by Dr Ariel Cohen

U.S. President George W. Bush and Senator John McCain have called for an expansion of U.S. domestic oil drilling to Alaska, federal lands and the Outer Continental Shelf (OCS) off the U.S. East and West coasts. This could not be more timely, if only it was realistic.

The biggest roadblock on the way to more U.S.-produced oil is the Democratic majority in the Congress and its fellow travelers. Oil-rich rulers, from King Abdullah I of Saudi Arabia, to Mahmoud Ahmadinejad to Hugo Chavez are probably opening champagne.

U.S. Senator Barak Obama, the presumptive Democratic Presidential candidate is supported by his party's congressional delegation, which says in chorus, "we cannot drill our way out of this oil crisis."

The Democrats have no monopoly on dead-end energy decisions. In 1989, when abundant oil was $14 a barrel, U.S. President H.W. Bush signed an executive order which banned drilling and exploration along the coasts. As a result, America has no idea how much oil is down there. Now lifting that executive order cannot restart domestic drilling without Congressional cooperation.

Around the world, plans to increase supply through exploration and production are being frustrated by heightened political risks, domestic conflicts, and mismanagement. Anti-competitive and monopolistic national energy policies in the oil-producing countries are doing the energy markets much harm.

A third of Iraq's production capacity is off-line, while the country is capable of increasing production from the current 2.4 million barrels a day (mbd) to 5 mbd and beyond within five years or less - if the security situation is resolved.

Iran is pumping 3 mbd, one half of what it did under the shah due to the failure of the mullahs' regime to attract private capital and advanced technology, and to develop a predictable oil and gas investment environment based on transparency and the rule of law.

The Islamic Republic's leadership also has made the Iranian energy sector the hostage of its dangerous and opaque nuclear program, which triggered international sanctions against Iran and stifled the development of its oil and gas resources.

One-quarter of Nigeria's productive capacity is permanently down due to social unrest in the Niger Delta. Venezuela's Hugo Chavez is destroying his country's oil sector through nationalization, taking at least 1 mbd off the market.

Russian oil production, which has accounted for over 80 percent of the net increase in non-OPEC oil production until 2003, is stagnant as the government insists on state ownership of the oil sector. Russia is cutting taxes on oil companies to reverse the production slump, whereas under private ownership Russia's output grew at about 10 percent a year.

The policies of the exporting policies provide preferential treatment to national oil companies (NOCs) while denying equal access to international oil companies (IOCs). Oil-producing governments severely restrict foreign investment and access to resources. OPEC's 13 nations control 76 percent of the global reserves; add Russia and the number grows to 83 percent. By contrast, the integrated oil companies, ExxonMobil, BP, Chevron, ConocoPhillips, and Shell, hold only 3.8 percent of known reserves.

Despite high oil prices and diminished spare capacity, OPEC for months refused to increase production beyond current levels, alleging that the "oil market is balanced" and "there is no threat to or crisis in supply." The reality, of course, is quite different.

OPEC and non-OPEC exporters insist on limiting the majority of new oil and gas projects to their NOCs, to the detriment of international oil companies and consumers world wide. The only bright spot is the recent Saudi decision to increase production by 500,000 barrels a day, but this is a drop in the bucket, or better to say, in the 86 million-89 million barrel a day market.

Producers neglect or actively resist the development of modern natural resources legislation, court systems, transparency, and energy sector supervision by elected officials, as well as scrutiny by independent media. As a result, they prevent increases in production and disallow necessary investment by the international oil companies, which have the expertise to bring the needed supply online.

This trend is set to increase: over the next 20 years, 90 percent of new hydrocarbon supplies will come from countries that provide privileged access to national oil companies. Thus, oil prices can only go up.

Non-OPEC output is also slumping due to steep declines in key production areas like Mexico's Cantarell Field and the North Sea. Aging fields, high taxes, gasoline subsidization, a lack of private ownership, and other misguided policies are also decreasing output.

The global financial crisis is another key driver behind the high oil prices. After the Federal Reserve cut the prime lending rate last August in hopes of assisting major lending institutions, investors saw this as the Fed giving up on its battle with inflation.

As a result, traders, hedge fund managers, and pension fund managers began to shift large amounts of cash away from the dollar into commodity futures markets, such as oil, in an effort to protect their investments from being devalued by inflation. Unsurprisingly, increased demand in oil futures (no different than in any other commodity) has led to higher prices.

While the falling dollar has increased speculation and helped drive up oil prices, it is the awareness of the negative production trends and the exploding demand for oil that is driving investors to put their money into oil futures. The recent Chinese government's decision to cut oil subsidies is a step in the right direction as it is cutting consumption and driving the oil price down.

There needs to be recognition that the depletion rates of oilfields world-wide are rising, and new oilfields are not coming online fast enough to replace the existing production capacity.

Industry experts agree that giant oilfields containing light sweet crude - the preferred form for gasoline refining - are not being discovered as often as in the past.

Additionally, in order to meet growing demand, at least in the short and medium term, the world will need much more investment and production capacity - more than may be available.

Even corrected for speculation, high oil prices adequately reflect current and future supply and demand of petroleum if access to oil remains restricted by governments, including in the United States and in the Middle East.

The U.S. Congress should take notice. Economics do work. Not just cutting demand, but robustly increasing supply of transportation fuels will get us out of the current oil crisis.

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Ariel Cohen, Ph.D., is a senior research fellow at The Heritage Foundation.