*U.S. Oil Production: The Effect of Low Oil Prices*

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Special Report

# U.S. OIL PRODUCTION

## The Effect of Low Oil Prices

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# Foreword

This special report responds to requests by the Government Operations Committee, the Energy and Commerce Committee, and the Subcommittee on Energy and Power of the House of Representatives for a review of the effect of volatile oil prices on U.S. domestic oil production. The review was conducted as part of OTA's ongoing assessment on *Technological Risks and Opportunities for U.S. Energy Supply and Demand.*

Congress' attention became focused on U.S. domestic oil production as a result of the largely unexpected plunge in world oil prices that began in December 1985. The price plunge began when Saudi Arabia attempted to recapture lost oil markets by increasing production and offering new and more attractive contract terms, throwing world oil supply and demand out of balance. One effect of the lower prices—which dropped from $28 per barrel in 1985 to below $15 per barrel for much of 1986—was to quickly force a portion of existing U.S. production out of service and to sharply reduce drilling and other exploration and production-oriented activity, guaranteeing that U.S. production would decline still further in the future. The Department of Energy and others have projected that the decline in production, coupled with increases in (price-sensitive) oil demand, will drive U.S. oil imports past the 50 percent mark by the early 1990s at the latest. Congress asked OTA to provide an independent assessment of these postulated effects.

This special report presents the results of OTA's analyses of a group of factors we believe will strongly influence the future direction of U.S. oil production. These factors include the expected profitability of new investments in drilling, the potential of new oil exploration, development, and production technologies, the nature of the remaining oil resource base, and structural changes in the oil industry. The special report also provides a brief discussion of some policy options for Congress to consider if it decides to moderate the expected accelerated decline in U.S. oil production.

OTA is indebted to the numerous individuals who contributed substantial time to this special report, providing information and advice and reviewing drafts. Also, the contributions of our colleagues in the Congressional Research Service, who provided analyses in two key areas, are gratefully acknowledged.

John H. Gibbons

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*Director*

# Acknowledgments

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