



Reducing Oil volatility & accelerating EV transition by imposing a pump price floor & subsidising Fracking:

The proposal to institute a floor pump price and subsidise fracking is relevant to the energy transition but super relevant to accelerating the ability of the West to wean itself from Russian Energy. The idea is to help motivate the switch to EVs, and to appeal to the workforce/industry in the oil fracking states during the pro-longed green transition. It is a controversial but very practical proposal to create a **minimum pump price "fund"** which will be earmarked to fund the green transition, and importantly it will provide a subsidy of frackers. The fracker subsidy is not just to make it politically more palatable, it will fundamentally support the "best" oil production that smoothes oil supply and demand during the transition. Crucially fracking is least problematic from a geo-economic perspective (US output gains share vs Russia/Saudi winning during the transition), and from an environmental perspective (shorter term fracking is much better environmentally than multi decade investment in new finds).

1. **Remove the Risk Low Gas prices Compete with EVs:** A pump price floor will mean that if the pump price falls below the threshold (say \$60 a barrel), we won't have periods where US buyers again start thinking about the improved economics of internal combustion SUVs vs electric vehicles. There will obviously be political resistance to a pump price floor but importantly this "tax" will not raise prices as new taxes usually do, rather it will just eliminate a lower price windfall for gas using consumers (which many may not even notice).
2. **Funds the Transition, Fracking Jobs & Ensure Enough Output:** When oil falls below \$60, it will hit returns on existing frackers and crush new investment. The pump price floor will fund a degree of subsidy for previous and future fracking investment that will reduce the risk that they get negative returns (if oil prices are higher they get to bank that themselves). The idea is it will both incentivise enough production during the transition to reduce the disruption of oil spikes, and it will ensure that a good portion of that marginal production is driven by US producers instead of imported from OPEC + Russia. This last point is important as the high capex and low operating costs of Russian/Saudi production, coupled with the lower depletion rate than with fracking, means that Russia and Saudi will inevitably gain share as investment moderates. Subsidising fracking in this way will effectively allow US producers to sustain/gain share for demand that will broadly be the same regardless. Note if the subsidy is just done on a rolling two year basis, it will implicitly benefit frackers (who have a shorter time frame) than longer term sunk investment, and it also means that at some stage in the future the subsidy for fracking can be removed entirely as consumer demand for oil falls enough to avoid the risk of oil price spikes.

Clearly if the oil price is high enough long enough there will be investment in fracking, but because we all know the transition is happening the market price signals will not lead to investment as it would in the past. Providing an underwriting of floor prices for oil producers will make sure the price signal is as efficient as possible in motivating fracking capex. The introduction of such a potentially sizeable pump price tax, and a subsidy for fracking both would be impossible if introduced independently but is politically feasible at a time of geopolitical risk and with such big carrots for both sides (red states get a drilling subsidy and blue states get a perpetual stealth pump price tax)