CHARLES W. VAN VLACK
EXECUTIVE VICE PRESIDENT

April 26, 2005

Karl Rove
Assistant to the President,
Deputy Chief of Staff and Senior Advisor
The White House
1600 Pennsylvania Avenue NW
2nd Floor, West Wing
Washington, DC 20500

Subject: Reconsider pending proposal for natural gas development in the Outer Continental Shelf

Dear Mr. Rove,

We are concerned that the administration is about to approve a policy that will deliver a severe blow to US chemical manufacturers. We urge the administration to fully consider the economic and national security implications of this policy proposal before taking action.

We are concerned that the White House is prepared to release the long-anticipated plan that serves as a blueprint for energy development in the Outer Continental Shelf (OCS). We are also concerned that the plan will specifically exclude waters in the Eastern Gulf of Mexico from energy development between 2007 and 2012. That exclusion might bar development of rich natural gas deposits in Lease Area 181, an area of the Gulf adjacent to currently developed deposits and located more than 100 miles from Florida's shoreline.

As you know, US natural gas prices are the highest in the world, trading as much as 10 times above prices found in other areas. In a period of constrained supply and growing demand good public policy requires that Lease 181 and other proven deposits be considered for development. Experts say that opening Lease 181 development is the most productive, fastest to market gas play in the United States.

For the US chemical industry the stakes could not be higher. Our natural gas bills have jumped by more than $10 billion, we have lost $40 billion in business to overseas operations and more than 100,000 jobs have disappeared. Putting the Eastern Gulf of

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Mexico off-limits to use is guaranteed to send natural gas prices skyrocketing on the futures markets. It will lead to more plant closings and job loss in chemical producing states like Texas, Ohio and Pennsylvania.

The May 2 issue of Business Week includes an article with a chilling headline: "No Longer the Lab of the World, US Chemical Plants are Closing in Droves as Production Heads Abroad." The article makes the following points.

- US natural gas prices are the highest in the world
- High gas prices means "capital investment is being herded away from the US toward the Middle East and Asia where energy is cheaper..."
- "Chemical companies closed 70 facilities in the US in 2004 ... industry employment is now below 880,000, down from over 1-million as recently as 2002."
- "We're in probably the most extreme economic environment the chemical industry has seen."
- "The US has gone from a privileged position to where it's hard to find a rationale to put anything (investment dollars) here."
- There are 50 world-scale chemical plants under construction in China. The US has one.

Given the damage high and volatile natural gas prices are doing to the US manufacturing economy, all options for developing natural gas resources must remain on the table. Existing domestic basins are in decline. New basins must be developed or the pace of de-industrialization in America will quicken. As Business Week puts it, "US industry is adapting abroad while withering at home."

On behalf of an industry that Business Week calls "essential to manufacturers," I urge you to fully consider what will happen to the US economy if the administration continues a policy of restricting access to large gas reserves that are far out to sea.

Sincerely,

Charles W. Van Vlack
Executive Vice President
American Chemistry Council