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Railroad Commission of Texas
P.O. Box 12967
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Via email: RRCconference@rrc.texas.gov

Dear Members of the Commission:

It is clear that the Texas Railroad Commission has an important decision to make about whether or not to set production quotas for the state's oil producers. But just because the price of oil has plummeted, and many oil producers are struggling doesn't mean Texas should team up with OPEC to try to game the oil market. Not only is that unlikely to work, but it could actually backfire, hurting the oil industry and the people of Texas in the process. I wish to submit the following testimony to the Commission where I am representing myself.

During more than a decade representing energy-producing counties in South and West Texas as a member of Congress, I learned that "two wrongs don't make a right." Even though Russia and OPEC are trying to undermine the U.S. shale industry in the midst of a global pandemic, it does not mean that the U.S. or Texas should follow suit by curtailing production or invoking other drastic measures. There are many reasons.

First, free-market principles and honest competition have always been the hallmark of American oil production. We should stay the course in that regard, leaning into the vast oil supplies that have made the U.S. the world's top oil power. In fact, the Commission should recognize that American dominance in oil production and its continued discovery of massive oil reserves are why Russia and OPEC are colluding in the first place. More oil production and demand, not less, is the trajectory that will ultimately benefit the U.S. and its oil producers.

Second, curtailing oil production by regulatory fiat is not likely to work. Mandatory production cuts in Texas are likely to be met by increased production by domestic producers outside Texas and outside the country. History has shown this to be true. America's attempt to game the market in the 1970s simply led to longer gas lines. A more recent attempt in Alberta, Canada, ended up raising crude prices to the point where customers looked elsewhere for their energy supplies. Alberta's attempt at market manipulation backfired, just as such action in Texas will.

This sentiment was echoed clearly by the Texas Oil & Gas Association, whose president, Todd Staples, explains that "mandatory limits on the production of oil and gas in the state in an effort to stabilize the current market turmoil will likely result in other producers replacing curtailed Texas volumes."

Third, limits on oil production only hurt the most efficient companies while protecting inefficient ones. This undermines the competitive dynamics that makes the Texas oil industry the industry leader that it is today. In the long term, the crude oil sector in Texas will only suffer if mandatory production quotas distort the market and punish efficiency. As the *Wall Street Journal* has opined, oil production quotas "would punish the most efficient producers."

Finally, mandating production quotas is a high-risk venture. The near- and long-term risks of choosing this path introduce even more uncertainty into an already volatile marketplace. That's one reason why the Commission hasn't used this approach in almost fifty years. That's also why major groups such as the Texas Oil and Gas Association and American Petroleum Institute and oppose the move. Not only is the approach not likely to work, it comes with significant logistical and financial hurdles and makes it more difficult for the U.S. to criticize OPEC in the future for market manipulation.

The Commission historically has avoided trying to game the globe oil market. Now is not the time to start. Rather than signal to Saudi Arabia and Russia they are winning the price war by resorting to a drastic, knee-jerk action, the Commission would better serve the Texas oil industry and its customers by doubling down on the strength and staying power of the U.S. oil supplies. Free markets have led Texas to become an international leader in oil production and commercial activity. The Texas Railroad Commission, and the entities it regulates, would be ill served by retreating from that position.

I recently authored an opinion column in the *San Antonio News Express* and the *Midland Reporter-Telegram* on these matters. I encourage the Commission to consider my views when reviewing the unprecedented and misguided proposal to impose mandatory curtailment on Texas's oil production at this time.

Regards,

Henry Bonilla
Member of the U.S. House of Representatives from Texas's 23rd district, 1993-2007

Addendum:

https://www.mrt.com/opinion/article/Opinion-Steer-clear-of-panic-driven-oil-policies-15166669.php

mrt.com

Midland Reporter-Telegram

Opinion: Steer clear of panic-driven oil policies

Midland Reporter Telegram, Henry Bonilla, March 30, 2020

I represented a vast swatch of South and West Texas during my 14 years in Congress, including dozens of energy-producing counties. As energy policies are being developed in these tenuous times, those in charge must adhere to the class Texas words of wisdom, “two wrongs don’t make a right.”

Just because Russia and OPEC are using the coronavirus pandemic to undermine the U.S. shale industry and drive down global oil prices, it does not mean the U.S. should follow suit.

Earlier this month, as Asia’s demand for oil plummeted due to the pandemic, Saudi Arabia proposed cutting production to boost prices. Russia, a quasi-adjunct OPEC member, surprisingly balked. If Russia figured flooding the market could put another nail in the coffin of U.S. producers, Saudi Arabia seemed more than happy to play that game.

For struggling U.S. producers, oil at less than $20 a barrel would force the abandonment of existing and planned oil exploration and extraction. This is especially true in the Eagle Ford shale play south and west of San Antonio.

Some industry leaders and elected officials say it is time to put a check on Saudi Arabia’s and Russia’s latest attempt at economic sabotage.

Ryan Sitton, a member of the Railroad Commission of Texas, surprised industry observers by announcing plans to meet with OPEC ministers in June to join forces in setting production quotas to help prices recover. It has been nearly 50 years since the commission adopted quotas. It has never teamed up with OPEC on market manipulation. This is not the time to start.

With the global economy headed toward recession, there are already signs Russia and Saudi Arabia fear unintended consequences of their profiteering. As we move forward, the U.S. should stay the course with free-market principles and honest competition, no matter how tough it can be.

Let’s remember why Russia and OPEC are colluding in the first place. The United States has become a net exporter of energy, largely due to advances in hydraulic fracturing. It was the wildcatter spirit, a drive to innovate, compete, and do the impossible that fueled this revolution and created thousands of jobs – not price fixing and quotas.

Saudi Arabia’s move to flood the market in 2014 took its expected toll but many domestic producers were able to weather the storm, cut costs, become more efficient, and thrive. Production limits and export quotas on Texas crude would punish these producers in order to protect the less efficient companies. This would undermine the competitive dynamics that made this country a global energy powerhouse in the first place.

In addition, if the Railroad Commission abandons its long-standing policies and cuts a deal with OPEC on quotas in a moment of panic, the U.S. will lose forever its ability to criticize OPEC for doing the same in the future. This would confer upon OPEC new legitimacy as an anti-market cartel, giving it even more clout going forward. We cannot allow the current distress to legitimize schemes such as the Russia-OPEC gamble and empower the very players who are overtly seeking to undermine us.

Economic principles and fortitude must apply as well to proposals coming out of Congress. Sen. James Inhofe, R-Oklahoma, and other lawmakers want President Trump to invoke a provision in U.S. trade law to boycott Saudi Arabia and Russian oil. They argue that national security considerations make it necessary to protect U.S. oil producers and bolster American energy independence.

To be sure, free and fair trade is more an aspiration than a reality but we should use powerful and controversial trade remedies judiciously. Oil is a global commodity. It's pricing and trade is tied to global financial markets. The near- and long-term risks of unintended consequences of introducing more uncertainty into an already volatile marketplace are numerous and serious. However objectionable the actions of Russia and OPEC are, Mike Sommers, the CEO of the American Petroleum Institute, told the Washington Examiner, a boycott would be "incredibly damaging."

Upholding proven market principles will take a lot of discipline as the coronavirus and the Russia-OPEC machinations compound an already punishing drop in oil prices. Instead of duplicating bad policies in a moment of crisis, we must stand firm and position U.S. producers for ultimate success in the years ahead.

Henry Bonilla represented South and West Texas in Congress 1993-20078 and served on the House Appropriations Committee.