In Other News…

Highlights of Recent Argus Americas Crude Summit

March 9, 2017
Dennis L. Sutton

Crude Oil Quality Association
www.coqa-inc.org
ARGUS AMERICAS CRUDE SUMMIT
“Gain insight- Network- Plan your strategy”
The Choppy Road to Rebalancing- Sutton

• This is the 9th Conference.
• It has grown to about 500 in attendance in 2014, then a dip, and about 325 this year.
• “illuminating the markets” Mostly all market oriented.
• The COQA participated as a Partnering Organization.
• In the past, speakers have included Dennis Sutton, Bruce Carlile, Hege Dammen, Bill Lywood, Dr. Bagawandoss, Ashok Anand, and Matthew Goitia.
Opening Address: Leon Panetta-
former Secretary of Defense, CIA Director, 
Chief of Staff.... Republican till 1971-
Democrat since.
• We are at a crossroads- the US government
  is the worst he’s seen in 50 years.
• People have lost trust in the government.
• Our political dysfunction is our greatest security threat.
• Cyberattack is the battlefield of the future.
ARGUS AMERICAS CRUDE SUMMIT

Six Sessions:

1) Politics and the Path to Re-balancing
2) Impact of Trump and Republican Congress on Domestic Energy and Climate Policy
3) New Administration Impact on US Shale Survival
4) Future of Heavy Crude- Canadian and Latin American Barrels
5) Market Access- North America and Beyond
6) The Post-Boom US Refining Complex
IMPACT of TRUMP and REPUBLICAN CONGRESS on ENERGY

Rex Tillerson, former CEO of ExxonMobil, Secretary of State

Rick Perry, former Texas Governor, Secretary of Energy

Ryan Zinke, former Montana Representative, Secretary of the Interior

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IMPACT of TRUMP and REPUBLICAN CONGRESS on ENERGY

• Climate policy?
• Border adjustment tax?
  • Refiners & retailers voice objections
• Jacob Dweck of Sutherland said to “Not Expect Major Energy or Climate Legislation”
• Rather than changes that will be made, Trump’s greatest impact on oil and gas may be regulations avoided had Hilary Clinton been elected
• Renewable Fuel Standard (RFS)/ RINs Market?
NEW ADMINISTRATION IMPACT ON SHALE SURVIVAL - Resiliency of US Shale

Source: Bidness Etc, December 17, 2014

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NEW ADMINISTRATION IMPACT ON SHALE SURVIVAL- Resiliency of US Shale

• When crude prices were > $100, production boomed everywhere.
• Even as crude prices hover in the low $50s and uncertainty looms, “sweet spots” in the major basins still remain profitable and are being developed.
• Continued production efficiencies are being seen, particularly in the Permian (West Texas) and the Anadarko (Oklahoma/ Texas Panhandle)
US Tight Oil Production - Breakevens

International Crude Oil Breakevens

- UK
- Brazil
- Nigeria
- Venezuela
- Canada
- U.S. Shale
- Norway
- U.S. Non-shale
- Indonesia
- Russia
- Iraq
- Iran
- Saudi Arabia

U.S. Shale

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US Tight Oil Production Forecasts

Source: EIA, Regulatory Data, Enterprise Products Partners, Energy Aspects analysis
FUTURE OF HEAVY CRUDE - CANADIAN AND LATIN AMERICAN BARRELS

• Canada- Oil sands spending has declined.
• Mexico- Reform is in progress. A new quality standard for oil liquids.
• Venezuela- Managing the collapse
• Brazil- Can faith be restored at Petrobras?
Fraser Institute Global Petroleum Survey 2016: Policy Perception Index

- Texas
- North Dakota
- Louisiana
- US Offshore- GOM
- Alberta
- Columbia
- Argentina- Neuquen
- Brazil- Offshore CC
- Mexico
- Ecuador
- California
- Quebec
- Venezuela

Not an error - Index = 0!
Sliding Down

Spending on oil sands has plummeted amid persistently low oil prices.

Total Canadian oil-sands investments

- Mining
- In-situ production

$30 billion

Projections

Source: Rystad Energy UCube

THE WALL STREET JOURNAL.

CANADA

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VENEZUELA

• An excellent presentation by Dr. Francisco Monaldi from Rice University.
• Dr. Monaldi painted a rather dark picture of Venezuela’s situation characterized by massive policy failure due to a combination of ideology, incompetence, and short-term horizons.
• Production declining for almost 20 years, but more dramatic in 2016 (-12%).
• Conventional production collapsing since 2009 (-36%), while the Orinoco Oil Belt was increasing until 2015.
• PDVSA faces severe cash-flow problems, only accentuated by the decline in oil prices.
VENEZUELA

BRAZIL

• In contrast to Venezuela, Frank McGann of Merrill Lynch conveyed a much more positive outlook for Brazil.
• Strong resource base with major long-term potential and history of output growth.
• An extremely high level of debt coupled with uncertainty regarding U.S. class action suits/investigations (SEC/DoJ/Brazil).
• The possibility of higher oil prices and improved Brazilian economic/political environment provide hope going forward.
MARTKET ACCESS- NORTH AMERICA AND BEYOND

• Pipeline Infrastructure
• Crude by Rail
• Exports
PIPELINE INFRASTRUCTURE

• After much protest, Dakota Access is proceeding, following a Feb. 8 decision by the Army Corps of Engineers.
  • This will keep the Diffs narrow between Bakken and WTI

• Diamond Pipeline will supply the Valero Memphis refinery with crude from Cushing. Scheduled for completion in 2017, protests have arisen in Arkansas.
  • Discussion continues (as it has for a few years) regarding whether Capline will be reversed.

• Multiple projects underway in the Permian and in Canada.
CRUDE BY RAIL

• Crude by rail is not dead but is a shadow of its former self.

• Total movements have declined from 1.1 million B/D in mid-2014 to ~400 MB/D currently.

• After Dakota Access, expect <100 MB/D by rail from Bakken.
EXPORTS

• The rise in crude exports is dramatic.
• Historically, most all of the exported crude went to Canada.
• In 2016, growth in volumes going to Europe, Asia, and Latin America.
• Price will rule.

U.S. Exports of Crude Oil

Source: EIA
Record volume of US crude to head for Asia in coming weeks

Posted on February 6, 2017 by Admin

Reuters

NEW YORK/SINGAPORE Feb 3 Oil majors and trading houses are set to ship an unprecedented volume of U.S. crude oil to Asia in coming weeks, boosting already high flows to the region due to higher prices from OPEC production cuts.

Traders have estimated that some 700,000 to 900,000 barrels per day is set to leave the United States in February, with the majority of the cargoes headed to Asia.
THE POST-BOOM US REFINING COMPLEX
THE POST-BOOM US REFINING COMPLEX

• Some Questions
  • OPEC Freeze- Compliance?
  • How will Mexican reforms progress?
  • Government Regulations?
    • Border tax?
  • Renewable Feeds (RINs)?
  • Customer Preferences- Fuel vs. Electric?
    • With current low gasoline prices, fuel economy is low priority
Day 2 Keynote: Jim Teague-
Director and CEO of Enterprise Products Partners
• Credit to the shale pioneers who changed the world!
• Enterprise first exported processed condensate in mid 2014.
• In the growing world of exports, “we (Enterprise) want the ability to export anything we touch.”
• Implication- WTI/Domestic Sweet quality is of vital importance not only in the US but throughout the world!
ARGUS AMERICAS CRUDE SUMMIT- Takeaways for COQA

• With increasing exports, US crude quality is growing in importance throughout the world.
• The work of the WTI quality monitoring subcommittee is hopefully the beginning of the effort to make US domestic crude quality more transparent.
• As a group, the COQA and our membership have the opportunity to be a valuable resource regarding US crude quality.
COQA MEETINGS

• The next COQA meeting will be June 8 in St. Louis, MO, where we will have a mid-Continent emphasis.
• We are excited as we already have some outstanding speakers scheduled:
  • Dr. Stephanie Sheldon, LCM Commodities
  • Harry Giles, COQA Executive Director Emeritus
  • Anna Morris, Marathon Pipeline
See You in St. Louis in June!