

**Jim Porter - President, Mid-Continent Oil & Gas Association**

Yes, Mr. Allerton, Madame Chairman, Members of the Board. We have kind of divided this up. I'm Jim Porter, President of Mid-Continent Oil & Gas Association which represents some of the E & P producers, and refineries and interstate pipelines and marketers of oil and gas in Louisiana. With me today is Mr. Fred Palmer. He's the Regional Manager of Public and Governmental Relations for Texaco. He will be presenting on behalf of Mid-Continent, an overview of the industry as we see it today. Following him will be Mr. Tom Blank, who's Vice President of Union Pacific Resources and he will have some specific comments about – to further add things that Mr. Palmer has not covered. I would just like to start off by thanking you, as members of this Board, for having this hearing and being able to let us focus your attention on some of the problems that are occurring in the industry. And I guess, to help relate that, I know what you're going through because in the last downturn in the 1980's I was in a position, in Mr. Caldwell's position, Secretary of the Department of Natural Resources and sat on this Mineral Board. And you heard Mr. Baumann talk about some of the things that we tried to deal with at that time. There's quite a few differences and, I think, the first of those is the State of Louisiana is fortunate not to be as dependent on oil and gas as it was in the 1980's. Forty-five cents of every state general fund dollar came from oil and gas. So you can imagine when we were trying to take a look at things that we could do to help the industry, it was a limited amount because we were needing those dollars to come in to supply government with its funds. So, I sympathize with you on that issue. Today, however, I think that number's dropped to fourteen percent. If I were to look back and try to put myself in the shoes of industry at that time in the 1980's, there was a lot more fat, I think, in the industry at that time. Conditions were different, projects were in the \$25 dollar a barrel range – that you know they were looking at economics, that we had the bottom fall out. Today, the difference is that people have looked at oil and they've tried to make decisions based on \$15, \$16 dollar oil prices. And you can see what has happened to industry in the past few years, when you get those prices in the \$16 to \$20 dollar range, what can happen. It can take off. I think a lot of that's due to, as Bob Baumann talked about, technology has changed a lot. Louisiana has benefitted from that technology. There's been a lot of money invested in Louisiana in 3-D seismic. If you go across the coastal zone of Louisiana, about a billion dollars

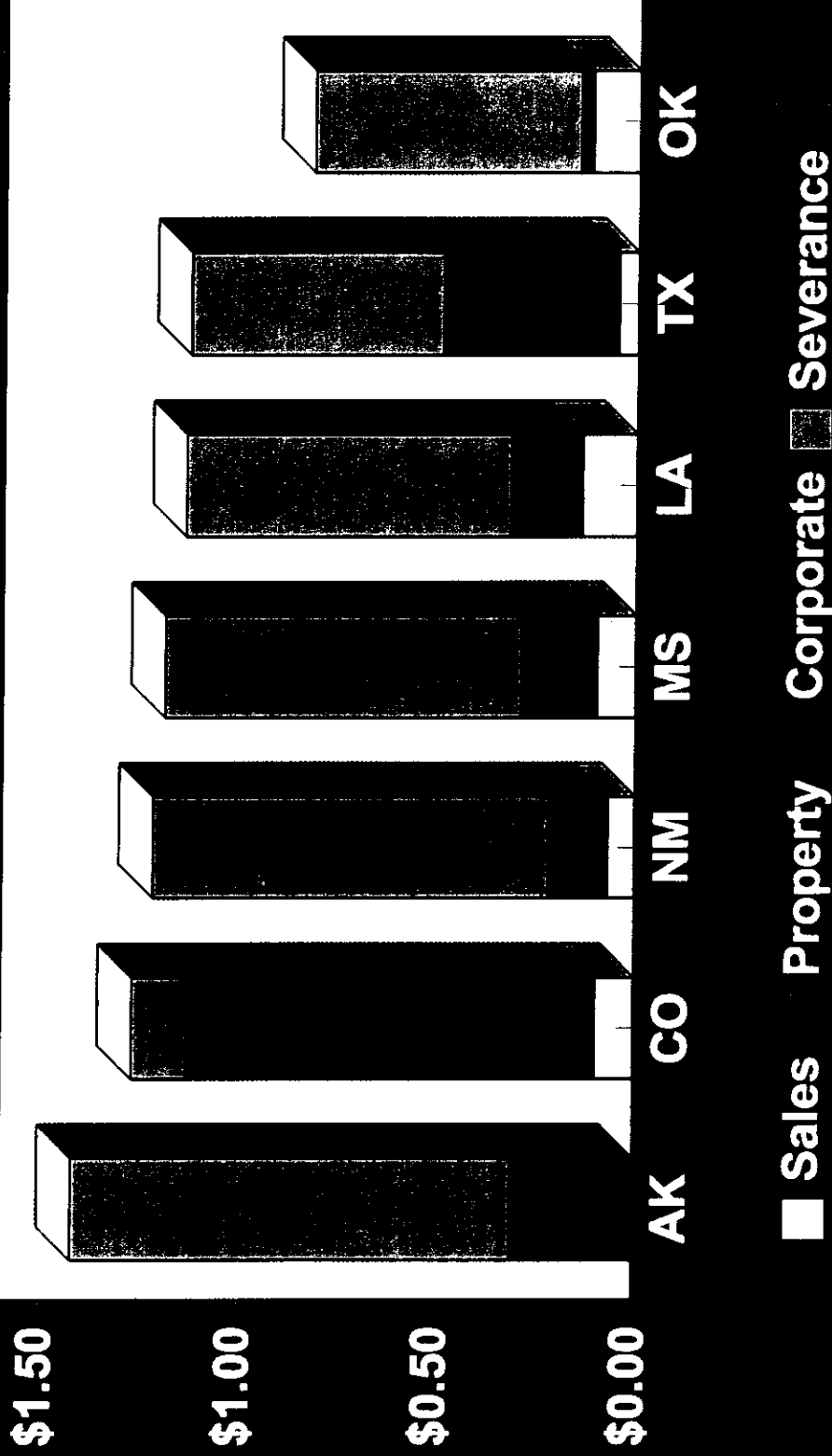
has been invested. And there could have been more invested had the right climate been there. And I think Mr. Baumann has spoke on some of those issues, but maybe that time has missed. Who would know? One of the things I would like to do is – I'm not going to talk in a lot of detail. I'm going to just talk a little bit about what was done in the past. And we were trying to come out of the problems in the 1980's. The State of Louisiana has been at the forefront in trying to help the industry and, at that time, there were two programs that were put in place and that was called STEP and LEAP. Severance Tax Exemption Plan and LEAP was Louisiana Economic Acceleration Program. These were ways in which you would take and give some tax breaks and encourage the drilling of deep wells or for stepping out and doing something in new fields. That was implemented. It didn't get to carry through to its complete term because of the administration change and the next governor didn't think that program should stay in effect. But you know, those were programs, STEP and LEAP, that I think were important at that time. The program I really wanted to implement was HOP. And that's Higher Oil Prices. And I think today if any of us had a choice of what we'd like to do, that is the one program that could definitely help this industry. Unfortunately, as you heard Mr. Baumann talk about, we don't have a lot of control over that. But that's still my program and I'm going to stick to it. Act 2, as I was going to cover with you, is the sort of things that the State did in implementing incentive programs. That was for re-entering plugged and abandoned wells, new wells of certain, below 15,000 feet, new horizontal wells, wildcat wells. All of that is there and is in place and was successful in helping the industry make a comeback. Now, why do I go back and talk about those programs that were done in the past? I think that what we are here today talking about and the sort of things that we will be mentioning and the ones that Don Briggs and his team of presenters will be presenting are things that we're not so much trying to encourage activity. We've got to do something to keep what we got. And I think it's important to do that. It's important to do that for the purpose of retaining the jobs that we have. So that will be some of the things that we will be focusing on is what are the things that you can do, not necessarily to encourage new activity, but let's try to retain as much of the infrastructure, the jobs and the production that today that we can. I was going to cover with you, and I have provided to each of you in your handout, a summary of what is happening in the other states. Secretary Caldwell has referred to that earlier and, I think, what we have to do is really focus on two states which we

have always viewed as our competition. Oklahoma and Texas. Whatever they do there, we've got to make sure that we are at least competitive with those states. Now, you say, why do I say that when I'm saying we're not trying to encourage new drilling. It's a situation – we're not trying to track that dollar so much, but I think it's something we just have to do being an oil producing state is to try to stay competitive with those states and maintain our industry, because at a point in time, we have to have a healthy industry when this thing rebounds and it will rebound. We don't know when, so that we can take advantage of that. And that's critical. The other thing is, is that a lot of these programs will help the marginal well or the incapable well and some of the – as Mr. Caldwell showed in his graphs, some of the other companies that have more production, this may not help them that much. Why is that? Because it is important – because you have to have a healthy mix of the major oil companies, big oil, intermediates and small because there is a cycle that goes around and it doesn't work that way. When it becomes uneconomic for a big oil company to produce those fields, as you all well know, those are sold to smaller companies who can operate them more efficiently than some of the bigger companies and so that's the importance. You have to have a healthy mixture of all of the industry in a state. And that's what we support. I've got a couple of charts that I'd like to put up over here.

**(EXCERPT)** This is a study that was done by LSU. It's a few years old, but it gives you, I think – and you have a copy of that in your folder for you, it gives you a pretty good feel for how Louisiana currently compares with the other states. And like I mentioned, we want to look at Oklahoma and Texas because that's where the competition is at. As you can see, Louisiana is real dependent on severance tax. Louisiana has 12.5 percent on oil if you're just a regular not talking about marginal production or incapable. In some of the other states, you're, they're already down, starting out at 4.5 percent. And so if they go in and they make some reductions across the board to that – you can see that they're starting at 4.5 percent – we're starting from 12.5 percent. Could be a big difference. I think that's something we have to watch. Particularly if those states go beyond the emergency legislation like was passed in Oklahoma and in Texas. They're looking to go and do further cuts in taxes. So we've got to monitor that, I think, real close. That's an issue that I think we've got to, as I mentioned, watch very closely. The other thing that I want to do is – another chart is that – you've heard and Mr. Caldwell I compliment you for taking a look with regard to the stripper wells or the incapable wells and what the cost

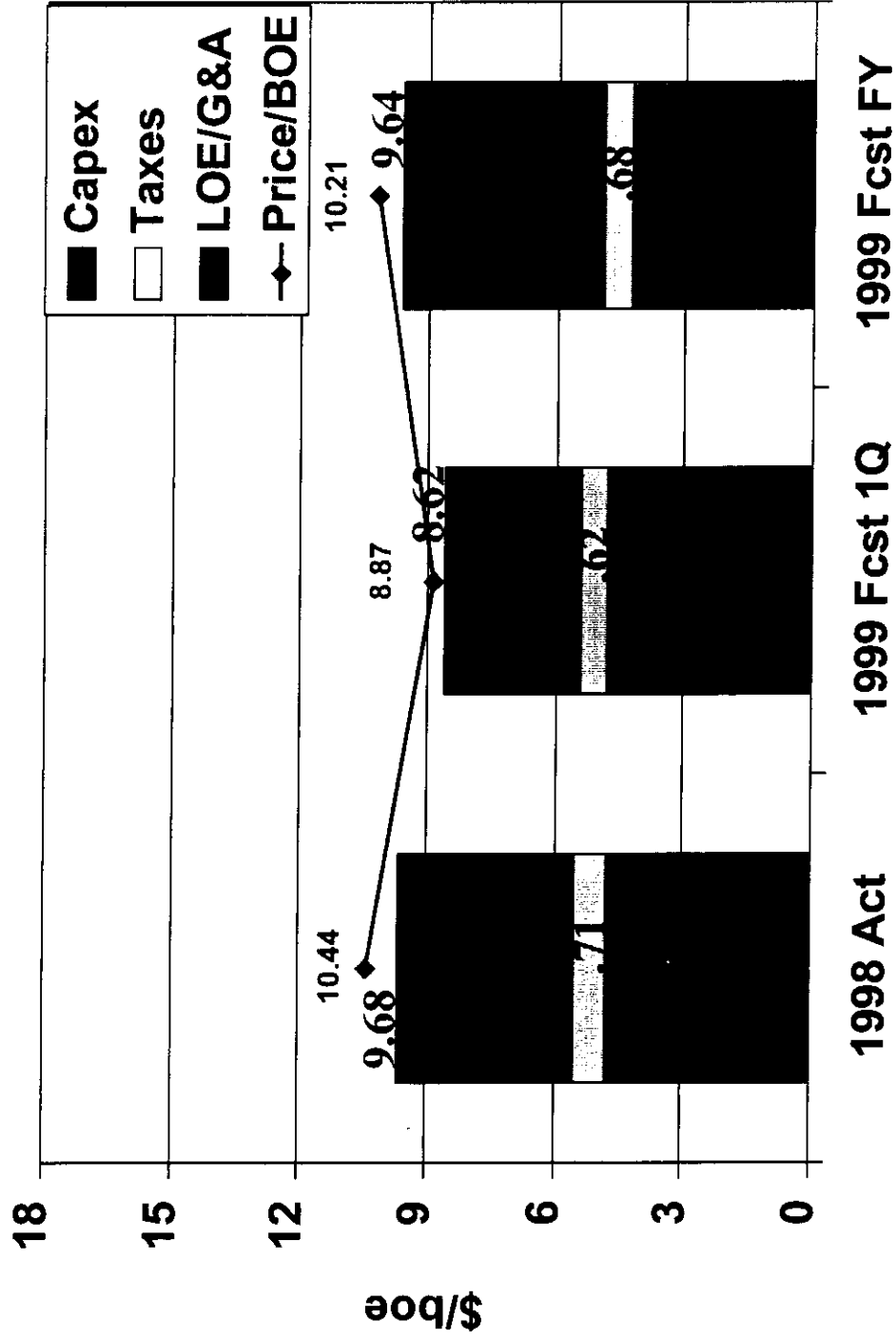
might be to the state in the loss of jobs. I think – I would like to say that we probably need to get together and look at the methodology of how you came up with those numbers. We've done some, and so there's some differences, but I think we would like the opportunity to discuss that with you and try to nail those numbers down. (EXCERPT) One of the things here that not only are we talking about on stripper or incapable wells and this is to get in a little plug for my membership, which is not all small guys. You've got to understand I have to do that every once in a while. If you look at the Gulf Coast margin analysis, you can see that if you look at the cost and that Capex, that includes sales tax, capital expenditures, and those things that are involved with regard to production – you can look at the blue, which is the lifting costs and the general administrative services costs – that you tie in there that middle gray, term in the middle is 68 - 70 cents, that's taxes, but that doesn't include sales taxes. And then look at what we're projecting. That's the cost and then you look at what the actual well head prices have been. You're talking about a matter of 60 cents differential. We're very close, very, very close to operating on a marginal – in those areas. This is Gulf Coast margin analysis. And I think there'll be some analysis presented to you by some others to come after me that will sustain this and show you that we're right on the edge. And I think it's very important to look and see that with a drop in the price of oil, the available capital to the small independent or the bigger independent is basically dried up. There is no capital available. So anything that you do in the oil patch, you've got to do out of cash flow. And that is where – and then you start looking at the decline rates that we have, particularly in coastal Louisiana and in the near shore in the Gulf – some of those have got a 45% decline rate. So if you don't have that drill bit out there turning, you're going to have loss of reserves real fast. So I just put that up for your interest. That's in the packet and, hopefully, some of the other fellows behind me will be able to elaborate a little bit more on that. With that, we certainly look forward to the opportunity to work with you and as the State moves through this – and we certainly appreciate your interest in trying to help us. With that, I'm going to turn it over to Mr. Palmer, who I've previously introduced. Fred.

# State Tax Burden Competitive For Oil and Gas Production



Source: LSU Center for Energy Studies

# Gulf Coast Margin Analysis



Capital expenditures based on production, not reserve adds.



# LOUISIANA MID-CONTINENT OIL AND GAS ASSOCIATION

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## **Recommended Relief and Incentive Measures For the Louisiana Oil and Gas Industry**

1. A graduated severance tax system, which would respond to changing oil prices.
2. The ability to shut-in all production on a state lease without risk of losing the lease, until price recovers.
3. Examining rental and royalty requirements for new leases.
4. Encouraging the Louisiana Tax Commission to roll back its 27 percent increase in ad-valorem taxes on oilfield equipment would certainly help.
5. Addressing the taxation issues regarding lease use and plant use gas.
6. Modifying the Act 2 incentives regarding depth requirements for new wells.
7. Establishing a trigger point at which the severance tax on incapable wells is suspended.

# Oil & Gas Industry Relief Proposals State-by-State Overview

As of February 9, 1999

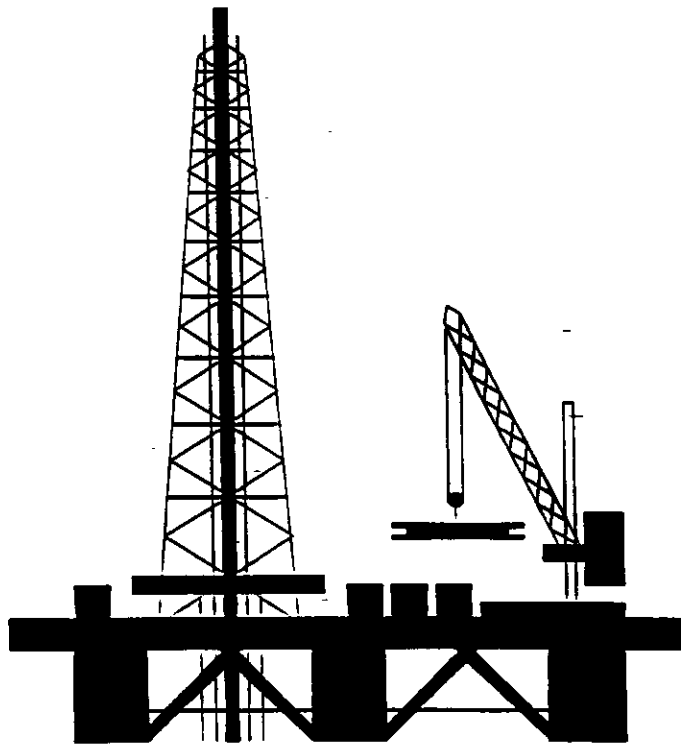
STATE	PROPOSAL(S)	COMMENTS
OKLAHOMA	<p>HB 1003x – Establishes a graduated state gross production tax based upon the price of oil.</p> <ol style="list-style-type: none"> <li>1. If oil prices are \$17 per barrel or greater, the tax remains at its current 7 percent level.</li> <li>2. Between \$14 and \$17 per barrel, the levy would fall to 4 percent.</li> <li>3. Below \$14 per barrel, the tax would be 1 percent.</li> </ol>	<p>Passed Legislature during Special Session. Signed by Governor 05FEB99</p>
TEXAS	<p><b>EMERGENCY MEASURES:</b>            HB 989 and SB 290 exempt oil and gas from severance taxes for any month when the rolling NYMEX average for the previous 3 months has been less than \$15/barrel for oil and \$1.80/mcf for gas. Exemption to begin Feb. 1999, and apply to wells with average production of no more than 90 mcf/day or 15 barrels/day. Relief would expire either 01SEP99 or after \$45 million in severance taxes have been exempted, whichever occurs first.</p>	<p>SB 290 passed by Senate 09FEB99</p> <p>Gov. Bush declares measures emergency legislation.</p>
TEXAS	<p><b>PERMANENT MEASURES:</b></p> <ol style="list-style-type: none"> <li>1. Make permanent the provisions of HB 989 or SB 290 and increase the annual cap that may be exempted from severance taxes.</li> <li>2. Extend "high-cost gas" incentives until 2001.</li> <li>3. Extend "two-year inactive well" incentives.</li> </ol>	<p>Pending Introduction</p>
MISSISSIPPI	<p>Proposals would:</p> <ol style="list-style-type: none"> <li>A. Extend current severance tax incentives until 2004;</li> <li>B. Exempt the following marginal wells from severance taxes once the price of crude goes below \$12/barrel:               <ol style="list-style-type: none"> <li>(1) Wells producing less than 20 barrels/day at depths less than 7,500 feet, or</li> <li>(2) Less than 30 barrels/day at depths between 7,500 and 13,000 or</li> <li>(3) Less than 40 barrels/day at depths greater than 13,000.</li> </ol> </li> </ol>	<p>Scheduled for introduction</p>



<b>ALABAMA</b>	Proposals would: A. Extend current severance tax incentives until 2004; B. Exempt the following marginal wells from severance taxes once the price of crude goes below \$12/barrel: (1) Wells producing less than 20 barrels/day at depths less than 7,500 feet, or (2) Less than 30 barrels/day at depths between 7,500 and 13,000 or (3) Less than 40 barrels at depths greater than 13,000.	Legislature convenes 02MAR99
<b>CALIFORNIA</b>	An incentive bill will be pursued for marginal and heavy oil wells. It will apply to wells producing 3 barrels a day or less, and there will be a cap of 30,000 barrels per company.	
<b>KANSAS</b>	HCR5002 – Constitutional amendment to allow local government to exempt all property used for development, exploration and production of oil and gas from the property tax.	Referred to Cmte
<b>KANSAS</b>	HB2038 – Repeals severance tax on oil from May 1, 1999, to June 20, 2000.	Referred to Cmte
<b>KANSAS</b>	HB2039 and SB 46- Repeal severance tax on oil beginning July 1, 1999.	Referred to Cmte
<b>KANSAS</b>	HB2110 Imposes a three-year moratorium on collection of oil and gas severance taxes.	Referred to Cmte
<b>KANSAS</b>	The House Taxation Committee approved the introduction of HB 2245 to phase out the severance tax on natural gas. The proposal is not yet in bill form.	Pending Introduction
<b>MICHIGAN</b>	Possible introduction of severance tax reduction legislation.	Pending Introduction
<b>NEW MEXICO</b>	HB 280 – Creates an incentive for drilling a new well or a horizontal well that was recompleted from a vertical well for oil or gas wells after January 1, 1999. During the first two years of production, (A) If the price of WTI ranges between \$18 and \$24 then the certified wells pay only half of the state's 3.75 percent severance tax; (B) If the price of WTI falls below \$18 then the well would be completely exempt from severance taxes.	Scheduled for Cmte hearing 10FEB99

NEW MEXICO	HB 281 - Amends the current incentive which sets a 50% reduction of the severance tax rate on the incremental production to a flat rate of 2.45% of total production on well workover projects beginning 1-1-99. Operators would now submit evidence of positive production increase by providing a production curve or tabulation made up of 12 months production prior to the well workover and 3 months positive production after the workover.	Scheduled for cmte hearing 10FEB99
NEW MEXICO	HB 0011 - Amends the current tax incentive for well restorations efforts to extend the qualifying period for the length of the projects to any twenty-four consecutive months.	Referred to Cmte
NORTH DAKOTA	SB 2332 reduces the gross production tax on stripper wells from 5% to 2.5%.	Referred to Cmte
NORTH DAKOTA	SB 2379 would exempt from sales tax the repair of and replacement parts for machinery or equipment used in oil or gas producing or drilling activity.	Referred to Cmte
WYOMING	HB 274 expands definition of stripper production to include 90 mcf or less gas wells and graduates how much of the severance tax is imposed based upon target price ranges. Also exempts sales tax on power or fuel consumed in the extraction of crude oil from 1/1/99 through 12/31/2000.	Passed House 05FEB99 with amendments --. Severance tax reduction applicable when oil is \$11 or less

# **The Energy Sector: A Giant Economic Engine For the Louisiana Economy**



by

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**December 1996**

for

**Louisiana Mid-Continent Oil and Gas Association**

# **The Energy Sector: A Giant Economic Engine For The Louisiana Economy**

## **Executive Summary**

An industry can be either a weak or a strong engine for growth in a state. This report examines the impact of the oil and gas extraction, refining, and pipeline industries ... referred to as the energy sector ... on the Louisiana economy. Our findings can be summarized as follows:

- Louisiana, through the luck of natural resource distribution, is the nation's number two producer of natural gas and the number three producer of crude oil among the 50 states.
- Louisiana ranks number two among the states in petroleum refining capacity.
- There are over 36,000 miles of pipelines transporting crude petroleum and natural gas in the state.
- In 1995, there were 60,602 covered workers employed in the extraction, pipeline, and refining industries, a number approximately equivalent to the population of Ascension Parish. Forty-six of Louisiana's 64 parishes have populations smaller than this number.
- These three industries paid over \$2.7 billion in covered wages for Louisiana households in 1995.
- In October, 1996, the average weekly wage in Louisiana's manufacturing sector was \$606. In refining it was 63 percent higher at \$984, pipelines paid approximately \$994, and the extraction sector \$684.
- Energy jobs and earnings are found in at least 54 of Louisiana's 64 parishes. There are 13 parishes where more than 1,000 workers are employed in these three industries. In Lafayette Parish, 11,767 workers were directly employed in these energy sectors.
- Value added is a broader measure of the total income created directly in an industry. In 1992, Louisiana's oil and gas extraction sector produced over \$14.6 billion in total income. That figure exceeds the sum of all the state's manufacturing sectors except chemicals and allied products.
- The refining sector's value added in that year was \$2.7 billion.
- Through both their direct and multiplier effects these three industries support \$65.2 billion in sales in Louisiana firms, nearly \$8.1 billion in household earnings for Louisianians, and 296,966 jobs in the state. The \$8.1 billion in earnings represents 18 percent of total earnings in Louisiana in that year and exceeds the gross domestic product of 10 of the 66 countries listed in the Statistical Abstract of the U.S. - 1995.
- These three industries directly paid \$838,104,000 in state taxes and fees in fiscal year 1994-95, or about 13.8 percent of total taxes, licenses, and fees collected.
- A very conservative estimate is that these three industries paid \$159.6 million in ad valorem taxes to local governments in the state in 1995. In 37 of the state's 64 parishes, these ad valorem taxes exceeded \$1 million. In 11 parishes the number exceeded \$5 million.
- Through the \$8.1 billion in household earnings generated by these three industries, state government was able to collect an estimated \$532,818,000 in taxes in fiscal year 1992-93.
- The \$8.1 billion in household-earnings generated by these three industries added approximately \$355,212,000 to the treasuries of local governments in fiscal year 1992-93.

**Direct and Multiplier Effects of \$14.517 Billion  
In Sales of Crude Petroleum and Natural Gas: 1992**

Sector	Direct and Multiplier Effects On:		
	Sales (Millions)	Household Income (Millions)	Jobs
Crude Petroleum and Natural Gas	\$15,206	\$1,808	51,223
Real Estate	3,073	7	1,143
Electric, Gas, Water and Sanitary Service	465	66	1,405
Construction	420	234	9,208
Business Services	390	199	7,966
Chemical and Petroleum Refining	356	42	821
Retail Trade	350	157	11,853
Health Services	335	180	6,287
Wholesale Trade	263	93	3,547
Miscellaneous Services	237	73	5,011
Transportation and Public Utilities	219	77	2,993
Eating and Drinking Establishments	192	64	6,677
Finance	162	53	2,276
Other 25 Sectors Combined	901	241	12,708
<b>Total</b>	<b>\$22,569</b>	<b>\$3,294</b>	<b>123,118</b>

**Direct and Multiplier Effects of \$21.3 Billion in  
Refinery Sales in Louisiana: 1992**

Sector	Direct and Multiplier Effects On:		
	Sales (Millions)	Household Income (Millions)	Jobs
Chemical and Petroleum Refining	\$22,887	\$1,077	18,354
Crude Petroleum and Natural Gas	8,934	1,062	30,062
Transportation and Public Utilities	1,531	258	8,690
Wholesale Trade	1,213	431	16,381
Electric, Gas, Water and Sanitary Service	994	139	3,009
Business Services	710	343	14,933
Construction	559	232	10,064
Retail Trade	525	235	17,725
Health Services	488	262	9,118
Finance	409	134	5,727
Miscellaneous Services	390	122	8,104
Other 27 Sectors Combined	4,008	484	31,618
<b>Total</b>	<b>\$42,648</b>	<b>\$4,779</b>	<b>173,848</b>

TO READ TABLE: Note the row labeled "Business Services" in the top table. This means that the \$14.517 billion (see table heading) in extraction activity supported, through both its direct and multiplier effects, \$390 million in sales at firms in the business services sector, \$199 million in household earnings for those employed in business service firms and 7,966 jobs in business service firms. Examples of business service firms would be accountants, engineers, attorneys, etc.

Source: Louisiana Input-Output Table, Bureau of Economic Analysis, U.S. Department of Commerce, Washington, D.C., Spring, 1996

Ad Valorem and School Taxes Paid by Parish and Amount & Percent Paid  
By Oil & Gas, Refining, and Pipeline Industries: 1995

Parish	Total Ad Valorem Taxes	Total School Taxes	Taxes Paid By Oil & Gas, Refining, Pipelines	Percent of Total Paid By Oil & Gas, Refining, Pipelines
ACADIA	9,157,353	4,454,772	2,645,094	28.9%
ALLEN	5,274,780	1,813,583	1,247,061	23.6%
ASCENSION	24,306,651	13,710,340	1,213,025	5.0%
ASSUMPTION	5,262,112	2,292,046	1,223,828	23.3%
AVOUELLES	3,294,092	1,457,927	235,837	7.2%
BEAUREGARD	10,744,013	4,842,538	1,328,538	12.4%
BIENVILLE	8,779,036	4,384,041	2,958,448	33.7%
BOSSIER	17,821,033	7,880,709	1,291,668	7.2%
CADDO	83,657,411	37,640,522	5,932,988	7.1%
CALCASIEU	71,130,179	25,230,212	14,438,570	20.3%
CALDWELL	2,338,878	1,042,722	513,065	21.9%
CAMERON	12,575,941	4,043,101	7,631,075	60.7%
CATAHOULA	2,223,131	1,020,426	309,524	13.9%
CLAIBORNE	4,109,260	1,628,308	1,908,258	46.4%
CONCORDIA	3,646,442	1,189,046	361,996	9.9%
DESOTO	9,227,482	6,153,644	1,177,142	12.8%
EAST BATON ROUGE	131,141,270	56,702,992	10,027,221	7.6%
EAST CARROLL	2,033,926	243,959	581,481	28.6%
EAST FELICIANA	2,461,315	1,870,604	949,227	38.6%
EVANGELINE	5,294,773	1,991,059	948,525	17.9%
FRANKLIN	3,201,793	658,340	405,870	12.7%
GRANT	2,916,306	1,261,557	390,341	13.4%
IBERIA	11,769,023	5,945,744	1,521,621	12.9%
IBERVILLE	17,027,564	7,008,921	1,792,857	10.5%
JACKSON	4,248,402	1,812,154	519,506	12.2%
JEFFERSON	137,523,825	18,766,738	2,169,346	1.6%
JEFFERSON DAVIS	7,260,570	2,840,632	2,310,232	31.8%
LAFAYETTE	36,533,848	14,250,886	1,159,395	3.2%
LAFOURCHE	23,594,881	8,233,674	8,342,459	35.4%
LASALLE	4,517,384	1,637,821	1,522,032	33.7%
LINCOLN	10,359,283	3,491,261	2,194,410	21.2%
LIVINGSTON	11,923,359	6,091,390	1,514,899	12.7%
MADISON	2,394,926	282,277	73,230	3.1%
MOREHOUSE	6,343,477	2,943,014	738,420	11.6%
NATCHITOCHE	7,088,128	2,719,820	873,172	12.3%
ORLEANS	223,180,361	62,248,136	340,030	0.2%
OUACHITA	30,359,502	11,073,755	1,296,280	4.3%
PLAQUEMINES	20,781,024	6,122,450	7,910,482	38.1%
POINTE COUPEE	11,089,656	4,520,372	1,548,418	14.0%
RAPIDES	37,796,604	20,474,628	1,489,011	3.9%
RED RIVER	2,023,498	1,010,542	277,579	13.7%
RICHLAND	3,981,940	2,207,914	559,654	14.1%
SABINE	5,533,974	2,643,600	482,757	8.7%
ST. BERNARD	12,663,536	2,466,393	4,918,975	38.8%
ST. CHARLES	50,109,496	28,333,627	9,389,024	18.7%
ST. HELENA	1,933,459	289,442	805,361	41.7%
ST. JAMES	17,888,322	5,196,410	10,291,209	57.5%
ST. JOHN	17,228,684	6,657,992	7,050,650	40.9%
ST. LANDRY	13,862,893	7,029,542	2,721,438	19.6%
ST. MARTIN	10,434,907	3,308,837	2,859,283	27.4%
ST. MARY	18,670,120	7,438,756	5,050,044	27.0%
ST. TAMMANY	51,153,278	28,304,369	656,470	1.3%
TANGIPAHOA	10,053,513	2,495,221	272,615	2.7%
TENSAS	1,716,617	474,787	130,260	7.6%
TERREBONNE	27,073,295	6,759,305	8,036,954	29.7%
UNION	2,690,455	1,219,362	883,352	32.8%
VERMILION	11,825,766	3,510,204	4,306,454	36.4%
VERNON	6,327,850	2,983,561	246,902	3.9%
WASHINGTON	6,266,994	3,134,973	935,092	14.9%
WEBSTER	7,024,300	3,039,543	1,211,204	17.2%
WEST BATON ROUGE	10,750,173	4,781,561	2,014,488	18.7%
WEST CARROLL	1,686,458	714,254	861,310	51.1%
WEST FELICIANA	2,931,146	387,103	353,744	12.1%
WINN	2,888,809	1,359,783	306,483	10.6%
TOTALS	1,321,108,474	485,721,202	159,657,884	12%

Source: Louisiana Tax Commission

*Louisiana  
Gulf of Mexico  
Outer Continental Shelf  
Offshore Oil & Gas  
Activity*

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***IMPACTS***

# KEY POINTS

## Producing Companies

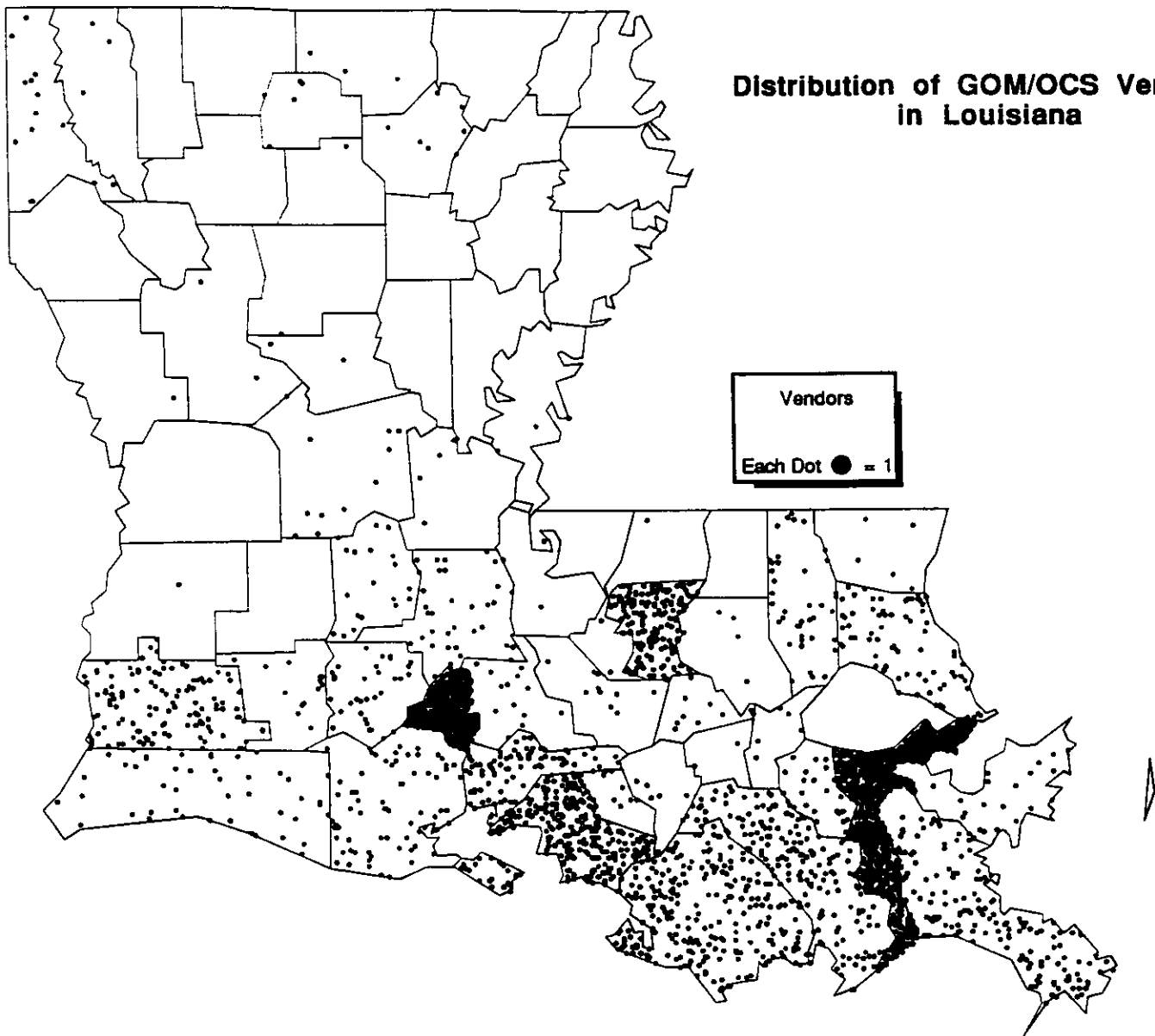
- **13,384** producing company jobs existed in 1992 as a direct result of oil and gas activities in the outer continental shelf (OCS) of the Gulf of Mexico (GOM).
- **10,839** of those employees were Louisiana residents, 2,545 from other states.
- 1992 estimated payroll from producing companies to OCS-related employees living in Louisiana was **\$593,000,000**, an average of \$52,580 per employee.
- Over **\$4.16 billion** was paid by producing companies to vendors and contractors in support of OCS/GOM oil and gas activities during 1992.
- **6,617** unique vendors and contractors were identified from lists provided by sampled participating production companies.

## Louisiana Vendors

- **3,819** (58%) of the 6,617 identified vendors are Louisiana-based.
- Louisiana vendors draw an estimated **\$2.4 billion** in OCS-lease activity revenue from producing companies.
- OCS vendors are found in **165** different communities in 47 Louisiana parishes.
- Statewide, **4.3%** of all Louisiana business establishments were identified as OCS vendors.
- In Cameron Parish alone, **25.6%** of all businesses are OCS vendors. Other parishes with more than **10%** of businesses servicing OCS are Plaquemines, St. Mary, Lafayette, Terrebonne, and Lafourche.
- Louisiana vendors employ an estimated **55,376** people.
- **45%** of Louisiana vendors derive over half of their income from OCS/GOM activities.



## Distribution of GOM/OCS Vendors in Louisiana



### Vendor Commentary

Vendors envision a dramatic drop in business, even business closure, should the oil and gas industry in the Gulf of Mexico experience another slowdown.

**“Since we furnish support companies as well as oil companies, a loss of that demand would ultimately cause us to close our doors.”**

**“Our total income is from federal waters (95%). A slowdown would hurt bad.”**

**“We would reduce our employees by 75% and curtail our activity 80%.”**

**“Our little town is dead. There are businesses closed, empty buildings. We went from 14 employees to three and one part-time.”**

**“The offshore work is the only basis of work in Louisiana. Without the offshore work, there would be no reason to be in Louisiana.”**

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*Baton Rouge, Louisiana 70802*

# OIL REFINERY IMPACT STUDY

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## LOUISIANA

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Prepared for:

**Mid-Continent Oil & Gas Association**  
Baton Rouge, Louisiana

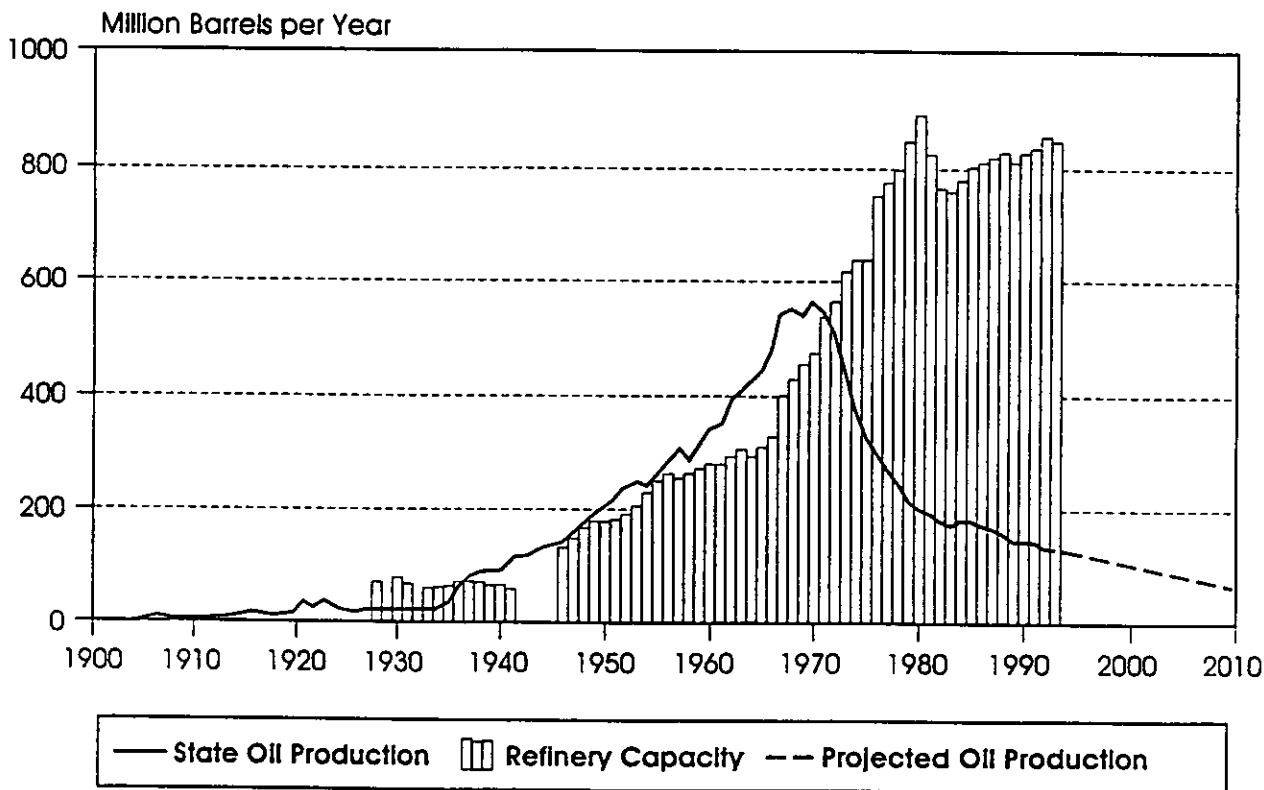
Prepared by:

**Applied Technology Research Corporation**  
Baton Rouge, Louisiana

**December 1995**

# Louisiana Oil Refineries

- The 19 crude oil refineries operating in Louisiana account for 15% of the total crude oil refined in the U.S., making Louisiana the second largest state in total refining capacity.
- Essentially all of the oil produced in Louisiana is processed at Louisiana refineries.
- Louisiana oil refinery capacity has out paced state oil production since 1973. The gap between capacity and production has increased as state oil production continues to decline.
- Louisiana-produced oil presently accounts for 21% of total oil refinery inputs. Louisiana refineries have the capacity to process the entire volume of crude produced annually in Louisiana in less than two months.
- The Federal Outer Continental Shelf in the Gulf of Mexico serves as an extension of Louisiana production and provides 14% of the crude input processed by Louisiana refineries. Foreign crude accounts for 57% of total Louisiana refinery input; crude oil from other states accounts for 8%.
- In 1994, the combined expenditures of all Louisiana refineries totaled an estimated \$17.5 billion.
- Louisiana refineries pay an estimated \$139 million annually in state and local taxes.
- 8,737 Louisiana residents are directly employed by refineries in Louisiana.
- Crude oil refineries are one of the state's highest salary paying industries. At an average annual salary of \$47,000, the average salary for Louisiana refinery employees is twice that of the \$20,000 average annual salary for all industries statewide.

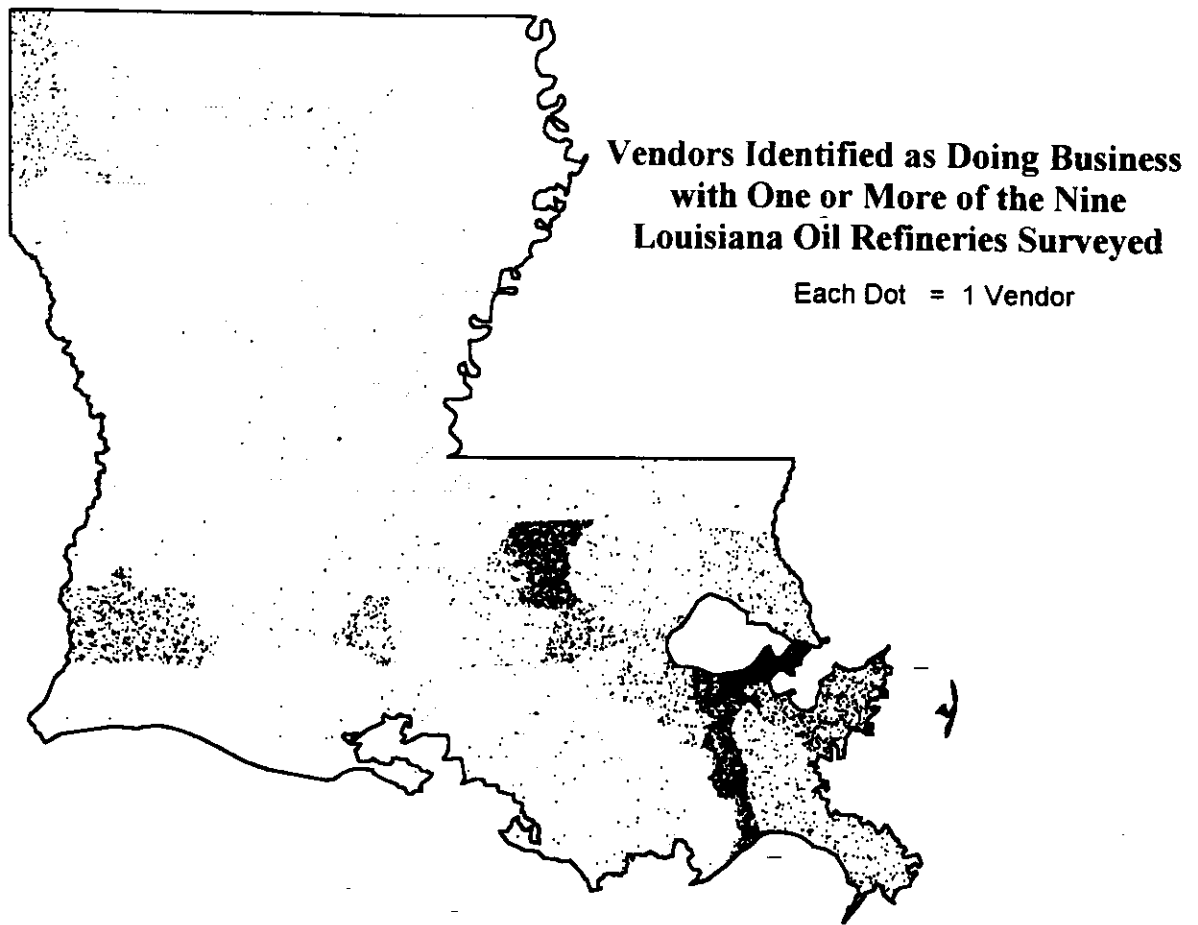


Source: Oil Production— DNR Database

Refinery Capacity— DNR Energy Database and DOE/EIA Petroleum Supply Annual

NOTE: 1979 Capacity is estimated

(Source: Troy, 1994)



## Louisiana Vendors

- In 1994, excluding payments for crude oil and taxes, Louisiana refineries spent an estimated \$4.45 billion on labor, capital and other goods and services; 66% or \$2.95 billion of which was paid to Louisiana vendors and employees.
- Each oil refinery in Louisiana buys from hundreds of local businesses.
- 6,905 individual Louisiana vendors, located throughout 49 parishes and 166 communities, do business with one or more of the nine refineries surveyed.
- 88,000 Louisianians are estimated to work for Louisiana-based vendors providing goods and services to oil refineries. Another 12,000 Louisiana residents work for contractors at a Louisiana based refinery.
- 48% of these Louisiana oil refinery vendors earn 25% or more of their income from Louisiana-based refineries, 27% earn at least one-half of their income, and 14% earn 75% or more of their income from Louisiana-based refineries.
- Each Louisiana vendor doing business with a refinery does business with an average of 41 other Louisiana businesses.

# Local businesses share their thoughts about Louisiana oil refineries \_\_\_\_\_

## **an important link in the local business chain**

“If refinery business were to decrease, it would affect every company that I do business with.”—*a tool service company employing one to four Louisiana citizens.*

“The oil refinery industry is a generator of many other business activities, and therefore, directly affects the volume of my business, the economic base of the community, and of course my future business potential at all levels. Contraction would have a negative effect and expansion would have a positive effect.”—*a self-employed real estate appraiser.*

“Our company depends on the refinery industry for a major part of annual business. This is also true for many of Louisiana’s workers and support businesses.” —*a contracting company employing over 1,000 people in Louisiana.*

“Without the payrolls, housing business would slow down. My business is selling and sharpening saw blades—no wood to cut; no blades to sharpen!” —*a saw sharpening shop with fewer than five employees.*

## **supporting communities**

“The refinery industry employs numerous personnel. They also impact the whole community both directly and indirectly with the amount of revenue they invest in the community. Some of the communities in the state would be devastated by a reduction in the refinery industry.”—*an electrical supplier employing over 1,000 people.*

“We are a newspaper in Louisiana. In our coverage area are several refineries. Those refineries support a significant number of families. They also support a number of charitable efforts. And, of course, all of that supports the local business cycle. Altogether, area refineries have a very significant impact on our community.” —*a newspaper employing between 20 and 49 people.*

“It is a boom for our company and community.”—*a courier service with one to four workers.*

## **contributing to a diversified economy**

“We are involved with offshore oil and gas companies and when their business dropped off, the steady business with the Louisiana refineries helped keep us afloat. We feel they are a very important part of future growth and depend upon their current steady business as a reliable foundation to our continued success.”—*a leasing company directly employing between five and nine people and a large subcontractor workforce in Louisiana.*

“Our future depends on the growth of our activity in the refinery business due to the lack of demand for our services in oil field, civil and military projects.”—*an inspection firm with more than 20 employees in Louisiana.*

## **developing for the future**

“The refineries we presently work in also help us to develop new technology which we can use outside their realm. Many of the refineries are active partners of their community, especially the school system. Many schools’ computers and science equipment were donated by the refineries.” —*a testing laboratory employing 50 to 99 Louisiana workers.*

“The refinery business is very important. It is a capital intensive, high tech business that draws well educated people while paying very well.”—*an instrumentation company with less than five employees.*

“Dollars generated from the refinery industry are the life blood of this business. Consequently, money in the form of taxes and spendable income that sustain local community and state economies are equally dependent. Loss of business opportunities would force relocation to other states.”—*an engineering firm employing over 250 people in Louisiana and over 500 nationwide.*