

Crude Intentions: The Untold Story of the Ban, the Oil Industry, and America's Small Businesses

Statement of Dale Leppo, Chairman, Leppo Group Inc., Tallmadge, OH Before the Committee on Small Business, U.S. House of Representatives June 17, 2015

Thank you, Chairman Chabot, Ranking Member Velazquez, and Small Business Committee members for inviting me to testify about the impact of lifting the ban on crude oil exports on our small, family-owned business which employs 127 people in Ohio and has been in business since 1945.

Leppo Group rents and sells construction equipment at seven locations throughout Northeast and East Central Ohio. In 2013 we opened "Razor Rents" in Carrollton, Ohio to serve the needs of the emerging Utica Shale energy play. Fifteen percent of our employees are involved in some way in supporting our energy-related operations.

In the SECOND half of 2014, Razor Rents business DOUBLED vs. the first half of 2014 as the Utica Shale activity ramped up. Ohio had 48 drill rigs operating by the end of 2014. As a result of that activity we added inventory and we hired staff to meet that demand. In 2014 we:

- Added 14 new jobs, many of which went into the support of the energy sector
- Our Razor Rents rental fleet grew by 130% (from 154 to 355 units) which also created jobs for our manufacturing partners
- In 2014 we purchased 45 new pieces of equipment from JLG Industries, almost all of which are manufactured either in Ohio or Pennsylvania. Each machine represents an investment of \$80,000 to \$140,000.
- We created 3 internships for students from Ohio State University Agricultural Technical Institute, who then joined us full time upon their graduation.

When the prices of oil and natural gas fell, so did that increased activity.

- The number of drill rigs working in Ohio has fallen from 48 to 22.
- The number of machines that we have on rent in the energy sector has fallen by 42% since the peak in late 2014.

As a result, in 2015 we have:

- Put an aggressive 2015 hiring plan "on hold" until our future activity level becomes clearer.
- Transferred some of our co-workers from the energy sector back to our "normal" construction and industrial equipment activities
- That means that 6 positions we had planned to fill this year will remain open until it becomes clearer that we do (or don't) need the additional capacity.
- Significantly reduced our rental fleet growth. For instance, so far in 2015 we have ordered minimal new equipment for our energy markets – nine small units at last count
- We currently have two interns from Ohio State University Agricultural Technical Institute, but time will tell if we have the level of activity needed for us to bring them on full-time after they graduate.

So what can Congress do to help our small business create jobs, both in our company and for our customers and our suppliers?

Congress can help INCREASE MARKETS for American-produced crude oil by lifting the ban on crude oil exports!

Why would that help? I think there are several reasons:

- 1) Crude oil moves around the world in what is a global energy market. By banning the export of crude oil we artificially put the U.S. energy sector at a competitive disadvantage by removing exports as a potential market at a time when I believe the US is in a world-wide battle for energy market share. IHS Economics estimates that lifting the ban would increase US crude oil production by up to 2.3 million barrels per day average between 2016 and 2030.⁽¹⁾
- 2) This new production will drive substantial additional investment in products and services from the crude oil supply chain, generating up to \$63 billion of supply chain economic output nationally, and up to \$1.8 billion in Ohio.⁽²⁾
- 3) This investment would create up to 440,000 new supply chain jobs nationally, and up to 13,600 in Ohio alone by 2018.⁽²⁾
- 4) These export-dependent jobs and GDP growth are widely spread throughout the American economy. They will exist in all 50 states and throughout 60 different industry sectors. Of the national supply chain job gains, 10 of the top 15 states gaining jobs are non-producing states. By GDP growth, 11 of the top 15 states are non-producing states.⁽²⁾
- 5) The Energy Equipment and Infrastructure Alliance, of which my company is a member, estimates that there are at least 120,000 supply chain businesses supporting American oil and natural gas production, of which at least 100,000 are small businesses.⁽³⁾
- 6) The U.S. energy sector has been a leader in developing new technologies for energy exploration and extraction. Taking advantage of those technological advances before competitors do would continue to give the U.S. energy industry incentives to innovate and become even better at finding and extracting oil and natural gas in an efficient and safe manner.

During the energy boom in Ohio we have seen significantly increased activity in the energy supply chain:

- The manufacturing of steel pipe
- The manufacturing, distribution and support of equipment used in energy markets such as forklifts, man lifts, pumps, compressors, generators and earthmoving equipment
- Investment in infrastructure to produce and get oil and natural gas to market (well-site preparation, pipelines, separation plants, rail lines, roads and bridges)
- Investment in gas fired electric generation plants to replace older and less efficient coal-fired generating plants
- Investment in places for energy sector workers to sleep, eat and shop, including hotels, restaurants, car dealerships, etc.

At a time when the United States continues to see sluggish growth in the kind of good jobs that the energy sector provides, lifting the ban on crude oil exports is a step that could yield almost immediate results.

I hope we can move forward on expanding the markets for US exports of energy that I believe will be a source of good jobs for Ohio and much of the rest of the country.

Thank you again, Mr. Chairman for inviting me to address your committee.

⁽¹⁾ IHS Economics (2014). US Crude Oil Export Decision: Assessing the impact of the export ban and free trade on the US economy

⁽²⁾ IHS Economics (2015). Unleashing the Supply Chain: Assessing the economic impact of a US crude oil free trade policy

⁽³⁾ Statement of Toby Mack, President, Energy Equipment and Infrastructure Alliance, to the House Small Business Committee staff briefing, May 27, 2015

State of Ohio
If the Crude Oil Export Ban Is Lifted
Additional Employment, Labor Income and Value Added in the Energy Supply Chain

| EMPLOYMENT | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|--------------|---------------|---------------|---------------|---------------|
| Construction and Well Services | 1,861 | 4,009 | 4,505 | 4,022 | 3,675 |
| Information Technology | 395 | 880 | 1,134 | 1,091 | 967 |
| Logistics | 289 | 612 | 691 | 611 | 544 |
| Machinery and Equipment | 722 | 1,416 | 1,432 | 1,141 | 1,001 |
| Materials | 899 | 1,803 | 1,904 | 1,572 | 1,346 |
| Professional, financial, and other services | 1,507 | 3,275 | 3,935 | 3,644 | 3,246 |
| TOTAL EMPLOYMENT | 5,673 | 11,996 | 13,601 | 12,081 | 10,778 |

| LABOR INCOME | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|----------------------|------------------------|------------------------|------------------------|------------------------|
| Construction and Well Services | \$182,706,266 | \$379,567,310 | \$367,370,771 | \$313,011,335 | \$316,020,154 |
| Information Technology | \$52,489,762 | \$112,911,250 | \$125,171,408 | \$114,880,700 | \$112,547,256 |
| Logistics | \$29,087,029 | \$59,530,334 | \$58,384,187 | \$49,514,963 | \$48,581,504 |
| Machinery and Equipment | \$99,948,182 | \$189,262,148 | \$164,744,417 | \$125,286,822 | \$121,603,719 |
| Materials | \$110,211,586 | \$213,075,393 | \$193,533,441 | \$152,213,157 | \$143,723,609 |
| Professional, financial, and other services | \$168,089,169 | \$352,785,997 | \$365,495,890 | \$323,318,527 | \$318,485,464 |
| TOTAL LABOR INCOME | \$642,531,994 | \$1,307,132,431 | \$1,274,700,115 | \$1,078,225,505 | \$1,060,961,707 |
| AVERAGE INCOME PER WORKER | \$113,260 | \$108,967 | \$93,721 | \$89,251 | \$98,437 |

| VALUE ADDED (GDP OUTPUT) | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Construction and Well Services | \$283,447,810 | \$485,398,723 | \$471,045,522 | \$401,912,376 | \$406,633,253 |
| Information Technology | \$73,274,405 | \$130,074,522 | \$145,708,490 | \$134,682,431 | \$132,005,939 |
| Logistics | \$50,637,181 | \$85,744,222 | \$85,632,207 | \$73,506,804 | \$72,071,034 |
| Machinery and Equipment | \$176,785,051 | \$277,443,989 | \$246,159,450 | \$190,105,279 | \$184,847,478 |
| Materials | \$213,377,394 | \$341,773,786 | \$316,099,990 | \$252,043,880 | \$238,558,377 |
| Professional, financial, and other services | \$331,355,924 | \$574,201,918 | \$600,404,049 | \$534,244,954 | \$526,772,065 |
| TOTAL VALUE ADDED | \$1,128,877,765 | \$1,894,637,159 | \$1,865,049,709 | \$1,586,495,725 | \$1,560,888,146 |

Source: IHS Economics (2015). Unleashing the Supply Chain: Assessing the economic impact of a US crude oil free trade policy (potential production case)

Total United States
If the Crude Oil Export Ban Is Lifted
Additional Employment, Labor Income and Value Added in the Energy Supply Chain

| EMPLOYMENT | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|----------------|----------------|----------------|----------------|----------------|
| Construction and Well Services | 31,877 | 75,591 | 90,302 | 80,831 | 71,092 |
| Information Technology | 10,156 | 24,703 | 32,291 | 31,700 | 28,918 |
| Logistics | 5,832 | 13,592 | 17,012 | 15,909 | 14,247 |
| Machinery and Equipment | 38,186 | 91,051 | 116,812 | 112,711 | 102,908 |
| Materials | 31,689 | 72,058 | 90,499 | 85,911 | 77,316 |
| Professional, financial, and other services | 31,782 | 74,678 | 92,661 | 87,136 | 76,721 |
| TOTAL EMPLOYMENT | 149,521 | 351,675 | 439,578 | 414,198 | 371,202 |

| LABOR INCOME | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Construction and Well Services | \$3,926,900,195 | \$9,275,311,991 | \$10,196,883,386 | \$8,944,433,046 | \$8,462,442,074 |
| Information Technology | \$1,582,129,810 | \$3,805,922,907 | \$4,360,692,870 | \$4,096,322,255 | \$4,041,738,398 |
| Logistics | \$680,482,192 | \$1,561,406,238 | \$1,764,484,859 | \$1,615,323,070 | \$1,552,740,029 |
| Machinery and Equipment | \$5,534,021,153 | \$13,210,185,333 | \$14,910,560,962 | \$13,750,299,693 | \$13,573,927,988 |
| Materials | \$4,371,052,520 | \$9,928,581,000 | \$11,031,334,989 | \$10,099,865,347 | \$9,842,171,682 |
| Professional, financial, and other services | \$4,113,565,000 | \$9,558,764,543 | \$10,610,199,890 | \$9,600,922,408 | \$9,105,369,363 |
| TOTAL LABOR INCOME | \$20,208,150,871 | \$47,340,172,013 | \$52,874,156,956 | \$48,107,165,818 | \$46,578,389,533 |
| AVERAGE INCOME PER WORKER | \$135,153 | \$134,614 | \$120,284 | \$116,145 | \$125,480 |

| VALUE ADDED (GDP OUTPUT) | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Construction and Well Services | \$4,333,568,962 | \$8,705,474,630 | \$9,506,214,391 | \$8,077,756,416 | \$7,684,323,960 |
| Information Technology | \$2,033,669,178 | \$3,910,982,948 | \$4,485,914,022 | \$4,178,980,071 | \$4,137,125,711 |
| Logistics | \$857,434,713 | \$1,625,274,781 | \$1,818,186,120 | \$1,631,652,978 | \$1,577,527,946 |
| Machinery and Equipment | \$9,532,406,541 | \$18,321,592,302 | \$20,678,179,853 | \$18,910,293,498 | \$18,604,653,106 |
| Materials | \$6,997,781,201 | \$12,969,787,427 | \$14,350,045,027 | \$13,003,299,471 | \$12,693,373,159 |
| Professional, financial, and other services | \$6,007,948,915 | \$11,433,674,934 | \$12,664,193,725 | \$11,336,059,970 | \$10,817,696,738 |
| TOTAL VALUE ADDED | \$29,762,809,510 | \$56,966,787,022 | \$63,502,733,137 | \$57,138,042,404 | \$55,514,700,620 |

Source: IHS Economics (2015). Unleashing the Supply Chain: Assessing the economic impact of a US crude oil free trade policy (potential production case)

Schematic of the Sectors and Industries of the Crude Oil Supply Chain

