WebMemo
Published by The Heritage Foundation

No. 1192
August 10, 2006

American-Made Energy from ANWR at a Modest Cost

By Ben Lieberman

Oil and gasoline prices remain high, and two wars raging in the Middle East could drive prices up further still. Yet Congress has failed to remove restrictions on oil drilling in Alaska's Arctic National Wildlife Refuge (ANWR). ANWR is America's single largest untapped source of oil. A new bill, the American-Made Energy Freedom Act (H.R. 5890), would open it to energy production. Other provisions in the bill are problematic, particularly those that would use the billions in ANWR leasing and royalty revenues to fund alternative energy projects.

A Stalemate on ANWR

In times of high prices and turmoil in many oil-exporting nations, America should make good use of the oil available here at home. Indeed, both the House and Senate have supported opening ANWR many times before, but they have failed to do so in the same bill. The House has been more aggressive, repeatedly passing legislation opening up a portion of ANWR's coastal plain to exploration and drilling. Each time, however, the Senate was unable to overcome filibusters to companion bills. In turn, the Senate successfully included ANWR provisions in budget legislation, a useful tactic because that legislation is not subject to a filibuster. However, the House has thus far failed to go along with this approach.

The frustrating bottom line is that ANWR oil is still off-limits. America remains the only nation on earth that has restricted access to such a promising domestic petroleum source. In the meantime, oil prices remain high, and imports increase each year as demand grows faster than existing domestic production from those areas where drilling is permitted.

Ending the Stalemate

The American-Made Energy Freedom Act contains many of the same provisions as previous ANWR legislation. It limits drilling to the 1.5 million-acre coastal plain, leaving the other 17.5 million of ANWR's 19 million acres completely off-limits. The surface disturbance on the coastal plain is further limited to no more than 2,000 acres. The U.S. Geological Survey estimates that 10 billion barrels are recoverable from this small area,[1] which is enough to increase known domestic reserves by 50 percent.

As with previous bills, this measure would impose strict environmental safeguards to protect ANWR. Notwithstanding the precautionary shutdown of some corroded BP pipelines in Alaska, history demonstrates that oil production and environmental protection can coexist in Alaska. Since the 1970s, drilling in nearby Prudhoe Bay has amassed a strong environmental record while providing 15 billion barrels of oil. And ANWR drilling would be done with much stronger protections and technology that is far more environmentally friendly than what was available 30 years ago.

This paper, in its entirety, can be found at:
www.heritage.org/research/energy/wm1192.cfm

Produced by the Thomas A. Roe
Institute for Economic Policy Studies

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

In addition to providing a million barrels per day at peak production, ANWR would also provide substantial revenues to the federal government. Oil companies would have to pay rent for leasing rights, royalties on each barrel produced, and corporate income taxes on their profits. The Congressional Research Service estimates that, based on current oil prices, over $112 billion in revenues would be accrued by the federal government, $36 billion from leasing and royalty revenues and $76 billion from tax revenues.[2]

A New Twist

Some legislators have complained that previous ANWR bills were not "balanced," in that they helped provide more fossil fuels but did nothing to encourage alternative sources of energy. The new bill funnels ANWR revenues to alternative energy projects, which the sponsors of the bill hope will broaden support for the measure.

Instead of going into the federal treasury, the estimated $36 billion in leasing and royalty revenues are targeted for a variety of alternative energy projects. This money would go into a trust fund that would pay for tax breaks and subsidies to promote such things as ethanol and diesel production from agricultural materials, residential and commercial solar energy, energy efficiency improvements, and the production of motor fuels from coal. For example, a company that wants to build a plant that turns agricultural waste into ethanol would qualify for federal loan guarantees to help build the facility as well as tax credits for each gallon of ethanol produced and sold. The bill creates some new alternative energy programs and also provides funding for existing programs authorized by last year's energy bill.

This is not good policy. Federally funded forays into alternative energy have a poor track record over the past four decades. Washington has repeatedly proven incapable of distinguishing winners from losers among emerging technologies, too often spending billions in tax dollars to back losing technologies that accomplish little or nothing.

That is not surprising. Worthwhile projects usually succeed in attracting private capital and don't need government support. While it is possible that the American-Made Energy Freedom Act will yield successful alternative energy breakthroughs, it is not likely.

Conclusion

Even if the alternative energy projects proposed in the bill don't pan out, the economic and energy security benefits of 10 billion barrels of additional domestic oil are a net plus for the American people.

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

1. E.D. Attanasi, "Economics of 1998 U.S. Geological Survey's 1002 Area Regional Assessment: An Economic Update," U.S. Geological Survey, 2005" p. 2.
2. Congressional Research Service memorandum, "Possible federal tax revenues from oil development at ANWR," April 27, 2006, p. 2.