

## **Global Oil Politics and the Challenges of Nigeria-United States Relations**

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### **ABSTRACT**

Oil is one of the most important commodities of the contemporary era in the global market. The importance of oil as a major source of energy cannot be underscored. It is a prerequisite for the industrial sector, agro- based industrial development and traditional agriculture. The demand for oil is on the increase daily as the world industrial needs expand. The anti-American sentiment by the Arab nations and the current crisis in the Middle East which holds the major supply of oil to the world market poses challenge to American oil needs. This situation forced Americans to rely more on Nigerian oil. Since the democratic governance in 1999, the United States Government has not only invigorated its diplomatic relations with Nigeria, but has also been willing to increase financial assistance to the country. According to reports since 2002, Nigeria provides 70% of Africa's total oil production and the largest supplier of crude oil to the United States. The central aim of this paper is to critically evaluate how Nigeria can meet US oil demand within the context of OPEC politics. Nigeria-United States relations has recently been strengthened by bilateral agreement to combat terrorism in Nigeria. It is expected that if the convergent interest between Nigeria and the United States is to be sustained, Nigeria will seek to satisfy the increasing appetite for her oil. The researcher therefore avers that Nigeria will either be lured out of OPEC or disorganize the organization to achieve her foreign policy goals.

**Keywords:** Oil, global market, energy, politics

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### **INTRODUCTION**

The growing dependence of the United States on foreign sources for its liquid fuels has significant strategic and economic implications. The United States has been a net importer of oil for more than 50 years, and today, imports nearly 60 percent of its liquid hydrocarbon needs. The U.S. Department of Energy (DOE) projects reported that U.S. imports may double, to

19.8 MMBbl/D by 2025 [1] , By then imports will exceed 70 percent of demand, the vast majority coming from Organization of Petroleum Exporting Countries (OPEC). As imports rise, America's vulnerability to price shocks, disruptions, and shortages will also increase. The expected increase in demand for imported oil comes at a time when other consuming countries such as China, India

and Japan are also increasing their demand for oil, primarily from OPEC.

In 2001, the White House proposed a National Energy Policy calling for programs to increase domestic oil and gas production, to convert to hydrogen technology, develop renewable energy, conserve energy, and to enhance nuclear energy options, among other programmes elements. In response, the Department of Energy (DOE) issued its 2003 strategic plan, which recognizes that "As imports rise, so does our vulnerability to price shocks, shortages, and disruptions".

The DOE expects the shortfall between energy demand and domestic production to increase 50 percent by 2020. The United States will then require imported oil to meet more than 70 percent of its domestic consumption.

1. Import more oil
2. Improve energy conservation and efficiency
3. Increase domestic oil production

In 2002, the United States consumed 19.8 MMBbl/D of oil and oil products, of which 10.5 MMBbl/D, or 53% was imported. Over the foreseeable future, demand will grow while domestic production is expected to continue its decline. For instance, US demand is expected to reach 29.2 MMBbl/D by the year 2025, of which nearly 19.8 MMBbl/D will be imported. These increasing imports will occur at a time when there is also growing competition from other countries of the world for conventional

petroleum supplies. Rising world oil demand will add upward price pressure on petroleum prices. Higher world oil prices could cost the U.S. economy \$1.1 trillion in gross domestic product (GDP) up to 2020, as American consumers pay more for gasoline, diesel, jet fuel, heating oil, and other petroleum products.

The Department of Defense has a Strategic requirement to maintain secure sources of liquid fuels to mobilize its aircraft, naval fleets, and land vehicle at home and around the world. Heightened concerns over domestic security intensify the need for the military to ensure that secure fuels are available to protect the Nation, to support U.S. forces positioned overseas, and to project force when it is deemed necessary to protect America's strategic interests and global commitments.

As these stocks are drawn down, the military purchases replacement fuels from global markets. If replacement fuels are not available in a timely manner, military capabilities are at least temporarily diminished. Domestic sources for military fuels must be re-evaluated in the context of rising import dependencies and increasing vulnerability to supply interruptions.

Given this background for United State oil demand, it becomes necessary to know how this demand can be met within OPEC production limit.

### **OPEC Competing Priorities and US Interest**

Petroleum politics have been and increasingly important aspect of

international diplomacy since the discovery of oil in the Middle East in the early 1900s, as competition grows for an increasingly scarce but vital resource, the strategic calculations of major and minor countries alike place more prominent emphasis on the pumping, refining, transport and use of petroleum products,

OPEC was officially constituted as a group of countries with the inalienable right to exercise sovereignty over their natural resources OPEC fundamental objectives are:

- To ensure price stability, through means such as regulating production, paying due attention to the interests of producing and consuming nation; and a fair return on their capital to those investing in the petroleum industry.
- The organization shall devise ways and means of ensuring the stabilization of prices in international oil markets, with a view to eliminating harmful and unnecessary fluctuations.

Since its founding in 1960, OPEC has had great influence over the world petroleum market at particular times, and little or no influence at others. What determines the ability/inability of OPEC to attain its goals? Two sets of explanatory factors are explored. (a) Market conditions create a setting which is sometimes favorable to OPEC's aims. (b) OPEC as an organization has had widely varying success in persuading its member states to cooperate with one

another in pursuit of a common objective. Above all these, US interest in world petroleum is an implicit factor in determining the dimension of oil market [2].

Oil price has hit record levels and has been trading over \$80-a-barrel level since September 13, 2007. While seasonal and speculative factors play significant roles, the oil price is a long-term upward cycle with little signs of weakness. Recently, the subject has receive greater attention in global media since Goldman Sachs, an American investment bank, noted in July 2007 that "we could be months away from \$100-a-barrel oil price" on October 4, 2007, Merrill Lynch, the world's biggest brokerage firm, raised its oil-price forecast for the fourth quarter 19 per cent because of "insufficient supply from producers outside of the Organization of Petroleum Exporting Countries (OPEC)"

According to [3], Alan Greenspan, the former US central bank head and who was once called the second most powerful man in the world, said this about U.S oil interest, "Iraq war is largely about oil." This hit the headlines globally, causing embarrassment to the Bush administration and reignited the debate about oil's crucial role in the US foreign policy. Compounding the U.S oil interest is the growing demand for oil needs in the third world nations.

Since 2001, the world oil consumption has been rising at faster rate of 1.7 percent a year compared to its 27-year average of 1.4 percent. The ratio of proven reserves to oil production (measured in terms of number of

years) has declined from 41.0 in 1990 to 40.5 in 2000 to 39.5 in 2006. The world production has increased from 65.4 million barrels-a-day (mbd) in 1990 to 81.7 mbd in 2007 but the sources from which the incremental supply has come through have made it a major issue of global politics [3].

Over the last five years, however, the demand for oil is exploding in the developing world, growing at six times the pace of demand in the OECD countries. Oil consumption grew by 4% outside of the OECD and is widely expected to continue to grow at that pace for the rest of the decade. Consequently global demand is now growing at 2% per year, almost double the global average since 1980, despite the huge slowdown in demand growth seen in much of the developed world.

But an equally important factor behind the strength of crude demand growth in much of the developing world is the fact that oil prices are significantly cheaper than in OECD countries, which buffers consumers from the full impact of soaring world oil prices. This is particularly true among major oil-producing countries themselves, which often heavily subsidize their domestic consumers. At 23 US cents a gallon in Caracas, you are paying the equivalent of US\$10 per barrel oil, roughly one-seventh of world oil prices.

Against this price backdrop it should come its no surprise that oil demand in major oil-producing countries number among the strongest in the world, even by comparison to other non-OECD countries. Demand has

grown at a soaring 5% annual rate in Iran over the last half-decade, growth rates that are also seen in Saudi and the United Arab Emirate [4].

Suddenly oil-producing countries are themselves becoming major oil-consuming countries. OPEC members, along with independent producers Russia and Mexico, consumed over 12 million barrels of oil per day-toughly 60% more than China and slightly more than all of Western Europe. As a group, they now represent the second-largest oil market, second only to the US [4].

With domestic consumption growth of nearly 5-6% standard in the Middle East, OPEC's future export capacity is increasingly called into question. Particularly now that the critical seems to no longer be able to raise production as readily as it has in the past. Saudi Arabia, by far the largest OPEC producer, is struggling to maintain a daily production rate near 9 million barrels per day, and beyond Saudi, the cartel has scant excess capacity. Production in some of its largest fields like the Burgan field in Kuwait are already well into decline and there is widespread speculation that production at Saudi's Mammolh Ghawar field may soon fall as well.

Iran's and Nigeria's domestic fuel needs have grown so rapidly that the countries find themselves in the bizarre position of having to be a massive importer of refined gasoline though it is one of the world's largest producers of crude. Within OPEC as a whole, domestic demand has already grown by over 40% during the last decade and at

current growth rates, will cannibalize a million barrels per day of export capacity by the end of the decade [4].

The expected decline of as much as a million barrels per day in OPEC exports over the remainder of the decade falls on the heels of already significant reductions in export gains from the cartel over the last decade. Whereas OPEC was able to grow exports by 3% per year from 1995-2000, exports since then have hardly grown at all and are now poised to decline.

According to Jad Mouawad, Middle East accounted for about 50 per cent of the increase in the oil supplies, Africa 20, Latin America 15 and Kazakhstan five per cent during (1990-2006). The oil production in the US declined from 8.9 mbd in 1990 to 6.9 mbd whereas its consumption increased from 17 to 20.6 mbd. The US accounts for about one-fourth of the global demand but its oil production has been declining since it peaked in 1970. The US accounted for 21 per cent of the increase in global oil demand during 1990-2006 and beyond. China contributed the most accounting for 30 per cent of the total [5]. The demand-supply situation assumes a special geo-political importance given that nearly 70 per cent of the increase in global oil supply in the last 17 years from Middle East and Africa. About 63.5 per cent of the increase in demand has originated from Asia led by China, India and Korea.

With global crude demand now growing at a brisk 2% pace, and conventional supply declining, it's far from obvious where that

2.5 million barrel-per-day shortfall, not to mention new supply to accommodate demand growth will come from countries. The cartel reached a peak of thirteen members before settling at its current level of eleven (although member state Iraq's oil output has not been part of the cartel's quota agreements since March 1998). Formed "to unify and co-ordinate" its members' oil policies, OPEC achieved notoriety in 1973 by raising prices four-fold during the October War, a move accompanied by freezing of Arab oil sales to the United States.

Since 1982, [6] stated that the cartel's members have attempted to set crude oil prices by agreeing on production quotas. Although the existing quota total of 23.5 million barrels per day is less than one-third of daily global consumption (approximately 80 million barrels). OPEC crude dominates the internationally traded oil market and therefore effectively determines prices.

Currently, OPEC decision-making is dominated by Saudi Arabia, the only member with significant, quickly available spare production capacity. This capacity gives Riyadh a potential disciplinary measure if quotas are broken. Riyadh's recent verbal pledge to increase its production by 1.5 million barrels per day (a move that must be confirmed at the Beirut meeting) would be one of its largest-ever production changes within an OPEC context. The kingdom had previously increased production at times of international political crisis, e.g., after the terrorist attacks of

September 11, 2001, and the 2003 invasion of Iraq.

In effect, such an increase would constitute an admission of a previous policy error. This perception could exacerbate rather than diminish the sense in the world oil market that Saudi Arabia is politically unstable, especially after the latest terrorist attacks against expatriates working in the Saudi oil industry.

When prices are weak, national revenues are further constrained by subsequent production cutbacks, forcing smaller and poorer cartel members to question the value of production discipline. (Ecuador and Gabon both declined.) When prices are strong, however, members often give in to the temptation to exceed production quotas in order to generate additional revenue. In April 2004, for example, OPEC exceeded its quota by 2.3 million barrels per day; in other words, the cartel was nearly 10 percent over quota (these figures do not include Iraq). Figures from the U.S. Department of Energy indicate that most member states were intentionally "cheating" by producing over quota. Indonesia and Venezuela were under quota, but only because of their limited production capacity rather than intentional adherence to OPEC agreements.

At the other extreme, some experts such as [2], while recognizing that day to day prices are fixed by 'free' markets and therefore fluctuate as other commodities, consider that these fluctuations remain near average levels characteristics of 'episodes in petroleum history. These episodes are

separated by crises. Following a crisis, according to [2], these are essentially political factors which determine the new level of relative stability, this being within a large range of possible levels.

The fact is that a large proportion of international petroleum flows comes from the Middle East and the ULS, which are considered politically unstable and for a number of years to come obviously makes the petroleum market particularly vulnerable to events affecting these areas, such as civil strife and wars between nations.

#### **OPEC Quota and US Demand For Nigerian Oil**

Petroleum politics is an important aspect of international diplomacy since the discovery of oil in the Middle East in the early 1900s. As competition grows for an increasingly scarce but vital resource, the strategic calculations of major and minor countries alike place prominent emphasis on the pumping, refining, transport and use of petroleum.

[7], presented two fundamental objectives which formed the cornerstone of international oil politics. These comprise establishing and maintaining a stable oil market with fair and reasonable prices, both for producers and consumers, as well as securing a fair return for producers and investors from the sale of the oil member

countries produce. Of all the commodities traded in the world market today, oil is the most unpredictable and volatile. Prices can crash or soar overnight; such is the acute sensitivity and spontaneity of the market, especially in the 21<sup>st</sup> century where globalization is proving to be a powerful force and a fundamental source of change.

[8] (may 1995, OPEC Bulletin) has shown that oil market in the 21<sup>st</sup> century is due to series of non-fundamental factors, issues not related to the supply of crude oil, that are playing a critical role in the direction oil prices take. For example, hype and speculation caused by geopolitical tensions and uncertainty over future supply security have proved to be extremely problematic for the oil industry - a situation that is not only difficult to counteract, but one that snowballs with each successive event that raises its influential head. Such events are the terrorist regimes in the Middle East, the constant skirmishes between the Arab nations and Israel, the Iran conflicts, the disruption of oil exploration and exportation in Niger Delta of Nigeria etc; these have made oil pricing unpredictable.

The second factor, OPEC Bulletin, (September 2005:39) are the result of the markets increasing sensitivity to a combination of factors - in particular a demand surge in United States and Asia, which has sparked concern that the producers will struggle to match this sudden call for extra supplies. Exacerbating the situation are the related problem areas of refining and distribution, where bottlenecks

are constricting supplies of oil products in the consuming countries.

In a 1999 speech, Richard Cheney, the US Vice President and former CEO of Halliburton (one of the world's largest energy services corporations), said,

*By some estimates there will be an average of two per cent annual growth in global oil demand over the years ahead along with conservatively a three per cent natural decline in production from existing reserves. That means by 2020 we will need on the order of an additional fifty million barrels a day. So where is the oil going to come from?...While many regions of the world offer great oil opportunities, the Middle East with two thirds of the world's oil and the lowest cost, is still where the price ultimately lies,*

*even though companies are anxious for greater access there, progress continues to be slow (Richard Cheney, 1999).*

*influential as are often smaller industries. We need to earn credibility to have our views heard.*

Cheney went on to argue that the oil industry should become more active in politics:

*Oil is the only large industry whose leverage has not been all that effective in the political arena. Textiles, electronics, agriculture nil seem often to be more influential. Our constituency is not only oilmen from Louisiana and Texas, but software writers in Massachusetts and specially steel producers in Pennsylvania. I am struck that this industry is so strong technically and financially yet not as politically successful or*

Oil price has hit record levels and has been trading over \$80-a-barrel level since September 13, 2007. While seasonal and speculative factors do play a role, the oil price is in a long-term upward cycle with little signs of weakness. Oil has always been a subject of great importance for the global economy and politics but what is new this time?

It has broken all previous records and why it has come to occupy a central place in the United States foreign policy are questions that directly concern U.S. Hence, it is important to examine these issues in a holistic manner. Recently, the subject has received greater attention in the" global media since Goldman Sachs, an American investment bank, said last July that we could be months away from \$100-a-barrel oil price [9]. On October 4, Merrill Lynch, the world's biggest brokerage firm, raised its oil-price forecast for the fourth quarter 19 per cent because of 'insufficient supply from producers outside of the Organization of Petroleum Exporting Countries.' Alan Greenspan, the former US Central Bank head and who was once called the second most powerful man in the world, wrote in his recently released book, "Iraq war is largely about oil." This hit the headlines globally,



causing embarrassment to the Bush administration and reignited the debate about oil's crucial role in the US foreign policy.

OPEC was overwhelmingly considered a politically driven cartel capable of fixing prices at any level below those of substitutable energy resources. Today, certain experts affirm that OPEC never actually had real market control. This thesis of the predominance of economic factors is supported by the governments of those countries which are reluctant towards the dialogue initiative.

In 1993, the earliest year for which there are full figures, the main African oil producing countries — Nigeria, Angola, Cameroon, Chad, Equatorial Guinea and Gabon —

shipped about 494,000 barrels per day of oil to the United States, data from the official Energy Information Administration show. That's about 7 percent of total U.S. imports. In the same year, the Persian Gulf nations averaged 1.6 million barrels per day, or about one quarter of all U.S. imports. By 2006, sub-Saharan African oil constituted about 18 percent of all U.S. imports, or about 1.8 million barrels per day; the Persian Gulf made up 2.2 million barrels per day, or 21 percent of total daily imports. [9].

The U.S. gets roughly 16 percent of its oil from West Africa, mostly from Nigeria (900,000 barrels per day, bpd) which is its fifth largest supplier. In the event of further demand push on Nigeria as a result of deepening crisis in the Middle East, Nigeria will likely exceed her OPEC quota.

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