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Testimony on "Obama Administration's De Facto Moratorium in the Gulf of Mexico: Community and Economic Impacts"

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Good morning Chairman Hastings, Ranking Member Markey, and the distinguished members of the House Committee on Natural Resources. 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 in which I strongly believe – 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 for this generation of Americans -- the balance of what I call the three E's- energy, environment, and the economy. We live in a country where energy, environment and economic policy are interrelated, and decisions made without accounting for each can upset the balance of all.

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, since last April to restore our way of life, while never forgetting the families of the 11 great Americans who lost their lives finding the fuel to energize America in the Deepwater Horizon tragedy. Let us all continue to keep them in our prayers.

The impacts of the reaction to that tragedy continue to unfold in Louisiana as the months have passed under the imposition of the government's "one size fits all" policy on deepwater drilling for oil and natural gas in the waters of the Gulf of Mexico. The deepwater drilling moratorium was lifted in October, over five months ago, but deepwater exploration remains at a near-standstill and even shallow water activity remains crippled. We continue to feel the burden of regulatory uncertainty, which has led to the freezing of investment and expenditures, and consequently a drag on our economy.

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. 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.

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

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 2010 Dun & Bradstreet study 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.

The impacts on those companies and their employees have already begun, as we have seen with recent bankruptcy declaration by Seahawk Drilling and the suddenly unstable futures of its nearly 500 employees.

And Seahawk may not be the last, as can be seen from a recent survey of companies conducted by the Greater New Orleans Inc. Economic Alliance (GNO Inc.), two of whom asked not to be named for fear of further weakening their businesses –

- The owners of R & D Enterprises of Harvey, which provides specialized equipment to the offshore exploration industry, reported that they are living off savings since the company has lost 100 percent of its revenue stream and are trying to hang on to employees while waiting for customers to get permits.
- The owners of what I will call the Offshore Solutions company, a Jefferson Parish company providing offshore equipment and specialized products, said the company lost all of its clients, and has tried to sell some of its equipment to cover costs, but has not been able to. The company has applied for Small Business Administration loans, but received none, and the owners have used their entire savings to pay monthly overhead.
- The owners of what I will call Transport Management, a Lafourche Parish company providing fuel and chemicals to offshore operations, reported they have stopped taking their salaries to help cut costs, and have cut back on hours for staff to remain afloat.

Each of those companies has also reported laying off employees.

Workers inside and outside the energy industry will bear the brunt of the continued slowdown and its cascading impact. 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 the sudden, dramatic and ongoing fall in Gulf exploration. A 2010 IHS study on the economic role of offshore energy activity showed that industry to have an annual impact of more than $69 billion, affecting more than 380,000 jobs – counting direct and indirect impacts.

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.

In addition, private conversations with impacted service companies have indicated they are avoiding layoffs by burning through cash reserves to “hold on” to employees through this regulatory uncertainty. Many of these same impacted companies well remember the tough economic times that were followed by massive layoffs in the oil and gas industry during the 1980s, when the industry witnessed a mass exodus of key personnel that proved difficult to replace when economic conditions rebounded. To avoid a replay of this, many of these companies are sacrificing their balance sheets to maintain trained employees in spite of a looming financial cliff with a hope that the issuance of a drilling permit will no longer be considered rare and newsworthy in America. It is worth noting that a vast number of the jobs to which I am referring are through family owned, “mom and pop” companies where a culture of “taking care” of employees is more prevalent than in larger, Fortune 500 companies.

The original moratorium, which the United States federal court system called arbitrary and capricious, the second moratorium, the regulatory uncertainty, and the continued slowing of exploration resulted in a spike in crude oil prices from $74 per barrel to $91 per barrel and gasoline prices from $2.77 a gallon to $3.14 a gallon. This is all as of December 31, 2010 and prior to the recent geo-political issues of the Middle East and Africa. A 50 cent increase in the price of gasoline shocks the American economy and costs consumers around $1.4 billion per week.

Simply put, the misdirected public policy, while perhaps well-intended, results primarily in an economic sanction on middle-class Americans. In addition, it is worth noting the local governments most impacted by this oil spill and the Louisiana Seafood Research and Promotion Board all indicated they opposed the moratorium, and the slow-walking of the return to Gulf exploration extends the impact to our state.

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 cannot be business as usual, but the moratorium was an overreach, and extending the time until a full return to Gulf exploration only extends the economic damage.

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 9 percent.

Seven deepwater rigs have already left the Gulf since the original moratorium was declared, and more may leave if permitting continues at a pace too slow to support keeping them in the Gulf.

The Shell company recently shared with us that it has maintained its fleet of offshore rigs in the Gulf, despite their having been mostly inactive, and reported an estimated $400 million loss as a result of the inability to secure permits. In the company's statement, Shell noted that while exploration and production opportunities in the Gulf are exciting and of considerable value, as a business accountable to its shareholders, Shell will not be able to sustain holding its fleet in the Gulf indefinitely without being able to drill. Shell told us that if that company, or other operators, have to relocate drilling rigs, vessels, or personnel to areas more favorable to the economic development of oil and gas, the economy of the Gulf Coast will suffer.

The longer the slowdown goes on, the more chance that 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. And, if those rigs leave our waters, we can't be sure when or if they would return.

The active drilling rig count has never recovered since the moratorium – with roughly half or fewer rigs drilling at any given time since it was declared. That is especially critical in the deep waters of the Gulf. The GNO Inc. study also indicated that each deepwater rig has an estimated economic impact of $5 million a month to local and state economies while operating.

The impact that begins on the Gulf Coast will spread the longer the slowdown 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 Gulf 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.

The effects of the reduction in Gulf activity does not strike as swiftly as a hurricane, but the longer drilling is slowed, the more domestic production will suffer as existing wells play out with fewer new wells to replace them.

More than 330 new wells began drilling in the Gulf OCS in 2009 and all of the resulting production helped America rely less on foreign imports to fuel our nation. In 2010, that number fell to just 258 – and 162 of those new wells – 63 percent – were started in the first five months of the year, before the moratorium.

Currently, U.S. Energy Information Administration (EIA) figures show that the Gulf of Mexico OCS produced about 1.7 million barrels of oil a day in the months before the moratorium. Their most recent estimates show that production has dropped off by about 210,000 barrels a day – 1.49 million barrels as of last month. And that figure is projected to fall off another 280,000 barrels a day on average for the year 2012. If those projections hold, that would mean a drop of almost a third in Gulf production. EIA projections prior to the moratorium showed an expectation that Gulf oil production would average about 1.76 million barrels a day for 2012 – averaging close to 2 million barrels a day from 2013 through most of the next decade.

In Louisiana, that production has a second critical meaning – a share of production from OCS leases was promised to coastal producing states in the Gulf of Mexico Energy Security Act of 2006 to help fund the preservation of the coast that protects so much of our nation's energy supply infrastructure – from pipelines to shipping to support companies. The expected reduction in Gulf production would mean a dilution of that funding, leaving more of our nation's critical supply at risk to the effects of coastal erosion and storms.

Not only the production, but the mere concern for viable Gulf of Mexico production, has a very real impact on the speculation of crude oil. As previously mentioned, we witnessed crude oil increase from $74 on May 26, 2010 to over $90 by the end of 2010, which resulted in 37-cent increase in the cost of a gallon of gasoline. Again, this was before the recent unrest in the Middle East and Africa.

With regards to our nation's energy policy, it is concerning that what happens in the Suez Canal and the Mediterranean Sea may be more important than our own Gulf of Mexico.

Consider the recent unrest in the Middle East – it began in Egypt, where about 2.2 million barrels of oil help supply the world market through pipeline and Suez Canal shipping. The flow of oil was never actually threatened, but fear and uncertainty alone drove the price of oil up nearly $10 a barrel in two days.

And more recently, the cutoff of much of Libya's 1.9 million barrels a day of oil due to the insurgency drove the world price back to nearly $120 a barrel – and our domestic trading price reached $100 for the first time since 2008. The oil delivered from or through those two nations is roughly the same amount as where our Gulf production was this time last year, and each of them supplies a world market, not just one country – yet the economic foundations of all nations have been shaken by their uncertain futures.

It is unfortunate the pricing impacts caused by regulatory uncertainty in America are now comparable to what we have come to know in other parts of the globe.

That is not only the view of our state. Federal Reserve Chairman Ben Bernanke testified to Congress just a few weeks ago that sustained rises in the price of oil are a threat to economic growth and to overall price stability in this country.

Because we all need to be able to travel to work, to buy groceries, to do all the things we need to do in a nation built around the automobile, increases in the price of gasoline hit the least of our brothers the hardest. That is particularly true in poorer rural areas of our nation, where public services, jobs and essentials such as food and medical care are not accessible without a vehicle. A recent CNN survey showed that while Mississippi, the most impoverished state in the union, does not lead the nation in price per gallon of gasoline – the people of that state pay the highest percentage of their income for transportation fuel – 13.2 percent as of the end of February. Louisiana, for all the energy we produce and deliver, ranks third on that same list at 12.19 percent.

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, and we all saw what can happen when fuel prices spike too high, too fast. The reaction to the cost of oil and gas in 2008 fed the storm that swept up our national economy, and crippled our car manufacturers, our banks, and our housing markets. We cannot have a robust economy without cheap and available energy.

Again, a substantial interruption of production will mean a greater reliance on foreign sources of energy, and greater exposure to increases in price. EIA figures show that while new discoveries will increase oil production in the lower 48 states in the next two years – overall domestic production is projected to decrease by 5 percent by 2012. Along with the projected increase in consumption – we would need to increase our reliance on imported oil by 160 million barrels a year. In the past five years, through increases in production and reducing consumption, we have steadily been reducing the net percentage of imported oil we use in this nation. But now, at a time of greater uncertainty in world oil supplies than we have seen in years, the EIA predicts we will reverse that trend and lean more heavily on oil imports.

When it comes to offshore drilling safety, we recognize that it should not and cannot be business as usual, that taking a time out to huddle was appropriate. But we also believe that we can have regulation without strangulation.

The state of Louisiana has worked to be a bridge between the industry and the Bureau of Ocean Energy Management, Regulation and Enforcement churning through the many details and working our ground game hard to get this thing right. Back in December, we formed the Back to Work Coalition – a working group dedicated to conquering the confusion with the permitting process and getting folks back to work on the rigs of the Gulf.

It has not been easy, but we have hammered out a few yards at a time, grinding out progress in our meetings with Director Bromwich and his staff in Washington D.C. Since December, the Back to Work Coalition has hosted two conference calls and traveled to DC six times to meet with Director Bromwich on the permitting process. I am thankful for the courtesies extended to me by Director Bromwich.

The issuance of the first deepwater drilling permit on February 28, 2011, some 314 days after the Macondo event, was positive but long overdue. However, we are approaching the end of the first quarter of 2011 and now that industry has demonstrated to the government the capacity to comply with the toughest drilling standards on the planet, today is the time for us, as a nation, to focus on finding the energy to fuel America. The best way I know we can do that is to return to the pre-moratorium rate of permitting.

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 with the exception of the Macondo event, this has been a very safe province in which to operate.

While the necessary work of finding the fuel this nation needs is going on with a renewed focus on safety, as it should, industry and government can work together to meet new standards while still maintaining the production our nation needs. 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.

The daily losses of production in the Gulf affect 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. The de facto sanctions on drilling in the Gulf of Mexico are sanctions on energy security, on economic development and on American jobs.