Submitted by Email: rrcconference@rrc.texas.gov

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Dear Chairman Christian, Commissioner Craddick, and Commissioner Sitton:

As far back as 1776, Adam Smith, considered the inventor of modern free-market economics[1], eloquently captured the enduring value of the independent free market.

"If any branch of trade, or any division of labour, be advantageous to the public," Smith wrote[2] in his seminal *The Wealth of Nations*, "the freer and more general the competition, it will always be the more so."

Smith may have used the vernacular of his era, but his words apply all the same to what's happening now in the Texas oil markets. The Russian-Saudi price war, exacerbated by the growing coronavirus pandemic, has led some to call for mandatory production quotas in the great state of Texas.

With locations in Houston, Odessa, Crystal City, & Falfurrias, I write to express my strong opposition to this well-intentioned but misguided proposal. The Commission should reject it – and stick with the free market principles that have served America well since the founding of our republic. I would be happy to provide live testimony about this vitally important issue, if the Commission so desires.

As *The Wall Street Journal* recently wrote, production quotas in Texas are an "especially bad idea[3]." The implementation of quotas would be a panicky response to the global pandemic, an effort to use the crisis to promote bad policy.

The United States has a long history of championing free markets, which is why our energy industry is competitive worldwide. The last thing we should do is abandon those principles now.

Any government-imposed limits on production would do more harm than good, both nationally and in Texas.

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[1]https://www.investors.com/news/management/leaders-and-success/adam-smith-wrote-first-bestseller-on-capitalism/
[2]https://www.adamsmith.org/adam-smith-quotes
[3]https://www.wsj.com/articles/pain-in-the-oil-patch-11585697357

Though the broader U.S. energy market is now facing uncertainty, the long-term outlook remains strong. As I wrote recently in *Forbes*[4], the United States "is now the world's largest oil producer[5], responsible for about 40 percent of global oil production." In March, our nation was still pumping 13 million barrels a day, about 50 percent more than in 2016[6] and 150 percent more than in 2011.

Our domestic producers are resilient, and they plan for the long term. Imposing a production or export quota on Texas crude would only penalize the most efficient and lowest-cost producers while propping up less efficient companies. It would essentially lead to a cartelization of the Texas oil market, a quota system that would make it more difficult for the United States to criticize OPEC for employing similar tactics. We do not want to be like OPEC, do we?

As we know from long experience, governments do not always make good economic decisions, especially in the energy markets. Earlier price control programs, for example, created natural gas shortages in the 1970s, causing many businesses in the Midwest to close because they could not run their facilities.

Imposing the dictates of government over free-market principles is also not the Texas way. The oil industry already employs more than 360,000 people in the state, a market dominance expected to only grow with the recent discovery in West Texas[7] that will provide between 46 billion and 230 million barrels of new oil.

Mandatory production cuts would only disrupt this progress, ultimately hurting refiners and consumers and costing Texas jobs. My company, Canary, LLC, which maintains oilfield service operations in Houston, Odessa, Crystal City, and Falfurrias would be one of many adversely affected.

It's little wonder, then, that the Texas Oil & Gas Association has come out strongly against production limits. "Recent suggestions that Texas should impose 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." the association said in a statement.[8] "TXOGA members remain committed to

[4]https://www.forbes.com/sites/daneberhart/2020/03/23/economic-crisis-is-no-reason-to-push-bad-policy-on-the-oil-sector/#54bcc6e812dd
[5]https://www.forbes.com/sites/daneberhart/2020/03/23/economic-crisis-is-no-reason-to-push-bad-policy-on-the-oil-sector/?_sm_au_=iVVnH0P6F6qs8vq701TfKK3Qv3fc4#42d3dc612dd7
[6]https://www.wsj.com/articles/pain-in-the-oil-patch-11585697357
[7]https://www.forbes.com/sites/daneberhart/2020/03/23/economic-crisis-is-no-reason-to-push-bad-policy-on-the-oil-sector/?_sm_au_=iVVnH0P6F6qs8vq701TfKK3Qv3fc4#42d3dc612dd7
[8]https://www.txoga.org/txoga-statement-on-proration/

free-market solutions." That's the very industry the Commission regulates telling it to stay the course.

I have no doubt that Commissioner Ryan Sitton and others advocating for production limits have good intentions and want to help stem the current market turmoil.

However, I suggest that the Commission take a different approach: trust in Texas. We should not let this short-term time of difficulty, create long-term problems. We should place our faith in the free market. That's what Adam Smith would do.

Regards,

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Enclosure:

https://www.forbes.com/sites/daneberhart/2020/03/23/economic-crisis-is-no-reason-to-push-bad-policy-on-the-oil-sector/#54bcc6e812dd

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Economic Crisis Is No Reason To Push Bad Policy On The Oil Sector

Dan Eberhart Contributor
Energy
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The growing Covid-19 crisis is going to have a significant impact across every sector the economy, including the oil sector. Government officials shouldn't use a crisis to promote bad policy ideas, though.

That is what's happening in Texas where Ryan Sitton, one of three members of the Railroad Commission of Texas, which regulates the state's oil industry, has called for Texas to impose production limits, a drastic move that hasn't been employed since 1973.

The Commission appears to be taking the possibility of ordering oil production cuts seriously. Commissioner Sitton has even been invited to address OPEC at its June meeting in Vienna.

Why cut Texas oil production? Sitton is concerned, as many are, about Russia's decision to break ties with Saudi Arabia and that country's decision to maximize its own oil output. Saudi Arabia's move has sent oil prices into a nosedive, recently reaching their lowest level since the 1991 Gulf War.

Today In: Energy

Sitton isn't the only one hitting the panic button about oil prices. In Washington, D. Senators Jim Inhofe of Oklahoma and Roger Wicker of Mississippi are leading a pus to impose new tariffs on Saudi oil imports.

To be sure, oil prices in the $20 range are bad news for domestic producers. But no one wins if we limit American oil production or plunge ourselves into a price war. Th better solution? Stay the course and trust in America's vast supplies to dominate the market.

The United States is now the world's largest oil producer, responsible for about 40 percent of global oil production. That dominance is only going to grow as an oil discovery in West Texas will provide between 46 billion and 230 billion barrels of ne oil. This new find, the largest in history, will keep the United States on the path to dominate oil markets and add to an industry that employs more than 360,000 peopl in Texas alone.

The oil industry largely opposes Sitton's proposal, as well as congressional calls for tariffs. The reason? While the Russia-Saudi oil war is creating problems in the short term, the long-term outlook for the U.S. oil industry is robust. Moreover, the oil industry has, for decades, demonstrated its ability to weather uncertain markets without resorting to trying to manage the market.

Thankfully, the message from Railroad Commission Chairman Wayne Christian last week was that the state should stay the current course. He noted that Texas doesn't operate in a vacuum and that curtailment of production in Texas is no guarantee tha other nations or states would follow suit. The chairman pointed out that free-market principles are the best approach and that lawmakers should avoid tariffs or production limits to support prices artificially.

The United States has a long history of championing free markets, one reason the American oil industry is globally competitive. Cutting back American oil production or imposing tariffs would ultimately hurt U.S. refiners and consumers and cost jobs i places like Texas. Production quotas in Texas would hurt the state's most efficient producers, raise prices for customers, and make it more difficult for the U.S. to criticize OPEC in the future.

The reality is that America's new oil dominance has threatened the oil powers of the past, including Russia and Saudi Arabia. It’s a significant reason why they decided to flood the market with oil right now. By doing so, they hope to put a dagger in the hea of American shale producers and challenge the new paradigm of U.S. oil leadership. we give in to bullying by these nations by cutting our oil production, we send the signal that they are winning the price war.

We won’t help the oil industry rebound by trying to game the market. These are toug times, but hasty policy decisions will only make them worse. We should be trying to grow America's share of the global market rather than shrinking it. Protectionist trac measures aren’t the answer either.

The winning path is to face this challenge head-on, trusting the fundamentals of an American oil market poised for growing production. Hasty reactions, including import tariffs and production cuts, only create collateral damage for U.S. companies and consumers.

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Dan Eberhart

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I am CEO of Canary, one of the largest privately-owned oilfield services companies in the United States. I've served as a consultant to the energy industry in North... **Read More**