

THE STATUS QUO OF THE UNITED STATES AND OPEC

Written by *Het Shah*

1st year International Relations Student, University of Groningen

INTRODUCTION

The Organization of Petroleum Exporting Countries (OPEC) is an eminent Intergovernmental Organisation with the motto to unify and harmonize policies on petroleum among its members. The idea was to create economic stability and secure fair pricing for petroleum-producing countries. OPEC's formation by five oil-producing growing countries in Baghdad in September 1960 took place at a time of transition within the international economic and political landscape, with extensive decolonisation and the start of many newly independent states inside fostering world.ⁱ And of course, the historical backdrop of the United States with oil has consistently been intriguing, and in like manner, the relations of the U.S. with OPEC have reliably been temperamental.ⁱⁱ The relationship originated during the Primary Oil Shock in the year 1973-1974, as Elass highlighted that the United States got convinced that every effort made by OPEC in the form of crude prices or using energy as any form can be transformed into petrodollars considering the reasonable social interests in its allies in the Middle East.ⁱⁱⁱ

Since the United States is holding 20% of the world's oil, producing 19.51 million barrels per day, which makes it the world's largest producer of oil.^{iv} Does this mean that in the near future it can overpower OPEC? Has it become that dominant that it can start manipulating oil prices?

The current situation heavily contradicts the very essence of the foundation of OPEC to secure fair pricing and economic stability among the oil-producing countries. This incites the question: *Is United States trying to create hegemony over OPEC?* Considering the geopolitics of oil has always been complicated, which gave the new dimension to international political economy, this paper will analyse the status quo concerning the history of the United States with the Middle East and petroleum producing countries along with the strategic importance of the

region using the historical approach specifically in regards to the current development on Shale oil.

HISTORICAL BACKGROUND

Ahdoot threw back the light on the devastating effects of the Organization of Petroleum-Exporting Countries price manipulation during the 1970s, its dominance on the U.S. economy was wide-ranging and substantial. At that point, the value of oil rose over twenty times what it had been during the beginning of the decade. These fluctuations had a direct impact on the United States Economy. The oil crisis within the 1970s directed the United States that the OPEC is unpredictable and that we should take steps to insulate ourselves from worth manipulation. When the United States anticipated an increase of oil within the world market, the stock market slowed down and also the U.S. economy slowed down. This price of oil determines that it will either profit the United States Economy or hurt it. If the OPEC decides to slow down production and also the worth of oil rises within the short, this can hurt the U.S. economy. On the contrary, if production quotas increase and Non-OPEC producers lag in filling the void wherever OPEC had cut quotas, then the value of oil drops and also the United States economy can profit.^v

President Nixon, vigorously perceived the situation as political opportunism to achieve economic dominance globally. This political opportunism helped US dollar to escalate because of the increase in rapid oil prices to such a level that helped the United States to capture the World Bank and International Monetary Fund using the Petrodollars that was flowing from the Saudi Arabian investors to US investment banks. Simultaneously, the US dollar was being removed from Gold Standard by President Nixon while dismantling capital restrictions on American banks. These developments established US dollar as *de facto* global currency and led to the formation of neoliberalism and its structural implementation worldwide, which helped America in gaining global dominance which still persists.^{vi}

Doran, strikingly described the series of events as inevitable for Iraq invasion of 2003, because it was very much imperative to eliminate the resurgent and the potential rival of Saudi Arabia

with the similar amount of oil holdings to pose this underpinning. Perkins gave more clarity by mentioning about the crucial objectives of the United States to work on the overall development of Saudi Arabia to modernize for, “maximising payouts to U.S. firms and making Saudi Arabia increasingly dependent on the United States”.^{vii}

The hypothesis put forward by Doran and Perkins became clear when, Richard N. Haass, a close adviser to Secretary of State Colin L. Powell, said, “[T]he administration did not have to go to war against Iraq, certainly not when it did. There were other options.”^{viii}

LITERATURE REVIEW

The time is such where the global oil market is unfavorable, specifically after the disagreement amongst the OPEC+ members. The dual hysteria of a critical increase in worldwide supply and a surprising fall in oil demand appears to have no parallel history. Together, the dissolved OPEC+ agreement and the coronavirus flare-up have placed OPEC, the importance of its job in the market once more into the spotlight. In order to understand the current situation, it is essential to analyse the current developments in OPEC corresponding to oil market considering the historical background.^{ix}

The international oil market has always been such, where their competitors challenge the assumed market players at every stage. A time when 11 members of OPEC held 75% of the world’s oil reserve and 30% of the world’s oil supply, which gave them the legitimate power over the price control and production capacity. Despite the very little statistical inferences about the OPEC which works as a cartel, Smith deduced to the conclusion articulating OPEC’s functioning as a Cartel.^x

Al Yousef described Saudi Arabia as a Swing producer and the balance wheel who has imbedded itself with a trait of absorbing the demand and supply to maintain monopoly of oil price. Statistical references have proven Saudi Arabia’s dominance over a large oil reserves and exports since 1980s. Given the relationship of Saudi Arabia with the United States and its dominant position in the Middle East.^{xi} The American energy studies scholar, J. Griffin and W.

Neilson focused on econometric strategies to understand the swing producer's model and OPEC's strategy to generate profits from 1983 to 1990. Moreover, Saudi Arabia has asserted economic dominance inside the organization to settle or to moderate oil costs and consequently accomplish its political goals, as indicated by T. Moran. That is when R. Mabro articulated, "Saudi is OPEC".^{xii}

As accurately mentioned by Zhang and Sun, Saudi Arabia holds highest oil reserves and plays as a central bank role in adjusting oil production level and stabilising oil prices is the result of the formation of Arab-American Oil Company (Aramco). Aramco helped the enduring oil supply, the imperative public goods provided by the United States to the western world, not just tackled the issue of energy supply in the United States, yet in addition had brought significant petrodollars to Saudi Arabia. It alleviated the household business trouble in Saudi Arabia, expanded Saudi incomes and advanced the improvement of the national economy. More importantly, the United States mounted the new order of power and energy supply within the Gulf under the leadership of the US, which established the framework for the US dominance in the Gulf area after the withdrawal of British soldiers from the middle east.^{xiii} Therefore, there's no denial that America's Middle East exploration started with Saudi Arabia. And US-Saudi's bilateral relation are based mainly on one foundation, that is the oil.^{xiv}

The picture which emerges is of a country with immense potential economic power who is slowly drifting as the puppet state of the United States. On the very same line Thomas mentioned how the Saudi royals backed the US economy by steadfastly buying US Treasury Security worth billions of dollars, every year. Saudi Arabia had been attempting to obscure the dominating presence of the United States.^{xv} There was a consistent decrease in Saudi oil income in 1998. Yet, this didn't influence the nation's theocracy, whose revenue sources had enhanced. The US backing to the government decision and the other way around had created extraordinary cynicism among the citizens because military assurances by the US in return for access to oil and Saudi acquisition of US bonds are clearly insufficient to guarantee steadiness over the long haul.^{xvi} The US and the West likewise appear to have accepted that an arms rivalry between the Arabs and Iran would help contain Islamic fundamentalism. Therefore, the Arab states in the Gulf and Iran were contending in the weapons contest with one another during the

post-gulf war. Taking the opportunity, US emerged as a dominant power in the gulf and started establishing close military relations with Bahrain, UAE and Qatar, which made them rely on the United States.^{xvii}

On the contrary Turner and Bedore argued that with the majority of their equity designated in the dollar, they are trapped in a conventional chain of a vicious cycle. The developing reliance of the United States on imported oil implies that any boom in OPEC prices will quickly compound the American trade balance; this then hits the value of the dollar, which hits the value of Saudi holdings; the Saudis can't make up at this by raising the cost of oil on the grounds that the entire circular procedure at that point starts from the very beginning all over again.^{xviii} Thomas further reflects on why it is important for the United States to maintain their dominance in middle east as the region possess vital geostrategic interests in accordance to the US imperial design.^{xix} Now seeing from the wider perspective, considering that it is very much imperative for US to maintain this strategical location, it involves in fostering, not resolving and to maintain instability among the region that means in a classic way to adopt the “Intentional Instability Model”.^{xx}

THE STATUS QUO

The strategic buildup is such that the US can neither give up its dominance in the Middle East, nor it can entirely rely on it. Nonetheless, in the time since the introduction of the Carter Doctrine, the United States experienced its very own revolution, one that has changed the whole geopolitical analytics of how the United States sees its relationship with the Middle East: the shale revolution. The shale revolution marks the beginning to set the United States in a place to challenge OPEC's control of oil markets.^{xxi}

Using the combination of computer-aided horizontal drilling and hydraulic fracturing technology, enormously boosted US oil and gas production and reserves which made it the world's largest producer of oil and gas hydrocarbons.^{xxii}

Ahdoot analysed the antagonising stance of OPEC. He mentioned, rising production of oil within the United States has stopped OPEC's role as the world's supplier of last resort. OPEC's function in setting international crude prices has been significantly diminished as well. It has recently tried to reassert its former position in the world's oil markets by putting together a coalition of OPEC and some non-OPEC oil producers to cooperate in restricting output in support of higher prices. Despite a few early small successes on this front its efforts have been hampered through a host of new issues from outside, particularly from the United States, however additionally from within, as oil production in numerous OPEC nations is shut-in through politics and internal unrest. Its chances of reasserting its effect on international markets rely on how efficiently it offers with those challenges: and at the gift, the omens are not looking particularly useful.^{xxiii}

Now, in an effort to control the growing relations of OPEC over the oil trading across the world, the bill was introduced in the United States Congress of No Oil Producing and Exporting Cartels Act of 2000 (NOPEC) to limit the production of oil, natural gas and other petroleum products, to set or and maintain the price of petroleum distribution in the United States.^{xxiv} The OPEC countries have encouraged the Non-OPEC countries, specifically the United States, to reconsider such bills. However, this loose relationship of OPEC-NOPEC could severely strain oil supplies which will become even more scarce and as oil prices continue to climb in response to tighter markets can lead to new signs of political instability in the region.^{xxv}

CONCLUSION

There are apparently more questions than answers in regards to the current development in the global oil market. Right from the establishment of OPEC to the dissolution of OPEC+, it comes down to one thing, i.e., is United States trying to create hegemony over OPEC? It can be said that the US always had an eye on the middle east right after it extended comprehensive diplomatic relations with Saudi Arabia in 1931. After the formation of ARAMCO, US-Saudi relations strengthened, but Saudi's representation in OPEC delineated the interest and policies of the United States. Even though Saudi dominated the OPEC being the highest producer of oil, it was utterly dependent on America: economically, politically and militarily. This paper

analysed the situation of Saudi Arabia's dependence on the United States. As an economic hegemon in the Middle East, the interest of the US in OPEC was quite anticipated. Throughout the paper, we looked upon the instances using a historical approach in order to understand the current situation in a much more enhanced way. To contemplate the status quo of the OPEC, it was essential to understand the geopolitics and the strategic importance of the Middle East. It is difficult not to derive that Shale revolution can uphold a greater involvement of the US in the middle east along with its more significant role in engaging unequivocally with OPEC.



BIBLIOGRAPHY

- Bijan Mossavar-Rahmani, "OPEC AND NOPEC: Oil in South-South Relations." *Journal of International Affairs*, vol. 34, no. 1, 1980, 42. JSTOR, www.jstor.org/stable/24356341.
- "Brief History." OPEC. Accessed May 24, 2020. https://www.opec.org/opec_web/en/about_us/24.htm.
- Christopher Doran, "Nixon, Saudi Arabia and the Geopolitical Roots of the Iraq Invasion," In *Making the World Safe for Capitalism: How Iraq Threatened the US Economic Empire and Had to Be Destroyed*, 37-41. London: Pluto Press, 2012. doi:10.2307/j.ctt183p5cm.7.
- Degang Sun and Dandan Zhang. "A Gulf Bridgehead: US-Saudi Quasi-Alliance During the Johnson Administration." In *Diplomacy of Quasi-Alliances in the Middle East: Translated from the Chinese by Jinan Wang*, 149. Berlin, Germany: Gerlach Press, 2020. doi:10.2307/j.ctv10vm0pb.11.
- Eprints.Keele.Ac.Uk, accessed May 16, 2020, <http://eprints.keele.ac.uk/1086/1/MCI%2BTwo%20pillars%20of%20US%20global%20hegemony.Gokay.pdf>.
- F. Gregory Gause III, *Saudi Arabia in the New Middle East*. Report. Council on Foreign Relations, 2011. 22-31. Accessed June 1, 2020. www.jstor.org/stable/resrep05774.9.
- "Frequently Asked Questions (FAQs) - U.S. Energy Information Administration (EIA)." *Frequently Asked Questions (FAQs) - U.S. Energy Information Administration (EIA)*. Accessed May 24, 2020. <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>.
- James L. Smith, "Inscrutable OPEC? Behavioral Tests of the Cartel Hypothesis." *The Energy Journal* 26, no. 1 (2005): 75. Accessed May 31, 2020. www.jstor.org/stable/41323051.
- Jareer Ellass, "The History of U.S. Relations with OPEC: Lessons to Policymakers" *JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY OF RICE UNIVERSITY*, 2010, 42. https://www.bakerinstitute.org/media/files/Research/e3ef09d6/Amy_Jareer_U.S._Relations_with_cover_secured.pdf

- Jason Ahdoot, “Alleviating U.S. Dependence on OPEC”, Pepperdine University School of Public Policy, April 2001, 12. <https://publicpolicy.pepperdine.edu/master-public-policy/content/capstones/opec.pdf>
- Julian Zelizer, *The Presidency of George W. Bush* (New Jersey: Princeton University Press, 2010).
- Kohl and Herb. 2000. “S.2778 - 106th Congress (1999-2000): NOPEC.” Congress.gov. September 21. <https://www.congress.gov/bill/106th-congress/senate-bill/2778>.
- K.T. Thomas, "GEOPOLITICS AND ENERGY SECURITY: THE US IN THE MIDDLE EAST," *Proceedings of the Indian History Congress* 69 (2008): 946-47. Accessed June 1, 2020. www.jstor.org/stable/44147256.
- Louis Turner and James Bedore. "Saudi Arabia: The Power of the Purse-Strings." *International Affairs* (Royal Institute of International Affairs 1944-) 54, no. 3 (1978): 419. Accessed June 1, 2020. doi:10.2307/2616149.
- Nourah, AlYousef. "THE PROMINENT ROLE OF SAUDIA ARABIA IN THE OIL MARKET FROM 1997 TO 2011." *The Journal of Energy and Development* 36, no. 1/2 (2010): 65. Accessed May 31, 2020. www.jstor.org/stable/24812749.
- Oscar Berry, “A Crude Restructuring: How America's Shale Revolution Changes the Calculus in the Middle East,” *Harvard International Review* , January 19, 2020, <https://hir.harvard.edu/a-crude-restructuring-how-the-american-shale-revolution-is-changing-the-geopolitical-calculus-in-the-middle-east/>
- Robert A Manning, “NEW REALITIES: ENERGY SECURITY IN THE 2010s AND IMPLICATIONS FOR THE U.S. MILITARY”, Edited by John R Deni, Strategic Studies Institute, US Army War College, 2015. 116. www.jstor.org/stable/resrep11987.9.
- Stanley, Andrew. “The World Needs OPEC, but OPEC Can’t Go It Alone.” KAPSARC, March 27, 2020. <https://www.kapsarc.org/research/publications/the-world-needs-opec-but-opec-cant-go-it-alone/>.

REFERENCES

- ⁱ“ Brief History.” OPEC. Accessed May 24, 2020. https://www.opec.org/opec_web/en/about_us/24.htm.
- ⁱⁱ Eprints.Keele.Ac.Uk, accessed May 16, 2020, <http://eprints.keele.ac.uk/1086/1/MCI%2BTwo%20pillars%20of%20US%20global%20hegemony.Gokay.pdf>.
- ⁱⁱⁱ Jareer Elass, “The History of U.S. Relations with OPEC: Lessons to Policymakers” JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY OF RICE UNIVERSITY, 2010, 42. https://www.bakerinstitute.org/media/files/Research/e3ef09d6/Amy_Jareer_U.S._Relations_with_cover_secure_d.pdf
- ^{iv}“ Frequently Asked Questions (FAQs) - U.S. Energy Information Administration (EIA).” Frequently Asked Questions (FAQs) - U.S. Energy Information Administration (EIA). Accessed May 24, 2020. <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>.
- ^v Jason Ahdoot, “Alleviating U.S. Dependence on OPEC”, Pepperdine University School of Public Policy, April 2001, 12. <https://publicpolicy.pepperdine.edu/master-public-policy/content/capstones/opec.pdf>
- ^{vi} Christopher Doran, “Nixon, Saudi Arabia and the Geopolitical Roots of the Iraq Invasion,” In *Making the World Safe for Capitalism: How Iraq Threatened the US Economic Empire and Had to Be Destroyed*, 37-41. London: Pluto Press, 2012. doi:10.2307/j.ctt183p5cm.7.
- ^{vii} *ibid*
- ^{viii} Julian Zelizer, *The Presidency of George W. Bush* (New Jersey: Princeton University Press, 2010), 89.
- ^{ix} Stanley, Andrew. “The World Needs OPEC, but OPEC Can’t Go It Alone.” *KAPSARC*, March 27, 2020. <https://www.kapsarc.org/research/publications/the-world-needs-opec-but-opec-cant-go-it-alone/>.
- ^x James L. Smith, “Inscrutable OPEC? Behavioral Tests of the Cartel Hypothesis.” *The Energy Journal* 26, no. 1 (2005): 75. Accessed May 31, 2020. www.jstor.org/stable/41323051.
- ^{xi} Nourah, AlYousef. “THE PROMINENT ROLE OF SAUDIA ARABIA IN THE OIL MARKET FROM 1997 TO 2011.” *The Journal of Energy and Development* 36, no. 1/2 (2010): 65. Accessed May 31, 2020. www.jstor.org/stable/24812749.
- ^{xii} *ibid*.
- ^{xiii} Degang Sun and Dandan Zhang. “A Gulf Bridgehead: US-Saudi Quasi-Alliance During the Johnson Administration.” In *Diplomacy of Quasi-Alliances in the Middle East: Translated from the Chinese by Jinan Wang*, 149. Berlin, Germany: Gerlach Press, 2020. doi:10.2307/j.ctv10vm0pb.11.
- ^{xiv} F. Gregory Gause III, *Saudi Arabia in the New Middle East*. Report. Council on Foreign Relations, 2011. 22-31. Accessed June 1, 2020. www.jstor.org/stable/resrep05774.9.
- ^{xv} K.T. Thomas, “GEOPOLITICS AND ENERGY SECURITY: THE US IN THE MIDDLE EAST,” *Proceedings of the Indian History Congress* 69 (2008): 946-47. Accessed June 1, 2020. www.jstor.org/stable/44147256.
- ^{xvi} *ibid*.
- ^{xvii} *ibid*.
- ^{xviii} Louis Turner and James Bedore. “Saudi Arabia: The Power of the Purse-Strings.” *International Affairs (Royal Institute of International Affairs 1944-)* 54, no. 3 (1978): 419. Accessed June 1, 2020. doi:10.2307/2616149.
- ^{xix} K.T. Thomas, “GEOPOLITICS AND ENERGY SECURITY: THE US IN THE MIDDLE EAST,” *Proceedings of the Indian History Congress* 69 (2008): 949. Accessed June 1, 2020. www.jstor.org/stable/44147256.
- ^{xx} *ibid*.
- ^{xxi} Oscar Berry, “A Crude Restructuring: How America’s Shale Revolution Changes the Calculus in the Middle East,” *Harvard International Review*, January 19, 2020, <https://hir.harvard.edu/a-crude-restructuring-how-the-american-shale-revolution-is-changing-the-geopolitical-calculus-in-the-middle-east/>
- ^{xxii} Robert A Manning, “*NEW REALITIES: ENERGY SECURITY IN THE 2010s AND IMPLICATIONS FOR THE U.S. MILITARY*”, Edited by John R Deni, Strategic Studies Institute, US Army War College, 2015. 116. www.jstor.org/stable/resrep11987.9.
- ^{xxiii} Jason Ahdoot, “Alleviating U.S. Dependence on OPEC”, Pepperdine University School of Public Policy, April 2001, 12. <https://publicpolicy.pepperdine.edu/master-public-policy/content/capstones/opec.pdf>
- ^{xxiv} Kohl and Herb. 2000. “S.2778 - 106th Congress (1999-2000): NOPEC.” *Congress.gov*. September 21. <https://www.congress.gov/bill/106th-congress/senate-bill/2778>.
- ^{xxv} Bijan Mossavar-Rahmani, “OPEC AND NOPEC: Oil in South-South Relations.” *Journal of International Affairs*, vol. 34, no. 1, 1980, 42. JSTOR, www.jstor.org/stable/24356341.