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MARKET FORCES

Opec's Bleak Future

Under pressure from oversupply with rising volumes from Libya, Nigeria and Kazakhstan, Brent is flirting with \$46, well below the \$50-\$53 trading range established in October on hopes that Opec's 14 members could come up with a deal to rein in output. Instead, Opec talks are stalling. Moreover, Opec production rose to 33.9 million barrels per day in October from 33.5 million b/d in September, when ministers agreed in Algeria to limit combined production to 32.5 million-33 million b/d.

Opec Secretary-General Mohammed Barkindo said this week that Opec members "are fully committed to implementing the Algiers Accord," adding that "it is essential" that non-Opec producers join an Opec output deal. With Saudi Arabia now a key proponent, some analysts think chances remain relatively high that Opec will come up with some kind of agreement in its Nov. 30 ministerial meeting, pressed also by the oversupply and price pressure — although it may only stop the bleeding rather than lift prices (EC Nov.4'16).

Ahead of that, Opec's outlook looks bleak. The growing crude oil surplus in the Atlantic Basin is battering the Brent price and once again making the US the sink to
(continued p8)

THE BIG PICTURE

Unpredictable New World Order

- If Brexit was a warning sign that global liberalism was on life support, then Donald Trump's election as US president sounds its death knell. Europe's upcoming election season will be the next test.
- Trump stayed true to his unorthodox rhetoric throughout the campaign, declining to moderate his tone as some in his circle advised. Professing to be for the people and against a "rigged" system proved to be a surer vote-winner than leadership experience or a steady temperament. How this will translate into governance at home and globally is another matter.

In a stunning rejection of establishment politics and institutions, US voters this week selected flamboyant reality television star and real estate magnate Donald Trump as their next president over former senator, secretary of state and first lady Hillary Clinton. Trump's path to power was forged by his ability to tap into the kind of economic, cultural and demographic anxiety that has prompted voters in the UK to decide to leave the EU, the rise of the right-wing Alternative for Germany Party, and calls in France for the impeachment of President Francois Hollande — as well as mounting expectations that Marine Le Pen, the leader of France's far right National Front, could triumph in May's presidential poll.

The list goes on. "Most Western nations have their Trumps and many of these Trumps are having their day," Gary Younge wrote in the UK's *Guardian* — while Trump at a Nov. 7 rally billed his intended victory as "Brexit plus plus plus." Austria earlier this year faced down a far-right presidential contender; the March parliamentary poll in the Netherlands could see gains by the far right — and anti-EU and anti-Muslim — Party for Freedom led by Geert Wilders. France's Le Pen, for one, put Trump's victory in the context of "a great movement across the world," while her chief strategist Florian Philippot tweeted: "Their world is collapsing, ours is being built."

In that new world, Trump's isolationist "America first" positioning contradicts long-held assumptions at home and abroad about the US' place in the world and the prevailing global order (EC May6'16). In a repudiation of standard dedication to "free markets" on both sides of the aisle, Trump hews toward protectionist policies, repeatedly pledging to walk away from proposed and long-existing free trade deals (EC Oct.14'16).

Those arguments, and blaming immigrants and elites for economic troubles closer to home, resonated with an electoral base feeling both frustrated with an uneven economic recovery and threatened by an ever-diversifying US population — leaving them ready to take a risk with Trump (EC Sep.9'16). To those voters weary of US interventions overseas that achieved little, so too did Trump's transactional approach to providing for the security of US allies around the world resonate: The US might consider defending Nato if other members stumped up more cash, for example, and he took a similar stance toward maintaining US troops in South Korea and upholding the US' traditional security alliance with the Mideast Gulf. This, and his
(continued p2)

THE BIG PICTURE

Unpredictable New World Order (cont.)

seeming inclination to cozy up to the world's strongmen, threatens to turn the established world order on its head (p3).

As some celebrate this shift, others emphasize its dangers. Citing Trump's relationship with Russian President Vladimir Putin, Mary Kaldor, professor of global governance at the London School of Economics, told the BBC's Newsnight program on Nov. 9 that "I think he's going to create an alliance of right-wing populist leaders, which means he's going to tolerate authoritarianism and repression." Germany Chancellor Angela Merkel's response to Trump's election was particularly guarded — offering a future President Trump "close cooperation" but only on the basis of shared key values.

Creating those "millions" of new jobs promised will also be difficult, especially absent major government spending. Globalization and free trade may have been convenient scapegoats in Trump's talking points, but the heyday of union factory and mining jobs is not coming back — in the US or Europe. Worse still, another wave of change that threatens to undermine job prospects is also bearing down — with technological innovations expected to severely disrupt the structure of the labor force, essentially leaving some people unemployable. While Western governments are aware of the coming tsunami, solutions — barring some trials distributing a universal basic income — are in short supply.

Reality Bites

How long Trump's honeymoon period will last remains to be seen, and in a divided country, compromise may remain difficult, all the more so because Democrats are well aware that Clinton won the majority of votes cast Tuesday. Republicans control Congress but with only 51 seats in the Senate, well

short of the 60 votes generally required to move bills, they will need Democrats for any legislative action. And while voters who supported Trump sent a message that they're comfortable with a more insular — but great — US, led by a president who proposes walking back trade deals and questions support for long-standing allies, it will take time to understand how committed Trump is to the policies he's laid out — that is, when he's set them out at all.

The optimistic view of Trump has long been that he will step up — and back away from his scapegoating rhetoric — so long as he is convinced a policy position is worth the money, time and effort, and indeed he has a history of shifting policy positions. As president-elect, Trump displayed a bit of that inclination Wednesday night when Korea's *Yonhap News* reported that he committed to a "firm, strong" defense of South Korea in a phone call with Park Geun-hye.

China, meanwhile, has been the target of his most aggressive positioning on trade, but "is he actually going to live up to the things he says ... on tariffs?" the Brookings Institution's Bruce Riedel asked Wednesday. Trump has derided the nuclear deal with Iran, but it is not clear he would scrap it without a replacement. And while he will have the authority to walk away from Nato, unwinding the 20-year-old North American Free Trade Agreement will be a complex task with its own economic ramifications (p6). And what of the US leadership role fighting Islamic State, and of US-Russia relations under Trump — and related possible US-Europe divides?

Those questions create real uncertainty for a world accustomed to a prominent international role for the US. But for US voters, that wasn't the point. ■

Emily Meredith, Washington



Connecting the Dots: Shock Waves, Warnings and Welcomes

- It was the vote heard round the world. Donald Trump's shocking triumph in this week's US presidential election has created a surge of global uncertainty and left the political establishment in the US and beyond reeling. Trump's acceptance speech promise to "get along with all other nations willing to get along with us" seemed to provide little in the way of assurances — in no small part because the shape of a populist "America First" foreign policy is still largely unknown (p1).
- Some made their fears crystal clear: "What is at stake is peace, the fight against terrorism, the situation in the Middle East, economic relations and the preservation of the planet," French President Francois Hollande said (p3).
- Because Trump walks into "an active war from day one," as one analyst noted, the stakes for the transition are extremely high. With resources spread thinly, the retaking of Islamic State's stronghold of Raqqa in Syria is expected to take months, landing in President-elect Trump's lap. And many warn that the real fight for Iraq will begin after Islamic State-held Mosul is liberated (EC Sep.2'16).
- As much as Trump may feel an affinity for strongman rulers like Russia's Vladimir Putin and Turkey's Recep Tayyip Erdogan — who late last week intensified his crackdown on Kurds — finding common ground on Syria could be tough. Nor is it a guarantee for improved US-Russia ties, Putin, among the first world leaders to congratulate Trump, warned (p6). But an inward turn by the US under Trump, including a less robust commitment to Nato, should allow Moscow to increase its influence — likely one reason he's found favor in the Kremlin.
- China traditionally has better relations with Republican presidents and appears to expect the same now. "Trump will do business with China and put politics conflicts aside. This is what China wants," a Chinese source said earlier this year, although a trade war is a concern. Beijing views a Trump presidency as less likely to stir up trouble on the South China Sea. It also welcomes his opposition to the Trans Pacific Partnership, which it sees as pitting China against the US and other Asian nations (EC Jan.29'16). For Japan and Korea, who both face stumping up more to maintain their security, Trump is a worry. And if those security plans take a nuclear turn, to counter the North Korean threat, China could grow uneasy too.

MIDEAST

Does Trump Mean Trump?

US elections always reverberate around the world. But this week's shocking victory by Republican candidate Donald Trump could change Washington's relations with its traditional Gulf Arab allies and the wider region, already at a low point, more fundamentally than any previous election. Arab states were already concerned about Washington's retreat from the region at a time of unprecedented levels of instability and conflict, increased sectarian divisions and rising tensions between archrivals Saudi Arabia and Iran. But Trump's campaign call to ban all Muslims from entering the US, later rephrased as an "extreme vetting" process, could test US-Mideast relations to the maximum. Still unclear, however, is the extent to which campaign promises will translate into hard policy. In other words, the question now is whether "Trump means Trump."

On top of his anti-Muslim rhetoric, Trump's stated view that Gulf Arab states are "not carrying their weight" despite having "nothing but money" signals that a complete reworking of the relationship could be in store. "Trump has been consistent in saying that US allies will have to pay [for US defense guarantees] — there won't be any 'free lunches' any more. This would be an important reshaping of traditional US alliances," said Jean-Marc Rickli of King's College London and the Qatar National Defense College (p1). "If Trump makes countries pay [for security guarantees], it will come at a time for Saudi Arabia and others in the Gulf when their budgets are already under strains," said a Western diplomat based in the region.

Already, Washington's traditional role as guarantor of Gulf Arab states' security is no longer taken for granted, a view that's partly down to the US' own growth as an oil producer that's left it less dependent on Mideast oil (EC Apr.29'16). Coupled with the nuclear deal negotiated between six world powers and Iran in July last year, this has led to a sense of abandonment within the region, and has been the key trigger behind Saudi Arabia's foreign policy assertiveness.

But the great deal of interdependence between the US and Gulf Arab states likely means wholesale change — or a vacuum on the military side that would allow Russia to swoop in — is not in the cards. Integration issues mean Saudi Arabia can't simply replace the US with another weapons supplier, especially in the midst of its war in Yemen. "The Saudis and the Emirates are very pragmatic, they will put up a brave front. There's no interest here to see more disinterest from the US in the region," the diplomat said. But, with Trump's victory, "the process of the Gulf states becoming more independent in their foreign policy will likely continue and probably increase," said Rickli.

More worrying for Riyadh is that Trump may be more inclined than his defeated Democratic rival Hillary Clinton to cater to the sharply increased anti-Saudi sentiment in Washington, which saw Congress override Obama's veto in late September to pass the Justice Against Sponsors of Terrorism Act that allows victims to sue Riyadh over alleged support for the Sep. 11, 2001, terrorist attacks (EC Oct.7'16). Trump called Obama's veto "shameful."

However, the way Trump has talked about Iran — calling the nuclear agreement "one of the worst deals ever made" and asking Congress to impose more sanctions on Iran — "will have been looked at favorably in Saudi Arabia," the diplomat added (EC Oct.14'16). "International banks have already been hesitant to work

with Iran under Obama and this will likely get worse," meaning projects could become even more difficult to implement. For the kingdom, there is no greater threat than a politically and economically reinvigorated Iran.

But whether Trump, who prides himself as a dealmaker par excellence and campaigned on rescuing the US economy, will attempt to halt plans by Boeing to sell 100 planes to Iran remains to be seen. Notably, while he has criticized the Iranian nuclear deal, he has also complained that US companies should be benefiting from business in Iran alongside their European counterparts: France's Total this week signed a \$2 billion agreement to invest in Iran's South Pars field (p4).

Iranian President Hassan Rohani was quick to reject any concerns over Trump tearing up the deal, saying it couldn't be overturned by a single government and had been approved by the UN Security Council. But the US violating the deal in letter or spirit by imposing new sanctions would not only trigger a rift with Europe, it could also be just the ticket Iranian hard-liners who oppose the deal need to end it. Invariably, Trump's win will strengthen their hand, to the detriment of Rohani, who faces elections in 2018, and his moderate camp.

Staying Out of the Weeds

Turkey, meanwhile, is likely to derive some comfort from a Trump victory, with the Republican president-elect — who expressed support for Turkish strongman President Recep Tayyip Erdogan's post-coup purge — seen as more accommodating than Clinton (EC Oct.21'16). Her support for arming Syria's Kurds was anathema to Ankara.

Little is known, however, about what route a Trump administration would take on Syria. "It is possible that Trump may strike some deal with the Russians," the diplomat said. He is also seen by some in the Iran-Syria-Lebanon camp as less interventionist than Clinton. Trump has expressed some support for Moscow and Damascus' approach to that country's conflict, claiming the two were doing a better job at focusing on Islamic State (p2). However, turning the US military and foreign policy supertankers around — and justifying US support for a regime that barrel bombs its people to the American public — could be a step too far.

"It's all difficult to predict ... For now, there are still two months under the Obama administration during which they might attempt to create facts on the ground. Initially, Trump is likely to focus on domestic issues because he will have to take the populist measures" that he promised — on Mexico and immigration, for example, the diplomat said.

But as much as Trump may want to focus on domestic affairs, the new president may have little choice but to devote attention to key issues in the Middle East (EC Nov.4'16). "Every US administration comes in wanting to not have anything to do with the Middle East anymore, and they don't have the choice generally ... They end up getting pulled down into the weeds of Middle Eastern conflicts," says Michael Knights of the Washington Institute for Near East Policy (EC Feb.12'16). ■

Oliver Klaus and Rafiq Latta, Abu Dhabi

Total Way Out in Front

France's Total is set to become the first Western oil company to secure an upstream project in Iran since sanctions were lifted in January after signing a heads of agreement with National Iranian Oil Co. (NIOC) to develop Phase 11 of the giant South Pars gas project. This breakthrough provides further confirmation, if any were needed, that Total Chief Executive Patrick Pouyanne is determined to consolidate the company's status as the dominant player in the Mideast and continue the work of his late predecessor Christophe de Margerie.

Since taking over in October 2014, Pouyanne has inked two major deals in the Mideast: first a contract in Abu Dhabi in early 2015 to acquire a 10% stake in a group of onshore oil fields, followed by a contract in Qatar concluded in June this year to develop the Al-Shaheen oil field. And in Iran, Total came out of the blocks before any of its rivals, signing a large crude oil term contract with NIOC in February, the month after nuclear-related sanctions were removed under Tehran's nuclear deal with major powers (EC Jan.22'16). Total now buys up to 260,000 barrels per day of Iranian crude, more than two-thirds of the EU's current intake.

There is also a political dimension to the deal, with Total working hard to develop relations with the technocrat-heavy government of President Hassan Rohani, whose first official visit post-sanctions was to Paris. "This confirms we have a capacity to work with the Iranian government and that there is reciprocal trust," Pouyanne said.

The South Pars deal, which Pouyanne on Nov. 7 said he hoped would be concluded "in the coming days," would give the French major a 50.1% stake in the project alongside China National Petroleum Corp. (CNPC) with 30% and Petropars, a fully owned subsidiary of NIOC, holding the remaining 19.9%. The 20-year project will involve drilling around 30 wells to produce 1.8 billion cubic feet of gas per day, to be used for domestic consumption, plus 80,000 b/d of gas condensate for export. Total says it expects initial capital expenditure to be in the range of \$2 billion, rising to \$4 billion after production starts.

Total says all precautions have been taken to ensure the project does not violate any lingering US financial sanctions related to Iran. The company will rely 100% on its own financing, obviating the need to seek debt finance from international banks, while CNPC and Petropars are expected to do the same (EC Jun.17'16). And the three partners will be reimbursed from sales of condensate, which will not involve using the Iranian financial system in any way.

The commercial terms of the project will provide a test-case for the recently approved Iran Petroleum Contract, which is seen as being more favorable to the contractor compared to the previous "buyback" formula as it offers higher remuneration the more oil and gas that is produced, against the buyback's fixed rate of return (EC Oct.28'16). And, crucially, the fee is linked to the oil price, which means the higher the price, the bigger the remuneration.

Political History

Analysts say the project could yet be derailed by this week's elections in the US, which left Donald Trump as the new president and Republicans controlling both houses of Congress (EC Oct.14'16). In his election campaign, Trump referred to the Iran nuclear pact as "one of the worst deals" ever negotiated, while there is a powerful lobby in Congress that favors the reimposition of sanctions on Iran (p2). But Total was quick to downplay the threat: The company's head of gas, renewables and power, Philippe Sauquet, told reporters in Paris that the election result "does not change anything" and stressed that it was "out of the question" that the company would do anything to contravene existing US regulations.

South Pars Phase 11 has an interesting history, to say the least, with all three current partners involved in its evolution. Initially, in the mid-2000s, the phase was supposed to be developed by Total and Malaysia's Petronas, with the gas to be exported as LNG. But that project was scrapped because of sanctions, and Phase 11 was then assigned to CNPC under a \$5 billion contract with NIOC. Lack of progress saw CNPC ousted from the phase in 2012, with the project then passed on to Petropars, which has been involved in South Pars for over 20 years. Petropars is one of around ten companies which the oil ministry short-listed as potential partners for international oil companies and, unlike some of the list, the company has no affiliations with Iran's Revolutionary Guard, still sanctioned by the US and EU (EC Sep.4'15).

Total has plenty of experience working at South Pars, which is part of the same giant reservoir that includes Qatar's North Field, where Total also plays a major role. In the late 1990s, as head of Total Middle East, de Margerie engineered the signing of a \$2 billion deal with Petronas and Russia's Gazprom to develop South Pars 2 and 3, which helped blunt the impact of US extra-territorial sanctions. In 1995, Total signed another buyback deal to develop the offshore Sirri A and E fields, which Iran had awarded to Conoco before the US major withdrew because of tightening US sanctions. ■

Paul Sampson, London

Compass Points

- **SIGNIFICANCE:** Total has stolen a march on its European rivals by signing a deal with Iran and China's CNPC to develop part of the giant South Pars gas field. It reaffirms Total's dominance in the Mideast and could lead to further upstream deals being signed in Iran.
- **CONNECTION:** Total's new project may prompt Qatar to reconsider a moratorium on further development of the giant North Field that's been in place for over a decade. In the past, the Qataris were accused by Iran of overproducing, but it may not be much longer before the opposite happens.
- **NEXT:** Other European majors such as Royal Dutch Shell, Statoil and Eni may step up negotiations with Iran on possible projects. But BP, because of its major US shareholders, could be forced to adopt a much lower profile.

Politics First, Economic Reform Second?

Last month's plenum of the China Communist Party (CCP) — as the last major party gathering before the National Congress in the second half of 2017 that will launch President Xi Jinping's second term in office — set the stage for Chinese policies, and politics, over the coming year. Chinese political meetings are anything but transparent and the latest plenum was no different, leaving pundits to read the tea leaves to assess whether the resolutions taken at the top-level conclave will merely cement Xi's power or could also translate into a renewed impetus toward economic reforms.

The plenum focused on party discipline but the main news was the elevation of Xi to “core leader,” a designation that puts him on par with China's two most powerful contemporary leaders, Mao Zedong and Deng Xiaoping. Xi had already anointed himself military commander-in-chief in April, adding to his titles as General Secretary of the CCP, which in effect governs China, and head of state. Becoming core leader on top of those appointments may be a show of force as Xi seeks to assert his authority ahead of next year's Congress and secure the nomination of political allies at China's highest political body, the Standing Committee of the Politburo, where five out of seven members are due to retire — leaving only Xi and Prime Minister Li Keqiang.

Being “core leader” could also give Xi the necessary authority to push through difficult reforms first announced in 2013, when he pledged to guide China through its transition from a manufacturing- and export-oriented economy to one that's more services-driven (EC Aug. 5'16). Since then, the government has tried repeatedly to redress the country's finances and liberalize state-owned enterprises by slashing the overcapacity in the coal and steel industries, limiting lending to local governments that splurged on debt over the past decade, and opening up the energy sector to private Chinese players.

But reformists have found themselves confronting powerful organizations, China's national oil companies (NOCs) among them. Worried about losing privileges like pipeline monopolies, the NOCs have successfully argued against any major restructuring at a time when economic growth is set to fall to around 6.7% this year against last year's 6.9% — another quarter-of-century low. Slow growth has made Xi's “supply-side reforms” — which involve job cuts, slower salary rises, and large restructuring — more painful than demand-side policies (EC Mar. 11'16).

Some Chinese industry sources say that the last plenum, by elevating Xi and focusing on party discipline, will encourage officials to become more proactive. “The plenum means that those officials who do not carry out reforms will be punished even if they have not done anything wrong,” a source told *Energy Compass*. If so, this would mark a sharp change from the recent practice by top energy officials of keeping a low profile and refraining from taking initiatives to avoid getting caught up in Xi's anticorruption crackdown. But others threw cold water on the idea that industry officials would show their political zeal by following through with energy reforms. “I would doubt much will happen — but let's see,” an oil and gas equity analyst based in Hong Kong said.

Gas reforms have in any case gained traction since the end of summer, with more competitive pipeline and storage tariffs seen as easing access to third parties. Teapots, or independent refiners, have also become fierce competitors to state-owned refiners PetroChina and Sinopec, thanks to the allocation of quotas to import crude that now total 1.34 million barrels per day (EC Jun. 10'16).

But the broader oil and gas reform plan by top economic regulator National Development and Reform Commission (NDRC) that has been in the works since last year has yet to see the light of the day. Two NDRC insiders told *Energy Compass* that neither the government nor the NOCs were pleased with the shape of the plan — which aims to set out how to deregulate oil and gas prices and make the oil and gas sector more market-oriented overall — meaning its release could be further delayed.

Decisions taken since last month's plenum, meanwhile, hint at Beijing taking a harder political line, from the Chinese parliament's intervention this week in Hong Kong affairs to the passing of a cybersecurity law that will further restrict online freedom. And in the economic realm, reformist finance minister Lou Jiwei has been replaced with bureaucrat Xiao Jie, who appears less outspoken and closer to Xi.

Energy Aspects China specialist Michal Meidan believes that politics may trump economic modernization until after next year's Congress, despite the raft of reforms Xi has introduced. “There will be very little tolerance for volatility after the plenum. But the more you try to keep things stable in the coming year, the more you risk being in a difficult situation come 2018.” Debt-fueled growth aimed at keeping unrest at bay and preventing GDP growth from slipping further could leave Xi facing a big headache in his second term. Meidan also warned that people are overestimating the post-2017 reform agenda: “Xi has an agenda for the party and he wants to put China on a stronger footing. But he is not a strong liberalizer.” ■

Maryelle Demongeot, Singapore, and Dawn Lee, Beijing

Compass Points

- **SIGNIFICANCE:** Xi has one year left to surround himself with strong political allies and entrench his power before the 2017 Congress. Focusing on the politics risks putting economic reform on the back burner.
- **CONNECTION:** Attempts to shut overcapacity in the coal sector have backfired, triggering a price hike and a flurry of meetings to prod companies to reverse course and increase production ahead of winter — highlighting the unforeseen consequences of reforms.
- **NEXT:** Xi's possible next political moves include raising the retirement age for the Politburo Standing Committee to keep ally Wang Qishan, the all-powerful anticorruption czar, on board. The nomination of Xi's successor, which would normally be expected at next year's Congress, could be delayed to give him more time to consolidate his power.

THE BALTICS

Perceived Russian Threat Sparks Nato Build-Up

Europe's doomsday scenario goes something like this: Alleging human rights abuses of ethnic Russians in the Baltic countries, Russia carries out an invasion and within days is able to assume control over Estonia, Latvia, and Lithuania — all Nato members. Moscow offers the West a *fait accompli*, and Germany and France, confronted with the prospect of an all-out war with Russia, refuse to come to the Baltics' aid. Article 5 of the Nato treaty, which states that an attack on one member is an attack on all, is thus breached, and the military alliance abruptly collapses, which was Russian President Vladimir Putin's ulterior goal from the start. The operation has the added benefit of linking Russia with its isolated Kaliningrad region, making the military campaign an easy sell to the Russian population.

The scenario has long lingered on Europe's paranoiac fringes but edged closer to mainstream thinking after Russia, to the shock of many in the West, seized Crimea and then dispatched troops to fight in eastern Ukraine in 2014 — and later intervened militarily in Syria. The shock US presidential victory of Republican candidate Donald Trump — who has expressed admiration for Putin and questions the utility of Nato — could propel it further still.

Most observers don't take the scenario seriously, however, in no small part because it discounts the extraordinary economic implications for Russia, which depends on Europe for oil and gas revenues. Nonetheless, as defense-related officials pointed out at a recent security conference in the Baltics, Putin's Russia is unpredictable and increasingly opportunistic (EC Mar.25'16). In the words of former Nato Secretary-General Anders Fogh Rasmussen, "The current Kremlin leadership is more unpredictable than the Communist Party." Fogh Rasmussen later called on Trump to display strength toward Russia.

Formally, in the past three years Nato has gone from considering Russia a "strategic partner" to a "strategic challenge" — a clear euphemism for "threat." The assessment is anchored not only on Ukraine and Syria, but a little-noticed opinion piece in a Russian military newspaper in March 2013, in which Valery Gerasimov, head of Russia's joint chiefs, outlined the future of warfare. With the lines between war and peace blurred, the general argued, the "role of nonmilitary means to achieving political and strategic goals has grown, and in many cases it has exceeded the power of weaponry in effectiveness." Gerasimov suggests that current reality calls for using "concealed" military means, such as informational campaigns and special operations — read: cyberattacks, with Washington last month accusing Russian-backed hackers of attempting to interfere with the US election — and only sending in the troops at a later stage "to achieve final success."

Western military analysts have called this new concept "hybrid" or "non-linear" warfare, and although there is no indication the "Gerasimov Doctrine" is official Russian policy, it has given rise to an all-important dilemma: How can Nato counter it? As regards the Baltics, Nato leaders decided at a summit earlier this year to create four battalion-strength units in the Baltics and Poland (EC Jul.22'16). Although these 4,000 or so troops pale in comparison to the over 300,000 troops in western Russia, they send a message to Moscow that Nato intends to protect its members. If need be, Fogh Rasmussen told the conference in Riga, Latvia, the alliance should consider setting up permanent bases in the Baltics (EC Nov.4'16).

Beyond a stronger troop presence, defending against non-linear warfare is a conundrum. How can one provide effective cyberdefense in the age of the ubiquitous internet, shield against Russian propaganda given the necessity to protect basic media freedoms, or discriminate among sound commercial deals and those that Moscow has molded to serve its political goals? No one knows for sure, which is reflected in, for example, Europe's struggle over the Russia-backed Nord Stream-2 gas pipeline to Germany — a project that has split the EU (EC May13'16). "Russia wants to beat us psychologically," said Janis Garisons, state secretary at Latvia's defense ministry, arguing that the alliance needed to revive the concept of "Total Defense," whereby nations coordinate civilian and military defense structures, and possibly certain critical economic sectors. "We're not in the Cold War, but we need a Cold War approach," Garisons said.

This kind of rhetoric and small-scale troop buildup can perpetuate itself. As Russian Defense Minister Sergei Shoigu said on Nov. 2, Nato's actions are "undermining strategic stability and compelling Russia to undertake corresponding defensive measures." Battleships may soon join the short-range Iskander missiles stationed in the Kaliningrad exclave, and Shoigu said that units near Russia's western border would receive better equipment. Not to be outdone, Nato Secretary-General Jens Stoltenberg has emphasized troop readiness. "We are responding with the biggest reinforcement of our collective defense since the end of the Cold War," Stoltenberg told the *Times* (EC Oct.14'16).

Speaking at the Riga conference, Harjit Sajjan, minister of defense of Canada, which will command one of the four Nato battalions in the Baltics, said the alliance would use only "open, transparent deterrence," and that it was ready to talk with Russia once Moscow was ready. Moscow is striking the same tenor. When Russia shipped the Iskander missiles to Kaliningrad, it did not try to conceal them. As the West and Russia mobilize and put their forces on a war footing, perhaps this "openness" will be what saves Europe from the nightmare scenario. ■

Gary Peach, Riga

Compass Points

- **SIGNIFICANCE:** How relations between the West and Russia will be impacted by a President Trump remains uncertain. Putin on Wednesday said Trump has spoken about "resuming and restoring relations with Russia" and said Russia was ready — but understood "the way to that will be difficult" given the current state of degradation.
- **CONNECTION:** As testimony to heightened East-West tensions in Europe, Montenegro's chief special prosecutor this week said Russian nationalists were behind a plot to assassinate the country's pro-West prime minister.
- **NEXT:** The bad blood between West and East will require something big, but improbable, such as an end to hostilities in Syria or eastern Ukraine, in order to improve. A Trump-led rapprochement remains a wild card.

Industry on Edge Over Pipeline Reroute

Climate activists' challenges to a slew of US oil and gas pipelines already have producers on edge. And President Barack Obama has likely made industry even jumpier by speaking up about the increasingly complex Dakota Access oil pipeline controversy, last week raising the possibility of a potential federal government "reroute" of the four-state, \$3.8 billion Energy Transfer Partners (ETP) project.

Obama can decide the future of the 1,886 kilometer North Dakota-to-Illinois pipeline before he leaves office in late January. And close observers predict he's more likely to do so now that Republican Donald Trump, rather than Democrat Hillary Clinton, is his sure successor. Neither candidate weighed in on Dakota Access, a messy situation that has escalated to cause célèbre status for Native Americans and environmental activists worldwide.

Clinton had promised to pursue Obama's aggressive energy and climate policies by speeding up a transition from fossil fuels to renewables and other clean energy sources. Trump has vowed to do the opposite, and to "cancel" the Paris Agreement on climate change (EC Sep.30'16). In a late-October debate, North Dakota Rep. Kevin Cramer, one of his energy advisers, told a Virginia audience that Dakota Access was not yet on Trump's radar.

For months, thousands of protesters have gathered at an anti-pipeline encampment in North Dakota to show solidarity with the Standing Rock Sioux. The tribe's legal challenge claims pipeline construction is harming their sacred lands and threatening their drinking water in Lake Oahe, a dammed section of the Missouri River.

At issue is an easement ETP needs from the US Army Corps of Engineers to construct the pipeline's underwater section. It's the final piece of a pipeline with an end-of-year deadline designed to carry up to 570,000 barrels per day from the Bakken and Three Forks production areas. In September, the Obama administration had hoped to preclude on-site violence by requesting a voluntary construction pause on a 32 km stretch abutting Lake Oahe, allowing the Corps time to study its previous decisions regarding the site.

But industry claims Obama's talk of a reroute is a case of politics trumping process with a rule-following pipeline builder that has crossed its permitting t's and dotted its i's. "No legal justification for prohibiting or alternating the path of this infrastructure project has been provided," American Petroleum Institute spokesman Michael Tadeo told *Energy Compass*. "The administration's actions could have a chilling effect on other infrastructure projects like roads, bridges, tunnels and electricity generation lines."

Obama's intervention talk "caught us by surprise" because it goes beyond permit processing, said Don Santa, president of the Interstate Natural Gas Association of America. "We certainly hope it is a one-off and not a sign of things to come," Santa said in an interview. "Predictability of this process is important ... when multimillions if not billions of dollars are being invested." The "Keep It in the Ground" movement, emboldened by Obama's rejection of Keystone XL a year ago, also has become more sophisticated in how it targets natural gas pipelines. Its regulatory and legal maneuvering has sidelined several large projects in the Northeast (EC Sep.23'16).

Carl Weimer, head of the nonprofit Pipeline Safety Trust, said this has all come to a head because instead of crafting a national energy

policy, Congress has been content to "leave energy decisions up to big energy companies." Justifying new pipeline infrastructure is increasingly difficult as more of the public concludes that industry, drowning in a glut of oil and gas from the shale boom, is intent on exporting US energy as quickly as possible, Weimer said. The industry has also been slow to invest in clean energy sources. "The energy industry has brought this on themselves," he said. "We've been trying to warn them about this for years, but they haven't done a very good job addressing it."

Dakota Access has become a flash point because it highlights numerous weaknesses, Weimer said. Chief among them are how the siting of interstate oil pipelines falls to often ill-prepared state and county authorities and how neglectful that process is of the needs of Native Americans. Oversight for gas pipeline siting falls under the jurisdiction of the Federal Energy Regulatory Commission. The tribe's federal lawsuit has maintained all along that the Corps avoided a more rigorous environmental and public review by using a loophole to fast-track pipeline construction.

The Standing Rock Sioux won't support a reroute that puts Dakota Access "on someone else's back," said Earthjustice attorney Jan Hasselman, who is representing the tribe. "A reroute would mean a new process, an environmental analysis that looks at the impacts and alternatives," Hasselman said in an interview. "There would be a review, tribal consultation, public hearings; the kind of robust public conversation that we had in Keystone, but never got here." Hasselman said he is encouraged by an Obama administration initiative to meet with many Native Americans this fall about reforming how the federal government interacts with tribes on oil and gas pipelines and other infrastructure projects.

However, analysts with Washington-based ClearView Energy Partners, who have tracked the lawsuit carefully, say court records showing canceled meetings and unreturned phone calls indicate that the Standing Rock Sioux "made deliberate decisions not to engage with the Corps process." For instance, records reveal that the builder adjusted the pipeline route 147 times in North Dakota to accommodate concerns by other Native American tribes that answered Corps consultation requests.

At this advanced stage of construction of Dakota Access, ClearView noted, a reroute could jeopardize other historical artifacts or sensitive ecologies. What might Trump do if Obama doesn't act? His campaign statements about approving the Keystone XL lead observers to conclude that he would say yes to the Dakota Access easement. ■

Elizabeth McGowan, Washington

Compass Points

- **SIGNIFICANCE:** Protests over the Dakota Access pipeline have the potential to eclipse the Keystone XL saga.
- **CONNECTION:** The Obama administration's initiative to reach out to tribes on infrastructure decisions could beef up Corps permitting requirements and strengthen other environmental protections.
- **NEXT:** Halting Dakota Access could pressure Bakken crude prices enough that companies might once again pursue now-stalled oil-by-rail projects.

MARKET FORCES

Opec's Bleak Future *(cont. from p1)*

store unsold oil. Dated Brent, the physical price, is weakening to a very soft \$2.50 discount to the prompt Brent futures contract, creating financial pain for millions of barrels pricing against the dated Brent benchmark, including much Opec output — although prompt discounts are widening for Brent futures.

Opec can count on the US to soak up some of the surplus in its tanks, as US oil prices are keeping up better than Brent, making it more attractive for the US to import foreign oil. The US has ample storage capacity available after draining 44 million bbl in tanks over the summer when strong Asian demand competed with the US pull for crude in the Atlantic Basin in the first visible green shoots of rebalancing. But the relative tightness has made way for new crude supply in the fourth quarter. Over the past two weeks, US commercial crude stocks have added 17 million bbl as differentials were weakening — adding to price pressure.

Opec ministers have said they see \$55 as an ideal price in the short term that would help trigger investments to avoid a supply shortage and help alleviate financial pain for member countries. But the Opec secretariat, according to Opec's World Oil Outlook (WOO) released this week, sees a different reality. The WOO sees Brent hit \$55 only in 2018, up from \$50 in 2017 and \$44 in 2016. Yet despite this lower price, the WOO predicts that non-Opec will come up with sufficient investments to keep oil supply relatively stable in the coming years after a dip in 2016-17.

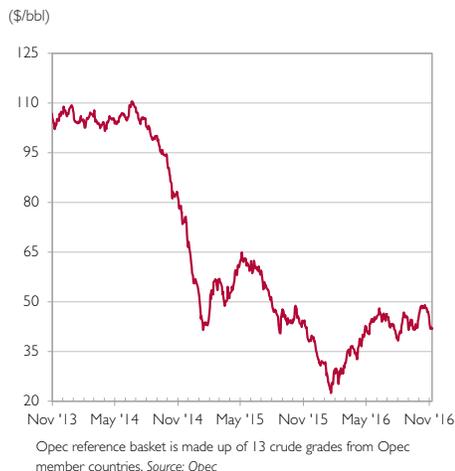
Unlike many oil majors, Opec, albeit bar Saudi Arabia and the United Arab Emirates, doesn't see non-Opec supply falling off the cliff after 2018 and prices spiking as a result (EC Oct.21'16). If the WOO view prevails, Brent would hit \$70 in 2021 but the call on Opec crude would be as much as the group is currently producing. Apart from battling short-term oversupply, there seems little upside in volume for the group in the medium term — perhaps not the outcome Opec wanted on launching its market share strategy in November 2014 (EC Nov.4'16).

Much has changed since then. Opec was convinced economic forces would rebalance the market. Indeed, non-Opec supply has come down and demand has gone up. But in addition, the industry is now facing fast-track implications from climate change, alternative fuels, efficiency policies and new technologies. This all could have a massive impact on oil demand growth, and on supply.

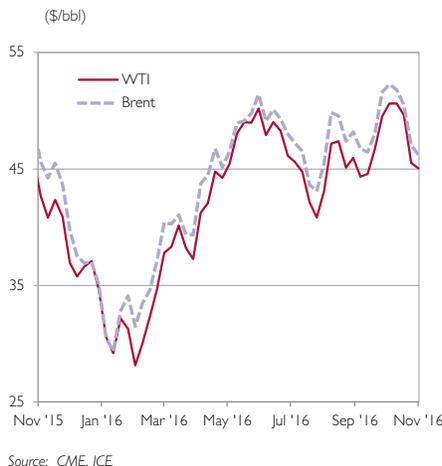
For the first time in any of its forecasts, Opec now sees a scenario where global oil demand can peak, in about a decade. If that becomes reality, Opec's options to grow output are limited. But ministers can worry about that later: First they need to deal with an immediate surplus and softening oil prices. And in the medium term, any move by US President-elect Donald Trump to "cancel" the Paris Agreement could yet soften the blow (EC Sep.30'16). ■

John van Schaik, New York

Opec Reference Basket 2013-16



Brent, WTI Prices 2015-16



Energy Compass® charts the impact of geopolitics on the global energy industry through the prism of supply, security and prices.



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