



Everything Through the Prism of Politics 4/1/22

It's hard not to be a skeptic today. The truth takes a back seat to politics. It seems that most things play out not in an economic, but a political arena. There are so many examples just in the energy sector alone. I'll list just a few:

- 1) The Administration has told the BLM and the Department of Interior to hold up permitting offshore leases bought and paid for by the industry, despite court rulings prohibiting this.
- 2) In another leasing dispute, the Administration misstates that there are 9,000 leases that the industry holds but is doing nothing to drill on them. Without getting into all of the complications here, the Administration knows better but prefers to keep the public un or misinformed. 5,000 of those 9,000 leases are still awaiting the necessary **permits to drill**.
- 3) In the President's new budget request ,there appears to be **no provision** for new offshore Gulf of Mexico leasing in 2023 despite his public pronouncements that he expects more supply from the domestic producers. I'll remind you that in March of 2020 we produced 13.0MMB/D (nd growing). Today we are around 11.6/11.7 MMB/D.

The President just announced the largest release from the SPR ever, 1 MMB/d for 6 months. The government owns the caverns but the industry owns most of the pipes and loading facilities at the ports. Yet it doesn't really matter whether we can deliver 180 million barrels over the



6 months or just let's say 120 million. It still will be the largest ever. Has anyone paid any attention to when the program is likely to end? Does October ring a bell, just before the mid-term elections. The timing of the announcement becomes even more curious when one realizes that at least up to today **we haven't lost any discernable level of Russian production or exports.** We do not know Putin's intentions or timing of events, whether he will step back or accelerate his actions. What will NATO or Putin himself do about future Russian oil/gas exports.

Oil prices are where they are not because of but in spite of Putin's action. The President has at best misspoken when he blames Putin for the current run up in gasoline prices.

This invasion of Ukraine could be over in a week or still play out over many months, no one knows. If Putin decides to end the fighting but stays in power, do sanctions stay in place? Do we then lose Russian energy?

It would seem that the SPR card was the right one to play, however did we turn over our hand too early? Government stocks are different than private industry stocks. We can't go to the "well" here too many more times. Did the mid-terms play out here? Given everything else, I believe they did.

P.S.

We haven't lost any visible amount of Russian supplies. Russian exports in March are almost identical to that of January/February. Thus, one can understand the Administration's nervousness at their political exposure to the high price of gasoline. The Administration would like you to believe that the increases are due to Putin's invasion of Ukraine. But the reality is very different. Politically the Administration knows this and wants to get ahead of the information.



The Administration wanted the refiners, wholesalers, and retailers to buy the high-priced inventory in order to supply their customers. The government was quick to accuse all levels of industry operations of price gauging, but did they give the different segments of operations one minute of thought when they announced the historic SPR release?

Small independent refiners, jobbers, wholesalers, and retailers of gasoline and heating oil saw a huge decline in the value of their inventory. Will they or anyone propose an inventory compensation package? Or is the market the market when prices go down?