THE DEEPWATER DRILLING MORATORIUM:
AN ECONOMIC DISASTER FOR LOUISIANA'S SMALL BUSINESSES

by

Scott Angelle
Lt. Governor
State of Louisiana

Good morning Chairwoman Landrieu, Ranking Member Vitter, and the distinguished members of the Senate Committee on Small Business and Entrepreneurship. I thank you for your public service and your willingness to serve the nation in these challenging times. I appreciate the opportunity to testify this morning on a subject matter of which I strongly believe in – the role of a viable domestic energy industry in supporting our nation's economy. Thank you for your continued efforts as we all work together to meet one of the nation's biggest challenges of this generation of Americans -- the balance of what I call the three E's- the energy, environment, and the economy.

I bring greetings to you from Governor Bobby Jindal and the men and women of Louisiana who have been working, day in and day out, for 120 days to restore our way of while never forgetting the families of the 11 men who lost their lives in the Deepwater Horizon tragedy. Let us all remember keep to keep them in our prayers.

As I address you today, another tragedy continues to unfold in Louisiana and our neighboring states on the Gulf Coast as the days and weeks and months pass under the economic crush of a ban on drilling for oil and natural gas in the deep waters of the Gulf. This moratorium does not threaten the loss of life, but the loss of livelihood for the workers who depend on that industry to feed their families, and for the companies that employ them.

In Louisiana, we have a long and distinguished history of fueling America. This 18th great state of the union is the epicenter for crude oil and natural gas exploration, production, distribution, refining, and processing for the nation, as well as for imports of foreign crude oil and Liquefied Natural Gas.

We rank

- 1st in OCS crude oil production
- 1st in OCS natural gas production
- 1st in OCS revenue generated for the federal government
- 1st in mineral revenues from any source to the federal government
- 1st in foreign import oil volume
- 3rd in crude oil proved reserves
- 3rd in total energy from all sources
- 1st in natural gas processing capacity
- 2nd in petroleum refining capacity
- 2nd in primary petrochemical production

When it comes to contributing to America’s energy security, there is no more important piece of real estate in all of America than Louisiana.

Because of our willingness to host the activities that many states simply refuse to do, every American is tied to Louisiana and the Gulf of Mexico through the gas pump. About a third of our nation’s domestic production comes from the Gulf. And nearly 90% of that Gulf oil comes from deepwater wells.

The July 27 Dun & Bradstreet impact study on the moratorium noted that more than 2,800 small businesses in the state of Louisiana, and more than 35,000 workers are directly involved in the oil and gas exploration industry. For the Gulf Coast, those figures rise to more than 16,000 companies and 153,000 employees.

Those workers and companies are in turn the customers and income sources for other companies, companies that will also feel the blow of lost income due to this moratorium.

A range of studies on the job impact of this moratorium have been completed, and even the lowest estimates indicate a devastating impact to our workers.

- Louisiana's Economic Development agency estimates that 10,000 jobs in Louisiana alone could be lost in a six month moratorium, 20,000 in a year to a year and a half.

- Dr. Joseph Mason with LSU's E.J. Ourso School of Business estimates that the six-month moratorium would cost Gulf States more than 8,000 jobs, and cost the nation more than 12,000 jobs.

- LSU Economist Jim Richardson's study estimates more than 17,000 Louisiana jobs could be lost in the first six months.

- The LSU Center for Energy Studies estimates that up to 24,000 Louisiana jobs could be lost in the first six months of the moratorium, increasing at an average of almost 400 per month after that.

- The Louisiana Mid-Continent Oil and Gas Association estimates job losses could be 30,000 or more in the first six months.

These are not just the men and women who work the drilling rigs – but also the service industries: the welders, the fabricators, the diesel mechanics, the pipefitters, the boat captains, the forklift operators, the dock workers, the service technicians, the plumbers, the sandblasters, the warehousemen, the carpenters, the janitors, the crane operators, the pump mechanics and the electricians. The effects do not end there. Also affected are also the hotel workers, the retail clerks, the auto mechanics, the restaurant workers, the caterers and the waitresses. The job losses and reduced spending of workers and companies will affect banks and real estate. The chain reaction will go on to impact local government revenues, rolling on to school teachers, police officers and other vital services, as recently noted by Lafourche Parish President Charlotte Randolph. Randolph said in a June 16 Tri-Parish Times article that, “Nine of the top 10 taxpayers in Lafourche Parish are businesses involved in the oil and gas industry. A substantial economic downturn for those companies means fewer jobs and more layoffs, and in turn, leads to less sales tax collections, which means less funding for schools, law enforcement and so on.”

It has already begun, as we can see in an August 9 article in USA Today on the hard choices companies have to make.

- The NREC Power Systems engine repair company in Houma has already laid off 10 of its 80 workers because boat owners serving the energy industry have delayed service.
- The Harbor Offshore Marine in Galveston, whose boats service offshore rigs, saw the number of contracts it could bid on in July fall from the usual 12, all the way down to one.
- The Industrial Material Company in Galveston, which supplies goods to industrial companies, has seen its revenue from energy sector clients fall by 17 percent since June.
- The Harvey Gulf International Marine Co. of New Orleans recently cut the pay of its 350 workers by 10 percent and sent three of its 17 supply boats to Mexico and Nigeria.
- Trinity Yachts of New Orleans, which makes supply vessels for the industry, has scaled back plans to add 200 workers to its 1,000-member workforce and lost three boat orders – worth $45 million apiece.

Workers inside and outside the energy industry will bear the brunt of the shutdown and no one has indicated who will pay for this cascading impact. This six-month moratorium, which the United States federal court system has called arbitrary and capricious, will cripple much of the middle class of Louisiana. Simply put, this misdirected public policy, while perhaps well-intended, results in a Moratorium on Middle-class Americans. While it may be difficult for the federal government to understand, the local governments most impacted by this oil spill and the Louisiana

Seafood Research and Promotion Board have all indicated they are opposed to this moratorium. In this unique slice of America, we have demonstrated we can fuel America and at the same time provide the nation with over 20 percent of the nation's commercial fisheries catch. We understand it can not be business as usual, but this six month moratorium is an overreach.

This is in a time when our American families are already struggling to make ends meet, a time when our country can not afford to lose jobs.

We cannot threaten more jobs when this nation has already invested nearly $800 billion in stimulus funding to boost the economy and create jobs; when we still have an unemployment rate of nearly 10 percent.

The longer the shutdown goes on, the more deepwater rigs will be increasingly committed to other parts of the world, robbing the American workers who have worked so hard to gain the skills to do the tough work of fueling America.

If those rigs leave our waters, we can't be sure when or if they would return, even after the moratorium is finally lifted. The Baker Hughes services company out of Houston has already announced it has moved 300 of its 2100 Gulf area employees overseas, along with a quarter of its equipment assets.

Even if the drilling ban lasts only six months, it will mean an estimated:

- $2.7 billion loss to the U.S. economy
- $707 million in lost wages
- $100 million in lost state and local taxes that pay for roads, schools and health care
- $219 million in lost federal revenue

The impact that begins on the Gulf Coast will spread the longer the moratorium continues. Shutting down new drilling threatens our ability to sustain the production we need to fuel this nation. We have seen how quickly a drop in production can hurt our economy. Looking back to 2005, Louisiana was devastated by Hurricanes Katrina and Rita – storms that interrupted production from the Gulf of Mexico. In the week after Katrina, the national average of the price of a gallon of gasoline spiked 46 cents.

A moratorium does not strike as swiftly as a hurricane, but the longer drilling is halted, the more domestic production will suffer as existing wells play out with no new wells to replace them. More than 360 new wells were drilled in the Gulf OCS in 2009 and all of the resulting production helped to America rely less on foreign imports to fuel our nation. The six-month halt we already face could mean an estimated 4 percent drop in 2011 production – and that production could lag for years.

And while I have huge concerns about a six month moratorium I am concerned about what also may be longer moratorium.

Morgan Stanley issued a report on June 1, 2010, wherein they have estimated a 60% chance that the moratorium will last at least a year to 18 months, a 35% chance that it could last 4 years, and only a 5% chance that deepwater drilling will resume by next February.

These kinds of reports, based on the concern for the administration's ability to promulgate regulations in a timely fashion, are drying up investment in the Gulf industries and increasing economic troubles for our people, our businesses and our government.

Even in shallow waters, where there is no declared moratorium – drilling has come to a near halt, even as the industry has reached out to the regulator to find a way forward. In 2009, before the moratorium, the lowest new permit total for a single month in OCS shallow waters was eight. The number of new permits approved in the last three months combined (5) doesn't even match that low-water mark.

Again, a substantial interruption of production will mean a greater reliance on foreign sources of energy, and greater exposure to increases in price. To put the effects into perspective, a 50 cent increase in the price of gasoline shocks the United States economy and costs the American consumers around 1.4 billion dollars a week.

A look over the past several decades is very revealing. We have had six recessions in this country since 1972. Prior to each one of them, the price of oil saw a sustained increase over the previous year. A major increase in fuel prices has almost always been an indicator or a driver of a major recession or downturn in our economy.

Oil reached $147 a barrel in July 2008, more than double what it had been the previous July. By October 2008, our national economy had imploded. Our car manufacturers were crippled, along with our banks and our housing markets. All which were impacted by energy prices that shocked our markets.

Offshore drilling has existed in the Gulf waters for almost 60 years, and deepwater drilling began in the 1970s. Nearly 50,000 wells have been drilled in the Gulf, 3,200 of those in deepwater, and never before have we seen this kind of accident.

Five of the seven experts chosen to review the Department of Interior safety study that led to the moratorium publicly opposed the use of their name and involvement to justify a blanket moratorium. In their public letter of opposition, on page two, was the statement, “A blanket moratorium is not the answer. It will not measurably reduce risk further and it will have a lasting impact on the nation’s economy which may be greater than that of the oil spill.”

When it comes to drilling in the Gulf of Mexico, we believe that we can inspect, detect and correct at the same time. We believe that taking a time out to huddle is appropriate. This can be done. U.S. Department of the Interior Secretary Ken Salazar said recently that shallow water drilling operations are implementing new standards and simultaneously continuing to operate. We can make that same standard apply to deepwater drilling.

While the necessary work of finding the fuel this nation needs is going on with a renewed focus on safety; industry and government can work together to meet the standards laid out in the federal safety offshore report, dated May 27, 2010. If we have a sense of urgency to get this done, I am confident the United States of America has the resources to make it happen.

This moratorium affects much more than the oil industry. Access to affordable energy impacts every sector of our economy, every state in our nation and every American family. This moratorium on deepwater drilling in the Gulf of Mexico is a moratorium on energy security, on economic development and on American jobs.