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## Oil and Oily Politicians

By Richard W. Rahn

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If you had to bet whether the price of oil would be higher or lower 10 years in the future, what would you say?

Some argue that the world is running out of low-cost oil and that oil prices will get higher and higher. Others argue that the current high price of oil will cause a flood of new oil, much of it from nonconventional sources; hence, prices will fall significantly (provided the political class in Washington, D.C., does not continue its energy and environmental death march policies).

The case for much lower oil prices is as follows. There are hundreds of years of oil supplies (at present and projected consumption levels) if oil in oil sands and shale is properly included in reserves. In some places, such as Saudi Arabia and Iraq, there is still much low-cost oil (\$15 a barrel or even less) that can be produced for decades, but not in an amount sufficient to meet the world's demand; hence, much higher-cost oil is also pumped. This higher-cost oil includes much of the offshore oil (the huge cost of the mammoth drilling rigs has to be amortized over each barrel of oil produced) and on-shore oil in hard-to-reach places and/or produced from low-production wells.

Oil reserves are largely a function of price. Global proven reserves of conventional oil obtainable at prices of less than \$40 per barrel are estimated at more than 1.3 trillion barrels, with much of it concentrated in the Middle East. Additionally, reserves of so called "heavy oil," the largest reserves of which are in Venezuela's Orinoco area, are estimated at 1.2 trillion barrels, and most of this could probably be recovered for less than \$50 per barrel.

The reserves of oil sands, which are actively being mined in Canada's Alberta Province, are estimated to be 1.8 trillion barrels. Experts estimate that much of this can be produced for \$45 per barrel or less. Global reserves of oil shale are estimated at more than 3.3 trillion barrels, with 70 percent in the United States (primarily in Colorado, Utah and Wyoming).

Shell Oil Co. last year announced it has developed a process for extracting the oil from the shale, without mining, at a price of roughly \$35 per barrel. The United States also has the world's largest reserves of coal - enough for hundreds of years of production at present levels. Coal also can be turned into liquid petroleum (as the Germans and South

Africans proved decades ago). Current estimates of the conversion cost are as low as \$35 per barrel.

Does it seem a bit odd that the current price of oil is more than twice the cost of producing all the oil the world presently needs and will need long into the future? The reason the price is so high is that the supply has been artificially constrained by governments. Most (88 percent) of the conventional oil reserves are owned by governments, and these governments have underinvested in new production. As is well-known, the U.S. government has restricted offshore and onshore drilling, shale development, and coal conversion.

Some politicians argue, even if the U.S. government started to allow increased production, that it would be seven to 10 years or more before there would be additional output. This is nonsense. Oil wells can be drilled at an average rate of 1,000 feet or so per day, which means that the average U.S. well can be drilled in a week. It does take a few weeks to set up the pump and install the separation tanks, etc., but new land wells can be producing within months, even if the product has to be trucked rather than piped away.

Drilling in the Arctic National Wildlife Refuge in Alaska would not take all that long for some production to get started. Politicians often confuse the time it takes to get peak production from a field as compared to some production - each additional well takes time, plus the necessary new piping collection infrastructure for each additional well.

Offshore wells do take a lot longer, but most of the time involved is the government permitting process, not the physical production of the rigs, drilling and so forth. If the government gave a full green light to production of oil shale in the Rocky Mountains, it might take several decades to reach full production, but some production would be accomplished in the next couple of years.

The very same politicians who claim we cannot increase oil production quickly are often the same ones who tell us we need to move to alternative forms - windmills and solar, etc. - without seeming to understand these desirable technologies will take far more time to meet the goals of "energy independence" than ramping up oil production. Speaker of the House Nancy Pelosi said she would not allow a vote on more drilling because she wanted "to save the planet," without seeming to understand, if increased oil production does not take place in the United States with all its environmental safeguards, it will take place where U.S. environmental law cannot be enforced - and that is not healthy for the planet.

Fortunately, the people are beginning to understand they are paying twice more for a gallon of gasoline than is necessary, and the global environment is not benefiting. Less expensive energy and a cleaner environment are most likely to be achieved quickly not with alternative energy sources but with an alternative set of congressional leaders.

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