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Why Trump Rejects the Need from Middle Eastern Oil

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Trump at the White House (Reuters)

Abstract:

Oil may not be the only factor driving a reduced US commitment to guaranteeing security in the Middle East, but it certainly is one that weighs heavily in US President Donald Trump's mind. "Because we have done so well with Energy over the last few years (thank you, Mr. President!), we are a net Energy Exporter, & now the Number One Energy Producer in the World. We don't need Middle Eastern Oil & Gas, & in fact have very few tankers there…," Mr. Trump said in a self-congratulatory tweet. (1)

The timing of Mr. Trump's assertion that a decade-old, technology-driven drilling boom had propelled the United States to become the world's top fossil fuel producer gave his tweet real meaning even if his claim that the US was no longer dependent on Gulf imports or vulnerable to oil price fluctuations was questionable. He was tweeting two days after drones and missiles allegedly launched by either Iran or Houthi rebels in Yemen seriously damaged two key Saudi oil facilities. (2)

Coming on the back of Mr. Trump's failure to respond to the earlier downing by Iran of a US drone, the sabotaging of tankers in the Arabian Sea off the coast of the United Arab Emirates, and multiple attacks on US facilities in Iraq by Iranian-backed militias, the tweet reinforced nagging questions among Gulf leaders about the reliability of the United States' longstanding regional defense umbrella intended to protect against such incidents.(3)

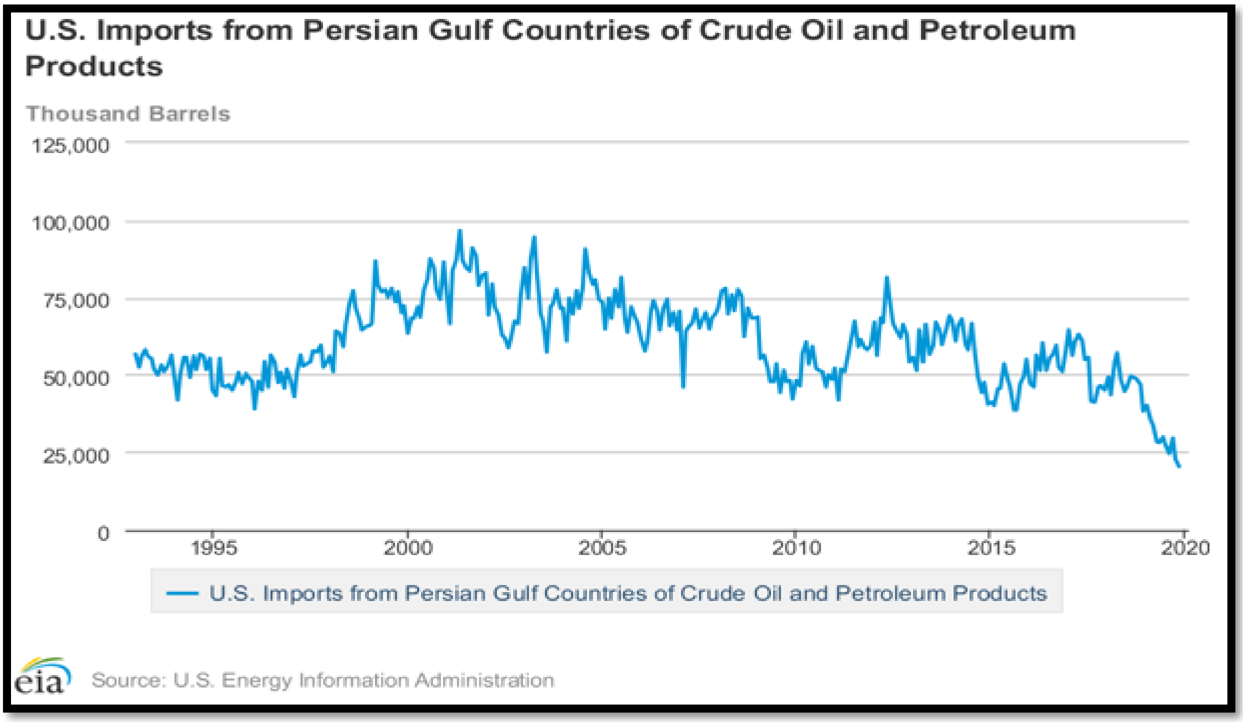
All Roads Lead to Rome

Oil was a factor in an ongoing rethink of US interests in the Middle East that started already at the time of the Obama administration even if Mr. Trump's approach to some form of disengagement differs starkly with that of his predecessor, Barak Obama.

In contrast to Mr. Trump's transactional approach and maximum pressure campaign designed to force Iran to unconditionally renegotiate the fledgling 2015 international agreement that curbed the Islamic republic's nuclear program, discontinue its development of ballistic missiles and halt support for regional proxies, Mr. Obama negotiated the agreement and sought to gradually return Iran to the international fold.

Transactionalism was at the core of Mr. Trump's assertion in the wake of the oil facility attacks that they were "an attack on Saudi Arabia, and that wasn't an attack on us. If we decide to do something, they'll be very much involved, and that includes payment. And they understand that fully." (4)

Both approaches set off alarm bells in the Gulf. Saudi and UAE leaders favoured Mr. Trump's campaign against Iran but worried about his transactionalism.
Nonetheless, both approaches were informed by the re-emergence of the United Sates as a powerful player in international energy markets even if statistics failed to bear out Mr. Trump's assertions of energy independence.



Despite having become the world's largest oil producer, US production of some 18 million barrels a day falls just short of the country's daily consumption of 20 million. The United States' requirement for imported oil also stems from a mismatch between what some US refiners want and what the United States produces.

Some refiners, including Motiva Enterprises LLC in Port Arthur, Texas, the US' biggest facility are part owned by Saudi Aramco, the kingdom's national oil company, and set up to accommodate medium and heavy Saudi grades.

Others, primarily in California that depends on Saudi Arabia for 37 percent of its total foreign oil imports, because it lacks pipelines that would connect it with oil-rich states such as Texas. (5)

U.S. Imports from Persian Gulf Countries of Crude Oil and Petroleum Products (Thousand Barrels)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1993	56,772	52,558	56,132	58,205	55,961	55,218	51,800	50,174	53,228	50,975	53,020	56,230
1994	50,524	41,813	50,115	55,544	55,815	49,510	56,164	51,729	56,624	55,909	51,785	55,199
1995	45,243	43,395	55,414	46,395	46,182	46,743	45,253	47,761	50,719	47,248	50,296	49,383
1996	47,934	38,977	48,030	45,165	54,177	46,105	56,375	54,169	47,727	50,671	45,742	51,931
1997	48,148	42,921	50,870	56,307	52,889	53,430	54,120	57,834	57,618	59,495	52,446	54,392
1998	55,909	51,117	64,059	63,326	59,379	66,212	72,895	77,052	71,479	68,013	64,578	65,608
1999	65,986	66,734	86,823	79,002	76,863	77,694	75,248	77,942	73,720	76,891	70,085	72,253
2000	63,490	68,507	68,331	72,002	68,752	77,582	80,973	87,562	84,807	77,614	74,448	86,530
2001	77,635	66,562	83,664	87,129	96,735	87,022	84,808	83,558	90,830	88,574	79,097	82,193
2002	82,784	69,539	79,223	71,992	69,383	62,705	61,960	58,996	61,546	67,497	66,673	75,928
2003	84,781	74,919	87,366	94,448	82,744	69,818	67,259	57,312	71,904	72,941	77,585	71,672
2004	71,577	61,118	74,623	69,984	77,049	71,447	78,446	90,762	82,913	79,432	80,626	74,470
2005	73,193	64,938	74,765	68,387	77,428	72,086	81,291	68,009	63,887	71,885	68,826	67,160
2006	61,804	57,891	60,692	70,826	74,059	70,639	64,423	71,725	74,419	66,083	70,160	64,451
2007	70,461	46,005	64,247	65,769	66,596	71,171	65,061	67,295	70,004	64,726	68,431	69,841
2008	71,502	77,227	78,071	69,679	75,951	70,886	77,729	75,582	62,566	71,434	68,482	68,450
2009	68,757	55,263	56,512	52,059	47,994	48,065	53,622	44,268	51,547	47,905	48,170	42,209
2010	48,438	46,644	57,116	60,768	53,458	59,162	52,045	51,544	50,928	46,186	49,869	48,480
2011	52,102	41,863	51,672	51,125	57,152	60,993	67,191	59,222	61,163	59,034	58,331	59,555
2012	66,908	56,484	68,478	67,083	81,481	71,855	66,765	64,209	62,118	66,413	62,995	54,293
2013	55,735	51,463	64,686	54,128	66,194	56,824	59,730	66,973	64,391	59,920	64,299	68,982
2014	67,800	60,821	66,091	68,214	59,793	58,223	66,510	55,223	49,360	44,282	47,505	40,413
2015	41,342	40,116	45,437	45,949	53,439	48,503	45,852	38,664	38,707	47,081	49,847	54,969
2016	47,129	46,167	56,422	51,276	60,420	51,466	55,721	56,409	59,465	52,650	51,065	58,345
2017	64,638	56,355	60,644	63,014	61,002	55,082	55,665	41,702	41,112	46,221	46,643	45,252
2018	49,320	43,519	53,877	56,983	48,585	44,610	46,171	49,580	49,357	48,461	47,012	38,332
2019	40,226	35,619	33,961	28,419	28,264	29,846	27,602	24,618	29,401	22,965	20,514	

- = No Data Reported; -- = Not Applicable; NA = Not Available; W = Withheld to avoid disclosure of individual company data.

Release Date: 1/31/2020

Source: U.S. Energy Information Administration

Much of the US shortfall is covered by imports from Canada. The United States, nonetheless, acquires an average of 48 million barrels per month of crude oil and petroleum products from the Gulf region. That is a third less than what the United States imported a decade ago and roughly equivalent to what it purchased in the mid-1990s. (6)

Said Jason Bordoff, a former senior director of Obama's national security council and founding director of the Center on Global Energy Policy at Columbia University: "US consumers (and Trump) may yet discover that while the shale revolution has strengthened the United States' position economically and geopolitically, the nation is far from energy-independent: The Middle East remains critical to oil markets, and disruptions there can still cause pain for consumers here." (7)

The 10 largest oil[1] producers and share of total world oil production[2] in 2018[3]

Country	Million barrels per day	Share of world total
United States	17.94	18%
Saudi Arabia	12.42	12%
Russia	11.40	11%
Canada	5.38	5%
China	4.81	5%
Iraq	4.62	5%
Iran	4.46	4%
United Arab Emirates	3.79	4%
Brazil	3.43	3%
Kuwait	2.91	3%
Total top 10	71.15	71%
World total	100.89	

[1] *Oil* includes crude oil, all other petroleum liquids, and biofuels.
[2] Production includes domestic production of crude oil, all other petroleum liquids, bic processing gain.
[3] Most recent year for which data are available when this FAQ was updated.

Source: U.S. Energy Information Agency

Even if the US would import no oil from the Middle East, it would retain an interest in ensuring that supply from the region is not disrupted given the impact that would have on the United States itself as well as its trading partners.

As a result, a reduced US commitment to Middle East security could backfire, particularly given that some degree of dependence on oil from the region is likely to continue in the foreseeable future. That is all the more true given that domestic US prices will be vulnerable to disruptions in the Gulf with its significant price-setting influence that impacts not only oil derivatives, but also other commodities such as corn and soybeans whose prices respond to movements in oil markets.

Because Gulf producers are state-owned entities rather than private corporations as in the United States, US leaders have no control of production levels that influence prices. As a result, energy independent or not, Trump needs his Gulf and other allies in OPEC to intervene when oil prices rise too high for US consumers.

Similarly, greater US energy self-sufficiency has in some respects changed the nature of rather than reduced US dependency on the Gulf. In effect, the dependency is less economic and more geopolitical.

The 10 largest oil[1] consumers and share of total world oil consumption in 2017[2]

Country	Million barrels per day	Share of world total
United States	19.96	20%
China	13.57	14%
India	4.34	4%
Japan	3.92	4%
Russia	3.69	4%
Saudi Arabia	3.33	3%
Brazil	3.03	3%
South Korea	2.63	3%
Germany	2.45	2%
Canada	2.42	2%
Total top 10	59.33	60%
World total	98.76	

[1] *Oil* includes crude oil, all other petroleum liquids, and biofuels.
[2] Most recent year for which data are available when this FAQ was updated.

Source: U.S. Energy Information Agency

The United States' use of energy as a weapon in its sanctions-driven efforts to change policies, if not regimes in Iran and Venezuela relies on Gulf states to compensate for market shortfalls resulting from US policies. US sanctions have removed at least 2.5 million Iranian barrels of crude per day and aim to reduce Iranian exports to zero. The sanctions, without Gulf intervention, would have sent oil prices soaring.

"A stout U.S. military deterrent to those who might threaten oil and gas flows from the Gulf does not guarantee stable prices, but it helps reduce the risk of both damaging spikes and the geopolitical risk premium that markets generally price-in during periods of instability in the region," said energy scholar Gabriel Collins. (8)

Continued dependence does not mean that the United States has not and economically, strategically and geopolitical from the impact of shale oil. Increased domestic production has boosted GDP by not spending dollars overseas and has reduced America's trade deficit by some US$250 billion. (9)

Higher oil prices have furthermore benefitted US producers and helped offset price hikes for consumers. Increased US production has also bolstered global inventories, reduced the impact of supply shocks, forced the Organization of the Petroleum Exporting Countries (OPEC) to cut production, and given the United States the kind of flexibility to manage production levels that traditional producers do not have.

The Future is Complex

Moving forward, energy-driven US interests in regional security not only in the Middle East but also in the Eastern Mediterranean are likely to be less shaped by the degree to which the United States may rely on imports and more by developments in the region itself, including the emergence of the eastern Mediterranean as a potential gas supplier to Europe, Asia and China; Saudi plans to establish a natural gas network with the UAE and Oman that eventually would extend to Kuwait, Bahrain Iraq, Jordan, Egypt and possibly Palestine; and the kingdom's intention to massively invest in development of its own gas resources. (10)

The Eastern Mediterranean lurks on the back ground in the war in Libya with Turkish backing of the United Nations-recognized Government of National Accord in Tripoli designed to protect a Turkish-Libyan maritime agreement creating an Exclusive Economic Zone against rebel forces of Field Marshall Khalifa Haftar, who is supported by Turkey's regional rivals, the UAE and Saudi Arabia. (11)

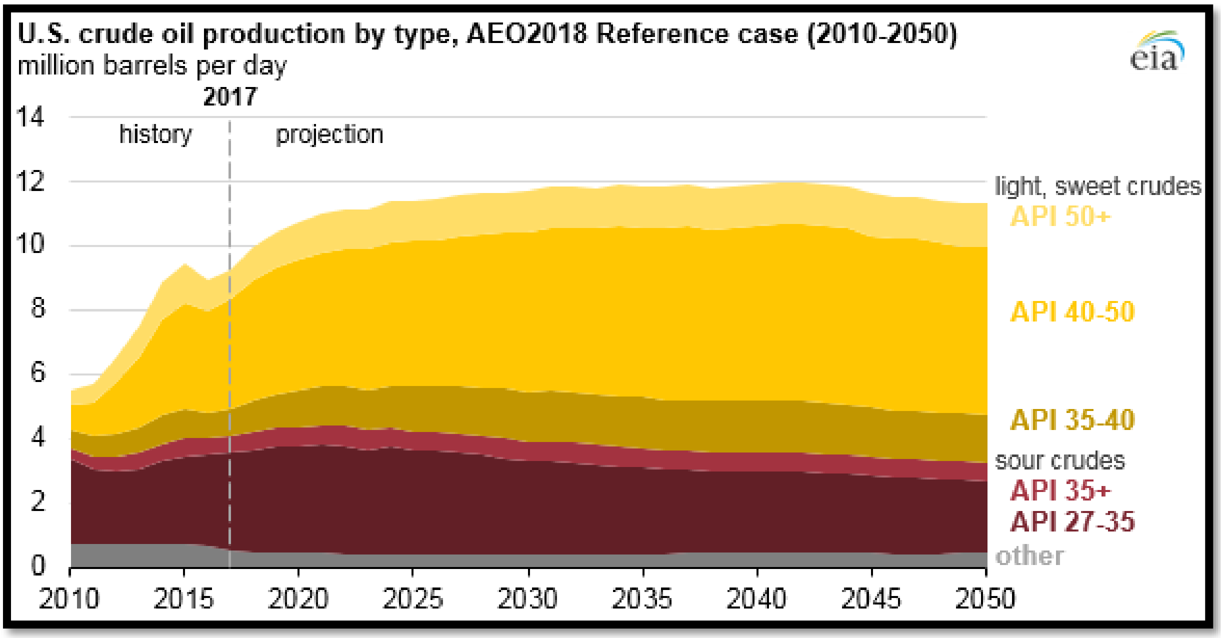
Russia has joined the fray, hoping that a victory by Khalifa, who has been attempting to capture Tripoli since last April, will thwart a Greek-Cypriot-Israeli agreement to build a pipeline that would supply gas to Europe, reducing European dependence on Russian gas in the process. (12) Critics charge that the maritime agreement that would limit Greek-Cypriot Israeli access to hydrocarbons in the Eastern Mediterranean, violates the Law of the Sea. (13) Throwing the Eastern Mediterranean into the mix raises US interest not only for reasons of energy security. Israel's stake in Eastern Mediterranean gas reinforces the United States' commitment to the security of the Jewish state that requires some regional American presence.

Even so, if Mr. Trump believes his own energy independence rhetoric, he may be blinded to the kind of US influence that will be needed to defend Israeli interests in the Eastern Mediterranean. Serious strains in US-Turkish relations coupled with Mr. Trump's inclination to by and large abandon Syria and his disinterest in Libya despite having taken a phone call from Mr. Haftar in April 2019 would suggest that the president has not connect ed the dots.
Tension in the Eastern Mediterranean mounted with two Turkish exploration vessels, Fatih and Yavuz, exploring in territorial waters belonging to European Union-member Cyprus, a country Ankara refuses to recognize. Turkey invaded the Turkish Cypriot north of the island in 1974 and is the only country to recognize the region's unilateral declaration of independence. Turkey is unlikely to be deterred by the sanctioning of two of its officials for involvement in the exploration in Cypriot waters in violation of international law. (14)

The Washington-based Center for Strategic and International Studies (CSIS) cautioned in a report that "the United States needs a holistic and integrated approach towards the Eastern Mediterranean that will stabilize Europe and shift the regional balance in the Middle East back towards the United States. Resolving the Syrian conflict is essential for Eastern Mediterranean stabilization and developing an appropriate policy approach toward an increasingly antagonistic and anti-democratic Turkey is the key to solving the Syria puzzle and re-anchoring the region toward the Euro-Atlantic community." (15)

Describing the Eastern Mediterranean as a theatre of big power competition that threatens US and trans-Atlantic interests, the report, maps out a detailed strategy for US re-engagement.

The United States, “must make hard choices and embrace realistic goals, however unattractive, to reinvigorate US diplomatic, economic and security engagement in the region. This will involve addressing and reconciling seemingly incompatible US policies towards Syria and Turkey that can only be bridged through active created and sustained diplomacy backed by ongoing military engagement,” the report said.



US Oil Growth Projection (EIA)

It Is Geopolitics, Stupid!

Similar to the Eastern Mediterranean, it is the geopolitics rather than the economics of energy that will drive US interest, particularly as it regards efforts to change Iranian policies, if not the Iranian regime, as well as the longer term power balance in the Middle East and Central Asia.

And it’s as much about gas as its about oil. A Saudi push to become a major natural gas player seeks to take advantage of the US sanctions against Iran in a bid to turn the kingdom into a gas powerhouse that rivals the Islamic republic. (16) The push came after Saudi Arabia discovered major reserves in the Red Sea. (17)

Aramco chief executive Amin Nasser said he expected US$150 billion to be invested in the Saudi gas sector over the next ten years. Mr. Nasser envisioned gas production increasing from 14 billion standard cubic feet to 23 billion by 2030.

“We are looking to shift from only satisfying our utility industry in the kingdom, which will happen especially with the increase in renewable and nuclear to be an exporter of gas and gas products,” Mr. Nasser said.

“Aramco’s international gas team has been given an open platform to look at gas acquisitions along the whole supply chain. They have been given significant financial firepower – in the billions of dollars,” he added. (18)

Saudi Arabia has targeted acquisitions in the United States in an effort to both boost its position in the gas market as well as US interest in the kingdom’s stability and also in the Artic. Aramco agreed in May 2019 to a buy a 25 percent stake in Sempra Energy’s Texas liquefied natural gas terminal in one of the biggest gas deals ever. The deal involves a 20-year agreement under which Saudi Arabia would buy 5 million tons of gas annually from Sempra’s Port Arthur plant, due to begin operations in 2023. (19)

While the Trump administration looks favourably at Saudi investment, some analysts are raising red flags. “We simply cannot hand the quickly globalizing (via LNG) gas market to more risky exporters that often have political goals that are contrary to ours (to put it politely),” said Jude Clemente of JTC Energy Research Associates. (20)

The kingdom has also expressed an interest in acquiring a 30 percent stake in Russia’s Novatek Arctic LNG project. (21)Access to the project’s gas would allow Saudi Arabia to negotiate long-term deals and/or sell cargoes on the spot market or increase domestic supply.

A Saudi-Russian deal in the Artic would likely not only enhance the kingdom’s position but also bring Saudi Arabia, a member of OPEC, and Russia, which is not formally part of the cartel, closer together in their joint management of global oil supplies.

Beyond investments, Saudi Arabia is seeking to become a force in the marketing and trading of gas. The kingdom scored an initial success with the sale in April 2019 of its first Liquified

Natural Gas (LNG) cargo in Singapore, the trading hub for Asia and the Pacific, the world's largest LNG market. (22)

Conclusion

US President Donald J. Trump claims that his shale oil has made his country energy independent. It is a claim that goes down well with a significant segment of the American public even if the facts do not bear out Mr. Trump's assertion in a year in which voters go to the polls to decide whether he will get a second term.

Increased self-sufficiency has fuelled perceptions that the United States is losing interest in the Middle East and is likely to reduce its commitment to the region's security. Even if US economic interest may lessen, US strategic interest in regional stability continues to loom large.

The question is not whether the emergence of the United States as the world's largest energy producer will lead to its departure from the Middle East but what consequences it will have coupled with uncertainty among Gulf leaders about the level of Mr. Trump's commitment on the region's future security architecture.

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