

# Saudi Arabia and Russia Discuss Scaling Back Global Oil Cuts



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- Easing output curbs “on the table”; no decision yet: Al-Falih
- OPEC, allies to discuss loosening supply caps in June: Novak

Saudi Arabia and Russia, the oil producers who led the effort to shrink a global glut, said they are discussing easing output curbs for the first time.<sup>30</sup>

While scaling back the supply caps is “on the table,” no decision has been made, Saudi Arabian Energy Minister Khalid Al-Falih said in an interview early Friday morning in St. Petersburg. The Organization of Petroleum Exporting Countries and its partners will in June discuss loosening the curbs that began in 2017, Russian counterpart Alexander Novak said at the same interview after a meeting between the two officials.

Speculation is swirling over when and by how much the producers will scale back cuts after they eliminated an inventory surplus that had sparked a price crash about four years ago. Market uncertainty has risen following renewed U.S. sanctions on Iran that may curb the Islamic Republic’s exports, and as economic turmoil in Venezuela drives a collapse of the OPEC member’s oil industry. Crude’s rebound is also spurring concern that demand may falter.

Russia and Saudi Arabia share a common view on “consuming countries’ anxiety and concerns over potential supply shortages,” Al-Falih said. “We will ensure that the market remains in its trajectory towards rebalancing, but at the same time we will not overcorrect.” The two nations will meet at least two more times before OPEC and its partners gather in Vienna next month, he said.

While Saudi Arabia has shown a desire for higher prices to bankroll domestic economic reforms and underpin the valuation of its state oil company in a planned initial public offering, the top OPEC member and its allies are facing pressure from consuming nations as well as crude producing companies.



## High Enough

Indian Petroleum Minister Dharmendra Pradhan said earlier this month that he expressed concern about rising crude and its impact on consumers to Al-Falih. He added that the Saudi energy minister had assured him that the Middle East nation and other producers would ensure that adequate supplies are available and that prices remain reasonable. In developing countries from Brazil to the Philippines, drivers are complaining about high fuel costs.

In Russia, some of the largest oil producers called for more flexibility after almost 17 months of output curbs. The cuts have achieved their goal and crude prices near \$80 a barrel are high enough, according to the bosses of Lukoil PJSC and Gazprom Neft PJSC. Novak said that he will hold talks with the nation's crude producers next week or the week after to discuss the deal with OPEC.

"Earlier we said that we will monitor the market situation, now we can say that we are looking into the issue" of a smooth recovery in output to meet growing demand, Novak said in the interview on Friday. He added that he and Al-Falih discussed prices and the market situation, including Venezuelan

production and risks related to Iran.

The Saudi minister said he'll meet Novak again in Moscow on June 14, adding that another meeting between the two is possible before that.

### U.S. Supply

In Washington, Democrats are using high gasoline prices, approaching \$3 a gallon for the first time since 2014, as a political tool, accusing the White House of not doing enough to shield consumers.

Recent price gains have been driven by American actions such as President Donald Trump's withdrawal from a 2015 deal between Iran and world powers that had eased sanctions on the Persian Gulf state in exchange for curbs on its nuclear program. Earlier this month, Al-Falih and United Arab Emirates Energy Minister Suhail Al Mazrouei said recent moves in oil prices have been driven by geopolitics and that global supply remains ample.

Additionally, record production in the U.S., which is not part of the deal among global producers to cut output, is a key issue that's complicating strategy for OPEC and its allies.

Brent crude, the benchmark for more than half the world's oil, was down 0.4 percent at \$78.49 a barrel at 7:31 a.m. in London. Earlier this month, prices had traded above \$80 a barrel for the first time since November 2014. U.S. West Texas Intermediate futures were at \$70.49 a barrel in New York.

"We will be coordinating closely, monitoring the market almost on a daily basis," Al-Falih said on Friday. "We'll consult with other countries. Each of them has a voice and their voices matter to us."

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# Under Pressure From Trump, Saudis Put Brakes on Oil's Rally



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- Riyadh supports a gradual increase in oil output over summer
- Middle East oil producers worried about U.S. anti-trust laws

The world's largest oil exporter just made quite a policy

swerve. Within six weeks, Saudi Arabia has gone from advocating higher prices to trying to stop the rally at \$80 a barrel.

The U-turn scrambled the outlook for oil markets, hit the share prices of oil majors and shale producers and set up a diplomatic wrangle with other members of the Organization of Petroleum Exporting Countries.

What changed? The supply threats posed by the re-imposition of U.S. sanctions on Iran oil exports earlier this month and the quickening collapse of Venezuela's energy industry are both part of the answer, but they're secondary to Donald Trump. On April 20, the president took to Twitter to lambaste the cartel's push for higher prices. "Looks like OPEC is at it again," he tweeted. "Oil prices are artificially Very High!"



**Donald J. Trump** ✓

@realDonaldTrump

Looks like OPEC is at it again. With record amounts of Oil all over the place, including the fully loaded ships at sea, Oil prices are artificially Very High! No good and will not be accepted!

11:57 AM - 20 Apr 2018

Trump's intervention gave typically strident voice to a concern held more widely in the U.S. and other consuming countries: oil's rally from less than \$30 in early 2016 to more than \$80 this month risked becoming a threat to global economic growth.

On Friday, Saudi Oil Minister Khalid Al-Falih responded, saying his country shared the "anxiety" of his customers. He then announced a shift in policy that all but gave a green

light for a market sell-off, saying OPEC and its allies were “likely” to boost output in the second half of the year.

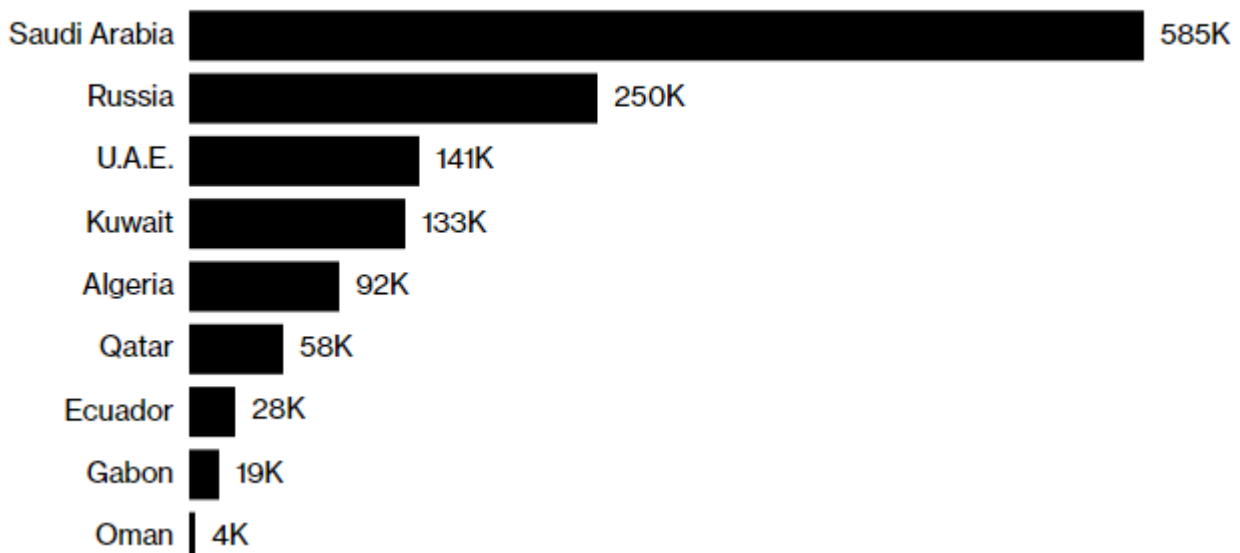
“The tweet moved the Saudis,” said Bob McNally, founder of consultant Rapidan Energy Group LLC in Washington and a former White House oil official. “The message was delivered loud and clear to Saudi Arabia.”

After Al-Falih’s comments, made following a meeting with his Russian counterpart in St. Petersburg, saw crude drop more than \$3 to below \$67 a barrel in New York on Friday. The bullish tone of recent market chatter, increasingly punctuated with talk about oil prices climbing past \$100, \$150 and even \$300, suddenly looks overdone.

## Who’s Got the Juice?

Saudi Arabia and Russia could potentially return the most oil to the market.

■ Size of output cut since 2016 in barrels a day



It wasn’t just the U.S. Other major buyers of Saudi crude also put pressure on Riyadh to change course, albeit a little more diplomatically than Trump. Dharmendra Pradhan, the Indian petroleum minister, said he rang Al-Falih and “expressed my

concern about rising prices of crude oil.”

OPEC officials were in a meeting at the opulent Ritz-Carlton hotel in Jeddah on Saudi Arabia’s Red Sea coast when Trump tweeted his views and they immediately saw it as a significant intervention.

“We were in the meeting in Jeddah, when we read the tweet,” OPEC Secretary General Mohammad Barkindo said on Friday. “I think I was prodded by his excellency Khalid Al-Falih that probably there was a need for us to respond,” he said. “We in OPEC always pride ourselves as friends of the United States.”

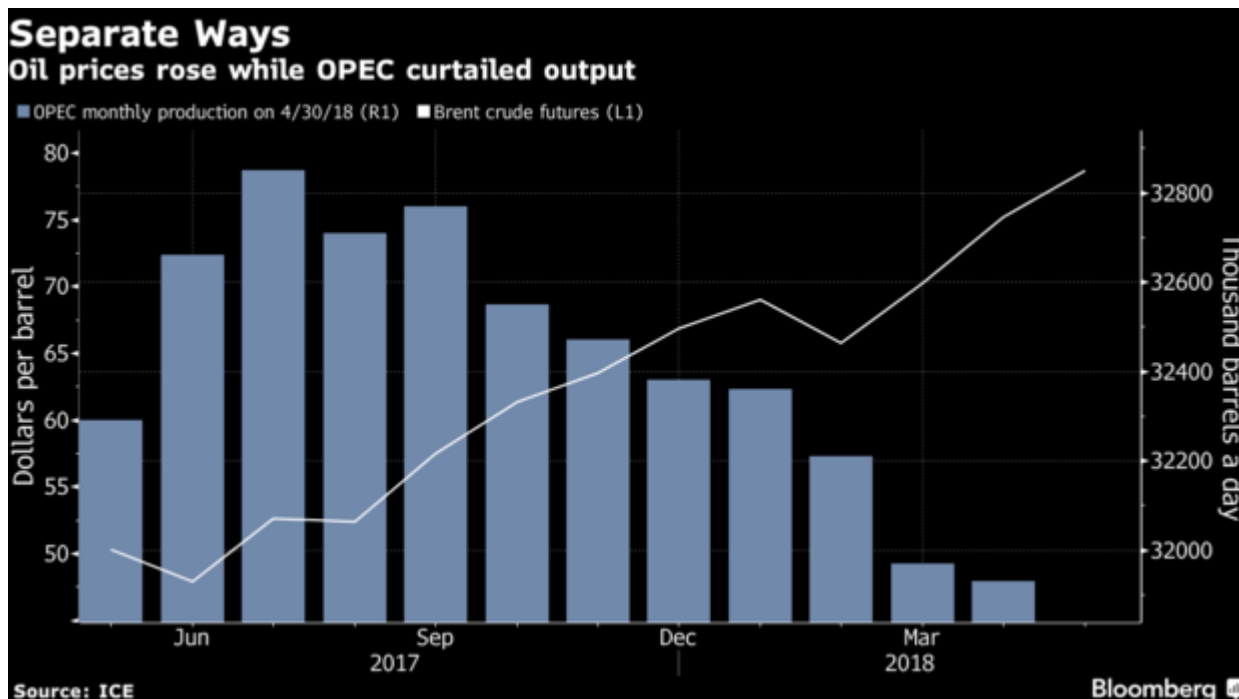
To read a story on how consumers are responding higher prices, [click here](#).

Diplomats and oil officials in OPEC countries were also worried about the potential revival in Washington of the so-called “No Oil Producing and Exporting Cartels Act,” which proposes making OPEC subject to the Sherman antitrust law, used more than a century ago to break up the oil empire of John Rockefeller.

The bill first gained prominence in 2007 when George W. Bush was president and oil prices were flirting with \$100 a barrel and made a comeback several years later under Barack Obama. While it was opposed by those presidents, the risk for OPEC was that Trump “could break with his predecessors and support its passage,” said McNally.

In a sign that oil prices were climbing Washington’s agenda as gasoline prices approached the \$3 a gallon mark, last week a sub-committee in the U.S. House of Representatives held a rare hearing on the NOPEC act.





There are also indications that Russia, whose decision to participate in OPEC's cuts helped turnaround the oil market, has decided the rally has run far enough.

"We're not interested in an endless rise in the price of energy and oil," Putin told reporters in St. Petersburg on Friday. "I would say we're perfectly happy with \$60 a barrel. Whatever is above that can lead to certain problems for consumers, which also isn't good for producers."

OPEC and its allies will gather in Vienna for a policy meeting on June 22 to hammer out a deal. While Al-Falih and Russia's Novak have indicated that output will most likely increase, the details – how many barrels from which countries – are still a question mark.

"In an environment of low inventories and rising geopolitical outages, raising some supply is prudent," said Amrita Sen, oil analyst at Energy Aspects Ltd.

Oil producers are debating an increase ranging from 300,000 barrels a day at the low end, backed by Gulf producers including Saudi Arabia, and a larger increase of about 800,000 barrels a day favored by Russia, a person familiar with matter said on Friday.

“It’s too early now to talk about some specific figure, we need to calculate it thoroughly,” Novak said.

Even though Al-Falih’s comments brought about an immediate price reaction, there are still reasons for people to be bullish as traders await the impact of U.S. sanctions against Iran and wider political tensions in the Middle East.

And with global oil demand growing strongly, hedge funds will shift their focus on diminishing global spare capacity as OPEC returns barrels to the market. The U.S. government estimates the cushion at just 1.34 million barrels a day next year, below the 1.4 million reached in 2008 when oil prices surged to nearly \$150 a barrel.

In a letter to investors earlier this month, Pierre Andurand, the bullish oil hedge fund manager, warned that if Saudi Arabia needs to “offset production declines from Iran and Venezuela” global spare capacity would decline to perilous levels.

“Oil prices could potentially surge to record high levels to force demand destruction very quickly,” he wrote.

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## Shale's Public Enemy No. 1 Says Short the Permian and Eagle Ford

(Bloomberg) – The geologist who earned the wrath of shale drillers a decade ago with forecasts that natural gas was about to run out is now warning that the Permian Basin has just seven years of proven oil reserves left.

Arthur Berman, a former Amoco scientist who now works as an industry consultant near Houston, said the Permian region of Texas and New Mexico that currently pumps more oil than any other North American field won't last for long. And the Eagle Ford shale about 350 miles (560 kilometers) away in South Texas isn't looking good either.

Berman's grim outlook, based on analyses of reserves and production data from more than a dozen prominent shale drillers, flies in the face predictions from the U.S. Energy Department, Chevron Corp. and others that the Permian is

becoming one of the dominant forces in global crude markets.

Permian output already exceeds that of three-fourths of OPEC members.

“The best years are behind us,” Berman told a gathering of engineers, geologists, lawyers and financiers at the Texas Energy Council’s annual gathering in Dallas on Thursday. “The growth is done.”

Berman came to prominence as a shale skeptic and peak-oil advocate during the first decade of the new century, when intensive fracking and sideways drilling techniques were just beginning to unlock vast reserves of gas from shale fields in Texas and Louisiana. At the time, his dire warnings that shale gas was mostly hype drew the ire of fracking pioneers including Devon Energy Corp. and Chesapeake Energy Corp.

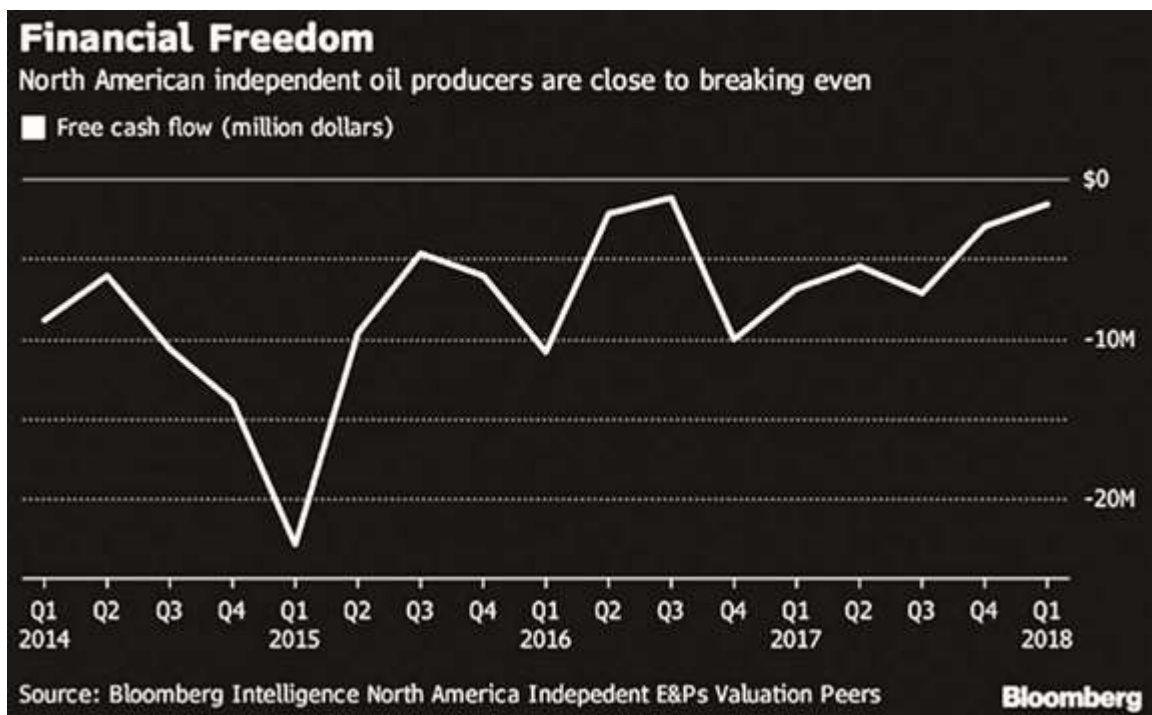
In 2009, Devon’s exploration chief Dave Hager – who has since risen to CEO – published an op-ed piece in an Oklahoma City newspaper to refute Berman’s thesis. In it, Hager likened shale to a World Series-winning home run and said Berman “is in the stands speculating on whether the slugger is on steroids.”

Berman on Thursday said investors banking on shale fields to make major contributions to future global crude supplies will be disappointed: “The reserves are respectable but they ain’t great and ain’t going to save the world.”

Still, he hasn’t sold the stock of shale driller EOG Resources Inc. that he inherited from his deceased father “because they’re a pretty good company.”

His parting advice to the assembled was, “Conserve what you’ve got, learn to live with less, open your eyes and enjoy the rest of your day.” No one participated in the Q and A session.

# Shale's big boost comes with newfound thrift as oil hits \$70



The shale boom's back in full swing, with fracking crews the busiest since 2014. The novelty this time around: Oil executives stressing their prudence, along with their production.

The combination of surging output, oil prices at three-year highs and spending under control means that the shale patch – which has notoriously burnt more cash than it makes as investors bankroll their expansion – got closer to a milestone in the first-quarter: Positive free cash flow. As oil rises above \$70 a barrel, the outlook for the coming quarters looks even brighter.

It's a shift that came with the help of new high-tech well systems, and at the insistence of investors pushing payback

over growth. Here are five key takeaways from the first quarter to track moving forward: Production is thriving  
EOG Resources Inc and Pioneer Natural Resources Co are among producers that posted record output, while keeping capital expenditures in check.

But how can they keep growing without overspending?

Producers have sought to cut costs since prices crashed more than three years ago, but those efforts can only go so far. It's mainly better technology that's allowing them to get more from each well without blowing their budgets.

Pioneer, in a recent presentation, offered insight into how its high-tech wells are delivering at a faster rate, a theme repeated over and over again in earnings calls. Devon Energy Corp said it completed the two highest-rate wells in the Delaware section of the Permian in its 100-year history, helping it to a 20% production boost.

Almost living within their means

Buybacks, dividend increases and a cap on capital expenditures. Oil executives couldn't keep from crowing about their thriftiness while producing record amounts of product, and how their efforts can be a benefit to both their shareholders, and to continued growth.

The numbers back them up, showing a pretty good rise in free cash flow, starting from the end of 2016.

The oil rally's flip side: HedgingA big risk facing some producers now is the amount of wrong-way bets on oil prices that they hold. When crude markets slumped, explorers used hedging contracts to lock in payments for future barrels that could now turn sour as futures trade above \$70 a barrel.

Wood Mackenzie Ltd's Andrew McConn estimates top producers will lose \$7bn on their hedging contracts in 2018.

The reality on the ground

To make record production a reality, oil-service providers are sending a growing number of fracking crews to shale fields to

blast the oil-rich layers of rock with water, sand and chemicals.

But for the service providers, that hasn't translated into better profits yet.

The rush to respond to heightened demand has inflated costs for materials like sand and has triggered transportation bottlenecks and labour shortages. All that has weighed down on their first-quarter results. Schlumberger Ltd, the world's biggest oilfield service provider, and Halliburton Ltd, the top fracker, have both promised investors things will improve. If that means increasing prices for their services, costs will rise for producers.

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## **For Big Oil, reserve size matters less than ever**





LONDON (Reuters) – A decade ago, the news that the world’s top oil and gas companies had less than 12 years of production left in their reserves might have caused a panicked sell-off in their shares.

But as consumers try to move away from fossil fuels to cleaner and cheaper energy sources, investors and executives say reserve size is no longer the gold standard for measuring the value and health of a company.

The cost of developing existing reserves and the amount of carbon those reserves produce has now become more important, they say. This is leading to a profound shift in company strategies.

“The quality of reserves and the commercial viability of reserves has eclipsed the quantity of reserves by far in recent years,” said Adi Karev, Global Leader for Oil and Gas at EY.

The sector is emerging from one of its longest and deepest downturns after an oil price slump that started in 2014.

The largest publicly-traded oil companies – Exxon Mobil, Royal Dutch Shell, Chevron, ConocoPhillips, France's Total, BP, Equinor (formerly Statoil) and Italy's Eni – have adapted. They saved money by cutting jobs and increasing technology spending and now make more money with oil at \$60 a barrel than they did at \$100.

But they also cut spending on exploration for new resources and development of new fields. This led to a decline in reserves.

An analysis by Reuters and Guinness Asset Management of the annual reports of those eight companies shows that the size of their oil and gas reserves, when added together, fell to 91 billion barrels in 2017. That was the lowest since the same amount in 2005.

The reserves of Exxon Mobil, the largest company, shrank by 16 percent since the slump began in 2014. Shell's reserves fell 6.5 percent since then despite the \$54 billion acquisition of BG Group in 2016.

BP and Chevron's oil and gas reserves increased by a small 5 percent since 2014. Eni was the only one to significantly boost its reserves by over 20 percent thanks to the discovery of the giant Zohr gas field off the coast of Egypt.

The cumulative reserve life – the number of years a company can sustain its current production levels with existing reserves – of the eight companies fell to 11.7 years in 2017. That was the lowest level in at least 20 years although that drop is also the result of a sharp increase in production. Reuters does have access to data going back beyond 1998.

Exxon's reserves life shrank from 17 years in 2014 to 15 in 2017. Eni's from 10.6 to 10.1 years despite its discoveries. Shell slipped from 12 to 9 years over the period.

“There is clear deterioration (in reserves) and this will be a problem in time,” according to Jonathan Waghorn, manager of the energy fund at Guinness Asset Management.

But for now, “10-12 year’s reserve life should be fine, so it is not a materially important component between the Majors.”

## **“THE BEST BARRELS”**

With electric vehicles on the ascent and a peak for fuel demand on the horizon, the focus on the reserves is shifting to the quality of the reserves rather than the quantity

“Some reserves are more efficient than others,” Eldar Saetre, chief executive officer of Norwegian oil giant Equinor told Reuters.

“At some point we see a shrinking oil and gas industry, when that will be I do not know, but then it is really important that the best barrels come in and that will be increasingly a competitive factor.”

Some companies are already changing strategies to adapt to the new focus.

Oil prices are not expected to rise sharply in the long-term and governments are seeking to reduce pollution and greenhouse gas emissions. This means firms are adjusting by setting ceilings for the cost of projects, often below \$35 a barrel. Oil reached a \$80 a barrel this month, the highest since late 2014.

Crude oil and natural gas have different grades and the cost of pumping them can vary hugely. Saudi Arabia’s oil is easier and therefore cheaper to extract than Angola’s complex deepwater wells.

Canada’s oil sands have become less attractive due to their high cost of extraction and high carbon intensity. Exxon wrote down a large part of its Canadian oil reserves in 2017. Its

largest rival, Shell, has sold most of its Canadian assets in recent years.

North American shale which has emerged over the past decade can be developed relatively quickly and at low cost, in contrast to multi-billion dollar deepwater projects that take years to develop.

The Permian basin in Texas, the heartland of the shale oil boom in recent years, saw production costs drop sharply to as low as \$30 a barrel.

Exxon and U.S. rival Chevron have both acquired large acreage in the Permian in recent years. Shell is also expanding in U.S. shale.

The Gulf of Mexico also has low extraction costs because it has large reservoirs of oil and some infrastructure is already located there such as services companies and onshore bases.

Statoil and Total have bought exploration acreage in the U.S. Gulf of Mexico in recent months.

Brazil's pre-salt reserves also have low costs as there are huge reservoirs and also some existing infrastructure. All eight companies are there and several have recently sharply increased their production in the basin.

"We are now getting to the point that the focus on efficiencies and producing reserves at a low level is what investors expect," Karev said.

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# Higher oil prices offer 'temporary relief' to Mena exporters: IIF

Higher oil prices offer "temporary" relief to the oil exporters of the Middle East and North Africa (Mena) whose economic prospects are improving, according to the Institute of International Finance (IIF), the Washington-based economic think tank.

Oil prices rose rapidly in the past six months on unanticipated sharp output fall in Venezuela, the extension of the producers' pact on production cuts to the 2018- end, the escalation of tensions in the Mena, which enhanced risks of oil supply disruption; and higher global oil demand. We have revised upward our average Brent oil price assumption to \$72 per barrel for 2018 (33% increase from 2017)," IIF said.

With the projected \$18 increase in average oil prices in 2018 against last year, it expects the cumulative current account surplus for the nine Mena oil exporters (Saudi Arabia, the UAE, Kuwait, Qatar, Oman, Bahrain, Algeria, Iraq and Iran) to increase from \$56bn in 2017 to \$233bn (9.5% of gross domestic product) in 2018. "The fiscal situation for Mena oil exporters (except Bahrain and Oman) is now on firmer footing. The respective authorities in the region have implemented serious fiscal adjustment in recent years," it said.

Higher oil prices, combined with additional non-hydrocarbon revenue, should more than offset the 7% average increase in public spending, leading to narrower deficits (excluding investment income), according to the IIF. "We expect the consolidated fiscal deficit for the nine Mena oil exporters to decrease from 7.5% of GDP in 2017 to 3% in 2018," it said, adding when included investment incomes, which are very large

in Kuwait, the UAE and Qatar, the cumulative deficit will be much smaller.

Highlighting that gross public foreign assets will resume its rise to \$2.9trn by end-2018; it said about 70% of these assets are in the form of sovereign wealth funds. With relatively little public external debt, the region's net public external assets position of \$2.6bn (108% of GDP) is substantial, the report added. Expecting non hydrocarbon growth to accelerate from 2.3% in 2017 to 2.8% in 2018 (still well below the average growth of 6.2% in 2001-2014); IIF said the growth pickup will be supported by the shift to fiscal expansion following three years of consolidation. A tighter monetary stance in the six GCC countries and Iraq, whose currencies are pegged to the US dollar, could offset some of the gains from expansionary fiscal stances. "We expect a cumulative increase of 100 bps in key policy rates, in line with the four Fed hikes of 25 bps each," it said.

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## **New Energy era for Europe "there for the taking"**





ATHENS: Offshore gas from the Eastern Mediterranean could usher in a new era of energy independence and economic renaissance for Europe, a regional energy expert told a high-profile industry conference in Athens on Friday.

“Almost instantly, the flow of East Med gas into Europe would mean additional diversification and flexibility of supply, closely followed by enhanced competitiveness for European industry, accelerated economic growth, and dramatic long-term improvements for public finances,” Roudi Baroudi, a veteran of more than 36 years in the oil and gas business, told the Athens Energy Conference.

While “East Med gas would be more of a complement than a competitor to supplies already flowing ... from Russia” and other countries, he explained, other factors were also likely to help Europe diversify its energy supply, putting downward pressure on prices and “reducing the potential impact of possible interruptions elsewhere”.

Baroudi, who currently serves as CEO of Energy and Environment

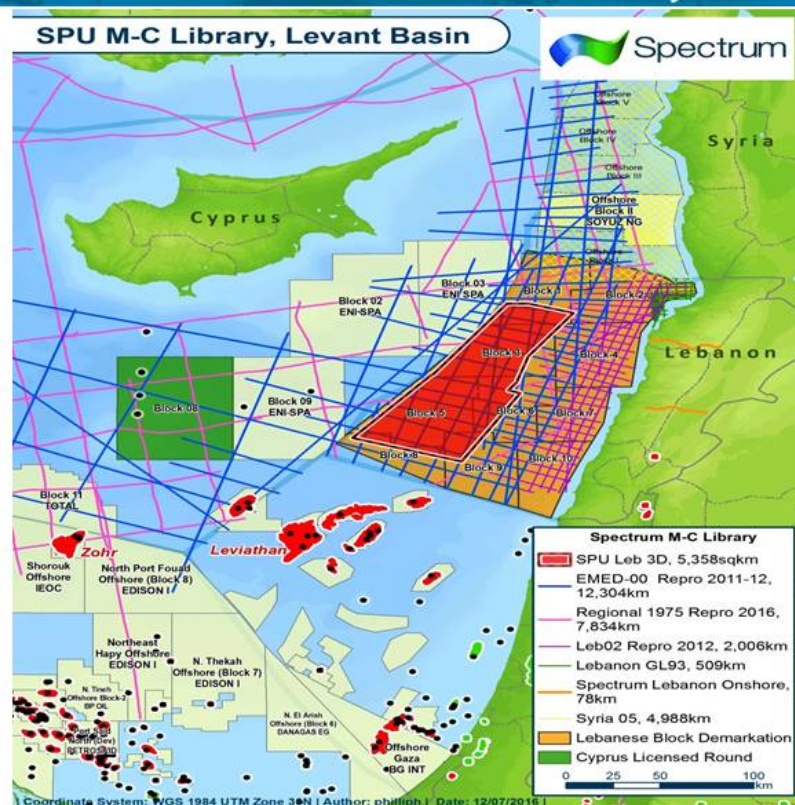


Holding, a Doha-based independent consultancy, has advised governments, companies, and multilateral institutions on energy matters, even helping to craft policy for agencies of the European Union and the United Nations. Speaking on the sidelines of the conference, which drew a broad audience including senior figures from both the public and private sectors, he said the timing “could not be better” for Europe.

“Shale gas has made America another energy superpower alongside Russia and OPEC, and liquefied natural gas is now a fully fledged global commodity,” he said. “Plus, the East Med producers will be sitting on Europe’s doorstep, and several countries are already gearing up to start taking massive LNG shipments. Decades of benefits for hundreds of millions of people, all there for the taking.”

## Athens Energy Forum 2018

Energy Security and Strategic Investments:  
The Way Forward





# Athens Energy Forum 2018

## Energy Security and Strategic Investments: The Way Forward



Game-changer: "Shale O&G puts America on global energy stage"

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And expected producer countries like Cyprus, Greece, and Lebanon, Baroudi added, stand to gain even more. "For a variety of historical reasons, most of these countries have not yet achieved the levels of development enjoyed in most of the European Union," he told the conference. "Given the potential rewards for their peoples, the governments involved have nothing less than a moral responsibility to take advantage of propitious circumstances by tapping the oil and gas wealth within their respective social, economic, and geopolitical reaches." Baroudi also has emphasized some of East Med countries are not party to UNCLOS but all countries are signatories to the UN Charter. Therefore, Baroudi reminded that all these countries are under an obligation to "settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered."

He also sounded notes of caution, however. For one thing, he

stressed the need for producer countries to ensure proper management of the proceeds from gas sales to pay social justice. For another, he reinstated on the same countries to avoid international tensions that might impede development of the sector.