Republicans' "Drill, baby, drill" is a great slogan. So good that congressional Democrats opened an additional 400 million acres of the outer continental shelf to drilling.

So, now that more area is available, what are we to expect? Not much.

Opening the outer continental shelf will not increase U.S. production significantly, dent our reliance on imports or reduce prices. And if this effort is subsidized by the government, it will hurt our economy.

How much oil will now become available? Before drilling is completed, there is no way to know for sure. The U.S. Geological Survey estimates that the entire outer continental shelf contains about 59 billion barrels of oil. Of that, about 40 billion barrels are in areas that were open to drilling before the ban was lifted. Opening the entire area would free up an additional 19 billion barrels.

How soon will that oil become available? Fields in the outer continental shelf are far below the seabed in deep water that is far from shore. Consequently, exploration and development will proceed slowly. Even if drilling in the newly opened areas of the outer continental shelf were to start today, the U.S. Department of Energy forecasts that it will take at least five years before any additional quantities of oil are produced. After a decade, the newly opened areas are expected to produce an extra 0.3 million barrels per day.

How significant is that? In 2008, the U.S. produced about 5 million barrels per day. So an extra 0.3 million barrels per day may increase U.S. production by about 5 percent to 6 percent in a decade.

Some argue that opening the outer continental shelf will move the U.S. toward self-sufficiency in oil. But iIn 2008, the U.S. imported 9.7 million barrels per day. It is hard to argue that reducing this number by about 3 percent is meaningful.

Perhaps opening the outer continental shelf is designed to reduce oil prices. To evaluate this argument, we need to compare 0.3 million barrels per day with global production and consumption, which was about 85 million barrels during each day of 2008. Even if the extra oil from the outer continental shelf were available immediately, there is no mechanism by which 0.3 million barrels changes the balance between the 85 million barrels produced and consumed in a way that has a detectable effect on the global price.

Thinking more strategically, perhaps oil from the newly opened areas of the outer continental shelf could help the U.S. reduce imports from nations that are either unreliable or politically hostile. Unless the U.S. encounters a scenario in which it obtains oil by military force, as opposed to buying it on a market, the source of U.S. imports is unimportant.

To illustrate, suppose Venezuela’s president, Hugo Chavez, stops selling 1.2 million barrels per day to the U.S. (the amount imported in 2008). Doing so would force Venezuela to sell that oil to other nations. Venezuela’s new customers will have stopped buying oil from some other nation, say Mexico, and now Mexico will have more oil to sell to the United States.

Cutting sales to the U.S. is like a game of musical chairs, in which no chairs are removed when the music stops.

Despite these warnings, suppose that the U.S. government tries to speed the arrival of 0.3 million barrels per day by offering tax incentives or subsidies. The economic folly of this approach was starkly illustrated in the early 1980s, when high oil prices and tax incentives caused large amounts of capital to flow to the U.S. oil and gas industry. These flows powered a drilling boom — the number of oil wells drilled in the U.S. doubled between 1975 and 1980 — but this boom did not increase U.S. oil production or the industry’s contribution to GDP.

In summary, the investment capital was flushed down a “dry hole” and could have been invested more productively in some other sector, such as the U.S. auto industry. And these opportunity costs are the reason why the U.S. trades for oil on a world market: Producing goods and services in exchange for oil is more effective than trying to expand production from a depleted resource base.
