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Fears over deep-water ban spread

Moratorium on Gulf oil drilling is being felt already, supply firms say

By **BRETT CLANTON**
HOUSTON CHRONICLE
June 19, 2010, 11:26PM



Melissa Phillip Chronicle

John F. Ryan III, whose company supplies lifeboats used in the offshore oil and gas industry, hasn't had to lay off any of his 85 employees. "But is it on my mind? Certainly," Ryan says.

John Ryan III considers himself an optimist, but he's having trouble seeing the silver lining in a Gulf of Mexico drilling ban that's starting to cut into his business.

It's not crisis time yet. In an ironic stroke of luck, his Alexander/Ryan Marine & Safety Co. in east Houston has benefited from orders to supply protective safety suits, ventilators and hard hats to crews cleaning up the Gulf oil spill that prompted the government's drilling moratorium. But he knows that business won't last, and he worries about what's next.

"Everybody's saying, 'This moratorium can't last six months,'" Ryan said. "If it does, it will put a lot of companies on their knees."

Indeed, hundreds of Houston companies that provide specialized equipment and services to the offshore oil and gas industry are worrying about the prospect of the new deep-water drilling ban going forward as planned.

Those include not just the giants like Halliburton, Schlumberger and National Oilwell Varco, which do business in every corner of the globe, but also a vast number of small and lesser-known shops that are tied to the Gulf almost as closely as Louisiana shrimpers.

Alexander/Ryan, for example, derives 60 percent of its \$35 million in annual revenue from the Gulf. It supplies lifeboats, firefighting systems and other safety equipment for offshore drilling rigs and production platforms.

But much of that business has ground to a halt since May 27, the day that President Barack Obama ordered 33 deep-water rigs to stop drilling exploratory wells and banned new permits to drill in water deeper than 500 feet for the next six months.

"We've felt the crunch," Ryan said, sitting in his office at Alexander/Ryan's small, nondescript headquarters building on Wayside, where huge, bright-orange lifeboats cram a fenced-in lot in back.

He hasn't had to lay off any of his 85 employees in Houston and Louisiana. "But is it on my mind? Certainly," he said.

Interior urged to lift ban

The administration says the ban will continue until investigators can determine what triggered the April 20 blowout at BP's Macondo well — in mile-deep water off the Louisiana coast - that killed 11 workers and created the worst oil spill in U.S. history.

Obama and BP announced last week that the company will set aside \$100 million for workers sidelined by the drilling moratorium.

But Gulf Coast state lawmakers and the oil and gas industry have urged the Interior Department to lift the deep-water ban, claiming it

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is unnecessarily putting tens of thousands of jobs at risk at a time when the Gulf Coast is already struggling with a fishing shutdown and other spill-related losses.

Oil field services titans Halliburton and Baker Hughes said they are trying to relocate roughly 4,000 workers from the Gulf, while Schlumberger said it is exploring several strategies to protect jobs while the ban is in place.

But small and midsize offshore equipment, services and logistics suppliers often lack the same flexibility. For them, quickly deploying a fleet of assets elsewhere may not be an option, said Jeff Huddleston, a director at turnaround specialist Conway MacKenzie in Houston.

"They're mobile, but not to the extent that you can move them all over the country," Huddleston said, noting that calls have begun coming into his office from companies looking to downsize.

Earlier this month, Hornbeck Offshore Services of Covington, La., a supply boat company, sued U.S. Interior

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Secretary Ken Salazar in New Orleans federal court, seeking to lift the moratorium before it does irreparable economic harm. More than a dozen other offshore companies have since joined the suit.

But in court filings last week, the government rebutted Hornbeck's claims that the ban had shut down the Gulf's oil and gas industry. It noted that while deep-water drilling is suspended, 3,600 production platforms accounting for 30 percent of U.S. oil production remain online. The moratorium also does not prevent drillers from performing maintenance and other activities necessary to shutting in deep-water wells, the government said.

The industry's biggest fear is that idled deep-water rigs will leave the Gulf and accept new international contracts that could keep them away for several years, wiping out U.S. jobs that support them. So far, it hasn't happened, but analysts say some rigs could migrate to Brazil, West Africa and other deep-water hot spots.

If rigs to, jobs will follow

"If the rigs leave the Gulf of Mexico ... everybody's going to feel the pinch," Ryan said.

He acknowledges that his firm could get a lift if regulators impose tougher safety regulations for offshore oil and gas operators in the Gulf.

Until then, however, uncertainty over the drilling ban has forced him to put plans on hold for a new headquarters building, delay some hiring decisions and wonder about what's ahead.

The situation reminds him of the mid-1980s oil bust, when after a period of breathless growth the industry suddenly cratered. Ryan's response at the time was to try to overcome it by working harder. Yet, he quickly realized it was all for naught.

"If there's no business out there," he said, "you can't just go out there and create it."

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