

Web Memo



Published by The Heritage Foundation

No. 1086
May 18, 2006

Congress Should Expand Offshore Energy Production

Ben Lieberman

Most of America's offshore areas are off-limits to oil and natural gas drilling, despite years of tight energy supplies and high prices for oil and gas. But a number of bills, including a pro-drilling amendment to the pending Interior appropriations bill, seek to open up some of these restricted areas and increase domestic oil and gas production. These are long-overdue steps.

Energy Solutions Begin At Home

America's energy problems are partially self-imposed. The U.S. is the only nation in the world that has placed a significant amount of its potential domestic energy supplies off-limits. The ban on energy development covers 85 percent of the areas off of America's coasts, such as portions of the Alaska coast, nearly all of the Pacific and Atlantic coasts, and the eastern Gulf of Mexico.

Ever year, Americans use about 7 billion barrels of oil (nearly 60 percent of it imported) and more than 23 trillion cubic feet of natural gas. According to the Department of the Interior, U.S. offshore areas contain an estimated 86 billion barrels of oil and 420 trillion cubic feet of natural gas that has yet to be tapped. This is a big enough supply to make a real difference in energy prices for decades to come.

Hurricanes Katrina and Rita reinforced the need for more energy. The reason the hurricanes had such a big impact on energy prices was that they hit America's *only* offshore regions – the Central and Western Gulf – where drilling is not severely restricted. As a result, the hurricanes knocked out fully 25 percent of the nation's oil production and 20 percent of its natural gas production, as well as related refining and processing facilities onshore. One clear lesson from the hurricanes is that if Congress allowed offshore drilling elsewhere, Americans would not only have greater energy supplies and lower prices overall, but also less price volatility should a natural disaster hit any one region.

Federal Law Needs To Be Changed

Most of this domestic energy potential cannot be realized under existing federal law. Annual congressional restrictions limit funding to the Department of Interior for purposes of leasing in new offshore areas, and a Presidential Directive prevents such leasing, too. These restrictions were

This paper, in its entirety, can be found at:
www.heritage.org/research/EnergyandEnvironment/wm1086.cfm

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 · heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

first imposed more than a decade ago when oil and gas were cheap and the need for additional production was not seen as significant. Fears of environmental damage from drilling have kept these provisions in place, but technological improvements have greatly reduced those risks. All new drilling would have to comply with strict safety standards. The fact that Katrina and Rita did not cause a single major offshore oil spill is strong evidence that offshore drilling is not a danger to the environment.

Offshore drilling measures were dropped from last year's Energy Policy Act but have been reintroduced in response to high energy prices. This approach, while laudable, is not *the* single solution to the nation's ongoing energy challenges and would require time to have an impact on prices. Nonetheless, easing restrictions on drilling would be a useful step towards providing the American people with the most affordable energy that market forces allow. Five legislative proposals embody this approach, with different specifics:

- **Interior Appropriations and H.R. 4318:** An amendment to the 2007 Interior appropriations bill would lift the restrictions on funding to the Department of the Interior for engaging in offshore leasing for natural gas production in new areas. This provision alone would not lead to new drilling but would be a first step. A companion, H.R. 4318 would do the rest. It would rescind federal prohibitions on drilling, but only for natural gas that is no closer than 20 miles off a state's shoreline. States would also have the option to allow drilling within 20 miles of the coast. The bill would also give states a share of the leasing and royalty revenues, a potentially significant source of money. Like S. 2253, described below, this bill focuses on natural gas, which has actually risen more in percentage terms in recent years than oil. High natural gas prices have not only

burdened consumers but have also jeopardized the competitiveness of natural gas-dependent industries, such as chemicals and fertilizer production.

- **S. 2253:** This bill would open up one natural gas-rich portion of the eastern Gulf of Mexico known as the Lease Sale 181 area. One benefit of starting with this area is that the natural gas, an estimated 6 trillion cubic feet of it, is already located near existing pipelines and thus presents an opportunity to bring a substantial amount of new energy online in relatively quickly. As with the other proposals, the drilling will occur far off the coast and would not be visible from the shore.
- **S.2290, H.R. 4761:** These bills would allow states to opt-out of the federal restrictions and allow drilling for both oil and natural gas off their coasts. The bills would also provide the incentive of revenue-sharing between the federal government and participating states. Politically, these bills offer the advantage of handing decision-making authority over to the coastal states. States that want drilling would be free to allow it, while those opposed— chiefly Florida and California—could keep the current restrictions in place.

Conclusion

Increasing domestic energy production will be an uphill fight. Environmental organizations and their allies in Congress oppose virtually all new offshore oil and gas production and will decry any changes to the current restrictions as impending ecological disasters. Some legislators from anti-drilling states have sought to obstruct even those measures that allow states to opt out of drilling. But in a time of high energy prices and geopolitical uncertainty, America should make good use of the oil and gas available to it.

Congress should give open up more offshore areas to energy exploration and production and give states the chance to decide whether to allow production off their coasts.

[Ben Lieberman](#) is Senior Policy Analyst in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.