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TAPPING PRISTINE TERRITORIES

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ENERGY**

Premise: The Arctic National Wildlife Refuge in Alaska will be opened to oil drilling, and so will the coastal waterways now off-limits to such development.

Ever since 1960, when President Eisenhower first set aside land in Alaska for wildlife conservation, the energy industry has hungered for access to the territory now known as the Arctic National Wildlife Refuge. This year, with a pro-drilling president beginning his second term and with pro-drilling forces having increased their dominance of both houses of Congress, chances are better than ever before that Washington will allow oil drilling in ANWR.

The refuge is a 19 million-acre stretch of northeastern Alaska, almost equal in size to South Carolina. The oil industry has set its sights on the northern coastal region of the refuge, a 1.5 million-acre parcel known as the 1002 Area.

The Bush administration's demand that ANWR be opened to drilling is the centerpiece of its efforts to allow energy companies to pump more oil and natural gas from federal lands. During his first term, President Bush aggressively used his administrative powers to expand energy development in other parts of Alaska and in the lower 48 states, particularly in the Rocky Mountain region.

However, drilling cannot begin in ANWR without congressional action. During the last Congress, the House twice passed legislation paving the way for oil development there, but that provision was blocked in the Senate by a coalition of Democrats and moderate Republicans. This year, with Republicans having expanded their Senate majority, COP leaders in the House and Senate are poised to use the budget reconciliation bill to open the door for oil development in ANWR.

Some Capitol Hill Republicans and energy-industry executives also think that the political and economic time is right to tap the oil and gas in the coastal waterways where drilling is now forbidden. They argue that developing the natural gas reserves in those regions is essential to meeting the

nation's growing demand for gas.

Senate Energy and Natural Resources Committee Chairman Pete Domenici, R-N.M., is pushing legislation that would require federal regulators to measure and inventory the energy resources that cannot now be developed because of moratoria on drilling in certain areas along the West and East coasts and in the eastern Gulf of Mexico. However, coastal-state officials tend to adamantly oppose new drilling off their shores. They view Domenici's inventory proposal as the camel's nose under the tent. At least in public, Bush administration officials are staying out of that battle, saying they will enforce any drilling moratorium now on the books.

PROMISES

Advocates of drilling in ANRW argue that tapping its vast, frigid oil fields is essential to national security because increasing domestic sources of oil would make the United States less dependent on fuel from the Middle East and other politically unstable regions of the world. ANWR "is our largest untapped source of domestic oil. That's why we are looking at it," Interior Secretary Gale Norton said in an interview.

Norton insists, "The condition for opening ANWR would be [to follow] very tough environmental standards. We are talking about the most-stringent environmental protections ever applied to oil and gas operations anywhere."

A 1998 U.S. Geological Survey report calculated that ANWR's coastal plain and the adjacent native lands and state waters contain at least 5.7 billion barrels of "technically recoverable" oil, and that a moderate estimate of the amount of oil there is 10.4 billion barrels. Americans use some 16 million barrels of oil per day, 60 percent of which is imported.

How much ANWR oil would eventually reach the lower 48 states would depend on the cost of extracting and transporting it and on world oil prices. If the refuge contains as much oil as the USGS estimated, it could produce up to 1 million barrels a day. That's more than the entire state of Texas produces, according to Interior Department officials.

Meanwhile, according to a 9003 report by the National Petroleum Council, nearly 80 trillion cubic feet of natural gas are locked in offshore lands that are under drilling moratoria. Some industry officials think the true figure is far higher. And, if the American Petroleum Institute is correct, there could be as much oil off the West Coast (some 10.7 billion barrels) as the government estimates is in ANWR. The institute estimates that an additional 2.3 billion barrels of oil lies off the East Coast.

Lee Fuller, vice president of government relations at the Independent Petroleum Association of America, says that Americans should not worry that expanded offshore drilling would cause serious environmental damage. "These concerns are based on myths, not on the current natural gas extraction technologies that the industry is successfully using in the Gulf of Mexico," he said.

The United States now uses 93 trillion cubic feet of natural gas each year, primarily to generate electricity, heat homes, and make chemicals and fertilizer. Demand for natural gas is skyrocketing. By 2025, Americans are expected to use 50 percent more natural gas than they do today, according to the Energy Department's Energy Information Administration.

Until the late 1980s, the nation produced enough natural gas to meet its needs. Then consumption began outpacing production, and the United States turned to Canada to fill the gap. Now Canadian supplies are declining, and some U.S. power companies and manufacturers that depend on natural gas are urging the federal government to expand domestic production on federal lands and in coastal waterways, including in the places where new development is currently barred.

FEARS

If oil development is permitted in the Alaskan refuge, some of the pristine territory set aside by Eisenhower will be transformed into a small industrial complex. No one disputes that oil drilling would dramatically change the refuge. The debate is over how much of the wilderness would be harmed and how extensive the damage would be.

Last year's House bill promised to limit surface development in the 19 million-acre refuge to 2,000 acres, but the measure would not have required the affected land to be in a single spot. Furthermore,

the designated acreage included pipeline-support pads, but not pipelines, permanent roads, and exploration sites. As a result, the oil infrastructure associated with tapping a tiny fraction of ANWR could spread out like spider webs across the region.

Environmentalists charge that even the limited drilling OK'd by the House would severely harm Northern Alaska's ecosystem. "If drilling were authorized, we're talking about a pretty massive infrastructure," said Jim Waltman, the Wilderness Society's director of wildlife and refuge programs. "We're talking about hundreds of miles of pipelines and roads, airstrips for cargo planes and helicopters, electric plants and pumping stations to get the oil out of the ground and into the pipeline," he said. "They'd need potentially a thousand or more workers, so they'd have to build housing and deal with sewage and solid waste. We're talking about moving a small industrial town into a vast wilderness."

Meanwhile, efforts to lift the moratoria on energy development off the U.S. coasts are haunted by memories of two huge ecological disasters: the 1969 oil spill off Santa Barbara, Calif., and the 1989 Exxon Valdez spill in Alaska's Prince William Sound. Although offshore drilling for oil and gas tends to cause much less pollution today than it did just a few years ago, state officials still fear that drilling in now-forbidden coastal areas could hurt tourism, fishing, and property values.

Environmentalists warn that additional offshore drilling would harm sea life and ocean ecosystems, and that constructing the onshore buildings, pipelines, and other facilities needed to transport the fuel would also cause damage. Lisa Speer, senior policy analyst at the Natural Resources Defense Council, said that even Domenici's proposal to measure the energy resources in coastal regions could involve seismic testing, which is thought to harm whales and migrating salmon.

ANALYSIS

The debate over drilling in ANWR is a political calculation over whether it is more important to preserve a region that environmentalists describe as wild, magical, and historic, or to tap an oil reservoir large enough to temporarily curb U.S. imports of foreign oil at least a bit. If ANWR is opened, "there will be impacts, no question," said John Felmy, chief economist for the American Petroleum Institute. "But, as with everything in life, there's got to be a trade-off. And I think it's clear that you're talking about a resource that's worth hundreds of billions of dollars to consumers."

Saving the wildlife refuge in its present state is a central goal of the environmental community. "Some of our [movement's] early founders led expeditions to this place and identified the spectacular wilderness," said the Wilderness Society's Waltman. "They led efforts to convince the government to protect the area. This is in our blood."

The Bush administration takes a more dispassionate view. "It never has been a wilderness. 'Wilderness' is a legal designation," Norton said. "This is an area that, ever since the passage of the Alaska National Interest Lands Conservation Act in 1980, has been designated as an area that may be considered for oil and gas development."

Drilling in ANWR would likely cause some environmental problems similar to those experienced in Alaska's Prudhoe Bay region, the nation's most prolific oil-producing hub. That site, just west of the refuge, has yielded more than 14 billion barrels of oil since the late 1970s.

According to a 2003 National Academy of Sciences report on the Prudhoe Bay area, decades of oil and gas activities have produced a mixed legacy. Oil development has polluted water and air, damaged the tundra, and harmed some wildlife. But the NAS panel complimented oil companies for limiting the damage by holding down the number of exploration wells, making drilling platforms small, restricting off-road travel, and building roads of ice instead of gravel. The report said, however, that the damage is likely to persist after production ends, because of the high cost of restoring the land to something like its original state.

Because seismic tests have been forbidden in ANWR since the mid-1980s, no one knows exactly how much oil is there. To update their estimates, regulators have mainly used data from wells on private lands adjacent to the refuge.

Even if the most-optimistic predictions of oil volume are true, most energy analysts agree that production from ANWR would probably not result in cheaper gasoline. If U.S. production ramps up,

they say, other oil-producing countries could keep prices high simply by scaling back their output.

But drilling in ANWR would create jobs and generate royalties for the federal government and for Alaska. And economists say ANWR oil production would reduce U.S. oil imports and thus lessen the nation's trade imbalance. "Oil is probably going to be responsible for over 30 percent of our negative trade imbalance," said Lawrence Goldstein, president of PIRA Energy Group. If ANWR produces 1 million barrels of oil a day, he added, "it not only reduces dependency and vulnerability, but reduces your import payments. It helps the dollar."

This year's battle over the Arctic refuge is likely to be waged in the spring, during the Senate's budget reconciliation debate. Domenici plans to attach an ANWR drilling proposal to the budget bill, which cannot be filibustered. Environmentalists hope to draw votes away from Domenici's bill by generating a groundswell of public support for protecting the refuge. "This is the No. 1 focus of the environmental community," said Dan Lavery of the Sierra Club. The "greens" are also forming preserve-ANWR alliances with hunting and fishing groups that have ties to Senate Republicans.

If the GOP succeeds in allowing oil development in the wildlife refuge, the fight is certain to move to the courts, because environmentalists are sure to launch a blizzard of challenges aimed at slowing the project--and therefore making it less attractive to industry.

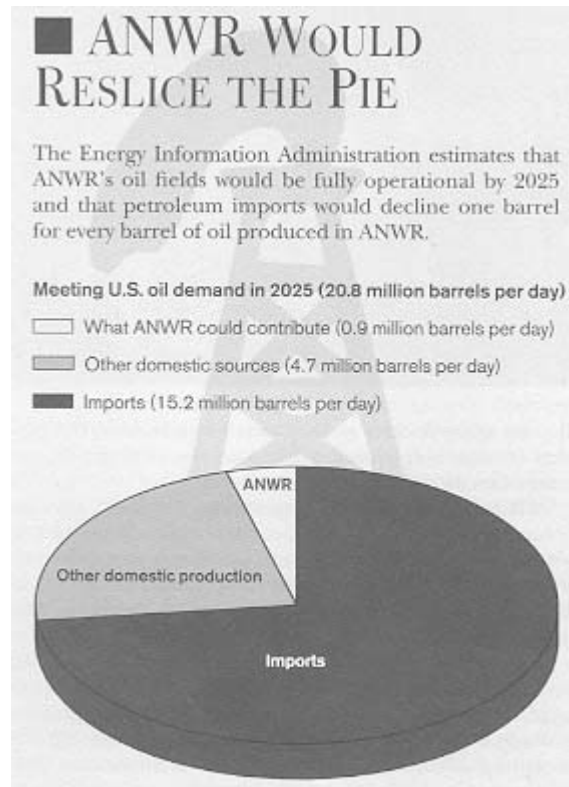
Although the congressional fight over ANWR may soon be over, industry's campaign to gain access to forbidden offshore natural gas reserves is just beginning. That battle is playing out in the Senate, where Domenici's energy bill is expected to call for an inventory of energy stores locked under moratoria lands. Domenici has scheduled a January 24 conference on legislative proposals to increase domestic natural gas supplies.

The chairman has also taken his natural gas campaign to the Interior Department. In early December, he joined with Sen. Lamar Alexander, R-Tenn., and Sen. Mary Landrieu, D-La., in asking the department to solicit public comments on whether to open offshore regions to natural gas development. Lawmakers from California, Florida, and other coastal states generally oppose new offshore drilling.

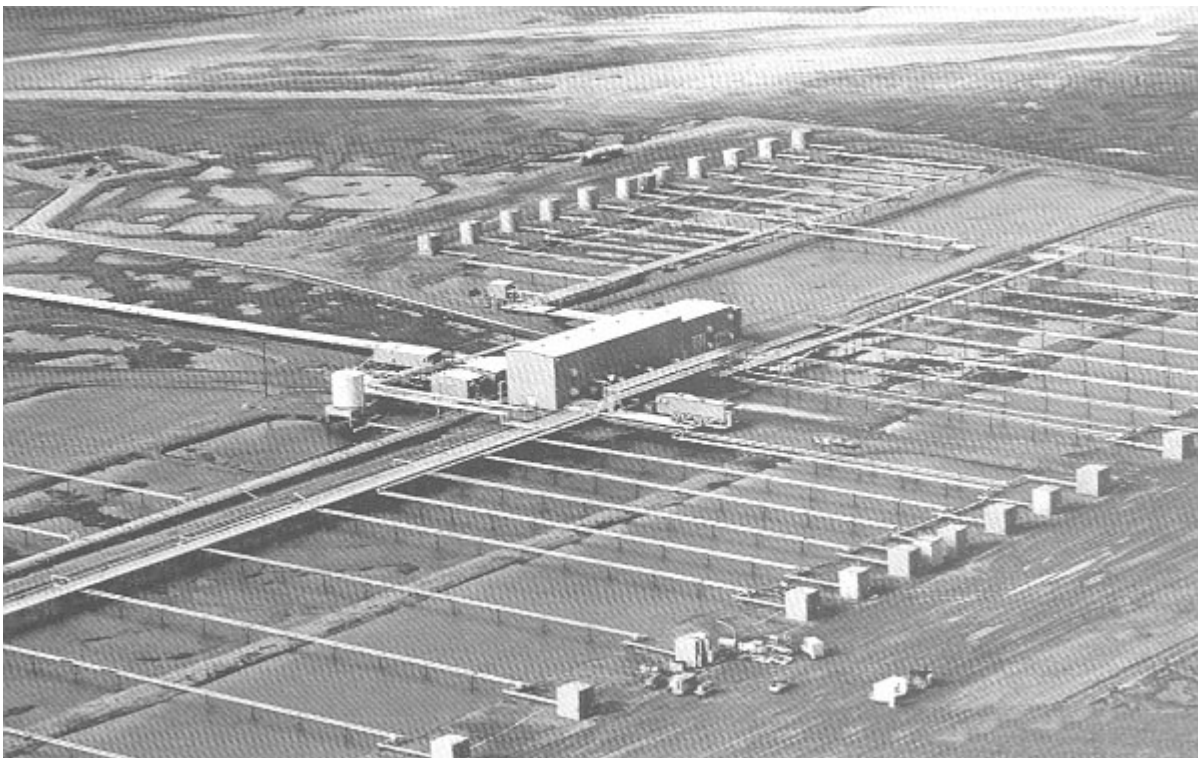
So far, the White House has remained mum on the offshore-drilling debate. Early in Bush's first term, the administration proposed drilling in an off-limits area in the eastern Gulf of Mexico, near Florida. But the White House backed away from that plan after Florida Gov. Jeb Bush and Florida lawmakers objected.

Energy-industry officials and companies that use natural gas in their manufacturing processes warn that the nation faces a serious natural gas supply crunch. They say that expanding imports of liquid natural gas and building a natural gas pipeline from Northern Alaska to Chicago would not provide enough fuel to bring natural gas prices down from their current heights. William Whitsitt, president of the Domestic Petroleum Council, argues that the federal government should clarify what resources lie off the U.S. coasts. "It makes little sense to have blanket moratoria when we're in a severe gas situation," he said.

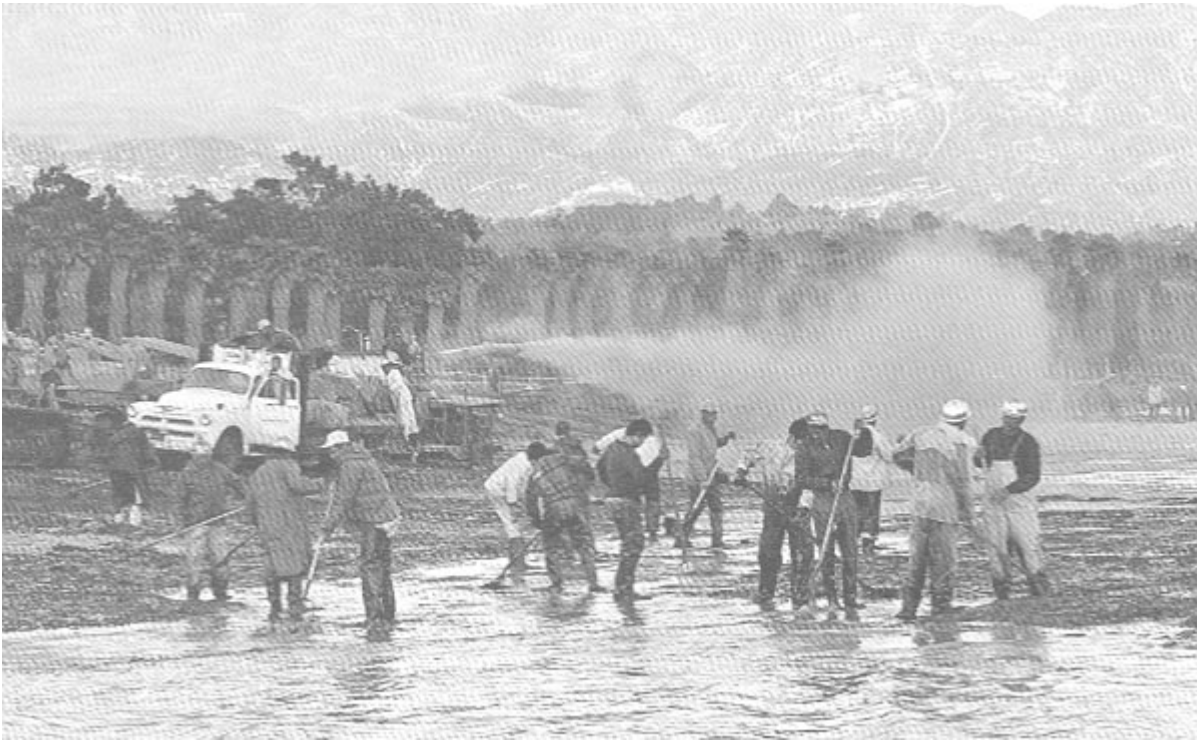
But even if Congress were to allow seismic testing, states would challenge that decision in court. And they'd be backed by a powerful coalition of environmental activists, the tourism industry, and land developers from coastal regions.



ANWR WOULD RESLICE THE PIE



ANWR's NEIGHBOR: Alaska's Prudhoe Bay region is the nation's most prolific oil-producing hub.



NIGHTMARE SCENARIO: The 1969 oil spill off the coast of Santa Barbara, Calif., was an ecological disaster.

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By Margaret Kriz

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