Trump's Ultimate Weapon To End The Oil War

U.S. President Donald Trump is facing increasing calls from some U.S. senators and congressmen to pressure Saudi Arabia into ending the oil price war, with one of his own Republican party - Senator Kevin Cramer – last week urging him to impose an embargo on oil imports from Saudi Arabia, Russia and other OPEC nations. It is not because the U.S. shale producers cannot deal with a much lower sustained oil price environment as they can. It is because in order to cope with this environment, capital expenditure will have to be trimmed back to the sorts of ratios seen the last time that the Saudis tried the same thing from 2014 to 2016. The U.S. shale sector won last time and it will win this time (along with Russia) but behind the scenes, the U.S. Presidential Administration is also being advised that it already has the ultimate weapon to make Saudi Arabia end the oil price war right now, *OilPrice.com* understands from legal sources in Washington. The weapon is the 'NOPEC Bill Bomb'. The 'NOPEC Bill Bomb' refers specifically to the 'No Oil Producing and Exporting Cartels Act' (NOPEC) that was last threatened by the U.S. in October 2018 when the Saudis had enabled the Brent oil price to remain above the key US$70 per barrel level since March. Any sustained Brent price above US$70 per barrel was – and is – regarded by the current Presidential Administration as being in an area where the benefits to U.S. shale producers of higher prices are outweighed by the relative damage done to the U.S. economy. More specifically, it is estimated that every US$10 per barrel change in the price of crude oil results in a 25-30 cent change in the price of a gallon of gasoline, and for every 1 cent that the average price per gallon of gasoline rises, more than US$1 billion per year in consumer spending is lost. As Bob McNally, the former energy adviser to the former President George W. Bush put it: "Few things terrify an American president more than a spike in fuel [gasoline] prices."

In any year, this is bad news for the sitting U.S. President but at that specific point in 2018 when the U.S. (in March) was looking to re-impose sanctions on Iran just a couple of months later "it looked like Saudi was taking advantage of the U.S. position, rather than helping its most important ally," as one senior Washington-based legal source told OilPrice.com last week. "It came at a time when we were concerned anyway that the Saudis were becoming too dependent on Russia because of the OPEC-plus deals and were listening too much to its [Russia's advice]," he added. With the oil price during the March-October period consistently well above US$70 per barrel of Brent and in September trading at nearly US$85 per barrel and looking like it was going higher, Trump warned Saudi Arabia's King Salman that: "He would not last in power for two weeks without the backing of the U.S. military." This was also the occasion when the Saudis were remainder of the NOPEC Bill, according to the legal sources in Washington.

Specifically, the NOPEC bill would make it illegal to artificially cap oil (and gas) production or to set prices, as OPEC and Saudi Arabia do. It would also now work as a very neat trick to prevent Russia from resuscitating OPEC+, rather than just

OPEC, as if it did then it too would face the consequences of the NOPEC Bill, once it was approved and became the NOPEC Act. The bill would also immediately remove the sovereign immunity that presently exists in U.S. courts for OPEC as a group and for each and every one of its individual member states. This would leave Saudi Arabia, for instance, open to being sued under existing U.S. anti-trust legislation, with its total liability being its estimated US$1 trillion of investments in the U.S. alone. The U.S. would then be legally entitled to freeze all Saudi bank accounts in the U.S., seize its assets in the country, halt all use of U.S. dollars by the Saudis anywhere in the world (oil, of course, to begin with, is denominated in U.S. dollars), and to go after Aramco and its assets and funds, as it is still a majority state-owned production and trading vehicle. It would also mean that Aramco could be ordered to break itself up into smaller, constituent companies that are not deemed to break competition rules in the oil, gas, and petrochemicals sectors or to influence the oil price. Up until recently, the bill was progressing at a pace through the U.S. system and came very close indeed to being passed into law before Trump stepped in and vetoed it after the Saudis did what he told them to do. In February of last year, the House Judiciary Committee passed the NOPEC Act, which cleared the way for a vote on the Bill before the full House of Representatives. On the same day, Democrats Patrick Leahy and Amy Klobuchar and – most remarkably – two Republicans, Chuck Grassley and Mike Lee, introduced the NOPEC Bill to the Senate. Even before this, the full approval of the Bill has only been stopped by the President. In 2007, the full House of Representatives and Senate passed the NOPEC legislation and it was passed again in 2008 by the House. In terms of presidential views on the Bill, George W. Bush always threatened a veto and Barack Obama opposed it, but Trump has veered from initially being against it to being a lot less clear.

Aside from the various threats to King Salman whenever oil prices have come near to the US$70 per barrel level, and the increasing omni-toxicity of Saudi Crown Prince Mohammed bin Salman – documented here - Trump also, understandably, has a big problem with OPEC. Since the U.S. unilaterally withdrew from the Joint Comprehensive Plan of Action (Iran nuclear deal) in May 2018, Trump has regarded OPEC and Saudi as "looking to take advantage of the short term supply constraints [at that time] that resulted from the U.S.'s attempts to force Iran back to the negotiating table for a better deal for the U.S. by imposing sanctions on it," according to one of the Washington-based legal sources. In addition to telling Saudi Arabia's King Salman that he and his family would not be in power without U.S. support – entirely true, incidentally – Trump also blamed OPEC via Tweets for the 2018 multi-month oil price spike. He said: "Looks like OPEC is at it again. With record amounts of Oil [sic] all over the place, including the fully loaded ships at sea, Oil [sic] prices are artificially Very High [sic]! No good and will not be accepted!" He later added at the U.N. General Assembly in September 2018 that OPEC is "ripping off the world." Shortly after this, Trump told reporters when asked about the NOPEC Bill specifically: "The United States is firmly committed to open, fair, and competitive markets for global energy trade. We do not support market-distorting behaviour, including cartels." Quod erat demonstrandum.