

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF LOUISIANA

HORNBECK OFFSHORE SERVICES, L.L.C. \* CIVIL ACTION  
VERSUS \* NO.: 10-1663  
KENNETH LEE "KEN" SALAZAR, IN HIS \* SECTION "F"  
OFFICIAL CAPACITY AS SECRETARY, \*  
UNITED STATES DEPARTMENT OF INTERIOR; \* MAGISTRATE "2"  
ROBERT "BOB" ABBEY, IN HIS OFFICIAL \*  
CAPACITY AS ACTING DIRECTOR, MINERALS \*  
MANAGEMENT SERVICE; AND MINERALS \*  
MANAGEMENT SERVICES \*

\* \* \* \* \*

**AFFIDAVIT**

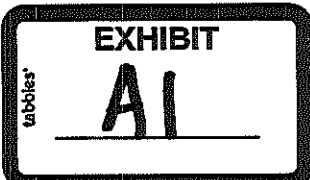
STATE OF LOUISIANA  
PARISH OF ORLEANS

**BEFORE ME**, the undersigned authority, personally came and appeared:

**Kenneth R. Wells**

who, after being duly sworn, deposed and stated as follows:

1. I am over 18 years of age and competent to execute this affidavit.
2. I am the President of Offshore Marine Service Association (OMSA) and I execute this affidavit on the basis of my personal knowledge and my review of records maintained in the regular course of OMSA's business, at 990 North Corporate Drive, Suite 210, Harahan, LA 70123.
3. OMSA employs six (6) full time employees.
4. Our association represents companies that directly and indirectly support the oil and gas exploration and production companies drilling in the Gulf of Mexico's Outer Continental Shelf. Our membership consists of over two hundred and fifty members: one hundred ten (110) members that own or operate vessels in oilfield service and one hundred fifty one (151) members that build vessels, repair



vessels, or that sell and service vessel equipment, or provide professional or logistic services to boat operators.

5. The announced deepwater drilling moratorium and the abrupt changes in the permitting of shallow draft drilling had a quick and chilling effect on the OMSA membership. To understand the impact, it is important to put it in the context of the scope of the offshore workboat sector and the trends within the industry over the last few years.
6. In late 2009, to demonstrate the value of the offshore support vessel sector, the related shipyards and other related businesses to the economy of the United States, OMSA contracted Loren C. Scott & Associates to measure "The Economic Impact of the Shipbuilders and Vessel Operators Servicing the Offshore Exploration, Development, and Production Industry on the U.S. Economy," (hereafter referred to as "Economic Impact Study") and publish the findings. The report documented those vessels and the shipyards that build those vessels are responsible for about \$18 billion in annual spending and more than 100,000 jobs, paying about \$4.6 billion in wages. The attached report by Loren C. Scott & Associates dated January 2010 documents the full details from this study.
7. Related to the Economic Impact Study, I also wanted to gain some understanding of the scope of recent vessel construction by the offshore support vessel sector. To measure the size of the impact, I compiled 2007, 2008 and 2009 ship construction data on the web site <http://www.coltoncompany.com/> to construct the attached excel spreadsheets. I placed all offshore vessels, as well as tugboats and barges suitable for offshore service into the tables. The table shows that 291 vessels appropriate for offshore work were built during that three year period. While a rough estimate, taken as a whole it indicates that the offshore vessel industry invested heavily and underwent a significant capital construction initiative in the past few years. Much of this construction was to replace vessels that were nearing retirement, but the types of vessels built largely reflected the changing needs of offshore operations.
8. Plans for new drilling projects were generally expected to take place in deepwater, many miles from shore. A key reason for these expectations were the size of potential reservoirs associated with deepwater projects. It could also be argued that government public policy was driven to projects further and further offshore. For example, the Administration's offshore drilling proposal announced on March 30<sup>th</sup> 2010 would have restricted new drilling off the coasts of Alabama and Florida to 125 miles or more from land and preliminary studies of lease sites off the east coast were limited to more than 75 miles from land. Meeting the needs of this deepwater drilling required larger, more sophisticated vessels, capable of carrying larger cargo loads and working in rougher seas, further from support bases. The construction carried out during the period analyzed clearly indicated a transition to the new class of vessels.

9. It is important to understand this context in assessing the damage caused by the moratorium. Immediately after the announcement of the moratorium we began engaging our members in discussion to gain some understanding of the potential impact. Early estimates were that the deepwater moratorium could throw 100 vessels out of work. The shallow water shutdown would potentially cut 50-100 vessels out of work.
10. Roughly one month ago, we began surveying our members to try to hone in on precise figures. It has proven to be difficult for a number of reasons, but we have identified 70-80 vessels that are out of work. We believe there are others, but have not been able to quantify precisely how many. It is important to recognize that the vessels immediately impacted by the moratorium have tended to be the newest, most expensive and, in many cases, the most highly leveraged vessels.
11. As vessel owners become increasingly concerned over the length of the moratorium and the uncertainty surrounding lifting the moratorium, they are cutting their own spending. This has taken the form of delaying or outright cancelling construction plans and cutting back spending on vendors. A number of vessels are due to come out of the shipyards this summer, with no prospects for work. In one case, a member reported to us that his bank had revoked a line of credit needed to complete a vessel that was partially constructed. There do not appear to be many new construction contracts under discussion.
12. Building support vessels requires large capital. Much of this capital is borrowed from financial institutions. Our members must work their vessels to generate cash flow to pay the vessel mortgage. A drilling stoppage could rapidly place under-capitalized vessel operators in bankruptcy. The loss of these members will hinder the funding of OMSA activities to protect the industry from other government regulations and decision.
13. Overall, the impact of the second moratorium, above and beyond the first moratorium, has been to create an atmosphere of uncertainty. Businesses may survive a cessation of operations if there is a clear terminus point for the disruption. The second announcement has fostered a view that the moratorium is open-ended. While there have been announcements that the moratorium is in effect until November 30<sup>th</sup>, there have also been strong signals that the drilling ban will continue until new recommendations are handed down, new regulations are in place or new laws have been enacted. The prospect of increasing numbers of drilling rigs leaving the Gulf creates additional uncertainty.
14. Under one scenario, the sudden influx of vessels that have lost drilling jobs competing for fewer and fewer jobs has the potential to present a shock to the supply/demand structure of our industry. This would have the effect of dropping the bottom out of our rate structure, causing even companies that do not typically compete for drilling jobs to suffer. This is a particularly disturbing possibility if one considers the number of new vessels that have been built and amount of borrowed or invested money that those vessels represent.

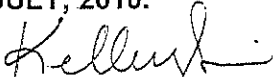
15. The twenty-one affidavits filed concurrently with this affidavit from OMSA members reveal the issues the vessel owners, suppliers, distributors, shipyards, and related companies are already coping with and expect to face as a result of the moratoriums. Our members' vessels are limited to offshore energy production service by their USCG issued (and required) Certificate of Inspection, and cannot move into another temporary service during the moratorium. As boats are laid off by a drilling company, that boat no longer needs to purchase repairs, food, fuel, or spare parts from these vendors. In the case of a prolonged absence of work, the vessel would be taken out of service and the crewmembers laid off work.



SIGNATURE OF AFFIANT

Print Name: Kenneth R. Wells

SWORN TO AND SUBSCRIBED  
BEFORE ME THIS 23rd DAY OF  
JULY, 2010.



NOTARY PUBLIC

La. Notary/Bar No. 25871

My Commission is for Life.

**Kelley Ann Sevin, Notary Public**  
Louisiana Bar No. 25871  
Duncan, Courington & Rydberg, L.L.C.  
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Suite 1200  
New Orleans, Louisiana 70130  
My Commission is for Life

**THE ECONOMIC IMPACT OF THE SHIPBUILDERS AND VESSEL  
OPERATORS SERVICING THE OFFSHORE EXPLORATION,  
DEVELOPMENT, AND PRODUCTION INDUSTRY ON THE U.S. ECONOMY**

**PREPARED BY**

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**January 2010**

## EXECUTIVE SUMMARY

A number of studies have looked at the importance of offshore energy to the country. A study made by our firm for Port Fourchon, Louisiana indicated that a shut down of the offshore port for just three weeks would equate to a national economic impact of \$9.9 billion in sales loss, \$2.9 billion in household earnings loss, and over 77,000 jobs loss nationally. A June 2006 study by Global Insight and commissioned by the American Petroleum Institute entitled "The Economic Impact of Changing the Deep Water Royalty Relieve Act." indicated that a loss of deepwater production of oil and gas would cost the country 691,000 jobs. Because all of this activity requires vessels to carry cargo and workers and to perform offshore operations, it might be said that those vessels make that economic driver possible. As the Offshore Marine Service Association (OMSA) has pointed out, offshore vessels are "America's lifeline to offshore energy."

Despite the fact that many studies have looked at the overall impact of offshore energy—and since American vessels play a vital role in exploring, developing and producing that energy—there has not been a *specific study* that focused on the economic activity produced by the vessels themselves and the shipyards that build them. That was OMSA's purpose in contracting with Loren C. Scott and Associates to conduct such a study at this time.

Specifically, we estimate four separate impacts generated by offshore vessel operators and the U.S. shipbuilders that construct vessels for that market: (1) *new sales* for firms in the U.S., (2) *new household earnings* for residents in the U.S., (3) *new jobs* in the U.S. and (4) federal, state and local tax collections in the U.S. Our findings can be summarized as follows:

- Annually, the economic activity of U.S. shipbuilders and offshore vessel operations servicing the offshore exploration, development and production industry generates substantial benefits to U.S. businesses and workers.
  - U.S. businesses experience about **\$18.1 billion in new sales** annually as a result of economic activities within this segment of the U.S. shipbuilding and offshore vessel operations.
  - New business sales spawned by these specific U.S. shipbuilders and vessel operations help to generate about **\$4.6 billion in new household earnings** annually for U.S. workers.
  - Approximately **103,160 jobs** are supported by the economic activities of these U.S. shipbuilders and offshore vessel operators. This includes direct employment within these two industries of at least 29,000 workers. These estimates suggest a **job multiplier of about 3.6**—that is, for every one job created in these two sectors 2.6 other jobs are created elsewhere in the nation's economy.

- These new jobs appear to be well-paid, with average annual earnings of approximately \$43,992.
- Chief beneficiaries of the spillover effects generated by U.S. shipbuilders and offshore vessel operators servicing the offshore exploration, development and production industry appear to be businesses and workers in the manufacturing and transportation sectors of the nation's economy. For example:
  - About 52.4 percent (\$9.5 billion) of new annual business sales spawned by these U.S. shipbuilders and offshore vessel operators occurs within the manufacturing and transportation sectors.
  - About 42.9 percent (\$1.9 billion) of new household earnings generated by the multiplier effects benefits workers within these two sectors of the nation's economy.
  - Approximately 31.3 percent of the new jobs attributable to U.S. shipbuilding and offshore vessel operations can be found within the manufacturing and transportation sectors---13,679 and 18,587 jobs respectively.
- Annually the economic activity of U.S. shipbuilders and offshore vessel operations servicing the offshore exploration, development and production industry generates the following federal and state/local tax revenues:
  - We estimate that **the federal government collected nearly \$1.4 billion annually in taxes** directly and indirectly in 2008 due to the operations of these two industries. Of this total, \$385.3 is in direct taxes paid and just over \$1 billion is in indirect taxes generated via the multiplier effect.
  - We estimate that **state and local governments received about \$770.8 million annually in taxes** in 2008. Of this total, \$78.9 was in direct taxes paid and nearly \$700 million was in indirect taxes generated via the multiplier effect.

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**THE ECONOMIC IMPACT OF THE SHIPBUILDERS AND VESSEL  
OPERATORS SERVICING THE OFFSHORE EXPLORATION,  
DEVELOPMENT, AND PRODUCTION INDUSTRY ON THE U.S. ECONOMY**

**I. Introduction**

A number of studies have looked at the importance of offshore energy to the country. A study made by our firm for Port Fourchon, Louisiana indicated that a shut down of the offshore port for just three weeks would equate to a national economic impact of \$9.9 billion in sales loss, \$2.9 billion in household earnings loss, and over 77,000 jobs loss nationally. A June 2006 study by Global Insight and commissioned by the American Petroleum Institute entitled "The Economic Impact of Changing the Deep Water Royalty Relieve Act." indicated that a loss of deepwater production of oil and gas would cost the country 691,000 jobs. Because all of this activity requires vessels to carry cargo and workers and to perform offshore operations, it might be said that those vessels make that economic driver possible. As the Offshore Marine Service Association (OMSA) has pointed out, offshore vessels are "America's lifeline to offshore energy."

Despite the fact that many studies have looked at the overall impact of offshore energy---and since American vessels play a vital role in exploring, developing and producing that energy---there has not been a *specific study* that focused on the economic activity produced by the vessels themselves and the shipyards that build them. That was OMSA's purpose in contracting with Loren C. Scott and Associates to conduct such a study at this time.

## II. Methodology

It is a well established principle that business investment decisions have both direct and indirect (secondary) impacts on the economy. The direct impact of a particular firm or establishment on income and employment can be measured by its revenue and payroll. However, these impacts would significantly understate the role of the firm in the economy. The reason is that the firm also buys from, and sells to, many other firms in the economy. The interactions caused by these purchases and expenditures are magnified by the spending of employees who earn income from the firm and the affected businesses.

### **The Multiplier Effect**

Thus, any change in the activity of a particular firm **indirectly** affects these buyers and sellers, which in turn affects firms that buy from and sell to these buyers and sellers, etc. For example, when a decision is made by a firm that creates a new job, a chain-reaction is started which works its way throughout the economy. This chain-reaction (multiplier effect) causes even more jobs to be created. The analogy is of a rock being tossed into a pond. Not only is there an initial splash, but ripples are created that spread throughout the pond.

### **The Input-Output Table**

A major difficulty lies in attempting to quantify these indirect impacts. Fortunately, a technique has been developed for precisely this purpose---an **input-output (I/O) table**. An I/O table is a matrix of numbers that describes the interactions between all industries in a geographical area (in this case, the continental U.S.). The I/O table provides a complete picture of the flows of products and services in the economy for a given year, illustrating the relationship between producers and consumers and the

interdependencies of industries in the state. An I/O table for the continental U.S. has been constructed by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce. The BEA is the governmental agency responsible for measuring the nation's gross domestic product each quarter. This I/O table can be used to estimate three separate impacts generated by the shipbuilders and vessel operators: (1) *new sales* for firms in the U.S., (2) *new household earnings* for residents in the U.S., and (3) *new jobs* in the U.S.

### **Data Collection**

In order to estimate the impacts of these two industries on the U.S. economy, data had to be gathered from the shipbuilders and vessel operators servicing the offshore energy industry to be injected into the I/O table. Separate questionnaires were designed to be sent to shipbuilders and vessel operators. These questionnaires are attached in Appendices A and B. Before being sent out to the firms, the questionnaires were field tested with a firm from each group to make sure the questions were clear and that there were no important sets of data we were missing. The questionnaires were sent out from the OMSA offices but were to be sent only to LCS, Inc. Answers were to be seen only by analysts within LCS, Inc., and strict confidentiality for the responses was imposed. Data in this report are only shown in the aggregate. No individual firm data are disclosed. Note that the data collected were only on activities by these shipbuilders and operators involving the offshore exploration, development and production industry.

### **Questionnaire Response Rate**

The questionnaires were sent out to all OMSA members that were either shipbuilders or vessel operators. When soliciting information on sensitive financial data such as annual revenues, employment, payrolls, taxes paid, etc., it is unrealistic to expect

a 100 percent response rate. Often researchers expect a response rate in the 10 percent range and then blow up the results from those responses to what the population of shipbuilders and operators as a whole would be like. Fortunately, our response rate was much better than 10 percent. Based on total tonnage of vessels built to service the offshore exploration industry in 2008, we estimate that our shipbuilding respondents represented 72 percent of total tonnage built in that year. Based on the dues structure of the OMSA (which is based on size of the firm), we estimate that questionnaires received from vessel operators represented 57 percent of the total vessel operators that service the offshore exploration industry. Based on these unusually large samples, we feel very comfortable in extrapolating the replies of the respondents in the sample to an estimate of what the total population of shipbuilders and vessel operators servicing this sector did in 2008.

### **III. Impact of Shipbuilders and Vessel Operators on U.S. Economy**

Based upon our sample of vessel operators and shipbuilders, **total annual revenues in both sectors in 2008 amounted to at least \$6.1 billion**; \$4.6 billion for operators and \$1.5 billion for shipbuilders, respectively. These revenues were inserted into the national I/O matrix to determine the impact of these revenues on business sales, household earnings, and employment in the U.S. Table 1 presents our estimates.

**Table 1**  
**Impact on the National Economy from the Operations of**  
**Vessel Operators Servicing the Offshore Exploration,**  
**Development & Production Industry and Related U.S. Shipbuilders**

Period	New Sales (millions)	New Earnings (millions)	New Jobs
2008	\$18,086.1	\$4,538.2	103,160

Source: Author's calculations derived from US Bureau of Economic Analysis,  
Input-Output tables

#### **Impact on Business Sales in U.S Economy**

Based upon the survey responses, U.S. shipbuilders and vessel operators servicing the offshore energy industry earned approximately \$6.1 billion in revenues in 2008. Using the I/O tables we estimate that the annual revenues earned by U.S. vessel operators and shipbuilders servicing the offshore energy industry in 2008 generated almost **\$18.1 billion in additional business sales in the nation's economy**. By any measure, this represents a rather impressive boost to businesses in the U.S. economy.

#### **Impact on Household Earnings in U.S. Economy**

The new business sales shown in column two obviously lead to new earnings for U.S. residents as a result of the multiplier effects. These earnings estimates are shown in column three of Table 1. Based on our estimates of new business sales nationally, **the operations impact of U.S. vessel operators and shipbuilders servicing the offshore energy industry generates about \$4.6 billion in household earnings for residents in**

**the United States.** This includes the direct earnings paid by U.S. shipbuilders and vessel operators and the indirect household earnings generated through the multiplier effects.

### **Impact on Jobs in U.S. Economy**

Using the national I/O tables, we can also generate the impact that U.S. vessel operators and shipbuilders servicing the offshore energy industry have on jobs in the national economy. Based on these tables, **the economic activity of these U.S. vessel operators and shipbuilders spawned about 103,160 permanent jobs in the nation's economy.** This includes both direct employment in these two industries as well as the indirect employment generated through the multiplier effects.

These are very large numbers and reflect a rather substantial impact on the economy. Based upon the survey responses, there are at least 29,000 workers employed in these two industries. Thus, this suggests **a job multiplier of about 3.6**---that is, for every one job created in these two industries another 2.6 jobs are created elsewhere in the nation's economy. These jobs also appear to be well-paid, with average annual earnings of about \$43,992 (\$4.583.2 million divided by 103,160).

### **Distribution of Impacts by Industry within the U.S.**

To illustrate how these impacts are spread through the national economy we generated the multiplier effects for the 19 industry sectors included in the national I/O tables. Separate impacts generated by U.S. shipbuilders and offshore vessel operators servicing the offshore energy industry on various sectors of the nation's economy are presented below. We report the impacts on business sales, household earnings and permanent employment for each of the 19 sectors.

**Impacts on New Business Sales.** The sales impacts on various industries that are spawned by the economic activities of U.S. shipbuilders and offshore vessel operations servicing the offshore energy industry are reported in Table 2. As might be expected, the largest impacts from U.S. shipbuilding and vessel operators occur in the manufacturing and transportation industries---which are the sectors where the shipbuilders and vessel operators are located. About 52.4 percent of new annual business sales spawned by U.S. shipbuilding and vessel operations occur within the manufacturing and transportation sectors of the nation's economy. Substantial sales impacts are also present in the finance and insurance sector, with about \$1.28 billion in annual sales, followed closely by the real estate and rental and leasing industry---\$1.25 billion.

**Table 2**  
**Impact on the National Economy of**  
**U.S. Shipbuilders and Vessel Operators Servicing**  
**The Offshore Exploration, Development & Production Industry**

<b>Industry Sector</b>	<b>Business Sales (millions)</b>
Agriculture, forestry, fisheries	\$121.0
Mining	\$194.4
Utilities	\$212.7
Construction	\$69.0
Manufacturing	\$3,894.8
Wholesale trade	\$601.7
Retail trade	\$596.2
Transportation and warehousing	\$5,576.4
Information	\$689.9
Finance and insurance	\$1,284.7
Real estate and rental and leasing	\$1,253.5
Professional, scientific, and technical services	\$950.8
Management of companies and enterprises	\$352.1
Administrative and waste management services	\$539.3
Educational services	\$141.2
Health care and social assistance	\$702.8
Arts, entertainment, and recreation	\$98.0
Accommodation and food services	\$343.8
Other services	\$464.0
<b>Total</b>	<b>\$18,086.1</b>

Source: Author's calculations derived from US Bureau of Economic Analysis, Input-Output tables

**Impacts on Household Earnings.** As explained earlier, these new sales also generated new household earnings for workers in the U.S (Table 3). Again, as expected, workers within the nation's manufacturing and transportation sectors (where the shipbuilders and vessel operators are located) experience the largest bumps---over a \$1.9



billion annual boost in their household earnings. This is roughly 42.9 percent of the total household earnings impacts generated by U.S. shipbuilders and vessel operators servicing the offshore energy industry. Note in this table that there are 10 other sectors in the U.S. economy where workers gained over \$100 million a year in earnings due to the activities of shipbuilders and vessel operators serving the offshore energy industry.

**Table 3**  
**Impact on the National Economy of**  
**U.S. Shipbuilders and Vessel Operators Servicing**  
**The Offshore Exploration, Development & Production Industry**

<b>Industry Sector</b>	<b>Household Earnings (millions)</b>
Agriculture, forestry, fisheries	\$21.6
Mining	\$46.5
Utilities	\$30.2
Construction	\$26.6
Manufacturing	\$919.9
Wholesale trade	\$200.9
Retail trade	\$201.5
Transportation and warehousing	\$1,025.1
Information	\$125.3
Finance and insurance	\$384.4
Real estate and rental and leasing	\$97.2
Professional, scientific, and technical services	\$425.9
Management of companies and enterprises	\$144.3
Administrative and waste management services	\$212.2
Educational services	\$65.2
Health care and social assistance	\$322.1
Arts, entertainment, and recreation	\$38.5
Accommodation and food services	\$101.2
Other services	\$149.7
<b>Total</b>	<b>\$4,538.2</b>

Source: Author's calculations derived from US Bureau of Economic Analysis, Input-Output tables

**Impacts on Jobs.** Finally, of the total number of jobs spawned by the economic activity of U.S. shipbuilding and vessel operations servicing the offshore energy industry, about 31.3 percent of those jobs are created within the nation's manufacturing and transportation sectors--13,679 and 18,587 jobs, respectively (Table 4). Additionally, heavy job impacts are felt in retail trade (8,762), the health care and social assistance industry (8,422 jobs), administrative and waste management services (8,683 jobs) and the professional, scientific and technical services industry (7,426 jobs). In only three sectors listed in Table 4 were there job benefits of less than 1,000 in 2008. Clearly, the benefits of these two industries' activities with the offshore exploration industry are very widespread.

**Table 4**  
**Impact on the National Economy of**  
**U.S. Shipbuilders and Vessel Operators Servicing**  
**The Offshore Exploration, Development & Production Industry**

<b>Industry Sector</b>	<b>Permanent Jobs</b>
Agriculture, forestry, fisheries	1,356
Mining	437
Utilities	304
Construction	660
Manufacturing	13,679
Wholesale trade	3,468
Retail trade	8,762
Transportation and warehousing	18,587
Information	2,159
Finance and insurance	6,531
Real estate and rental and leasing	4,139
Professional, scientific, and technical services	7,426
Management of companies and enterprises	1,735
Administrative and waste management services	8,683
Educational services	2,601
Health care and social assistance	8,422
Arts, entertainment, and recreation	1,845
Accommodation and food services	6,298
Other services	6,069
<b>Total</b>	<b>103,160</b>

Source: Author's calculations derived from US Bureau of Economic Analysis, Input-Output tables

#### **IV. Impact of U.S. Shipbuilders and Vessel Operators on Tax Revenues**

In the sections above we concentrated our analysis on generating the impact of the U.S. shipbuilding and offshore vessel operations servicing the offshore energy industry on business sales, household earnings, and jobs. However, there are at least two other important contributions that the two industries make to national economy. First, firms in both industries directly pay taxes to federal, state and local governments. A second source of tax revenue results from taxes collected on household earnings these U.S. shipbuilders and vessel operators create indirectly through the multiplier effects.

##### **Federal Tax Revenue Impacts: Direct Taxes**

On the questionnaire firms were asked how much they paid in direct federal taxes in 2008. As it turns out, fewer respondents filled out this section of the questionnaire. Direct federal taxes paid were reported by 58.8 percent of the shipbuilding business and 43.9 percent of the vessel operations. Thus, those who did respond made up a more than adequate sample for estimating total direct federal taxes paid. Based on this sample of responses, these firms paid \$385.3 million in direct federal taxes in 2008---an obviously very significant figure. This figure is shown below in column 2 of Table 5.

##### **Federal Tax Revenue Impacts: Indirect Taxes**

In Table 1, we reported the new household earnings that are created nationally by the economic activities of U.S. shipbuilding and offshore vessel industries servicing the offshore exploration industry. Our I/O tables suggest that earnings for households in the U.S. were \$4,538.2 million higher as a result of the operations of these two industries. These household earnings in turn result in additional federal tax revenues via several

forms of taxes. While it is difficult to get precise figures on the magnitude of these tax revenues, we generate them indirectly. According to the *Economic Report of the President –Table B-82*, federal tax receipts from all taxes were approximately \$2.51 trillion in 2006. Also, the Bureau of Economic Analysis (BEA) estimated that total personal income in the U.S. was about \$11.3 trillion in that same year. Thus, total federal tax receipts are roughly 22.3% of total personal income. We assume that tax revenues derived from the increase in household earnings generated by the activities of these U.S. shipbuilders and offshore vessel operators can be estimated using this ratio. Based on this assumption, **the federal government collected a little over \$1.012 billion annually in taxes (\$4,538.2 million X 22.3 percent) indirectly due to the operations of these two industries** as they serviced the offshore energy industry (see the second number in column two of Table 5).

#### **State & Local Tax Revenues: Direct Impacts**

On the questionnaire firms were asked how much they paid in direct state and local taxes in 2008. As was the case for federal tax reporting, fewer respondents filled out this section of the questionnaire. Direct state taxes paid were reported by 60 percent of the shipbuilding businesses and 48 percent of the vessel operations. Direct local taxes paid were reported by 70 percent of the shipbuilding businesses and 48 percent of the vessel operations. Thus, those who did respond made up a more than adequate sample for estimating total direct state and local taxes paid. Based on this sample of responses, these firms paid \$78.9 million in direct state and local taxes in 2008---an obviously very

significant figure. This figure is shown below as the third number in column 2 of Table 5.

**State & Local Tax Revenues: Indirect Impacts**

The new household earnings attributable to operations of these U.S. shipbuilding and offshore vessel operating industries (the \$4,538.2 million figure back in Table 1) also generate substantial tax revenues for state and local governments. We assume that these tax collections can be approximated by using the same technique as employed for federal tax revenues. According to the *Economic Report of the President, Table B-86*, state and local governments collected \$1.733 trillion (apart from monies received from the federal government) out of the \$11.256 trillion in personal income earned that year in the U.S. That means state and local governments collect about 15.4 cents in taxes for every dollar in new household earnings created. Thus, state and local governments collect about \$698.9 million (15.4 percent X \$4,538.2 million) annually in taxes indirectly due to the operations of these two industries (see the last number in column two of Table 5).

**Table 5**  
**Impact on the Federal and State Tax Revenues from the**  
**Operations of U.S. Shipbuilders and Vessel Operators Servicing**  
**The Offshore Exploration, Development & Production Industry: 2008**  
**(Millions)**

Type of Tax	Revenues (millions)
<b>Federal Tax Revenues:</b>	
Direct Taxes	\$385.3
Indirect Taxes	\$1,012.0
<b>Total Federal Taxes</b>	<b>\$1,397.3</b>
<b>State &amp; Local Tax Revenues:</b>	
Direct Taxes	\$78.9
Indirect Taxes	\$698.9
<b>Total State &amp; Local Taxes</b>	<b>\$770.8</b>

## V. Summary and Conclusions

A number of studies have looked at the importance of offshore energy to the country. A study made by our firm for Port Fourchon, Louisiana---which is the home for much of the offshore workboat fleet---indicated that a shut down of the offshore port for just three weeks would equate to a national economic impact of \$9.9 billion in sales loss, \$2.9 billion in household earnings loss, and over 77,000 jobs loss nationally. A June 2006 study by Global Insight and commissioned by the American Petroleum Institute entitled "The Economic Impact of Changing the Deep Water Royalty Relieve Act." indicated that a loss of deepwater production of oil and gas would cost the country 691,000 jobs. Because all of this activity requires vessels to carry cargo and workers and to perform offshore operations, it might be said that those vessels make that economic driver possible. As the Offshore Marine Service Association (OMSA) has pointed out, offshore vessels are "America's lifeline to offshore energy."

Despite the fact that many studies have looked at the overall impact of offshore energy---and since American vessels play a vital role in exploring, developing and producing that energy---there has not been a *specific study* that focused on the economic activity produced by the vessels themselves and the shipyards that build them. That was OMSA's purpose in contracting with Loren C. Scott and Associates to conduct such a study at this time.

Specifically, we generate four separate impacts generated by U.S shipbuilders and offshore vessel operators: (1) *new sales* for firms in the U.S., (2) *new household earnings*

for residents in the U.S., (3) *new jobs* in the U.S. and (4) federal, state and local tax collections in the U.S. Our findings can be summarized as follows:

- Annually, the economic activity of U.S. shipbuilders and offshore vessel operations servicing the offshore exploration, development and production industry generates substantial benefits to U.S. businesses and workers.
  - U.S. businesses experience about **\$18.1 billion in new sales** annually as a result of economic activities within this segment of the U.S. shipbuilding and offshore vessel operations.
  - New business sales spawned by these specific U.S. shipbuilders and vessel operations help to generate about **\$4.6 billion in new household earnings** annually for U.S. workers.
  - Approximately **103,160 jobs** are supported by the economic activities of these U.S. shipbuilders and offshore vessel operators. This includes direct employment within these two industries of at least 29,000 workers. These estimates suggest a **job multiplier of about 3.6**—that is, for every one job created in these two sectors 2.6 other jobs are created elsewhere in the nation’s economy.
  - These new jobs appear to be well-paid, with average annual earnings of approximately \$43,992.
  - Chief beneficiaries of the spillover effects generated by U.S. shipbuilders and offshore vessel operators servicing the offshore exploration, development and production industry appear to be businesses and workers in the manufacturing and transportation sectors of the nation’s economy. For example:
    - About 52.4 percent (\$9.5 billion) of new annual business sales spawned by these U.S. shipbuilders and offshore vessel operators occurs within the manufacturing and transportation sectors.
    - About 42.9 percent (\$1.9 billion) of new household earnings generated by the multiplier effects benefits workers within these two sectors of the nation’s economy.
    - Approximately 31.3 percent of the new jobs attributable to U.S. shipbuilding and offshore vessel operations can be found within the manufacturing and transportation sectors—13,679 and 18,587 jobs respectively.



- Annually the economic activity of U.S. shipbuilders and offshore vessel operations servicing the offshore exploration, development and production industry generates the following federal and state/local tax revenues:
  - **The federal government collected nearly \$1.4 billion annually in taxes** directly and indirectly in 2008 due to the operations of these two industries. Of this total, \$385.3 is in direct taxes paid and just over \$1 billion is in indirect taxes generated via the multiplier effect.
  - **State and local governments received about \$770.8 million annually in taxes** in 2008. Of this total, \$78.9 was in direct taxes paid and nearly \$700 million was in indirect taxes generated via the multiplier effect.

Appendix A

**OFFSHORE MARINE SERVICES ASSOCIATION  
IMPACT QUESTIONNAIRE: SHIPBUILDERS**

- A. Name of firm (optional): \_\_\_\_\_
- B. Type of vessel(s) built, e.g., OSVs, tugs, barges, lift boats, crew boats, utility boats: \_\_\_\_\_
- C. What were the **annual revenues** of your firm by year from 2004-2008?  
2004:\$ \_\_\_\_\_ 2005:\$ \_\_\_\_\_ 2006:\$ \_\_\_\_\_ 2007:\$ \_\_\_\_\_ 2008:\$ \_\_\_\_\_
- D. Of your revenues as listed in C above, how much came from constructing vessels to service the offshore oil and gas industry (as opposed to vessels built for the Defense Department, other public entities, or non-energy-related activities)?  
2004:\$ \_\_\_\_\_ 2005:\$ \_\_\_\_\_ 2006:\$ \_\_\_\_\_ 2007:\$ \_\_\_\_\_ 2008:\$ \_\_\_\_\_
- E. How many people were **employed** at your facilities in 2008? \_\_\_\_\_
- F. What was the **annual payroll** at your facilities in 2008? \_\_\_\_\_
- G. How much did your firm pay in **direct taxes** (corporate income taxes, direct sales taxes, excise taxes, other licenses and fees) to the federal government in 2008? \_\_\_\_\_
- H. How much did your firm pay in **direct taxes** (corporate income taxes, direct sales taxes, excise taxes, other licenses and fees) to the state government in 2008? \_\_\_\_\_
- I. How much did your firm pay in **direct taxes** (direct sales taxes, excise taxes, property taxes, other licenses and fees) to the local governments in 2008? \_\_\_\_\_
- J. How much did your firm **contribute to non-profit organizations** (United Way, Boy Scouts, etc.) in 2008?: \_\_\_\_\_

**Please either (1) fax your responses to Loren Scott at 225-751-2350, (2) mail to Loren C. Scott & Associates, Inc., 743 Woodview Court, Baton Rouge, LA 70810, or (3) email them to lorenscott@aol.com (please be sure to put the "c" in this email address). Responses will only be seen by two people within LCS, Inc. and will be held in strictest confidence. Data will only be reported in aggregate. No individual firm data will be released. Please return your responses by November 15<sup>th</sup> so we can complete the impact study on a timely basis for you. Thanks for your help!**

Appendix B

**OFFSHORE MARINE SERVICES ASSOCIATION  
IMPACT QUESTIONNAIRE: VESSEL OPERATORS**

- K. Name of firm (optional): \_\_\_\_\_
- L. Type of vessel(s) operated, e.g., OSVs, tugs, barges, lift boats, crew boats, utility boats:  
\_\_\_\_\_
- M. What were the **annual revenues** of your firm **2008?**:  
\$ \_\_\_\_\_
- N. Of your revenues in 2008 (as listed in C above), how much came from operating vessels to service the offshore oil and gas industry (as opposed to vessels operated for the Defense Department, other public entities, or non-energy-related activities)? \_\_\_\_\_
- O. How many people were **employed** at your company in 2008?: \_\_\_\_\_
- P. What was the **annual payroll** at your company in 2008?: \_\_\_\_\_
- Q. How much did your firm pay in **direct taxes** (corporate income taxes, direct sales taxes, excise taxes, other licenses and fees) to the **federal government** in 2008? \_\_\_\_\_
- R. How much did your firm pay in **direct taxes** (corporate income taxes, direct sales taxes, excise taxes, other licenses and fees) to the **state government** in 2008? \_\_\_\_\_
- S. How much did your firm pay in **direct taxes** (direct sales taxes, excise taxes, property taxes, other licenses and fees) to the **local governments** in 2008? \_\_\_\_\_
- T. How much did your firm **contribute to non-profit organizations** (United Way, Boy Scouts, etc.) in 2008?: \_\_\_\_\_

Please either (1) fax your responses to Loren Scott at 225-751-2350, (2) mail to Loren C. Scott & Associates, Inc., 743 Woodview Court, Baton Rouge, LA 70810, or (3) email them to lorenscott@aol.com (please be sure to put the "c" in this email address). **Responses will only be seen by two people within LCS, Inc. and will be held in strictest confidence.** Data will only be reported in aggregate. No individual firm data will be released. Please return your responses by **November 15<sup>th</sup>** so we can complete the impact study on a timely basis for you. Thanks for your help!

## 2007 Offshore Vessel Construction

#	VIN	Name	Builder	Hull #
72 Offshore Se				
72	1205366	Seacor Sherman	Bender Shipbuilding	7876
71	1205361	Ms Megan	Thoma-Sea Shipbuilders	140
70	1207578	Mediterranean	C. & C. Boat Works	35
69	1207132	Mr Will	Geo Shipyard	189
68	1203989	Grand Slam	Bollinger Shipyards	524
67	1203577	Hammerhead	C. & G. Boat Works	84
66	1201896	Jo Lynn Tide	C. & G. Boat Works	89
65	1201664	Ms Wendy	Breaux Bros.	1299
64	1203475	Joshua Chouest	North American SB	234
63	1203989	Triple Play	Bollinger Shipyards	523
62	1203042	Wyatt Lee	Conrad Industries	763
61	1205478	RAM XVII	Halimar Shipyard	143
60	1206014	Candy Factory	Swiftships	572
59	1205526	M/V Port Eads	St. Johns Shipbuilding	1
58	1195644	Olivia Candies	Candies Shipbuilding	146
57	1196682	Andrew Charles	Master Marine	321
56	1202865	Barthel Tide	Quality Shipyard	1264
55	1205365	Seacor Grant	Bender Shipbuilding	7875
54	1201897	Cheryl Tide	C. & G. Boatworks	87
53	1201451	M V Norman F. McCall	Bender Shipbuilding	7874
52	1201047	Harvey Supplier	Eastern Shipbuilding	899
51	1204054	Aegean	C. & C. Boat Works	32
50	1193859	Adele Elise	Thoma-Sea Shipbuilders	105
49	1200748	Double Eagle	Bollinger Shipyards	522
48	1188175	Alexandra Danos	Intracoastal Iron Works	119
47	1200276	Hawk	Bollinger Shipyards	516
46	1198441	M V John Coghill	Bender Shipbuilding	7873
45	1196546	Randy J	Breaux's Bay Craft	1737
44	1193584	Delatte Tide	Leevac Industries	343
43	1195545	VADM K R Wheeler	North American SB	228
42	1201702	Celena Chouest	North American SB	236
41	1202699	Ms Bonnie	Halimar Shipyard	130
40	1202663	Miss Callie P	Breaux Bros.	1302
39	1202955	Gayla Graham	C. & G. Boatworks	85
38	1195773	First and Ten	Bollinger Shipyards	521
37	1200646	ACO Isaure Beinvenu	Master Boatbuilders	382
36	1197498	Louie Eymard	Conrad Industries	748
35	1201664	Miss Risa	Neuville Bost Works	466-6
34	1200240	Courtney Gabrielle	Halimar Shipyard	138
33	1201189	Adriatic	C. & C. Boat Works	31
32	1197514	Harlan S. McCall	Gulfcraft	463
31	1201501	Candy Counter	Swiftships	571
30	1180722	Warren Thomas	Lockport Fabrication	2

29	1198360	Miss Dorothy	Neuville Bost Works	466-5
28	1200644	Lauren Lacoste	Master Boatbuilders	394
27	1200624	St Ignatius Loyola	Master Boatbuilders	393
26	1196599	Eagle	Bollinger Shipyards	515
25	1192754	Southern Comet	Laforce Shipyard	149
24	1197162	Gloria A	Breaux Bros.	1297
23	1196160	M V Hansen	Acadian Contractors	1
22	1193585	Pat Tillman	Leevac Industries	342
21	1199076	Ms Caroline	Breaux's Bay Craft	1750
20	1195627	Sailfish	Midship Marine	314
19	1195538	Nanuq	North American	235
18	1191230	Harvey Spirit	Eastern Shipbuilding	881
17	1196515	Kathryn Eymard	Conrad Industries	744
16	1194416	Yellowfin	C. & G. Boat Works	83
15	1197834	Lady Eve	Neuville Boatworks	154-4
14	1193858	Kylie Williams	Thoma-Sea Shipyard	104
13	1199424	Seacor Columbus	Master Boatbuilders	401
12	1192977	Candy Barrel	Swiftships	570
11	1191733	Manresa	Master Boatbuilders	391
10	1193955	Max Chouest	North American	232
9	1195689	Ms Tami	Halimar Shipyard	137
8	1194253	ACO Keith Duggan	Master Boatbuilders	381
7	1193951	Carol Chouest	North American	233
6	1191732	St Martin de Porres	Master Boatbuilders	392
5	1195068	Lacie Bourg	Conrad Industries	743
4	1192674	K Marine XXII	Leevac Industries	341
3	1192958	John G McCall	Gulfcraft	462
2	1194027	Ram XVI	Halimar Shipyard	136
1	1192577	Miss Cissy	Neuville Bost Works	466-4

117 Tugs and

16 Other Vessels Over

11	1204819	CCC 2	Bludworth Shipyard	118
10	1204438	Fugro Enterprise	Boconco	127
9	1196009	Ms Cordelia	Halter Marine/Seacraft	1805

15 Oceangoing Bar

13	1196549	Energy 6507	Bollinger Shipyards	509
7	1196471	Energy 6506	Bollinger Shipyards	508

Owner/Operator	Type of Vessel	GT	Date
Service Vessels			
Seacor Marine	Offshore Service	2,188	5/22/2008
MNM Boats	Offshore Supply	97	3/21/2008
Adriatic Marine	Offshore Supply	84	2/11/2008
Oilfield Marine	Crewboat	13	12/14/2007
Rigdon Marine	Offshore Supply	1,455	12/7/2007
Rigdon Marine	Crewboat	98	12/6/2007
Tidewater Marine	Offshore Supply	197	11/30/2007
Gulf Logistics	Crewboat	97	11/23/2007
Edison Chouest Offshore	Offshore Supply	2,994	11/16/2007
Rigdon Marine	Offshore Supply	1,455	11/5/2007
Wyatt Lee, LLC	Lift Boat	185	10/29/2007
Aries Marine	Offshore Supply	173	10/29/2007
Candy Fleet	Crewboat	97	10/26/2007
Port Eads, LLC	Offshore Supply	99	10/15/2007
Otto Candies	Offshore Supply	1,227	10/5/2007
Gulf Alpha LLC	Offshore Supply	384	10/5/2007
Tidewater Marine	Offshore Supply	1,313	10/4/2007
Seacor Marine	Offshore Supply	2,168	10/4/2007
Tidewater Marine	Crewboat	197	10/4/2007
Seacor Marine	Offshore Supply	2,184	9/27/2007
Harvey Gulf	Offshore Supply	1,662	9/26/2007
Adriatic Marine	Offshore Supply	84	9/20/2007
Aries Marine	Offshore Supply	1,659	9/20/2007
Rigdon Marine	Offshore Supply	1,455	9/19/2007
Gulf Offshore Logistics	Offshore Supply	97	9/13/2007
Edison Chouest	Lift Boat	195	9/10/2007
Seacor Marine	Offshore Supply	2,174	9/7/2007
Tobias, Inc.	Crewboat	99	9/5/2007
Tidewater Marine	Offshore Supply	2,183	9/5/2007
Edison Chouest Offshore	OPDS	5,565	9/4/2007
Edison Chouest Offshore	Offshore Supply	2,994	9/4/2007
Barry Graham Oil Service	Crewboat	86	8/27/2007
St. Bernard Boat Rental	Crewboat	98	8/23/2007
Seacor Marine	Crewboat	92	8/22/2007
Rigdon Marine	Offshore Supply	1,455	8/6/2007
Abdon Callais	Offshore Supply	97	7/31/2007
Louie Eymard LLC	Lift Boat	185	7/26/2007
Parker Drilling	Crewboat	30	7/18/2007
Courtney Gabrielle LLC	Lift Boat	183	7/10/2007
C. & C. Boat Works	Offshore Supply	84	6/29/2007
Seacor Marine	Crewboat	98	6/29/2007
Candy Fleet	Crewboat	97	6/28/2007
Supreme Offshore Services	Offshore Supply	99	6/15/2007

Parker Drilling	Crewboat	30	6/14/2007
Abdon Callais	Offshore Supply	487	6/12/2007
Abdon Callais	Offshore Supply	487	6/12/2007
Edison Chouest	Lift Boat	196	6/11/2007
Southern States	Offshore Supply	387	5/21/2007
Gulf Logistics	Crewboat	97	5/18/2007
Mariner Energy		60	5/17/2007
Tidewater Marine	Offshore Supply	2,183	5/11/2007
Ms Caroline LLC	Crewboat	96	5/7/2007
Rigdon Marine	Crewboat	93	5/7/2007
Edison Chouest	Offshore Supply	3,542	5/1/2007
Harvey Gulf	Offshore Supply	2,261	4/30/2007
Offshore Marine	Offshore Supply	185	4/23/2007
Rigdon Marine	Crewboat	98	4/11/2007
Iberia Crewboats	Crewboat	95	4/5/2007
Aries Marine	Offshore Supply	1,659	4/5/2007
Seacor Marine	Offshore Supply	498	4/1/2007
Candy Fleet	Crewboat	97	3/27/2007
Abdon Callais	Offshore Supply	498	3/9/2007
Edison Chouest	Offshore Supply	4,918	3/9/2007
Barry Graham	Crewboat	88	2/28/2007
Abdon Callais	Offshore Supply	498	2/21/2007
Edison Chouest	Offshore Supply	2,996	2/15/2007
Abdon Callais	Offshore Supply	447	2/9/2007
Offshore Marine	Offshore Supply	185	1/24/2007
Kilgore Marine	Offshore Supply	1,153	1/24/2007
Seacor Marine	Crewboat	98	1/19/2007
Aries Marine	Offshore Supply	173	1/11/2007
Parker Drilling	Crewboat	30	1/5/2007

Total From Sheet 3 = 1

Towboats

er 50 feet in Length

CCC Group	Industrial Vessel	388	10/10/2007
Fugro Leasing	Research Vessel	99	9/12/2007
Global Geophysical	Research Vessel	245	7/25/2007

10  
10  
10

ges Over 5000 GT

Hornbeck Offshore	Tank Barge	5,778	11/8/2007
Hornbeck Offshore	Tank Barge	5,778	8/8/2007

20  
20

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF LOUISIANA

HORNBECK OFFSHORE SERVICES, L.L.C. \* CIVIL ACTION  
VERSUS \* NO.: 10-1663  
KENNETH LEE "KEN" SALAZAR, IN HIS \* SECTION "F"  
OFFICIAL CAPACITY AS SECRETARY, \*  
UNITED STATES DEPARTMENT OF INTERIOR; \* MAGISTRATE "2"  
ROBERT "BOB" ABBEY, IN HIS OFFICIAL \*  
CAPACITY AS ACTING DIRECTOR, MINERALS \*  
MANAGEMENT SERVICE; AND MINERALS \*  
MANAGEMENT SERVICES \*

\* \* \* \* \*

**AFFIDAVIT**

STATE OF LOUISIANA  
PARISH OF ORLEANS

BEFORE ME, the undersigned authority, personally came and appeared:

**Richard E. Wells**

who, after being duly sworn, deposed and stated as follows:

1. I am over 18 years of age and competent to execute this affidavit.
2. I am the Vice President of Offshore Marine Service Association (OMSA) and I execute this affidavit on the basis of my personal knowledge and my review of records maintained in the regular course of OMSA's business, at 990 North Corporate Drive, Suite 210, Harahan, LA 70123.
3. OMSA employs six (6) full time employees.
4. Our association represents the companies that support the oil and gas exploration and production companies drilling in the Gulf of Mexico's Outer Continental Shelf. Our membership consists of one hundred ten (110) members that own or operate vessels in oilfield service and one hundred fifty one (151)





members that build vessels, repair vessels, sell and service vessel equipment, or provide professional services to boat operators.

5. Our members' vessels are limited to offshore energy production service by their USCG issued (and required) Certificate of Inspection, and cannot move into another temporary service during the moratorium. As boats are laid off by a drilling company, that boat no longer needs to purchase repairs, food, fuel, or spare parts from their vendors. In the case of a prolonged absence of work, the vessel would be taken out of service and the crewmembers laid off work.
6. Capital-starved members may be forced into bankruptcy or sales of vessels at below-cost prices.
7. Members have stated to me and other OMSA staff members that they are reducing "optional" expenditures for new or updated equipment, attempting to cancel or delay the delivery of new vessels under construction, have deferred planned pay increases (i.e. undoing the pay cuts the recent down economy forced them to implement), and are making plans to allow their company to survive if offshore support work is halted for either a long determinant period or any indeterminate period.



SIGNATURE OF AFFIANT

Print Name: Richard E. Wells

**SWORN TO AND SUBSCRIBED  
BEFORE ME THIS 22nd DAY OF  
JULY, 2010.**



**NOTARY PUBLIC**

**La. Notary/Bar No.:** 25871

**My Commission is for Life.**

**Kelley Ann Sevin, Notary Public**  
Louisiana Bar No. 25871  
Duncan, Courington & Rydberg, L.L.C.  
400 Poydras Street  
Suite 1200  
New Orleans, Louisiana 70130  
My Commission is for **Life**