Buddy Clark in Houston Business Journal Op-Ed: It's Time for Texas Oil and Gas to Even the Odds

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As two of the largest oil and gas states, Texas and Oklahoma are both painfully aware how the ups and downs in the oil and gas industry can adversely impact their citizens. In the 1980s, both states responded to a severe industry downturn in an effort to protect their royalty owners and producers. Each state passed laws intended to create liens to secure payment for the sale of oil and gas produced in their state.

These laws were tested in 2008 when SemCrude, a major oil and refined products marketing company, went bankrupt following speculative bets on the price of crude. SemCrude ended upside down on its bet and costed the company $3.2 billion in losses. Many producers in Texas and Oklahoma had delivered crude to SemCrude prior to its bankruptcy and never received payment. Once SemCrude filed, all kinds of creditors asserted claims in excess of the company's ability to pay.

Texas and Oklahoma producers thought they had the upper hand based on the liens created under their states' laws in the 1980s. Unfortunately, SemCrude's bankruptcy was filed in Delaware, where the company was domiciled, and the bankruptcy court applied Delaware lien laws and not the laws of the states where the oil had been produced. Long story short, the court rejected Texas and Oklahoma producers' lien claims, leaving them collecting pennies on what they were owed.

Following the decision in SemCrude, Oklahoma rose to the challenge, Texas did not. To find out how producers and royalty owners in the two states fared in a recent case testing the SemCrude holding, click here to read the full article.

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