

**STATEMENT BY**

**PAUL L. KELLY  
CONSULTANT  
ROWAN COMPANIES, INC.**

**ON BEHALF OF  
THE  
AMERICAN PETROLEUM INSTITUTE  
THE  
INTERNATIONAL ASSOCIATION OF DRILLING  
CONTRACTORS  
THE  
NATIONAL OCEAN INDUSTRIES ASSOCIATION  
THE  
AMERICAN EXPLORATION AND PRODUCTION COUNCIL  
THE  
INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA  
AND THE  
UNITED STATES OIL AND GAS ASSOCIATION**

**BEFORE THE UNITED STATES SENATE  
COMMITTEE ON FOREIGN RELATIONS**

**HEARING ON THE LAW OF THE SEA CONVENTION  
WASHINGTON, D.C.  
OCTOBER 4, 2007**

Mr. Chairman and members of the Committee:

Thank you for inviting me to testify before you today to express the U.S. oil and natural gas industry's support for United States accession to the Law of the Sea (LOS) Convention.

### **Introduction and Background**

Taken together, the six associations I am speaking on behalf of here today, the American Petroleum Institute (API), the International Association of Drilling Contractors (IADC), the National Ocean Industries Association (NOIA), the American Exploration and Production Council (AXPC), the Independent Petroleum Association of America (IPAA) and the United States Oil and Gas Association (USOGA), represent the full spectrum of American companies involved in all phases of oil and natural gas exploration and production in the oceans of the world, as well as the marine transportation of petroleum and petroleum products. Although I am currently a consultant for Rowan Companies, I worked in the oil and natural gas industry for 35 years. I am also the President of the Gulf of Mexico Foundation as well as a former commissioner on the U.S. Commission on Ocean Policy.

The offshore oil and natural gas industry spends billions of dollars annually in the search for and production of oil and natural gas in the world's oceans. U.S. offshore production accounts for more than 27% of the country's oil production, and 15% of its natural gas production. Each year, offshore energy development contributes between \$4 and 6 billion in revenues to the federal treasury. Millions are also paid to states and local communities. The federal offshore produced approximately 500 million barrels of oil and about 3 trillion cubic feet of natural gas in 2006. In addition to activities in areas under United States jurisdiction such as Alaska and the Gulf of Mexico, our nation has substantial interests in offshore oil and natural gas development activities globally, given our significant reliance upon imported oil. U.S. oil and natural gas production companies, as well as oilfield drilling, equipment and service companies, are important players in the competition to locate and develop offshore natural gas and oil resources. The pace of technological advancement, which drove the need to define the outer limits of the continental

margin, has not abated. Advances in technology and increased efficiencies are taking us to greater and greater water depths and rekindling interest in areas that once were considered out of reach or uneconomic.

Recognizing the importance of the LOS Convention to the energy sector, the National Petroleum Council, an advisory body to the United States Secretary of Energy, in 1973 published an assessment of industry needs in an effort to influence the negotiations. Entitled “Law of the Sea: Particular Aspects Affecting the Petroleum Industry,” it contained conclusions and recommendations in five key areas including freedom of navigation, stable investment conditions, protection of the marine environment, accommodation of multiple uses, and dispute settlement. The views reflected in this study had a substantial impact on the negotiations, and most of its recommendations found their way into the Convention in one form or another. Having been satisfied with the terms of the Convention, the U.S. oil and natural gas industry’s major trade associations, including those I am representing today, have for many years supported ratification of the Convention by the United States Senate. Also, the Outer Continental Shelf Policy Committee, an advisory body to the United States Secretary of the Interior on matters relating to our offshore oil and natural gas leasing program, has adopted resolutions supporting the United States acceding to the Convention.

### **Offshore Oil and Natural Gas Resources**

The Convention is important to our efforts to develop domestic offshore oil and natural gas resources. The Convention secures each coastal nation’s exclusive rights to the living and non-living resources of the 200-mile exclusive economic zone (EEZ). In the case of the United States, this brings an additional 4.1 million square miles of ocean under U.S. jurisdiction. This is over 3 billion acres. This EEZ is an area larger than the U.S. land area. The Convention also broadens the definition of the continental shelf in a way that favors the U.S. with its broad continental margins, particularly in the North Atlantic, Gulf of Mexico, the Bering Sea and the Arctic Ocean.



## **Exploration Moving Farther from Shore into Deeper Waters**

Offshore petroleum production is a major technological triumph. We now have world record complex development projects located in 8,000 feet of water depth in the Gulf of Mexico (In June 2007, gas production started on Independence Hub, a semi-submersible platform located in 8,000 feet of water and operated by Anadarko) which were thought unimaginable a generation ago. Even more eye-opening, a number of exploration wells have been drilled in the past three years in over 8,000 feet of water and a world record well has been drilled in over 10,000 feet of water. New technologies are allowing oil explorers to extend their search for new resources of oil and gas out to and beyond 200 miles for the first time, thus creating a more pressing need for certainty and stability in delineation of the extended shelf boundary. In addition, those technologies also allow that the largest discoveries in a generation can be made in field sizes not even imagined before.

Before the LOS Convention there were no clear, objective means of determining the outer limit of the shelf, leaving a good deal of uncertainty and creating significant potential for jurisdictional conflicts between coastal states. Under the Convention, the continental shelf extends seaward to the outer edge of the continental margin or to the 200 nautical mile limit of the EEZ, whichever is greater, to a maximum of 350 nautical miles in certain situations. The U.S. understands that such features as the Chukchi Plateau and component elevations, situated to the north of Alaska, could be claimed by the U.S. under the provisions stated in the Law of the Sea Treaty which in turn could substantially extend U.S. jurisdiction well beyond 350 nautical miles. U.S. companies are interested in setting international precedents by being the first to operate in areas beyond 200 miles and to continue demonstrating environmentally sound drilling development and production technologies.

## **Importance of Delineating the Extended Continental Shelf**

The Convention established the Limits on Continental Shelf Commission (“the Continental Shelf Commission”), a body of experts through which nations may establish universally binding outer limits for their continental shelves under Article 76. The objective criteria for delineating the outer limit of the continental shelf, plus the presence of the Continental Shelf Commission, should substantially reduce potential conflicts offsetting states and provide a means to ensure the security of tenure crucial to those investing in capital-intensive deepwater oil and natural gas development projects.

It is in the best interest of the U.S. to follow the convention’s procedure for establishing the outer limits of our continental margin beyond 200 miles where appropriate – in so doing the U.S. could expand its areas for mineral exploration and development by more than 291,383 square miles. We need to get on with the mapping work and other analyses and measurements required to substantiate the extent of our shelf.

Some of the best technology for accomplishing this resides in the United States. Establishing the continental margin beyond 200 miles is particularly important in the Arctic, where there are a number of countries vying to expand their offshore jurisdictional claims. In fact, Russia and Norway have made submissions with respect to the outer limit of their continental shelf in the Arctic. Also, many states that were parties to the convention in 1999 are finally waking up to a 2009 deadline for filing offshore jurisdictional expansion claim submissions on a massive amount of maritime territory as provided under the 1982 Convention. Only eight claims have been made to date, although about 50 coastal states are bound by a May 13, 2009 deadline for submissions ten years from their date of acceding to the Convention. Russia was first to make a submission in 2001. Since then, Brazil, Australia, Ireland, New Zealand, France, Spain, the United Kingdom and Norway have filed claims in whole or in part.

## **Arctic**

The world was startled this summer when the Russian Federation symbolically planted a Russian flag on the seabed beneath the ice of the North Pole emphasizing its claim of the region to be an extension of the

Russian continental shelf in waters 4,261 meters deep. Soon thereafter, Canadian Prime Minister Harper made headlines when he toured Canada's Arctic region, emphasizing that Canada's claims include sovereignty over the Northwest Passage.

In the Arctic, a key dispute is whether the Lomonosov Ridge, a vast underwater mountain range stretching across the North Pole, is an extension of Russia's continental shelf, or part of Greenland, which belongs to Denmark, or neither one or both.

Such political moves should not have come as a surprise. One reason is no secret. The U.S. Geological Survey estimates that about one quarter of the world's undiscovered oil and natural gas lies beneath Arctic waters; and modern technology now makes it possible to harvest some of these resources: Securing access to these resources would not only help the United States meet its own growing energy needs, but could eventually contribute significant royalty payments to the federal treasury.

### **Historic Significance**

The Continental Shelf Commission is expected to have a very heavy workload reviewing coastal state submissions over the next 20 months. By some estimates, in the years ahead we could see a historic dividing up of many millions of square kilometers of offshore territory with management rights to all its living and non-living marine resources on or under the seabed. An advisor to developing states preparing their own submissions said recently, "This will probably be the last big shift in ownership of territory in the history of the Earth. Many countries don't realize how serious it is".

How much longer can the United States afford to be a laggard in joining this process? An American geoscientist would make a welcome addition to the Commission on the Limits of the Continental Shelf and would have much to contribute. Asked recently about the competitive aspect of claims on Arctic territory, Liv Monica Stubholt, Norway's deputy minister for foreign affairs, said that rather than point



fingers at Russia, “Norway would prefer to see the U.S. Senate ratify the 13-year-old UN Convention on the Law of the Sea, which would give the U.S. a seat on the commission and a stake in a non-belligerent resolution of competing claims.”

### **Marine Transportation of Petroleum**

Oil is traded in a global market with U.S. companies as leading participants. The LOS Convention’s protection of navigational rights and freedoms advances the interests of energy security in the U.S., particularly in view of the dangerous world conditions we have faced since the tragic events of September 11, 2001. About 44 percent of U.S. maritime commerce consists of petroleum and petroleum products. Trading routes are secured by provisions in the Convention combining customary rules of international law, such as the right of innocent passage through territorial seas, with new rights of passage through straits and archipelagoes. U.S. accession to the Convention would put us in a much better position to invoke such rules and rights.

### **U.S. Oil Imports at All-Time High**

The outlook for United States energy supply in the first 30 years of the new millennium truly brings home the importance of securing the sea routes through which imported oil and natural gas is transported.

According to API’s Petroleum Facts at a Glance for September 2007, total imports of domestic petroleum were 66 percent or 13,759,000 barrels per day. This is an extraordinary volume of petroleum liquids being transported to our shores in ships every day.

The Department of Energy’s Energy Information Administration (EIA), in its 2007 Annual Energy Outlook, projects that by 2030, net imports of crude oil on the basis of barrels per day, are expected to account for 71 percent of crude supply up from 66 percent in 2005. Looking at the September numbers from API makes one wonder whether 2030 is fast approaching.

### **Growing Natural Gas Imports**

EIA's 2007 Outlook also states that, despite the projected increase in domestic natural gas production, over the next twenty five years an increasing share of U.S. gas demand will also be met by imports. A substantial portion of these imports will come in the form of liquefied natural gas (LNG). All four existing LNG import facilities in the U.S. are now open, and three of the four have announced capacity expansion plans. Meanwhile, several additional U.S. LNG terminals are under study by potential investors, and orders for sophisticated new LNG ships are being placed. This means even more ships following transit lanes from the Middle East, West Africa, Latin America, Indonesia, Australia, and possibly Russia, to name the prominent regions seeking to participate in the U.S. natural gas market.

### **Rising World Oil Demand**

According to the EIA, world petroleum consumption in 2004 was 82.3 million barrels per day. Up to 1985 oil demand in North America was twice as large as Asia. As developing countries improve their economic conditions and transportation infrastructure we could soon see Asian oil demand surpass North American demand. By 2030 world demand is expected to reach nearly 118 million barrels per day. Steady growth in the demand for petroleum throughout the world means increases in crude oil and product shipments in all directions throughout the globe. The Convention can provide protection of navigational rights and freedoms in all these areas through which tankers will be transporting larger volumes of oil and natural gas.

### **Conclusion**

Following my work on the US Commission on Ocean Policy, I am currently serving on the Joint Ocean Commission Initiative, which is a collaboration of the U.S. Commission on Ocean Policy, chaired by Admiral James Watkins (Ret.) and the independent Pew Oceans Commission, which was chaired by the Honorable Leon Panetta. Both Commissions strongly endorsed U.S. accession to the Convention on Law



of the Sea, and this remains one of the highest priorities of the Joint Initiative. Recently, the Joint Initiative reiterated its support for accession to the treaty in a letter to the Senate Majority and Minority leaders and Chairman and Ranking Member of this Committee, signed by 101 prominent U.S. leaders. I would like to reinforce this call for action by submitting, on behalf of the Joint Initiative with the approval of the Committee, a copy of this letter, accompanied by a supporting statement for the record, reiterating the importance of U.S. accession to the Convention.

In conclusion, from an energy perspective we see potential future pressures building in terms of both marine boundary and continental shelf delineations and in marine transportation. We believe the LOS Convention offers the U.S. the chance to exercise needed leadership in addressing these pressures and protecting the many vital U.S. ocean interests. The U.S. petroleum industry is concerned that failure by the United States to become a party to the Convention could adversely affect U.S. companies' operations offshore other countries, and negatively affect any opportunity to lay claim to vitally-needed natural resources. At present there is no U.S. participation, even as an observer, in the Continental Shelf Commission-the body that decides claims of extended continental shelf areas beyond 200 miles-during its important development phase. The United States lost an opportunity to elect a U.S. commissioner in June 2007, and we will not have another opportunity to elect a Commissioner until 2012. By failing to ratify the treaty, the U.S. is now watching from the outside as the guidelines and protocols for conduct on the worlds oceans are developed and as certain provisions of the Convention are implemented.

It is for all these reasons that the U.S. oil and natural gas industry supports Senate approval of the Convention at the earliest possible time.