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How the US is Overtaking OPEC

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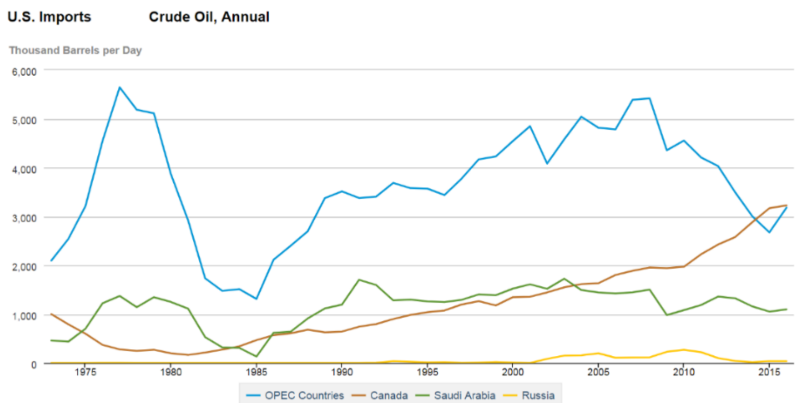
In 1973, the Organization of the Petroleum Exporting Countries (OPEC) established an oil embargo that curtailed shipments to refiners in the US and Carribean. This was a deliberate act by Saudi Arabia, the largest producer within the oil cartel, to punish the US for its support of Israel, following the Yom Kippur War. This resulted in a severe economic disruption of the US economy that triggered both a recession and inflation. Prior to the embargo, the US imported 35% of crude oil consumption from OPEC. In fact, the economic dislocation caused by Saudi Arabia incumbered the US economy for eight years. The US economy did not reassert itself until 1981 – the beginning of an 18-year bull stock market.

The rise in crude oil prices affected everthing and every person. Gasoline prices rose by 42%, from 38.5 cents a gallon to 55 cents. Industry was hit hard – from automobiles to steel producers and agriculture. Gas guzzling domestic cars became obsolete and manufacturers had no quick fix. The government extended Daylight Savings Time, banned gasoline sales on Sundays and instituted a 55 mph speed limit on the interstate highway system in an effort to conserve national gasoline consumption.



Today, OPEC supplies 32.5 million barrels per day of the 98 million total world production. Of the 13 members within OPEC, Saudi Arabia is the largest contributor, supplying 10.1 million barrels per day. By way of comparison, the top three world daily producers today are Russia (10.9 million), Saudi Arabia (10.1 million) and the US (9.3 million).

The US has grown its daily production in the past decade by 86% - from 5 million barrels to 9.3 million. At the same time, Saudi Arabia and Russia have experienced little change. According to the International Energy Agency, US daily production is expected to rise to 11.2 million by the end of 2019 and supply most of the growth in world demand. Also, the US is now exporting light and easy to refine crude oil to Asia –a policy enacted in 2016.

The US will not become oil independent until consumption drops off by a large magnitude. Since this is not likely anytime soon, the US will rely on imports, with increasing emphasis on trading with friendly nations, including the emergence of Canada as the new leading import partner as of 2016, overtaking OPEC's 3.2 million barrels per day.

<u>Summary Points:</u>

- US energy policy is shifting from reliance on hostile suppliers.
- US foreign policy in the Middle East since Operation Desert Storm has not made supplies from the region more reliable.
- Since 2008, US imports from OPEC in terms of US total consumption have dropped to 16.8%.
- Canada is the largest source of US oil imports.
- Domestic production supplies 45% of local consumption.
- Advances in drilling technology has enabled domestic production to rise by 86% in the past decade.
- The US began exporting crude oil in 2016, following a ban in response to the 1973 embargo.
- The US has pivoted from natural gas importer to exporter.