Why Trump Rejects the Need from Middle Eastern Oil

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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 States as a powerful player in international energy markets even if statistics failed to bear out Mr. Trump’s assertions of energy independence.

![U.S. Imports from Persian Gulf Countries of Crude Oil and Petroleum Products](image-url)
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.

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)

<table>
<thead>
<tr>
<th>Country</th>
<th>Million barrels per day</th>
<th>Share of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>17.94</td>
<td>18%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>12.42</td>
<td>12%</td>
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<tr>
<td>Russia</td>
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<td>Canada</td>
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<tr>
<td>China</td>
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<td>Iran</td>
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<td>4%</td>
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<tr>
<td>Kuwait</td>
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<tr>
<td>Total top 10</td>
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<td>71%</td>
</tr>
<tr>
<td>World total</td>
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</tbody>
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1 Oil includes crude oil, all other petroleum liquids, and biofuels.
2 Production includes domestic production of crude oil, all other petroleum liquids, biocrude 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.

Source: U.S. Energy Information Agency

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<td>Canada</td>
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</tr>
<tr>
<td>Total top 10</td>
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<td>60%</td>
</tr>
<tr>
<td>World total</td>
<td>98.76</td>
<td></td>
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</tbody>
</table>

\(^1\) Oil includes crude oil, all other petroleum liquids, and biofuels.  
\(^2\) Most recent year for which data are available when this FAQ was updated.
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 geopolitically 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.

**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 Arctic. 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 Arctic 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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