In Case You Missed It

NATURAL RESOURCES COMMITTEE REPUBLICANS

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"For an Administration that loves to tout stimulus projects that create a handful jobs here or there, it takes some nerve to describe the loss of up to 12,000 high-paying Gulf jobs as a triumph."

The Real Gulf Disaster
The Wall Street Journal
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Editorial

On Sunday Federal spill-response chief Thad Allen declared BP's ruptured well "effectively dead." Now if only Gulf residents weren't stuck coping with the disaster the government created after the accident—namely, the federal drilling moratorium.

The White House has been struggling to justify this ban, which was motivated by anti-drilling politics, not science. So it came as no surprise that late last week—just as the well was about to be plugged—the Administration issued an "inter-agency report" suggesting its decision to effectively shut down the Gulf's largest industry has caused little economic damage. File this one alongside the prediction of an 8% ceiling on unemployment.

According to the analysis, the expected six-month ban on deep-water drilling will result in 8,000 to 12,000 jobs lost. The report crows that "these estimates are lower" than those predicted by other studies and that, moreover, the jobs will "not be permanently lost," but will return when the ban is lifted. It acknowledges the ban will result in a reduction of some $1.8 billion in spending by drilling operators over the six months and a loss of 30 million barrels of oil in 2011, but dismisses these figures as trivial.

For an Administration that loves to tout stimulus projects that create a handful jobs here or there, it takes some nerve to describe the loss of up to 12,000 high-paying Gulf jobs as a triumph. Also unmentioned in the report is that if the Administration had listened to its own outside experts—who insisted a moratorium was unnecessary—the jobs lost would have been near zero. It is the White House that handed the Gulf these pink slips—not the spill, or a poor economy.

The report's numbers also violate the very logic the White House offered earlier on the stimulus spending. According to the authors of the stimulus, every $92,000 the government injected in the economy was supposed to create one job-year. Yet according to the moratorium report, pulling $92,000 out of the economy doesn't result in the reverse. Instead, the authors offer several imaginative explanations for why it is important to "discount" that $92,000 by 40% to 60% when estimating how many jobs will be lost because of the $1.8 billion decline in spending on Gulf drilling. Thus they arrive at 8,000 to 12,000 lost jobs. Louisiana State University Professor Joseph Mason, who has penned a rigorous critique of the report, notes that if the government had not engaged in such "ad hoc" discounting, the estimate of lost jobs would be about 20,000—in line with prior estimates.

The Administration report also argues that the moratorium will merely "delay" 30 million barrels of Gulf oil production in 2011, that this is "small . . . compared to world production," and so it will have "no discernible effect on the price of oil." This may be true, but it fails to account for the billions of additional dollars America will spend now importing oil it would have produced offshore.

The report is correct that the moratorium has not resulted in wholesale job losses—yet. But the relatively stable Gulf employment figures in the report cites tell us little. The self-employed (which includes many Gulf workers) aren't eligible for unemployment insurance. And while many displaced workers have found temporary employment with clean-up operations, jobs are winding down.

Deep-water rig operators have invested billions in the Gulf and deciding to call it quits would be costly. Many are hedging their bets, hoping the millions of dollars they are daily flushing away as rigs sit idle might be recouped if they hold out awhile longer. Numerous operators are paying their crews to do menial tasks, such as painting or repair. Five deep-water crews found work helping to plug the BP well, but that too is ending. The point is that resourceful Gulf workers and operators have only succeeded in delaying the inevitable—not stopping it.

Deep-water operators are looking at what happened to shallow-water drillers, and losing hope.

The BP incident was in deep water, yet the Administration imposed a temporary shallow-water drilling ban, which has morphed into a de facto moratorium. The Bureau of Ocean Energy Management (formerly the Minerals Management Service) has gone into a regulatory lockdown. Prior to BP Horizon, the agency issued on average 12 to 15 permits for new wells per month. In the 20 weeks since BP Horizon, it has issued five new-well permits in total—less than 10% its normal rate.

Today, 15 of the Gulf's 46 shallow-water rigs are idle, due to a lack of new permits. The industry estimates that, at this rate, by Halloween 70% of shallow-water drillers will be idle. The Administration did not include any of these figures in its analysis.

And there's the rub. The real fear is that the Administration is using the oil spill as an excuse to shut down the drilling that the enviro left finds so offensive. The President stacked his oil-spill commission with antidrilling environmentalists, who will be predisposed to recommend that any lifting of the ban be accompanied by a severe regulatory regime. The result would be a moratorium in everything but name.

Five deep-water rig operators have already judged that to be the future and left the Gulf, taking hundreds of jobs with them. If the White House doesn't provide reassurance to the industry that the moratorium will end soon—and bring with it the return of profitable opportunity—dozens more will follow.

This backward state of U.S. drilling affairs is in stark contrast to drilling nations that absorbed the lessons of BP Horizon and moved on. Brazil's Petrobras is gearing up for a $65 billion stock offering, the majority of the proceeds earmarked for a deep-water push. Brazil recently announced what could be the Americas' biggest crude discovery in three decades—a deep field holding up to eight billion barrels of oil. With opportunities like this, why would oil players sit here waiting for the Obama Administration to play politics?

The U.S. has been through an ordeal, but it's also learned lessons. The only thing standing in the way now of a safer, sounder drilling force getting back to the task of meeting the country's energy needs and giving people work is an Administration putting out reports to justify a policy mistake.

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