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Independent Oil and Gas Companies Generate Half of Gulf of Mexico Oil and Gas Jobs, Economic Value and Tax Revenue, IHS Global Insight Study Shows

Exclusion of independents would exact heavy toll in lost jobs, government revenues and economic value

LEXINGTON, Mass. (July 22, 2010) – An analysis by IHS Global Insight of the economic contribution to the Gulf States from offshore oil and gas development in the Gulf of Mexico shows that independent oil and gas companies currently account for about half of the nearly 400,000 jobs, \$70 billion in economic values and \$20 billion in federal, state and local revenue generated by the industry in 2009.

The study, *The Economic Impact of the Gulf of Mexico Offshore Oil and Natural Gas Industry and the Role of the Independents*, indicates that independents represent a significant and growing portion of the economic value of the oil and gas offshore industry in the Gulf of Mexico, and a large and growing portion of the deepwater segment of the industry.

The study forecasts that by 2020 an exclusion of the independents from the Gulf of Mexico would eliminate 300,000 jobs and result in a loss, over 10 years, of \$147 billion in federal state and local taxes from the Gulf region. If the independents are excluded just from the deepwater, the job loss would be 265,000 jobs by 2020, and \$106 billion in tax revenues over the 10-year period.

The actual federal tax losses would be larger because the economic analysis only includes the Gulf region (Louisiana, Texas, Mississippi and Alabama) and not the revenue impact on income earned elsewhere in the United States from manufacturing and investment activities related to the Gulf.

“The resulting vacuum would be filled only marginally by the major oil companies,” the IHS Global Insight report says. “The loss of the independents could actually precipitate” an overall decline in activities because of the integration between majors and independents. Because of the scale of the independents’ involvement in the Gulf, including the deepwater, their exclusion would likely lead to ‘a significant shrinkage in offshore oil and gas activity...and a dilution of the U.S. technological and industry leadership.’ This would mean a significant decline in oil output from what otherwise would be the ‘growth engine’ of domestic U.S. oil production.”

James Diffley, group managing director of U.S. Regional Economics for IHS Global Insight and lead author of the report, said: “The study demonstrates the significant contribution and important role of independents in the Gulf of Mexico offshore oil and gas industry, both today and in the future when measured in jobs, economic value and government revenue. The offshore Gulf of Mexico also plays a huge part in the nation’s energy security and is a leading contributor to the economic vitality of the four-state Gulf region.”

The offshore is a growing component of domestic oil production both for the United States and the world. The U.S. offshore -- primarily the Gulf of Mexico -- produces 30 percent of U.S. oil and 10 percent of U.S. natural gas. The U.S. recorded an increase in domestic oil production in 2009 for the first time since 1991, an increase attributable to developments in deepwater production, and was a factor in the decline in oil imports.

Independents currently hold majority interests in 81 percent of all producing Gulf of Mexico leases and 46 percent of the Gulf’s producing deepwater leases. Independents have drilled 1,298 wells in the deepwater and they currently account for over 900,000 barrels a day of oil equivalent (oil and natural gas together).

In 2009, independents accounted for more than 200,000 jobs, \$38 billion in economic benefit and \$10 billion in state and federal tax revenues and royalty payments in 2009, according to the IHS Global Insight study.

The IHS Global Insight study forecasts that by 2020 for the industry as a whole – with independents as well as majors -- industry jobs will climb to nearly 520,000, that annual economic benefit will total more than \$113 billion, and tax and royalty revenue will total nearly \$30 billion, or approximately \$267 billion over the 10-year period.

The IHS Global Insight analysis for the 2009 through 2020 forecast period indicates that the exclusion of the independents in the offshore Gulf of Mexico would result in:

- The following lost jobs in the four-state Gulf region (Alabama, Louisiana, Mississippi and Texas) - direct, indirect and induced:
 - 2009 – 202,503
 - 2015 – 289,716
 - 2020 – 300,974

- The following lost taxes and royalties to the federal government:
 - 2009 – \$7.34 billion
 - 2015 – \$10.13 billion
 - 2020 – \$9.98 billion
- The following lost state and local tax revenues in the four state Gulf region:
 - 2009 – \$3.18 billion
 - 2015 – \$4.59 billion
 - 2020 – \$4.68 billion

Altogether, more than \$147 billion in federal, state and local revenues would be lost over a ten-year period if independents are excluded from operations in the Gulf of Mexico. (The actual tax losses would be higher because the study does not include taxes collected elsewhere in the United States from manufacturing and from investments related to Gulf of Mexico oil and gas.)

Within the deepwater, the exclusion of the independents would mean:

- The following lost jobs in the four-state Gulf region - direct, indirect and induced:
 - 2009 – 121,298
 - 2015 – 230,241
 - 2020 – 265,113
- The following lost taxes and royalties to the federal government:
 - 2009 – \$3.64 billion
 - 2015 – \$7.26 billion
 - 2020 – \$8.33 billion
- The following lost state and local tax revenues in the four-state Gulf region:
 - 2009 – \$1.63 billion
 - 2015 – \$3.35 billion
 - 2020 – \$3.94 billion

Altogether, more than \$106 billion in federal, state and local revenues would be lost over a 10-year period if independents were excluded from deepwater. (The actual tax losses would be

higher because the study does not include taxes collected elsewhere in the United States from manufacturing and from investments related to Gulf of Mexico oil and gas.)

Overall, the exclusion of the independents would cause a significant shrinkage in offshore oil and gas activity, a reduction in the dynamism of the industry, and a dilution of U.S. technological and industry leadership.

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The study, *The Economic Impact of the Gulf of Mexico Offshore Oil and Natural Gas Industry and the Role of the Independents*, was commissioned by Cobalt International Energy, Inc. To receive a copy of the report, please go to www.ihsglobalinsight.com/gulfoileconomicimpact.

About the study

The study measures the total economic contribution of independents to oil and gas offshore activity. It seeks to do so by presenting a context for understanding the economic significance of the offshore Gulf of Mexico and the expected costs that would result from independents withdrawing from the marketplace. The economic analysis has been conducted by the regional economics team from IHS Global Insight. Its expertise includes the economic impact, tax implications, and job-creation dynamics within multiple sectors core to national, state and local economies. In this capacity, IHS Global Insight helps governments and companies to interpret the impact of proposed investments, policies, programs, and projects. The study draws on the oil and gas expertise of IHS Cambridge Energy Research Associates (IHS CERA) and on the oil and gas data bases of IHS, the most extensive and comprehensive in the world.

About IHS Global Insight

IHS Global Insight (www.ihsglobalinsight.com), an IHS company, provides the most comprehensive economic and financial information available on countries, regions and industries, using a unique combination of expertise, models, data and software within a common analytical framework to support planning and decision-making. Through the world's first same-day analysis and risk assessment service, IHS Global Insight provides immediate insightful analysis of market conditions and key events around the world, covering economic, political, and operational factors. IHS (NYSE: IHS) is a leading global source of critical information and insight, dedicated to providing the most complete and trusted information and expertise. IHS product and service solutions span four areas of information that encompass the most important concerns facing global business today: Energy, Product Lifecycle, Security, and Environment supported by Macroeconomics. IHS has been in business since 1959 and employs more than 4,200 people in 30 countries.

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