

# A Study of the Economic Impact of the Deepwater Horizon Oil Spill



January 13, 2011

- Part One – Fisheries
- **Part Two – Moratoria**
- Part Three – Brand Damage

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## Acknowledgements

This study would not have been possible without the work of the Louisiana Small Business Development Centers and their dedicated staff. We sincerely appreciate the time and effort offered to us by individuals who have been hit hard by the impacts of the moratoria—specifically the small business owners who were gracious enough to answer our often probing interview questions with patience and humor. Upon completion of a near-final draft we requested the input of industry experts who provided valuable insight and edits for which we are extremely grateful.

## Executive Summary

The U.S. Department of the Interior enacted the Deepwater Moratorium on May 30, 2010, effectively halting all deepwater drilling in the Gulf of Mexico. Simultaneously, the number of shallow water permits sharply declined, despite no official policy prohibiting the issuance of such permits—creating a "de facto" moratorium for shallow water drilling. Thus, from June to October, there was only one deepwater drilling permit issued—specifically for the Deepwater Horizon relief well—and only a handful of shallow water permits which passed the approval process. At the time of publication, the number of shallow water permits has begun to approach monthly averages, but despite the official lifting of the Deepwater Moratorium on October 12, approved deepwater permit numbers have remained nearly zero.

This document is the second installment of Greater New Orleans, Inc.'s Three-Part Economic Impact Series:

- 1) **Economic Impact of the Deepwater Horizon Oil Spill: Part I—Fisheries** examines the ecological impacts of the oil on coastal environments and estimates resulting economic damage.
- 2) **Economic Impact of the Deepwater Horizon Oil Spill: Part II—Moratoria** is an overview of the economic repercussions of the deepwater drilling moratorium and the de facto shallow water moratorium.
- 3) **Economic Impact of the Deepwater Horizon Oil Spill: Part III—Brand Damage** analyzes the effect of the oil spill on Louisiana's brand with specific focus on business development and seafood demand.

This study examines the impacts to-date of the federal deepwater drilling moratorium and the de facto shallow water moratorium on coastal communities, economies and small businesses. **We conclude that while effects to-date may not be as dire as many Louisianians feared, unless there are significant changes, the future may prove disastrous to businesses, livelihoods, and coastal communities.**

### *Unemployment*

Temporary unemployment resulting from the moratorium was projected by the Department of Commerce to be between 8,000 and 12,000<sup>1</sup>. GNO, Inc. released a projection in June which estimated a potential loss of 12,500 to 21,900 Full Time Equivalent (FTE) positions resulting from the Deepwater Moratorium. To-date, we have not seen evidence of these projections. Since June, Louisiana has lost over 25,000 jobs statewide. While this cannot be assumed a direct correlation—unemployment was rising around the country—we are confident that the decrease in drilling permits and the significant slow-down of the oil and gas industry had an impact on this number. Moreover, unemployment would have been worse had not many coastal Louisiana businesses, large and small, chosen to retain their employees rather than lay them off, despite lack of current work. The majority has done this at a loss and many are using significant amounts of savings to cover costs.

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<sup>1</sup>Economics and Statistics Administration. Inter-Agency Economic Report. Sept 16, 2010. "Estimating the Economic Effects of the Deepwater Drilling Moratorium on the Gulf Coast Economy."  
<https://development.esa.doc.gov/sites/default/files/reports/documents/drillingmoratorium.pdf>

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### *Impacts on Small Businesses*

For this study we conducted interviews with small business owners whose businesses were indirectly impacted by the moratoria—they provide specific goods and services to drilling, oil, and gas companies. Additionally, we interviewed employees of non-profit organizations which provide assistance to coastal Louisiana small businesses. Through this qualitative research we have gathered examples of significant impacts on businesses and lives. Generally, the moratoria have forced business owners to drastically change their business plans and utilize savings to compensate for significantly decreased revenue. Most small business owners have attempted to retain their employees in anticipation of drilling permits being granted in the near future. There have been significantly increased levels of stress and mental health problems among coastal community members, as well.

### *Projections for the Future*

While we have not yet seen the full consequences of the moratoria reflected in unemployment statistics, companies—particularly smaller exploration and production companies—cannot retain employees without revenue over long periods of time. We expect that if there are no significant changes by the second quarter of 2011, small businesses experiencing direct, indirect, and induced impacts will be forced to begin significant lay-offs. Larger companies may choose to keep employees on longer, though not indefinitely.

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It can be difficult to separate the economic impact of the Deepwater Horizon Oil Spill (an accident) from that of the Deepwater Moratorium and the de facto shallow water drilling moratorium (policy decisions). While these are distinct events, they happened simultaneously and are intricately related. This study attempts to isolate the effects of policy decisions, specifically the granting or denying of both deep and shallow water drilling permits. This report is the second installment of GNO, Inc.'s three-part Economic Impact Series. Part I addresses the ecological and economic effects of the spilled oil on fisheries and related businesses. Part III will focus on the damage to the Louisiana brand.

## Background

On April 20, 2010, the Deepwater Horizon oil rig exploded in the Gulf of Mexico, killing 11 people and triggering the largest oil spill in United States history. On May 30, the U.S. Department of the Interior Minerals Management Service issued a six-month moratorium on all new and existing deepwater drilling, effectively shutting down oil and gas industry operations along the Gulf Coast when coupled with the de facto shallow water moratorium. The Moratorium Notice to Lessees and Operators (NTL No. 2010-N04) states, "...under current conditions, deepwater drilling poses an unacceptable threat of serious and irreparable harm or damage to wildlife and the marine, coastal and human environment." The policy halted approval of any new permits for deepwater drilling and suspended production in the Gulf, affecting 33 rigs operated by Shell, Chevron, Hess, and several other companies. With 88% of U.S. offshore rigs located on Louisiana's Outer Continental Shelf (OCS)<sup>2</sup>, Louisiana businesses and coastal communities felt the majority of the moratorium's impact.

Following its directive to implement the Deepwater Moratorium, the Obama administration issued a second notice to lessees and operators of federal oil and gas leases (NTL No. 2010-N05) on June 8, 2010, calling for increased safety measures for energy development on the OCS. The recommendations therein applied to all activities on the OCS, including deepwater drilling activity suspended under NTL No. 2010-N04. On June 22, U.S. District Judge Martin L.C. Feldman granted a preliminary injunction in the hearing for *Hornbeck v. Salazar*, lifting the drilling moratorium. On page 22 of his ruling, Judge Feldman stated:

The Court has found the plaintiffs would likely succeed in showing that the agency's decision was arbitrary and capricious<sup>3</sup>. An invalid agency decision to suspend drilling of wells in depths of over 500 ft. simply cannot justify the immeasurable effects on the plaintiffs, the local economy, the Gulf region, and the critical present-day aspect of the availability of domestic energy in this country.

The U.S. Department of the Interior's appeal was denied, and in response the agency issued new suspensions on July 12<sup>4</sup>. This new document is very similar to its predecessor, the first deepwater drilling moratorium, with more substantial rationale for the ban and a focus on technologies used in drilling rather than water depth stating "the new suspensions apply to drilling operations that use subsea blowout preventers (BOP) or BOPs on floating facilities." The new version also allowed for the possibility of the moratorium being lifted before November 30. Ultimately this change had very limited impact on Gulf drilling companies and the oil and gas industry.

On October 12, the U.S. Department of Interior's Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE, the renamed Minerals Management Service) announced that the federal government would lift the drilling moratorium. The October announcement did indicate an early end to the moratorium, which had been scheduled

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<sup>2</sup> LED <http://www.louisianaeconomicdevelopment.com/opportunities/key-industries/energy.aspx>

<sup>3</sup> Arbitrary and capricious is defined as "absence of a rational connection between the facts found and the choice made."

<sup>4</sup>U.S. Department of the Interior. News Release: Secretary Salazar Issues New Suspensions to Guide Safe Pause on Deepwater Drilling. July 12, 2010. <http://www.doi.gov/news/doinews/Secretary-Salazar-Issues-New-Suspensions-to-Guide-Safe-Pause-on-Deepwater-Drilling.cfm>

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to run through the month of November; however, as discussed further on page 11 only two new deepwater well permits have been issued in the ensuing months.

While the official halting of operations only included deepwater drilling (in depths of over 500 ft.), the findings in this study indicate significant implications for shallow water drilling as well. U.S. Department of Interior Secretary Ken Salazar was quoted in a *Times-Picayune* article stating, "... the administration will not have a moratorium on shallow water operations," but he promised "additional safety requirements and additional inspections."<sup>5</sup> This has resulted in a sharp decline in shallow water permits, as well, increasing the economic blow to coastal economies. Unlike deepwater wells, which are drilled over months due to their complexity, shallow water wells are usually completed in three weeks. Due to the short time frame, the shallow water drilling industry relies on a constant flow of permits to keep companies in business.

On January 3, 2011, BOEMRE notified 13 oil companies that they may resume previously approved exploration and production activities without submitting revised plans. As shown in GNO, Inc.'s Gulf Permit Index (GPI) on Page 11, this has had little effect on the number of permits issued, a necessary component of successful drilling and exploration. Thus, we maintain that a de facto deepwater moratorium remains in place as of the date of publication as evidenced by the relatively unchanged number of deepwater permits being issued. The number of approved shallow water permits has increased—only recently approaching historical averages—thus in October 2010, the de facto shallow water moratorium ended.

There is no historical precedent to this type of policy. The U.S. has experienced accidents in various industries including mining, air travel, civil engineering, chemical transportation, and others yet none have resulted in the long-term comprehensive shut-down of an industry.

The economic impacts of the moratoria are diverse and far-reaching, affecting individuals and businesses in various industries across the Gulf Coast. For the purpose of this study we have categorized our research into directly impacted businesses (e.g. oil companies), indirect (e.g. drilling equipment suppliers), and induced (e.g. restaurants). The distinction among businesses experiencing direct, indirect, and induced impacts resulting from the moratoria generally falls along industry lines.

1) *Direct*

Businesses which were directly impacted by the decrease in drilling permits were major and independent oil and gas companies and drilling rig contractors. They have been directly shut down by the lack of federal drilling permits.

2) *Indirect*

Indirect impacts were felt by businesses, both large and small, that exclusively served the oil and gas industry. Many coastal businesses support very specific industry needs by providing offshore supply and other vessels, equipment rental or sales, chemicals and/or fuel, and other specific support services. All of our in-depth interviews were conducted with businesses that were indirectly impacted.

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<sup>5</sup> May 27, 2010. Alpert, Bruce and Rebecca Mowbray. "President Barak Obama suspends drilling at 33 wells in the Gulf of Mexico." *The Times-Picayune*, New Orleans.

### 3) *Induced*

Many of the businesses in this category that have experienced economic losses may attribute them to a number of causes, the moratoria being one. For example, a grocery store in Thibodaux may be suffering losses due to the current economic downturn, coupled with a weakened customer base, which formerly included offshore workers. Similarly, a personal care attendant business, which is claiming oil spill- and moratoria-related losses, might simultaneously be suffering from budget cuts to the Louisiana Department of Health and Hospitals, which reduced public funding for the services it provides. Thus, the moratoria may have induced all or some of the losses felt by these businesses; the exact percentages are difficult to document without extremely detailed historic bookkeeping. This record keeping, according to one non-profit worker we interviewed, must include the professions of each customer. Larger businesses, such as national communication corporations, may have this information; however, smaller businesses such as furniture stores, tour guide groups, and gas stations have had little incentive or ability to document this information. This makes it extremely difficult to put exact numbers on the impact the moratoria has had on this group; however, what we do know from our research is that these businesses are struggling to make ends meet. The dramatic changes in our coastal economy have affected many different industries and types of businesses. Small, family-owned businesses often have less capital in reserve to help them stay afloat and entire extended families may rely on the profits of one business.

## Unemployment

Since the moratoria have been in place, the unemployment rate in Louisiana has increased from 6.7 in April 2010 to 8.2, as of November 2010<sup>6</sup>; however, unemployment across the country has also increased due to the economic recession. Therefore, we cannot directly attribute this state increase exclusively to the moratoria. Other factors may have also contributed to the increase in unemployment: the Deepwater Horizon Oil Spill caused thousands of Louisiana workers in the fishing industry to lose their jobs or have their hours cut back. Additionally, summer months in Louisiana have the lowest rates of tourism, decreasing the demand for service industry workers. The BP sponsored clean-up efforts added another variable by temporarily employing many coastal workers, perhaps keeping unemployment from rising as sharply as it would have otherwise. The effect the moratoria have on coastal communities builds on the negative impacts of the recession, the oil spill, and the seasonal changes in tourism. These events have had far-reaching impacts on coastal economies which are not fully reflected in statistics.

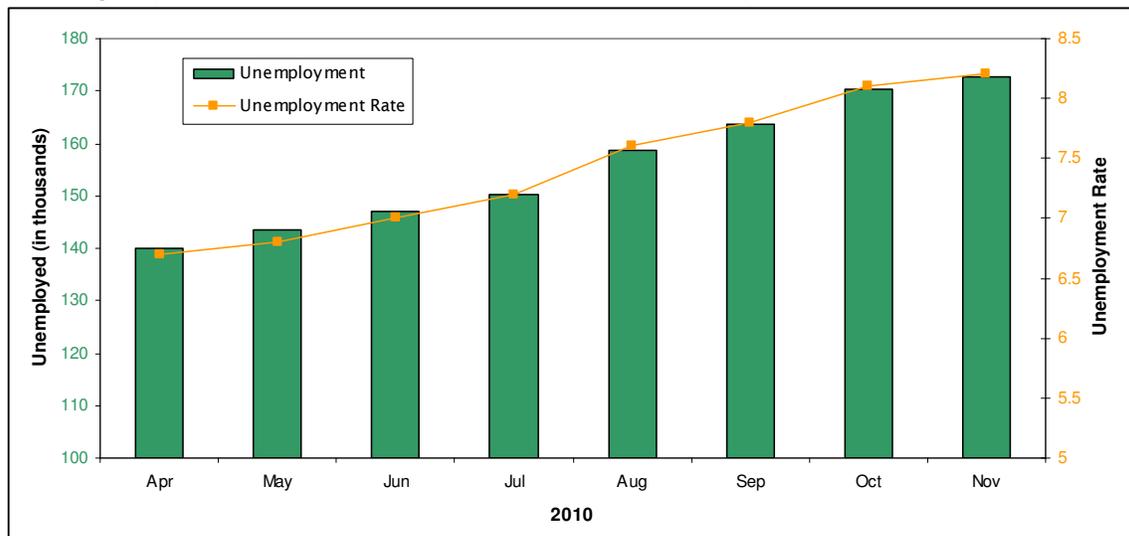


Figure 1. 2010 Louisiana Unemployment.

The Oil Rig Worker Fund, established with BP funds of \$100 million, was created to compensate rig workers who were unable to work as a direct result of the moratorium. This fund, housed at the Baton Rouge Area Foundation, has received approximately 624 applications, 343 of which were compensated.<sup>7</sup> We estimate that each deepwater drilling rig relies on approximately 230 direct workers.<sup>8</sup> Considering the deepwater moratorium shut down 33 deepwater drilling rigs, there were significant numbers of workers who either chose not to apply to the fund or did not actually lose their jobs. Through discussions with experts in the field, combined with qualitative interviews conducted for this study, we determined that there were only a limited number of people actually being laid off. Job losses were mostly suffered by members of the low-income, unskilled labor force. The majority of directly and indirectly impacted businesses chose to retain

<sup>6</sup>Data from Bureau of Labor Statistics.

<sup>7</sup> 272 applications were incomplete and 9 were ineligible. Information from David E. Dismukes, personal communication Jan 4, 2011.

<sup>8</sup>Data from Louisiana Mid-continent Oil & Gas Association.

most of their employees despite a sharp drop-off in their needs for labor. This can be attributed to multiple factors, including the significant training and certification many workers require; businesses maintaining full capacity in anticipation of permits being issued; altruistic reasons—some employers care about the well being of their employees; and/or companies utilizing workers in other ways such as conducting inventories or equipment maintenance. We have found many businesses chose to reduce employees' hours rather than lay them off. Underemployment is not reflected in unemployment numbers, yet can have significant impacts on individuals and families. Ultimately, with sharply decreased net revenue and relatively stable expenses, coastal Louisiana businesses, large and small, which have retained workers, are doing so at a significant cost—tapping into savings and sometimes selling equipment. While larger businesses may be able to keep workers on payroll longer, this holding pattern cannot last forever.

The impact of the moratoria is seen most significantly in spending changes which impact entire coastal economies. Drilling rigs may be keeping employees on payroll but are not purchasing the goods and services they did previously (known in the industry as “rope, soap, and dope”). This was reflected in our interviews with coastal small businesses which support the oil and gas industry; this group reported significant or complete decreases in work and income. Many of these small businesses are relying on savings to pay their fixed expenses and are cutting back on anything that could be variable (e.g. supplies for their boats). This causes a trickle-down effect, slowing down nearly all aspects of the coastal Louisiana economy—workers with decreased wages cut their personal spending; businesses limit expenditures; and small business owners are often not taking salaries and are increasingly conservative with their spending. The oil and gas industry has always been a “high multiplier” industry—significant amounts of industry revenue remain in the local economy through the process of paying workers; doing business with a wide variety of local “rope, soap, and dope” suppliers; and paying parish and state taxes<sup>9</sup>.

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<sup>9</sup> The total tax revenue per rig (including income tax from workers) is estimated to be over \$53,500 per month for the state of Louisiana and over \$44,600 for the parishes.

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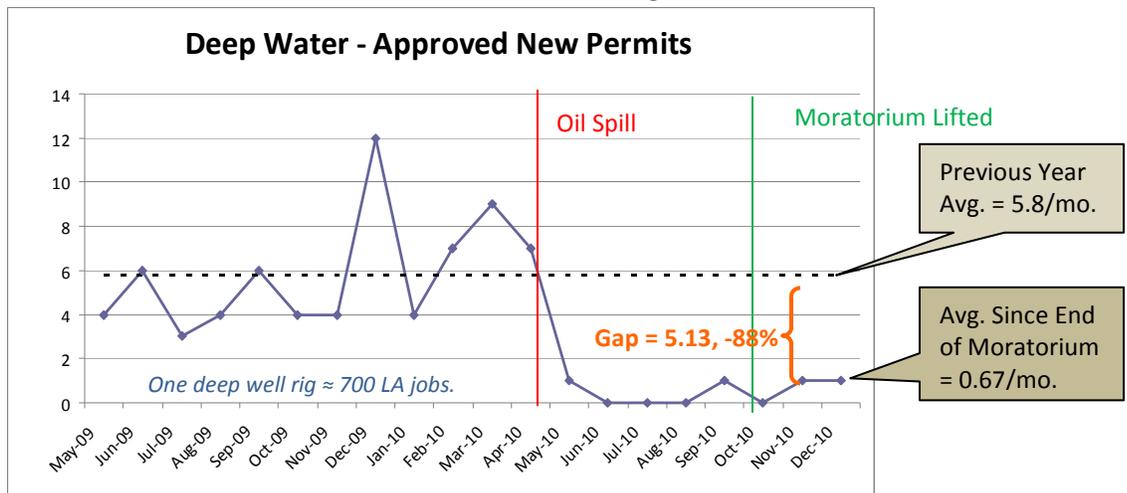
## Estimated Economic Impact

Since October 2010, GNO, Inc. has released the Gulf Permit Index (GPI) which tracks approved deepwater and shallow water permits on a bi-weekly basis. It has been widely circulated and used by industry experts, academic institutions, and government agencies. It is intended to monitor current permit issuance rates and compare them to historical averages.

### GPI as of January 4, 2011

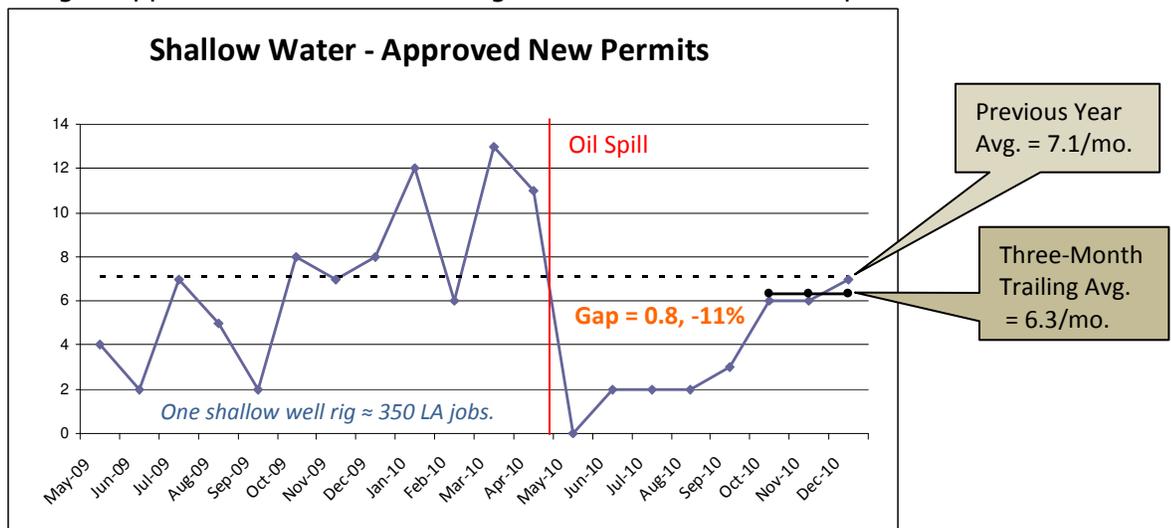
#### Deep Water

Two new deep-water permits have been issued since the moratorium was lifted, an 88% decrease from the historical average



#### Shallow Water

6.3 shallow-water permits are being issued per month, beginning to approach the historical average for the first time since April 2010



While the GPI shows the dramatic drop-off in approved drilling permits in May 2010, it is difficult to predict the actual number of rigs which would have been in the Gulf of Mexico had the moratoria not existed. Drilling is a dynamic industry, and rigs are built and removed constantly. The number of permits gives us an idea of rigs that would have been added<sup>10</sup>; however, there is no data available regarding the monthly average number of rigs which would have shut down due to normal industry dynamics. Thus, we cannot assume that every permit approved would have increased the total number of rigs working in the Gulf. In May 2010 there were 33 working deepwater rigs in the Gulf of Mexico; for the sake of this study we will use this number as an assumed monthly average—as in, for every new rig that would have been added following an approved permit, one would have been shut down. We chose this ratio as we do not have information about a projected boom in drilling or rig work nor do we have information on industry plans for significant numbers of rig contract terminations. On May 30, 2010 the federal government ordered all deepwater drilling to cease, thus from June to December there were effectively no working deepwater rigs in the Gulf<sup>11</sup>.

We have calculated that each working deepwater drilling rig employs approximately 230 workers<sup>12</sup>, between 36% and 50% of whom live in (and pay taxes to) Louisiana<sup>13</sup>. In addition, each working rig employs 920 indirect support workers, between 36% and 67% of whom are based in Louisiana<sup>14</sup>. Thus, each rig directly or indirectly employs between 415 and 732 Louisiana workers, and a total of 33 rigs would employ between 13,695 and 24,156 Louisiana workers. While we have not seen evidence of this high level of unemployment, as discussed on page 9, should the lack of permits continue in this fashion the number of jobs at risk is significant.

Each working deepwater rig also contributes significantly to state and parish tax revenues. Each month the direct impact of 33 rigs results in an estimated \$2,337,167 to \$3,238,243 in monthly tax revenue to state and parish governments. Indirect impacts account for between \$6,930,883 and \$12,868,061 to the state and parish budgets every month. Additionally, total rig royalties to the state and parishes amount to between \$600,749 and \$758,281 monthly. Thus, over the course of seven months (June to December) 33 working deepwater rigs would have accounted for state income between \$9,868,799 and \$16,864,585. We cannot assume that all these taxes were lost as a result of the moratorium, because—as we have discussed above—income-tax paying workers have been kept on payroll, and some companies have found other sources of revenue. However, these numbers give us an idea of the value of deepwater drilling to the state's budget. Industry experts have warned of the loss of rigs to other states or international markets due to lack of drilling permits in the Gulf of Mexico. An article from Reuters on September 14 stated that four Transocean deepwater rigs have left the Gulf of Mexico as a result of the deepwater drilling moratorium.<sup>15</sup> Should the levels of

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<sup>10</sup> For the sake of simplicity, we assume a one-to-one ratio of permits to new rigs. This is not always the case as some rigs may require up to # permits.

<sup>11</sup> The exception to this was the drilling necessary for the relief well to the Deepwater Horizon Rig—this is also represented in the single permit approval in September displayed on the GPI.

<sup>12</sup> Data LMOGA. For the sake of this study a “worker,” unless otherwise noted should be considered one Full Time Equivalent (FTE). For example, two people who both work part time (approximately 20 hours/week) would be considered one “worker” or FTE.

<sup>13</sup> Source: LED.

<sup>14</sup> Based on well proximity to LA; IEM analysis

<sup>15</sup> Thomson Reuters. “UPDATE: 2-Transocean rig leaving Gulf of Mexico for Egypt.” Sept. 14, 2010. <http://www.reuters.com/article/idAFN1410374320100914>

permit issuance continue to lag historical averages, these numbers will increase, causing a significant loss both to coastal economies and to parish and state budgets.

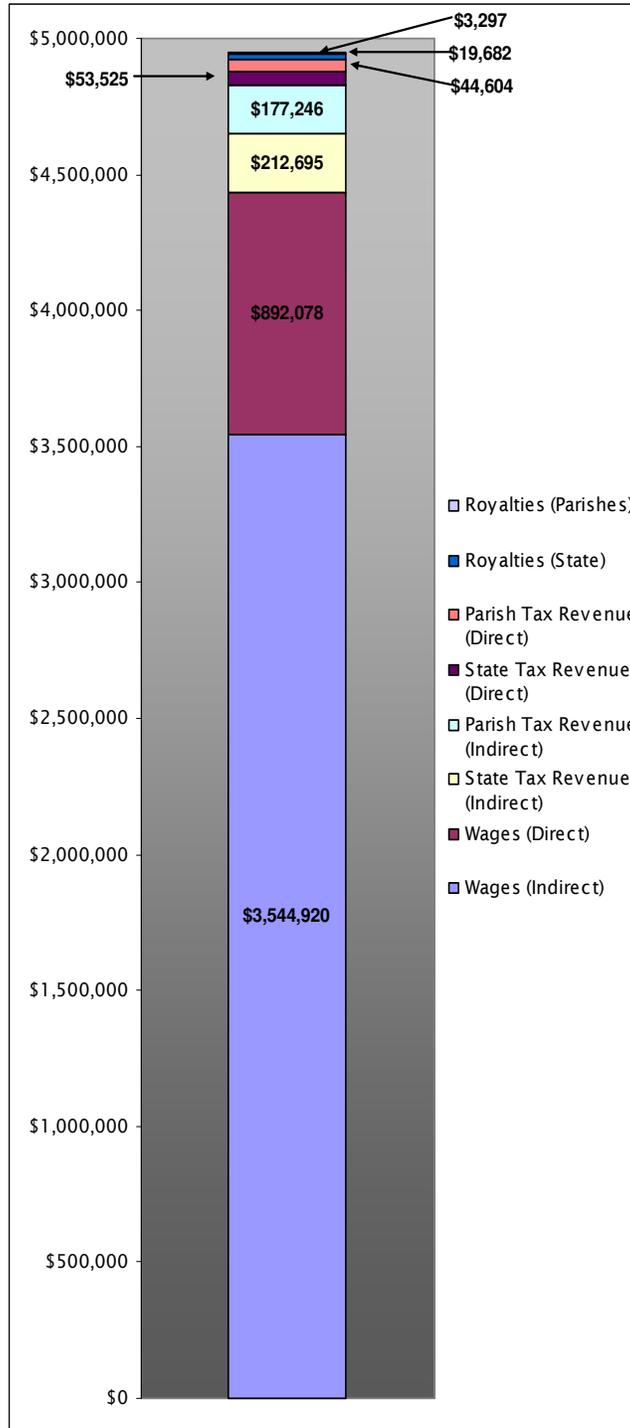


Figure 2. The economic impact of one deepwater drilling rig in the Gulf of Mexico (monthly).

## Qualitative Research

In order to provide a comprehensive overview of the diverse economies of coastal Louisiana, this study includes qualitative research, documenting the individual stories of small business owners who were directly impacted. Unemployment and permit statistics give us an approximate idea of the impact on workers; however, small coastal businesses often fall under the radar. Coastal economies rely on this unique group of family-owned businesses which support the oil and gas industry directly (e.g. oil rigs), indirectly (e.g. fiberglass companies), and in supplemental roles (e.g. restaurants). These businesses provide a diverse offering of necessary services coupled with local knowledge and understanding of the industry and environment. Unlike larger companies, these tend to be entrepreneurial ventures, usually family-owned and -run, and often support entire extended families. Thus, the impact of decreased revenues is often far-reaching, affecting multiple generations and countless dependents that are not included in unemployment statistics.

Our outreach to this group consisted of referrals from non-profit organizations that specialize in small business support. Through these channels we received five referrals, four of which were willing to conduct interviews with us.<sup>16</sup> The small number of interviewees can be attributed to the decreased staffing in many businesses (causing remaining staff to have less time for activities such as interviews). Additionally, many businesses are in the process of making claims with the Gulf Coast Claims Facility (related to the Deepwater Horizon Oil Spill) and/or the Coast Guard and may be hesitant to release any information about their businesses until these claims are settled. In order to compensate for these small numbers, we also interviewed two service providers with non-profit organizations that provide technical assistance to these businesses. Additionally, we were also granted permission to view nine select applications for assistance as received by a non-profit organization assisting small businesses in southeastern Louisiana. The information from these applications is kept confidential but informs the examples we use in the following section.

### *Methods*

All interviews were conducted via phone, and detailed field notes were taken. Tape recording was not used. The interviewer coded interviews by hand and developed four themes: Business Plans, Employee Retention/Lay-offs, Lifting of the Moratorium, and Impacts on Personal Lives. Three interviewees have been assigned code names to preserve their anonymity.

The first interviewee was Drilling and Industry Service Company (DISCO), which is based out of St. Tammany Parish and provides drilling-specific equipment rentals. The second business, Offshore Project Solutions, is based out of Jefferson Parish and specializes in equipment and specialized product shipments. The third interviewee, also based in Jefferson Parish, was R and D Enterprises, which leases equipment and supplies necessary to safely transport and store chemicals required in deepwater drilling.<sup>17</sup> The fourth interview was with A and C Management, Inc., based in Lafourche Parish. The

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<sup>16</sup> One individual was very interested in speaking with us, but due to mass lay-offs in her business, she was working so much she was unable to find the time in her days.

<sup>17</sup> This is the actual name of the business. The owner requested we use the name and encouraged "[President] Obama to come down and speak with the workers."

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company specializes in providing fuel and necessary chemicals to drilling rigs. All four of these businesses were directly impacted by the drilling moratoria in terms of lost revenue, with R and D Enterprises having also lost equipment leased to the Deepwater Horizon oil rig when it exploded. While there are some similarities between them, they all have experienced different impacts on their businesses, with DISCO reporting slightly increased profits and with the other three reporting severe losses.

### *Business Plans*

In order to present a just picture of all four of our business interviewees, we will discuss the current and future business plans of each one in turn. This research is not intended to provide a comprehensive picture of the impact of the moratoria on coastal small businesses, rather it presents four examples and highlights some similarities, giving the reader some background with which to interpret statistical information.

*DISCO* reports having slightly fewer clients resulting from the moratoria, but the owner explained that the company's operations have become more efficient. They were forced to lay off some workers; however, the interviewee referred to this as "trimming the fat," causing the company to become "leaner and meaner than before." They were able to get some Small Business Assistance (SBA) loans which provided stopgap funding based on anticipated losses. *DISCO* received approximately \$464,000 at a 4% interest rate. Prior to the moratorium the company was already feeling effects from domestic policy changes, which were causing many big oil companies to move their operations overseas, and *DISCO* had begun to change its business plan to compensate. The moratoria caused some uncertainty but were ultimately not as bad as anticipated. The company is not looking to expand in the near future.

*Offshore Project Solutions* has had to put some equipment up for sale in order to cover costs—but it hasn't sold yet. The owner described the business as "devastated." The company is applying for SBA loans, but it has not received anything yet. The moratoria caused the business to lose all of its clients. The owners have already used their entire savings to pay the company's monthly overhead. They are looking for different work—they have applied to work for the Louisiana Department of Natural Resources and are looking to do some brokering, international work, and quarry work. The owner mentioned needing new training for employees to allow the business to be effective internationally.

*R and D Enterprises* has lost 100% of its revenue stream. The owners have stopped taking salaries and are living on savings—they have slashed costs to retain employees. They have started to store equipment which they never needed to do in the past, as it was always in use. They have been trying to keep their employees busy, cleaning the equipment, performing maintenance work, and taking inventory, but the company is essentially on standby for its customers who are waiting for permits to be issued. The owner of *R and D Enterprises* says that the company will try to stay afloat as long as possible, though the owner said it will be "really hard."

*A and C Management, Inc.* is only barely breaking even. The owners are not taking salaries in order to cut costs. The owners reported that this is the worst their business has been in 40 years. They have changed the long-term business plan, cutting back on everything, including staff time and groceries for boats. They are using up their savings and just trying to keep the business operational.

Two non-profit workers, both female, were interviewed for this study in order to provide a comprehensive overview of the options available to struggling businesses. They echoed some of these issues. Their clients are holding onto their money; even businesses which were not impacted by the oil spill or moratoria are unwilling to spend. Everyone is simply trying to save. Many clients are selling equipment or parts of their businesses (e.g. a trucker trying to sell one of her trucks) in order to make ends meet. One interviewee reported a client having found a niche market that resulted from all the HazMat and OSHA trainings following the oil spill; the client has been able to increase profits despite lay-offs. Generally, businesses have had to change their business models to compensate for the uncertainty of the future. Both non-profit workers expressed concern that drilling rigs would move elsewhere, leaving their clients permanently out of business. Small businesses are laying people off and/or looking for new markets—even internationally—trying to diversify their client bases. One interviewee reported a client's plans to leave the state because his business, which suffered induced impacts from the moratoria, simply could not survive.

#### *Employee Retention/Lay-offs*

Three of four business owners reported having to lay off some employees. All businesses, with the exception of DISCO, are losing money, since they are committed to keeping people on payroll even if there is currently no work. This may be due to the difficulty of finding good, trained workers as one interviewee reported. Another business owner mentioned that she cared about her workers and was trying to assist them: "Many of them couldn't find work after [Hurricane] Katrina, and then I hired them and then this! They are constantly worried about being laid off." Two interviewees reported cutting employees' hours, which may result in underemployment, which is less detectable in unemployment statistics.

#### *Lifting of the Moratorium*

While the federal government announced it was "lifting the drilling moratorium" on October 12, 2010, interviewees have reported no measurable changes to their businesses since that time. Two interviewees attributed this directly to the continued lack of permits being issued. As the owner of A and C Management, Inc. stated, "You can light the BBQ pit, but if you don't put no [sic] meat on it, you're not going to eat."

#### *Impact on Personal Lives*

The impact of the moratoria on interviewees' personal lives is significant. Two people mentioned increased amounts of stress, and one was easily distracted and her voice would shake periodically—possible symptoms of her stress levels. She referred to herself and her business as "devastated" numerous times. One interviewee identified the cumulative impact of Hurricanes Katrina, Rita, Gustav, and Ike; the economic recession; and the moratoria all having negative impacts on her business, life, and family. The owner of A and C Management, Inc. explained that his wife has had to go back to work and that "Christmas will be very slim this year." In addition, his extended family also owns a restaurant which experienced induced losses from the moratoria—or, in his words, "got killed." The moratoria-related impact decreased the extent to which family members could rely on each other for support. According to the U.S. Census Bureau, in 2009, 37.3% of the population of Louisiana could be classified as a dependent: either

under 18 years of age or over 65 years of age. Additionally, according to the 2000 Census, Louisiana's population includes approximately 880,047 people with disabilities (19.8% of the state population). Louisiana workers not only support themselves but also are responsible for family members and friends who may need their assistance. Thus, a lay-off or decrease in hours for one worker has the potential to trickle down and hurt numerous members of coastal communities. The two non-profit workers we interviewed cited a marked increase in mental health problems, domestic abuse, and clients at risk of losing their homes since the moratoria began.

### *Non-Profit Assistance to Small Businesses*

Both non-profit workers interviewed for this study worked directly with small business owners and hold supervisor roles in their organizations. Both reported a dramatic increase in the demand for services following the oil spill. While it is difficult to separate the impacts of the oil spill and the moratoria for many businesses, one interviewee reported between 75% and 90% of her clients having experienced direct losses related to the moratoria. These clients request financial assistance, help filing GCCF claims, and help applying for SBA Disaster Assistance Loans. Large numbers of indirectly impacted businesses are being denied GCCF claims and thus are turning to non-profit support services for financial assistance.<sup>18</sup> Both women emphasized the lack of financial options available to these clients.<sup>19</sup>

Businesses have filed claims with BP and GCCF for induced damages. Those that can prove significant losses related to the oil spill itself, and not the moratoria, are more likely to be compensated. However, many businesses in this category are either denied or not paid in full as GCCF attempts to compensate only the losses related to the oil spill. There is documentation of the rate of denials by industry showing the Food and Beverage denial rate of 26.4% and the Rental Property(ies) denial rate at 49.4%.<sup>20</sup> There are no statistics comparing the amount requested by a claimant to the amount paid by GCCF. For this information we rely on anecdotal information gathered from our participation as a member of the state-sponsored Claims Technical Assistance network, assisting claimants with gathering information and filing GCCF claims. Generally, businesses which experienced moratoria-related losses and received GCCF claims payments were unsatisfied with the amounts and stated that the payments did not completely compensate their losses.

### *GCCF Claims*

Businesses impacted by the moratoria and/or Deepwater Horizon Oil Spill typically turn first to GCCF for compensation. The success of their claims process depends on many

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<sup>18</sup> GCCF disproportionately denies claims from businesses that were directly and indirectly affected by the moratoria and decreasingly so, businesses that experienced induced impacts by the moratoria. Kenneth Feinberg stated in a New Orleans meeting on November 8, 2010 that GCCF will not compensate any moratoria related claims. Compensation is made exclusively for damages from the Deepwater Horizon Oil Spill and not from subsequent policy changes. Thus, the more damages a business can prove was caused by the spill and not the moratoria, the greater (in theory) their claim payment. At the date of publication there is not a claims system in place for businesses which lost revenue as a result of the drilling moratoria.

<sup>19</sup> Please note, the Oil Rig Worker Compensation Fund is only available for individuals who worked directly on drilling rigs, not workers or businesses that serviced or supported these rigs.

<sup>20</sup> Information gathered from [www.gulfcoastclaimsfacility.com](http://www.gulfcoastclaimsfacility.com) on January 4, 2011 and includes data through December 31, 2010. There is no public record of reasons for denial. We do not mean to imply that all the denials were due to GCCF not compensating losses for moratoria related claims, rather we recognize that this is a common reason for denial and thus are presenting the most relevant information available.

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factors, one of which is proving that losses are directly related to the oil spill and not the moratoria. GCCF has released a statement absolving itself from compensating moratoria-related losses.<sup>21</sup> This has had two effects, the first being widespread denial or minimal compensation of claims made by businesses who were directly, and even indirectly to a lesser extent, affected by the moratoria. Businesses whose losses were induced by this policy change (e.g. restaurants) had a greater chance of receiving claims payments in comparison to those who were directly and indirectly impacted. Secondly, this GCCF policy has caused one interviewee to report having to almost train her clients to say their damages were not related to the moratoria. Following a denial from GCCF, a business has the option to file another type of claim; for example, if their emergency payment was denied, they may still file for a final or interim payment. Though, it is unlikely that the outcome will change. Often these businesses then turn to SBA Disaster Assistance Loans. Indirect businesses and their workers usually are denied GCCF claims payments outright.

### *SBA Disaster Loans*

SBA Disaster Loans can provide capital to tide a business over while it recovers from a disaster; however, according to one interviewee there are a high number of qualifications and a relatively low acceptance rate—she estimates it to be between 30% and 35%. One key component of a successful SBA loan application is proof that the business has historically been successful. This qualification may prohibit coastal Louisiana businesses from receiving much-needed assistance, as many have still not completely recovered from Hurricane Katrina. As one interviewee put it, “Where does Katrina end? There was [Hurricane] Gustav, the economic downturn, the oil spill, and now the moratoria!” Due to these cumulative factors, many otherwise-qualified SBA applicants may be denied assistance due to their inability to show historical success and/or profits. One interviewee also reported coastal Louisiana businesses struggling to get back to normal operations and still facing issues with debt incurred after the storms of 2005 and 2008. This cumulative effect is unique to coastal communities and economies, as no other area of the country has experienced such frequent, large-scale disasters.

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<sup>21</sup> Verbal statement by Kenneth Feinberg in a meeting with Claims Technical Assistance providers in New Orleans on November 8.

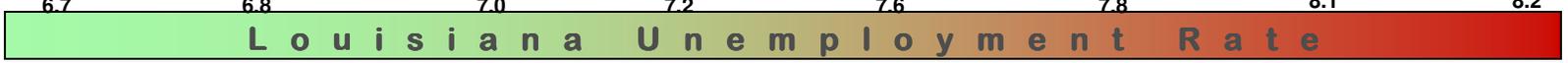
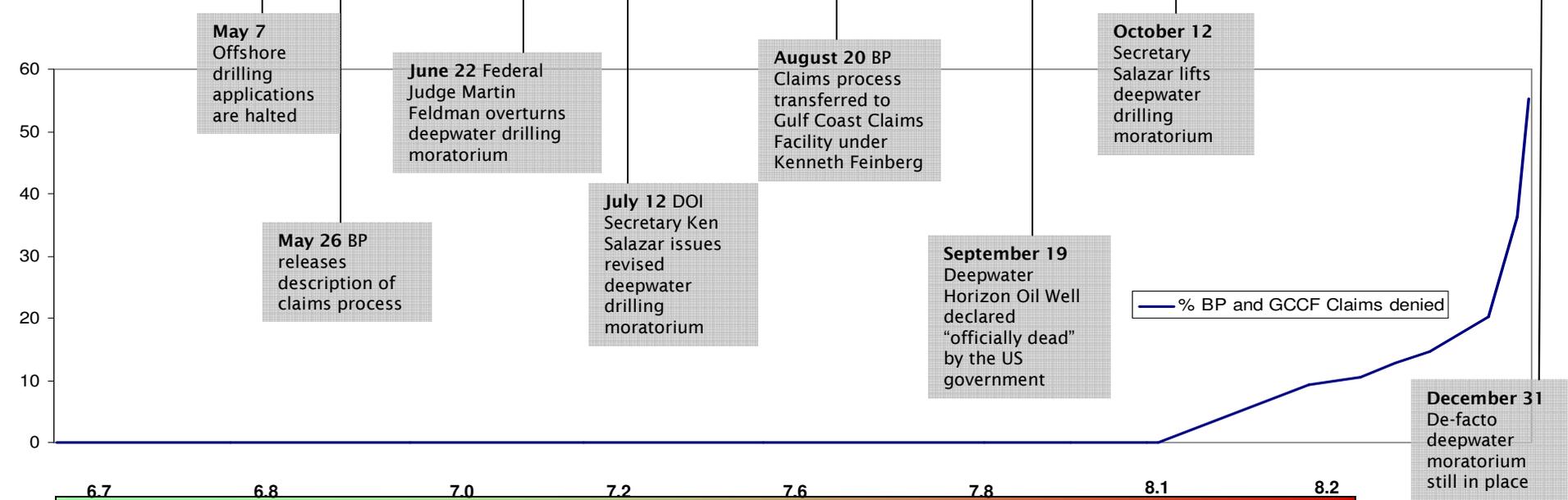
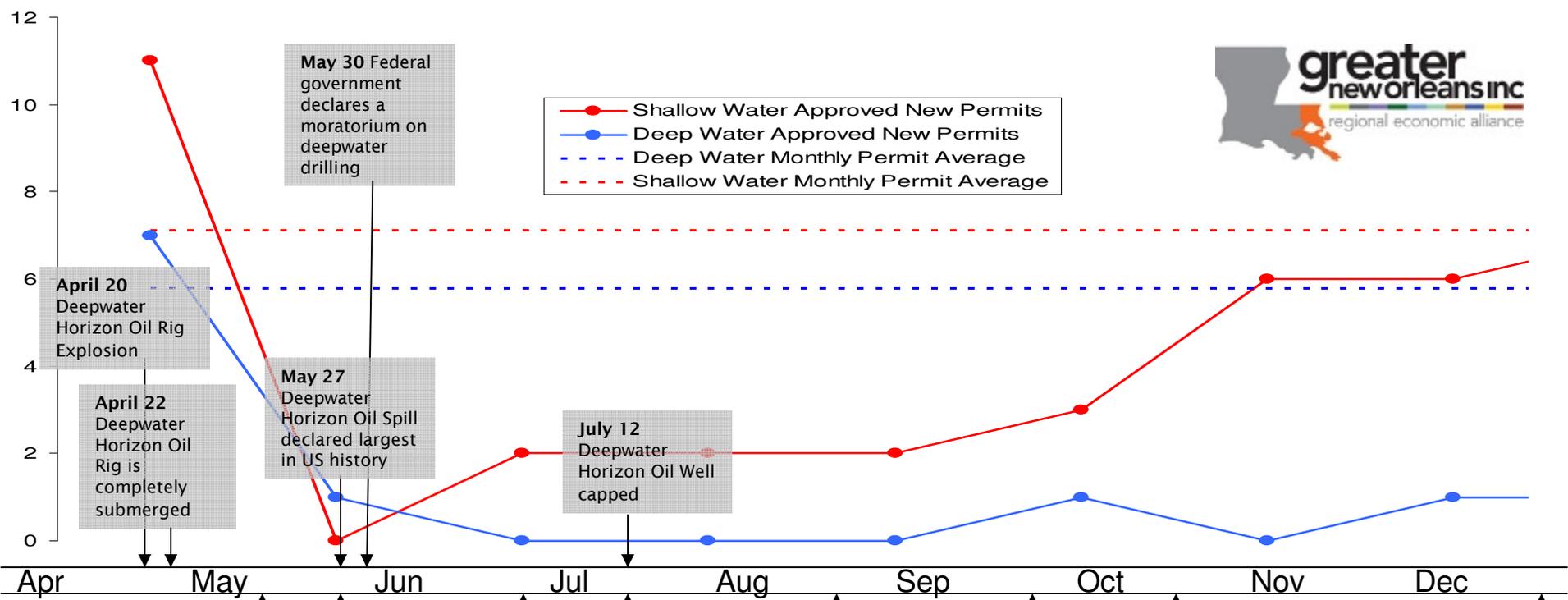
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## Conclusion

The Macondo oil well explosion was a tragic accident that, upon analysis, may have been preventable with different systems and procedures in place. Going forward, the safety of workers and the environment must be of paramount importance, and a guiding principal for all in the regulation, exploration, and production of oil and gas.

New systems and procedures must now be described, implemented, and regulated, however, in a way that is reliable and transparent. This will allow the nation's offshore oil and natural gas industry to return to work in a way that will preserve thousands of critical jobs, in a region just beginning to recover from unprecedented hardship.

Should the rate of issuance of drilling permits remain unchanged, this study suggests that unemployment will likely dramatically increase as businesses continue to diminish their savings. This would be a huge blow to the state and coastal parishes—still recovering from the hurricanes of 2005 and 2008. Additionally, rigs and entire drilling operations may move to other areas or even overseas, taking with them valuable jobs and tax revenue. At the time of publication many small, family-owned businesses which support the oil and gas industries were vulnerable. Without increased business—in the form of drilling activity—these companies may not survive.



**April 20** Deepwater Horizon Oil Rig Explosion

**April 22** Deepwater Horizon Oil Rig is completely submerged

**May 30** Federal government declares a moratorium on deepwater drilling

**May 27** Deepwater Horizon Oil Spill declared largest in US history

● Shallow Water Approved New Permits  
 ● Deep Water Approved New Permits  
 - - - Deep Water Monthly Permit Average  
 - - - Shallow Water Monthly Permit Average

**July 12** Deepwater Horizon Oil Well capped

**May 7** Offshore drilling applications are halted

**May 26** BP releases description of claims process

**June 22** Federal Judge Martin Feldman overturns deepwater drilling moratorium

**July 12** DOI Secretary Ken Salazar issues revised deepwater drilling moratorium

**August 20** BP Claims process transferred to Gulf Coast Claims Facility under Kenneth Feinberg

**September 19** Deepwater Horizon Oil Well declared "officially dead" by the US government

**October 12** Secretary Salazar lifts deepwater drilling moratorium

**December 31** De-facto deepwater moratorium still in place

Louisiana Unemployment Rate