Mister President, Use Some Political Capital

Be Like Willy Sutton: Go Where the Oil Is
2/17/22

The President is searching to find ways to get the price of gasoline down. As the saying goes: “everything is on the table.” There are some so desperate that they are considering a holiday on the FEDERAL TAX ON GASOLINE. Annualized it would cost the treasury some $20 Billion and it might be hard to get them to reimpose the tax when it expires. Yet, it would offer the average gasoline consumer a savings of $9.20/month or only 30 cents/day.

The U.S. have had several calls and meetings with the Saudis that have been unproductive for a whole host of reasons.
Despite views to the contrary, the Saudis have been increasing their production in line with their quotas by about 100,000B/D for the past several months. It will rise to upwards of 150,000B/D starting in May with the increase in the baseline for the Saudis, Russia, UAE, Iraq, and Kuwait.

The Saudi quota for May will be around 10.55MMB/D (my guess). Whether they will produce that will depend upon the price and their view of inventories at the April meeting (the market is severely backward dated and stocks are tight now). Iran could weigh heavily on the Saudi thinking. There may be another constraint over how high the Saudis want their production to grow. They don’t want their SPARE CAPACITY TO GET TOO LOW. A production by September of over 11MMB/D would leave them with less than 1 million B/D of SPARE CAPACITY. Spare capacity has been a strong strategic asset that gives them leverage. Don’t count on the Saudis to give you more than their agreement calls for. You will continue to be disappointed.

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However, if you want prices to come down you need to encourage someone to produce more. Look no further; the answer is right in front of you. Some U.S. producers are focusing on paying back their investors first, increasing their dividends, and building back a solid balance sheet. All necessary steps to a long-term relationship. Production might be given a smaller role. If you want to talk about tax holidays that would cost a fraction of the gasoline tax holiday how about considering a TAX HOLIDAY on FEDERAL AND STATE ROYALITIES for the next two years. It should be on INCREMENTAL PRODUCTION ONLY, using 2021 as a base, and production would have to exceed 2021 levels by 5% before qualifying.