The End of the US Oil Shale Industry

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American exports of oil to Europe during the start of the global energy crisis last year were testament to American vital role in keeping Europe alive during an extremely troubling time. But when Russian energy supplies were embargoed, Europe founds itself in a troublesome predicament as it had been reliant on cheap, plentiful energy from Russia.

The implementation of sanctions on Russian oil and the Russian decision to cut off gas supplies to Europe, has in fact handsomely benefitted US oil exports, which rose exponentially, to hit a new record in 2022. The US was able to meet foreign demand largely because of the shale revolution over the last 15 years which has allowed it to control energy prices. Therefore and with massive global demand and affected energy supply chains, the US was able to calm volatile crude oil markets and somewhat neutralize the effect of Putin's war.

Huge investments in shale oil production in the US over previous years have made it immune to global energy fluctuations as shale output has given it a great deal of freedom. The abundance of shale supply has sheltered Americans from exorbitant energy prices allowing it to maintain a competitive advantage over other countries. However, according to many analysts, this age is drawing to a close due to the high costs associated with shale drilling, labor shortages, new wells yielding less oil and existing ones naturally producing less oil over time, meaning new wells need to be constantly drilled.

The US shale industry saw many shale bankruptcies during the pandemic, tens of thousands of workers being sacked, expensive equipment going into disrepair, rigs needing major maintenance and many even closing. The costs of drilling and wages have also gone up significantly making it a problematic investment. At one point, shale was the alternative that was competing with OPEC, with the US in control of the price of oil for some time.

OPEC countries now stand to benefit as there is a strong demand for oil globally and there are no alternatives. The US stands to lose its influence over oil prices and it seems what was once a huge supplier of oil may be nearing its end. In their heyday, US shale producers produced too much oil, significantly lowering the cost per barrel, which over the last 10 years has meant losing major investors. Even traditional US crude oil production is not at the level that it once was.

It seems that a return to the previous world order in the oil industry is on the cards, putting oil power back into the hands of OPEC countries. In addition, as decarbonization is now a major theme across world economies, investors are unlikely to invest in expensive, carbon intensive shale projects that take years to pay off. They would rather put their efforts into ones that are already established. With US shale and Russia out of the picture, the only option left are OPEC nations that have the infrastructure in place and the reserves to meet global demand.

In an attempt to control the price rather than leaving it to market forces, the Biden Administration has released millions of barrels of crude oil onto the market, and has asked Saudi Arabia for more supply and it loosened sanctions on Venezuela's oil sector.

The problem here is that rather than weaning the world off fossil fuels, it may be fueling this addiction further, which doesn't play well with decarbonization efforts around the globe and the need to limit our emissions to save the world from the effects of climate change.