



MIDDLE EAST ENERGY SITUATION AND OUTLOOK

IRAQ ENERGY FORUM 2017

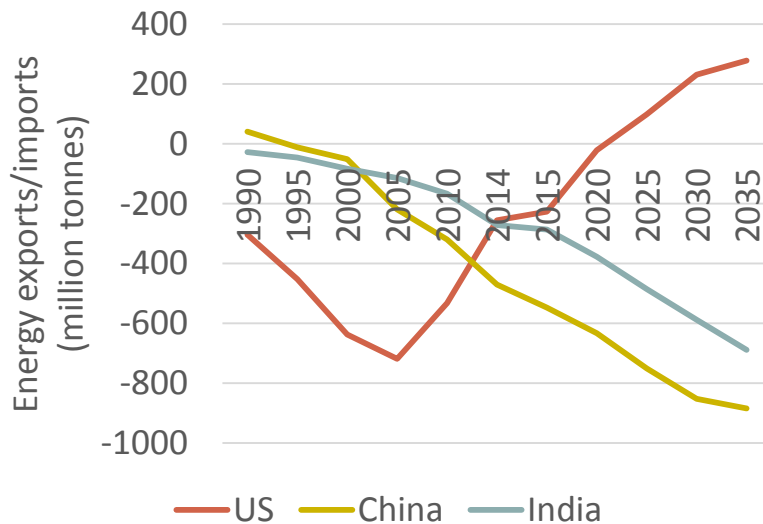


OVERVIEW OF GLOBAL ENERGY MARKETS

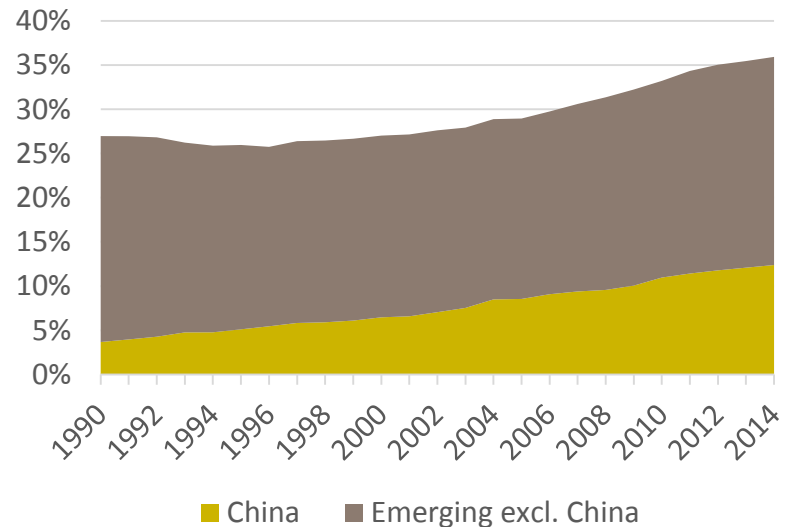
SHIFTING DEMAND: NEW ORTHODOXIES

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

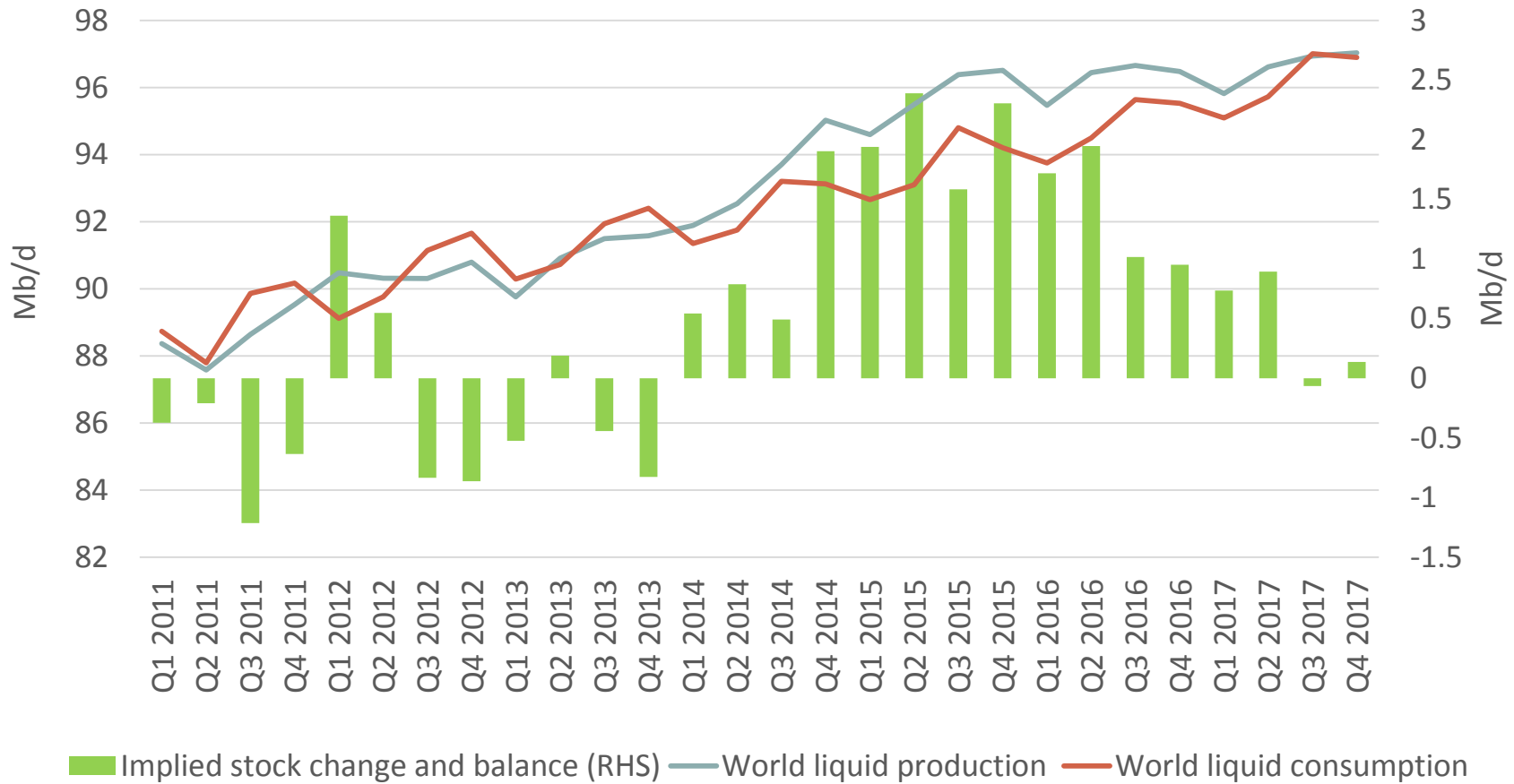
US TO BECOME ENERGY EXPORTER



SHARE OF GLOBAL DEMAND TO EMERGING MARKETS

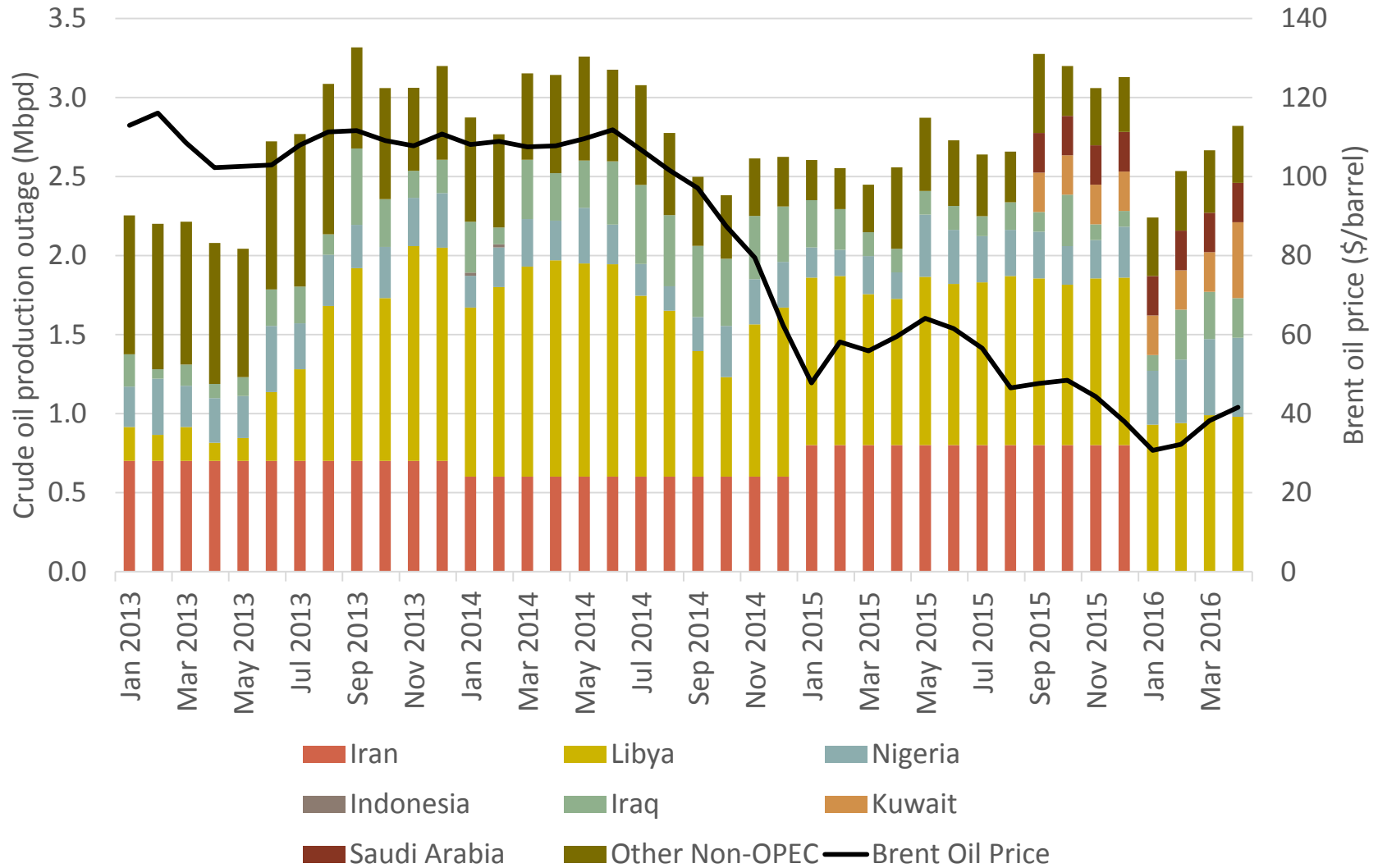


WORLD LIQUID FUELS PRODUCTION AND CONSUMPTION BALANCE



- 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?

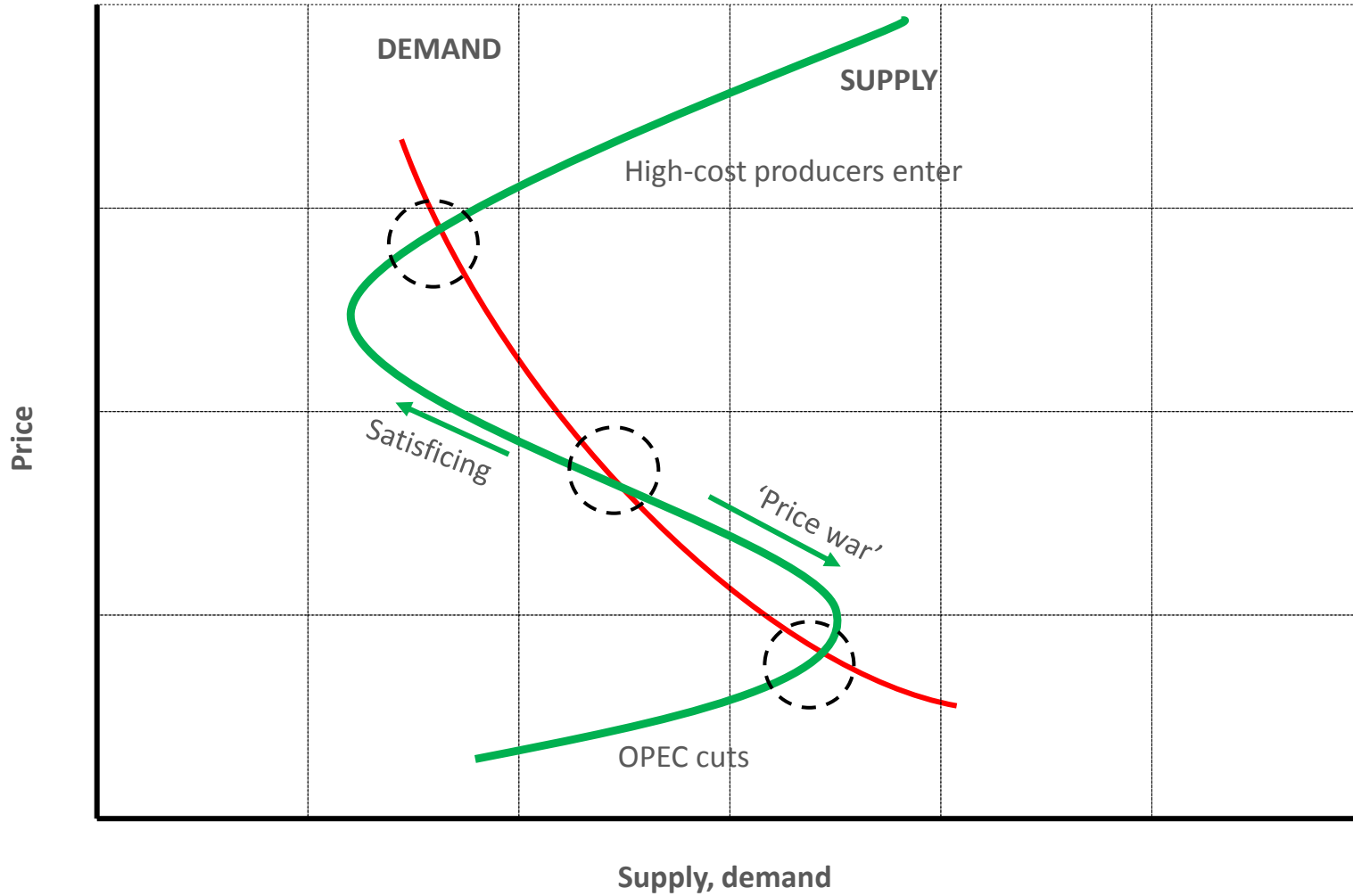
CONTINUING HIGH LEVEL OF SUPPLY DISRUPTION





OPEC DEBATE AND POLICIES

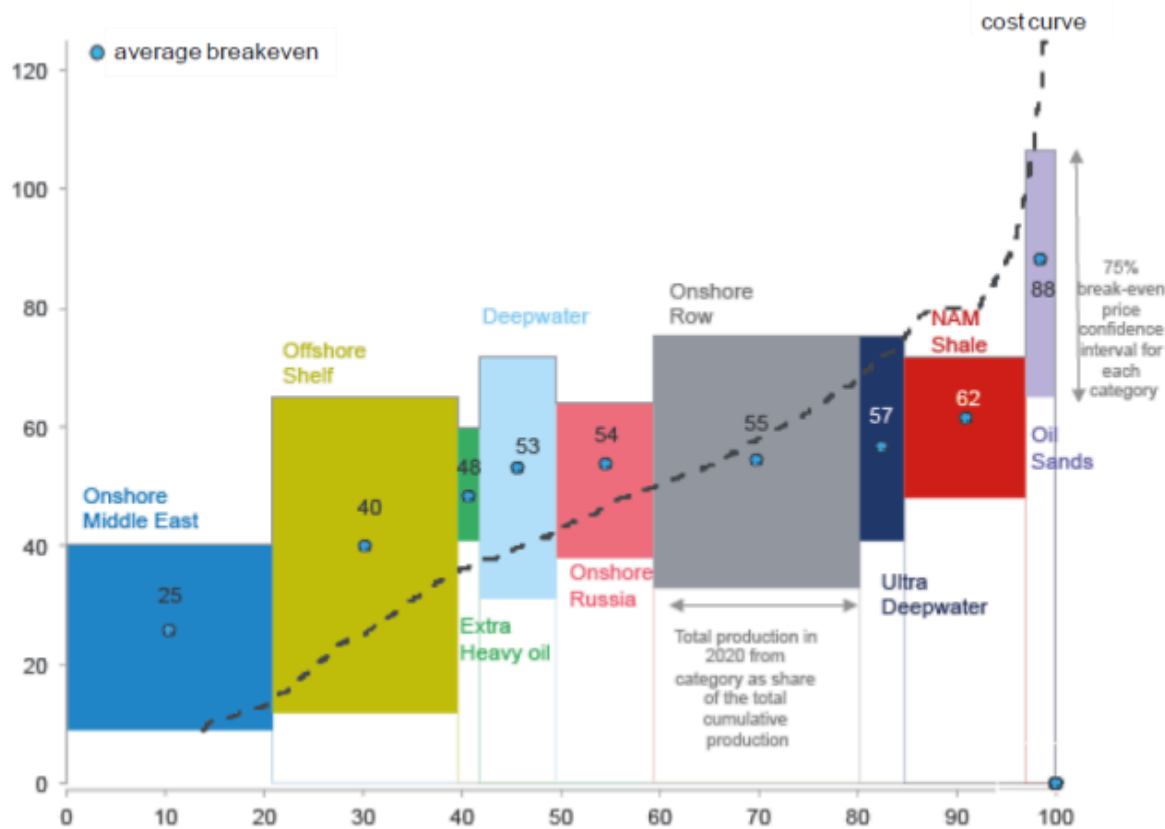
DYNAMICS OF INTRA-OPEC COMPETITION



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

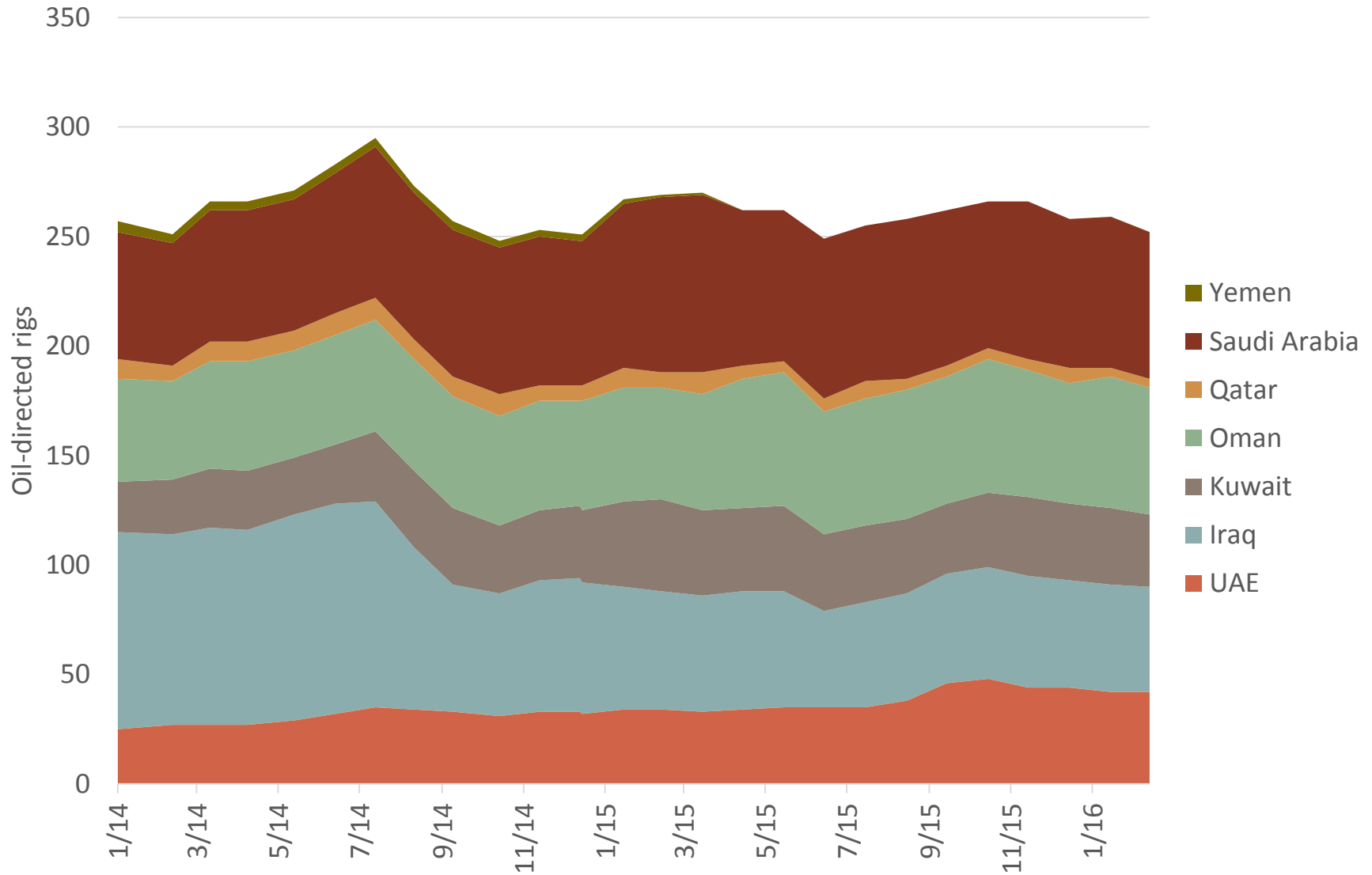


- As long as crude oil prices are around the breakeven range of US shale oil, then US oil production growth will be slow.
- Production will likely decline over the long term, which in turn will have a positive impact on oil prices.



VIEW ON OIL FROM OIL EXPORTING NATIONS

CORE MIDDLE EAST OIL DRILLING REMAINS STEADY

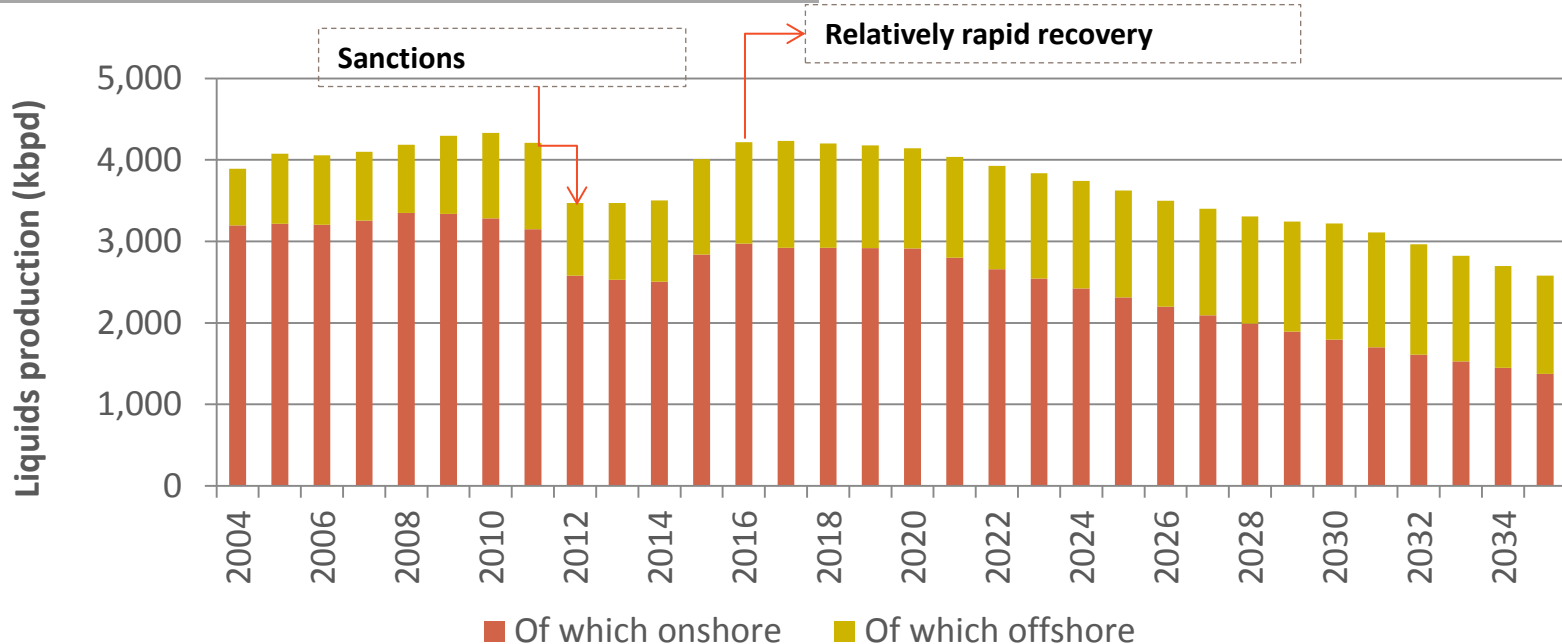


Source: Baker Hughes; OPEC

ENERGY SUMMARY

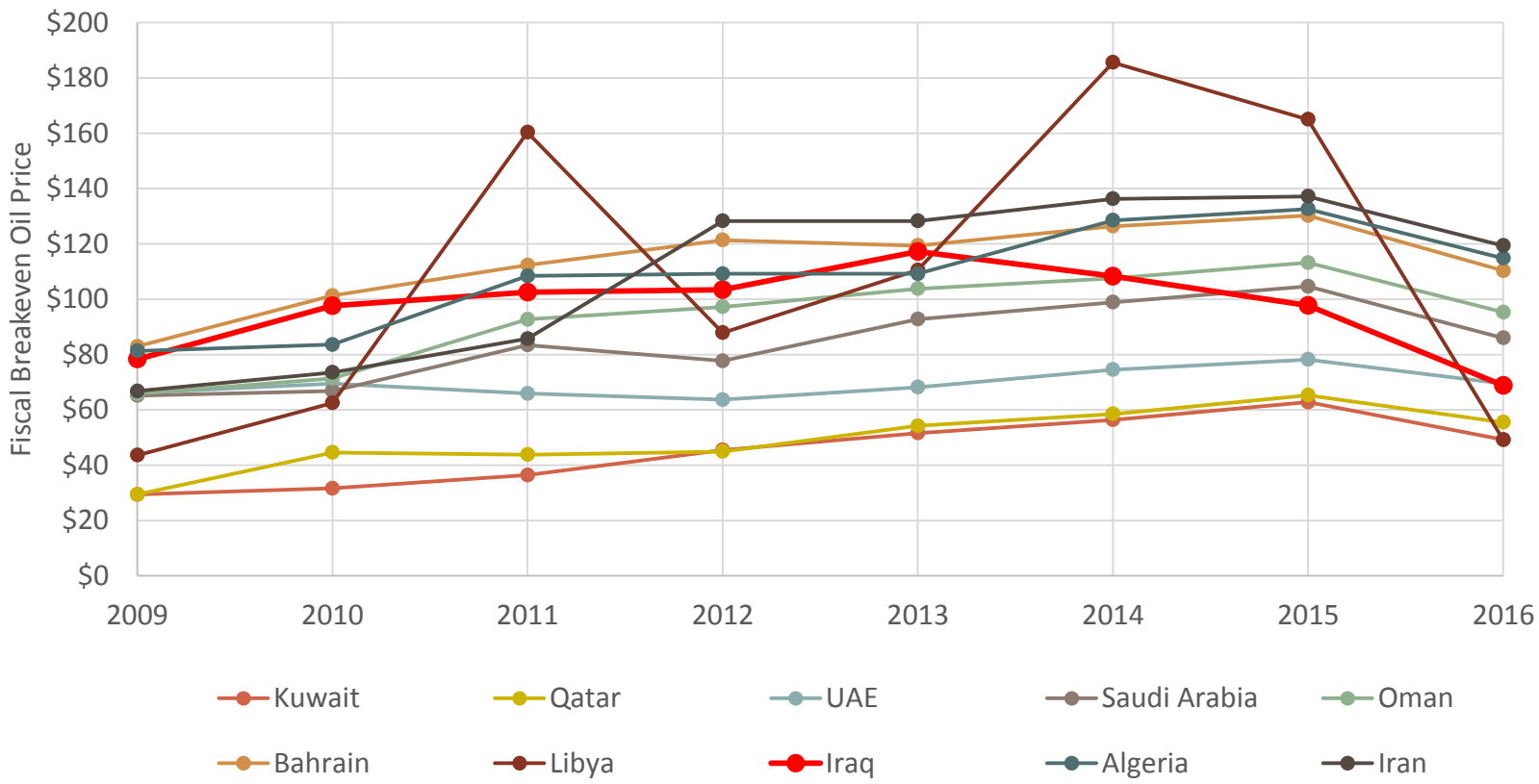
- Iran's new upstream investment contract gets government approval
- Many other sanctions unrelated to the nuclear accord remain in effect
- Production of 3.814 Mb/d in February 2017 compared with 2.944 Mb/d in January 2016
- Several MOUs with international energy companies (Shell, Saipem, Wintershall, 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

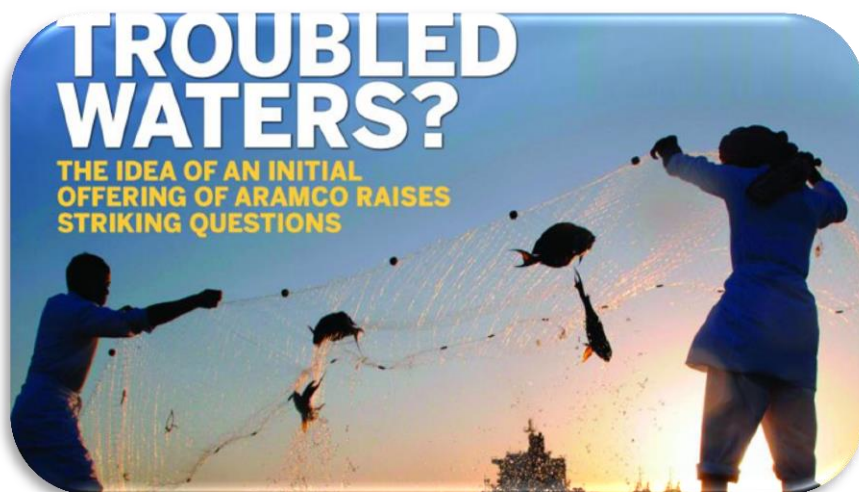
6. Yemen: disastrous, hasty price increases led to collapse of the regime

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

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