June 16, 2020

The Honorable Frank Pallone, Jr.
Chairman, Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Greg Walden
Ranking Member, Committee on Energy and Commerce
2322 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Bobby Rush
Chairman, Committee on Energy and Commerce
Energy Subcommittee
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Fred Upton
Ranking Member, Committee on Energy and Commerce
Energy Subcommittee
2322 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Rush, Ranking Member Upton and Members of the Subcommittee on Energy of the Energy and Commerce Committee,

Thank you for holding the "Reviving our Economy: COVID-19's Impact on the Energy Sector" hearing today about the need to revive our economy in light of the COVID-19 pandemic's effects on the energy industry.

I am submitting this letter today on behalf of the American Exploration and Production Council (AXPC), the national trade association representing the largest independent oil and natural gas production companies in the United States. Data from IHS Markit shows that U.S. independents combine to produce about 83 percent of the nation's oil production and 90 percent of its natural gas and natural gas liquids (NGL) production.[1]
We lead the world in the cleanest and safest onshore production of oil and gas, while supporting millions of Americans in high-paying jobs and investing significant resources in our communities.

Because of our perseverance, investments in innovation, and focus on American-made energy, the U.S. has gone from a nation reliant on foreign oil to a net exporter in 2019. This has provided low, stable, affordable prices for American families and businesses, good American jobs, and a more secure country. We are proud of this accomplishment.

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[1] "The Economic Contribution of Independent Operators in the United States" (May 2019) HIS Markit, for IPAA https://www.ipaa.org/new-study-independent-oil-gas-operators-drive-american-energy-development-by-wide-margin/

Our companies were the primary driver of the shale revolution and the energy independence we sought for decades. The shale revolution, which is credited with creating 4.6 million new jobs and ten percent of our overall GDP growth in the last decade, has been an essential driver of our nation's economic growth.

Because of the COVID-19 pandemic, the American oil and gas industry is experiencing virtually unprecedented demand decline coupled with serious supply disruption – a combination that has undermined the financial health of our industry. This is a critical time for us and for the long-term prospects of the American economy and American energy independence.

COVID-19 Destroyed Jobs and Stressed State Budgets

Since March 13 of this year, over 65 percent of all U.S. oil-drilling rigs have been idled. Each onshore rig supports at least 22 direct jobs, with an average pay of $60,000 per year – totaling $1,320,000 per rig per year in direct salaries. For each direct job, it is estimated that three indirect jobs are created to support drilling rig activity – including food, lodging, and services in local communities. That is a total of 88 jobs per onshore oil rig. As of June 11, 520 rigs had been idled, meaning that nearly 46,000 Americans are currently out of work, and over $686,400,000 has been lost in direct upstream wages – just since March.[2]

In addition to jobs and wages lost, states in which we operate are losing revenue that is vital to supporting emergency services, education, and road repair. For example, the Oklahoma Chamber of Commerce published a 2019 report warning that an extended energy sector slowdown could result in a 25 percent net decline in total state tax revenue. And, about 40 percent of New Mexico's budget comes directly from the extraction of oil and gas.[3]

Oil Market Manipulation Hurt the U.S. Oil and Gas Industry

In early March, OPEC-plus nations announced plans to flood global markets with an additional four million barrels of oil per day. This oversupply, compounded with the slowing demand for product due to policies put in place to prevent the spread of the Coronavirus, created a precipitous drop in commodity prices. This change dramatically impacted our industry, including the AXPC member companies.

Russia has been targeting the U.S. shale industry in an attempt to drive it out of business. The announcement from Saudi Arabi and Russia in early 2020 to increase production of oil sent commodity prices plummeting by nearly 50 percent overnight. The market reaction was devastating: by mid-March, AXPC member companies announced planned cuts in domestic production and adjusted capital expenditures, which meant less investment in the U.S. economy, Americans losing jobs, and a threat to our national security.

Only weeks after this oil-market crash; the Organization of Petroleum Exporting Countries (OPEC) and Russia (OPEC-Plus) announced a deal to curb production by nearly 10 million barrels per day – an agreement that was reached because the Trump Administration and members of Congress who support American energy independence pressured the governments that were using this global health crisis to manipulate the oil markets, with the specific aim of hurting U.S. oil and gas producers.

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[2] Data from the International Association of Drilling Contractors (IADC), updated 6/11/2020

[3] "Oil production expected to continue to plummet into the fall" by: Kevin Robinson-Avila, Rio Rancho Observer (may 8, 2020) https://www.abqjournal.com/1453438/oil-production-expected-to-continue-to-plummet-into-the-fall-ex-nm-and-us-face-a-long-hard-recovery-over-the-next-few-years.html

In responding to market signals, our industry voluntarily cut crude production by 2 million barrels a day from the record production levels set the week of March 13.

Over the last two months, the OPEC-Plus deal to curb global oversupply and U.S. producers' voluntary production cuts have stabilized the market. These actions pushed the price of oil from below zero – a first in history – to above $36 per barrel, as of mid-June. As the OPEC-Plus production cuts were extended through July, we hope that international producers will continue to evaluate production levels in coming months, given the unprecedented, ongoing worldwide demand shock.

Demand Destruction from Economic Shutdowns Exacerbated Market Conditions

Worldwide demand destruction for oil and gas due to COVID-19 lockdowns has led to unprecedented oil and gas market imbalances. Petroleum is the largest source of U.S. energy and transportation accounts for the largest share of U.S. petroleum consumption. With planes grounded, cars parked, and public transportation at a standstill, demand for petroleum products has collapsed. Notably, the U.S. Energy Information Administration (EIA) estimated that demand in April was down to the lowest levels since 2002.

Utilize Strategic Oil Reserve to Reduce Strain on Storage Capacity

The U.S. Strategic Petroleum Reserve (SPR) is the world's largest supply of emergency crude oil and was established primarily to reduce the impact of disruptions in supplies of petroleum products and to fulfill U.S. obligations under international energy agreements. For the benefit of the American taxpayer, it makes economic sense for the government to purchase oil to fill the SPR now, while prices are low.

As Congress looks for ways to revive our economy, we encourage policymakers to provide the Department of Energy (DOE) additional flexibilities with respect to the SPR. Allowing DOE the flexibility needed to delay SPR sales until FY2022 could help both our companies and the American taxpayer. Doing so enables DOE to forego selling oil at currently low prices, while also helping mange the amount of oil in the global marketplace.

Our Industry is Committed to Free-Market Principles

As an organization that strongly believes in free-market principles and the innovative, entrepreneurial spirit of America, AXPC has not asked for direct financial support from the federal government.

U.S. producers cut billions of dollars in capital expenditures and have been doing everything they can to protect their employees during this crisis. Some companies are looking at small business and other loans, in order to maintain payroll and to maintain these well-paying jobs the industry provides throughout the country.

We have not sought, and will not seek, a bailout; all we ask is that Congress enact policies to ensure a healthy American energy sector. Our goal is to work with Congress and the Administration to come up with solutions that help companies continue to invest in our economy and American energy.
In addition to continued diplomatic pressure to maintain balance to global oil markets, AXPC endorses measures that help American workers across multiple sectors impacted by the pandemic.

AXPC also advocates for full implementation of the U.S.-China Phase One trade agreement to help relieve supply and storage issues. Under this agreement, China agreed to purchase nearly $60 billion of "U.S. energy" over the next two years. Early data show China has only purchased a *de minimis* amount of U.S. crude in the first months of 2020, while it has increased purchases of crude oil from Saudi Arabia and Russia.

China's implementation of the trade agreement is also critical because China can utilize its considerable storage flexibility with its national petroleum reserves. However, these Chinese stockpiles are currently being filled primarily with Russian and Saudi crude. Rather than increasing imports from countries like Russia and Saudi Arabia, the Chinese government must take the necessary steps to remain in good standing with the U.S. as a trusted trade partner.

<u>American Oil and Gas Supports Economic Recovery, Environmental Progress, and National Security</u>

American oil and gas is crucial to our economic recovery – but it is also critical to our national security. As the U.S. became a net exporter of oil for the first time ever in 2019, it not only strengthened our energy security, but it allowed our leaders to protect our allies – and pressure our adversaries – using the full weight of American energy.

American oil and gas is an environmental leader in the global energy industry. According to U.S. EPA, the United States is a world leader in protecting the environment and reducing greenhouse gas emissions. From 2005 to 2018, total U.S. energy-related CO_2 emissions fell by 12 percent. In contrast, global energy-related emissions increased nearly 24 percent from 2005 to 2018.

As an industry, we have an irreplaceable role in developing and employing the technologies and innovative solutions that secure our long-term energy future and national security.

As we pull through this crisis, we will continue to take care of people and assets, support our customers, and closely manage inventories and storage. We will also work to secure or revisit our capital expenditures.

By the same token, we are an industry with a long-term focus. We know that global oil and gas demand will take time to reignite. As American companies committed to our workers, our communities and our country, we look forward to working together on solutions that ensure a vibrant U.S. oil and gas industry, a growing, prosperous economy, and energy security that protects our interests at home and abroad.

Respectfully,

Anne Bradbury

Anne Bradbury
CEO
American Exploration and Production Council