Oil Spill Seeps Into Many Coastal Concerns

The oil that flowed into the Gulf of Mexico for three months deeply unsettled communities along the coast. But is it a long-lasting catastrophe or the sort of temporary hardship from which resilient Gulf Coast residents have rebounded before?

The Gulf oil spill's immediate economic damage was largely contained to the area spanning from Louisiana to the Florida Panhandle. Like boom corralling floating oil, a couple of factors limited the broader economic effects of the April 20 Deepwater Horizon explosion and subsequent spill, in the view of Atlanta Fed researchers. First, the two major risks to the national economy—disruptions in energy supplies and transportation—had not materialized as of mid-September. Natural gas and refined petroleum products were flowing and major Gulf ports were operating normally.

Secondly, from purely a numbers standpoint, the affected Gulf Coast area makes up a small piece of the U.S. economy. Taken together, the metropolitan areas affected by the BP spill—from Louisiana to Panama City, Fla., including Lafayette and Lake Charles but not New Orleans—account for less than 1 percent of the nation's gross domestic product (GDP). Reserve Bank economists found that New Orleans' economy did not appear to be substantially affected by the spill through July. Adding New Orleans, the total rises to 1.9 percent of GDP.

In the process of gauging the potential economic impact of the spill from the now-sealed well, uncertainties abound: the quantity of oil still underwater, in marshes, and buried on the sea floor; the long-term harm to sea life; the amount and timing of financial assistance from BP and the federal government; the extent to which displaced workers are employed in cleanup efforts; how long those efforts last; and when and if the workers can return to their regular jobs.

Many of those factors, of course, affect one another. The more oil there is under the surface, for instance, the greater the harm to sea life, and thus the longer fishermen and shrimpers will be idle. And the longer it will be before seafood markets and restaurants can sell fresh local product. The longer the water is thought to be unsafe, the greater the harm to tourism, and so on.

For the near term, here is a recap of information regarding the oil spill's effects on major sectors of the Gulf Coast economy.

Energy production simmers with uncertainty

The Southeast's energy industry is concentrated in Louisiana. The state accounts for 27 percent of the nation's crude oil production, or roughly 1.5 million barrels a day on average in 2010. Moreover, 48 percent of the nation's crude oil and petroleum imports enter the country through Gulf Coast seaports. That volume of Gulf imports averaged 6.1 million barrels a day through July.

Energy production and imports have held up. Unlike major hurricanes of recent years, the oil spill has not significantly reduced crude production, other than week-to-week volatility resulting from uncertainty about the deepwater drilling moratorium ordered by the federal goverment. (The moratorium is scheduled to expire on Nov. 30, but federal officials are reviewing safety policies and could lift it sooner.) A Sept. 2 fire on an offshore oil and gas rig off the Louisiana coast did not appear to

be remotely as serious as the BP Deepwater Horizon incident. It was unclear at press time whether the more recent accident would affect the deepwater drilling moratorium or energy production generally.

Importantly, the Louisiana Offshore Oil Port, or LOOP, has functioned normally. The LOOP unloads crude from tanker ships that cannot venture into Louisiana's shallow coastal waters, then pumps the oil through pipelines to refineries along the coast. As with onshore port operators, the LOOP had boats on hand in the spill's aftermath to clean tanker hulls should they become coated with oil.

The federal moratorium on deepwater drilling prompted much protest in Louisiana. Energy industry representatives and public officials worried that it would damage Louisiana's considerable energy services industry. A key risk, according to Atlanta Fed economists, is that a moratorium of more than six months or enhanced regulation of the offshore industry could lead to lower production, higher operating costs, or perhaps both. Higher insurance costs or set-asides could also pressure Gulf oil producers. The net effect could be to discourage Gulf of Mexico drilling operations, resulting in lower U.S. oil production and job losses. However, authorities have said that ensuring workers' safety in oil exploration and production is a priority.

Exactly how many jobs are at risk is difficult to say. Precisely measuring the Gulf's deepwater drilling employment is elusive because official statistics do not distinguish between onshore and offshore drilling, and many jobs are indirectly attached to drilling, such as oil field services, transportation, and rig fabrication. Using estimates from David Dismukes of Louisiana State University's Center for Energy Studies, Atlanta Fed researchers estimate about 10,000 people work on deepwater rigs in the Gulf, and another 25,000 are in support services.

Transportation moves ahead

Officials at the Port of New Orleans and other Gulf Coast harbors have reported that the spill has not seriously affected operations. In fact, as of July, the Port of New Orleans had not lost "an ounce of cargo," said president and chief executive officer Gary LaGrange. Some ships have had to steer around the oil slicks, and the ports put in place ship cleaning and other measures to limit the effects of the spill. But at the Port of New Orleans, they didn't need to clean many vessels.

"As we found out in the early days of the spill, as long as a ship was under way and was moving, the oil would not adhere to the hull of the ship, so the secret was to keep the ships moving, which was what we wanted anyway," LaGrange said.

Keeping ships moving also has a positive economic effect: Fed researchers anticipated that a disruption of port traffic, especially on the Mississippi River, could have severe economic consequences. History suggests as much. When a large oil tanker hit a barge in the Mississippi River in 2008, the resulting five-day closure of the Port of New Orleans and the lower river cost $290 million a day, LaGrange said, as cargo could not be delivered.

The Gulf Coast's marshlands, a unique and fragile ecological system, did not escape the oil's reach. Cleaning the marshlands is a time- and labor-intensive job.

Tourism takes a downward turn

Unlike shipping and energy, the coast's critical tourism industry has taken a significant hit from the spill (see the table). Cancellations of hotel rooms and rental condominiums and houses increased sharply as the summer progressed (see the accompanying story on coastal Alabama). Several hoteliers, however, reported high occupancy from cleanup workers, oil company staff, and National Guardsmen.

About 124,000 people work directly in the leisure and hospitality industry in the counties along the Gulf Coast from Louisiana to Panama City, according to data from the U.S. Census Bureau. Numerous Atlanta Fed contacts reported reduced seasonal hiring and lower sales and rentals of vacation properties. The Alabama beaches saw about half the normal number of tourists during the July 4 holiday, according to public officials and businesspeople. Condo occupancy on Alabama beaches during June dipped to 44 percent, from 72 percent in June 2009, according to the Alabama Gulf Coast Convention and Visitors Bureau. About the only number that increased was the budget devoted to advertising the Gulf Coast as a tourist destination.

Condominium Occupancy in Orange Beach and Gulf Shores, Ala.

	2007	2008	2009	2010
April	41	28	32	34
May	42	41	38	37
June	75	74	72	44

Note: Figures represent percentages.
Source: Alabama Gulf Coast Convention and Visitors Bureau

According to the Alabama Gulf Coast Convention and Visitors Bureau, its advertising budget rose from a typical annual level of $1.8 million to $11.3 million this year, most of it funded by BP.

A late May survey by AAA Auto Club South revealed that 41 percent of respondents said the oil spill would have a slight to significant influence on their travel plans to the Florida Gulf Coast. Even the anticipation that oil could reach southwest Florida and the state's Atlantic coast deterred some summer visitors. July reports from Naples, Fort Myers, and the greater Miami area indicated that reservations slowed significantly for vacationers and business groups, even though there was no oil on Florida beaches outside of the Panhandle.

On the other hand, Atlanta Fed contacts at other Southeast beaches unaffected by the spill reported bigger summer crowds. Although it is impossible to determine how many of these vacationers changed their destination from the Gulf Coast, anecdotal evidence suggests that some of the increase in bookings at some Atlantic beaches was from people avoiding areas perceived as tainted by the spill. Contacts in lake and mountain areas also noted an increase in activity this summer. That increase could cushion the blow to tourism spending on the overall regional level.

In New Orleans, even though part of the metro area borders the coast, most of the city's tourism destinations were not directly affected by the spill. Still, the New Orleans Convention and Tourism Bureau noted lower attendance at major conventions. The concern was that people may fear that the seafood in the city is unsafe despite more frequent inspections on larger samples.

In the long run, the greatest danger for Gulf Coast tourism is potential damage to the area's brand as a fishing and recreation destination. Should the public's view of the Gulf Coast remain sullied into 2011, it will probably cause permanent job losses, Atlanta Fed researchers said.

Fishing fights for survival

For unemployed Gulf Coast fishermen, the BP oil spill introduced a new word to the lexicon: "VoO." VoO is short for Vessels of Opportunity, the BP program designed to employ commercial fishermen, charter boat captains, and other professional mariners put out of work by the spill.

The VoO paychecks were a godsend for many, at least temporarily, even as the program became a source of frustration and controversy. (Many local mariners complained in public meetings and in media reports about not being hired and about out-of-towners claiming slots that should go to Gulf Coast residents.)

According to U.S. Census Bureau data, more than 8,000 people are employed in the fishing industry in the affected communities of the Gulf Coast. In addition, the National Marine Fisheries Service (NMFS) reports that more than 8,000 people work at seafood processing plants in the states bordering the Gulf. Using a broader category that includes fishing gear, seafood wholesalers, retailers, and related businesses, commercial fishing jobs in the Gulf states total 170,000 while recreational fishing jobs come to 88,000, according to the Marine Fisheries Service, which is part of the National Oceanic and Atmospheric Administration.

Commercial fishing sales in the Gulf states totaled $8.5 billion in 2008, while recreational fishing generated another $8.8 billion, according to the NMFS.

Roughly two-thirds of the Gulf remained open to fishing in the months after the spill, so not all of these jobs were immediately affected. In June and July, though, most fishermen in Louisiana, Mississippi, and Alabama were idled. Louisiana officials announced in mid-July that they were reopening some recreational fishing areas. However, opening the same waters for commercial fishing requires federal approvals.

The outlook for aquaculture is murky. The biggest danger is that oil and dispersants could destroy or contaminate fish, shrimp, and oyster stocks and possibly curtail fishing for several years. There was significant concern in the summer,

Workers laid miles of boom in an effort to contain the oil that reached the surface, but many experts fear that the oil that never surfaced is the greatest long-term threat to the Gulf's future.

for example, about the fate of floating grasses, in which fish, including tuna, lay eggs.

"The longer-term effects may be larger than any short-term effects," according to the NMFS, "depending on how much is spilled, how broadly distributed the spill gets, and what species will be affected."

A reduced supply of Gulf seafood will affect restaurants, but not grocery stores as broadly. Only 1 percent of the seafood sold at U.S. supermarkets comes from the Gulf. It would be a larger problem for the numerous small, independent seafood markets along the coast.

Cleanup's progress is unclear

BP has hired many unemployed fishermen to help in the cleanup—mainly to cruise the water looking for oil and to skim oil on the surface—thus helping to offset job losses in the fishing industry. Indeed, the hiring of displaced local workers in cleanup efforts, along with the cleanup-related spending, has been one of the few positives associated with the oil spill, just as cleanup and construction jobs were a positive outcome of the Hurricane Katrina disaster.

However, there could be another glimmer of good news. Over time, there is potential for significant spending on community assistance and coastal restoration and development by BP. Furthermore, the ruptured BP well was capped in August. Soon thereafter, it was reported that oil on the Gulf's surface was evaporating faster than expected.

Nevertheless, it was still extremely difficult to estimate the long-term economic impact of the spill. As of early August, the spill appeared to have significantly damaged the tourism and fishery industries, with various associated industries affected indirectly.

But the longer-term uncertainties are substantial. For instance, the assessment of the ecological damage is difficult. Furthermore, the impact of dispersants and the amount of oil spilled may not be known for years, and it is unclear whether or how the spill and deepwater drilling moratorium might influence energy policy. *EconSouth* and the Atlanta Fed will continue monitoring the effects of the spill. ▮

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