



The “Global Big-Oil Bailout”

How a Handful of Public Oil Companies Will Save 3 of the World’s Major Crude-Based Economies from Collapse

And Make a Bundle of Money Doing It...

By Dr. Kent Moors, Editor, *The Oil & Energy Investor*

Dear Reader,

This “bailout” is different...

First, it’s private. None of your tax dollars are at play.

Second, it could be one of the most profitable investment opportunities in your lifetime.

Indeed, like any private sector initiative, profitability is at the “Global Big-Oil Bailout’s” core.

Here’s what’s going on...

Three of the world’s major oil-producing countries are in trouble. Their enviable crude reserves are intact. But they simply don’t have the resources – or in one case, the experience – to get it out of the ground.

Yet their economic survival depends upon this untapped crude.

So they’re enlisting Global Big Oil to “bail them out” – to come in and help them explore, drill and extract, among other activities required for production.

The pay is good, too, as you’ll see. And for the smaller companies helping out, the profit potential is even more staggering.

That’s especially the case in the Global Big-Oil Bailout’s most recent target...

GLOBAL BIG-OIL BAILOUT TARGET #1: UGANDA The Next “Crude Rush” is Officially Underway

Don’t look now, but what happens in this tiny African country could make you some big-time bucks.

Lake Albert is located in the northwest corner of Uganda, on the border with its Central

African neighbor the Democratic Republic of the Congo (formerly Zaire). As part of the upper Nile River system, Lake Albert is one of the continent's Great Lakes. The most famous of these, Lake Victoria, sits on the other side of this narrow country, close by Uganda's capital, Kampala.

Aside from the swamps to the south, Lake Albert is pretty country. But these days, all eyes are on something other than postcard photos.

Billions of barrels of crude oil and an as-yet unknown amount of natural gas have been discovered on its shores. As a result, the economy of the entire region is going to change – fast.

An old-style “crude rush” is underway...

Welcome to the “Wild West” of Oil

Companies are flooding into Uganda, a country with virtually no laws or regulations on the books to deal with the onslaught. A lot of money is going to be made here, as companies jockey for position.

This explains why on February 5, while the rest of the Mid-Atlantic region was bracing for the mother of all snowstorms, I was in Pittsburgh's Allegheny County Health Department getting yellow fever shots.

Seems my travel schedule just became a bit more intriguing...

In a few weeks, after my trips to Poland (pipelines and shale gas), London (oil trading) and Frankfurt (oil finance), I'm off to Kampala. The U.S. Department of State has asked me to advise the cabinet, parliament, civic organizations and oil companies there, along with holding a couple of press conferences.

During the stay, I will also take a government plane to see the drilling locations for myself.

What everybody needs is an organized response to what can best be described as an African version of the Wild Wild West. This is already becoming a primary focus for global interest. Uganda will shortly explode on the scene as a major worldwide oil producer.

Not bad for a country that had little production only a few years ago.

Before the dust settles, however, you are going to be making some serious money off of these discoveries. Because, while leading oil companies are attempting to get in on this “bailout,” several little guys are already holding the keys.

And their stocks are about to take off...

Profiting from Uganda's “Crude Rush”

Hardman Resources (delisted, Australia) made the initial wildcat finds and then

merged with **Tullow Oil** (LSE: TLW). That left the London-traded minnow with a strategic position in prime fields and first rights of refusal on adjoining areas. These include the earlier discovered Mputa field and the much larger deposits, Waraga 1 and Waraga 2 – all part of an even bigger object on everybody's radar.

This is "Block 2," covering the northern part of Lake Albert and situated completely inside Uganda. The new deposits appear to have three separate oil-producing strata. That means the volume will be both localized and significant. Simply put, these wells should produce a considerable amount of oil at low cost.

Tullow is your first investment play, but hardly the only small-cap target.

The company currently owns one of its fields outright and others at parity with Canada's **Heritage Oil** (TSE: HOC). If Heritage leaves, Tullow has first rights. Heritage either raises capital to say in or sells out. Either way, its stock will be heading north.

Two other small fries are also in the mix: **Tower Resources** (LSE: TRP) and **Dominion Petroleum** (LSE: DPL). They also have development tracts in Block 2.

Little guys usually need to give up some of their holdings to attract working capital. That's beginning here, providing some larger company investment opportunities. While Italian major **Eni** (NYSE: E) has bowed out for the moment in the race to acquire current drilling locations, French giant **Total** (NYSE: TOT) is rumored ready to ally with Tullow to develop the small company's existing fields.

When the official announcement is made, which you can expect to happen any day now, the stocks of both companies will benefit.

CNOOC (NYSE: CEO), an affiliate of China National Petroleum Corp. [played via **CNPC Hong Kong Ltd.**, (OTC: CNPXF)], also is moving in fast on Tullow, with a likely pickup of a holding. The Ugandan government wants both Total and CNOOC in the development mix to balance wider political considerations. And Tullow is the most available vehicle to make that happen.

But the small fries will continue to experience the biggest upside move. After all, they have further to go.

Remember, the little guys get a price pop whether they develop deposits on their own or sell all or a portion of their field assets to larger operators. And other big-time shakers are on their way.

ExxonMobil (NYSE: XOM) and **LUKOIL** (OTC: LUKOY), Russia's largest privately owned oil company, want in. Word is, the Russians made an investment pitch to Ugandan President Yoweri Museveni at just about the same time I was getting my yellow fever injections.

The personal pitches to the president and officials create some transparency problems,

hardly unknown in such situations. Such activities have also resulted in a lawsuit filed by a leading Ugandan nongovernmental organization (NGO) against the whole process. The State Department has already advised that dealing with the transparency problem will be part of my brief.

GLOBAL BIG-OIL BAILOUT TARGET #2: VENEZUELA Chavez Now Has No Choice But to Make You Money

Hugo Chavez doesn't like Washington. And the feeling is mutual.

He's not exactly the guy who jumps to mind when talking about generating return for American investors. But it is about to happen.

That's because the self-proclaimed "commander president" and his ill-advised socialist reform agenda are between a rock and a hard place. For all the bravado and blustery oratory, Caracas is witnessing a meltdown, as the global financial pinch becomes enemy No. 1. And there is only one place to turn...

The National Oil Company is in Trouble

Petroleos de Venezuela SA (PDVSA) is the country's cash cow. The national oil company needs to reverse declines in production, especially as international oil prices start climbing back up. If it can't, a dangerous combination of deepening recession and rising unemployment will accelerate what can best be called an oil-sponsored reform debacle.

The nation has plenty of crude reserves left. Unfortunately, they are located in the Orinoco heavy oil belt. This is highly viscous oil, requiring considerable technology to develop – technology PDVSA doesn't have. And Western companies that do have it were rather unceremoniously thrown out by Chavez in 2007.

While the likes of ExxonMobil and **ConocoPhillips** (NYSE: COP) sue to recover property nationalized, Venezuelan leadership has begun asking others back in.

As I learned recently, this needs to happen soon.

My place in the Bahamas is often used for oil parlays. A few weeks ago, PDVSA execs I've known for years came up to discuss an ongoing project, a refinery development I advise in Ecuador to process Venezuela's heavy oil. The conversations touched on their financial problems. And the crisis is much worse than I realized.

PDVSA has been living off of borrowed funds. How bad? I learned that the company's debt has grown almost 45% *in one year*, to some \$23 billion. Not a good thing when the crude volume you need to pay it off is heading in the wrong direction.

Never regarded as a financial whiz, Chavez decided that the oil company should shoulder more social responsibility. Instead of only drilling for oil, it was suddenly required to import

food. Much of the rising debt resulting from the president's inability to feed his citizens was passed on to PDVSA beginning in the second half of 2008... just when oil prices were tanking.

So what does all of this have to do with investors? Painting himself into a corner, Chavez now has no choice but to make us some money.

“Bailing Out” PDVSA

Turning to the majors its president summarily tossed out only a few years ago, Venezuela now needs foreigners to rescue PDVSA.

For us, that's where the making money part comes in.

On February 11, the winners for two of three major fields in the Carabobo deposit in the Orinoco were announced. Prominent on the list are **Chevron** (NYSE: CVX), the Spanish-Argentinean major **Repsol** (NYSE: REP) and Total. In a separate agreement, Eni will be developing Junin-5, also in the Orinoco.

The need to start pumping oil big-time has just brought our investment prospects right back into the Venezuelan crude picture. But will Chavez live up to the bargain this time?

He has no choice.

It will take years to dig his economy out of the mess he put it in. For that, PDVSA revenues need to increase... and fast. That requires bringing in the companies able to extract the heavy oil.

But there is also another connection even more essential to the recovery picture. The national oil company is 100% owner of U.S. major retailer CITGO. It needs to feed that network as much Venezuelan crude as possible to improve the bottom line. Recovery is impossible without such a major end user.

In short, Chavez cannot now short change the American market without shooting himself in the foot (as appealing as that may be visually). CITGO is privately owned, so we have no equity move there. However, this time, we have access to the companies pumping the crude needed to service CITGO.

And that access hardly stops with Chevron, Repsol, Total and Eni.

The five largest Russian companies, comprising what has become known as the National Oil Consortium, recently signed an agreement with PDVSA to work Orinoco's Junin-6 field. We have access to all of them: LUKOIL, **Rosneft** (via LSE ADRs: ROSN.UK), the Russian/British **TNK-BP** (OTC: TNKBP), **Gazprom** (OTC: GZPFY) and **Surgutneftegaz** (OTC: SGTZY).

Caracas has warmed up to the Chinese, too.

All three of the Chinese companies entering into agreements with PDVSA are also on our

trading radar – CNOOC, **Sinopec** (through Sinopec Shanghai Petrochemicals, NYSE: SHI) and national oil company CNPC.

By deciding to pit Western, Chinese and Russian majors against each other, the Venezuelan president hopes to keep the upper hand and diversify sales. Frankly, we don't care about intentions. We now have 12 companies whose results we can play against each other.

GLOBAL BIG-OIL BAILOUT TARGET #3: RUSSIA The Traditional Oil Fields Are Drying Up

Sergei Kudryashov likes pizza, poker and American jazz. He's also deputy head of the Russian Ministry of Energy (Minenergo) and former VP at Rosneft, the No. 1 state-controlled oil producer.

I've known Sergei for almost two decades now. We compare notes whenever I'm in Moscow. This time, I briefed his team on key developments in the international oil markets. And, as usual, I came away from the meetings with some incredibly valuable information – information the public simply can't get on its own.

So let me share what I've just learned. It's a tremendous opportunity to profit from Russian oil – without investing a dime in the country itself.

Indeed, as you'll see in a minute, there are several ways to make money right here at home.

First, here's what's going on...

Russia's Oil Heyday is Ending

Russia's traditional oil fields are maturing rapidly. Production declines are accelerating. I just witnessed this in my travels to Timan-Pechora, where I met with executives from several major Russian oil companies. For those unfamiliar, this region is the western Siberian center for Russian oil production.

And it's drying up.

Even with substantial secondary recovery programs (water, associated gas, and even carbon dioxide injections), extractable oil volume will continue to drop.

Rosneft and LUKOIL, Russia's No. 2 producer and largest private oil company, matter-of-factly estimate a decline of up to 7% by 2012.

At current levels, that translates into almost 257 million barrels in lost annual production.

Having less oil to sell will be catastrophic to central planners. That's because taxing oil and gas production and exports comprises more than 65% of the federal budget. So, as I

explained last week, Russia needs to move production into new and more expensive locations – north of the Arctic Circle, into eastern Siberia and out onto the continental shelf.

This isn't easy, though.

All three regions require considerably greater investment commitments, application of updated technology and access to foreign infrastructure and transport systems. Having made a statement last year with new legislation aimed at retaining the larger, more promising fields for Russian-only control, the Kremlin now finds itself between a rock and a hard place.

Under that law, only a handful of companies can run shelf projects – companies that are controlled by the Russian government and have at least five years of offshore experience.

That leaves just two – Rosneft and Gazprom. Or three, if we consider Gazprom's oil unit, **JSC Gazprom Neft** (OTC ADR: GZPFY), which is likely to bid separately for projects.

What's more, only Russian companies (state-controlled or private) can be the majority owners of strategic onshore deposits. Majority owners are defined as those having more than 50 million tons (366 million barrels) of crude or 500 billion cubic meters of natural gas.

When the law emerged, of course, oil was racing beyond \$120 a barrel. And the government wanted to keep profits at home. But now that it needs foreign help, the Kremlin will be making changes to the law.

There's no way around it.

Major international oil companies simply don't enter a foreign project if it can't book a percentage of field reserves. In other words, if it won't make their stock go up, they won't do it.

I'll let you know as the Kremlin begins to phase in their changes to the law.

In the meantime, there are several ways to profit.

The Four “Profit Routes” to Russia's Oil

1. Outside companies will benefit as a minority partner in a large Russian producer. ConocoPhillips, which owns a 20% position in LUKOIL, is the best current case in point. But others are quickly developing. China National Petroleum Corp. (accessible over the counter via CNPXF [CNPC Hong Kong]), for example, has parlayed \$20 billion in bank credit for Russia's East Siberia-Pacific Ocean (ESPO) oil pipeline into a likely position in Rosneft.
2. Foreign majors will continue to profit as minority partners in specific projects. Despite its acrimonious departure from controlling the Sakhalin II project, **Royal Dutch Shell ADR** (NYSE ADR: RDS.A, RDS.B) is nonetheless well positioned for solid profits in its minority status in the project. Other majors finding a similar niche are ExxonMobil in Sakhalin I and Total at Kharyaga.

3. Majors have signed on to provide services for huge, carefully selected projects. That virtually guarantees discounted volume, Russian market access and the possibility of future involvement. Norwegian **StatoilHydro** (NYSE ADR: STO). They both provide extensive technology and expertise to the giant Shtokman deposit in the Arctic.
4. Finally, a number of well-structured and intentionally limited smaller companies are positioning themselves to become field owners below the strategic threshold – those that foreigners can still control outright. Several leading the list trade on the London Stock Exchange, or the LSE’s Alternative Investment Market (AIM) – for instance, **Timan Oil & Gas PLC** (LSE: TIMAN), **Sibir Energy PLC** (AIM: SBE), or Swedish **Lundin Petroleum** (LSE: OGYK).

Unlike they did in the past, these four “profit routes” will benefit from protection under Russian law. And they’ll get considerable support from large Russian companies interested in developing joint ventures and sharing technical and infrastructure expertise.

That’s great news for these companies... and their stocks.

Dr. Moors is the Editor of The Oil & Energy Investor and has been advising the “Big Boys” for 31 years now, including six of the world’s top 10 oil companies and leading natural gas producers throughout Russia, the Caspian Basin, the Persian Gulf and North Africa. For his latest energy opportunity report, visit www.oilandenergyinvestor.com