



“The Economics of the Gulf Oil Spill: the Energy Sector under Siege”

September 9, 2010

Guest Speaker: Dr. Loren C. Scott, President, Loren C. Scott and Associates

Summary written by Jane Schneider

Speaking to a packed house at the University Club in Memphis this September, economist Loren Scott quickly let his audience in on the ride they'd signed up for. During a rapid fire speech that gave a thumbnail sketch of everything from oil economic forecasting to the future health of the Gulf states' economy (as well as Scott's pro-energy, pro-drilling perspective), Scott's assessment of the energy sector following the Gulf oil spill was simple: the event could do serious economic damage on a regional and national level. Hardest hit, of course, are the states of Texas — and Louisiana in particular — regions whose economies are closely tied to offshore drilling in the Gulf of Mexico.

Scott's appearance kicked off the Economic Club's 2010 speaker series, which brings in business leaders and thinkers from around the nation. Loren Scott, president of Loren C. Scott and Associates, Inc., is a popular national speaker and economic consultant who has been frequently quoted in news reports on the Gulf oil spill. As Professor Emeritus of Economics at Louisiana State University, Scott's long academic career included service as chairman of LSU's Economics Department from 1983 to 1996. During that time, the department's ranking rose from 101st to 38th nationally, placing it among the top 50 university economics departments.

Scott launched into his presentation with several jokes, poking fun at college rivalries and Ole Miss grads in particular, before providing economic forecasting on the gas and oil industry. The average price of oil has steadily risen since the creation of OPEC in the 1970s, noted Scott, when the price of oil hovered at about \$20 a barrel. “Oil was initially easy to forecast when it was at \$2 to \$3 a barrel during the '50s to the '70s. Then OPEC comes in and it becomes wilder than a March hare,” he said. Since 2000, prices have skyrocketed to \$75 a barrel, where they hover today. Scott predicts that figure will notch up again in the next several years as the global economy continues to recover from the recession.

On the supply side, oil is plentiful, he claims, describing as yet untapped reserves that lie deep beneath the Gulf of Mexico, as well as in the vast oil fields of North Dakota and Brazil. “There is lots of oil,” he assures his audience, enough to supply the world “for the next 100 years.” Whether to drill and how to extract that oil remains up for debate.

But the recent Gulf oil spill has placed the energy sector “under siege,” said Scott. Despite outcry from environmentalists about the contamination the oil brings to fisheries and wildlife (many experts acknowledge no one can yet calculate the long-term impact of the spill), Scott says Louisiana's fishing industry has taken only a modest hit. He deftly side-stepped the issue of the effects of deep oil drilling done unsafely but acknowledged some fishermen will make more money providing clean-up services for BP than they will fishing this year. How next year's catch will be affected is, as yet, unknown. The tourist sector of the economy has also only experienced a short-term impact, Scott said, largely

effecting coastal communities in Alabama, Florida, and Mississippi. But the oil and gas sector stands to endure more significant repercussions.

He criticized the Moratorium Study Commission appointed by President Obama for having no petroleum engineers. Instead, the panel was “loaded with anti-fossil fuel folks.” The Interior Department’s first moratorium was struck down by a federal court. Secretary Ken Salazar then issued a new ban that extends until November 30. The purpose of the ban is to ensure more stringent safety measures are in place for deepwater oil rigs.

Several recent studies have been critical of the imposed deepwater drilling moratorium (which effects 33 floating rigs in the Gulf), citing the long-term loss of jobs in Louisiana and Texas. Those would largely affect offshore oil industry workers and ancillary business related to offshore drilling. Approximately 8,000 direct jobs are being impacted, although with a multiplier effect that number jumps to 30,000 to 35,000 jobs, estimates Scott. (This number is one also put forth by the Mid-Continent Oil and Gas Association.) Some experts say the the moratorium could be more costly to the Gulf coast states (and the country) than the spill itself, since roughly 33 percent of the nation's domestically produced oil comes from the Gulf of Mexico, as well as 10 percent of the nation's gas.

According to a report “The Economic Cost of a Moratorium on Offshore Oil and Gas Exploration to the Gulf Region,” by Louisiana State University Banking Professor Joseph Mason, the Gulf region stands to lose more than \$500 million in wages if the moratorium continues longer than six months. Scott notes that according to factoring by Morgan Stanley, there's a 60 percent chance of the ban lasting 12 to 18 months. “Even if the moratorium is gone tomorrow, there are more costs, as insurance companies are raising rates by 50 percent for deep water rigs. Congress has also placed a limit on liability that is being removed” he says.

Scott cited the cost of keeping big oil rigs shut down, rigs that command upwards of \$350,000 per day in operation costs. “They won't give up getting money when they can go elsewhere in the world,” he said. One answer is to shut down oil production in the Gulf, he said, “but since one-third of our oil comes from the Gulf, we can't close it down.

“Even if the spill was gone tomorrow, there's more cost. Insurance is raising rates on oil rigs and that type of move will drive the independents out. Exxon can handle that but now independents, they don't have deep enough pockets,” he says.

Scott pooh-poohs other alternative fuel sources as impractical, and considers wind turbines “stupid” because “the wind doesn't always blow.” Scott also claims people don't want windmills in many areas, and the fact that the blades kill many birds “doesn't get reported.” His energy-at-all-costs stance was accented by his inclusion of a photograph of a grizzly bear walking atop of a gas pipe, an image that elicited chuckles from his audience but underscores the real conflict that oil drilling in wilderness areas presents to the environment and wildlife.

“During the Civil War, the price of whale oil jumped 600 percent, forcing people to find other alternative sources. My thinking is let the market work itself out. It may force people to cut back on consumption or come up with an alternative.” Scott's charismatic delivery left audience members smiling but the issues he discussed won't be going away anytime soon.



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