

The Dark Side of America's Rise to Oil Superpower

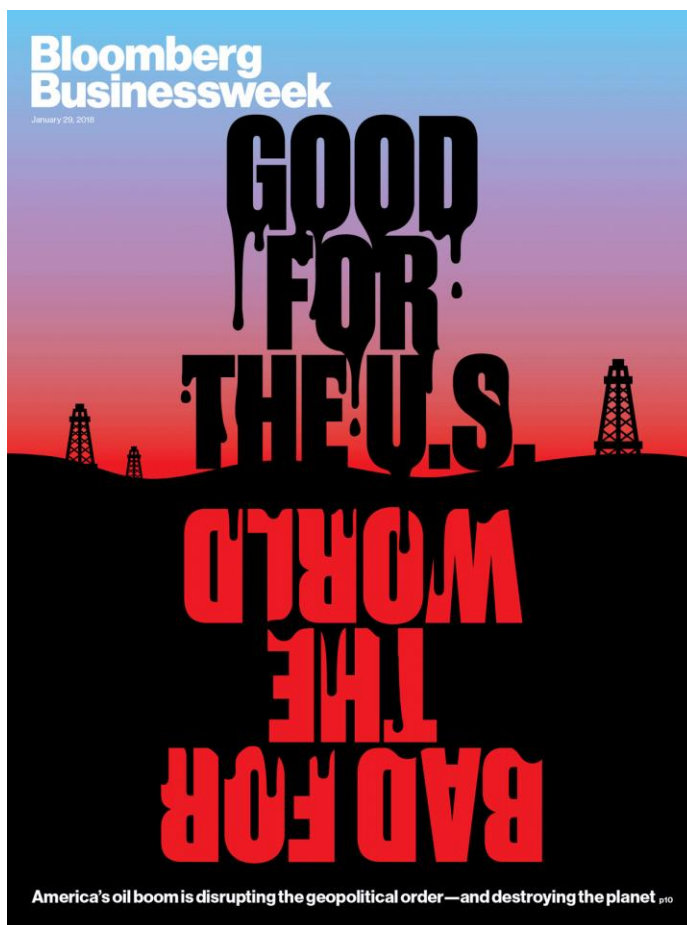
It sounds good, but be careful what you wish for.

By Javier Blas <https://www.bloomberg.com/news/articles/2018-01-25/the-dark-side-of-america-s-rise-to-oil-superpower>

The last time U.S. drillers pumped 10 million barrels of crude a day, Richard Nixon was in the White House. The first oil crisis hadn't yet scared Americans into buying Toyotas, and [fracking](#) was an experimental technique a handful of engineers were trying, with meager success, to popularize. It was 1970, and oil sold for \$1.80 a barrel.

Almost five decades later, with oil hovering near \$65 a barrel, daily U.S. crude output is about to hit the eight-digit mark again. It's a significant milestone on the way to fulfilling a dream that a generation ago seemed far-fetched: **By the end of the year, the U.S. may well be the world's biggest oil producer. With that, America takes a big step toward energy independence.**

The U.S. crowing from the top of a hill long occupied by Saudi Arabia or Russia would scramble geopolitics. A new world energy order could emerge. That shuffling will be good for America but not so much for the planet.



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For one, the influence of one of the most powerful forces of the past half-century, the modern petrostate, would be diminished. No longer would “America First” diplomats need to tiptoe around oil-supplying nations such as Saudi Arabia. The [Organization of Petroleum Exporting Countries](#) would find it tougher to agree on [production guidelines](#), and lower prices could result, reopening old wounds in the cartel. That would take some muscle out of Vladimir Putin’s foreign policy, while Russia’s oligarchs would find it more difficult to maintain the lifestyles to which they’ve become accustomed.

President Donald Trump, sensing an opportunity, is looking past independence to what he calls energy dominance. His administration plans to open vast ocean acreage to offshore exploration and for the first time in 40 years allow drilling in the Arctic National Wildlife Refuge. It may take years to tap, but the Alaska payoff alone is eye-popping—an estimated 11.8 billion barrels of technically recoverable crude.

It sounds good, but be careful what you wish for. The last three years have been the [hottest since recordkeeping began](#) in the 19th century, and there’s [little room in Trump’s plan](#) for energy sources that treat the planet kindly. [Governors](#) of coastal states have already pointed out that an offshore spill could devastate tourism—another trillion-dollar industry—not to mention wreck fragile littoral environments. Florida has already applied for a waiver from such drilling. More supply could lower prices, in turn discouraging investments in renewables such as solar and wind. Those tend to spike when oil prices rise, so enthusiasm for nonpolluting, nonwarming energies of the future could wane.

For now, though, the petroleum train is chugging. And you can thank the resilience of the U.S. shale industry for it.

Shale’s triumph seemed impossible a few years ago. In late 2014, Saudi Arabia targeted rivals, including American drillers. Rather than cutting production to keep prices high, Saudi Arabia persuaded OPEC to open the taps, sending prices lower than \$40 a barrel in December, down from more than \$100 a barrel just four months previous. **The Saudis were hoping to starve the shale revolution.** At first, they seemed poised to succeed, like they had in the past. U.S. production fell from a peak of 9.6 million barrels a day to 8.5 million barrels a day. Bankruptcies riddled shale patches from Texas’ Permian Basin to the Bakken Formation in North Dakota, and tens of thousands of workers [lost their jobs](#).

Rather than declare defeat, shale companies dug in, slashing costs and borrowing like crazy to keep drilling. **By late 2016 the Saudis blinked.** They persuaded OPEC and the Russians to cut output. Slowly, steadily, West Texas Intermediate, the oil benchmark traded in New York, rose from \$26 a barrel in February 2016 to where it lingers today.

What didn’t kill shale drillers made them stronger. The survivors have transformed themselves into leaner, faster versions that can thrive even at lower oil prices. Shale isn’t any longer just about grit, sweat, and luck. Technology is key. Geologists use smartphones to direct drilling, and companies are putting in longer and longer wells. **At current prices, drillers can walk and chew gum at the same time—lifting production and profits simultaneously.**

Fracking—blasting water and sand deep underground to free oil from shale rock—has improved, too. It's what many call [Shale 2.0](#). And it's not just the risk-taking pioneers who dominated the first phase of the revolution, such as Trump friend [Harold Hamm](#) of [Continental Resources Inc.](#), who are [benefiting](#) from the surge. [Exxon Mobil Corp.](#), [Chevron Corp.](#), and other major oil groups are joining the rush. U.S. shale is “seemingly on steroids,” says Amrita Sen, chief oil analyst at consultant Energy Aspects Ltd. in London. “The market remains enchanted by the ability of shale producers to adapt to lower prices and to continue to grow.”

The results are historic. In October, American net imports of crude and refined products dropped below 2.5 million barrels a day, the lowest since official data were first collected in 1973. A decade ago, U.S. net oil imports stood at more than 12 million barrels a day. “For the last 40 years, since the Arab oil embargo, we’ve had a mindset of energy scarcity,” says Jason Bordoff, founding director of the Center on Global Energy Policy at Columbia University and a former Obama administration official. “As a result of the shale revolution, the U.S. has emerged as an energy superpower.”

For OPEC, the emergent superpower presents an unprecedented challenge. If the cartel cuts production, shale drillers can respond by [boosting output](#), stealing market share from OPEC nations and undermining their effort to manipulate prices. **The only solution for OPEC is to prolong the limits, as it's doing now, and hope for the best.** If cooperation between OPEC and Russia breaks down, it's not impossible that OPEC breaks down, too.

If Shale 2.0 output keeps prices low, Russia would be a big loser. Moscow has used oil revenue to finance aggressive foreign intervention from Ukraine to Syria. The only solution is to continue cooperating with Saudi Arabia on keeping production low—not something the oligarchs relish.

With shale surging, U.S. imports of Saudi oil plunged to a 30-year low last year. The turnabout makes China and Japan far more dependent than the U.S. on the Middle East. It's now possible for the U.S. to argue that other countries should help shoulder the burden of policing the shipping lanes leading to Middle Eastern and North African oil exporters.

Yet not all traffic lights are green for the U.S. It's not immune from the [ups and downs](#) of the world market. When the price rises because of, say, political upheaval in the Middle East, it doesn't matter where you are and how much you pump. The price rises in America, too.

There's another problem: Shale 2.0 could hurt refiners. Shale oil is too good. For years, refiners spent billions of dollars on special equipment to process the dense, high-sulphur, low-quality crudes coming from Mexico, Venezuela, Canada, and Saudi Arabia. The quality of shale oil is so high that it yields little diesel, the fuel that powers manufacturing.

Such limitations may be mere speed bumps. But U.S. dominance is far from a panacea. It won't reverse climate change. It won't lessen the political influence of fossil-fuel producers in Washington. Nor will it completely neutralize the political influence of erratic petrostates.

With demand rising despite the emergence of renewables and the development of electric vehicles, shale may struggle to keep pace with global consumption. There's a chance the world

will witness that rarest of market loop-de-loops—high oil prices as well as rising U.S. production.

Saudi Arabia and Russia could then remain formidable obstacles to U.S. energy independence. They would be crowing from the top of the hill even as they keep a wary eye on America's shale drillers.

These are troubles that would have been an embarrassment of riches for Americans who had to wait in line to fill up in the 1970s, when the U.S. determining its own energy future was just a dream. Any celebration over this accomplishment ignores the evidence that such dependence on fossil fuels is no independence at all. —*With Joe Carroll*