

Testimony of Mat Brainerd

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On behalf of the National Association of Chemical Distributors

Before a Hearing of the

The Subcommittee on Agriculture, Energy and Trade of the House Committee on Small Business

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Thank you, Chairman Tipton and Ranking Member Murphy, for allowing me to testify before your subcommittee on this extremely important issue. I am the Chairman and CEO of Brainerd Chemical Company, Inc., and I am a small businessman. Brainerd Chemical is a 54 year old company and I have been the owner since 1979, when I took over from my father, who started the company in 1959. We have 83 employees at three facilities located in Oklahoma and North Carolina, allowing the company to serve 3000 customers nationwide and become one of the top 100 chemical distributors in the United States. I am an active member of the National Association of Chemical Distributors (NACD) in which I currently serve as Vice Chairman of the Board, having previously served as its Treasurer and also Chairman of the Government Affairs Committee. I also serve as Chairman and President of the International Council of Chemical Trade Associations.

I am here today to represent the chemical distribution industry on behalf of the National Association of Chemical Distributors. NACD and its over 400 member companies are vital to the chemical supply chain providing products to over 750,000 businesses. The average member company has 26 employees, \$26 million in sales, and 3 facilities. They make a delivery every seven seconds while maintaining a safety record that is more than twice as good as all manufacturing combined. NACD members are leaders in health, safety, security, and environmental performance through implementation of NACD's Responsible Distribution® program, a third-party verified management practice system established in 1991 as a condition of membership.

It is my hope that my testimony here today will help dispel the notion that the construction of the Keystone XL pipeline is not of concern to small businesses, but solely to the titans of industry in the oil and refining industries. This is simply not the case. Small businesses like mine and my colleagues in the chemical distribution industry would be directly and beneficially affected by its construction, leading to reduced costs for both ourselves and, ultimately, our customers.

Chemical distribution serves the role of taking title to bulk volumes of chemicals, breaking them down into smaller units, in some cases blending them, and transporting them to customers. Since we transport chemicals, we are appropriately a heavily regulated industry. Thus, we serve a highly specialized and critical function and are a critical link in the chain of manufacturing our nation's goods. Of particular importance to this committee, it should be noted that, while we serve large manufacturers, our industry primarily is the predominant supplier of chemicals to small businesses. It is through the existence and health of our industry that hundreds of thousands of small industrial users and manufacturers are able to operate.

I am not here to discuss environmental impacts or the best routes for building the pipeline. Quite simply, these issues are beyond my expertise and area of knowledge. What I am well qualified to discuss, however, is how construction of this pipeline will benefit my company and the chemical distribution industry.

The pipeline would transport crude oil from the oil sands region of Alberta, Canada, to the existing Keystone Pipeline System in Nebraska. It also could accept U.S. crude from the Bakken oil fields in Montana and North Dakota. Of particular interest to me, a second segment of the Keystone XL pipeline system, the Gulf Coast Project, is proceeding separately to connect existing pipeline facilities in Oklahoma to refineries in Texas, and is expected to be completed in 2013. When completed, the entire Keystone XL pipeline system would ultimately have capacity to transport 830,000 barrels of crude oil per day to U.S. market hubs. This is an important opportunity for my industry and the country.

My industry would benefit from building the pipeline in three distinct ways. First, like many industries, chemical distribution benefits from economic growth generally. Second, building the pipeline would reduce our costs for aromatic and aliphatic chemicals, diesel and rail tank cars. Third, it would benefit the economics of hydraulic fracturing, which is an important market that many in our industry serve.

Chemical distribution would benefit not only from direct cost reductions, but from economic growth. Much has been written about the economic benefits of the pipeline. For instance, the Energy Policy Research Foundation found that "the Keystone expansion would provide net economic benefits from improved efficiencies in both the transportation and processing of crude oil of \$100 million-\$600 million annually." These transportation cost efficiencies would create a downward pressure on prices for the products created by crude oil. A report from the Canadian Energy Research Institute (CERI) estimated that as oil sands increases in Canada,

economic activity quickens and demand for US goods and services increase rapidly, indirectly resulting in more than 300,000 new U.S. jobs, as well as \$40 billion in GDP in 2020.

Currently, moving crude to U.S. locations is expensive. If Canada cannot move its crude economically, it may well seek other markets; Asia is one potentially attractive market. Many have expressed concern that if we do not construct the pipeline, we could lose access to this market permanently. If we do build the pipeline, the reliable supply of crude from Canada will result in lower refining costs and more efficient refinery operations. A reliable source of heavy crude will increase our domestic fuel supply and reduce our exposure to volatility in unstable foreign regions, thus alleviating upward price pressures.

To understand why the pipeline is directly important to my industry, you need to understand fluid catalytic cracking (FCC), also known as “cat cracking.” Cat cracking is one of the most important conversion processes used in petroleum refineries. It is widely used to convert the high-boiling, high-molecular weight hydrocarbon fractions of petroleum crude oils to more valuable gasoline, olefinic gases, and other products. The fluid catalytic cracking process breaks large hydrocarbon molecules into smaller molecules through catalyst, heat and pressure to vaporize and then break the hydrocarbons. There are a number of products that come out of this process, including aliphatics which are formed by the initial breakup of the large molecules and are further converted to aromatics such as toluene and xylene.

The reason for walking through this process is to show how crude oil becomes a chemical product that I buy and then distribute to my customers. Toluene and xylene, for instance, are two of the nine chemicals that my company distributes that are created by the cat cracking process. In short, these refineries are my suppliers and my industry’s suppliers. Since the beginning of 2012, costs for toluene and xylene have averaged about \$4.50 and \$3.35, respectively. In that time, I have purchased more than a million gallons of these two chemicals alone. Obviously, any opportunity to lower costs would have an enormous impact on my costs.

These products are in turn shipped to my customers. The economics of the pipeline is that it should result in increased cracking of lower cost crude, combined with reductions in imports from other countries such as Venezuela. With increases in the amount of crude transported through pipelines, feedstock costs to make toluene and other chemicals can be expected to drop. With the increased supply available through shifting refining to a source of crude that is transported at lower cost, it should put downward pressure on prices. Since our industry is fiercely competitive, much of these savings will be passed onto our customers.

Similarly, the pipeline should result in decreased diesel costs. In April, national average diesel fuel costs were reported to be \$3.93/gallon. In an industry that depends on trucks to move our products to market, fuel cost is of tremendous importance to our industry. As a small businessman, I spend approximately \$60,000 per month on diesel to move my products to market. If prices dropped just 5%, that would save \$36,000 per year, or the equivalent of a full time employee. Again, in our competitive industry, some of these savings ultimately would be passed onto customers, and ultimately, the cost of finished goods.

The cost of diesel also impacts the cost of receiving chemicals by rail from my suppliers. For instance, for this coming June, my shipper will be charging a 27 percent mark-up for certain goods to defray rail diesel costs to move these chemicals from the refiners to my facility. Additionally, I lease rail tank cars. When operating these cars, I must pay a diesel cost. So any downward pressure on diesel prices will help my bottom line.

The rapid expansion of shale hydraulic fracturing has been a boon to the nation. One negative impact to the chemical distribution industry, however, is that this expansion has created tremendous and sudden demand for rail tank cars to service bringing crude oil to market due to the lack of a pipeline to serve this function. This demand competes directly with many in our industry's need to ship chemicals from suppliers to their facilities by rail. Rail tank car manufacturers have responded to this and been building new cars as quickly as possible, but there still remains a 42,000 rail tank car backlog. The result is that the cost to lease rail cars has increased dramatically. In my business alone, prices have about doubled solely due to this shortage. If the Keystone XL pipeline is built, there will still be increased demand for rail tank cars as compared to before the shale oil boon, but the demand pressure will somewhat ease, and consequently, so will the lease price for these cars.

The shale oil boon has also created a strong market for our products. This is now a major market for our products, as our products are critical to keeping shale oil flowing in the extraction process. For instance, hydrochloric acid is used to "acidize" a well, removing calcium and mineral deposits in order to increase flow. Similarly, xylene, which I referred to previously, is used as a paraffin breaker, thereby dissolving paraffin and allowing increased flow. Surfactants are sometimes used alone or in conjunction with these chemicals to lower surface tension and allow minerals or paraffin to pass through the well. These are just some of the chemicals I and my industry colleagues sell to shale oil producers. A pipeline with a receiving station to accept crude from shale oil fields greatly benefits the economics of operating this type of field; thus it creates a more favorable market for our members of my industry. In this instance, the Keystone XL pipeline will be able to accept crude from the Bakken oil fields in Montana and North Dakota.

Mr. Chairman and Ranking Member, thank you again for allowing me to testify today before this subcommittee on behalf of NACD. I hope it has provided additional insight on the importance of the Keystone XL pipeline to small businesses and the chemical distribution industry.