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The Other Recovery

Après le déluge, a new energy policy.

By Pete du Pont

In the wake of Hurricane Katrina, the White House, Congress and thousands of citizens have stepped forward to begin the recovery. But Katrina also requires a second response, for its other serious impact was on America's energy supplies. It shut down Gulf Coast petroleum and natural gas production, disabling eight refineries, which account for 10% of U.S. production capacity, and more than 100 Gulf of Mexico oil and gas platforms. According to the federal Minerals Management Service, "nearly 60 percent of the Gulf of Mexico's normal daily oil production remained blocked from the market because of [hurricane] evacuations." So the price of oil hit \$70 per barrel, and America's energy challenges came into focus.

American petroleum consumption is way up--from about 15 million barrels a day in the early 1980s to more than 20 million today. But domestic petroleum *production* is way down--from just over 11 million barrels a day in 1970 to about eight million today. America used to have more than 300

refineries in operation. We now have half that number, and the newest refinery in America was built almost 30 years ago. To meet these shortfalls we import 12 million barrels of petroleum a day from foreign nations.

The liberal establishment seized upon all these pessimistic data, hinting that an American Armageddon was just around the corner. China's oil consumption has doubled since 1995, India's is following the same path, and together they will soak up the world oil supply and limit our global imports. Jimmy Carter tells us drilling for more oil in Alaska would be too damaging to the environment; Sen. Dick Durbin of Illinois insists that we must "stop using our SUVs and trucks and be more economical"; Joan Claybrook of the Naderite group Public Citizen says we need "adjustable price controls" on oil and "an excess profits tax retroactive to January 2005" on oil companies. The New York Times concludes we must reduce our "blatantly excessive demand" for oil.

But America is neither doomed nor dumb when it comes to energy production. The Department of Energy reports that it requires half as much energy to produce a dollar of gross domestic product today than it did 30 years ago. Oil refineries are improving--their capacity has increased by one-third, from 12,000 barrels a day to nearly 17,000 over 35 years. New technology has increased automobile mileage from 13.5 miles a gallon to more than 22, so the cost per mile driven has been declining.

So what are the solutions to the petroleum supply problems that Katrina has finally brought to the public's attention? Simply put, America needs a new and expansive energy policy.

First, we need to build new refineries and build them faster. We know how to do it but lack the political will. Because of substantial and complex federal, state and local permit requirements and regulation, obtaining construction permits

takes years--more than five just to get air quality permits in the case of a proposed new refinery in Arizona--and costs the oil industry about \$5 billion a year in regulatory and capital costs to bring them into compliance with increasing government regulation. We need a simpler, faster permitting process so domestic refinery production can expand to meet growing demands.

Second, we need to drill for more oil in America. For starters, there are 10 billion barrels of recoverable oil in Alaska's Arctic National Wildlife Refuge, making ANWR the equivalent of an oil-exporting nation. Then there are the energy resources off America's coasts. They are estimated to contain 16 billion barrels of oil and 70 trillion cubic feet of natural gas. In 1981 Congress banned new offshore drilling, but as we have seen in the Gulf of Mexico, offshore drilling is clean and safe. From our thousands of offshore oil-drilling platforms, there has not been a significant spill in 25 years. And of course when drilling for natural gas there aren't any oil spills at all.

Third, the construction of additional nuclear power plants would generate electricity and reduce petroleum consumption. The National Center for Policy Analysis reports that plants now operate at 90% of capacity (up

from 59% in 1980), and their "operating costs have fallen from 3.31 cents per kilowatt-hour in 1988 to 1.7 cents, which is slightly lower than coal and much lower than the cost of natural gas fired plants."



Finally, the world is not only not running out of oil; there are substantial untapped supplies of oil and gas around the globe. Daniel Yergin, chairman of Cambridge Energy Research Associates--and the Pulitzer-prize winning author of *The Prize: The Epic Quest for Oil, Money and Power*--noted in the *Washington Post* at the end of July that "there will be a large, unprecedented build up of oil supply in the next few years. Between 2004 and 2010, capacity to produce oil (not actual production) could grow by 16 million barrels per day--from 85 million barrels per day to 101 million barrels per day--a 20 percent increase."

That increase will come not in America, but in OPEC countries like Saudi Arabia, Algeria and Libya, and others such as Canada, Kazakhstan, Brazil and Russia. It will drive the supply up and the price of petroleum products down.

Mr. Yergin points out that there are always dire predictions of the end of oil--remember the "permanent oil shortage" of the

1970s--but that technology overcomes such doomsday predictions. For example, in the late 1970s the deepest water an offshore platform could drill in was 600 feet; today it is 10,000 feet. Today the Gulf of Mexico contains 800 manned drilling platforms and thousands of unmanned ones, all linked to the coast by 33,000 miles of underwater pipelines. Technology has made that possible, and technology will continue expanding our oil supply access.

So the risks we face are not what Mr. Yergin terms "below ground" geological or lack-of-resource risks. "Rather, they are 'above ground'--political instability, outright conflict, terrorism, or slowdowns in decision-making on the part of governments in oil-producing countries." Meeting these challenges will not be easy, but markets work. Thus, as Mr. Yergin says, "the U.S. government should work to encourage global energy trade, for a more open system would be better for our security."

In short, substantial quantities of oil and gas are out there, and America will be more secure, stable and prosperous if we gain access to them. Recovering from the disaster of Katrina is our first responsibility; securing adequate supplies of energy comes next.

Mr. du Pont, a former governor of Delaware, is chairman of the Dallas-based National Center for Policy Analysis. His column appears once a month.