Will America reorient its foreign policy to maintain its energy sovereignty?

Damien Ernst, Professor at the University of Liège.
Corentin de Salle, Professor at the Ecole Pratique des Hautes Etudes Commerciales and Scientific Director of the Jean Gol Center.

An oil industry at half-mast

The U.S. oil industry has experienced spectacular growth since 2010, mainly due to the emergence of new technologies capable of producing oil extracted unconventionally from shale rocks (fracking). It now produces 14 million barrels per day, which, in addition to energy prosperity, gives the United States energy independence from the Middle East. This certainly helps to explain the U.S. desire to disengage from the MENA region, except perhaps to protect its ally, Israel.

However, recently, growth in oil output has vanished. U.S. oil production is even now showing a slight decline, for which there are many reasons. In addition to a relatively low demand for oil, this slowdown can primarily be explained by the marginal cost of U.S. oil production of around $70 per barrel, a price slightly higher than what is currently paid on the markets. If prices were to rise again, US production would follow. On the other hand, a decrease in oil prices would cause a freeze in investment in the development of new wells, which could significantly accelerate any decline, since the lifetime of an unconventional oil well is only about three years.

Abundance of cheap deposits to mine around the world

The problem for the Americans is that a base price of $70 per barrel allows many other countries to develop their oil sector. This translates into a quantity of new supplies reaching the market. These include shale oil deposits in Argentina and those in French Guiana — which is beginning to market its immense reserves. Even China is investing in many oil exploitation projects on its territory, no doubt also with a view to energy independence. In a context where there is low demand, this can only cause the price of a barrel of oil to fall.

It is a safe bet that in a global free-market economy where OPEC+ is less and less able to manipulate prices upwards — because its market share is declining — American industry will suffer from prices that are too low and output will begin to decline, especially since the country has oil deposits of average quality compared to other oil-producing states. Add to this the high cost of labor and fairly restrictive environmental standards, and these will obviously contribute to making oil exploitation more difficult and more expensive than elsewhere.

The USA: the new player tempted to manipulate oil prices upwards?

A barrel of oil priced at below $60 would certainly have little influence on American household spending but would be catastrophic for the U.S. oil industry and its energy sovereignty. Now, if there is one thing that America will never give up, it is this hard-won energy independence that exempts it today from maintaining a physical presence in the MENA region where it has waged war for decades. For now, it is rather in Asia that it expects to have to move the theatre of operations. This allows us to imagine the temptation to manipulate prices upwards. But how could this be done successfully? Of course, it would make no sense for the U.S. to do as OPEC+ did, i.e., to impose production quotas on its oil industry. Even in a context conducive to the return of protectionism, this would be too much of a contradiction with the American free-market economy.

Regulating the oil sector by preventing other countries from exporting their oil

On the other hand, the U.S. has the political, economic and military strength to impose production cuts on many countries, considered in the eyes of the West as "rogue nations". Here we are talking about Venezuela, Iran, Russia and tomorrow, perhaps also Iraq. They are all major exporters of oil.

The Biden administration has never adopted effective measures to reduce their oil exports. Instead, it has done the opposite, notably by promoting the return of Iran and Venezuela to the oil markets. The administration has also, clearly, forbidden the Ukrainians from attacking Russian oil installations and export channels, including the port of Novorossiysk on the Black Sea, which exports about two million barrels per day, despite it being comfortably within the range of Ukrainian combat drones.

Until now, the Biden administration's priority has been the fight against inflation and to maintain a drop in oil prices, in order to preserve the purchasing power of the American voter. A legitimate fight, since at the beginning of his mandate, the cost of a barrel of oil exceeded $120 and inflation was galloping almost out of control. But priorities will undoubtedly change. The next American administration is likely to focus on maintaining or even increasing the power of the United States' oil industry. The next president Trump, in any case, has long promised massive deregulation to increase oil production and the number of wells, which simply will not happen with a price per barrel that is too low.

What would the "America First" of the US oil industry look like?

We can therefore logically expect a further tightening of US sanctions against the oil sectors of Venezuela and Iran. Despite a current stand-off, there would likely be a significant increase in military strikes on the Russian oil industry. Additionally, one may also expect more chaos in other oil producing countries, which could have been seen until recently as allies of the US in its oil supply strategy, but which now risk being perceived as areas whose oil production is becoming too penalizing for the US energy industry.

Time will tell, but if there is one constant in a forever fluctuating American foreign policy, it is the preponderant role of the energy market on policy- and decision-making processes.