

The (Limited) Geopolitical Implications of the US Energy Boom

Written by Diego Pagliarulo

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In a reversal of a decade-long declining trend, the US fossil fuel industry is booming. In fact, as widely reported by media outlets, the US is currently producing more oil than even Saudi Arabia (Crooks and Raval, 2014; Smith, 2014). Recent improvements in drilling and extraction technology – horizontal drilling and hydraulic fracturing – have made unconventional hydrocarbon resources increasingly accessible (Bradshaw, 2013: 64-71; Klare, 2012: 100-127). These breakthroughs have significantly expanded the amount of exploitable reserves of oil and gas in the US, and have boosted the US energy industry. US oil and gas production has been on the rise since 2012, and according to several estimates, Washington could dramatically reduce hydrocarbons imports and get close to energy self sufficiency in the next decades (“Energy to Spare,” 2012; Loder, 2012).

Such a new development has fostered speculation about the geopolitical implications of the possibility for the US to achieve “energy independence.” Authoritative commentators as well as officials in Washington have been arguing that these newly exploitable non-conventional fossil fuel reserves will reduce the geopolitical clout of a number of current major energy producers that tend to be at odds with the United States, such as Russia, Venezuela, Iran, and other major OPEC countries, and that an America less addicted to foreign oil may no longer need to be so involved in intractable issues such as Middle Eastern politics (Bremmer and Hersh, 2013; Jopson, 2014; Luce, 2014; Tucker, 2013). As warily observed by energy analysts, America’s rising production even prompted for a while a naive buzz, according to which US gas shipments could help Eastern European countries reduce their dependence on supplies from an increasingly threatening Russia (Levi, 2014; Mufson, 2014).

The recent plunge in global oil prices somewhat appears to support such an optimistic outlook. Rising US production – along with other factors such as weak demand in Europe and China and smaller-than-expected supply disruptions associated with instability in the Middle East – is pushing down oil prices, and that is indeed making it harder for traditional energy-rich opponents of US policies to balance budgets or buy friendship abroad (Arnsdorf, 2014; “Winners and losers,” 2014).

The massive expansion of fossil fuel production the US is experiencing clearly has very important economic and political implications – for the US as well as in global terms. As this article argues, however, superficial or over-optimistic appraisals of the consequences of this energy boom are very risky. When we try to assess the geopolitical implications of the unconventional oil and gas revolution, we must adopt a cautious and balanced attitude.

Solid Economic Advantages

Although US exports of crude oil and gas are currently regulated, the recent “energy revolution” in the US is bringing about positive effects for all energy consuming countries because, as noted above, it contributes to the expansion of supply on a global scale (Levi, 2013: 65). After all, as argued by Adelman (2004: 19), “Higher output helps consumers and lower output hurts them, no matter where the oil is from or where it goes.” Needless to say, the boom in unconventional fossil fuel production has very positive implications for the US economy. It is improving Washington’s trade balance by reducing energy imports and making the economy more competitive because of the lower prices associated with an expanding supply (Bryce, 2013; Coy, 2014; Levi, 2013: 75-76; McCarthy, 2014). In

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sum, from an economic point of view, it seems fair to argue that America is stronger – provided that the long-term environmental costs associated with the new extraction technologies and the increased consumption of fossil fuels do not exceed the benefits listed above.

Uncertain Geopolitical Implications

It seems wise, however, to be much more cautious about the implications of the energy revolution for American foreign policy. True, from a short term perspective, it can be argued that Washington can exploit its rising domestic fossil fuel production to increase its leverage on countries that are hostile to America and its allies (Klare, 2014). It is important to note, for instance, that a rising global supply of oil has favored the enforcement of the US-led sanctions policy toward Iran (Lakshmanan and Loder, 2013). Moreover, a number of major oil and gas producers traditionally hostile to US policies, such as Iran, Russia, and Venezuela, are indeed facing serious budgetary problems because of reduced revenues (“Winners and losers,” 2014). Although it might be exaggerated to believe in the “First Law of Petropolitics” (Friedman, 2006) and expect major changes in these countries’ domestic political situation, it seems reasonable to expect the recent fall in oil prices to have a moderating impact on these more or less “rogue” regimes.

If we adopt a broader, long term view, however, the relationship between energy resources and geopolitical influence turns out to be a complex and uncertain issue. Given the importance of fossil fuels for the global economy, it is fair to argue that reserves of oil and gas magnify the strategic and economic importance of some regions of the world, such as the Persian Gulf or the Caspian Basin. Control over massive fossil fuel reserves provides some countries with status and makes them relevant players in international affairs – the domestic political stability and foreign policy orientation of energy-rich countries such as Saudi Arabia and Russia is indeed a source of concern or relief for their neighbors, as well as for other major energy-consuming world powers. In fact, however, oil and energy resources are scary but ineffective “weapons.” Aside from very peculiar situations and very short time spans, they do not appear to put countries in a position to impose their preferences or fulfill their geopolitical ambitions (Levi, 2013: 133). The oil embargo implemented between 1973 and 1974 by the Arab members of OPEC was blamed – or saluted, depending on the point of view – as the use of the “oil weapon” to pressure Western countries into abandoning their support for Israel. By the time the “embargo” was lifted, however, none of the demands concerning the Arab-Israeli conflict had meaningfully been met. Moreover, as a matter of fact, production cuts didn’t appear to penalize the industrial countries singled out as the targets of the embargo. It seems more correct to argue that the most significant consequence of the crisis of 1973 was not greater geopolitical clout for the Arab countries, but rather a greater capacity of OPEC countries to coordinate production in order to influence the global supply of oil (Adelman, 1995: 112-117; Yergin, 2009: 585-591, 595-614). Following a path established during the Soviet era, since the 1990s Russia has been selling gas at discounted prices to former Soviet Republics (Bradshaw, 2013: 86-90, 101-103). That policy, which is supposed to help Moscow retain influence over its neighbors, has come at a price in terms of lost revenues for the Russian treasury, but has failed to buy undisputed loyalty – as demonstrated by the current crisis in Ukraine, the war between Russia and Georgia of August 2008, and by the “color revolutions” that occurred in Georgia, Ukraine, and Kyrgyzstan.

In the ultimate analysis, fossil fuels, particularly oil, are fungible commodities, traded in global markets. Their price is a function of demand and supply dynamics that operate on a global scale (Levi, 2012; Yergin, 2012: 277-279). As a consequence, whenever a producing country tries to manipulate its national output in order to exercise political pressure abroad, other producers will see an opportunity to expand their own supply in order to fill the gap and reap an economic advantage, eventually neutralizing the geopolitical ambitions of the original user of the “oil weapon.”

Furthermore, we need to keep in mind that the US energy boom will not last forever. In fact, it appears to be following a pattern typical of the hydrocarbon industry: rising prices boost investment and encourage a massive supply expansion which eventually leads to a collapse in prices (El-Gamal and Jaffe, 2010: 20-21, 28-29). This time, too, higher global prices have made investment in unconventional hydrocarbon resources attractive and profitable, but the increasing US production is contributing to the fall in energy prices. We can thus expect US output to stabilize around a price consistent with equilibrium within the US market and in tune with global market trends. Attempts to deviate from market dynamics for political reasons would come at a high economic cost for US businesses and the Treasury. The profitability of unconventional fossil fuels, moreover, is predicated on high energy prices. Other

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conventional producing areas in the world, such as the Persian Gulf, still benefit from massive reserves and very low extraction costs (Caine, 2014; EIA, 2014; Luciani in Fawcett, 2013: 104; Yergin, 2014). Hence, American domestic production will continue to face strong competition from abroad, and that will further limit the opportunities to wage “oil wars” – as it was the case for other producers in the past. Add to all this the fact that, as observed by *The Economist* (“Winners and losers,” 2014), the US “is simultaneously the world’s largest consumer, importer and producer of oil,” and you may become persuaded that the consequences on the US economy of any use of energy for political purposes would be so uncertain that American politicians should really forget about the “oil weapon.”

Conclusion

The “energy revolution” is making the United States stronger and more secure in economic terms, but the geopolitical implications of this new energy boom are limited and, in fact, they’re so uncertain and potentially risky that they should be simply dismissed. Global economic trends and political instability in key energy-producing areas in the rest of the world will continue to have an impact on the price of fuel for US costumers. Hopes to exploit “energy independence” for geopolitical purposes appear rather delusional, and they may dangerously encourage the repeat of past mistakes on the part of American leaders, such as unilateral, uncompromising, and adventurist foreign policy postures. American security continues to be dependent on global political and economic stability. The case for constructive engagement in global affairs continues to be strong even for a once again energy-rich United States.

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