

American Enterprise Institute for Public Policy Research



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By email: RRCconference@rrc.texas.gov

To the Railroad Commission of Texas:

Re: Motion for Commission Called Hearing on the Verified Complaint of Pioneer Natural Resources U.S.A. Inc. and Parsley Energy Inc. to Determine Reasonable Market Demand for Oil in the State of Texas

Dear Commissioners:

My name is Benjamin Zycher; I am the senior economic and policy staff member for energy and environmental policy analysis at the American Enterprise Institute. I wrote recently a column, published on National Review Online on March 30, 2020, in opposition to official intervention in market production outcomes for crude oil, and with respect to such market outcomes in other energy subsectors. It can be found at <https://www.nationalreview.com/2020/03/crude-oil-market-fixing-bad-idea/>.

There is no question that current market conditions have created an exceptionally difficult economic environment for oil producers both generally and in Texas; but the reasons that intervention would be very unwise remain powerful. In summary:

- A production cut mandated by the Railroad Commission of Texas (hereafter “Commission”) would represent an explicit official cartelization of the Texas crude oil sector, eliciting increased production by domestic producers outside Texas and perhaps outside the U.S. as well, a self-defeating outcome.
- The recent experience with a similar policy in Alberta, Canada does not bode well for the success of a similar policy in Texas.

- Coordination of a production cut with foreign governments would be very difficult to enforce, as the tools with which price shaving and unannounced production increases---“cheating”---can be effected are numerous.
- A production cut mandated by the Commission inevitably will support less-efficient producers at the expense of those more efficient, with adverse consequences for the efficiency of the Texas crude oil sector over the longer term.
- The allocation of production cuts across producers cannot avoid the introduction of factors and criteria heavily political in nature, again with adverse consequences for the efficiency of the Texas crude oil sector over the longer term.
- Moreover, with such a market intervention intended to alleviate an immediate economic problem, however severe, it will become much more difficult for supporters of the market allocation of resources to argue against such interventions in the future, whether in domestic or international contexts, and this difficulty will extend far beyond the narrow boundaries of the crude oil sector.

Thank you for this opportunity to offer my views on this important topic. I would be very pleased to participate by remote means in the Commission hearing to be held on April 14.

Sincerely,

Benjamin Zycher