IRET *Congressional Advisory*

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OFFSHORE DRILLING CONSIDERED BY HOUSE

The House of Representatives is considering a proposal by Representatives John Peterson (R-PA) and Neil Abercrombie (D-HA) that would permit offshore drilling for oil and gas in parts of the continental shelf that are now off limits to exploration. Drilling would be permitted at sites at least 50 miles from land without state approval. States that permitted drilling within the 50 mile limit would be allowed to share in federal royalties. New drilling is currently banned off the Atlantic, eastern Gulf, and Pacific coasts by federal law. Considerable quantities of oil and gas could be produced from these domestic sources at current prices, helping to hold the line on prices, and enhancing domestic energy security.

Natural Gas

Old surveys have suggested that there are large natural gas deposits on the U.S. continental shelf, equal to between 4 and 15 years of national consumption. With new technologies, it may be possible to recover more.[1]

It is especially important to develop domestic natural gas resources, because without them, natural gas prices in the United States will remain much higher than in the rest of the world. The price of non-liquified natural gas is determined locally, not in the world market. This is because natural gas is most efficiently shipped by pipeline, and pipelines do not extend clear across oceans. Piped imports from Canada and Mexico can relieve some of the price pressure, but imports from overseas require liquefaction, and are more costly. As a result, the relatively scarce supplies of natural gas in the United States have driven the price to $8.85 per million BTUs, 10 percent higher than in Canada, over 25 percent higher than in Western Europe, and more than 50 percent higher than in east Asia.[2]

The higher price of natural gas is clearly an inconvenience to U.S. households that heat and cook with the fuel. In addition, the barrier to production and the artificially higher cost of natural gas distort output and costs jobs. Certainly, the restrictions cost jobs in the energy-producing industry. Less obvious is the damage to energy-using industries. Businesses that use natural gas as feedstock (the chemical industry) or for processes requiring intense heating (metals and ceramics) are placed at a competitive disadvantage in the world market due to the higher cost of natural gas in the United States. Production that would ordinarily occur here is priced out of the market, and the businesses must outsource or lose sales to foreign companies. Workers who would otherwise be employed in these industries are forced to accept jobs elsewhere, often at lower wages.

Oil

Oil is more readily transported across the oceans than is natural gas, and it is priced in global markets. Higher levels of U.S. oil production would not affect the U.S. price of oil as much as would higher levels of natural gas output. Nonetheless, there would be some impact on the world price as cheaper domestic sources were tapped, adding to world supplies.

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More oil from the United States could force OPEC to restrain its price increases to maintain market share. More important, perhaps, is that the U.S. output would not be subject to foreign political or military threat. At present, for example, if Venezuela were to withhold its oil from the United States, there would be some considerable short run disruption to U.S. oil and gasoline markets until supply contracts could be rewritten and supplies could be diverted from Europe and Africa. The shock might be as great as that from hurricane Katrina.

The artificial limits on domestic drilling for oil and natural gas have been raising energy prices for U.S. consumers for many years. The restrictions have forced tens of thousands of workers out of energy intensive jobs in a variety of high-value-added industries, reducing productivity and wages. It is time to remove this obstacle to the normal working of the market.

Stephen J. Entin
President and Executive Director

Endnotes

1. See John J. Fialka, "Unlikely Duo Tackles Drilling," *Wall Street Journal*, June 27, 2006, p. A6.

2. *Ibid.*