



OIL, GAS & GEOPOLITICS: PREDICTIONS FOR 2016

Oil & Gas  iQ

***“Prediction is very difficult,
especially if it's about the future.”***

(Niels Bohr 1885 – 1962)

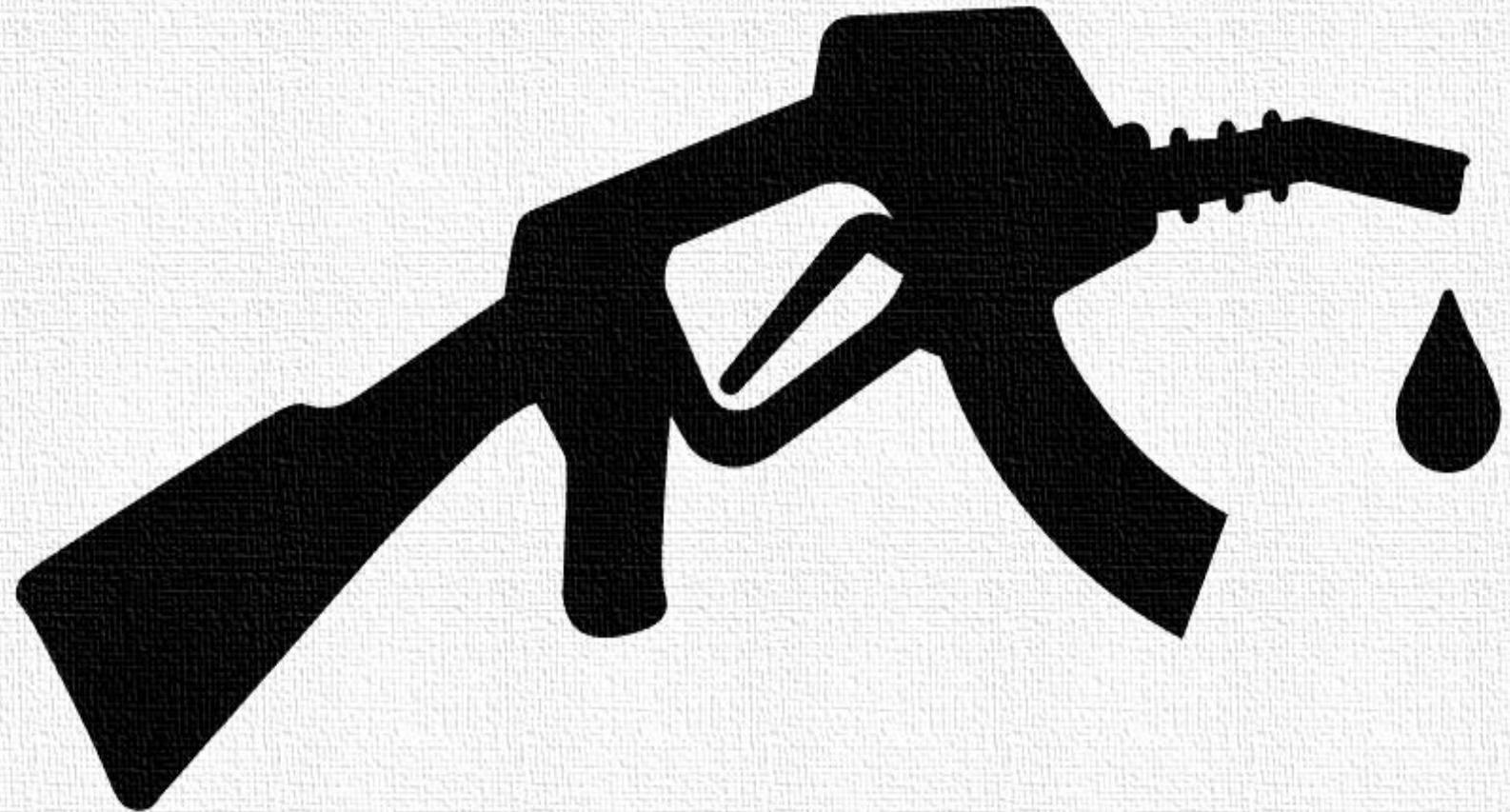
On January 1st 2015, with oil at \$53 a barrel, who would have bet it would be a measly \$30 twelve months later? Who would have bet that Iran would have come in from the cold, or China would go into economic freefall or that the European Union would have been inundated by an unrelenting flow of Middle Eastern refugees?

Had anyone played those odds, they would have become a very rich man on New Year’s Day 2016, so fraught with failure is presumption that seeks to be prophecy. Nevertheless, last year we made several predictions that came to fruition, and an educated guess is seldom misspent when there is no money on the line.

So, in the spirit of informed guesstimation, we present you with ten predictions for the oil and gas and geopolitical landscape in 2016, and hope beyond hope that most are less prescient than they seem...

Tim Haïdar
Editor-In-Chief | Oil & Gas IQ

January 2016



ALGERIAN UNREST: ALL QUAGMIRE ON THE MAGHREB FRONT?

The unrest in the Near East and the Maghreb in 2015 will rumble on into 2016, intensifying in certain flash points. Ongoing conflict in a fractured post-Gaddafi Libya has already spilled over into Tunisia, where several “soft target” terror attacks were perpetrated in 2015.

Neighbouring Algeria, with a long history of Islamist-inspired violence, including the In Amenas gas plant siege of 2013 that caused the deaths of 70 people, may be particularly susceptible to a flare up of extremism in 2016.

Incumbent President, Abdelaziz Bouteflika, is an “elected despot” and an ailing man. The power vacuum left by his demise or abdication from public life could be the catalyst for a coup d’état.

As the eleventh largest producer and eighth largest exporter of natural gas in the world, conflagration in Africa’s largest country by area with more than 7,500 kilometres of pipelines, could mean consternation for the gas supply to Southern Europe in particular.





OIL TO STAY BELOW \$50 FOR H1 2016

As crude production continues to outstrip demand by an average of two million barrels per day (bpd) and the global oil stockpile hovers around the 2.9 billion barrel mark – analogous to the proven oil reserves of embattled Yemen - it is unlikely that the price of a barrel of the black stuff is going to surpass the \$50 mark any time soon.

In fact, absent some catastrophic and catalysing event afflicting key energy corridors or Saudi Arabia's Eastern Province, companies on either side of the operator/service provider divide would do well to budget for a \$40-50 oil price continuum for the foreseeable future.

SUPER SYNERGY: THE IOCOLOSSUS AND THE SSC

While last year did not see the mooted purchase of a supermajor, a whole year of subpar quarterly results and oil prices at 50 per cent of their 2014 values has made this eventuality all the more palpable in 2016.

After a record year for mergers and acquisitions in 2015, seeing the likes of Royal Dutch Shell buying out BG Group and the two mergers of service company giants Baker Hughes / Halliburton and Schlumberger / Cameron, 2016 will be ripe for the creation of the IOColossus and the Super Service Company (SSC).

Amongst notable synergies in the offing, ExxonMobil could well swoop for a beleaguered BP, and the French supermajor, Total, could raid Italian independent Eni to create an entity with a mastery over hydrocarbons holdings in Africa.





THE REFUGEE CRISIS IS FUELLED BY LOW OIL WOE

The expansion of ISIS in the Fertile Crescent and across the Levant has caused a refugee crisis unparalleled since the enforced diasporas of World War II, with up to 12 million people displaced since 2011.

As well as those seeking asylum from the ravages of war, low oil prices are affecting the ability of oil-dependent regions to provide the facilities to cope with the influx of disparate, uprooted populaces. In Iraqi Kurdistan alone, some 35 per cent of the inhabitants of the region are refugees.

A prolonged sub-\$50 oil price will doubtless see those fleeing their war-torn nations venturing further afield than the Near East to secure a safer existence for their kinfolk.

OPEC TO FRACTURE INTO THE HAVES AND HAVE NOTS?

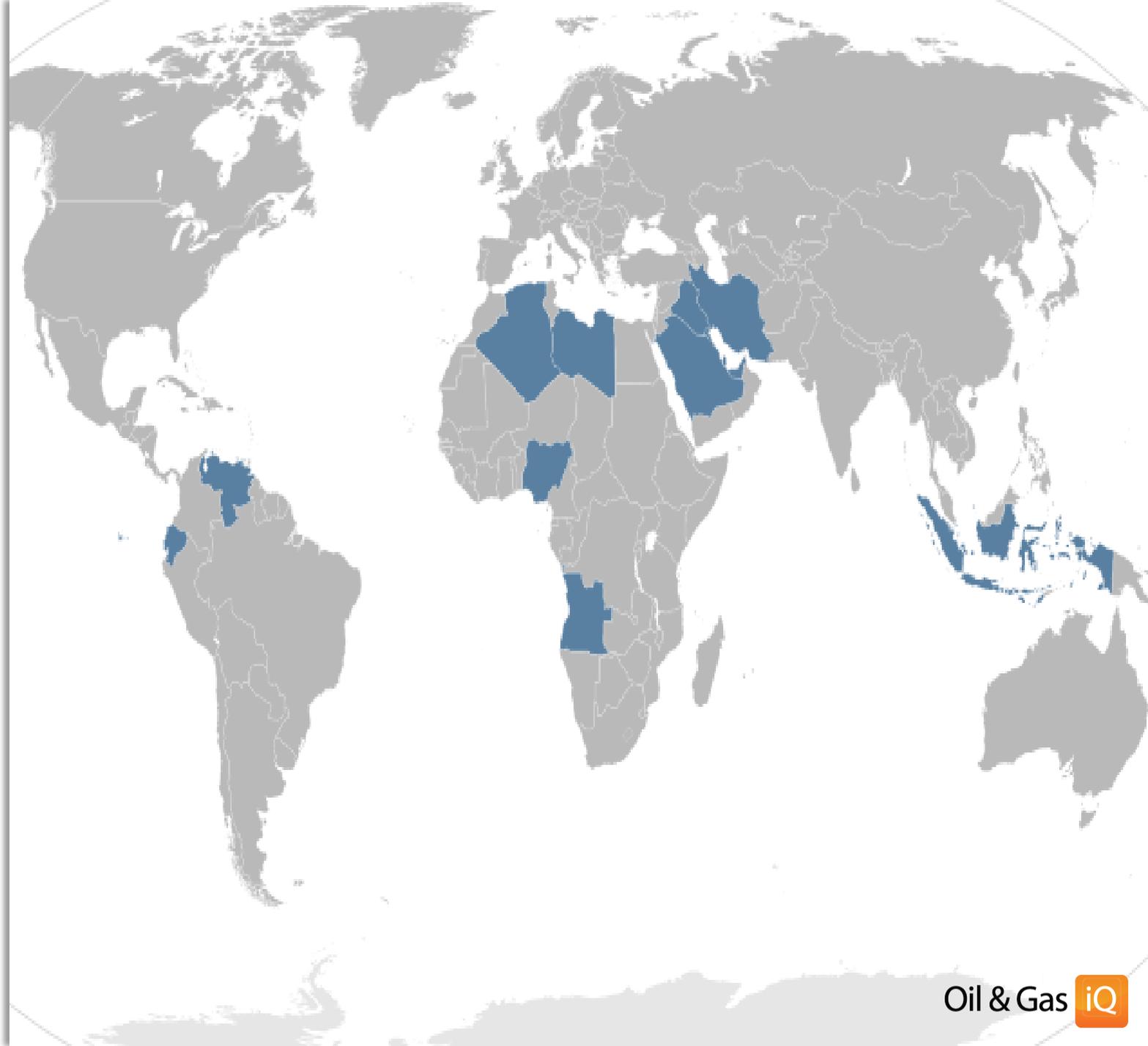
The Organisation of Petroleum Exporting Countries (OPEC) is a 13-member cartel that controls some 40 per cent of the world's daily oil production capacity. Despite this cabal of hydrocarbon-rich nations celebrating its 55th anniversary this year, all is not well at home base in Vienna, Austria.

OPEC membership straddles Africa, Asia and South America, encompassing developed and developing nations. Although allied in the pursuit of profit, the group is separated geopolitically, ideologically and down sectarian lines.

Two of its members feature in the top 20 of the [Fragile States Index](#), three in the worst 20 nations on the [Corruption Perceptions Index](#) and according to the [2015 Freedom In The World Report](#), eight of them are classified as “not free”. Iraq, Iran and Libya have also been designated as members of the various “axes of evil”.

Not a single OPEC member could balance its fiscal budget for 2015 on the average oil price for that calendar year. However, some have been in a far worse position than others: eight of the 13 nations needed an oil price above \$100 per barrel to balance the books, and four - Iran, Libya, Nigeria and Venezuela - are in truly dire straits; an embattled Libya needs an oil price at more than four times higher than current levels to make ends meet.

The recent controversy over the execution of the Shia cleric Sheikh Nimr Al-Nimr has led to the severance of diplomatic ties between Saudi Arabia and Iran, could 2016 be the year that the have-mores cut loose the stragglers?





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2016

HEATED TENSIONS IN THE YEAR OF THE FIRE MONKEY?

In the Chinese zodiac, we find a cycle of twelve animals that codes for twelve years, and a “generating cycle” of five elements attributable to these years. On February 8th 2016, for the first time since 1956, 1.3 billion Chinese will be celebrating the dawn of the Year of the Fire Monkey.

According to zodiacal lore, the Fire Monkey is dynamic and creative but actively aggressive and controlling to the point of overbearingness. Expect the People’s Republic of China (PRC) to stoke further confrontation in the disputed and gas-rich South China Sea, and Chinese companies to engage in forceful forays into the mergers and acquisitions market.

The last Year of the Fire Monkey saw the beginning of the Hundred Flowers Campaign, in which Mao Zedong encouraged citizens to openly express their opinions of the then seven year-old communist regime.

This purported exposition of free speech led to a crackdown on those critical of the status quo, resulting in their internment in labour camps. Mao would later boast that he had “enticed the snakes out of their caves”.

Could 2016 see a continuation of a clampdown on both civilian activists and party representatives that rumbled throughout 2015?



CYBER SECURITY: ARE YOU REALLY DOING THE BEST YOU CAN?



1 A recently-published cyber security report shows that there are four categories of assault: hacktivism, cyberwarfare, cyber espionage and cybercrime. How confident are you that your current defence mechanisms can handle/detect these threats?



- Confident - 9%
- Somewhat confident - 48%
- Not confident - 39%
- Do not know - 4%



Despite fluctuations in confidence, the percentage changes are such that the majority of respondents are still "somewhat confident" that their defence mechanisms can cope.

Analysis: Erik de Jong, Lead Expert, Cybercrime at Fox-IT

2 How confident are you that your defence mechanisms can handle/detect state actors/APTs? (APT=Advanced Persistent Threat)



- Confident - 5%
- Somewhat confident - 30%
- Not confident - 65%
- Do not know - 0%



In my view, this question deals with a subset of the threat mentioned in Q1. However, when the term APT is used, confidence is lower only 35% being "somewhat confident". Is this because the word APT is a scary cyber context, while espionage is a more cuddly "James Bondish" concept? All vodka martinis and one-liners? But companies should realise that both terms usually cover the same thing.

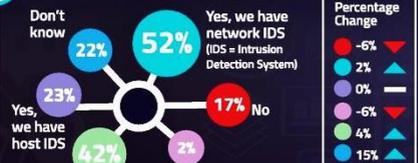
Analysis: Erik de Jong, Lead Expert, Cybercrime at Fox-IT

3 What controls do you have in place to prevent malicious commands or data being sent to the OT from your IT infrastructure?



- Strong authentication of employees permitted to do this. - 48%
- Only permitted from dedicated selected workstations not used for other purposes. - 26%
- Only permitted from selected physically secured zones of the office environment. - 56%
- The Four-Eyes principle. - 22%

5 Are you monitoring your network?



Yes, we use a SIEM (SIEM = Security Information and Event Management)
Yes, we use honeypots. (a honeypot is a trap set to detect, deflect, or, in some manner, counteract attempts at unauthorised use of information systems)

6 How visible is what is going on your network to your organisation?

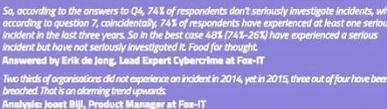


- I'm unsure - 16%
- I barely have visibility - 8%
- Our system engineers have this as an additional task - 18%
- We are using monitoring tools - 44%
- We have a fully operational SOC (SOC = Security Operations Center) - 14%

7 In the last three years, how often have you been confronted with a serious ICT cyber incident? (ICT = Information and communication technology)



- Never - 26%
- Once - 29%
- Twice - 6%
- More than Twice - 39%



5% according to the answers to Q4, 74% of respondents don't seriously investigate incidents, while according to question 7, coincidentally, 74% of respondents have experienced at least one serious incident in the last three years. So in the best case 48% (74%-26%) have experienced a serious incident but have not seriously investigated it. Food for thought.
Answered by Erik de Jong, Lead Expert Cybercrime at Fox-IT
Two thirds of organisations did not experience an incident in 2014, yet in 2015, three out of four have been breached. That is an alarming trend upwards.
Analysis: Joost Bijl, Product Manager at Fox-IT

9 Does your organisation have an incident response plan (IRP) in place?



- No - 26%
- Yes - 33%
- Yes and we do dry runs on a regular basis - 12%
- I am unsure - 29%



Why was this analysis performed in the first place? Surely as an expert in mitigating the risk of repercussions, that is exactly the kind of thing that 51% (and perhaps even 74%) of respondents to Q4 will not be able to do. This is very concerning. These organisations may undergo incidents and attempt to mitigate them, but they won't be able to find answers to some of the most rudimentary questions, such as:
(i) Whether they were successful?
(ii) How something happened?
(iii) Why it happened?
(iv) Who might have been behind it?
(v) What they were offered?
(vi) In other words, they are still in the dark when it comes to dealing with the incident in minutes and it will be hard for them to assess whether they are improving, or even what they should do to improve. In fact, the only indicators they could use to assess overall incidents would be:
(i) Time the attack lasted.
(ii) Impact within the organisation.
Analysis: Erik de Jong, Lead Expert Cybercrime at Fox-IT

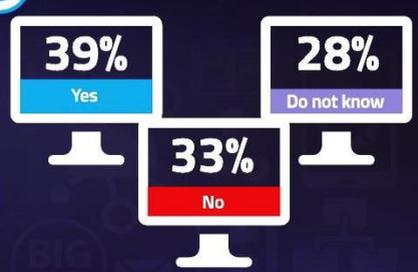
8 Does your organization have a CERT team or CERT provider? (CERT = Computer Emergency Response Team)



- No - 23%
- Yes, we have an in-house CERT team - 41%
- Yes, we have an external CERT provider whom we involve on an ad hoc basis - 15%
- Yes, we have an external CERT provider that we have on retainer agreement - 4%
- Don't know - 17%

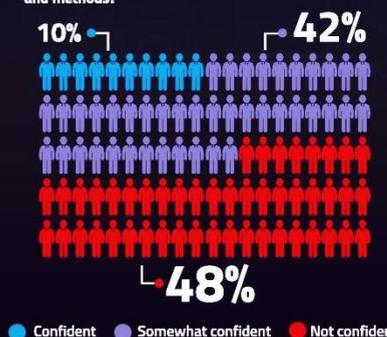
Logically, the results of Q8, combined with the results of Q9, should not make sense. With a CERT team in house, you would almost certainly have some forensics capability, unless it is more of a tactical CERT team. It seems that a large number of organisations would benefit from knowing there are digital forensics experts that can help.
Analysis: Erik de Jong, Lead Expert Cybercrime at Fox-IT

10 Is your organisation using a managed security service provider (MSSP) to monitor your network?



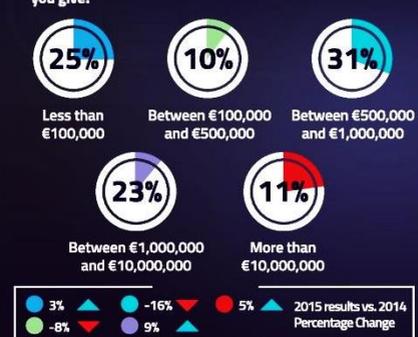
One in three companies state they use an MSP provider to monitor their networks, yet, apparently, they do not have a lot of confidence in their abilities as indicated by answers given in Q11. What does this say about the trust they have in their suppliers?

11 Are you confident that your employees and/or MSSP (if applicable) are up-to-date on the latest cyber threats and methods?



- Confident - 10%
- Somewhat confident - 42%
- Not confident - 48%

12 If you had to make an estimate of the costs involved to recover from a cyber-attack, what estimate would you give?



- Less than €100,000 - 25%
- Between €100,000 and €500,000 - 10%
- Between €500,000 and €1,000,000 - 31%
- Between €1,000,000 and €10,000,000 - 23%
- More than €10,000,000 - 11%

MAJOR CYBER ATTACKS TARGET THE OIL & GAS SECTOR

According to multiple sources, including our own report, [Cyber 9/11: Is The Oil & Gas Industry Sleepwalking Into A Nightmare?](#), cyber attacks have increased markedly in the past 12 months, with the oil and gas industry set to spend as much as \$1.87 billion on cyber security by 2018 to shore up its defences.

The under-preparedness of the sector in the face of an increasingly insidious threat from both state and citizen hackers should be causing far more concern than it currently is from Stavanger to Singapore.

A BAITED BEAR BITES BACK

A trenchant recession, increasing political ostracisation over the ongoing Ukraine conflict, and a terror attack that killed 224 Russian holidaymakers flying home from Egypt, all conspired to make 2015 an “annus horribilis” for the Russian Federation.

After commencing an aerial campaign in October 2015 against Islamic State targets in Syria, a Russian Sukhoi Su-24 jet was downed by Turkish forces on the Turco-Syrian border. The bellicose exchanges that followed have fuelled strained relations between two nations that, historically, have been at each other’s throats for hundreds of years.

From the 18th century till the fall of the Ottoman Empire, Russo-Turkish Wars would take place roughly every twenty years. Although the recent conflagration in the Middle East is unlikely to entrain a wider conflict, once again NATO and Russia are locking horns in a tangle along the precipice.

Given such provocations, and the fact that half of NATO’s 28 members derive their natural gas from sources within the Russian Federation, it may not be long until the country that produces 16 per cent of the world’s gas makes good its threat and turns off the spigot.





CONFLICT IN THE CAUCASUS? AZERI-ARMENIAN RELATIONS TO TURN NASTY?

Few people know how to pronounce Nagorno-Karabakh, let alone where it is in the world. This may all change in 2016, as tensions in this 4,400 km² disputed area reach boiling point and spill over into bloodshed. From 1988 to 1994, an ethnic war played out in the South Caucasus Mountains between ethnic Armenians in Nagorno-Karabakh supported by the Republic of Armenia, and the Republic of Azerbaijan. The conflict claimed the lives of some 36,000 combatants and displaced some 1.2 million citizens on both sides, culminating in an Armenian military victory and the *de facto* establishment of the extant - but largely unrecognised - Nagorno-Karabakh Republic. Sporadic clashes have flared up in the past two decades, but 2015 saw the first major artillery exchanges since the Nagorno-Karabakh breakaway.

Heightened hostilities in the region could bring Armenia and Azerbaijan's regional "protector states" into play, two nations that are already at loggerheads: Russia and Turkey. As if the potential of a Russo-Turkish confrontation on two fronts weren't enough to worry the world, this could have serious ramifications for energy in Europe. The Trans-Anatolian Natural Gas Pipeline, set for completion in 2018, will be a hydrocarbons artery running through Azerbaijan, Georgia and Turkey. It forms an integral part of the "Southern Gas Corridor" (SGC), a European Union initiative conceived to bring plentiful Azeri and Central Asian natural gas to continental European buyers.

The SGC project was imagined as "a new Silk Road", a transmission superhighway that would allow European states to lessen their dependency on Russian gas reserves. Should 2016 see the Armenians and Azeris facing off in a hot war, it is likely that this will play into the hands of Russian gas producers and hamstring another European attempt at energy security independent of the Kremlin.

TURKEY TO ANNEX NORTHERN IRAQ AND SYRIA?

If it was a bad year for Russia, then the close of 2015 was even worse for Turkey. The country suffered four separate Islamic state-related terror attacks in 2015, claiming the lives of 193 people and injuring at least 750 in a wave of violence that began in January. Allegations of corruption, crackdowns on opponents of President Recep Tayyip Erdogan in the mediasphere, and flaring jingoism have piqued the attention of the international community.

Add to this, the recent poke in the posterior delivered to the Russian Bear by dint of an air-to-air missile. In riposte, Moscow was quick to condemn Erdogan's government of collusion with Islamic State across its southern border in Iraq and Syria. The foreign policy outlook of the ruling Justice and Development Party has often been referred to as "Neo-Ottomanist" in nature, harking back to the influence, customs and culture of an Ottoman Empire that endured for 624 years.

A degree of this Neo-Ottomanist doctrine is founded in irredentism - the belief that territory of another country should be annexed and returned to its previous possessor for ethnic or historical reasons. Thinly-veiled snippets of irredentist thought in Erdogan's recent speeches give us an insight into the possibility that Turkey could make a move to occupy troublesome territories in the northern stretches of Iraq and Syria. This would both subdue terrorist movements and reclaim land over which the current Turkish state held a bygone dominion. It would also help to quell disquiet caused by controversial dam projects on the Tigris and Euphrates rivers whose sources originate in eastern Anatolia.

Annexation of this terrain could bring the vast reserves of Iraqi Kurdistan into a Turkish orbit, making the nation the 10th largest holder of crude oil on Earth.



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