



## MIDDLE EAST ENERGY SITUATION AND OUTLOOK

### IRAQ ENERGY FORUM 2017

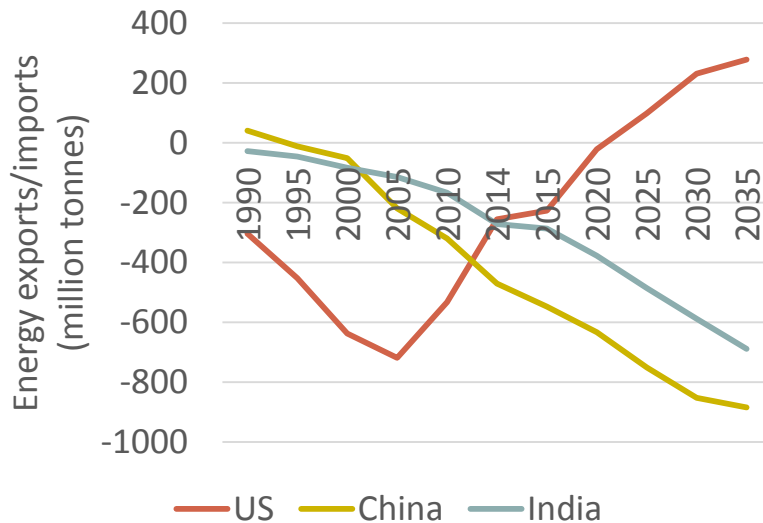


## OVERVIEW OF GLOBAL ENERGY MARKETS

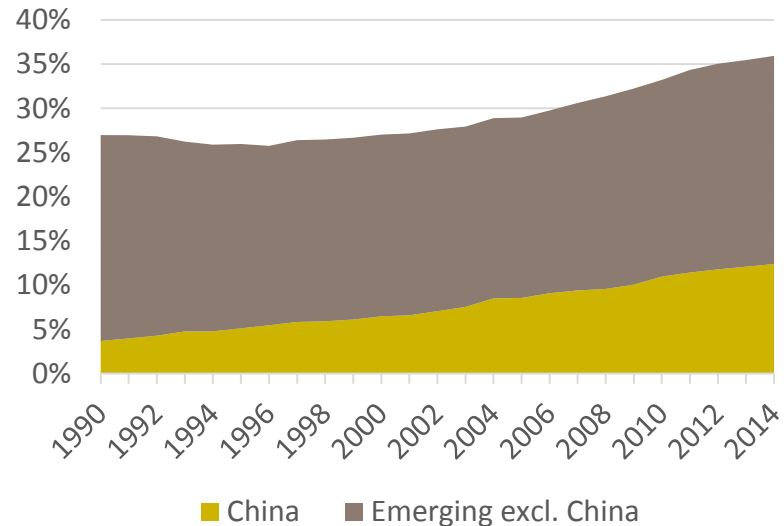
## SHIFTING DEMAND: NEW ORTHODOXIES

1. North America will become largely self-sufficient in oil
  - But what about impact of low prices on shale?
2. OECD demand is in permanent decline
  - But some recent revival, particularly in US
3. China is the key driver of demand
  - Import growth driven by China and other emerging economies
  - Saudi Arabia, Angola and Russia top crude suppliers to China
4. India is the bright spot for demand
  - Yes, but still small compared to China

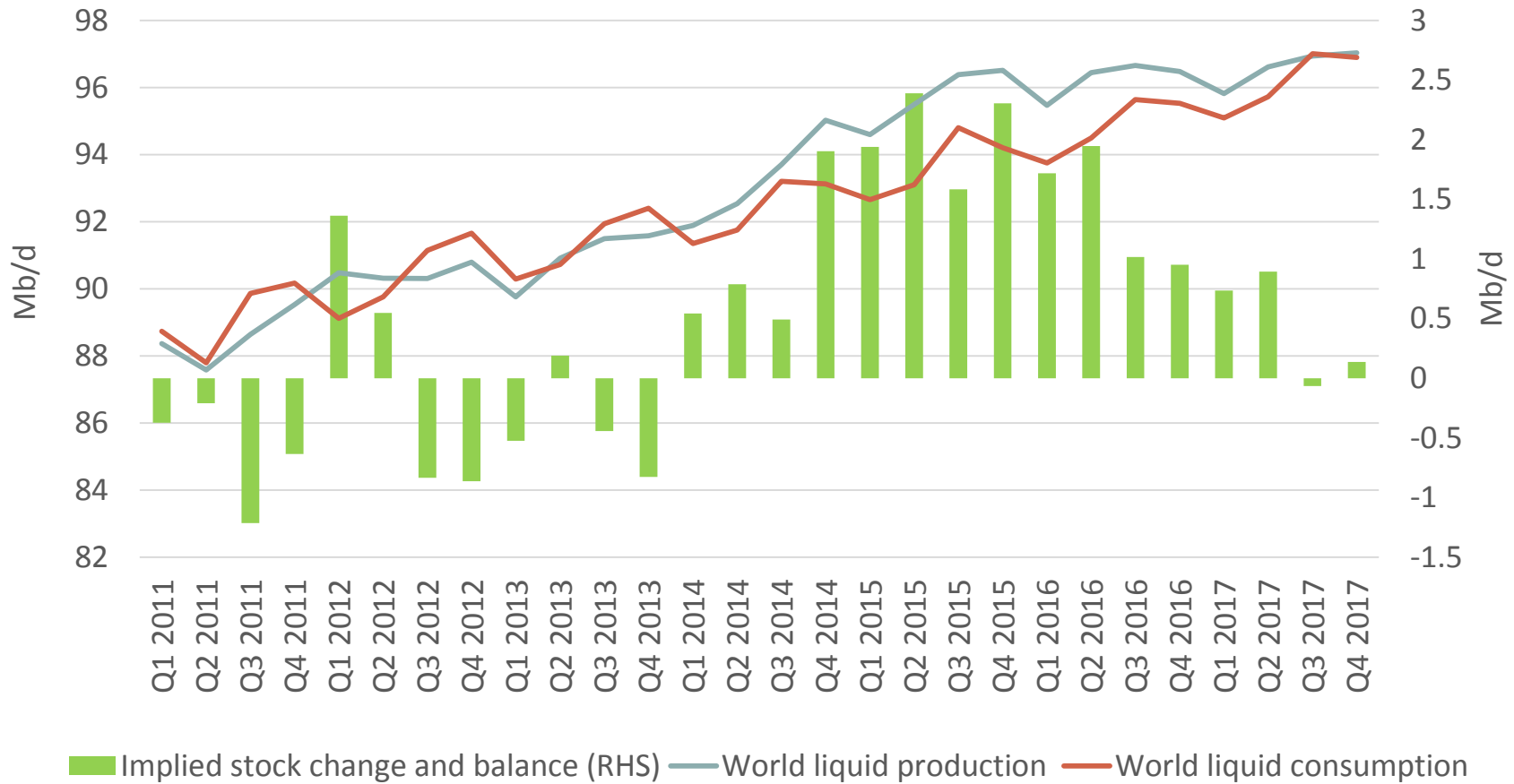
### US TO BECOME ENERGY EXPORTER



### SHARE OF GLOBAL DEMAND TO EMERGING MARKETS

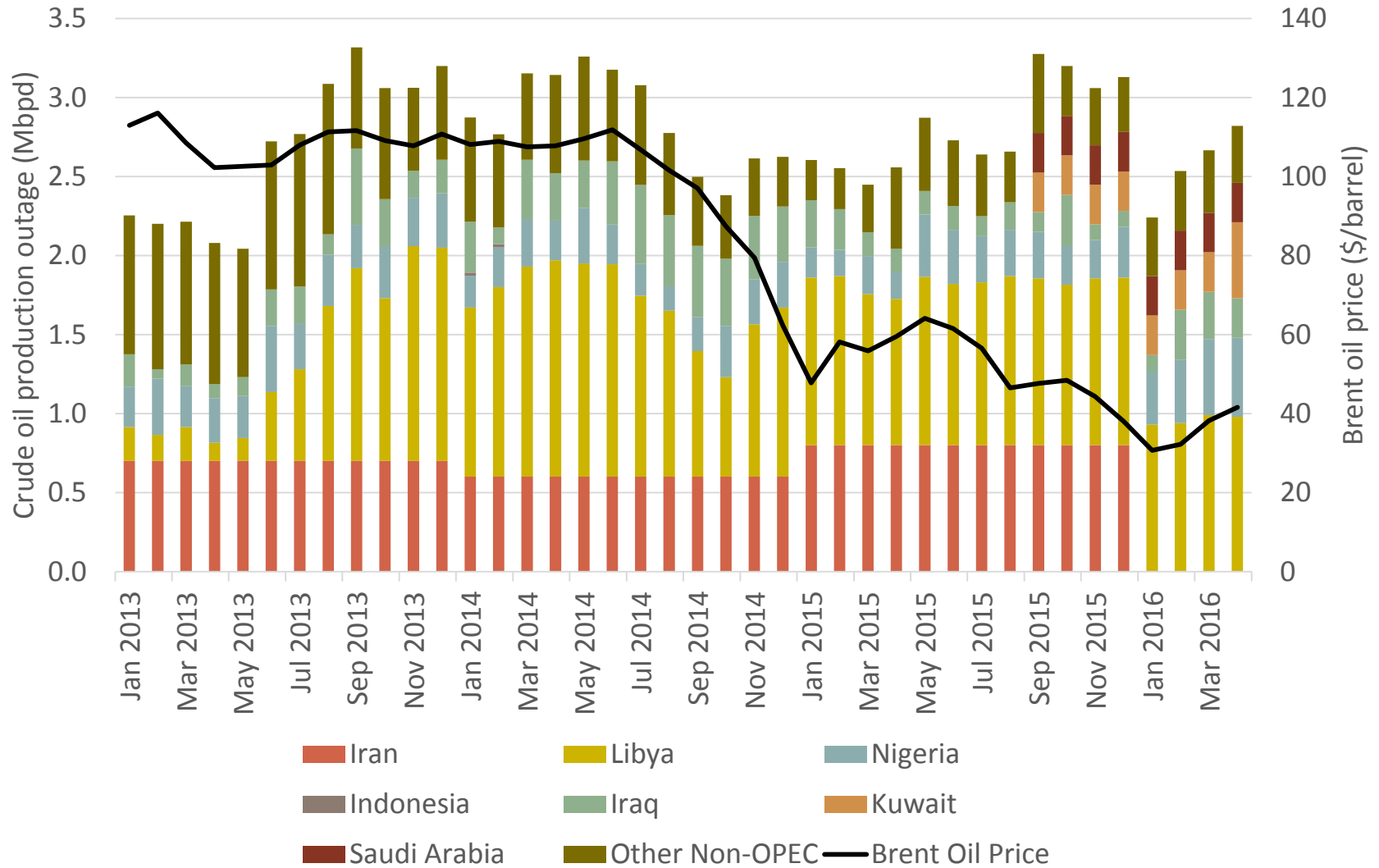


## WORLD LIQUID FUELS PRODUCTION AND CONSUMPTION BALANCE



- Global oil inventory builds in 2015 averaged 2.1 million b/d
- Inventory builds expected to slow to average 1.4 million b/d in 2016 and 0.4 million b/d in 2017
- Balance reached around Q3-Q4 2017?

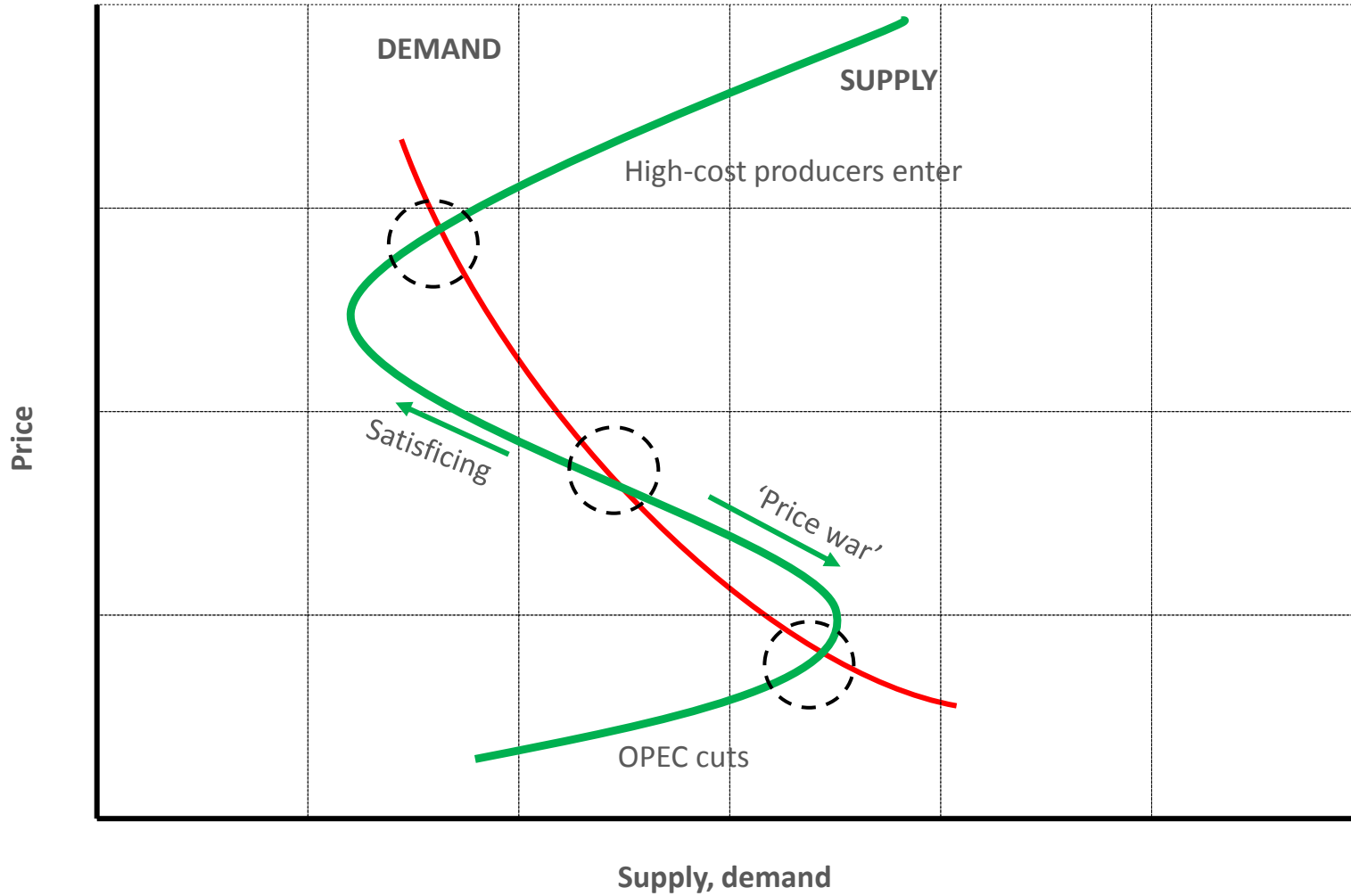
# CONTINUING HIGH LEVEL OF SUPPLY DISRUPTION





## OPEC DEBATE AND POLICIES

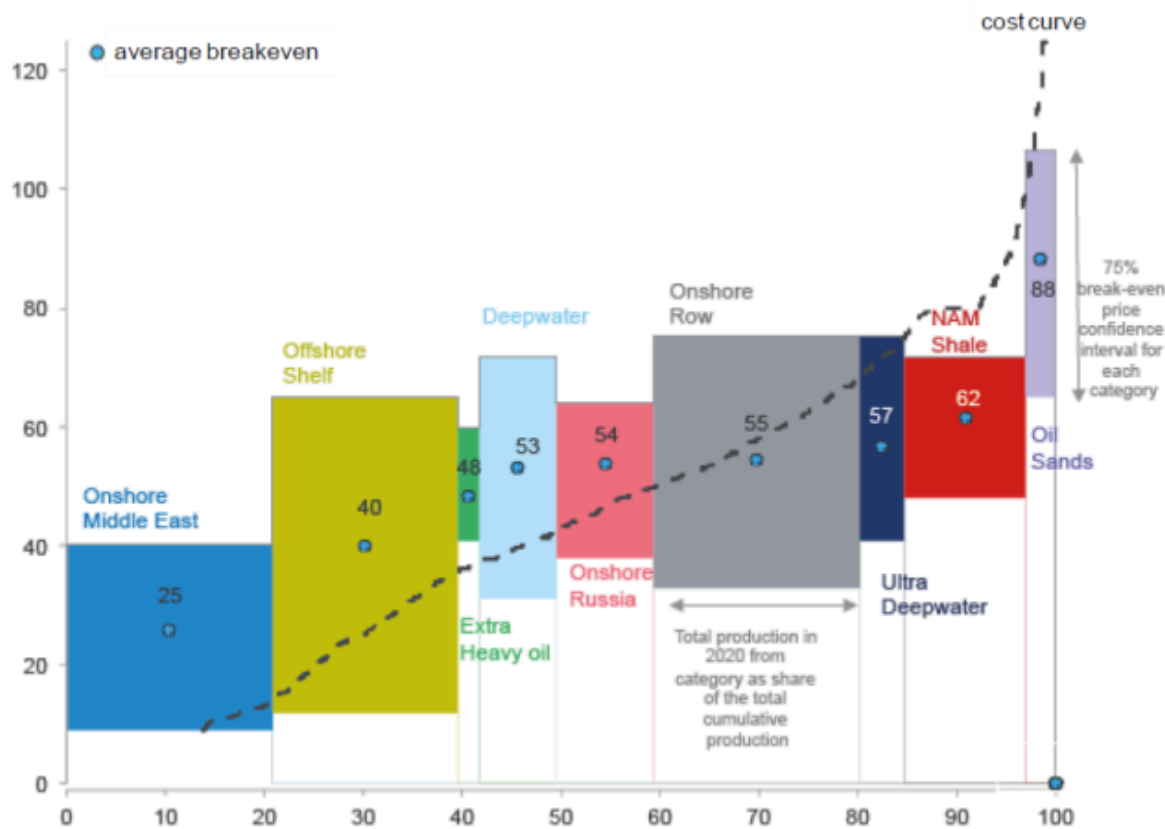
# DYNAMICS OF INTRA-OPEC COMPETITION



## OPEC CHALLENGES

1. Rise of shale production - higher prices will encourage shale to rebound
2. GCC production response - nobody willing to cut production
3. Return of Iran
4. Growing Iraq output

## RISE OF SHALE PRODUCTION



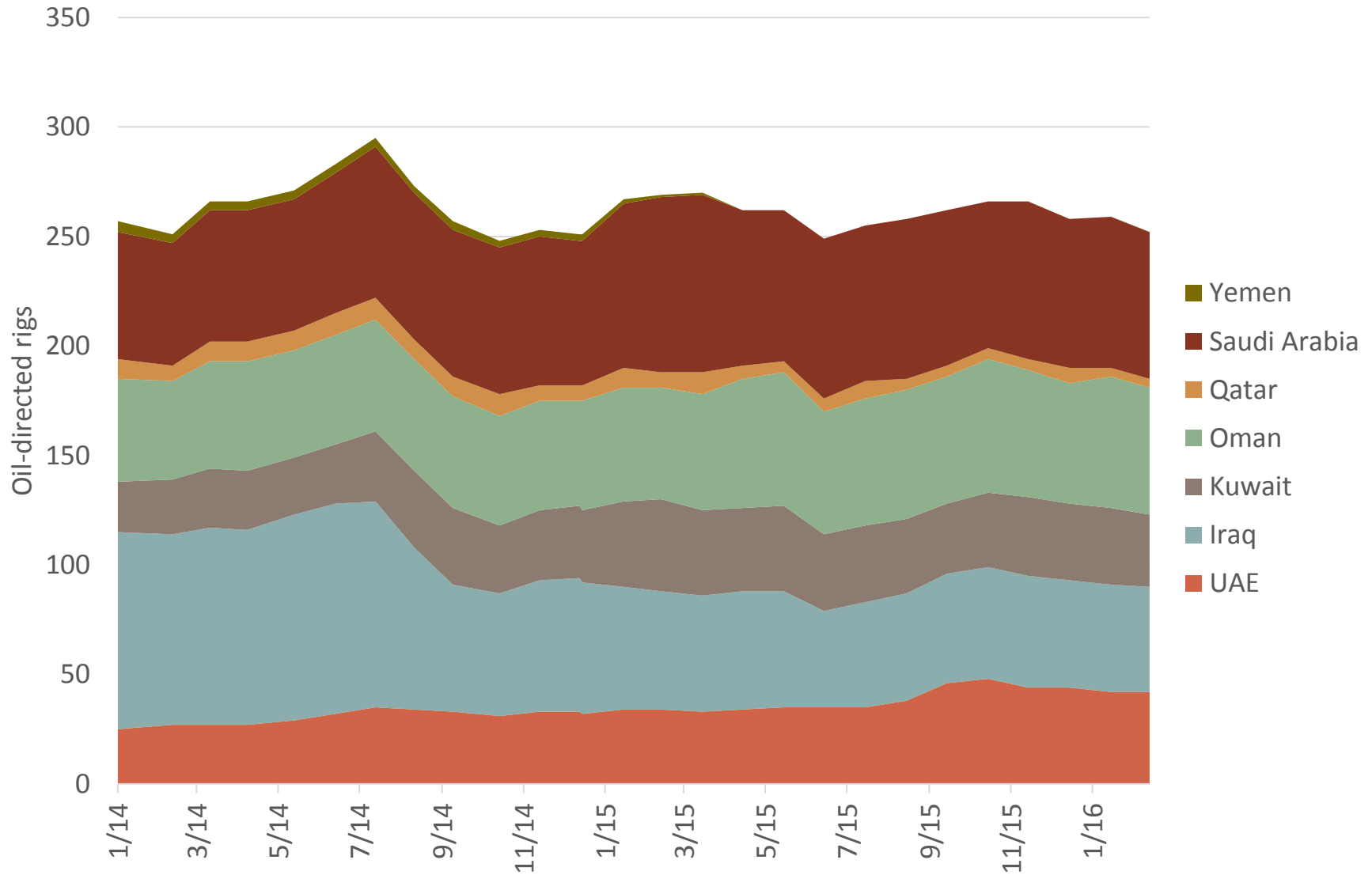
- As long as crude oil prices are around the breakeven range of US shale oil, then US oil production growth will be slow.
- Production will likely decline over the long term, which in turn will have a positive impact on oil prices.





## VIEW ON OIL FROM OIL EXPORTING NATIONS

# CORE MIDDLE EAST OIL DRILLING REMAINS STEADY

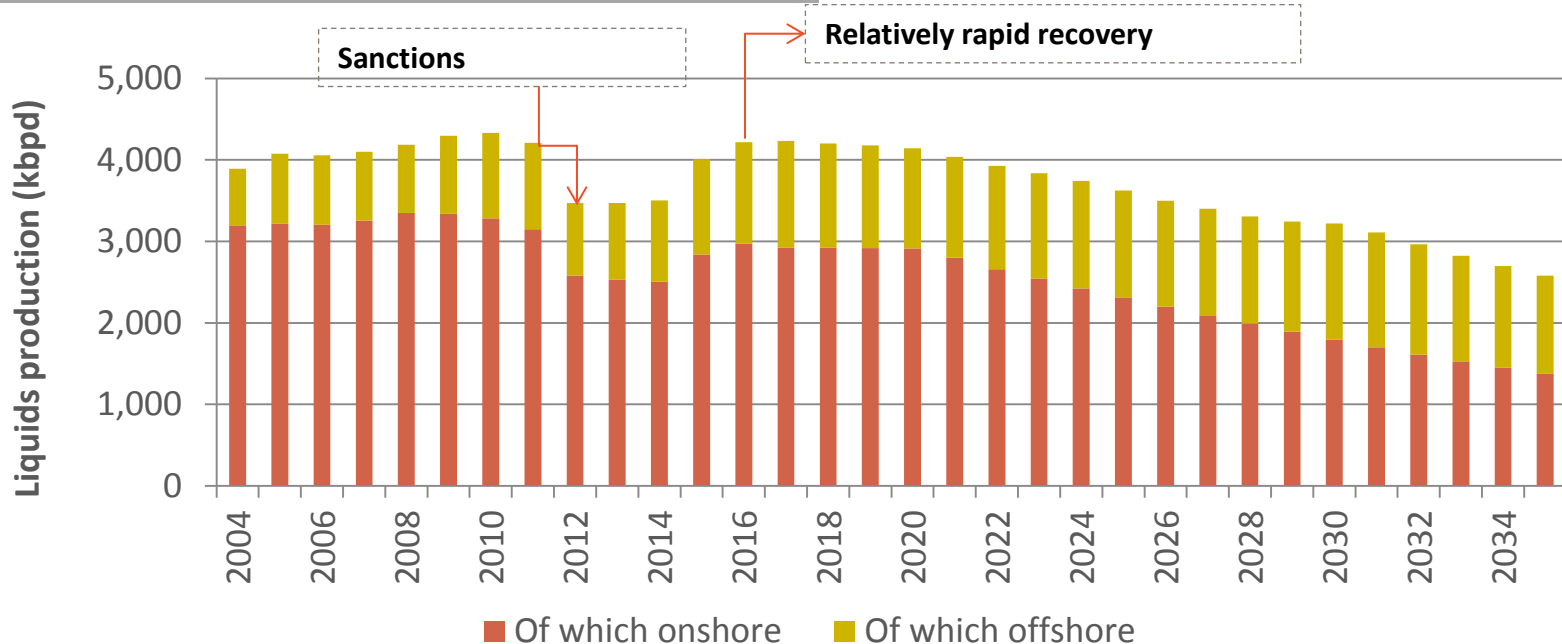


Source: Baker Hughes; OPEC

## ENERGY SUMMARY

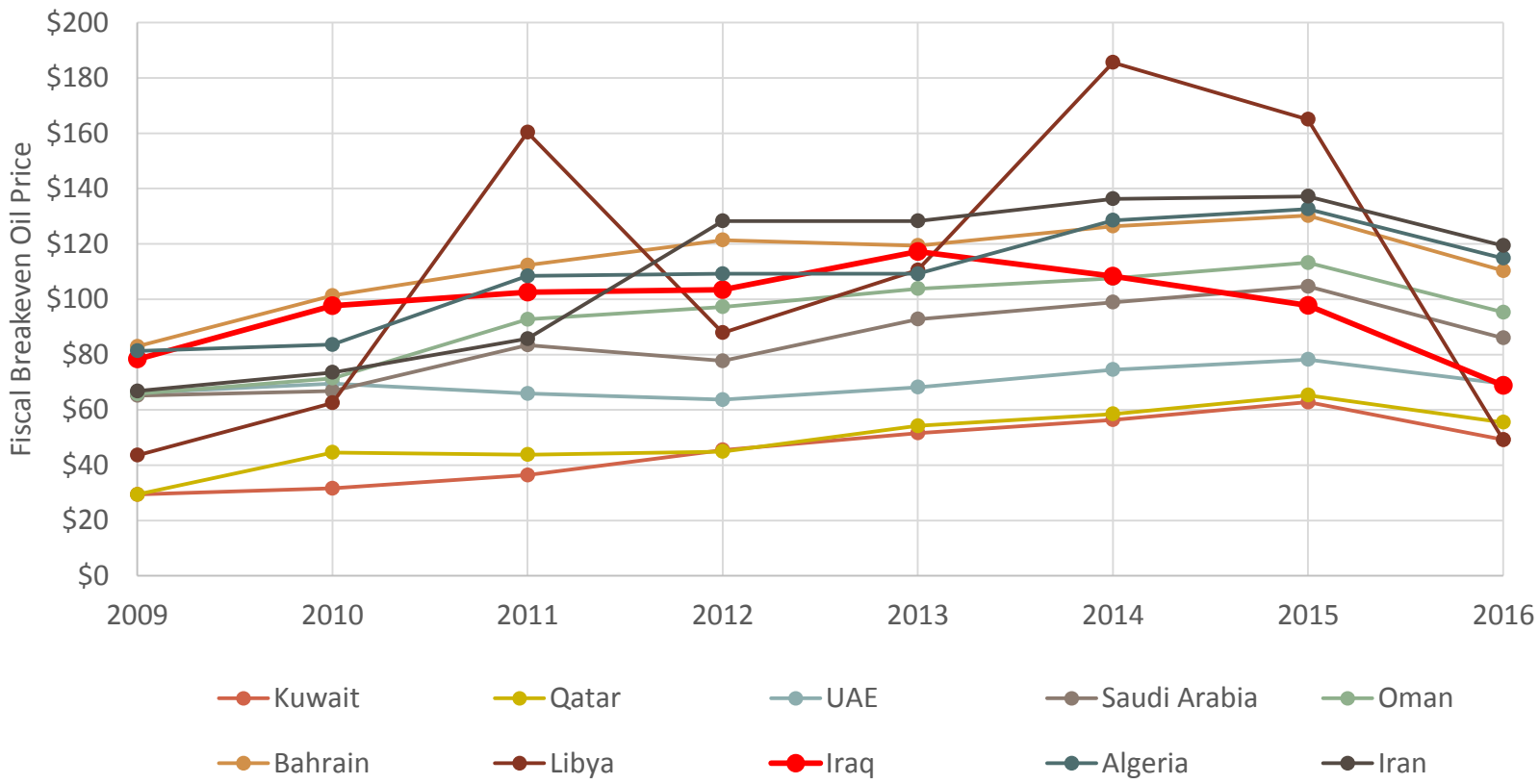
- Iran's new upstream investment contract gets government approval
- Many other sanctions unrelated to the nuclear accord remain in effect
- Production of 3.814 Mb/d in February 2017 compared with 2.944 Mb/d in January 2016
- Several MOUs with international energy companies (Shell, Saipem, Wintershall, Total...)
- Iran to start gas pipeline exports to Basra, Iraq (25 million cubic meters/day)
- Oman and Iran finalise gas pipeline route
- Strengthening energy ties with India and other Asian countries

## OIL PRODUCTION



BREAKEVEN OIL PRICE AND PRICE DECLINES

MENA Oil Exporters



- Middle Eastern countries have the lowest price at \$25 per barrel

## LIKELY RESPONSES TO LOWER PRICES

1. Budget cuts – ‘white elephant’ projects
2. Drawing down foreign assets
3. Payment delays
4. Domestic & foreign debt issuance
5. Subsidy cuts
6. Privatisation of non-core assets
7. Taxation (introduction of 5% VAT in 2018)



## UNLIKELY RESPONSES

1. Cuts to security/defence spending
2. Cuts to planned oil & gas capacity expansion
3. Currency devaluation
4. Privatisation of ‘crown jewel’ or strategic assets (but see Aramco!)

## RESPONSE DEPENDS ON POSITION

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE	Iran	Iraq
Fiscal reserves	●	●	●	●	●	●	●	●
Budget breakeven	●	●	●	●	●	●	●	●
Revenue diversification	●	●	●	●	●	●	●	●
Subsidy reform	●	●	●	●	●	●	●	●
Economic diversification	●	●	●	●	●	●	●	●
Oil sector maturity	●	●	●	●	●	●	●	●

### 1. UAE

- Diesel unsubsidised for some years
- Gasoline prices raised to world market levels in June 2015; adjusted monthly
- Electricity, water price rises in Dubai, Abu Dhabi

### 2. Saudi Arabia: Saudi Arabia cuts electricity, fuel, gas subsidies in Dec. 2015

### 3. Qatar: hiked utility prices; Jan 14, Woqod announced a 30% hike in gas prices, causing unleaded petrol to reach \$0.36/litre

### 4. Iran

- December 2010 reform largely eliminated subsidies for gasoline, diesel, natural gas, electricity, water
- Compensated by cash payments
- Little political opposition; largely successful at first
- But now undermined by falling value of rial; domestic inflation; non-payment of bills; government deficit

### 5. Bahrain, Oman: Increases in natural gas prices to industry

- Oman cut fuel subsidy in 2016 - 68.7% opposed the move

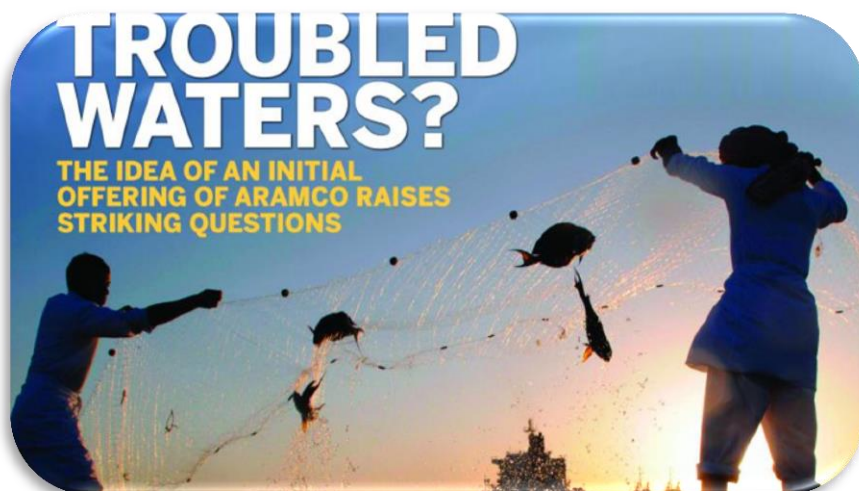
### 6. Yemen: disastrous, hasty price increases led to collapse of the regime

### 7. Kuwait: Diesel, kerosene price rises introduced – then withdrawn; Ministry of Finance proposed slashing fuel and electricity subsidies - expected to face stiff opposition in parliament

### 8. The others: Iraq, Algeria, Libya....?

## ARAMCO IPO

- Idea floated by Prince Mohammed bin Salman
- Several trillion \$ value? Probably not
  - Listing up to 5% of stock within the next year
  - Official value ~\$2 trillion; our estimate (with tax cut) ~\$1.4 trillion
- Many questions on valuation, listing location, disclosure (reserves) and politics
- Part of driving economic reform
  - Diversification & growth, more than just revenues



- **Global oil & gas competition**
  - Resource abundance
  - Market rebalancing?
  - Political obstacles
  - OPEC
- **Global economic shifts**
  - The 'pivot to Asia'
- **Middle East response**
  - Economic challenges and reform
  - Threats to stability
  - New opportunities



## CONTACT DETAILS

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