New and Frozen Frontier Awaits Offshore Oil Drilling

By JOHN M. BRODER and CLIFFORD KRAUSS

WASHINGTON — Shortly before Thanksgiving in 2010, the leaders of the commission President Obama had appointed to investigate the Deepwater Horizon oil spill in the Gulf of Mexico sat down in the Oval Office to brief him.

After listening to their findings about the BP accident and the safety of deepwater drilling, the president abruptly changed the subject.

“Where are you coming out on the offshore Arctic?” he asked.

William K. Reilly, a former chief of the Environmental Protection Agency and a commission co-chairman, was startled, as was Carol M. Browner, the president’s top adviser at the time on energy and climate change. Although a proposal by Shell to drill in the Arctic had been a source of dissension, it was not a major focus of the panel’s work.

“It’s not deep water, right?” the president said, noting that Shell’s proposal involved low-pressure wells in 150 feet of water, nothing like BP’s 5,000-foot high-pressure well that blew out in the gulf.

“What that told me,” Mr. Reilly later recounted, “was that the president had already gotten deeply into this issue and was prepared to go forward.”

The president’s preoccupation with the Arctic proposal, even as the nation was still reeling from the BP spill, was the first hint that Shell’s audacious plan to drill in waters previously considered untouchable had gone from improbable to inevitable.

Barring a successful last-minute legal challenge by environmental groups, Shell will begin drilling test wells off the coast of northern Alaska in July, opening a new frontier in domestic oil exploration and accelerating a global rush to tap the untold resources beneath the frozen ocean.

It is a moment of major promise and considerable danger.
Industry experts and national security officials view the Alaskan Arctic as the last great domestic oil prospect, one that over time could bring the country a giant step closer to cutting its dependence on foreign oil.

But many Alaska Natives and environmental advocates say drilling threatens wildlife and pristine shorelines, and perpetuates the nation’s reliance on dirty fossil fuels.

In blessing Shell’s move into the Arctic, Mr. Obama continues his efforts to balance business and environmental interests, seemingly project by project. He pleased environmentalists by delaying the Keystone XL pipeline from Canada and by adopting tough air standards for power plants, yet he has also delighted business concerns by rejecting an ozone standard deemed too costly to the economy.

And now, the president is writing a new chapter in the nation’s unfolding energy transformation, in this case to the benefit of fossil fuel producers.

“We never would have expected a Democratic president — let alone one seeking to be ‘transformative’ — to open up the Arctic Ocean for drilling,” said Michael Brune, executive director of the Sierra Club.

Shell’s Arctic quest has consumed seven years and $4 billion over two presidential administrations, overcoming a raft of environmental concerns, the opposition of a wily and unpredictable Inupiat Eskimo leader and the fallout from the BP disaster. To do so, it mounted a relentless, two-front campaign.

After initial missteps in wooing Alaska Natives, Shell deployed a personable executive named Pete Slaiby, who traveled to remote villages and chewed raw whale meat while listening to local concerns.

The company’s efforts in Washington were even more strategic. Beyond the usual full-court lobbying effort, Shell abandoned its oil industry brethren and joined advocates pushing for a strong response to climate change.

Ultimately, Shell won the backing of a president it had viewed warily during the 2008 campaign. While he signaled conditional support for the proposal years ago, Mr. Obama came under pressure from rising gasoline prices and the assiduous lobbying of a freshman Democratic senator from Alaska eager to show he could make things happen in Washington.

There were skeptics within the administration, including Ms. Browner, who left the White House before the critical decisions were made. The president’s own Deepwater Horizon commission, while not recommending against Arctic drilling, urged the administration in 2011 to exercise the “utmost caution.” In a follow-up report last month,
it gave the administration a barely passing grade on preparations for this summer’s drilling, saying that there is still no proven method for cleaning oil spilled in ice and that the Coast Guard lacks an adequate response capability in the region.

Frances Beinecke, president of the Natural Resources Defense Council and a commission member, characterized the exploration as “a reckless gamble we cannot afford.”

But the president concluded that the reward was worth the risk, and created an unusual interagency group, overseen by Heather Zichal, who was an environmental adviser to the Obama campaign, to clear Shell’s path through the often fractious federal regulatory bureaucracy. Mr. Obama has long viewed offshore oil resources as insurance against global supply disruption as well as a component of an energy strategy that includes renewable sources, conservation and innovative technologies.

The move also provides the president a measure of political cover. “Alaska tends to be a litmus test for the energy debate,” said Amy Myers Jaffe, director of energy policy research at Rice University. “When Romney says the president is anti-drilling and causes high gas prices, Obama can turn around and say, ‘I approved drilling in Alaska.’ ”

Other oil companies are already lining up to join Shell in the Arctic, which company executives say could eventually yield a million barrels a day of crude — or more than 10 percent of current domestic output. Among the Inupiat who live closest to the proposed drilling, the project continues to generate tension and debate. Although they depend on oil production for jobs and tax revenue, they rely on the ocean for much of their food and culture.

“I’m worried because we live off the ocean, the bowhead whale, the beluga, the walrus, the bearded seal,” said Tommy Olemaun, president of the Native Village of Barrow, an Eskimo tribal organization. “The ocean is our garden.”

**Life by Nature’s Rhythms**

The sweeping tundra on Alaska’s North Slope is a barren land, oddly majestic in its flat, white emptiness. The smallest movement stands out against that blank canvas — the bobbing of a solitary loon or a tiny sea duck plunging for food.

Through much of the year, there is no break between the treeless coastal plain and the frozen seas. But as winter eases, gray misty clouds start appearing over open water, announcing another whale hunting season.

The natural world holds a mystical grip on the nearly 5,000 Eskimos of the North Slope, where the migration patterns of the bowhead whale dictate the rhythm of life. All other activity stops when the Inupiat load up their sealskin boats with gun-fired harpoons.
Whale meat is carved at the beach and shared among the community along with mythical tales of whales giving up their freedom to nourish the people.

Bow-shaped whale skulls are displayed in front of public buildings, and baleens — the bristly plates that filter krill in the whale's mouth — as trophies in offices and homes.

In early April, Roy Nageak, 60, a whaling captain, got off his snowmobile and climbed a high ice ridge four miles offshore in search of a navigable hunting trail. “Those oil guys can think whatever they want, but we know how harsh this ocean is,” he said. “They don’t know what they are getting into.”

But the Eskimos have also come to rely on the oil industry. Before onshore drilling began in the 1960s, many North Slope communities lacked running water and relied on kerosene lanterns for light. Residents chopped ice on nearby lakes and transported it by dog sled to preserve their food. There were no high schools or fire stations.

Since the construction of the Trans-Alaska Pipeline in the late 1970s, the North Slope has produced as much as one-fifth of the nation’s oil, and taxes on the industry finance the North Slope Borough government’s $350 million annual budget. Over the past 50 years, nearly all of Alaska’s prosperity has been driven by oil production and crude prices. Residents pay no state income tax, and in fact receive checks — totaling roughly $5,000 for a family of four last year — from the Alaska Permanent Fund, a corporation largely financed by oil revenues.

The state ranks third behind Texas and North Dakota in oil and gas production, which accounts for a third of the state’s employment, about 100,000 jobs.

Geologists with Royal Dutch Shell first cracked rocks in Alaska looking for gold and oil nearly a century ago. Yet Shell’s first venture into Arctic waters came in the 1980s, when it drilled 16 exploratory wells. It abandoned the costly project as oil prices slumped.

When prices spiked again in the early 2000s, Shell joined the scramble among nations bordering the Arctic to accelerate exploration. The company bid $44 million to lease Beaufort Sea prospects in 2005 and $2.2 billion for leases in the Chukchi Sea in 2008, and expected to be welcomed back to the Arctic.

But the Exxon Valdez disaster in 1989 had changed attitudes, especially among villagers. They feared that drilling would disturb the bowhead migration, forcing the whales away from their food and their pursuers dangerously far offshore. They also feared a spill could poison the whales.

Suddenly, Eskimos were put in the agonizing position of choosing between their two worlds.
“The bowhead whale and the materials it provides is the meat of my life,” said Vernon Rexford, an Eskimo carver. “They talk about the jobs, the promises of education and support for the economy, but that is counterfeit compared to the dangers of an oil spill.”

A Charismatic Obstacle

Edward S. Itta, a straight-talking Inupiat Eskimo, emerged as Shell’s biggest obstacle in Alaska.

As a young man, he had worked as a roustabout on a Prudhoe Bay oil rig. Later, as the borough’s public works director, he came to appreciate the importance of oil revenue to building roads and power plants. But his real gravitas grew from his acclaim as one of the area’s finest whaling captains, a record that elevated him to president of the Barrow Whaling Captains Association.

In 2005, when he first ran for mayor of North Slope Borough, whose 9,400 residents live in an area the size of Utah, he campaigned as a whaler opposed to offshore drilling. And he easily defeated a candidate more accommodating to the industry.

Mr. Itta had no real authority over drilling in federal waters, but Eskimos possess a special moral authority when voicing concerns before Congress or other government entities. Mr. Itta enhanced that aura with a poetic sense of language and an ornately beaded leather vest.

“We consider both the sea and the land and the Inupiat Eskimos to be one,” he once told a government panel. “Therefore, the fate of the ocean is our fate.”

When the administration of President George W. Bush learned that Mr. Itta was considering a lawsuit to stop the drilling, Interior Secretary Dirk Kempthorne invited him to Washington in early 2007. They sat in front of a blazing fireplace in the secretary’s office, where Mr. Kempthorne explained the importance of exploiting the Arctic’s major oil and gas fields and, as a concession, offered to exclude a wetlands area rich in caribou and molting geese.

Mr. Itta lectured the secretary on North Slope culture and told him he intended to sue the government for not adequately studying how Shell’s plan would affect whales and other wildlife. Shell, underestimating Mr. Itta’s resolve, swiftly moved forward with plans to begin drilling in the Beaufort Sea that summer. For a local representative, it hired George Ahmaogak, a tough-talking former borough mayor who used a take-it-or-leave-it approach with his fellow natives. The Shell hat he wore at public meetings became a source of scorn.
That summer, a federal appeals court made preliminary rulings in Mr. Itta's favor, paralyzing Shell for another drilling season.

Mr. Ahmaogak quit his Shell job in 2008 to run against Mr. Itta, who won in a landslide.

**Economic Pressures to Drill**

As Shell surveyed the political landscape ahead of the 2008 presidential election, its lobbyists compiled a thick planning book for dealing with the three likeliest winners, ranking them in order of predicted finish. First was Hillary Rodham Clinton, followed by John McCain. Last was Barack Obama.

Shell retained the retired senators John B. Breaux, Democrat of Louisiana, and Trent Lott, Republican of Mississippi, to lobby Mrs. Clinton and Mr. McCain.

Approaching Mr. Obama, with far less history in Washington, took more creativity. One top Obama adviser who offered some hope to Shell was Mr. Obama’s Senate chief of staff, Pete Rouse. With family roots in Alaska and experience as an aide to the state’s Republican lieutenant governor, Mr. Rouse understood the importance of oil to Alaska’s economy and knew the politics of oil and the Senate. He eventually became the White House point man on Arctic drilling.

A more unlikely campaign aide destined to play a significant role was Ms. Zichal, Senator John Kerry’s former legislative director. Her first trip to Washington had been as a college student and an advocate for the Alaska Wilderness League, lobbying against drilling in the Arctic National Wildlife Refuge.

The 2008 campaign played out amid near-record gasoline prices. The Bush administration and the McCain campaign pushed for lifting the Congressional moratorium on most offshore drilling, and Republican campaign rallies were punctuated by cries of “Drill, baby, drill.”

Mr. Obama, who secured the Democratic nomination in June, was more hesitant, expressing support for continuing the moratorium. But as high gasoline prices persisted, he began to waver.

Near the end of July, he met late one night in Chicago with a delegation of oil company chief executives, including Marvin E. Odum, Shell’s North American president. A few days later, Mr. Obama announced a major policy shift, saying he would accept new offshore drilling as part of a broader energy policy, but only if it included an end to some tax breaks for oil companies and federal incentives for alternative fuels.

“Like all compromises,” Mr. Obama said at the time, “this one has its drawbacks. It includes a limited amount of new offshore drilling, and while I still don’t believe that’s a
particularly meaningful short-term or long-term solution, I am willing to consider it if it’s necessary to actually pass a comprehensive plan.”

Sarah Palin, then the Republican governor of Alaska, not yet called up to the national stage, cheered what she called Mr. Obama’s “flip-flopping” to her side. “Pretty cool,” she said in an e-mail to an aide that came to light years later, but added: “Wrong candidate.”

**Learning to Listen**

In his long career with Shell, Pete Slaiby had been dispatched to some of the most challenging corners of the company’s empire — Cameroon, Syria, Brunei and Brazil, where he met his wife, Rejani.

Mr. Slaiby’s curiosity for exotic places and cultures would serve him well in the Arctic, where the company had offended many Alaska Natives. “There was such a lack of understanding about how to do business up here,” he said. “We made mistakes.”

When he arrived in mid-2008, he flew in propeller planes to tiny villages, answering residents’ questions about how Shell would coexist with the wildlife. “Their concerns are genuine, and the onus is on us to show we can drill safely,” Mr. Slaiby, an engineer, said in an interview.

At company-sponsored meetings with villagers, he passed out raffle tickets, bought trinkets and served food. Though he did not exactly develop a taste for it, he never turned down the local delicacy — raw whale meat. Mrs. Slaiby joined in Native dances, giving them a samba flavor and earning the affectionate nickname “City Lady.”

Shell’s new strategy had been hatched at its North American headquarters in Houston. Before Mr. Slaiby’s arrival in Alaska, a Shell executive invited Mr. Itta to dinner at the Petroleum Club of Anchorage, and agreed to one of his key demands: drilling would be stopped for about 10 days during the bowhead whale migration through the Beaufort Sea. But the company would not move its ships, citing the high cost.

Not good enough, Mr. Itta said.

Shortly thereafter, Mr. Odum, then Shell’s top exploration executive for the Western Hemisphere, met with members of the Eskimo Whaling Commission and agreed to the complete operations blackout demanded by Mr. Itta.

Under Mr. Slaiby’s leadership, Shell made more concessions, including cutting its plans to one year of exploratory drilling instead of three, and to one drill ship instead of two.

“We listened to what Mayor Itta said,” Mr. Slaiby said in a recent interview, “and we started to pare down our program.”
At the same time, Shell officials quietly urged local Eskimo business leaders to help sway the mayor. The company donated $150,000 to Ilisagvik College to expand its Inupiaq language and Inupiat cultural studies program. It financed VHF marine-band radios and satellite phones for whaling crews and covered the costs of some village celebrations.

Mr. Itta started feeling isolated. “It got lonely,” he said. “The pressure was tremendous.” His lawsuit had temporarily blocked Shell from drilling, but Mr. Itta said he was having second thoughts. The Obama administration was leaning strongly for offshore drilling, and he knew the borough would need more oil revenues.

He also knew that most of the state favored the exploration, in part because onshore oil production had decreased. Without more crude flowing through the Alaskan pipeline, concern was growing that the pipeline itself would deteriorate.

“If I had decided to just fight and fight, I would have gotten nothing done,” he said. Instead, he kept working for the best deal.

To maintain the uneasy peace, Mr. Slaiby continued traveling and reassuring Alaska Natives. At one stop, when hunters from Savoonga, a remote village on the Bering Sea, expressed their fears that walruses would be bothered by the noise of drilling, Mr. Slaiby promised that Shell would stop operations when walruses were spotted from the rigs.

“We won’t be successful here if we deprive people of their subsistence,” Mr. Slaiby said. “If the oil companies are doing well and the people living around them are not, it’s a recipe for disaster.”

**Nonstop Lobbying**

Mr. Obama took office under the watchful gaze of environmentalists who had supported him and an oil industry that feared he would rescind its subsidies and push climate change legislation.

ExxonMobil and other major oil companies spent millions of dollars to ensure that such legislation never passed.

Shell took a different tack. Even before Mr. Obama’s election, the company joined the United States Climate Action Partnership, a coalition of businesses and environmental groups advocating a response to global warming. It was a canny move, calculated to gain access to top policy makers, including the president.

“It helped people look at us differently and helped open doors,” Mr. Odum said. “I do not think there is any doubt about that.”
Shell employs three dozen lobbyists, according to government disclosure records. It spent $4.5 million on lobbying in 2008, the last year of the Bush administration. **Lobbying costs** leapt to $10.2 million in 2009, $10.4 million in 2010 and $14.8 million last year.

In the Obama administration’s first two and a half years, Mr. Odum visited the White House at least six times, according to federal records. In 2010 and 2011, Sara B. Glenn, a top Shell lobbyist, was cleared into the executive complex 13 times, to meet with Ms. Zichal and others.

The intensity of Shell’s campaign was matched by the fervor of **Mark Begich**, the new senator from Alaska. He had won his seat in something of a fluke, defeating the longtime Republican incumbent, **Ted Stevens**, who was ensnared in what later turned out to be a deeply flawed Justice Department corruption investigation.

No politician in Alaska can survive as an opponent of any oil development, including those in the waters of the Arctic, the [National Petroleum Reserve](http://www.nytimes.com/2012/05/24/science/earth/shell-arctic-ocean-drilling-stands-t... and the [Arctic National Wildlife Refuge](http://www.nytimes.com/2012/05/24/science/earth/shell-arctic-ocean-drilling-stands-t... Mr. Begich enthusiastically supported all three.

When he first met Mr. Obama at a mayors’ conference in June 2008, Mr. Begich said, he told him, “If I’m elected, this is what I’m going to focus on.”

Being a crucial Democratic vote in a narrowly divided Senate representing a decidedly Republican state gave Mr. Begich leverage. Whenever the president called to court his support — on health care, climate change, the [debt ceiling](http://www.nytimes.com/2012/05/24/science/earth/shell-arctic-ocean-drilling-stands-t... or budget matters — Mr. Begich always turned the discussion to oil and gas in Alaska, particularly Arctic exploration.

“Any time he initiated a call, I felt that was carte blanche to make my case,” Mr. Begich said. A chronology of his contact with the Obama administration on Arctic oil issues fills six pages.

He came to believe that his re-election hinged on delivering a reluctant president on oil issues, particularly drilling on the [Outer Continental Shelf](http://www.nytimes.com/2012/05/24/science/earth/shell-arctic-ocean-drilling-stands-t... in the Arctic.

A Begich aide said that the unstated premise of every conversation with the president was, “You need me, and I need the O.C.S.”

The senator said he remained unsure of Mr. Obama’s intentions until the spring of 2011, when the president called to discuss budget negotiations with Republicans, and Mr. Begich again pressed him on oil. “He said, ‘I’m with you 60 or 70 percent,’” Mr. Begich said. “What that meant to me was he was going to approve everything except A.N.W.R.,” the Arctic wildlife refuge. He was right.
Shell also kept up a steady flow of visits, letters and calls to the agencies that could grant or deny the myriad permits it needed in the Arctic. Over time, Shell’s proposal had expanded to include a total of as many as 10 test wells in the Beaufort and Chukchi Seas over two years. A company lobbyist said that the most resistance came from the National Oceanic and Atmospheric Administration, which had the singular mission of protecting whales and other sea mammals.

“NOAA is traditionally filled with people with a philosophical bent,” the lobbyist said. “We really struggled with them.”

Some bureaucrats felt under siege by the relentless lobbying.

“I understood they were doing it, I understood why they were doing it, and it wasn’t as subtle as it should have been,” one regulator said. “I didn’t like it.”

A Presidential Push

The Deepwater Horizon disaster on April 20, 2010, the worst offshore spill in American history, shut down Shell’s drilling plans for the year, but barely slowed its lobbying campaign on the Arctic. In numerous White House meetings even at the height of the gulf crisis, top Shell officials pressed for a decision.

Mr. Odum said his bosses in The Hague and the company’s shareholders needed to know if their $4 billion investment was ever going to yield oil. “I can actually remember saying several times, ‘We need a decision,’ ” Mr. Odum said of his conversations with top policy makers. “ ‘Is this resource on-limits or off-limits?’ ”

For months after the BP accident, Ms. Browner, the president’s chief environmental adviser, was consumed with the response to the spill. Most other energy issues, including the Arctic, fell to Ms. Zichal.

After the flow from the stricken well was stanched in July, Mr. Obama focused on when to restart offshore drilling and whether to expand it. A month before the BP disaster, the administration had proposed opening new areas to drilling off the East and Gulf Coasts as well as Alaska.

That is perhaps why Mr. Obama solicited the opinion of the BP commissioners in their Oval Office briefing in November 2010. Mr. Obama had heard plenty about the promise and risks of Arctic oil from Shell executives, from Senator Begich, from Mr. Rouse and Ms. Zichal. Mr. Reilly, as a former environmental agency administrator and co-chairman of the BP panel, provided Mr. Obama with slightly more objective validation, even though he was on the board of directors of ConocoPhillips, which is also in line to drill in the Arctic.
Less than two weeks later, the Interior Department issued a statement revising its plans for offshore oil and gas leasing, removing populated areas off the East Coast and Florida but leaving the Arctic Ocean available for lease sales. Although news coverage focused on the areas removed, the announcement was cause for celebration in Houston.

The company’s plans were set back again at the end of December 2010 when an E.P.A. panel revoked the air pollution permit for one of its drilling rigs. That infuriated Shell executives, frustrated White House officials and unleashed the ire of Alaska’s two senators, who introduced legislation to streamline permitting.

The E.P.A. action effectively stopped Shell’s plans for another year, but the president put his foot on the gas.

In May 2011, he authorized onshore oil lease sales in Alaska’s National Petroleum Reserve and extended oil companies’ offshore leases in the Arctic Ocean. In July, he created by executive order a multiagency task force led by the deputy interior secretary but overseen by Ms. Zichal to prod the bureaucracy on Arctic issues, particularly Shell’s drilling plans.

Still, some government officials complained that there remained huge gaps in response plans for a spill and too many unknowns about the effect of drilling on marine animals.

The commandant of the Coast Guard, Admiral Robert J. Papp Jr., went public last August, warning Congress that the country was woefully unprepared to respond to a major spill in the Arctic. That same month, Ms. Beinecke, president of the Natural Resources Defense Council and a member of the BP spill commission, urged the president to block Arctic drilling. “The administration should put on the brakes,” she wrote in an Op-Ed article in The New York Times.

The commission’s final report said that for Arctic drilling to be done safely, “both industry and government will have to demonstrate standards and a level of performance higher than they have ever achieved before.”

But these warnings did not slow progress. At the urging of regulators, Shell strengthened spill prevention and response plans. It built a containment system for the Arctic modeled on the one that successfully capped the BP well and added ships and equipment to the armada to be in place to capture any spilled oil. The company agreed reluctantly to shorten its Chukchi Sea drilling season by 38 days, to less than three months, to ensure that the area would be ice-free in case of a blowout.

The government strengthened its Arctic research programs to better understand the impact of increased industrial activity in the northern ocean. Those and other
concessions seemed to placate officials at the permitting agencies, who were navigating between their regulatory duties and the president’s obvious desire to drill.

Environmental groups, though opposed, recognized the president’s commitment to Shell’s plan, and never formed a broad alliance with North Slope residents, many of whom resented intervention by organizations based mostly outside of Alaska.

National environmental groups focused instead on more promising targets, like defeating the Keystone XL pipeline from Canada and retiring coal-fired power plants.

Shell’s permits came in a rush. Interior approved exploration in both seas by last December. Response plans were endorsed in February and March of this year. The E.P.A.’s appeals board cleared the final air permits at the end of March — just as the whaling season got under way. NOAA came through with a marine mammal permit in early May.

Ms. Zichal said there was no explicit or implied order from the White House to approve the permits. The message was, in her words, “If you’re comfortable with it, we’re comfortable with it.”

But senior people at the agencies had a different reading of the signals, particularly the executive order requiring them to work together more closely. They believed their mission was to do whatever they could — responsibly and within the law — to remove barriers to drilling.

“We can’t stop it,” said one senior agency official who had qualms about Arctic drilling but understood the president’s wishes. “We can only make it less bad.”

Shell is awaiting its final drilling permits from the Interior Department. Its two ships are in Seattle, undergoing final modifications and inspections.

*This article has been revised to reflect the following correction:*

**Correction: May 23, 2012**

An earlier version of this article contained a photo caption that referred to Edward Itta as the mayor of North Slope Borough. He is the former mayor.