

# Energy Programs of American Parties (Republicans and Democrats) and Global Oil Market

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## ABSTRACT

The United States is the world's first producer and consumer of oil and plays a special role in international oil market relations. In a sense, due to the differences in the energy programs of the parties of this country, we will see significant changes in the international energy markets. Trump's economic thinking in business field is based on the neomercantilism, while the Democrats believe in global and multilateral trades. The most important energy policies of the Republican Party are developing and expanding fossil fuel production, increasing the share of the oil market, lifting environmental restrictions, confronting Organization of Petroleum Exporting Countries (OPEC), and unilateralism in the oil and gas trades. In contrast, the most important plans of the Democratic Party in the US election are to return to the Paris Agreement, reimpose environmental restrictions, reduce oil production through legal sanctions such as taxes, expand renewable energy, and use financial resources to manage the oil market and trade convergence. The main question of this article is what effects the energy programs of the US parties have on the oil market. The method of this research is qualitative in a descriptive–analytical manner using desk research.

## 1. Introduction

The United States is the world's largest consumer of oil, accounting for about 20 million barrels per day of global oil demand, and its oil production has increased during 2016–2019; before the spread of the COVID-19 and the decline in the global oil demand, it experienced a level of 13.8 million barrels per day and became the world's first supplier of oil. Therefore, the United States of America can be considered as one of the main players in the oil market. Of course, it must be acknowledged that the energy approaches of the U.S. main parties, including the Republicans and the Democrats, are different (the New York Times, 2020).

In this work, the consequences of the US election on the international oil market are examined in two scenarios. The first is Trump's reelection and the second scenario is choosing a Democratic candidate. Each scenario includes examining the energy policies of the parties, including the production of fossil fuels, the environment, energy policies toward Organization of Petroleum Exporting Countries (OPEC) and China as the world's second largest economy and oil consumer, whose policies will be adopted by the government on November 3, 2020; in addition to the oil industry, domestic stakeholders will affect the international oil market. Trump's most important energy plans for reelection include completing the deregulation process; expanding domestic production; controlling fossil fuel

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exports; expanding infrastructure licenses by limiting climate concerns and reducing environmental constraints; and ignoring and relaxing federal minimum environmental standards. Trump's administration, with varying degrees of success, has pursued a series of deregulation policies throughout the US energy sector. From the earliest days of Trump's administration, the announced "energy dominance" policy, which includes increasing production and expanding fossil fuel exports (increasing international market share) has been prioritized. It must be acknowledged that the Republicans have made raising oil prices one of their most serious plans, given the dependence of their interests on the revenues of oil companies. However, due to their hawkish spirit, it is expected that the psychological atmosphere of the market will be affected, and, as a result, the price of crude oil will fluctuate sharply, which will lead to an increase in oil price in various markets. Trump's approach to trade relations is based on mercantilist thinking, and if he is reelected, he will retain his nationalist and isolationist tone. Relations, especially future trade agreements, as the Republican party has announced, will increase production, will reduce oil imports, and will reduce their oil dependence, especially on OPEC members. The most important components that a Republican candidate like Trump pursues in the field of energy are as follows (Guliyev, 2020):

- Energy independence;
- Development of oil and gas production in the polar and continental plateau regions;
- Opposition to mandatory carbon emission control policies;
- Provide tax incentives for energy production;

On another front, the Democratic Party believes in enforcing their environmental and fiscal policies in the energy sector through the capital market. Even their attention in the field of environment caused restrictions on oil producers this year because of their policy to support the development of renewable energy such as solar, wind, etc. and to adopt restrictive laws in the field of oil and gas production and offshore fields development, which will burden losses on oil companies. The Democratic candidate's intellectual approach to trade relations is to expand relations based on multilateral trade, conventional alliances, and common values. Thus, price fluctuations in the oil market are expected to have a limited range, and most of which will be transferred from the financial markets to the oil market. The most important energy programs of the

Democratic Party are as follows (Global Energy Center, Jun 2020):

- Prioritize environmental issues;
- Supporting investment in clean and renewable energy;
- Opposition toward the development of drilling in the shale industry and offshore drilling;
- Adopt tax laws in line with the profits of large oil companies;
- Return to various treaties such as environmental treaties canceled by Trump;

This article seeks to answer the question what effects the US party energy programs have on the oil market. In this regard, first, the conceptual model of the impact of the US energy programs on the international oil market is explained, and then the channels of the influence of the US election on the international oil market in the form of the reelection of Trump or a Democratic candidate are examined. The method of this research is descriptive-analytical using documentary and library sources.

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## 2. Theoretical Framework

Mercantilism refers to a political and economic system that reflects the theory and ideology of commercial capitalism. According to the theory of mercantilism, precious metals such as gold and silver are considered to be the main source of the economic and political power of a country, and the ultimate goal of foreign trade is to obtain as many of these valuable resources as possible. To succeed in this way, governments must minimize imports and store export surpluses in gold and silver form. Mercantilists advocate the idea of raising prices within the country. Mercantilism is a political-economic system based on nationalism. The mercantilists are looking for a richer and more powerful country compared to other countries. On the other hand, in a zero-sum game, the wealth of one country becomes possible with the poverty of other countries. From a colonial point of view, the mercantilists seek to build a strong country by increasing the wealth and exploitation of other countries (Yilmaz Genç, 2011: 270–272). Mercantilists emphasize the prohibition of three issues: the import of manufactured goods, the export of raw materials, and the emigration of skilled labor. In addition, they have three important recommendations: export of manufactured goods, the import of raw materials, and the provision of the grounds for attracting skilled labor (Namazi, 2016: 51).

The theory of neomercantilism (trade-economic protectionism) emphasizes the economic development



and increasing national wealth, as well as increasing the role of hegemon in the international system instead of mere militarism in classical mercantilism (traditional colonialism). In neomercantilism, political power derives from economic wealth and seeks to maximize the wealth of the state by coordinating economic activities in the national interest. For this reason, the dependence of power on wealth causes the government to interfere in economic affairs, thereby increasing the power of hegemony in the international system. New mercantilism or economic nationalism is in stark contrast to the free market of capitalism or liberalism. The new mercantilism seeks to protect state interests and to establish a political and military position to shape domestic and international market operations. This theory, in conjunction with neorealism, presupposes that the international system is anarchic, is seeking competition, and is maximizing power to consolidate sovereignty and national security. In this view, governments use economic policies to maximize wealth and promote position in the international system. Accordingly, the different aspects of power leads are used for the domination on the global economic markets and ultimately for economic prosperity at the national level.

Neomercantilists believe that the prosperity and development of the domestic economy are possible only with strong government support for foreign trade and helping economic companies to invest in foreign countries. Mercantilists, unlike the free capitalist system, are pessimistic about the performance of private and nongovernmental enterprises but approve of government power to increase national wealth (Rodrik, 2010: 15).

Neomercantilism considers state ownership of high-yield enterprises to be in line with national interests related to the position of countries in the system. This theory holds that the economic competition of powers based on geographical location, trade routes, and energy fields is to promote their economic status and subsequently play a leading role in the international system. For this reason, controlling trade routes plays a vital role in promoting their security and economic development (Rafi and Bakhtiar-Jami, 2016: 36–38).

In the neomercantilists' approach, energy plays the same role that gold has in the classical mercantilism. Hence, by increasing the demand, the constant need of large consumers for oil and gas makes it valuable. The neomercantilist powers, therefore, seek access to new hydrocarbon reserves by making massive investments in production infrastructure and increasing prices and the

demand. The goal of neomercantilists is to strengthen power through secure and easy access to markets and resources and actively support state-owned energy companies to increase the national wealth (Rafi and Bakhtiar Jami, 2016: 39–40).

The capitalist system evolved into a liberal capitalist economy. This view is linked to the historical and classical roots of liberalism. Adam Smith, David Ricardo, John Maynard Keynes, Friedrich Hayek, Milton Friedman, and Vaclav Howell are among its most important theorists. In contrast to the mercantilists who sought the power of governments, the main concern of classical liberals was the power and oppression of governments, the belief in freedom, individual rights, and free markets. In international politics, too, the hegemonic state is important to them. The central principle of liberalism is freedom under the law. At the same time, they have different roles for the government and the people. Liberals emphasize the free market and the democratic state; the free market is the most important element. Another difference between the liberal approach and the mercantilist approach, as far as the liberals are concerned, is emphasizing the peaceful dimension of peace and constructive competition, as opposed to the aggressive and unreliable approach of the mercantilists in domestic and international politics. This liberal approach holds that human nature can be guided by reason and logic. Liberals believe that human beings usually think of their interests but do not see this as a flaw. On this basis, they believe that different areas of society allow everyone to benefit. The liberal approach, while emphasizing the peaceful nature of human beings, also focused on the evil nature of the state. Accordingly, the most important features of the liberal approach are accepting the freedom of individuals and worrying about the behavior of governments; condemning government authoritarianism; and seeking reform to establish democratic governance, to weaken the controlling role of the state, to raise the level of personal freedoms, and to play with a positive sum game. Thus, in a game, anyone can potentially make more profit in a transaction, and this profit means no losses for others (Balaam and Veseth, 2013: 122–128).

The liberal capitalist economic system has characteristics such as creating large ownership of the means of production; economic freedom of competition and freedom of labor; machine-orienting and advanced division of labor; increasing the role of capital and the positive impact of the machine on more production; maximizing the profit of economic activities; and production not for meeting the needs but for maximizing

the profits. The form of ownership in this system is private, and the model of the economic man, who acts with selfish motives and based on rational principle, is one of the psychological features of the liberal capitalist system, which causes material relations to replace human emotions. These characteristics lead to the flourishing of the liberal capitalist economic system and increase income and wealth. However, this optimism and hope for the liberal capitalist system turn into despair because of its unjust distribution policies. On the other hand, the mass production of machines leads to overproduction and economic imbalance and creates cycles of recovery, prosperity, crisis, and recession in this system (Namazi, 2016: 111–116).

In light of the above discussion, the economic policies of the Democratic Party in the United States are close to those of liberal capitalism, and the economic policies of the Republican Party have been neomercantilistic, especially in Trump's era.

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### **3. Impact of Energy Policies of American Parties on the Environment**

In the environment dimensions, the policies of the two main parties in the United States are quite different. While the Democratic Party prioritizes support for environmental issues and activists in this field, the Republican Party does not focus on environmental policies. During his presidency, for example, Trump's administration launched extensive measures to rewrite environmental policies and programs so as to remove federal restrictions/changes of land-use approved in Obama's administration. In this context, Trump's administration has largely removed the protections and restrictions of the species extinction law, as well as the methane waste prevention law during Obama's administration, to increase production and develop oil and gas industry. Moreover, it reduced emissions standards and the technical requirements for new coal-fired power plants. On the other hand, one of the most important plans of this Republican government is the withdrawal from the Paris Climate Agreement, which was concluded by Obama in 2015 to protect the environment. The US president considered the climate deal to which 195 countries were committed to be in conflict with the future of the US economy because if the US remained in the agreement, it would be the second largest emitter of greenhouse gases, which must reduce production activities and fuel consumption. The republicans will continue to seek to remove barriers, reduce costs, and monitor the licensing of various fossil fuel projects. The executive instructions of Trump's

administration in April 2019 support infrastructure and fossil fuel development licenses to reduce development restrictions on the use of fossil energies. The government supports the draft law, released on August 9, 2019, and restricts state and tribal authorities under section 401 of the Clean Water Act. Under the law, which is also backed by Trump's administration, the prospect of exploiting fossil fuels and expanding investment in massive fossil fuel projects, oil and gas production, and exports will experience significant growth (Guliyev, 2020).

In contrast, the Democrats are completely skeptical about the development and completion of new infrastructure for the expansion of fossil fuels, especially large international projects such as the Keystone pipeline and pipelines transmitting shale oil to export terminals, which are largely opposed by environmental activists. A Democratic president prioritizes strengthening the national environmental law and enforces federal guidelines for the reduction of emissions in the federal environmental law. In this regard, a Democratic government has sought to build local infrastructure to expand the production of clean energy such as wind and solar to replace major fossil fuels in the United States; thus, the US electricity supply program expands investment in infrastructure, and electricity and renewable energies are a priority in the 2030s. Preliminary estimates suggest that there are approximately one million jobs in the oil, coal, and natural gas sectors, and about 130,000 more Americans work in fossil fuel power plants. Banning the lease of new public land for the development of fossil fuels can be a major issue if a democratic government is established. These include banning future leases in Alaska, reviving the Obama's administration environmental program and supporting pre-Trump environmental species. The Democratic nominee is fully committed to the United States' return to the Paris Agreement and reaccessions in the shortest possible time and will immediately revive the Global Compact on Climate Change. The transportation sector is prominent and will be targeted by the Democratic candidates with the green fuel approach and many climate strategies (Global Energy Center, Jun 2020).

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### **4. Production, Import, and Export of Oil**

The policies of the two parties in the field of oil production, export, and import are also different. While the Republicans emphasize energy self-sufficiency, especially in oil, gas, and coal, and seek to reduce oil imports and increase exports of this fossil fuel, the Democrats focus on reducing oil and shale gas



production (due to pollution and environmental degradation) and pursuit the renewable energy production. In fact, the Republicans are trying to manage and control the oil market by increasing oil production. In support of this theory, we can refer to Trump's plan in the field of oil production, that is, Trump's administration has been seeking the independence and self-sufficiency of American energy during his presidency. In this context, the United States domestic oil production increased from 8 million barrels per day at the time of the administration of Obama to 13.8 million barrels in early 2020 before the spread of

COVID-19 (Trade Policy Agenda 2020; 2019 annual report of the US President). Therefore, if the Republicans are reelected, all legal restrictions, including environmental restrictions, will be removed in order to further reduce production costs and increase oil supply; oil production will also reach 17 to 18 million barrels per day at the top of the agenda. Figure 1 shows that in the direction of energy independence, the US oil production during Trump presidency is largely upward, and its recent decline is due to COVID-19 and the declining oil demand.

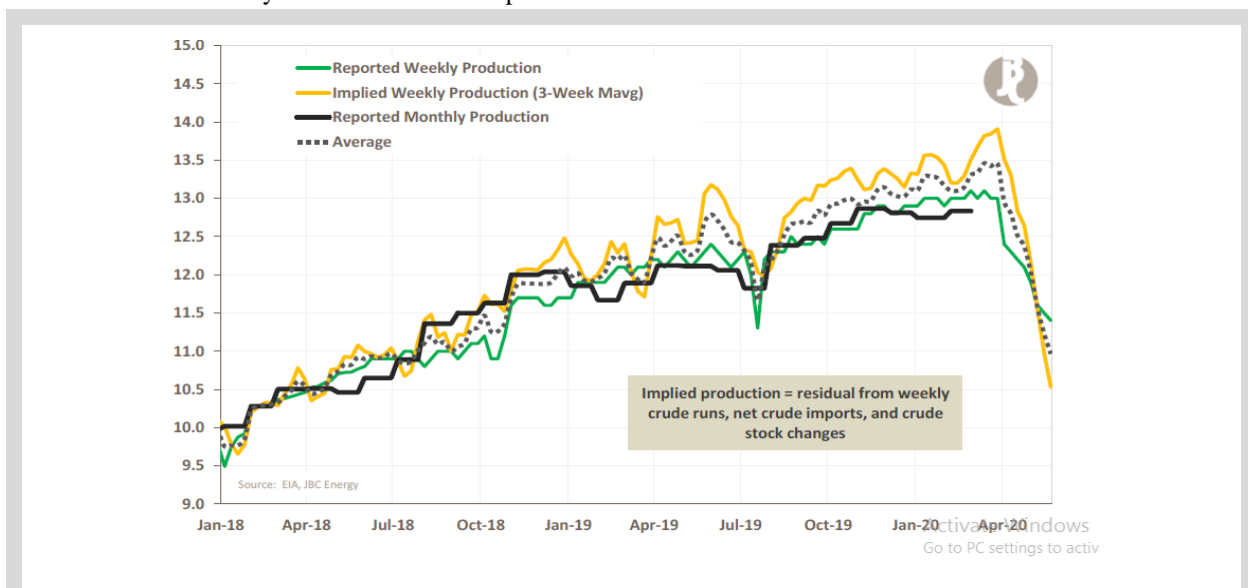


Figure 1. US oil production trend (source: JBC).

In this regard, increasing US oil production, increasing oil exports, and gaining more market share, instead of being a net importer, will be one of the plans of the Republican Party and will eliminate any oil imports (dependence on other countries, especially in the Middle East in the field of energy). As can be seen in Figure 2, in the direction of energy independence and reduction of dependence on oil imports from other countries, due to the growing trend of the US shale oil production during Trump's presidency, oil imports have experienced a significant decline.

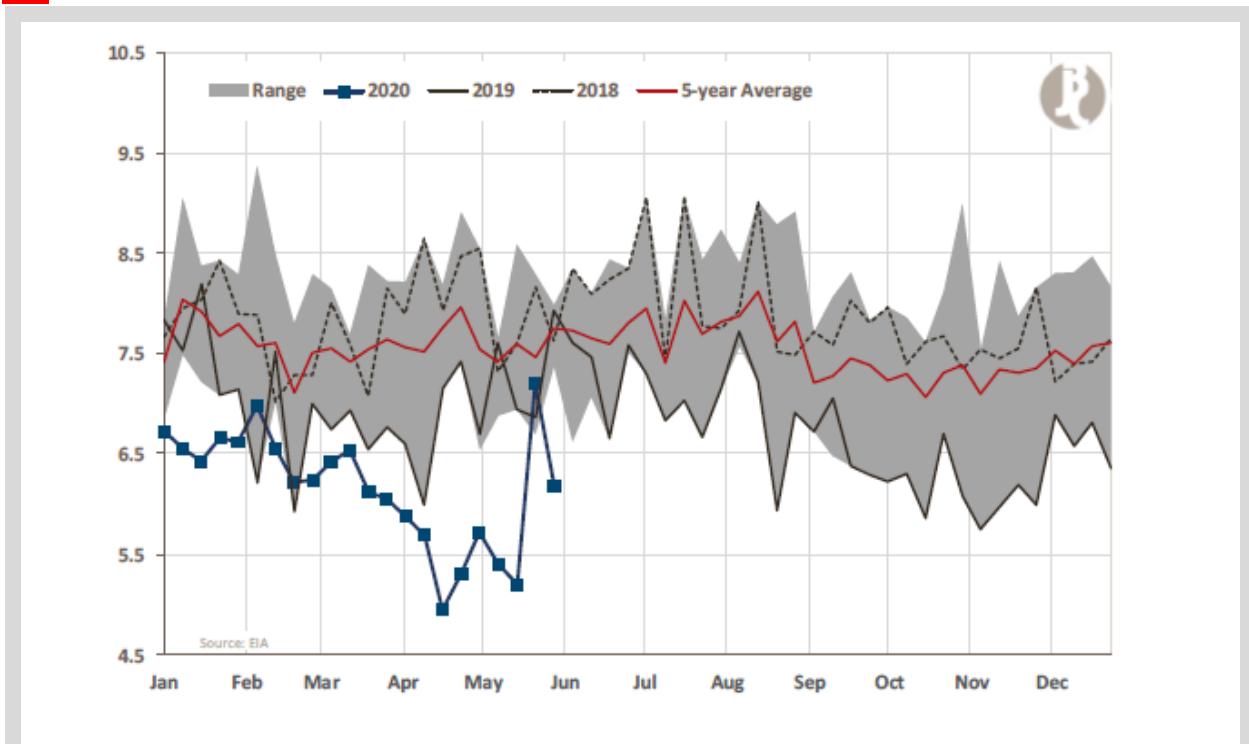
The Democrats will use clean energy and oil imports in their energy program instead of increasing shale oil production, which also has relatively high environmental pollution. As can be seen in Figure 3, the policy of the Democrats during Obama's era in 2012–2016 was not only to increase production; on the contrary, due to the legal restrictions in the field of the environment, they have sought an optimal combination of imports and

domestic production (Global Energy Center, Jun 2020). Figure 3 shows the state of the US crude oil imports during 2012–2016.

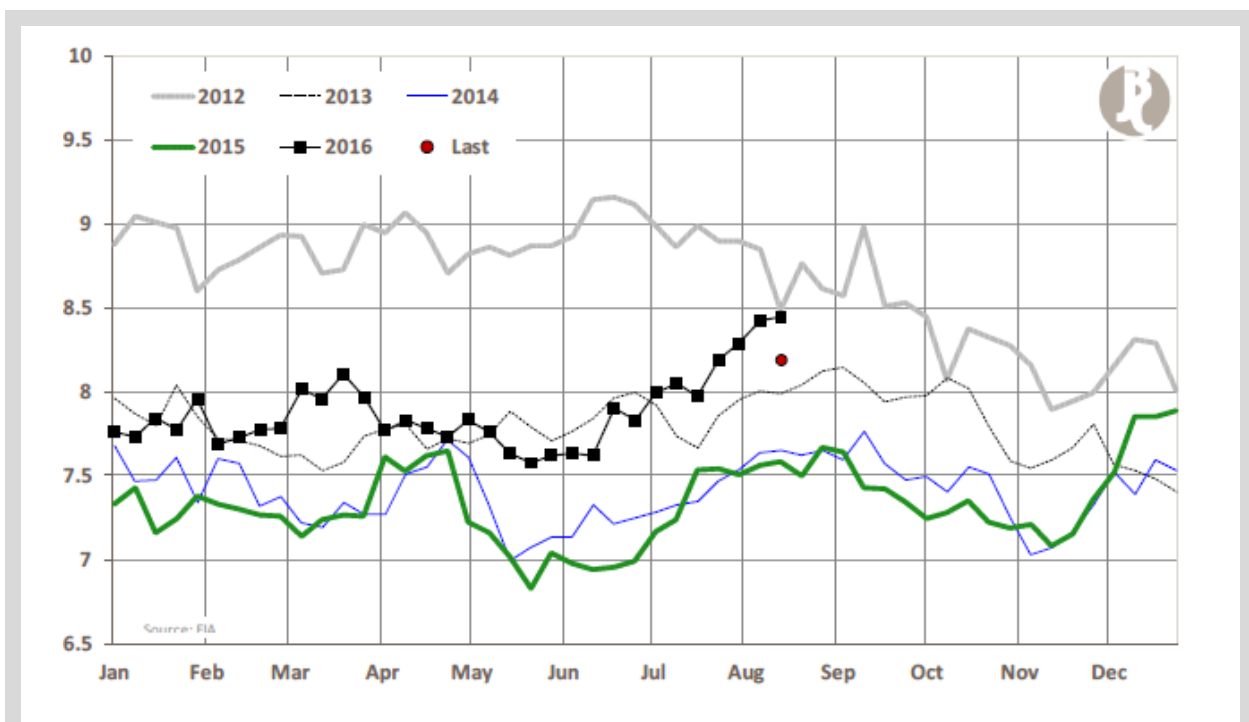
Therefore, if the Democratic candidate wins the US election in November 2020, according to his belief in environmental policies, the process of shale oil production will decrease, and the U.S. international oil supply will decline; as a result, the price of oil will rise. It is worth noting that given that the focus of the party's strategy is also on global terrorism, they will less directly be involved in the energy sector; they would rather achieve their goals in the field of oil and gas through channels in other markets.

On the other hand, the Republicans' strategy is to increase production, especially shale oil, to improve employment, raise economic prosperity, and reduce oil dependence. Figure 4 depicts the production trend of the United States, especially its shale oil during Trump's presidency.





**Figure 2.** US crude oil imports (millions of barrels) during the Republican period 2018–2020 (source: JBC).



**Figure 3.** US crude oil imports (millions of barrels) during the Democratic period in 2012–2016 (Source: JBC)

Of course, the spread of COVID-19, the consequent decline in the global oil demand, and the resultant sharp drop in prices have greatly reduced the shale oil supply.

In this regard, shale oil producers sought to reduce the average cost of production from \$40 to \$35 per barrel.

Nevertheless, in the energy sector, the Democrats have controlled oil production, especially the production



of shale oil, by enforcing environmental laws against pollutions from the development of oil and gas drilling operations and imposing heavy taxes on oil companies by increasing costs. Figure 5 illustrating the growth rate

of shale oil production in various US fields during the Democratic era indicates a slight and declining growth of shale oil production.

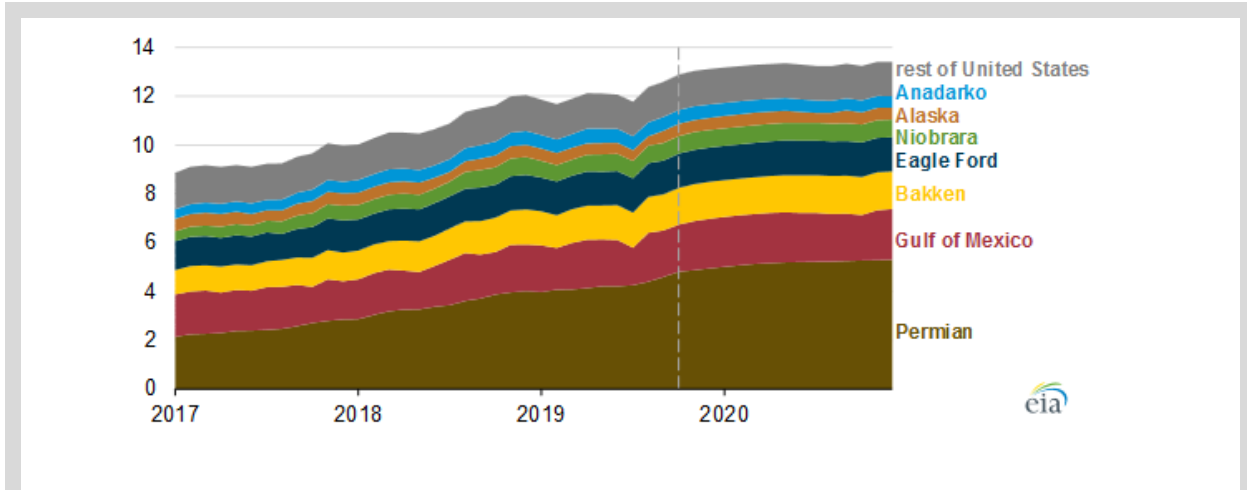


Figure 4. US crude oil production by region breakdown (Source: US Energy Information Administration (EIA)).

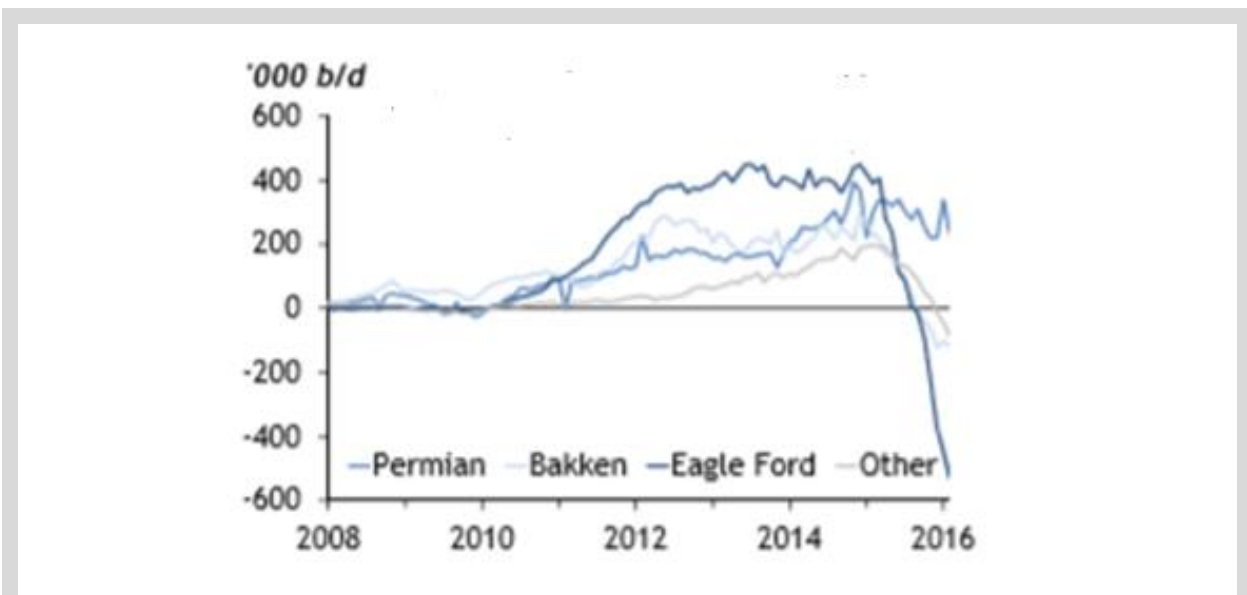


Figure 5. Growth in shale oil production in the United States during the Democratic administration (Source: JBC).

Oil market experts believe that at different levels of oil prices, shale oil, based on shale economic efficiency and due to lower prices, has experienced a decline in production in some of its fields.

### 5. Policies of Two Parties Toward OPEC

Despite the common policies of the Republican and Democratic Parties toward countering OPEC and reducing the power of this oil organization, their

strategies for implementing these policies have been different. The policy of the Republican Party according to the announcement of their plan toward OPEC is to confront this organization because the Republicans consider OPEC as a cartel and as an obstacle to creating a competitive atmosphere in the oil market. They regard OPEC as a factor in market interference and manipulation, so, in their program, they pledged to completely limit OPEC activity (Brain Scheid, 2020).

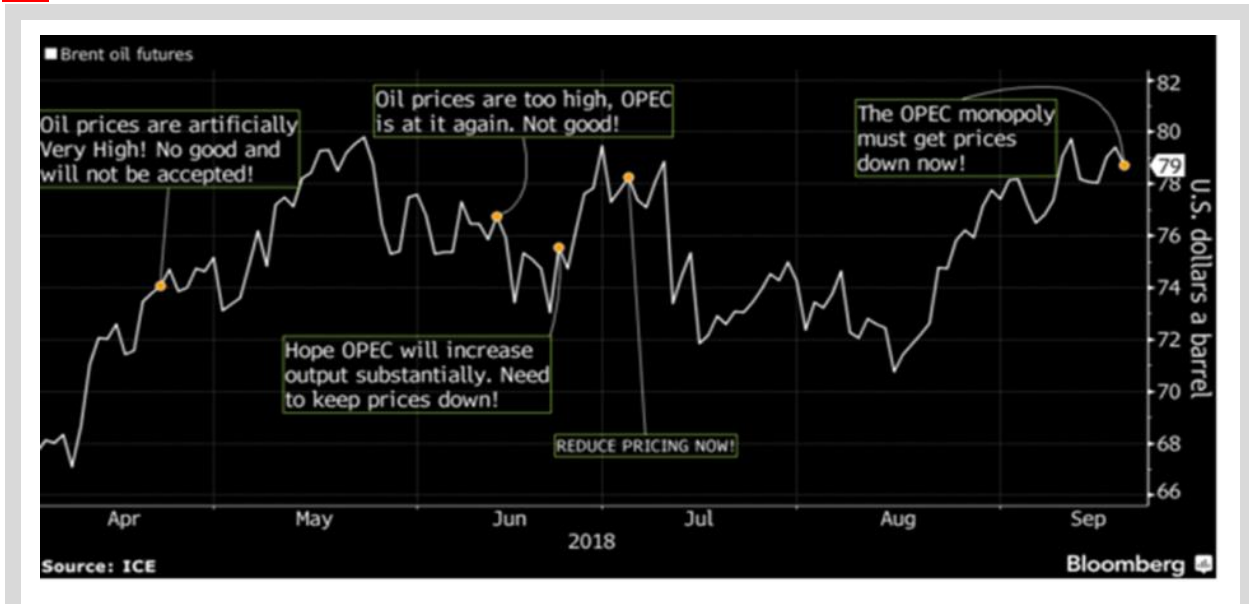


Figure 6. Trump tweets against OPEC (Source: Bloomberg website).

The Democrats, on the other hand, have gradually sought to control OPEC oil production and reduce their dependence on member states. In this context, of the total US imports in April, only 3.09 million barrels per day were produced by the member countries of this

organization. However, in 2016, OPEC countries were able to regain their share due to the oversupply situation in the oil market; Iraq and Venezuela were able to gain more share in 2015 than in 2014 (US Department of Energy).

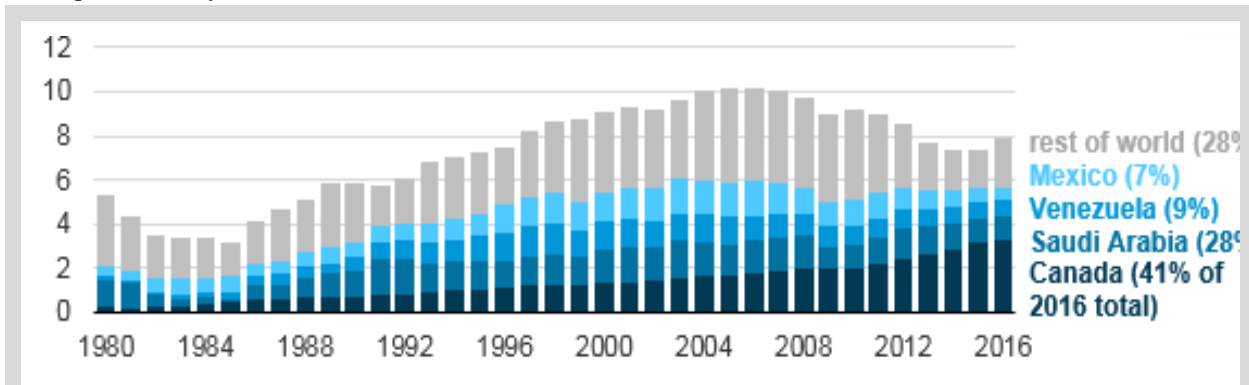
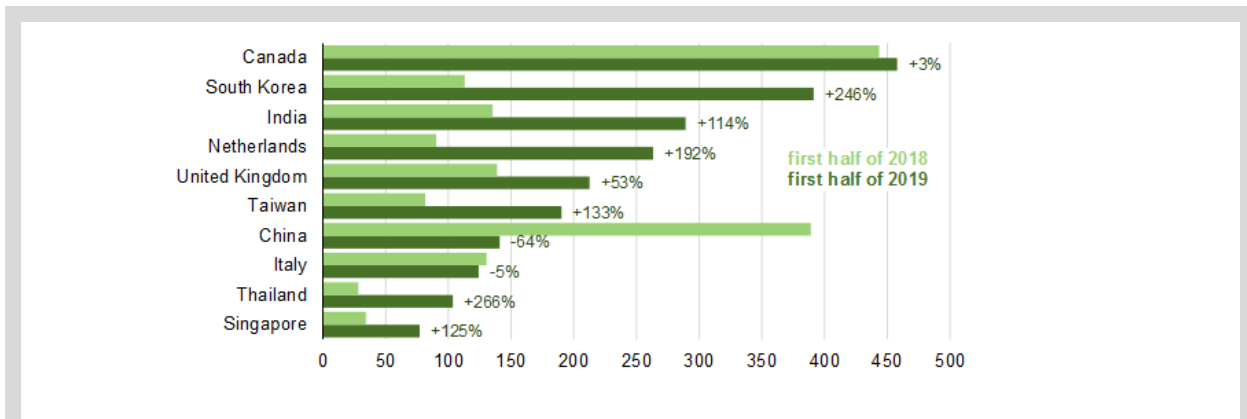


Figure 7. The amount of US oil imports during the Democratic era (Source: US Energy Information Administration (EIA)).

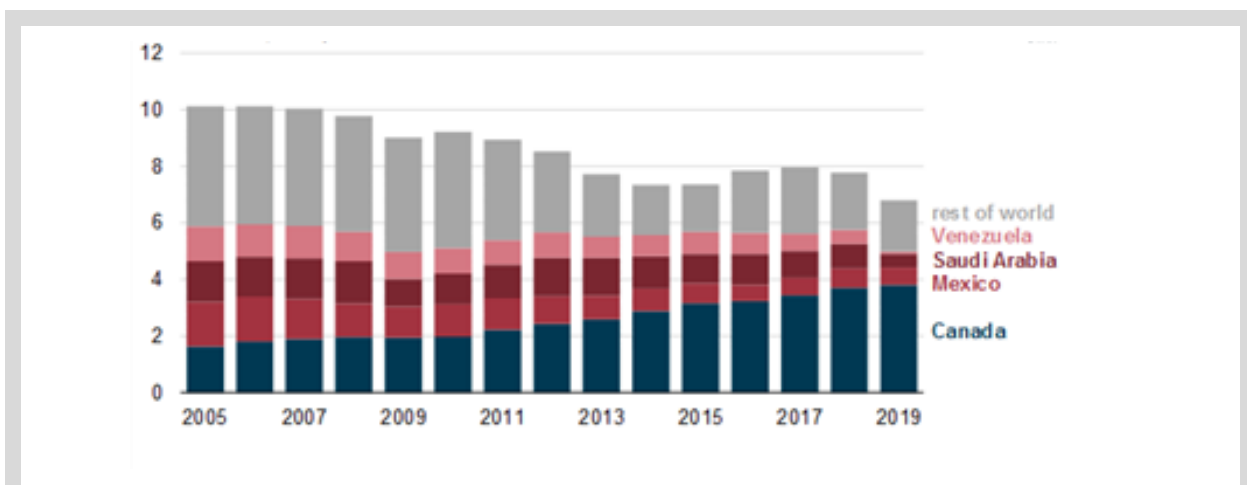
According to the policy of the Republican Party toward increasing the production of the United States and consequently increasing exports and market share through various means such as sanctions against some OPEC member countries, including Iran and Venezuela, or through the destabilizing some of oil facilities in other countries such as Iraq, the US is trying to deduct the share of other markets such as China, India, South Korea, etc. Thus, the strategy of the Republicans is to increase their share in the Asian market (US Energy Information Administration).

On the other hand, the policy of the Republican Party toward Russia is to weaken its position in the oil market since they have no obligation to improve relations with Russia. In addition, the policy toward substituting oil imports from Mexico and Canada for the oil imports from the Middle East, especially Muslim countries, is another agenda of the Republicans shown in Figure 10. Overall, given the hawkish Republican spirit, if they succeed in the election, the unrest in the psychological atmosphere of the oil market will increase greatly, and it is not unlikely that the backward structure will dominate the market in this period.





**Figure 8.** US oil exports by country (Source: US Energy Information Administration (EIA)).



**Figure 9.** US oil imports by country (Source: US Energy Information Administration (EIA)).

In addition, the Democrats do not agree with OPEC policies, but they prefer to control prices in the market instead of using indirect policies. It appears that given the dominance of this party in the financial markets through policy in the field of oil markets, they can control the oil market to a large extent. The Federal Reserve, for example, monitors and changes US interest rates through monetary policies. Each time before taking practical action to change interest rates, the mere news of this issue will cause a great change in the market in the short term, which will cause price variations in the oil market.

## 6. Unilateralism and Multilateralism

The Democrats have sought to strengthen multilateral relations and economic convergence, while the Republicans, especially during Trump’s presidency, have sought unilateral economic action and withdrawal from international economic alliances. The Republican unilateralism, including opposing the Paris Agreement

on Climate Change; disrupting regional trade agreements including NAFTA; imposing heavy tariffs on steel, aluminum, and automobile imports; pulling out of the multilateral nuclear deal with Iran; and oil sanctions with attention to oil and gas development policy has disrupted energy security in international markets (James Bacchus, 2020). The Democrats, on the other hand, seek to develop an energy trade with a convergence approach and return to international treaties so that they can build common interests with targeted and allied countries and depend on them to procure the energy needed due to the environmental constraints. This is in case when imposing sanctions against countries such as Iran and Venezuela for different purposes is a priority for both the Democratic and Republican Parties.

## 7. Influence Through Financial Markets

Because fluctuations in the capital market have also led to changes in crude oil prices since 2012, the plans of the US parties through the financial market for the oil

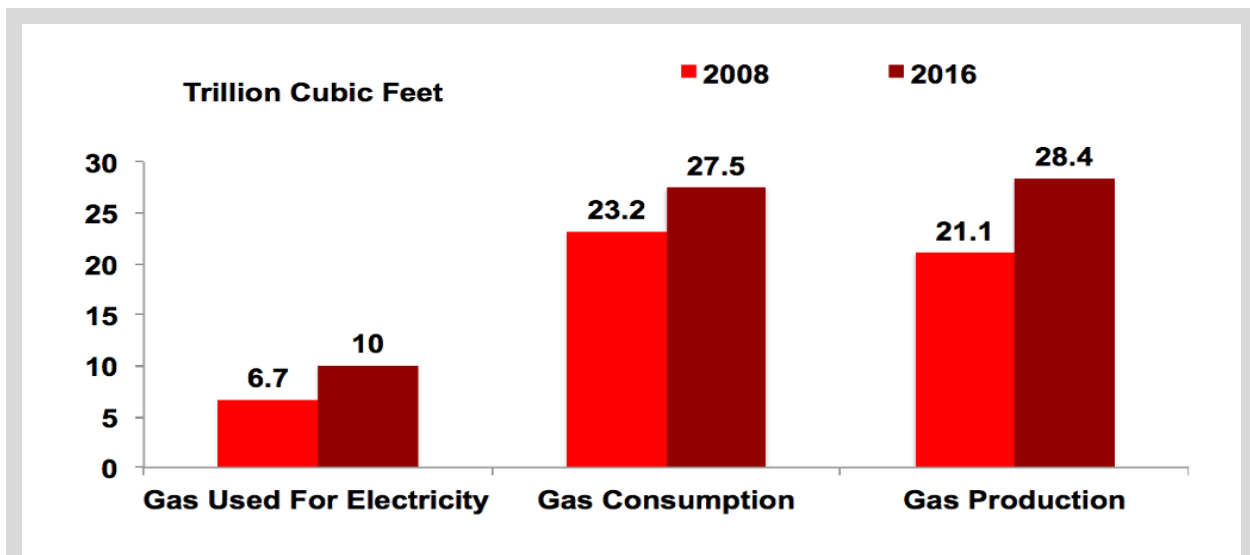
market are also very important. Given the Democrats' relative dominance of the capital market and price control through this channel, they are trying to increase their economic interests and those of their European allies. Therefore, using new theories of the oil market (nonfundamental factors), it is the future of oil (paper market) that shapes the upward or downward trend of prices in the short run. Even in recent years, some theorists have considered this variable to be the main factor in determining the price of crude oil. The Democrats, therefore, avoid high price fluctuations via oil exchanges and seek to control prices within their target range. However, the Republicans do not have enough control over this market, but due to their shareholding in oil companies, their hawkish spirit, and creating tension, they try to change the market from contango to backwardation import to make profit from the high oil prices. Hence, the Republicans manage the market by increasing or decreasing oil production (fundamental factors). Moreover, because weakening the dollar drives up oil prices, and the Republicans have shares in the interests of oil companies, the dollar is likely to weaken further (Carollo, 2011).

As financial markets develop in the United States, the slightest change in these markets will quickly affect the

price of the index crude oil of this country and will affect the price of other crude oil in other regions. If the dollar weakens, the price of US crude oil will rise, which will lead to a rise in the price of crude oil in the European crude oil index. Nonetheless, the Democrats prioritize the relative strengthening of the dollar. On the one hand, this will reduce the demand for raw materials, including oil and will decrease oil prices; on the other hand, it will lead to the development of US oil and non-oil imports. Therefore, this party usually increases the value of the dollar by changing interest rates through monetary policy in open market operations, which will affect other markets, including the oil market. If the Republicans come to power, the value of the dollar will weaken (Shamsulddin, 2011).

### 8. Channel of Influencing Gas Market

The Democrats' enactment of environmental laws has limited the production of fossil fuels. This is despite the fact that this party prefers gas production at a gentle rate and in compliance with the environmental laws due to its cleanness and less pollution than other fossil fuels (US Committee on Environment). Figure 10 displays the trend in the US gas production during the Democratic era.



**Figure 10.** The trend of the US gas production and consumption in the Democratic era (Source: US Energy Information Administration (EIA); JTC).

The Republicans, meanwhile, are basically seeking to increase US natural gas production and remove laws restricting its production in the United States. In fact, if this happens, on the one hand, the number of employees in the industry will increase, and on the other hand, the possibility of raising the US gas production and exports

to the European Union will be provided, which will consequently reduce the dependence of the US allies on Russia's gas. It should be noted that Russia has been largely able to maintain European gas markets dependence in recent years; however, if the Republicans are reelected, a possible increase in the US gas



production, given the tendency of Europe to reduce dependence on gas imports from Russia, will jeopardize the security of the demand for Russia's gas (Report of the Organization for Economic Cooperation and Development).

## 9. Conclusions

What is clear is that oil and oil markets play an important role in the economic and political policies of the two major US parties. It should be noted that the policies and actions of both parties in the field of energy will, directly and indirectly, affect the economic policies of the Islamic Republic of Iran as an oil-producing country and a member of OPEC. Therefore, recognizing these policies will greatly help in planning and presenting strategies in political and economic arenas. The victory of each of the candidates of the two parties will have economic and political consequences in the oil market. If Trump is reelected and global oil demand, which is largely decreased due to COVID-19, returns to its normal state, US shale oil and gas production will continue to grow, and US oil exports will gain more shares. The Asian market, especially Iran, Venezuela, and even Iraq, will be on the agenda through the escalation of sanctions and the creation of political tensions in West Asia. Also, the removal of remaining restrictions on the expansion of fossil fuel production is one of their energy programs, which will reduce the cost of shale oil production and increase the international market with oversupply. Weakening OPEC and its policies to regulate the oil market in various ways will be a priority for Trump. Therefore, on the whole, if the Republican nominee wins the US election again, a resurgence of oil and gas companies will not be far off.

If the Democratic nominee wins the US election, environmental legislation will reduce shale oil production, and with declining oil production in the US, the supply surplus will be reduced; thus, the price level will be adjusted to the current situation. On the other hand, with the enactment of the protectionist laws, the production of clean energy will be increased and fossil fuels will be gradually replaced by them. Given the party's relative dominance of the financial markets, they will regulate the oil market through financial markets, especially the oil exchange. In addition, the Democratic candidate is prioritizing negotiations aimed at reviving Iran's nuclear deal (Joint Comprehensive Plan of Action) and a plan to strengthen trade and comprehensive bilateral relations with Europe, Japan, and China; if this plan wins, it will greatly help Iran's crude oil return to the market.

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