BUCKLE UP: VOLATILE OIL MARKETS AND GEOPOLITICS

Address to the United States Energy Association’s 12 Annual Supply Forum

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Bob McNally
Founder and President, Rapidan Energy Group
Why Should the United States Care About Oil From The Persian Gulf Anymore?

US Net Imports of Crude Oil and Petroleum Products

Source: Rapidan Energy Group, EIA
Absent a Swing Producer, Expect Crude Prices to Gyrate Structurally Between Single and Triple Digits

Daily WTI Spot Price

Source: EIA, Rapides Energy Group
No Spare Capacity, No Peace

Oil Disruptions, Spare Capacity, and Crude Prices

- Threatened Oil Supply
- Disrupted Oil Supply
- Global Spare Capacity
- US Spare Capacity
- Crude Oil Price (RHS)

Suez Canal
Six Day War
Arab Oil Embargo
Iran Revolution
Gulf War
Gulf War II

Data: Rapidan Energy Group, EIA, BR, St. Louis Fed, US Senate
* WTI prices prior to May 1987, Brent from that point forward

VZ ‘02-’03,’15-,’ Iraq ’03-, Nigeria ’03-, Libya ’19-, Iran ’12- and others
**Flagging Saudi Arabia’s overlooked 7.0 mb/d Abqaiq crude stabilization plant - by far the most important oil facility in the world - amid rekindled concern about vital Middle East oil infrastructure and choke points. Recent attacks on vessels and pump stations in the Middle East have rekindled market and media interest in the region’s vulnerable oil and gas infrastructure. We notice many rundown oil of critical infrastructure focus on terminals such as Ras Tanura or Fujairah and chokepoints such as the Hormuz and Bab al Mandeb straits. But they overlook one facility that dwarfs them all in terms of strategic necessity (near and long term) to the oil market and world economy: Saudi Arabia’s Abqaiq crude processing facility located in the Eastern Province. Abqaiq’s spheroids and 18 stabilizer columns depressurize and desulfurize up to 7.0 mb/d of Saudi crude (primarily light and extra light) so it can be safely exported. While over twice as much oil flows through Hormuz as Abqaiq, Western militaries have the means to quickly reopen Hormuz systemic vulnerability that cannot be quickly repaired, replaced, or otherwise defended. An attack on the plant would cripple most Saudi production and export for a long time. Al Qaeda’s unsuccessful attack in February 2006 did not even make the news, but it was high on the list for any astute adversary aiming to inflict high costs on Saudi Arabia’s economic life. This is why we have placed it on our critical list. We do not want this to happen to you because we have no reason to believe an attack against Abqaiq is not likely. But if you’re making and monitoring a list of critical energy infrastructure, this is the very top.**

**Wild card**

Abqaiq processing plant rendered unusable for 6 months

While this report has so far considered only a military escalation that blocks commercial shipping through Hormuz, Iran’s military doctrine prioritizes asymmetric attacks on land-based targets, including oil infrastructure. Top land targets include the 3.4 mb/d Ras Tanura and nearby 3.1 mb/d Ju’aymah crude terminals on the Saudi Gulf coast and Yanbu’s 6.6 mb/d King Fahd export terminal on the Red Sea. Other targets include the Shedgum gas plant and East-West Pipeline pumping stations (two of which were recently hit by Iranian proxies in May, apparently operating from Iraq).

By far the most important land target is the 7.0 mb/d capacity Abqaiq crude stabilization plant located in Saudi Arabia’s eastern province, near

Abqaiq is a 1.15 square mile complex
The World Dodged a Bullet on September 14, But Is Not Out of the Woods