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Railroad Commission of Texas
P.O. Box 12967
Austin, TX 78711-2967

Via email: RRCconference@rrc.texas.gov

Dear Members of the Commission:

I would like to provide my comments in opposition to the proposed quotas and price fixing scheme currently being considered by the Commission. These proposals are antithetical to the free market spirit that has made the Texas oil industry both resilient over time, and internationally dominant today.

I would urge you to reject these proposals for the numerous reasons, some economic, some philosophical, listed below. Accepting the proposals will sully the good name of the U.S. and Texan oil industry, and in the long run badly damage both America's leadership position, and frankly cost business. The siren call of illusionary short-term "protection" must be resisted.

Upholding Free Markets & Our Integrity:
This is an unprecedented situation. A price war between Russia and Saudi Arabia has exacerbated a global oil glut while public shutdowns related to the pandemic have slashed demand. But market disruptions are not an excuse to abandon the foundational principles that have governed the American energy sector for the last thirty years and made us a leader in the global energy market.

Such a policy would not only have unintended domestic consequences but also damage our integrity as a steadfast champion of free markets. Collaborating with Russia and Saudi Arabia on systemic production cuts would make it very difficult for the United States to criticize these nations for manipulative practices down the line.

Domestic Industry Ramifications:
The Wall Street Journal aptly described the production quota proposal as an "especially bad idea." That's because the ramifications for the Texas crude oil market will be widespread and long lasting.

Proponents of the quotas argue without action, shutdowns will occur "in an ad hoc and haphazard manner that will heighten industry disruption and cause economic waste." But that is not exactly true. While there will be harm to producers over the next few months given the unavoidable downturn in demand, imposing a production limit will actually penalize operators that are efficient and can weather the storm, while propping up those that are less efficient. These artificial barriers will provide little short-term benefits and instead harm the long-term efficiency of Texas' crude oil sector instead of allowing the market to dictate the outcomes.

Market factors are not haphazard, but skewed toward greater market efficiency. In fact, a majority of U.S. operators have already announced billions in canceled investment and planned output, signaling the market is natural pushing participants to modify production plans.

Ultimately, it is wrong to profit off of the principles that govern this market for decades then ask for forgiveness when it doesn't work in your favor. As the Texas Oil and Gas Association noted in their opposition to the quotas, "regulatory certainty and stability are essential elements in managing during these difficult times."

National Security Implications:
As I mentioned before, easing the pain for some producers with a centralized plan will also have serious national security implications for the U.S. First, it is likely that even if the U.S. were enact production cuts, other nations would fill the gap by increasing their sales in the global oil market. Demand outlook for oil in the long-term remains strong and offering up our market share would be unnecessarily ceding ground to our competitors.

Secondly, such a collaboration would put the United States squarely in the market manipulation game we have criticized OPEC nations for in the past. The American Petroleum Institute coined it, "TexOPEC." Again, this policy position would not benefit the U.S. in the long term and, in the short-term, would signal to Russia and Saudi Arabia they are winning the price war.

Conclusion:
The proposal from Ryan Sitton is a bad policy idea that aims to address a problem, which (hopefully) will be resolved before the quotas would have any effect. America and Texas will lose credibility, empower our competitors, and gain nothing in the process.

The Texas Railroad Commission must reject this proposal and trust the good people of Texas and the fine businesses they have built with innovation, imagination and grit to fight it out, and win. To do otherwise is a dubious, short-term solution that will badly damage the Texas oil industry in the long term.

Thank you for your consideration of my comments.

Sincerely,
Steven P. Bucci
Steven P. Bucci
Heritage Foundation visiting research fellow and former Deputy Assistant Secretary of Defense