Oil shale: History, incentives, and policy

Anthony Andrews, Congressional Research Service, Library of Congress, Washington DC

The current high oil prices have revived the interest in oil shale. The Energy Policy Act of 2005 (EPACT) identified oil shale as a strategically important domestic resource, among others, that should be developed. EPACT also directed the Secretary of Defense to develop a separate strategy to use oil shale in meeting Department of Defense (DOD) requirements when doing so is in the national interest. Tapping unconventional resources, such as oil shale, has been promoted as a means of reducing dependence on foreign oil and improving national security. Opponents of federal subsidies for oil shale argue that the price and demand for crude oil should act as sufficient incentives to stimulate development. Projections of increased demand and peaking petroleum production in the coming decades tend to support the price-and-supply incentive argument in the long term. The failure of oil shale has been tied to the perennially lower price of crude oil, a much less risky conventional resource. Proponents of renewing commercial oil shale development might also weigh whether other factors detract from the resource's potential. Refining industry profitability is driven overwhelmingly by light passenger vehicle demand for motor gasoline, and oil-shale distillate does not make ideal feedstock for gasoline production. Policies that discourage the wider use of middle distillates as transportation fuels indirectly discourage oil shale development. Because the largest oil shale resources reside on federal lands, the federal government would have a direct interest and role in the development of this resource.