Opinion

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Mere drops in the world's oil barrel

CRUDE PUMPED FROM ALASKA WILL DO LITTLE TO LOWER PRICES

By Severin Borenstein

Oil from Alaska's Arctic National Wildlife Refuge would increase U.S. reserves by about 25 percent. Once oil from the site was flowing, production could replace half of U.S. imports from Saudi Arabia. The Arctic could supply more than half of California's oil consumption.

Impressive numbers, but unfortunately none of these comparisons is relevant to thinking about the effect that drilling for that oil actually will have on oil prices or the cost of gasoline. As the major U.S. oil companies repeatedly (and correctly) point out when they are accused of boosting oil prices, the crude oil market is worldwide.

The same reality applies when considering the Arctic refuge: The effect new supplies will have on price depends on the quantity of new supplies in comparison to the worldwide oil market. In the case of the Alaskan oil, that effect will be too small to notice.

If the United States opens up the refuge to oil exploration, production from the area will constitute about 1 percent of the world oil market by the time the oil begins flowing in six to eight years. That might reduce oil prices a few percentage points, translating to maybe three or four cents at the pump in

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2013, but will almost certainly do no more than that.

How can it be that producing a million additional U.S. barrels of oil a day can have so little benefit for U.S. consumers? Simple. The oil doesn't belong to U.S. consumers.

Once the drilling tracts are leased to private oil companies, the companies control the oil, and they are committed to acting in their shareholders' best interest. They are going to sell the oil at market prices to whoever is willing to pay those prices. The new supplies become just drops in the worldwide oil bucket.

That is how the international oil market works, and how it should work. The United States relies on imports for most of the oil we consume, so we'd better hope that the oil market continues to work. We are in no position to try to separate our market from the rest of the world.

The United States is never going to achieve ``energy independence'' while we are still using oil as a primary energy source. With or without the Arctic oil, we don't have nearly enough. (A separate U.S. oil market would be a bad idea even if we did have enough oil, but that's not an issue worth debating right now.)

So are we destined to remain the victims of the unethical oil-producing countries? Well, that's one way of looking at it.

Another is that the United States has chosen to become more and more dependent on a resource whose supplies come increasingly from a limited number of producers, many of which are controlled by unstable and unscrupulous governments. This didn't happen suddenly; every national politician in the past 20 years has known it was occurring.

Most American consumers seem to believe that oil producers owe us the quantities we demand at whatever price we deem reasonable. During the past two decades, the price of oil has declined compared with most other goods. Yet, Americans complain that producers won't continue to ship us all the oil we want at $20 a barrel.

The attitude is crystalized in a recent bumper sticker: ``What's our oil doing underneath their country?''

It would have taken political backbone for our leaders to ask us to sacrifice in the short run to avoid increasing our cheap-oil dependence and supporting oppressive governments. The current powers in Washington are not the first invertebrates to fail that challenge. They are just the most successful in promoting the myth that drilling in Alaska is an alternative strategy for curbing oil prices.

I'm not an ecologist. I've seen the wildlife refuge only in beautiful videos with new-age music and cute caribou. I can't tell you the environmental cost of drilling there. I'm an economist who has studied energy markets for 20 years.

The economics are frustratingly simple: Drilling in the Arctic National Wildlife Refuge will never noticeably affect gasoline prices.

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