S. HRG. 111–1172

THE DEEPWATER DRILLING MORATORIUM: A REVIEW OF THE OBAMA ADMINISTRATION'S ECONOMIC IMPACT ANALYSIS ON U.S. SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 16, 2010

Printed for the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.fdsys.gov

U.S. GOVERNMENT PRINTING OFFICE

86–868 PDF WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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THE DEEPWATER DRILLING MORATORIUM: A REVIEW OF THE OBAMA ADMINISTRATION'S ECONOMIC IMPACT ANALYSIS ON U.S. SMALL BUSINESSES

THURSDAY, SEPTEMBER 16, 2010

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in Room 428–A, Russell Senate Office Building, Hon. Mary L. Landrieu, Chair of the Committee, presiding.

Present: Senators Landrieu and Vitter.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. I would like to call the Small Business Committee meeting to order. We will start with opening statements and go for a round of questioning after we hear from our witnesses.

Unfortunately last night the Senate schedule changed and we will have a vote at 10:45 I understand, and then a final vote on the small business package at noon. So we are going to break at 10:45 to go to the votes, come back, and finish up the hearing.

I thank you all for joining us this morning as this Committee holds its third in a series of hearings on the current deepwater drilling moratorium and the impact on its effects to the Gulf Coast economy.

Today's hearing is quite possibly the most important. Today, the Administration will present its analysis of the moratorium. We have had two previous hearings on this subject where we heard from dozens of small business owners, the Chamber of Commerce, Dun and Bradstreet, LSU economic analysts, and others along the Gulf Coast to try to point out the impact to the economy along the Gulf Coast based on this decision.

Some 150 days ago the Deepwater Horizon explosion took the lives of 11 men and sent an estimated five million barrels of oil spewing into the Gulf, onto our shores, and into our marshes. This accident has injured our environment, our economy, and our way of life.

The Macondo well may be capped but the crippling economic impacts caused by this disaster and ensuing moratorium continue to impact communities in Louisiana and many communities throughout the Gulf Coast.

Louisiana families and businesses are getting hit on two fronts. First, our seafood industry, which accounts for roughly 40 percent of the Lower-48's production, is suffering from both actual impacts from the spill, and perhaps more damaging, the perception that our seafood may not be safe to consume. It is. But we are having a long battle to convince people otherwise.

Secondly, our offshore energy exploration industry and the hundreds of businesses that support it have been put in jeopardy, in my opinion, by the heavy hand of the Federal Government.

Regrettably, the Administration reacted to the Deepwater Horizon tragedy by halting all deepwater explorations in the Gulf and canceled the scheduled Western Gulf lease sale that would have occurred in August. They halted all deepwater exploration, but in fact, which I will show you today on the charts that I have, there is a de facto moratoria on shallow water as well.

Before the BP spill, the Mineral Management Service approved an average of three to six shallow water permits per week which averages about 12 to 24 permits per month. In contrast, since May, the Bureau of Ocean Energy Management has issued only five shallow water permits for new wells, roughly one per month.

Another way to say this, which I am going to submit to the record, is in the five months prior to the official deepwater moratoria there were 29 deepwater rigs, drills in the Gulf or new wells approved. Of course after the moratoria, there was one in May. Basically zero.

That is a problem. But the shallow is also a problem. In the five months prior to the deepwater moratorium, there were 49 permits issued; and since the five months following, there have been seven. That is a precipitous drop in permitting in the shallow water. And the charts will show that.

[The information follows:]

Deptartment of Interior Study:
Job Loss Caused by the Moratorium

	Direct Employment	Indirect Employment	Induced Employment	Total Employment
Drill Ship Employment	2,700	1,404	2,538	6,642
Semi Submersible Employment	6,250	3,250	5,875	15,375
Platform Employment	500	260	470	1,230
Total Lost Employment	**9,450**	**4,914**	**8,883**	**23,247**

"Since this is a short term drilling pause, these impacts may not all be felt immediately and some effects may linger past the end of the drilling pause."

– MMS Economic Impact Assessment, June 10, 2010

LSU Study:
Job Loss Caused by the Moratorium

	Losses to the Gulf Coast	Losses Nationally
Jobs	8,000+	12,000-25,000
Wages	$500 million	$2.8 billion
Tax Revenue	$100 million (state and local)	$200 million

"With each passing day, the Administration's moratorium on energy exploration in the Gulf of Mexico costs the region more jobs. The longer the moratorium continues, the greater the risk that these jobs won't come back."

– Dr. Joseph R. Mason
Professor of Finance, Louisiana State University
Senior Fellow, the Wharton School

Total number of NEW WELLS approved in water depth less than 400 feet

2009	New Wells
January	12
February	9
March	7
April	6
May	4
June	3
July	4
August	7
September	0
October	7
November	7
December	8

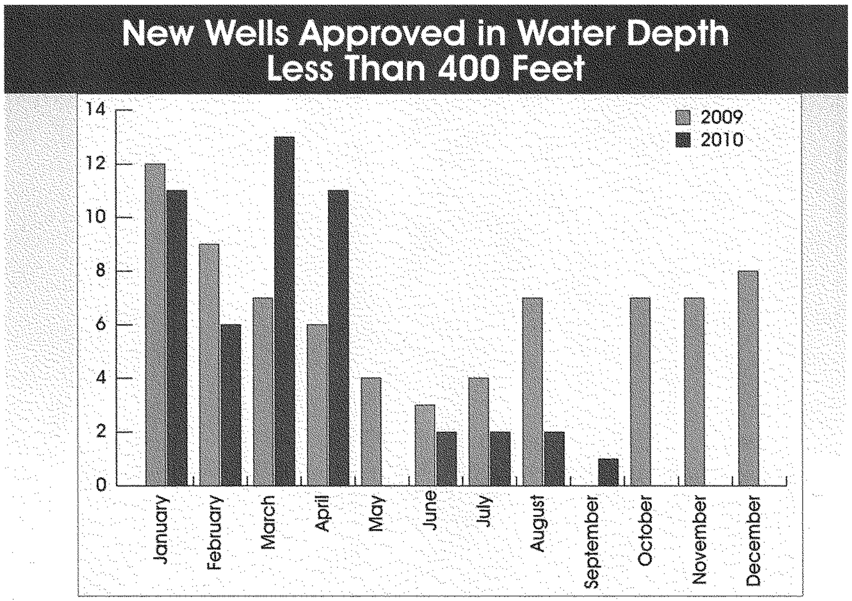
2010	New Wells
January	11
February	6
March	13
April	11 before NTL
May	0
June	2 before NTL
July	2
August	2
September	1
October	
November	
December	

NTL = Notices to Leases

Total number of NEW WELLS approved

2009	Shallow	Deep	Total	2010	Shallow	Deep	Total
January	12	15	27	January	11	5	16
February	9	13	22	February	6	7	13
March	7	10	17	March	13	9	22
April	6	10	16	April	11	7	18
May	4	4	8	May	0	1	1
June	3	5	8	June	2	0	2
July	4	6	10	July	2	0	2
August	7	2	9	August	2	0	2
September	0	8	8	September	1	0	1
October	7	5	12	October			
November	7	4	11	November			
December	8	12	20	December			
Year Total	74	94	168	**Year Total**	48	29	77

NTL = Notices to Leases


New Wells Approved in Water Depth Less Than 400 Feet
2009
2010
0
2
4
6
8
10
12
14
January
February
March
April
May
June
July
August
September
October
November
December

Total Number of NEW WELLS Approved

Month	2009			2010		
	Shallow	Deep	**Total**	Shallow	Deep	**Total**
January	12	15	**27**	11	5	**16**
February	9	13	**22**	6	7	**13**
March	7	10	**17**	13	9	**22**
April	6	10	**16**	11	7	**18**
May	4	4	**8**	0	1	**1**
June	3	5	**8**	2	0	**2**
July	4	6	**10**	2	0	**2**
August	7	2	**9**	2	0	**2**
September	0	8	**8**	1	0	**1**
October	7	5	**12**			
November	7	4	**11**			
December	8	12	**20**			
Total	**74**	**94**	**168**	**48**	**29**	**77**

I noted as recently on July 10, two days before the issuance of the second moratorium, the Department of the Interior estimated that a six-month moratorium would cost 9,000 direct jobs, 13,797 indirect jobs; and that a freeze would capture about $10 billion in industry spending.

I find it stunning that the Administration was aware that their actions might eliminate nearly 23,000 jobs in an already faltering economy and proceeded anyway. However, that is precisely what it seems like they did. We will get updated figures from you all today.

Early indications are there may not be 23,000. We do not know. We are going to analyze your data pretty carefully but nonetheless it is fairly significant.

The decision to stop virtually all new energy exploration in the Gulf of Mexico was unwise, and in my view, borders on reckless.

Today thousands of Gulf Coast businesses are fighting their way out of this government-imposed economic disaster that not only threatens jobs and businesses, including oil and gas field service, transportation, fabrication companies, but also a way of life just as surely as the massive oil spill did and perhaps even more.

The Administration's decision to halt drilling activity did more than threaten the livelihoods of thousands of rig workers and oil service crews, it substantially reduced the total amount of economic activity taking place along the Gulf of Mexico in Texas.

As I have said before, this moratorium and the analysis shows this is not hurting big oil. Those rig workers, many of them, are still employed doing other jobs, not drilling or exploring but cleaning up. Your data will show that. They will survive.

But the problem is it is hurting Big Al's, the restaurants, the sandwich shops, the hotels, the motels, the salons. The corner grocery stores in South Louisiana have seen their sales decline precipitously since this moratorium went into effect.

At our first hearing in July, we heard testimony from Louisiana State University Professor Joseph Mason whose study echoed the findings of the Administration's own economists. He stated that under the current moratorium the Gulf Coast region will lose more than 8,000 jobs, nearly $500 million in wages and over 2.1 billion in economic activity as well a hundred million in state and local taxes.

The moratorium spill over effect could mean 12,000 jobs and nearly three billion nationwide, et cetera. He found that the moratorium if it lasts longer than six months 25,000 jobs could be lost, a finding directly in line with the Administration's earlier records.

You all seem to indicate this morning that that job loss is lower and that you are fairly confident all these jobs will come back. We shall see.

Another expert from a research firm, Dun and Bradstreet, testified that in Lafayette Parish alone 780 businesses employing close to 10,500 people could be negatively affected. Businesses in Lafayette Parish, which is one of our larger parishes in Southwest Louisiana, are some of the hardest hit by the moratorium which is why I chose to have the second hearing—this is the third hearing—the second hearing on this issue in Lafayette at the LITE Center.

We heard from a number of local small businesses impacted. In particular we heard from Charlie Goodson, the owner of Charlie

G's restaurant, a very well known and famous and popular restaurant in our state.

Charlie G's, which just celebrated their 25th anniversary as a family-owned business with 44 employee. He testified that similar to the oil bust of 1980, if the moratorium continues, their bottom line which they carefully project because it is a small family-run business, which was projected to have a four or five percent net income before taxes could run into the red for this year.

As with the oil bust, Charley G testified his first response was to institute a hiring freeze which he has already done, a salary freeze which he has already done, and to halt all leasehold improvements which has already done.

If that does not work, he said he will be forced to discontinue lunch service which will eliminate 11 staff positions. That equates to a 25 percent reduction in one business.

While eleven jobs lost in Layafette, Louisiana, may not make the front pages of the New York Times or the Washington Post, I am aware of the many similar situations described by Gulf Coast small business owners worried about the uncertainty surrounding this ill-conceived moratorium. Small business owners have to make quick and tough business choices every day based on local economic conditions, not macroeconomic policy.

In a difficult economic time nationally, I must remind the Administration that our Gulf businesses are also dealing with lingering effects from the 2005/2008 storm season which is some of the worst years on record, the Deepwater Horizon disaster itself, and now this moratorium.

Everyday that this moratorium remains in place, it is another challenge that our Gulf Coast small businesses must deal with on their road to recovery.

I think it is noteworthy that the Administration was forced to revise its ban in July after a federal court decision ruled that the Administration's action was arbitrary and capricious. Yet even the Administration's revised drilling ban was struck down again in the federal court in a decision that was handed down on September 1. The court found "no rational nexus exists between the fact of the tragic Deepwater Horizon blowout and placing an attainder of universal culpability on every other deepwater rig operator in the Gulf of Mexico." I could not agree more.

But let me be clear as one of the first senators to call for a full investigation into the accident and request more effective safeguards against future spills, I share the Administration's goal of a safer oil and gas industry. But the blanket moratorium on all deepwater drilling does nothing to advance that goal, and in fact the de facto shallow water moratorium has even less of a nexus to the original problem. The drilling is not a risk-free proposition. Never has and never will be.

In general, I believe that we can and do drill safely both on shore and off. But the BP spill did occur. It was terrible. There have been other spills nearly as bad but the record is clear. They are few and far between.

But accidents do happen and sometimes they are quite terrible like this one. But we should ensure that we enforce rigorous regulations to reduce the chances that accidents will happen, of course.

But when an accident does happen, I cannot think of another situation where we brought an entire industry to a screeching halt.

I want you to consider the following. On April 5 of this year, 29 miners were killed when an explosion rocked the Massey Energy-owned mine in West Virginia. Although investigators were unable to enter the mine for more than two months due to the concentration of poisonous gases in the mine, other coal mines continued to work unabated.

In February 2008 a sugar refinery in Georgia exploded, killing 29 people. No one suggested shutting all sugar refineries or plowing under the sugar cane fields across the United States.

According to data from the Aircraft Crashes Records Office, there has been an average of 1,200 deaths every year for the past 11 years resulting from aircraft accidents. But as our Lieutenant Governor Scott Angelle has noted, airline service resumed four days after the tragedy of September 11 and since then airline safety records show a marked improvement and airlines continued to fly every day. The industry goes on although 1,200 people lose their lives every year.

I recite these statistics not to single out any of these industries but to highlight them to illustrate how radical and unprecedented, in my view, a blanket moratorium on deepwater drilling appears in comparison to the reactions that have typically accompanied industrial disasters.

The fact is, regardless of how it is reported, the fact is that Louisiana's coast line is a working coast that brings this country an abundance of seafood, energy, and navigation assets unmatched by any coast in the United States and unmatched by any in the world.

The Mississippi Delta is our home. There is no one who wants to do drilling safer than we do. No one wants the water to be cleaner than we do. No one wants the seafood to be the fresher than we do.

We have balanced these industries safely for four decades and I am confident that we can strengthen the record of safety as we move forward while promoting a balanced and diversified economic future.

But we also know that any hope for a prosperous future will have to involve the prompt resumption of off-shore exploration activities both in the shallow and the deepwater. We know full well what a prolonged suspension of deepwater drilling will mean for hundreds of oil service companies and more importantly or equally importantly other businesses that support that industry in a variety of different ways.

It will mean economic disaster not just for the rigs themselves but for the many grocery stores, restaurants, real estate companies, local banks, and other small businesses that comprise our economy.

Our Federal Government has a responsibility particularly in these difficult economic times to make sure these paychecks do not turn into pink slips.

Our Committee has received testimony from Louisiana State University, Dun and Bradstreet, the Chamber of Commerce, we have heard from elected officials, small business owners, testifying about the important local impacts of this moratorium.

The purpose of this hearing today is to now hear from the Administration. We are really looking forward to hearing your testimony today about the impacts of this moratorium. I believe we cannot continue to support a policy that will close the doors of our small businesses. We need to keep Main Street open for businesses in Louisiana, Mississippi, and Texas across the country.

There are several questions that I am very interested in getting your answers to. I have reviewed carefully all of your testimony and I will now acknowledge Senator Vitter, who is representing Senator Snowe.

OPENING STATEMENT HON. DAVID VITTER, A U.S. SENATOR FROM LOUISIANA

Senator VITTER. Thank you very much, Chairman Landrieu. Thanks for holding this additional hearing. Thanks to our witnesses today.

As Senator Landrieu said, this is the third hearing on this subject in the Small Business Committee and the third time we on both sides of this Committee have explicitly invited and asked the Administration to testify and justify their Draconian action. I am glad you all are finally here to do that.

The Administration sent absolutely no one to offer any testimony the first hearing here in this room. The Administration sent absolutely no one to offer testimony and explanation at our field hearing in Lafayette. So while it is long overdue, we welcome you.

We want that explanation to be very detailed and very explicit. For that reason two days ago I sent both of you a letter outlining nine very clear, specific questions; and I would like either in your opening statements or in your answers for you to fully respond to those nine questions and take as long as you want before we leave to fully answer those nine questions in detail. And again I sent those all to you in advance to make sure we could get to the bottom of the clear issues.

I can tell you from the Louisiana perspective, from the Gulf perspective, as Mary has said, the perception and I think the correct perception is that all we have heard is knee jerk reactions and excuses, not anything based on sound science or economics.

Let me mention a few of the facts that back this up. We know that the Interior Department's Inspector General is currently investigating the Administration's initial 30-day review done by the National Academy of Engineers for inappropriate behavior at the department, basically changing those recommendations in terms of the public document.

We know that only five new well permits for shallow water drilling have been issued since May when rigs need about 20 per month to continue operations and just maintain current production.

We know that crude oil production in the Gulf currently makes up about 30 percent of total US production and yet the moratorium is endangering all of that and forcing rigs out of the Gulf to overseas.

We know that since 2001 the GMO outer continental shelf has reported federal royalty revenue of nearly 60 billion dollars. When there is enormous focus up here on deficits and debt and revenue, we are very curious why the Administration would adopt a policy that is just throwing that revenue away.

We know that from recent economic analysis that if the Administration shuts independent oil companies out of the Gulf medium to long term, it will not be the few thousand jobs you all have identified. It will be more than 300,000 jobs and $147 billion in tax revenue.

So again from the Louisiana and the Gulf perspective, we have heard nothing but knee jerk reaction and excuses. We are very eager to hear something more substantive and I am very eager to hear specific answers to the nine questions outlined in my September 14th letter.

Thank you.

Chair LANDRIEU. Just to clear the record, Senator Vitter is correct. We did request the Administration on all three occasions but they said they were not prepared to come to the first hearing. They did send a representative from the Department of Commerce which we were grateful for who sat in the hearing at the LITE Center and took copious notes and actually got to visit with some of the small business people. So people were grateful for him being there.

But today, as I tried to explain to this Committee, is the time for the Administration to testify and give you all an opportunity to present the economic data you all have used, if you used it at all, to make this decision, if it had any bearing on the decisions that the Administration has made. Does it have any bearings on their continued review of the situation? So that is what this hearing is about.

We heard from small business owners that are extremely concerned. We have heard from organizations like the Chamber of Commerce representing businesses. We have heard from independent analysis done by our universities of great standing. We have not heard from the Administration.

Mrs. Blank, that is what we hoped to hear from you and Mr. Fernandez today so why do we not begin.

STATEMENT OF REBECCA M. BLANK, UNDER SECRETARY FOR ECONOMIC AFFAIRS, U.S. DEPARTMENT OF COMMERCE

Ms. BLANK. Chairwoman, Senator Vitter, thank you for inviting me here today to discuss the Administration's report that we are releasing this morning on the economic impact of the drilling moratorium on the Gulf Coast. I request that this interagency report be included in the record in its entirety.

Recent changes in the labor market in those Gulf Coast areas that rely heavily on deepwater drilling can provide an initial sense of the possible impact of the moratorium. We looked at changes in unemployment, employment, and unemployment insurance claims in five Louisiana parishes reported to be heavily dependent on the deepwater drilling industry.

Figure 1 shows employment in these five parishes since March 2009. Employment is at about the same level as in July of this year, the last month for which we have data as in March 2009. Employment in these five parishes actually increased from April to July by 0.7 percent, similar to the change in the Nation and the State of Louisiana. We also looked at unemployment insurance claims in our report and find they had been trending down in absolute numbers and as a share of all state claims.

These data do not indicate that there had been no employment impacts associated with the drilling moratorium but they do suggest losses have not been large to date since significant losses would have shown up in the employment, unemployment, and UI claim activity data.

Our analysis of the economic impact of this moratorium is based on data from a variety of publicly available industry and government sources. Our staff also spoke at length with a number of companies that work in the Gulf including drilling contractors, operators, and well service firms. Taken together, the firms we spoke with had direct knowledge of over 50 percent of the deepwater rigs in the Gulf of Mexico at the time the moratorium began.

Earlier studies assumed that many of these rigs would leave the Gulf Coast as a result of the moratorium and that virtually all of the 9,700 workers employed before the moratorium would become unemployed. This did not happen. Of the 46 rigs located in the Gulf of Mexico in April 2010, 41 of them are still there as of September 13.

Even for rigs that are idled, drilling contractors and rig operators have to date held on to most of their employees. Primary reason for this is that these employees are highly skilled and it would be expensive to recruit and rehire them again in the near future.

In addition, these highly skilled workers are able to conduct some backlogged rig maintenance and improvement work. Some rig workers have been employed to work outside the Gulf.

We estimate that fewer than 2,000, about 30 percent of the 9,700 rig workers have been laid off or have left the Gulf to work elsewhere.

While deepwater rig employment has not fallen substantially, rig spending has declined because rigs are no longer conducting drilling operations. In particular, spending on drilling supplies, materials, and services has fallen.

Some of this reduced spending is offset by other sources. For instance, unemployed rig workers are eligible to receive up to $30,000 in rig spending through the BP rig worker wage assistance fund. I'm sorry, wage replacement spending through the rig worker assistance fund.

Based on these assumptions, we estimate that over the six months of the deepwater moratorium net spending will be reduced by $1.8 billion. This direct reduction in spending reduces employment in the industries that supply the Gulf Coast drilling industry and then in all other industries affected by declines in consumer and business spending.

To measure this effect we apply a multiplier that translates the direct reduction in spending into the full effect of the reduced spending in the drilling industry on employment throughout the Gulf Coast.

The standard multiplier is designed to measure the impact of a long-term and permanent policy change. Our report describes at length the problems with using a full multiplier including the fact that the moratorium is temporary, and the fact that the moratorium assumes, the multiplier assumes no offsets in spending. In reality, BP has publicly stated it spent over $8 billion during the first three months of this moratorium on spill response and cleanup activities.

Given this, we basically estimate a range of employment effects based on range multipliers that we think are likely to capture the possible impact of the temporary moratorium. From our analysis, we estimate that the six-month moratorium may temporarily result in up to 8,000 to 12,000 fewer jobs in the Gulf Coast. These jobs would not be permanently lost but would return following the resumption of deepwater drilling in the Gulf of Mexico.

It is also important to note the deepwater drilling activities would likely have been curtailed even without a moratorium as rig operators and contractors reviewed their safety procedures. For this reason our estimate is likely to overstate the true economic impact of the moratorium.

Our estimate differs from earlier studies and the earlier Department of the Interior estimate because we have information available they did not. Most of these earlier studies assumed that virtually all employees on these rigs would be let go and estimated a spending reduction based on that assumption. Our results are, therefore, lower than some of these earlier studies.

Due to limited time, I will not discuss the effect of the moratorium on oil production but we do have a section on that in the report that I know you will read.

In conclusion, the current evidence suggests the job impacts among workers and larger companies, particularly the companies involved with operating the drilling rigs in the Gulf of Mexico, may be relatively limited because these companies have chosen to retain their skilled labor.

Most of the businesses impacted provide supplies and support to the drilling industry in the Gulf Coast. The magnitude of the spill response and clean-up spending in the Gulf is large enough, however, that some of these businesses may have been able to replace some of their lost earnings by serving other customers.

While any job loss due to a moratorium, even temporary, is deeply regrettable, it is important to place these effects in the context of the economic, environmental, and safety threat including the potential loss of life that the BP Deepwater Horizon explosion created.

Given uncertainty about the adequacy of existing safety regulations, the moratorium was designed to provide greater certainty that deepwater drilling in the Gold Coast is being conducted in a safe manner with effective safeguards and responses in place should problems arise.

These safeguards are highly important given the expectation that Gulf Coast oil and gas will continue to provide a significant share of domestic energy production.

Thank you, Madam Chairwoman. I am happy to take any questions.

[The prepared statement of Ms. Blank follows:]

Understanding the Impact of the Drilling Moratorium on the Gulf Coast Economy

Testimony by
Rebecca M. Blank
Under Secretary for Economic Affairs
U.S. Department of Commerce
before the
U.S. Senate Committee on Small Business and Entrepreneurship
September 16, 2010

Madam Chairwoman, Ranking Member Snowe, and distinguished members of the Committee, thank you for inviting me here to discuss the Administration's report released today on the economic impact of the drilling moratorium on the Gulf Coast economy. I am the Under Secretary for Economic Affairs at the Department of Commerce where, among other duties, I oversee much of the economic analysis done within Commerce. I have been involved with many policy impact studies, in my own research, while serving as a member of President Clinton's Council of Economic Advisers in the late 1990s, and while serving as dean of the Gerald R. Ford School of Public Policy at the University of Michigan.

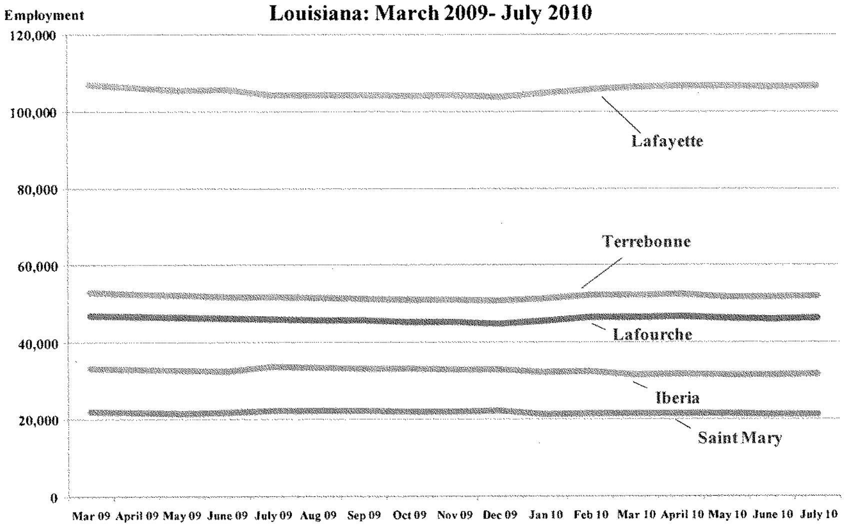
Madam Chairwoman, I request that this interagency report be included in the record in its entirety. Written in response to a request from Senator Landrieu, this report provides our best estimates of the economic impacts of the drilling moratorium on the Gulf Coast economy. I use the term "Gulf Coast" to refer to the five states most impacted by the moratorium: Alabama, Florida, Louisiana, Mississippi, and Texas.

On April 20, 2010, the Deepwater Horizon drilling rig exploded, resulting in 11 deaths, 17 injuries and one of the worst environmental disasters in U.S. history. On May 28, the Secretary of the Interior imposed a deepwater drilling moratorium. This moratorium was challenged in court and preliminarily enjoined. To address the continuing risk posed by certain drilling operations and after examining the options available for managing the Outer Continental Shelf ("OCS") in a safe and environmentally sound manner, the Secretary issued a new suspension decision on July 12, 2010. This moratorium is in effect until November 30, 2010. The moratorium was imposed at a time when there was limited understanding of the cause of the BP Deepwater Horizon explosion. It has provided time to ensure the adequacy of the oil and gas industry's safety practices and the adequacy of spill response capabilities should any future spills occur. Ensuring the long-term safety of the drilling industry in the Gulf is important to its economic viability as well as to the Gulf Coast environment.

Recent changes in the labor market in those Gulf Coast areas that rely heavily on deepwater drilling can provide an initial sense of the possible impact of the moratorium. We looked at changes in employment, unemployment and unemployment insurance (UI) claims in five Louisiana parishes that are reported to be heavily dependent on the deepwater drilling industry: Lafourche, Lafayette, St. Mary, Terebonne, and Iberia.

Figure 1 shows employment in these five parishes since March 2009. Employment is at about the same level in July of this year (the last month for which we have data) as in March 2009. Table 1 shows employment and unemployment data. Employment in these five parishes actually increased from April to July by 0.7%, similar to the change in the Nation and the State of Louisiana. We also look at UI claims in our report and find that they have been trending downward in absolute numbers and as a share of all state claims.

Figure 1. Employment for Five Oil Industry Intensive Parishes in Louisiana: March 2009- July 2010



Note: These are the five parishes in southern Louisiana where the oil drilling industry's presence is substantial.
Source: U.S. Department of Labor

Table 1: Employment Changes from April 2010 to July 2010 for Five Oil Industry Intensive Parishes in Louisiana

(Not Seasonally Adjusted)

	------Employment Level (in thousands)------				---Unemployment Rate---		
	April	**July**	**Change**	**%Change**	**April**	**July**	**Change**
U.S. total	139,302	140,134	832	0.6%	9.5	9.7	0.2
Louisiana	1,958.6	1,971.9	13.3	0.7%	6.2	7.6	1.4
Total for 5 parishes	259.5	261.2	1.7	0.7%	5.2	6.1	0.9
Iberia	31.4	31.9	0.5	1.6%	6.8	7.7	0.9
Lafayette	107.2	108.1	0.9	0.8%	4.7	5.7	1
Lafourche	46.8	47	0.2	0.3%	4.4	5	0.6
Saint Mary	21.4	21.5	0.1	0.5%	8	9.3	1.3
Terrebonne	52.6	52.8	0.2	0.4%	4.8	5.3	0.5

Source: Author's calculations using data from the Bureau of Labor Statistics, Current Population Survey (U.S. total) and Local Area Unemployment Statistics program (statewide and parish).

These data do not indicate that there have been no employment impacts associated with the drilling moratorium, but they do suggest that any losses have not been large to date, since significant losses would have shown up in the employment, unemployment and UI claim activity data.

Our analysis of the economic impact of this moratorium is based on data from a variety of publicly available industry and government sources. Our staff also spoke at length with a number of companies that work in the Gulf, including drilling contractors, operators, and well service firms. Our conversations were conditioned on a promise of confidentiality to help ensure candid responses to our questions. Taken together, the firms we spoke with had direct knowledge of over 50 percent of the deepwater rigs in the Gulf of Mexico at the time the first moratorium began.

To estimate the potential effects of the moratorium, it is important to understand the parameters of the Gulf's deepwater drilling industry prior to April 2010. There are basically three kinds of deepwater drilling rigs (semi-submersible drilling rigs, drillships, and platform rigs.) The number of rig workers and the costs of operation vary across these. Like many earlier studies, we estimate deepwater rig worker employment in the Gulf prior to the Deepwater Horizon explosion at about 9,700 workers. A total of about $800 million per month was spent on operating these deepwater rigs.

Earlier studies assumed that many of these rigs would leave the Gulf Coast as a result of the moratorium and that virtually all of these 9,700 workers would become unemployed. This did not happen. Of the 46 rigs located in the Gulf of Mexico in April 2010, 41 of them are still there as of September 13.

Furthermore, even for the rigs that are idle, drilling contractors and rig operators have, to date, held onto most of their employees. A primary reason to retain these employees is that they are highly skilled and it would be expensive to recruit and rehire them again in the near future. In addition, these highly skilled workers are able to conduct some backlogged rig maintenance and improvement. Some rig workers have been deployed to work outside the Gulf of Mexico. Based on our information, we estimate that fewer than 2,000 (about 20 percent) out of 9,700 rig workers have been laid off or have left the Gulf to work elsewhere. The top line in Table 2 shows these numbers.

Table 2: Estimated Economic Effects of the Deepwater Drilling Moratorium on the Gulf Coast

Rig Worker Employment	-2,000 (from base of 9,700)
Total Direct Spending Change*	-$1.8 billion
Estimated Impact of the Spending Reduction on Total Employment in the Gulf Coast (including rig worker job loss)	-8,000 to -12,000 jobs

*Decline in rig spending on all activities, partially offset by replacement spending on wages.

While deepwater rig worker employment has not fallen substantially, rig spending has declined because rigs are no longer conducting drilling operations. In particular, spending on drilling supplies, materials and services has fallen. As noted, a few rigs have left the Gulf and we assume their spending goes to zero in the Gulf Coast economy. For those rigs that remain in the

Gulf but are no longer working, we assume that rig leasing costs continue to be paid (about 50% of total costs) plus a small amount for supplies and materials for the rig workers remaining on the rigs, but any remaining spending has dropped to zero. Some of this reduced spending is offset by other sources of spending. For instance, unemployed rig workers are eligible to receive up to $30,000 in wage replacement through the BP Rig Worker Assistance Fund.

Based on these assumptions, we estimate that over the six months of the deepwater moratorium, net spending will be reduced by about $1.8 billion. The middle line of Table 2 shows this number.

This direct reduction in spending reduces employment in the industries that supply the Gulf Coast drilling industry and then in all other industries affected by declines in consumer and business spending. To measure this effect, we apply a "multiplier" that translates the direct reduction in spending into the full effect of reduced spending in the drilling industry on employment throughout the Gulf Coast.

To give an example of the nature of this analysis: If demand for drill pipe falls as a result of the moratorium, demand for services of supply vessels would also fall, which would in turn reduce the demand for diesel fuel and dock workers. If pipe is trucked to Port Fourchon, then demand for trucking services would also be affected. This reduced demand for pipe has resulted in fewer hours worked or lowered employment, which reduces earnings among the workers who are involved, from the production of the pipe to its delivery at the final destination. Fewer hours worked means reduced take home pay and lower consumer spending, which yields another cascade of effects through the production and distribution chain for consumer goods. This one example demonstrates that many industries and parts of the country can be impacted by a single change in the drilling industry.

The standard multiplier that translates a direct reduction in spending into a total employment effect is designed to measure the impact of a long-term and permanent policy change. The drilling moratorium is neither. The use of a full multiplier would result in an estimated impact that is biased upward. The primary reasons include the following:

- The temporary nature of the moratorium will lead to a smaller effect than a permanent policy change would produce. Larger firms may be particularly able to switch workers into temporary work of another sort while waiting for drilling operations to start again. Of course, this means that small firms with less financial capital are likely to experience relatively larger employment losses. In a similar way, families that face reduced income may maintain consumption temporarily by using savings or increased debt to cover lost income.
- The full multiplier assumes that the spending losses are permanent, with no offset from increased spending on other activities. BP has publicly stated that it spent over $8 billion during the first three months of the moratorium on spill response and cleanup activities. This new spending is likely to offset at least some of the spending reductions due to the moratorium.

It is impossible to say exactly what multiplier should be applied to direct spending reductions by the drilling operations in order to estimate the full employment effects of this reduced spending on the Gulf region, although we know that using the full multiplier is too large. Because of this uncertainty, we estimate a range of employment effects, based on a range of reduced multipliers that we think are likely to capture the possible impact of the temporary moratorium.

From our analysis, we estimate that the six-month moratorium may temporarily result in up to 8,000 to 12,000 fewer jobs in the Gulf Coast. These jobs would not be permanently lost as a result of the moratorium; most would return following the resumption of deepwater drilling in the Gulf of Mexico. The bottom line of Table 2 shows these estimates.

This analysis assumes that drilling operations during the course of the moratorium would have continued at the pace witnessed immediately before the BP Deepwater Horizon event. However, in the aftermath of this event, deepwater drilling activities likely would have been curtailed even without a moratorium, as rig operators and contractors reviewed their safety procedures and as regulators examined the effectiveness of existing safety regulations. For this reason, our estimate is likely to overstate the true economic impact of the moratorium. Even in the absence of a moratorium, some of this spending would have been temporarily lost in the wake of such a serious disaster.

Our estimate differs from estimates in earlier studies and from the Department of Interior estimate made before the moratorium primarily because we have information at this point in time that was not available earlier. Specifically, we have learned that many deepwater drilling operators have kept many of their employees, whereas almost all of the earlier studies assumed that virtually all employees on these rigs would have been let go. These earlier studies largely estimated a spending reduction based on what we now consider an overly large estimate of lost wages from rig workers. In contrast, our study emphasizes the reductions in spending on drilling supplies and services on the offshore rigs. We also take into account the fact that the multiplier for a temporary policy should be smaller than for a permanent policy. In short, our estimates are different, but we also believe that they are better, based on the real information that is currently available.

In addition to the employment effects, there is one other important potential impact of the moratorium, namely, the effect of the moratorium on oil production. With the help of the Energy Information Administration (EIA) within the Department of Energy, we have estimated the amount of reduced future oil production in the Gulf of Mexico due to delayed exploration and production activities during the moratorium. Note that the moratorium does not change the size of the estimated oil resources in the Gulf or the anticipated cost of exploiting those resources; rather, it delays production. In fact, depending on the discount rate applied, the present value of cumulative Gulf of Mexico deepwater production could actually increase relative to its baseline level if oil prices rise over time and future production is sold at a higher price.

EIA estimates that reductions in crude oil production resulting from the moratorium will increase from a monthly average of about 10,000 barrels per day in September 2010 to nearly 100,000 barrels per day by December 2011. The total cumulative reduction in crude oil output will be about 3.1 million barrels in 2010 and 30 million barrels in 2011. This represents about 0.2% and 1.5% of total U.S. crude oil production in each of these years. Two other organizations have made quite similar estimates. Furthermore, we estimate that there is likely to be no price effect due to the moratorium. Oil is a highly fungible commodity traded on a world market and the estimated average impact of the moratorium on oil production in the Gulf next year represents less than one tenth of one percent of forecast world oil use.

In conclusion, the current evidence suggests that job impacts among workers in larger companies, particularly the companies involved with operating the drilling rigs in the Gulf of Mexico, may be relatively limited because these companies have chosen to retain their skilled labor. Most of the businesses impacted provide supplies and support to the drilling industry in the Gulf Coast. The magnitude of the spill response and cleanup spending in the Gulf Coast is large enough, however, that some of these businesses may have been able to replace some of their lost earnings by serving other customers.

The Administration has worked to mitigate any adverse impacts of the moratorium on workers. In May, the Administration proposed legislation calling for a new program of unemployment assistance, modeled after the Disaster Unemployment Assistance Program, to provide benefits to workers who lose their jobs as a result of a Spill of National Significance. In addition, as a part of the negotiations that resulted in the creation of the independent claims facility and the $20 billion trust fund, the Administration also negotiated with BP to establish the Rig Worker Assistance Fund to which BP donated $100 million.

While any job loss due to the moratorium, even temporary, is deeply regrettable, it is important to place these effects in the context of the economic, environmental and safety threat – including the potential loss of life – that the BP Deepwater Horizon explosion created. Given uncertainty about the adequacy of existing safety regulations, the moratorium was designed to provide greater certainty that deepwater drilling in the Gulf Coast is being conducted in a safe manner, with effective safeguards and responses in place should problems arise. These safeguards are highly important given the expectation that Gulf Coast oil and gas will continue to provide a significant share of domestic energy production.

Thank you, Madam Chairwoman. I am happy to take your questions.

REBECCA M. BLANK
Under Secretary for Economic Affairs
U.S. Department of Commerce

Rebecca M. Blank was sworn in June 2009 as the Under Secretary for Economic Affairs at the Department of Commerce. As the Economic Advisor to the Secretary of Commerce and head of the Economics and Statistics Administration (ESA), she has oversight responsibility for the two premier statistical agencies in the United States, the Census Bureau and the Bureau of Economic Analysis. She is appointed by the Secretary of Commerce as his Board Representative to the Pension Benefit Guarantee Corporation. Within ESA, she supervises a staff of economists and policy analysts who produce a wide variety of reports and forecasts that help develop and assess domestic and international policy.

Dr. Blank was the Robert S. Kerr Senior Fellow at the Brookings Institution from 2008-09. Prior to her arrival at Brookings, she was dean of the Gerald R. Ford School of Public Policy at the University of Michigan (UM), where she implemented a major expansion of its faculty and programs. She also served as co-director of UM's National Poverty Center.

Dr. Blank was previously in government service as one of the three Members of the President's Council of Economic Advisers under President Clinton from 1997-1999. In this role, she participated in White House decision-making on a host of economic, social, and regulatory policy issues. Prior to this she was Professor of Economics at Northwestern University and Director of the Northwestern University/University of Chicago Joint Center for Poverty Research.

Dr. Blank's research has focused on the interaction between the macro economy, government social policy programs, and the behavior and well-being of low-income families. Her 1997 book, It Takes A Nation: A New Agenda for Fighting Poverty, won the Richard A. Lester Prize for the Outstanding Book in Labor Economics and Industrial Relations. Her more recent work includes the books The New World of Welfare (co-edited with Ron Haskins, 2001, Brookings Press), Is the Market Moral? (Co-authored with William McGurn, 2003, Brookings Press), Working and Poor (co-edited with Sheldon Danziger and Robert Schoeni, 2006, Russell Sage Press) and Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Families (co-edited with Michael Barr, 2009, Russell Sage Press.)

Dr. Blank is a member of the American Academy of Arts and Sciences, a Fellow of the Society of Labor Economists, and a Lifetime Associate at the National Academies of Science. She has served in a wide variety of advisory and professional roles, including service on the Boards of Directors of MDRC, the Economic Policy Institute, and the Urban Institute. She was a long-time faculty affiliate of the National Bureau of Economic Research, Vice-President of the American Economic Association, and President of the Association for Public Policy Analysis and Management.

Chair LANDRIEU. Thank you. I would like to do the questions now to you, Ms. Blank. And then we will take a break and come back for your testimony and do questions, Mr. Fernandez.

It is very keen what you said about your analysis of the large companies and the oil service companies. As you know, this Committee is not a committee for large business. It is a committee for small business, and the whole purpose of this hearing and the whole purpose of our request of economic analysis to you and the Administration was actually to find out the data as it affected small businesses, unrelated really to some of the large oil companies.

I have even said in any public speeches the large companies—there are five large ones as you know—they will weather this beautifully. It is not them that we are worried about on this Committee. We are worried about the small businesses. So specifically to Charlie G., who testified, his restaurant, (a) how many restaurant owners did you talk to or did your staff speak to, how many chambers of commerce did you talk to, and how many other businesses, not oil companies or drilling operators did you all speak to in your analysis?

Ms. BLANK. Thank you. That is an important question. So we have to understand what happened to the oil companies, the drillers and the contractors, in order to say something about how much their spending has been reduced because it is that reduction in spending that in turn is going to affect everybody on the shore, small businesses and large businesses that are a part of the drilling support industry.

So we start with the oil companies and then go from there to describe with this multiplier analysis what the impact is in the whole area which is the 8- to 12,000 fewer jobs including the 12,000 jobs lost on the rigs.

We did not speak directly, for the purposes of this report, to small business owners. We relied on the analysis that I think almost all of the earlier studies that I have read and have looked at and that you cited in your opening statements have done similar types of multiplier analysis.

It is partly because of a concern to understand what is happening on the ground that I think my colleague, Mr. Fernandez, will talk about some of the assessment teams that are down there really looking at what is happening in individual communities.

Chair LANDRIEU. So I just want to get for the record you are claiming that they were saying, not claiming but testified that there were how many do you think, 9,700, what was your figure?

Ms. BLANK. There are 9,700 rig workers on the rigs immediately prior to the explosion. We estimate that approximately 2,000 of those workers were either laid off or went elsewhere, left the Gulf so there is no longer spending on them in the Gulf Coast.

We also made some estimates about the amount of other reduced spending on drilling supplies and things that the rigs were spending that went directly to the shore and supported all the businesses you are discussing. So our estimate is $1.8 billion in reduced spending by the rigs, and then we estimate what effect that has on employment which leads us to the negative 8,000 to 12,000 fewer jobs.

Chair LANDRIEU. But I would say that it is 2,000 rig workers that have been laid off to date in your analysis, but there are 8,000 to 13,000. So the other loss of jobs is coming from where?

Ms. BLANK. This is because as I tried to say in my testimony——

Chair LANDRIEU. Is it coming from small businesses or other businesses?

Ms. BLANK. It is all the businesses in the Gulf Coast that support those rigs, and as you know for every rig worker, there are large numbers of businesses that provide supplies to the drilling operations, to the food, to the things they are doing on the rig. The multiplier is the multiplier from that direct spending to the whole effect on the full economy.

Chair LANDRIEU. We know when we see headlines like this, Drilling Ban Job Losses Smaller than Estimated, it has the effect of sort of communicating to the public that 8,000, 9,000, 10,000, 11,000 jobs to South Louisiana is not a significant loss.

Let me assure you that 5,000, 8,000, 10,000, 12,000 jobs lost to this particular area is a significant impact on businesses of all sizes, and this just may be the tip of the iceberg.

You are correct that only 2,000 rig workers have been laid off to date. These companies are large enough to keep some of these workers on for some months. How long this will go we do not know. But there still is a dramatic impact on employment that I think some of the headlines of this report are failing to actually capture.

I am going to turn the questions over to Senate Vitter and then come back.

Senator VITTER. Thank you, Madam Chair.

Ms. Blank, can you thoroughly discuss the economic analysis done at Commerce and Interior and other federal agencies prior to the moratorium being issued? I know this is a new analysis. When was it done? Can you describe it in the total prior to the decision?

Ms. BLANK. As you know, at the time of the BP Deepwater Horizon explosion there was enormous uncertainty over the cause of that explosion and a great deal of concern over whether the correct safety provisions were in place. That was much of the focus of the conversation.

Early planning efforts and analysis focused on making sure the moratorium would serve its purpose relating to safety and getting safe drilling back to business as quickly as possible.

To my knowledge, though I was not directly involved with that, there was no economic analysis done prior to the issuance of the moratorium. The initial focus was on the environmental preservation and the safety of the drilling industry.

Senator VITTER. So you are saying prior to this major decision to shut down activity in the Gulf, there was no economic analysis done?

Ms. BLANK. The focus prior to bringing on the moratorium was on the range of safety and environmental issues which the explosion immediately raised.

Senator VITTER. Okay. So activity was shut down. No economic analysis went into that decision. Am I actually hearing this? No economic analysis of consequence was done prior to that dramatic decision?

Ms. BLANK. Given the uncertainty of the current environment, the concern for protecting the environment, for protecting the safety of the drilling industry was the paramount concern.

Senator VITTER. Okay. At least it is a direct answer. It is a stunning one but it is a direct one. By the end of this month, and I know you have gone through some of this, how many rigs do you anticipate being idle?

Ms. BLANK. Our estimate is that at present there are 41 operating rigs and only five rigs have left the Gulf. In terms of idle rigs, some of these rigs are doing quite a bit of operations of cleanup, and looking at safety provisions and the sort of stuff that you do while you are waiting for the moratorium to come to an end.

The Department of the Interior is closely tracking rig activity inside the Gulf, and I would encourage you to speak with them if you actually want projections of what is going to happen in terms of rig activity.

Our estimates are based on our knowledge of what has happened to date and our conversations which suggest that between now and the end of the moratorium, which has been announced for November 30th, there is not likely to be further changes in who is drilling and who is not drilling and what rigs are present in the Gulf.

Senator VITTER. So do you know how many rigs you anticipate being idled by the end of the month? That was one of the written questions I sent you.

Ms. BLANK. Yes, and the reaction is, our reaction is based on what we know through the 13th of September.

Senator VITTER. And what is that?

Ms. BLANK. That at this point there are 41 rigs that are in the Gulf. Of those, many of them are doing a variety of activities. They are obviously not drilling given the moratorium but they are engaged in all sorts of cleanup and safety renovation type procedures.

Senator VITTER. Remind us, and I know you testified about this, how many of those workers have been laid off to date?

Ms. BLANK. There were 9,700 workers we estimate on the rigs that are affected by the moratorium prior to the Deepwater Horizon explosion, and of those, 2,000 have either been laid off or have left the Gulf area so there is no spending on those workers in the Gulf.

Senator VITTER. Presumably that number goes up over time, would you agree with that?

Ms. BLANK. Our expectation from what we have heard talking to these rig workers or talking to the contractors and drilling operators, is that they have decided to retain these workers, given their skills, given they can do things on the rigs, and it is highly unlikely that further workers are going to be laid off between now and the end of the moratorium. If they have chosen not to retain the workers through the middle of September, they are likely to keep them on waiting for the moratorium to end.

Senator VITTER. So your assumption is that that number will not go up over time?

Ms. BLANK. That is our assumption and this is based on the conversations we have had with the drilling contractors and operators themselves.

Senator VITTER. I have to tell you I talk to these people every day and it sure as heck is not what they are telling me. I would love to know about these conversations because every day I hear the exact opposite, and in particular I hear the exact opposite in the context of not just the continual formal moratorium but the fear of what will be left after the formal moratorium is lifted; and to get a sense of that, people look at shallow water and they see a de facto moratorium.

So it is not as if they have any confidence that the day after the formal moratorium is lifted they are back in business. They quite frankly are pretty certain of the opposite when they look at shallow water.

Ms. BLANK. And yet I would note that 41 rigs have chosen to stay clearly intending to resume operations as soon as they can.

Senator VITTER. Do you to know if any of those are considering leaving?

Ms. BLANK. I do not know if any of them are considering leaving. I do know that there are some rumors that some rigs are actually planning to come into the Gulf sometime in the near future and particularly at the time the moratorium leaves.

These things are incredibly mobile as I am sure you know, Senator. They are not permanent installations. They can leave but they can also come back quite quickly.

Senator VITTER. As part of your economic analysis, did you explore whether any of the 41 were actively looking at leaving any time soon?

Ms. BLANK. We did not talk to all of the rig operators. Of those we talked to, we covered about 50 percent of those that were operating in the Gulf prior to the explosion. Among those, the people who had stayed basically said that they stayed because they expected that they were going to be drilling again in the Gulf in the near future.

Senator VITTER. What to date is the impact of the moratorium on federal revenue and the deficit, and what do you project it to be continuing into the future?

Ms. BLANK. I want to emphasize that in terms of the gas and oil drilling that this is not lost production. It is simply delayed production. Indeed the revenue effects depend heavily upon what the price of oil might be a year and two years from now relative to now. If the price of oil goes up, you might end up with greater revenues because of delayed production. If that goes down, you might end up with lower production. It is simply difficult to speculate about what the impact of the moratorium would be over a five- or ten-year budget horizon. We do not do that in the report and we do not do such estimates.

Senator VITTER. I included that in the letter. Is anybody in the Administration looking at that?

Ms. BLANK. I can tell you that we are not looking at the revenue effects. Our statement is in terms of the gas and oil production that the effects are going to depend on future prices of oil. That is not something we forecast in my unit.

Senator VITTER. Again I specifically asked that question ahead of time. Presumably somebody in the Administration can do that sort of calculation. Can you provide that to us?

Ms. BLANK. I can look into that.

Chair LANDRIEU. Let me ask to be clear on these numbers because I think it is very important to clear these numbers and we have a discrepancy here we need to clear up. You testified there were 41 rigs idling in the Gulf.

Ms. BLANK. There are 41 rigs that are remaining in the Gulf.

Chair LANDRIEU. They are idling. They are not drilling right now because there is a moratorium. Of those 41, how many operate in the deep and how many operate in the shallow?

Ms. BLANK. We are looking only at deepwater drilling in this report. The request that came to us was to study the impact of the deepwater drilling moratorium. So that is what we looked at and we are talking about only deepwater rigs in all of this report.

Chair LANDRIEU. Correct. But the deepwater drilling moratorium has had an immediate and dire effect on all drilling activities in the Gulf. And if your report does not cover that, then we are going to have to re-ask the question to get the kind of data that we need because it was I thought very clear that we are not asking for just the data relative to the rig workers on the 41. Our number is 33 deepwater rigs; but if you have 41, then we need to get our numbers updated.

We had 31 deepwater rigs in the Gulf when the Horizon happened and another four that were being constructed. That is our data. So we have got to see how that can be meshed. But there are 45 shallow so let us just say 35 deep and 45 shallow. So we are talking 80 rigs.

We are going to have to figure out which of these are operating and which ones are not. Our numbers, and this is from the website of the Interior Department. This is not Mary Landrieu's numbers. But our numbers show that prior to the oil spill, prior to the moratorium there were 49 shallow water permits issued month by month. We have it here, 11 in January, six in February, eight in December, March, and April for a total of 49 after the deepwater moratorium. But the shallow de facto moratorium there have only been seven permits issued.

Of course, you can see in the deepwater there were 29 permits issued and then since the spill only one. I am not sure when that was done but in May. But there have been zero in June, zero in July, zero in August, and zero in September.

So I do not want to leave this hearing, Ms. Blank, in communicating to the country that these rigs are somehow operating. You cannot operate without a permit, and there are virtually no permits being given.

They could be idled on shore. Some of them can move as you know. Some of them are shut down in position and some of them are moved on shore. Some maintenance work may be going on but there is virtually no drilling of any magnitude either in deep or shallow water going on in the entire Gulf of Mexico is what we are trying to explain to people.

So if you think these numbers are incorrect, maybe you could reconcile them with the Interior Department so we can actually for the record of this hearing, we may not do it in the next five minutes but for the official record figure out actually if the government even knows how many shallow rigs are in the Gulf and how many deep and where they are.

We have a map that shows where they were before the spill. We know where they all are. These are on the website. You can actually count them. This is 25 deepwater rigs. The 25 that were positioned, drilling, are all idled. So their crews have left. There is not a lot of activity going on. They are doing I guess some cleanup and reviews but they are not operating, and the all shallow water that operates along here is virtually shut down.

So you know it is a little difficult for us to figure out how the headline can be limited loss but the entire industry seems to be shut down.

I do not know what to tell our restaurants because I am sort of the same as Senator Vitter. I mean all we hear from restaurant owners is that they are freezing, getting ready to lay off. The word "panic" is not really an overstatement in some of these parishes. They do not know what the future holds.

Do you have a comment?

Ms. BLANK. I do want to note that we have focused solely on the deepwater environment here which is what the moratorium directly affects. The estimate of 8– to 12,000 fewer jobs as notes if you take out the rig workers means that there is 6– to 10,000 jobs on-shore of exactly the sort that you are talking about.

And we note in the report that the larger companies are probably able to retain labor and deal with this much better than expected. The major effect of this is on small businesses.

Chair LANDRIEU. Go ahead.

Senator VITTER. Just to clarify this point, do these numbers, does your report reflect the impact on the job losses of the de facto shallow water moratorium?

Ms. BLANK. We were asked to look at the effect of the deepwater moratorium and we have focused only on the deepwater effects in this report.

Senator VITTER. So there is a de facto shallow water moratorium. The numbers reflect that. A typical month before the explosion there were on the order of 39 to 43 shallow water permits. In the several months since the explosion, there is a total of less than ten. Let us see then. That illustrates behind the debate there is a de facto moratorium. You have not accounted for the that impact?

Ms. BLANK. Since June 8, I know what the Department of the Interior has received 13 shallow water drilling applications, and as of September 10, it approved five permits which the other eight are still pending, and I can simply ask that you perhaps follow up with Secretary Salazar and the Department of the Interior for details on exactly what their plans are with regard to oversight of shallow water drilling.

Senator VITTER. My point is not about that permitting. That has clearly moved from 39 to 43 a month to five over many months. That is the de facto moratorium.

My point is that that is a dramatic change as significant as the deepwater formal moratorium, and your economic analysis does not touch it.

Ms. BLANK. We were not asked to look at any issues related to shallow water. We were asked to look at the deepwater moratorium, and that is what our report focuses on only.

Chair LANDRIEU. Can I ask this, David?

One of our analysis, it is very interested how you might count a job so I want to ask this to be clear.

If two people are working a 40-hour work week and both their hours are cut by 20 hours, do you in your analysis estimate that as one job because it is 40 hours lost or is it two jobs affected?

Again two people working 40 hours a week, they are both cut back because their rigs are idling. So instead of working a full eight or nine hour day, they come in to do some part-time clean up. Do you count that as one job affected or do you put those lost hours together and count them as one?

Ms. BLANK. So this multiplier analysis that we do is based on the average relationships between reductions in spending and changes in employment. Employment includes both part-time and full-time workers. So embedded in that loss of jobs is a mix of part-time and full-time workers. When we talk about jobs lost, it is sort of the mix of jobs that are in the economy and not all of those are exactly 40 hours a week.

Chair LANDRIEU. So would you say that is a yes or a no? Would you say that in that category there were two jobs lost or one job lost?

Ms. BLANK. So the multiplier would assume that you know it is looking at the numbers of jobs lost. So if there are two jobs, it would be two jobs lost.

Chair LANDRIEU. Do you know, since you did the deepwater analysis, how long does it take a rig to come back to the Gulf once it leaves? Did you all do any calculations about that?

Ms. BLANK. No, we did not.

Chair LANDRIEU. So there are three that testified have left. Do you think? Three or four?

Ms. BLANK. There are five that have left.

Chair LANDRIEU. Five that have left. I would like you to answer for the Committee or submit to us in writing, how long does it take for those rigs to come back and what are the indicators whether they will or not. I do not know if it takes a month or three months or six months or two years for them to come back once they are gone. So we have lost five of the approximately 40 so far. That is a big number because it was really 33 but there were some more on the way. So five out of 40, and you know you lose ten out of 40, five is significant but ten is very significant. I do not believe they come back very quickly.

We are going to have to go vote. We will recess and go vote and come back, Mr. Fernandez, for your testimony.

Senator VITTER. Right before we do, if I could ask unanimous consent to include the testimony of Karen Harbert of the chamber in the record since she could not testify today.

Chair LANDRIEU. That will be added with the other testimony from the other committees. Thank you.

[The statement of Karen Harbert follows:]

Committee on Small Business and Entrepreneurship

US Senate

"Deepwater Drilling Moratorium: A Review of the Obama Administration's Economic Impact on the Nation and U.S. Small Businesses"

Testimony of Karen A. Harbert

President and CEO
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U.S. Chamber of Commerce

Thursday, September 16, 2010

Introduction

I am Karen Harbert, President and CEO of the Institute for 21st Century Energy (Energy Institute), an affiliate of the U.S. Chamber of Commerce, the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector and region. The Energy Institute's mission is to unify policymakers, regulators, business leaders, and the American public behind a common sense energy strategy to help keep America secure, prosperous, and clean. Through policy development, education, and advocacy, the Energy Institute is building support for a common sense energy strategy at the local, state, national, and international levels.

The Role of the Oil and Natural Gas Industry to the Economies of the Gulf States

In order to fully understand the economic impact of the moratorium on small businesses and the people of the Gulf States, it is essential to assess the enormous role that the oil and natural gas industry plays in the region's and the nation's economic prosperity. Approximately 33% of domestically produced oil comes from the Gulf of Mexico, as does 10% of our natural gas. These numbers translate into enormous economic benefits for people of the Gulf States and the small businesses that employ them.

For instance, the Shallow Water Energy Coalition reports that in 2009, the oil and natural gas leases on the Outer Continental Shelf just off the Louisiana coast generated $4.9 billion in federal revenue and $29 million in state revenue. A study conducted by Dr. Joseph Mason from Louisiana State University estimates that a six-month moratorium could cost more than $2.1 billion in economic activity in the gulf communities. He also notes that lost tax revenue to state and local municipalities will be nearly $97 million.

Each of the 33 drilling rig platforms that were in the deepwater Gulf of Mexico directly employed between 180-280 employees at any given time, with four onshore jobs tied to each job, meaning that just on the drilling rigs alone, there are 5,940 and 9,240 employees who face employment uncertainty due to the moratorium. If you further include the thousands of jobs that support those rigs, a staggering 46,200 jobs are affected by the moratorium. Lost wages for these jobs could be as high as $10 million a month per platform.

According to a study by IHS Global Insight, in 2009, the offshore Gulf of Mexico oil and natural gas industry activity supported nearly 400,000 jobs. The businesses that rely on the oil and natural gas industry such as caterers, cleaners, transportation services, welders, divers, machine shops, engineers, and chemical manufacturing plants could suffer massive economic losses due to the moratorium.

Issuance of an Overreaching Moratorium and its Economic Repercussions

In response to the Gulf spill, on April 29, the Administration announced that they would be sending SWAT teams to the Gulf to inspect all platforms and rigs. On May 7, Minerals Management Service's regional director, Lars Herbst, stated that inspectors had looked at 30 deepwater rigs since the Deepwater Horizon rig exploded and sank and found "no cause for concern." Of the 33 rigs that were present in the Gulf of Mexico in April, seven have now left the Gulf for foreign destinations taking their capital and jobs with them.

On April 30, President Obama issued a stay on deepwater drilling. He formed the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling to investigate the event. The President also tasked Secretary of the Interior Ken Salazar to review and report within 30 days as to "what, if any, additional precautions and technologies should be required to improve the safety of oil and gas exploration and production operations on the outer continental shelf" as a result of the BP blowout.

Without consulting with the Gulf Coast communities, businesses or leaders and before any semblance of an investigation had been conducted, on May 28, President Obama, and the Department of the Interior issued a sweeping, overreaching moratorium that would suspend exploratory drilling by the 33 rigs that were currently in the deepwater Gulf, and stop the issuance of permits for any drilling in waters deeper than 500 feet. It also postponed any new drilling off the coast of Alaska until 2011 and cancelled other Western and Virginia lease sales.

It is noteworthy that Secretary Salazar inaccurately stated in his 30 day report that he used to justify the moratorium, "the recommendations contained in this report have been peer-reviewed by seven experts identified by the National Academy of Engineering." However, five of the National Academy experts were stunned by the Department's action which was never part of their recommendations and have since publicly stated that they "do not agree with the six-month blanket moratorium on floating drilling." They added that the blanket moratorium language was added after their review of the report, which originally recommended a six-month moratorium only on exploratory wells deeper than 1000 feet to allow for implementation of the safety measures suggested in the report.

On June 22, in response to a suit filed by Hornbeck Offshore Services, supported by the US Chamber of Commerce and other entities whose economic livelihood depend on the offshore industry, U.S. District Court Judge for the Eastern District of Louisiana Martin Feldman granted the injunctive relief sought by the plaintiffs, and stayed the moratorium, stating that the Administration issued a moratorium based on a report that, "… patently lacks any analysis of the asserted fear of threat of irreparable injury or safety hazards posed by," the rigs affected by the moratorium. Judge Feldman's order goes on to state that the government, "failed to cogently reflect the decision to issue a blanket, generic, indeed punitive moratorium with the facts developed during the thirty-day review."

On July 8, the Fifth Circuit Court of Appeals refused the Administration's appeal to reinstate the moratorium, stating it failed to prove that "irreparable injury" is likely if the moratorium is not reinstated while the Administration appeals the lower court's decision to lift the ban.

Less than three weeks later, on July 12, the Administration issued another moratorium, which it called a "short-term" measure that was not based on the water depth of the operations, but rather on drilling technologies and certain drilling configurations. However, in reality, the second moratorium is even broader than the first in that it now captured any shallow water operator who utilizes technology similar to that in deepwater operations.

While there are many studies on the potential impacts of the moratorium, the Administration's own analysis concluded that the federal moratorium would cost roughly 23,000 jobs and freeze up to $10.2 billion in industry investment. Yet, the Administration chose to ignore their own data, and ignore the devastating effect it could have on the small businesses – and people – of the Gulf. With national unemployment hovering at just under 10 percent, the Administration has chosen to pursue a policy, questioned by two of the Administration's own Commissions, that will increase those numbers. While the numbers may vary from study to study, the message is clear: the moratorium is a ban on jobs, economic growth and prosperity for small businesses in the Gulf and the rationale for pursuing that policy course has been rejected by the Administration's own experts. Gulf businesses are being held hostage by the moratorium and the subsequent regulatory limbo the Administration has thrust on them at a time when they are already suffering. According to the interagency Administration report released today, however, the parties hurt most right now are the thousands of small businesses that rely on a functioning oil and natural gas industry in the Gulf.

In fact, the co-chairs of the Obama Administration's own National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling themselves raised strong concerns with the energy moratorium after hearings this summer in the Gulf Coast region. Former EPA Administrator William Reilly noted in New Orleans in July that, "I come to this experience with a much greater sense of the economic dislocation being experienced here than I had three days ago. It's not clear for me why it should take so long to reassure oneself about (safety) considerations on those rigs." On July 16, Reilly's co-chair, Democratic former Sen. Bob Graham, said he was disturbed by a "disconnect between Washington and the Gulf region about the sense of urgency needed." The Times-Picayune reports him as saying that if the moratorium is a "timeout" to gather information and assurances that drilling can continue, "it's a legitimate question to ask what we're doing to inform ourselves, establish new standards and make a quick judgment."

Some proponents of the moratorium argue that the moratorium only affects "big oil" companies. This assertion is false. Independent producers hold nearly 90 percent of the offshore leases, and they also account for 80 percent of the wells drilled in the gulf. In fact, according to IHS Global Insight, independent energy companies in the Gulf of Mexico account for more 200,000 jobs, $38 million in economic benefits and more than $10 billion in federal and state revenue and royalty payments.

The Federal Government's Response and its Effects

Although the Administration continues to claim that the moratorium is necessary to ensure the safety of deepwater drilling in the Gulf of Mexico, the safety of the rigs has been certified which has led to an environment of uncertainty that is having serious impacts on the entire region. The government imposed significant new safety requirements, which were supported by the industry, yet the Administration continues to claim they will not lift the moratorium until they are sure it's "safe." The Department of Interior (DOI) is supposed to issue a at least eleven of new regulations governing the industry which have yet to be promulgated, so businesses small and large have no idea what the expectation or rules of the road will be. How can any business function in an environment when no one knows what the regulatory regime or the investment environment is going to look like?

In late August, the Bipartisan Policy Center, in response to a request from the National BP Deepwater Horizon Gulf Spill and Offshore Drilling Commission, which was created by President Obama in May, released a report stating that the new rules implemented by the Administration "provided an adequate margin of safety to responsibly allow the resumption of deepwater drilling in the Gulf of Mexico." These rules included new and immediate requirements for blow out preventers, third party certification of the equipment, and creation of a worst case discharge scenario and adequate prevention measures to address the worst case scenario. Yet, the Administration has yet to allow the resumption of exploration or drilling in the Gulf.

While the government asserts that shallow water wells are excluded from the moratorium, and that permitting continues for these wells, in actuality, the permitting process has been slowed to a near standstill, which has created a de facto moratorium on all shallow water drilling as well. On September 13, the Director of the Shallow Water Energy Coalition, James W. Noe told Director of the U.S. Bureau of Ocean Management, Regulation and Enforcement (BOE) that 15 of 46 shallow-water rigs are sitting idle in the Gulf, and since April only 5 new permits have been issued. Prior to the moratorium, the federal government approved an average of 14 shallow-water drilling permits per month.

The Administration's new drilling regime will require at least eleven new rulemakings. Even if the moratorium were lifted tomorrow until these regulations are promulgated and the new information requirements, costs and compliance obligations are understood, the resumption of drilling will be slow. The offshore industry does not operate like a switch one can turn on and off, as an industry dedicated to safety, it will take some time for operations to resume, contracts to be let and people to be re-employed. Claims that everything will returned to normalcy once the moratorium is lifted are false.

Industry stands ready to work together with the Administration to ensure the safety of drilling in the Gulf of Mexico. It has formed task forces to address both short- and long-term issues related to offshore equipment and offshore operating practices and has issued a number of recommendations to the government on improvements, standards and best practices and procedures.

In July, Exxon Mobil, Chevron, Shell, and ConocoPhillips, voluntarily formed the Marine Well Containment Company, a new $1 billion joint venture with the goal of developing and operating a rapid-response plan and technology capable of capturing and containing up to 100,000 barrels of oil from deepwater rigs in the event of an accident. The response team will be able to mobilize within 24 hours of an incident. The companies will initially put in $1 billion dollars into the company, and expect to have the venture fully operational within 18 months.

Conclusion

While the Gulf spill is a catastrophe, the Administration's reaction with a blanket gulf of Mexico moratorium is not supported by fact. DOI inspectors have declared the rigs safe, industry has agreed to comply with new safety regulations, yet the moratorium remains, Gulf businesses are hurting and rigs are leaving the Gulf of Mexico. Looking further out, the combination of the moratorium, more stringent drilling regulation and drawn our permitting timeframes will lead to higher drilling costs, potentially encouraging companies to look elsewhere for opportunities, less production from smaller companies who can ill afford the higher costs and less employment. IHS Global Insight's report concludes that should development of offshore Gulf resources be severely constrained by policies or regulation, 202,000 jobs are at risk.

The Administration has simply failed to adequately consider the consequences of this moratorium and regulatory regime. Just as there are residents and workers whose livelihoods have been put in jeopardy due to the spill, there are tens of thousands of residents and workers whose livelihoods have been placed in jeopardy by policy decisions, in particular the broad new limitations on offshore drilling. While a renewed safety focus is necessary, keeping American energy resources offline in the Gulf will only lead to sending more money overseas for imported oil, the country's energy security being threatened, and the loss of thousands of American jobs in a region that cannot afford it.

The Administration and Congress have also now proposed new taxes on the oil and gas industry to offset some of the government's spending spree in other areas It is wrong for the Administration – and Congress – to use this crisis as an opportunity to levy additional taxes on industry that are counterproductive and will only cause additional economic pain to a region that is already suffering. If enacted, the hostile investment environment the Administration has created will lead to increased imports from unstable regions of the world, increase costs, and reduce our nation's energy security.

It is time to get the Gulf back to work and America's energy resources on line. It is incumbent on the Administration to be crystal clear with the industry about the new rules of the games and reveal them quickly if they do not want to inflict more and longer term pain on the businesses in the Gulf and the energy security of our nation.

Thank you for the opportunity to submit this testimony.

[Recess.]

Chair LANDRIEU. The recess will come to an end and we will again commence with our hearing.

Mr. Fernandez, this would be a good time for you to present your testimony and I appreciate everyone's patience. We actually had two stack votes and will have a third in about 30 minutes but we have got time to take this testimony and to get a few more questions in.

So please proceed.

STATEMENT OF JOHN FERNANDEZ, ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT, ECONOMIC DEVELOPMENT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. FERNANDEZ. Thank you, Chairman Landrieu. I am happy to have the opportunity to testify today before the Committee on behalf of the Department of Commerce's Economic Development Administration.

As you explore the economic impact of the Deepwater Horizon oil spill and the deepwater drilling moratorium, EDA along with fellow Commerce agencies has been an integral partner in the coordinated federal response to the oil spill.

Since June, EDA has announced a series of grants totaling $5.6 million to help the Gulf Coast recover by using our Economic Adjustment Assistance Program. This program allows for a wide range of technical, strategic planning, gap financing, and infrastructure assistance. It is a complete toolbox of developmental tools which EDA can leverage to create customized recovery packages for the Gulf Coast region.

An addition of $4.5 million in EDA investments is expected to be finalized by September 30. These grants will fund a wide range of activities aimed at promoting long-term recovery, including revolving loan fund recapitalization and technical assistance to small businesses.

In addition to projects in our current pipeline, EDA is finalizing a new federal funding opportunity stemming from the additional $5 million in economic development assistance money that was provided to the EDA in the Emergency Supplemental Appropriations Act to carry out more planning and technical assistance to oil spill states.

We are grateful to Congress for passing this provision which was part of the Administration's supplemental request submitted on May 12.

Currently my Deputy Assistant Secretary Brian McGowan is leading the economic solutions team which is part of the national incident command. This team was established to focus on the transition from response to recovery.

The EST is working to ensure that both short- and long-term economic growth and job issues are being effectively addressed. EST which includes federal agency representatives from the Department of Commerce, Small Business Administration, Department of Housing and Urban Development, Department of Labor, Department of Homeland Security, and Department of Agriculture is working with experienced economic development and disaster recovery specialists to provide vital expertise and technical assistance to local communities.

Working in partnership with the International Economic Development Council, the EST visited 21 Gulf Coast counties from mid to late August. The teams were deployed to nine Louisiana parishes, three Mississippi counties, six Florida counties, two Alabama counties, and one county in Texas.

The first to deploy were two pilot teams that worked with local leadership in the Terrebonne Parish and Lafourche Parish. As Under Secretary Blank has noted in her written testimony in a report that was released today, these two parishes were two of the five parishes reported to be heavily dependent on the deepwater drilling industry.

The solutions teams are comprised of economic development practitioners, industry experts, and government officials who specialize in economic and workforce development, city planning, infrastructure and long-term economic recovery. Once on the ground, the teams work for the local leadership from regional governments, chambers of commerce, representatives from key industries, economic development organizations, and others to address issues ranging from infrastructure challenges to business recovery needs to concerns about credit and financing.

The work of these teams is taking place on a separate track to the work that Under Secretary Blank has just described. The teams are looking at economic impacts whether from the oil spill or the moratorium. These teams are still working with local officials as they continue to accumulate qualitative data for the final report which will include a set of tailored plans for addressing some of the identified needs.

I would like to thank the chairwoman again for the opportunity to be here today. EDA is ready and prepared to do our best to assist with the devastating oil spill in the Gulf Coast region. We look forward to continuing to work with Congress to strengthen the Federal Government's coordinated response.

I welcome any questions you may have.

[The prepared statement of Mr. Fernandez follows:]

Statement by

John Fernandez

ASSISTANT SECRETARY OF COMMERCE FOR ECONOMIC DEVELOPMENT

U.S. Senate Committee on Small Business and Entrepreneurship

September, 16 10:00am

Introduction

Chairwoman Landrieu, Ranking Member Snowe, and distinguished members of the Committee. Thank you for the opportunity to testify today on behalf of the Department of Commerce's Economic Development Administration (EDA) as you explore the economic impact of the BP Oil Spill and the deep water drilling moratorium on the Gulf Coast region.

Response Efforts

EDA, along with our fellow Commerce agencies, has been an integral partner in the coordinated Federal response to the BP Deepwater Horizon spill. Though not a "first responder," EDA's role is to facilitate delivery of Federal assistance to local governments' recovery efforts through strategic planning and economic redevelopment. Beginning in late April, I asked staff from EDA's Austin and Atlanta regional offices to actively reach out to our local partners to begin to assess their concerns and potential needs. EDA regional staff deployed to the region and contacted our network of local government partners in those affected areas to offer the agency's assistance and staff deployed throughout the region. While in the short term, EDA regional staff is already providing technical assistance. Our focus will remain on promoting long-term economic recovery and we will continue to work closely with the affected communities long after the cleanup is complete.

Since June, EDA has announced a series of grants totaling nearly $5.6 million to help the Gulf Coast recover by using its Economic Adjustment Assistance (EAA) program. This program allows for a wide range of technical, strategic planning, gap financing, and infrastructure assistance—a complete toolbox of development programs which EDA can leverage to create customized recovery packages for the Gulf Coast region. An additional $4.5 million in EAA investments is expected to be finalized by September 30th.

In addition to projects in our current pipeline, EDA is currently finalizing a federal funding opportunity (FFO) stemming from the additional $5 million in economic development assistance money that was provided to EDA in the Emergency Supplemental Appropriations act.

National Response:

Currently, my Deputy Brian McGowan is leading the Economic Solutions Team (EST) which is part of the National Incident Command. The team was established to focus on the transition from "response" to "economic recovery" as a result of the BP Deepwater Horizon spill. The teams are working to help strengthen the coastal economy.

The EST, which includes Federal agency representatives from the Department of Commerce, Small Business Administration, Department of Housing and Urban Development, Department of Labor, Department of Homeland Security, and Department of Agriculture is working in partnership with experienced economic development and disaster recovery specialists to provide vital capacity and technical assistance to local communities immediately after the BP Deepwater Horizon spill. In line with this commitment, the EST deployed 21 economic assessment and evaluation teams to Gulf Coast counties and parishes. Over the course of the summer, assessment and evaluation teams worked with nine Louisiana parishes, three Mississippi counties, six Florida counties, two Alabama counties, and one county in Texas. Assessment and evaluation teams focused on helping communities orient to their current situation and develop proactive strategies for addressing their current challenges. The work of these teams took place on a separate track to the work that Undersecretary Blank has just described.

Deployed to 21 counties in the region, the task of these teams was to understand the economic development needs of the selected communities and then offer potential solutions to issues related to industry migration, workforce skills, small business, infrastructure, and other related matters. Before the EST teams' initial deployments, they worked with community stakeholders to define problems to be addressed upon arrival, and to develop an agenda that would address areas of concern within that community. Once on the ground, the teams worked with local leadership from regional governments, chambers of commerce and economic development organizations, business representatives from key industries, and others. They addressed issues ranging from infrastructure challenges to business recovery needs to concerns about credit and financing. The teams conducted meetings that were focused specifically on the status of sectors such as oil and gas, commercial and recreational fishing, and tourism. At the meetings, the teams had qualitative conversations with stakeholders and anecdotal discussions of community challenges. There were no quantitative analysis conducted as part of this project.

Throughout the Gulf Coast, communities expressed uncertainty about their future – stressing that the future of industries like fishing, aquaculture, tourism, and oil and gas are vital to their wellbeing. Communities consistently expressed to the assessment and evaluation teams that they appreciated the opportunity to focus on problem-solving—the theme that has guided every stage of the process.

Following the visits, the EST continues to work with communities to help them address the concerns that they identified and develop and implement their own recovery plans. This will include additional support to help communities analyze and organize the information that came out of the team visits. Moreover, in June, President Obama appointed Secretary of the Navy, Ray Mabus, a former governor of Mississippi, to develop a long-term restoration framework to restore the Gulf Coast. The assessment and evaluation teams' experiences are directly informing the development of that report.

CLOSING:

I would like to thank Chairwoman Landrieu, Ranking Member Snowe, and distinguished members of the Committee for the opportunity to address you today.

EDA was an important partner with me and my community in Bloomington, Indiana when we faced the closing of a major consumer electronics company. EDA helped make it possible for us to collaborate with public and private sector partners to develop our strategy and implement it. Here again, EDA is ready and prepared to do our best to assist with Gulf Coast recovery by partnering with the public and private sector to help the Gulf Coast communities assess, plan, and provide for long term economic solutions. I look forward to working closely with Congress to strengthen the Federal government's coordinated response to economic disasters and to help the Gulf Coast recover and economically excel in the future, and I welcome any questions you may have.

John Fernandez
U.S. Assistant Secretary of Commerce for Economic Development

John Fernandez was appointed by President Obama to serve as the Assistant Secretary of Commerce for Economic Development and was sworn into office on September 14, 2009.

As the Administrator of the U.S. Department of Commerce's Economic Development Administration (EDA), Fernandez is charged with leading the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the global economy.

With over 13 years of executive experience, Fernandez has earned a reputation as a strategic thinker, creative problem solver and effective manager. Prior to his appointment, Fernandez led the new development and acquisition team at First Capital Group, an Indiana-based real estate investment firm. Fernandez played a critical role in expanding the firm's regional and national investment footprint.

Fernandez also served as Of Counsel for Krieg Devault, an Indianapolis-based law firm, where he advised private and governmental organizations on economic development, public finance and policy issues.

Fernandez served as Bloomington, Indiana's mayor from 1996 to 2003. With his leadership, Bloomington's economy thrived despite facing significant changes arising from the new global economy. Fernandez worked with business and Indiana University leaders to launch Bloomington's Life Sciences Partnership, securing more than $243 million in private investments and creating more than 3,700 jobs. He also developed an aggressive downtown revitalization plan resulting in more than $100 million in new investments.

A first generation American, Fernandez received a Doctor of Law (J.D.) from Indiana University. He also earned a Master of Public Affairs (M.P.A.) and Bachelor of Science (B.S.) from Indiana University's School of Public and Environmental Affairs.

Chair LANDRIEU. Thank you, Mr. Fernandez.

I want just to be clear for the record that report that you all submitted said there would be an impact of 1.9 billion in spending reductions. Is that what your report has?

Ms. BLANK. 1.8 billion.

Chair LANDRIEU. 1.8 billion which is a significant amount of money. And you just testified that EDA has given out to date five million in grants. Of course, there are five states that are affected so that would be an average of one million per state. And you have four million in the pipeline?

Mr. FERNANDEZ. 4.5 million.

Chair LANDRIEU. 4.5 million in the pipeline. We really do appreciate that help but it does raise to our eyes the gap that is existing.

In your testimony, Madam Secretary, you said that small businesses or that you submitted that small businesses are fairing worst under this the moratorium than large businesses. The report actually states, "small firms with less financial capital will likely experience relatively larger employment losses. This is consistent with anecdotal evidence from small businesses in the Gulf Coast." It goes on.

Can you outline why these businesses are harder hit by the moratorium, if they face a tougher time returning? And secondly, can you elaborate on the eight to ten thousand indirect job losses? Do you think these are job losses from small businesses or medium size or large, or do you know?

Ms. BLANK. Thank you. So we do not have a breakdown in this report and have not done so to bring on the size of business affected. What we do note is that larger businesses like the rigs themselves are much more able to horde labor, to smooth over declines in demand. They might be able to solicit business from outside the Gulf. There are a variety of things that they can do that lets them carry through in the face of some reduction in demand due to this moratorium or due to other effects from the oil spill.

Smaller businesses as you know just do not have that type of cushion. So our expectation is that of the indirect jobs, those that are created on-shore as a result of the reductions in rig spending, the indirect job loss, that a disproportionate share of those are likely to be in smaller businesses rather than larger businesses.

Chair LANDRIEU. Okay. Let me ask also. The report submitted today estimates that the moratorium, of course, is a direct loss of 2,000, indirect 8 to 10, a reduction in operations of 1.8 billion in spending. The Administration has announced 100 billion set aside for rig workers but I want to clarify those are only rig workers of deepwater rigs. So shallow rig workers are not eligible. Is that your understanding?

Ms. BLANK. I am actually not familiar with the details of that with regard to shallow water rigs. We looked at it with regard to deepwater rigs.

Chair LANDRIEU. Okay. That is our understanding for the record that the one hundred million set aside for rig workers idled by the moratorium is only for the deepwater rig operators, not shallow, although you can see from the Interior website they have been idled as well.

I also want to ask that the $20 billion escrow account set aside by BP at the request of the Administration to cover economic losses for the spill, is it your understanding that workers put out of business or having their jobs jeopardized by the moratorium are entitled to submit claims against this 20 billion or do you know?

Ms. BLANK. I do not know the details of exactly what can be submitted and what cannot be submitted to that fund and under what circumstances people can do it. I do know that the Administration has been working to mitigate adverse effects of the moratorium as well as other things happening in the Gulf on workers.

As you know in May, the Administration proposed legislation calling for a new program of unemployment assistance modeled on the Disaster Employment Assistance Program. Something like that, if there could be agreement around it, would certainly be of help to exactly the sort of workers you are talking about in the small businesses.

Chair LANDRIEU. If you would check with the Administration and see if we can get a clarification on that $20 billion fund.

Ms. BLANK. I will do that.

Chair LANDRIEU. We know that claims can be submitted for business-affected job loss, business loss, business interruption for the spill itself. The question is clearly the moratorium is having a direct impact on job loss, the 2- to 10,000 jobs direct and indirect and 1.8 billion in lost spending.

We want to see if that $20 billion would also be eligible, and if not, do any of you know any other pots of money or programs that could be tapped to actually, besides unemployment, that either would be in any of your shops, in either Treasury or Commerce that might help small businesses besides loans, any grant programs, any direct spending programs that could help them?

Mr. FERNANDEZ. I think the primary source of support has been through Department of Labor directly to employees. We certainly do have some grant programs. As it relates to the businesses themselves, clearly the majority of the programs are in the loan portfolio, various loan programs. Many of the grants that EDA makes do work directly to support the small businesses. Some of them are in terms of capital assistance that go through intermediaries with some infrastructure investments, equipment investments, but again many of our programs work through the revolving loan funds as well.

Chair LANDRIEU. But this money that you testified to, the five million and the 4.5 million, that was in the pipeline before the moratorium, right?

Mr. FERNANDEZ. That is correct.

Chair LANDRIEU. So you could say that no additional money has been put into that program. You are just using what you have to address the economic fallout and job loss, fallout in the region?

Mr. FERNANDEZ. Correct prior to the moratorium. The additional $4.5 million that is in the pipeline is part of a broader, competitive grant system for the entire region, whether it is the Austin office which includes Louisiana or Atlanta office which picks up Florida, Alabama, and Mississippi.

But I can tell you that there certainly has been a prioritization of projects that were reviewed and competed as part of our existing pipeline. The additional five million that the Congress approved is clearly new money and we will move very quickly once the funding opportunity is finalized to get those dollars into the marketplace.

Chair LANDRIEU. I will say that while I think the dollar amount is too low, and that is a challenge for both the Administration and for the Congress, I do hear very positive things said about this particular program and agency and its strategic help to meet some of the economic needs in this region.

In fact just yesterday I had a meeting. I met with my Jefferson Parish chamber and they particularly pointed out to me the fact that they had gotten very good response from this particular grant program and they wanted me to pass that on so I am doing that now and will be in writing to you all as well.

I do not know if we have any other questions for the record. Is there anything else we want to get in? Let me see. We just have one more.

There are two underlying assumptions in your report. One is that job loss as a result of the moratorium will return after drilling resumes in the Gulf, and number 2, possible job losses from the moratorium have been mitigated by oil spill clean up work.

We have heard direct opposite testimony from people that work along the Gulf. While they were happy for the clean up work, it in no way compensated them fully. The work is not as meaningful obviously. So we are hearing different points from home.

I am concerned about this argument as it seems to miss the point. If you are employed by these industries or have met with these impacted businesses, it is clear that it is not an apples to apples comparison.

So if the Administration determined tomorrow that the moratorium is impacting the Gulf Coast economy too deeply and set about promulgating new regulations, when does your analysis assume that actual drilling will begin immediately or is it next year? Given that it takes a while for this to slow down, it is going to take a while for it to start back up. If the moratorium is in fact lifted, which we hope November 30 or well before, do you have any understanding of when the permits will start to be issued as well?

Ms. BLANK. So the permit issuance is obviously under the control of the Department of the Interior, and I just cannot speak to how they would handle this or are handling it. That obviously is a question that has to be addressed to them.

I do not think our report is trying to say that the cleanup response and spill activities completely offset any of the effects of the moratorium. Indeed, as we noted, we do say that there is a real and substantial job loss due to the moratorium.

The issue about the cleanup activities, there is some offset almost surely. BP, as they have noted, has spent $8 billion in three months in the region, that some of that is going to some of the, almost surely some of the small businesses and large businesses that have had some negative moratorium, negative impacts and that at least helps offset some of the moratorium affects.

Chair LANDRIEU. Is there anything you all want to add because I am going to close the meeting because of the twelve o'clock vote. I have several questions additional I will submit to the record. Senator Vitter has submitted several questions that have yet to be answered.

As always, the record of our Committee stays open for two weeks. Should the chamber of commerce or any other organizations that have also testified several times before our Committee want to submit any additional documentation, any non-profits, any individuals listening to this hearing and have opinions pro or con, please let us know. We are building a congressional record to try to get as many right answers as possible.

Thank you so much.

Meeting adjourned.

[Whereupon, at 11:41 a.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Response to the questions from Senator Mary Landrieu,
Small Business Committee Hearing: "The Deepwater Drilling Moratorium: A Review of the Obama Administration's Economic Impact Analysis on U.S. Small Businesses"
September 16, 2010

Question #1 – Analysis of *de facto* Shallow Water Drilling Moratorium
Regrettably, the Administration reacted to the *Deepwater Horizon* tragedy by halting all deepwater exploration activities in the Gulf and cancelling the scheduled Western Gulf lease sale that would have occurred in August. In addition very limited shallow water drilling has been allowed to move forward. Before the BP spill, the Mineral Management Services (MMS) approved an average of 3-6 shallow water permits per week which averages to be about 12-24 permits per month. In contrast, since May, the Bureau of Ocean Energy Management (BOEM) has only issued 5 shallow water permits for new wells, or roughly 1 per month). As you know, I presented two charts at the hearing which demonstrate the specific drop in the number of permits for the months of April through September of 2009 as compared to April through September of 2010.

I recognize that my initial request for your analysis only covered the deepwater drilling moratorium. However, I am also concerned about the impact this shallow water moratorium is having on our local economy.

- Will you agree to review the economic impact of the shallow water *de facto* drilling moratorium? (Yes/No)
    - If yes, please indicate when these findings can be submitted to our committee.
    - If no, please indicate why your agency will not undertake such an analysis and if any such analysis has been prepared elsewhere in the Federal government.

Response
There is not and never has been a moratorium on drilling in shallow waters in the Gulf Coast. At this time, Commerce has no plans to conduct an economic analysis of the current rate of shallow water permit approvals in the Gulf of Mexico. I refer you to the Department of the Interior for additional information on permit approvals.

Question #2 – Small Business Impact
Your report notes that while deepwater rigs in the Gulf "are not currently working, drilling contractors have decided, to date, to retain most of their crews." Similarly, your testimony mentions that rig operators have implemented minimal layoffs and well servicing firms have largely retained their employees. Your estimate is that about 20 percent (2,000) of the 9,700 rigs workers employed in April 2010 have been laid off or left the Gulf Coast. To this end, the International Association of Drilling Contractors has estimated that it is costing companies $3 million to keep employees.

While I am cautiously optimistic to not see the massive rig layoffs initially expected, **I remain deeply troubled by your findings on the small business impact of this moratorium**. That is the focus of this committee and our previous hearings on this issue have focused like a laser on potential job losses among these key Gulf Coast businesses. In particular, you note that while rig worker employment has not declined significantly, operators have reduced spending by lowering other costs (supplies, materials, and services) which are more discretionary. I believe this is reflected in the $1.95 billion in reduced operator spending projected by your analysis.

This committee record has shown that small businesses are bearing the brunt of this moratorium: R and D Enterprises of New Orleans (14 employees), Charley G's restaurant in Lafayette (44 employees), and RIG-CHEM in Houma (17 employees) all testified to this effect. Exxon or Shell have $3 million a day to lose, many of these businesses we heard from don't make $3 million in a year.

- Is it your testimony that Gulf Coast small businesses are faring worse under this moratorium than larger businesses? (Yes/No)

Response:
My testimony, dated September 16, 2010, does indicate that small businesses were likely to be more affected by the moratorium than larger businesses. As that testimony indicates, larger businesses are typically better able to absorb temporary reductions in demand and to hold onto workers through these periods. Small businesses are likely to have fewer resources that would allow them to handle demand fluctuations without laying off workers or scaling back their operations significantly. Furthermore, small businesses typically focus their operations more narrowly. Larger firms may be able to cross-subsidize the parts of their business affected by the moratorium with revenues from other operations that may be less affected. This statement is based on our best knowledge of business operations and not on direct evidence about the impact of the moratorium on smaller versus larger businesses. Unfortunately, we have no way to directly estimate the specific impact on different sized companies.

On October 12, 2010, Secretary of the Interior Ken Salazar announced the end of the moratorium, about two months ahead of the original schedule.

- Are a majority of the 8-10,000 indirect job losses believed to among small businesses? (Yes/No)
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Response:
Let me start by clarifying the question concerning job losses. Our report estimated that between 8,000-12,000 jobs were lost as a result of the moratorium. We indicate that we believe 2000 rig-workers jobs were either lost or transferred out of the region (this is the direct job loss.) As a result, the estimated indirect job losses are 6,000 to 10,000.

As my previous response notes, we are not able to separately estimate how many of these job losses are in smaller versus larger businesses. In the Gulf Coast in 2008, the Quarterly Census of Employment and Wages indicates that 58 percent of workers are employed in establishments with fewer than 100 workers; 26 percent are employed in establishments with 100-499 workers; and the remaining 16 percent are employed in establishments with 500 or more workers. Hence, if job losses were spread proportionately across firms with these average characteristics, 58 percent of the job losses would occur in establishments with fewer than 100 workers. The report does not indicate losses to be proportionately spread, however, as I noted above. Economic theory would suggest that small businesses might have to respond with a higher share of layoffs than larger businesses.

- Can you outline why these businesses are harder hit by the moratorium and if they face a tougher time returning to pre-moratorium staffing levels if the moratorium is lifted?

Response:
As noted above, the report suggests that smaller businesses may be more affected by a temporary decline in demand. Larger businesses are typically better able to absorb temporary reductions in demand and to hold onto workers through these periods. Small businesses are likely to have fewer resources that would allow them to handle demand fluctuations without laying off workers or scaling back their operations significantly. Furthermore, small businesses typically focus their operations more narrowly. Larger firms may be able to cross-subsidize the parts of their business affected by the moratorium with revenues from other operations that may be less affected. There is no reason to expect that small businesses have a harder time hiring new workers when demand increases.

The moratorium has been lifted, as mentioned above.

Question #3 – Possible Flaws in Economic Analysis
Two underlying assumptions of your report are that: 1) Jobs lost as a result of the moratorium will return after drilling resumes in the Gulf and 2) possible job losses from the moratorium have been mitigated by oil spill cleanup work.

On the first point, as I have outlined, we have heard testimony about the *de facto* shallow water moratorium, an area where drilling has come to a near halt due to slow permitting. This hits home concerns over the Administration's ability to quickly promulgate regulations in a timely fashion. For this reason, other economic impact reviews have been less conservative in their job loss estimates – **concerns over the economic harm coming as a result of the moratorium, not necessarily during the moratorium**. I am concerned that drilling will not begin immediately and, as a result, major job losses will continue well into next year.

In regards to the oil cleanup jobs, I am concerned about this argument as it seems to miss the point. If you are employed in these industries and or have met with these impacted businesses, it is clear this is not an 'apples to apples' comparison. A boat captain skimming oil for BP makes significantly less than they would catching seafood. Also as of last month, most of these jobs began to quickly disappear – they are temporary. So if rigs do begin laying off workers or service-related businesses begin folding in the next two months, these jobs **will not** be there at previous levels to make up the difference.

- If the Administration determined tomorrow that the moratorium is impacting the Gulf Coast economy and set about promulgating new regulations, does your analysis assume that actual drilling will begin immediately after the moratorium is lifted or after a couple of weeks/months (or next year)?
  Note: For example, if the moratorium is to be lifted, one can assume it would follow general Federal practices of issuing new regulations, including a public comment period. So rather than being immediately lifted, there could be an initial 30-90 days for public

comments, followed by additional delays as companies attempt to navigate the new drilling rules.

Response:
Our report estimates job losses based on a six-month moratorium, running through November 30, 2010. The Administration acted quickly to establish new drilling safety standards so that there would be little delay once deepwater operations resumed. On September 30, 2010, the Administration released the interim final rule on increased safety measures for energy development in the Outer Continental Shelf. In addition, on October 12, 2010, the Administration announced that it was lifting the moratorium early. Given both of these facts, we expected drilling to resume steadily and continue to believe that our six-month estimate of job losses is a plausible estimate.

- o If the Department of Interior did not have regulations ready to be implemented by November 30th, would that result in additional job losses on top of what your report has estimated? (Yes/No)

Response:
The regulations have been issued, as noted in the previous answer.

- To further elaborate on this point, the report indicates that job losses are "temporary." Please clearly explain what you understand this term to mean in the context of the report.

Response:
The report estimates the effects on Gulf Coast employment of a six-month (that is, temporary) drilling moratorium. Given that the vast majority of drilling rigs remained in the Gulf during this moratorium, with the clear intention of resuming drilling as soon as the moratorium was lifted, we expect that spending on drilling supplies and services will resume at a reasonable pace now that the moratorium has ended.

- As stated above, your report optimistically assumes that "most jobs would return following the resumption of deepwater drilling in the Gulf of Mexico." I am concerned about a scenario that drilling resumes but at ½ the rate it was previously undertaken or at 1/5 the rate. Was that possibility factored into your assumed rate of "temporary" jobs lost? (Yes/No)
    - o If yes, please indicate how it was factored into the analysis.
    - o If not, please indicate why it was not considered and if drilling did resume at lower rates, how that may impact job loss figures included in the report.

Response:
We do not believe this to be a likely scenario. Our analysis was focused on assessing the impact of the deepwater drilling moratorium itself and did not take into account other factors that might result in lower overall drilling activity in the aftermath of the Deepwater Horizon oil spill. The Administration will continue to look at these issues.

- While your analysis cannot be faulted for factoring in significant Gulf Coast oil spill cleanup work from April through August, was this determined to continue at similarly high levels in September, October and November 2010? (Yes/No)
    - If yes, please indicate the number of jobs assumed to be created by oil cleanup work from April to August, and September to November, respectively.
    - If no, do you concede that, as oil spill cleanup work ramps down, any jobs lost in September through November will not be offset by previously high employment related to the immediate response to the *Deepwater Horizon* disaster? (Yes/No)

Response:
Our analysis does not allow us to make any estimates of the specific month-by-month impact of the drilling moratorium. . .

While oil spill cleanup is ramping down, the moratorium is now over.

- It is my understanding that the monetary effect of reduced expenditures is partially a function of the duration of the policy. For instance, if we lose $X per month, the effect for six months is 6 times $X, rather than 12 times $X, accounting for the shorter duration of the policy. With that in mind, there appears to be no clear justification for reducing the jobs results in half.
    - Why did you choose to cut your estimated number of jobs by "40-60 percent?"
    - For example, if the moratorium was 12 months instead of 6 months, shouldn't your estimate of decreased spending in the Gulf have been $1.95 billion times 2, or $3.9 billion, from which you would derive appropriate economic effects? (Yes/No)
        - If not, is there peer-reviewed economic literature or BEA RIMS II instructions that you can cite to justify your approach?

Response:
Our report estimates the expected total reduction in expenditures over a six-month period due to the moratorium. To clarify t one statement from the above e question, this reduction is $1.8 billion, not $1.95 billion. The $1.95 billion is the reduction in spending by the rig operators, but not all of this spending is lost. $0.15 billion is replaced through other types of wage replacement, including from BP claims. Hence, the net spending reduction is $1.8 billion.

For many reasons that our report explains in detail, the job loss estimated by using a full multiplier would be incorrect and too large. One reason is because some of the impact is experienced outside the Gulf Coast, while our estimate looks only at Gulf Coast impacts. Another reason is because the moratorium is temporary and the economic response to temporary policy changes is smaller than to permanent changes. For instance, research has shown that consumer spending responds more to permanent changes in income than to temporary changes in income. Additionally, the reduction in demand due to the moratorium has been offset by new spending in the region on spill clean-up and response. For these reasons, we select a range of effects, assuming that the impact will be between 40 and 60% of the effect estimated by the full multiplier. We admit that we do not know the precise impact. We use this range because it is a reasonable (and perhaps even conservative) range given the reasons outlined above. Moreover, a range was important given that the total timing of the moratorium was variable. Notably, the moratorium ended about two months ahead of the original schedule.

Question #4– Previous Economic Analysis

Before re-instituting the moratorium in July, it is my understanding that the Department of Interior carried out a study to gauge the economic impact of such an action. This July 10th study estimated that a six-month moratorium would have a direct job loss of 9,000 workers – combined with indirect job losses the total was estimated to be as high as 23,000 jobs.

- Did your agency consult with the Department of Interior in preparing your analysis? (Yes/No)

- How did this study differ from your analysis?

Response:

The Department of the Interior, along with a number of other agencies, was involved in helping to prepare and review the interagency report on the economic effects of the drilling moratorium that you have received.

The earlier estimates by the Department of the Interior were done quite soon after the moratorium and were based primarily upon a set of l assumptions about what might happen as a result of the drilling moratorium, and not based on any actual information. However, the estimates were based on rough assumptions about industry's reaction to the moratorium, and Interior did not have the benefit of applying data from specific observations of this or similar scenarios. Hence, that estimate was based on a scenario in which virtually all rig workers would lose their jobs, resulting in a substantial spending decline. In reality, this did not happen, as our report discusses: Only about 20% of the rig worker jobs on deep-water rigs appear to have been lost in the Gulf Coast area. Our report discusses these issues in more detail.

Question # 5– Individual Business Impact

We received testimony in Lafayette on August 17th from Charles Goodson, owner of Charley G's restaurant in Lafayette, LA. In his testimony, he talked about surviving the oil bust in the mid-1980's. There are many parallels between the oil bust and this recent moratorium. That was a certainly a difficult time for south Louisiana, and especially for businesses in Lafayette. As he illustrated very well, the moratorium has the potential to kill jobs not just in the oil industry but also in service industries, such as restaurants, that rely on these employees for business.

For example, Mr. Goodson's testimony noted that the Louisiana restaurant industry is the largest private sector employer in Louisiana with 145,000 direct jobs and another 70,000 indirect jobs.

- If this moratorium continues, Charley G's may have to discontinue lunch - resulting in a loss of 25 percent of their staff (11 employees). Did your economic analysis take into account situations like this or situations where employers have had to cut back hours to keep employees on payroll? (Yes/No)
    - If yes, can you elaborate on the model used to measure job losses and indicate whether it measures just unemployment claims or also measures workers cut back to half-time.
- If possible, how many of the estimated 12,000 jobs lost may represent these reduced hours vs. actual jobs lost?

Response:
To help answer this question, we refer you to a calculation model developed by CEA to model job production in the context of the Recovery Act. CEA's report on ARRA says $92,136 of stimulus corresponds to 1 typical job year. A job-year corresponds to an FTE position over one year, or 2080 hours. This estimate of stimulus dollars to job-year captures employees whose hours were cut to half time since roughly two people cut to half time would be the equivalent of one job-year. The report did not estimate whether the job-years lost were the result of a reduction of hours worked for workers who kept their jobs or from people losing their jobs outright. Unfortunately, data limitations and modeling constraints do not allow us to undertake such an analysis.

- We took a comprehensive approach that focuses on *observed* economic measures to inform our assessment
- This comprehensive approach is five-pronged:
    - Analysis of unemployment insurance claims for oil industry-intensive parishes
    - Analysis of employment data by parish
    - Interviews with rig operators, contractors, and leaseholders on their decisions on retaining personnel and relocating rigs
    - Analysis of the *gross* effect reduced oil drilling spending has on economic activity and employment in the region
    - Analysis of Gulf of Mexico oil and gas production
- Two key issues to focus on in our analysis
    - The *observed* economic impacts of the moratorium – this could only be undertaken after we had time to collect data on employment, UI claims, and the business decisions of the contractors and operators in the Gulf

- How the current state of the Gulf economy reflects the *net* impact of the oil spill, oil spill response and restoration as well as the moratorium

Question #6 – Federal Coordination on Economic Analysis

It is my understanding that, after my July 26th letter to President Obama requesting that the Administration conduct an economic impact review, the White House Council of Economic Advisers tasked your agency to head up the analysis.

- Can you outline for our committee the other Federal agencies involved in this review?

- Starting with your agency, can you briefly outline the role that each agency played in the review?

Response:

The Department of Commerce's Economic and Statistics Administration with assistance from the Department of the Interior, the Department of Energy, the Department of Labor, the Council of Economic Advisers, and the Executive Office of the President, provided information or participated in review of this report. The Department of the Interior was particularly helpful in facilitating our conversations with rig operators and contractors; the Department of Energy was particularly helpful in providing estimates of the impact of the moratorium on short-term oil production.

Question #7 – Moratorium's Impact on Business Plan

At our Lafayette field hearing, we received testimony from Lori Davis, owner of RIG-CHEM in Houma. Mrs. Davis mentioned that she was a "liquid" company – never owing and always keeping enough operating capital to weather tough times. Now, as a result of the moratorium, her company has had to look to banks for a line of credit for basic expenses. This is frustrating for me as her business has made it through multiple natural disasters, including four recent hurricanes, without having to incur major debt.

Mrs. Davis indicated that she has not laid off one of her 18 employees (15 in LA, 2 in TX, and 1 in Maine). However, if the moratorium continues through December she will be forced to lay off employees and cut benefits.

- As part of your analysis, did you hear from any actual business owners about this indirect impact the moratorium is having on businesses outside the energy industry (vendors, contractors, advertising agencies, etc.)? (Yes/No)

  - Are there any particular examples that you can share with the committee today?

Response:

Like other reports that investigate the effect of the drilling moratorium, our analysis is an aggregate analysis, and is not intended to estimate the impact of the moratorium on any particular business. We did talk to a substantial number of business owners and operators in the oil drilling business who are operating in deep water on the Gulf Coast, and based our estimates of the direct impact of the moratorium on their hiring and spending directly on these conversations. The Chief Economist at the Department of Commerce spent 4 days in Port

Fourchon, LA, as part of the team assessment activities, talking with business owners and community leaders. He also attended the hearing held by Senator Landrieu in Lafayette, LA, on August 16, 2010. But our estimates of the impact of spending reductions on jobs are based on aggregate estimates of these effects, not on specific anecdotes.

On a separate track from the development of the report described in ESA's testimony – but in direct support of Secretary of the Navy Ray Mabus' development of a report to the President on Gulf Coast recovery, the Economic Development Administration within the Department of Commerce organized and oversaw 21 economic assessment and evaluation teams to work with communities and help them understand and adjust to changed circumstances. These teams met with a broad range of stakeholders including business leaders.

Question #8 – Compensation for Moratorium Damages

The report submitted to our committee estimates that the moratorium is causing the loss of 2,000 direct jobs, 8-10,000 indirect jobs, and a reduction in operator spending of $1.95 billion. I am aware that the Administration has announced that a fund of $100 million is set aside for rig workers idled by the drilling moratorium. This fund is separate from the $20 billion escrow account BP established in coordination with the Administration.

I note, however, that shallow-water rig workers are not eligible. Also direct support workers (supply boat crews, shipyard workers, shore side support employees) will have to wait until next Spring to apply for funding under this program.

- Your testimony references this $100 million fund. Currently, however, only 160 deepwater rig workers have applied for aid (if funded at maximum $30,000 payment would be $4.8 million). Many of these rig workers earn upwards of $4,000/month, which at 2,000 unemployed is $8 million/month. If businesses suffering losses from the moratorium - not the oil spill - received funds from either this fund or the $20 billion fund would that reduce your estimated job loss figures? (Yes/No)

Response:

This fund is first available to deepwater rig workers who become unemployed. As of the October 15, 2010, the deadline for completing applications, 623 people have started the application process for these funds. There are 324 completed applications and another 29 are expected. The fund managers are working through the remaining applications. Starting this fall (not next spring, as stated in the question) workers in oil drilling-supply industries who have lost their jobs were be able to apply. Payment from this fund will not impact our direct job loss figures as those people would still have lost their jobs. However, since those workers will receive an income, the impact on indirect and induced industries may be smaller.

Question #9 – Small Business Recovery

I note that the Small Business Administration is offering disaster loans and deferring existing loan payments for businesses impacted by the oil spill. Rightly, I think, it has been noted by other witnesses at previous hearings that withdrawing the moratorium is a far simpler solution than giving businesses additional debt.

As you may know, I have put forward a bipartisan proposal to provide interest relief on impacted small businesses with disaster loans from the 2005/2008 hurricanes. The proposal (S. 2986) would lower monthly payments by reducing interest owed on the loans by up to $15,000 over three years. Unfortunately, this proposal has run into resistance from certain members of this committee. However, the proposal is supported by countless Gulf Coast groups, the U.S. Chamber of Commerce, and the U.S. Conference of Mayors.

- I have previously written to both the White House and the U.S. Small Business Administration (SBA) requesting Administration support for this proposal. To date, however, I have been unable to secure written Administration support for this legislation. Given that your report indicates a definitive economic impact from the Administration's deepwater drilling moratorium, is the Administration prepared to now support this proposal to help Gulf Coast small businesses? (Yes/No)

    - If yes, please provide my committee with a letter from the Administration (either from SBA, DOC, or the White House) confirming this support.

    - If not, please indicate why the Administration cannot support the proposal at this time or, if possible, provide my committee with suggested legislative changes to the proposal (such as limiting it to only businesses economically impacted by the moratorium, etc.).

Response:

This question is addressed by Assistant Secretary of Commerce for Economic Development, John Fernandez in his response to your questions following the hearing.

Question #10 – Inland vs. Coastal Impact

Dun & Bradstreet's previous testimony before our committee noted that only 27 percent of small businesses impacted by the moratorium are located in coastal counties. 73 percent are located inland "suggesting that a moratorium could be felt more broadly throughout the Gulf Coast states." An example is that in Lafayette Parish alone, 780 businesses with 10,500 employees are potentially impacted.

- Can you describe in greater detail this possible upstream/downstream impact of the moratorium?

Response:

Our estimates show the aggregate job loss in the Gulf Coast region, and we are not able to separate out the losses in coastal counties from those elsewhere in the Gulf Coast states. However, because the majority of support and supply industries for oil drilling are along the coast, we would expect much (but not all) of the job loss would be focused in the coastal counties. This is not something we can investigate directly with our data, however.

Question #11 – Indirect Impact of Moratorium

In Dr. Mason's previous testimony before our committee, he mentioned that the drilling moratorium has a broader impact on industries not directly involved in the oil/gas sector. For example, he estimated that the moratorium could result in the loss of 974 health care providers and 260 teachers in the Gulf region. Nationwide there would be a reduction of 1,270 health care providers and 321 teachers. That may be a drop in the bucket nationally but, as he noted, in Port Fourchon, LA losing a school or hospital could be catastrophic to the local community.

- Do you disagree with Dr. Mason's assertion that the moratorium is currently causing a loss in local tax revenues that could cost communities public services such as health care and teachers?

Response:

Our estimates look at job losses throughout the economy. The multiplier approach starts with direct spending declines and then uses a multiplier to estimate both the immediate indirect effect in the oil supply industry as well as the additional effects throughout the local economy due to declines in consumer and business spending. Dr. Mason likely used an input-output model such as IMPLAN for his estimates. An input-output model estimates jobs lost by sector, rather than the entire economy as we estimated. Dr. Mason's estimate of lost health care providers will also include overhead employees as well as direct health care providers. Likewise, not all jobs lost in local education will be teachers, but would also include overhead employees.

Moreover, we do not believe that the data are able to indicate job losses with the degree of precision that Dr. Mason suggests. In particular, as our report notes, reductions in spending due to the moratorium are offset by new spending due to spill response and clean-up activities. It is difficult to estimate the net impact of these offsetting effects and to suggest exactly which jobs would be lost and which would be kept.

Question #12 – Business Environment Impact

The Obama Administration has demonstrated that even in the comparatively uncomplicated world of shallow water permitting, it will be slamming the brakes on offshore development. We have gone from approving a total of 12-24 permits each month to approving only 1 per month. I do not think that anyone would disagree with this: in the business world, delays cost money. If these delays continue, and I see no signs that they will not continue, I am concerned on how that may impact your assumptions.

- Did your report analyze if the moratorium is lifted and the cost of operating in the Gulf of Mexico is doubled? (Yes/No)
  - If yes, please indicate the kind of business impact that could have on the labor force.
  - If no, please indicate why it was not studied as part of this analysis.

Response:

We expect OCS oil and gas drilling activity will gradually resume normal levels now that the moratorium is over. While the cost of operating in the Gulf will increase because of new regulatory requirements, we do not consider a doubling of operating costs to be a plausible scenario. The interim final drilling safety rule recently issued by the Department of the Interior was estimated to raise drilling costs by 2 percent. Moreover, because drilling represents only a portion of the overall costs of producing oil and gas on the OCS, the impact of these new requirements on the industry as a whole is lower still.