

BRIEF ANALYSIS

No. 563

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**In the Public Interest:
Tapping the Outer Continental Shelf**

by H. Sterling Burnett, Ph.D.

The United States needs oil and natural gas. Oil is fuel and a feedstock for plastics, pharmaceuticals, fertilizers and lubricants. Natural gas is used for cooking, heating homes and water, and is also critical to chemical manufacturing. The best estimates indicate that by 2025 U.S. oil consumption will grow by one-third — even with the rise of renewable biofuels — and electricity demand will increase by more than 45 percent, with natural gas fueling much of the new electric power generation.

Where will Americans find the additional oil and gas they need? Much of it lies under the deep waters of the U.S. Outer Continental Shelf (OCS). Only politics prevents the development of decades' worth of oil and gas supplies.

The Problem of Oil. Since the Arab oil embargo of the 1970s, the United States has become dependent upon foreign nations for a majority of its oil. Many of these oil-rich countries are

either politically unstable, have governments hostile to U.S. interests or have economies that are mostly unfree, meaning political calculations rather than market demand dictate the pace of exploration and development.

The Problem of Natural Gas. While demand for natural gas is increasing, U. S. production is falling. Though natural gas prices have moderated in recent months, the long-term disconnect between supply and demand threatens both the reliability of electric power

supply and the continuing viability of the domestic chemical manufacturing industry. Indeed, high natural gas prices have been cited as the principal reason why more than 70 U.S. chemical facilities closed in 2004, and why only one new chemical plant is being built in the United States — while more than 120 plants costing more than \$1 billion each are under construction around the world.

U.S. Energy: Vulnerable to Nature. U.S. energy problems are compounded

by the vulnerability of our domestic oil and natural gas supplies to nature's whims. Hurricanes Katrina and Rita highlighted the fact that from an energy perspective, Americans have put too many eggs in one very fragile basket — the Gulf of Mexico.

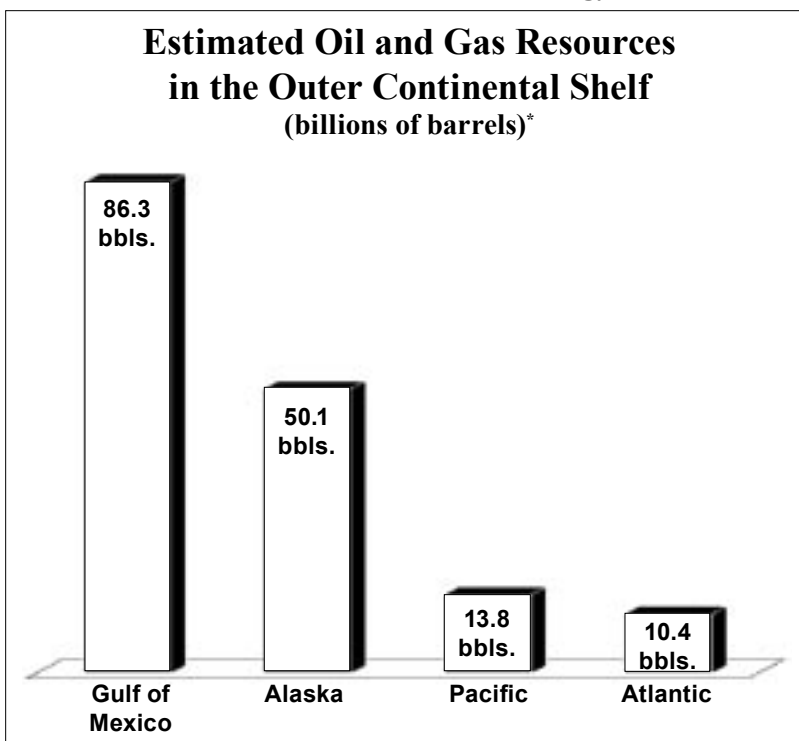
Each year energy prices spike out of fear that the ports, refineries, pipelines and offshore drilling platforms in the Gulf of Mexico will be damaged during the hurricane season. Unfortunately, successive Congresses and administrations have banned new production off most of the U.S. coast. As a result:

■ The storm-ridden Gulf of Mexico is the source of nearly 30 percent of the oil

and 20 percent of the natural gas produced off U.S. shores.

■ One reason for high fuel prices is that facilities that produce or transport 21 percent of the Gulf's oil and 13 percent of its natural gas are still closed due to damage during the 2005 hurricane season.

Improving Energy Security: Opening the OCS. Much of America's remaining large deposits of oil and natural gas lie offshore. Unfortunately, other than portions



* The combined volume of oil and oil-equivalent gas measured in barrels.

Source: Minerals Management Service, "Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2006," U.S. Department of the Interior, MMS Fact Sheet RED-2006-01b, February 2006.

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of the Gulf of Mexico, coastal areas are off-limits to new oil and gas exploration and production due to various federal moratoria. Lifting these prohibitions would be one of the most effective actions Congress could take to ensure long-term economic growth while also decreasing America's vulnerability to foreign powers. The Interior Department's Minerals Management Service (MMS) has estimated that the OCS contains:

- More than 85 billion barrels of oil, quadruple current U.S. reserves.
- More than 419 trillion cubic feet of natural gas. [See the figure.]

Of these reserves, between 21 and 41 billion barrels of oil and 94 to 164 trillion cubic feet of natural gas lie in areas where production is currently banned — under the east and west coasts, off coastal Alaska and in portions of the Gulf of Mexico.

Offshore Environmental Concerns. Federal moratoria were put in place due to environmental concerns. Offshore natural gas production has never harmed U.S. coastlines, but offshore oil platforms have occasionally spilled or leaked substantial amounts of crude oil. However, technology has improved greatly since the earliest platforms were built. As proof, very little oil spilled into the Gulf after Hurricanes Katrina and Rita. Although the storms destroyed 111 production platforms and seriously damaged another 52 platforms and 457 pipelines, the MMS found only six hurricane-related oil spills of at least 1,000 barrels — none of which damaged shores or wildlife.

Since platforms and pipelines are less prone to spills than tankers, increasing the amount of oil produced in the OCS and delivered through pipelines to shore could be environmentally beneficial. The amount of oil spilled from all sources has decreased dramatically in recent years; however, since 1991, tankers have still spilled three times as much oil as offshore platforms and more than twice as much as pipelines. Furthermore, when tankers leak, run aground or founder and sink, they tend to do so in port or near shore, resulting in more severe environmental damage. Of all the sources of petroleum released into the ocean, offshore platforms have less frequent spills and leak less oil than any other. Indeed, for the past 20 years, less than 1/1,000th of one percent of the oil produced in U.S. state or federal waters has spilled.

Congressional Action on the OCS. Accordingly, Congress and the president should allow new offshore exploration and production. Indeed, the United States is

the only industrialized country with substantial coastlines not actively seeking new offshore oil and gas deposits. Canada and even economically-backward Cuba are moving forward with plans to drill in offshore areas that abut U.S. coastal waters. Since pools of oil do not respect international boundaries, it is almost certainly true that Canada and Cuba will be accessing oil that could otherwise be developed by and benefit Americans.

Currently, production in the OCS is a net loser for coastal states. The federal government receives all of the royalties, leases and taxes, while states bear most of the risks. If spills occur, the states lose tourist revenues and their coastal environments suffer. However, in the face of high gasoline and electricity prices, consumer demand for action appears to be forcing Congress's hand. A bill that passed the U. S. House of Representatives on June 29, 2006, would end the federal moratoria on new drilling — at least with state buy-in. The bill:

- Lifts all leasing bans beyond 100 miles from state shores;
- Allows leasing between 50 miles and 100 miles of state shores, unless a state acts to block such leases, and allows the question of leasing in those areas to be revisited every five years; and
- Permanently bans exploration and production within 50 miles of state shores unless a state chooses to opt-out of the restriction.

States that choose to allow drilling off their shores would share the revenue with the federal government. Initially, coastal states would get 25 percent of the proceeds. Beginning in 2010, however, their share of revenue would increase 5 percent per year, but never exceed 75 percent.

At first, some states will likely continue to ban oil and gas production off their coasts. However, legislators in those states will have to explain their decision to their constituents the next time their economy falters, state budgets are tight and cuts in programs are made, while the coffers of states that allowed drilling are full.

Conclusion. Congress should put America's energy security and economic needs ahead of the desires of powerful environmental lobbyists. Ending the moratoria on OCS oil and gas exploration and production — with state revenue sharing — would be a positive step in that direction.

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