

SHALEout!

The Russians and Saudis squeeze U.S. shale oil producers by flooding the market with oil. This drives the price down to unprofitable levels. Rumors circulate that President Trump considers helping the industry with government assistance, including low interest loans. Critics of the president and the industry call this idea a “SHALEout”.

It’s a catchy name, “Shale-Out” instead of “bailout” and it’s not entirely wrong. We at the Clear Energy Alliance are strongly against the kind of government subsidies that have propped up wind and solar, so we’re against a SHALEout as well. That said, dealing with this sort of challenge is tricky because the impacts go well beyond the industry itself. The motivation of the Russians and Saudis is clear.

They want to artificially suppress the price of oil below its true value to force countless U.S. shale oil companies into bankruptcy.

They can then quickly raise prices and recapture a sizable chunk of the world oil market. That’s called “dumping” and it’s a violation of free trade practices. The U.S. should not allow the Russians, Saudis or any other nation to get away with this tactic, which damages the American economy and national security. On the other hand, critics of the industry say some U.S. shale oil companies should go bankrupt because they were too aggressive in borrowing money. We agree. Anti-oil activists also say it’s a step in the right direction because we need to get off oil and natural gas as soon as possible anyway.

On that score, we disagree. Oil and natural gas are vital to everything we do and will be for a long time to come.

If the shale oil industry in America shrinks, we aren’t going to use less oil. We’ll just replace American oil with higher priced foreign oil, which brings all sorts of dangerous and expensive geopolitical consequences. What should the government do when foreign producers dump oil on the world market? It’s a tough call.

A SHALEout isn’t a good idea. But maybe slapping a temporary tariff on foreign oil would be enough to shock the Russians and Saudis into stopping their attempt to hurt America by dumping oil below market value. It could be worth a try.

Energy is deeply intertwined in our lives in more ways than most of us can imagine. Keep that in mind when people and organizations oversimplify it with catch terms like “ShaleOut” in order to drive their agendas.

For the Clear Energy Alliance, I’m Mark Mathis. Power On.