



**P L A T I N U M**  
R O U N D T A B L E

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# The Prize: the Epic Quest for Oil, Money & Power

2

Delta Table

October, 2015



PLATINUM  
ROUNDTABLE

# Global Oilpatch Veteran

- ▶ *“The failure of so many to consider the possibility that oil prices might decline, let alone prepare for such an eventuality, suggests an obliviousness to both economics and history. After all, there’s lots of cheap oil left in the ground to discover.”*
  - ▶ J.C. Anderson, Veteran oilpatch executive



# Role of Oil in World Affairs

- ▶ Oil is central to security, prosperity and civilization today and is central to globalization:
  - ▶ The rise and development of **capitalism** and **modern business** = oil is the world's biggest, most pervasive business;
  - ▶ Oil is a **commodity** intimately intertwined with national strategies, global politics and power;
  - ▶ Oil established the **hydrocarbon economy** and the **hydrocarbon man**; and
  - ▶ **Environmentalism** has challenged petroleum as a good symbol of human progress.



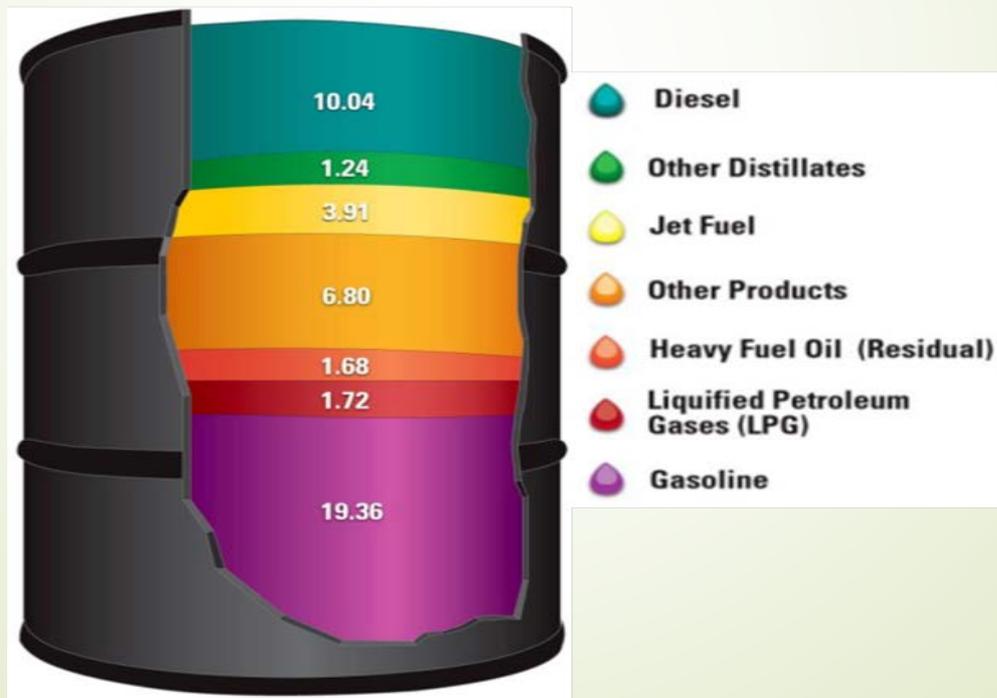
# Premise

- ▶ The **canvas** is global.
- ▶ The story of oil is a chronicle of **epic** events.
- ▶ Oil concerns itself with **power**, impersonal forces of **economics** and **technology**.
- ▶ The strategic game of oil is **played** by cunning businessmen and politicians.



# Products Made from a Barrel of Crude Oil

## Products Made from a Barrel of Crude Oil (Gallons) (2009)



# Fundamentals of Oil Price

- ▶ **Prices rise** – global supplies are tight and countries need oil to keep economies moving.
- ▶ **Prices fall** – over-production of crude and the world is sloshing in oil.



# Low Oil Price -- Impact on Industry

- Revenues fall so management hunkers down into survival mode.
- Budgets are cut immediately.
- Projects are either postponed or cancelled.



# People Assumed Petroleum Would be Cheap

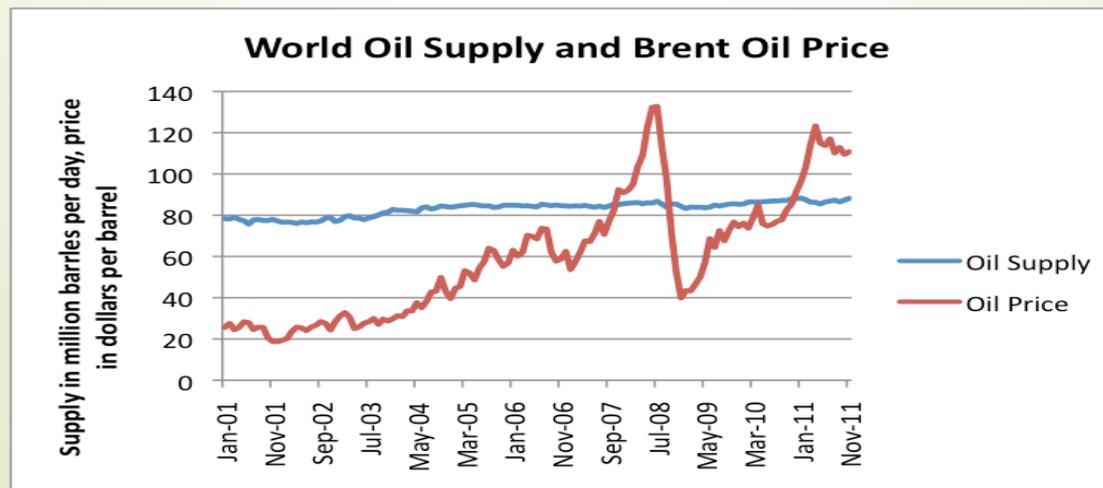
- ▶ **Globalization** (1990-2009) caused the world economy to almost triple in size.
- ▶ **9/11** happened and transformed international relations:
  - ▶ Gulf War II and the overthrow of Saddam Hussein; and
  - ▶ Out-and-out war between Muslim Sunnis and Shias.
- ▶ **Surge in oil demand** and industry had to play catch-up to bring new oil on-stream.



# Price Highs of 2007-2008

## \$30/bbl to \$145/bbl

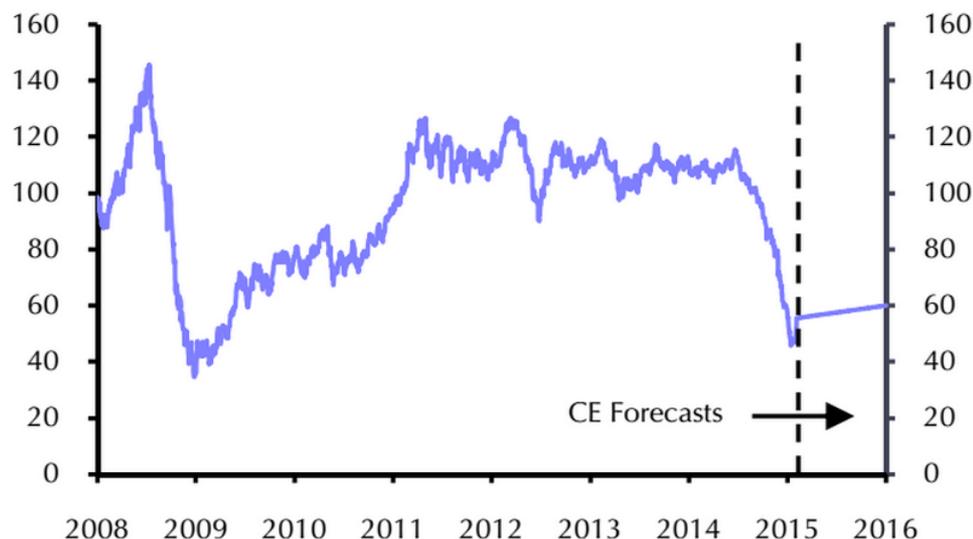
- ▶ Dramatic increase to cost of bringing new oil and gas into production.
- ▶ Apprehension that demand by China and India would buy all excess oil and create another shortage.
- ▶ Supply and demand, geopolitics, costs, financial markets, expectations and speculation to drive prices upwards.



# Price Collapse of 2014-2016 \$108/bbl to \$27/bbl

- Demand weakened .
- Trillions of dollars stopped flowing from oil-importing countries to oil-exporting countries.
- Saudi Arabia wants to regain market share.

**Chart 1: Brent Crude Oil Price (US\$ Per Barrel)**





# Saudi Arabia



- **President Nixon's deal with House of Saud:**
  - U.S. provide military protection to Saudi Arabia and its oilfields;
  - U.S. sell Saudis any weapons they needed;
  - U.S. guarantee protection from Israel and Iran; and
  - U.S. guarantee House of Saud as rulers in perpetuity.
- **Saudi's deal with U.S.:**
  - All oil sales in \$US; and
  - All surplus \$ would be invested in US Treasury bills.



# Petro-Dollar's Global Impact

- ▶ World's demand for U.S. \$ would soar with increasing demand for oil.
- ▶ U.S. Federal Reserve could print \$\$ to buy all oil its citizens wanted.
- ▶ The petrodollar allowed the U.S. to exploit (critics say abuse) the dollar's status as the world's reserve currency.



# Saudi Arabia Forces Oil Prices Down



- **Goal:** win back market share + punish Russia, ISIS and U.S. shale producers.
- **Current production:** 10.5 million bbl/day.
- **High-risk strategy:** has an estimated \$550 billion war chest of foreign reserves (was \$750 billion Q4, 2015);
- **External risks:** funding proxy war with Iran in Yemen, Syria and Iraq + battling Al-Qaeda and ISIS within its borders.



# Will Saudi Arabia Collapse Soon?

- ▶ Sept. 22, 2015 Saudi Prince Aziz Ibn Saud circulated a letter to the royal family:
  - ▶ It called for a “change in leadership to fend off the kingdom’s collapse.”
- ▶ Kingdom on brink of a “perfect storm:”
  - ▶ Burning through money reserves at an unsustainable rate;
  - ▶ Launched an unwinnable war with Yemen; and
  - ▶ Financed ISIS to end Shia regime in Iran.





# Iraq & Syria



- GW Bush surge in Iraq created calm.
- Obama withdrew and Shia PM Nouri Al-Maliki installed and persecuted Sunni minority.
- Revolt by Sunni in Syria destabilized both Syria and Iraq.
- U.S. insisted peace negotiations must be about President Bashar Al-Assad's departure.
- Iraq turned a blind eye to Russia:
  - Flying transport planes over airspace;
  - Delivering weapons to Syria; and
  - Sharing intelligence (without U.S. knowledge).





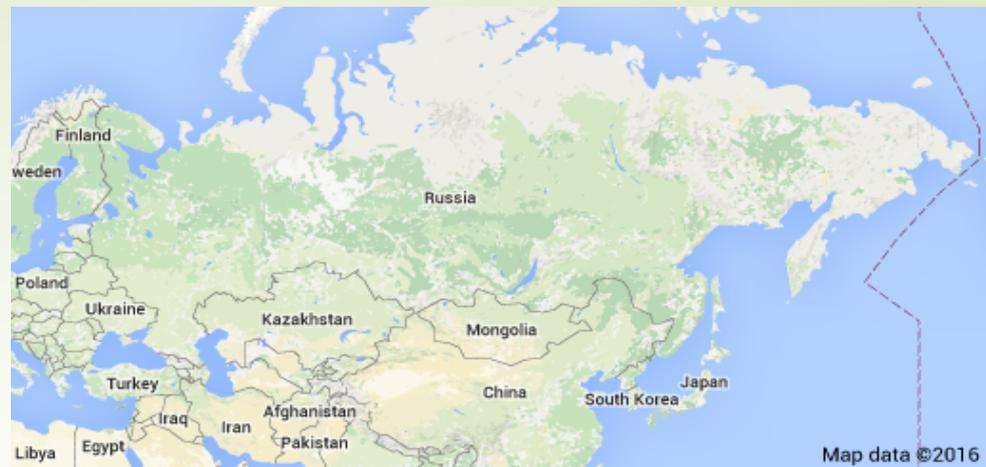
# Iran



- July, 2015 Nuclear oil deal inked (w/U.S., Russia, China, Britain, France and Germany):
  - Lift economic sanctions worth \$150 billion in exchange for IAEA to monitor facilities and scrutinize nuclear program.
- Spring, 2016 30-50 million bbl Iranian crude sold on open market.
- Long-term could export 3-4 million bbl/d.



# Russia



- Putin wants to destabilize petro-dollar.
- 2009 Russia pumps 11 million bbl/d and exports 8 million bbl/d = \$1 billion/day into Kremlin coffers.
- 2014 Mega-deals in other currency:
  - May – Russia/China = \$400 billion natural gas deal to supply 38 billion cubic metres/day for 30 years paid in *Yuan*;
  - August – Russia/India = \$40 billion gas pipeline paid in *Rubles*; and
  - September – Russia/Iran = 500,000 bbl/d of Iranian crude for Russian equipment & weapons paid in *Rubles*.

# Common Economic Space (CES)



- Russia assembling countries into a free-trade zone to coordinate economic + security.
- Challenge OPEC, EU and NAFTA.
- Union includes: Russia, Kazakhstan, Belarus.
- Russia courting:
  - Former Soviet satellites -- Tajikistan, Kyrgyzstan, Armenia, Azerbaijan, Moldova, Turkmenistan, Uzbekistan;
  - Former Communist – China;
  - Shia countries – Iran and Pakistan; and
  - Wants: Africa, Latin America, Germany etc.

# Russia + Syria + Iraq

- Putin supports President Bashar Al-Assad.
- Putin working with Iran to defeat Sunnis.
- Putin working with Israel to prevent nuclear war.



# Al-Qaeda

- ▶ Internet message sent by mastermind of 9/11
- ▶ "The first semester commences in 3 weeks. 2 high schools and 2 universities. This summer will be surely hot. 19 certificates for private education and 4 exams. Regards to the professor. Good bye."
- ▶ Solve the riddle.



# U.S. Intelligence Warned of Al-Qaeda Attacks

- ▶ Feb. 26, 1993 Bomed World Trade
- ▶ 1995-1996 Master plan for 9/11 discovered
- ▶ Feb. 1998 Bin Laden issued *fatwa* against U.S.
- ▶ Dec. 4, 1998 Presidential briefing to Bill Clinton



# Al-Qaeda Organization

- ▶ Core organization to plan, recruit and train terrorists to strike U.S., Western and Israeli targets;. Vanguard to organize and coordinate jihadist groups against Muslims.
- ▶ Inspiration for lone-wolf terrorists.
- ▶ Brand name representing successful violence.
- ▶ Base for conquest from Afghanistan in the name of global jihad.



# Islamic State of Iraq and Syria (ISIS)

- ▶ YouTube video of American James Foley.
- ▶ Al-Qaeda terrorist of Iraq and Syria used DVDs as calling cards – “greatest hits.”
- ▶ Bin Laden repulsed so expelled them from Al-Qaeda.
- ▶ Now called ISIS.



# Strongest *Jihadist* Group in World History

- ▶ World's richest terrorist group (\$2 billion in cash/assets)
- ▶ Controls more firepower & territory than any terrorist group in history
- ▶ Seized 40 kg of radioactive uranium = dirty bombs
- ▶ July 14, 2014 Leader Abu Bakr Al-Baghdadi proclaimed a caliphate which has two sources of revenues:
  - ▶ Sales from oil fields in Syria and Iraq; and
  - ▶ Sales of antiquities from looted historical sites.



# ISIS Threats Not Yet Accomplished

- Destroy the Kaaba in the Grand Mosque in Mecca (undated).
- Destroy America and kill its citizens (June 25, 2014).
- Capture Dome of the Rock (July 9, 2014).
- Conquer Rome and own the world (July, 2014).
- Punish Canada for bombing ISIS (Dec. 1, 2014).



# ISIS War Chest

- 52 – 155 mm M-198 howitzers (range of 20 miles).
- 1,500 Humvees.
- 4,000 machine guns that fire 800 rounds/minute.
- Battle tanks (including several M-1 Abrams).
- 88 pounds of stolen uranium from Mosul University.
- Chemical arsenal stolen from Syria.



# ISIS Oil Sales

- Selling about \$2 million/day of crude on black market = 50 – 60 thousand bbl/d.
- Selling at 50% discount to Saudi light.
- U.N. Security Council imposes sanctions on anyone buying this oil.
- Controls 11 oil fields and the major trafficking routes.
- Qatari tankers selling on international market.



# Global Oilpatch Veteran

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# Petrodollar Collapse

## What Should Canada Do?

- Sell in Canadian dollars (backed by Maple Leaf gold coins)?
- Sell in U.S. dollars (with no gold backing)?
- Invest in Canadian junior resource companies by betting on the right management teams.



# Canada's Security Vulnerability

- October 19, 2014 Lone wolf assassination - Quebec
- October 21, 2014 6 CF-18 fighters from CFB Cold LK
- October 22, 2014 Lone wolf assassination – Ottawa
- 30 ISIS cells in Alberta which CSIS is watching
  - Plots to hit pipelines, tankers, refineries, production facilities
- 80 Canadian ISIS fighters back in Canada (says CSIS)



# Conclusion

- ▶ What will cause oil price to rise again?
  - ▶ **Above ground risks:**
    - ▶ Geopolitics, costs, government decision-making, complexity, restrictions on access, investments.
  - ▶ **Increasing share of liquid supplies = non-traditional oil:**
    - ▶ Ultra-deep offshore waters, Arctic, Canadian oil sands, condensates and liquids from shales.
  - ▶ **Recognition of the sheer scale of demand growth from developing countries (e.g. China and India).**



# Oil Price Prediction for 2016

- Brent crude to average \$58.60 vs. \$55.30 (2015).
- WTI to average \$54.10 vs. \$50.30 (2015).
- IEA claims 46 major oil and gas projects worldwide have been cancelled or suspended representing 20 billion bbl reserves.



# Misquote Oilpatch Veteran

- ▶ *"The failure of so many to consider the possibility that oil prices might rise, let alone prepare for such an eventuality, suggests an obliviousness to both economics and history. After all, there's lots of expensive oil left in the ground to discover."*





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