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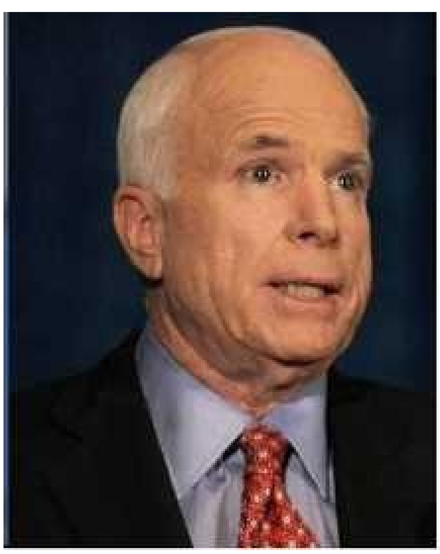
Presidential Energy Debate Fact Check #1: Is Offshore Drilling the Answer?

Posted by Nate Hagens on October 9, 2008 - 9:45am
Topic: Supply/Production
Tags: cutler cleveland, domestic supply, energy independence, offshore drilling, presidential debate [list all tags]

Senators Obama and McCain are both aware that energy is central to Americas future. However, they differ on the details, and since confidence and authority can sway peoples beliefs, it is important, as always, to 'check the facts'. In last nights debate, Obama, while pointing out the US holds 3% of world oil reserves but uses 25% of world oil production said that we need to 'change the way we view energy in our lives' (to me implying that becoming energy independent is unlikely). In contrast, while McCain agreed on 'ridding ourselves of dependence on foreign oil', his discussion of the "Drill Here Drill Now" strategy implied that such a plan would achieve both lower prices and more energy independence. How much of the energy debate issues are 'politics' vs. facts?

Below the fold is a guest commentary by Professor Cutler Cleveland, providing a needed 'fact-check' on recent political claims being made on offshore drilling.




FACT CHECK

In the run-up to the election, this is the first in a short series of brief fact-checking exercises regarding the major energy issues in the campaign.

Senators McCain and Obama have expressed support for increased offshore oil drilling as part of their respective plans for energy. Senator McCain specifically suggests that opening offshore waters in the U.S. to oil exploration will (a) significantly increase domestic production, and (2) put downward pressure on oil prices.

Is this true? The short answer is no.

The federal government controls access to the Outer Continental Shelf (OCS), which refers to the submerged lands under the ocean farther than about 3.3 miles from the coast (about 10 miles from Texas and the Gulf coast of Florida). Land closer than that is under state jurisdiction; land beyond about 230 miles is in international water. Beginning in 1982, Congress passed and has subsequently renewed moratoria on the leasing of federal land off the coast of all states except Texas, Louisiana and parts of Alaska. All existing moratoria on leasing in the OCS will expire in 2012. Debate now centers on whether or not to renew the moratoria.

The Minerals Management Service (MMS) of the U.S. Department of Interior estimates that there are about 86 billion barrels of technically recoverable oil in the federal Outer Continental Shelf; the Lower 48 OCS accounts for about 59 billion barrels. By way of comparison, U.S proved reserves of oil are about 21 billion barrels.

The Energy Information Administration (EIA) of the U.S. Department of Energy used the MMS data to assess what impact a lifting of the ban in 2012 for the Lower 48 OCS would have on U.S. oil production. Basically, the EIA estimated what fraction of the technically recoverable oil would be economical to recover, and how fast it could be produced after 2012. Leasing would begin no sooner than 2012, and production would not be expected to start before 2017. **The EIA found that access to the Pacific, Atlantic, and eastern Gulf of Mexico regions would not have a significant impact on domestic crude oil production or prices before 2030. Total domestic production of crude oil from 2012 through 2030 is projected to be 1.6 percent higher than in EIA's "no access" reference case.**

The effect of that quantity of oil on the price of oil would be indiscernible. **Oil prices are determined on the international market, and the addition of about 0.16 million barrels per day from the OCS in 2030 to total world oil production would have no significant impact on oil market fundamentals**. The world consumed about 86 million barrels per day in 2007, and will consume about 112 million barrels per day in 2030, according to EIA forecasts.

Adding the Alaska OCS to the mix would not appreciably alter this conclusion, as that oil would be even more costly and in terms of dollars and time compared to Lower 48 OCS resources.

Thus, lifting the ban on offshore drilling will not significantly increase domestic production, nor will it put downward pressure on oil prices.

There may be other arguments for offshore drilling, such as domestic job creation and tax revenue, improved balance of payments, among others. But those are subjects for another analysis....

Professor Cutler Cleveland
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10/08/2008

Sources:
--Energy Information Administration, Impacts of Increased Access to Oil and Natural Gas Resources in the Lower 48 Federal Outer Continental Shelf, Annual Energy Review 2007.
--Minerals Management Service, Assessment of Undiscovered Technically Recoverable Oil and Gas Resources of the Nation's Outer Continental Shelf, 2006.

Some of Dr. Clevelands previous work posted on theoildrum:

On Energy Transitions Past and Future - Cutler Cleveland
Ten Fundamental Principles of Net Energy Analysis - Cutler Cleveland
Energy Return from Wind - Cutler Cleveland and Ida Kubiszewski