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### **1. Oil and the Global Economy**

After rising steadily for two weeks on fears of increased US involvement in Syria, oil prices collapsed on Thursday after the US Federal Reserve suggested that it may scale back on its economic stimulus program later this year. Bad economic news from China did not help. By week's end, NY oil futures had fallen from over \$99 a barrel to a settlement of \$93.69 on Friday. London's Brent crude, which is the standard for much of the world's oil trade, likewise fell from \$106 to close at \$100.91 after threatening to fall below \$100.

With US crude inventories holding at their highest level in decades, the API reported that US demand for oil in May fell to a two-year low of 18.5 million b/d while US gasoline consumption for the month fell to a 13-year low. Gasoline and heating oil futures also fell by some 13-15 cents a gallon during the selloff.

More oil than ever is reaching West Coast markets by rail and transfer to coastal shipping from North Dakota. The volume is currently 250,000 b/d, but this is expected to rise to 600,000 b/d by the end of next year. The increased supply of Bakken crude is reducing the demand for imported oil from Russia and the Middle East even as supplies from Alaska's North Slope continue to fall. Moving oil by rail from North Dakota to Washington State costs about \$10 a barrel and an additional \$3-4 a barrel to move it by ship to California, which is world's ninth largest economy.

Apparent Chinese oil consumption in May fell to 9.53 million b/d, the lowest since August. With consumption weak in both the US and China, most analysts forecast some further weakness in oil prices unless increased tensions in the Middle East intervene.

US natural gas futures which had been increasing recently on forecasts of warmer weather in the US fell sharply on Thursday and Friday, wiping out recent gains to settle at \$3.77 on Friday. Cooler weather and higher-than-forecast inventories for two straight weeks were responsible for the move.

The IEA reports that increasing use of natural gas for power generation in the Middle Eastern oil exporting states, with production up 5 percent last year, is slowing the domestic demand for oil and increasing the oil available for export. In its *Medium Gas Market Report* the Agency, however, pared its forecast for natural gas's share of the world fossil fuel supply in 2018 from 2.7 to 2.4 percent.

### **2. The Middle East & North Africa**

**Syria:** In the wake of Russia's refusal to modify its whole-hearted support for the Assad government in Syria, the "Friends of Syria" met in Doha and agreed to give urgent military support to select rebel forces. Each of the "core" members of the Friends of Syria will supply support "in its own way to counter the attacks by the

regime and its allies.” A division of support seems to have taken place with the West supplying non-lethal military equipment while the Arabs supply the weapons. There are reports of anti-aircraft and anti-tank weapons reaching the rebel forces which could be “game-changing” in light of the limited amount of aircraft in the government’s inventory and the difficulty of conducting armored operations in built-up areas.

The fighting in Syria is creating problems across the region ranging from more fighting in Lebanon to refugee crises in Jordan, Turkey, and Iraq, to jihadists from across the Muslim world making their way to Syria to take part on one side or the other. Any gains the Assad government may have made from the addition of Hezbollah forces to the conflict seem likely to be overcome by the reaction which has turned the uprising into a Sunni-Shiite war.

Syria’s economy seems on the verge of collapse with the currency collapsing and no foreign exchange left to support it. Unless Moscow and Tehran want to intervene in a major way, there will shortly be nothing left of the economy which depended on oil and tourism for foreign exchange.

Reports that better organized hardline Islamists are gaining strength in the rebel-controlled areas suggest that this conflict will go on for years in new and more deadly ways.

**Iraq:** Bombings, mostly of Shiites, sometimes at prayer, and government security forces by Sunnis continue to take place almost daily across Iraq now. Several of the attacks were directed at oil pipelines including the kidnapping of pipeline repair teams. Somewhere along the line, Sunni insurgents will find that they could be far more effective if they concentrated their attacks on oil infrastructure which supplies the government its revenue rather than blowing up mosques full of Shiites at prayer.

Talks between Baghdad and Erbil show no signs of going anywhere. In the meantime, Chevron, Total and Turkey are stepping up their drilling in Kurdistan and Russia’s Gazprom is showing an interest in drilling in the region. All this continues to increase tensions with Baghdad as talk of civil war is growing.

**Iran:** Iran’s President-elect is saying that a new era has begun and is offering the hope of more cooperation with the West. Many believe that this is just a ploy to gain relief from the sanctions and gain time to build a nuclear arsenal while avoiding an Israeli air strike on its nuclear facilities. Moscow is saying that Tehran may be willing to give up enrichment of uranium beyond that needed for power stations and medical research but that will depend on the degree of verification that Tehran is willing to accept.

Much will depend on what happens in the Syrian uprising. Tehran has invested much money and prestige in keeping a fellow Shiite in power in Syria. Should Assad fall, there are bound to be repercussions affecting the nuclear standoff with Israel and the West.

**Egypt:** All eyes are on the anti-government demonstrations that are set for June 30<sup>th</sup>, the first anniversary of President’ Morsi’s accession to power. Last week the pro-Morsi Islamists staged a massive rally in Cairo to show support for the President. Both sides are promising to be in the streets next Sunday for what could be bloody battles. The Egyptian Army has said that it will intervene if the situation gets out of control.

In the meantime, there has been no good news about Egypt’s economy which continues to deteriorate. Food and fuel shortages are continuing to grow. All this suggests that Egypt will be confronted with yet another turning point later this summer.

**Libya:** While oil production is back up to 1.3 million b/d, the situation is far from normal. In the south of the country where most of the oil is located, the security and political situation is becoming more chaotic with each passing day. Last week engineers working for Switzerland’s ABB were fired on and wounded while driving across eastern Libya. This kind of attack will soon discourage the foreign specialists necessary to keep the oil fields in operation

### **3. China**

Chinese manufacturing slipped to a nine-month low in June. Many forecasters are changing their estimates of China's economic performance for the year with some seeing annual GDP growth as low as 7 percent in 2014. Manufacturing is being hurt by deteriorating external demand, slowing domestic demand and inventory reduction pressures.

China endured a short lived cash crisis last week when short term money market rates soared to as high as 28 percent on Thursday. This crisis was spawned by mismanagement of China's cash supply by the central bank. The state news agency announced on Sunday that the spike in interest rates was the result of widespread speculative trading and "shadow" under the table financing. All this suggests that there may be more trouble ahead for the Chinese economy and its demand for oil than many realize. The new government seems bent on moving ahead with plans to cut emissions while maintaining 7-8 percent economic growth. These goals could well turn out to be incompatible.

Last week Russian oil company Rosneft signed a 25 year agreement to deliver 365 million tons of oil to China worth \$270 billion. Russia is already sending 300,000 b/d of crude to China and the new deal will increase this to 600,000 b/d in the second half of the decade. This could eventually be increased to 900,000 b/d. Some 17 percent or 750,000 b/d of Russia's total exports of 4.4 million b/d is already going to Asia. The deal is one of the largest in the history of the oil industry and will give Rosneft some \$60-70 billion in upfront payments which will allow the company to cut its debt and begin investment in arctic fields.

### **4. US Emissions**

This week President Obama will announce his intentions to take action on climate change using his executive authorities. The package will include the limitation of carbon emissions from existing power plants, increased appliance efficiency standards and promotion of renewable energy development on public lands. The speech which is to be given at Georgetown University will include steps to deal with the near-term impact of global warming. These impacts will include measures to deal with the results of coastal storms, droughts, and excessive rain.

The US currently has 1,142 coal-fired and 3,967 gas-fired power plants which will be subject to the new limitations. Last year they accounted for 68 percent of all US electricity generation.

The US fossil fuel industry is gearing up for a fight that will likely continue for many years. The industry is already releasing blasts about the number of jobs that will be lost and the damage to the economy caused by these "unnecessary" regulations. Environmental groups are already hailing the proposal. While the US cut coal-fired power plant emissions by 13 percent between 2005 and 2013, recent increases in natural gas prices pushed emissions up by 7.1 percent in the 1<sup>st</sup> quarter and some power plants switched back to coal.

The coming announcement is to sidestep the issue of the Keystone pipeline which many consider the litmus test of the President's commitment to global warming. Speculation is rife that the new regulations are partly intended to take to sting out of the pipeline's approval later this year.

### **5. Quote of the Week**

- "Once you start supplying a commodity at a subsidized price it becomes very hard to change the equation, and too much of the non-OECD world is now living in an economy where energy use is subsidized. The problem is that you cannot wean a culture from subsidies in the immediate short term and still expect their government to survive in its present condition."

--The Oil Drum, June 17 (6/17 #17)

## 6. The Briefs:

- **Enhanced oil recovery breakthrough?** When petroleum companies abandon an oil well, more than half the reservoir's oil is usually left behind as too difficult to recover. Now, however, much of the residual oil can be recovered with the help of nanoparticles, according to Norwegian and Chinese researchers. The Norwegian partner has succeeded in recovering up to 50 per cent of the oil remaining in North Sea rock samples. (6/19 #26)
- **Saudi Arabia**, although having less than a third of Germany's population, recently surpassed it in terms of oil consumption. It will add several new oil-fired power stations, which will contribute to an anticipated continued growth in Saudi domestic demand of 5.1% pa. (6/17 #17)
- The presumption that the Arab Spring could not spread to the **Persian Gulf** as it did through Tunisia, Egypt and other countries is accurate, according to Amy Jaffe, executive director for energy and sustainability at the University of California at Davis. (6/19 #19)
- The EIA has noted last week that, for the first time, the sum of **non-OECD country demand** contributed more than half to the total of liquid fuels consumed in the world. (6/17 #17)
- **Mexico's** President Nieto will seek in the coming months to end a taboo of nearly eight decades by opening the state-run oil-and-gas industry to private investment and competition, a move the government hopes will attract billions of dollars in investment. (6/18 #11)
- **Iraq** aims to ramp up oil production by nearly 45 percent by the end of next year - without any input from its autonomous Kurdistan region - which suggests a lasting compromise in their long-running oil feud may be a way off. (6/19 #7)
- A key **Nigeria** pipeline operated by a subsidiary of Shell has caught fire following an oil spill, an eye witness and a local environmental activist said Thursday. (6/22 #15)
- In **Nigeria**, a joint venture led by Royal Dutch Shell said it will invest \$1.5 billion on a new pipeline in a bid to reduce oil theft that has caused serious environmental damage in the country and disrupted crude production. (6/22 #14)
- Norwegian oil giant **Statoil** said it made a big discovery of light oil off Newfoundland, the latest find in Canada's Atlantic region -- a big and fast-growing petroleum play that is often overshadowed by the country's western oil-sands developments. (6/20 #22)
- Russian oil major OAO Rosneft has agreed on a **25-year contract with China** to deliver 365 million tons of oil to the country in a deal worth \$270 billion. (6/22 #18)
- **China and Iceland:** a source at Sinopec told China Daily talks were under way with the Icelandic government over oil exploration off the country's northeast coast. (6/20 #16)
- The EU is investigating alleged **oil-price manipulation** in a \$2.5 trillion physical-oil market that is lightly regulated. How any alleged rigging could be achieved has been unclear—until now. Traders can offer to sell a small amount of oil at a loss to drive down published prices, then snap up shiploads at the lower price. (6/20 #5)
- Total **capital spending** in 2012 for the top 100 US producers, including acquisitions, rose 18 percent year over year to the highest level on record of \$316.6 billion, driven by development capital spending of a combined \$208 billion. (6/19 #20)

- TransCanada Corp., which says **Keystone XL** will be the safest pipeline ever built, isn't planning to use infrared sensors or fiber-optic cables to detect spills along the system's 2,000-mile (3,200-kilometer) path to Texas refineries from fields in Alberta. (6/18 #16)
- **Canadian oil prices** are forecast to fall compared with world benchmarks because production from oil sands is estimated to more than double to 3.8 million barrels a day by 2022. Keystone, the 1,179-mile link from Alberta to Nebraska first proposed in 2008 and delayed in part by environmental activists, would only briefly relieve the glut. (6/19 #23)
- Increased crude output from **US shale** isn't "sustainable production," Mike Tims, CEO of Canadian investment bank Peters & Co., said Tuesday. Producers need to invest too much to sustain production from wells in the Bakken and Permian basins, which falls as much as 70 percent in the first year. "The optimism about additions to the U.S. oil production needs to be tempered a little bit," Tims said. (6/19 #21)
- **US oil exports** must expand to sustain the boom that increased US production last year by the most since the first commercial well was drilled in 1859, said Robin West, chairman of the oil consulting firm PFC Energy. Lower gasoline prices may result from removing limits on crude exports, said Adam Sieminski, head of the US EIA. (6/19 #22)
- **China National Petroleum Corp** said it has started building the country's first dedicated shale gas pipeline in central Sichuan province. (6/19 #18)
- As US energy companies vie to exploit vast **shale oil and gas** reserves west of the Mississippi, fracking's new frontier is expanding to the same lands where crops have shriveled and waterways have dried up due to severe drought. While fracking typically consumes less water than farming or residential uses, the exploration method is increasing competition for the precious resource. (6/17 #14)
- **Indonesian** lawmakers approved a revised budget that paves the way for the first hike in fuel prices since 2008 amid nationwide protests against the measure. The budget contains extra financial assistance for the poor to shield them from the impact of the expected 44% rise in the price of gasoline and 22% increase for diesel. (6/18 #14; 6/20 #17)
- **Nuclear utilities** thrust into the spotlight after the Fukushima meltdowns have ordered 20 reactors shut, the most in a three-year span since Chernobyl's aftermath, saddling the industry with a possible \$26 billion in costs. (6/17 #16)
- **Natural gas** is set to emerge as a significant new transportation fuel over the next five years, raising the prospect of a challenge to oil's dominance in the sector, the International Energy Agency said Thursday. (6/20 #2)
- **Egypt** has some tough economic decisions to make as it struggles to meet domestic energy demands because of natural gas production declines. Energy research company Wood Mackenzie reports natural gas production from Egypt should stay around 6 billion cubic feet per day and is not expected to increase much beyond that for the rest of the decade. (6/22 #9)
- Prime Minister Netanyahu is seeking cabinet approval to export 40 percent of **Israel's** offshore gas production, keeping the rest for domestic use. (6/22 #10)
- A consortium of **ExxonMobil, ConocoPhillips, BP and TransCanada** have started field work on detailed engineering for an Alaska North Slope natural gas pipeline and liquefied natural gas project. This replaces the previous effort to ship gas via pipeline to the lower 48— a plan which was shelved by the success of shale gas. (6/22 #30)

- **ExxonMobil** is seeking permission to export 30 million metric tons of liquefied natural gas annually from British Columbia in what is considered the biggest export scheme ever proposed for Canada's West Coast. (6/22 #31)
- Frito-Lay will have 208 of its large Class A tractors running on **compressed natural gas** (LNG's non-refrigerated cousin) by the end of 2013. That's 20 percent of the Class A fleet. It's also building eight public CNG fueling stations around the country. The company also has 280 short-haul electric-powered box trucks. (6/17 #18)
- The consequences of **global warming** trends could trap millions of people from Asia to Africa in poverty, a World Bank report published Wednesday said. (6/20 #6)
- A new report from the **Australian Climate Commission** calls for 80 percent of global fossil fuel reserves to stay in the ground to avoid climate change. The commission reported that global emissions are rising at about 3 percent a year. (6/18 #4)
- **China's** plan to set up markets to trade emissions will make it second only to Europe in efforts to put a price on pumping carbon into the atmosphere. For cities choking on the nation's smog, expect little relief. (6/18 #12)
- High-profile **coal** mine closures have taken 18 million mt/yr of supply out of the global coking and thermal coal seaborne market over the past year, but supply available to the market has actually increased in this period thanks to expansions and new project openings. (6/19 #16)
- With **China's growth** slowing for the first time since becoming a major player in the global economy, use of artificially inflated figures threaten to further complicate efforts by companies and governments everywhere to gauge what that slowdown means for them. (6/19 #17)
- **US gasoline tax revenues** have eroded in three main ways. First, the federal fuel excise tax has not changed in 20 years from 18.4 cents per gallon, and its value has fallen through inflation by 40% in that time. Second, a gradual decline in vehicle miles traveled, which began back in 2004, has further eroded revenues. Finally, more aggressive CAFE standards and more fuel-efficient vehicles are making the revenue base shrink even more. (6/20 #20)
- **Illinois** Governor Quinn signed legislation to regulate in-state fracking. The legislation overwhelmingly passed the Illinois Senate and the House last month. The law is now seen as the nation's strictest for oil and gas drilling. (6/22 #24)
- **Oil and gas** rigs in the US fell by 12 this week to 1,759, according to Baker Hughes Inc. Oil rigs slipped by eight to 1,405 while the gas count decreased by four to 349. (6/22 #29)