

STIRRING UP THE HORNET'S NEST: POLITICAL RISK AND INFRASTRUCTURE

By Michael Krancer and Keith Naughton, Silent Majority Strategies (SMS)



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Stirring Up The Hornet's Nest: Political Risk and Infrastructure



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As the agenda at this year's Northeast U.S. Petrochemical Construction Conference (June 19-20, Pittsburgh) will attest, there's one thing that any new buildout of downstream petrochemical facility needs and that is an ample and reliable supply of upstream and midstream feedstock extraction and transportation. In the past supply was much easier to count on than it is today. Today's new landscape of political opposition to hydrocarbons poses new risks that must be managed just like any other financial or enterprise risk. The opposition is committed to nothing short of destruction of the hydrocarbons business from the well-pad to the chemical plant to the consumer. Thus far, industry has underestimated this political risk and that is proving to be costly.

The politics of infrastructure has changed in 3 key ways: (1) construction is in areas that have not seen buildout in many decades; (2) mass ideological and political organization against the hydrocarbons industries; and (3) critical links in the supply chain (i.e., pipelines) have been targeted as the weak point in the hydrocarbon industries logistics.

Today the number one risk to the development of critical infrastructure is political risk, not technological risk. The technology is robust but politics are brittle. It is a mistake to think that elected officials and regulators are driving the public agenda here. Where public opinion goes, elected officials and regulators will quickly follow. While elected officials and regulators have latitude to do the right thing from a

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June 19-20, 2017
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technical, legal and policy standpoint when the issues are below the radar screen, when an issue, any issue, rockets up the public agenda our elected "leaders" become followers very quickly and they force the regulatory bureaucracy to follow. Politics then trumps all: policy, legal and technical matters. No politician will sacrifice his or her job for your project.



Artist's rendering of Shell's Pennsylvania Chemicals Ethane Complex 'Cracker' Plant Project

The election of Donald Trump is a positive for the industry, but he cannot save us from this sad state of affairs. Hostile state Governors and regulators are still very much in control of environmental permitting for parts of industry projects. The fact is that states cannot regulate less than the federal government, but they can regulate more. Trump is generating a very loud and visible pushback and mid-term elections almost always turn against the new President and the incumbent party. It is possible that every Governor in the northeast and mid-Atlantic will be Democratic by January, 2019.

The key takeaway for this industry is that Trump won the election because "the message matters". That is a huge lesson for this industry to adopt.

Companies have been undervaluing and under-responding to this new "political risk". We would concede that political risk is hard to quantify and is a moving target. But, ignoring political risk is like picking up pennies in front of a steamroller. That is to say it's a tail risk that, if ignored, or not responded to correctly, will destroy any project and perhaps the industry itself. Declining to invest in mitigating political risk may save dollars today, but could be very costly in the future.

Political risk can only be addressed and mitigated by direct action. Financial risk can be hedged by insurance and financial products and technological risk can be hedged by redundancy and/or over-engineering. Not so for political risk—direct action is required. While every case is different, Keith and I at Silent Majority Strategies (SMS) have developed a robust set of core strategies for our clients to aggressively mitigate political risk. Keith has a Ph.D. in political science and has decades of experience as a political advisor to combine with my experience in the environmental and legal world, so we cover the territory. Here are some suggestions.

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Project sponsors need to provide a compelling narrative to support their project. As part thereof, diversify the message. Over reliance on one point, for example, jobs, is not effective. Most people are not even looking for those jobs. A single message will always fail to resonate with important segments of the public. Good political messaging is diversified to account for differences in the public.

You cannot ignore the “fear space” and expect to succeed. The opposition lives 24/7 in the fear space. In the political arena, and this industry is in that arena like it or not, fear motivates better than hope. The industry needs to be aggressive and hold the opposition accountable for its inconsistencies, hypocrisies and its misbehavior. The real story of DAPL, the violence, property destruction, environmental terrorism and that the burning of tires and the encampment created more pollution and risk of pollution by far was not brought home to the public. The question to the mainstream public where other projects are pending is: do you want that coming to your neighborhood?

Make your messages personal. Project proponents rely far too much on the “big number economic impact.” These concepts are lost of almost everyone in the public aside from Ph.D.’s in economics. You need to personalize the benefits of the project and the industry and the personal costs of the “leave it in the ground” approach. Finally, stories beat statistics every time. Statistics are important and they guide public policy but they are arcane and they don’t have nearly the impact as emotional stories have with the public. A good story beats numbers all the time.

Many a project today has foundered as a result of pressure from mobs and protesters. Until the industry decides to confront political risk head-on, they and their investors will continue to absorb losses. How the and whether the hydrocarbons industry manages its public narrative will determine if vital infrastructure build-out moves forward or whether President Trump ultimately has to tell the pipeline backers, “You’re fired.”

Keith Naughton, Silent Majority Strategies (SMS), will be presenting on ‘How to Mitigate Political Risk from Petrochemical Infrastructure Build-Out in the U.S. Northeast’ at Petrochemical Update’s 2nd annual Northeast U.S. Petrochemical Construction Conference 2017 (June 19-20, Pittsburgh). Interested participants are invited to register for this 2-day conference at petchem-update.com/northeast/.

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Petrochemical Update's 2nd annual Northeast U.S. Petrochemical Construction Conference 2017 (June 19-20, Pittsburgh) - www.petchem-update.com/northeast/ - is the preeminent meeting place for stakeholders involved in the build-out of petrochemical infrastructure along the Ohio River. This June Pittsburgh will see over 400 attendees and more than 60 speakers tackle key challenges and explore leading business opportunities sparked from and directly related to Shell Chemicals' historic decision to move ahead with a \$6bn ethane 'cracker' plant, Pennsylvania Chemicals, in Beaver County, PA.

Blank Rome is one of America's largest law firms. By listening to general counsel, business leaders and entrepreneurs, and anticipating their needs, Blank Rome has provided exceptional service to clients for 70 years. The 2016 edition of Chambers USA recognized Blank Rome in a number of categories, and also ranked 73 Blank Rome attorneys as "leaders in their fields." The rankings were assessed according to technical legal ability, professional conduct, client service, commercial astuteness, diligence, commitment, and other qualities most valued by clients. We have attorneys recognized by Chambers USA in Energy: Oil & Gas and Environmental Law.

Silent Majority Strategies (SMS), which is unrelated to Blank Rome, is an energy sector focused messaging, communications, regulatory and permitting strategy consulting firm. The partners in the firm, Michael Krancer and Keith Naughton, Ph.D., combine political, legal, communications and technical expertise to provide their clients with the most advanced and effective consulting services. SMS has particular experience in Pennsylvania politics and public policy issues. Our three main "product lines" are: (1) issue campaign messaging; (2) permitting strategy; and (3) regulatory strategy.

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