Geopolitics and Oil Prices

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Not Much Oil Demand

Global Oil Demand Growth By Main Product

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Still Some Supply

Non-OPEC Crude and Condensate Annual Growth by Region

OECD  OIL SANDS  FSU  AFRICA  LATIN AM  Series5  Series4

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Surplus Persists Absent Significant Supply Adjustment

Annual CHANGE in Global "Oil" Supply and Demand 2014-2018

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<th>Year</th>
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<th>Non-OPEC NGLs and Alternative Fuels</th>
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Structural (Not Cyclical) Change in Geopolitics related to Oil

- Iraq no Longer occupied, Iran no longer under sanctions
- Shiite Crescent is greater threat to Sunni power
- Russia renewed interest in the AG region
- China renewed interest in the AG region
- Rise of transnational threats: Al Qaeda, ISIS
- Rise of transnational groups: Kurds, refugees
- Tension between inter-national solutions and transnational threats
- Multi-Party civil war in Syria
- U.S. foreign policy shift towards Asia Pacific
- Current and Potential failed states: Libya, Yemen, Syria, Venezuela, Nigeria, Ecuador, Algeria
- Low crude oil prices
- Shale and Oil Sands potential
- North America, Europe shifting demand to natural gas and renewables, vehicle fuel economy gains
Geopolitics of Oil and Producer-Consumer Relations

Producer

Instability → Supply Disruption → Price Increase → Economic Pain

Consumer

Instability → Lower Revenues → Less Oil Demand, Lower Prices → More Self Sufficiency, changing Energy Mix
U.S. Goals:
Further Integration (?) with the Global Markets
Defeat Islamic State

- Supporting Shale Development
- Reducing foreign oil dependence
- Exporting Crude Oil and LNG
- Quality oil balancing (export light, import heavy)
- Opposing IS
- Competition with Arab Gulf Producers
- Bias towards free trade
- Naval Superiority
**Russian Goals:**
**Russia as a Great Power**

- Played Georgia, Ukraine cards effectively against NATO expansion in Europe
- Prevent regime change in Syria and open door to closer collaboration with Iran and Iraq
- More leverage in the region versus U.S.
- Sell arms to region
- Counter radical Islamist Groups that threaten Russia
- Burnish Putin legacy even as Russia struggles with low oil prices
Chinese Goals:
Use Spare Industrial Capacity to Grow Markets for Chinese goods

• China’s Belt and Road Initiative
• New Railway to Iran
• Trade talks with Pakistan India and Myanmar
• Turkey as gateway to Europe
• Focus on South China Sea is both economic and military
Meanwhile the Situation at Home
(U.S. Crude Imports by Source)

Source: EIA

2016 YTD Imports: 7803
2016 YTD Exports: 481

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We Can End Arab Gulf Imports – If We Want

Expected Sources of Crude Oil for the U.S.

- Canada
- rest of Latin America
- Arab Gulf
- Mexico
- Africa
- US crude Production

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Geographic Realignment of Market?

Accelerated economic integration East of Suez

Declining oil demand in the West

Latent Nationalism and Dissatisfaction with Globalization

Frustration with inter-national solutions addressing transnational threats like IS

Geographic Realignment (OPEC Countries in Blue)
Final Thoughts

• Fundamentally weak market (struggling to return to $60) for years absent a supply disruption/reduction
• Geopolitics driven by consuming countries policies and producing country events
• U.S. China, Russia’s interests complicate geopolitics of oil
  - Russia - great power behavior
  - China - grow markets
  - U.S. - free trade, integration with global markets
    - but, less dependence on imports
    - limited military engagement
    - defeat IS

• Geopolitics and Oil Price
  - Geopolitical Pressure on Producers rather than Consumers
  - At least 1.0 million b/d disruption to impact market (maybe more depending on Libya)
  - Prices have limited upside given potential production
  - Investment shortfall is overestimated
  - Drop in costs offsets drop in investment to a degree
  - Demand continues to be modest