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#### Shale production has peaked and is now crashing- supply crunch imminent

Nelder 2012 (Chris Nelder, Energy Analyst, Consultant and Investor, February 8, 2012, “Everything you know about shale gas is wrong,” Smart Planet, http://www.smartplanet.com/blog/energy-futurist/everything-you-know-about-shale-gas-is-wrong/341)

But now there’s even more bad news: U.S. gas production appears to have hit a production ceiling, and is actually declining in major areas. The startling revelation comes from a new paper published today by Houston-based petroleum geologist and energy sector consultant Arthur Berman. Berman reached this conclusion by compiling his own production history of U.S. shale gas from a massive data set licensed from data provider HPDI. His well-by-well analysis found that total U.S. gas production has been on an “undulating plateau” since the beginning of 2009, and showed declines in some areas in 2011. This stands in stark contrast to recent data provided by the EIA, which shows shale gas production rising steadily for the past two years, and well into the future. The EIA’s forecast is bullish because it’s mainly a view of demand, without great regard for supply limits. But their historical supply data differs for a reason that will be no surprise to experienced observers: the data is bad. The EIA gets its data on shale gas production by sampling the reports of major operators, then applying a formula to estimate how much gas is actually being produced, according to Berman. This may explain why they only have official monthly historical production data for the two years (unofficially, three) of 2008 and 2009, and only annual data for 2010 and 2011. This has been a big red flag to me in my recent work on shale gas, accustomed as I am to EIA’s far more detailed and up-to-date monthly and weekly data on oil, and has made it nearly impossible to verify the claim that we’ve had “booming” gas production over the past two years. Data is also available directly from the states, but some states have flawed reporting processes, the granularity and reporting frequency varies (as low as every six months, in the case of Pennsylvania), and ultimately the data isn’t available in a usable format. It’s also inaccurate and incomplete, as one Pittsburgh newspaper recently found out. Berman reached the same conclusion, noting in his paper that “the data that EIA makes available does not have sufficient resolution to evaluate individual plays or states.” So he had to build his own database. An unprofitable treadmill One reason for the recent slowdown in production growth is that “unconventional” shale gas wells have to make up for the decline of conventional gas wells, which has accelerated from 23 percent per year in 2001 to 32 percent per year today. The U.S. now needs to replace 22 billion cubic feet per day (Bcf/d) of production each year just to maintain flat supply. Currently, all shale gas plays together produce around 19 Bcf/d. The shift to unconventional gas has put us on a production treadmill: We have to keep drilling like mad to maintain output because unconventional wells are far less productive and shorter-lived than conventional gas wells. Berman observes that an average gas well in Texas in 2010 produces one-fifth as much gas as an average conventional gas well did in 1972. In 1972, 23,000 gas wells produced 7.5 trillion cubic feet in Texas; in 2010, it took 102,000 wells to produce 6.4 trillion cubic feet. Another reason was that the spurt of production created a gas glut and drove prices far below the level of profitability. Data from a January, 2012 presentation by the CEO of gas operator Range Resources showed that gas needs to sell for at least $4 per million BTU in order for operators to turn a profit. Source: Jonathan Callahan, The Oil Drum. Data from Range Resources. Berman is certain that the $4 threshold applies to new drilling on existing plays only; after accounting for land leasing, overhead and debt service, the threshold would be much higher. In any case, we can see that production flattened out when prices fell below $4 at the beginning of 2009. Source: Arthur Berman. Data from Natural Gas Intelligence. A gas price below $3 spells real trouble for operators, and flagging production is but the first effect. The next is debt: According to analysis by ARC Financial Research, the 34 top U.S. publicly traded shale gas producers are currently carrying a combined $10 billion quarterly cash flow deficit. And finally, there will the destruction of forward supply, as new development grinds down. Financing further development with debt in this environment will be extremely difficult, and eventually even the joint-venture sugar daddies that have sustained operators over the past few months will get cold feet. Without a reversal in price, gas production is guaranteed to decline. The gas gold rush is over Indeed, Berman concludes that “the gold rush is over at least for now with the less commercial shale plays.” Within the major producing areas of the U.S., which account for 75 percent of production, all except Louisiana have been either flat or declining in recent years. Overall, he sees evidence that 80 percent of existing U.S. shale gas plays are already approaching peak production. Rig counts have been falling, and major operators such as Chesapeake Energy and ConocoPhilips have announced slowdowns in drilling in the last month. The two major plays that do not show evidence of peaking yet are the newer ones: the Marcellus Shale in Pennsylvania and the Haynesville Shale in Louisiana. To see the influence of these two plays on overall production, compare the first chart below, which shows production from all shale plays, to the second, which removes production from those two plays: Source: Arthur Berman Source: Chart by Chris Nelder, from Arthur Berman’s worksheets The Haynesville surpassed the Barnett Shale in Texas last year as the top-producing shale play in the U.S., but it may be reaching a production plateau now. Worse, Berman’s analysis finds that despite its impressive production, the Haynesville is among the least economic of the shale plays, requiring gas prices above $7.00 per thousand cubic feet to sustain new drilling profitably, and nearly $9.00 per thousand cubic feet after accounting for leasing and other costs. (One thousand cubic feet is roughly equivalent to one million BTU.) A word of caution is in order here: A one-year decline in production in an unprofitable environment is not proof that shale gas has “peaked.” It’s certainly possible that renewed drilling could bring higher production when gas prices rise again. The operative question in that case is when. If gas prices recover within the next year or two, it will be relatively easy to bring new wells online rapidly. But if gas prices languish for longer than that, the most productive “core” areas of the plays could become exhausted because the wells deplete so quickly. Without sustained new drilling to replace their production, by the time producers begin drilling again in the remaining, less productive prospects, an air pocket could form in the supply line. Disinformation and diffusion theory Berman admits that it’s strange for his bottom-up analysis to produce results that are so wildly divergent from the claims of the operators and the data offered by the EIA. “I ask myself: Where could we be wrong?” he explained. “We’ve looked at the individual wells and it looks like they’ll produce less gas than the operators say, so where could we be wrong? Likewise on cost: There are no retained earnings, so how could they be saying they’re profitable?” Having scrutinized the financial reports of operators, Berman concludes that operators are being honest with the SEC, because if they aren’t, somebody will go to jail. But then they’re telling a very different story to the public, and to investors, particularly regarding their costs. This isn’t necessarily nefarious; it’s really just a way of working around the natural risks associated with new resource development. They’re playing for the future, not for immediate profitability. Early wildcatters gambled on debt-fueled drilling with the hope that they’d be able to hold the leases long enough to see prices rise again and put them nicely in the black, or flip them at a profit to someone who could. And the profit picture is substantial: according to the Range Resources presentation, when gas is $6, they’ll be realizing a 135 percent internal rate of return. “I think these companies realize—clearly—that the U.S. is moving toward a gas economy,” Berman observes. “The natural gas industry has been very successful at screwing up the coal industry. . . a huge part of the demand is from the power generation business. The President now thinks, incorrectly, that we’ve got 100 years of natural gas. [Operators think] ‘If we can just get all this land held, drilled, etc., then in a couple of years when the price recovers we’re going to make a fortune’. . . and they’re right!” I am inclined to agree. My own analysis suggests that [gas is trouncing coal](http://www.smartplanet.com/blog/energy-futurist/regulation-and-the-decline-of-coal-power/275) in the power generation sector. I am also strongly against exporting LNG, because it will increase domestic costs across the board, another point on which Berman and I agree. “If they go through with the permits to export LNG, then that’s gonna seal it,” he remarked. “All you have to do is commit to 20-year contracts to ship a few bcf per day. . . I fear what’s really going to happen is that we’re going to have to start importing LNG.” Ultimately, we have to ask why there seems to be such an enormous disconnect between the reality of the production and reserve data, and the wild-eyed claims of operators and politicians. Berman’s answer is blunt: “We’re in a weird place where it’s not in anybody’s vested interest to say that things aren’t wonderful,” he said, and went on to relate a few stories of his encounters with politicians. They admitted to him, straight-up, that they can’t tell the public the truth about energy issues like gas reserves and peak oil because nobody wants to hear it, and they’ll just wind up getting voted out of office. “This gets back to basic diffusion theory,” Berman muses, “where only 5 percent of people base their decisions on information, while the other 95 percent make decisions on what everybody else thinks.” That sounds right to me. It benefits everyone involved to tell happy lies, and benefits no one to own up to the current reality. That is true for everyone from the operators right on up to the President. Perhaps in the end—like government—we’ll simply get the energy policy we deserve.

#### Shale gas is unsustainable- their data is bad- can’t sustain exports- ONLY conventional production solves

Nikiforuk 2013 (Andrew Nikiforuk, energy writer citing…

David Hughes: geoscientist who has studied the energy resources of Canada for nearly four decades, including 32 years with the Geological Survey of Canada as a scientist and research manager. He developed the National Coal Inventory to determine the availability and environmental constraints associated with Canada’s coal resources. As Team Leader for Unconventional Gas on the Canadian Gas Potential Committee, he coordinated the recent publication of a comprehensive assessment of Canada’s unconventional natural gas potential. Over the past decade, he has researched, published and lectured widely on global energy and sustainability issues in North America and internationally. He is a board member of the Association for the Study of Peak Oil and Gas – Canada and is a Fellow of the Post Carbon Institute. He recently contributed to Carbon Shift, an anthology edited by Thomas Homer-Dixon on the twin issues of peak energy and climate change, and his work has been featured in Canadian Business, Walrus and other magazines, as well as through the popular press, radio, television and the internet. He is currently president of a consultancy dedicated to research on energy and sustainability issues.

February 25, 2013, “Fracking Bubble? Report Warns Shale Gas And Oil Won’t Solve Energy Crunch,” Climate Progress, http://thinkprogress.org/climate/2013/02/25/1636311/fracking-bubble-report-warns-shale-gas-and-oil-wont-solve-energy-crunch/?mobile=nc)

Governments and financial analysts who think unconventional fossil fuels such as bitumen, shale gas and shale oil can usher in an era of prosperity and energy plenty are dangerously deluded, concludes a groundbreaking report by one of Canada's top energy analysts.¶ In a meticulous 181 page study for the Post Carbon Institute, geologist David Hughes concludes that the U.S. "is highly unlikely to achieve energy independence unless energy consumption declines substantially."¶ Exuberant projections by the media and energy pundits that claim that hydraulic fracturing and horizontal drilling "can provide endless growth heralding a new era of 'energy independence,' in which the U.S. will become a substantial net exporter of energy, are entirely unwarranted based on the fundamentals," adds Hughes in a companion article for the science journal Nature.¶ ¶ Moreover it is unlikely that difficult and challenging hydrocarbons such as shale oil can even replace the rate of depletion for conventional light oil and natural gas.¶ ¶ Since 1990, says Hughes, the number of operating wells in the U.S. has increased by 90 per cent while the average productivity of those wells has declined by 38 per cent.¶ ¶ The latest panaceas championed by industry and media talking heads are too expensive and will deplete too rapidly to provide either energy security or independence for the United States, concludes the 62-year-old geologist who worked for Natural Resources Canada for 32 years as a coal and gas specialist.¶ ¶ To Hughes shale gas and shale oil represent a temporary bubble in production that will soon burst due to rapid depletion rates that have only recently been tallied.¶ ¶ Taken together shale gas and shale oil wells "will require about 8,600 wells per year at a cost of over $48 billion to offset declines."¶ ¶ "The idea that the United States might be exporting 12 per cent of its natural gas from shale is just a pipe dream," Hughes, a resident of Cortes Island in British Columbia, told The Tyee.¶ ¶ 'Tough' energy's tough downsides¶ Unconventional fossil fuels all share a host of cruel and limiting traits says Hughes. They offer dramatically fewer energy returns; they consume extreme and endless flows of capital; they provide difficult or volatile rates of supply overtime and have "large environmental impacts in their extraction."¶ ¶ Most important, bitumen, shale oil and shale gas, by definition, are much lower quality hydrocarbons and therefore can't fund business as usual. They simply do not provide the same energy returns or the same amount of work as conventional hydrocarbons due to the energy needed to extract or upgrade them, says Hughes.¶ ¶ At the turn of the century it took just one barrel of oil to find and produce 100 more. Now the returns are down to 20. The mining portion of the tar sands offers returns of five to one while the steam plant operations barely manage returns of three to one, says Hughes. "And that's an extremely conservative estimate."¶ ¶ "Moving to progressively lower quality energy resources diverts more and more resources to the act of acquisition as opposed to doing useful work."¶ A society that progressively spends more and more capital on acquiring energy that does less and less work will either exhaust the global economy or cannibalize national ones as consumers redirect larger portions of their household budgets to energy costs, says Hughes.¶ ¶ "To view them (unconventional hydrocarbons) as 'game changers' capable of indefinitely increasing supply of low cost energy which has underpinned the economic growth of the past century is a mistake."¶ ¶ The exploitation of shale oil and gas (and Hughes reviewed the data for 60,000 wells for the report) may have temporarily reversed declines in conventional resources but they show dramatic limitations often excluded from the mainstream press.¶ ¶ Drilling into a mirage¶ For starters shale gas and oil don't resemble a manufacturing process.¶ ¶ Companies such as Encana claimed in 2006 that they had turned natural gas drilling into a bountiful factory process with so-called "resource plays."¶ After drilling a landscape and pulverizing deep formations with high volume hydraulic fracturing the company claimed it could produce predictable and reliable volumes of hydrocarbons across the landscape.¶ ¶ "But geology matters," says Hughes. In every shale play there are sweet spots and unproductive areas and marginal ones. In fact 88 per cent of all shale gas production flows from six of 20 active plays in the United States while 81 per cent of shale oil comes from two of 21 plays.¶ ¶ Moreover shale gas and oil fields deplete so quickly that they resemble financial treadmills. In order to maintain constant flows from a play industry must replace 30 to 50 per cent of declining production with more wells.¶ ¶ Recovery rates from shale fields are also dismal. Conventional drilling, which uses less energy, often captured up to 70 per cent of the gas in the ground. But shale gas barely averages 10 per cent despite deploying more horsepower and water over greater landscapes.¶ ¶ Nor is shale gas long-lasting. Industry promised that shale gas plays would produce for up to 40 years but the Haynesville, a top U.S. producer, reached maturity in five years and is already in a state of decline, reports Hughes. "Nobody had heard about Haynesville until 2009."¶ ¶ "That's the Achilles heel of shale gas. You need a lot of wells and environmental collateral damage and infrastructure to grow supply."

#### Independently, supply uncertainty derails export approval- plan solves

Ebinger 2012 (Charles Ebinger, Senior Fellow and Director of the Energy Security Initiative – Brookings, Kevin Massy, Assistant Director of the Energy Security Initiative at Brookings, and Govinda Avasarala, Senior Research Assistant in the Energy Security Initiative at Brookings, December 1, 2012, “Liquid Markets: Assessing the Case for U.S. Exports of Liquefied Natural Gas,” Brookings Institution, Policy Brief, http://www.brookings.edu/~/media/research/files/reports/2012/5/02%20lng%20exports%20ebinger/0502\_lng\_exports\_ebinger.pdf)

For an increase in U.S. exports of LNG to be considered feasible, there has to be an adequate and sustainable domestic resource base to support it. Natural gas currently accounts for approximately 25 percent of the U.S. primary energy mix.3 While it currently provides only a minority of U.S. gas supply, shale gas production is increasing at a rapid rate: from 2000 to 2006, shale gas production increased by an average annual rate of 17 percent; from 2006 to 2010, production increased by an annual average rate of 48 percent (see Figure 2).4 According to the Energy Information Adminis- tration (EIA), shale gas production in the United States reached 4.87 trillion cubic feet (tcf) in 2010, or 23 percent of U.S. dry gas production. By 2035, it is estimated that shale gas production will account for 46 percent of total domestic natural gas production. Given the centrality of shale gas to the future of the U.S. gas sector, much of the discussion over potential exports hinges on the prospectsfor its sustained availability and development. For exports to be feasible, gas from shale and other unconventional sources needs to both offset declines in conventional production and compete with new and incumbent domestic end uses. There have been a number of reports and studies that attempt to identify the total amount of technically recoverable shale gas resources—the volumes of gas retrievable using current technology irrespective of cost—available in the United States. These estimates vary from just under 700 trillion cubic feet (tcf) of shale gas to over 1,800 tcf (see table 1). To put these numbers in context, the United States consumed just over 24 tcf of gas in 2010, suggesting that the estimates for the shale gas resource alone would be enough to satisfy between 25 and 80 years of U.S. domestic demand. The estimates for recoverable shale gas resources also compare with an estimate for total U.S. gas resources (onshore and offshore, including Alaska) of 2,543 tcf. Based on the range of estimates below, shale gas could therefore account for between 29 percent and 52 percent of the total technically recoverable natural gas resource in the United States. In addition to the size of the economically recoverable resources, two other major factors will have an impact on the sustainability of shale gas production: the productivity of shale gas wells; and the demand for the equipment used for shale gas production. The productivity of shale gas wells has been a subject of much recent debate, with some industry observers suggesting that undeveloped wells may prove to be less productive than those developed to date. However, a prominent view among independent experts is that sustainability of shale gas production is not a cause for serious concern, owing to the continued rapid improvement in technologies and production processes.

#### US natural gas solves Russian energy weapon

Cunningham 2013 (Nick Cunningham, policy analyst focusing on climate change and next generation energy issues, March 2013, “The Geopolitical Implications of U.S. Natural Gas Exports,” http://americansecurityproject.org/ASP%20Reports/Ref%200116%20-%20The%20Geopolitical%20Implications%20of%20U.S.%20Natural%20Gas%20Exports.pdf)

Europe remains highly dependent on Russia for natural gas, which supplies 34% of its total natural gas imports.18 For countries in Central and Eastern Europe (like Czech Republic, Hungary, Bulgaria, Greece), that share is much higher. 19¶ Russia has demonstrated its willingness to use energy as a political tool, cutting off natural gas supplies to European consumers several times over the last decade – with Eastern European countries most harmed by Russian manipulations.20¶ The reasons for such actions are disputed by the Russian government and Gazprom, but the timing of these events seem created to maximize Russia’s political influence. The result is that European countries are vulnerable to a supplier that can be described as unreliable at best.¶ There has been moderate progress to date in loosening Russia’s grip over European energy, and the role of LNG has been instrumental. Rising LNG purchases has allowed Europe to find new suppliers for its energy needs, including Nigeria, Egypt, Trinidad and Qatar. This has led to a diversification of natural gas imports, allowing Europe to cut its dependence on Russia for natural gas from 75% in 1990 down to only 34% today.21¶ The U.S. has already contributed to this trend, albeit unwittingly. The shale gas revolution in the U.S. has freed up LNG imports that were once destined for American ports. LNG shipments were essentially rerouted to Europe. This has allowed LNG supplies around the world to grow, pushing down prices.22¶ However, Russian gas will continue to play a dominant role in Europe’s energy future. 23 Germany’s decision to shut down its nuclear fleet is already requiring more natural gas in its place. It is unknown whether natural gas production in Europe, from shale in particular, will grow in the future.¶ New infrastructure, like the recently opened Nord Stream gas pipeline under the Baltic from Russia to Germany and the beginning of the South Stream pipeline under the Black Sea, will ensure that the link between Russia as a supplier and Europe as a buyer remains strong. Finally, efforts to reduce greenhouse gas emissions will mean natural gas takes on a bigger role, displacing coal (despite the temporary uptick in coal consumption as of late).¶ Several European countries, including Bulgaria, Croatia, Estonia, Lithuania, Latvia, Poland, Romania, Turkey and Ukraine hope to weaken this dependence by constructing LNG import terminals.24¶ The expansion of U.S. LNG exports to Europe could help these countries reduce Russian influence – in particular, the small, heavily dependent, Eastern and Central European states.¶ The more these nations can diversify their energy portfolio, including more sources of imports, the less market share – and political power – Russia and Gazprom will control. This will pre-empt the incentive and ability of Gazprom and the Russian government to play games with energy supplies.

#### Russia is becoming aggressive now makes conflicts inevitable

Weitz 2012 (Richard Weitz, Senior Fellow and Director of the Center for Political-Military Analysis at Hudson Institute, November 21, 2012, “The Focus of Russian Military Means,” http://www.sldinfo.com/the-focus-of-russian-military-means/)

Despite the reformers’ goal of redirecting Russian strategic thought away from fighting the West to winning localized conflicts, Russia’s military doctrine and recent military exercises still identify resisting NATO aggression as a major task of the Russian armed forces. The 2010 Military Doctrine describes NATO’s growing military infrastructure near Russia’s border as well as the alliance’s alleged efforts to acquire “global functions in contravention of international law” as potentially threatening Russia’s military security. An important consideration affecting how Russians approach military reform is their expectations of the nature of future wars—especially the questions of the main sources of military threats and how they might manifest themselves. The most basic consideration is that Russian leaders still see themselves as threatened from hostile forces that must be dealt with through military means. Although individuals differ on what they see as the main threats, there is a pervasive sense that, under certain conditions, Russia could come into conflict with certain foreign countries if it fails to have an effective military. Mostly these possible adversaries are seen as Western states, but some Russian strategists, thinking ahead, consider China and possibly Iran as emerging threats.

#### Nuclear war

Blank 2009 (Stephen Blank, Research Professor of National Security Affairs at the Strategic Studies Institute of the U.S. Army War College, March 2009, “Russia And Arms Control: Are There Opportunities For The Obama Administration?,” online)

Proliferators or nuclear states like China and Russia can then deter regional or intercontinental attacks either by denial or by threat of retaliation. 168 Given a multipolar world structure with little ideological rivalry among major powers, it is unlikely that they will go to war with each other. Rather, like Russia, they will strive for exclusive hegemony in their own “sphere of influence” and use nuclear instruments towards that end. However, wars may well break out between major powers and weaker “peripheral” states or between peripheral and semiperipheral states given their lack of domestic legitimacy, the absence of the means of crisis prevention, the visible absence of crisis management mechanisms, and their strategic calculation that asymmetric wars might give them the victory or respite they need. 169 Simultaneously, The states of periphery and semiperiphery have far more opportunities for political maneuvering. Since war remains a political option, these states may find it convenient to exercise their military power as a means for achieving political objectives. Thus international crises may increase in number. This has two important implications for the use of WMD. First, they may be used deliberately to offer a decisive victory (or in Russia’s case, to achieve “intra-war escalation control”—author 170 ) to the striker, or for defensive purposes when imbalances 7 in military capabilities are significant; and second, crises increase the possibilities of inadvertent or accidental wars involving WMD. 171 Obviously nuclear proliferators or states that are expanding their nuclear arsenals like Russia can exercise a great influence upon world politics if they chose to defy the prevailing consensus and use their weapons not as defensive weapons, as has been commonly thought, but as offensive weapons to threaten other states and deter nuclear powers. Their decision to go either for cooperative security and strengthened international military-political norms of action, or for individual national “egotism” will critically affect world politics. For, as Roberts observes, But if they drift away from those efforts [to bring about more cooperative security], the consequences could be profound. At the very least, the effective functioning of inherited mechanisms of world order, such as the special responsibility of the “great powers” in the management of the interstate system, especially problems of armed aggression, under the aegis of collective security, could be significantly impaired. Armed with the ability to defeat an intervention, or impose substantial costs in blood or money on an intervening force or the populaces of the nations marshaling that force, the newly empowered tier could bring an end to collective security operations, undermine the credibility of alliance commitments by the great powers, [undermine guarantees of extended deterrence by them to threatened nations and states] extend alliances of their own, and perhaps make wars of aggression on their neighbors or their own people.

#### Abundant shale solves- de-securitizes and boosts EU-Russia relations

Sharples 2012 (Jack. D. Sharples, Central and East European Studies Graduate Student at the University of Glasgow, “Russia-EU gas relations: the Russian perspective,” British Association for Slavonic and East European Studies Conference Paper, http://www.academia.edu/1534968/Russia-EU\_Gas\_Relations\_The\_Russian\_Perspective)

From the Russian perspective the period 2001-2008 represented a ‘golden era’ for Russian gas exports to the EU, with prices and demand rising, and Russia’s international status and economic growth following suit. However, despite the quicker than expected recovery of international energy markets, the period of 2008-2012 may be interpreted as the beginning of a transition period in the Russia-EU energy relationship. The development of the EU into a more liquid, competitive gas market will continue. Gazprom must adapt to these changing conditions through a combination of competitive pricing, more flexible contracts (regarding contract duration and offtake volumes) and asset-swaps of minority shareholdings in partnership with downstream European energy companies, in order to retain market share and export volumes. Russia’s domestic gas market is expected to become more profitable and competitive, dueto the gradual increase in state regulated prices and the liberalisation of gas sales. As independent Russian gas producers and Russian oil companies supply an increasing share of the Russian market, the need for Gazprom to use export revenues to subsidise domestic saleswill be reduced. In the long term, post-2020 period, it is possible that increased Russian gas exports to theAsia-Pacific region in line with projections in Russia’s Energy Strategy to 2030 (MinEnergo,2009, pg. ) could further reduce Russia’s dependence on the EU as an export market.Finally, 2012 should see both the completion of the second line of Nord Stream and thelaunch of the construction of the South Stream gas pipeline. If both projects are completed as planned, Ukraine’s share of the transit of Russian gas to the EU will be reduced from around80 percent in mid-2011 to below 50 percent. Even if these projects do not reduce the propensity for Russo-Ukrainian disputes, they will reduce the impact of such disputes on deliveries of Russian gas to the EU. Therefore, there is the distinct possibility that Russia’s gas exports to the EU will undergo a ‘de-securitisation’ over the next decade as Russia and the EU reduce their ‘negative interdependence’. If this is the case, there remains the hope that Russia and the EU will be able to overcome the difficulties of the past decade and renew their mutually-beneficial energy relationship.

#### EU dependence on Russian gas has been the key sticking point to broader EU-Russia cooperation- plan solves

Vatansever 2010 (Adnan Vatansever, Ph.D., School of Advanced International Studies, Johns Hopkins University, former senior associate in the Energy and Climate Program at the Carnegie Endowment, June 17, 2010, “EU-Russia Energy Relations: A Pause or Fast Forward?,” Carnegie Endowment, http://carnegieendowment.org/2010/06/17/eu-russia-energy-relations-pause-or-fast-forward/21mf)

While the two sides are sorting out a clearer road map about a partnership in modernizing Russia, a key question is what type of role energy will play in fostering this partnership. During the past few years, energy—amidst Europe’s mounting concerns about security of supply—largely played the role of a “pause” button in deepening Russian-European relations. Will it now serve as a “fast forward” button for deepening the partnership? The answer lies in addressing mutual energy security concerns as well as in expanding opportunities for joint energy sector projects involving Russian and European (along with other foreign) companies.¶ Signs of Optimism¶ An optimist would find some positive signs in three areas at least. First, energy efficiency has suddenly emerged as a big priority for the Russian government. Key legislation was recently put in place and governmental commissions have been launched to actively pursue the ambitious targets set by President Medvedev. Furthermore, energy efficiency is hardly a controversial area, and both Russia and its Western partners see mutual benefits in cooperation. For Europe in particular, a more energy efficient Russia means potentially more hydrocarbons available for its own market. For Russia, improving energy efficiency is a key for enhancing the competitiveness of its economy, and the drive itself for greater efficiency could spur innovation-based industries.¶ Second, it is probably fair to say that the Russian leadership already faces increasingly compelling reasons to broaden the participation of foreign companies in developing its hydrocarbons. Its largest Soviet-era gas fields are in decline and the core of its oil production, West Siberia, has started to generate fewer volumes while development costs are rising. The focus is gradually shifting towards new fields, but the cost for developing them will be staggering and the need for foreign technology and capital is getting considerably larger. Furthermore, Russia is already a high-cost hydrocarbon producer—indicating that economic risks of investment are relatively higher due to price uncertainties. As the global recession has further augmented such uncertainties, Russia could only benefit if foreign partners share such economic risks through expanding their involvement in Russia’s oil and gas sectors. As an additional benefit, if European and multinational companies acquire a more solid stake in Russian oil and gas, this could also alleviate European energy security concerns.¶ Finally, the gas market, which was at the center of European–Russian tensions in the past few years, looks very different now. Europe may well find itself in a relatively stronger negotiating position against is principal external gas supplier—Gazprom. Market fundamentals have suddenly shifted as a major decline in Europe’s gas demand has coincided with a substantial growth in gas traded on spot markets. As a sign of readjusting itself to this condition, Gazprom has agreed to index some of its gas deliveries to spot market prices—a major step back from its traditionally firm commitment to long-term contracts. What probably further weakens Gazprom’s hand over the next few years is that it is largely captive to the European market. A decade of negotiations with potential Asian buyers of pipeline gas is still far from reaching a conclusion. Likewise, Gazprom entered the liquefied natural gas (LNG) business only recently and its ability to compete in this segment of the gas market will remain modest at most for some time.

#### Solves Central Asian instability

Dufour 2011 (Nathan Dufour, MA in European Studies from the Institute for European Studies of the Université Libre de Bruxelles and an MA in EU International Relations and Diplomacy Studies from the College of Europe in Bruges, September 2011, “Thinking Further about EU-Russia Cooperation: Drug Trafficking and Related Issues in Central Asia,” College of Europe, http://www.coleurope.eu/sites/default/files/research-paper/edp\_9\_2011\_dufour.pdf)

This paper analyses to what extent the development of cooperation between Russia and the European Union (EU) to respond to the common threat of increasing drug trafficking in Central Asia is desirable and feasible. First, it considers the growing overlap between Russian and EU security interests in Central Asia and provides an understanding of the two sides’ mutual perceptions in this strategic region. Even though the current mind-set is one of general mistrust, for instance in fields such as energy or human rights, both actors now recognise the imperative of regional and international cooperation to tackle terrorist threats and increasing drug flows. Second, the relevance of a joint Russia-EU involvement is analysed by considering the evolving trends in drug trafficking since the US-led coalition intervened in Afghanistan. The paper demonstrates the shortcomings and inadequacy of the current counter-narcotics policies as well as their responsibility in hampering regional cooperation and international efforts. Third, the respective Russian and EU anti-drug strategies and instruments are analysed in order to better assess the possibilities of developing synergies on the ground instead of maintaining competing and detrimental standalone visions. Although the feasibility of setting up a pragmatic and de-politicised cooperation between the EU and Russia is challenging in many regards, this paper shows that it is highly desirable as it would contribute to diminish strong risks of instability in the region and would address the security concerns of both actors. On the basis of the findings, policy recommendations are formulated for the EU.

#### Great power nuke war

Starr 2001 (S. Frederick Starr, Chair of Central Asia-Caucasus Institute at John Hopkins University, “The War Against Terrorism and U.S. Bilateral Relations with the Nations of Central Asia,” Testimony before Senate Subcommittee on Central Asia and the Southern Caucasus, Dec 13, 2001, http://goo.gl/jQ1FS)

However, this does not mean that US actions are without risk to the Central Asian states. Quite the contrary. For a decade they have faced not only the dangers arising from Afghanistan but also the constant threat posed by certain groups in Russia, notably the military and security forces, who are not yet reconciled to the loss of empire. This “imperial hangover” is not unique to Russia. France exhibited the same tendencies in Algeria, the Spanish in Cuba and Chile, and the British when they burned the White House in 1812. This imperial hangover will eventually pass, but for the time being it remains a threat. It means that the Central Asians, after cooperating with the US, will inevitably face redoubled pressure from Russia if we leave abruptly and without attending to the long-term security needs of the region. That we have looked kindly into Mr. Putin’s soul does not change this reality. The Central Asians face a similar danger with respect to our efforts in Afghanistan. Some Americans hold that we should destroy Bin Laden, Al Queda, and the Taliban and then leave the post-war stabilization and reconstruction to others. Such a course runs the danger of condemning all Central Asia to further waves of instability from the South. But in the next round it will not only be Russia that is tempted to throw its weight around in the region but possibly China, or even Iran or India. All have as much right to claim Central Asia as their “backyard” as Russia has had until now. Central Asia may be a distant region but when these nuclear powers begin bumping heads there it will create terrifying threats to world peace that the U.S. cannot ignore. This prospect, along with the unresolved problem of Russia’s imperial hangover, is the reality that the Central Asian states must face if the US precipitously withdraws from their region once the military campaign has achieved its goals. It requires that the United States develop and implement a longer-term strategy for regional security in Central Asia of a sort which, until this moment, has existed only in fragmentary form, if at all. Such a strategy is essential for the viability and sustainability of the states of Central Asia. No less, it is essential for the United States’ own long-term interest in helping build a stable world. What, then, are the elements of such a post-war strategy for Central Asia? The question demands the most serious attention of this sub-committee and of the American government as a whole. At the risk of simplification, I would suggest that it must contain three elements, pertaining to (1) security, (2) politics, and (3) economics. The basic truth upon which any security policy for Central Asia must be grounded is that no single country, or pair of countries, can provide an adequate security environment for the Central Asian region. Bordered by nuclear states and formidable regional powers, all of which have close historic and cultural ties with the region, Central Asia cannot depend for its security on any one of them without imperiling the security of all the others.

#### AND- Locking Gazprom out of the market forces economic modernization- wrecks Kremlin’s slush fund

Aslund 2012 (Anders Åslund, senior fellow at the Peterson Institute for International Economics, September 27, 2012, “Gazprom crisis casts shadow over Putin,” Financial Times, http://www.ft.com/intl/cms/s/0/55c1aeb0-07c6-11e2-9df2-00144feabdc0.html#axzz2E3nig37e)

For years, many analysts have said that Russia will reform only when the oil price falls because Gazprom seems to be the Kremlin’s main slush fund, which is now being drastically reduced. The Kremlin will have little choice but to forsake its mega-projects. It has already abandoned the mastodon Arctic Shtokman field. The next steps should be to back out of South Stream, the superfluous and exceedingly expensive pipeline project, as well as the planned gigantic sky-rise headquarters in St Petersburg. But that will hardly suffice. This dysfunctional former Soviet gas ministry will have to be cut up into real companies, which need to be privatised.¶ Gazprom’s demise looks likely. With its demise, Russia’s revenues would dwindle. Mr Putin‘s model of state capitalism would suffer a devastating blow from Gazprom’s fall. If not even Gazprom is viable, which Russian state company is? Such an insight could give market economic reforms new impetus. After all, Russia just privatised $5.2bn of shares in Sberbank, the state savings bank.

#### Modernization solves nuclear war

Nye 2011 (Joseph Nye, Professor at Harvard University, February 28, 2011, “Russia and Reform,” Expert Article 698, http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/PEIpublication%204\_2012.pdf)

Russia is no longer hampered by communist ideology and a cumbersome central planning system, and the likelihood of ethnic fragmentation, though still a threat, is less than in the past. Whereas ethnic Russians were only 50 percent of the former Soviet Union, they are now 81 percent of the Russian Federation. The political institutions for an effective market economy are largely missing, and corruption is rampant. Russia’s robber baron capitalism lacks the kind of effective regulation that creates trust in market relationships. The public health system is in disarray, mortality rates have increased, and birthrates are declining. The average Russian male dies at fifty- nine, an extraordinarily low number for an advanced economy. Midrange estimates by UN demographers suggest that Russia’s population may decline from 145 million today to 121 million by midcentury.¶ Many Russian futures are possible. At one extreme are those who project decline and see Russia as a “one-crop economy” with corrupt institutions and insurmountable demographic and health problems. Others argue that with reform and modernization, Russia will be able to surmount these problems and that the leadership is headed in this direction. President Medvedev has issued a sweeping call “for Russia to modernize its economy, wean itself from a humiliating dependence on natural resources and do away with Soviet-style attitudes that he said were hindering its effort to remain a world power.” But as Katynka Barisch of the Centre for European Reform argues, Russian leaders’ concept of modernization is too state led, and problematic because public institutions function so badly. “An innovative economy needs open markets, venture capital, free thinking entrepreneurs, fast bankruptcy courts and solid protection of intellectual property.” Instead there is “wide-spread monopolies, ubiquitous corruption, stifling state-interferences, weak and contradictory laws.” Dysfunctional government and pervasive corruption make modernization difficult. A Russian economist says flatly that “there is no consensus in favor of modernization.”¶ Whatever the outcome, because of its residual nuclear strength, its great human capital, its skills in cyber-technology, its location in both Europe and Asia, Russia will have the resources to cause major problems or to make major contributions to a globalized world. In that sense, Obama was right. We all have an interest in Russian reform.

#### Aff solves their turns- Privatization allows Russia to be re-integrated into the global gas market

Riley 2012 (Alan Riley, Professor, City Law School, City University, London, September 17, 2012, “Resetting Gazprom in the Golden Age of Gas,” European Energy Review, http://www.europeanenergyreview.eu/site/pagina.php?id=3853#artikel\_3853)

The overriding issue for Gazprom is to ensure that gas delivered to market can compete profitably in spot markets where indexation will have less and less sway. This focus on keeping costs low and efficiency suggests that the Russian Federation and Gazprom are also going to have to grasp the most painful part of any reset: liberalisation of the Russian gas market. This does not have to be a full European style liberalization but it does require creating pressures to push prices down and encourage throughput. One option for a Russian approach to liberalization would be to adopt the Thatcher government technique of introducing golden shares which allow the state to call and control companies that have been privatized. ¶ It would be possible to design a Russian gas market where there was a privately owned gas pipeline network, Moscow owned a minority of the shares but maintained a golden share to ensure supply security and state interests were protected. Meanwhile a series of baby Gazproms would provide supply in competition with Novatek and others. Some of the baby Gazproms would be privatized and some sold to foreign investors. Those holding key supply facilities would also be subject to golden shares. This Russian approach to liberalization would allow more competition, more foreign investment and increase cost pressure while giving the state the means to maintain a significant degree of control. ¶ Such a Gazprom reset would provide for a much more successful innovative Russian gas market. The baby Gazproms could grow into major international players and the privatized Russian gas network company would find it much easier to acquire network assets across the continent without regulatory or political fears. ¶ The argument against such a reset is the traditional one that the Kremlin would never accept any form of breakup of the existing Gazprom. That however overlooks the scale of the threats that Gazprom faces. The compelling question for the Kremlin is: what is the alternative? Gazprom can continue to defend its old business model. However, that would be fighting a rearguard action. There is no future for the company in defending every last stronghold of its current market until market forces dislodge it stronghold by stronghold. The danger for Gazprom is that it ends up the supplier of last resort for Europe.¶ If the Russian Federation does not recognize the range of threats faced by Gazprom and take effective action to protect its European market and profitability, Russian gas will be utterly marginalized. Gazprom will lose profitability, revenue and influence. Does President Putin in his third term really want to preside over the decline of Gazprom?

#### Russia’s economy is structurally doomed without reform

Shuman 2011 (Michael Shuman, B.A. in Asian history and political science from the University of Pennsylvania and a master of international affairs from Columbia, September 30, 2011, “State capitalism vs the free market: Which performs better?,” TIME Magazine, http://business.time.com/2011/09/30/state-capitalism-vs-the-free-market-which-performs-better/

But most of all, anyone who believes in state capitalism should take a visit to Russia, which I did recently for a recent story in TIME magazine. Once considered a premier state capitalist, Russia’s economy is now being strangled by the state. Under Prime Minister (and formerly President) Vladimir Putin, the state reasserted its authority, regaining its dominance over key sectors of the economy, especially the crucial oil and gas industry. Putin also redistributed oil money by increasing government spending and the size of the civil service. That sparked a pre-crisis consumer boom, but today the story is much different. State enterprises, favored by overbearing bureaucrats, are crowding out the private sector. World Bank surveys show Russia is becoming a harder and harder place to do business. Endemic corruption has soured the investment climate. Private capital is fleeing the country. Because of those problems, growth has never recovered to its pre-crisis levels, and most economic forecasts don’t expect it will anytime soon. Even senior policymakers within the Kremlin are doubting the future of Russia’s state capitalist model. One of them is Arkady Dvorkovich, a reform-minded economic adviser to President Dmitri Medvedev. Those who admire state capitalism “don’t know what they’re saying,” he told me in a very forthright interview. “This way of doing things has exhausted all its potential, so we need to change policies.”¶ Ironically, what Russia and the other state capitalists need is a strong dose of market reform – deregulation to free up entrepreneurship; better rule of law to attract investment; greater emphasis on commercial viability to prevent wasteful investment. So even though it is true that free capitalism has fallen on hard times, a better system has not yet emerged. State capitalism is not the solution.

### 1AC Navy

#### US shipbuilding is on the brink

Jean 2011 (Grace V. Jean, June 2011, “Navy’s Shipbuilding Challenges Loom Large in the 2020s,” National Defense Magazine, http://www.nationaldefensemagazine.org/archive/2011/June/Pages/Navy’sShipbuildingChallengesLoomLargeinthe2020s.aspx)

Builders of U.S. Navy ships are attempting to rein in costs that have doubled over the last 20 years. They are pursuing capital improvements, streamlining construction methods and lowering overhead expenses. But whether their efforts are enough to help close the $3 billion gap between the Navy’s projected budgets and estimated ship costs remains to be seen. ¶ Congressional watchdogs predict growing shortfalls in the Navy’s fleet numbers as defense budgets tighten. The Navy projects an annual shipbuilding budget of about $16 billion, but analysts at the Congressional Budget Office report that the sea service needs to average closer to $19 billion to afford all the new vessels naval leaders want to buy in the next 30 years. ¶ Shipyard officials on the other hand remain confident that their cost-cutting measures will help the Navy boost the fleet size to 313 ships from 287 ships. ¶ The Navy, for its part, is keeping a watchful eye on the industrial base. ¶ “The biggest issue is the decade of the ‘20s,” says Chief of Naval Operations Adm. Gary Roughead. ¶ Ships that were constructed during the Reagan-era weapons build-up in the 1980s — including many submarines and surface combatants — will begin reaching the end of their service lives in the next decade. The Ohio-class ballistic missile submarine fleet is due to be replaced, so the nation will be building several multi-billion-dollar replacement boats throughout the decade. At costs estimated to be nearly $6 billion per ship, it will be a “significant piece of the shipbuilding plan,” Roughead pointed out. ¶ The 2020s also will mark the first time the Navy will be decommissioning nuclear aircraft carriers. Nimitz-class flat tops will begin hitting the end of their 50-year service lives. To decommission those carriers will cost the Navy a couple billion dollars, Roughead said. ¶ “We add all those up in the ‘20s, and the nation is looking at a challenge to shipbuilding that I believe we need to start thinking about now. We need to start working on ways to address that,” he told reporters.¶ The Navy’s shipbuilding enterprise still faces a series of challenges, said David J. Berteau, senior adviser and director of the Defense-Industrial Initiatives Group at the Center for Strategic and International Studies. Those hurdles include uncertain force structure requirements, unpredictable future missions, disconnects between shipyard capacity and funded programs and potentially declining budgets. ¶ “We face a drawdown of indefinite length and unspecified proportions,” Berteau said. The Navy has contended with economic downturns and defense draw downs before. But in previous situations, its efforts to expand the fleet yielded many ships before the decline occurred. This time around, the latest cycle of defense expenditures has not produced a remarkably larger Navy, so “we actually start with a weak spot,” he pointed out at a defense industry conference. ¶ That means the Navy must climb the proverbial slippery slope to boost its fleet numbers on fewer dollars than before. Its limited purchasing power will relegate industry to shoulder more of the burden.

#### Competitors now- US is at risk of losing shipyard leadership

Collins and Erickson 2012 (Gabe Collins and Andrew Erickson, November 1, 2012, “U.S. Navy Take Notice: China is Becoming a World-Class Military Shipbuilder,” The Diplomat, http://thediplomat.com/2012/11/01/u-s-navy-take-notice-china-is-becoming-a-world-class-military-shipbuilder/4/?all=true)

China’s military shipyards now are surpassing Western European, Japanese, and Korean military shipbuilders in terms of both the types and numbers of ships they can build. If Beijing prioritizes progress, China’s military shipbuilding technical capabilities can likely become as good as Russia’s are now by 2020 and will near current U.S. shipbuilding technical proficiency levels by 2030. China is now mass producing at least six classes of modern diesel-electric submarines and surface warships, including the new Type 052C “Luyang II” and Type 052D “Luyang III” destroyers now in series production.¶ Eight key themes, listed sequentially below, characterize China’s rise as a world-class military shipbuilder. For reference, the companies building the warships are China State Shipbuilding Corporation (“CSSC”) and China Shipbuilding Industry Corporation (“CSIC”).¶ 1. China’s warship buildout thus far supports modernization and replacement, not rapid expansion¶ Over the past six years, China’s overall fleet of frontline combatants has expanded, but slowly, growing from 172 ships in 2005 to an estimated 221 vessels in 2012. However, the fleet has improved substantially in qualitative terms as newer ships and subs replace older ones. For instance, as Type 052 C/D Luyang-series destroyers, Type 054A Jiangkai II-series frigates, and Type 041 Yuan diesel-electric submarines have come into the fleet, they are allowing the People’s Liberation Army Navy (PLAN) to steadily retire obsolete platforms like Luda destroyers and Ming submarines.¶ 2. Chinese military shipbuilders are catching up to Russian and U.S. Yards¶ China’s large state-backed military shipbuilders are approaching their Russian and U.S. peers in terms of the number of warships built. China’s large submarine and surface warship buildout will, in a decade, likely have it become second only to the U.S. in terms of total warships produced since 1990. More importantly, the ramp-up of China’s construction of large warships in recent years will mean the PLA Navy will likely be taking delivery of larger numbers of modern surface combatants and submarines annually than the U.S. Navy.¶ Measured in terms of warships commissioned since 1990, China is now number three globally and is rapidly gaining on Russia, the number two country. Most of Russia’s post-1990 military ship deliveries simply reflected yards “finishing up” Soviet-era projects.¶ Chinese yards, in contrast, have come on strong over the past decade, with a big push in submarine construction that began in 2002-03 and a strong pipeline of surface warship deliveries that continues to gain steam to this very day. Chinese military shipyards—in particular the Changxing Island and Hudong Zhonghua yards near Shanghai—are humming with activity, and over the next 2-3 years, China is likely to commission enough large warships to put it second only to the U.S. in terms of large warships built and delivered since 1990.

#### Plan revitalizes shipbuilding industry

Mason 2011 (Joseph Mason, Senior Fellow, The Wharton School, Louisiana State University Endowed Chair of Banking and nationally-renowned economist, April 6, 2011, House Natural Resources Subcommittee on Energy and Mineral Resources Hearing; Fisheries, Wildlife, Oceans and Insular Affairs Legislative Hearing on H.R. 306, H.R. 588, S. 266 and H.R. 285, Lexis)

Apart from national energy concerns, however, economic considerations also favor increased development of OCS energy resources. Specifically, the boost provided to local onshore economies by offshore production would be particularly welcome in the present economic climate. Similar to fiscal alternatives presently under consideration, OCS development would provide a long-run economic stimulus to the U.S. economy because the incremental output, employment, and wages provided by OCS development would be spread over many years. Unlike those policies, however, this stimulus would not require government expenditures to support that long-term growth. A. The Present State of Offshore U.S. Oil and Gas Production Despite its importance, U.S. oil and natural gas production in offshore areas is currently limited to only a few regions. At the present time, oil and gas is only actively produced off the coast of six U.S. states: Alabama, Louisiana, Mississippi, Texas, California, and Alaska. The Energy Information Administration (EIA) reports that Alabama, Louisiana, Mississippi, and Texas are the only coastal states that provide access to all or almost all of their offshore energy resources. Only two additional states--Alaska and California--are producing any offshore energy supplies. All California OCS Planning Areas and most Alaska OCS Planning Areas, however, were not open to any new facilities until the recent end of the Congressional and Presidential moratoria. The remaining 16 coastal states are not open to new production and are not presently extracting any offshore energy resources. Even without those remaining sixteen states, plus California and Alaska, the OCS is already the most important source of U.S. energy supplies. According to the MMS, "the Federal OCS is a major supplier of oil and natural gas for the domestic market, contributing more energy (oil and natural gas) for U.S. consumption than any single U.S. state or country in the world." That is, OCS production presently meets more U.S. energy demand than any other single source, including Saudi Arabia. B. Offshore Oil Production Stimulates Onshore Economies Offshore oil and gas production has a significant effect on local onshore economies as well as the national economy. There are broadly three "phases" of development that contribute to state economic growth: (1) the initial exploration and development of offshore facilities; (2) the extraction of oil and gas reserves; and (3) refining crude oil into finished petroleum products. Industries supporting those phases are most evident in the sections of the Gulf of Mexico that are currently open to offshore drilling. For example, the U.S. shipbuilding industry - based largely in the Gulf region - benefits significantly from initial offshore oil exploration efforts. Exploration and development also requires specialized exploration and drilling vessels, floating drilling rigs, and miles and miles of steel pipe, as well as highly educated and specialized labor to staff the efforts. The onshore support does not end with production. A recent report prepared for the U.S. Department of Energy indicates that the Louisiana economy is "highly dependent on a wide variety of industries that depend on offshore oil and gas production" and that offshore production supports onshore production in the chemicals, platform fabrication, drilling services, transportation, and gas processing. Fleets of helicopters and U.S.-built vessels also supply offshore facilities with a wide range of industrial and consumer goods, from industrial spare parts to groceries. As explained in Section IV.G, however, the distance between offshore facilities and onshore communities can affect the relative intensity of the local economic effects. The economic effects in the refining phase are even more diffuse than the effects for the two preceding phases. Although significant capacity is located in California, Illinois, New Jersey, Louisiana, Pennsylvania, Texas, and Washington, additional U.S. refining capacity is spread widely around the country. As a result, refinery jobs, wages, and tax revenues are even more likely to "spill over" into other areas of the country, including non-coastal states like Illinois, as those are home to many refining and chemical industries that ride the economic coattails of oil exploration and extraction. II. OFFSHORE OIL AND GAS RESERVE ESTIMATES AND THE SOURCES OF THEIR ECONOMIC BENEFITS As described in my 2009 white paper, "The Economic Contribution of Increased Offshore Oil Exploration and Production to Regional and National Economies," available at www.americanenergyalliance.org/images/aea\_offshore\_updated\_final.pdf, significant oil and gas reserves lie under the U.S. Outer Continental Shelf (OCS). According to the Energy Information Administration (EIA), the OCS (including Alaskan OCS Planning Areas) contains approximately 86 billion barrels of recoverable oil and approximately 420 trillion cubic feet of recoverable natural gas. As noted by the White House, however, the OCS estimates are conservative. Of the total OCS reserves, a significant portion was unavailable to exploration until recently. Specifically, Presidential and Congressional mandates banned production from OCS Planning Areas covering approximately 18 billion barrels of recoverable oil and 77.61 trillion cubic feet of recoverable natural gas. These bans covered approximately 31 percent of the total recoverable OCS oil reserves and 25 percent of the total recoverable OCS natural gas reserves. Economic benefits of utilizing OCS reserves accrue from three primary sources: (1) exploration/platform investments; (2) production; and (3) refining. Sources (1) and (3) produce initial effects--that is, new industry expenditures--today; in contrast, source (2) produce economic effects only once production begins. The analysis therefore considers "initial" economic effects as those that flow from exploration or investments in new refining capacity and long-term economic effects as those that flow from production and ongoing refining. A. Exploration and Offshore Facility Development In contrast to other industries, the high fixed investment costs associated with offshore oil and gas production produce large initial investments that reverberate throughout the economy. Once oil or gas reserves are located, billions of additional dollars must be spent before the well produces even $1 of revenue. For example, oil exploration costs can amount to between $200,000 and $759,000 per day per site. Additional production in the U.S. will also require a costly expansion refining capacity as well. Taken together, the fixed expenditures that precede actual offshore oil and gas production can amount to billions of dollars. For example, Chevron's "Tahiti" project in the Gulf of Mexico is representative of the large investments that firms must make before production is achieved. In 2002, Chevron explored the Tahiti lease--which lies 100 miles off the U.S. coast at a depth of 4,000 feet--and found "an estimated 400 million to 500 million barrels of recoverable resources." Chevron estimates that it will take seven years to build the necessary infrastructure required to begin production at Tahiti. The firm estimates that its total development costs will amount to "$4.7 billion--before realizing $1 of return on our investment." As a typical U.S. offshore project, the Tahiti project provides a wealth of information regarding the up-front investment costs, length of investment, and lifespan of future OCS fields. As noted above, the Tahiti field is estimated to hold between 400 million and 500 million barrels of oil and oil equivalents (primarily natural gas) and is expected to require an initial fixed investment of $4.7 billion. Using the mid-point reserve estimate of 450 million barrels of oil equivalent, up-front development costs amount to approximately $10.44 per barrel of oil reserves or $1.86 per 1,000 cubic feet of natural gas reserves. These costs will be spread over 7 years, resulting in average up-front development expenditures equal to $1.49 per barrel of oil and $0.27 per 1,000 cubic feet of natural gas. Chevron also estimates that the Tahiti project will produce for "up to 30 years". Although investment and production times vary widely, the analysis that follows uses the Tahiti project numbers - an average initial investment period of seven years followed by an average production period of 30 years - as indicative of the "typical" offshore project. I will thus assume an average initial investment period of seven years followed by an average production period of 30 years. The speed of OCS development also factors into the analysis. Because most areas of the U.S. OCS have been closed to new exploration and production for almost forty years, it is unclear how quickly firms would move to develop new offshore fields. Given its large potential reserves, however, the OCS is sure to attract significant investment. Without the benefit of government data, a rough estimate suggests that annual total investment in OCS fields would be $9.09 billion per year. Those annual expenditures are expected to last, on average, the full seven years of the development phase. Additional investment in states that already support significant production - Alabama, Louisiana, Mississippi, and Texas - are limited. Some of the greatest benefits accrue to areas that are home to enormous - but unavailable - total reserves: California and Florida. B. Production The likely value of state recoverable oil and gas reserves are estimated using the likely lifetime revenue that could be generated by the project. In that case, average wholesale energy prices provide the information necessary to translate reserves into revenues. Taking the simple average of the EIA's latest inflation-adjusted energy price forecasts through 2030 as provided by its Annual Energy Outlook 2009, the average inflation-adjusted price of oil will be $110.64 per barrel and the average inflation-adjusted price of natural gas will be $6.83 per thousand cubic feet. At these prices, the estimated OCS reserves are worth about $13 trillion. The value of each state's available reserves are calculated as the sum of (1) its share of available OCS Planning Area oil reserves times $110.64 per barrel and (2) its share of available OCS Planning Area natural gas reserves times $6.83 per thousand cubic feet. The same method applies to the valuation of total state OCS reserves. By those estimation methods, states such as California, facing a budget crisis in the current recession, have an estimated $1.65 trillion in resources available in nearby OCS planning areas. Florida, while not facing as dire a fiscal crisis, has about $0.55 trillion in resources available in nearby OCS planning areas. Hence, a permanent relaxation of all federal OCS production moratoria would unlock more than $3.4 trillion in new production among all the coastal states. C. Investments in Incremental Refining Capacity Since U.S. refineries are presently operating near maximum capacity increased offshore oil and gas production would also spur investment in new refineries. The U.S. refining industry is presently operating at 97.9 percent of capacity and can no longer depend on excess foreign refining to meet production shortfalls arising from seasonality or repairs. In response, many large refiners are already considering refinery expansions: ConocoPhillips announced that it planned to spend $6.5 billion to $7 billion on capacity expansion at its U.S. facilities; Chevron has also considered a major refinery expansion; and while Shell is completing a $7 billion expansion and its Port Arthur, Texas refinery they are considering further expansion elsewhere. Additional refinery investments are likely to occur in the few U.S. states that already host significant U.S. refineries. This result is largely due to environmental restrictions that severely limit the placement of new refining capacity. Current capacity is primarily concentrated in California, Louisiana, and Texas. The U.S. presently has an operating refining capacity of approximately 6.287 billion barrels of crude oil per year. Conservative estimates of OCS production would add approximately 3.773 billion barrels per year, or about sixty percent of current U.S. operating refinery capacity. Because some OCS refining production would most likely substitute for foreign production, however, the analysis conservatively assumes that only one-quarter of this new OCS production necessitates additional U.S. refinery capacity. That is, I estimate that U.S. refinery demand would increase by 943.25 million barrels per year, or 15 percent of current installed capacity. Even this modest capacity increase would require substantial new investments. In response to existing capacity constraints, Shell is already increasing the capacity of its Port Arthur, Texas refinery. This expansion will take approximately two and one-half years to complete and cost $7 billion. The facility will add 325,000 barrels per day (or 118.6 million barrels per year) in new capacity, at a cost of approximately $59.02 per barrel of new annual capacity. As noted above, since tough environmental regulations effectively limit new refinery capacity to a few states, refinery investments are likely to be limited to only a few states with large existing capacity. These states can be reasonably assumed to be the same states the already have large installed refinery capacity. Hence, incremental refinery capacity will be added predominantly in states already home to large refining capacity--those with a present capacity of more than 200 million barrels per year. There are seven such states: California, Illinois, Louisiana, New Jersey, Pennsylvania, Texas, and Washington. Expected increases in offshore oil production will induce approximately $22 billion in refining capacity investments each year for two and one half years. California, Texas, and Louisiana will receive the bulk of this investment, but investments of more than $1 billion annually can be expected in Illinois, New Jersey, Pennsylvania, and Washington. III. INCREASED INVESTMENTS IN OFFSHORE OIL AND GAS PRODUCTION WILL CAUSE SUBSTANTIAL INCREASES IN WAGES, EMPLOYMENT, AND TAXES, AND PROFOUND EFFECTS ON COMMUNITIES THROUGHOUT THE NATION Onshore state and local economies benefit from the development of OCS reserves by providing goods and services to offshore oil and gas extraction sites. Onshore communities provide all manner of goods and services required by offshore oil and gas extraction. A variety of industries are involved in this effort: shipbuilders provide exploration vessels, permanent and movable platforms, and resupply vessels; steelworkers fashion the drilling machinery and specialized pipes required for offshore resource extraction; accountants and bankers provide financial services; and other onshore employees provide groceries, transportation, refining, and other duties. These onshore jobs, in turn, support other jobs and other industries (such as retail and hospitality establishments). The statistical approach known as an "input-output" analysis measures the economic effects associated with a particular project or economic development plan. This approach, which was pioneered by Nobel Prize winner Wassily Leontif, has been refined by the U.S. Department of Commerce. The most recent version of the Commerce Department's analysis is known as the Regional Input-Output Modelling System, or "RIMS II." The RIMS II model provides a variety of multipliers that measure how an economic development project--such as offshore drilling--would "trickle down" through the economy providing new jobs, wages, and government revenues. This analysis can be broken down into two parts: (1) a "direct" analysis measuring the benefits that arise from industries that directly supply offshore oil and gas exploration and (2) the "final" analysis that measures the direct and indirect benefits associated with offshore exploration. The RIMS II model is the standard method governmental authorities use to evaluate the benefits associated with an economic development project. According to the Commerce Department, the RIMS II model has been used to evaluate the economic effects of many projects, including: opening or closing military bases, tourist expenditures, new energy facilities, opening or closing manufacturing plants, shopping malls, sports stadiums, and new airport or port facilities. A. Opening OCS Planning Areas would Unleash More than $11 trillion in Economic Activity The broadest measure of the incremental effect of increased OCS oil and natural gas extraction is the effect on total economic output. Until OCS production begins, onshore communities will realize only the benefits associated with offshore investment. These benefits take two forms: (1) the development of the offshore facilities themselves and (2) the expansion of onshore refining capacity. These two effects, taken together, provide a rough approximation of the additional output that would be created by allowing greater access to offshore reserves. Of course, the investment expenditures and resulting output estimated above is only made to facilitate oil and gas extraction. Once extraction begins, additional economic activity continues for the lifetime of the oil and natural gas reserves. Using the total U.S. multipliers (2.2860 for refining and 2.3938 for extraction), the total increase in U.S. output from initial investment is estimated to be a total of about $0.5 trillion, or approximately $73 billion per year for the first seven years the OCS is open. For comparative purposes, a $73 billion stimulus amounts to approximately 0.5 percent of total U.S. output (GDP) per year. Increased OCS oil and gas extraction would yield approximately $5.75 trillion in new coastal state output over the lifetime of the fields. Approximating the total increase in output associated with increasing offshore resource production throughout the U.S. (including states in the interior), yields approximately $2.45 trillion in additional output. The total increase in output in the United States is estimated to total approximately $8.2 trillion or about $273 billion per year, which amounts to just over two percent of GDP. Because the OCS areas are currently unavailable, the entire amount--$8.2 trillion--is completely new output created by a simple change in policy allowing resource extraction in additional OCS Planning Areas. B. Opening OCS Planning Areas could Create Millions of New Jobs An economic expansion tied to increased OCS resource production would also create millions of new jobs both in the extraction industry and in other sectors that serve as suppliers or their employees. The annual increase in coastal state employment from initial investments in previously unavailable OCS planning areas and additional refining capacity is estimated to be 185,320 full-time jobs per year. Again, this number does not consider the spill-over effects of investment in productive capacity and refining to other U.S. states. The total increase in U.S. employment from the investment phase is approximately 271,570 full-time jobs per year. Applying the BEA multipliers to the estimated production value results in approximately 870,000 coastal state jobs in addition to the jobs created during the initial investment phase. Again, the total increase in U.S. employment in all states (including those in the interior) resulting from increased OCS production is 340,000 greater, for a total of approximately 1,190,000 jobs be sustained for the entire OCS production period. Increased investment and production in previously unavailable OCS oil and gas extraction and the ancillary industries that support the offshore industry would produce thousands of new jobs in stable and valuable industries. Among the 271,572 jobs created in the investment phase and sustained during the first seven years of the investment cycle. The majority of new positions (162,541 jobs, or 60 percent) would be created in high-skills fields, such as health care, real estate, professional services, manufacturing, administration, finance, education, the arts, information, and management. Although the largest total increase in employment in the production phase would occur (quite naturally) in the mining industry, significant numbers of jobs would be created in other industries. Again, many of these new jobs would be created in high-skills fields, representing approximately 49 percent of all new jobs and approximately 61 percent of all new non-mining jobs. C. Opening OCS Planning Areas can Release Trillions of Dollars of Wages to Workers Hit by Recession Those jobs pay wages. OCS development is estimated to yield approximately $10.7 billion in new wages in coastal states each year. OCS production would yield approximately $1.406 trillion in additional wage income to workers in coastal states over the lifetime of the fields (or $46 billion per year over 30 years). Across the U.S., the investment phase would generate approximately $15.7 billion in additional annual wages per year for the first seven years and $70 billion per year for the next thirty years, or approximately $2.1 trillion in additional wage income. BLS data suggest that all four broad industry classifications related to oil and gas extraction pay higher wages and similar jobs in other industries. Jobs in: (1) Oil and Gas Extraction, (2) Pipeline Transportation of Crude Oil, (3) Petroleum and Coal Products Manufacturing, and (4) Support Activities for Mining, typically pay higher wages than the average American job. Taking this broader measure, the average job created by increased offshore oil and gas production pays approximately 28 percent more than the average U.S. job. D. Opening OCS Planning Areas can Contribute Trillions of Dollars in Taxes and other Public Revenues to Local, State, and Federal Governments Greater output, more jobs, and higher wages translate into higher tax collections and increases in other sources of public revenues. The MMS Report to Congress suggests that public revenues derived from OCS extraction are significant--the U.S. federal government has collected more than $156 billion in lease and levy payments for OCS oil and natural gas production. Note that this amount counts only lease and royalty payments and thus does not include any sales and income taxes paid by firms or workers supported by OCS production. Conservative estimates suggest that seven years of initial annual exploration and refining investments would produce approximately $4.8 billion annually in coastal state and local tax revenue and $11.1 billion in U.S. federal tax income. Over thirty years of production, I estimate that the extraction phase of OCS development would yield approximately $561 billion ($18.7 billion per year) in coastal state and local tax revenue and approximately $1.64 trillion ($54.7 billion per year) in new U.S. federal tax income.

#### Increasing demand reverses negative feedbacks- solves alt causes

Cropsey 2012 (Dr. Seth Cropsey, senior fellow at the Hudson Institute, April 18, 2012, “The U.S. Navy Shipbuilding Plan: Assumptions and Associated Risks to National Security,” Statement before the Committee on Armed Services¶ Subcommittee on Oversight & Investigations¶ U.S. House of Representatives, http://www.hudson.org/files/publications/SethCropsey--USNavyShipbuildingPlan--Testimony041812.pdf)

Knowledge of shipbuilding remains part of American manufacturing. But accelerating cost, an ageing workforce, reduced orders for warships, and an uncertain future risk the nation’s ability to turn out sufficient numbers of vessels at affordable prices and profitably enough to keep¶ shipbuilding companies alive. The destabilization of the American shipbuilding industrial base is one reason that the cost of warships is outpacing the rate of inflation. The Navy’s reduced procurement of ships over the past twenty years has caused the industry to contract, lay off workers, and in general to become less reliable. This has driven up the cost of labor and the cost of construction materials. The fewer ships the Navy buys, the less lucrative the industry is for skilled workers. As the cost of labor rises shipbuilders are increasingly pressed to attract and train qualified personnel.

#### Offshore drilling provides new revenue streams for shipyards

ICAF 2010 (Industrial College of the Armed Forces Report, CAPT Jose Casados-Ortiz, Mexican Navy Mr. Randall Culpepper, Dept of the Air Force Ms. Rebecca Gonzales, Dept of State¶ Mr. Charles Hall, Dept of the Navy¶ Mr. Bruce Matthews, Dept of State LtCol Kari Mostert, US Air Force¶ CDR Manuel Picon, US Navy¶ Col Robert Ricci, US Air Force¶ Mr. Todd Rollins, Dept of the Navy¶ Mr. James Ruocco, Dept of the Navy Mrs. Patricia Schaefer, Dept of State COL Lisa Schleder-Kirkpatrick, US Army Mr. Patrick Snellings, Dept of the Navy COL Jeffrey Vieira, US Army¶ Dr. Linda Brandt, Faculty¶ CAPT David Meyers, US Navy, Faculty Dr. Mark Montroll, Faculty¶ Dr. Seth Weissman, Faculty, Spring 2010, “Final Report: Shipbuilding Industry,” Industrial College of the Armed Forces, http://www.ndu.edu/es/programs/academic/industry/reports/2010/pdf/icaf-is-report-shipbuilding-2010.pdf)

Maintaining the efficiency of shipyards during idle periods erodes their capability and experience base. A possible solution would be to diversify and produce products not related to shipbuilding. For example, faced with expanded shipyard capacity and reduced global demand, Asian shipyards are transitioning under-utilized commercial shipyard capacity to pursue alternative complimentary business such as renewable energy technology. If supported by business case analysis, both the United States and Canada should also explore utilization of excess shipyard capacity in pursuit of alternative energy technology development and production. Here production of large wind turbine generators and motors, towers and specialized offshore construction vessels would seem to be a natural fit for underemployed shipyards with large physical plants, overhead crane capability and resident expertise in large-scale fabrication, large propulsion systems and motors. Among many possible benefits would be productive use of excess facilities, retention of skilled technical employees and leveraging alternative sources of government funding streams versus reliance on traditional defense funding sources. The benefit to military shipbuilding is the continued viability of the greater national shipbuilding industry and potential availability to support military requirements as part of the defense industrial base.

#### Key to naval innovation and surge capacity

ICAF 2010 (Industrial College of the Armed Forces Report, CAPT Jose Casados-Ortiz, Mexican Navy Mr. Randall Culpepper, Dept of the Air Force Ms. Rebecca Gonzales, Dept of State¶ Mr. Charles Hall, Dept of the Navy¶ Mr. Bruce Matthews, Dept of State LtCol Kari Mostert, US Air Force¶ CDR Manuel Picon, US Navy¶ Col Robert Ricci, US Air Force¶ Mr. Todd Rollins, Dept of the Navy¶ Mr. James Ruocco, Dept of the Navy Mrs. Patricia Schaefer, Dept of State COL Lisa Schleder-Kirkpatrick, US Army Mr. Patrick Snellings, Dept of the Navy COL Jeffrey Vieira, US Army¶ Dr. Linda Brandt, Faculty¶ CAPT David Meyers, US Navy, Faculty Dr. Mark Montroll, Faculty¶ Dr. Seth Weissman, Faculty, Spring 2010, “Final Report: Shipbuilding Industry,” Industrial College of the Armed Forces, http://www.ndu.edu/es/programs/academic/industry/reports/2010/pdf/icaf-is-report-shipbuilding-2010.pdf)

There is no debate regarding whether or not America’s shipbuilding industrial base is a critical part of our National Security Strategy (NSS). Unfortunately, there is no coherent and comprehensive defense shipbuilding industrial base strategy tied to the current NSS and other related strategies. That fact aside, the military shipbuilding industry is a key part of the defense industrial base and must be maintained. Where private shipbuilders are functioning in a competitive market, there are great opportunities for lower prices and there is potential for greater innovation and continuous improvement. A competitive, open market also creates opportunities for more efficient management and technical processes, as well as the potential for application of commercial best practices. Finally, maintaining the private sector shipbuilding industry allows a mechanism for potential surge capacity in times of national emergency. All of these benefits have a single underpinning element – a competitive marketplace.

#### Competitors make transition conflicts likely--- even if their Navies are never bigger than ours

Sayers 2009 (Mackenzie Eaglen, Senior Policy Analyst, and Eric Sayers, Research Assistant for National Security at The Heritage Foundation, March 24, 2009, “A 21st Century Maritime Posture for an Uncertain Future,” Heritage, http://www.heritage.org/research/commentary/2009/03/a-21st-century-maritime-posture-for-an-uncertain-future)

The geographical proximity of a majority of the world's population to the seas (75% live within 200 miles of coastlines) has also ensured that coastal zones will become more immediate security concerns. Further, 65% of the world's oil and 35% of global gas reserves are resident in the littorals. The maritime consequences of weak and failed states have already been demonstrated off the coast of Somalia. Likewise, the trafficking of narcotics and proliferation of both conventional weapons and weapons of mass destruction is almost entirely a seaborne enterprise. U.S. Navy leaders are predicting a disorderly future world whose challenges are concentrated along its coasts. These problems will require a multi-faceted maritime solution that includes cooperation with the private sector, between agencies and services, and among nation states.¶ States are increasingly looking to the seas as a means to project power and secure their territorial and energy interests. Naval analyst Bob Work has observed the "United States may be on the leading edge of a broader, longer-term global naval competition, with either China or Russia, or perhaps both."¶ Emerging naval powers like China are beginning to challenge our Shipbuilding capabilities, with indigenous industrial bases that can produce high-quality maritime assets, in quantity. Indeed, China is in the middle of a peacetime naval buildup that is unprecedented in modern history. The People's Liberation Army's (PLA) foreign procurement and indigenous develop of anti-ship cruise missiles adds to the risks faced by America's major surface combatants.¶ Though Russia has a long way to go, its intent to again project power globally is leading to a national rearmament drive, beginning with the deployment of a more capable navy. Both Russia and China are also building, and in Russia's case, exporting, modern submarines. They are not alone. U.S. Navy leaders project a startling 280% growth in the number of submarines in operation around the world over the next 2 decades alone, with most of that growth occurring outside the United States or Europe. At the same time, today's Navy has fewer sailors than it has at any period since 1941, and is the smallest fleet since 1960.¶ An American Navy that cold be hedged from vital shipping lanes in times of crisis, or from key maritime theaters of operation, would sharply undercut America's global influence. Yet that is exactly the challenge poses by these and other trends.¶ The global proliferation of nuclear technology and ballistic missiles also presents challenges. The Chief of Naval Operations recently cautioned that every 3 years since the early 1990s, a nation becomes capable of launching ballistic missiles. Continuing the Navy's evolution into a key component of America's global Ballistic Missile Defense (BMD) mission will be one of its primary responsibilities in the decades ahead.

#### Makes innovation necessary for hider/finder advantage

Arquilla 2012 (John Arquilla, PhD from Stanford University, professor at the United States Naval Postgraduate School, October 29, 2012, “Game Theory,” Foreign Policy, http://www.foreignpolicy.com/articles/2012/10/29/game\_theory?page=0,1)

In the final candidates' debate last week, President Obama delivered a telling, somewhat snarky zinger in response to Governor Romney's call for naval expansion: "This isn't ‘Battleship.'" He then went on to school Romney about how having some aircraft carriers and submarines means we don't need more ships. The governor had no adequate reply.

But the fact of the matter is that the old "Battleship" board game -- not the more recent movie flop that was somehow based on it -- offers exactly the right metaphor to describe strategic affairs in the information age. "Battleship" does so by capturing the distilled essence of naval operations today: the hider/finder dynamic.¶ No longer do fleets move against each other en masse, engaging in well-defined, line-against-line slugfests, such as dominated naval affairs from Trafalgar during the Napoleonic Wars to Jutland a century later. Instead, sea wars have become far more cat-and-mouse matters, whose outcomes have become critically dependent on the need to see the enemy first, so as to be able to strike before being struck. Just like in "Battleship."¶ The Germans mounted an early hider/finder naval campaign with a relative handful of surface raiders and U-boats during World War I, and they followed a generation later with more raiders and a major submarine wolfpack offensive in World War II. They nearly won both times because of their ability to remain hidden until they pounced. It was only when means of detection improved -- with both advanced radars and code-breaking capabilities -- that these threats waned.¶ Subs and raiders aside, the larger fleet engagements of the Second World War, especially in the Pacific, were all about finding task forces before those doing the stalking could be detected and attacked first. Thus finding the enemy proved crucial to the U.S. Navy's great victories over the Imperial Japanese Fleet at Midway and -- later, and despite some near-fatal confusion -- at Leyte Gulf. Back in the Atlantic, the hunts for the German raider Graf Spee and the battleship Bismarck were clear examples of the hider/finder dynamic as well.¶ In its own abstract way, "Battleship" forces players to concentrate deeply on the business of "finding." Given his great confidence in aircraft carriers and submarines, President Obama should take careful note that the board game includes them, too, with the carrier being the game's largest and most vulnerable ship -- just as it is in the real world today, as the array of smart, high-speed weapons that have emerged in recent years pose mortal threats to these behemoths. The most valuable vessel in "Battleship" -- that is, the one that is hardest to find and hit -- is also the smallest combatant.¶ Indeed, if Romney had remembered ever playing the game with any of his five sons, he might have been able to rebut the president on the spot. He could have said: "Of course this is ‘Battleship.' That's why I want a lot of smaller, but still well-armed vessels for the U.S. Navy, not just a handful of extremely expensive, highly vulnerable aircraft carriers and a few dozen submarines. China has hundreds of lethal missile and torpedo boats. We need more small, swift ships of our own that pack a real punch."

#### Naval decline unleashes numerous nuclear conflicts

Eaglen 2011 (Mackenzie Eaglen, research fellow for national security at the Heritage Foundation, and Bryan McGrath, former naval officer and director at Delex Consulting, Studies and Analysis, May 16, 2011, “Thinking About a Day Without Sea Power: Implications for U.S. Defense Policy,” Heritage Foundation, http://www.heritage.org/research/reports/2011/05/thinking-about-a-day-without-sea-power-implications-for-us-defense-policy)

Global Implications. Under a scenario of dramatically reduced naval power, the United States would cease to be active in any international alliances. While it is reasonable to assume that land and air forces would be similarly reduced in this scenario, the lack of credible maritime capability to move their bulk and establish forward bases would render these forces irrelevant, even if the Army and Air Force were retained at today’s levels. In Iraq and Afghanistan today, 90 percent of material arrives by sea, although material bound for Afghanistan must then make a laborious journey by land into theater. China’s claims on the South China Sea, previously disputed by virtually all nations in the region and routinely contested by U.S. and partner naval forces, are accepted as a fait accompli, effectively turning the region into a “Chinese lake.” China establishes expansive oil and gas exploration with new deepwater drilling technology and secures its local sea lanes from intervention. Korea, unified in 2017 after the implosion of the North, signs a mutual defense treaty with China and solidifies their relationship. Japan is increasingly isolated and in 2020–2025 executes long-rumored plans to create an indigenous nuclear weapons capability.[11] By 2025, Japan has 25 mobile nuclear-armed missiles ostensibly targeting China, toward which Japan’s historical animus remains strong. China’s entente with Russia leaves the Eurasian landmass dominated by Russia looking west and China looking east and south. Each cedes a sphere of dominance to the other and remains largely unconcerned with the events in the other’s sphere. Worldwide, trade in foodstuffs collapses. Expanding populations in the Middle East increase pressure on their governments, which are already stressed as the breakdown in world trade disproportionately affects food importers. Piracy increases worldwide, driving food transportation costs even higher. In the Arctic, Russia aggressively asserts its dominance and effectively shoulders out other nations with legitimate claims to seabed resources. No naval power exists to counter Russia’s claims. India, recognizing that its previous role as a balancer to China has lost relevance with the retrenchment of the Americans, agrees to supplement Chinese naval power in the Indian Ocean and Persian Gulf to protect the flow of oil to Southeast Asia. In exchange, China agrees to exercise increased influence on its client state Pakistan. The great typhoon of 2023 strikes Bangladesh, killing 23,000 people initially, and 200,000 more die in the subsequent weeks and months as the international community provides little humanitarian relief. Cholera and malaria are epidemic. Iran dominates the Persian Gulf and is a nuclear power. Its navy aggressively patrols the Gulf while the Revolutionary Guard Navy harasses shipping and oil infrastructure to force Gulf Cooperation Council (GCC) countries into Tehran’s orbit. Russia supplies Iran with a steady flow of military technology and nuclear industry expertise. Lacking a regional threat, the Iranians happily control the flow of oil from the Gulf and benefit economically from the “protection” provided to other GCC nations. In Egypt, the decade-long experiment in participatory democracy ends with the ascendance of the Muslim Brotherhood in a violent seizure of power. The United States is identified closely with the previous coalition government, and riots break out at the U.S. embassy. Americans in Egypt are left to their own devices because the U.S. has no forces in the Mediterranean capable of performing a noncombatant evacuation when the government closes major airports. Led by Iran, a coalition of Egypt, Syria, Jordan, and Iraq attacks Israel. Over 300,000 die in six months of fighting that includes a limited nuclear exchange between Iran and Israel. Israel is defeated, and the State of Palestine is declared in its place. Massive “refugee” camps are created to house the internally displaced Israelis, but a humanitarian nightmare ensues from the inability of conquering forces to support them. The NATO alliance is shattered. The security of European nations depends increasingly on the lack of external threats and the nuclear capability of France, Britain, and Germany, which overcame its reticence to military capability in light of America’s retrenchment. Europe depends for its energy security on Russia and Iran, which control the main supply lines and sources of oil and gas to Europe. Major European nations stand down their militaries and instead make limited contributions to a new EU military constabulary force. No European nation maintains the ability to conduct significant out-of-area operations, and Europe as a whole maintains little airlift capacity. Implications for America’s Economy. If the United States slashed its Navy and ended its mission as a guarantor of the free flow of transoceanic goods and trade, globalized world trade would decrease substantially. As early as 1890, noted U.S. naval officer and historian Alfred Thayer Mahan described the world’s oceans as a “great highway…a wide common,” underscoring the long-running importance of the seas to trade.[12] Geographically organized trading blocs develop as the maritime highways suffer from insecurity and rising fuel prices. Asia prospers thanks to internal trade and Middle Eastern oil, Europe muddles along on the largesse of Russia and Iran, and the Western Hemisphere declines to a “new normal” with the exception of energy-independent Brazil. For America, Venezuelan oil grows in importance as other supplies decline. Mexico runs out of oil—as predicted—when it fails to take advantage of Western oil technology and investment. Nigerian output, which for five years had been secured through a partnership of the U.S. Navy and Nigerian maritime forces, is decimated by the bloody civil war of 2021. Canadian exports, which a decade earlier had been strong as a result of the oil shale industry, decline as a result of environmental concerns in Canada and elsewhere about the “fracking” (hydraulic fracturing) process used to free oil from shale. State and non-state actors increase the hazards to seaborne shipping, which are compounded by the necessity of traversing key chokepoints that are easily targeted by those who wish to restrict trade. These chokepoints include the Strait of Hormuz, which Iran could quickly close to trade if it wishes. More than half of the world’s oil is transported by sea. “From 1970 to 2006, the amount of goods transported via the oceans of the world…increased from 2.6 billion tons to 7.4 billion tons, an increase of over 284%.”[13] In 2010, “$40 billion dollars [sic] worth of oil passes through the world’s geographic ‘chokepoints’ on a daily basis…not to mention $3.2 trillion…annually in commerce that moves underwater on transoceanic cables.”[14] These quantities of goods simply cannot be moved by any other means. Thus, a reduction of sea trade reduces overall international trade. U.S. consumers face a greatly diminished selection of goods because domestic production largely disappeared in the decades before the global depression. As countries increasingly focus on regional rather than global trade, costs rise and Americans are forced to accept a much lower standard of living. Some domestic manufacturing improves, but at significant cost. In addition, shippers avoid U.S. ports due to the onerous container inspection regime implemented after investigators discover that the second dirty bomb was smuggled into the U.S. in a shipping container on an innocuous Panamanian-flagged freighter. As a result, American consumers bear higher shipping costs. The market also constrains the variety of goods available to the U.S. consumer and increases their cost. A Congressional Budget Office (CBO) report makes this abundantly clear. A one-week shutdown of the Los Angeles and Long Beach ports would lead to production losses of $65 million to $150 million (in 2006 dollars) per day. A three-year closure would cost $45 billion to $70 billion per year ($125 million to $200 million per day). Perhaps even more shocking, the simulation estimated that employment would shrink by approximately 1 million jobs.[15] These estimates demonstrate the effects of closing only the Los Angeles and Long Beach ports. On a national scale, such a shutdown would be catastrophic. The Government Accountability Office notes that: [O]ver 95 percent of U.S. international trade is transported by water[;] thus, the safety and economic security of the United States depends in large part on the secure use of the world’s seaports and waterways. A successful attack on a major seaport could potentially result in a dramatic slowdown in the international supply chain with impacts in the billions of dollars.[16]

#### Dominance renders great power wars obsolete

Eaglen 2011 (Mackenzie Eaglen, research fellow for national security at the Heritage Foundation, and Bryan McGrath, former naval officer and director at Delex Consulting, Studies and Analysis, May 16, 2011, “Thinking About a Day Without Sea Power: Implications for U.S. Defense Policy,” Heritage Foundation, http://www.heritage.org/research/reports/2011/05/thinking-about-a-day-without-sea-power-implications-for-us-defense-policy)

The U.S. Navy’s global presence has added immeasurably to U.S. economic vitality and to the economies of America’s friends and allies, not to mention those of its enemies. World wars, which destroyed Europe and much of East Asia, have become almost incomprehensible thanks to the “nuclear taboo” and preponderant American sea power. If these conditions are removed, all bets are off. For more than five centuries, the global system of trade and economic development has grown and prospered in the presence of some dominant naval power. Portugal, Spain, the Netherlands, the United Kingdom, and now the U.S. have each taken a turn as the major provider of naval power to maintain the global system. Each benefited handsomely from the investment: [These navies], in times of peace, secured the global commons and ensured freedom of movement of goods and people across the globe. They supported global trading systems from the age of mercantilism to the industrial revolution and into the modern era of capitalism. They were a gold standard for international exchange. These forces supported national governments that had specific global agendas for liberal trade, the rule of law at sea, and the protection of maritime commerce from illicit activities such as piracy and smuggling.[4] A preponderant naval power occupies a unique position in the global order, a special seat at the table, which when unoccupied creates conditions for instability. Both world wars, several European-wide conflicts, and innumerable regional fights have been fueled by naval arms races, inflamed by the combination of passionate rising powers and feckless declining powers.

### Plan

#### The United States Federal Government should reduce restrictions on marine offshore conventional energy production of natural gas.

### Solvency

#### No disads- The administration expanded offshore drilling earlier this month but it’s not enough

Handley 2/8 (Meg Handley, February 8, 2013, “New Offshore Leases in U.S. Could Yield 1B Barrels of Oil,” US News, http://www.usnews.com/news/articles/2013/02/08/new-offshore-leases-in-us-could-yield-1b-barrels-of-oil)

Who says the Obama Administration isn't a friend to fossil fuels? This week the Department of the Interior inked plans to auction off more than 38 million acres of federally owned waters in the central Gulf of Mexico to oil and gas drilling companies, reopening opportunities for energy firms to expand their offshore drilling operations.¶ According to government estimates, the area up for auction—scheduled to take place at the Mercedes-Benz Superdome in New Orleans in late March—could produce nearly 1 billion barrels of oil and 4 trillion cubic feet of natural gas.¶ "The Obama Administration is fully committed to developing our domestic energy resources to create jobs, foster economic opportunities, and reduce America's dependence on foreign oil," DOI Secretary Ken Salazar said in a statement. "Exploration and development of the Gulf of Mexico's vital energy resources will continue to help power our nation and drive our economy."¶ The sale is the second under the Obama administration's Outer Continental Shelf Oil and Gas Leasing program for 2012-2017, and the first of five lease sales in the central Gulf. The November lease sale of more than 20 million acres in the western Gulf of Mexico generated nearly $134 million in bids, according to the Associated Press while another sale in the central Gulf held last June yielded $1.7 billion.¶ The central Gulf of Mexico was the site of the Deepwater Horizon disaster in 2010 when a well operated by BP blew out, spilling millions of barrels of crude oil into the Gulf and causing serious environmental damage. Since then, drilling activity has ramped up as companies are more optimistic about hitting deposits in deepwater regions.¶ But while the plan is an encouraging step toward opening up more federal lands for oil and gas developers and easing supply pressures, some critics say the administration isn't going far enough.¶ "The Department of Interior's five-year leasing plan remains a disappointment because it fails to unlock resources off the Atlantic and Pacific coasts, as well in the Eastern Gulf of Mexico and off parts of Alaska's coast," says Nick Loris, an energy policy analyst at the conservative Heritage Foundation think tank. "Doing so would generate hundreds of thousands of jobs, generate hundreds of billions of dollars for our cash-strapped government and lower prices at the pump."

#### OCS natural gas is abundant- removing restrictions key to development and expectations of future supply

Medlock 2008 (Kenneth B. Medlock, fellow in Energy Studies at Rice University's James A Baker III Institute for Public Policy and an adjunct assistant professor in the Economics Department at Rice, July 13, 2008, “Open outer continental shelf,” http://www.chron.com/opinion/outlook/article/Open-outer-continental-shelf-1597898.php]

Of course, opening the OCS will not bring immediate supplies because it would take time to organize the lease sales and then develop the supply delivery infrastructure. However, as development progressed, the expected growth in supply would have an effect on market sentiment and eventually prices. Thus, opening the OCS should be viewed as a relevant part of a larger strategy to help ease prices over time because an increase in activity in the OCS would generally improve expectations about future oil supplies.¶ Lifting the current moratorium in the OCS would also provide almost 80 trillion cubic feet of technically recoverable natural gas that is currently off-limits. A recent study by the Baker Institute indicates that removing current restrictions on resource development in the OCS would reduce future liquefied natural gas import dependence of the United States and lessen the influence of any future gas producers' cartel.¶ There is currently drilling in certain areas of the OCS, in particular the western and central Gulf of Mexico where the MMS reports more than 4,000 active platforms. This activity accounts for about one-third of our nation's oil supply and one quarter of our natural gas.¶ Oil companies currently hold undeveloped leases. It has been argued, therefore, that it is not worth offering new areas for exploration. This is not a well-reasoned thesis. Commercial quantities of oil do not exist everywhere a well is drilled. If a company's assessment of the acreage under lease indicates it will not bear commercial quantities of oil and gas, then it will not be developed. Moreover, some leases are under study but drilling, which may happen eventually, has not yet begun. Oil companies with leases cannot simply hoard acreage without ramifications. In fact, they would be penalized by investors and shareholders with lower company share values for doing so.¶ The most vehement objection to opening the areas currently off limits in the outer continental shelf is made on environmental grounds. But, according to the MMS, the offshore drilling industry is one of the safest in the United States.

#### OCS solves

Green 2/23 (Mark Green, joined API after 16 years as national editorial writer in the Washington bureau of The Oklahoman newspaper, “Unlock US Energy Potential: Offshore Oil and Gas,” The Energy Collective, http://theenergycollective.com/mark-green/188896/unlock-offshore-energy-potential)

The map below makes clear that while there’s talk in Washington of an all-of-the-above approach to energy, there’s much to be done in applying that concept to our outer continental shelf (OCS) oil and natural gas reserves. Other claims notwithstanding, the number to focus on is 87 – as in the 87 percent of federal offshore acreage that’s off limits to oil and natural gas development, indicated in red. Areas open to development are colored blue.¶ ¶ America’s vast OCS energy potential remains largely just that, potential. Also on hold are jobs and economic growth associated with increased energy development. Key points:¶ ¶ 88.6 billion barrels of oil and 398.4 trillion cubic feet of natural gas are believed to be held in the OCS, according to the Bureau of Ocean Exploration and Management – though those estimates are 30 years old. There could be an even greater abundance, which state-of-the-art seismic surveying technology could determine, if Congress will allow it.¶ Nearly 465,000 new jobs could be created by developing oil and natural gas offshore, according to a 2011 study by Wood Mackenzie.¶ More than $312 billion in new revenue could be generated for government from OCS production by 2030 (Wood Mackenzie).¶ That’s a lot of potential being left on the shelf because of our own policy choices. Also on hold is the boost to America’s energy security that could result from developing more of our own reserves.¶ ¶ All of these points no doubt were on the minds of the governors of Virginia, North Carolina and South Carolina, who wrote last week to Sally Jewell, the president’s choice to be the next Interior secretary, encouraging Jewell to support expanded OCS leasing.¶ ¶ As the map shows, while oil and natural gas development off the coasts of those states is off limits through at least 2017, the administration has authorized a federal review to decide whether energy companies may conduct seismic tests to see how much oil and natural gas is on the OCS there. The governors backed a new energy plan offered by Sen. Lisa Murkowski of Alaska that would increase OCS leasing in the Eastern Gulf of Mexico and parts of the Atlantic OCS:¶ ¶ We applaud this proposal and sincerely hope that the Administration under your guidance can work with us and our Congressional colleagues to enact these commonsense measures. … It’s estimated that energy production from the Atlantic OCS could create more than 140,000 new jobs within the next 20 years, and we hope you will ensure that the Administration is a partner with the states on this issue.¶ ¶ API President and CEO Jack Gerard:¶ ¶ “Unlocking the resources off the Atlantic Coast could create 140,000 jobs, generate much-needed revenue for the government, and fuel major investments in state and local economies. We have an opportunity to lead the world on energy, and through safe and responsible development of our own oil and natural gas resources we can continue our path as a global energy superpower.”¶ ¶ In the OCS we have significant supplies of oil and natural gas – which could prove to be even larger with modern, up-to-date analysis. Unfortunately, 87 percent of the OCS is unavailable for oil and natural gas development that could help create jobs, stimulate the economy and add to domestic energy production.

#### Certainty is key- only the plan solves

Loris 2012 (Nicolas Loris, Fellow in the Roe Institute for Economic Policy Studies at the Heritage Foundation, August 6, 2012, “Senate Energy Bill: Good Start, Room for Improvement,” Heritage Foundation, http://www.heritage.org/research/reports/2012/08/domestic-energy-and-jobs-act-good-start-room-for-improvement)

Senator John Hoeven (R–ND) recently introduced the Domestic Energy and Jobs Act (DEJA), which would greatly expand access to energy and simplify burdensome regulations that prevent projects from coming online in a timely manner. While the legislation could be improved by further increasing access and removing the top-down energy planning, DEJA would still spur economic growth and drive energy production. Increasing Access to Energy DEJA would accept the State Department’s environmental review of the Keystone XL pipeline as sufficient and allow the state of Nebraska to reroute the pipeline to meet the state’s environmental concerns. The State Department studied and addressed risks to soil, wetlands, water resources, vegetation, fish, wildlife, and endangered species and concluded that construction of the pipeline would pose minimal environmental risk.[1] The construction of Keystone XL would allow up to 830,000 barrels of oil per day to come from Canada to the Gulf Coast and create thousands of jobs. DEJA also directs the Department of the Interior (DOI) to conduct a lease sale off the coast of Virginia. The 2.9 million acres 50 miles off the coast has an estimated 130 million barrels of oil and 1.14 trillion cubic feet of natural gas. Opening access off Virginia’s coast is long overdue, and the legislation only opens up a small portion of America’s territorial waters that are off limits. The Offshore Petroleum Expansion Now (OPEN) Act of 2012, also co-sponsored by Senator Hoeven, would replace President Obama’s 2012–2017 Outer Continental Shelf Oil and Gas Leasing Program with a much more robust plan that opens areas in the Atlantic and Pacific Oceans, in the Gulf of Mexico, and off Alaska.[2] Both DEJA and OPEN increase the royalties that states would receive from energy production, but both could go further to increase state involvement in offshore drilling decisions. Since onshore states already receive 50 percent of the royalties, Congress should also implement a 50/50 royalty-sharing program between federal and state governments involved in offshore drilling. Efficient Permitting and Leasing for All Energy Projects Another important component of DEJA is that it streamlines the permitting of all energy projects. Receiving a permit for any energy project, not just fossil fuels, takes entirely too long. Duplicative and unnecessary regulations slow the process and drive up costs. Furthermore, environmental activists delay new energy projects by filing endless administrative appeals and lawsuits. DEJA would create a manageable time frame for permitting for all energy sources to increase supply at lower costs and stimulate economic activity. DEJA also calls for an end to the lengthy permit process in the Natural Petroleum Reserve area of Alaska. It would require the DOI to approve drilling permits within 60 days and infrastructure permits within six months. Lease certainty is another critical issue. The act states that the DOI cannot cancel or withdraw a lease sale after the winning company pays for the lease. Ensuring that the federal government does not pull the rug out from under a company that wins the lease sale would provide the certainty necessary to pursue energy projects. Freeze and Study Environmental Regulations DEJA would also create transparency and accountability for Environmental Protection Agency (EPA) regulations by establishing an interagency committee that would report on the full economic impact of the rules implemented by the EPA that affect fuel prices. This includes any part of the production process that would be affected by greenhouse gas regulations. DEJA delays the implementation of Tier 3 fuel standards (designed to replace the Tier 2 regulations issued in 2000) that would lower the amount of sulfur in gasoline but could add 6–9 cents per gallon to the cost of manufacturing gasoline. The EPA has declared no measurable air quality benefits from these standards. DEJA delays the New Source Performance Standards for refineries, which would drive up the cost of gasoline for no measurable change in the earth’s temperature.[3] It would also delay new national ambient air quality standards for ozone, which are unnecessary because the ozone standard set by the EPA is already more than stringent enough to protect human health. Though the delays contained in DEJA underscore the problems with these regulations, the preferred approach would be to prohibit the implementation of these three standards altogether. DEJA would also prevent the DOI from issuing any rule under the Surface Mining Control and Reclamation Act of 1977 before 2014 that would adversely affect coal employment, reduce revenue from coal production, reduce coal for domestic consumption or export, designate areas as unsuitable for surface mining and reclamation, or expose the U.S. to liability by taking privately owned coal through regulation. While this temporary fix recognizes the federal overreach in coal production, a better approach would be to create a framework that restricts overregulation, empowers the states, balances economic growth and environmental well-being, and creates a timely permitting process for all aspects of coal production.[4] Energy Central Planning Unneeded DEJA would require the federal government to create production objectives for fossil fuels and renewable energy and allow the relevant agencies to make additional lands available to meet those objectives. The bill would also require the U.S. Geological Survey to establish a critical minerals list and create comprehensive policies to increase critical mineral production. A much simpler and effective solution would be to open all federal lands for energy production of all sources and allow the private sector to determine what sources of energy and what technologies meet America’s electricity and transportation fuel demand. Too often the use of critical minerals has been used as cover for subsidies and extensive government intervention in a major industry. If there are clear military needs for certain critical materials, these should be met by government action. Absent that, streamlining the bureaucracy that has expanded around mining and opening access is the only necessary federal action surrounding critical minerals.