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America's New Energy Reality

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AMERICA needs a new political discourse on energy. This would recognize the emerging reality that the United States has turned around as an energy producer and is on a major upswing. And the impact will be measured not just in energy security and the balance of payments. Energy development also turns out to be an engine for job creation and economic growth — something that would hardly have been considered the last time we were electing a president.

In 2008, the rise in oil prices was accompanied — and partly fueled — by a belief that an era of permanent scarcity was at hand. This mentality had deep roots extending back to the 1970s, when the United States went from being a minor importer of oil to a major importer. In the 2008 rendition, falling oil output was considered simply inevitable. The only questions were at what rate petroleum imports would rise and whether that rate would be slowed.

The outlook was much the same for natural gas. Production would inevitably decline, and the country was on the way to spending $100 billion a year to import liquefied natural gas from West Africa, the Middle East, even Australia and Russia. The energy burden on our trade deficit would only increase, adding to our economic distress.

But that is not at all how things are turning out. Technology made the difference. The natural gas market has been transformed by the rapid expansion of shale gas production. A dozen years ago, shale gas amounted to only about 2 percent of United States production. Today, it is 37 percent and rising. Natural gas is in such ample supply that its price has tanked. This unanticipated abundance has ignited a new political argument about liquefied natural gas — not about how much the United States will import but rather how much it should export.

The oil story is also being rewritten. Net petroleum imports have fallen from 60 percent of total consumption in 2005 to 42 percent today. Part of the reason is on the demand side. The improving gasoline efficiency of cars will eventually reduce oil demand by at least a couple of million barrels per day.

The other part is the supply side — the turnaround in United States oil production, which has risen 25 percent since 2008. It could increase by 600,000 barrels per day this year. The biggest part of the increase is coming from what has become the "new thing" in energy — tight oil. That is the term for oil produced from tight rock formations with the same technology used to produce shale gas.

Tight oil is redrawing the map of North American oil. At the beginning of this year, North Dakota overtook California as the nation's third largest oil-producing state. It didn't stop there. It just overtook Alaska, to become No. 2 after Texas. Tight oil could reach more than four million barrels per day by 2020.

What really brings home the new reality is a milestone attained last year: In 2011, the United States registered the largest increase in oil production of any country outside of OPEC.

If one takes a broader North American perspective, the changes in the supply picture are even more striking. The output of Canadian oil sands has tripled since 2000 and is now greater than Libya's output before its civil war began in February 2011.

This adds up to a very different outlook from a few years ago. Until fairly recently, energy independence was a subject to get laughs. The joke was that America was actually becoming more and more dependent upon imports. But now "energy independence" has become a subject of serious discussion and debate.

The prospects for actual energy independence remain elusive. It takes some very heroic assumptions to see that happening. But with oil demand in the United States declining, output rising and increasing integration with Canada, the United States is certainly on the way to becoming "energy less dependent."

At the same time, Brazil is developing its huge offshore reserves and could become one of the world's powerhouses in terms of oil production, far overshadowing its impressive output of ethanol.

The results of this hemispheric upsurge will have far-reaching consequences — nothing less than a rebalancing of world oil. Much less oil will come from the Eastern Hemisphere to the Western Hemisphere, and much more Middle Eastern oil will flow to Asia. As it is, China already imports more oil from the Persian Gulf than the United States does.

The impact is becoming evident in the way America talks about energy. President Obama's address to Congress in February 2009 was all about "clean, renewable energy" and called for doubling "this nation's supply of renewable energy in the next three years." His 2010 State of the Union address was about "clean energy jobs." He had barely a word for oil and natural gas in those speeches.

IN his 2012 address, the president caught up with the new reality and spoke with quite a different emphasis. "This country," he declared, "needs an all-out, all-of-the-above strategy that develops every available source of energy." He pointed to the near-doubling of renewable energy use since 2008 and rightly emphasized their importance to the nation's future energy mix. But this year he devoted almost as much time to natural gas and oil as to renewables. His announcement that "American oil production is the highest it has been in eight years" turned out to be an applause line.

This new discourse is shaped not only by the surge in oil and gas production. But it also represents a growing recognition of what this means for the overall economy. Traditionally, the major arguments in favor of domestic oil and gas production have mainly been about energy security and balance of payments. But now this surge is recognized as an engine of economic growth. Increasing domestic supply means that fewer dollars are going overseas and more of them are staying at home, going into investment and job creation.

Nothing looms larger right now than the employment part. This domestic production comes with long supply chains and creates a lot of jobs along those chains. In his 2012 speech, the president cited a study that found that shale gas development had, by 2010, created 600,000 new jobs. Moreover, these jobs are spread widely across the nation. It is because of jobs that Gov. John Kasich, a Republican, is encouraging the development of the Utica shale in Ohio and Gov. Andrew M. Cuomo, a Democrat, is considering opening economically depressed areas in New York State to shale gas development.

Lower energy costs are also providing a big boost to the revival of manufacturing in the United States and the competitive position of American industries in the global economy. A few years ago, both United States and European petrochemical companies, which use natural gas to make their products, would not have contemplated new investments in the United States. Natural gas was too expensive. Now, with abundant and cheap gas, they are migrating back, bringing billions of dollars of new investment with them — and a lot of new jobs.

According to the old script, United States oil production was too marginal to affect world oil prices. But the gap today between demand and available supply on the world oil market is narrow. The additional oil Saudi Arabia is putting into the market will help replace Iranian exports as they are increasingly squeezed out of the market by sanctions that start later this month. But if America's increase of 1.6 million barrels per day since 2008 had not occurred, then the world oil market would be even tighter. We would be looking at much higher prices — and voters would be even angrier.

America's new story for energy is still unfolding. It includes the continuing development and expansion of renewables and increased energy efficiency, both of which will be essential to our future energy mix. But what is striking is this great revival in oil and gas production in the United States, with wide impacts on jobs, economic development and the competitiveness of American industry. This new reality requires a new way of thinking and talking about America's improving energy position and how to facilitate this growth in an environmentally sound way — recognizing the considerable benefits this will bring in an era of economic uncertainty.

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