

New Orleans CityBusiness

Obama oil policy puts Jones Act in spotlight

Maritime industry: More Gulf drilling may not translate into more work for U.S. vessels

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While the Louisiana offshore energy sector touts the Obama administration's decision in late March to expand offshore drilling as a boon for business and jobs, the state's maritime industry is worried confusion surrounding a decades-old maritime law will drive jobs to foreign workers.

New Orleans-area offshore supply vessel companies are calling for stricter interpretation of the Jones Act, a law that requires vessels owned, built and manned by Americans to carry cargo transported between U.S. destinations. When foreign vessels started trickling into the market in the early 1970s, U.S. Customs and Border Protection's interpretation of the law allowed for foreign vessels to transport oilfield cargo to rigs in the Gulf of Mexico.

Today, many foreign flag vessels in the Gulf are able to outbid American vessel operators, which must cope with overhead from more stringent U.S. safety and quality regulations, said Ken Wells, president of the Offshore Marine Service Association, a Harahan group that represents U.S. vessel operators and their American employees who work in the offshore energy sector.

"A lot of the perceived advantages of this offshore expansion are going to bypass the very communities that are counting on it," Wells said.

OMSA estimates that more than 90 foreign flag vessels operate in the Gulf of Mexico, up 40 from 2009. About 1,200 U.S. flag vessels operate in the same waters. Wells said that without a more exact understanding of the Jones Act, jobs created by drilling expansion will leave the country.

In 2008, maritime industry opposition reversed a Customs ruling that allowed BP to transport a valve structure to a Gulf drilling rig using a foreign vessel, a ruling Wells said he felt had "written (local vessels) out of the future of transferring equipment." The agency reversed 20 additional rulings before placing the Jones Act under review in September after a flood of complaints from the oil industry.

Abruptly outlawing the use of foreign vessels will significantly slow offshore production and exploration, said Robin Rorick, director of marine and security issues at the American Petroleum

Institute. While oil companies make it a point to charter U.S. vessels, foreign specialty vessels are integral to the industry, he said.

“To overturn that in two or three months was something the industry was not prepared to deal with,” Rorick said.

With the law in limbo many U.S. vessel operators are concerned about the market for new ships. Otto Candies, a marine transportation company based in Des Allemands, has five boats under construction with project costs ranging from \$30 million to \$60 million per ship.

Secretary Treasurer Otto Candies III said expanded drilling looks promising for business, but the vessels will have an uphill battle in securing contracts in the Gulf.

“We don’t feel we compete on a level playing field,” Candies said.

Candies said laws such as the Jones Act are commonplace in offshore industries from Brazil to the North Sea, where his vessels also work. A similar approach stateside “would certainly help us to get those boats out to work,” he said.

Among other safety and logistical concerns, the oil industry is asking for a hard look at the capacity of American shipyards to do the building required in time to meet the demand that expanded Gulf drilling brings.

Rorick said oil companies are most concerned about stalling work for years while waiting for an American specialty vessel to be built.

“We’re not talking about putting a hull and a bridge together and cutting it loose,” Rorick said.

Bill Kearney, president of deepwater tug company Dolphin Marine International in Elmwood, said the oil industry’s lack of confidence in the diversity of the U.S. fleet as well as the capacity of American shipbuilders is “laughable.”

“To suggest that there aren’t the same vessels here is just being dishonest,” Kearney said. “We’re talking about the USA, a global superpower and a leader in oil and gas exploration.”

Like others in the maritime industry, Dolphin, which operates a fleet of five tugs, is looking to the Jones Act to help preserve its offshore business by limiting the number of foreign vessels that “find a loophole and invade the marketplace,” he said.

For Kearney, an offshore market without that protection looks grim for his company.

“It would be next to impossible for American services to compete with foreign entities,” he said. “It would be an almost certain death sentence.”•