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Statement by:

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Before:

**Public Hearings by The
Bureau of Land Management of the U.S.
Department of The Interior**

On:

Proposed California OCS Oil and Gas Lease

Sale No. 53

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My name is Lawrence Goldstein. I'm the Research Director of the Petroleum Industry Research Foundation, Inc., an organization which specializes in the study of petroleum economics. I have been with the Foundation for the past fifteen years. Today I would like to focus on the question of whether the proposed federal offshore lease sale No. 53 is in the national interest. This question has taken on increased importance in light of developments in Iran and the recent OPEC price meeting this month.

The overriding need to displace imported oil by domestic fuels as fast as possible and as much as possible should by now be obvious to everyone. Twice in six years--1974 and 1979--millions of Americans were temporarily unable to obtain their normal gasoline requirements because of political events 12,000 miles away which affected the supply of oil to this country. And while the physical supply interruptions were only temporary, the resulting foreign price increases were permanent--well over 1000% in the last seven years. In fact, the price increases have continued throughout the first half of 1980 despite public agreement by both exporters and importers that available oil supplies have been more than adequate to meet demand.

Further, last year's revolution in Iran has resulted in a permanent loss of at least 2-3 million b/d of crude oil productive capacity. This loss has greatly reduced the flexibility of the international crude oil system to handle efficiently any shocks to the system. Thus, if the world were to experience another "temporary"

interruption in the flow of oil the price would undoubtedly rise steeply again. Unfortunately many experts believe that the possibility of periodic interruptions in the flow of oil during the next several years is high. In a relatively pessimistic outlook published this past month, the International Energy Agency concluded that the world is likely to face steadily increasing shortages of oil during the decade of the 80's. While the view of our Foundation is not as pessimistic, it does point to the overwhelming need of the U.S. and other major consuming nations to reduce the demand for OPEC oil.

The high price is only one negative aspect of our dependency in foreign oil. There is also the demonstrated insecurity of foreign oil supplies and their increasing politicization as some of the major exporting countries attach more and more political conditions to the exportation of their oil. Then there is the impact of the oil imports on our balance of payments. This year we will probably pay \$90 billion for these imports. This is more than twice as much as we paid in 1978, despite the fact that this year's import volume will be about 15% below that of 1978, and more than 1700% above the level of the early 1970's when the cost of U.S. oil imports averaged only approximately \$3 billion.

There is only one way to deal with the complex problems created by our more than 40% oil import dependency: to reduce it as fast and as much as possible. While conservation, substitution

of alternative energy sources and the expeditious build-up of the Strategic Petroleum Reserve can help to reduce this dependency, these measures will not in themselves be sufficient. If we are to hold our import vulnerability to manageable levels, increased production of oil and gas from our offshore areas will also be essential. U.S. oil consumption declined last year, will decline this year and, according to several recent forecasts by industry and academic experts, will keep declining or at least hold steady throughout the 1980's. However, our domestic oil production has also continued to decline and under existing conditions will likely do so throughout the 1980's. Every year since 1967 our proved oil reserves, outside of the Alaskan North Slope, have dropped. Even though the amounts extracted have declined every year since 1970, we extracted more oil from the ground than we were able to discover.

The increase in Alaskan North Slope production between 1977 and 1980 has temporarily halted the decline in total U.S. production. But North Slope output has now reached a plateau so that it will no longer offset production declines in the lower 48 states. Furthermore, in Alaska itself the production volume has not been matched by new discoveries. Hence, the State's proved reserves have dropped from 9.8 billion bbls at the end of 1976, just before the onset of North Slope production, to 8.9 billion bbls at the end of 1979. If this reserve decline continues, North Slope production will have

to be reduced from the late 1980's on.

One way to halt or at least slow down this trend is to encourage exploration in our offshore areas which, together with Alaska, probably contain the last remaining large scale unexplored oil and gas reserves in the U.S., according to most petroleum geologists. The bulk of potential OCS oil and gas reserves are producible at resource costs that are cheaper than imports or alternative sources. The DOE, in a report on federal leasing in the Outer Continental Shelf, put this proposition plainly and succinctly: "Given that the world oil price is administratively set by OPEC and that domestic oil and gas supply is not demand limited, the effect of increasing OCS production is simply to decrease U.S. energy imports. From the standpoint of economic efficiency, this is precisely the result needed in the present energy market context."*

One of the objections sometimes raised against offshore leasing is that any resource which may be there should be left for development at some future time when we may need it more than now. This objection to current leasing is invalid, in my opinion. For one thing, if the lease sale takes place on schedule, commercial production of any oil or gas which may be found will not begin until after 1985, according to the Interior Department's EIS, and peak production will not be reached until a few years later. Thus, the proposed lease sale will not bring forth new significant supplies for at least five years.

*Department of Energy, Federal Leasing and Outer Continental Shelf Energy Production Goals (Draft), DOE/RA-0034-D, February 1979, p.18.

In the long run enough alternate energy sources are likely to be developed. However, we will need the lead times to develop and implement new technologies and conservation that will help ease the long term transition from oil and gas to alternative energy sources. In the intermediate term, however--the next 10-20 years--conventional oil and gas will continue to play a major role in supplying our energy needs. Thus, if we are to contain our oil import dependency during this period we must maximize our domestic oil and gas production.

Another question sometimes raised concerns the price of foreign and domestic oil. Since both are likely to be sold at about the same price in the future, what is the advantage to the public of domestic over foreign oil? The answer is that the social cost of foreign oil, that is the cost to the nation, is much higher than its actual price because of the insecurity of foreign oil, its negative impact on the balance of payments and various other external factors. The reverse of this is that domestic oil has a higher social value than foreign oil. Further, the entire amount of money paid for domestic oil stays in the country, i.e., it's a transfer with significant beneficiaries being both local and Federal Government. Economists in general have recognized this concept and it is discussed in several recent publications on the economics of energy, such as the Ford Foundation's Energy, The Next Twenty Years and the Harvard Business School's Energy Future. Primarily as a result of this conclusion the authors of Energy Future recommend energy initiatives that include:

a) the decontrol of new oil and gas and b) the leasing of offshore oil and gas properties under strict environmental regulation and in a manner to promote rapid development.

It is sometimes argued that the likely volumes of production from some offshore leases, such as the ones under consideration here, are not significant enough to justify the risks associated with their exploration and development. Actually most of the existing U.S. offshore oil fields are not of great size. Yet together they produce 1.1 million b/d or approximately 13% of total U.S. output.

Lease Sale No. 53 covers a relatively unexplored OCS area. Because little information is available, there is a high degree of uncertainty regarding the level of resources which might be present. However the United States Geological Survey has indicated that the most probable estimates are 548 million bbls of oil and 621 billion cf of gas, while the high side estimates are about double these levels. Given the current landed price of imported oil the most probable oil and gas finding rate in Lease Sale No. 53 would result in an average annual import saving of over \$1 billion in constant 1980 dollars. I submit that for one single lease sale such a prospect is by no means insignificant in constraining the growth in our oil import dependency and the resulting dollar outflows.

Now I would like to turn briefly to the question of whether California itself has a need for additional oil and gas production.

The State has been luckier than the nation as a whole in that the decline in its crude oil production which started in 1970 reversed itself in 1976. Nevertheless last year's production was 6% lower than 10 years ago. Meanwhile, State demand for petroleum products grew at an annual rate of nearly 3% from 1973 to 1978, almost twice as fast as in the rest of the country. As a result, California's oil self-sufficiency ratio declined from 60% to 53% of demand between those years. Any further deterioration can only be avoided through the development of additional oil production.

Regarding natural gas, the situation is worse, since State reserves have been declining in almost every year since 1965. At the end of last year they had dropped to a record low. The drop in reserves was of course paralleled by a drop in production. The California Public Utilities Commission, recognizing these realities as well as the supply situation in the rest of the country, concluded in a recent staff study that the amount of alternative fuel requirements resulting from insufficient gas supplies will increase from the equivalent of 100 million bbls in 1979 to 124 and 171 million barrels by 1984.* "A single firm conclusion emerges from this study: a significant volume of new supply will be required to provide adequate service of natural gas to California in the late 1980's and beyond."**

*The range results from variations in weather conditions.

**State of California Public Utilities Commission, "Staff Report: Forecast of Natural Gas Supply Requirements and Costs, 1980-1989," Report No. 2.

Finally, if we are to plan our energy future rationally we must know which of our OCS areas have producible resources and which do not. It is only through early exploration of these regions that we will be able to assess properly the roles of conventional versus alternative energy sources and conservation for the coming decades.