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Preprint

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Suggested Citation: Ibadoghlu, Gubad (2025) : Trump's Energy Strategy: A Game-Changer for Global Oil Prices and Azerbaijan's Economy?, ZBW - Leibniz Information Centre for Economics, Kiel, Hamburg

This Version is available at:

<https://hdl.handle.net/10419/309950>

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Trump's Energy Strategy: A Game-Changer for Global Oil Prices and Azerbaijan's Economy?

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Abstract

Azerbaijan, heavily dependent on oil and gas exports, faces significant economic challenges due to fluctuations in global energy markets, declining oil revenues, rising imports, and increasing fiscal instability. This paper examines the potential impact of the Trump administration's energy policies on global oil prices and their broader implications for Azerbaijan's economy.

While deregulation and expanded fossil fuel production in the U.S. could drive oil prices down, geopolitical uncertainties surrounding Russia, Iran, and Venezuela may offset these effects. Additionally, U.S. alignment with Saudi Arabia and OPEC+ members, combined with capital discipline in the energy sector, may constrain the anticipated increase in production. Given these dynamics, Azerbaijan must urgently implement policy reforms and economic diversification strategies to mitigate potential risks and ensure long-term financial stability.

Keywords Trump Energy Policy, Oil Prices, Azerbaijan Economy, National Energy Emergency Act, U.S. Oil Production, Global Energy Market, Fossil Fuels, Geopolitical Risks, Oil and Gas Revenues, Economic Diversification

Introduction

Speaking at a pre-election meeting of the Republicans in the United States on May 11, 2023, announced that he would turn the slogan¹ "Drill, Baby, Drill" into the locomotive of future energy policy. On his first day in office, Donald Trump signed the National Energy Emergency Act² to increase the country's oil and gas production and consequently withdrew the U.S. from the Paris Climate Agreement, demonstrating his commitment to fossil fuels agenda once again.

According to the National Energy Emergency Act, the Trump administration will expedite permits for new fossil fuel infrastructure, repeal oil and natural gas drilling bans in U.S. waters implemented during former President Joe Biden's administration, and make several decisions aimed at exploiting Alaska's natural resources.

Experience shows that there are two ways to increase oil production in the U.S.: easing government regulation and creating incentives for oil companies to produce more. Undoubtedly, oil and gas production companies, which are satisfied with the former, are not interested in a significant drop in prices.

Although a downward trajectory was observed in the first two weeks of Trump's presidency, Brent crude oil lost \$3.5 per barrel during this period, settling at \$75.58 per barrel by February 3³. However, the downward trend began five days before Trump took office, following an agreement on a ceasefire in the Middle East. Therefore, it is not worthwhile to try to establish a proportional relationship between Trump's political statements aimed at lowering oil prices and market dynamics, as there are uncertainties in the Trump administration's energy policy. For example, it is unclear how the administration will shape its policy towards major oil suppliers such as Russia, Iran, and Venezuela. If the Trump administration intensifies sanctions on the production and transportation of energy resources from these countries, oil prices in the global market could rise, not fall, as has been repeatedly confirmed in practice. Following the U.S. Treasury Department's announcement on January 10, adding Gazprom Neft, Surgutneftegas, and over 30 other Russian oil and mining service providers to the sanctions list, Brent crude reached its highest price in three months. A similar process could be observed with Iran and Venezuela. Thus, Trump's foreign policy towards Russia, Iran, and Venezuela during his presidency could significantly impact the

¹ [Watcher.Guru on X: "us Former President Trump when asked what's the first thing he would do to bring down rising costs "Drill baby, Drill." https://t.co/Xm9RPEp8DX" / X](https://twitter.com/WatcherGuru/status/1654444444444444444)

² <https://www.whitehouse.gov/presidential-actions/2025/01/declaring-a-national-energy-emergency/>

³ <https://www.bloomberg.com/markets/commodities>

oil market, especially as the uncertainty regarding the U.S. stance against Iran and Venezuela is considered a factor that could drive oil prices up.

On the other hand, aligning U.S. energy policy goals with Saudi Arabia, which holds a leading position in OPEC, and OPEC+, particularly Kazakhstan, which is currently experiencing a peak period of oil production capacity of more than 5 million barrels per day, is also important.

Experts believe⁴ that an aggressive strategy of increasing production is unlikely to have a significant impact on oil markets. Jorge Leon, Vice President of Rystad Energy, a consulting firm based in Norway, believes that Trump's policy aimed at lowering oil prices does not align with market dynamics in the sector. Leon emphasizes that capital discipline and shareholder returns will be priorities in the coming period, and the real effects of deregulation may not be apparent until next year. He believes that "capital discipline and shareholder returns will likely take precedence over the priorities of the Trump administration's exploration and production management groups. The real impact of deregulation will be limited in the next year or more."

Ajay Parmar, Director of Oil Markets and Energy Transitions at the Independent Commodity Intelligence Services, believes that Trump's unpredictable policy will bring more volatility to oil markets. However, he notes that the impact of regulatory changes on the sector will be limited. Parmar emphasizes that continuing sanctions against Russia will play a decisive role in determining the future direction of oil prices, adding that if Trump decides to lift sanctions against Russia, oil prices could quickly drop below \$70 per barrel. Parmar also notes that reinstating sanctions against Iran will be another major factor affecting prices. Recalling that Trump imposed a series of sanctions against Iran in 2018, he warns that these sanctions could reduce Iran's oil supply by up to 1 million barrels per day (bpd).

Parmar believes that "Trump will want to keep oil prices below \$80 per barrel and will try to continue this through a 'Drill, Baby, Drill' approach to domestic oil supply. However, we believe that his legislative changes will have minimal impact on the fuel sector."

⁴ <https://www.aa.com.tr/en/americas/trumps-energy-plan-expected-to-have-limited-impact-on-oil-prices/3463482>

In any case, U.S. energy giants will try to benefit from the real effects of deregulation in the fuel sector under Trump, but they will always adjust their production according to market dynamics to avoid losses due to price changes.

It should also be considered that the Trump administration is obliged to coordinate its energy agenda with major oil and gas companies. For example, major oil companies spent an astonishing amount of \$445 million during the last election cycle to influence Donald Trump and Congress⁵.

It should also be considered that Trump's close ties with tech billionaires will not allow for a rapid decline in oil and gas prices. For instance, low gasoline prices could negatively affect the sales of electric and hybrid vehicles.

Currently, Trump's rise to power has made them even richer. According to calculations by the Climate Accountability Research Project (CARP), the total wealth of 15 billionaires who attended the inauguration just one day after Trump's swearing-in increased by \$3.31 billion, rising from \$317.86 billion to \$321.17 billion. According to CARP's analysis, these individuals have earned \$17 billion since the beginning of the year⁶.

⁵ <https://www.theguardian.com/us-news/2025/jan/23/big-oil-445m-trump-congress>

⁶ <https://time.com/7209181/fossil-fuel-billionaires-wealth-trump-inauguration/>

Implications for Azerbaijan

Trump's energy policy, as well as his tariff policy, will affect the global market price of oil and gas. During his election campaign, Trump began implementing tariff threats against major trading partners, including Mexico, Canada, China, and the European Union. For instance, on February 1, 2025, President Trump announced that new tariffs⁷ would be applied to imports from Canada, Mexico, and China starting from February 4, 2025. According to these orders, the import tariff rate from Canada and Mexico is 25%, and from China, it is 10%. He also reiterated his warning that he would apply a 100% tariff to BRICS countries in response to their attempts to replace the U.S. dollar.

It seems that Trump's U-turn in energy and trade policy after the Biden administration will create turmoil in global markets, but this will not necessarily lead to lower prices in all cases.

Trump's new energy and tariff policies could have adverse effects on global oil and gas prices in the short, medium, and long term, potentially triggering an economic crisis in Azerbaijan from 2026 onwards if no fundamental reforms or significant policy changes are implemented. Analyzing current trends and forward-looking projections indicates that Azerbaijan's economy may face external shocks not only due to declining oil and gas prices but also as a result of shifts in foreign trade relations and direct investment flows. Therefore, urgent measures are needed to modernize and restructure Azerbaijan's non-oil sector, diversify the national economy, and enhance the country's access to global markets through improved market regulation and increased competitiveness.

The medium-term impact of the United States' National Energy Emergency Act's⁸ implementation on reducing world oil and gas prices is undeniable, as forecasted by international analysts and rating agencies. Despite starting liquefied natural gas (LNG) production only in 2016, the U.S. is now a world leader in this field, displacing natural gas producers in Europe through pipelines. This trend places Azerbaijan and its partners, who have invested a total of \$14.5 billion in the Southern Gas Corridor project (including TAP- 5,5 billion dollar, TANAP- 6,5 billion dollar, and the South Caucasus Pipeline - 2,5 billion dollar), in a difficult position⁹. If the U.S. expands its LNG

⁷ <https://www.whitecase.com/insight-alert/president-trump-imposes-25-tariffs-canada-and-mexico-and-10-tariffs-china>

⁸ <https://www.whitehouse.gov/presidential-actions/2025/01/declaring-a-national-energy-emergency/>

⁹ <https://www.energypolicy.columbia.edu/events/southern-gas-corridor-progress-and-challenges/>

production and exports to Europe, Azerbaijan and its partners might not reach the "zero level" in the Southern Gas Corridor by 2030, potentially slowing down the profits from gas exports through pipelines.

It is no coincidence that the capitalization of BP, the operating company for Azerbaijan's main oil and gas fields, fell from approximately \$152.6 billion at the beginning of 2018 to \$82 billion by early 2025¹⁰, leading to a reduction of about 5% of its workforce, including 4,700 positions and over 3,000 contractor jobs¹¹. Even though Chevron and Exxon Mobil, leading U.S. oil companies, achieved record oil and gas production last year, their profits decreased in the fourth quarter of 2024¹².

The dynamics of declining revenues in the residual fuel sector indicate that oil and gas companies see their way out of the crisis through management and operational cost reductions, showing less enthusiasm for investing in the energy transition¹³. Although SOCAR, Azerbaijan's leading Oil and Gas Company, has not yet publicly published its financial report for 2024¹⁴, the Ministry of Energy's indicators reveal that SOCAR produced 7.5 million tons of oil (including condensate) and 7.7 billion cubic meters of gas. For comparison, SOCAR produced 0.7 billion cubic meters more natural gas and 0.3 million tons more crude oil in 2023¹⁵ than in 2024. The average annual export price of "Azeri Light" oil was \$82.87 per barrel¹⁶ in 2024, compared to \$86.1 in 2023¹⁷. For comparison, the average selling price of a barrel of Azeri Light (CIF) oil in 2022 was \$103.58¹⁸.

The results of Trump's energy policy will become clear over months and years. So far, international agencies have not forecasted significant changes in oil and gas production or energy prices for this year. According to the U.S. Energy Information Administration's (EIA) Short-Term Energy Outlook¹⁹, U.S. crude oil production reached an annual record of 13.2 million barrels per day in

¹⁰ https://www.linkedin.com/posts/ilham-shaban-71770326_bloomberg-activity-7285651895610736640-D9fE

¹¹ <https://www.bloomberg.com/news/articles/2025-01-16/bp-eliminates-thousands-of-jobs-in-cost-cutting-effort-ceo-says>

¹² <https://www.eenews.net/articles/oil-majors-report-dip-in-earnings/>

¹³ <https://www.worldbenchmarkingalliance.org/publication/oil-and-gas/rankings/management/>

¹⁴ <https://minenergy.gov.az/en/xeberler-arxivi/00448>

¹⁵ https://minenergy.gov.az/az/xeberler-arxivi/00146_7892

¹⁶ <https://apa.az/energy-and-industry/2024-cu-ilde-azerbaycan-neftinin-orta-ixrac-qiymeti-belli-olub-884198>

¹⁷ <https://customs.gov.az/az/faydali/gomruk-statistikasi/xarici-ticaretin-veziyyeti-haqqinda>

¹⁸ <https://apa.az/en/energy-and-industry/azerbaijani-oil-price-rose-by-more-than-2-on-world-market-405705>

¹⁹ <https://www.eia.gov/outlooks/steo/>

2024. The EIA reports that production will increase slightly this year to 13.5 million barrels per day. Although Trump promises to massively increase the production of oil and other light hydrocarbons by 15% or 3 million barrels per day²⁰, the EIA forecasts that global oil production will increase more than global oil demand, leading to downward pressures on oil prices this year and next. According to the EIA's forecasts, the price of Brent crude will be 8% lower in 2025 than in 2024, averaging \$74 per barrel, and 11% lower in 2026, averaging \$66 per barrel.

According to the oil and gas industry expert Olzhas Baidildinov,²¹ the United States could increase oil production in the region of 1 to 1.5 million barrels per day within one to two years. For American companies, experts suggest that a price above \$60 per barrel will be crucial. As a result of the United States' National Energy Emergency Act, the average price of a barrel of WTI oil on the global market is projected to be around \$60 per barrel in 2025-26 years.

As evident from SOCAR's example, the established trend of declining oil production and falling prices is expected to continue in the current and following years, leading to decreased revenues both at the country and company levels. In addition, capital, operational, and transportation costs²² associated with oil production and sales are increasing year by year. This not only reduces the profits of local and foreign companies operating in the oil and gas sector but also decreases the tax revenues to the state budget, leading to an increase in the budget deficit.

The increase in SOCAR's debt obligations also worsens its financial situation. As shown in its consolidated financial reports, SOCAR's total long-term debt²³ obligations increased by 993 million manats compared to previous years, reaching 12.127 billion manats as of December 31, 2023.

From the State Oil Fund of the Republic of Azerbaijan's (SOFAZ) revenue and expenditure report²⁴ for January-December 2024, it is evident that the profits from the sale of oil and gas amounted to 11.461 billion manats, which is 1.32 billion manats less than the amount transferred to the state budget that year. Moreover, the funds obtained from the sale of oil and gas in 2024 decreased by 3.058 billion manats compared to 2023²⁵. This decrease is expected to continue in

²⁰ <https://www.politico.com/news/2025/01/07/trump-oil-promises-biden-drilling-ban-00196740>

²¹ <https://www.lada.kz/kazakhstan-news/133829-kazakhstanu-nuzhno-gotovitsia-k-zatiazhnomu-krizisu.html>

²² Ibadoghlu, Gubad, Three Key Factors Reducing Oil Revenues in Azerbaijan (August 09, 2024). Available at SSRN: <https://ssrn.com/abstract=4920430> or <http://dx.doi.org/10.2139/ssrn.4920430>

²³ <https://socar.az/en/page/maliyye-hesabatları>

²⁴ <https://oilfund.az/en/fund/press-room/news-archive/1682>

²⁵ <https://oilfund.az/en/fund/press-room/news-archive/1620>

2025, with a projected increase in pace from 2026 onwards. Consequently, it is expected that the transfers projected in the medium-term expenditure framework from SOFAZ to the state budget will be financed by the reserves of the Fund²⁶, which amounted to 60.031 billion U.S. dollars as of January 1, 2025.

Along with the decrease in oil and gas revenues, Azerbaijan's main export products, there is also an observed increase in imports. In 2024, compared²⁷ to 2023, foreign trade turnover decreased by 6.98% in U.S. dollar terms, including a 21.67% decrease in exports and a 21.82% increase in imports. This troubling trend, particularly the significant increase in imports in the last two months of 2024, leads to a continuous negative balance in foreign trade. The increase in imports also raises the demand for foreign currency, increasing pressure on the manat and raising the possibility of devaluation. If this trend reverses during the year and the decline rate increases, devaluation will be inevitable²⁸. As of January 31, 2025, the Central Bank of Azerbaijan had foreign currency reserves of 10.988 billion U.S. dollars, a 6% decrease compared to January of the previous year²⁹. If the increase in imports continues in 2025 along with a decrease in the Central Bank's foreign currency reserves, reaching a 1/3 ratio, then the likelihood of devaluation will further increase.

Therefore, the implementation of the National Energy Emergency Act, if it leads to a decrease in world oil and gas prices, will form the following negative trends in Azerbaijan's economy, which heavily relies on the export and transportation of oil and gas resources:

- *The "zero level" in the Southern Gas Corridor will only be possible after 2030;*
- *The execution of transfers planned in the medium-term expenditure framework from SOFAZ to the state budget will lead to a decrease in the Fund's assets;*
- *The decrease in SOCAR's revenues, along with an increase in investment and debt obligations, will complicate its financial situation and lead to cuts, especially in workforce;*
- *The increase in imports and decrease in export revenues will reduce the Central Bank of Azerbaijan's foreign currency reserves and the current account's positive balance of the Balance of Payments;*

²⁶ <https://oilfund.az/en/fund/press-room/news-archive/1682>

²⁷ https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222

²⁸ Ibadoghlu, Gubad (2025) : Azerbaijan Foreign Trade 2024: Statistical Analysis and Devaluation Expectations, <https://www.econstor.eu/bitstream/10419/309064/1/Ibadoghlu-Azerbaijan-Foreign-Trade-2024.pdf>

²⁹ https://cbar.az/infoblocks/money_reserve_usd

- *The decrease in profits for foreign oil companies will lead to a short-term decrease in profit tax revenues to the state budget and cause problems in budget expenditure execution in the medium and long term, increasing the budget deficit;*
- *The decrease in export revenues and increase in import expenses will increase pressures on the AZN and raise the possibility of currency devaluation;*
- *The decrease in revenues for Kazakhstan will also reduce the volume of transit oil transported through the BTC pipeline to the world market, decreasing Azerbaijan's transit revenues.*

These trends will increase the number and impact of Azerbaijan's urgent socio-economic problems. Thus, preventive measures must be implemented urgently for the Azerbaijani economy, especially to preserve financial, currency, and fiscal stability.