Opinion – Compromising US Energy Security for International Oil Market Stability

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As the dust settles on the end of an oil price war between Saudi Arabia and Russia, the United States of America (US) appears to have been politically outplayed. To assist in bringing about the end of the oil war, President Trump leveraged his existing relationships with both President Vladimir Putin and Crown Prince Mohammad Bin Salman in order to get them to meet and negotiate. Any agreement needed to stipulate new oil production targets, but had to be commensurate to global demand and membership status of the Organization of the Petroleum Exporting Countries (OPEC). In the past, President Trump has been criticised for his overly friendly relationships with the world's autocrats and being out of step with previous American administrations, especially with regards to Russia and the Democratic People's Republic of Korea. However, in the effort to end the oil price war, these unorthodox relationships appear to have aided President Trump. He did not act alone, however.

The American Congress revived the debate on the 'No Oil Producing and Exporting Cartels Act' (NOPEC). This bill would allow the US Department of Justice to bring anti-trust legal action against OPEC countries and any affiliated business operating within the US. Together, and alongside an increasingly turbulent global energy market, President Trump had the soft power to bring Saudi Arabia and Russia to the negotiating table. However, while the oil price war came to an end, President Trump appears to have jeopardised America's energy independence and placed US energy producers at the whims of the OPEC+ cartel and their price-fixing policies.

The US, for the past decade, has been on a trajectory towards 'energy independence,' due to the shale revolution. In effect, this would mean that the US would be completely free of the need to import any foreign oil. Currently, this is not the case, 2018 projections had the US meeting only 94% of their domestic oil needs from domestic production. Moreover, to be energy independent means that the US would be free from market politics and volatility, such as in the case of an oil price war. But the US still has a vested interest in the stability of oil-producing states and the global oil market as a whole. Meaning that the US is not energy independent, but rather is become increasingly energy secure.

While not wholly energy independent, being energy secure means that the US is not primarily reliant on the need for foreign oil in order to meet the demands of domestic industrial and military uses. Moreover, it means that the US has a vested interest in ensuring stability and adverse to instability. This desire for stability played out during the oil price war, as it further exacerbated an already depressed oil market, and in doing so, the US energy companies began to struggle financially. US oil producers need the price per barrel to be at least $53 USD, to remain economically viable. As Covid-19 and the oil price war collapsed the price per barrel, President Trump vowed to help domestic companies. He did this by intervening in the oil price war and sought a bailout funding to be included in an economic stimulus bill.

In the end, the deal that was negotiated between Saudi Arabia and Russia is similar to previous OPEC+ deals which seek to stabilise market prices. The difference though between any past OPEC+ deal and the current one is that it had to stabilise a global energy market impacted by Covid-19 and an oil price war. The most substantial part of the deal was that OPEC+ and non-OPEC+ oil-producing states agreed to reduce oil production by 20% globally, according to reports. This equates to 20-million-barrels-per-day. A production cut this significate is not solely a response to the globally depressed energy demand, but a response to strained political relations between prominent oil producers. Together, these two factors led to the oil price war. The aim of this round of production cuts – set to take effect on May 1st – is to arrest the fall in price and to match global demand with production as to benefit all oil-producing states.

While a cut in global oil production by a fifth is a substantial change in the international oil market, it is not the most significant aspect of the deal. This deal sees a reshuffle of the international political landscape within the global energy market. As OPEC does not, and cannot, unilaterally control the global price of oil, the organisation has to work with oil-producing states who are non-members – known as OPEC+. Together, OPEC+ works to ensure that global oil prices are set to a price which is beneficial for all oil-producing states. However, while Russia is a member of OPEC+, the US is not. Meaning that, when OPEC+ ensures a profitable global oil price, the US sees the same benefit. The US has been able to use consistency in the global oil price to grow its domestic shale oil industry. This 'shale revolution,' has seen the US effectively removed from international energy market as a significant oil importer. Such a position allows it to weather small disruptions in the global energy market; such as previous oil price wars.

The removal of the US energy market from the international energy market has annoyed Russia. The US' robust oil industry has meant that states like Russia, have lost some political leverage over the US. It also means that the US had the ability to develop its oil industry free from the influence of OPEC+. This is where the most significant aspect of the deal lies; the US has agreed to oil production cuts and effectively entered into a quasi-OPEC+ relationship.

Entering into a quasi-OPEC+ relationship with OPEC and agreeing to lower the production of oil has played into the agendas of both Russia and Saudi Arabia. Agendas which will enable both Russia and Saudi Arabia to exercises control over the global energy market. President Trump, in utilising both his personal relationships and the market size of the US to encourage negotiations, unwittingly played his hand and into the broader agendas of Russia and Saudi Arabia.

While Saudi Arabia's initial intention behind starting the oil price war was to ensure that Russia would adhere to productions cuts that OPEC+ had put in place. By taking a broader view of Rhiyad's actions, there is another reason for the oil price war, having OPEC remain relevant. It is widely considered that Saudi Arabia unofficially leads OPEC. While OPEC accounts for 55% of globally traded oil and an estimated 70% of the world's oil reserves, it cannot unilaterally keep the price of oil high. As such, OPEC must work with other non-member oil-producing states, such as Russia, in an alliance called OPEC+. OPEC's position as the global manipulator of oil prices is under threat by former members leaving and others not formally joining.

On the other hand, for Russia, the oil price war was more than just not wanting to conform to OPEC lowering oil production; it was about responding to US actions against Russian oil. In March, the month before the oil price war, the US placed new sanctions on Russian oil company Rosneft Trading for selling Venezualian oil – also sanctioned by the US. Moscow has expressed concern with the US developing its own oil industry as the US represented a significant market able to soak up a considerable amount of oil. Finally, as the US has been able to lower its reliance on foreign oil, states like Russia have lost a level of influence over the US.

As the global energy market recovers from the oil price war; the price of oil is still sitting at historically low prices. While the production cuts intend to arrest the sharp decline in oil prices and stabilise companies and economies, the future political landscape of the global energy market has been changed. With the US entering into a quasi-OPEC+ relationship with OPEC by agreeing to production cuts, the deal further integrates the US into the global energy market and its politics. In the short term, this ensures that US oil producers can remain viable and reinforces US energy security. However, by playing into the broader agendas of Rhiyad and Moscow, President Trump has undermined the US' quest for energy independence. President Trump has placed the US in a position to have its oil production manipulated by a foreign cartel vying to remain relevant and a geopolitical rival seeking political leverage.

About the author:

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