Potential Texas-OPEC alliance shows more oil production doesn't make U.S. 'energy independent'

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While the coronavirus consumes our attention, a small revolution is underway in energy policy: Texas officials are discussing whether to join hands with OPEC.

For decades, the Organization of Petroleum Exporting Countries has been a bogeyman in U.S. politics. Democrats and Republicans alike have heaped scorn on the cartel for limiting oil production to prop up prices. Legislation to make OPEC illegal under U.S. law passed the Senate and House of Representatives in 2007 and the House Judiciary Committee last year. In a high-profile speech at the United Nations in 2018, President Trump declared that "OPEC and OPEC nations are as usual ripping off the rest of the world."

That was then. Earlier this month, OPEC nations and their partner Russia failed to reach agreement to limit oil production as global demand collapsed due to the coronavirus. That sent oil prices plummeting, threatening bankruptcy for hundreds of U.S. oil companies.

A senior Texas government official proposed a solution. Ryan Sitton, a commissioner on the powerful Texas Railroad Commission, suggested that the state agency use its authority to limit oil production in Texas if Saudi Arabia and Russia were willing to limit production as well. Sitton noted that the Commission has the legal authority to limit oil production in Texas, although that authority has not been used since 1973.

Then Sitton reported that he had spoken with Mohammed Barkindo, secretary general of OPEC, and received an invitation to attend OPEC's June meeting.

Pushback against the proposal was swift. Wayne Christian, Chair of the Texas Railroad Commission, expressed reservations, as did the American Petroleum Institute and Texas Oil and Gas Association. Nevertheless, the proposal reflected sentiments similar to those expressed by more than a dozen Republican Senators in letters urging Saudi Arabia to limit oil production and join hands with the United States in global energy markets.

These developments reflect dramatic changes in energy geopolitics. For most of the past 50 years, U.S. and OPEC interests with respect to oil prices diverged. Both benefited from stability in oil markets, but the United States (the world's largest oil importer until 2016) sought low oil prices. OPEC nations sought the opposite.

Today the picture is more complicated. For the first time since the 1950s, U.S. oil imports and exports are roughly equal. In 2019, net imports were 2.6 percent of total oil consumption, down from 60 percent in 2005. That dramatic change reflects skyrocketing domestic oil production (mainly due to hydraulic fracturing) and constant or slightly rising domestic oil consumption (due to fuel efficiency standards and other factors).

Low global oil prices now have mixed impacts on the U.S. economy. Drivers and other oil consumers benefit. These benefits are felt around the country, including in particular in New England, where many homes are heated with oil.

But oil producers suffer. Texas—with 41 percent of the United States' oil production last year—suffers most. Some U.S. manufacturers also suffer, due to a complicated and counter-intuitive dynamic in which low oil prices lead to higher natural gas prices. (Lots of natural gas is produced as a byproduct of oil drilling in the U.S. When oil production drops, so does natural gas production, raising natural gas prices.)

The bottom line for the economy as a whole is unclear. But the shift in political rhetoric is striking, with some politicians now complaining that OPEC is doing too little to prop up prices, not too much.

Perhaps one product of these events will be greater clarity about the meaning of "energy independence." Ever since the oil embargos of the 1970s, U.S. politicians have called for "energy independence," often equating the term with greater domestic oil production. But as events this month make clear, greater domestic oil production does not lead to energy independence.

The United States is now the world's largest oil producer. Yet still, a decision by foreign officials in a foreign capital is causing massive disruptions in the U.S. oil patch, threatening widespread bankruptcies and layoffs. Despite our enormous domestic oil production, the United States is in no meaningful respect "energy independent."

That's because oil markets are global. So long as significant portions of our economy are powered by oil, we will remain subject to the ups and downs of global oil markets. Electric vehicles, renewable fuels and fuel efficiency are essential components of any strategy for becoming more energy independent.

The odds that Texas ends up joining hands with OPEC may be low. But the fact that's even on the table reflects a dramatic shift in global energy markets during the past decade. Perhaps it will help provide clarity about the meaning of "energy independence" as well.

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