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CODEN: IAASCA **ORIGINAL ARTICLE**

Sovereignty of America Government On Oil Contracts And Oil World Market

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ABSTRACT
The United States shale exploration as well as production boom has greatly changed the perspective of energy in this country. According to Petronet, in fact, the economy of the United States is not the only that is effected, but the relations between America and Saudi Arabia and the stability of Middle East will be more affected by this new event. Due to growth of production of non-OPEC countries such as the United States and Canada, OPEC's share of the global oil market has downward trend over the years. Falling oil prices can be seen as a kind of blessing for buyers. In contrast, it is not beneficial issue for those who extracting gas and oil in the world market.
Key Words: *Oil, America Government, World Market*

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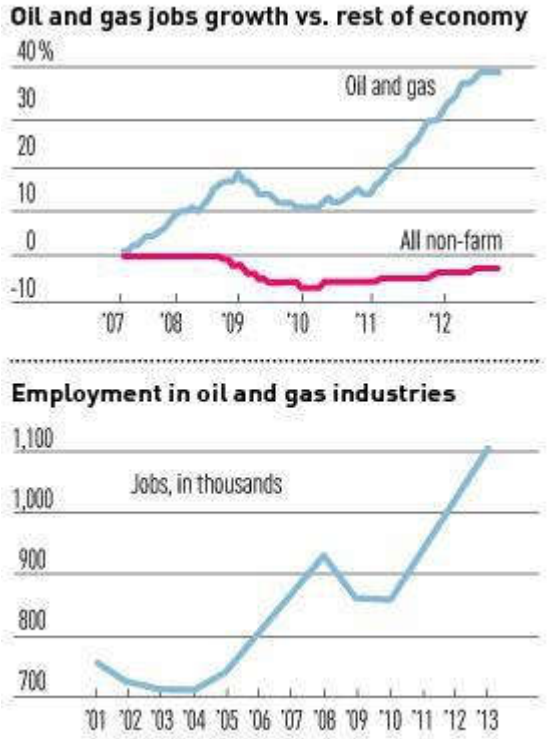
INTRODUCTION

The US has been always one of the largest oil producers in the world and until 1952 it was producing more than half of the world's crude. In comparison with US, older oil producers like Russia, the colonial Dutch East, Burma, or Myanmar, Romania and Iran were small and petty players. Today again, the IEA forecasts the US will overtake either Saudi Arabia or Russia and by 2017 it will become the biggest oil exporter in the world. In fact, the current energy revolution in the United State is mostly because of shale.
What is Shale, so? Oil Shale is nothing but a type of sedimentary oil bearing rock with low permeability which contains a mixture of natural gas and liquids including oil (Shale oil). It's controversial as the extraction process, fracking, is harmful to the environment. There's also the looming fear of induced earthquakes because of fracking. So what's the extraction process? Fracking is the method used to extract gas from the shale formations. A hole is drilled into the rock and a mixture of sand, chemicals and water are injected at high pressure. Under the impact, the rock splits releasing the gas. Irrespective of popular opinion, extracting shale is expensive. But, what wasn't possible a decade ago is happening today not only because of technological advances, but also due to the current price of oil. On the other hand, returns from conventional wells aren't encouraging either. Yes, the energy scene in the US is changing. [1].
In 2013, the International Energy Agency in its latest report demonstrated that OPEC surplus capacity in the next two years will increase 25 percent due to the reduction of oil demand by increasing production of oil shale in America. The agency in its midterm report about the oil market declared: it is expected that overcapacity of production of the organization of petroleum exporting countries reach to seven million and 180 thousand barrels per day in 2015. In 2013, this figure was five million and 760 thousand barrels per day. This figure is calculated by subtracting the expected demand for OPEC's oil production capacity of the organization from the total amount.
International Energy Agency added, OPEC is facing downward pressure from the oil and shale gas promoting in North America that will probably replace to a part of OPEC oil. America's Energy Information Administration declared that by falling oil prices, OPEC revenue declined to $121 and $ 375 billion respectively in 2013 and 2014. The long period of oil price reduction creates a hectic time for OPEC countries, especially for Venezuela, Iraq and Ecuador. These governments were faced with a fiscal deficit in 2013 and like other OPEC countries they couldn't fill their budget gap. According to the Ministry of Energy in America, in the third of May 2013, this country hit the highest point of its production in last 21 years by seven million and 370 thousand barrels per day.

The increase in production is due to the promotion of the production of shale reserves that will turn America to the largest oil producer in the world by 2020, even higher than Saudi Arabia. While the OPEC countries face difficulty in increasing their production due to old squares and security issues, shale oil and gas reserves are developing. The International Energy Agency announced it is expected that increasing security risks, political instability and unattractive financial regimes effect on a number of OPEC countries and demolish their production growth.

In the recent years, oil and gas shale explosion in the United States arise different kind of discussion. Some analysts have called oil and gas shale a "game changer". However, statistics show that although new technologies and discoveries through the slot hydraulic, change the perspective areas of energy and economy, but this change is not that much that was predicted two years ago.

David Blackmon believes that shale oil and gas has a definite effect on U.S**. "**Jobs, ancillary simulative impacts on other industries and National Security."As can be seen in the chart, the lower oil prices have a positive effect on job creation on the United States as the U.S. shale boost has played the main role for internal job creation.



As reported by *Investor's Business Daily "*The oil and gas boom is producing millions of jobs, and not just where you might expect. Employment is up 40% in the oil and gas fields since the recession began in late 2007. But in every one of the 10 states where hydrocarbon production is on the rise, overall employment growth has outperformed the nation." [2].

The impact of oil and gas shale on the economy of the United States is variable and estimated from 0.2 percent in the year to levels close to the annual growth rate. Petrochemical products export from America tripled from 2006 to 2012, but finally its GDP (gross domestic product) was not more than 1.2 percent. Trade level of the United States averagely has raised 0.1 to 0.2 percent per year which is significant.

Concerning national security as well as other positive aspect of employing shale oil, Robert D. Blackwell and Meghan L. O'Sullivan demonstrate:

The energy boom will add fuel to the country's economic revitalization, and the reduction of its dependence on energy imports will give it some measure of greater diplomatic freedom and influence… the huge boom in U.S. oil and gas production, combined with the country's other enduring sources of military, economic, and cultural strength, should enhance U.S. global leadership in the years to come — but only if Washington protects the sources of this newfound strength at home and takes advantage of new opportunities to protect its enduring interests abroad [3].

Because of the upsurge of output of non-OPEC countries such as the United States and Canada, OPEC's share of the global oil market has declined over the years. Between 2010 and 2013 the high price of oil stimulated non-OPEC countries to employ modern land techniques and new technologies like hydraulic

fracturing or horizontal drilling. From the last year, 9.127 million barrels of crude oil a day was produced by the United States. That contributed to vigorously growth of "tight oil" output. Consequently, the U.S has added approximately 4 million new barrels per day to the global market with the production of 75 million barrels per day that is a noticeable figure in the oil market. "U.S. oil production has been the main engine of global supply growth in recent years," said Jim Burkhard, Vice President, IHS Energy. "And momentum from strong growth in the second half of 2014 means the impact of lower prices will not immediately drive production lower. But the reality of lower oil prices and less spending on new wells will affect production as 2015 progresses."(www. businesswire.com)

AMERICA'S OIL PRODUCTION GROWTH LANDSCAPE IN 2015

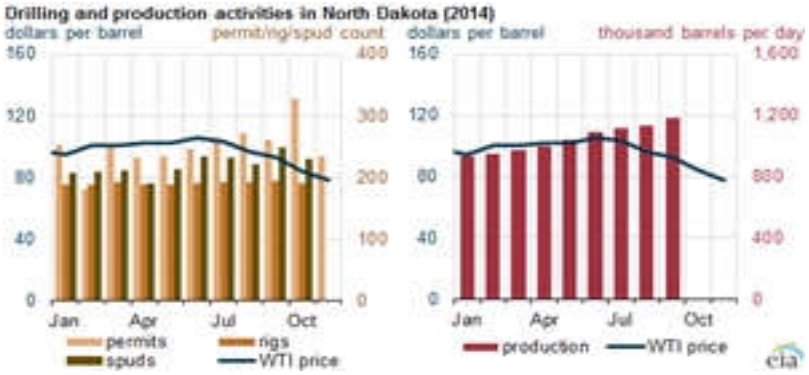
In most analyzes which is revolved on shale oil extraction, the cost of new extraction technology for per barrel set, have determined around 60 to 80 dollars. Therefore, oil and gas shale have economic justification, only when the price of per barrel remain more than $ 100. On the other hand, there were no legal obstacles to the development of this industry till now. According to estimates of deliberations, the United States will achieve self-sufficiency in energy during 2025 to 2030. In the other words, by 2035, America will become self-sufficient in oil. In 2020 The United States will overtake Saudi Arabia in oil production and will become the biggest oil producer in the world. The U.S. dependence on imports of oil from the Persian Gulf in 2012, declined to about 20 percent and Saudi Arabia's share of total imports is only 13%.

Fracking began to help the USA to achieve sovereignty and independence in energy. USA has already turned into a net exporter of gas and the same achievement in oil production would provide the USA's independency from the oil supplies of the Middle East. The Saudis rejects to cut their output even in the face of dropping oil prices since Saudi Arabia desires that US back to its dependence days on Arabian oil. Thus, this dominance allows them to entice the USA to place its military in the Persian Gulf in a favour of Saudi foreign policy. In this case, oil and gas boom play an important role for increasing the security position of the U.S.

At the end of 2014, the U.S. produced more than 9 million barrels per day that compared to 2007 it had about 80% growth. This rising in the U.S production played an important role in creating excess supply of oil to the market and dropping prices in 2014. Although, the number of drilling towers in the Unites States is declining, the production has remained constant. Whether America's oil industry can maintain its production according to current prices or whether its production decline, has serious impact on the global supply of oil and, consequently, on its price.

The Energy Information Administration draws an analogy between the current situation of oil drop and the recession years of 2008 and 2009 to discuss the impact of oil prices on the reduction of oil shale production in North Dakota(which at that time was at an experimental level and its costs were higher than now).

From June 2008 to February 2009, the price of WTI oil with 71% slump fell to $ 39.09 per barrel. When in November 2008, the price of a barrel oil reaches to $57, drilling and exploitation soared. When oil prices fell below $57, with a significant increase in projects at a standstill, the number of permits from December 2008 to July 2009 reduced about 73%. Besides, the number of poles from November 2008 to May 2009 as well as the number of new started excavations since November 2008 to April 2009 respectively plunged to 62% and 55%.



Nevertheless, the decline in oil production from November 2008 to January 2009 was not so dramatic and merely had 13% reductions. Accordingly, America's Energy Information Administration has predicted

that excavations should be reduced and some companies have to transfer their investment from marginal discoveries to main areas of intensive oil production.

According to the Energy Information Administration of America, predicted prices for oil drilling in the main areas supplier of America's oil production, such as Bakken, Eagle Ford, Niobrara and the Permian Basin are sufficient. This department expects that oil production in America reach to 9.3 million barrels per day in 2015 that is 0.7 million barrels more than the 2014 average. However, the previous forecast of this office for the same year was 0.9 million barrel rise. It should considerate that all the drop of production growth will occur in the second half of 2015.

CONCLUSION

Since the sale of oil in the world is measured on the basis of U.S. dollar, the dollar's value against other world currencies affects the decisions of OPEC on oil production. For example, when the US dollar compared to other currencies drop, consequently, revenues from OPEC oil fall. Therefore, they are not able to buy like before, since they have to sell their oil in dollar.

"So much can happen over the course of a year," LeBlanc said. "If oil prices remain weak and confidence in future prices remains shaken, U.S. production in 2016 could possibly flatten or even decline. But there is plenty that could happen—a recovery in oil prices, lower upstream costs and improved well productivity—that would quickly change the calculus of drilling new wells and reinvigorate U.S. production growth." [5]. In the U.S. a drop in crude prices would have varied affect. For most of the people, it will provide a fine economic progress. They can have oil with lower prices, thus, they can spend more money on the other things. On the other hand, those states such as Texas and North Dakota that produce oil are likely to face with a slump in revenues as well as economic activity.

Overall, it is a biggest mistake that oil and gas companies merely focus on decreasing costs as well as spending. Companies should carefully consider the supply of assets, analyze the logistics of accessing available markets, and ensure a long-term presence in these markets without getting into a bidding war. Oversupply and lower prices represent a real challenge to the industry, but that doesn't mean the future is all gloom. It just means that producers and refiners need to be prepared and adopt strategies that take advantage of the new reality [4].

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