CHARLES W. VAN VLACK
EXECUTIVE VICE PRESIDENT

American Chemistry Council Good Chemistry Makes It Possible

March 30, 2005

Ms. R.M. "Johnnie" Burton
Director, Minerals Management Service
U.S. Department of the Interior
1849 C Street, N.W.
Washington, DC 20240

Dear Ms. Burton:

We are writing concerning the development of the next five-year OCS leasing program for 2007 through 2012. In light of the natural gas crisis facing our country, and particularly our industry, this program is of great concern to us. The nation's chemical industry is especially vulnerable to potential shortages in natural gas markets and the resulting high prices and volatility. The chemical industry is the nation's largest industrial consumer of natural gas, which we use, like other consumers, for heat and power. But, for us, natural gas is more importantly a raw material, a key ingredient, used to make thousands of products used everyday by everyone.

We have written Interior Secretary Norton (attached) to express our disappointment with her letter to Senator Mel Martinez pledging the Administration's support for continuing the moratoria on energy development in the Eastern Gulf of Mexico through 2012.

Natural gas prices have nearly tripled in recent years, sending our industry's gas bill up by $10 billion in 24 months. Today, the wellhead price of natural gas is well above $6.00 per million BTU. This is an undeniable drag on the U.S. economy, and the chemical industry's center of gravity is moving overseas. Quarterly earnings reports from our members show that operating incomes from their U.S. based operations are severely lagging behind their overseas operations, driving investment decisions away from the U.S. market.

We understand that the Minerals Management Service will begin preparation of the next five-year plan by issuing a scoping notice seeking information about the outer continental shelf areas under your management. We ask that the Department/MMS comply with both the letter and spirit of the Outer Continental Shelf Lands Act and the National Environmental Policy Act by soliciting and gathering information on all outer continental shelf regions during the scoping process.

While we urge you to solicit comments from all interested parties on the appropriateness of leasing in all moratoria and non-moratoria areas, we would also like to highlight one area with unique status that holds critical energy importance to the nation, and particularly to the chemical industry.

The Eastern Gulf Planning Area, which was originally scheduled to be part of a lease sale during the last Administration but was then substantially cut back by this Administration, is a vital area to our industry. Critical for its natural gas potential, this area is not under any moratoria, but much of it was not included in the 2002-2007 five year plan. The original area encompassed 1,033 leasing blocks; however, only 256 blocks were included in the 2002-2007 plan. We urge the Administration to include the remaining 777 non-moratoria blocks in the next five-year plan.

We also want to highlight the portion of this area commonly called the stovepipe. This portion of non-moratoria lands is off Alabama. It is adjacent to existing development and infrastructure and contains high potential for natural gas. In short, it is the one area that is not currently being developed that could bring natural gas on line faster than any other undeveloped area.

We urge you to consider the Eastern Gulf Planning Area, and particularly the stovepipe portion of that area in the next five-year plan. We are very concerned by the press accounts that members of Congress have asked DOI to prejudge its planning process in violation of your statutory responsibilities, and we hope that you will consider the interests of all stakeholders in the country's energy policy as you move forward.

Thank you for your consideration of our concerns on this matter. If you have any questions or we can provide any additional information, please do not hesitate to contact me at (703) 741-5111 or charles_van_vlack@americanchemistry.com.

Sincerely,

Charles W. Van Vlack
Executive Vice President

Attachments

American Chemistry Council Good Chemistry Makes It Possible

March 24, 2005

Honorable Gale A. Norton
Secretary
Department of Interior
1849 C Street, NW
Washington, DC 20240

Dear Secretary Norton:

We are writing to express our strong disappointment with your letter of March 16th to Senator Mel Martinez in which you pledged the Administration's support for continuing the moratoria on energy development in the Eastern Gulf of Mexico through 2012. We also have grave concerns with letters from other senators regarding moratoria extensions in other off shore areas of the country and with Senator Bill Nelson's request to prohibit development of the gas-rich area of the Gulf of Mexico known as Area 181.

US natural gas prices are the highest in the world – as much as ten times higher than in some parts of the world. The US chemical industry competes in global markets. Historically high natural gas prices are putting the US chemical industry at a major competitive disadvantage. In the past five years, we have lost nearly $40 billion in business to overseas operations. Plants have been closed and more than 90,000 good-paying jobs have disappeared.

In times of crisis, and given the advances in exploration and production technology, the nation cannot afford to put proven reserves of valuable natural gas off-limits to use. It is estimated that there is enough natural gas in the eastern Gulf of Mexico to power the state of Florida for 40 years. For a state that is a heavy user of natural gas, it is irresponsible to seek to block access to this resource base. It is especially irresponsible to block access to proven and accessible reserves of gas located more than 100 miles offshore in Area 181. Natural gas is being safely and responsibly recovered in other areas of the Gulf that are in close proximity to Area 181. We should expect the same results in this area.

Blocking access to proven gas reserves may have been understandable when supplies from other areas were abundant and prices averaged in the $2.00 per million BTU range. But with prices persistently above $7.00 per million BTU, it is in the national interest to consider all supply options. We urge the administration to make all of Area 181 open to leasing in the 2007-2012 planning period. And, we urge the administration not to extend the moratoria to other parts of the Outer Continental Shelf.

Sincerely,

Thomas E. Reilly, Jr.
President and CEO
American Chemistry Council

Andrew Liveris
Vice Chairman,
American Chemistry Council

President and CEO
The Dow Chemical Company

Michael Campbell
Chairman,
American Chemistry Council

Chairman, President and CEO
Arch Chemicals, Inc.