Our View: A Holiday Gift to Consumers from Texas

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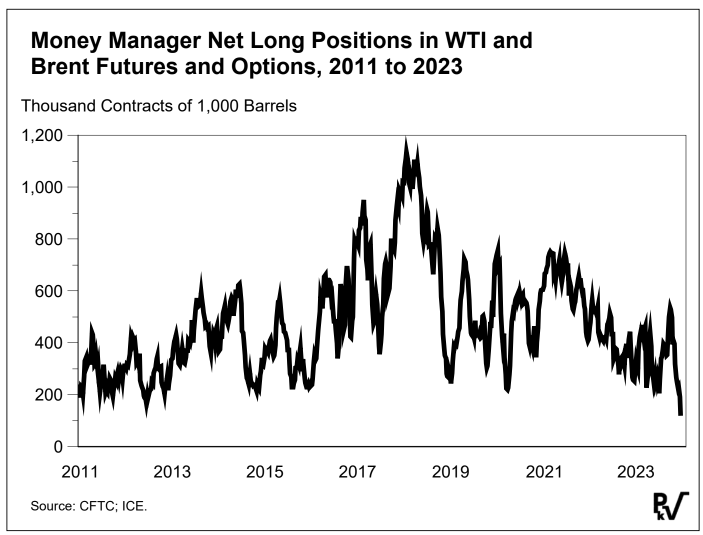
Oil consumers may be paying $40 per barrel less for crude today and gasoline consumers $1 per gallon less due to the cumulative impacts of Texas tax policy. While Governor Greg Abbott and the CEOs of independent producers such as Pioneer Natural Resources and ConocoPhillips believe the state supports the oil industry, its inventory taxes depress oil prices. Crude oil today could easily exceed $100 per barrel rather than trade at around $70 were it not for these taxes.

The *ad valorem* inventory taxes can exceed two percent of the stocks' value at year-end, depending on the county in which the oil is stored. Oil companies and traders do everything possible at that time to empty tanks. We would not be surprised to learn of a run on sponges every December in certain locales.

OPEC has helped the end-year stock reduction efforts in 2023 by cutting production, creating additional demand for US exports. Last October, hedge fund manager Pierre Andurand said that, after the OPEC cuts, "The market would have to beg for more oil."

The market instead said thank you very much. A record number of supertankers steamed to the US to pick up cargoes. Tanks in Texas emptied out. The flood of tax-driven exports drove prices down by twenty percent. This decrease repeated those observed in prior years.



Speculators have learned the hard lesson: "Don't Mess with Texas." The net long position of money managers is at its lowest level since January 2011, as the chart here shows.

Ministers from oil-exporting nations would be wise to remember the "Don't Mess with Texas" caution. In 2024, they might even schedule meetings with Governor Abbott and Texas legislators to discuss the state's anti-oil tax policy. It is costing them, the oil industry, and the state tens of billions. Meanwhile, consumers across the globe should send thank-you letters to Abbott and the Texas House and Senate.

We add that it is not the independent producers boosting production that are causing the large price swings, as suggested by Bloomberg and others, but the *ad valorem* inventory tax. Those in the oil trade understand this important detail. Most reporters do not.