Our View: The US Supremes Vote for Low Oil Prices

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The US Supreme Court's recent decisions may dramatically change global fossil fuel markets. Initially, investments in and output from the US industry should surge. However, the increased supply will threaten price levels. Further, the emasculation of US environmental rules on oil and gas production, as well as the likely blocking of efforts to stop domestic methane emissions, will probably prevent US producers from exporting oil or natural gas to EU markets and some Asian markets. By late in this decade, US producers may have to accept much lower prices than producers in countries that comply with global emissions rules.

The court's rulings, if extended to block the Environmental Protection Agency's program to limit methane emissions, could drive a wedge of as much as fifty percent between prices offered for US oil and gas exports and those offered for exports from countries that comply with EU environmental standards and those of other nations working to reduce methane outgassing.

By overturning its 1984 "Chevron deference" ruling, the Supreme Court has essentially freed US fossil fuel producers from environmental rules that limit production. The availability of resources and money will induce entrepreneurs to rush ahead with projects, just as they did after oil and natural gas prices were decontrolled more than forty years ago. The increased supplies will enter a market where the demand at current prices is declining. The increased supplies will lead to lower, maybe much lower, prices. OPEC's informal market control mechanisms will break down as supplies from the United States and other nonmember countries rise and global demand falls.

The expanded US supply will coincide with rising output from other nations and a decline in global consumption. The rise in US output will occur as productive capacity increases in Saudi Arabia, the UAE, and other OPEC nations, as well as in non-OPEC countries such as Guyana and Brazil. Simultaneously, world oil use will likely fall as electric vehicles gain market share. The change will be particularly dramatic in emerging-market economies as the EVs aggressively exported by China push out conventionally powered vehicles.

The Court's action also harms US energy exporters, particularly firms exporting natural gas. The European Union has become a large buyer of US liquefied natural gas. According to the US Energy Information Administration, the United States became the world's largest LNG exporter in 2023. More than half of those exports went to Europe.

However, by 2026, Europe may not be able to import LNG from the United States unless we implement a strong program to limit methane emissions. In May 2024, the EU approved a "law to impose methane emissions limits on Europe's oil and gas imports from 2030."

If enforced (some authorities believe the EU will back down), these rules could block US exporters from shipping oil or natural gas there. In a policy brief published by the Center for Strategic and International Studies, Cahill and Post described the complicated limits, noting that Japan, South

Korea, and other gas importers are in the "early stages of designing such programs."[1] They also explained that the rules will be "especially challenging" for US LNG exporters due to the nature of the US natural gas trade, where producers sell to intermediaries who deliver supplies to LNG plants for export. The absence of a chain of custody for the molecules makes it impossible to verify the methane emissions associated with any shipment.

It appears that exports of US crude oil, such as WTI produced in Midland, Texas, now the core of the Brent market, could also be subject to the rules. One must ask, then, whether a court decision that invalidates the US program to limit methane regulations will result in US crude exports to Europe being banned.

In the end, US producers and the EU will likely find a solution. Those US producers seeking to sell to the EU will cooperate by controlling emissions from their fields and working with pipelines that are also limiting emissions. This will lead to US "EU-qualified" oil and gas supplies. Their prices will be higher than prices for nonqualified supplies. Look for a two-tiered market.

[1] Ben Cahill and Hatley Post, "EU Methane Rules," CSIS Briefs, May 2024 [https://tinyurl.com/mrx4hxxu].