Our View: ExxonMobil's Pioneer Acquisition: Good for Consumers/Bad for OPEC+

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ExxonMobil's acquisition of Pioneer Natural Resources will benefit consumers because Exxon will open reserves that Pioneer has been slow to develop to avoid goading OPEC into another price war. Exxon's management will have no such fears. As I explain below, the combined firms will rank as the world's sixth largest producer as Exxon unlocks reserves in the Permian Basin using technologies it developed to boost recoveries, speed well development, and get oil to the market.

In 2021, Pioneer's then-CEO Scott Sheffield worried that Exxon would accelerate Permian reserve development and undermine the tenuous truce he, Ryan Lance of ConocoPhillips, and other shale CEOs had negotiated with OPEC+ nations. As he told Argus Media,

> "The big swing question is Exxon and Chevron. What do the majors plan to do?" Sheffield said. "They stepped back from their 1mn b/d targets and so did we, but how do they allocate resources in the Permian?"[1]

He added,

> "I'm still a strong believer that demand is going to come back strong, both on airlines and also driving around the world once we get herd immunity," Chief Executive Officer Scott Sheffield said on a conference call today. "I'm confident that we can assume the Iranian barrels into the marketplace over time and **then U.S. shale is no longer going to be a threat to OPEC and OPEC+"** [emphasis added].[2]

A few months later, *The Economist* noted that US shale producers had effectively conspired with OPEC to keep prices high: "It is now the shale industry, not OPEC, that casts itself as the guardian of high prices. Amid self-imposed production restraints, it prefers showering investors with cash rather than flooding the world with cheap crude."[3]

ExxonMobil poses a threat to the oil-exporting countries for the following reasons. The firm's production increased in the first quarter of 2023 compared to the same quarter in 2022. Furthermore, CEO Woods indicated the firm was on track to raise Permian output by around ten percent in 2023 (excluding Pioneer's production).[4]

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[1] Tom Fowler, "Oil majors' Permian moves are big unknowns: Sheffield," Argus Media, March 21, 2021.

[2] Kevin Crowley, "Pioneer CEO Says U.S. Shale Will No Longer Be a Threat to OPEC," Bloomberg, February 24, 2021 [https://tinyurl.com/2b54tydk].

[3] "The 'mother-frackers' of shale now resemble OPEC," *The Economist*, July 10, 2021 [https://tinyurl.com/mpx9phvw].

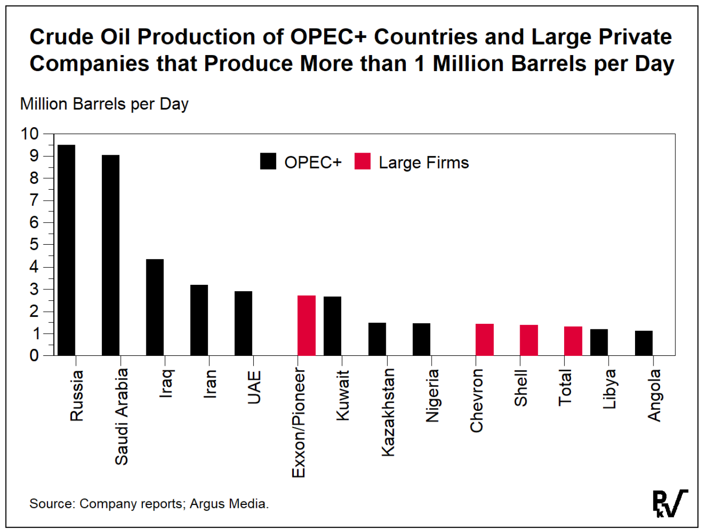
[4] Caroline Evans, "Exxon CEO: Value, Not Volume Will Drive M&A Action," Energy Intelligence, April 28, 2023 [https://tinyurl.com/3s9vhary].

ExxonMobil is also taking advantage of new technology. On several occasions, Woods stated that the firm aimed to double the oil recovered from fields. Implicitly criticizing independent firms such as Pioneer and ConocoPhillips, Woods told a reporter, "All these independents are playing very short-term games in the unconventional space. We're kind of a long ball hitter."[5]

In addition, Exxon has moved aggressively to boost production from its existing areas. An October 5 Motley Fool press release noted that, in 2021, ExxonMobil was drilling shorter wells than many firms when longer wells tend to produce more oil and larger profits. "Today, it has more long wells than the same peer group."[6]

The release also noted that, in 2019, the company's drill times were longer than other companies. "Now, it drills faster than any of its peers."

As noted, ExxonMobil's acquisition of Pioneer would make the company's production sixth when ranked against the output of OPEC+ nations. The figure here presents the oil production of OPEC+ nations that produced more than one million barrels per day in September 2023 and the production (in red) of shareholder-owned companies that produced more than one million barrels per day in 2022. Note that ExxonMobil and Pioneer combined rank just below the UAE and just above Kuwait in terms of volume. Note also that Chevron, Shell, and Total fall further down on the list, just after Nigeria.



There is a difference between the countries and companies listed in the graph. The countries have agreed to adjust output to "balance" the global market, the unstated purpose being to keep prices high. The companies, on the other hand, manage their investments to maximize prices, understanding that they operate in a global commodity market where they have little influence on prices, that is, **they are price takers.** This means the firms do not cut output when prices fall but may reduce investments when revenues decline.

In contrast, many smaller independent oil companies maintain "capital discipline," focusing on financial value rather than production volume.[7] The practice was forced on these firms by their lenders after the 2020 crude oil price collapse but has since become a tool to appease OPEC+ and help keep oil prices high. Four days before ExxonMobil announced its possible acquisition of Pioneer, *Financial Times* reported on

[5] David Brown, "ExxonMobil Plans to Double Oil Recovery in Permian with New Tech," AAPG Explorer, July 2023 [https://tinyurl.com/5benah95].

[6] Reuben Gregg Brewer, "This Is Why Exxon Is So Happy About the Permian Basin," Motley Fool press release, October 5, 2023 [https://tinyurl.com/yc87kzcc].

[7] "What Is Capital Discipline?" Zeno, retrieved October 7, 2023 [https://tinyurl.com/ptyr5p76].

the views expressed at the American Energy Security Summit organized by Harold Hamm, CEO of Continental Resources and Donald Trump's energy adviser during the 2016 campaign:

> America's shale pioneers have vowed to keep a lid on drilling even if oil hits $100 a barrel, citing a need to maintain capital discipline and what they claim is a "war" on fossil fuels waged by the Joe Biden administration.[8]

The expansion of the large shareholder-owned oil companies led by ExxonMobil will create additional momentum to maintain and expand output on a relatively stable, continuous basis. Also, like Exxon, these companies will likely succeed in applying new technologies to boost oil recovery from reserves and maintain or expand production while global oil use is peaking.

The potential consequences of the proposed Exxon-Pioneer merger for OPEC and OPEC+ should be concerning. Keeping prices at current levels may not be possible without further output cuts. Keeping prices above $60 per barrel may even be difficult if growth in global consumption slows and firms like Exxon drive production costs down. Maintaining higher prices may require oil-exporting countries to sacrifice one or two members such as Venezuela, where production costs are high.

[8] Jamie Smyth and Amanda Chu, "US shale bosses vow to hold back drilling despite rising oil prices," *Financial Times*, October 2, 2023 [https://tinyurl.com/ytsyr7b7].