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"Texas Oil & Gas Industry Expands Production as International Trade Concerns Loom"

By Ed Longanecker, president of the Texas Independent Producers & Royalty Owners Association (TIPRO)

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Texas exploration and production companies and Chinese refiners shared a collective sigh of relief following a recent decision to remove U.S. crude oil from the list of goods entangled in the ongoing U.S.-China trade war. Nevertheless, though U.S. crude oil appears safe from tariffs for now, China reportedly is still considering a 25 percent levy on imports of U.S. liquefied natural gas (LNG) after officially imposing a 25 percent tariff on U.S. propane, butane, naphtha, jet fuel and coal imports. The escalating trade disputes between the United States and China are putting the success of the American oil and gas sector at risk, and stand to deter investments of long-term energy projects, amongst other negative implications, if tensions continue.

As domestic oil and natural gas production continues to increase, helping support energy demands and expand our economy, potential shifts in the global market as a result of international trade disputes could stall rising output from the United States. TIPRO is projecting crude oil output from Texas will reach a total of nearly 1.5 billion barrels of oil by the end of 2018, an increase of nearly 200 million barrels compared to the total output last year. The Permian Basin alone is expected to account for 50 percent of all new global oil production over the next five years. However, as the West Texas region continues to face output capacity challenges, the ability to move product will be dependent on having additional infrastructure in place, something that is threatened by the Trump Administration's current tariffs on steel and aluminum.

By 2019, the U.S. is set to become the largest LNG exporter in the world, exceeding exports from our country valued at over $3 billion in 2017, as well as increasing levels of crude exports, which reached a record 2 million barrels per day in May of this year. However, recent retaliatory rhetoric regarding potential tariffs on LNG and crude oil exports to China could further exasperate negative implications of the ongoing trade war for our country and partners abroad.

China is the largest importer of oil and the second largest importer of LNG in the world. While trade negotiations between U.S. and Chinese officials continue, one recent report stated that not a single tanker has loaded crude oil from the United States bound for China since the start of August, compared with an estimated 300,000 barrels in the months of June and July. China has also abridged its imports of U.S. LNG in recent months.

With LNG demand expected to rise significantly over the next 12 to 18 months, the possibility of China implementing tariffs on U.S. natural gas exports has also caused concern about the construction of several facilities in the United States for LNG exports.

Meanwhile, the fall-out of utilizing tariffs to reduce trade deficits and the negative consequences for the oil and natural gas industry continues to unfold. When the initial tariff review process for Section 232 began last year, U.S. operators started to see an increase in the cost of domestic steel. Once the tariffs were officially adopted in March of 2018, prices for Oil Country Tubular Goods (OCTG) soared by nearly 30 percent in some cases, while Line Pipe (LP) expenditures jumped by 10-20 percent.

These tariffs on imported steel and aluminum have been described by many as effectively a tax against U.S.-based producers, large and small, adding significant cost on a per-well basis and a punitive tax of tens of millions of dollars to some critical infrastructure projects.

Eliminating overly burdensome regulations and supporting pro-American energy policies has allowed the U.S. oil and natural gas industry to increase production, exports, tax revenue and employment, while decreasing our country’s dependence on foreign oil. Thanks in part to the improved regulatory climate, Texas – the nation’s top producing state of oil and natural gas – has witnessed a revival of E&P activity during the past two years, benefiting our local and state economies. In addition to directly employing over 330,000 workers in the state of Texas and generating billions of dollars in tax revenue annually, last year the Texas oil and gas industry purchased goods and services in the amount of $121 billion from approximately a thousand U.S. business sectors, 84 percent of which came directly from within the Lone Star State. This helps to illustrate how important the oil and natural gas industry is to the broader economy and what’s at risk.

While President Trump’s commitment to fulfill all campaign promises is admirable, tariffs and trade disputes conflict with his energy dominance agenda, which could have a lasting impact on the U.S. oil and gas industry.

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TIPRO is a trade association representing the interests of nearly 3,000 independent oil and natural gas producers and royalty owners throughout Texas. As the largest statewide association in Texas that represents both independent producers and royalty owners, members include small businesses, the largest, publicly-traded independent producers, and mineral owners, estates, and trusts.