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ONE YEAR AFTER PRESIDENT OBAMA'S GULF OF MEXICO 6-MONTH MORATORIUM OFFICIALLY LIFTED: EXAMINING THE LINGERING IMPACTS ON JOBS, ENERGY PRODUCTION AND LOCAL ECONOMIES

OVERSIGHT HEARING

BEFORE THE

COMMITTEE ON NATURAL RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

Wednesday, October 12, 2011

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OVERSIGHT HEARING ENTITLED "ONE YEAR AFTER PRESIDENT OBAMA'S GULF OF MEXICO 6-MONTH MORATORIUM OFFICIALLY LIFTED: EXAMINING THE LINGERING IMPACTS ON JOBS, ENERGY PRODUCTION AND LOCAL ECONOMIES."

Wednesday, October 12, 2011
U.S. House of Representatives
Committee on Natural Resources
Washington, D.C.

The Committee met, pursuant to call, at 10:07 a.m., in Room 1324, Longworth House Office Building, Hon. Doc Hastings [Chairman of the Committee] presiding.

Present: Representatives Hastings, Gohmert, Lamborn, Fleming, McClintock, Thompson, Duncan of South Carolina, Labrador, Southerland, Landry, Markey, and Holt.

Also present: Representative Palazzo.

The CHAIRMAN. The Committee will come to order. And the Chair notes the presence of a quorum, which under our rules, two Members, and we have greatly exceeded that this morning. Thank you very much.

The Committee on Natural Resources is meeting today to hear testimony on an oversight hearing on "One Year after President Obama's Gulf of Mexico 6-Month Moratorium Officially Lifted: Examining the Lingering Impacts on Jobs, Energy Production, and Local Economies."

Under Rule 4[f], the opening statements are limited to the Chairman and the Ranking Member. However, I will ask unanimous consent to include any Members' opening statements on the hearing if those statements are submitted to the Committee before the close of business today. And without objection, so ordered.

I further ask unanimous consent that the gentleman from Mississippi, Mr. Palazzo, be allowed to sit on the dais and participate in the hearing today. He expressed an interest to do so, and hopefully he is on his way. And without objection, so ordered.

I will now recognize myself for five minutes.

STATEMENT OF HON. DOC HASTINGS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. HASTINGS. On May 2010, shortly after the tragic Deepwater Horizon explosion and oil spill, the Obama Administration placed a moratorium on all deepwater drilling in the Gulf of Mexico. This official moratorium lasted for nearly six months, and was lifted on October 12th, 2010, exactly one year ago today.

The official moratorium, unfortunately, was followed by a de facto moratorium that still did not allow businesses and their em-

ployees to return to work until the first permits were issued in February of this year. The Obama Administration's inability or refusal to issue permits in a timely and efficient manner after the official moratorium was lifted resulted in lost jobs and significant economic pain.

Since the moratorium was imposed, this Committee has heard directly from businesses and local community groups about the economic impacts. Today, one year later, this hearing is an opportunity to follow up again and listen to those from the Gulf about what economic conditions are like there today. While I recognize that some permits indeed are being issued, there are facts and data that demonstrate recovery is moving at a pace that continues to hamper job creation and the economy.

First, permitting activity in the Gulf has dramatically declined under the Obama Administration, as shown by this chart, and has operated at lows that equate to hurricane-induced shutdowns. You can see the bottom spike there is Katrina. The next spike is Gustav. And you can see where we are now in real time, and it equals those areas.

Additionally, permitting activity has not returned to pre-Deepwater Horizon levels. The average number of permits issued in the six months prior to the Deepwater Horizon incident was 71 per month. The average number for the last six months was 52 per month. That is a 20 percent decrease.

Second, instead of looking at the number of permits issued, we should look at the production levels. This chart shows how production has declined. The top line is what production in the Gulf was projected to be before the spill and the President's moratorium. The bottom line represents the actual production. As you can see, there is a difference between the two.

Third, the time it takes to get approval for permits and exploration plans is much longer today. Director Michael Bromwich has frequently stated that there is not a backup of offshore drilling permits waiting for approval and that this proves that there is no de facto moratorium. And this chart actually helps highlight what Director Bromwich is referring to. It shows the number of days it took for specific explorations. And by the way, the bottom line there is the specific explorations to be accepted and approved in order to receive the permit to drill.

By the way, the horizontal line is the number of days. So as you can see from these charts, these plans are being approved in a relatively short-term time frame, and credit should be given where it is due. But that is only part of the story.

This next chart shows exactly how long it took companies to get their plans approved, sometimes nearly 300 days. What this chart does is take the last chart and insert below that the process to declare it deemed submitted. So companies are submitting plans and getting stuck in a back and forth limbo through the Department of the Interior that can drag on for months.

This is the step in the whole process that this Administration does not talk about. Now, keep in mind, companies can't apply for permits until its exploration plan has been submitted and approved. That is why it is disingenuous to only refer to pending permits and approved permits as the Department of the Interior likes

to do, because the logjams occur before the companies even get to that point. So it is a sleight of hand that actually makes the process look more efficient, when in fact it isn't.

And finally, fourth, 11 deepwater rigs have left the Gulf of Mexico for foreign countries, such as Egypt and Brazil. Every time one of these rigs leaves, it takes away good American jobs. And in addition to that, 84 offshore support vessels have also left and departed the Gulf. The livelihood of communities and businesses throughout the Gulf depend on safe and responsible offshore energy production.

It has been a year and a half since the Deepwater Horizon incident, and a year since the President's moratorium was officially lifted. It is time to get people back to work and get the economy rolling again in the Gulf. And with that, I will yield to the Ranking Member for his opening remarks. The gentleman is recognized for five minutes.

[The prepared statement of Mr. Hastings follows:]

Statement of The Honorable Doc Hastings, Chairman, Committee on Natural Resources

In May 2010, shortly after the tragic Deepwater Horizon explosion and oil spill, the Obama Administration placed a moratorium on all deepwater drilling in the Gulf of Mexico. This official moratorium lasted for nearly six months and was lifted on October 12, 2010—exactly one year ago today.

This official moratorium, unfortunately, was followed by a *de facto* moratorium that still did not allow businesses and their employees to return to work until the first permits were issued in February of this year. The Obama Administration's inability, or refusal, to issue permits in a timely and efficient manner after the official moratorium was lifted resulted in lost jobs and significant economic pain.

Since the moratorium was imposed, this Committee has heard directly from businesses and local community groups about the economic impacts. Today, one year later, this hearing is an opportunity to follow-up and listen to those from the Gulf about what economic conditions are like there today.

While I recognize that some permits indeed are being issued, there are facts and data that demonstrate recovery is moving at a pace that continues to hamper job creation and the economy.

First, permitting activity in the Gulf has dramatically declined under the Obama Administration and has operated at lows that equate to hurricane-induced slowdowns.

Additionally, permitting activity has not returned to pre-Deepwater Horizon levels. The average number of permits issued in the six-months prior to the Deepwater Horizon incident was 71 per month. The average number for the past six months is 52 per month. That's a 27% decrease, which directly affects jobs and the local economy.

Second, instead of looking at the number of permits issued, we should also look at production levels. This chart shows how production has declined. The top line is what production in the Gulf was projected to be before the spill and the President's moratorium. The bottom line represents actual production.

Third, the time it takes to get approval for permits and exploration plans is much longer today. Director Michael Bromwich has frequently stated that there is not a backup of offshore drilling permits waiting for approval. . .and that this proves there is no *de facto* moratorium. This chart actually helps highlight what Director Bromwich is referring to. It shows the number of days it took specific explorations plans to be accepted and approved in order to receive a permit to drill. As you can see from this chart, these plans are being approved in a relatively short time-frame. But that is only part of the story.

This next chart shows how long it actually took companies to get their plans approved–sometimes nearly 300 days. The biggest delay in the process, as shown here, is getting the Interior Department to accept the exploration plan and declare it 'deemed submitted.' Companies are submitting plans and getting stuck in a back and forth limbo with the Interior Department that can drag on for months. This is the step the Obama Administration doesn't talk about.

Keep in mind, companies can't apply for permits until its exploration plan has been submitted and approved. That's why it's disingenuous to only refer to pending permits and approved permits—as the Interior Department likes to do—because the log jams occurs before companies even get to that point. It's a slight of hand to make the process look much more efficient.

Fourth, 11 deepwater rigs have left the Gulf of Mexico for foreign countries such as Egypt and Brazil. Every time one of these rigs leaves, it takes away good-paying American jobs. In addition, 84 offshore support vessels have also departed the Gulf.

The livelihood of communities and businesses throughout the Gulf depend on safe and responsible offshore energy production. It's been a year and a half since the Deepwater Horizon incident, and a year since the President's moratorium was officially lifted. It's time to get people back to work and get the Gulf's economy growing again.

STATEMENT OF HON. EDWARD J. MARKEY, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF MASSACHUSETTS

Mr. MARKEY. Thank you, Mr. Chairman, very much. Most Americans likely remember the date April 20th, 2010, as the day the Deepwater Horizon exploded and the BP oil spill began. But October 12th, 2010, would likely only trigger blank stares. And that is the essential problem with this hearing. The Republican majority is holding a hearing on the one year anniversary of the end of a temporary pause for a couple dozen of the riskiest deepwater drilling rigs in the Gulf of Mexico.

Those few months were important to ensure that rigs were safe and that workers and our environment were protected. But today, we are having a hearing on that temporary pause as though it and not the BP spill itself were the cause of all of the problems. Holding a hearing on the impact of a safety check following an unimaginable oil spill is a little like holding a hearing on the impact of wearing a cast after shattering your leg without looking at the accident that required the cast.

But the Republican majority and the oil industry aren't holding hearings to examine the lingering effects from the actual oil spill. They are not talking about how the oil spill could cost the Gulf region $22 billion over three years and lost tourism, according to one study. They are not holding a hearing to demand answers about why there have been recurrent oil sheens showing up near the site of the Macondo well site a year after the accident, or reports of mutations in some fish species in the region. And they are not talking about what we do to ensure we never have a spill like this occur again.

So today, let us talk about some of the real lasting impacts from the spill itself. Just a few weeks into the BP spill, I successfully called on BP to create a $500 million scientific research fund. One of the first studies from this fund was released just a few weeks ago. That study, conducted by a team of researchers from Louisiana State, Texas State, and Clemson Universities, shows that fish living in the marshes affected by the spill have undergone changes at the cellular level that could lead to developmental and reproductive problems in these fish.

The researchers focused on the killifish, which is the most abundant fish in the marshes of the Gulf, and an indicator of the health of that ecosystem. The researchers found that there have been potentially dangerous changes in this one species that may indicate

the presence of a much larger problem. In fact, the researchers concluded that these may be some of the same significant early warning signs that we saw in the years following the Exxon Valdez oil spill in Alaska, before species like the Pacific herring and pink salmon suffered population declines.

We may be seeing the first indications that there are lasting effects of the oil spill below the surface of the water. There may in fact be a host of ticking environmental time bombs in the Gulf whose impact we are only beginning to understand. But the most important species impacted by the spill has been the resilient people of the Gulf of Mexico. They were the ones who lost jobs because of the spill. They lost tourism dollars and fishing dollars, and endured the priceless impacts on the environment of the Gulf. And families lost husbands and sons and brothers on the Deepwater Horizon.

This Congress should finally end its moratorium on common sense and pass legislation to prevent similar spills in the future. We should ensure that there is proper monitoring of the Gulf ecosystem so that we are ready to adapt to possible impacts of the spill on fish and other species. Each time this Committee holds another hearing that avoids these responsibilities, it does a disservice to the people of the Gulf. I yield back.

[The prepared statement of Mr. Markey follows:]

Statement of The Honorable Edward J. Markey, Ranking Member, Committee on Natural Resources

Most Americans likely remember the date April 20, 2010 as the day the Deepwater Horizon exploded and the BP oil spill began.

But October 12, 2010 would likely only trigger blank stares.

And that is the essential problem with this hearing. The Republican Majority is holding a hearing on the one year anniversary of the end of a temporary pause for a couple dozen of the riskiest deepwater drilling rigs in the Gulf of Mexico.

Those few months were important to ensure that rigs were safe and that workers and our environment were protected. But today we are having a hearing on that temporary pause as though it, and not the BP spill itself, were the cause of all problems.

Holding a hearing on the impact of a safety check following an unimaginable oil spill is a little like holding a hearing on the impact of wearing a cast after shattering your leg, without looking at the accident that required the cast.

But the Republican Majority and the oil industry aren't holding hearings to examine the lingering effects from the actual oil spill.

They're not talking about how the oil spill could cost the Gulf region $22.7 billion over three years in lost tourism, according to one study.

They're not holding a hearing to demand answers about why there have been recurrent oil sheens showing up near the site of the Macondo well site a year after the accident, or reports of mutations in some fish species in the region.

And they're not talking about what we do to ensure we never have a spill like this again.

So today, let's talk about some of the real lasting impacts from the spill itself.

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That study, conducted by a team of researchers from Louisiana State, Texas State and Clemson Universities, shows that fish living in the marshes affected by the spill have undergone changes at the cellular level that could lead to developmental and reproductive problems in these fish. The researchers focused on the killifish [KILL–EE–FISH], which is the most abundant fish in the marshes of the Gulf and an indicator of the health of that ecosystem.

The researchers found that there have been potentially dangerous changes in this one species that may indicate the presence of a much larger problem. In fact, the researchers concluded that these may be some of the same significant early warning

signs that we saw in the years following the Exxon Valdez oil spill in Alaska before species like the pacific herring and pink salmon suffered population declines. We may be seeing the first indications that there are lasting effects of the oil spill below the surface of the water. There may in fact be a host of ticking environmental time bombs in the Gulf whose impacts we are only beginning to understand.

But the most important species impacted by the spill has been the resilient people of the Gulf of Mexico. They were the ones who lost jobs because of the spill. They lost tourism dollars and fishing dollars and endured the priceless impacts on the environment of the Gulf.

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Mr. HASTINGS. I thank the gentleman for his opening statement, and want to welcome our panel here today. We have Mr. Sean Shafer, Manager of Consulting and Senior Marketing Analyst of Quest Offshore Resources; Mr. Al Reese, Jr., Chief Financial Officer of ATP Oil & Gas Corporation; Mr. Chris Auer, Principal of Crevalle Management Services—did I say that correctly?

Mr. AUER. You did.

Mr. HASTINGS. Mr. Cory Kief, President of Offshore Towing; Captain Bob Zales, President of the National Association of Charterboat Operators; Mr. Bruce Craul, Chief Operating Officer, Legendary, Inc.; and Dr. Fernando Galvez, Assistant Professor, Department of Biological Sciences, Louisiana State University.

For those of you that aren't familiar with our timing lights, your full statement will appear in the record, and many times your full statement is longer than what you can speak orally for five minutes, and we recognize that. That is why your full statement is in the record. But we would like you to confine your oral statements to five minutes, and the light in front of you, when the green light is on, it means you are doing fine. When the yellow light comes on, it means you are down to one minute. And then when the red light comes on, it means that your five minutes have expired. I would ask you to try to confine your remarks within that time frame so that we can get onto hearing from all of you, and then have followup questions from the Committee.

So with that, Mr. Shafer, we will start with you, and you are recognized for five minutes.

STATEMENT OF SEAN SHAFER, MANAGER OF CONSULTING/ SENIOR MARKET ANALYST, QUEST OFFSHORE RESOURCES

Mr. SHAFER. Thank you, Mr. Chairman, and I appreciate the opportunity. Despite the official end of the drilling moratorium in October 2010, the offshore Gulf of Mexico oil and natural gas industry is still feeling the lingering effects of the official moratorium. These effects, combined with the impact of the subsequent regulatory slowdown are being felt throughout the Gulf Coast region——

Mr. HASTINGS. Mr. Shafer, could you move that microphone closer to you so we can hear?

Mr. SHAFER. Of course. Sorry about that.

Mr. HASTINGS. Thank you very much.

Mr. SHAFER. Excuse me. While the offshore Gulf of Mexico oil and industry has seen some signs of recovery from the low state it was in during the drilling moratorium, activity levels are still well below the levels seen before the Macondo incident, and well below the levels of the Quest baseline forecast before the incident.

From a permitting rig and drilling activity perspective, the industry is at best flat compared to where it was before the drilling moratorium, with the growth that had been previously expected both delayed and diminished. The only industry sector seeing healthy growth is in the development of projects not dependent on further near-term drilling. While this is positive, the majority of these projects were already well in the works before the incident, and are thus seeing these major equipment orders despite the moratorium.

As of the end of September 2011, 21 floating rigs, which are defined as those with subsea blowout preventers, are operating in the Gulf of Mexico, of which only 18 are currently drilling wells. Premoratorium, 33 floating rigs were operating in the Gulf of Mexico, with 29 drilling wells at that time. This indicates a roughly 37 percent drop in both the number of rigs operating and drilling. Since the moratorium began, 11 rigs have left the Gulf of Mexico. Only one of these has returned with three rigs currently sitting idle.

Seven of these rigs have left for African countries, including Egypt, Nigeria, Liberia, and the Republic of Congo. Three of these rigs have left to South America, including Brazil and French Guinea, and the remaining rig recently mobilized to Vietnam.

As of today, none of these operators have announced plans to return these rigs to the Gulf of Mexico this year. Two rigs are planned for return in early 2012, but neither operator has a permit to drill with these rigs yet, casting doubt on the likelihood of this happening. This translates to approximately 60 wells lost based on the original contract terms of these rigs. The loss of these rigs amounts to lost spending of $6.3 billion annual loss of direct employment of 11,500 jobs over two years.

While the number of rigs operating the Gulf of Mexico is expected to recover to pre-moratorium levels by the middle of 2012, this fails to take into account the number of rigs which were expected to be operating in the region in 2012 based on previously stated operator schedules. While rig counts are forecast to return to pre-moratorium levels of 35 floating rigs by mid-2012, prior to the incident and subsequent regulatory slowdown, operating numbers were expected to have reached 44 rigs by this point.

In addition, drilling activity is not expected to return to pre-moratorium levels before 2014 due to currently low permitting rates and operators not relocated rigs back to the Gulf of Mexico. While the Gulf of Mexico is currently seeing an uptick in certain types of development activity due to projects that were delayed by the credit crunch and economic slowdown, overall capital expenditures are down 10 percent from 2009, which was already considered a down year for the industry owing to macroeconomic conditions.

Compared with 2008, which would be a better indicator, capital spending levels are roughly down by roughly 25 percent. Continued regulatory uncertainty will only exacerbate this trend, as operators reallocate resources to other major offshore provinces. The long-

term effects of the moratorium and subsequent regulatory slowdown will lead to lower development levels in the Gulf of Mexico, which will lower oil and gas production levels and associated employment and economic activity.

In fact, the most pronounced effects of the moratorium and continued regulatory issues may not be seen until later years, due to the long time frames associated with developing offshore oil and gas products. With the length of time from first drill date to project sanctioning averaging over four years, and the length of time from project sanctioning to first production averaging over four years as well for major projects, the most pronounced effects of the moratorium and subsequent slowdown will begin to be seen in the middle of the decade.

Due to low levels of drilling beginning with the moratorium, the number of actionable projects in the Gulf of Mexico will begin to decline, which will lead to lower levels of development activity. Since the vast majority of spending associated with these large capital projects occurs within the United States, a wide array of industry sectors will be negatively impacted, including such sectors as oil and gas machinery, air transportation services, and financial services.

The offshore oil and gas industry is a key contributor to the energy supply of the United States. Additionally, the industry contributes both to the gross national product and overall employment. The offshore Gulf of Mexico contributed 14 percent of the oil and gas produced in the United States in 2010. Additionally, capital investment operational spending by the Gulf of Mexico oil and natural gas industry supports hundreds of thousands of jobs across multiple sectors and regions, supports economic growth, and generates significant tax revenues at all levels of government.

It is therefore critical that permitting return to historical rates and that development and production are allowed to reach their potential in an environmentally responsible manner under a balanced regulatory regime. Thank you.

[The prepared statement of Mr. Shafer follows:]

Statement of Sean Shafer, Manager of Consulting, Quest Offshore Resources, Inc.

Despite the official end of the drilling moratorium in October, 2010 the offshore Gulf of Mexico oil and natural gas industry is still feeling the lingering effects of the official moratorium. These effects combined with the impact of the subsequent regulatory slow down are being felt throughout the Gulf coast region as well as nationwide.

While the offshore Gulf of Mexico oil and gas industry has seen some signs of recovery from the low state it was in during the drilling moratorium, activity levels are still well below the levels seen before the Macondo incident and well below the levels of the Quest baseline forecast before the incident. From a permitting, rig, and drilling activity perspective the industry is at best flat compared to where it was before the drilling moratorium, with the growth that had been previously expected both delayed and diminished. The only industry sector seeing healthy growth is in the development of projects not dependent on further near term drilling. While this is a positive, the majority of these projects were already well in the works before the incident and are thus seeing these major equipment orders despite the moratorium.

As of the end of September 2011, 21 floating rigs (those with subsea blow out preventers) are operating in the Gulf of Mexico, of which only 18 are currently drilling wells. Pre-moratorium 33 floating rigs were operating the Gulf of Mexico with 29 drilling wells at that time. This indicates a roughly 37 percent drop in both the

number of rigs operating and drilling. Since the moratorium began, 11 rigs have left the Gulf of Mexico. Only one of these has returned, 3 rigs are currently sitting idle.

Seven of these rigs have left to African countries including Egypt, Nigeria, Liberia, and The Republic of Congo. Three of these rigs have left to South America, including Brazil and French Guiana. The remaining rig recently mobilized to Vietnam.

As of today, none of the operators of these rigs have announced plans to return these rigs to the Gulf of Mexico. Two rigs are planned for return in early 2012 but neither operator has a permit to drill with these rigs yet, casting doubt on the likelihood of this happening

This translates to approximately 60 wells lost based on the original contract terms of these rigs. The loss of these rigs amounts to lost spending of $6.3 billion and annual lost direct employment of 11,500 jobs over two years.

While the number of rigs operating in the Gulf of Mexico is expected to recover to pre-moratorium levels by the middle of 2012, this fails to take into account the number of rigs which were expected to be operating in the region (based on stated operator schedules) in 2012.

While rig counts are forecast to return to pre-moratorium levels of 35 floating rigs operating by mid 2012, prior to the incident and regulatory slow-down, operating numbers were expected to have reached 44 rigs by this point. In Addition, drilling activity is not expected to return to pre-moratorium levels before 2014 due to low permitting rates and operators not relocating rigs back to the Gulf of Mexico.

While the Gulf of Mexico is currently seeing an uptick in certain types of development activity due to projects that were delayed by the credit crunch and economic slowdown, overall capital expenditures are around 10% lower than in 2009 which was considered a down year for the industry owing to macroeconomic conditions. Compared with 2008, which would be better indicator, capital spending levels are down by roughly 25%.

Continued regulatory uncertainty will only exacerbate this trend as operators reallocate resources to other major offshore provinces. The long term the effects of the moratorium and subsequent regulatory slow down will lead to lower development levels in the Gulf of Mexico which will lower oil and gas production levels and associated employment and economic activity levels in the economy.

In fact the most pronounced effects of the moratorium and continued regulatory issues may not be seen until later years, due to the long time frame associated with developing offshore oil and gas projects. With the length of time from first drill date to project sanctioning averaging over 4 years, and the length of time from project sanctioning to first production averaging over 4 years for major projects, the most pronounced effects of the moratorium and subsequent regulatory slow down will begin to be seen in the middle of the decade. Due to low levels of drilling beginning with the moratorium, the number of actionable projects in the Gulf of Mexico will begin to decline which will lead to lower levels of development activity. Since the vast majority of the spending associated with these large capital projects occur within the United States, a wide array on industry sectors will be negatively impacted including oil and gas machinery, air transport services and financial services to name a few.

The offshore oil and natural gas industry is a key contributor to the energy supply of the United States; additionally the industry contributes both to the gross national product and overall employment of the country. The offshore GoM industry contributed 14 percent of the oil and natural gas produced in the United States in 2010. Additionally, capital investment and operational spending by the Gulf of Mexico oil and natural gas industry supports hundreds of thousands of jobs across multiple sectors and regions, spurs economic growth, and generates significant tax revenue at all levels of government.

It is therefore critical that permitting return to historical rates, and that development and production are allowed to reach their potential in an environmentally responsible manner under a balanced regulatory regime.

Figure 1: Exploration and Appraisal Drilling Forecasts (Pre and Post Moratorium) vs. Floating Rig Counts

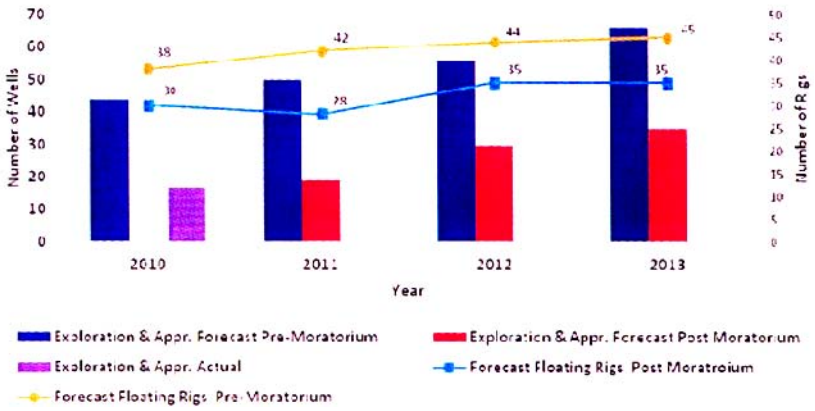
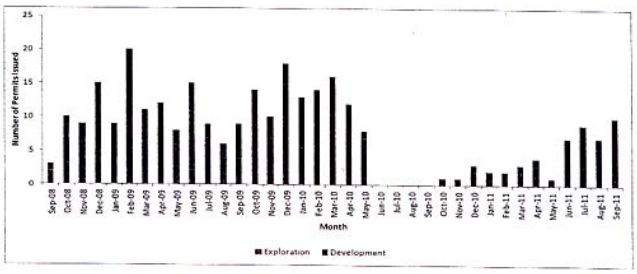


Figure 2: New Deepwater Well Permits Issued: September 2008 to September 2011 Exploration vs. Development



Source: Quest Offshore Resource, Inc.

Mr. HASTINGS. Thank you very much, Mr. Shafer. Mr. Reese, you are recognized for five minutes.

STATEMENT OF AL REESE, JR., CHIEF FINANCIAL OFFICER, ATP OIL & GAS CORPORATION

Mr. REESE. Good morning, Mr. Chairman and Ranking Member Markey, and Members of the Committee. I appreciate the opportunity to testify here this morning.

We have seen a lack of understanding of the special role that small and mid-sized oil and gas companies like ATP play in the safe and efficient development of the Nation's energy resources, and the role we play in the creation of jobs and other economic benefits.

ATP's business model is unique: to acquire and develop properties which have previously discovered but as yet undeveloped oil and gas reserves. This model allows us to acquire a lease, often very late in the lease term, and bring it to production quickly when it might otherwise not have been.

Over the past 20 years, ATP has brought to production 98 percent of the properties that we placed in a development program. We have invested $5.4 billion, with a large majority of that in the Gulf of Mexico. These properties have produced over 28 million barrels of oil and 276 billion cubic feet of gas. If ATP had not acquired and developed these properties, most, if not all, would still be undeveloped today.

Despite the relatively small size of our company, ATP is the fourth most active operator in the deepwater Gulf of Mexico, behind Shell, BP, and Anadarko. We have fewer than 100 employees, but we regularly use the services of independent consultants and contractors, all of which are substantial sources of jobs and economic benefits. ATP makes payments to royalty owners, vendors, and contractors in 34 different states throughout the country.

ATP incurred acquisition and development costs in the Gulf of Mexico of $554 million in 2010, down substantially from the $713 million we incurred in 2009, and $747 million in 2008. Our flagship, the ATP Titan, was built in shipyards in Texas and in Louisiana. The ATP Titan was the first multi-column, deep draft floating, drilling, and production structure built in the United States. It surpassed all regulatory requirements, and is the only floating platform in the Gulf of Mexico with a surface blowout preventer on its platform deck, and a second subsea shut-in isolation device with blind sheer rams at the mud level.

More than 268 U.S. service and supply companies were involved in the construction and installation. Construction involved 31 countries, 30 U.S. States. More than 1,100 suppliers received payment from ATP, and more than 3.9 million man hours were expended in its construction.

ATP is an independent, a small and mid-sized energy company which is involved in the Gulf of Mexico operations. The independents are important and indeed necessary to the effective accomplishment of this Nation's overall energy objective. Independents hold a majority interest in most of the producing leases in the Gulf of Mexico.

In 2009, independents were responsible for more than 200,000 jobs. Before the Macondo incident, that number was expected to grow to 300,000 by 2020 and result in $38 billion in economic benefit. The impact occurs not only in the Gulf of Mexico States, but also in Massachusetts, California, New York, Georgia, Illinois, Pennsylvania, and many, many States.

The efficiency which independents provide requires an efficient and predictable regulatory system. This can be accomplished without compromising effective regulatory oversight, safety, and environmental protection. A recent EIA report stated that the Deepwater Gulf of Mexico is the single largest contributor of U.S. production growth for the foreseeable future.

Once the moratorium was lifted October 12th, a year ago today, it took 139 days for that first permit to be issued. ATP was the only company to receive 2 of the first 11 permits. Since then, ATP has received six drilling and completion permits. While we are employing people today as a result of these permits being issued, overall the process has been unduly difficult, time consuming, and in our view, an unnecessary, contentious process.

Based on recent history, there is uncertainty that future permits and approvals will be issued in a timely manner. We see a clear need for continued improvement by the Federal Government in expediting the processing plans and permit applications and priority consideration of the job creation.

In conclusion, what has been lost among all the discussion is consideration of long-term implications of reduced activity in the Gulf of Mexico. According to the 2001 Annual Energy Outlook published by the EIA, and I quote, "Consumption of all fuels increases in the 2011 reference case, but the aggregate fossil fuel share of total energy use falls from 83 percent in 2009 to 78 percent in 2035, as renewable fuel use grows rapidly. The renewable share of total energy use increases from 8 percent in 2009 to 13 percent in 2035."

What this report says is there a tremendous push for renewables. In fact, in this 25-year period, renewable usage rises by 62 percent. But 25 years from now, more than three-quarters of our country's energy will still come from fossil fuels: coal, natural gas, and oil. There is a vast resource, the deepwater Gulf of Mexico. We can regulate and legislate, increase and decrease rules and constraints, but cannot regulate or legislate energy into existence. Thank you.

[The prepared statement of Mr. Reese follows:]

Statement of Albert L. Reese, Jr., Chief Financial Officer and Treasurer, ATP Oil & Gas Corporation

Introduction

My name is Albert L. Reese, Jr. and I am the Chief Financial Officer of ATP Oil & Gas Corporation. I have been with ATP since its inception in 1991, having served as its Chief Financial Officer for eleven years and prior to that, in a consulting capacity as Director of Finance. I have worked in the field of finance and management for over 40 years.

Background

ATP Oil & Gas Corporation is an international offshore oil and gas company focused in the Gulf of Mexico and North Sea. In August 2010, we expanded our interest to offshore Israel in the Mediterranean Sea. ATP acquires and develops properties, many of which have proved undeveloped reserves at the time of acquisition that are economically attractive to ATP, but not strategic to exploration-oriented oil and gas companies. Since its inception in 1991, the company has had an exceptionally strong development success record of 98% of converting non-producing properties to commercial production. Recently ATP became the 4thmost productive offshore deepwater operator in the Gulf of Mexico, as a company that emphasizes critical elements of technology, safety, and infrastructure assets. ATP's business model is particularly efficient in accelerating production from leases which are nearing their expiration date and which, in the absence of ATP's involvement, would go back into the lease pool and be developed, if ever, near the end of the next ten year lease period. While particularly effective in meeting the objectives of promoting jobs and enhancing energy independence, our model is also particularly dependent on an efficient and reliable permitting and plan approval process, and particularly vulnerable to harm from unpredictability and delays.

ATP's Investment in the Gulf of Mexico

Currently ATP has 55 full-time employees in its Houston office, 7 full-time employees in its U.K. office, and 2 full-time employees in its Netherlands office. ATP regularly uses the services of independent consultants and contractors to perform various professional services, particularly in the areas of construction, design, wellsite supervision, permitting and environmental assessment. Independent contractors usually perform field and on-site production operation services, including gauging, maintenance, dispatching, inspection and well testing. All of these contractors and consultants are substantial sources of jobs and economic benefits to the industry in which ATP operates. In fact, through its normal course of business in any given year, ATP makes payments to vendors and other contractors in 42 states throughout the country. Thus, though ATP is a "small' company by oil industry standards, it

serves a critical role in energy production in the Gulf, and provides substantial jobs and economic activity on the Gulf Coast and throughout the country.

At December 31, 2010, ATP had estimated net proved reserves of 126.4 MMBoe, of which approximately 83.9 MMboe (66%) were in the Gulf of Mexico and 42.5 MMBoe (34%) were in the North Sea. ATP's proved reserves in the deepwater area of the Gulf of Mexico account for 62% of its total proved reserves, and proved reserves on the Outer Continental Shelf account for 4% of its total proved reserves. The estimated PV–10 of its proved reserves at December 31, 2010 was $2.6 billion. At December 31, 2010, ATP owned leasehold and other interests in 51 offshore blocks and 88 wells, including 24 subsea wells, in the Gulf of Mexico. ATP operates 82 (93%) of these wells, including 100% of the subsea wells.

ATP owns an interest in 29 platforms, including two floating production facilities in the Gulf of Mexico, the *ATP Innovator* at its Gomez Hub and the *ATP Titan* at its Telemark Hub. A third floating production facility called an Octabuoy is under construction for initial deployment at its Cheviot Hub in the U.K North Sea, which is expected in 2014. ATP operates the *ATP Innovator* and the *ATP Titan,* and also expects to operate the Octabuoy when it is placed in service. The floating production facilities have longer useful lives than the underlying reserves, and thus are capable of redeployment to new producing locations upon depletion of the reserves. Accordingly, they are expected eventually to be moved several times over their useful lives.

Of particular interest is the U.S. construction of the *ATP Titan* in 2008–2009. The *ATP Titan* was the first multi-column, deep-draft, floating drilling and production platform structure built in the U.S. More than 268 U.S. service and supply companies were involved in the construction and installation. Of those companies, 147 were Texas companies and 68 were located in Louisiana. Construction involved the efforts of 31 countries and 30 U.S. states. More than 1,100 U.S. suppliers received payment from ATP. During construction of the hull, 3.3 million man-hours were expended and there were 600+ jobs created onsite at peak manning levels. The topside platform decks required 600,000+ man hours. Total investment in the *ATP Titan* is to date close to $1 billion.

During 2010, ATP's cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $534.3 million. During 2009, cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $551.4 million. During 2008, cash expended in the Gulf of Mexico for additions to oil and gas properties was approximately $751 million.

Implications and ramifications

The Macondo event that occurred in 2010 and subsequent government response that has been taken in 2010 and 2011 have had a major impact on ATP's operations and ability to move forward with development plans. ATP has been severely affected since May 6, 2010, when the Department of Interior instructed the predecessor of BOEM to stop issuing drilling permits for OCS wells, and to suspend existing OCS drilling permits issued after April 20, 2010, and subsequently by the July 12, 2010, issuance of a second moratorium, originally scheduled to end on November 30, 2010. This second moratorium suspended all existing operations in the Gulf of Mexico and other regions of the OCS utilizing a subsea blowout preventer ("BOP") or a surface BOP on a floating facility, and suspended pending and future permits to drill wells involving the use of a subsurface BOP or a surface BOP on a floating facility. Although the second moratorium was lifted on October 12, 2010, ATP has been and continues to be negatively impacted by the drilling moratorium and subsequent related regulatory delays and uncertainties.

Industry Implications

An Energy Information Administration Annual Energy Outlook 2009 report stated that the Gulf of Mexico, especially the deepwater, is the single largest contributor to U.S. production growth for the foreseeable future. In 2009, the Gulf of Mexico provided 29% of the U.S. daily crude oil production, a 347% increase since 1981. According to a recent Quest Offshore Resources study, since the moratorium began, 11 rigs have left the Gulf of Mexico. Only one of these has returned, and 3 rigs are currently sitting idle. Seven of these rigs have left to African countries including Egypt, Nigeria, Liberia, and The Republic of Congo. Three of these rigs have left to South America, including Brazil and French Guiana. The remaining rig recently mobilized to Vietnam. That translates to approximately 60 wells lost, based on the original contract terms of these rigs. The loss of these rigs amounts to lost spending of $6.3 billion, and annual lost direct employment of 11,500 jobs over two years. Even as rig counts begin to recover, the rate of permitting for wells in the Gulf of Mexico, unless it recovers to historical levels, will continue to hinder the pace of drilling in the Gulf of Mexico. From September 2009 to September 2010, 59% more

permits (114) were issued than the period of September 2010 to September 2011 (50).

Role of the Independents

There are currently 114 operators of producing leases in the Gulf of Mexico. A July 2010 IHS Global Insight report noted that Independents hold a majority interest in 81% of producing leases, 66% of all Gulf of Mexico leases and 52% of deepwater leases. The study also noted that Independents have drilled 50%+ of the exploration wells in the deepwater. In 2009, Independents were responsible for 200,000+ jobs, which were expected to grow to 300,000+ by 2020, and $38 billion in economic benefit, anticipated to grow each year thereafter. Additionally, Independents would create $10 billion in Federal and state tax revenues, also expected to grow each year thereafter.

Current ATP Activities

ATP was the only company to receive two of the first eleven deepwater permits since the moratorium was lifted, due to its reputation for safety, environmental responsibility, skillful use of advanced technology and a steadfast drive for quality. The *ATP Titan* in 2007, built three years prior to the Macondo disaster, was designed and built with tens of millions of dollars of redundant safety equipment. It surpassed all regulatory requirements, and is the only platform in the Gulf of Mexico with a surface blowout preventer (BOP) on the platform deck and a subsea shut in isolation device (SID) with blind shear rams, which is controlled independently of the rig's surface BOP.

ATP's near-term operating and development plans in the Gulf of Mexico, as well as its longer-term business plan, are dependent on receiving additional approvals for deepwater drilling and other permits under applications, which have been and will continue to be submitted to the Bureau of Ocean Energy Management (BOEM). In the first quarter of 2011, ATP received permits to complete the drilling of the third well at Mississippi Canyon Block 941 at its Telemark Hub, and to complete a well at Green Canyon Block 300. While ATP can satisfy the permitting requirements for the additional planned 2011 development wells, there is still uncertainty that the permits will be issued or, if issued, that they will be received in a timely manner.

ATP incurred additional costs in 2010 caused by the deepwater drilling moratoriums and subsequent drilling permit delays. Some of these additional costs are continuing into 2011, and are expected to continue. During the second quarter of 2011 throughout 2010, ATP recognized impairment of proved Gulf of Mexico oil and gas properties of $45.7 million and $3.9 million of unproved Gulf of Mexico properties, respectively. The majority of the expense was associated with leases which were approaching their expiration dates, and became unlikely to be drilled primarily due to the moratorium on drilling in the Gulf of Mexico. Drilling interruption costs were $1.2 million and $8.7 million in the second quarter of 2011 and 2010, respectively. They consist of stand-by costs for drilling operations at ATP's Telemark and Gomez Hubs, resulting from the deepwater drilling moratoriums and subsequent drilling permit delays.

We at ATP realize that the Department of Interior and its agencies required time to review their programs to make certain that they were doing an adequate job of assuring that the operations on its leases were safe and adequately protective of the environment. At the same time, however, it is difficult for us to understand why some priority is not being given to actions that BOEM might do to help our industry and the Gulf economy recover from the grave injuries which it suffered as a result of the Macondo event and the regulatory response to it. Although President Obama has said that jobs and the economy are his Administration's number one priority, our experience suggests that the priorities at the Department of Interior are solely limited to safety, environmental protection and enhancement of government royalty revenues. We agree that those are important and serve as the foundation of BOEM's mission. However, there is a critical need to correct the harm which has been done by the spill and subsequent regulatory backlog, and put the Gulf back to work. Jobs created in the offshore oil and gas industry cross the gamut of blue-collar jobs requiring a high school education coupled with in-house training, to those requiring post-graduate degrees. With an efficient, predictable and properly motivated regulatory structure, ATP and companies like it can continue to make a significant contribution to job creation, revenue generation for the federal, state and local governments, and our nation's oil independence.

Mr. HASTINGS. Thank you very much, Mr. Reese. Mr. Auer, you are recognized for five minutes.

STATEMENT OF CHRIS AUER, PRINCIPAL, CREVALLE MANAGEMENT SERVICES

Mr. AUER. Thank you. My core business deals with reclamation operations associated with offshore oil and gas production, specifically the abandonment of pipelines, the removal of platforms, and site clearance. Operators are required to perform reclamation after reserves have been depleted. It is all covered until Title 30 CFR 250.

At any given time during late April to early October, there is an average of six to ten heavy-lift vessels working in the Gulf of Mexico. Most of these are working in an abandonment capacity. The average crew complement of these heavy-lift vessels is 100. These vessels are supported by crew boats, tugboats, dive boats, helicopters, shore-based facilities, and numerous engineering and administrative personnel. In effect, an entire micro-economy is developed around abandonment activities and these vessels.

If you shut down just the abandonment work in the Gulf of Mexico, it affects thousands of jobs. There are several factors that dictate when and how the Gulf of Mexico reclamation work is performed, and they are reserve depletion, availability of vessels, weather, and permitting. Of these four factors, weather and permitting are the two wildcards. The best weather working window in the Gulf of Mexico is between late April and early October, barring any hurricanes.

Once weather fronts begin arriving from the north, the seas and winds become unpredictable and extreme. Abandonment operations conducted in these environments present a higher risk to human life and equipment loss or damage. Typical permits required for abandonment are: we have an APM, which is A Permit to Modify a well bore with pipeline abandonment permit, a platform removal permit, a reefing permit, and a site clearance permit.

Since the Macondo accident, the review and approval process as related to pipeline and platform abandonment permits, not well permits, have become lengthy. I have had platform permits take as long as 510 days to reach the approved status, with the average processing time post-Macondo being 129 days, as compared to a pre-Macondo average of 42 days.

Such lengthy processing times push work into bad weather months or delay it altogether for the work season. These delays in turn idle the vessels, render crew and supporting crew unemployed. Anything that can be done to streamline the permitting process will help, and my recommendations are to hire more regional BSEE staff, standardize the permitting forms, automate the permitting process, and establish a better avenue for variance response.

The BSEE employees in the New Orleans regional office perform a thankless job with a high level of professionalism and much diligence. These folks are some of the hardest working in the Gulf of Mexico. But as we know, there are capacity limits. The BSEE regional staff approving abandonment permits needs to be expanded. The first step in lowering approval time is to staff the process with

the appropriate number to handle the workload. That number should be recommended by the regional head and honored by the Department of the Interior.

With the exception of the APM form MMS-124—this is the form that you file to plug a well—no other abandonment permit application is standardized. For years, there has been talk about standardizing these forms, but it just hasn't been done.

A system similar to eWell should be set up to handle the submission of applications, any questions BSEE might have concerning the application, quick access to the application status, and delivery of the final approval. Sometimes meeting the letter of the permit is impossible when we get in the field. In these cases, we have to get with BSEE, and we have to get a variance. We need some sort of 24/7 quick response force set up with these guys so that they can handle these variances in a timely manner so that we are not waiting for days for an answer.

Again, the BSEE employees in New Orleans do everything they can to make themselves available to us 24/7, but there is not enough of them. I mean, we are asking way too much out of way too few.

In closing, I just want to say that the people of the Gulf Coast are highly skilled and extremely efficient workers. They aren't asking for a handout from their government. They are asking for the handcuffs to be removed so that they can do their part in keeping the United States rolling. What I am suggesting here is not a remarketing campaign, which is what we have seen. It is a streamlining campaign.

I appreciate the opportunity to address the Committee, and I am available for any questions. Thank you.

[The prepared statement of Mr. Auer follows:]

Statement of Chris Auer, Principal, Crevalle Management Services

The tragedy of Macondo sent the first shock wave throughout the offshore oil & gas industry as it should have. The moratorium imposed by President Obama sent the second shockwave. The effects of these events are still being felt today.

My core business deals with reclamation operations associated with offshore oil and gas production, specifically the abandonment of pipelines, the removal of platforms and site clearance. Operators are required to perform reclamation after reserves have been depleted. Title 30 CFR §250 defines the requirements for abandonment as covered in this testimony.

At any given time during late April to early October there is an average of six to ten heavy lift vessels working in the Gulf of Mexico. Most of these are working in an abandonment capacity. The average crew complement of these vessels is one hundred. These heavy lift vessels are supported by crew boats, dive boats, helicopters, shore base facilities and numerous engineering and administrative personnel. In effect an entire micro economy has developed around the activities of these vessels and abandonment. Shut down just the abandonment work in the gulf and you shut down 1000's of jobs.

There are several factors that dictate when and how Gulf of Mexico reclamation work is performed. They are:

- Reserve depletion
- Availability of vessels
- Weather
- Permitting

Of these four factors weather and permitting are the two wild cards.

The best weather window for working in the Gulf of Mexico is between late April and early October barring any hurricanes. During this period, seas are small and weather trends are more predictable. Once weather fronts begin arriving from the north, seas and winds become unpredictable and extreme. Abandonment operations conducted in such environments present a higher risk to human life and equipment

loss or damage. It also exponentially increases the overall cost and time associated with abandonment.

No abandonment activities may take place without the proper approved permits in hand (Ref Title 30 CFR § 250.1703). Typical permits required for abandonment are:

- Application for Permit to Modify Form MMS–124 (APM) permit to modify a well bore
- Pipeline abandonment permit
- Platform Removal permit
- Reefing permit
  - Issued by the U.S. Army Corp of Engineers (COE) and the state in which the reefing will take place
- Site clearance permit

These permits must be submitted to different entities within Bureau of Safety and Environmental Enforcement (BSEE) along with accompanying support documents for review and comment. Once BSEE has completed their review and any additional concerns have been addressed and documented an approved permit is issued.

Since the Macondo accident, the review and approval process as related to pipeline and platform abandonment permits has become lengthy. I have had permits take as long as 510 days to reach the approved status with the average processing time post Macondo being 129 days as compared to a pre-Macondo average of 42 days. Such lengthy processing times push work into bad weather months or delay it for the work season all together. These delays in turn idle vessels and render crew and supporting crew unemployed. Anything that can be done to stream line the permitting process will help. My recommendations are:

- Hire more BSEE staff
- Standardize permitting forms
- Automate the permitting process
- Establish a better avenue for variance response

The BSEE employees in the New Orleans regional office perform a thankless job with a high level of professionalism and much diligence. These folks are some of the hardest working in the Gulf of Mexico but as we all know there are capacity limits. The BSEE regional staff approving abandonment permits needs to be expanded. The first step in lowering approval times is to staff the process with the appropriate number to handle the work load. That number should be recommended by the regional head and honored by Department of Interior (DOI).

Standardization of permit applications is the second step. With the exception of the APM Form MMS–124 required to plug and abandon a well bore, no other abandonment permit applications exist. For years there has been talk of such standardized forms but no action has been taken. Currently most of us who submit permit applications for abandonment use our own format. While these formats are consistent in the data they contain they differ in its location and format. This further adds to the time it takes a BSEE employee to review and approve the permit. It would also seem to make training essential new hires difficult. It's no secret that large groups tend to operate better when things are standardized.

The aforementioned, standardized forms should be automated as well. A system similar to eWell should be set up to handle the submission of applications, any questions BSEE might have concerning the application, quick access to the application's status and delivery of the final approval. Currently meetings, email, traditional mail and telephone are the communication methods used for application submission, review, comment and approval. Again these methods take time away from the processing of the application. These methods should be reserved for special cases requiring closer investigation. This is step three.

My fourth and final recommendation pertains to abandonment work as it is being performed in the field. Sometimes meeting the letter of the permit is impossible when field work is underway. In these cases the operator must notify BSEE regional, explain the issue and ask for a variance. As with most critical issues these always seem to happen on a weekend at 0200 hrs. If there were some sort of regional Quick Response Force (QRF) on duty 24/7 these issues could be handled in a timelier manner. Offshore oil and gas operations don't stop for holidays, weekends or business hours. Again it is important for me to restate that the current BSEE regional employees do everything they can to make themselves available to industry 24/7 but there are just not enough of them.

The people of the Gulf Coast are highly skilled and extremely efficient workers. They aren't asking for a hand out from the government they're asking for the handcuffs to be removed so that they can do their part in keeping the United Sates rolling. What I am suggesting here is not a remarketing campaign; it's a stream lining

campaign. I appreciate the opportunity to address the Committee and am available for questions and or comments.

Mr. HASTINGS. Thank you very much, Mr. Auer. Next, we will go to Mr. Kief. You are recognized for five minutes.

STATEMENT OF CORY KIEF, PRESIDENT, OFFSHORE TOWING

Mr. KIEF. Good morning, Chairman Hastings, Ranking Member Markey, and all Committee Members. Thank you for the opportunity to testify on behalf of Offshore Towing, and how we have been impacted in the Gulf of Mexico as a result of the drilling moratorium and related issues.

Offshore Towing is a partnership of three small marine towing companies who collectively operate a fleet of seagoing tugboats in the Gulf of Mexico, providing services in the oil and gas sector, primarily towing drilling rigs to and from various locations in shallow water. We are located along the Gulf Coast in Larose, Louisiana, and collectively employ about 110 people.

Although the moratorium has been lifted, substantial negative economic impacts have been felt, and economic conditions continue to deteriorate. Challenges with issuance of drilling permits from the BOEM to operators are still prevalent, causing delays in drilling programs. As we understand, at times, the BOEM claims that operators are submitting incomplete or flawed drilling plans and other data, and the operators claim that the BOEM is dragging their feet approving drilling plans and permits.

Either way, or a combination of the both, drilling contractors are leaving the Gulf to go work in other countries that have the ability to obtain steady financial commitments. These drilling contractors have already demonstrated that they will not stay in the U.S. waiting for the government and the operators to get their act together and iron out the wrinkles in this new regulatory environment.

Service companies such as ours who depend on the system are now facing severe economic decline due to the lack of efficiency. Every day, we are seeing more and more equipment being taken out of service, which sends more people home jobless, which leads to my remarks on the proposed jobs bill that is receiving so much attention these days.

As I understand, one of the elements of the jobs bill would grant payroll tax relief to the employer if an employer would hire someone who has been jobless for six months or more. For my company, this does not create jobs. It is a hiring incentive, and that is all. There are no jobs to offer. We would not be inclined to hire people simply to get payroll tax relief when we don't have enough work for them to do as it stands now.

Further, there is no relief to hire people who were just discharged a couple of months ago. I would prefer to hire back the people that were discharged a couple of months ago who are adequately trained to do their jobs without having to retrain new people who don't know what they are doing at my expense. I don't think that you folks realize how much time, energy, and resources are put into training people to effectively work in this industry. The six-month issue is hard to understand.

On another note, there is no relief or benefits for a company like ours, who have had minimal layoffs because we don't want to lose our trained workers. Instead, we have reduced wages, used our capital, lines of credit, and blends of these resources to retain our workers, trained workers. We are fighting to survive and keep our employees because economically and morally, it is the right thing to do. And all of this discussion of underfunded infrastructure spending or tax breaks or tax hikes, illegal immigrants in the workplace, I do not hear any talk of economic benefits of the Federal Government being more efficient or being an advocate for job creation with what they have to work with now.

From my company's perspective, an increased rate of Federal permitting in the Gulf of Mexico will bring my employees back to a level of security to earn a good living and produce an economic environment with the potential to train and hire more workers. That is economic stimulus.

IHS Global Insight and IHS CERA recently conducted a study that described a return to regular permitting would result in 230,000 new or retained American jobs, $44-plus billion in U.S. gross domestic product, and about $12 billion in tax revenue, a reduction of $15 billion in America's bill for imported oil in 2012 alone. One-third of these jobs created would be outside of the Gulf region in States like California, Illinois, and New York. These results prove that the Gulf of Mexico energy activity is a national economic generator.

This country is more in the world than what is being given credit for. Americans all over this country depend on each other for a variety of different resources. Our leaders need to focus on that. This Administration, government, and the media need to stop separating American people by creating political boundaries to satisfy political agendas. As one businessman speaking to his country's leaders, there are more jobs and additional State revenues to be realized in this offshore energy sector of the Gulf of Mexico. It is your duty as stewards of the people to address this.

Thank you again for your opportunity to speak before you today.

[The prepared statement of Mr. Kief follows:]

Statement of Cory Kief, President,
Offshore Towing, Inc.,, Larose, Louisiana

Good morning Chairman Hasting, Ranking Member Markey and all committee members. Thank you for the opportunity to testify on behalf of Offshore Towing, and how we have been impacted in the Gulf of Mexico as the result of the drilling moratorium, and related issues. Offshore Towing is a partnership of three smaller marine towing companies who collectively operate a fleet of sea going tug boats in the Gulf of Mexico, providing services in the Oil and Gas sector, primarily towing drilling rigs to and from various locations in shallower water. We are located along the Gulf Coast in Larose, Louisiana, and collectively employ approximately 110 people.

Although the moratorium has been lifted, substantial negative economic impacts have been felt, and economic conditions continue to deteriorate. Challenges with issuance of drilling permits from the BOEM to operators are still prevalent, causing delays in drilling programs. As we understand, at times, the BOEM claims that Operators are submitting incomplete or flawed Drilling Plans and other data, and the Operators claim that the BOEM is dragging their feet approving drilling plans and permits. Either way, or a combination of both, Drilling Contractors are leaving the gulf to go to work in other countries that have the ability to obtain steady financial commitments. These drilling contractors have already demonstrated that they will not stay in the U.S. waiting for the government and the Operators to "get their act together" and iron out the wrinkles in this new regulatory environment. Service

companies, such as ours, who depend on this system, are now facing severe economic decline due to this lack of efficiency. Every day we are seeing more and more equipment being taken out of service, which sends more people home, jobless!

Which leads to my remarks on the proposed "Jobs Bill" that is receiving so much attention these days? As I understand, one of the elements of the Jobs Bill would grant payroll tax relief to an employer, if an employer would hire someone who has been jobless for 6 months or more. For my company, this does not create new jobs, it is a hiring incentive and that is all! There are no jobs to offer. I would not be inclined to hire people simply to get payroll tax relief when we don't have enough work for them to do as it stands now. Further, there is no relief to hire people who were just discharged two months ago. I would prefer to hire back the people that were discharged a couple of months ago, who are adequately trained to do their jobs, without having to re-train new people who don't know what they doing, at my expense. I don't think that you folks realize how much time, energy and resources are put into training people to effectively work in this industry. The six month issue is hard to understand.

On another note, there is no relief or benefits for companies, like ours, who have had minimal layoffs, because we don't want to lose our trained workers. Instead, we have reduced wages, used our capital, lines of credit, and blends of these resources to retain our workers. . .. . .trained workers. We're fighting to survive, and keep our employees because economically and morally it is the right thing to do. In all of this discussion of underfunded infrastructure spending, or tax breaks or tax hikes, Illegal Immigrants in the work place, I do not hear any talk of economic benefits of the federal government being more efficient, or being an advocate for job creation with what they have to work with now. From my company's perspective, an increased rate of federal permitting in the Gulf of Mexico will bring my employees back to a level of security to earn a good living, and produce an economic environment with the potential to train and hire more workers. THAT is economic stimulus.

IHS Global Insight and IHS CERA recently conducted a study that described that a return to regular permitting would result in:

- 230,000 new or retained American jobs
- $44+ billion in US Gross Domestic Product
- About $12 billion in tax and royalty revenue
- A reduction of $15 billion in America's bill for imported oil in 2012 alone

One third of these jobs created would be outside of the Gulf region, in states like California, Illinois and New York. These results prove that the Gulf of Mexico's energy activity is a national economic generator!

This country is more interwoven than what it is being given credit for. Americans all over this country depend on each other for a variety of different resources. Our leaders need to focus on that. This administration, government, and the media need to stop separating the American people by creating political boundaries to satisfy political agendas. As one business man speaking to his Country's leaders, there are more jobs, and additional and state revenues to be realized in the offshore energy sector of the Gulf of Mexico. It is your duty, as stewards of the people, to address this.

Thank you again for the opportunity to speak before you today.

Mr. HASTINGS. Thank you very much, Mr. Kief, for your testimony. Next, we will recognize Mr. Captain Bob Zales. You are recognized for five minutes, Captain.

STATEMENT OF CAPTAIN BOB ZALES, II, PRESIDENT, NATIONAL ASSOCIATION OF CHARTERBOAT OPERATORS

Mr. ZALES. Mr. Chairman and Members of the Committee, my name is Robert F. Zales II, and I am appearing today on behalf of the National Association of Charterboat Operators. NACO thanks you and the Members of the Committee for your kind invitation to present testimony on this issue today.

Congress faces many difficult choices, but also has many opportunities. NACO is a non-profit 501[c][6] association representing charterboat owners and operators across the United States with a substantial number operating in the Gulf of Mexico. Sadly, we are

acutely aware of the devastating impact of the Deepwater Horizon oil spill in the Gulf of Mexico and how it has affected the charterboat and commercial fishing industries.

Charter, commercial, and saltwater recreational fishing is extremely important to the Gulf of Mexico, both economically and socially. According to the recently released preliminary report, "The Gulf of Mexico Regional Ecosystem Restoration Strategy," by the Gulf Coast Ecosystem Restoration Task Force, the Gulf Coast and its natural resources are important to the U.S. economy, producing 30 percent of the Nation's gross domestic product in 2009.

The region provides more than 90 percent of the Nation's offshore oil and gas, natural gas, production; 33 percent of the Nation's seafood; and significant recreation and tourism benefits. The five U.S. Gulf Coast States, if considered an individual country, would rank seventh in global gross domestic product. The Gulf Coast regional economy is highly intertwined with its natural resource base, including oil and gas deposits, commercial and recreational fisheries, and tourism.

Incomplete data presented in this report shows a conservative number of 535,498 jobs either directly or indirectly created by the fishing and charter, commercial, and private recreational industries of the Gulf of Mexico, making a significant economic input to the Gulf Coast communities and the Nation. All of these industries depend on a healthy and resilient Gulf.

In Florida alone, the commercial fishing industry ranks seventh in total landings at $169 million annually, and produces 10 percent of the Gulf's oyster catch, a $4.5 million annual dockside value. Florida leads all States in economic return for its marine recreational fisheries. Recreational saltwater fishing generates over $5 billion. In 2008 and 2009, more than 1 million people bought marine recreational fishing licenses, a third from out of state. More than 3,400 for-hire charter boat fishing licenses were purchases, generating more than $1 million and giving Florida one of the largest charter fishing fleets in the world.

The future health of our Gulf resources is unknown. The impact on several key fish species, such as red snapper, vital to all fishermen in the Gulf, will not be fully known for several years. Little is known about the 2010 recruitment class, and will not be fully known for at least three to five years.

We live in fear of the future. Millions of gallons of oil are still unaccounted for, and certainly is located somewhere. The fish we see in harvest are from year classes prior to the blowout. The timing and location of the blowout could not have been worse, as the time of year and location of the oil and chemicals used were in the bull's-eye to do the most harm.

BP, through Mr. Feinberg's Gulf Coast Claims Facility, guaranteed funds to provided those affected by the impacts of the spill, compensation for their economic losses. There is no mechanism to provide any financial assistance after 2012, as Mr. Feinberg and BP assert the Gulf will be back to normal next year, contrary to a report produced from Mr. Feinberg released on January 31st, 2011, that state of harvest levels will return to normal by the end of 2012. Several renowned fishery biologists say it will be a min-

imum of three years, and could be five before we have any real knowledge of the impact of the spill.

Too many of us, the GCCF has been a massive failure, as our claims are either still in review or ridiculous offers have been made. And now that the Federal court action will begin in February 2012, GCCF is dramatically slowing down remaining claims efforts.

In addition to fish species we see, the marine mammals, total seabirds, natural and artificial reefs, sand and mud-bottom and complete ecosystems have been affected. It has been reported that the spill still has impacts on sea turtles and marine mammals, which can ultimately negatively impact fishermen as these protected species interact with various fishing gears. So increased time and area closures are another concern.

Another issue affecting our natural resources is the increased efforts by the Bureau of Ocean and Energy Management Regulation and Enforcement to remove deactivated oil and gas platforms from the Gulf. The fishing and oil and gas industries have coexisted in the Gulf since the first well was drilled. These platforms provide artificial habitat for a wide array of fish and coral species. Over time, they have become essential fish habitat and house great numbers of fish. NMFS regulations require species to have sustainable levels of biomass, and in many cases species such as red snapper are now at biomass levels never before seen.

Since January 2010, over 362 platforms have been removed from the Gulf, with over 200 more scheduled for removal over the next 12 months, just from Federal waters. The number removed from state waters was not available, but assumed to be over 150. Each platform is home to hundreds of various fish species. In most cases, explosives are used to disengage the platform from the bottom, which result in massive fish kills and also the deaths of protected species such as turtles and marine mammals.

Not only are these species killed and the resource wasted, the habitat is permanently removed, reducing critical habitat to sustain the resource. These platforms should be allowed to remain or at least placed on the bottom to continue to provide essential habitat for the resource.

In closing, I wish to state the charter and commercial fleets were once viable, productive, and a sustainable group of small business owners. We provide a necessary service to individuals who want to fish, consume healthy seafood, enjoy our natural resources. Over the last six years, fleets have struggled, and yet continued to survive. The impact from Deepwater Horizon was almost the last nail in the coffin.

It is imperative that the health and safety of our Gulf be assured. The charter and commercial fleet owners and operators——

Mr. HASTINGS. Captain Zales, if you could close up, I would appreciate it.

Mr. ZALES. OK. Just about five more seconds. The charter and commercial fleet owner and operators and crews are the first responders to any issue on the water. We are on the water daily. We see the conditions of our resource and are first to report any problem. We beg to provide information to fisheries, to an agency, NMFS, who routinely tells us they know our resource better.

Thank you very much, Mr. Chairman. I will be glad to answer any questions.

[The prepared statement of Mr. Zales follows:]

Statement of Capt. Robert F. Zales, Ii, President, National Association of Charterboat Operators

Mr. Chairman and members of the committee, my name is Robert F. Zales, II and I am appearing today on behalf of the National Association of Charterboat Operators (NACO). NACO thanks you and the Members of the Committee for your kind invitation to present testimony on the impact of The Lifting of President Obama's Gulf of Mexico Moratorium and to Examine the Lingering Impacts on Jobs, Energy Production and Local Economies. Congress faces many difficult choices but also has many opportunities.

NACO is a non-profit 501 (c) (6) association representing charter boat owners and operators across the United States with a substantial number operating in the Gulf of Mexico. Sadly, we are acutely aware of the devastating impact of the Deepwater Horizon Oil Spill in the Gulf of Mexico and how it has affected the charter boat and commercial fishing industries. I am actively involved in working with Federal, States, BP, and local representatives on the impacts to charter boat and commercial fishing fleets and their involvement in cleanup, economic recovery, and resource damage assessment efforts.

Charter, commercial, and saltwater recreational fishing is extremely important to the Gulf of Mexico, both economically and socially. According to the recently released preliminary report *Gulf of Mexico Regional Ecosystem Restoration Strategy* by the *Gulf Coast Ecosystem Restoration Task Force* the Gulf Coast and its natural resources are important to the U.S. economy producing 30 percent of the nation's gross domestic product in 2009. The region provides: more than 90 percent of the nation's offshore oil and natural gas production; 33 percent of the nation's seafood; 13 of the top 20 ports by tonnage in the United States; and significant recreation and tourism benefits. The five U.S. Gulf Coast states, if considered an individual country, would rank 7th in global gross domestic product. The Gulf Coast region's economy is highly intertwined with its natural resource base, including oil and gas deposits, commercial and recreational fisheries, coastal beaches, and waterways for ports, waterborne commerce, and tourism. Incomplete data presented in this report shows a conservative number of **535,498 JOBS,** either directly or indirectly created by the fishing (charter, commercial, and private recreational) industries of the Gulf of Mexico, making a significant economic input to Gulf communities and the nation. All of these industries depend on a healthy and resilient Gulf.

In Florida alone, the commercial fishing industry ranks 7th in total landings at $169 Million annually and produces 10% of the Gulf's oyster catch, a $4.5 Million annual dockside value. Florida also leads all states in economic return for its marine recreational fisheries. Recreational saltwater fishing generates over $5 Billion. In 2008–09, more than 1 Million people bought marine recreational fishing licenses, a third from out of state. More than 3,400 for-hire (charter boat) fishing licenses were purchased, generating more than $1 Million and giving Florida one of the largest charter fishing fleets in the world.

As a result of the oil spill, the National Marine Fisheries Service (NMFS) closed up to 36.6% of all Gulf waters to fishing and harvest of fish as of June 2, 2010 with varying degrees of percentage before and after with the last reported closure of 0.4% as of November, 2010. While these closures were activated to ensure the health to consumers from eating possible tainted fish, the impact on the charter and commercial fishing fleets and communities was enormous.

The future health of our Gulf resources is unknown. The impact on several key fish species vital to all fishermen in the Gulf will not be fully known for several years. Prior to the oil spill key species such as red snapper, king mackerel, and many other reef and pelagic species were dramatically improving and stock abundance was at levels never before seen. Little is known about the 2010 recruitment class and will not be fully known for several years.

We live in fear of the future. Millions of gallons of oil are still unaccounted for and certainly is located somewhere. The fish we see and harvest are from year classes prior to the blow out. The timing and location of the blow out could not have been worse as the time of year and location of the oil and chemicals used were in the bull's eye to do the most harm.

BP, through Mr. Feinberg's Gulf Coast Claims Facility (GCCF), guaranteed funds to provide those affected by the impacts of the spill compensation for their economic losses. There is no mechanism to provide any financial assistance after 2012 as Mr.

Feinberg and BP assert the Gulf will be back to normal next year. Contrary to a report produced for Mr. Kenneth Fienberg (*An expert opinion of when the Gulf of Mexico will return to pre-spill harvest status following the BP Deepwater Horizon MC 252 oil spill*) released on January 31, 2011 that states that harvest levels will return to normal by the end of 2012, several renown fishery biologists, say it will be a minimum of 3 years and could be 5 before we have any real knowledge of the impact of the spill. To many of us, the GCCF has been a massive failure as our claims are either still in review or ridiculous offers have been made and now that the Federal Court action will begin in February 2012 GCCF is dramatically slowing down remaining claims efforts.

From the beginning of this disaster, various Government (Federal and State) agencies were active in obtaining information and working with all parties to ensure that our marine resources were unaffected as much as possible. Fish sampling by various federal, state, and higher educational facilities, began shortly after the blow out. Critical testing of fish tissues to determine any health issues was done and according to reports by all agencies involved, no health issues were determined and all fish from the Gulf were declared safe to consume.

Over the past several months, there are now reports from some fishermen (commercial and recreational) of harvested fish being seen with severe lesions, fin rot, damaged internal organs, and according to the NMFS possibly infected with ***Vibrio vulnificus*** and ***Photobacterium damselae,*** both very harmful to humans. More studies are now underway to determine the extent of these issues and to attempt to discover the cause. In some areas of the Gulf, state agencies have issued Special Activity Permits to select charter and commercial boats to legally harvest any fish that appear to have health issues. These fish are then provided to the proper officials to be studied.

In addition to the fish species we seek, the marine mammals, turtles, sea birds, natural and artificial reefs, sand and mud bottom, and complete ecosystem has been affected. It has been reported that the spill has impacts on sea turtles and marine mammals which can ultimately negatively impact fishermen as these protected species interact with various fishing gears so increased time and area closures are another concern.

Another issue affecting our natural resources is the increased efforts by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) to remove deactivated oil and gas platforms from the Gulf. The fishing and oil and gas industries have coexisted in the Gulf since the first well was drilled. These platforms provide artificial habitat for a wide array of fish and coral species. Over time they become essential fish habitat and house great numbers of fish. NMFS regulations require species to have sustainable levels of biomass and in many cases species such as red snapper are now at biomass levels never before seen. Since January 2010, over 362 platforms have been removed from the Gulf with over 200 more scheduled for removal over the next 12 months just from Federal waters. The number removed from state waters was not available but is assumed to be over 150. Each platform is home to hundreds of various fish species. In most cases explosives are used to disengage the platform from the bottom which results in massive fish kills and also the deaths of protected species such as turtles and marine mammals. Not only are these species killed and the resource wasted, the habitat is permanently removed reducing critical habitat to sustain the resources. These platforms should be allowed to remain or at least placed on the bottom to continue to provide the essential habitat for the resources.

While the impacts to the resources are extremely important, the impact to humans will be substantial. There is currently a study (*GuLF Study* conducted by the National Institute of Environmental Health Sciences (NEIHS)) which will be done over a 10 year period and involve over 55,000 people who worked in the cleanup process to determine any health impact on humans. This includes psychological as well as physical issues.

FUTURE NEEDS

I have attempted to provide the impacts of the blow out above. I will try to provide the needs we have for the future. IT IS IMPARATIVE THAT THE FINES THAT WILL BE ASSESSED AS PER THE CLEAN WATER ACT (CWA) FOR THIS DISASTER IN THE GULF ARE DEDICATED TO THE GULF! The damage was sustained in the Gulf so the resulting fines should remain in the Gulf. You will hear from many organizations, communities, states, and others all with their respective hands out for funding. Charter boat owners, operators, and crews and other commercial and recreational fishermen do not have organizations with the infrastructure to seek some of this funding so we ask for your assistance to help us. We do not seek individual economic help from the CWA fines, although should we find in

3 to 5 years that the fish species we seek are in dire straits we will most certainly need financial assistance to survive.

Our needs are all resource oriented. We must have an ecosystem that is capable of sustaining our fishery resources. We must have expanded funding for cooperative independent research of our fisheries which will utilize vessels from the charter and commercial fishing fleets. Cooperative independent research is providing much needed real world data on our fisheries and this effort needs to be expanded. The data collected under cooperative research grants involves real fishermen in areas where they have knowledge of their fisheries. This type data is recommended by the NMFS and can be done through grants to non profits in conjunction with Universities and state wildlife agencies.

As a result of the damage and uncertain future of fisheries due to the blow out, funding for improved and yearly stock assessments should be provided. In the Gulf, most fish stock assessments are conducted only every 5 to 7 years. Under the current circumstances 5 to 7 years is grossly inadequate as we must know the status of our stocks on a more frequent basis to fully understand any impact from the spill.

We will need adequate funding to ensure our natural and artificial reefs are clean and intact. Enhancing our artificial reef system is a priority and can start with the immediate cease and desist by the BOEMRE of their required removal of deactivated offshore oil platforms.

Economic and social impact studies of the Gulf charter fleet should be fully funded so we know the real impact of the fleet to local fishing communities and the Gulf. To date, these studies provide little relevant information. This is one area where the GCCF claims issue could be improved. There is little information that provides the type of economics on the charter fleet that can be used to fully understand the impact from lost business. Charter boat owners, operators, and crews are unique in how they operate. The charter fleet is a seasonal business where the majority of their income is derived in a few months and then spread out over the year. When the season begins in April and runs through September the money is made in 6 months and then utilized over 12. Generally income is not collected per month or week although expenses are year round.

Research funding to further study fish health must also be a priority. Our prime interest is to ensure that the fish we harvest are safe to handle and to consume. We must know, with reasonable certainty, that any fish that appears to be unhealthy is properly handled and tested so that consumers can have confidence they are catching and eating quality Gulf seafood. Many of the fish health issues have never been observed before the blow out so it is a must that the cause of any health issues be identified as soon as possible.

Funding from the CWA should also be used to advertise that the charter and commercial fishing fleets are alive, well, and ready to serve the public. Funds must be provided to obtain new customers and to notify those who left that we are still here and ready to fish in clean water, catch quality fish, and provide a healthy product to the consumer.

In closing I wish to state that the Gulf charter and commercial fleets were once viable, productive, and a sustainable group of small business owners. We provide a necessary service to individuals who want to fish, consume healthy seafood, and enjoy our natural resources. Over the last 6 years the fleets have struggled and yet continue to survive. The impact from the Deepwater Horizon oil spill was almost the last nail in the coffin. It is imperative that the health and safety of our Gulf be assured. The charter and commercial fleet owners, operators, and crews are the first responders to any issue on the water. We are on the water daily, we see the condition of our resource and are first to report any problem. We beg to provide information on fisheries to an agency, NMFS, who routinely tells us they know our resource better. We hold a wealth of information and want to be actively involved. We care for our Gulf and all things within and around.

Mr. Chairman, this concludes my testimony. Again, I truly appreciate the invitation and opportunity to provide you and the committee with this information. I will be pleased to respond to any questions.

Mr. HASTINGS. Thank you, Captain Zales. As I said, your full statement will appear in the record. Mr. Bruce Craul, you are recognized for five minutes.

STATEMENT OF BRUCE CRAUL, CHIEF OPERATING OFFICER, LEGENDARY HOSPITALITY, INC., INCOMING CHAIRMAN OF THE BOARD, FLORIDA RESTAURANT AND LODGING ASSOCIATION

Mr. CRAUL. Yes. Good morning, Mr. Chairman, and thank you for the opportunity to speak before yourself and the Committee. My name is Bruce Craul. I am the Chief Operating Officer of a company called Legendary Hospitality, located in Destin, Florida, which is in Northwest Florida, between Panama City and Pensacola. I am also the Chairman-Elect of the Florida Restaurant and Lodging Association.

Legendary Hospitality is the operations arm of a company that designs, develops, sells, builds, owns, and operates hospitality-related industries in Destin, Florida. Our businesses include the Emerald Grande, a 780-bedroom resort condominium hotel with four star amenities, two festival shopping centers, and the Emerald Grande and these are all in Destin and in other—Destin Commons is located in the town's center.

We also own and operate Regatta Bay Golf and Country Club; Legendary Marine and Marina, an indoor dry stack storage for over 700 boats, and the Southeast's largest indoor boat showroom; Harborwalk Marina, located on the mouth of the harbor at Harborwalk Village, which has 75 wet boat slips for much of Destin's charter fishing fleet; and of course, fuel and supplies for much of the area's leisure boating community. Harborwalk Charters, a booking service, together with three charter fishing boats, with all of the ancillary businesses, round out our presence in an area that is very dependent on tourism in the Panhandle.

Our real estate development and sales arm has been instrumental in progressing Destin's infrastructure and product offering to what it is today by developing large parcels of land and playing an important role, together with city, county, and State in land development code and associated developmental needs, rules and regs.

The Florida Restaurant and Lodging Association, headquartered in our State capital in Tallahassee, has over 10,000 members whose industry employs over a million people in the State of Florida, a business which is Florida's largest employer. Tourism represents 20 percent of Florida's economy, and is the largest industry in Florida with a $57 billion economic impact. It also represents $3.4 billion that is paid in sales tax revenue.

The Panhandle of Florida has a 100-day season representing 70 percent of the business. The rest of the business primarily transpires during the spring and fall, which we affectionately call our shoulder seasons. The Deepwater Horizon incident devastated our businesses last year, and although this summer much of our business has returned, thanks to millions of dollars being spent on the promotion of tourism derived from the BP funds, we are still affected by the lasting effects of the Deepwater Horizon incident, including the offshore moratorium, since much of our feeder market businesses come from our drive markets, many of which are to the west of Florida, including Louisiana, Mississippi, and Texas.

So when jobs are lost in our feeder states, then so is our business. When people are thinking about how to pay for groceries, a

mortgage, or a car payment, going on vacation is not even on their radar. While the Florida Restaurant and Lodging Association has taken a position over the years not to support offshore drilling in Florida, for numerous reasons, its board members know that many of our tourists, visitors, and convention and conference attendees come from energy-related business in the States to our west.

Many of the condominium and second-home buyers also are from Alabama, Mississippi, Louisiana, and Texas. In short, while the moratorium cost some jobs, the moratorium was caused by the BP Deepwater Horizon disaster. Given the magnitude of the spill, it was appropriate to take some time out from drilling. The Deepwater Horizon disaster has shown the devastating impact that unsafe oil and gas drilling can have an effect on coastal communities. The Florida Restaurant and Lodging Association has long opposed drilling off Florida's coast, and the spill last summer showed us that all of the Gulf can be impacted by what happens off another State's coast.

We also see firsthand that it is slow to rebound, considering all that had been affected. A healthy Gulf economy needs a healthy Gulf ecosystem. Oil production has a long history in the Gulf of Mexico, and so do the hundreds of thousands of jobs in fisheries, tourism, and recreation directly tied to the health of the coastal and marine environment.

The lessons of the BP disaster must be fully understood and remembered. If there is a place for oil drilling in the Gulf of Mexico, then it should be governed by a set of rules that exist because of, not in spite of, the BP oil disaster. That includes a full assessment of the environment and economic damage.

[The prepared statement of Mr. Craul follows:]

Statement of Bruce W Craul, Chief Operating Officer, Legendary Hospitality, and Chairman Elect, Florida Restaurant and Lodging Association

Good Morning, my name is Bruce Craul, and I am the Chief Operating Officer of a company called Legendary Hospitality, located in Destin, Florida, which is in Northwest Florida between Panama City and Pensacola. I am also the Chairman Elect of the Florida Restaurant and Lodging Association.

Legendary Hospitality is the operations arm of a company that designs, develops, sells, builds, owns and operates Hospitality related industries in Destin, Florida. Our businesses include The Emerald Grande; a 780 bedroom resort condominium hotel with four star hotel amenities; two festival shopping centers; one called HarborWalk Village, where the Emerald Grande is located on the Destin Harbor and the other is Destin Commons located in the town's center.

We also own and operate Regatta Bay Golf and Country Club, Legendary Marine and Marina; an indoor dry stack storage for over 700 boats, and the southeast's largest indoor boat showroom. HarborWalk Marina located at the mouth of the harbor at HarborWalk Village which has seventy five wet boat slips for much of Destin's Charter fishing fleet, and of course fuel and supplies for much of the area's leisure boating community. HarborWalk Charters, a booking service, together with our three Charter fishing boats along with other ancillary businesses round out our presence that is very dependent on tourism in the Panhandle.

Our real estate development and sales arm has been instrumental in progressing Destin's infrastructure and product offering to what it is today by developing large parcels of land and playing an important role together with the city, county and state with its land development code and associated development codes, rules and regulations.

The Florida Restaurant and Lodging Association, headquartered in our State Capital in Tallahassee, has over 10,000 members who employ over a million people in the State of Florida, a business which is Florida's largest employer. Tourism rep-

resents 20% of Florida's economy and is the largest industry in Florida with a 57 billion dollar economic impact.

The Panhandle of Florida has a 100 day season representing 70% of the year's business. The rest of the business primarily transpires during the spring and fall shoulder seasons. The Deepwater Horizon incident devastated our businesses last year and although this summer much of our business has returned, thanks to millions of dollars being spent on the promotion of tourism derived from BP funds, we are still affected by lasting effects of the Deepwater Horizon incident, including the offshore moratorium, since much of our feeder market business comes from our drive markets, many of which are to the west of Florida. Louisiana for example is our number two feeder market barely trailing the Atlanta metro area. So, when there are jobs lost or affected in our feeder states, then our business is affected. When people are thinking about how to pay for the groceries, the mortgage or car payment, going on vacation is not even on their radar.

While the Florida Restaurant and Lodging Association has taken the position over the years to not support offshore drilling in Florida, for numerous reasons, its board members know that many of our tourists, visitors, and convention and conference attendees are from energy related businesses in the states to our west. Many of our condominium second home buyers collectively are from Alabama, Mississippi, Louisiana, and Texas. Since many of the energy related businesses employees are not even vacationing, you can surmise that they are not buying second homes either.

When the moratorium was put in place, one of our partner's sons, Shane Guidry, the President and CEO of Harvey Gulf International in Louisiana, one of the largest companies that move rigs, informed us that they would be moving a lot of the rigs from the Gulf. They said that the owners of the rigs could not afford to stay and wait out the moratorium and that most certainly the same rigs could be used in other parts of the world. Harvey Gulf International whose task is to tow and or carry rigs from one place to another moved the following rigs; The Clyde Boudreaux, a Shell rig to Brazil, the Transocean Armante an EL rig to Africa, Shell's Paul Romano rig to Egypt, Noble Energy's Ensco 7500 to Israel, the Ocean Monarch to Vietnam, the Transocean Marianas to Africa, two jack rigs, the Rowland Gorilla II and Rowland Gorilla III to the Middle East, and Shell's Ensco 8501 to the Middle East. The rigs are gone and of course no one really knows when or if they will be coming back since rigs are in demand all over the world.

All of the jobs associated with these rigs left our Gulf area. The electricians, the crew boat operators, painters, plumbers, caterers, managers and supervisors, etc. are still unemployed or have left the area to go to where they can find work. Harvey's CEO, Shane Guidry told me this past Saturday that the permitting process still is lengthy so it will be a long time before we see the economic benefits of returning vessels and rigs to Louisiana which ultimately benefits Northwest Florida and overall Florida tourism.

Federal Regulations are not all new when it comes to "managing" the Gulf and certainly not less impactful to the Gulf coast economies. Permitting processes for maintaining our navigable water ways are long, cumbersome, expensive and restrictive. Two additional examples that we deal with every day involve the Army corps of engineers and the Gulf of Mexico Fishing Management Council.

Tropical storms or even just sustained winds over the course of several days can have a huge impact on the Destin's Pass connecting the Destin Harbor to the Gulf of Mexico. One would think that the home of Florida's largest charter fishing fleet would be at the top of the list when it comes to maintaining our waterways. Our Gulf Coast economies are very dependent on the Gulf and even more so this year since last year our Charter and Commercial fishing fleet were out of business due to the Deep Water Horizon incident.

The Gulf of Mexico Fishing Management Council which determines which species of fish can be caught as well as how much can be caught are restrictive to our economies since recreational fisherman want to keep the fish that they catch instead of throwing them back because they are out of season. Our local and state Charter Boat Associations attend all of the Federal and State Hearings concerning the fisheries management but it is rare that they don't compromise to the point that it is detrimental to our economies.

According to estimates in a 2000 study by the University of West Florida's Haas Center for Business Research and Economic Development, Destin's charter fishing industry injects approximately $175 million in direct spending to the local economy and supports 7,242 jobs either directly or indirectly. These numbers represent a significant portion of Florida's $5.5 billion fishing industry and the 75,000 jobs statewide that the industry supports. According to the Haas study, the majority of the economic impact of the charter fishing industry comes from the spending of tourists who are attracted to the area by the fishing industry. The study shows that tourist

spending on lodging, restaurants, transportation, retail merchandise, entertainment, and other goods and services results in an overall economic activity totaling approximately $317 million and supports approximately 6,775 jobs in the area. Tourism spending represents 90.8% of the total economic activity that is generated by the fishing industry and 93.5% of the jobs that the industry supports according to the Haas study.

In summary, I would like to thank the committee for providing me the opportunity as a representative of many to come before you to speak. I welcome any questions that you may have regarding the aforementioned or any related questions regarding tourism, jobs, and how the public and private sector can work more closely together to create jobs and stimulate the economy along the Gulf Coast.

Thank you.

Mr. HASTINGS. Thank you very much for your testimony, and Dr. Galvez, you are recognized—before you are recognized, Dr. Galvez, I understand that your oral testimony will include ten slides instead of the two that you submitted prior to. Would you commit to seeing that all ten slides are available to all the Committee Members ASAP

Dr. GALVEZ. Yes, I will. Thank you.

Mr. HASTINGS. OK. You are recognized for five minutes.

STATEMENT OF FERNANDO GALVEZ, ASSISTANT PROFESSOR, DEPARTMENT OF BIOLOGICAL SCIENCES, LOUISIANA STATE UNIVERSITY

Dr. GALVEZ. Good morning, Mr. Chairman, Mr. Ranking Member, and the distinguished Members of the House Committee on Natural Resources. My name is Fernando Galvez. I am an Assistant Professor in the Department of Biological Sciences at Louisiana State University. My team, in collaboration with Dr. Andrew Whitehead at LSU, is leading a collaborative research endeavor to study the effects of the BP Deepwater Horizon oil spill on marsh fish in the northern Gulf of Mexico.

I would like to discuss some of the recent findings of our research published on August 26, 2011, in the proceedings of the National Academy of Sciences. To my knowledge, this is the first report in the scientific literature on the biological effects of the Deepwater Horizon oil spill in fish. The close proximity of Louisiana State University to the northern Gulf of Mexico, and our capacity to mobilize quickly in the first few days following the explosion of the Deepwater Horizon oil platform provide us the unique opportunity to study the biological effects of this unprecedented and tragic event.

We chose the Gulf killifish as our test organism because it is the most abundant fish in the coastal marsh of the Gulf of Mexico, and thus an excellent environmental sentinel. Indeed, it is our canary in the coal mine. Tissues were collected from fish at six different sites from Louisiana to Alabama, and sampling was performed in early May 2010, before oil made its landfall in September 2010, when much of the oil had disappeared from the water surface.

We also sampled the water and sediments from each site for hydrocarbon analyses, and satellite imaging provided an estimate of proximity of the oil spill to each site. Now, without going into too many specifics, we found dramatic cellular effects in fish collected from coastal Louisiana, coinciding with the timing and location of oil contamination. Cellular effects were predictive of adverse health

consequences, including developmental and reproductive impairment, toxicity, and even death.

Fish scale cells, which are important for maintaining critical fish body function, appear damaged and showed cellular changes, diagnostic exposure to the toxic components of hydrocarbons. What was equally striking was that these biological effects persisted, even though chemical testing found only low to non-detectable concentrations of hydrocarbons in fish tissues.

In other words, although chemistry suggested that these fish were safe for human consumption, it was unable to detect any of the sublethal, biological effects in Louisiana fish we observed. The magnitude of tissue, cellular, and genetic effects seen in fish from our oil site in Louisiana suggests impacts on fish growth, reproduction, development, and performance, all highlighting the potential ecological consequences of exposure.

We also found that most of the oil in the marsh is not in the water, but rather tied up in the sediment, where it is found in extremely high concentrations. A big lesson from the Exxon Valdez is that sediments can act as a long-term reservoir of oil that can persist to expose animals to toxic concentrations over long periods of time.

In current studies, we are finding that embryos exposed to these oil sediments are hatching at lower frequencies and are showing developmental abnormalities in that embryos that do not go on to hatch successfully are smaller and listless. Additionally, sediments from oil sites appear to be almost as toxic today as they were during the peak of oil in the summer of 2010.

What our data describe are the early warning signs that have been shown in the past to correlate well with population level declines, as seen with Pacific herring, pink salmon, and the sea otter in the years that followed the Exxon Valdez oil spill. What we don't know is how widespread these effects are going to be over space in time, and whether the responses we see in killifish also exist in other ecologic and important species or in fish of commercial importance. We need to be measuring these endpoints in many species to know the full extent of the problem. We can wave our hands all we want, but unless we collect these biological data, it will be difficult to link the oil spill to future population declines.

Another important point is that we need to be making these measurements over the long-term to get a better handle on multigenerational effects, which although time-consuming are the most predictive of population and community-level effects.

I would like to conclude by making one brief statement regarding research funding. Emergency funding for scientific research was virtually nonexistent for several months following the Deepwater Horizon oil spill. In fact, Dr. Whitehead and I paid for the initial funding of this research with our own credit cards before our Dean of Science graciously pitched in for expenditures.

With time, we were able to secure funding through the invaluable NSF rapid program and through the Gulf of Mexico research initiative. However, in my opinion, the Federal Government needs to do a better job of providing a reliable source of emergency funding to support transparent, cutting edge, and unbiased academic

research following natural and manmade environmental disasters, especially since early event data are the most critical to obtain.

Thank you for your attention, and I would be pleased to answer your questions.

[The prepared statement of Dr. Galvez follows:]

Statement of Fernando Galvez, Ph.D., Assistant Professor, Department of Biological Sciences, Louisiana State University

Good morning Mr. Chairman, Mr. Ranking Member, and the distinguished members of the House Committee on Natural Resources. I thank you for the opportunity to testify today. My name is Fernando Galvez. I am an Assistant Professor in the Department of Biological Sciences at Louisiana State University. My team, in collaboration with Dr. Andrew Whitehead at LSU, is leading a collaborative research endeavor to study the effects of the BP Deepwater Horizon oil spill on marsh fish in the northern Gulf of Mexico. I would like to discuss some of the recent findings of our research published on August 26, 2011 in The Proceedings of the National Academy of Sciences (*www.pnas.org/cgi/doi/10.1073/pnas.1109545108; see Abstract of publication below).* To my knowledge, this is the first report in the scientific literature on the biological effects of the DWH oil spill in fish. In my written testimony, I will also discuss some of the difficulties we encountered in doing this research, and some of the remaining issues that impede the ability of academic institutions to conduct similar work.

Following the Deepwater Horizon (DWH) drilling disaster on April 20, 2010, in the Gulf of Mexico, acute oiling and the resulting mortality of marine wildlife were evident. The close proximity of Louisiana State University to the northern Gulf of Mexico and our capacity to mobilize quickly in the first few days following the explosion of the DWH oil platform, provided us the unique opportunity to study the biological effects of this unprecedented and tragic event. In contrast, the sublethal effects, critically important for predicting long-term population-level impacts of oil pollution have not been well described following the DWH disaster. Here we report effects of oil exposure on fish resident in Gulf of Mexico coastal habitats.

We chose the gulf killifish as our test organism because it is the most abundant fish in the coastal marsh of the Gulf of Mexico and thus an excellent environmental sentinel. Indeed, we are using it as our canary in the coal mine. Unlike other fish species in the Gulf, we understand a lot about their ecology, physiology, biochemistry, and genetics, and have excellent experimental tools at our disposal to use. Tissues were collected from fish at six different sites from Louisiana to Alabama (Figure 1), and sampling was performed in early May 2010, before oil made its landfall, in July 2010, during the peak of oil landfall, and in early September 2010, when much of the oil had disappeared from the water surface. We also sampled the water and sediments from each site for hydrocarbon analyses, and satellite imaging provided an estimate of the proximity of surface oil to each site. An important and unique feature of this study is that we have data collected from fish before oiling. These pre-event data are extremely rare in toxicological studies, and add to the strength of our conclusions. To collect these early-event data required the ability to mobilize our research programs quickly.

Without going into too much detail, we found dramatic cellular effects in fish collected from coastal Louisiana coincident with the timing and location of oil contamination. Cellular effects were predictive of adverse health consequences, including developmental and reproductive impairment, toxicity, and death. Fish gill tissues, which are important for maintaining critical fish body functions, appeared damaged and showed cellular changes diagnostic of exposure to the toxic components of hydrocarbons (Figure 2). What was equally striking was that these biological effects persisted even though chemical testing found only low to non-detectable concentrations of hydrocarbons in fish tissues. In other words, although chemistry suggested these fish were safe for human consumption, it was insufficient to predict or detect any of the sublethal biological effects in Louisiana killifish we observed. The magnitude of tissue, cellular, and genetic effects seen in fish from our oiled site in Louisiana suggest impacts on fish growth, reproduction, development, and performance, all highlighting the potential ecological consequences of exposure.

We also found that most of the oil in the marsh is not in the water, but rather tied up in sediment, where it is found in extremely high concentrations. A big lesson from the Exxon Valdez is that sediments can act as a long-term reservoir of oil that can persist to expose animals to toxic concentrations over long periods of time. In current studies, we are finding that embryos exposed to oiled Louisiana sediments are hatching at lower frequencies and are showing developmental abnormalities,

and that embryos that do go on to hatch successfully are smaller and listless. Additionally, sediments from oiled sites appear to be almost as toxic today as they were during the peak of oiling in the summer of 2010.

What our data describe are the early-warning signs that have been shown in the past to correlate well with population-level declines as seen with Pacific herring, pink salmon, and the sea otter, in the years that followed the Exxon Valdez oil spill. What we don't know is how wide spread these effects are going to be over space and time, nor whether the responses we see in killifish also exist in other ecologically-important species, or in fish of commercial importance. We need to be measuring these end points in many species to know the full extent of the problem. We can wave our hands all we want, but unless we collect these biological data, it will be difficult to link the oil spill to future population declines. Another important point is, that we need to be making these measurements over the long-term to get a better handle on multi-generational effects, which although time-consuming and resource-intensive, are the most predictive of population and community level effects.

Research on the DWH oil spill has provided several important insights I would like to conclude by making brief statements regarding research funding, access to sample sites during the peak of oiling, and access to Mississippi Canyon 252 oil.

Reliable Sources of Federal Funding Are Required to Promote Early-Response Research Following Natural and Man-Made Natural Disasters.

Emergency funding for scientific research was virtually non-existent for several months following the DWH spill. In fact, Dr. Whitehead and I paid for the initial funding of this research with our own credit cards before our Dean of Science graciously pitched in for expenditures. With time, we were able to secure funding through the invaluable, NSF RAPID program and through the Gulf of Mexico Research Initiative (GRI). Unfortunately, the National Science Foundation was faced with budgetary constraints at the end of the fiscal year that limited their ability to provide extensive funding. Furthermore, GRI money took up to 4 months to disseminate, making it difficult to pay for early time point sampling. Although these funds were well received, they consisted of small amounts of funding over short durations. Both factors precluded hiring additional staff to conduct the work. Instead, we were forced to divert existing students and postdoctoral fellows from existing projects due to the time-sensitive nature of the DWH work. In my opinion, the federal government needs to do a better job of providing a reliable source of emergency funding to support transparent, cutting-edge, and unbiased academic research following natural and man-made environmental disasters—especially since early-event data are the most important.

For the past 20 years the Department of Interior has directed funds through the BOEM (formerly MMS) to LSU for the purpose of conducting environmental research that is directly relevant to oil and gas exploration in the Gulf of Mexico. The funding has been administered through LSU's Coastal Marine Institute (CMI). Ironically, at a time when the importance of such ongoing research has never been more apparent, this funding is at risk of being eliminated or significantly reduced. We urge congress to take action to insure that this important funding is at least maintained and hopefully increased. This funding has allowed for sustained long-term environmental research and could be a good vehicle for providing rapid-response funding that was so desperately needed in the early stages of the Macondo disaster. Further, it would also be helpful to urge BOEM to modify its long-standing policy of requiring 1:1 institutional match. Especially during this period of dramatically reduced funding for higher education, this matching requirement is a substantial impediment for innovative research.

Access to Sample Sites Should be Available to University Researchers.

It is understandable the need to regulate the movement in and out of coastal habitats following oiling, however far too many researchers found it difficult or impossible to gain access to critical sample sites along the northern Gulf of Mexico. Private security companies and local police were used to keep people at bay, while citizens became increasingly cynical of BP and federal agencies for the complete lack of transparency. University researchers who did manage to obtain funding were finding it difficult to complete projects due to the inability to gain access to field sites. Fortunately, our research group managed to obtain a BP Access Pass, which allowed us uninterrupted access to sample sites. Ironically, had we not obtained this permission, we likely may never have had the opportunity to sample the Grande Terre, Louisiana site during the height of oiling when sublethal biological effects were most pronounced.

Access to South Louisiana Sweet Crude from Mississippi Canyon 252

It has been exceedingly difficult for researchers to obtain Louisiana sweet crude from Mississippi Canyon 252 (MC252), or even comparable surrogate oil, for toxicity testing under controlled, laboratory conditions. Early on, researchers were provided with standard letters from BP stating that oil was not available for distribution. Some laboratories did manage to obtain limited quantities of MC252 oil, but its distribution was once again disrupted when a federal judge issued a preservation order requiring its storage. With that said, a formal request process to obtain small quantities of MC252 does exist, although researchers need to complete an application process ensuring that the oil is absolutely necessary. Regardless, BP does not appear to have made any significant shipments of the oil to academic researchers capable of conducting independent and transparent research. Recently, a surrogate well was drilled capable of producing oil of similar chemical composition to that of MC252. Like the case for MC252, its distribution has been slow to transpire and subject to the same application process. As an example, my colleague, Dr. Andrew Whitehead, received a letter from BP confirming that shipment of a surrogate crude had been approved, and would be arriving soon. Seven months later, his group still has no oil, putting this federally-funded research in serious jeopardy.

Importance of Basic Science Research Funding:

It should be clearly noted that much of the tools, techniques, and paradigms applied in our oil spill research was facilitated by advances in basic sciences research (as distinguished from applied science research). For example, incredible recent advances in comparative physiology, cell biology, molecular biology, and genome biology, facilitated through basic science sources of support such as the National Science Foundation, were critically important for enabling the discoveries that we have made about the effects of this oil spill. Basic science has been, and will remain, the foundation upon which applied science discovers solutions to immediately practical problems for example in health and environmental sciences. However, funding for basic science in the United States, for example through the National Science Foundation, has remained flat or declined in recent years, whereas support for applied sciences, such as through the National Institutes of Health, has remained relatively robust. We think that this is short-sighted. Funding for basic sciences in the United States must be considerably increased as an investment for remaining internationally competitive.

Thank-you for your attention. I would be pleased to answer your questions.

Abstract from Recent PNAS publication:

The biological consequences of the Deepwater Horizon oil spill are unknown, especially for resident organisms. Here, we report results from a field study tracking the effects of contaminating oil across space and time in resident killifish during the first 4 months of the spill event. Remote sensing and analytical chemistry identified exposures, which were linked to effects in fish characterized by genome expression and associated gill immunohistochemistry, despite very low concentrations of hydrocarbons remaining in water and tissues. Divergence in genome expression coincides with contaminating oil and is consistent with genome responses that are predictive of exposure to hydrocarbon-like chemicals and indicative of physiological and reproductive impairment. Oil-contaminated waters are also associated with aberrant protein expression in gill tissues of larval and adult fish. These data suggest that heavily weathered crude oil from the spill imparts significant biological impacts in sensitive Louisiana marshes, some of which remain for over 2 months following initial exposures.

Figure 1. The sample sites used in the PNAS study. GT- Grande Terre, LA; BSL- Bay St. Louis, MS; BFP- Belle Fontain Point, MS; BLB- Bayou La Batre, AL; FMA- Fort Morgan, AL; MB- Upper Mobile Bay, AL.

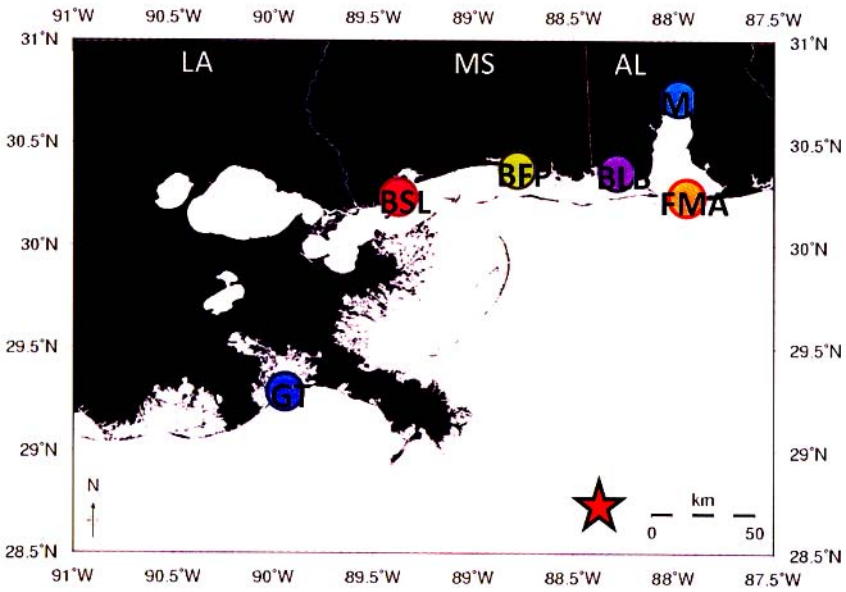


Figure 2. The gills of fish collected from an unoiled site and an oiled site at Grande Terre, Louisiana. Gills were tested for exposure to crude oil using a technique called immunohistochemistry for the changes in the relative concentrations of the protein, CYP1A (dark red color). CYP1A is a hallmark of exposure to the toxic components of crude oil, and is increased significantly with crude oil exposure.. Gill tissues from oiled fish showed a clear cellular response to exposure to crude oil at Grande Terre, LA, and caused deleterious alterations in the structure of the tissue.

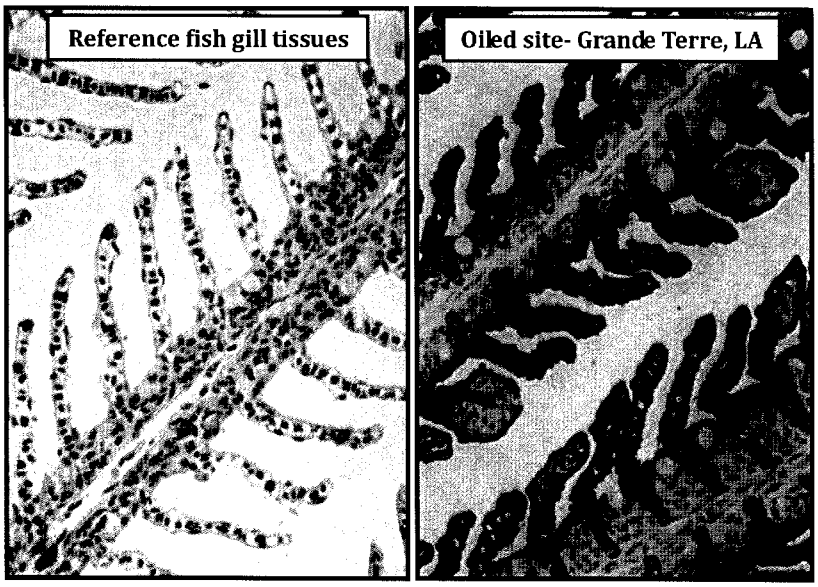


Photo: Benjamin Dubansky

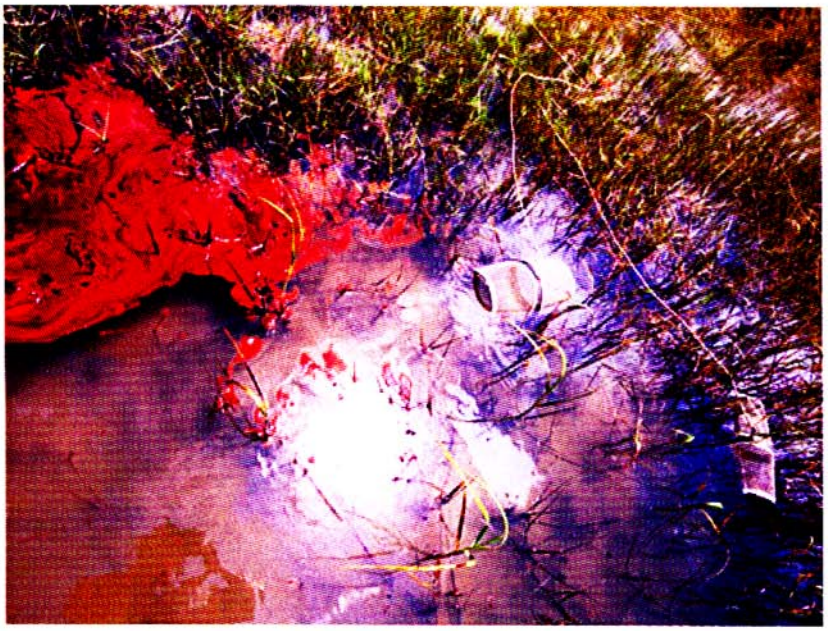
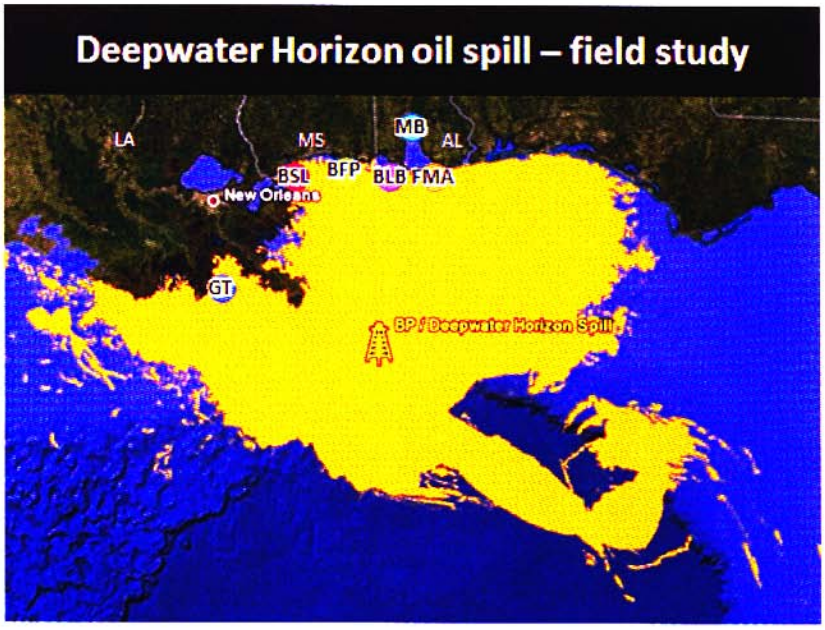


Photo: Benjamin Dubansky

Gulf Killifish
Photo: Andrew Whitehead


Deepwater Horizon oil spill – field study
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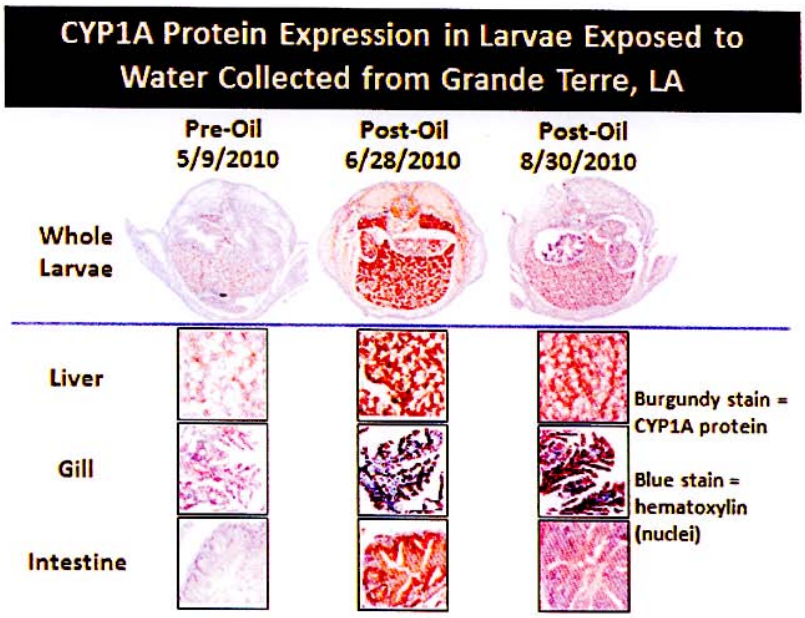
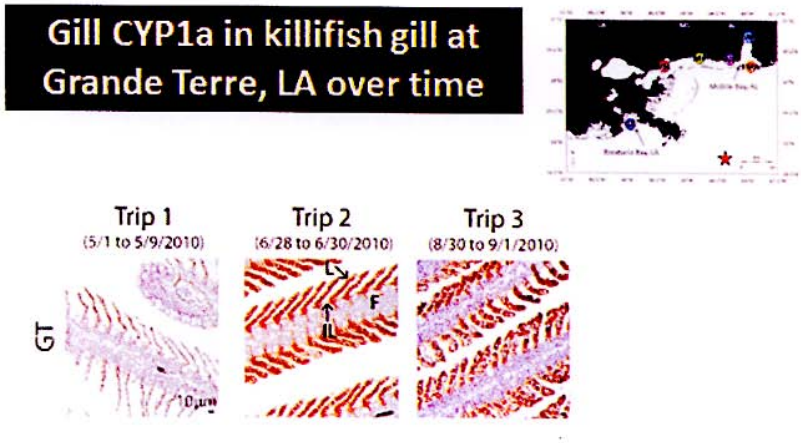
BP / Deepwater Horizon Spill





Dark red stain = CYP1A protein in gills from fish collected *in situ*
Blue stain = hematoxylin (nuclei)

Mr. HASTINGS. Thank you very much for your testimony, and I thank all of you for your testimony. I very much appreciate your being here today. As I mentioned at the outset, this was one year since the moratorium was lifted, and we wanted to hear from you.

I should note that the Committee did have a hearing down in Houma, Louisiana, to hear firsthand from people on the ground.

I have a question for Mr. Reese. I am sure that you have noticed that this Committee has gone back and forth with Director Bromwich as to whether permitting and plan approvals are returning to the pre-moratorium pace. And I am not asking you to comment on that because you are here to present your findings and so forth.

That said, one area that I think we could all benefit from a little bit more clarification is something that I alluded to in my opening statement that is represented in this slide, and that is the "deemed submitted" issue which shows up on this bar graph as the red bars. In the data that we see of the exploration plans that have been approved so far this year, some took hundreds of days just to be "deemed submitted."

We all know that you need an approved plan to even get to the permit stage. And I am not sure if you have direct experience with this process. But if you could walk us through the difference between when a company first sends their exploration plan and how that is different from being "deemed submitted."

Before the Macondo exploration, I guess really the underlying question, if you could address that, did it take nearly a year, as some of these "deemed submitted" plans do, to get the exploration plan? I mean, it seems to me that seems to be a long time frame. So if you could elaborate on that, I would appreciate it.

Mr. REESE. Thank you, Mr. Chairman. I will do my best. I think our Chairman and President, our CEO, Paul Bulmahn, at our annual meeting used an object, and I think it begins to explain what you are seeing with your lines up here. Prior to the Macondo incident, a typical application, permit application, would be somewhere between 30 and 40 pages long.

The most recent permit application that we submitted—and my numbers are a little vague, but in the neighborhood of about 3,600 pages. So we went from having a 30- to 40-page document for submittal to 3,600 pages. And I can assure you, someone at the BOEM, MMS, whichever organization it was, was responsible for reading all of that.

Prior to the incident, there was a very good relationship between the application process, and it was interactive. It was not cozy, as it has been said before. I can assure you of that. We have nothing but the greatest things to say about the people in the field at the BOEM.

So at that particular point, when you are dealing with 3,600 pages, you automatically have a lot more time constraints, versus in the past, there was a normal process in working back and forth, and you ultimately got a "deemed submitted." A company couldn't just hand something to the former MMS, today the BOEM, and have them say, OK, you now have 30 days. No. There was a process, but everyone knew what that process was.

Today, there are still unknowns as to what is in the process. Part of it is nothing more than new rules and regulations. So what is happening, and I appreciate this slide. If there is a way I could get a copy of this slide, I would love to be able to use this. Intuitively,

we knew this was going on. I have never seen it presented, and I compliment you and your staff for putting this together.

But, yes, today what you have is "deemed submitted" starts the time running. And if the BOEM does not have to start their clock running until it is, quote, "deemed submitted," there is an initiative on their part to get it "deemed submitted."

Mr. HASTINGS. And so what you are saying is that prior to this, before the Macondo incident, while the 30 or 40 pages, there may be some give and take, like you said, it wasn't cozy, I mean, not to say——

Mr. REESE. No, it was not.

Mr. HASTINGS. It wasn't necessarily adversarial, but it was at least working together to try to get an outcome. The mere fact that that is 3,000 pages—I think that is what you said.

Mr. REESE. 3,600 is the number I remember.

Mr. HASTINGS. Is bound to slow the whole process down, and that—to oversimplify, is that the reason why that red bar is probably much higher, simply because of that mere fact of the quantity?

Mr. REESE. I think there are two things here. One, I will stick with the facts, and that is the fact, if you have a 3,600-page document, it is going to take a longer period of time. The other is, is it a tone coming from the top? What is causing the delay? If there is a desire to get something approved, and approved safely, to get it approved now, you will have the tone at the top say this is what we want to do, and the people that are in charge of that will get it done.

On the other hand, if the tone at the top is we want to slow-walk this, we don't want to encourage drilling in the Gulf of Mexico, we want to have a longer period of time for this to happen, then you are going to have that. That is editorial, I will admit. The facts are you are dealing with a lot more pages. The editorial part is what is the tone at the top to get the new energy out of the ground.

Mr. HASTINGS. Well, that is one of the reasons we are having this hearing, to try to ascertain that, and we will make sure that you get a copy of that slide.

Mr. REESE. Thank you very much.

Mr. HASTINGS. And with that, I recognize the gentleman from Massachusetts, Mr. Markey.

Mr. MARKEY. I thank the Chair very much. First of all, I just want to say that the Majority's Interior Appropriations bill has cut $35 million of the Administration's request, which will lead to 20 fewer engineers to review these applications. So you can't have it both ways. You can't kill the program that the Administration wants in order to expedite the handling of it, and then complain that it is not being handled fast enough, OK? And that is again the duality of everything that is happening here.

You have another thing happening on the House Floor on an ongoing basis that makes it very difficult to in any way square up with the Republicans say they want to have happen, and then what the Administration says they are willing to do in order to speed up the process, and then the Republicans kill that, OK? So that $35 million, I hope, is going to be restored. But I think the chances of that are zero, OK, because they do want to dramatically underfund what Director Bromwich can do.

Dr. Galvez, over 6,100 birds, 600 sea turtles, and 150 mammals, including dolphins, were collected dead in the Gulf of Mexico region during the Deepwater Horizon disaster. But your study is one of the first to examine the sublethal impacts of the spill on fish in the Gulf. Your research has found that there are cellular changes in the most abundant species of fish in the marshes of the Gulf that are the same types of early warning signs we saw following the Exxon Valdez spill.

Could we potentially be headed for a similar population decline in fish or other species in the Gulf as we saw following the Exxon Valdez?

Dr. GALVEZ. Well, it is certainly a little early to tell. But some of the warning signs are clearly there. In the Exxon Valdez, it took several years, approximately four years, before some of the true population level effects were really seen. And in those cases, some of the same things that we are starting to pick up were also happening in those animals.

Interestingly, in some of the work that is not published, we are finding that when we are exposing animals to the sediments, that these animals are essentially not doing very well in the sediments, and they continue not to do well. These animals are dying. They are not absorbing their yolk, which is normally what an embryo before it hatches, become a larva, what it would do in order to grow. These animals are smaller, and so these animals will not do well in the environment.

And so potentially, any organism that spends a good portion of its time, especially during early development, in the marsh, which is where we are finding the vast majority of the oil, potentially will be affected.

Mr. MARKEY. Thank you, Dr. Galvez. And last week, by the way, in this Committee, the Majority was so concerned about sea lions eating salmon—they ate 3,000 salmon last year off the entire West Coast—that they put a license to kill sea lions if any of them would get caught eating fish. So here we have the entire Gulf of Mexico and all these species down there——

Dr. GALVEZ. Yes.

Mr. MARKEY.—and just tremendous impacts that they can have, not upon 3,000, but almost uncountable numbers of fish, and we are not seeing the same attention being paid to that as we saw to the sea lion issue with 3,000 salmon total on the West Coast.

Dr. Galvez, in your study, you noted the chronic, sublethal impacts of the oil spill continued to be detected 22 years after the Exxon Valdez. Following the BP spill, do you expect that we could see negative impacts to fish and other species in the Gulf for many years, as we did in Alaska?

Dr. GALVEZ. Well, certainly there is the potential. They are vastly different spills in terms of geology, in terms of climate. However, what is of most concern is that the oil is in the sediment, and if you dig down into the sediment, you see that this oil is still relatively fresh. We still have oil coming into these marshes. And the concern is that marsh is habitat for so many organisms. It is really the fertile crescent. So much of the fisheries rely at some point in their life on that marsh environment to collect their prey.

And so there is the potential—as I said in my testimony, we need to be doing the research to really monitor the recovery.

Mr. MARKEY. Well, let me ask you this again, Doctor. In your testimony, you explained that BP is not providing researchers like yourself similar Louisiana sweet crude to what spilled from the nearby wells for controlled toxicity testing so that we can better understand how this oil might impact the Gulf ecosystem. Can you talk about why it is so important for researchers like yourself to be able to test similar oil?

Dr. GALVEZ. Well, every crude oil is vastly different in terms of its molecular characterizations and the types of compounds that make up that crude oil. And each of these compounds is vastly different toxicities. And so we want to be able to match as closely as possible, preferably with the MC252 oil, so that we can study how those specific components are acting on there because some components are going to act in different biological pathways. And so it is important to do those studies.

Mr. MARKEY. So again, what we have learned over and over again is that BP has been more concerned with its own bottom line than it has been with what is going on in the bottom of the ocean. And their unwillingness to provide you and other scientists with the information you need in order to do these kinds of studies is just a further indication of BP's unwillingness to cooperate in what should be an historic investigation to find out what is going on right now in the Gulf of Mexico. I thank you, Doctor.

Dr. FLEMING [presiding]. I thank the gentleman, and I now recognize myself for five minutes for questions. I listened very carefully to a lot of the comments made today. By the way, I am from Louisiana, as is my good friend, Mr. Landry, and obviously we have been following this whole issue very closely. We appreciate the work from LSU also on these studies, but we hear discussions about oil sheens that have been observed. Of course, we know most of the oil in the ocean today leaks organically from its bottom so that is not an unusual occurrence to see oil sheens.

Fish mutations, we know fish mutate constantly, as do most of the lower species. Cellular-level changes, I don't know, that all seems a bit of a stretch to most of us in Louisiana. Commissioner Mike Strain of Agriculture tells us that the sampling of our fish, particularly those that we are using for consumption, shows virtually no hydrocarbon evidence. In fact, he assures us that we have the most tested and the safest seafood that is being consumed today.

And I think even, Mr. Galvez, or Dr. Galvez, I am not sure, that you said that there was little or no hydrocarbon evidence in the tissues that you are seeing. I will get to you in a moment. I will give you a chance. Just we are pressed for time here.

But the point is that what really, in the view of the people of Louisiana, the problem has been with this incident has been, number one, the perception that there has been damage to the fish population and to the beaches, and this has been true of Florida, where people are not coming when in fact everything is pristine. So there has been a perception problem that we have had to overcome, not an actual ecological disaster.

Number two, perception problem about the safety of the seafood, and we are able to prove that we have the safest seafood in the world. But third, and most importantly, is what is happening offshore with drilling. And if you look again, if you will glance up to the slide, you see that the red bar is by far the largest portion in terms of days, which adds perhaps on average of 200 days to the process. The Obama Administration gives us a similar graph, except that their days are compressed to something in the average of 25 to 30.

So the difference that we see here, and what we are observing, what the industry is observing, is around 200 days of slow-walking permits before we actually get to the real activity that is going on. That is what I would like to focus on, and I will open this up to the gentlemen who are in the industry. Is this in fact what you are seeing, that it is sort of the pre-permit process, where you are actually filling out forms, and nothing is happening for a number of weeks and months before you actually get to it, something that is very difficult for us to bear down on and really change?

I will open that up and be happy to hear different impressions on that.

Mr. REESE. Yes. I am from the E&P industry, and I will continue to answer that question. Yes, it has been very difficult, and I think the most frustrating aspect has been what rules and regulations are being imposed to get to the "deemed submitted" point. We have submitted applications. Time goes by. We ask, and we are very active, I do not want to say that we are just sitting back waiting for the phone to ring. We are constantly in BOEM's office working with them to try to understand, and many times it is just a level of frustration.

Dr. FLEMING. I think what I am understanding is that there is no certainty in the process.

Mr. REESE. Exactly.

Dr. FLEMING. That somehow something out of your control, somebody could be shuffling papers deliberately. Somebody could be ignoring applications deliberately, or it could be there is just not enough staff. It could be that somebody from above is given orders to sit on something for a minimum of three months before you send it on. You really don't know what is going on.

Mr. REESE. That is the real, real issue. It is the level of uncertainty associated with getting to the "deemed submitted" process. There are certain items of permits that I will compliment BOEM on. Typically, the completion element, you need a—normally, you will need anywhere from four to six permits for every well that you drill, but a completion permit is normally obtained within a few days. That they seem to be pretty good on. But trying to get to the exploration plan, the DOCD, or the ultimate drilling permit to allow you to start drilling, that has been very frustrating.

We have already taken two permits that we had hoped to do in early 2012, and we recognize at this point those will in all probability be late 2012 or early 2013 permits.

Dr. FLEMING. OK. Well, thank you for that because that is really what I am hearing, is uncertainty. I am also understanding that there is a certain cycle, and there are certain times of the year that you can go out and take rigs down, plug the drilling sites, or per-

haps start them back up again. And so if you don't get that permit approved within a certain window, then you may have to wait another six months or a year before you can go back again. Is that also the case?

Mr. REESE. That is correct. Essentially what you have—and these are rules that have come in since Katrina and Rita—you are not allowed to moor up, put a rig in place within, I believe, five miles of another fixed structure or floating structure in the Gulf of Mexico during hurricane season, recognizing that most deepwater wells will take you 45 days, if it is a side track, and it could easily be over 100 days if it is a brand new well. Do the math, from June 1st to roughly the middle of October, and what you find, unless you are on location, moored up and ready to go, by sometime in the March to April, maybe as late as May, standpoint, if you don't make that window, you might as well forget any new deepwater drilling that is within five miles of a fixed or floating structure until some time in October-November.

Dr. FLEMING. OK. Thank you. And I apologize to my colleagues. I went a little further over than I intended to. So next, I will recognize Mr. Holt for five minutes. Mr. Holt?

Mr. HOLT. Yes.

Dr. FLEMING. You are recognized, sir, for five minutes.

Mr. HOLT. Thank you, Mr. Chairman. I would like to follow up on one point. And first of all, thanks to all the witnesses. Mr. Galvez, we were talking about the effects on the fisheries and the ecological balance of the Gulf. When someone mentioned recently that, well, fish mutate, it just happens, are the changes that you have detected, the cellular changes in the fish, is this abnormal, or is this normal mutation?

Dr. GALVEZ. Well, the mutation—yes, it happens over the course of thousands of years, many, many generations. You will get evolution. But some of the changes that we are observing, some of the cellular changes in the gill are completely abnormal. I am a fish physiologist by training, and I will tell you firsthand that the level of damage that we are seeing on those gills are going to impair the ability of those organisms to take up the oxygen from the environment.

Mr. HOLT. And let me go back now to the oil spill. Is the oil still in the environment?

Dr. GALVEZ. Yes, it is.

Mr. HOLT. Now, in the marshes and areas, some of it I guess is still in the sediment, and probably will be for some time.

Dr. GALVEZ. Yes, it is.

Mr. HOLT. Is that sediment important to the fisheries, or is it only the open waters that are important to the fisheries?

Dr. GALVEZ. Well, certainly in that environment where killifish and other organisms, they use that environment, that habitat as safety, so they hide amongst the marsh grasses. Some organisms, some flat fish, for instance, utilize that sediment. Other organisms bury within the sediment. Killifish is in such shallow water that it is exposed continually to that sediment.

Mr. HOLT. So obviously what we are trying to get at is whether it is important to stop and think or whether we should be charging full speed ahead. Do you think we have done all the thinking that

should be done to understand the effects of what we have experienced and what the fishermen have experienced and what the other people who depend on the life of the Gulf have experienced?

Dr. GALVEZ. If history is a lesson, and it should be, I think that the potential ecological effects are yet to become apparent, my concern. I would like to add that Louisiana seafood, in my opinion, is still safe to eat because we are not seeing the accumulation of the hydrocarbons in those animals.

But what we are seeing are these subtle cellular effects that are going to make it more difficult for organisms to survive in an ever-changing environment.

Mr. HOLT. OK. Mr. Kief, you in your testimony, and a number of my colleagues and others, have talked about delays in this issuing of permits. Now, the Majority of the House here in the Appropriations bill for the Interior has underfunded the agency that is responsible for issuing the permits, to the tune of about $35 million. The Director of BOEMRE has told this Committee it could mean a shortfall of perhaps 20 permitting engineers, which means that permits will not be issued as quickly as the department would otherwise issue them.

Do you think this underfunding is wise in light of the concern you have raised? Or what would 20 additional permitting engineers do to help expedite the permitting?

Mr. KIEF. Well, either that, or how about a permitting process that was less than 50 pages turning to 3,600. That is part of the problem.

Mr. HOLT. OK. So you are happy with fewer permitting engineers?

Mr. KIEF. Oh, no. I wish the permitting process was——

Mr. HOLT. Mr. Auer, what do you think about that?

Mr. AUER. Can we afford to lose——

Mr. HOLT. Should we be laying off permitting engineers? Would that make it better for permitting?

Mr. AUER. The engineers that would help for my permits, if I have one guy, and he is taking 120 days, give me another one, and maybe it is cut in half, OK? I don't need $35 million to get my permits approved. They need some help.

Mr. HOLT. Are you the only person out there seeking permits?

Mr. AUER. No, I am not. But we all seek the standard form.

Mr. HOLT. Mr. Reese, do you think it is wise to cut back on those who would issue the permits?

Mr. REESE. I think if we are looking for a reason to not issue permits, and the determination is the reason we are not issuing them is there are not enough people, then no, that is not a wise decision. However, if the fault is the fact that the process is flawed, and you can throw 35 people or 135 people, but you are still going to have a flawed process, I think the focus has to be on the process, not the number of people.

Mr. HOLT. OK. So one well-intentioned permitter with a good process will do it, I suppose. Mr. Chairman, my time has expired. Thanks.

Dr. FLEMING. Mr. Holt yields his time back, and I now recognize the gentleman from South Carolina.

Mr. DUNCAN OF SC. Thank you, Mr. Chairman. As important as this issue is to me, I am in markup in Homeland Security, so I would like to yield my entire five minutes to the gentleman that understands drilling equals jobs, Mr. Landry from Louisiana.

Mr. LANDRY. Thank you, Mr. Duncan. I certainly appreciate the time, and the people from South Louisiana appreciate that as well.

Chris, your area of expertise is primarily in the plugging abandonment consulting business. Is that correct?

Mr. AUER. That is correct.

Mr. LANDRY. OK. And so you are the guy who is responsible for obtaining the permits that help oil and gas companies properly abandon and seal off wells and reserves that have been depleted.

Mr. AUER. That is correct.

Mr. LANDRY. And then you also aid in the removing of idle iron.

Mr. AUER. I do.

Mr. LANDRY. OK. And I would suspect that you work for multiple operators.

Mr. AUER. I do.

Mr. LANDRY. OK. And again, you are the person who is responsible for getting those permits.

Mr. AUER. I am, yes.

Mr. LANDRY. Are you sitting on any of those permits?

Mr. AUER. I absolutely don't sit on any of the permits. They are written and submitted as fast as possible.

Mr. LANDRY. And so as soon as you get them, you get to work.

Mr. AUER. Absolutely.

Mr. LANDRY. Are you having any problems once you get your permit, are you having any problems procuring the equipment and the services necessary to do that work?

Mr. AUER. Absolutely not. And where we are at right now is the permitting is so slow, and it has pushed so much work, there are dye boats and heavy-lift vessels stacked at the beach. The rates we are seeing, I don't know how the companies are making any money. The assets are there.

Mr. LANDRY. So, if I asked you if you thought that there are operators out there who actually have a PNA permit at their office that they are not acting upon, would you believe me?

Mr. AUER. Actually, I would. And the only reason I think that they would not act on it is if it ran into a bad weather window. And there is a safety issue then, if we run further into the year. That would be the only reason to not act on a PNA permit.

Mr. LANDRY. Mr. Reese?

Mr. REESE. Yes, sir.

Mr. LANDRY. Are you sitting on any PNA permits?

Mr. REESE. I am sorry. Say again?

Mr. LANDRY. Do you all have any PNA permits at ATP that you all are not acting upon?

Mr. REESE. Not other than because of a weather window or scheduling equipment and things of that nature, no. We would be acting on everything that we would have.

Mr. LANDRY. On the PNA side, do you know if there is a lack of equipment or services available for you to do your work?

Mr. REESE. I am not aware of that. It is not my area of expertise, but I am not aware of there being lack of ability to get equipment for that.

Mr. LANDRY. Mr. Shafer.

Mr. SHAFER. Relative to PNA and really any types of permits, I think what we are seeing right now is historically in the Gulf of Mexico, there has always been a small backlog, I guess you would say, of permits, which once you finish one job and move on to the next job, and not have your assets, whether it be PNA, equipment, and heavy-lift barges, drilling rigs, you know, normally you would like to move them immediately. A lot of this equipment is very expensive. The crews are very expensive. And so historically, you have always had a small backlog of permits, just enough to move the equipment around. And right now, it is quite the opposite.

As Chris had mentioned, what we are seeing now is equipment on the beach, in the ports, sitting there, not working, and available for work.

Mr. LANDRY. Now, Chris, let me ask you, you have had some difficulty, as everyone else, but on the PNA permitting side and removing idle iron that the Administration, Secretary Salazar, Director Bromwich have gone on record as early as two months after the Macondo incident, saying that it is something that they want to see happen in the Gulf of Mexico. What do you think the biggest obstacle is? If you said to this Committee, I would suggest that BOEMRE or BSEE does this now, what would it be that you would suggest?

Mr. AUER. They need to staff appropriately. They need to standardize the forms. We don't have standardized forms for abandonment. Everybody does it a different way. And they need to automate it, just the same way they do with wells. And there needs to be more focus. The fish are important, and I appreciate Dr. Galvez's research and everything. But the most important animal that is affected by this is the human animal. And we need to turn our focus to that, and that needs to be their focus as well. Keep seeing what the effect is on the environment, but we are the environment. And nobody seems to understand that.

Mr. LANDRY. Well, and so, let me ask you this. It was my understanding that each well is different in the PNA permitting process. So how would you standardize that?

Mr. AUER. Well, the wells have a standard form called an APM form. That is real simple. That has been in play forever. Any time you want to modify a well bore, you file an APM form. The platform removal application, 30 CFR 250, has a list of questions that you answer, as most government regulations do. Build a form where you can fill in the blank because when you hire new people at BOEM, this is kind of specialized. But when you hire new people, it is easier to train them. Same thing we did in the Army when we were all in the Army. Easy forms, learn how to use it. Automate it so that I can get online and see, just like I can with the well permits, and see where it is at, what questions have been asked.

Currently, I have to pick the phone up, and I have to call the one or two approving personnel at BSEE and ask them, hey, where is this permit at. What is the status? That takes time from them.

It takes time from me. We shouldn't be there, not in today's world. Real simple.

Mr. LANDRY. Thank you.

Mr. HASTINGS [presiding]. Thank you very much. Next we will recognize the gentleman from Florida, Mr. Southerland.

Mr. SOUTHERLAND. Thank you, Mr. Chairman. First of all, I would like to thank everyone for coming to testify. And I know I have a constituent here, Captain Bob Zales. Thank you for making the 1,000-mile trip up to Washington. And also Mr. Craul. Thank you for coming.

I want to ask Mr. Craul, I am familiar with your company, even though Destin is not in my district, but I am familiar with your company. You kind of outlined your business interests, which are varied along the Gulf Coast. You have a reputation of being a class organization, and you invest in the communities that you are in.

With all the holdings you have, you create jobs, OK? We do a lot of things up here. A lot of proposals come forth by individuals who have never created a job in their life. And I am just asking, though, what is the single greatest factor that Legendary Hospitality looks at in making a business investment?

Mr. CRAUL. Supply and demand. As demand goes up, meaning the increase in business to our area, is what creates jobs. So if there is more people coming, more people buying, more people renting, more people purchasing fuel, so on and so forth, then we are ready to build more, which creates jobs to take care of that demand.

Mr. SOUTHERLAND. I know that some of the questioning is trying to get us off of the topic that we actually asked you to come 1,000 miles to participate in. Does the moratorium that we have been dealing with, does it help or hurt demand?

Mr. CRAUL. Well, it is difficult to determine exactly how much of our business was affected by the moratorium because it is a part of our business. Not all of our business is from Louisiana and so forth, but certainly if you have a reduction in jobs and a feeder market, there is going to be an effect to the businesses in Florida.

Mr. SOUTHERLAND. You know, I noticed some of the other witnesses, Mr. Reese, you had made a very good presentation, and you talked about being in other countries as well. How challenging is it for this moratorium, compared to other countries, in the permitting process that you go through in other markets?

Mr. REESE. The uncertainty that we have been dealing with for the past year is unprecedented anywhere else. You do not have this uncertainty associated with it. We are in the UK. We are in the Netherlands. We are also in offshore Israel. In each of those, the permitting is challenging. But the rules and regulations have far more clarity, and the time frames there are much more definitive.

Mr. SOUTHERLAND. So certainty, obviously, kind of off of what Mr. Craul was mentioning, I know that investors do want certainty. And so the moratorium has injected more uncertainty for you. And I would expect it has done so for any other business interest.

One of the things I would like to ask, Doctor, I know it has been touted on the other side of the aisle that we are not interested in research. I am very proud to be a co-sponsor of the Restore Act that

deals with research. And so I just want to go ahead and put that claim to rest. Inside that bill, it deals with a lot of research because we do want to know.

I will say this, though, that if BOEMRE doesn't want to issue permits, budgeting them $35 million more is not going to change that, OK? This thing that you just throw money at departments, and all of a sudden they just start changing their view of the world is kind of looking through glass houses.

But, Dr. Galvez, I want to thank you for the research that you are doing. I do believe in research. I do believe we need to know, especially in the area of our fisheries. Mr. Zales knows the importance of good research and not making fisheries decisions based on ten-year old data that is inconclusive.

In your own testimony, you stated that it is too early to tell. You mentioned the words "speculation" and "unknown." There are things that are yet to become apparent. You know, I think that does validate the need for more research. But one of the things I wanted to state, you talked about not having the sweet crude that you needed to do your investigation. You said that you sent a letter, and that you still haven't received it, seven months in. That has got to be aggravating, to need something and not be able to get it for months in and months out.

Dr. GALVEZ. Well, what is particularly aggravating is that the approval for the oil was obtained over seven months ago. So you——

Mr. SOUTHERLAND. Here is what I want you to do, though, because my time is running out. I want you to welcome you to the world that these guys all live in, needing something badly and never, ever getting it. Welcome to the wonderful world of small business and private enterprise. I wish you didn't have to deal with that. But I am glad that other people see the aggravation that industry has to deal with on a day-in, day-out basis.

Dr. GALVEZ. If I can comment briefly.

Mr. HASTINGS. Briefly.

Dr. GALVEZ. The university is like a small business in that I have 14 staff that I feed by them the dollars.

Mr. SOUTHERLAND. I hear you, man.

Dr. GALVEZ.—my research dollars. And in this uncertainty, it is difficult.

Mr. SOUTHERLAND. Absolutely. We all agree.

Mr. HASTINGS. The time of the gentleman has expired. And the Chair recognizes the gentleman from Louisiana, Mr. Landry.

Mr. LANDRY. Thank you, Mr. Chairman. Mr. Reese.

Mr. REESE. Yes, sir.

Mr. LANDRY. You have been with ATP since its inception, correct?

Mr. REESE. 1991, yes, sir.

Mr. LANDRY. When ATP started out, were you all a deepwater player or a shallow-water player?

Mr. REESE. We were exclusively a shallow-water player. It was formed by Paul Bulmahn, as he says, on the floor of his living room, and I helped him along with a couple of other gentlemen, and we basically took two projects in 1993-94, put them on produc-

tion. It cost about $7 million or $8 million for our first two projects. And January of 1995, we were on production.

Mr. LANDRY. So two projects, living room, a couple of guys. It is the American dream.

Mr. REESE. Absolutely, it is.

Mr. LANDRY. Taking a risk. You could have drilled some dry holes.

Mr. REESE. Yes, sir, we could have, and we did.

Mr. LANDRY. And then today, you are—

Mr. REESE. We are the fourth most active operator in the Deepwater Gulf of Mexico, behind BP, Shell, and Anadarko.

Mr. LANDRY. Amazing, amazing. Now, here is the question. If you all had to go back in that living room today, under the current regulatory environment, in 11 years, could you be what you are today?

Mr. REESE. No.

Mr. LANDRY. One more time.

Mr. REESE. No. I can give you a longer answer, but the answer——

Mr. LANDRY. No, no. I know. Look, I believe you. I am sitting here because I believed that last year when I ran. See, in 1995, I started a business with a friend of mine, $10,000. I didn't have $7 million. I wish I had had it.

Mr. REESE. We didn't have $7 million. We had to go find it.

Mr. LANDRY. But you see, that is what I did. And then I sold some of those businesses, and we employed a lot of people, a lot of people who have gone on to do a lot better things. Some of them make more money than me now, guys that worked for me. And I recognize that this Federal Government is destroying that American dream. It is destroying the ability for guys like you all to get back in that living room 11 years ago and do what they are doing today.

Mr. REESE. To have a group of true entrepreneurs like Paul was, like I was, and joining him, and doing what we did, I hate to say it. I think that is a thing of the past. The rules, the regulations, the costs associated, whether it is shallow-water drilling or deepwater or the like. Our first deepwater project, we took a project from Texaco. Unocal was our partner. That was about an $80 million project. And our most recent project, Telemark, is about $1.5 billion.

Mr. LANDRY. And in those 11 years——

Mr. REESE. It has been 20 years.

Mr. LANDRY. Did you have any Macondo-like accidents in the Gulf of Mexico?

Mr. REESE. No. There has been 58,000 wells drilled in the Gulf of Mexico, more than 58,000. One had a real problem, one out of 58,000.

Mr. LANDRY. All right. And I am guessing that your safety record is a great record. I mean, I think you care about your employees.

Mr. REESE. Yes. I mean, no one has a totally unblemished record in this industry, I will admit that. You can't be in this industry and have total——

Mr. LANDRY. Well, my driving record is not unblemished. I want you to know that.

Mr. REESE. You shoot par every time you go out to play golf? No. That is not going to happen.

Mr. LANDRY. And a lot of it is my fault.

Mr. REESE. I know. Sometimes things happen. But no. We have an impeccable safety record. When we designed the Titan, we put a blowout preventer on the surface of the Titan. We also have a shut-in device—it is called a SID—on the mudline. Effectively, we have two blowout preventers on a deepwater platform, one at the surface and one in the mudline.

Mr. LANDRY. And I would imagine that if the government had not done a thing but check its own self in what caused the Macondo well and investigated BP for the accident on that rig, is it safe to say that the industry—would you have been looking at that accident and trying to determine what you could do to ensure that you company wouldn't have that same type of accident?

Mr. REESE. Two quick things. The first answer is absolutely yes. Any time there is an accident, you want to know what happened. What should have happened, and what would have kept us all from being here today, is when the incident occurred—we have seen airplanes fall out of the sky. Toyota had problems, things of that nature. What should have happened was an immediate cease for anyone using the equipment that the Macondo well was using, to find out was the problem with the equipment, was it operator error, or what, immediately shut that down, and you would not have heard a peep out of the Gulf of Mexico, independents or majors, because that is what we would have done to find out—we are using—I am not saying we did. We are using the same piece of equipment they did. Is that a problem?

Unfortunately, it was a let us punish and let us put this entire industry out of business for awhile. And that is the reason we are sitting here today. It was an inappropriate response to an accident.

Mr. LANDRY. Thank you.

Mr. HASTINGS. The time of the gentleman has expired. The Chair recognizes the gentleman from California, Mr. McClintock.

Mr. MCCLINTOCK. Well, to follow up on that, the blowout in the Gulf was basically a mechanical failure of a blowout preventer stack. Is that correct?

Mr. REESE. I am not going to answer that directly because I am not informed, and I think that gets into litigation. If you don't mind, I think, yes, that was clearly part of the problem. Was that the cause of the problem? Was it operator error? Was it something else? I am going to let other people——

Mr. MCCLINTOCK. Well, it seems to me when there is an airplane crash, the NTSB goes to work to determine what was the cause of that crash, and then adds additional protections to assure that that doesn't occur again.

Mr. REESE. That is correct.

Mr. MCCLINTOCK. In the case of a mechanical malfunction, you identify what was the mechanism that malfunctioned, and how do we build them in the future so that that doesn't happen again. The government didn't do that as far as I can tell, at least didn't give priority to that. Instead, as you point out, it vastly expanded the bureaucracy that oversees this activity without any kind of focused attention on the actual problem.

Mr. REESE. I would agree with that.

Mr. MCCLINTOCK. And what we are being told by the Minority is, well, we have to add more bureaucrats. But as you pointed out, you have gone from permits that were 40 pages to permits that are now 3,600 pages.

Mr. REESE. The typical permit was about 30 to 40 pages. The one that Paul used at our annual meeting was 3,600.

Mr. MCCLINTOCK. So that is roughly a 9,000 percent increase in bureaucracy. Maybe instead of more bureaucrats, what we need is a little less bureaucracy. That is obviously rhetorical. I am trying to get a handle on the economic damage that was done by the blowout itself, and the economic damage that was done by the government in its response to the blowout. Do you have figures that would help me on either, anyone on the panel?

Mr. SHAFER. The one figure that I quoted in my testimony was 11,500 jobs. And that is actually a very conservative figure. That figure is really related only to the Deepwater drilling rigs that have left the Gulf of Mexico. And so that figure would include the actual crews of the rigs, the people working on the vessels that supply the rigs with various things like fuel, food. I am sure you can imagine the logistical difficulties of basically a floating city in 10,000 feet of water very high, lots of people onshore working—engineers designing wells, designing that kind of stuff, and just extreme logistical difficulties of operating offshore.

So that is a very conservative figure, 11,500 direct jobs.

Mr. MCCLINTOCK. Those are direct——

Mr. SHAFER. Those are direct jobs, absolutely.

Mr. MCCLINTOCK. That doesn't include the spinoff activities. Has there been any economic assessment of the damage done by the moratorium.

Mr. SHAFER. Absolutely. My company did a study, and I think it was somewhere around 100,000 jobs—I'm trying to include those direct jobs, indirect, and induced jobs. I don't have the exact figure in front of me. There is also the effect going forward, which I think——

Mr. MCCLINTOCK. Any dollar figure in any of the studies that has been undertaken so far?

Mr. SHAFER. I don't have it in front of me, but again, it is in the tens of billions of dollars. Like I said, just from those rigs, $6.3 billion is the figure we have estimated.

Mr. MCCLINTOCK. So 100,000 direct and indirect unemployed, and obviously billions of dollars of economic damage done by the government in response to the blowout. What was the damage of the blowout itself? Do we have estimates on that?

Mr. SHAFER. I don't, sir.

Mr. MCCLINTOCK. Anyone on the panel?

Mr. REESE. I think the only number that has really been used is the $20 billion that BP had to basically put into the fund. I think they are trying to say that was the total economic damage. But clearly, it is not. That was the direct damage. As for indirect damage, we had to let a rig go. That rig is now over in Africa. Those are untold numbers at this point.

Mr. MCCLINTOCK. It would be interesting to get that figure. From what I have seen, it appears that the government may have

done as much damage to the economy as the accidental blowout did.

Mr. SHAFER. Sir, and I think the $20 billion figure, which was the amount that BP had to set aside to deal with the ongoing effects of the spill, I am not sure if that has actually all been paid out. I think that was more an estimate that was made by the Administration, rather than an actual figure.

Mr. MCCLINTOCK. And that was compensated. That is compensation for the damage. So that was compensated damage as opposed to the economic damage done by the government's policies, which has been uncompensated to the people affected.

One other quick question. Can you give me a picture of the number of rigs that have left the Gulf as a result of the government's policies, and any chance of getting them back any time soon?

Mr. SHAFER. Yes, sir. As I said in my testimony, the number of rigs that have left the Gulf of Mexico is 11. Relative to them returning, there is currently two of those rigs that are planned to return. One of them is off French Guinea, so it is off South America. And actually, the company that is the operator of that rig, Coldwell Energy, still does not have a permit to drill, which definitely opens up the question of if they will bring the rig back when they don't have a permit to drill.

And the other company is Murphy Oil and Gas, who actually is talking about divesting out of some of their Gulf of Mexico properties. So, again, the possibility of that rig returning seems to be declining rapidly every day for both those rigs. And of the rest of the rigs, there is no plans for them to return.

Mr. LAMBORN [presiding]. OK. We will go to our next questioner, which happens to be myself. So I will just jump right in. Thank you all for being here. At this point, I think we are beyond the fact that the length of the shutdown and slowdown in the Gulf was both unwarranted and unnecessary. We are at the point where we are trying to find out the lasting and ongoing impacts on job creation in the Gulf, and how to help revive the Gulf.

One of the problems we hear so often that affects business in uncertainty. With offshore rigs costing as much as half a million dollars per day to lease, uncertainty can be especially lethal for small businesses. As they scale down offshore operations and employees, all of the secondary and tertiary businesses follow suit. And the same is true of the mom and pop businesses in the local port cities, and even beyond the Gulf. Al Reese in his testimony noted the vendors and contractors in 42 States that rely on offshore operations.

So my first question for those of you on the panel who helped run a business, how many people do you employ now, roughly, and how many have you had to let go?

Mr. AUER. I have got—I don't know. I am at 22, and I don't think it is how many I have let go. It is what would be my capacity to expand. And I could probably double that, if we had some permitting stuff going the way it should be.

Mr. LAMBORN. Thanks.

Mr. KIEF. We have approximately 110 employees, and capacity to employ 125. And once again, my question is that there are companies like us that are avoiding layoffs by using capital and lines of credit to maintain our workforce. And that threshold is about to be

met to where we are going to have to discharge more people, and we are trying to avoid that, hoping that this system gets straightened in a quick fashion.

Mr. LAMBORN. OK.

Mr. KIEF. If not, we are going to have to do that.

Mr. LAMBORN. OK. Anyone else?

Mr. REESE. We have less than 100 people in our company, but we make use of suppliers, contractors, and people of that nature. Any time we drill a well, we estimate somewhere around 1,000 people are going to be impacted, whether it is the caterers, the boat owners, the people of that nature. Clearly, in the past year and a half, we pushed off three wells that I can think of sometime into 2013 or beyond. As I said, one of those rigs has left and gone over to Africa, and we are just waiting to get permits on two wells. So well over 3,000 just in three particular wells.

Mr. LAMBORN. OK, thanks. I will go on to my next question, and this is for Mr. Reese. The exodus of American manufacturing jobs is a story no one likes to be reminded about, but the reality is that our Nation is competing every day with the growing economies like those of China and India to keep jobs here. So when I hear about your company investing nearly a billion dollars building the ATP Titan, the first multi-column, deep-draft, floating, drilling, and production platform built in the USA, this is truly an American success story.

The Titan is on the cutting edge of technological innovation. From what I understand, it utilizes two blowout preventers, increasing safety through redundancy. Can you tell us more about what went into building the Titan, and things Congress might be able to do to promote more rigs being constructed right here in the United States?

Mr. REESE. Certainly. And I think part of it has to do with specifics to the industry, and part of it is just an overall working with more employment nationwide. We wanted to build the Titan, and we wanted it to be homegrown. It was built in Louisiana, and it was built in Texas. Those are the two ports. As I said, over 30 countries were involved in it. We sent checks to over 31 different States from employers for that, and that was all told about a billion dollars just for the Titan, the mooring, and the pipelines associated with that.

I think the main thing that we would like to see that would encourage us to continue to be here would be more general, and that is getting people back to work. How can we reduce payroll taxes? How can we give encouragement to companies that would hire people. ATP will use and utilize many of the contractors that are sitting here as we get more wells, more production, and the like. The main thing we need is the permits to be able to say, we are going to drill another well. We are going to build another Titan.

We have another one in construction right now that will ultimately be another billionish dollar unit. We are looking offshore Israel. And as a result of looking offshore Israel, we have already been to the groups here in Washington that can help fund that, Ex-Im Bank, and we believe there is a possibility that they may be able to contribute partially to that construction for the American component.

So these are the things that are going to be necessary. The other thing—and please don't take this wrong—I think a lot of things that the government can do is to, I will use the term, get out of our way. We don't necessarily need help. Every time there is a problem, we don't need government to solve it for us. If government can say this is a problem that belongs to the industry, this is something that we will be able to handle. The independents and the majors have been doing that for quite some time.

Mr. LAMBORN. Well, thank you for that answer. And I have to agree with you on that last point. It is just amazing that some people turn to government first, when I want to turn to the American people—the ingenuity, creativity, the hard work that we have seen in the hundreds of years of our Nation's history. It has been proven time and time again. So I love that answer. Thank you for being here, and thank you all for being here and for your answers.

And now we will go to our last questioner, Representative Thompson of Pennsylvania.

Mr. THOMPSON. I thank the gentleman. Gentlemen, thanks for your testimony. Mr. Reese, I want to follow up on the Titan that you just talked about. In your testimony, you noted that the blowout preventer was installed. Was that required by regulation?

Mr. REESE. The blowout preventer, yes. One blowout preventer is required. A second blowout preventer——

Mr. THOMPSON. You have two, right?

Mr. REESE.—is not required. We designed that into the system in 2007. Why? Because we felt it was necessary for a permanently moored rig to have two types of blowout preventers. It was not required, costs literally tens of millions of dollars extra to do that.

Mr. THOMPSON. Well, you anticipated my second question. I was going to ask why the second one, if only one was required. Thank you.

Mr. Craul, thanks for being here on behalf of the hospitality industry. We are going to a fair amount of natural resource extraction in landlocked Pennsylvania, and our hospitality services is booming as a result of it. We can't build hotels fast enough, and so which has been really good. I also understand that the hotel industry can be seasonal. I grew up in a small family sporting goods store, and we had a marina on a lake. Trust me, our window of opportunity was a lot less than 100 days, and I know how vulnerable that can be.

The losses that were realized, they were compensated with the vendors that were in the industry?

Mr. CRAUL. The answer was—they were compensated?

Mr. THOMPSON. Yes, were they compensated?

Mr. CRAUL. You mean from BP?

Mr. THOMPSON. Correct.

Mr. CRAUL. Well, that isn't over yet.

Mr. THOMPSON. OK. But progress.

Mr. CRAUL. There is plenty of litigation and so forth. There were some checks in the mail, but there were some businesses——

Mr. THOMPSON. That is how progress is put in place.

Mr. CRAUL. It was slow.

Mr. THOMPSON. Right.

Mr. CRAUL. But there is progress.

Mr. THOMPSON. Well, that defines government, slow, sometimes. I understand that, no matter what. Mr. Craul, there was some conversation to that, it is slow and it is ongoing. But since that time, frankly, with the moratorium, if the oil and gas industry is reduced by 25 percent permanently, not just slowed down now, but permanently due to a slowdown in permitting, I was wondering what the impact would have on your industry going forward in the long term, given we are talking about higher unemployment. We are talking about under-employment for some folks. We are talking about less wages, less disposable income, and loss of jobs.

The one job I just heard about was a toll pusher for over $200,000 a year. Does that have an impact on your industry long-term?

Mr. CRAUL. Absolutely. Yes, as I said in my testimony, we have a lot of States to our west where the people drive in to our market in Florida, and not just the Panhandle. They go down to Orlando. They go to Miami. They go all over the State. And so if there is a reduction in jobs anywhere within our drive market, it is going to have an effect.

Mr. THOMPSON. Right. And I don't think there is anybody going to come with any kind of compensation for that, and that will be a permanent pretty negative impact on our hospitality services.

Just a question for all the panel. Again, back in landlocked Pennsylvania, the Forest Service stopped issuing permits for drilling natural gas in my congressional district, and it was the National Forest. But that was over a year it lasted, and I got to tell you, it drove unemployment up significantly, and we lost not just the direct industry jobs, but the indirect jobs.

And I have heard a number of you gentlemen talk about the indirect jobs in pretty general terms. I was wondering, what are the specific jobs that would be considered indirect jobs? What are the kinds of jobs that have been driven out, that have been lost in these local communities and economies that your suppliers or resources, obviously the hospitality jobs? Any thoughts?

Mr. REESE. From the E&P side, I guess we kind of are at the top, meaning that we are the ones that do most of the employment here. Whether it is a drilling operation or a production operation, we have operators that are onsite. We have catering. We have boats. We have helicopters. All of that goes into what we do. And I will let these gentlemen that we would employ speak.

Mr. KIEF. We are in that category. We are in the towing business, and we move drilling rigs for the folks like Mr. Reese, and so we are being affected by that. Then the trickle-down happens to go into our suppliers, the people that supply goods like cable and rope and consumables and insurance and stuff like that. They are being affected further down the road.

Mr. THOMPSON. Yes, sir.

Mr. ZALES. And I would like to add just one thing, and I don't know how you calculate this. But when you get into our businesses, into the charter business—and clearly Representative Landry's guys in Louisiana, because, I mean, these oil workers are there. His for-hire guys have lost business, and I don't know how many there are that have left the business entirely. It trickles all the way down into that, and then it goes further than that into the people

that supply me, the support businesses, the fuel people, the tackle shops, the marinas. If I am hurting, they are hurting. So, it trickles all the way down.

Mr. KIEF. One more thing to add, we had a couple of guide fishermen, charter fishermen that used to work for us that got let go because we had to make some cutbacks, and that was one of the places where we had to start.

Mr. THOMPSON. OK. Thank you, Chairman.

Mr. LAMBORN. OK. Thank you. With the indulgence of the Committee, we will have a very, very brief second round. There is one Member in particular burning to ask some more questions, and then maybe one or two others. But I would like to recognize Mr. Landry of Louisiana.

Mr. LANDRY. Thank you, Mr. Chairman. I will be brief. I want to tell you, Captain Zales, that I remember last year when I was running for this office and coming up here to Washington, and sitting down with the head of the Realtors Association in the middle of the BP oil spill, and she just didn't know what she was going to do. Oil was on the beach in Florida, and I told her that the bigger problem was going to be the moratorium. I did tell her that, and she looked at me like she couldn't understand. I said, "I am telling you that oil is going to be cleaned up." You are not going to have anybody going back to the beach in Louisiana and Mississippi and those areas if you don't get people to work.

And so it is all a hand-in-glove industry. It just trickles down into every facet of our life, and it shows up at the pump for people in the northern part of this country.

Real quick, Cory, Mr. Kief, I would like to just ask you a few questions on SEMS compliance, safety environmental management system. Are you familiar with that?

Mr. KIEF. Yes, sir.

Mr. LANDRY. I had a discussion with Director Bromwich a couple of weeks ago in this Committee, where I talked to him about my concern about the scheduled implementation of SEMS, and he told me that he has not heard a word about the implementation of SEMS being a problem for the industry. Do you believe that?

Mr. KIEF. No.

Mr. LANDRY. OK. Well, my concern is that BP had a SEMS in place when the accident occurred. So, it is not something that is going to prevent another Macondo incident. But who do you think the implementation of the SEMS impacts more, the major oil and gas companies, or the small operators?

Mr. KIEF. The smaller operators.

Mr. LANDRY. Mr. Reese, are you familiar with SEMS?

Mr. REESE. I am very, very familiar with the concept of it. I do not deal with it on a daily basis. But we are going through that right now.

Mr. LANDRY. Do you feel like what Mr. Kief said is accurate?

Mr. REESE. Yes. It reminds me of Sarbanes-Oxley to a great extent. When we had Sarbanes-Oxley come in place, we came through a review that was impeccable. But the one thing we didn't have, we didn't have a whole lot of documentation. We needed to buy hundreds of three-ring notebook binders to make sure we did everything correctly.

Mr. LANDRY. Now, my suggestion, after talking to the industry, because the industry doesn't—is not opposed to SEMS.

Mr. REESE. No.

Mr. LANDRY. But my suggestion to the Director, which I would like to just ask all of your opinions—Mr. Shafer, you as well—whether you oppose it. And it is OK. You can, believe you me, I have no problem if you tell me it is bad and that BOEMRE go ahead and implement the audits of SEMS, but work with the industry before we start penalizing the industry, so everyone understands that they are getting into, both them and us. That is one idea. Do you all have a——

Mr. KIEF. Well, we instituted a SEMS plan starting in 2005, and it took us until 2010 to complete it. It took five years, and they are trying to compress it into one year, and that is the problem. In a nutshell, that is it.

Mr. LANDRY. You see, he can tell me no because he is a voter as well. Mr. Kief, how could we implement SEMS in a manner that allows the industry who has embraced it to get it implemented in the Gulf Coast without harming smaller operators?

Mr. KIEF. I think maybe some of the larger companies have the resources to do it, and then the smaller companies may not, not in as much time as they are being mandated to do it in. It is all about time.

Mr. LANDRY. It is a time issue.

Mr. KIEF. Yeah. I believe it is necessary, and it really does have its benefits, except that the transition pieces are wrong.

Mr. LANDRY. So long it took you five years instead of one year.

Mr. KIEF. Five years.

Mr. LANDRY. OK. Thank you, Mr. Chairman. I yield back.

Mr. LAMBORN. Thank you. I will recognize myself for one question. Captain Zales, could you fill us in on what your opinion is of the program that Mr. Feinberg is operating?

Mr. ZALES. It is a failure. For some people, it has been great. For the majority of them, it has been a time-consuming process. The fishing industry, whether it is charter or commercial, is very unique, and it depends on the area. There is no standard one-size-fits-all. And the program that was developed has kind of been a typical government-type thing that, here it is, and this is the way it works. And a lot of people fall through the cracks, and those people are struggling.

And it is like when they are talking about a small tugboat operation. When you are looking at a charter fishing or a commercial operation, my business is a family business. I am an only child. We have been in business 46 years and are struggling today to try to maintain that business because of the regulatory impacts that we have had from the Fisheries Service and everybody else.

And in this process, we don't have the resources to go out and hire attorneys and do everything that needs to be done to properly dot all the Is and cross the Ts. And it is a struggle to try to do that. And in that respect, it is a massive failure, and it is where they are putting time constraints on the process. Like I say, I mean, this GCCF thing is supposed to go through 2012, and they are claiming everything is going to be perfect after that, where clearly it may not be. And I hope it is, but it may not be.

And now that the trial is coming into play in February because the Federal judge said he is going to trial, now BP is looking back and saying, well, we will roll the dice here. We may or may not do this. So there is big fear within the fishing sector that this whole process may go away. And if we are not part of a lawsuit, then everybody loses out.

Mr. LAMBORN. OK. Thank you. That concludes our questioning. I want to thank all the witnesses for being——

Mr. MARKEY. Mr. Chairman, if I may.

Mr. LAMBORN. Certainly. I would like to recognize, just in the nick of time, the Ranking Member of the Committee, Representative Markey of Massachusetts.

Mr. MARKEY. Thank you very, very much. Again, a few notes here. There were 116 rigs in the Gulf right now, and there were 122 before the spill. So we are getting back to normal. The Wall Street Journal has reported last month that drilling has returned to near normal levels. There are 23 rigs currently drilling wells in water deeper than 3,000 feet, the same number as two years ago. So this is a hearing on where are we today. So that is where we are today, and that is good news.

The Gulf of Mexico production, in 2008, when President Bush was President in his last year, 2008, there were 1.16 million barrels per day drilled in the Gulf of Mexico. And in 2011, right now the estimate is 1.40 million barrels. So right now, under Obama's leadership, and notwithstanding all the problems that we have had down there, we are now ahead of what happened in Bush's last year.

So that is good news, and I think everyone should really be praising President Obama for dramatically surpassing President Bush in his last year, notwithstanding all of the problems that occurred in the Horizon spill. So that is good news for everyone out there as well. And that is 250,000 barrels per day greater than Bush in his last year.

And I might also add that in the crocodile complaints which we hear about the delay in the processing of any of these applications, again I urge the Majority to remove their block on adding the 20 additional engineers. OK. If you tie someone's hands behind their back who is asking for the help, which they need in order to get the work done, you can't then really with all sincerity then point the finger back at this person and say, you are not getting the work done. Bromwich is telling the Majority, I need 20 more engineers. You give me the 20 more engineers, and I will be processing stuff like it was chocolates on Lucy Ricardo's chocolate factory—what was that? Conveyor belt in the most famous "I Love Lucy" episode, OK? So they are ready to go and start to process these applications, but they need 20 more people. It just can't be Lucy Ricardo and Ethel Mertz. They need a few more people to help them out. And I think that whole chocolate conveyor belt which is the oil of the Gulf of Mexico will basically move a lot more quickly in terms of the applications process.

So again, I beg the Majority, give Mr. Bromwich the help that he needs in order to process these applications. And please let us not continue to have this false accusatory environment, where the very agency which has brought us to a point where it is 250,000

barrels per day in the Gulf of Mexico higher than Bush's best efforts up to his day in 2008, and then say that you are going to deny the success of Obama on the basis of how quickly the applications are processed, even as they are saying if you give us 20 more people, we will get it done for you, and at a pace that is consistent with what the oil industry wants.

So I guess I would ask each one of you down there, yes or no, would you want the 20 additional engineers to go on the payroll who could process these applications more quickly? Yes or no, right down the line.

Mr. SHAFER. I mean, I think——

Mr. MARKEY. No. Yes or no.

Mr. SHAFER. Yes.

Mr. MARKEY. Yes, yes. Thank you.

Mr. REESE. Twenty people at $35 million? That is $1.7 or $1.8 million per person?

Mr. MARKEY. Do you want the 20 additional engineers?

Mr. REESE. Not at that amount of money.

Mr. MARKEY. OK, good.

Mr. REESE. There is the problem.

Mr. MARKEY. Yes or no, do you want the additional engineers. Let us keep going down there.

Mr. AUER. I am going to hold my comments.

Mr. MARKEY. You don't have a view on it? OK.

Mr. AUER. No, not for you.

Mr. KIEF. Under those pretenses, no.

Mr. MARKEY. Oh, no. Interesting.

Mr. ZALES. And I am going to relay the National Marine Fisheries Service, absolutely not.

Mr. MARKEY. OK, great. OK, next?

Mr. CRAUL. No.

Mr. MARKEY. No? Yes, sir.

Dr. GALVEZ. Yes.

Mr. MARKEY. Yes. OK, thank you. Well, that is interesting to me. OK. And it helps to answer a lot of what is going on. You want to persecute the agency that is asking for help, and then claim that you are persecuted because they are not moving more quickly. And so that is kind of the interesting paradoxical situation that you put yourself in as witnesses. But I appreciate the difficulty of your dilemma. I yield back the balance of my time.

Mr. LAMBORN. OK. Thank you, Mr. Ranking Member. I would like to remind him that it takes five to ten years to bring a complicated, especially deep well, online. So when you count back five or ten years, I think we see where the credit really goes.

That will conclude our hearing. I want to thank the witnesses for being here. Members of the Committee——

Mr. MARKEY. If the gentleman would yield, I think you aimed at me. I think that you have to give President Obama some credit for degree of credibility, and having the worst environmental disaster of all time, and trying to give credit for President Bush for the success which President Obama has had after the worst environmental accident of all time, caused in fact by the dereliction of duty by the personnel named by President Bush to the MMS——

Mr. LAMBORN. OK. Reclaiming my time——

Mr. MARKEY. It is a very difficult line of logic to follow.

Mr. LAMBORN. OK. Reclaiming my time, I would also like to submit for the record testimony of Joseph R. Mason of Louisiana State University, dated October 12th. Without objection.

[The statement of Joseph R. Mason submitted for the record follows:]

Statement submitted for the record by Joseph R. Mason, Louisiana State University

Thank you for this opportunity today to submit a written statement on the lingering impacts of the Obama administration's six-month moratorium on offshore drilling for oil and natural gas. It has been one full year since this moratorium was officially lifted. Yet, U.S. federal energy policy today remains woefully out of balance.

These policies, or quite frankly lack thereof, have had severe consequences for U.S. domestic oil production since the moratorium was lifted. According to the U.S. Energy Information Administration (EIA), U.S. domestic production will decrease by 250,000 barrels per day (bpd) each year going forward under the current production policy regime. In particular, EIA estimates that, in the Gulf of Mexico (GOM) alone, oil production will decline approximately 14 percent both in 2011 and 2012 due to the administration's unwillingness to grant expedient and sufficient access to U.S. reserves.

In sum, not very much has changed in the Gulf region—and the country at-large—since my initial study on this topic in July of last year, "The Economic Cost of a Moratorium on Offshore Oil and Gas Exploration to the Gulf Region."

I. Continued Regulatory Burdens

The current regulatory framework charged with overseeing the U.S. oil and natural gas industry has continued to hamper economic growth generally and the oil and natural gas sector specifically. Since the offshore moratorium has been lifted, executive agencies such as the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) have worked tirelessly to prove their worth and flex their muscles. As such, new agencies like these regularly undergo dramatic power shifts before settling into anything that could be considered a stable role in the U.S. regulatory framework. And these types of power struggles and yearning for approval inevitably lead to rampant inefficiencies.

Jim Noe, senior vice president, general counsel and chief compliance officer of Hercules Offshore Inc., the largest shallow-water drilling company in the Gulf of Mexico, recently noted that, "the backlog of permits awaiting decisions within the Department of the Interior just reached its highest level since the Gulf spill 1 1/2 years ago."

The pace at which new permits for new wells are issued has come to an almost complete crawl. The current average is 5.2 per month; this level has not been evidenced since energy demand plummeted in 2009.

But laborious regulations and continued delays are not the only costs threatening U.S. oil and natural gas operations. The administration's continued advocacy of repealing Section 199 of the American Jobs Creation Act and Section 1.901–2 of the U.S. Department of the Treasury Regulations ("dual capacity") presents the industry with additional challlenges. Those changes would eliminate domestic and international tax credits for the U.S. energy sector. Although regulators are hoping to raise substantial revenues from the repeals, the fully-scored economic cost of the regressive legislation could further debilitate the oil and natural gas sector and most likely result in decreased tax revenues from the industry.

The Peterson Institute for International Economics detailed the harmful effects of the administration's new proposed taxation schemes. In a new policy brief, *US Tax Discrimination Against Large Corporations Should Be Discarded,* authors Gary Clyde Hufbauer and Martin Vieiro argue that, "If the targets of discrimination are the nation's largest firms, the country will find it harder to compete on a global scale in industries that require dedicated research, industries that exhibit huge scale economies, and industries that network across national borders." U.S. oil and natural gas firms are, by and large, some of the nation's largest and most internationalized of companies.

In looking at the political economy of new regulatory arrangements like BOEMRE, therefore, we must look with skepticism and concern upon both the political motivations of the regulatory officials charged with enforcing the rules, and the economic power that will be concentrated in those regulatory officials as a result of

their influence over the implementation costs and economic redistribution. Without restraint, a toxic mix of politics and power may damage both the industry and the environment.

II. Painful Consequences of Administration's Negligent Energy Policies

Using my July 2010 report's results—but also accounting for delays following the official end of the six-month moratorium—is it evident that regional economic losses continue to grow.

Table 1

Summary of Potential Lost Economic Activity

	Total GOM	Total U.S.
Output ($ Mil)	-$3,341	-$4,384
Employment (Jobs)	-12,935	-19,073
Wages ($ Mil)	-$772	-$1,119
State & Local Taxes Revenues ($ Mil)	-$155	N/A
Federal Tax Revenues ($ Mil)	N/A	$347

Note: Production were originally assumed to be stopped for nine and a half months, the delay at the time of the original study. Losses are expected to accrue over 12 months following the start of the moratorium, on May 30th, 2010.

Table 1 shows that output losses continue to mount with stalled development in the GOM, rising from $2.1 billion regionally and $2.8 billion nationally to $3.3 billion and $4.4 billion, respectively. Job losses are estimated to have increased from 8,000 regionally and 12,000 nationally to 13,000 regionally and 19,000 nationally. Lost wages previously estimated to amount to $500 million regionally and $700 million nationally are now $800 million regionally and $1.1 billion nationally. Finally, lost tax revenues estimated to be $100 million on the state and local level and $200 million on the national level now amount to $155 million and $350 million, respectively.

With the latest jobs figures released last week from the U.S. Bureau of Labor Statistics (BLS) showing national unemployment remains at 9.1 percent, we simply cannot afford to give up any more economic activity.

III. Conclusion

IHS Global Insight recently published a study that puts the impacts on jobs, energy production and local economies of the Obama's administration's precarious attitude toward conventional energy into clear context. The report states that, next year, releasing restrictions on "the [Gulf oil and gas] industry could create 230,000 American jobs, generate more than $44 billion of U.S. [gross domestic product], contribute $12 billion in tax and royalty revenues, produce 150 million barrels of domestic oil, and reduce by $15 billion the amount the U.S. sends to foreign governments for imported oil."

Nonetheless, oil and natural gas production is set to decline in response to higher taxes, onerous government regulation and greater political uncertainty. That means less jobs, lower wages, and lower gross domestic product (GDP) growth than would otherwise occur. Those are indisputable laws of economics, regardless if policymakers agree with them or not. In the spirit of hope, I look forward to the day the administration realizes the very real pain that its energy policies are having on U.S. job creation, capital allocation and broader economic recovery, as well as the environmental threats, political instability, and market volatility that come from meeting U.S. energy needs from foreign supplies.

Mr. LAMBORN. And Members of the Committee may have additional questions for each of you possibly, and if so, they will submit them to you in writing. We would ask that you respond to those in writing as well. If there is no further business, without objection, the Committee stands adjourned.

[Whereupon, at 12:14 p.m., the Committee was adjourned.]

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