
Conflict In The Middle East - How The Shale Gas Revolution Gives President Trump Room To Maneuver

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The recent attack on key Saudi oil installations, allegedly performed by drones, instantly destabilized the energy world. Simultaneously, it highlighted once again the importance of the shale revolution both to the United States economy and American national security.

Oil experts believe that 50% of Saudi oil capacity was disrupted by the attack, which was initially blamed on Houthi rebels in Yemen but may have been directed, if not actually carried out, by Iran. That amounts to 5 million barrels of oil a day, and constitutes approximately 5% of the world oil supply. It is likely that, regardless of whether the attack was ordered or actually carried out by Iran, it was at least Iranian inspired. That being the case, the possibility of a regional war in the Middle East just increased dramatically.

In prior years, when instability rose in the region, the price of oil skyrocketed. This time, while oil prices have indeed begun rising as this piece is written, that rise is unlikely to be as dramatic as before. This is in large part because Americans find themselves in a completely different energy position than in the past. Thanks to the shale and fracking revolutions, it is the United States that now has excess oil production capacity. Should it desire, it can flood the world with oil at least partially to offset the reduced Saudi production. It can also do this to offset the loss of oil from the sanctions preventing Iranian oil from hitting the world market, as well as the internal corruption and mismanagement that has devastated the Venezuelan oil infrastructure.

This American oil production power gives President Trump in many ways unprecedented room to maneuver on the international stage, whether diplomatically or otherwise. He can be secure in the knowledge that oil price shocks or any potential embargo will not devastate the American economy. That security will be critical as the Middle East moves farther into regional destabilization, if not worse.

For example, the Saudi government will be under immense pressure to strike back directly, and militarily, against Iran. It is unlikely an Iranian-Saudi war would be contained easily. Given Iran's economic vulnerability and its ideological tendencies, it is quite possible that, in retaliation, the Mullahs would try to expand the conflict by ordering Hezbollah and Hamas to rain missiles onto Israel. Iran may also try to close the Straits of Hormuz, choking even more of the world's oil supply.

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The alliances that have characterized the last 70 years, already shifting, are also likely to continue fraying, with Israel, Saudi Arabia and other Sunni Arab countries eventually lining up on one side against Shia ruled Iran, Hezbollah, Hamas (Sunni yet aligned with Iran), and possibly the Assad regime in Syria as well. Given that uncertainty, the oil markets will be volatile for quite some time.

While the world markets will not be stable, it is unlikely they will fully implode. For the United States, the key constraint will not be the potential supply of oil and gas, but their ability to be transported, which is likely to become increasingly problematic. The pipeline infrastructure remains incomplete and, without it, abundant oil and gas supplies in North America will still find it difficult to reach market. The environmental movement remains opposed to pipeline expansion, and as this column has previously noted, various States have allied with that movement to thwart pipeline construction, even as they currently lack the infrastructure needed to support a wholesale and rapid shift toward a clean energy economy to replace fossil fuels.

Under these circumstances, the most important if not patriotic move that the oil and gas industry can make is to construct and operate their facilities to the highest standards. Whatever may be one's political or philosophical bent on the solution to climate change, no one should be forced to live or work near pipelines that are not reliable and safe.

What all of this means for the shale oil and gas industry in the United States is that it may hold the key to the future world economy, but it needs to continue to act responsibly. Even as we are moving inexorably toward a clean energy economy, until we get there the importance of the oil and gas industry has never been greater, and its contribution to national security has never been more important. But, concomitantly, its obligation to police itself and ensure that it always operates at the highest standards has never been more critical. Whether or not the industry is up to the challenge will have a major role on international affairs over the next few years.

ATTORNEYS MENTIONED

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