A microscopic view of several COVID-19 virus particles. The particles are spherical with a greyish core and a surface covered in red, crown-like spikes. They are set against a dark grey background with a gradient.

# COVID-19 and the Texas Oil & Gas Industry

**HOBBY**  
SCHOOL OF PUBLIC AFFAIRS  
UNIVERSITY of **HOUSTON**

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# **COVID-19 and the Texas Oil and Natural Gas Industry: A Survey of TXOGA Member Companies**

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The University of Houston's Hobby School of Public Affairs, with the assistance of the Texas Oil and Gas Association (TXOGA), surveyed TXOGA's membership between May 12 and May 27 of 2020. Founded in 1919, TXOGA is a statewide trade association representing every facet of the Texas oil and natural gas industry. Collectively, the membership of TXOGA produces in excess of 80 percent of Texas' crude oil and natural gas, operates over 80 percent of the state's refining capacity, and is responsible for the vast majority of the state's pipelines.

One goal of the survey is to learn how TXOGA member companies are adapting to the combined crisis in the oil and natural gas industry resulting from the COVID-19 pandemic and concomitant decline in the price of oil. A second goal is to assess sentiment in the oil and natural gas industry regarding future economic trends as well as concerns about the potential adverse impact of a series of possible events and trends on the companies' economic well being. And, a final goal is to understand industry opinion on measures that could be undertaken by the government of the state of Texas to aid the industry as it traverses through these difficult and uncertain times.

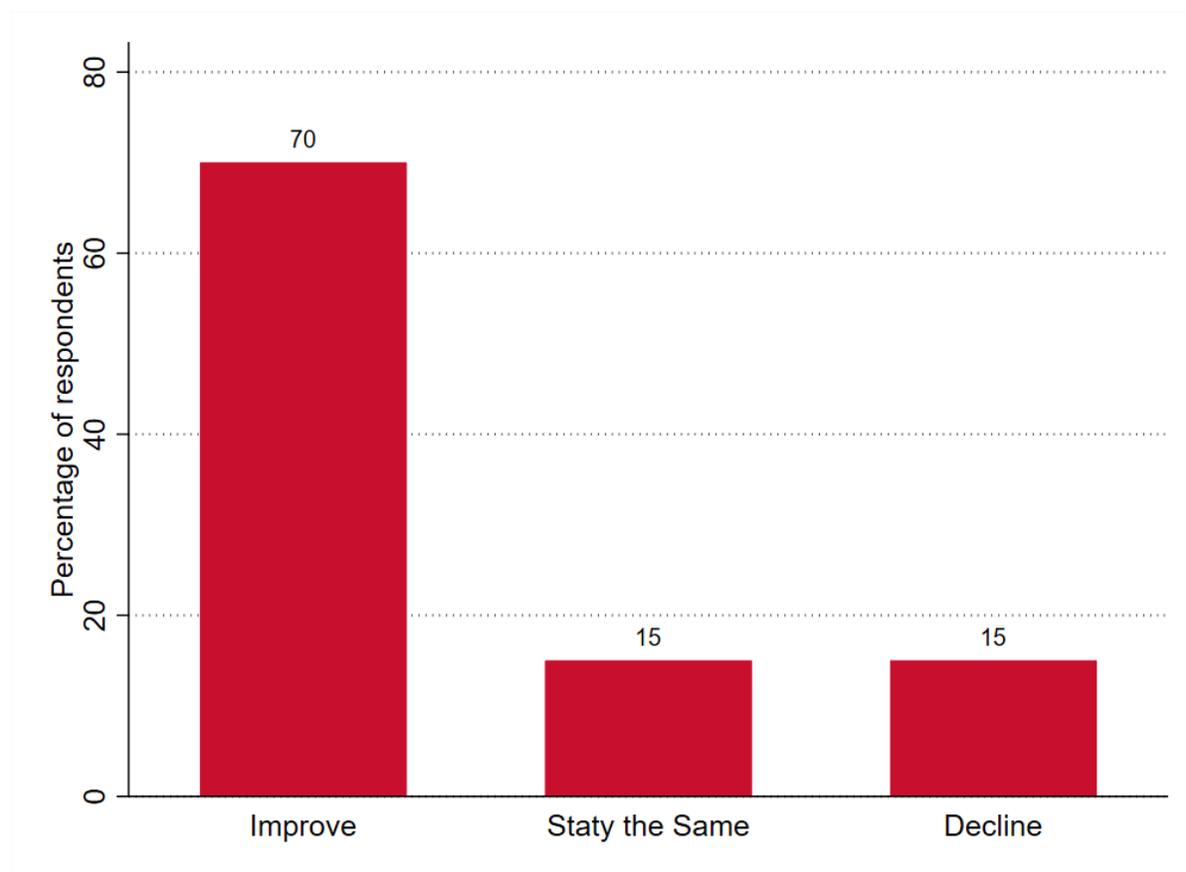
TXOGA is the only organization in Texas that includes all sectors of the oil and natural gas industry. A total of 48 respondents agreed to take the anonymous survey and reflect the diversity of the TXOGA membership. A near majority (48%) of these respondents represent companies in the Upstream sector, followed by 20% in the Services sector and another 10% that locate themselves in both the Upstream sector and the Services sector. The Midstream sector accounts for 10% of the respondents with 8% locating themselves in both the Midstream sector and the Downstream sector and 4% considering their company to be vertically Integrated (Upstream-Midstream-Downstream).

Below we provide the principal findings related to the respondents' views regarding: the direction of the global economy, the future price of oil, philanthropy and community outreach in 2020, measures taken by companies in the aftermath of the collapse in the price of oil this spring, expectations regarding the potential threat of different factors to company growth, and preferences for a range of state policies to aid the Texas oil and natural gas sector during the current crisis.

## Global Economic Growth

The respondents were asked about their expectations for global economic growth over the 12 months stretching from May of 2020 to May of 2021 (See Figure 1). A super-majority, 70% of the respondents, were comparatively optimistic about the future prospects for global economic growth. They believed it would improve over the next 12 months, suggesting that in their collective opinion May of 2020 was near a low point for the global economy. In contrast to this relative optimism expressed by 70% of the respondents, a mere 15% held a more pessimistic point of view that global economic growth would get worse over the next 12 months. In the middle, 15% believed global economic growth would stay the same during this period, which, given the weak economic indicators of May 2020, can also be considered to be a relatively pessimistic view of the near-term future.

**Figure 1:** Expectations for Global Economic Growth From May 2020 to May 2021



## The Price of Oil in May of 2021

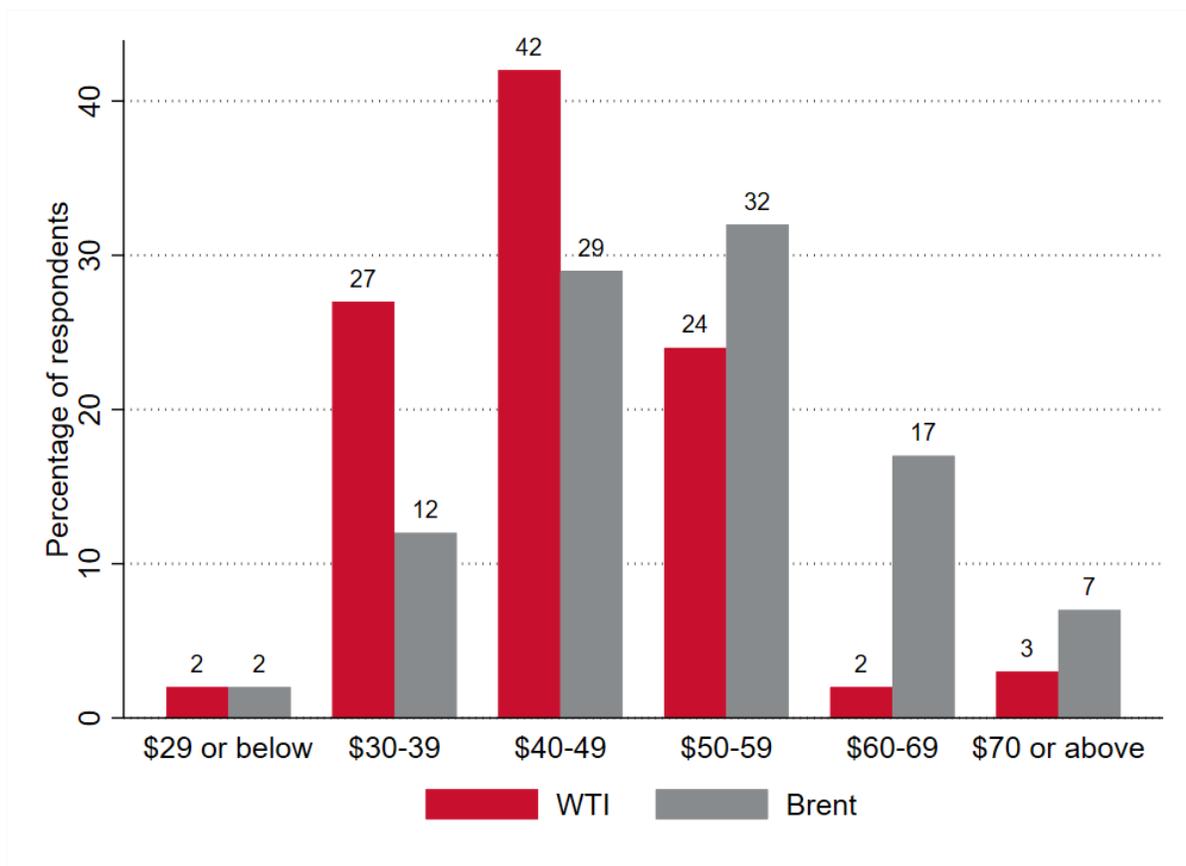
The survey respondents were asked what they expected the price of a barrel of oil, both West Texas Intermediate (WTI) and Brent, to be in May of 2021. At the time the respondents were taking the survey in mid to late May of 2020, the July 2020 contract price for WTI ranged from \$26 to \$34 U.S. dollars a barrel and for Brent from \$29 to \$37 U.S. dollars a barrel.

All but a handful of respondents believed the May 2020 prices represented a low point for the industry. Virtually all (98%) stated that in May of 2021 both the WTI and the Brent prices would be higher than in May 2020 (See Figure 2).

The modal (42% of respondents) and median prediction for WTI is that its U.S. dollar price in May of 2021 will range between \$40 and \$49 a barrel. A near equal proportion of respondents believed the WTI price would be slightly higher than this median prediction, in the \$50 to \$59 range (24%), and would be slightly lower than this median prediction, in the \$30 to \$39 range (27%). In all, 93% of the respondents believed that in May of 2021 WTI will range somewhere between \$30 and \$59.

The modal (32%) and median prediction for Brent is that its U.S dollar price in May of 2021 will range between \$50 and \$59 a barrel. The next most common prediction was that Brent will be in the \$40 to \$49 range (29%), followed by the \$60 to \$69 range (17%), and \$30 to \$39 range (12%) in frequency. On the whole, the respondents tended to be moderately more bullish about Brent’s prospects a year from now than WTI’s, slightly above and beyond the normal gap that exists between the two prices.

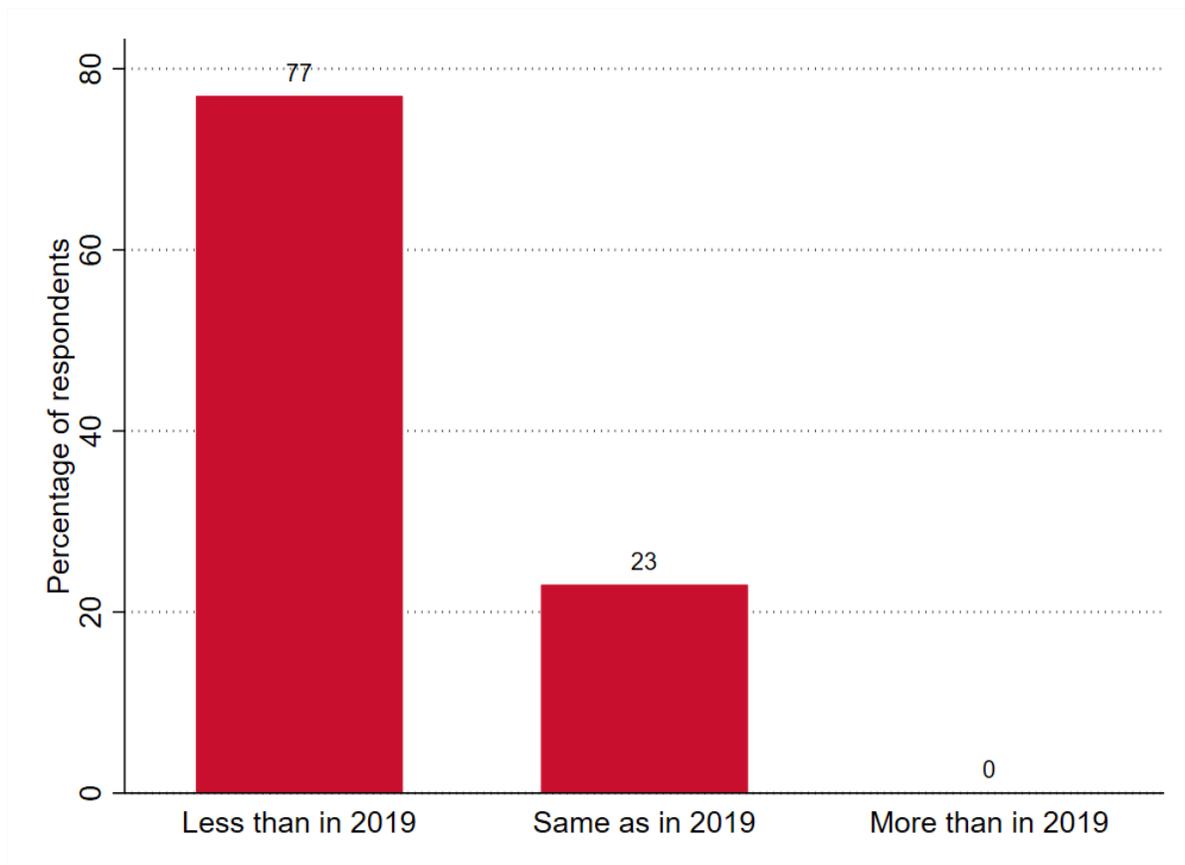
**Figure 2:** Expectation for the Price of WTI & Brent in May 2021



## Philanthropy and Community Outreach

Three-quarters of the companies surveyed engaged in philanthropy and community outreach during 2019. These companies' respective respondents were asked how they expected their company's philanthropic and outreach activities in 2020 to compare to those in 2019. More than three in four (77%) of these companies plan on spending less on philanthropy and community outreach in 2020 than in 2019, while 23% expect their spending to remain at the same level in 2020 as in 2019. There was not a single respondent (0%) stating that their company would be spending more on philanthropy and community engagement in 2020 than in 2019 (See Figure 3).

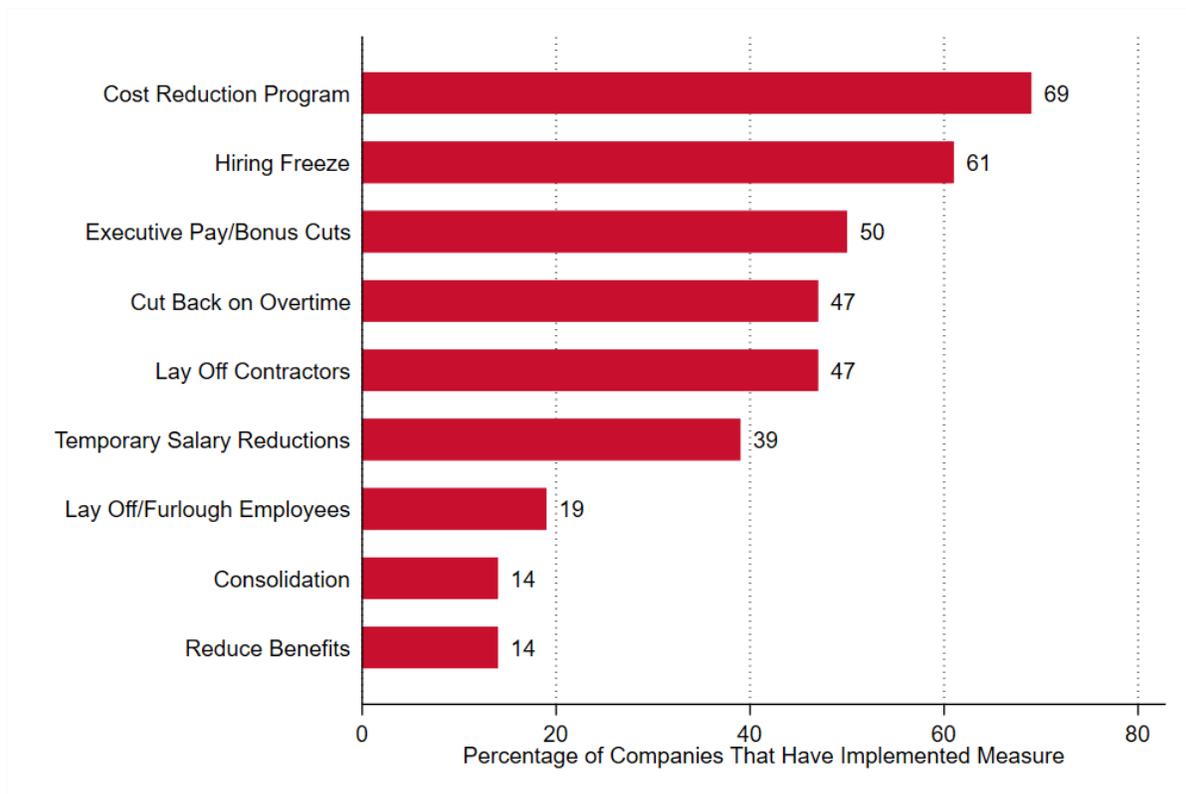
**Figure 3:** Expected Philanthropic & Community Outreach Expenditures in 2020 Compared to 2019



## Company Measures in Response to Decline in Price of Oil

The respondents were queried about, as of mid-May 2020, which of a series of measures their company had implemented in response to the significant decline in the price of oil between January and May. Figure 4 reveals that more than two-thirds (69%) indicated their company had implemented a corporate cost reduction program, followed by 61% that adopted a hiring freeze. Half of companies (50%) had mandated cuts in executive pay and bonuses and nearly half had both reduced work schedules to cut back on overtime (47%) as well as also had laid off contractors (47%). Nearly two in five companies (39%) had implemented temporary reductions in employee salaries. The three least common responses (as of May 2020) by companies to the collapse in the price of oil were laying off or furloughing full-time employees (19%), consolidating programs or units (14%) and reducing retirement or health benefits (14%).

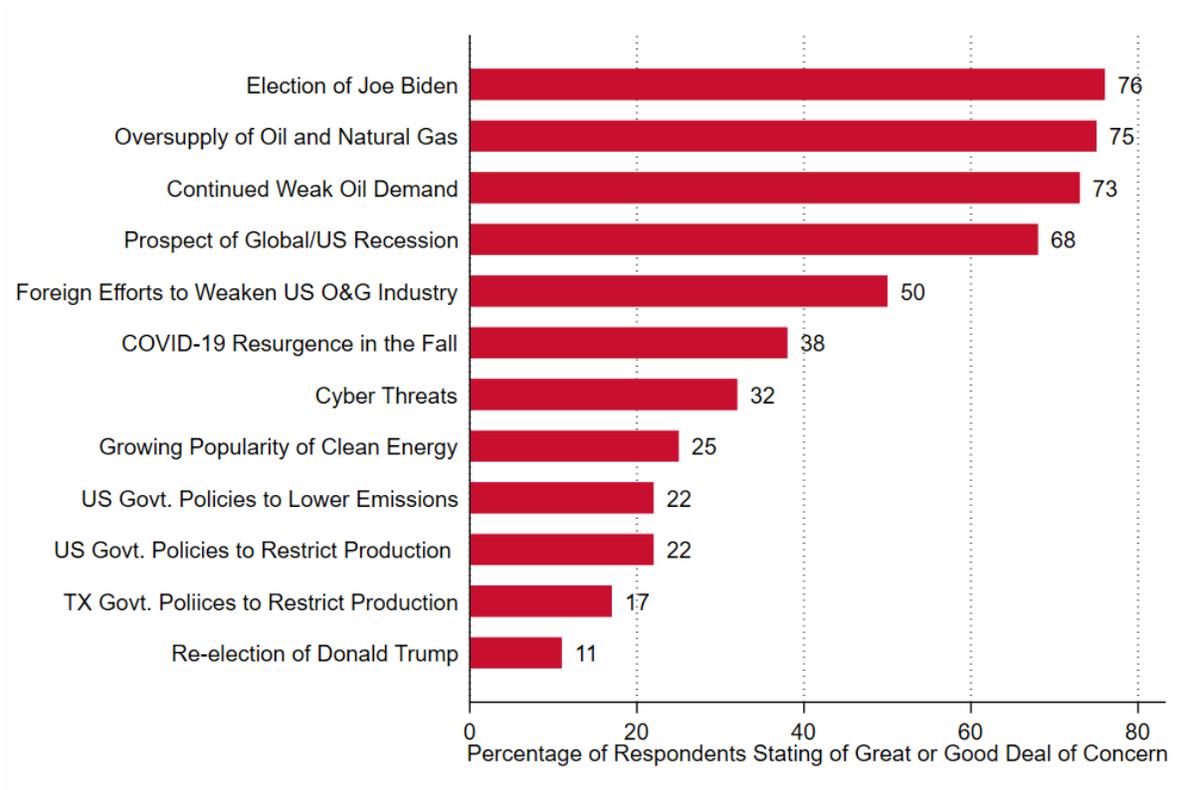
**Figure 4:** Company Measures in Response to the Decline in the Price of Oil



# Threats to Company Growth Over the Next 12 Months

In the survey the respondents were queried about the extent to which they were concerned about a series of potential events, trends or actions representing a threat to their company’s growth prospects over the next 12 months (May 2020 to May 2021). The response options were “A Great Deal”, “A Good Deal”, “Some”, “Only a Little,” and “Not At All”. Figure 5 provides the proportion of respondents who indicated that they had either a great deal or a good deal of concern about the event or trend being a threat to their company’s prospects for economic growth over the next 12 months.

**Figure 5:** The Extent of Threat to Company Growth Prospects Over the Next 12 Months



Four potential events or trends stand out as representing the greatest threat to these energy company’s growth prospects between now and May 2021. The greatest threat in the eyes of these respondents to their company’s economic

## Threats to Company Growth Over the Next 12 Months

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well-being over the next 12 months is the election in November 2020 of Joe Biden as President of the United States. More than three out of four respondents (76%) possess a great deal (51%) or a good deal (25%) of concern about the threat of a Biden victory on their company's economic well being.

The next two greatest threats are the related fears of an oversupply of oil and natural gas and weak demand for oil and natural gas, about which 75% and 73% of respondents indicated either a great deal or a good deal of concern. The final fear factor in this quartet is the prospect of a global and U.S. recession, which over two-thirds (68%) of respondents expressed a great deal or a good deal of concern about having an adverse impact on their company's economic growth prospects.

In contrast to these first four events or trends, which were viewed as a threat to their company's economic growth by over two-thirds of respondents, four other events or trends elicit much less concern. Fewer than one in four respondents list them as something they have a great deal or a good deal of concern about.

These respondents view the re-election of President Donald Trump as the weakest threat to the economic growth of their respective companies of the next year, with only 11% viewing Trump's re-election as a threat that merits in their minds either a great deal or a good deal of concern. The companies also are not especially fearful about any efforts by the Texas state government or U.S. government to restrict oil and natural gas production, with only 17% and 22% respectively indicating a great deal or a good deal of concern about these types of policies being implemented and adversely affecting their company's prosperity. The respondents also did not express a great deal of concern about U.S. Government policies to lower emissions having a negative impact on their company's future economic growth, with only a little more than one in five (22%) indicating a great deal or a good deal of concern about these policies representing a threat to their company's future economic growth.

Finally, four remaining factors were of a great deal or a good deal of concern to between 50% and 25% of respondents in regard to their impact on their company's economic growth over the next 12 months. At the top of the threat level in this middle category are efforts by foreign governments (e.g., Russia, Saudi Arabia) to weaken the United States oil and natural gas industry, with one-half of respondents

## Actions by the State of Texas to Assist the Oil & Natural Gas Industry

(50%) possessing a great deal or a good deal of concern about the adverse impact of these foreign efforts on their company's growth prospects. Foreign government efforts to destabilize and weaken the U.S. oil and natural gas industry is followed in terms of threat severity by the fear of a resurgence of the COVID-19 virus in the fall (38%), cyber attacks (32%) and the growing popularity of clean energy (25%).

It is noteworthy that two green policies or popular trends, U.S. Government policies to lower emissions and the growing popularity of clean energy, are not viewed by three quarters of the respondents (78% and 75%) as a major threat to their company's economic growth prospects over the next 12 months.

## **Actions by the State of Texas to Assist the Oil & Natural Gas Industry**

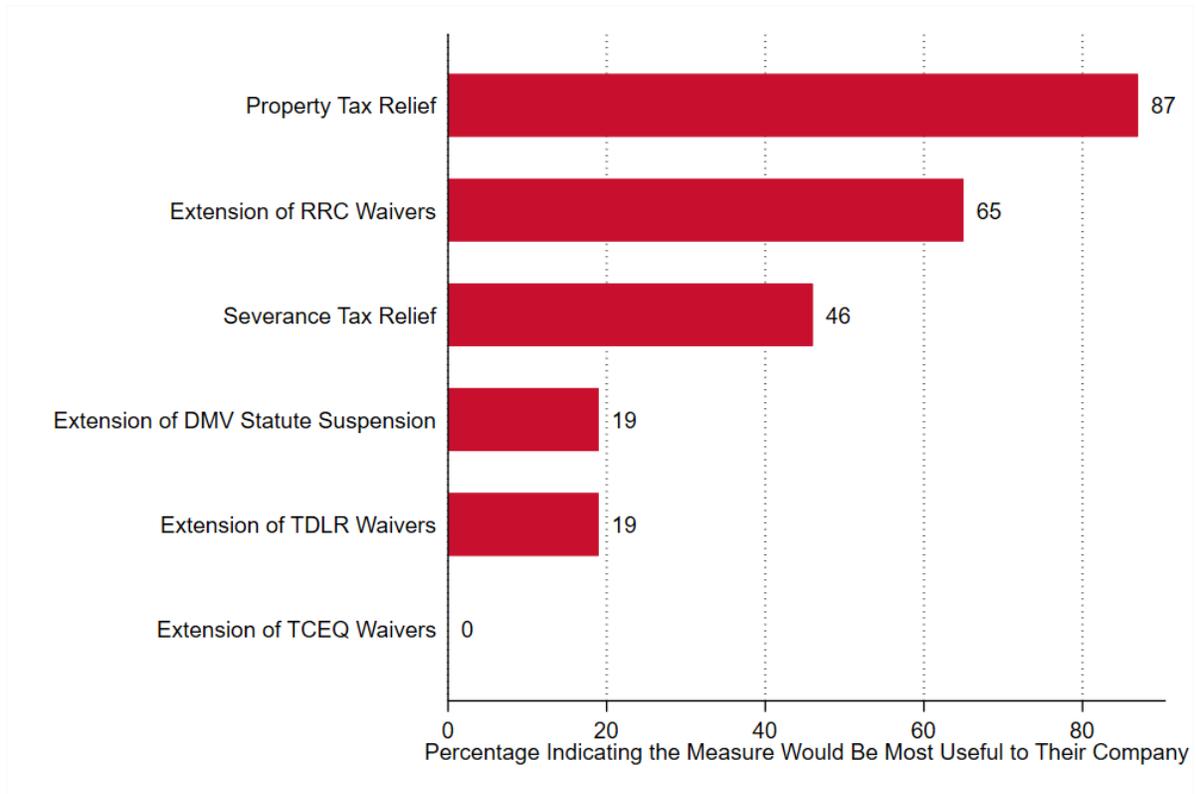
The respondents were queried about what actions by the government of the State of Texas would be most helpful to their company as they continue to move through this serious crisis. Three measures (See Figure 6) stand out as being considered the most useful for these companies as they attempt to survive and thrive in these difficult times: property tax relief, the extension of Texas Railroad Commission (RRC) waivers, and severance tax relief.

Almost nine in ten companies (87%) signaled that property tax relief would be among the most useful actions the state of Texas could undertake to aid their efforts to weather the COVID-19 pandemic and oil and natural gas price crisis. Next, nearly two-thirds (65%) of these respondents had the same opinion about the extension of existing Texas RRC waivers as being beneficial to their company's ability to weather the crisis. Finally, close to half of respondents (46%) highlighted the high level of utility to their company's efforts to survive and thrive in 2020 and 2021 that would result from the state of Texas providing severance tax relief.

Fewer than one in five respondents considered either the extension of existing Texas Department of Licensing and Regulation (TDLR) waivers or the extension of the suspension of statutes by the Texas Department of Motor Vehicles (DMV) to be very useful to their company's overall fiscal and economic health. Lastly,

## Actions by the State of Texas to Assist the Oil & Natural Gas Industry

**Figure 6:** State of Texas Actions Deemed as Most Useful to Aid Companies



not a single respondent believed that the extension of existing Texas Commission on Environmental Quality (TCEQ) waivers would be very useful for their company.