



BP's Deepwater Oil Spill - The World Continues Drilling - and Open Thread

Posted by [Gail the Actuary](#) on August 8, 2010 - 10:00am

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One of the questions I was asked earlier in the spill was, "Do you expect other countries to stop drilling in deepwater locations, because of the oil spill?" My response was, "Maybe a bit, in a few locations, but in general I expect the drilling to continue." The world has so much equipment that uses oil as a fuel, and so little in the way of good substitutes, that it is really difficult for governments to decide to discontinue drilling. Furthermore, if an oil company has debt, it needs to continue drilling in order to repay its debt. Even if a company doesn't have debt, stockholders expect dividends (often to make payments under pension plans), and this need to pay dividends contributes to the need to continue deepwater drilling. Even government-owned companies are under pressure to keep drilling, because governments often use their share of oil revenue to fund social programs.

Certainly there are theoretical reasons for not doing more deep-water drilling--concern about global warming, or fear of more oil spills. But the company that cuts back finds it difficult to support the amount of overhead it has with lower oil production, and the country that cuts back handicaps itself in terms of employment, tax revenue, and balance of payments. It is not a decision most countries are willing to take lightly.

When I look around the world, the only country (besides the US) that seems to have cutback on deepwater drilling is Norway. Norway [banned the issuance of new deep-sea permits](#) until the BP oil spill has been fully investigated. Drilling can continue in areas where deep-sea permits are already in place. This is a less severe cutback than in the US, since the US cutback applies to new drilling, including in areas where deep-sea permits are already in place. The Norway ban may have virtually no effect at all--[this report](#) indicates that the next licensing round is not until late 2011, and by that time the results of the US investigation will be known, so there may not be any actual impact of the supposed ban.

Elsewhere in Europe, there is generally no ban on deepwater drilling. The UK announced a [government inquiry](#) into oil and gas drilling in the North Sea on July 17, but this is not a ban on drilling. European Union Energy Commissioner Günther Oettinger has voiced concerns about deepwater drilling, but so far, this has [not led to action](#). Italy [banned drilling within five miles of its coast](#) and 12 miles from protected marine areas, but this ruling is expected to have little impact on the most promising deepwater oil areas, which are off western Sicily.

There are many areas around the world where deepwater drilling continues. The [financial report](#)

"It is important to note that although the US Gulf of Mexico is an important area for deep and ultra deepwater drilling it isn't the only area for growth. West Africa and Brazil remain prolific in terms of discoveries and we are now seeing drilling in many new areas such as East Africa, Mediterranean Sea, Black Sea, Red Sea, India and the rest of the Asia-Pacific.

The [Financial Times](#) reports:

While the US quickly ordered a deepwater drilling moratorium, others, including Australia, Greenland, Norway, Canada, Libya, China, Brazil and Angola, have not followed suit.

Australia, which had suffered its own major blow-out and spill just months before the Deepwater Horizon accident, was unmoved.

Martin Ferguson, Australia's resources minister, said: "Shutting down the industry and putting the nation's energy security, jobs and the economy at risk does nothing [to ensure safe oil exploration]."

So at this point, the US seems to be mostly alone in its moratorium on deepwater drilling. And because of the many economic pressures, even in this country, there is likely to be continued pressure to rescind the moratorium as soon as possible.



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