

Economic Impacts of Proposed Modification and Revocation of Jones Act Ruling Letters Related to Offshore Oil and Natural Gas Activities

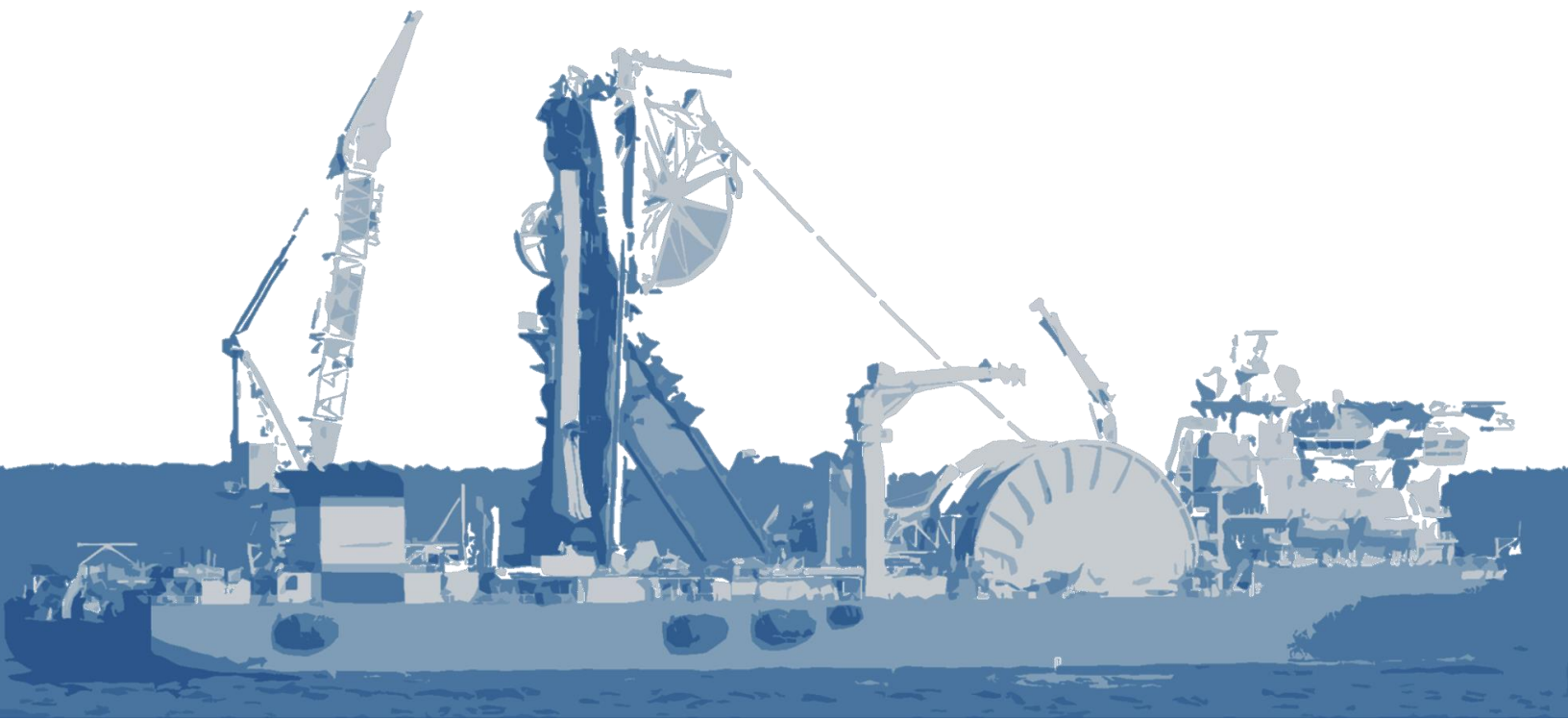
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Executive Summary

Introduction

The Customs and Border Protection Agency (CBP) announced proposed modifications and revocations to around 30 identified rulings, as well as additional unidentified rulings, related to the use of Jones Act (coastwise) vessels in offshore oil and natural gas activities on January 18, 2017. The modifications and revocations change long-standing rulings related to vessels transporting and using specialized equipment used in the oil and natural gas industry. The proposed modifications and revocations would likely fundamentally impact and change the development of offshore oil and natural gas projects on the U.S. Outer Continental Shelf (OCS).

Calash was commissioned by the American Petroleum Institute (API), to provide an independent evaluation of the potential impacts on offshore oil and natural gas project development and spending associated with the proposed changes. In addition, potential impacts on Gulf of Mexico oil and natural gas production, supported employment, gross domestic product, and government revenue were also projected. The conclusions set forth in this study are based solely upon government and other publicly-available data and Calash's own expertise and analysis.

Overall, given the time constraints and conservative assumptions associated with this study, it is likely that the costs and economic impacts presented represent a conservative projection of the impact of the proposed modifications and revocations. The impacts presented could be imprecise by as much as 10% or more for a variety of reasons, including government agency interpretations and enforcement decisions.

Impact of Proposed Modifications and Revocations on Gulf of Mexico Oil and Natural Gas Development

If the proposed revocations and modifications are finalized, the study projects a potential reduction in the total amount of Gulf of Mexico oil and natural gas activity, as well as the domestic content of future projects. The proposal would likely negatively influence development, as projects that are under development or have not been installed are delayed, and project economics and risk profiles are negatively impacted. The largest impact of the proposed changes is likely to be due to the inability to use foreign flagged subsea construction, reel lay, and heavy lift vessels to develop U.S. offshore oil and natural gas projects. Depending on the interpretation of the proposed modifications and revocations, a wide variety of vessels including mobile offshore drilling rigs, shallow and deepwater crane and lay vessels and well stimulation vessels may also be affected. Additionally, while U.S. installation content may increase, some activities which previously took place in the U.S. may move to other countries, impacting U.S.

employment (e.g. reeling of pipe, manufacturing subsea hardware and umbilicals and fabricating topsides and modules).

Total cumulative spending on offshore oil and natural gas development in the Gulf of Mexico OCS is projected to be in the range of \$460 billion between 2017 and 2030 or in the range of \$33 billion per year. If the proposed changes are adopted, the study projects cumulative spending from 2017 to 2030 to be in the range of \$385 billion, an average reduction in the range of \$5.4 billion (15 percent) per year.

Economic Impact of Proposed Modifications and Revocations

The study projects total employment supported from the Gulf of Mexico offshore oil and natural gas industry to rise from employment in the range of 300 thousand in 2017 to employment in the range of 520 thousand by 2030 under the base development scenario. The adoption of the proposal is projected to lead to a reduction in industry supported employment in 2017 in the range of 30 thousand jobs as projects are delayed, and a reduction in the range of 125 thousand jobs in 2030 due to reduced activity and U.S. content.

The Gulf of Mexico offshore oil and natural gas industry is expected to contribute an estimated \$25.2 billion annually to U.S. GDP in 2017, and is projected to grow to over \$42 billion by 2030. The proposed modifications and revocations, if adopted as written, are projected to lead to a reduction of GDP supported by Gulf of Mexico oil and natural gas activities of \$9 billion annually by 2030. The cumulative lost GDP burden of the proposal from 2017 to 2030 is estimated at \$91.5 billion.

Annual government revenues from Gulf of Mexico lease sales, rents, and royalties are expected to rise from about \$5.6 billion in 2017 to \$8.8 billion by 2030 under the base development scenario. Reduced oil and natural gas development projected under the proposed modifications and revocations is projected to lead to lower overall government revenues. This is primarily because of fewer production royalties being collected due to lower production volumes of an average of around 575 thousand barrels of oil equivalent per day (a 23 percent reduction). Reduced government revenues are projected to average around \$1.9 billion per year from 2017 to 2030.

Adoption of the proposed revisions and revocation of Jones Act ruling letters related to the use of non-coastwise vessels for offshore oil and natural gas activities in the U.S. OCS is projected to lead to significant delays in offshore exploration and development projects, reduced overall activity levels, and reduced U.S. content. This is further projected to lead to reduced activity and spending, which is projected to lower production, employment levels, and growth in GDP and government revenues.

Study Limitations

This paper has been limited in scope to the assessment of the effects of the currently proposed revisions and modifications to Jones Act rulings affecting offshore oil and natural gas development activity. Any further revisions to rulings are likely to have increased limiting effects on oil and natural gas activities in the U.S. OCS. Additionally, if the currently proposed revisions are interpreted in such a way that further decreases the ability of non-coastwise vessels to operate in support of oil and natural gas activities in the OCS then the effects of these revisions would likely be larger than what is outlined in this report. This would include changes which construe incidental movement as coastwise transport, and decreased drilling efficiency and availability if mobile drilling units are required to offload either consumables (casing, mud, etc.) or vessel equipment (marine riser, etc.).

The study also excludes potential supply chain reductions due to reduced activity levels in the Gulf as projects are delayed due to the adoption of the proposed revocations and revisions, as well as potential disruptions to the supply chain if larger marine construction companies which possess in house engineering and project management consequently exit the region.

The study has also excluded the impacts of activity in the Alaskan, Pacific, Eastern Gulf and Atlantic OCS regions, which would be greater if changes to the currently proposed 2017-2022 OCS Oil and Gas Leasing Program are made. As such, exploration and production activities in these OCS areas are projected to see similar disruptions under the proposed changes. The study also excludes potential impacts of expired leases due to project delays.

Overall, given the constraints and assumptions discussed above, it is likely that the costs and economic impacts presented in this study represent a conservative projection of the impact of the proposed modifications and revocations. The impacts presented could be imprecise by as much as 10% or more for a variety of reasons, including government agency interpretations and enforcement decisions.

Impact Summary

This study projects that the following impacts may result if the proposed modifications and revocations are implemented:

- A loss of up to 30 thousand jobs in 2017 and average decreased employment of over 80 thousand jobs from 2017 to 2030.

- Between 2017 and 2030, decreased Gulf of Mexico offshore oil and natural gas spending in the range of \$5.4 billion on average per year.
- An average reduction in oil and natural gas production in the range of 0.5 Million Barrels per day from 2017 to 2030.
- An average loss of more than \$4.3 billion of GDP from 2017 to 2030.
- An average loss of more than \$1.9 billion of government revenue per year from 2017 to 2030.



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