



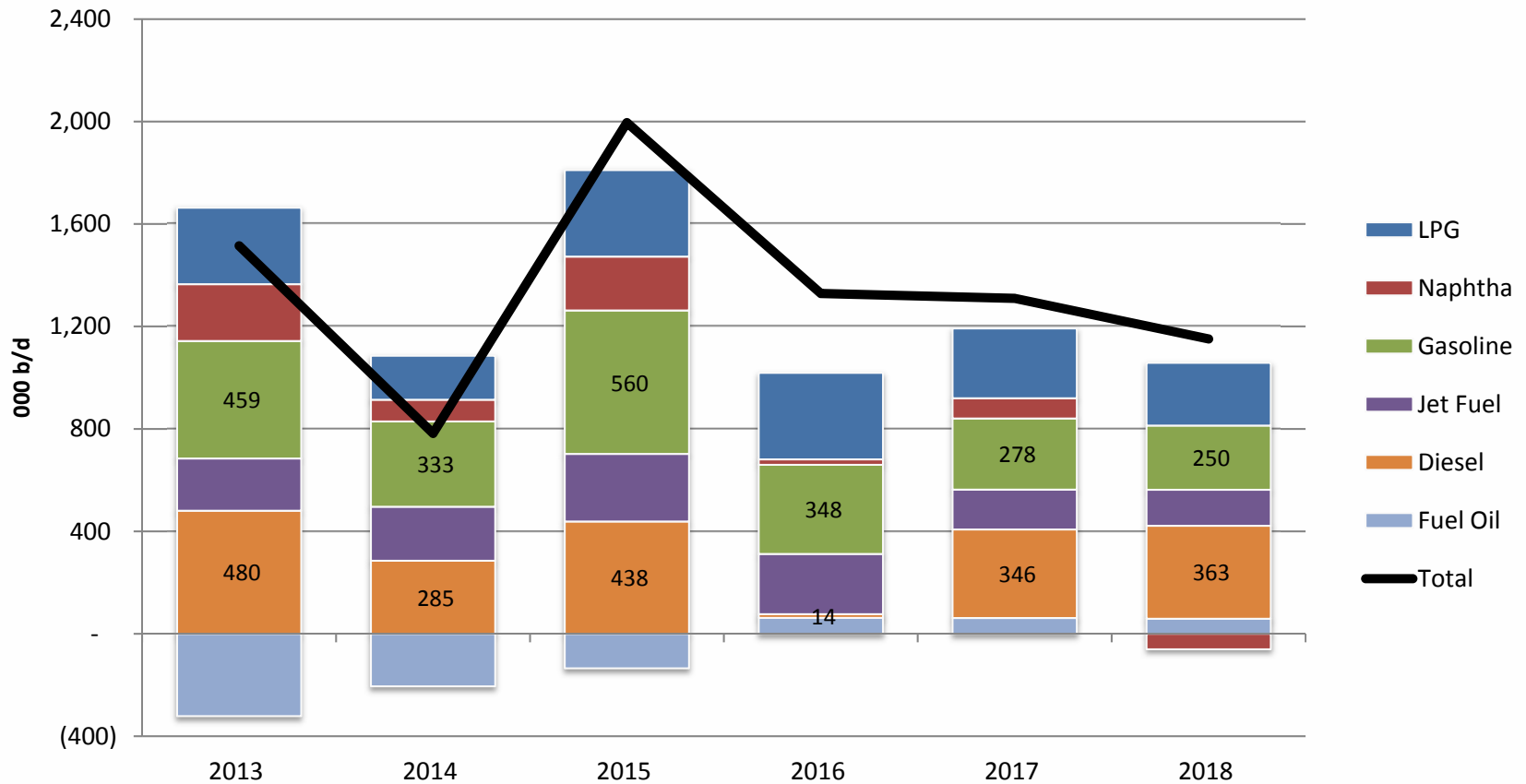
Geopolitics and Oil Prices

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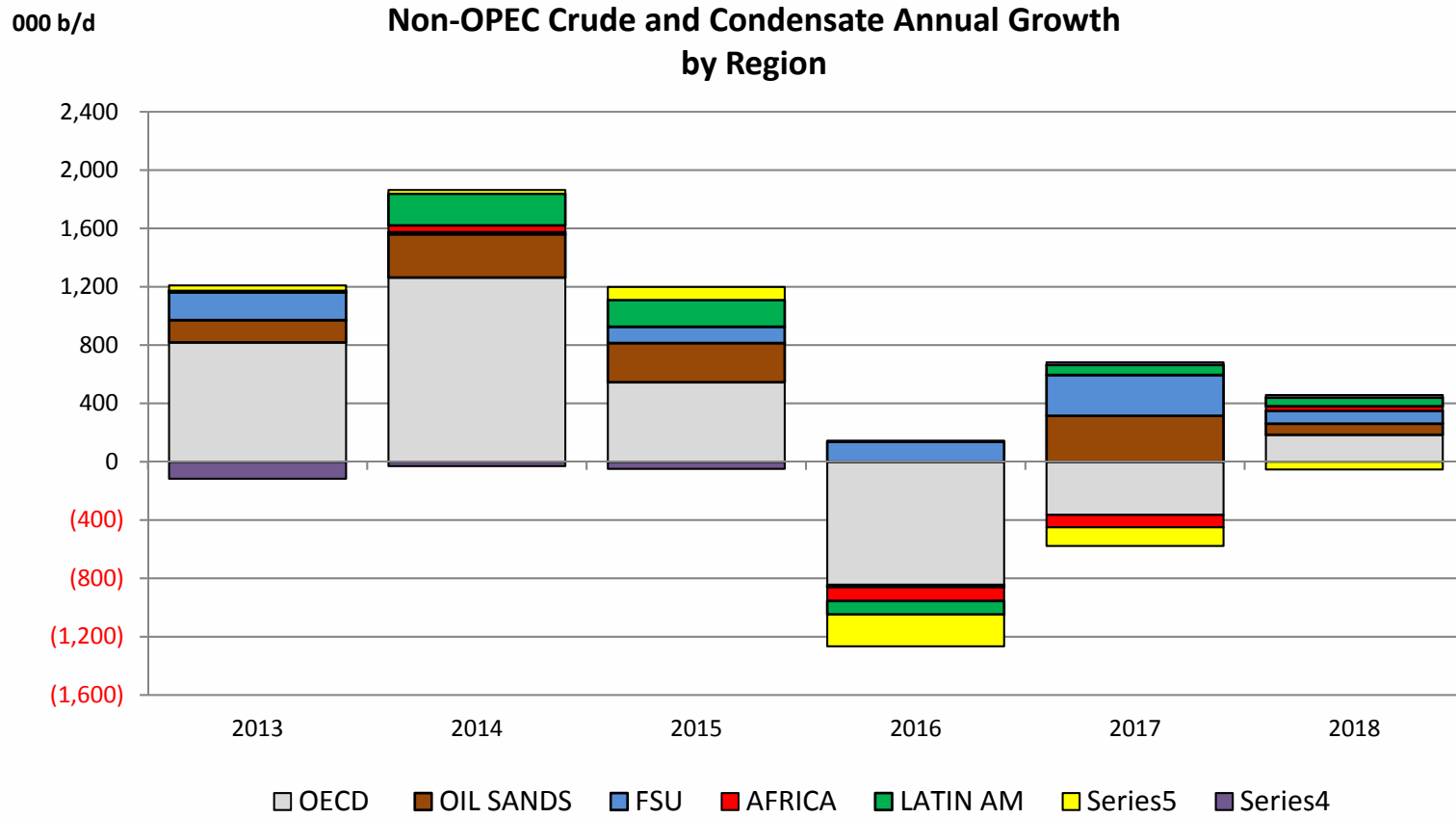
EIA Workshop on Physical and Financial Oil Market Linkages
September 28, 2016

Not Much Oil Demand

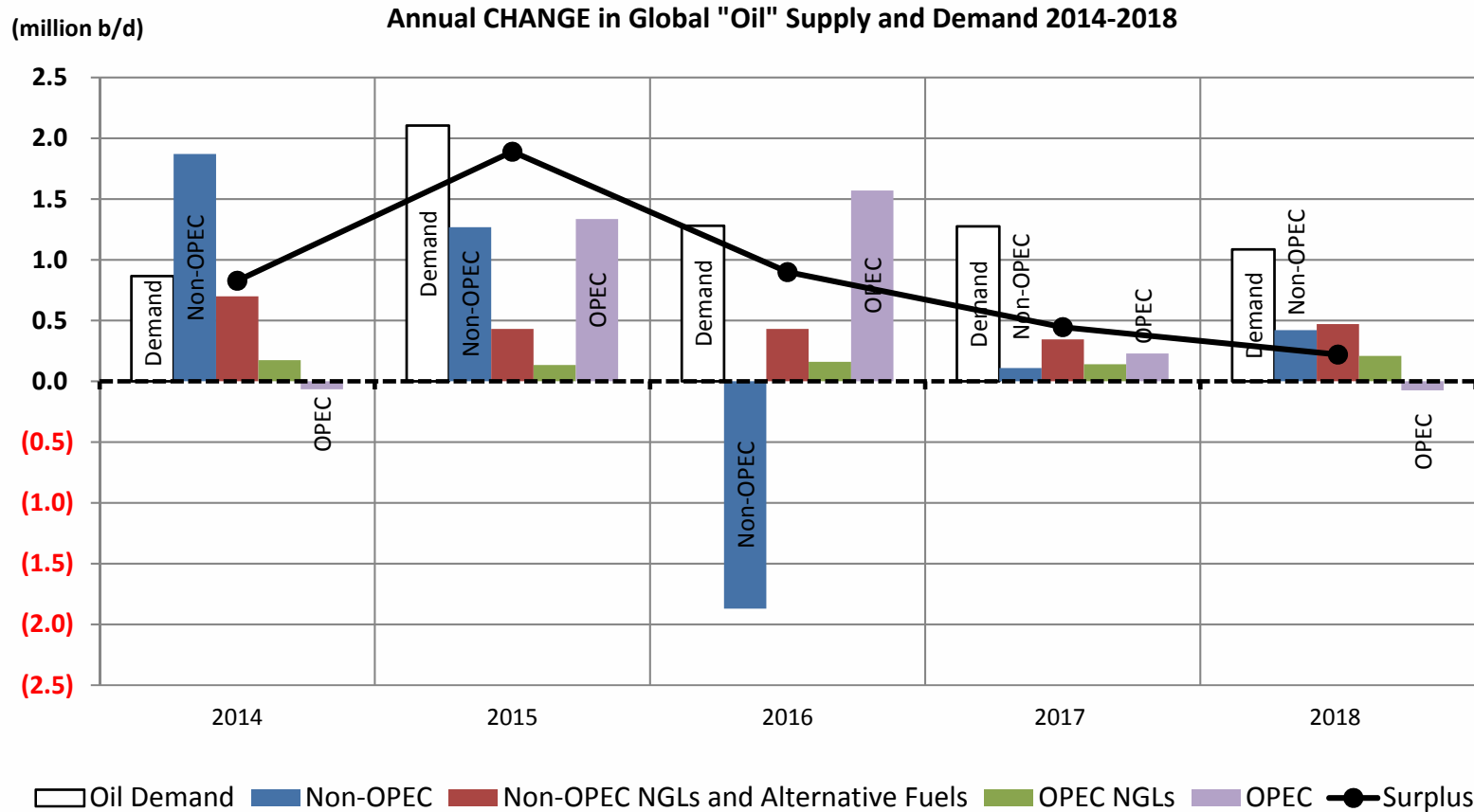
Global Oil Demand Growth By Main Product



Still Some Supply



Surplus Persists Absent Significant Supply Adjustment

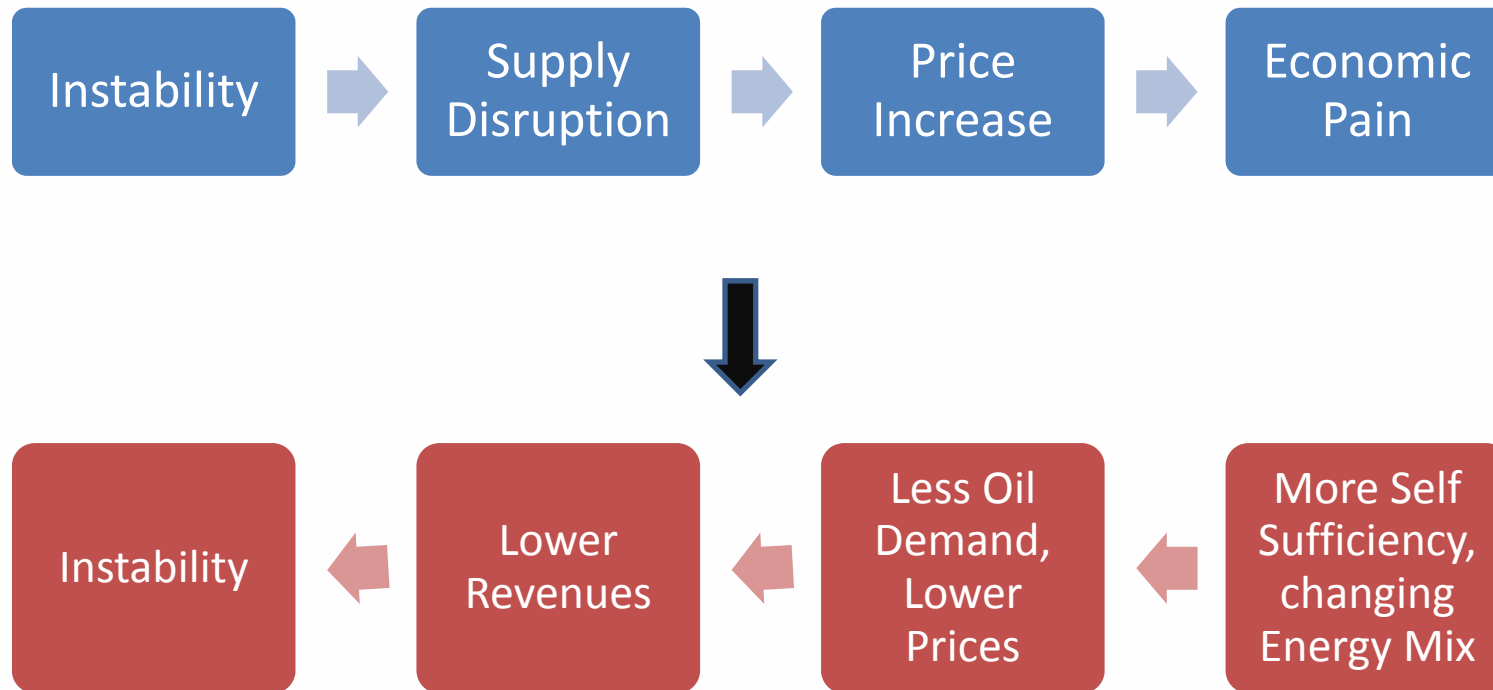


Structural (Not Cyclical) Change in Geopolitics related to Oil

- 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

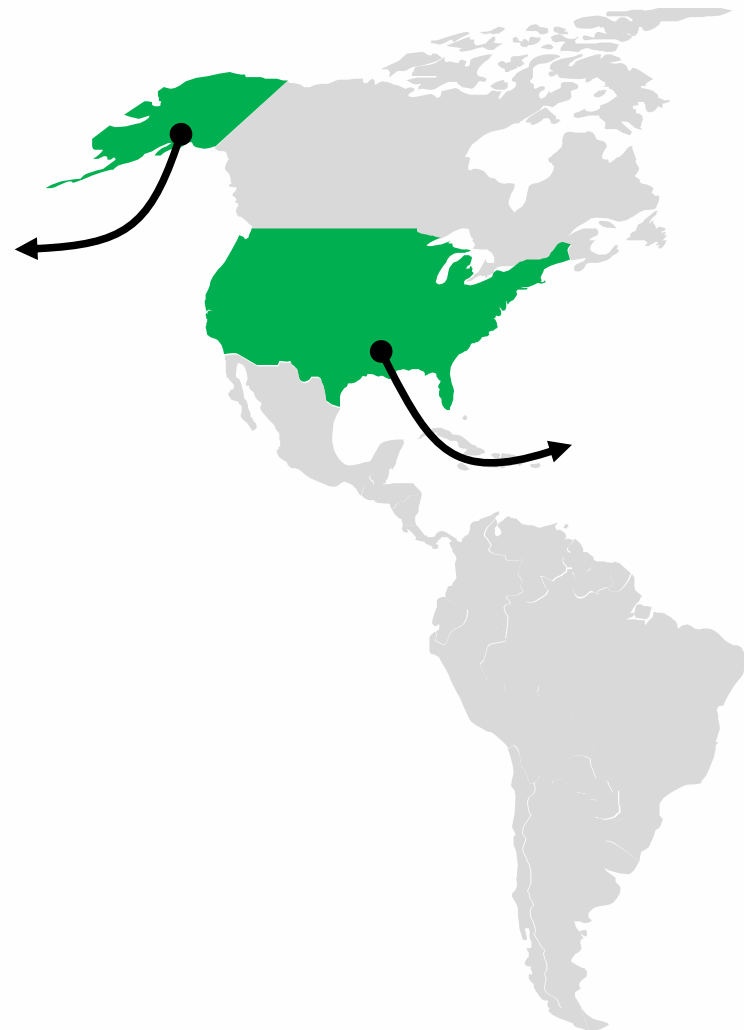
Producer



Consumer

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



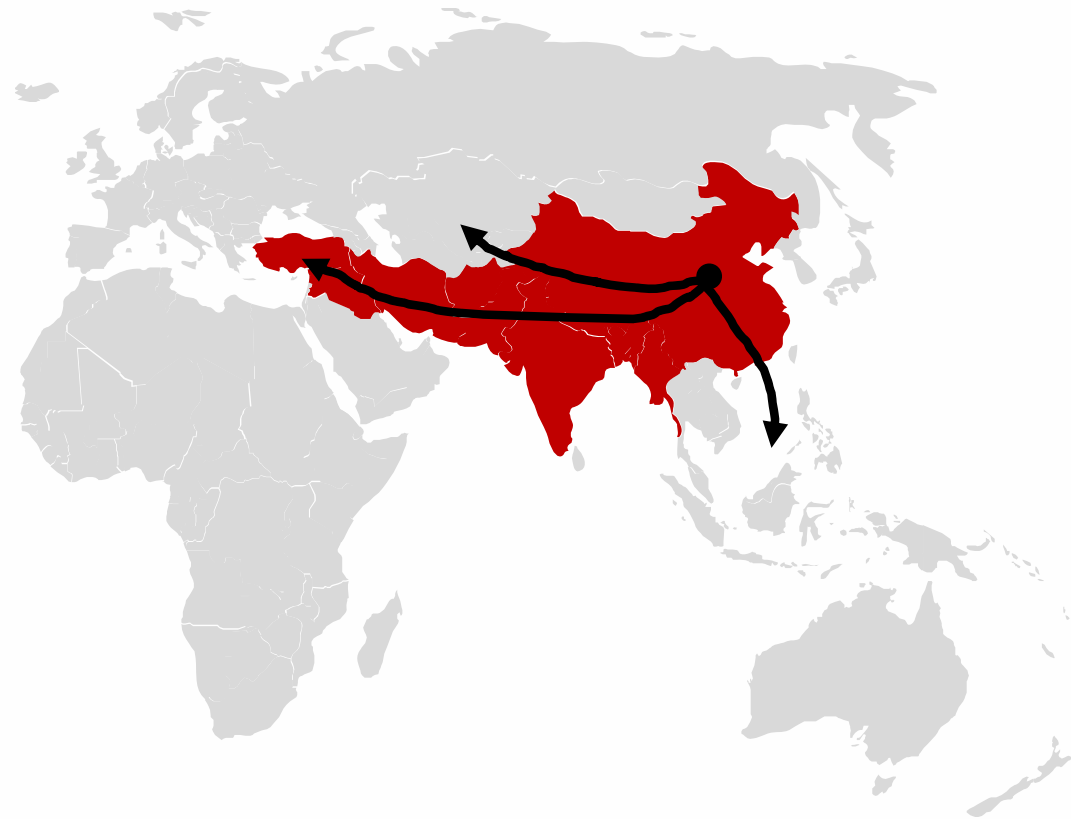
Russian Goals: Russia as a Great Power

- 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



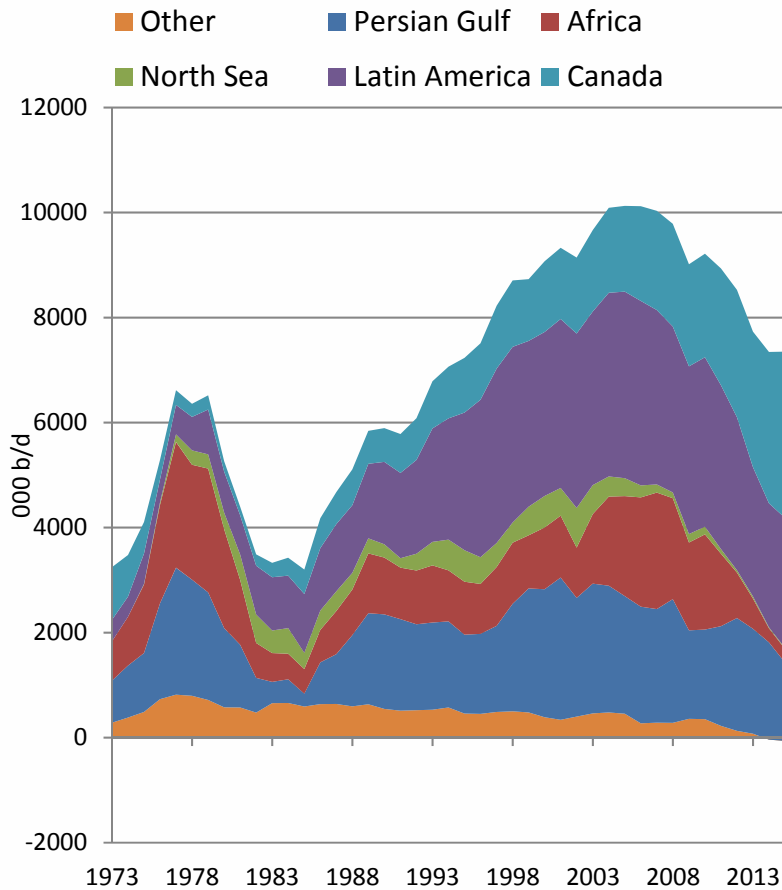
Chinese Goals: Use Spare Industrial Capacity to Grow Markets for Chinese goods

- 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

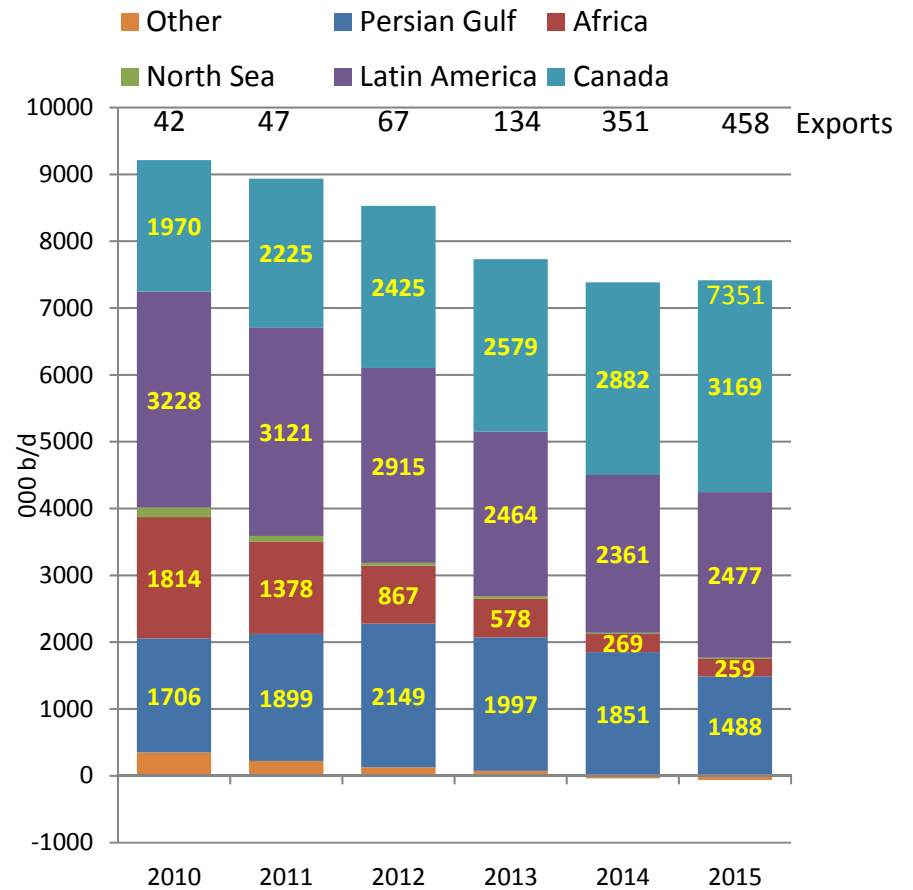


Meanwhile the Situation at Home

(U.S. Crude Imports by Source)



Source: EIA

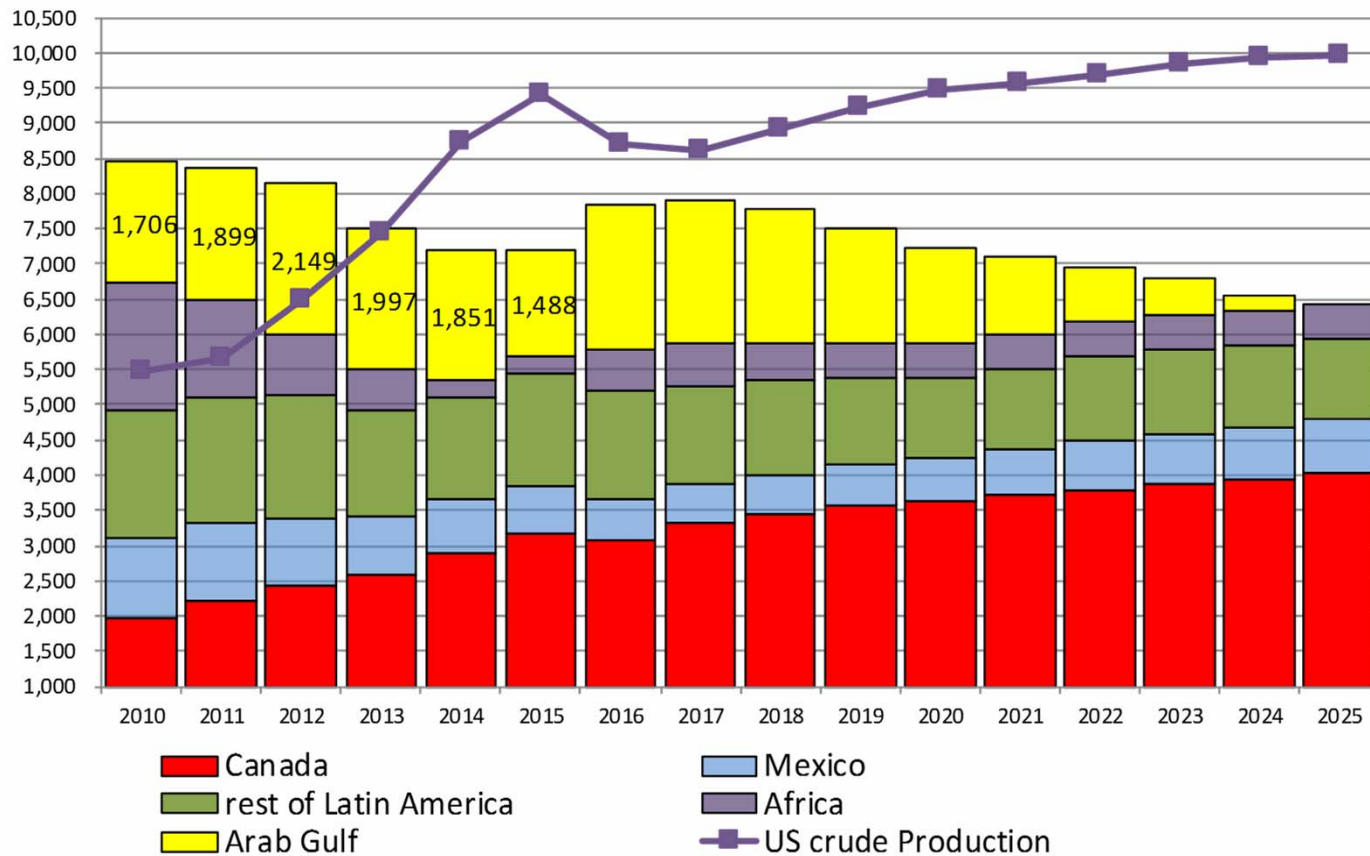


2016 YTD Imports: 7803
2016 YTD Exports: 481

We Can End Arab Gulf Imports – If We Want

000 b/d

Expected Sources of Crude Oil for the U.S.



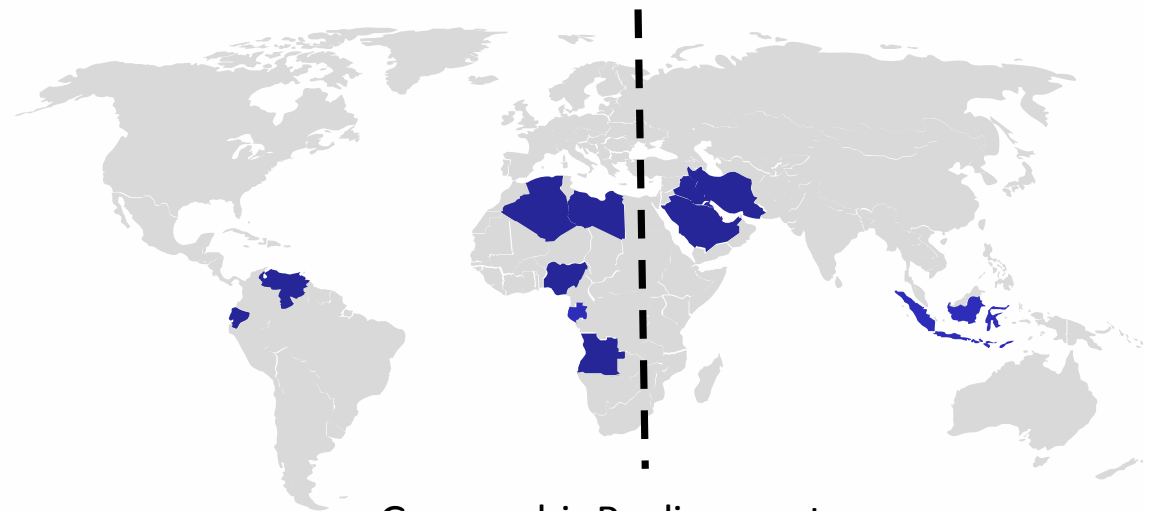
Geographic Realignment of Market?

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