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**The OIL & GAS
CONFERENCE 2021**

Strategic Petroleum Macro-Drivers in this Stage of the Pandemic

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Thomas A. Petrie, CFA
Petrie Partners, Chairman

Topics

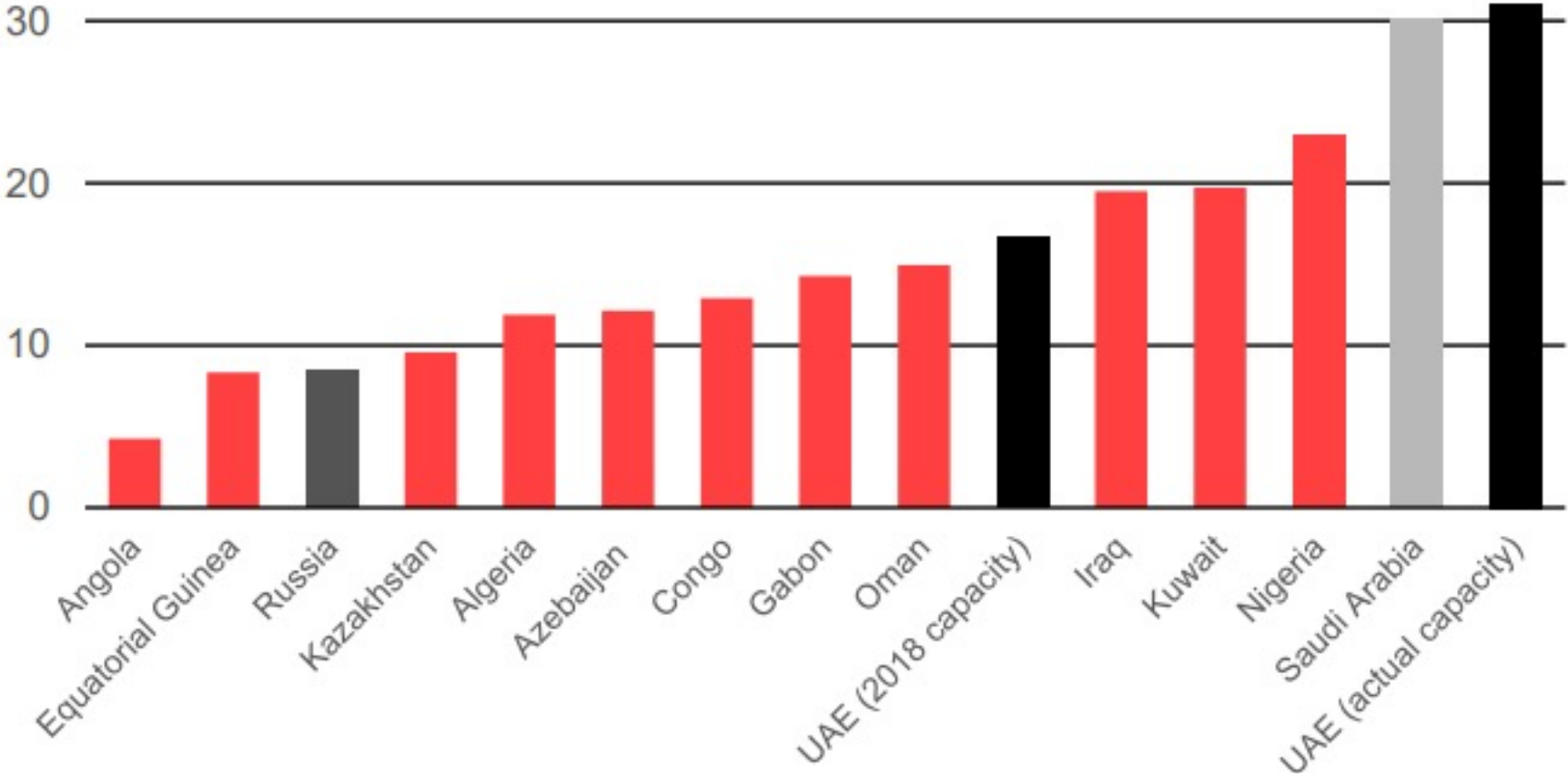
- ❖ **Today's Realities**
- ❖ **OPEC+ Challenges**
- ❖ **Evolving Regulatory Pressures**
- ❖ **Geopolitical Ponderables**
- ❖ **Biden Administration's Energy Policy Initiatives**
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Today's Realities

- ❖ Despite timely successful development of COVID-19 vaccines, infectious spreading of variants seems destined to be an ongoing process for an indeterminate period
- ❖ Existing geopolitical fault lines indicate that new challenging international confrontations are inevitable in the Middle East, Asia, Eastern Europe and elsewhere
- ❖ Growing concerns about the capability and effectiveness of U.S. leadership in addressing geopolitical crises seem likely to be persistent against the backdrop of the ugly abandonment of Afghanistan, as well as previous U.S. and its allies' failures to respond to Chinese assertiveness in the South China Sea and the subjugation of Hong Kong
- ❖ Similarly, Russian ambitions tend to be unopposed or inadvertently encouraged
- ❖ Rising climate change fears are prompting significant costly policy initiatives intended to mitigate presumed impacts
- ❖ Against this backdrop, surrendering effective flexibility on only recently attained energy independence is a dubious proposition

OPEC+ Challenges

Spare Oil Production Capacity (% of Sustainable Production Capacity)



Source: UniCredit

Note: Sustainable production capacity is production that can be activated within 90 days.

Evolving Regulatory Pressures

- ❖ ESG (Environmental, Social and Governance) disclosure requirements
- ❖ Top-down compliance mandates vs. market-based incentives (“picking winners” vs. “market-driven” solutions)
- ❖ Representations vs. actual achievements
- ❖ Across the board fossil fuel condemnation
- ❖ Neglect of second and third order regulatory impacts
- ❖ Misguided and incentivized, even coerced, grand solutions (?)

Geopolitical Ponderables

- ❖ The Chinese-Russian Alliance

- ❖ “The 100-Year Marathon”

- ❖ Shifting economic interdependencies

- ❖ Potential upcoming political leadership litmus tests:
 - Iranian nuclear ambitions

 - North Korean paranoia

 - Taiwan

 - Ukrainian independence (Nord Stream 2?)

 - U.S. border sovereignty

Biden Administration's Energy Policy Initiatives

- ❖ Cancellation of Keystone XL Pipeline
- ❖ “Pause” on issuing new drilling permits for federal lands
- ❖ Overall elevation of priority for climate change issues above current needs for fossil fuel energy development
- ❖ New Secretaries of Energy and Interior have low or arguably no relevant experience in oil & gas sector
- ❖ John Kerry’s role as climate change envoy yet to be fully defined (but there are ominous early signs)
- ❖ Upcoming tax changes likely to emphasize incentives (subsidies) for renewables vs. penalties for oil & gas development

Biden Administration's Energy Policy Initiatives

"It's Easy to Despair in Israel, as Hate Festers"

"U.S. Won't Hit Russian Pipeline with Penalties"

* *"The Vineyard Wind Approval Could Usher in the First Wave of Offshore Projects"*

"Why Give Away Bagram Air Base? Wedged between Iran and China, the Afghanistan Location can't be Beat"

"Ransomware Attack on Colonial Pipeline Leads to Supply Chain Complications"

* *"The Closure of a New York Nuclear Plant Dents Clean Energy"*

"Carbon Taxes are Out and Clean Energy Standards are In"

"Biden's Plans are Already Hurting the Recovery"

Recent Headlines Present a Litany of Mixed Messages

Concluding Assessments

- ❖ U.S. likely to face ongoing leadership tests from the alliance of China and Russia
 - Russian sanctions (waived)
 - Chinese aspirations (re: Hong Kong, Taiwan, Saudi, Iran and now Afghanistan)

- ❖ Belt and Road Projects are impacting certain traditional U.S. - Eastern Hemisphere relationships and economic prospects

- ❖ Many Middle East issues remain unresolved or stagnant / unaddressed
 - U.S. and NATO's withdrawal from Afghanistan ("Saigon on Steroids", per the WSJ)
 - Abraham Accords (all but ignored)
 - President Biden and European leaders exhibiting a perplexing interest in achieving a renewed Iranian nuclear agreement
 - Saudi / U.S. relationship probably more fragile than anytime since the 1970s

Concluding Assessments

- ❖ It is most probably premature to expect recent re-inflation in energy to abate meaningfully in the near to intermediate term
- ❖ Drilling rigs going back to work, but recovery to pre-pandemic levels for non-OPEC+ sources remains questionable for the balance of 2021 and possibly even 2022
- ❖ The constructive role of natural gas as a lower carbon emitter is still seriously underappreciated by Washington policymakers
- ❖ Intermittency issues loom large; they have yet to be addressed with credibility and effective technology