

MIDDLE EAST OIL GEOPOLITICS UNDER DONALD TRUMP

Pierre Terzian
President
PETROSTRATEGIES

JOGMEC International Seminar, Tokyo, February 20, 2017

A WEEKLY NEWSLETTER

The World Energy Weekly Volume 31 - February 6, 2017

ExxonMobil puts its money on US shale oil, which will soon amount to 20-25% of its liquids production

US shale oil is going to become a vital lynchpin for ExxonMobil's production. The company now headed by Darren Woods is planning to extract 350,000 boe/d of hydrocarbons in the Permian Basin (New Mexico and mainly Texas) in the future, compared with 146,000 boe/d at present. This announcement follows Exxon's acquisition over the last few weeks of a number of companies that are active in this region. These purchases came to a total of \$6.6 billion, for 3.4 billion boe of reserves. **In the future, shale oil from the Permian and Bakken Basins (in the North) will soon account for 20 to 25% of its total liquids production, compared with 12% at present.** The new Exxon CEO (who arrived after the appointment of Rex Tillerson as the head of American diplomacy) is also looking to **raise his company's capexes by 14% this year, i.e. a target of \$22 billion.** This should enable it to boost its production and reserves.

Yet this apparent confidence is marred by bad news in terms of profits and proven reserves. **Exxon has written down its US assets by \$2 billion. This follows an extended period of low prices,** which are detrimental to the profitability of the fields. As a result of this write-down, Exxon published a 40% decline (to \$1.68 billion) in its profits for the 4th quarter of 2016, and its annual result shrank to only \$7.89 billion, a 20-year low. **At the same time, and under pressure from the American authorities, the US group decided to lower its proven hydrocarbon reserve estimates.** This is another reaction to the sustainably low oil prices, which are making part of the resources economically impossible to exploit. **Exxon has made it known that the sum of the reserves that have been removed could be close to the figure mentioned in October (i.e. 4.6 billion boe, i.e. a reduction of 19% over one year). The assets concerned are the Kearl project (oil sands - 3.6 billion boe) and gas-fields in North America (1 billion boe).** For a long time, Exxon was in the firing line of the SEC (the US financial market authority) and the New York Attorney General, which were surprised to see that the major was the only one not to have written down its reserves since the fall of 2014 and the fall in oil prices.

India could merge its state-owned companies to create a global giant

India's government is planning to at least partly merge its dozen state-owned oil and gas companies in order to create one or several integrated giants, which would be able to compete with the largest global companies, both state-owned and private. Finance Minister Arun Jaitley told the Parliament on February 2.

According to him, an integrated model would enable the companies concerned to "bear higher risks, avail economies of scale, take higher investment decisions and create more value for stakeholders". For his part, Oil Minister Dharmendra Pradhan said that "integrated companies are the order of the day. Integration will strengthen our companies, which will benefit from each other's competence".

In a nutshell, **this would enable Indian companies to compete with the majors in overseas E&P bidding rounds. The aim is also to enable**

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No. 1484

Pierre Terzian (Editor), Claire Aicardi, Andrew Greene, Gregory Heller, Patricia Marcoz, Francis Perrin. Subscriptions - EU: €2575 (+VAT for France); Elsewhere: \$2750. Address: 65, rue Desnouettes, 75015 Paris, France - Phone: (1)56085608 - Fax: (1)56085609

Published by consultants since 1986 in Paris, France

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Part 1

Donald Trump: the man, his method

- The oldest US president: fixed habits, **no political experience** (like many of his closest entourage)
- **Not familiar with chains of command** (decides without pre-consulting). He is used to deciding alone.
- **No former boss**, apart from his father Frederick
- He is described as **authoritarian**, huge ego, gets easily angry
- Free spirit: **he owes nothing to Republican party**
- Will not hesitate to **escalate if challenged**
- **Not used to being criticized** or to facing constant protests
- Does not like to spend too much time studying files: **impulsive, quick decision-maker**

Donald Trump: the man, his method (2)

- Entrepreneurial spirit
- He defines himself as a « deal-maker »
 - Negotiate from strong position
 - **Strike first, deal after:** impose your will if you can, get the best possible compromise if obliged
 - Abrupt behavior, **excessive language**, including with foreign leaders (Mexico, Australia)
 - **Salesman:** do whatever it takes to promote the brand
 - **Used to bilateral negotiation**, not multilateral
 - **Used to being obeyed**, not used to retaliation or contradiction

Part 2

Donald Trump's "ultimate" program

- "Ultimate" = unless he is refrained by judges, Congress, US big capital, people,...
- Our reference = his inauguration speech
- **Missing points:** no reference to America's Founding fathers or to the US Republic's basic values. Change of paradigm.
- **Missing words:** peace, law, treaties, justice, ...

The Ultimate D. Trump program (continued)

The **key themes** (quotations):

- The American **carnage** stops right here and right now.
- We've defended **other** nations' **borders**.
- We've made **other** countries **rich**.
- The wealth of our middle class has been **ripped** from their homes and then redistributed all across the world.
- We must protect our **borders** from the ravages of **other** countries making **our** products, stealing **our** companies, destroying **our** jobs.
- We will **bring back our jobs, our borders, our wealth**.
- We've **enriched foreign** industry at the expense of American industry, **subsidized** the armies of **other** countries.
- From this day forward, **it's going to be only America first**.
- We will follow 2 simple rules: **buy American and hire American**.

Trump refrained by judges (The Times of London)



Part 3

Trump's economic nationalism

- « Protection will lead to great prosperity and strength »
- Return to America the jobs « destroyed » by other countries, mainly China and Mexico
- Re-open US factories, modernize infrastructures
- His election could be « the biggest shock to the world economic system » (WSJ)
- Border tax to make Mexico pay for the wall, finance infrastructure building and compensate for tax cuts
- Import tax considered on products deemed to be dumped by China, Mexico,...

Trump's economic nationalism (2)

- Go bilateral everywhere possible
- The US is the strongest in any bilateral relation
- Dislikes multilateral agreements which hinder US freedom of movement, protect other nations ...
- This can come with a cost: the US withdrew from the [Trans-Pacific Partnership](#), although it was designed as a bulwark against China
- [Nafta](#) to be renegotiated, mainly against Mexico

Trump's economic nationalism (3)

- Trump and advisors opposed to the EU: want it to end.
- The EU as a peace factor is totally ignored
- It is only considered as an economic competitor
- The US EU ambassador designated Ted Malloch, predicted the collapse of the Euro zone “in 18 months”
- Aggressive protectionism based on old economics: ignores international production chains & the new economy for which the brain is the main input
- US “new economy” leaders were the first to protest against the “Muslim ban”.

“Our borders, our borders !”



Part 4

Trump's Foreign Policy

- Pursuing Obama's **selective disengagement** from the international scene, but **military strikes should no be excluded**
- **Military alliances can be useful for the US.** Russia has huge destructive potential, while China's military budget may exceed that of the US in 15/20 years
- **Find a deal with Russia?** the purpose is not specified.
 - Fight against **Islamic terrorism?**
 - Reduce nuclear tensions and therefore **cut military spending?**
 - **Play Russia against China? Or against the EU?**
- Trump wants allies to pay more for the US military umbrella, especially within NATO
- Will not hesitate to build forces in specific cases (N. Korea)

Trump's Foreign Policy (continued)

- US selective disengagement is a blessing for Russia
- Russia has already filled the vacuum in Syria
- Russia wants to talk on an equal footing with the US
- Russia is economically weak: puts the emphasize on military
- China is militarily weak: puts the emphasize on trade
- First consequences are already being felt:
 - East European's are uneasy about US-Russia rapprochement
 - The EU dilemma: dismantle or gain in new cohesion?
 - Australia inviting China to join the Trans-Pacific Partnership
- The US could increasingly act as a nation-state rather than as a big power defending its spheres of influence

Part 5

Donald Trump in Middle East politics

- Will the ME be an exception to the US disengagement because of support to Israel, the promise to « totally eradicate Islamic terrorism », and Iran being « the number one terrorist state »?
- Tensions have rarely been so high in the ME Gulf area: Sunni/Shia confrontation; Syria & Yemen proxy wars, unrest in Bahrain; Iraqi Kurds encouraged by Saudis against Shia-dominated Baghdad; pressure on Saudi Eastern province Shias; ...
- Trump's election was warmly welcomed in the GCC states, while it alarmed Iran. It consolidates hard-liners in each camp: anti Iranian ones in Saudi Arabia, anti-Saudis in Iran.

=> The obvious scenario seems to be more confrontation in the ME Gulf area.

Trump in ME politics (continued 1)

- However, another scenario is worth considering: a dialogue between GCC states and Iran.
- Saudis are losing ground in Syria, impasse in Yemen
- Trump is seen as being unpredictable. Excessive positions may take everybody by surprise
- US neo-isolationist approach provides food for thought
- US is becoming less dependent on oil imports
- The Saudis may conclude that now is the moment to negotiate, since the arrival of Trump reinforces GCC position, at the same time worrying Iran.

Trump in ME politics (continued 2)

- Signs of cautious Saudi openings to Iran:
 - Riyadh agreed to let Iran increase its oil production (November OPEC meeting)
 - Agreed to Hezbollah-backed Michel Aoun to be elected President of Lebanon, in exchange of Saudi-backed Saad Hariri being appointed Prime minister
 - Agreed to Jordan and Syrian rebels and attending the Astana Russia-Turkey-Iran sponsored talks (January)
 - Opened talks with Iran on 2017 pilgrims (January)
 - King Salman and Donald Trump agreed on « rigorously enforcing » the JCPOA, not rejecting it (January)

Trump in ME politics (continued 3)

- Are we witnessing the first steps towards a resumption of Iran-GCC dialogue?
 - Riyadh agreed to let Kuwait send a letter to President Ruhani of Iran proposing a dialogue based on 3 principles (January 2017):
 - No interference in internal affairs
 - Respecting GCC states sovereignty
 - Respecting all UN Security council decisions
 - Tehran agreed to a dialogue (Velayati: “relations with SA have the potential to resuscitate”)

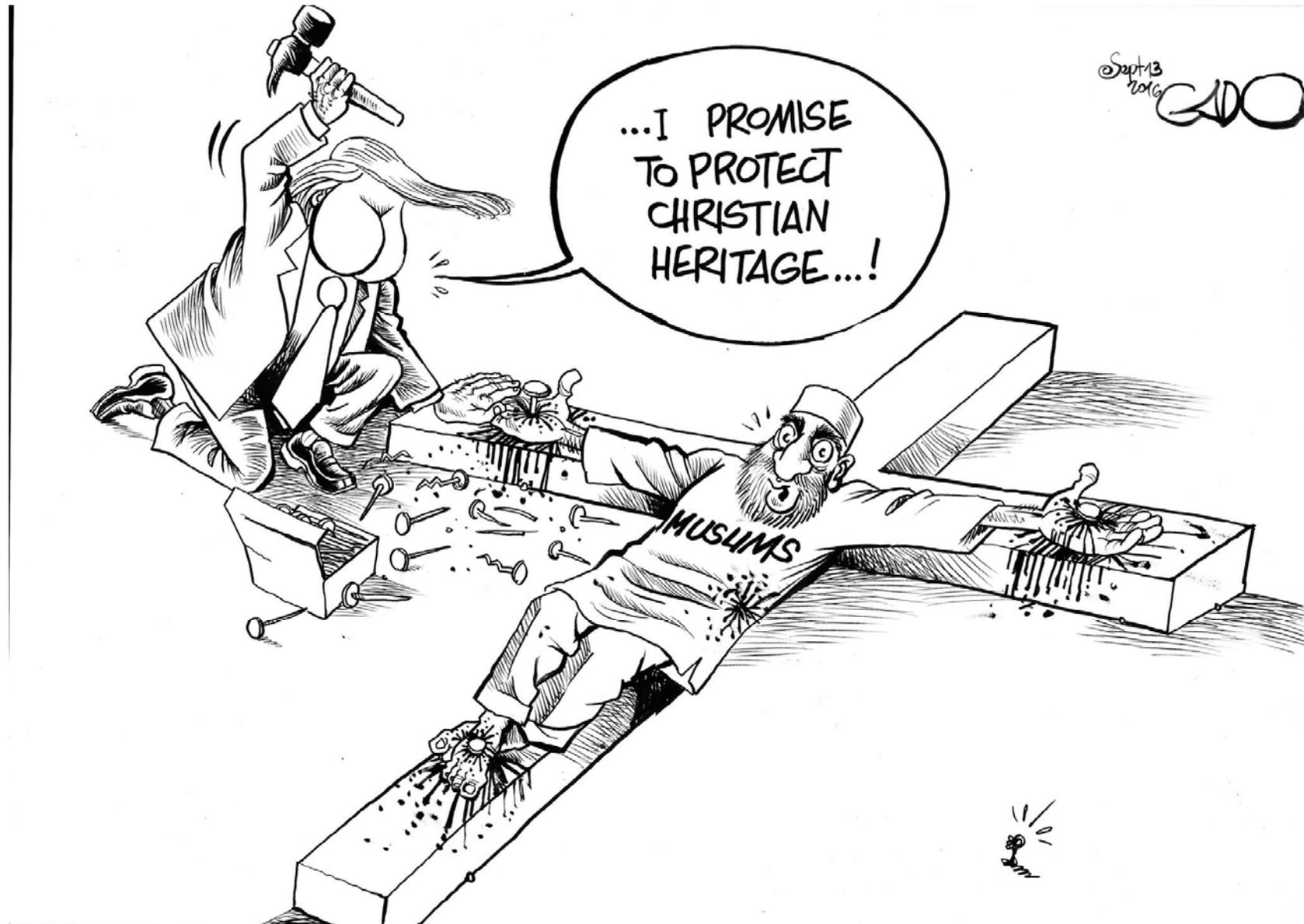
Trump in ME politics (4)

- Both Saudi and Iranian regimes are confronting internal hardline forces
- Saudi-Russian agreement to co-operate in oil matters
- Russia has permanent interests with Iran
- Russia entered intra-Sunni battleground using its Chechen Republic to favor Sunni moderates:
 - A Sunni Muslim conference was held in Grozny to decide “who is really a Sunni”: Salafists and Wahhabis were excluded. Saudi clerics protested. But Deputy-Crown Prince Mohamed welcomed Chechen President in Riyadh

Trump in ME politics (5)

- How to handle Donald Trump?
 - He is too overtly in favor of Israel
 - His Chief Strategist, Steve Bannon, is a theorist of “war against Islam”
 - Trump let it be known that the US will no longer insist on a “two-state solution” in the ME
- => For the GCC countries, to appear as allies to Trump’s America is becoming increasingly difficult in the Arab-Muslim world.
- The GCC-Iran dialogue scenario is not guaranteed success, but it is worth considering as a possibility.

The Nation journal (Nairobi, Kenya)



Part 6

Donald Trump and Middle East oil

- Pro-industry policy by Donald Trump, backed by Republicans, can further boost US fossil fuel output
- If coal regains market share in US electricity production, more US gas will become available for export
- Unconventional hydrocarbon output increase could be quick; conventional to take at least 5 to 7 years
- In any case, US would become even less dependent on imported oil
- Leading Republican figures are calling for a carbon tax . It would enhance US energy independence by lowering coal and oil consumption

Donald Trump and Middle East oil (2)

- A GCC-Iran rapprochement would **make OPEC stronger**. **Russia** would back it. **Israel** could try to prevent it. Saudi and Iranian **hardliners** could also try to derail it.
- Iran would call for the establishment of a regional security pact (Helsinki Final Act, ASEAN). GCC would probably refuse: **distrust is strong**.
- **What would the US' reaction be?** Would Gulf stability pave the way for US disengagement?
- The **US would lose some of its influence** on countries depending on Gulf oil imports (China,...)

