

# The Quest



Energy, Security, and the remaking of the modern

First impressions ?

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# The Quest Part 1: The New World of Oil



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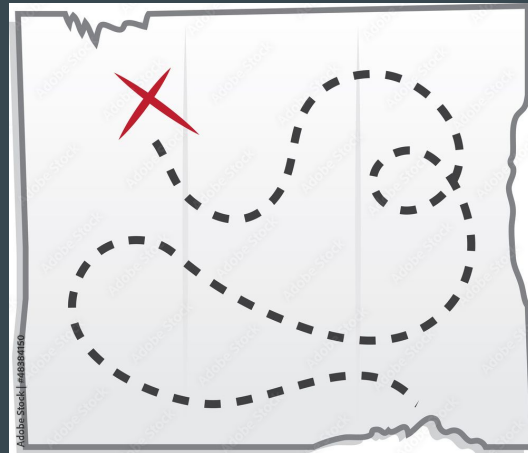
# Introduction



- The main concept that the book is named after is “the quest”
- The book sets up the landscape of where we are, where we started from and how could we move forward
- This book approaches the topic at hand from multiple angles

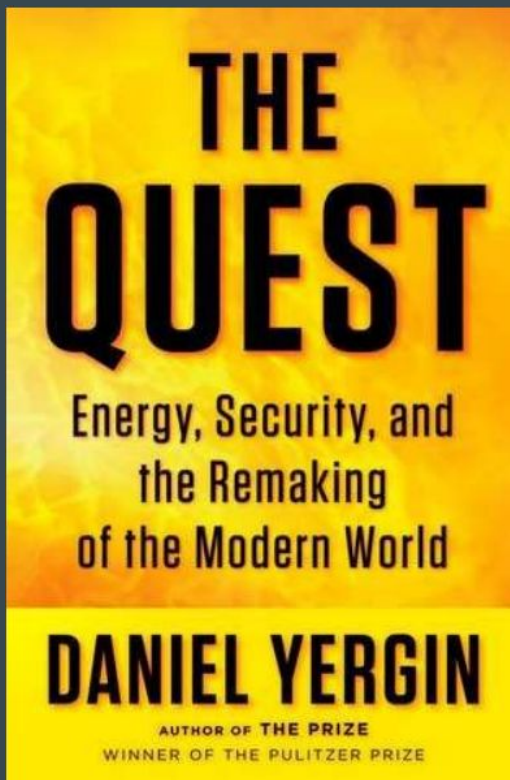
# The quest

“The Quest” is a metaphor for ongoing search for a long term sustainable solution to the energy.



# Overview

1. Russia Returns
2. The Caspian Derby
3. Across the Caspian
4. “Supermajors”
5. The Petro-State
6. Aggregate Disruption
7. War in Iraq
8. The Demand Shock
9. China’s Rise
10. China in the Fast lane



# Chapter 1: Russia Returns

- This chapter mainly focuses on the fall of the USSR and modern day russia
- It asks important questions about privatization and how it fared
- This portion of the book also details the gulf war and Iraqi invasion
  - It was a pretty hard read to read about my home being, invaded
  - Fun facts: the largest oil spill happened during the invasion



# Chapter 2&3: The Caspian Derby and Across the caspian

- These chapters pick up where the first chapter left.
- History and Politics heavy
- As the name suggests centers around the caspian





# 4. The Supermajors



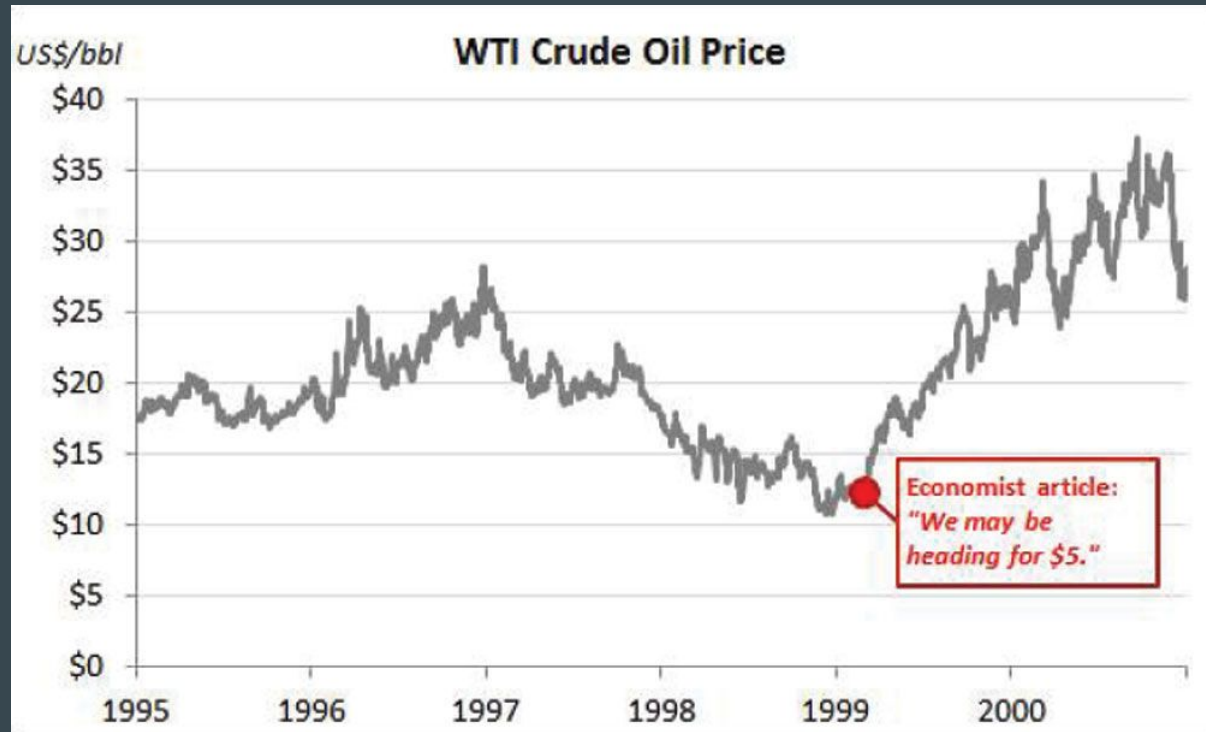
Survival of the Fittest and Corporate Relationships

# OPEC and Jakarta

- OPEC meets in Jakarta Indonesia in 1997 to discuss Asia and their growing needs for oil
- What to do about production?
  - Increase????
  - Ignore asia????



# Economic Disaster



- The increase in output causes oil prices to plummet and OPEC countries' economies to suffer. This disaster was named "THE JAKARTA SYNDROME"

# Better Together: Corporate Love



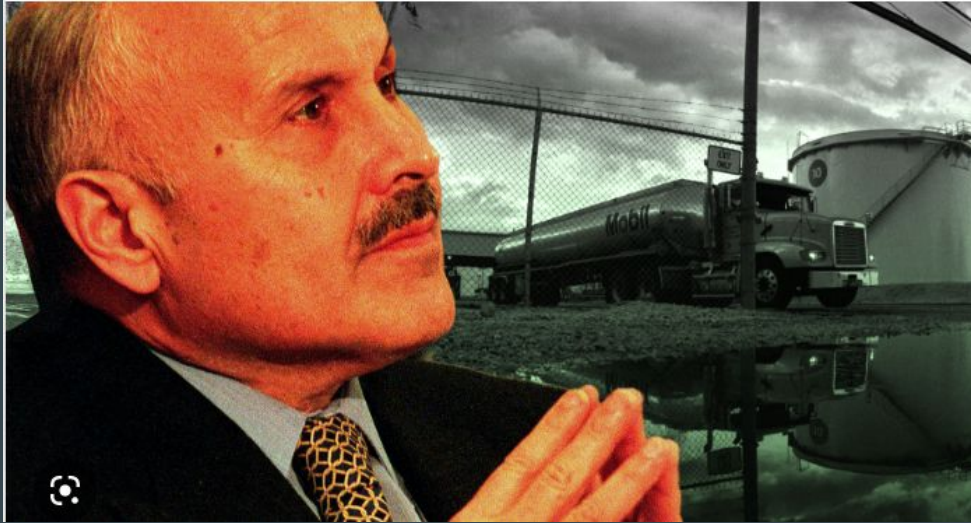
bp

## The first move

- BP feels insecure about their size :(
- The board decides that more high risk projects are necessary for survival
- They decide that merging is their best move, but who will join them...



# Flirtations with Mobil

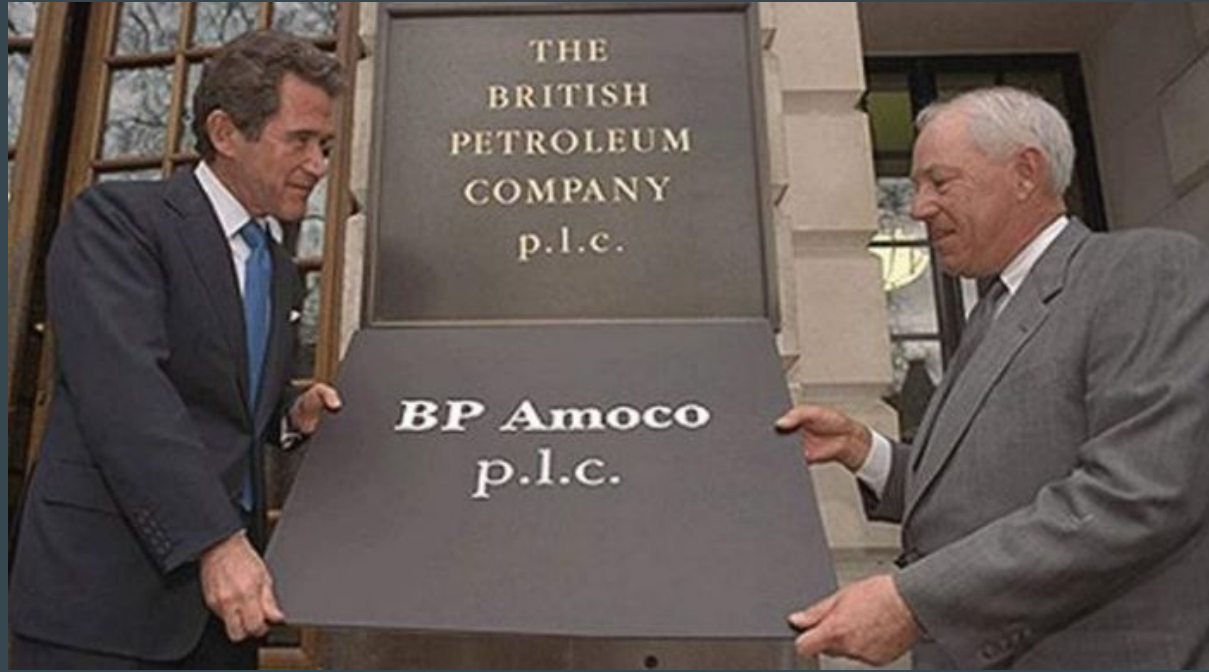


BP CEO John Browne attempts to woo Mobil into a merger but their attempts are unsuccessful. John Browne must lick his wounds and move on to another mate

# BP and Amoco

BP and Amoco decided that joining forces would be “totally be the move bro”

After fierce deliberation on how assets would be divided, BP and Amoco make the first successful merge





# Exxon and Mobil: stronger together

After seeing the love affair between BP and Amoco, (a 40 Billion dollar merger) Exxon gets jealous and wants a merger

Exxon and Mobil meet in secret to discuss plans to unite





## The French Connection

France has 2 national oil companies who decided to merge after fearing that one or both companies would be bought by foreign companies so they joined forces (“un suicide politique”)



**Chevron and Texaco**

“We had to consolidate”

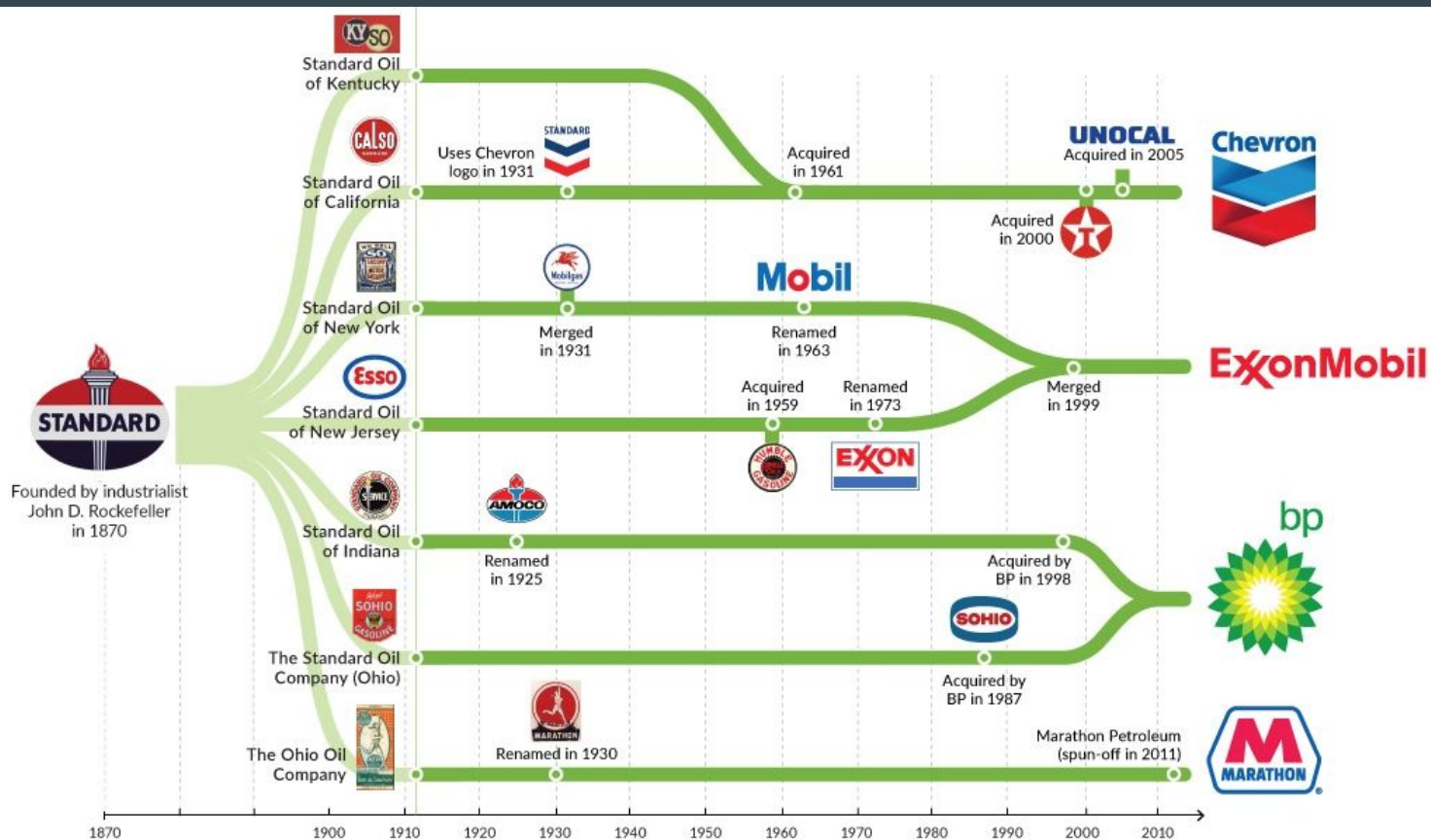
# The Stragglers

Conoco and Phillips decided that if they didn't merge, they would die and thus started the process...

DuPont Chemical was the "forbidding father figure" that Phillips wanted to be liberated from



# The Whole Picture



# What are the Ramifications of These Relationships?

- In the beginning, oil was a monopoly owned by John D Rockefeller (~90% ownership)
- This “trust” was busted by Teddy Roosevelt and the US has been highly critical of monopolies and large corporations merging
- The “unspoken rule” was that as long as the merger didn’t make the new company 15% of the total supply, it was okay
- Bigger companies = greater risk tolerance



# Chapter 5: The Petro State



Venezuela, Oil, and Struggle

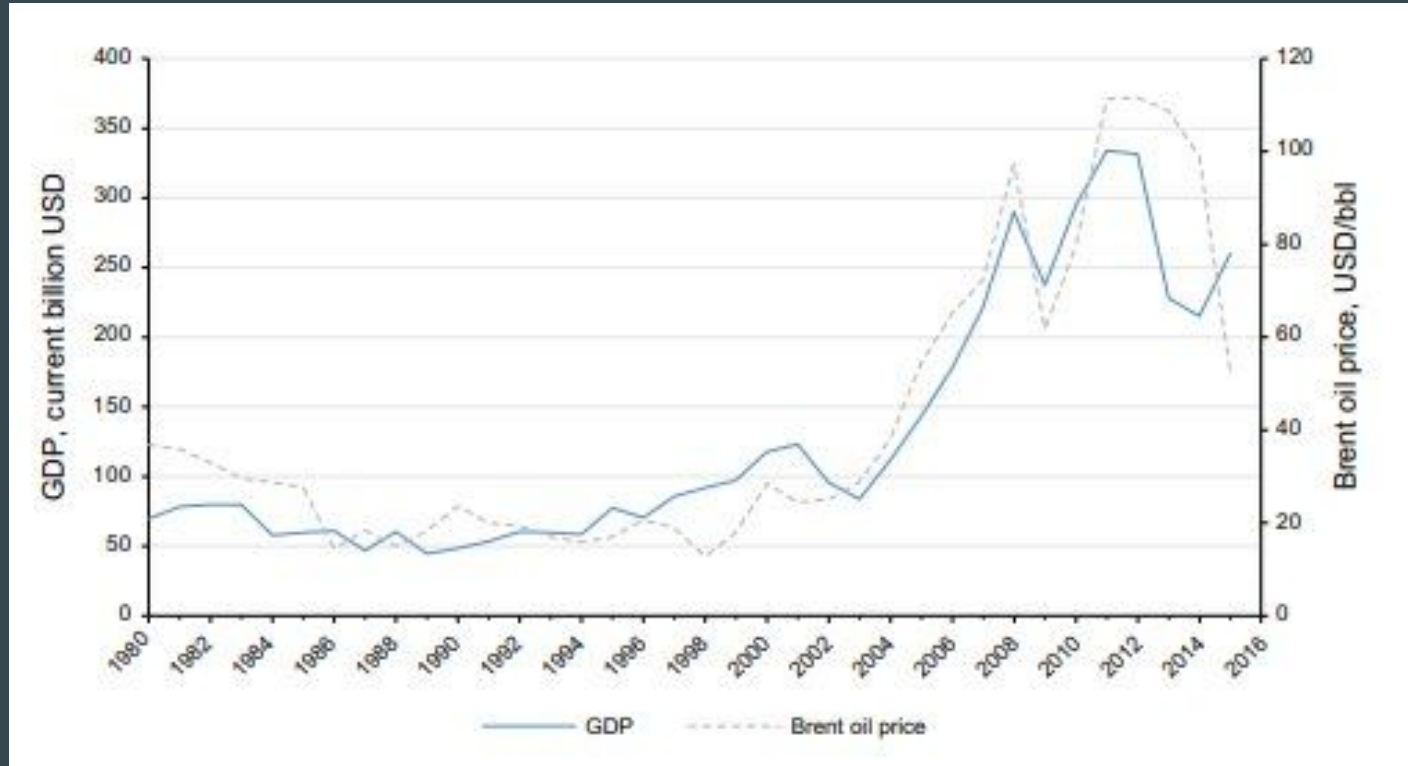
# In the Beginning

Before oil, Venezuela was (and largely is) underdeveloped, underpopulated and poverty stricken.

“The Venezuelan economy since 1920 can be summed up by on word: oil”



# GDP == Oil: Many eggs, one basket



Salman, Doaa M. 2021. "Venezuela Foreseen Economic Path under Fire." *Bussecon Review of Social Sciences* (2687-2285) 3(2): 18–23.



# Dutch Disease

Dutch disease: the economic problems associated with oil wealth. As oil wealth comes in, the national currency becomes devalued and domestic goods are more expensive than imported commodities



## Leadership Trouble

Venezuela's president in the late 1990s, Carlos Andres Perez, struggled to remain popular after the Jakarta crisis in '97. Revolutionary ideas spread throughout the country and Hugo Chavez attempted to rise to power. He failed initially but after a second attempt, Chavez stayed in power.

Chavez (bottom) and his parrot (top) deliver a speech promising revolution



# Chapter 6: Aggregate Disruption



The digital age, technology and terror

# 911: Xenophobia and Oil

In the aftermath of 911, security concerns arose due to 1 in 5 barrels of imported oil coming from the middle east

The price of oil did not change much however, the US government wanted to focus on energy independence



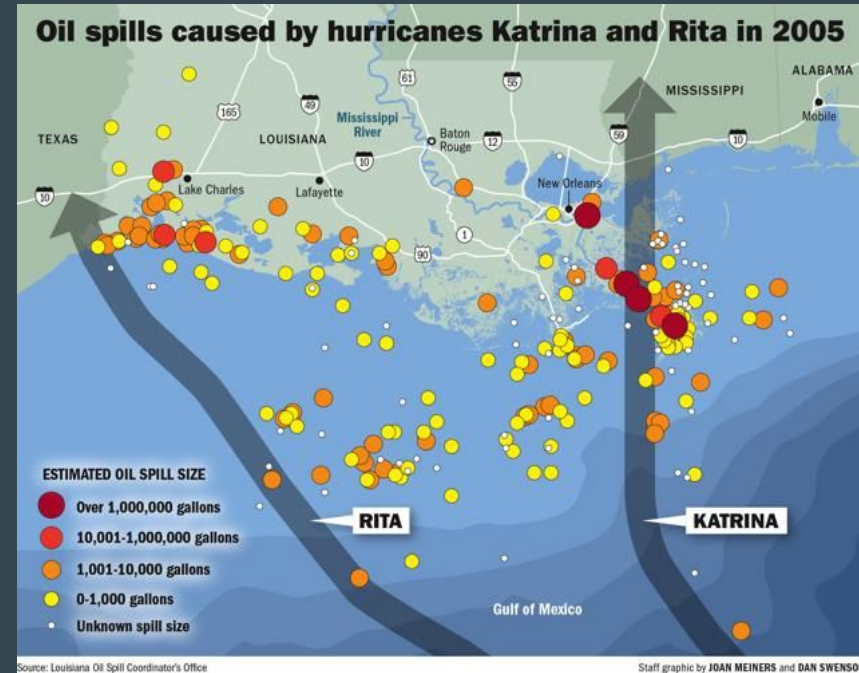
# Venezuela, Niger and Petro-State Instability

Instability, gangs and violence threatened several OPEC countries supplies, worsening energy concerns post 911



# Hurricane Katrina

Due to the high volume of both offshore oil platforms and oil refineries near the gulf of Mexico, the storm threatened almost a third of the United State's ability to produce petroleum products



# 7. The War in Iraq



War in a country governed by Oil



# About Iraq

- A nation defined by Oil
- Was known as the “Petro-State”
- Significant hold of the world energy markets
  - Saddam Hussein Declared Annexation of Kuwait 1990
  - Becomes Prime Minister of Iraq in 1994
  - US-Iraq War starts in early 2003 “Operation Iraqi Freedom”



## Geographical Location





# Why Fight?



Saddam Hussein, believed WMD's

France, Germany, and Russia opposed the war

Israel feared Iraq would distract the US from Iran, which they thought was the bigger threat



# Oil Crisis

In 2001 the United States imported 800,000 barrels per day from Iraq.

A policy introduced by Truman prevents Persian Gulf oil from falling into the wrong hands.

US preferred to have a liberated Iraq with the government making the decisions on oil, but issues were much more complex.



Figure 4. Zubair Oil Field



# Conserving Oil

One of the best way to conserve oil is “TO NOT DRINK IT”, as explained by Dr. Semih Eser

<https://www.e-education.psu.edu/fsc432/content/lesson-9-overview>

# The Aftermath of the War

Oil industry - dilapidated

- Lack of investment and security - workers don't want to show up
- Looting and breakdown of infrastructure - hard to restart oil industry postwar

Postwar Iraq in disarray / rising unemployment (60%) - breeding ground for Al Qaeda

- The Civil war - Sunni & Shia

Post invasion production at best  $\frac{2}{3}$  capacity

- Not reach pre-war production until 2009
- Constant terror attacks disrupt Iraqi oil market



[Iraq War 2003 Explained | Why Bush and Blair attacked Saddam Hussein](#)



# 8. The Demand Shock



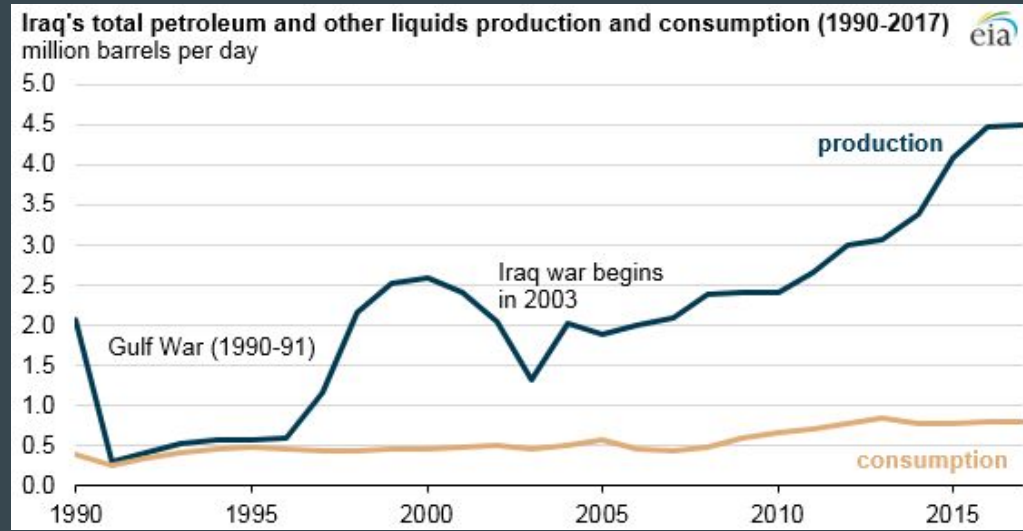
How the addition of other countries affected the oil industry forever

Light Sweet Crude Oil found in Cushing, Oklahoma (WTI as benchmark for other barrel prices- “domestic sweet” in the US).

After their boom had passed, they transitioned to use their pipelines for petroleum, WTI remained as a benchmark for other oil prices.

The demand for oil almost quadruple globally, increasing by 4.9 million barrels, between 2003-2006

Other benchmarks: Brent Blend, Dubai Crude



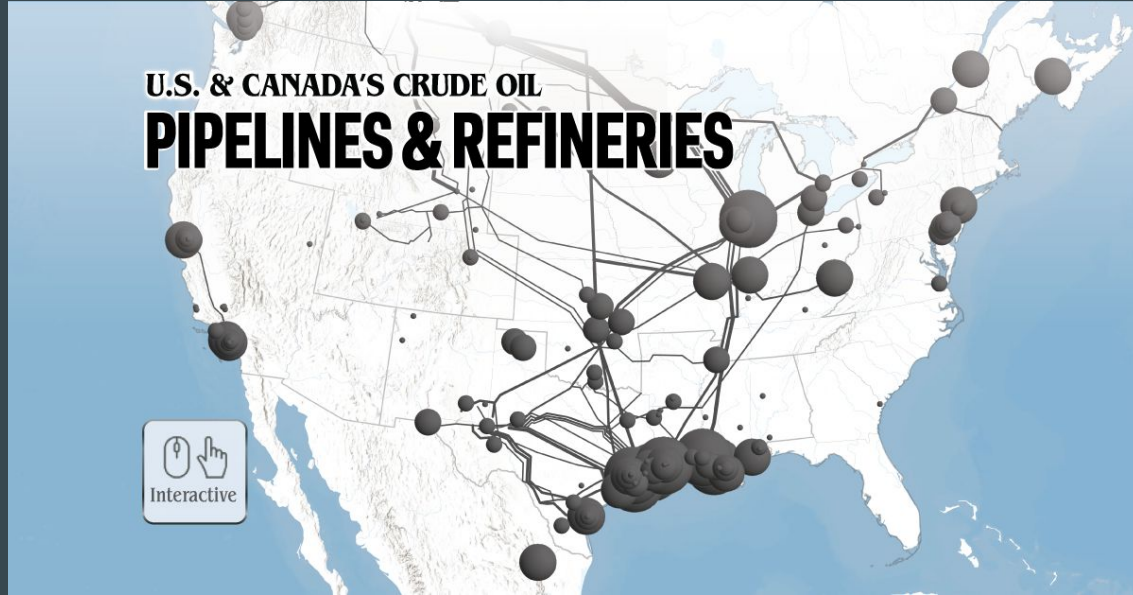
[Here's What Drives The Price Of Oil | CNBC](#)

# Cushings New Rule

Efficient Pipe networks bring  
in oil in different States.

Crude → gasoline, jet fuel,  
diesel, heating oil

After production dropped,  
became a key petroleum  
pipeline junction



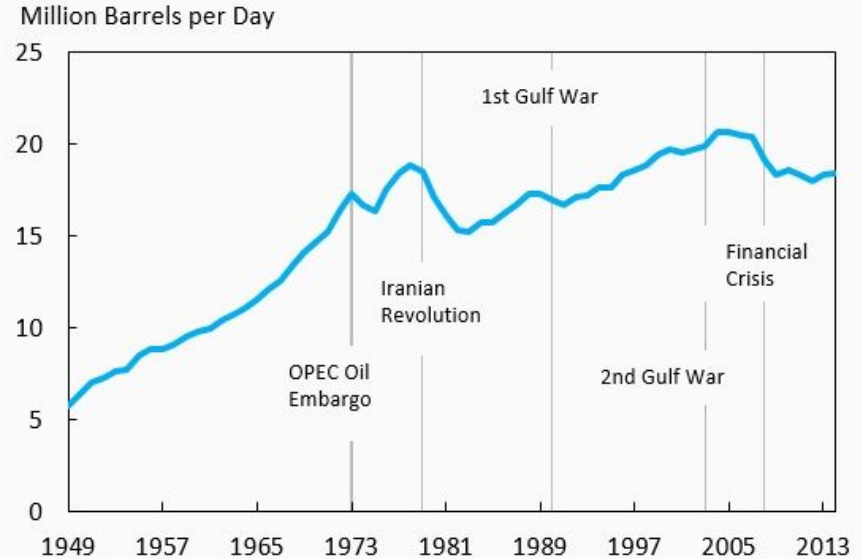
# Globalization of Demand

Ascent of oil prices beginning in 2004

Total world petroleum consumption grows

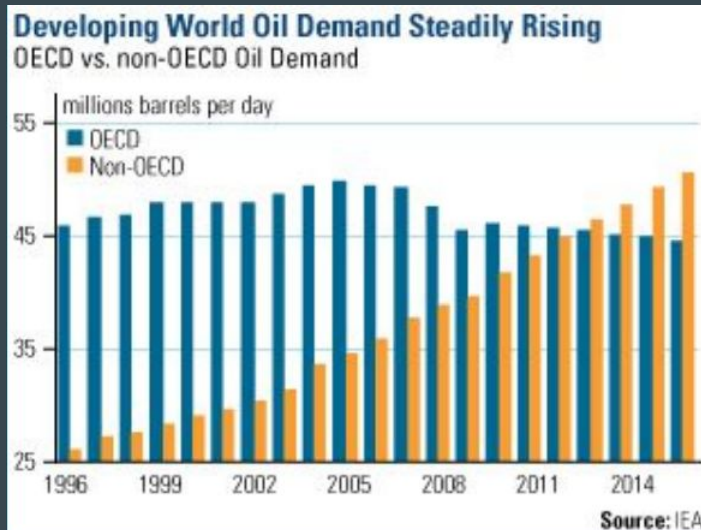
New demand shock powered by strong global economic performance

**Figure 1.** US petroleum consumption, 1949-2014





# OPEC Supply



February 2004, Algiers, Algeria

Production cut, yet prices rose steadily

Oil as an alternative to coal

Strong global growth → higher oil demand

Boom anticipated- tight market

Spare capacity shrinks

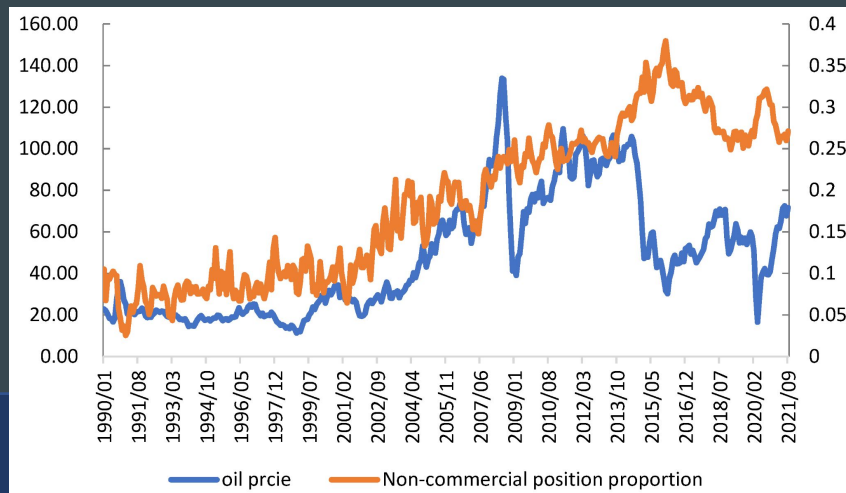
Reinforcing of price trend



# Financialization

The price of crude oil was inversely related to the value of the dollar

- Oil was a great financial asset as well as a physical commodity
- Due to global rise in the trading of oil, the US decided that the federal gov. Needs to have control control over the price of the oil, which led to Britain followed the similar policy

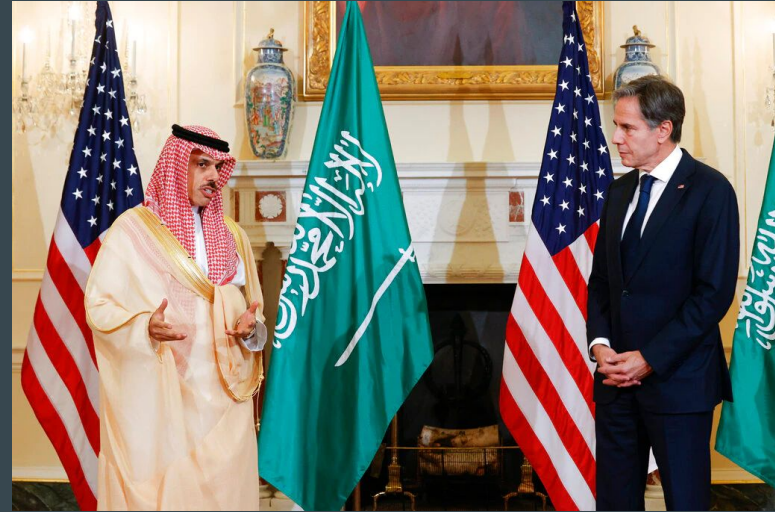


# More Buyers

George W. Bush, tried to negotiate with Saudi Arabia

Cars sales were impacted directly due to new high price, which caused car sales to plummet

Americans wanted congress to find a solution to lower the prices of the oil.



## Break Point

People were realizing that the price mattered after all, both economically and politically.

Companies began to be more energy efficient, and demand was slowing down.



## Changing the Car Fleet

The United States had the world's largest auto fleet, and the nation was “addicted to oil”

This drove the growth of more fuel efficient vehicles in America.



# The Great Depression

Surge in oil prices contributed to downturn

Felt in other developed countries

Income: consumer countries → producer countries

September 2008: Lehman collapse

After the collapse of the Lehman Brothers, the world's financial system stopped flowing.

July 11, 2008 - oil had reached its historic high of \$147.27 per barrel, from around \$25 just four years prior



# 9. China's Rise

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# China's Rise

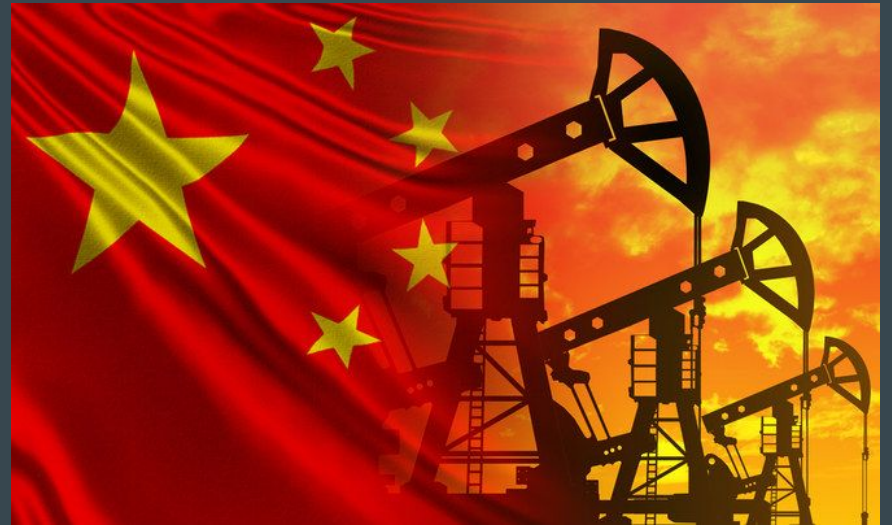
- Many Chinese residents still used coal ovens to cook and heat their homes.
- The CEO of one of China's state-owned oil companies his management team were tasked with transforming a significant part of China's oil and gas industry, which had been built to serve the command-and-control economy of Mao Tse-tung, into a competitive company that could meet the listing requirements for an IPO on the New York Stock Exchange.
  - The reason for this shift was the growing demand for oil in China and the challenge of how to meet it.





# China's Rise

- The increase in value reflected the growing importance of China in the world's energy market and the rise of China as a global economic power.
- Since reforms began in 1979, 600 million Chinese people have been lifted out of poverty and China's economy has grown more than 15 times.
- By 2010, China's economy overtook Japan's to become the second-largest in the world.





# China's Rise



# China's Rise



# 10. China in the Fast lane

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# China in the Fast lane



# China in the Fast lane





# China in the Fast lane





PennState

Questions?

