



# TEXAS CHEMICAL COUNCIL

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April 6, 2020

VIA EMAIL: [RRCconference@rrc.texas.gov](mailto:RRCconference@rrc.texas.gov)

Chairman Wayne Christian  
Commissioner Christi Craddick  
Commissioner Ryan Sitton  
Railroad Commission of Texas  
1701 North Congress Avenue  
Austin, Texas 78711

RE: DOCKET NO. OG-20-00003167

Dear Commissioners:

The Texas Chemical Council (TCC) appreciates the opportunity to comment on your consideration of mandatory production cuts for Texas oil producers. TCC does not wish to testify on this matter. The unprecedented drop in global demand for oil due to the ongoing COVID-19 pandemic is indeed a remarkable development which is presenting policymakers and businesses alike with unprecedented challenges. Despite the dire circumstances, TCC believes a proration policy would not be a solution to the problem, but could result in a multitude of unintended consequences for the petrochemical industry and decrease the long-term competitiveness of Texas' oil and natural gas. This in turn would significantly impact the competitiveness of Texas' chemical industry.

The business of chemistry is a major economic engine for Texas with over \$150 Billion in capital investment across the state. TCC represents 70 member companies who own and operate over 200 manufacturing and research facilities across the state. Our members directly employ over 75,000 people and are responsible for over 500,000 industry support jobs across Texas. Texas chemical manufacturing accounts for nearly 50% of total U.S. chemical and plastic production. Further, the Texas chemical industry products are the state's largest non-energy export with over \$45 Billion in annual exports.

Since 2010, the shale economy has enabled our member companies to announce over 90 capital projects in Texas with more than \$70 Billion in new investments, many of which are still under construction. Access to an abundant supply of low cost domestic natural gas and natural gas liquids from shale formation is helping to drive a manufacturing renaissance in the U.S. and Texas. These new Texas projects have created over 100,000 new jobs to build, operate, and maintain these new manufacturing facilities; Texas' shale gas deposits are a key driver of the state's petrochemical industry.

According to the American Chemistry Council (ACC), since 2010 the United States has gone from one of the most expensive places to produce chemicals to one of the world's lowest cost producers. This dramatic shift occurred in tandem with the surge in American oil and gas production of shale deposits which were

previously uneconomic to produce. Fierce competition amongst American producers resulted in technological improvements that allowed companies use new horizontal drilling methods in conjunction with hydraulic fracturing to produce affordable and abundant oil and gas.

This innovation story is unique to the United States in part due to our reliance on private property rights, which confer landowners with rights to minerals in the subsurface of their land, unlike other countries where the government owns mineral resources. This framework encourages growth and innovation because private mineral owners are entitled to royalties for the resources produced on their land. Likewise, there are many parcels of land for different companies to lease and try new methods to produce the oil and gas more efficiently. Even within the United States, the growth of oil and gas on private lands over the last decade outstripped growth on federal lands in large part because of the burden of obtaining federal leases.

If the Texas Railroad Commission (Commission) implements a proration policy, it will fundamentally alter the legal and regulatory landscape that produced the tremendous success of the American oil and gas industry that has served as the backbone to the resurgence of the American chemical industry and other manufacturing industries. While the Commission may have the legal authority to take this action, a proration policy would instantly shift Texas away from the current free market system to a regulated market framework. Even a temporary mandate would create a precedent for proration policies during oil price shocks that could decrease the competitiveness of Texas' oil and gas industry.

There are also negative geopolitical implications if the Commission moves forward with a proration policy. TCC believes the use of an economic policy in an attempt to protect domestic industries or meet national foreign policy objectives will ultimately negatively impact today's interconnected global economy. American chemical manufacturers produce 15 percent of the world's chemicals and account for 10 percent of all U.S. exports. American chemical manufacturers also rely on countries around the world for critical supplies.

The best way to promote a return to a robust economy in the current crisis is to effectively address the COVID-19 pandemic directly. TCC is proud of the role chemical manufacturers play to produce critical medical supplies, equipment, and cleaning products which help keep people healthy and safe from the virus. We urge the Commission to abandon consideration of a proration policy and avoid increasing economic volatility during this difficult time.

Sincerely,

A handwritten signature in black ink, appearing to read "H L Rivero". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Hector L. Rivero  
President & CEO