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US set to become second-biggest oil producer

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The US is poised to overtake Russia as the world's second-biggest oil producer after Saudi Arabia next year, thanks to the shale revolution, according to the International Energy Agency.

US crude oil output has surged 50 per cent since the start of 2010 as companies have applied new techniques such as hydraulic fracturing and horizontal drilling to extract oil from shale rock formations in states such as Texas and North Dakota.

Those efforts are having an intensifying impact on the global oil market, forcing the world's largest exporters to look to new markets as US appetite for foreign oil wanes and increasing pressure on other large oil consumers such as China and India to take on responsibility for protecting global trade routes.

The IEA said US petroleum liquids production will average 11.03m barrels a day in 2014 compared with 10.86m in Russia. "Liquids" include natural gas liquids which are used in petrochemical plants as well as crude oil.

"The US's place in the driver's seat of growth is . . . a throwback to decades past," the IEA said, referring to the period before 1970 when US production peaked.

Increased domestic production means that the US needs to import less crude oil to meet demand, which has also fallen sharply since 2005 as Americans have embraced more fuel-efficient cars.

China has already overtaken the US as the world's largest net oil importer, according to data released this week by the US Energy Information Administration, and its fast-growing economy is increasingly the focus for the world's oil exporters.

Moscow has invested heavily in the Eastern Siberian Pacific Ocean Pipeline to push oil into Asia and Russia's exports to Europe fell to a 10-year low this year, as it sought to build its share of the market in China.

The US bans almost all crude oil exports under legislation from the 1970s; a restriction that many in the industry say will cause increasingly severe problems as US production grows.

Refiners in the Gulf of Mexico region of the US say all the high-quality light, sweet (low-sulphur) oil they use already comes entirely from domestic production.

However they continue to import heavy and sour crudes from countries such as Saudi Arabia, which has actually seen its exports to the US increase in the past three years. Saudi Aramco, the state oil company, has invested in US refineries to maintain a role in the American market.

The proposed Keystone XL pipeline from Alberta, in Canada, could add to the flows of oil coming into the Gulf of Mexico region, although it has been repeatedly delayed in the face of strong opposition from environmental groups.

Continued strong growth in US output could cause a glut in the Gulf of Mexico region, driving down prices and limiting the industry's expansion, unless the export ban is lifted.

Scott Lincicome of the Cato Institute, a free-market think-tank, said: "Right now it's not a huge problem, but it has the potential to be quite a big problem in about two years. We're going to blink, and it will be on us."