

Special Report

Implications of the BP Oil Spill

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The first and most obvious impact of the oil spill is that it may mean an end to public and political support for offshore oil drilling for decades to come.

This, in turn, will have far-reaching implications, including increased national dependence on imported oil, potential hikes at the pump for the price of gasoline (which can spell bad news for whoever is in the White House), and foreign policy ramifications for the U.S. as it is forced to tilt toward the oil-supplying countries of the Middle East and Latin America.

Other areas in which the spill will have an impact include:

The Environment and the Economy

The two are closely linked. The spread of millions of gallons of oil in the Gulf of Mexico may do long-lasting damage to the fish, wildlife and wetlands of the region. That will devastate the fishing and shrimping industries of the Gulf States, especially Louisiana, which was still suffering from the devastation of Hurricane Katrina. The rest of the nation will feel the impact in higher seafood prices.

Shipping will also be affected, since freighters must detour to avoid the oil slick; if the slick should extend into the mouth of the Mississippi River, it could limit or even shut down ship traffic, a costly blow not only for the region, but for the nation.

Gulf Coast oil refineries, a major part of the economies of Louisiana, Mississippi and Alabama, are sure to suffer. And recreation and tourism will be blighted, as will the scores of small businesses that depend on them.

Domestic Politics

President Obama will take heat from both ends of the political spectrum. The left is angry that he had signed off on more offshore drilling just days before the BP disaster and will probably demand a crackdown on the oil industry. The right is

lambasting the President for failing to take charge fast enough – “Obama’s Katrina,” the GOP is saying – but will probably oppose any effort to tighten regulation of the oil companies.

Republicans have their own problems, since the nation well remembers their enthusiasm for offshore drilling during the 2008 presidential campaign. Sarah Palin takes a particular hit, since she was the most vociferous in chanting “Drill, baby, drill.”

Domestic Energy Policy

Public support for energy and climate legislation will probably increase, and Majority Leader Harry Reid may come under pressure to move up the bill on the Senate calendar rather than let it wait behind immigration legislation.

The push to develop renewable energy (wind, solar, biomass, etc.) will increase, with federal subsidies on the upswing. The U.S. has large reserves of natural gas, so support for greater exploration and extraction will rise. That, in turn, may create political friction, since the extraction methods can be environmentally risky. (New York State recently vetoed a proposal to pump natural gas from an upstate site because the drilling method involved fracturing underground rock formations and that was deemed a threat to nearby New York City reservoirs.)

The Oil Industry

British Petroleum has already suffered a financial and reputational disaster.

The long-term cost remains to be seen, but it will be on a grand scale.

More generally, the oil industry as a whole has taken another black eye and will probably take a public pounding from Washington. Among other things, it will come under heavy pressure to invest in new safety measures and technology for existing offshore rigs. Reports from the Deepwater Horizon explosion indicate that

despite claims to the contrary, the platform was inadequately equipped, and the fact that the supposedly foolproof cutoff valve failed to work may force a major reevaluation of oil industry technology and procedures.

The insurance costs of the spill are yet to be determined, but they are likely to be enormous. Many insurers besides BP's will probably end up paying, since several other companies were involved in the Deepwater Horizon operation, most notably Halliburton.

The one industry that will flourish because of the BP spill comes as no surprise: the legal profession. The number of lawsuits that will arise from this event may come close to matching the number of gallons of oil gushing into the Gulf.