

Direction of travel



The early days of Donald Trump's presidency have already demonstrated that his 'management style' is very different from that of his predecessors. With this in mind, Chris Thorpe considers what might be expected from the new administration's energy policy

Donald Trump was sworn in on 20 January with a fanfare typical of a presidential Inauguration. It did not take long for some to denounce his highly controversial election promises, now on the verge of real policy. Millions continue to protest over what he stands for or what he plans to do. Thus far, most of Trump's proposed policies seem vague and short on detail. One stand out is his energy policy, which seems to be the most coherent so far. While environmentalists grow gravely concerned, the overall financial market reaction

has been neutral.

Energy producers can rest assured that Secretary of State Rex Tillerson, former ExxonMobil CEO, will support their cause. Tillerson's guidance to the Trump administration should provide some global perspective, albeit tinted by the lens of a big oil executive with close ties to Russia. Tillerson is pro free trade and believes that global interdependence provides a foundation for peaceful relations. Trump has already made it clear he will be pro oil and gas production in the United States and Tillerson's appointment confirms that.

With the addition of former Governor of Texas, Rick Perry, as Secretary of Energy, Trump is setting the stage for an energy policy more in line with conventional Republican wisdom.

The Trump energy strategy will be a far cry from that of the Obama administration whose policy was keenly focused on energy conservation. Job creation related to energy policy was previously primarily based on 'green' jobs, including research, efficiency, conservation and technology. Trump turns his back completely on these segments and points to job creation through

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oil and gas industry growth on American soil. He even goes so far as to commit federally controlled land to energy exploration.

Within days of his arrival in Washington, President Trump began to sign executive orders and memoranda intended to either break down laws initiated by the previous administration or clear a path for previously blocked pro-oil initiatives. Trump signed a mix of documents, some having no material impact or power since they require consent by Congress, and some that have immediate impact. Energy policy change seemed to be an easy move for his first weeks in office.

One Trump presidential memorandum cleared the way for controversial oil pipelines from Canada to the United States and gave the order to use American made material to construct those pipelines. The President also generally ordered that all related departments and agencies deliver a plan within 180 days to achieve this goal.

The pipeline announcement resulted in related construction company stocks rallying. The market cheered with the prospect of new construction jobs, according to analysts at Jefferies, an investment bank. This is exactly the headline Trump was looking for.

The pipeline industry and investors cheered for good reason. The former Democratic government had been slow to adapt to oil transportation market demand, commonly creating delays or barriers to pipelines and construction.

This issue became particularly acute in 2013. At the time, oil price arbitrage in North America widened so much that crude oil transportation by rail hit a historic peak. When a freight train carrying crude oil derailed in Lac Megantic, Quebec, symptoms of the stressed pipeline system became more extreme. This accident claimed 47 lives and was the worst non-passenger rail accident in Canadian history. The US State Department continued to block new trans-border pipelines, most likely due to pressure from environmental groups, which historically tend to support Democrats.

Removing barriers for the energy industry at the federal level should be an easy political win for Trump. However, beyond the pipeline announcements, the Trump energy policy plan has a limited number of identifiable actions to speak of. For example, he claims he will 'save the coal industry' but provides no details on how this will be achieved.

Indeed, his policy does plan to remove environmental restrictions, such as the Waters of the US rule that identifies which rivers, streams, lakes and marshes fall under the jurisdiction of the Environmental Protection Agency (EPA) and the Army Corps

of Engineers. He also plans to cancel the Paris Climate Agreement and stop all payments of US tax dollars to United Nations (UN) global warming programmes. Growing scientific evidence that carbon emissions and deforestation contribute to significant global warming are for dispute, argues Trump.

Chaos in Washington may provide a perfect cloak for Trump to undo decades of economic progress. He has already issued a claim that the United States will not participate in the Trans Pacific Partnership and it will re-negotiate the North American Free Trade Agreement (NAFTA).

Creating trade barriers or inciting a trade war will likely have an impact on energy trade, despite Trump's energy policy. Since the United States is an exporter of natural gas to Mexico and Mexico is an exporter of crude oil to the United States, there will be plenty to talk about when it comes to energy. Canada is the second largest trading partner of the United States after the combined European

Union, so NAFTA is unlikely to be scrapped.


However, theatrical diversion is President's Trump's specialty and he is known as more of an event, location or show promoter than a leader or manager. He is already well known in America for his television hit 'The Apprentice', which portrays Trump judging young entrepreneurs taking on challenges with the hope of a dream job with Trump's company. Relying on television sound bites, the financial market will have to filter announcements and declarations that may not be technically sound. He repeatedly makes statements (true or untrue) which often result in unsupported statements becoming fact to his supporters. The problem with this kind of leader is that his rhetoric can work for or against you with no basis of support. Business leaders and managers, including those in the energy industry, ought to prepare for a time when they may be the target of those using 'alternative facts', a term coined by Trump advisor Kelly-Ann Conway.

With a complete economic policy yet to unfold, the markets wait in anticipation. So far, waiting seems to be the generally accepted strategy among the business and investment community. The Economic Policy Uncertainty Index (an index that quantifies news coverage of policy-related economic uncertainty, potential changes in tax code and disagreement among economic forecasters) is at an all-time high. This may not create fear for the business and trading community but it remains hard to plan until more meaningful policy is written. Since the President needs the support of Congress and Senate to pass law, he can only affect near term change using his power over the 15 executive departments under his control. They include Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Labor, State, Transportation, Treasury, Veterans Affairs, and the Attorney General. Among them, En-

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ergy and Transportation may be relatively easy to direct policy change. Directives to modify Homeland Security policy and the Office of the Attorney General have already gone wrong.

Within weeks of taking office Trump seems to be reaching beyond his ability. At the least he has demonstrated how poor executive action can be without proper analysis and review. His immigration policy (under Homeland Security) has already been contested at the Federal Court level based on its constitutional merit. Though energy-related policy change may be straightforward for him, the rest of his work in Washington, DC will likely make this President feel that he is the next 'Apprentice'.

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