Executive Action and U.S. Energy Production

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On Sunday an attempted ballistic missile launch by North Korea failed according to the South Korean Joint Chiefs of Staff. While the exact type of missile that North Korea attempted to launch is unknown, a U.S. official said the missile blew up “almost immediately.” The failed missile launch comes amid increased tension between North Korea and the United States and its allies.

Energy Transfer Partners, the company which owns the Dakota Access Pipeline, stated that the pipeline is expected to begin carrying oil between states on May 14th. The Dakota Access Pipeline runs from North Dakota to Illinois so that the oil can be transferred to existing pipeline networks which will deliver the crude oil to refineries in the U.S. The Dakota Access Pipeline was recently approved by the Trump Administration after hitting several road blocks and a delay imposed by the Obama Administration.

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On March 24 the president signed an executive order (EO) on federal land use and energy policy. Section 6 of the EO gives the Secretary of Interior authority to take all steps necessary and appropriate to amend the federal land coal leasing moratorium. The moratorium was put in place in 2016 under the Bureau of Land Management (BLM). According to a previous report from the American Action Forum, coal on federal lands accounts for roughly 40 percent of U.S coal production, with total production coming in at 1.1 billion tons last year. Indeed, lifting of the coal lease moratorium is the most impactful change, since coal receives far more of its production from federal land than other fossil fuels. Compared to coal’s 40 percent, oil relies on federal land for 21 percent of its sales and natural gas, 14 percent. Having said that, the bulk of the decline in coal usage is the result of market forces and not federal land-use policy.

With regard to oil and gas, many think that the key decision was President Obama designating the Atlantic and Arctic areas as off-limits to fossil fuel production, which hold significant fossil fuel deposits. AAF estimated the value of these offshore leases to be $4.62 trillion for oil, and $854 billion for natural gas. Again, however, market forces have probably undercut this argument as well. The biggest off-shore projects were scheduled *before* the fracking boom forced price drops in oil and gas. When Shell pulled out of its Arctic drilling project in 2015, a company executive said that oil prices needed to be around $70 to be “competitive” (prices not seen since 2014). Fracking is much less risky, and has falling costs as the process is being improved. The result is that even if producers are allowed to explore those offshore resources, the economic benefits may not be as significant as some predict, since some producers will prefer fracking to off-shore production.

A more significant impact may be the efficiency of operating federal land-use policy. Interior Secretary Zinke is kick-starting a process that could lead to companies paying higher royalties for oil, gas and other energy resources they extract from federal land. The two-year review is designed to determine whether Americans are getting a fair return for those natural resources. There are initiatives as well to address the backlog of Applications for Permit to Drill (APDs) and Expressions of Interest (EOIs) and streamline leasing and permitting.

Access to energy supplies on federal lands is not the crucial factor at this moment. However, the option for future exploration and development is a significant consideration, as is the smooth operation of federal programs when that moment arrives.