

Drilling Moratorium Could Cripple State Economy

July 20, 2010 12:00 PM Ryan Rivet

rrivet@tulane.edu

The Obama administration issued a new offshore drilling moratorium on July 12 that extends through November. That decision ? as well as the federal government's appeal of a ruling that struck down an earlier six-month moratorium ? could spell major trouble for the oil and gas industry.



"If those rigs leave the Gulf, it doesn't matter whether the moratorium is over in six months; you'll be preaching to an empty choir," says Eric Smith, associate director of the Tulane Energy Institute. (Photo by Paula Burch-Celentano)

According to Eric Smith, associate director of the [Tulane Energy Institute](#) at the A. B. Freeman School of Business, a six-month moratorium could turn into a six-year shutdown of deepwater oil and gas exploration in the Gulf of Mexico because the rigs will simply be moved to where they can drill.

"If those rigs leave the Gulf, it doesn't matter whether the moratorium is over in six months, you'll be preaching to an empty choir," Smith says. "The drillers will be

somewhere else in the world, and the people who own those leases won't be able to go back to drilling.”

[Smith](#) says it's a question of economics. Deepwater rigs cost \$500 million to \$600 million to build, and their construction is typically contingent on agreements to use them for three to 10 years. The rigs' hefty price tag and limited availability of sites where they can be built have resulted in a shortage of the rigs, and other countries are actively pursuing them.

“The biggest unfilled demand for these rigs is in Brazil; they've publicly announced that they need 28 rigs,” Smith says. “If the rigs leave, it would be devastating to Louisiana and the whole Gulf Coast economy.”

Instead of shutting down the rigs, Smith suggests new regulations be put in place and experts be put on-site to enforce the rules.

“They can put retired drilling engineers, who are experienced in drilling these kinds of wells, aboard those rigs and give them the same power of bank examiners, who can shut it down without having to call anybody or have any debate. If they see people breaking the rules or cutting corners, they could give the order to shut it down because they wouldn't work for the operator or for a contractor.”