

REP. NICK J. RAHALL II HOLDS A HEARING ON THE DEEPWATER EXPLOSION'S STRATEGY IMPACT, PANEL 3 - COMMITTEE HEARING

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HOUSE COMMITTEE ON NATURAL RESOURCES HOLDS A HEARING ON OUTER CONTINENTAL SHELF OIL AND GAS STRATEGY AND IMPLICATIONS OF THE DEEPWATER HORIZON RIG EXPLOSION, PANEL 3

MAY 27, 2010

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WITNESSES: RANDALL LUTHI, PRESIDENT, NATIONAL OCEAN INDUSTRIES ASSOCIATION

JACK GERARD, PRESIDENT AND CEO, AMERICAN PETROLEUM INSTITUTE

MICHAEL HIRSHFIELD, SENIOR VICE PRESIDENT FOR NORTH AMERICA, OCEANA

MICHELLE FOSS, HEAD, CENTER FOR ENERGY ECONOMICS AND CHIEF ENERGY ECONOMIST, UNIVERSITY OF TEXAS

[\*] RAHALL: Our third panel is composed of Mr. Randall Luthi, the president of National Ocean Industry Association; Mr. Jack Gerard, the president and CEO of American Petroleum Institute; Dr. Michael Hirshfield, Ph.D., senior vice president for North America and chief scientist, Oceana; and Dr. Michelle Michael Foss, Ph.D., head of the Center for Energy Economics and chief energy economist at the University of Texas.

Lady and gentlemen, we have your prepared testimonies and, of course, they all will be made part of the record as if actually read and you're encouraged to summarize.

And Mr. Luthi, we'll start with you. Welcome back to the committee again.

LUTHI: Well, thank you, Mr. Chairman, and Ranking Member Hastings and members of the committee. Thank you again for inviting me to speak about the Outer Continental Shelf and the oil and gas strategy implications as a result of the tragedy in the Gulf of Mexico.

My name is Randall Luthi and I am the president of the National Ocean Industries Association, or NOIA, which represents over 250 companies working to explore for and produce both traditional and renewable energy sources from the Outer Continental Shelf. I became president of NOIA in March of 2010. Yes, just a couple of months ago. Our members are engaged in activities ranging from exploration to production, engineering to marine and air transport, offshore construction to equipment manufacture and supply, shipyards to communication, geophysical surveying to diving operations, and the development of America's first commercial offshore wind farm. The accident in the Gulf of Mexico and the recent tragedy in West Virginia remind us all that the development of energy comes with risk, a risk that must always be foremost in our mind and must be minimized or eliminated whenever possible. Indeed, America's innate pioneering spirit endures in the face of the most treacherous conditions whether that be the outer reaches of space, beneath tons of earth or miles below the ocean. We, the members of NOIA and the rest of the nation mourn with the families who have lost loved ones and pray that they may find comfort. We remember their sacrifice by strengthening our resolve to demonstrate responsibility, accountability, leadership and cooperation in the wake of this tragedy. This vital industry must regain the public's trust. Our members stand ready to provide information, expertise and a self-critique of offshore operations, equipment procedures and practices. We are committed to work with the administration, the Congress and particularly this committee to answer the many questions that rightfully are being asked. We are asking ourselves the same questions that your committee have asked and will continue to ask because one tragic and deadly accident is one too many. We are committed to finding out what went wrong, the cause, rather it be mechanical failure, human failure, some yet unidentified factor or a combination of all and fix it. To that end, you are witnessing a great cooperation among industry to find the cause and respond to the effects of this bill. Various task forces are working night and day to develop recommendations for increased safety and reliability. Nearly all our member companies and their employees live in the Gulf of Mexico region. This accident is

extremely personal to them. This is where they raise their children, their grandchildren and make their homes. Their neighbors are shrimpers, fishermen, boaters, tourism and the hospitality workers. It is important to our members to look after their neighbors by conducting their business in a responsible manner that puts safety above all else. As we've listened to the various press reports and testimony, there seems to be a common thread emerging. It appears that the technology to harness oil and gas resources has advanced by leaps and bounds, but it appears, and I underline appears, that the oil spill response technologies may not have kept pace. And that is why we are forming a response team of experts to make recommendations for robust and timely spill response and cleanup capability. We will seek participation from our sister trade association, response organizations such as the Marine Spill Response Corporation, as well as ecologists and scientists with expertise in oil, gas and the environment. The panel will examine the existing and cutting-edge techniques in subsea capture, surface containment and dispersal; the need to reconstitute an industry-funded response, research and development fund; and the need to harmonize differing response regulations between the Minerals Management Service and the U.S. Coast Guard. This team of experts will provide recommendations for the future. If there is a better mouse trap or a better way to use that mouse trap, I trust this team will find it. In closing, for the foreseeable future, we will continue to need energy resources produced every day on the Outer Continental Shelf. All forms of energy, both traditional and renewable, are available off our shores. It's our responsibility to provide that energy safely and in a timely manner. Now is the time to discuss the need for energy for our families and our economy. Now, is the time to frankly discuss the need for a diverse energy portfolio, including renewable fossil fuels, biofuels, wind, wave and tidal energy. We need them all and we can produce them all at home. And now is the time for a review of our industry both internally and externally. NOIA member companies remain committed to ensuring that we produce domestic energy and protect the safety of workers and environment. We look forward to working with the committee to achieve these goals. Thank you, Mr. Chairman and members of the committee. GERARD: Thank you, Mr. Chairman, Ranking Member Hastings and members of the committee.

I'm Jack Gerard, the president and CEO of the American Petroleum Institute. API has over 400 member companies which represent all sectors of America's oil and natural gas industry. Our industry supports 9.2 million jobs including 170,000 in the Gulf of Mexico related to offshore development business that provides most of the energy we need to power our economy and our life along the way. The tragic and heartbreaking accident in the Gulf was unprecedented and our thoughts and prayers continue to go out to those families who lost loved ones, to the workers who were injured and to all of our neighbors in the Gulf who were affected. Response to the accident has also been unprecedented. Our work will not end until we stop the flow of oil, clean up the environment, understand the causes and correct them. We owe that to our employees, to their families, and we owe it to the country. Safety is a core value for the U.S. offshore oil and gas industry. Companies and employees understand the significant risks of working in the challenging offshore environment and place a strong focus on safety training procedures and equipment. Offshore workers are the first line of defense against oil spills and other accidents on rigs and platforms. These hardworking, conscientious professionals are schooled in how to protect themselves and the environment. They actively observe each other's

behavior and remind their coworkers about safe operating practices. They work under a comprehensive suite of regulatory standards and frequent inspections that further reinforce their safety ethic. The industry's commitment to safety is real and strong, but the April tragedy in the Gulf clearly demonstrates there's more work to be done. All of us realize that we must do better. The process of improvement has already begun with the formation of industry task forces which provided input to the U.S. Department of Interior on improving offshore equipment and offshore operating procedures. That work will complement Interior's Outer Continental Shelf Safety Oversight Board and lead to enhancements to existing API standards and possibly to new API standards. API has helped create numerous standards on safety which we provide free of charge to all. The API standards program is accredited by the American National Standards Institute, the same independent organization that accredits programs at some of our federal laboratories. We fully support President Obama's plans for an independent presidential commission to investigate the spill. At the same time, we urge our policymakers to be careful in their approach so that any policies enacted don't have unintended consequences for our nation and our recovering economy. Proposals to halt or restrict offshore energy projects could result in hundreds of thousands of lost jobs, including many in the Gulf states, billions of dollars of lost government revenue and a sharp decrease in our country's energy security. President Obama and Interior Secretary Salazar struck the right balance when they recently reaffirmed the importance of domestic oil and natural gas production to the nation's strategy for energy and economic security. We can safely and reliably produce the oil and natural gas we'll need at home. For more than 60 years, our industry has developed the ample natural resources that lie off our coasts, and with rare exceptions has done so in a safe environmentally responsible way. We will address the safety issues related to this accident and continue to provide the energy our nation needs, keeping jobs and revenue at home while enhancing our energy security. It is important to take the time to understand the causes of the accident as we work to improve the safety and reliability of offshore oil and natural gas development. This knowledge will help the industry raise the bar on our performance and better inform policy choices related to offshore development. We will continue to support the Department of Interior, other agencies, and the president's independent commission in their efforts to learn what caused this accident. Thank you, Mr. Chairman. I look forward to your questions. HIRSHFIELD: Mr. Chairman, Mr. Hastings, members of the committee, thank you for the opportunity to appear before you today. I'd especially like to thank Chairman Rahall and all of you for your work to address the daunting issues of energy policy, climate change and the many threats faced by our oceans. My name is Michael Hirshfield. I'm the senior vice president for North America and chief scientist for Oceana, a global conservation organization headquartered here in Washington, D.C. Oceana's mission is to protect and restore our world's oceans for the sake of the fish, wildlife and people that depend on them. Today, I will discuss the need to protect our oceans from the all too visible threat posed by offshore oil drilling in the United States.

Last year, Oceana's board member, Ted Danson, testified before the full committee on this subject and our Pacific science director, Dr. Jeffrey Short (ph), testified at a joint subcommittee hearing. At both hearings, Oceana stated our opposition to expanded offshore oil drilling because the risks were too great and the benefits too small. In the light of the Gulf disaster, we call today on Congress and the administration to suspend all pending approvals and ban all new

drilling in the Outer Continental Shelf indefinitely. In place of expanded offshore oil drilling, the United States should begin the transition to a clean energy economy. Mr. Chairman, I wish you didn't have to hold this hearing. For years, the oil industry has told us all that offshore oil drilling was safe. They repeatedly downplayed the risk and oversold the benefits. They tried to convince us that catastrophes like the Deepwater drilling disaster could never happen. I could easily fill my time with embarrassing industry quotes. I will spare you that. Yet, we should not have been surprised by this catastrophe. Just last year, a new shallow water drilling rig off the coast of Australia had a blowout similar to the one in the Gulf. The Australian rig spewed roughly 17,000 gallons of crude oil daily into the Timor Sea for about 75 days. As is now painfully obvious, so-called fail-safe mechanisms do fail and we lack effective means to stop ongoing oil releases or clean them up. I want to make a special point about the risks of drilling in the Arctic. Imagine this disaster occurring in the ice, in the dark, in extraordinarily rough seas and without the enormous response capability we've seen in the Gulf. We appreciate the reprieve that President Obama will be giving the Arctic for this summer, but the fundamental problems will still remain. The Arctic should be taken off the table for good, as should the rest of our coastline. We now hear calls for action to ensure that this will never happen again. We all wish that could be the case. Let's be honest. We know another offshore oil drilling disaster will happen. Don't know when, but it will happen and it will be caused by another unexpected combination of technological failure and human error. The industry is asking us to play a game of environmental roulette and they are taking aim at a long list of targets. Will we see oil foul the beaches of the Atlantic seaboard next? The Pacific? The Arctic? Four years ago, President Bush acknowledged that America is addicted to oil. Just last week, Senator Murkowski said, "We all agree that we need to minimize our use of oil, but we will continue to need it for a long time." Unfortunately, the conversation seems to be all about how long we'll continue to need it, not about when we get serious about minimizing it. But when do we start? America's answer so far seems to be we'll start tomorrow. We're acting like the addicted smoker buying just one more pack of cigarettes promising to quit, but never doing it. So tomorrow never actually comes. The oil industry's answer is much clearer. They'll stop drilling for oil when all the oil is gone. If it is left up to the industry, our addiction will never end. So the question remains: Will we learn the correct lesson from the Deep Water drilling disaster and finally end our oil addiction? Oceana urges Congress to take these three steps to set America on course towards a new energy economy. One, immediately and indefinitely suspend all approvals, activities and processes other than current production related to offshore drilling. Two, ban all new offshore drilling and provide permanent protection for the areas previously subject to moratoria. Three, pass legislation that provides for a more efficient, clean, carbon-free energy future that emphasizes the development of renewable sources of energy. In closing, I'd like to read one more quote again from President Bush, quote: "By applying the talent and technology of America, this country can dramatically improve our environment, move beyond the petroleum-based economy and make our dependence on Middle Eastern oil a thing of the past." I couldn't agree more. Thank you. FOSS: Mr. Chairman and members of the Committee on Natural Resources, I'm Michelle Foss, chief energy economist and head of the Center for Energy Economics based in the Bureau of Economic Geology, Jackson School of Geosciences at the University of Texas. Perhaps more importantly today, I'm a South Louisiana native, so you can imagine how I feel about a lot of the things that have happened over the past few weeks. In April 2004, I presented

testimony on the importance of research and development, ultra deepwater exploration and production activities. I'm going to try to make my remarks as dispassionately as I can. As an economist, I think there are immeasurable benefits of hydrocarbons in our economy, the use of oil and gas in our economy, not only in the United States, but worldwide. If we were to take everything out of this room that was made in part from or through the use of hydrocarbons, there would be nothing left. It's been that way for a long time. There is a tremendous amount of energy contained in these molecules. That's why they are so important. That's why human beings have used them so widely. That's why the energy challenge we face is so difficult. It's why the economic tradeoffs are so tough. It's why the decisions are so important. I have four key points to present to the committee as you make your deliberation. We have large resource endowments, but our reserves have to be replenished. This is what drilling is all about. Exploration and production activities are designed to take what we believe exist in resources and convert them into proved reserves that we can produce and use every day. The industry has done that steadily. Just looking at oil, we have produced since 1900, and used, 197 billion barrels of oil in the United States economy alone, while increasing our reserve base through industry activities, and that's using U.S. government data from the Energy Information Administration. The second key point is that domestic reserve replenishment is linked to economic benefits. At this point in time, in this situation, people have not had a chance to take a look closely at the economic impacts associated with some of the ideas that are being proposed to ban drilling. The closest thing is a report that was completed and submitted in February of this year under the umbrella of the National Association for Regulatory Utility Commissioners using the National Energy Modeling System which is maintained by the U.S. Energy Information Administration. That report gives us an idea of the amount of resources and reserves remaining in our continent alone, which is substantial. It also gives us some ideas of the economic effects of maintaining moratoria and we can translate that information into the likely effects of what would be considered through some of the things that are being discussed. Through 2030, the research found nearly 13 million jobs less than what we would have in a base case; a roughly 17 percent increase in average natural gas prices; a roughly three percent increase in gasoline prices; a roughly five percent increase in electricity prices; reductions in real disposable income; increases in energy costs for a variety of different kinds of energy consumers. And of course, this is why as was pointed out earlier by one of the members of the committee, this is why these decisions are so important. The oil and gas industry, as has been stated already, is a very important part of the economy of the Gulf Coast. The economic implications of reducing drilling or banning drilling would have a large and substantial effect on all of the communities and the states' economies that would be difficult to remediate. The third point is the impact of energy costs, including the cost of alternatives, on households. A great deal of work has been done on this front over the years. Since 2000, roughly 2001, for households that are roughly \$50,000 in income, energy costs rose to about 20 percent of the share of household disposable income. So you can get an idea of people who would be most heavily affected by this. My final point, point four, future sustainability of the oil and gas industry must be assured. Everything that I've said in no way alleviates anyone from any of the responsibility of doing the right thing, whether it's the private sector or the public sector. People have to operate responsibly. They have to develop best practices not only in this country, but worldwide because we're not the only country that is pursuing oil and gas resources offshore or in deeper waters. I believe that there are ways of

developing technologies to ensure that the industry can continue to progress. I've provided some ideas of that in testimony. I think they require careful thought, sincere stewardship, careful research, careful development and deployment of the right kinds of practices. Regulating any industry is a tough job. Overseeing government activities is also a tough job and these are all things that everyone has to really work hard to get done the right way. But in the end, I think we'll be able to find solutions to these problems and continue to benefit from the power of the resources that are ours to use as human beings. Thank you very much. RAHALL: Thank you all for your testimony.

Let me ask my first two -- or my first question to both API and NOIA. Mr. Gerard and Mr. Luthi, what are your positions on the announcement by the president today that he's willing to put a six-month -- or that he will put a six-month hold on new deepwater drilling, canceling the Virginia lease sale and the western Gulf of Mexico lease sale, putting the already exploratory drilling off for a year, and directing new safety standards and regulations? GERARD: Thank you, Mr. Chairman. We understand the legitimate concerns that the public has and particularly at this time, the frustration we all share with the ongoing tragic incident in the Gulf of Mexico. However, I think we also need to recognize that the issue in the announcement made today by the president is much bigger than just the oil companies and the oil industry. It impacts every man, woman and child in our society. As Dr. Foss just mentioned a moment ago, we have come to rely on oil and natural gas for 60 percent of our energy needs in the country today. We certainly hope that the president's announcement of the moratorium does not turn into a moratorium on economic growth and job creation. RAHALL: Mr. Luthi? LUTHI: Thank you, Mr. Chairman. We too are looking at it very closely. I notice you mentioned this morning, you know, only in Washington do you know what's in an announcement before you get the announcement. And as you know, I have been sitting here rather than reading the announcement. I'm paying attention to the committee. But here are the things we're concerned about. Certainly, everyone wants to look closely at this accident and find out what happened and I think that still should be the major goal of everyone in this -- in the committee, everybody in the industry. Let's find out what happened, see what we -- you can do to fix it. You also have to -- then as the committee goes forward, I think you have to look at an overall approach of how best to talk about offshore resources. And you don't talk it necessarily in the immediate wake of a -- of a terrible accident, which this is, but you keep in mind the economic factors, you keep in mind that approximately 200,000 jobs are related to the oil and gas industry in the Gulf of Mexico and you also look at the process itself. For example, delaying lease sales might be a little premature. Lease sales are generally done well in advance of actual, you know, exploration, but again, I think it needs to be taken in the entire context as you move forward, and we stand ready to help the committee identify issues to look at should we be asked to do so. RAHALL: Dr. Hirshfield, Secretary Salazar has testified in earlier hearings that a categorical exclusion was used in approving the B.P. drilling permit for the Deepwater Horizon because the Gulf is, quote, "An area where we know a lot about the environment," end quote. Do you agree with that statement? HIRSHFIELD: I do not. One of the things that we've learned over the years is we may think we know a lot about the environment. We may think we know about fish. We may think we know about turtles, but what we don't know is what happens under the ocean. We really don't have a clear picture. These categorical exclusions result in very, very cursory assessments of the resources at risk,

long catalogs, long -- you know, long stapled-together lists including in the case of -- as I've read, B.P.'s plan, you know, how to -- how to address the issues associated with walrus, a cut-and-paste that, you know, didn't... RAHALL: They've been used quite a bit then?

HIRSHFIELD: Yes, they did not do a good job of cutting and pasting their plan. So categorical exclusions should be eliminated completely from this industry. RAHALL: Completely?

HIRSHFIELD: Completely.

RAHALL: All right.

Mr. Luthi, as a former head of MMS, you have a unique insight into the problems plaguing that agency. Do you believe there's any way we can fix MMS? LUTHI: Thank you. And that is -- it was my honor, Mr. Chairman, to head up MMS for a period of time. There comes a time, however, you know, when you -- when you come into anytime an agency, I think you look at, you want to make it the best it can be. I don't think there's any director that doesn't come in with that goal in mind and do everything you can to make it better. But there comes a time when the perception is so great that it cannot be made better that you have to look at other options. And certainly one of those options the committee is looking at today was dividing the agency up. And we certainly, again -- what we would like is if it makes, you know, energy development and restore the public faith in the -- that we can indeed do energy development safely. We're certainly supportive of changes in the MMS. RAHALL: Do you think we can still restore that image or is it too gone -- too... LUTHI: Well, I believe, you know, we need -- that's part of the option. As I understand, dividing it into three agencies probably doesn't leave a whole lot left. RAHALL: OK. But does it get to the root of the problem? LUTHI: I certainly hope so. I think things you want to look at are make sure that there's a strong chain of command and a strong chain of communication from top to bottom. I would suggest that everyone read those inspector general reports both in 2008 and the one that was released last week. Make that required reading for any regulator, as well as industry. It shows where potential problems lie. RAHALL: Employees as well? LUTHI: Absolutely, employees as well. RAHALL: OK. I'm out of time.

Mr. Hastings? HASTINGS: I just want to follow up on the chairman's line of questioning as it relates to MMS. MMS is an administratively created agency. Do you think they ought to be statutorily created? LUTHI: Congressman Hastings, that's certainly a option that's not in my purview anymore. I can give you some general thoughts. Having it not being -- going through the organic act and the legislative created problem actually allowed Secretary Salazar to make sweeping changes in a hurry. That's probably -- that could be a pro or a con depending on how you look at it. Having it in an organic act and depending on what you do with the approval process or rather at Senate confirmation, can change the structure, can make it either more wieldy or yes -- or less wieldy. So once again, that's something that Congress will need to talk about. HASTINGS: Well, on something as large as from an environmental standpoint as the incident in the Gulf of Mexico, I -- that's why I asked that question. You -- do you have the flexibility or are you building in a rigidity that you can't resolve? And then, of course, if you don't - - if you have the rigidity, then that could be a potential problem. If you have the flexibility, that flexibility becomes a whim of whatever the administration's political thoughts are, and sometimes that may not work either. So I just asked the question as somebody with your background to get an idea.

I -- one of the interesting things, this hearing, as you know, was scheduled before the incident happened in the Gulf of Mexico and it was to be the response of the president's announcement on OCS, and I think we all thought when that was scheduled that it would be something that we could build upon. The last two days, it seems to have evolved, and you have a great deal of patience sitting out listening to all this, into some theater. I won't try to characterize that theater because I think that -- I think we really need to get this thing stopped and cleaned up and then -- and go from there.

But having said it, there is a common thread that has been asked by a number of members that I think are -- is important anyway. And Mr. Luthi, you reference this in your testimony where your organization is going to build -- develop a response team to cleanup techniques. I think you said something to the effect that if there's one thing that is really lacking in technological improvements it's the cleanup techniques. I agree with you. I think that that is an area where you need to put top priority and get as many organizations involved with that because, you know, this will be -- this will be stopped at some time. The demand, however, for oil and gas will go on. I'm a believer that we ought to be developing the OCS and I -- and we ought to be developing other areas because that is a major part of our energy, but if we can find a good way or in order to get the technology advanced on cleaning up, I think we'd be making great, great strides. Do you have a timeframe as to when you can get some preliminary information back?

LUTHI: I do not, Congressman. We'll be putting together the response team, as we're calling it, within the next few weeks and, of course, we'll operate as rapidly as possible. One of the things that we'll certainly want to know is how the response continues through the next few days, weeks and months. But it certainly will be done. We want it done correctly. We don't want to rush it. We want to be able to give a quality product.

HASTINGS: Well, I totally agree. And with the advances in technology in a number of ways -- in fact, the technology, you know, in drilling, I mean, the -- I thought the figure was since 1969 was something over 36,000 wells drilled. I found out in testimony it's over 40,000 since the last incident. Now, you know, that's pretty good because if -- and I'm not -- you know, we live in a society where there's some risk. If we take everything out of our society where there's a risk or an accident, we won't even be flying airplanes because we had a crash of an airplane here just yesterday in India. Now, if we were to apply exactly the same what some are advocating that, OK, you know, this happens, so therefore we should stop all production, then by the same logic, we probably shouldn't be flying in airplanes. And I dare say unfortunately somebody will probably be killed in a car accident someplace in the country today. Does that mean that we're going to not drive cars? Of course not. I mean, we -- you know, the nature of human nature is to, you know, challenge the risks that we have and try to overcome that, and I think that's exactly the challenge that we have here with the OCS. And Dr. Foss, I would just simply say, which hasn't been said at any of the hearings, the byproducts that are -- of the oil and gas industry is -- it would probably boggle a lot of people's minds how broad that is. In fact, I would suggest, if I'm not mistaken, I think the 787 is an example of that, just to kind of connect the dots. Thank you very much, Mr. Chairman.

RAHALL: The gentleman from California, Mr. Costa. COSTA: Thank you very much, Mr. Chairman. I've got a lot of questions and not a lot of time.

I concur with the gentleman from Washington's comments. I mean, life is not without risk. And what we do -- what we tend to not do very well, in my view as members of Congress, is

adequately weigh risk assessment with risk management which was a question that I asked the secretary yesterday. Mr. Gerard, the -- while the president made the announcement today, there's been speculation that this was going to happen over the last 48 hours or so. Have you folks made any determination as to what the potential economic impacts may be over the next six months as a result of this moratorium? GERARD: We haven't done any analysis internally. I would say Wood Mackenzie did some earlier projection. I don't know if you've seen that report or not, Congressman. COSTA: No, I haven't. GERARD: I'd get that to you. They -- in a recent report, they found that a six-month moratorium on new drilling activity that result in the reduction of about four percent of the production out of the Gulf of Mexico. COSTA: OK. I'd like you to give a sense -- I mean, we're going to have to do those numbers and obviously move forward.

Mr. Hirshfield, you talked about a more efficient source of energy that is carbon-free. I think (inaudible) a lot of (inaudible) would like to see that, but what you fail to do, it seems to me, is to fill in the blanks, and that is that every president since 1973 when we had our first gas lines, has talked about reducing our dependency on foreign sources of energy, reduction on carbon energy, but every Congress and every president since that time has attempted to enumerate policies to get there. And obviously we're dependent upon more source of foreign energy, primarily carbon energy. And what do you think is lacking? And where -- you didn't talk about the economic dislocations. And the poor people in this country that are suffering -- right? -- as result of this recession, notwithstanding the middle class, how do you attempt to try to address those issues? How do you get there from here? I mean, there's not a magic wand.

HIRSHFIELD: Yes, I'm not -- I do not want to imply that there's a magic wand. I am certainly not suggesting that we could possibly stop using oil today. What I'm asking is when do we stop continuing to dig the hole deeper? We're in a hole. We agree that we're addicted to oil. We agree that it's time to move on. COSTA: No, I... HIRSHFIELD: B.P. agrees that we need to deal with climate change and put a price on carbon. I think it's high time this country... COSTA: Some of the major oil companies have talked about a carbon tax and... HIRSHFIELD: Yes. COSTA: ... I commend them for that. HIRSHFIELD: We certainly hope this committee and this Congress... COSTA: I mean, I think this is really out of your area of expertise and then therefore it's probably not a fair question, but I -- but until you link the two in terms of the economics in a way that shows a path to getting there, which is why I'm going to go to the person next to you... HIRSHFIELD: Well, Senator Sanders introduced legislation today that proposed to link fuel efficiency improvements, which we could do, we could -- we could move this nation towards the fuel efficiency standards that they have in Europe, that they have in China and that we're moving toward... COSTA: Well, we're moving (inaudible). We passed that in legislation last year. I supported that. HIRSHFIELD: I'd like to see a -- I'd like to see a six-month commission, blue-ribbon panel from the president that spends as much time and energy focused on how do we get off of oil, as we do to how do we keep this kind of catastrophe from happening again. Thank you. COSTA: Yes.

Dr. Michelle Foss? FOSS: Michelle. COSTA: OK. I was very intrigued with your testimony because one of the things I've always felt in looking back over the last 30 years, notwithstanding all the rhetoric, is what has been lacking is a plan that has the interim, the mid-term and the long-term in terms of the -- an economic pathway to get there, realizing that we're going to continue to be dependent upon a source of carbon for a time period as we develop a robust

renewable portfolio, as we deal with the -- because in your testimony, you talk about the economic dislocations and the tradeoffs. And frankly, until we get some willingness in a bipartisan fashion to agree on that path over a 20-year period, and get bipartisan buy-in and continuity to stick with it, I don't see how we get there from here. Could you comment on that? FOSS: It's very difficult. COSTA: What's been lacking? FOSS: What's been lacking? Well, my views are going to be a little bit different, I think, than what often gets... COSTA: Do you -- do you support a carbon tax? Not a cap and trade. I'm just talking about the Tom Friedman-type of 50 cents, a dollar, whatever. FOSS: I'm going to bail out and say that for... COSTA: You're agnostic? FOSS: I'm -- no, no. Most economists would prefer a transparent carbon tax. It's easier to be able to understand how it's going to apply. You can understand what is effective. It's easier to measure the impacts on businesses and consumers and society in general. And so generally speaking, I think most economists -- any well-trained economist is going to be much more comfortable with a transparent tax. Now, having said that, I think that one of the things that we've struggled with for a long time is how do you properly direct, especially public resources which are constrained, because business resources will come into research and development in search of opportunities. Public resources are a different matter because we have scarce resources and we need to use them for a lot of other things -- education, health care and everything else. How do you direct public resources into energy research the right way? We've tried a lot of things over the past 35 years. We have to get back to basics and understand that to a certain extent, physics, chemistry, thermodynamics are working against it. And if you go from higher forms of energy to lower forms of energy, if you lose energy density in order to try to take advantage of something that looks good like alternative energy systems, there are real costs and tradeoffs associated with that. And that's really the problem. I mean, it's a technological technical, physical, chemical problem that we have to understand. I actually think that we should spend more of our time focused on materials because as Mr. Hastings pointed out, it's the byproducts of hydrocarbons. What we do with the molecules, the things we make with them that are so difficult to replace, because everything we use, everything that we build and manufacture, everything that we derive economic benefits from in some way or another takes those molecules and combines them to give us the things that we use -- the tools, the implements, the machines, the computers, the electronic goods. And so materials research, how do we -- how do we find new compounds? What are we going to replace those molecules with? Where is that going to come from? That's actually a bigger problem than replacing the energy in many respects. There are a lot of different things that we can do and deploy in recognition of the tradeoff and recognition of the cost that can supplement energy, including more efficient use and so on. But the materials problem is a really big one. COSTA: Mr. Chairman, I know my time's expired and the witness's time is expired, but I really think that this, as we address the challenges with this tragedy and this disaster, the larger question is really focused in terms of where this country goes in the 21st century is at the heart of her comment. And until we're willing to deal with that in a depoliticized manner that just involves common sense in how we get there, I'm not so sure how we're going to ever have a comprehensive energy policy that tries to achieve the goals that I think in a larger sense many of us share in common. RAHALL: The gentlelady (Inaudible). (UNKNOWN): Thank you, Mr. Chairman.

I find myself in the embarrassing scenario of having a meeting at 3:30 and I'm just getting to questions. So please excuse me if I ask questions that I really want to read your answers to, and then maybe bug out before we have a chance to hear your answers expressed verbally. But two questions for Mr. Gerard and Mr. Luthi, and then one specifically for Mr. Luthi. What steps is the industry taking right now to evaluate their OCS operations and technologies? And then further, is the industry generally, the oil and gas industry, opposed to stricter offshore safety standards and can they make recommendations? Are they willing to participate in the discussion of additional safety standards that really do make sense? And then my question for Mr. Luthi, I know that you were late in the game in the last administration regarding the MMS, but you came in at a time when the agency was in turmoil in terms of the public perception and it's been acknowledged up here that when an agency -- the confidence is lost in an agency, it's difficult to restore, which may be some of the rationale behind breaking it up to where there's no longer such a thing as the MMS. But do you find that the personnel rules and having unionized employees, as we learned yesterday is true with the offshore inspectors, is an impediment to making a dramatic change in a federal agency when a dramatic change is warranted because of this lack of public -- or loss of public confidence? So thanks, those are my three questions.

GERARD: I'll be -- I'll be very brief, Congresswoman, and I'll give you a written answer to the rest, if you'd like. (UNKNOWN): Thank you. GERARD: What have we done with an industry? Shortly after the tragic incident in the Gulf, working with the secretary of interior, we established two industry task forces. We got the best minds together in the industry. We looked at two fundamental questions: the equipment we're currently using in the deep water and our operating procedures. We've made recommendations to the secretary and likely perhaps we'll see some of that in the president's announcement today. I haven't seen the details of that. We identified nine or 10 key areas that we thought we could do that were not currently in the regulatory process that would improve and reassure the public further redundancies, et cetera, that we're operating in a safe fashion. To your second question, very quickly, the industry does not oppose safety standards. We take safety as a top priority, as you've heard today from some of the others. In fact, we lead with our standard-setting process and in 1993 put together a comprehensive safety management program that's been updated three times, and recently has been under consideration by the Minerals Management Service to be adopted as their broader regulatory scheme in the industry practice. And I'll get you a lot more detail if you'd like to hear more about that. (UNKNOWN): Thank you. LUTHI: (inaudible) should be on the forefront of recommending and the final key to that is again finding exactly what happened. Then that's going to help hone in on the -- you know, what needs to be changed. Personnel rules -- let me give you a quick example. MMS in 2005, 2006, rumors started floating around about improper activity in the Denver office. MMS asked the inspector general to look at that and investigate that activity. That investigation and report was not released until 2008. So you have a two-year period when basically -- and you're -- and you're also told, by the way, that you don't -- you're not supposed to take administrative action, at least serious administrative action, until the report is complete and released. So there's -- I've always felt that if you have a consequence close to the event that it's certainly more effective. Now, the same -- and so in 2008 when we got the report, within 30 days, we had disciplinary action well started and on the board and again it was just somewhat frustrating. You saw it again this week. Events between 2005 and 2007, the report is completed in 2010. Now -- so if there were some way to make the ability of federal

managers to be able to provide that disciplinary action, and it needs to go through the channels to -- you know, for proper safety and in terms of employee rights, but that would be one recommendation I would hope the committee might want to look at. (UNKNOWN): Mr. Chairman, thank you very much. CHRISTENSEN: Thank you, Mr. Chairman, and thank you, witnesses, for your patience of being here pretty much all day.

My first question would go to Mr. Luthi and Mr. Gerard and I applaud your commitment to provide -- to improving the safety going forward, the task forces that you've created and so forth, but I happened to be watching Rachel Maddow last night and she was flashing back over 20 years to another oil spill and the response, and it didn't seem -- now, I'm sure that this was edited for effect, but there didn't seem to be much difference in the response now to the response 20 or more years ago. So could you give us a sense -- I mean, the technology of the drilling, the depth of the drilling, all of that has really changed dramatically over that time. Could you give us a sense of what National Ocean Industries Association and API have been doing in that period of time to improve the response and the cleanup and the safety? GERARD: Absolutely. Thank you for the question.

Secretary Salazar said something yesterday that wasn't expanded on, but I think it goes to this point, Congresswoman. It's a very important one. He commented, without the preparations or things the industry's been doing over the past 20 years, we wouldn't have the unprecedented response that we have today. When the Oil and Pollution Act was passed in the early 1990s, it established recovery organizations. And today, there are around the country over 140 oil spill recovery organizations. These are funded by the private sector and they have developed equipment. They have response capability. They train with the Coast Guard. Just recently, I believe, in New England they had a big training exercise with the Coast Guard surrounding the question of oil spill. And so within these organizations, within the API as a trade association, we established the Marine Response Corporation that was referenced by the earlier panel. That's since been spun off into the private sector. That was one of the first responders that (inaudible) mentioned today in being out there on the front line with the capability of the boats, et cetera. The only other point I would raise is as you're aware there is a per-barrel fee or tax on the industry that goes into the Oil Spill Liability Trust Fund. That currently has about \$1.7 billion in it that's been paid into it by industry. But over the course of the last 15 years or so on an annualized basis, the Coast Guard and others take about \$100 million out of that fund that industry pays for to equip themselves, to train. EPA has some for research and development on better practices, et cetera. So when you put it all together, the industry has spent in the last 14, 15 years just through this process about \$1.6 billion to be prepared for oil spill incidents like this. And that doesn't count the individual companies and their research and development or other investments to be ready to go. CHRISTENSEN: (Inaudible) you wanted to answer? OK. Because it just seems to me that we should've -- and I think you said that, you know, the technology for the cleanup and so forth has really lagged behind the technology that we've developed towards the drilling. But I wanted to also ask, Mr. Gerard, you talked about the loss of jobs should we have a moratorium, should we stop, cancel some of the permits that have been let already. But has API done an analysis comparing the jobs lost to the jobs that would be created with a new green economy, new renewable energy going forward? And Dr. Hirshfield,

I'd like you to respond to the job losses -- job loss issue from the (inaudible). GERARD: I'll be very -- I'll be very brief, but thank you again for this question. It's a very important one.

First, the industry today supports 9.2 million jobs in the United States; 7.5 percent of all our gross domestic product in the United States is tied to the development of oil and natural gas. Now, one statistic that might be surprising that goes to Congressman Costa's question earlier is between the year 2000 and 2008, the oil and natural gas industry invested in research and development \$58.4 billion to develop zero-emitting and low-emitting carbon technologies. That is more than the federal government spent during that period of time and more than all the other private sector interests combined. That goes from our perspective to the issue of green jobs. Those are green technologies. Those are the energy forms of the future. And back to Congressman Costa's question, the oil and gas industry is leading in the development of these alternative energy sources, and through those investments and others, it's deemed that we have created about a million jobs in the United States to develop, to research green technologies. HIRSHFIELD: Three quick points. First, there is a need to separate the jobs in the oil industry from production ongoing operations, ongoing work and whatever the jobs that might be associated with continuing the moratorium. There are some statistics that Dr. Foss had. This is one of those games that it's really easy to play. Secondly, it's really important to remember the jobs that are lost, the communities that are destroyed by the oil in the water and these catastrophic rare events are the ones that we have such a hard time dealing with. Now, and thirdly, you know, if we -- if you can imagine a hundred years ago Big Horse talking about the transportation infrastructure and the jobs associated with stables, raising horses, cleaning up horse poop, you know, all of blacksmithing, all of those jobs, you can imagine if they had the kind of clout that the industry has in our decision-making bodies, we might not have made that transition to the automobile. CHRISTENSEN: Thank you. My time is expired. RAHALL: Gentlelady, your time is expired.

The gentlelady from Colorado, Ms. Degette? DEGETTE: Thank you, Mr. Chairman. We have a graphic I'd like to show on the screen. I don't know if you -- if the panel can see it, but what this shows is that in a 2007 MMS study, some of you I'm sure are familiar with it, cementing problems were identified as the most significant factor contributing to blowouts. Cementing was associated with 18 of 39 blowouts in the Gulf between 1992 and 2006, or nearly 50 percent. This was a doubling from the previous period where cementing was a factor in only 25 percent of the blowouts.

And so, Dr. Hirshfield, I'd like to ask you, given that cementing is the most commonly identified problem leading to blowouts, would you agree that companies should take extra care in assessing the integrity of the cement bond?

HIRSHFIELD: I think it's clear to everyone on this panel, off this panel, all around the country, that extra care and attention needs to be paid to every aspect. Cementing clearly is a factor in this, but it's the whole -- it's every step along the way.

DEGETTE: Right.

HIRSHFIELD: Somebody referred to multiple stop signs.

DEGETTE: Right.

HIRSHFIELD: That's what it is.

DEGETTE: We were talking about that on the last panel, where it's true that there were just multiple systemic failures in this situation. But the problem is that while that's rare, it's so devastating when it happens that you have to put -- you have to put fail-safes in place at every stage.

Mr. Gerard, I see you nodding in agreement. I think you're nodding in agreement.

HIRSHFIELD: Can I just make one more comment.

DEGETTE: Yes, please.

HIRSHFIELD: Just, yes, that is the case. But in almost every major catastrophic -- rare disaster that is unprecedented, it is some unpredicted, unprecedented combination of human and technological failures. So our opinion is it's going to happen again.

DEGETTE: So -- yes. So do you think that a cement bond log test should be a standard requirement?

HIRSHFIELD: Yes.

DEGETTE: OK.

HIRSHFIELD: But we think it's time to get out of the offshore.

DEGETTE: You know, I agree with you. What you're saying is there were multiple human errors here at every level, and the problem is that if you put all of those together, it might be rare, but it's devastating.

And Mr. Gerard, I know -- do you want to quickly explain your views?

GERARD: Well, I just want to respond, Congresswoman.

DEGETTE: Yes?

GERARD: This particular report, as I recall, came from MMS.

DEGETTE: Yes.

GERARD: And shortly after this was determined, the longer-term analysis showed that the number of blowouts have decreased significantly during this -- to this decade. But what it did show, to your point, is that cementing was the number one issue.

DEGETTE: Right, right.

GERARD: Immediately after this came out, the MMS approached us at API through our independent standards testing process...

DEGETTE: Yes.

GERARD: ... and you might be aware that we've worked on that with the department and have come up with a best practice...

DEGETTE: So do you think that a cement bond log test should be a standard requirement?

GERARD: I'm happy to share with you what that best practice is. I'm not sure if it's included or not. I'm happy to go back...

DEGETTE: Well, do you think it should be given in this level of failure?

GERARD: We had a number of technical recommendations to the department...

DEGETTE: But you don't remember if this was one of them?

GERARD: I don't remember that...

DEGETTE: If you don't mind supplementing your answer, I think that would be helpful.

GERARD: I'd be happy to do so.

DEGETTE: Thank you.

GERARD: And I'll get it to you today.

DEGETTE: I have another question, which is I know the administration's trying to improve the management at MMS. And of course, Mr. Luthi, I remember quite well, being from Denver, the little troubles we had with the MMS in the Denver office a couple of years ago.

And I would also say I'm in complete agreement with you, as a mother if nothing else, if you don't have immediate consequences for the actions, then it tends to get attenuated and people tend to forget what example the issues are. And so, I want to ask you the question.

Secretary Salazar has, as you know, it's been well-publicized, suggested reorganizing MMS. And I'm wondering if you believe that his proposed plan will effectively achieve a separation of enforcement and revenue functions?

LUTHI: Well, thank you. And I start off by saying, you know, the secretary and the administration is in the best position to decide. I know how they want to handle MMS -- excuse me -- and the best way to do it. I've offered some general just suggestions. But you know, as you look at an organization you want to make sure you have the communication ability...

DEGETTE: Yes, but what do you think of Secretary Salazar's plan?

LUTHI: Certainly if it makes -- if it restores the public trust in an agency that can...

DEGETTE: Do you think it'll restore the -- or help improve the efficacy of the agency?

LUTHI: Individual behavior is often difficult to improve. I certainly hope so.

DEGETTE: Mr. Chairman, if you don't mind, I ran out of time before and I just want to put something on the record. I have a document which I'll submit for the record which is B.P.'s application to MMS for a revised new well dated January 14th, 2010. One of the attachments to their application is a schematic of the blowout preventer, which I've got. And the bottom-most ram cavity is labeled VBR test ram.

The document shows that B.P. knew at least as of January that a test ram was installed in the blowout preventer, but the emergency ROV port remained connected to the test ram three months later, making it useless -- as I discussed with the previous panel -- in the coming emergency. Mr. Newman said in his testimony that it would be a simple matter of changing hoses to fix this, but this did not occur.

And so I just wanted to put, number one, I wanted to say on the record I think it's appalling that the hoses were not changed, because they had all that time, because clearly they had the knowledge and the time to do so.

And I'd ask unanimous consent to submit B.P.'s application and the attachments for the record.

RAHALL: Without objection.

DEGETTE: Thank you so much, Mr. Chairman.

RAHALL: The gentleman from Louisiana, Mr. Cassidy?

CASSIDY: Thank you.

Mr. Hirshfield, I take it if you don't want drilling, then you want more tankers, huh?

HIRSHFIELD: If we had had a tanker spill, we'd be here talking about problems with tankers. We'd be talking about how all the tankers were safer. Right now, we're going to have tankers for the foreseeable future. There's no question about it. I think it's time, as I said earlier, to stop our addiction to oil and start reducing tomorrow.

CASSIDY: But statistically we know that tankers are more likely to result in oil in the ocean than drilling. Even given this one, statistically if you look at history, tankers are far more likely to spill. Correct?

HIRSHFIELD: It's cold comfort to people in the Gulf that tanker spills in California or somewhere else are more likely than what they had.

CASSIDY: That is not cold comfort. I'm just trying to focus upon the economic consequences of decisions we make. So if we make a decision not to drill, then we're making a decision to import more. Thirty percent of domestic oil comes from the Gulf of Mexico, lots of employment thereof.

And so as we make that decision that we're going to replace that 30 percent with imported oil, statistically we know we're going to have more oil in the ocean than if we had continued to drill.

HIRSHFIELD: We think that it's actually practical, and you know, a country that has the...

CASSIDY: Practical to do what?

HIRSHFIELD: ... referred to the pioneering spirit...

CASSIDY: Practical to do what?

HIRSHFIELD: Practical to reduce our demand for oil.

CASSIDY: OK, so we're...

HIRSHFIELD: That's what we need to do. We need to...

CASSIDY: So how much do we import -- how much do we use -- how many do we use a day now in the United States? We use 20 million barrels a day now. So we're now going to go to a system where we're going to have zero, or we're going to have 20 million minus ...

HIRSHFIELD: No, no. Ramping down, we're not talking about stopping production.

CASSIDY: But we would have to raise the cost. So your idea, I presume therefore, if we stop drilling, that we'll raise the cost. And inherently, in raising costs will decrease demand?

HIRSHFIELD: Ultimately, I think with B.P. and the oil companies, as we talked about earlier, we've got to put a price on carbon. We heard...

CASSIDY: I think that's a yes. We have limited time, so I don't mean to cut you off.

Ma'am, if we cut our -- just take away the Gulf of Mexico, 30 percent of our domestic oil, 20 million a day, 20 million divided by one-third, 20 million. What would that do to the price of gasoline for the average working person who's trying to make a living?

FOSS: It would go up.

CASSIDY: How much?

FOSS: I can't tell you how much.

CASSIDY: So if you just did a back-of-the-envelope, if you said we'd cut our supply of feedstock by a third, does that mean that the price of gasoline would go up by at least by a third?

FOSS: It would probably go up at least five percent. I mean, it would increase. I mean, there's no way that it would not go up.

CASSIDY: And there'll be a ripple effect, I presume, for everything because, you know, we have a bottle of water here, the plastic is made out of petroleum. I presume that there will be some consequence of the cost of every product that's in some way impacted by petroleum.

FOSS: Yes, sir.

CASSIDY: Including food, since we know that farmers use a tremendous amount of petrochemicals in order to create food. I'm also struck that if we're going to transition to a lower

carbon economy, everybody speaks about using natural gas, but as it turns out, natural gas, the abundant supplies, Mr. Hirshfield, are coming from offshore. So do we -- what do we do about our desire to transition to natural gas as a lower carbon footprint if we're cutting off our ability to import -- to produce natural gas?

HIRSHFIELD: Sorry. Again, what we're talking about is a halt to expanded drilling off of our coasts. There are other sources of natural gas, and it's clear that we can reduce the demand that would offset those new sources.

CASSIDY: So you would be in support of fracking, for example, which is the basically new supply of natural gas?

HIRSHFIELD: Fracking obviously has environmental consequences. I think they should be looked at closely and they should be addressed carefully.

CASSIDY: Understand, there's a difference -- I know you do -- between non-deepwater, if you will, shallow water, deep, and ultra- deep. If we have a six month moratorium or longer on this, will the supply industries and all the people whom they employ be able to survive? Can they survive on a current book of business without complete interruption of what's going forward?

GERARD: There's immediate impact and there's long-term impact. The only thing I would add to that, Congressman, it's very important to remember that 30 percent of oil that's coming out of the Gulf of Mexico, 70 percent of it comes out of the deep water. The 20 most prolific leases producing oil in the Gulf of Mexico are in the deep water.

CASSIDY: So again, if we rope that off, we're telling ourselves we're going to import more from countries often that hate us. Since the marginal supply comes from OPEC nations, therefore we will -- the additional supply won't come from Mexico and Canada.

We're already maximizing what we can get from them. The additional supply is going to come from the places where we have to tank it the furthest, which have the worst environmental records in terms of watching fluorocarbon release, et cetera. I've seen a big spill up on the coast of Nigeria. I gather that happens with regularity. And we'll have to burn diesel to get it here, and statistically we're more likely to have an oil spill from a tanker than we are from a rig.

GERARD: Yes.

CASSIDY: That's all fact. That's not making it up. That's not rhetoric. It's not pie in the sky. It's what we know to be true. Correct?

GERARD: Yes.

CASSIDY: Now, going back to the employment for those roustabouts and for those pipefitters and for those boatbuilders in my state. The president's worried about tourism other states. I'm worried about the roustabouts and the working people who don't know their ways around the hall of power. But nonetheless, they are dependent upon jobs to feed their families. Good jobs. What's going to happen with a six- month moratorium if we do everything -- near shore, intermediate depth, et cetera? Will those supply companies be able to stay in business?

GERARD: They will be hit immediately. I mean, there are those out there now and there are those...

CASSIDY: When you say "hit," that means layoffs. That means fewer people employed.

GERARD: That's right.

CASSIDY: Fewer working class people employed.

GERARD: If you stop the activity, if you stop the production, you're going to have fewer people going out to employ. And it has the economic multiplier effect that you've touched on that impacts the entire economy. It's much bigger than just those individuals employed by the industry. It ripples throughout the economy.

CASSIDY: My family moved to Louisiana so my dad could sell New York Life Insurance to people that were working in petrochemicals. I'm proud to be in Louisiana, but I'm there because of my dad selling insurance. I'm very aware of that ripple effect.

Last question. Houma-Thibodaux, Houma-Terrebonne, had the lowest unemployment for a while. Even when everybody else was at 10 percent, it was at two percent. People were moving there to work in the shipyards. And again, these weren't Ph.Ds. These were people who didn't have college educations. But these were people who because of this employment were able to feed their family. They had great health insurance, didn't need a government handout to generate such.

When you say there will be an immediate effect, what you're telling me is that those folks, who have really few other employment options, will almost immediately begin to feel the impact of being laid off.

GERARD: That's correct. There's another dynamic here we shouldn't forget. Many of those individuals that are employed in the offshore and the Outer Continental Shelf make almost twice what the average income is in most jurisdictions in most states.

CASSIDY: Even though they don't have college educations, et cetera, et cetera, et cetera?

GERARD: That's correct. CASSIDY: OK.

I yield back. Thank you.

COSTA: Thank you very much, Mr. Chairman. I'll try to be brief. I know we're -- been a long two days here.

Mr. Hirshfield, the comment that you made with regards to how you'd like to see us go forward, I guess poses a lot of questions in my mind, but what do you think would be a reaction of countries like Brazil that have done a good mix with ethanol, but part of their balance is with new offshore discoveries?

A lot of the other areas in which China has a foreign policy -- I'm on the Foreign Affairs Committee -- that is totally, totally in my view, energy and mineral-related anywhere around the world, that is China's foreign policy.

Other major countries like Russia, whose entire focus for economic transition is energy related. I think while well-intended, your vision, I don't see you indicating a way in which somehow those things are going to change.

HIRSHFIELD: I'm not sure exactly what the question is, but I think it's pretty clear that we in the United States use an awful lot of oil. We use more oil per capita than just about anywhere else, and it's time for us to go on a diet.

COSTA: Well, I think energy conservation is one of the real important tools in our energy toolbox. I don't disagree. In California, as you know, we probably set more higher standards. And I have voted for those standards as a member of the California legislature to ensure that the energy conservation tool in our toolbox is well used.

Two more questions. Dr. Foss, how would you recommend to us in light of where we are now, and your testimony, where we go from here as policymakers? With the rhetoric aside, there is obviously a wide range of views in this committee, as there is in Congress. And trying to strike a balance in terms of an interim and a long-term comprehensive energy policy has proved to be elusive. What would you recommend to us?

FOSS: Patience?

(LAUGHTER)

COSTA: Well, for three decades we've -- we do patience very well. It's called "kick the can down the road."

FOSS: Right, yes. Patience to be able to do what has already come up today, which is to investigate the situation, understand what happened, the reasons, the factual information. And then be able to use that to take the steps that need to be taken in order to improve safety, improve oversight, and be able to do that carefully with full information. And so I guess that would be my first comment. It may seem like a bit of a hedge, but at this stage of the game we don't have full information yet and we need to know more.

The second thing that we need to do I think is maybe recognize some things. I realize that many people would like a national energy policy, but we are a country with many different regions and lots of different resources, and different kinds of economies.

And I think that there is a great deal of experimentation in different states, in different regions. And we're all going to learn from that. I think there are some things that are already happening that need to continue and maybe need to be accelerated, which is to review federal R&D programs to see exactly where dollars are going and try to create a vision for how to direct those towards the most useful things -- the most difficult problems that can be solved.

And I think some realism, some public education, really needs to be done. Where do we get our energy? How do we use it? What can we expect to do in the future? What is the timing? Why are we so constrained? Why has it been three decades with no silver bullet? Why is this difficult? And get people better informed about that.

And so, and those may seem not very exciting recommendations, but sometimes at times like this, it's the mundane things that can actually make a difference.

COSTA: Well, and I think articulating a comprehensive, but yet common sense policy in which all Americans have a vested interest and try to bring this country together on that point.

I mean, we live in this world of 30-second commercials. We've been conditioned in color, now in hi-def. And we think every problem in America can somehow be solved in a 30-second commercial, from your common cold to refinancing your home to your athlete's foot, or whatever.

And life's not that way, life's not without risks. I mean, we've had 130-plus shuttle launches and we've had two disasters. I mean, you talk about the risk assessment versus the risk management. We've had over 40,000 wells drilled in the Gulf. We do it so poorly, again, measuring risk assessment and risk management.

My last question to Mr. Gerard and Mr. Luthi. I've said it before, I'll say it one more time. I am an advocate of using all of the energy tools in our energy toolbox, which includes using both oil and gas offshore as well as on, because I think you've got to transition.

I've articulated what I think has been lacking in that transition. This is a big, big -- this tragedy, this tragedy is a big black eye for those of us who want to use all the energy tools in the energy toolbox. I asked the question earlier today. I asked it yesterday.

Under the lessons to be learned, how does the response from the private sector, the energy companies who obviously are trying to transition, trying to move with this, have a tremendous investment yet though in all of this -- how do you -- how do we come back and convey confidence to the American public that we can do this safely and we've learned the lessons?

Because without that confidence, this effort to -- that the president was attempting to pursue I think is going to be very difficult to implement, when we're talking about all the energy tools in the energy tool box. What's your response? What's your responsibility?

LUTHI: Well, thank you, Congressman. As everyone has said, it's not an easy, fast, quick answer, but I think the tough reality is that industry has to do it right. And it's going to take some time to regain that confidence.

In addition, I think it's important as we talk about what happened, take it -- we've addressed that quite a bit today -- what happened? Concentrate on making sure that whatever regulatory changes are necessary are made.

And then also, industry I think is willing to put some investment in to that research and development area that appears to be -- and I underline "appears," because we don't know that

yet. The response maybe hasn't really kept up with the technology, particularly in the deep water. It's going to take time, going to take some effort, and it's going to take transparency on our part as well.

In addition, I think the industry as a whole as we use the Outer Continental Shelf, can actually be part of that energy basket -- wind, wave, and current are all available. And I certainly encourage -- our members encourage -- more interest in attempting to develop all of that, as you have so eloquently and on more than one occasion indicated.

GERARD: Mr. Costa, I think in the short term and then in the long term, two quick dynamics. But first in the short term, this is a tragic incident, as we all know. It's been a serious challenge for us within the industry.

And I hope, as Mr. McKay testified earlier today, there've been over 90 companies who've responded with their assets and their resources. We view this responsibility much larger than just the companies involved. This is a responsibility of the industry.

And to Randall's first point, first stop it, clean it up, figure out the root cause. And then deal with that root cause quickly to make sure it never happens again, to regain the trust and confidence of the public. But as an industry, we also have a responsibility to go out and to be more transparent as we communicate what we do and how we do it.

We assume too often that people understand us. That they assume -- we assume they understand when they get that affordable, reliable energy at the gas pump, that they recognize there's been a lot of risk management, there's been a lot of effort, a lot of investment go into that.

So we have a responsibility as an industry. We're already talking about this as to what we do to reach out to reassure the public. And then make sure we do this in a safe fashion; that we drive the performance for the entire industry. This isn't just one company. We recognize after this tragic incident we've all got to do it better.

COSTA: Do you think this is the opportunity for the president to really try to bring the country together, to really go forward go forward in a comprehensive energy policy that reflects the realities that we're facing today and reach some level of consensus that would be bipartisan, that would have consistency and continuity over the long term?

GERARD: I think it could be, but I think the short-term responses will dictate whether or not that window of opportunity stays open.

COSTA: Do the rest of you want to comment?

HIRSHFIELD: I certainly hope so.

This may be the ultimate teachable moment on this issue. And you know, I think it's time for us all collectively to come together and figure out a way forward.

COSTA: Thank you, Mr. Chairman, for what I think has been two days of very fruitful hearings and obviously we've got a lot of work ahead of us. But with your good leadership I'm ready to be a part of, with my colleagues, to figure out how we work through this in the short term and the long term.

But thank you very much again for all your hard work and the staffs' work on both sides of the aisle here for the last two days.

And thank our witnesses.

RAHALL: The chair wishes to also thank this panel for being here. We know you've been here throughout the day, and it has been a long day.

This will now formally conclude our two-day oversight hearings on the Outer Continental Shelf oil and gas strategy, and implications of the Deepwater Horizon rig explosion.

This has been part I and II. We will continue the examination of this explosion with future subcommittee hearings. They will be followed -- actually five separate subcommittee hearings we'll have in the month of May -- I'm sorry, month of June -- that are designed to study in detail the many issues related to the incident, from enforcement of safety regulations by MMS to the impacts of the spill on natural resources in the Gulf.

And we know that our committee has already been rigorously following the events and offering our assistance to other committees, and requesting numerous documents from both the administration and company officials. And we will continue to do that as the situation merits.

We have not yet had a formal CODEL to the region. I have felt such would only be interfering with those who are on the ground and in command in trying to stop the well immediately. We have had staff on the scene, nonpartisan basis. Both Doc Hastings and I have sent staff down there. At a future time we may, if it does appear that we can find something that will be helpful or offer our services in any way, we may have a future CODEL to the region.

So with that, I want to thank the staff as well for the preparation of this hearing. We had good attendance, very good attendance, on both sides of the aisle during these two days. And I thank my colleagues as well.

And with that, we'll conclude this hearing on the Natural Resources Committee.

Thank you.

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