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ANWR and the Environment

Economic Reality vs. Ecological Ideology

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To

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In the long run, the oil and gas potential of ANWR's coastal plain could be a key factor in U.S. energy supply. In the short-term it is a dead issue since there is virtually no chance that the existing prohibition on drilling in the area will be lifted by Congress this year and only a slightly better chance that the next Administration will be able, or wish, to lift it in its first year.

But whatever happens in the future, there is a high probability that ANWR contains North America's largest remaining oil structure. Yet, oil drilling has been prohibited there since passage of federal legislation in 1960 establishing the Arctic National Wildlife Range (changed in 1980 to a much expanded Arctic National Wildlife Refuge). This justifies a reexamination of the ANWR issue in the light of new developments. The debate is entirely over Area 1002 in ANWR's coastal plain. Since 1987 the Administration has repeatedly recommended that Area 1002 be opened up for oil and gas drilling. So far, Congress has refused to accept this recommendation.

Among the ongoing conflicts and compromises between the quest for economic development and the desire to protect the existing environmental infrastructure--be it commercial, residential, recreational or aesthetic--ANWR presents a unique debate. In most cases the costs and benefits of the action proposed by either side are tangible and, to some extent, calculable. In the case of the ANWR dispute, this applies only to the oil drilling side. The case against drilling is based on such esoteric, almost transcendental, arguments as to defy any form of economic evaluation. Let us look at both cases.

The case for drilling is simple and straightforward. There is a private industry interest, a regional interest, and a national public interest. The oil industry, which has done considerable seismic work in the area and has drilled one well just outside 1002, is eager to explore the area as a potentially attractive business proposition. It knows the Bureau of Land Management's latest (1991) estimates which raised the chance of discovering at least one field of minimum economic size in Area 1002 from 19% to 46% and it is aware of a recent position paper by the American Association of Petroleum Geologists (AAPG) which estimates that the mean recoverable reserves are likely to be a multiple of the Bureau of Land Management's (BLM) latest estimate of 3.57 billion barrels. In the view of the AAPG, "the chance of finding Prudhoe Bay or Middle East caliber resources in ANWR is most likely." Thus, for sound business reasons, several oil companies are eager and ready to start exploring. A factor in their eagerness is the decline in North Slope production which will progressively reduce throughput in the Alyeska pipeline system. If this cannot be offset by new supplies, the unit cost of pipeline transportation will rise and the pipeline may eventually have to be shut down before all commercial oil on the North Slope has been produced.

The regional public interest is also tangible and calculable. In Alaska it is the economic desire to maintain the State's largest industrial operation, by far, in the face of the decline of North Slope production. Virtually the entire State supports this policy: both parties, both Senators, the Congressman, all recent Governors and gubernatorial candidates and, of course, the State legislature. For the people in Alaska, the environmental risks in Area 1002 are far less than the potential economic benefits if commercial quantities are found there.

The one vocal local exception are the Gwich'in Indians, an eskimo tribe of 7000 people, living on the edge of Area 1002. They are concerned that their subsistence life, which depends on porcupine caribous as their primary food, may be threatened by the oil drilling and ancillary operations. However, another local eskimo tribe of equal size, the Inupiat, strongly favors oil drilling in Area 1002. Most experts agree that the Gwich'in Indians' concern is real but that it represents a hypothesis rather than a certainty. Furthermore, if it does occur, it will be gradual so that measures to assist them or reorganize their subsistence basis can be taken.

The national economic interest in drilling for oil in the ANWR coastal plain is also tangible and calculable. Every barrel of oil produced domestically reduces our national trade deficit and increases domestic investment and employment. Given the potential size of the ANWR operations, if oil is found in commercial quantities, the impact would go far beyond the State of Alaska. If the BLM's mean estimate is correct, Area 1002 could produce an average of 700 MB/D for 15 years. In reality, it would probably produce a tapering-off volume for a much longer period. If the AAPG's estimates prove even half right, production could average 1 million B/D for 2 or 3 decades. The annual positive impact on our balance of trade will be on the order of \$6 billion. According to a study by the WEFA Group, an economic consulting firm, the required total investment could be in the \$35 billion range, much of it outside of Alaska, and provide as many as 700,000 jobs. Thus, the national economic benefits of producing oil in ANWR Area 1002 are tangible, calculable and, apparently substantial and durable, stretching out over several decades.

Now, let us consider the claimed environmental negatives to offset these indisputable economic positives. We find that they are neither tangible nor calculable. There is no agricultural or marine industry and no tourism, camping or other forms of recreation in Area 1002. The area is very sparsely populated, has a harsh climate and is not considered scenically attractive. It is fortunate for the U.S. that its largest remaining unexplored oil deposit is located in such an area and not in one abounding with environmental values which require protection. Regarding the overall impact on ANWR, it has been frequently pointed out that only a minuscule fraction of the 19 million acre Reserve, or even of the 1.5 million acre coastal plain section of ANWR, would be affected by the drilling and ancillary activities. According to the BLM, the total area affected would be 12,000 acres. According to BP, a principal North Slope operator, only 2,000 acres would actually be required in Area 1002, or a little more than

one-tenth of one percent of ANWR's coastal plain or one-hundredth of one percent of all ANWR.

All of these factors were, of course, taken into account in the BLM's and the Secretary of Energy's repeated recommendations to Congress since 1987 to open up Area 1002 for drilling. Yet, Congress has remained opposed to it. What is the reason? It could not possibly be concern that the environmental risks outweigh the economic benefits. For, as we have seen, these risks are small and manageable while the potential benefits are very large.

It appears that the environmental activists have decided to draw a line in the tundra and oppose ANWR drilling as a symbolic statement, an assertion of environmental ideology which does not lend itself to cost/benefit analysis. One of their most frequently used arguments is that if BLM's mean estimate of 3.57 billion barrels of reserves for Area 1002 is right, it would cover total U.S. oil needs for only some 200 days. The mathematics are correct but the concept is meaningless and misleading. Most single economic activities represent only a small fraction of the universe of these activities. Furthermore, production from a field of this size would be significant over a 20-25 year period. Since prices are determined at the margin, the additional production throughout this period would keep prices lower than they would be otherwise. I recognize that the world oil market has its built in constraints, but at the margin it is fully sensitive to supply and demand fluctuations.

One could have made the argument in 1977 that Prudhoe Bay represented only 500 days of total U.S. oil demand. Yet, there is no question that world oil prices were significantly lower and the U.S. economy stronger throughout this period than if Prudhoe Bay had not been allowed to operate. In the 5,000 days since production started on the North Slope nearly 9 billion barrels of oil have been produced, reducing U.S. oil imports by an equal amount. Currently, after 15 years of production, Alaskan oil is still reducing our net import requirements by 22%, or \$12 billion in 1991, and it will continue to be a major oil supply source for another 10 years at least.

Let us now return to our question: why does a majority in Congress continue to block drilling in ANWR Area 1002? The reason is that only Alaska has recognized its direct, tangible economic interest in drilling in 1002. In other states, the vociferous well-organized opposition to ANWR drilling from environmental organizations and their supporters is not counter-balanced by pro-drilling activists. Most people in those states are indifferent to, or unaware of the issue. At the same time, they may be suspicious of oil company motives, particularly following the traumatic oil tanker spill in the Gulf of Alaska in 1989. As we know the environmental organizations actively promoted this connection. Finally, they are intrigued by the image of a pristine natural environment, unspoiled by human "greed." Legislators cannot ignore this reality. However, for the majority of people, other than environmental activists, the ANWR drilling issue is not significant enough to affect their voting decisions. Thus, as more legislators understand

the issue and realize the danger of distorting the concept of "pristine," giving it priority over all other considerations irrespective of local conditions, they can be expected to support some form of drilling in ANWR's Area 1002 under strictly enforced environmental controls. They were moving in this direction in 1989 before the tanker spill. These controls are likely to increase the cost of operations but, considering the value of the resource at stake, this is clearly affordable.

If no oil is found--still a distinct possibility--the "footprints" left by the exploring companies will be quite small since no pipelines, storage tanks, pumps or permanent housing will be built. Thus, in the case of failure, most traces of exploration activities can be erased as the companies leave.

To conclude, ANWR Area 1002 could become a true national treasure or it could remain a bleak, uninteresting, sparsely inhabited area. The decision will be made by the interaction of economic reality and environmental ideology.