MEMORANDUM

TO: NARO EXECUTIVE COMMITTEE

FROM: NARO PAC COMMITTEE

REGARDING: POSITION OPPOSING FORCED DIVESTITURE OF OIL & GAS INVESTMENTS AND REDLINING IN OIL & GAS LENDING

DATE: DECEMBER 14, 2021

The NARO PAC Committee has discussed and recommended by a vote of 4 - 0, that the NARO National Board take an official position on the growing practice of forced divestitures of oil and gas investments by public, quasi-public, and private entities, as well as the increasing practice of trying to deny capital to oil and gas companies through redlining by an entire sector of the American economy.

Recent events have shown that continued development of American oil and gas resources will be needed for many years to come. Regardless of the speed of the transition to less carbon intensive sources of energy, and all sources of energy have some carbon footprint, the fact remains that a modern economy cannot continue to function and develop without reliable sources of energy. Self-inflicted disruptions in that market through misguided policies harm all consumers, American economic independence, and eventually the environment itself. Distortions in energy development markets can cause price spikes, inflation, entrenched constituencies wanting to preserve these distortions, and lower the standard of living for Americans.

Mineral and royalty owners need to have financially sound oil and gas operators who are willing to risk their capital to further develop, redevelop, or repurpose minerals into further oil and gas production, carbon capture, or carbon sequestration. These companies need healthy investor and capital markets to operate efficiently.

Unfortunately, some public, quasi-public, and private entities such as pension funds, universities, banks, capital providers and hedge funds have been pressured into either divesting their oil and gas investments or refusing to provide new capital to them. In a misguided effort to try and reduce carbon emissions, these efforts ignore the fact that oil and gas production is a worldwide market. Other countries will gladly take up the slack of any self-imposed reductions by the United States. The energy market is too vast and too large a percentage of the overall world economy to be significantly impacted by artificial supply constraints. Lack of an investor base and capital does not mean that operators can simply shift to private firms and private lenders. This capital starvation has the effect of stunting energy development and reducing supply. This has become painfully obvious recently, where reduced demand due to Covid was coupled with state and federal
governments ratcheting up burdens on oil and gas operators to make it more difficult to invest in development or redevelopment of oil and gas fields. Now that demand has rebounded, a large increase in prices is helping fuel another painful inflation cycle as did the Arab oil embargo in the 1970’s.

Therefore, the NARO PAC Committee recommends that the Board approve an official position on forced energy divestiture and redlining as follows:

The National Association of Royalty Owners, Inc. officially condemns the practice of forced divestiture in oil and gas investments or redlining against oil and gas companies in the capital and lending markets. These practices reduce the capital available for future oil and gas development, harm American energy independence, harm mineral and royalty owners through fewer development options, and achieve no reduction in carbon emissions. These restrictive policies are short sighted, cause artificial distortions to energy markets, fuel inflation, and harm the overall economy and the American standard of living.

Approved this 14th day of December 2021.

s/ Craig Peterson

Craig Peterson, Chairman
NARO PAC Committee