

2. POLICY POSITION

INCENTIVES FOR THE EXPLORATION AND DEVELOPMENT OF OIL AND GAS IN HOSTILE ENVIRONMENTS

Background

During 1986, the oil industry witnessed a dramatic fall in the price of crude oil and petroleum products. This unprecedented drop in the price for oil has reduced drilling activity in the United States to its lowest recorded level, resulting in a major threat to the United States' petroleum reserve base due to a lack of major new discoveries and an increase in the United States' dependence on imported oil. As a result, the United States' economy is again susceptible to concerted market or political action by foreign governments.

The drilling areas that have been hardest hit by the free-fall in oil prices are the high-cost, high-potential frontier areas of the outercontinental shelf and Alaska. Government and industry analysts estimate that at least two-thirds of the nation's undiscovered oil and half the undiscovered natural gas are likely to be found offshore on the outercontinental shelf.

Exploration and development in areas such as the Arctic and in the deeper waters of the United States' outercontinental shelf require enormous amounts of capital. Because of the current world market and the federal tax structure, the risks inherent in exploration and development in these frontier areas are unacceptable. Yet these areas are the most promising for producing our nation's future reserves.

Currently, many projects in these frontier areas have been delayed or cancelled because of uncertainty in the market. Under the current price forecasts, exploration would not begin again in earnest until 1990 which is approximately the same time that new production would be needed. Further delays in the exploration and development in hostile areas will increase the lead-time required for the industry to find new reserves to replace what is being used up now. Our nation cannot afford to delay exploration of these areas nor can we afford to rely on foreign governments to provide the oil necessary to fuel the United States' economy. By allowing ourselves to be lulled by temporarily low oil prices, we are limiting our options for choosing our own means of meeting the nation's energy demands.

Recommendation

The Southern Legislative Conference urges the Congress to stimulate the exploration and development in the Arctic and deep waters of the outercontinental shelf by providing tax credits as incentives to make production in these hostile areas economically feasible.