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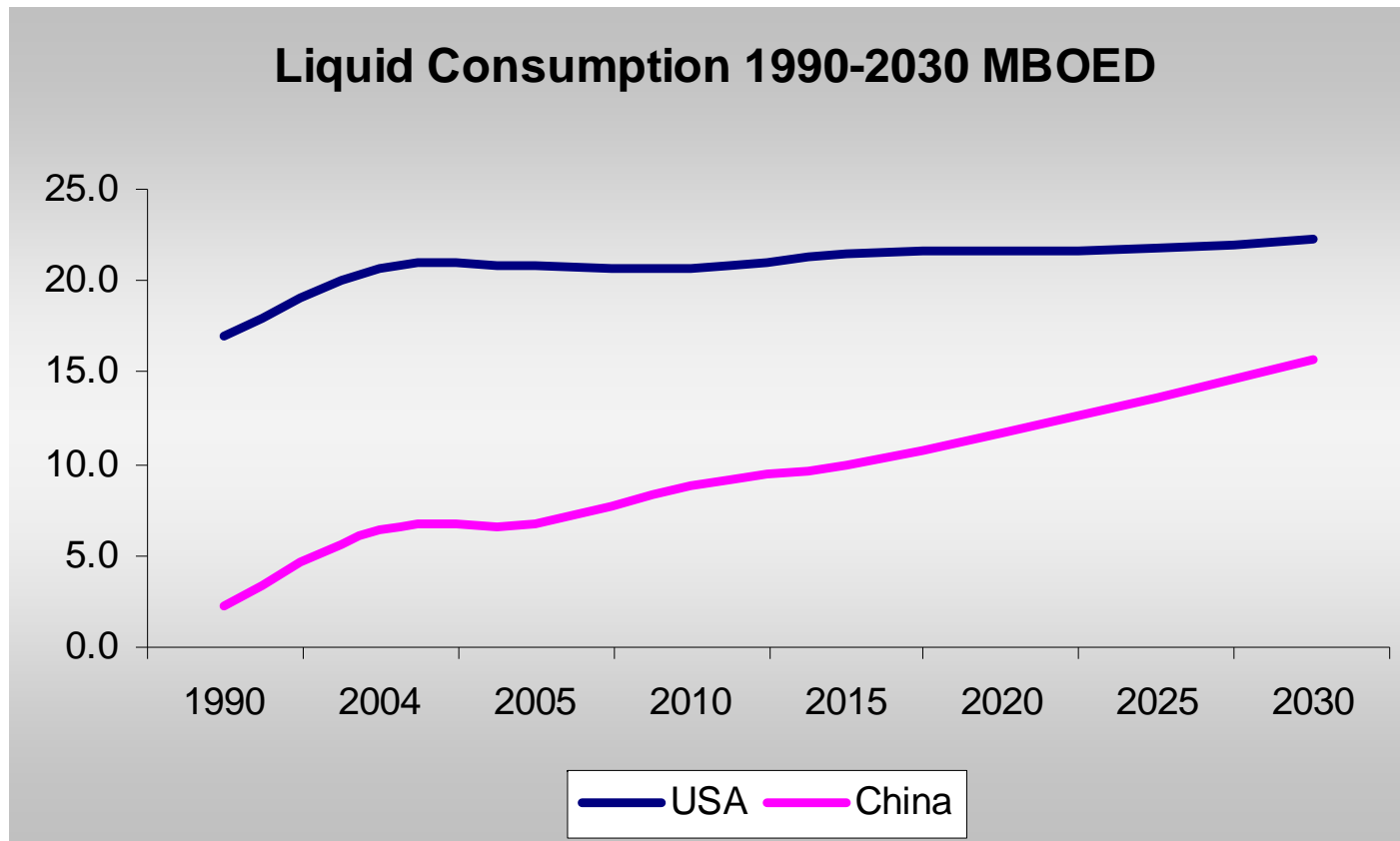


Role of Emerging Markets and Resource Nationalism

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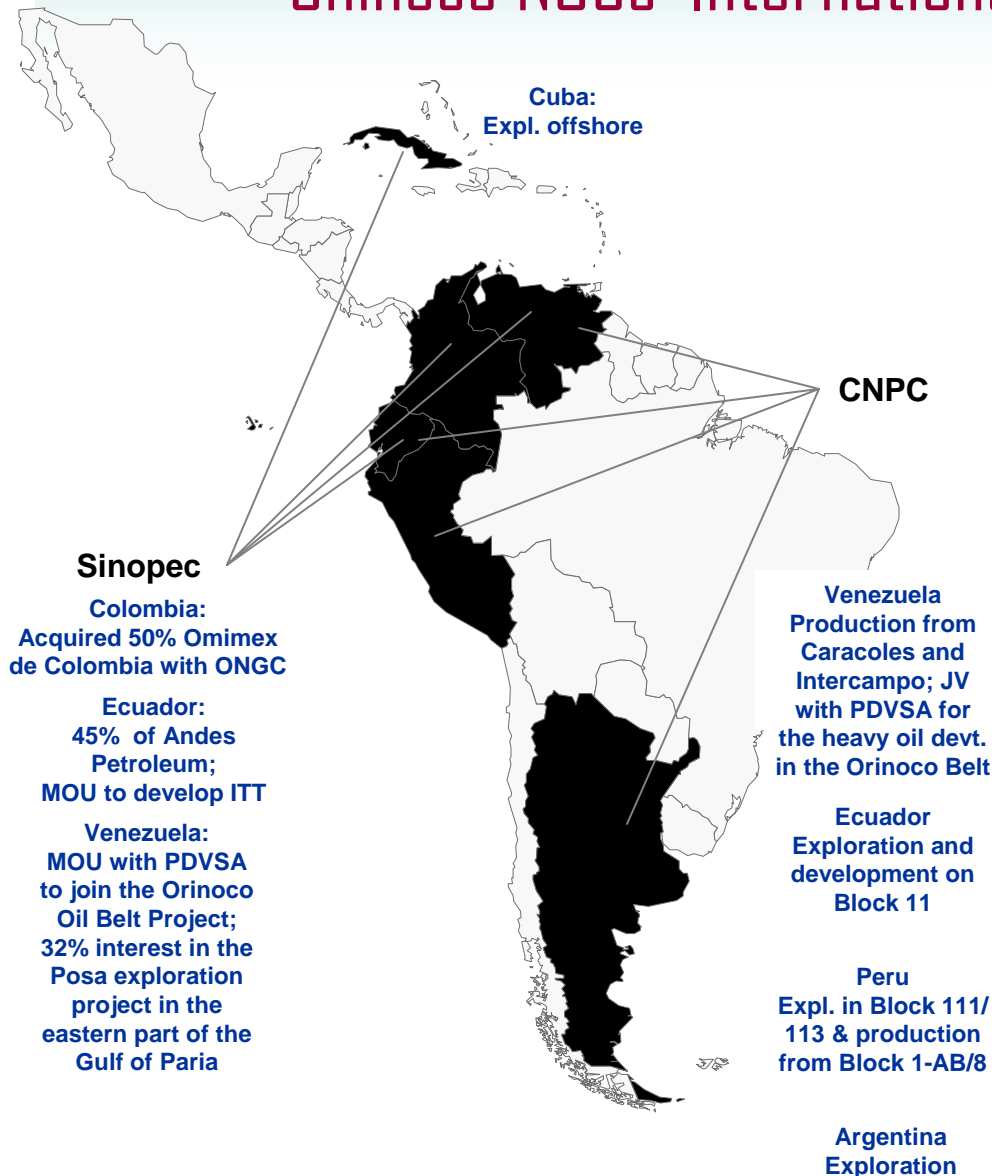
The Demand Side, China's thirst for oil products



Source DOEIA June 2008

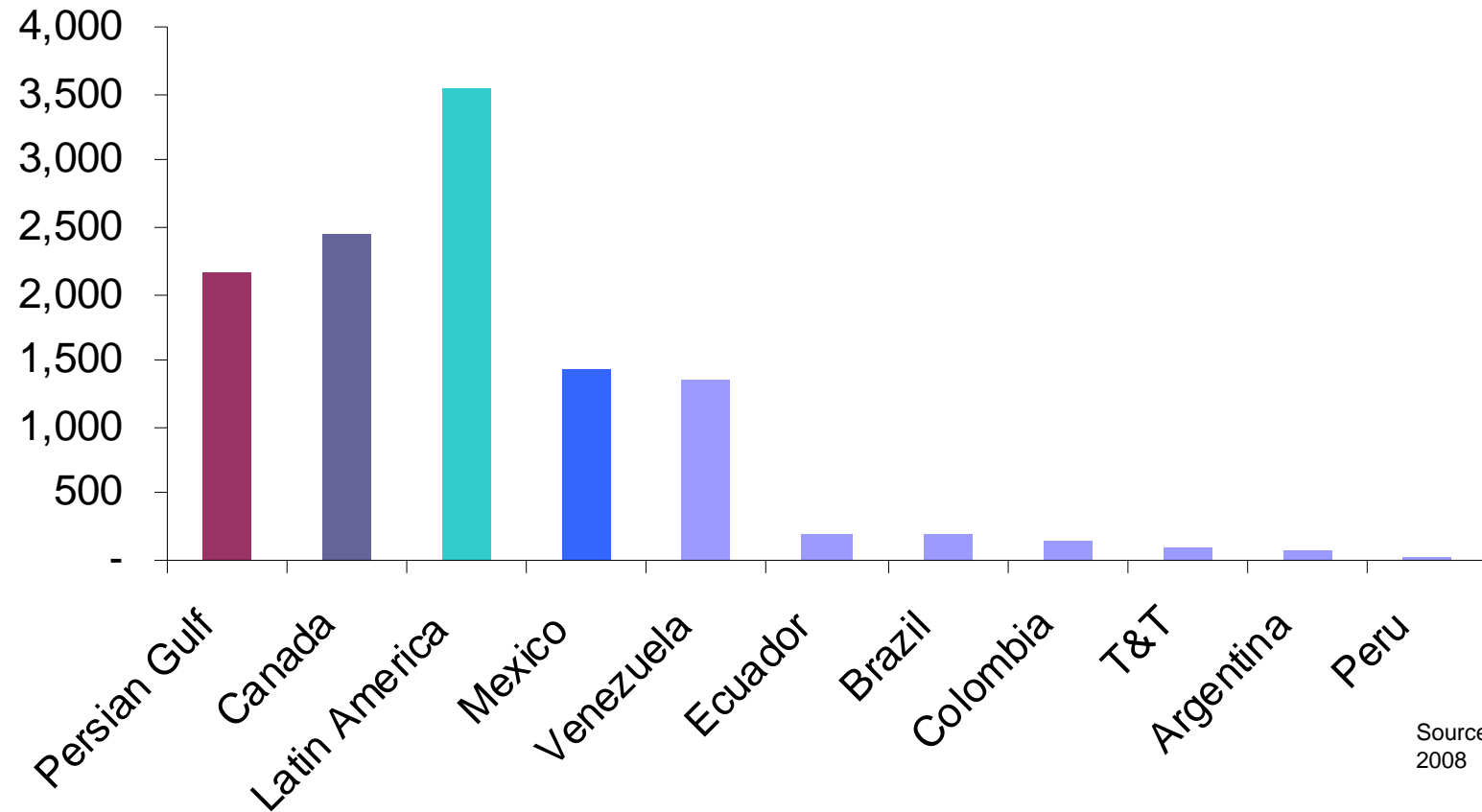
- **China's demand will grow in average by 3.4% between 2005-2030. USA's demand will grow by 0.3% during the same period**
- **China will become the largest oil consumer in the next 30 years**

Chinese NOCs' International Upstream Assets



- Venezuela=>Strategic Partnership?
 - US\$12bn investment fund for infrastructure and industrialization of Venezuela
 - Vertical integration from Orinoco fields to refinery processing in China:
 - PDVSA-CNPC upstream activity
 - PDVSA-CNPC upgrading and transportation
 - PDVSA-CNPC refining in China
 - Venezuela currently exports approx 300MBD, objective is to export 1MMBD by 2012
- Other Latin American oil producers=> Tactical moves?

US Petroleum imports MBD 2007



Source DOEIA June 2008

- **US is Latin America's most important petroleum market**
- **Latin America has strong competitive advantages=> location, infrastructure, reserves**

Role of Emerging Markets and Resource Nationalism

- **Resource nationalism=>**
 - Higher royalties and taxes
 - Increased government control, strong NOC
 - NOC-NOC partnership
 - Market diversification
 - Industrialization=> quest for value added
- **Investments from private sector declining**
- **Strong dependency on local NOC and NOC-NOC partnerships**
- **New economic environment:**
 - Lower commodity prices
 - Global economic slowdown
 - Tight credit
- ***Will government grant enough capital to local NOC to invest in exploration?***
- ***Will foreign NOC continue to expand investments in the face of domestic financial pressures?***
- ***Or will we witness a retreat of resource nationalism=> better terms for IOC's?***

Resource Nationalists

- Large public spending, focus on social issues
- NOC main provider of funds, expanded role=>social areas, industrialization
- Increase royalty, taxes,
- Lower IOC's investments
- Preference for NOC-NOC partnership
- Expected increasing investments from NOC

Market Oriented

- Efforts toward balance budgets
- NOC one player, access to credit outside government's budget
- Attractive fiscal terms
- Large increase of IOC investments

China story:
Large NOC-NOC investments in E&P and infrastructure => support economic growth during global slowdown

Back to apertura
NOC unable to carry investments, production decline, prices fall, fiscal deficit, inflation, economic adjustment=>return of the IOC under improved terms and conditions

Market Discipline rewarded
Government has tools to address crisis (reserves, fiscal balances) and market trust on rules of the game
Gradual improvement of investment environment (lower taxes? Streamline regulations?)
IOC respond modestly,
Support for NOC-IOC partnerships

Market crisis story
IOC investments dry (high costs, lack of credit, price collapse) focus on M&A
Production and price decline=>government intervention=>strengthening NOC to do investments IOC fail to do, seek NOC-NOC partnerships