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So We're All in This Together…Really? What About Big Oil?

Oil fields of the Permian Basin, West Texas. Photograph by Roy Luck – CC BY 2.0

One thing I've learned over the years of investigating Big Oil and its hold over the futures of whole nations — including the US — is this: Never count on "straight talk" from its lobbyists, its PR people, and its protagonists in Congress and the White House

So what are we make of the fact that the price of oil tanked to below zero per barrel on April 22, the greatest drop in history? The price has gone up slightly since then, hovering around $16 a barrel on April 25th, but it is still severely depressed. Who will suffer from this? And perhaps more importantly, who will gain?

Predicting the future is difficult during this pandemic. Here are five questions that might yield answers.

What caused the precipitous **drop in the price of oil?**

In a word: coronavirus. No one can deny this. It is an inescapable fact, plainly portrayed by TV images of empty streets around the world. Sheltering at home has greatly reduced the consumption of gasoline. People are not driving their cars to work. Airlines — big consumers of gasoline — are cutting way back. A global over-supply of oil is not only driving down prices, it is causing havoc because there is no more storage space for tankers to unload their cargo.

By early March, the situation was becoming particularly acute in Asia, especially in Covid-19's hardest hit countries — China and South Korea. A crisis was evident for oil producing nations. Anticipated state revenues from selling oil to Asia were suddenly falling far short of expectations

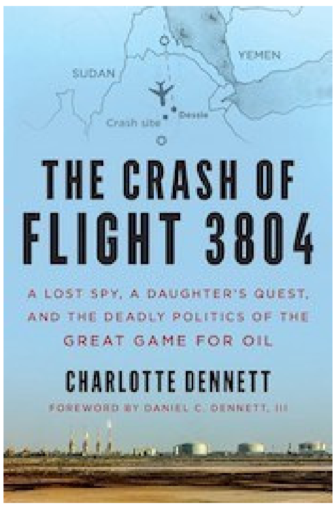
The Trump Administration began considering a bailout for the oil and gas industry in March if oil prices continuex to stay in the doldrums. But it remains to be seen how such a bill would pass a Democratic-controlled House given anger among Democrats over the industry's contribution to climate change and pollution. One need only look at the skylines of the world's largest cities to see how reduced consumption of oil and gasoline has cleared the air.

Why did Russia and Saudi Arabia react by starting an oil price war now– of all times!

Members of OPEC, the Organization of Petroleum Exporting Companies, met in Vienna in early March to discuss the impact of Covid-19 on a declining demand for oil. Russia (though not a member of OPEC) joined the meetings, resulting in a pact called OPEC +. Representatives of OPEC's 15 member countries (plus Russia) tried to hash out a deal that would curtail oil production enough to raise the price of oil. They failed. Why?

Saudi Arabia — the capo di tutti capi of oil producers — proposed cutting its oil production by 1 million barrels a day to prop up the price of oil, provided that Russia, another major leaguer, cut its production by 500,000 barrels a day. Russia balked. After all, Putin, ex-KGB guy that he is, is a master at playing the Great Game for Oil. Ever since the United States began exporting large quantities of shale oil and gas (much of it obtained through fracking) as cheap energy to Europe, he saw Russia's market share in Europe threatened and revenues reduced. As the major supplier of oil and natural gas to Europe, Putin needed to compete with American shale oil producers and if possible, outcompete them with Russia's own cheap oil.

But there was another factor at play, according to Bloomberg News: Russia's economy was better prepared to take a hit because "five years of austerity and safeguarding assets against the threat of U.S. sanctions have left Russia in a stronger position than ever before to cope with lower oil prices…International sanctions forced Russia to strip back



foreign borrowing in recent years, while stringent fiscal policies pared domestic spending to a minimum. The result is that Russia now boasts the fourth-biggest international reserves in the world, and some of the lowest debt levels."

When Russia balked, Saudi Arabia did a turnaround, purportedly out of revenge, and on March 8 boosted output by 10 million barrels, further flooding the oil market and triggering the greatest reduction of its oil price in 30 years. What happened next was the beginning of the historic Saudi-Russian oil price war, with oil prices tumbling to $20 a barrel, the lowest, at the time, in 20 years (compared to $70 a barrel earlier this year), rattling oil investors –and communities — around the world.

Oil-dependent states like Oklahoma and Texas were reeling from the lower prices and lost earnings. "Texas, priding itself as the oil capital of the world, had already lost 20,000 jobs over the last year," according to Todd Staplesof the Texas Oil and Gas Commission, and "that's just the beginning of this phase."Staples (accurately) predicted that by April 22, "it was going to get worse before it gets better, which is why the economy needs to get going again." Gets one to wondering if the oil industry is partly behind the push by the Governor of Texas to "open up" its cities and get workers back on the job, despite the possibility of contagion through close contact.

Leave it to a vengeful virus to shake out some of the hidden detritus of one of the world's most powerful industries. Even former US vice president and CEO of Halliburton, Dick Cheney, himself an ardent player in the Great Game in the Middle East and its endless wars, has been watching his huge Houston-based energy services company, with 50,000 employees in over 80 countries, take a nosedive in profitability. Last year at this time Halliburton had reported a net income of $152 million in its first quarter; this year, Haliburton had to report a $1 billion loss covering the same period.

Why did Trump put an end to the Saudi-Russian price war?"

President Trump, who made good on his campaign pledges to boost US energy production, has been a particularly ardent supporter of the US domestic shale oil and gas industry, which uses the controversial technique known as fracking to release underground oil or natural gas from layers of oil-bearing rock. Trump was a key speaker at last years' ninth annual Shale Insight Conference in Pittsburgh, Pennsylvania, and boasted that shale production was "saving energy producers millions of dollars in compliance costs, while maintaining sterling environmental standards…We set an economic boom of truly historic proportions, bringing prosperity back to cities and towns all across America."

Yet there were already signs of danger for the shale industry last fall. In their zeal to achieve record output, some shale oil producers began drilling wells too close to each other, and "sweet spots" began to dry up. Then the coronavirus hit China, triggering a drop in demand for oil. By March, 2020, the Saudi-Russia oil price war was in full swing. The Washington Postreported on March 9 that President Trump was "strongly considering pushing federal assistance for oil and natural gas producers hit by plummeting oil prices," having been told by alarmed industry executives that the shale oil producers were already deeply in debt, to the tune of $40 billion over the last year, and risked going out of business. (Some also warned "against the administration supporting any sweeping paid sick leave policy, according to a major GOP donor and a White House official familiar with the discussions.")

One of the affected producers is Harold Hamm, a Trump supporter and advisor and a founder of Continental Resources, an Oklahoma based oil company and a proclaimed "leader in America's energy renaissance." On March 9th, the Post reported, Hamm told

Trump that his company lost most of its market value, some $2 billion worth. He urged Trump to " consider using laws on illegal dumping to prevent Russia and Saudi Arabia from slashing prices of oil sold in the United States."

Trump took his cue, but adopted a different approach. On April 13, he helped broker a deal between the Russians and the Saudis that OPEC+ countries would cut oil production by 9.7 million barrels a day — even while he, Trump, refused to cut oil production in the US. The deal was due to go into effect in May. Trump tweeted triumphantly that "The big Oil Deal with OPEC Plus is done. This will save hundreds of thousands of energy jobs in the United States. I would like to thank and congratulate President Putin of Russia and King Salman of Saudi Arabia. I just spoke to them from the Oval Office. Great deal for all!"

Trump's apparent victory was pyrrhic at best, however. Goldman Sachs, Fortune magazine reported, was already taking a hard look into its own crystal ball and warned that the euphoria was premature, calling the cuts in production "too little, too late." It foresaw that Covid-19 would continue to run roughshod on oil producers as more and more populations around the world went into lockdown.

Who will be the biggest winners?

Meanwhile, one energy industry expert rather cynically predicted that in the end, the winners of the oil price plunge would be none other than Saudi Arabia and Russia. "On the face of it," wrote Antoine Halff, " the idea of Saudi Arabia and Russia starting an oil price war in the middle of a global pandemic is as dumb as it gets. From a game theory perspective, it is a masterstroke."

Game theory is well suited to "what makes Johnny run" under capitalism, namely, competition. As defined by Investopedia, "Game theory is a theoretical framework for conceiving social situations among competing players. In some respects, game theory is the science of strategy, or at least the optimal decision-making of independent and competing actors in a strategic setting."

Certainly optimal decision-making is necessary in the intensely competitive and ever-volatile Great Game for Oil. According to Halff, the massive drop in oil prices "will hurt producers all around but will bring Riyadh and Moscow longer-term benefits. With their low costs and vast financial reserves, the two can withstand a loss of oil revenue better than most producers. Others are already teetering on the brink of collapse." The biggest losers will be independent shale oil producers — mostly smaller oil and gas companies –

called "the competing fringe" in this game theory analysis. They took huge risks (and expensive loans) to successfully compete for market share around the world, nudging up against such industry giants as Exxon-Mobil, Chevron, BP and Shell. Now they can't repay their debts.

As I point out in my book about "the deadly politics of the Great Game for Oil," Big Oil inevitably triumphs over smaller independents due to the scale, expertise, advanced machinery, access to Wall Street financing, and formidable foreign policy experience Big Oil has gained over a century of playing the game.

Big Oil companies, in short, are big enough to ride out crises that would sink their less-well-endowed competitors. I was therefore not surprised to read in Oilprice.com that Pioneer National Resources, one of the largest shale oil developers in the United States, warned that independents would go bankrupt during the plunge of oil prices in March. He "blamed ExxonMobil for blocking help from the American government for the U.S. shale industry." As Pioneer's Scott Sheffield explained, Exxon's refusal to help "is because the oil major wants to kill smaller shale companies" That's why "Pioneer and several independents are seeking a global settlement to look at really reducing production with all 26." The independents got what they wanted with the Russia-Saudi agreement of April 13, but underestimated Covid-19's relentless spread across the nation and the world.

On April 12, one of the larger shale oil producers, Whiting Petroleum, filed for Chapter 11 bankruptcy. becoming the first major shale oil victim of the virus. And that was when oil was going at $20 a barrel. Other bankruptcies will surely follow as social distancing continues despite pressure from Republican governors to open up their states now.

Who are the biggest losers?

The impact on oil-industry-dependent communities in America's west and southwest will likely be devastating, with major job loss already occurring as a result of the virus. Compounding the problem is the fact that the world is running out of places to store the vast surplus of oil that has resulted from greatly reduced demand. This is the situation facing Cushing, Oklahoma, the main storage hub for independent producers, which is likely to be "filled to the brim" by May. According to the New York Times, "hundreds of smaller producers rely on pipeline companies to transport their production, and to storage tanks in Cushing to hold onto it."

Exxon and Chevron, which began to invest heavily in shale oil last year, at least have their own storage facilities.

Trump territory is reeling from the downturn in oil prices. Small oil companies that operated in Oklahoma, Texas, Louisiana and Montana flourished when oil prices went as high as $100 barrel, but now they are having trouble repaying loans to regional banks. The impact on local economies has been "disastrous, devastating," according to Darlene Wallace, president of Columbus Oil, a small Oklahoma company. "I hate to sound like a little old lady, but it's frightening."

Now, even the majors are feeling the blow. S&P Global Ratings cut ExxonMobil's credit rating in late March, and the oil giant may have difficulty paying its dividend. Occidental Petroleum has already cut its dividend and saw Moody Investors Service downgrade it rating. Chevron, also worried about maintaining its dividend, has scaled back on its spending by 20%, with the biggest cuts taking place in the Permian Basin in West Texaco and New Mexico.

Still, if anyone can weather the storm, it will be Big Oil. Which is why we should all be watching this sector of the US economy closely — as well as the Big Banks — to see how they will try to pull out of this crisis, as usual, ahead of the game.

Should we get ready for Big Bailouts? The Wall Street Journal reported on April 22 that the Trump Administrations was "weighing aid for the battered oil industry." But, ironically, that trial balloon was poorly timed, landing with a thud on the 50th anniversary of Earth Day, as Bill McKibbon, influential climate activist and founder of 350.0rg warned, "We must stop subsidizing the fossil fuel industry that is wrecking this planet." United Nations Secretary-General António Guterres said the same thing, noting in his Earth Day Speech that "climate disruption" is even more menacing than Covid-19, adding that "greenhouse gases, just like viruses, do not respect national boundaries."

If the bailout doesn't happen, there's always another war in the Middle East to look toward. On April 23, President Trump threatened to destroy Iranian boats that harass the U.S. Navy in the Gulf, "boosting oil prices." Such threats, reported the Wall Street Journal, "can lift crude because traders are very sensitive to tensions in the region that could disrupt the movement through the Strait of Hormuz, a vital shipping channel for tankers." Just think of what a major war with Iran could do for the price of oil?

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