CONTRIBUTOR BIO

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By Emily Spacek
Abstract

While many know the United States is the largest consumer of oil in the world, recently, it has become the biggest producer of the resource as well.\(^1\) Within the next decade it will export more oil than it imports, which will mark a significant change in the global energy market. This paper will investigate and evaluate what changes are to be expected, with a specific focus on OPEC member countries. I will utilize qualitative evidence in the form of three case studies. These case studies will provide detailed discussion and analysis of how energy independence in the United States will lead to financial loss, destabilization, and a decline in the influence of oil exporting countries. I found that if the US continues at its current pace of energy production, OPEC countries will need to adapt to the new international energy market, which will look vastly different in the coming years.

Introduction

Near the end of 2017, The Wall Street Journal published an article noting that the United States is on track to achieve energy independence in as little as four years, if production reaches the highs it did before 2014.\(^2\) Moreover, the article also details The International Energy Agency’s recently published World Energy Outlook for 2017, which proclaims that “…the U.S. [is] set to become a net exporter of petroleum within a decade,” even if oil output remains low.\(^3\) Before the price of oil plummeted in 2014, the

\(^1\) “What countries are the top producers and consumers of oil?” U.S. Energy Information Administration (December 3, 2018).
\(^3\) Ibid.
US was on track to achieve energy independence as early as 2019. Today, the US is only four million barrels per day away from becoming petroleum independent, a feat that has eluded the country for decades as petroleum is the only energy resource that the United States depends on other countries for. Of course, even once energy independence is achieved, there will still be economic reasons for the US to continue to import oil, but there will no longer be a glaring dependence on foreign countries for petroleum.

The implications of US energy independence will be vast for OPEC member countries, as almost all of their economies rely on oil exports for a majority of their revenue. While OPEC countries may not rely completely on the US in particular for their oil export revenues, the US becoming a net exporter and one of the largest petroleum producers will certainly have an impact on other countries that OPEC provides oil for. One of Saudi Arabia’s top goals as outlined in their Vision 2030 document is to reduce their dependence on oil exports, as well as to start privatizing the industry to further help decrease the state’s dependence on oil revenues. Saudi Arabia is just one of many examples of oil-exporting OPEC countries attempting to lessen their dependence on the resource — in part a response to the United States’ energy transition. The United States’ massive increase in fracking as well as petroleum and natural gas production in the last two decades is the main driver for this change, which paid off recently when in August 2018 the US became the world’s largest crude oil producer. These empirical observations lead me to ask the following research question: How will US energy independence affect OPEC countries?

Conventional Wisdom

The layman’s view of the United States is that the country is in decline. According to a poll carried out by the Pew Research Center in 2017, just 29% of Americans believe the country “stands above all other countries in the world”, down from 38% in 2011. This poll also found that while only 8% of Americans thought “there are other countries better than the U.S.” in

4 Ibid.
7 Laura Thorsett, “Most Americans Say the U.S. is among the Greatest Countries in the World,” Pew Research Center (June 30, 2017).
2011, that number climbed to 15% in 2015. Additionally, a poll by Gallup found that in 2016, 50% of the globe viewed China as the world’s leading economic power today while only 37% believed it to be the United States. These polls show the trend that the United States is declining not just in the eyes of the world, but in the eyes of Americans as well.

The layman’s view that the United States is in decline is wrong. Not only does the increase in petroleum and natural gas production spell good news for the US, it also puts the country in an ideal position to be a top energy exporter. When the United States becomes energy independent, it will become vastly less dependent on importing oil from OPEC countries. This means that the state will be solving an issue some have called the top foreign policy concern. Considering how powerful the United States already is, the implications of energy independence should not be taken lightly. Soon, the US will be not be dependent on any countries for energy, while other countries will be significantly more dependent on the US to meet their energy needs. While it is certainly true that some countries are catching up to the US in specific areas, such as the size of China’s GDP, even this measure won’t come close to the US before 2029 at current rates of GDP growth. This is why the less-popular view that the US power and influence is on the rise is a superior view.

**Methodology and Evidence**

In order to properly analyze the topic, I will utilize qualitative evidence in the form of three case studies. These case studies will provide detailed discussion and analysis of how energy independence in the United States will lead to financial loss, destabilization, and a decline in the influence of oil exporting countries. This paper will exercise the use of both primary and secondary evidence. Primary evidence will consist of sources such as Congressional Research Service (CRS) reports, committee discussions held within the United States Senate, quotes in a National Intelligence Council report from the CIA, as well as presidential policy decisions dating back to

8 Ibid.
11 op. cit., fn. 1.
the 1970’s. I will use secondary evidence attained from sources such as The Wall Street Journal, the Council on Foreign Relations, as well as scholarly journals. In order to best answer my research question, I will employ the use of realism as a theoretical paradigm though which I can most effectively analyze the issue. Realism assumes that the world is anarchic with no power surpassing that of the state, that the most important international actors are states, and that states are the primary drivers of change. This is emphasized in Brian Schmidt’s article where he states that “…the international distribution of power is an autonomous force that has a direct influence on the behavior of states.”13 This point is also emphasized by Fareed Zakaria when he says that “…a state’s foreign policy is a consequence of pressures emanating from the distribution of power in the international system.”14 By looking at the world through a realist viewpoint, I can best determine how changes in the energy market will effect the distribution of power and how states will end up responding.

**Research Findings**

*Financial Loss*

My first case study will detail how US energy independence will lead to financial losses for oil-exporting countries. According to the World Economic Forum, oil exports account for roughly 45% of Saudi Arabia’s GDP and a staggering 90% of their exports.15 Saudi Arabia lies in the middle of oil-exporting countries in terms of oil as a percentage of exports. The percentage gets as high as oil making up 99.8% of exports in Iraq and as low as 22.3% of exports in Malaysia.16 OPEC countries also rely heavily on oil to make up a large amount of their GDP. These GDP percentages get as high as ~55% in Kuwait, and go as low as ~2% in the United States.17 To summarize these statistics, oil-exporters are hugely dependent on just one natural resource for their financial stability. This stands in stark contrast to countries such as the United States, which utilizes a diversified approach to its export system, and chooses to produce many different types of goods. Diversification decreases the country’s financial reliance on just one commodity. When oil prices

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14 Ibid.
15 “Which economies are most reliant on oil?” World Economic Forum (May 10, 2016).
16 Ibid.
17 “Oil Rents (% of GDP),” The World Bank (March 5, 2019).
fluctuate, the US is able to adjust and is not crippled by a fall in demand.

According to another report published by the U.S. Energy Information Administration, due to the huge drop in oil prices resulting from increased US production, in 2015 OPEC members’ net oil export revenue reached the lowest level since 2004 and is still forecasted to fall to levels unseen since the early 1980’s. In 2014, OPEC member countries earned $753 billion in oil export revenue. This figure plummeted to only $404 billion just one year later in 2015, representing a 46% decline in revenue. States such as Iraq, Nigeria, and Venezuela were hit much harder by the drop in prices because they lacked the financial reserves some of the Persian-gulf states enjoyed, which continues to be the case today. Yet, even Saudi Arabia claims “…it wants to end its ‘addiction to oil’.” These statistics are meant to showcase oil-exporters’ financial dependence on the commodity, as well as the havoc that falling oil prices can wreak on their revenues. Oil revenues declining nearly 50% in just one year demonstrates how detrimental external forces can be to OPEC economies if they cannot count on oil as their main source of revenue. This becomes even more of an issue in countries employing a state-run approach to oil production, as the loss in revenue also has a huge impact on the government.

Next I would like to connect these empirical statistics back to my theme of US energy. The Economist attributes the abrupt drop in oil prices in the summer of 2014 to four factors; one of the largest being the fact that, “America has become the world’s largest oil producer.” In a separate article, The Economist explains how much the economics of oil have changed in recent years. Undermining OPEC’s ability to keep oil prices stable, The Economist remarks, “the main culprits are the oilmen of North Dakota and Texas.” This fact is backed up by one of my five primary sources. A US Senate press release cited a report stating, “America’s combined recoverable

19 Ibid.
21 Ibid.
22 op. cit., fn. 18.
23 “The Economist explains: Why the oil price is falling,” The Economist (December 8, 2014).
25 Ibid.
natural gas, oil, and coal endowment is the largest on Earth.”26 A separate CRS report, noting that “no country can effectively isolate itself from changes elsewhere in the market, nor is it likely that any nation can take actions that do not indirectly affect other nations,” reaffirms my point that the massive increase in US petroleum production is intimately linked to drops in the price of oil.27 From this, it should be clear how powerful the effect of the US shale revolution has been on world energy markets. I would also like to emphasize the relationship US supply has on world oil prices, and how much control the former has over the latter.

My research findings relating to financial losses incurred by OPEC member countries supports my statement regarding the conventional wisdom being wrong. Statements made by the CRS stating the United States is the world’s largest energy producer directly contradict the belief that the United States is in decline. After analyzing my main sources, I would argue that OPEC member countries are actually in decline, as the US is amassing energy power within its borders. Not only is the layman’s view wrong, but OPEC countries are scrambling to break their dependence on oil, especially in states where oil production has been nationalized.28 The financial losses amounting in oil exporting countries that are a part of the OPEC cartel is staggering, and will undoubtedly lead to different policy strategies. Although it is tough to predict exactly what those responses will be, we can safely make the assumption that governments relying on oil as their main source of revenue will be forced to adapt to changes in oil markets in order to keep their countries stable.

Destabilization

My second case study will demonstrate the destabilizing effect oil can have on OPEC countries and how the countries will suffer due to US energy independence. The Council on Foreign Relations published a post late this April, saying Russia and Saudi Arabia are attempting to “…eliminate the costly boom and bust cycle in oil that both destabilizes Saudi Arabia and

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28 op. cit., fn. 18.
underpins the historical cycle of the global financial crisis.” According to widely accepted macroeconomic theory, high oil prices destabilize an economy’s ability to operate at its standard level of efficiency. This effect is so powerful that in extreme cases it can even lead to recessions which result in massive destabilization within the countries that require high oil export revenues. Conversely, high oil prices for some OPEC countries, such as Saudi Arabia, which exports massive amounts of the commodity, spell huge economic benefits. However, this cause-and-effect relationship is a two-way street; when oil prices drop, producer countries suffer from serious destabilization, undermining their ability to operate as efficiently as they normally would.

An article published by The Globalist reiterates the benefits of cheap oil on many economies, but emphasizes “...it is creating a great deal of political and social volatility in numerous producer countries.” This article provides a new and underreported spin on the destabilization arguing that in order for OPEC producers to keep up with their youth bulges, the countries rely heavily on their oil revenues. The decline in revenues lead to slashes of funding in malleable areas of the budget, such as education and job training. In exporter countries such as Libya and Algeria, this leads to a dangerous spiraling effect and seriously damages the social fabric of the country. In other words, cheap oil leads to a decline in revenue for exporters, which leads to declines in government spending, and, finally, results in

30 op. cit., fn. 6.
31 Ibid.
32 op. cit., fn. 31.
33 Ibid.
34 The Globalist is an online newspaper which advocates for the benefits of globalization. While this presents a bias, I investigated the author of the article and found that he is an economic analyst at a respected Spanish think tank. I determined that the source is reliable to include as all of the facts included in the article are backed up by the U.S. Energy and Information Administration, which I cite throughout my paper.
36 A term used to describe countries with disproportionately large younger populations (the opposite of the aging population issue currently effecting Japan).
37 op. cit., fn. 37.
38 Ibid.
39 Ibid.
both political and social destabilization. I would like to point out that this particular example is much more profound in countries such as Libya and Algeria, which have much lower GDP’s than exporters like Saudi Arabia (albeit cheap oil still causes destabilization there as well). The destabilizing effect of cheap oil in a country like the United States is much, much more complicated, as even though the country is becoming a net energy exporter, the economy also heavily benefits from low energy prices and should not be included in this particular example.

Possibly the most pertinent example of the destabilizing effect oil can have on exporters is the case of Venezuela. An article published by the Financial Times details how the appointment of political figures to the country’s state-run oil company, and the lack of expertise in how to run the company, led to a gradual decline in oil production. This decline in production, and the resulting deterioration of the country’s economy has caused hyperinflation, food scarcity, and a looming humanitarian crisis. The implications of this case are grave. NPR reported an 85% shortage on medicine in the country making common drugs such as antibiotics nearly impossible to find. This is coupled with severe food shortages that have caused the deaths of children at alarming rates, according to The New York Times. Both of these issues stem from prolific hyperinflation caused by the economic catastrophe. All of this connects back to the country’s extreme dependence on oil. Even though Venezuela boasts some of the largest oil reserves in the world, it still crumbles in a world where petroleum prices are determined by factors far out of the country’s control.

OPEC countries reap the benefits of high petroleum prices more than any other countries, however, this comes at a cost. When prices of oil decrease, OPEC members suffer from destabilization which can be debilitating in some cases. As seen in the case of Venezuela, and the cases of Libya and Algeria, where the economic effects spiral into political and social ones, destabilization has serious repercussions reaching to the furthest corners of the countries who are a victim. This same effect is not seen in

40 Nick Butler, “It Is Venezuela’s crisis that is driving the oil price higher,” *Financial Times*, (March 25, 2018).
41 Ibid.
42 Samantha Raphelson, “Venezuela’s Health Care System Ready To Collapse Amid Economic Crisis,” *NPR* (February 1, 2018).
the case of the United States, where fluctuations in oil prices are certainly felt, but do not come close to destabilizing the foundation of the country. When the United States reaches the point of energy independence, it will become even more resistant to outside influences on oil prices because oil makes up such a small percentage of its exports. The same cannot be said for OPEC member countries, who will need to radically change their policies if they hope to avoid becoming victim to global petroleum problems. While the authors I have used in this section demonstrate the extremes of destabilization, I think policy changes will be much more moderate and slow to take effect. These decisions could manifest themselves in areas such as increasing investment in other industries, privatizing state-run oil operations to insulate the government from destabilization, and even rethinking how the OPEC cartel goes about its business. Regardless, situations like Venezuela remind us why diversification is valuable not just economically, but politically as well.

Decline in Influence

My third and final case study will demonstrate how US progress toward energy independence will lead to a further decline in influence of OPEC member countries. According to a CRS report cited earlier, “America is endowed with 167 billion barrels of recoverable oil. This is the equivalent of replacing America’s current imports from OPEC for more than 75 years.”

If the United States achieves independence, OPEC would lose a substantial portion of their exports, as the US currently imports 33% of its petroleum from OPEC countries. This number has been declining and will likely continue to decline as US production ramps up. With OPEC meeting less and the United States meeting more international demand for oil, the influence OPEC countries have abroad is sure to lessen, especially in the smaller OPEC economies that already wield little to no influence abroad. A concrete example of why this will be the case can be seen by examining Saudi Arabia.

Currently, members of the Organization of the Petroleum Exporting Countries (OPEC) supply 44.1% of the world’s crude oil production. This

44 op. cit., fn. 28.
45 op. cit., fn. 3.
46 Alex Lawler, “OPEC sees lower demand for its oil in 2018, points to surplus,” Reuters (July 12, 2017).
indicates OPEC countries have a significant influence on the petroleum market. It also means that they have the power to manipulate oil prices when desired through increases or decreases in their supply reserves. Since the oil shocks of the 1970’s, the US has realized how dependent both its country and its economy are on OPEC member countries. This dependence wreaks havoc on US productivity when oil prices increase or the US economy enters a period of downturn. However, the increase in US petroleum production threatens to decrease the hold OPEC has on the oil markets and shakeup the member countries’ geo-politics as well.

Currently, Saudi Arabia boasts immense influence abroad, especially in regard to its relationship with the United States. A CRS report notes that Saudi Arabia provides US companies with $132 billion worth of defense services and articles since 2009. This, combined with Saudi Arabia’s help in counterintelligence and counterterrorism makes it a key US ally in the region. However, Saudi Arabia is the exception, not the rule, when examining the level of influence of OPEC countries abroad, and it is important to acknowledge how and why the country attained the level of influence it has. The previously referenced CRS report states how “The kingdom of Saudi Arabia…wields significant global influence through its administration of the birthplace of the Islamic faith and by virtue of its large oil reserves.” I disagree with the wording the author uses in this report, as I would argue Saudi Arabia owes nearly all of its “significant global influence” to its oil reserves. Saudi Arabia and the United States have a relationship dating back to the country’s founding in 1932, and there is no reason to think the country would have the level of influence it does today without its oil.

While Saudi Arabia has utilized its influence to branch out and become a permanent ally of the United States through means such as arms purchasing, most other OPEC countries do not enjoy the Saudi’s level of international influence now, and are unlikely to achieve it ever.

51 Ibid.
52 Ibid.
53 Ibid.
A press release issued by OPEC itself, states that the Secretary General for the cartel met with a Permanent Representative to the Russian Federation regarding “…the success of the ‘Declaration of Cooperation’ in helping return balance and stability to the oil market, as well as the ongoing process to further institutionalize the cooperation in the longer term.” This meeting, as well as the larger recent theme of OPEC countries allying themselves with non-OPEC countries is confirmed in a CRS report noting “OPEC announced that 11 non-OPEC countries, led by Russia, had joined the agreement by pledging to further reduce oil production…” The implications of this recent degree of cooperation between OPEC and non-OPEC countries points directly to the fact that OPEC is losing its ability to manipulate oil prices due to its declining influence in the international energy market. After attempting to increase oil prices for two years, the organization was forced to partner with 11 non-members in order for their production cuts to be felt in oil pricing.

To conclude my research findings, it is important to consider the implications of the primary sources mentioned in this section. The first is that America has the largest combined energy reserves in the world, and that it is increasing oil production to a level that means a significant decline in OPEC oil imports. The second is that while Saudi Arabia enjoys a large influence abroad, almost every other country that is a member of the cartel commands little to no influence, and that which they do is due to their ability to export oil. I think it could even be said that if the United States were to no longer need Saudi Arabia for oil, the US would drastically modify its relationship with the kingdom because of the litany of humans rights abuses that occur in the country, a point acknowledged in my CRS report concerning the history of US-Saudi Arabia relations.

56 Ibid.
57 op. cit., fn. 28.
58 op. cit., fn. 3.
59 For reference, the OPEC member countries are Iran, Iraq, Kuwait, Saudi Arabia, Venezuela, Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, Gabon, Angola, and Equatorial Guinea according to the official OPEC website.
60 op. cit., fn. 49.
section should emphasize the deterioration of the influence OPEC has on oil prices, as well as abroad. This decline has been demonstrated by the simple, yet powerful, empirical evidence concerning OPEC requiring the alliance of 11 non-member countries in order to achieve what it previously had complete control over: international oil prices. I will also reiterate the fact that as the US gains influence through energy independence and increased oil exports due to fracking and natural gas revolutions, the layman’s view that the US in decline has been proven wrong. This domestic energy revolution in the United States has been a direct contributor to the decline in the influence of OPEC.\footnote{op. cit., fn. 22.}

**Implications**

Before I conclude my paper I would like to reference one last primary source, a report issued by the National Intelligence Council, that does an excellent job of summarizing the ideas brought up in this paper thus far in the following quotation:

> With shale gas, the U.S. will have sufficient natural gas to meet domestic needs and generate potential global exports for decades to come. Increased oil production would result in a substantial reduction in the U.S. net trade balance and faster economic expansion. Global spare capacity may exceed over 8 million barrels, at which point OPEC would lose price control and crude oil prices would collapse, causing a major negative impact on oil-export economies.\footnote{Office of the Director of National Intelligence. National Intelligence Council. Report. *Global Trends 2030: Alternative Worlds*. December 2012.}

The implications of energy independence for the United States have the potential to reshape the energy market domestically and internationally on a fundamental level. Ever since oil became the means to fuel production, the United States has been dependent on foreign countries to power the immense economic machine that it is. This is changing as the United States is on the precipice of attaining a feat that would reshape the country forever: energy independence. Throughout this paper, I have used empirical facts backed by primary sources to show how energy independence in the United States will lead to financial loss, destabilization, and a decline in the influence of OPEC
member countries. Financial losses were demonstrated by examining how OPEC revenues declined by 46% in the span of one year due to a drop in the price of oil, with the implications of this being a huge loss of revenue for oil-exporting governments. Destabilization is a direct consequence of financial loss, and was demonstrated by examining how Venezuela was decimated economically, politically, and socially by the mismanagement of their state-run oil production company. Destabilization results in a huge decline in influence as we saw when OPEC lost its ability to manipulate the price of oil, and was forced to ally itself with 11 non-OPEC states.

These changes matter because it means that, contrary to popular belief, the United States is not in decline. The reigning hegemon is only continuing its rule atop the international hierarchy, and while energy independence does not mean it gets to set its own gas prices, it does mean that the economy will be far better off in the long-run. These changes also matter because they signify a departure from the previous international energy system where OPEC was able to manipulate oil prices at will. While the cartel certainly still has the ability to manipulate prices, the extent of the manipulation is much, much less, and requires they associate themselves with non-OPEC exporters in order to achieve the same goals they used to achieve on their own. While it is impossible to fully answer the question of how United States energy independence will alter OPEC member countries foreign policy decisions, after examining the topic we know three specific areas warranting answers.

I think that the United States achieving energy independence will cause OPEC member countries to first, start privatizing their state-run oil companies for the purpose of waning their financial reliance away from oil and towards industries they will have more control over in the long-run. It will also cause OPEC countries to liberalize their foreign trade policies since they will no longer be able to get away with excusing their actions using oil, and will require other means of trade with other countries to make up for the hole decreased oil revenue leaves. I think that ultimately, the decline in influence can only be combatted if the countries figure out ways to fit into the international system by a means other than oil. While the commodity is undoubtedly here to stay and while “peak oil” is no where in the foreseeable

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63 op. cit., fn. 22.  
64 op. cit., fn. 42.  
65 op. cit., fn. 54.
future, OPEC countries will have to adapt their foreign policy to work in a world where the United States can supply a much larger share of its own petroleum needs, as well as the rest of the worlds.