

IMPACTS OF PROPOSED LEGISLATION THAT WOULD CURTAIL THE USE OF FOREIGN FLAG VESSELS AND FOREIGN BUILT FACILITIES IN OFFSHORE ENERGY ACTIVITIES

POTENTIAL IMPACT OF THE LEGISLATION: CREATES A BACKDOOR MORATORIUM ON OCS ACTIVITY

It could drive the fleet of vessels required to support OCS development activity out of U.S. waters resulting in the following unfavorable consequences:

- Loss of American jobs nationwide - over 40 thousand in Louisiana alone;¹
- Heavy lift and construction vessels would not be available; exposure of worker to lifting risks would increase; potentially endangering U.S. workers;
- The most productive OCS activity and offshore energy development would come practically to a halt;
- Oil and gas production would decline along with associated royalties, rentals and lease sale dollars to U.S. Treasury;
- Energy security of the U.S. would be jeopardized as reliance on imported oil and tanker traffic would increase;
- Negative impact to local and national economy – a loss of \$15 million per month in direct tax revenues to Louisiana alone, and significant job losses;²
- Requiring 75% U.S ownership would cause economic hardships and jeopardize viability of companies. Additionally it would require re-financing, for which sufficient equity and debt is not available, and would hurt global competition. Specialty vessels and deepwater drilling rigs, and a number of other MODUs would likely leave.

WHAT WOULD THE LEGISLATION DO?

- Currently, specialty foreign flagged vessels with the majority of crew being U.S. citizens may operate in the Gulf in support of OCS operations with no U.S. ownership or build requirement. The proposed legislation would **OUTLAW CRITICAL VESSELS** required to support OCS activities including a **MAJORITY of drill rigs** working on the OCS; **ALMOST ALL seismic** vessels, **ALL heavy lift** vessels, **ALMOST ALL deepwater pipe-lay** vessels and **MANY CRITICAL construction and intervention** vessels required to support OCS activity, leaving the U.S. with **NO AVAILABLE REPLACEMENTS**.
- All facilities engaged in offshore activities would have to be American built, making many potential offshore projects – including alternative energy projects – and possibly lightering operations involving transportation aboard vessels from foreign countries – economically impractical and operationally impossible.

ARE FOREIGN FLAGGED VESSELS LESS SAFE THAN U.S. FLAGGED VESSELS?

- This is absolutely not true. All of the major ‘open registries’ adhere to standards, inspections and International conventions that are at least equal to, and in many cases exceed, those applied to the United States’ registry.
- There is no evidence to suggest that foreign flagged vessels and crews are unsafe, not well inspected, and operate to different standards than U.S. flagged vessels.

IS THERE A BENEFIT TO REQUIRING THAT FOREIGN FLAGGED VESSELS BE RE-FLAGGED IN THE U.S.?

- Re-flagging is impractical and provides no clear benefits that outweigh its substantial downsides.
- It provides no greater U.S. oversight for safety, because the Coast Guard already inspects foreign flag vessels operating offshore and has the authority to expand the scope of its inspection as necessary.
- When in U.S. waters (OCS), a foreign flagged vessel is already subject to taxation under the U.S. Internal Revenue Code provided it is not exempt pursuant to an applicable U.S. income tax treaty.

COULD U.S. SHIPYARDS BE EXPANDED AND UPGRADED TO CONSTRUCT THESE VESSELS?

- Yes, but the cost to do so would be prohibitive, the investment highly speculative, and it would take years to develop – in the meantime offshore production would be replaced by increased imports.

¹ Sen Mary Landrieu: Deepwater Horizon Oil Spill Commission Hearing testimony, New Orleans, LA July 12-13

² Michael Hecht: Deepwater Horizon Oil Spill Commission Hearing testimony, New Orleans, LA July 12-13