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ADNOC deal a sign of confidence during a tough time for oil and gas industry. Cover story by Robin Mills.

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**Authored by** Robin Mills, Maryam Salman, Maryem El Farsaoui

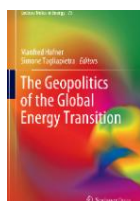
## INSIDE: MIDDLE EAST ENERGY REVIEW

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Qamar Energy, headquartered in Dubai, is the leading regionally-based energy consultancy on the Middle East and North Africa (MENA).

The QAMAR NEWSLETTER is a monthly publication that provides critical appraisal and focussed assessments of the month's energy developments across the MENA region

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***A Fine Balance: The Geopolitics of the Global Energy Transition in MENA, by Robin Mills***

# ADNOC DEAL A SIGN OF CONFIDENCE DURING A TOUGH TIME FOR OIL AND GAS INDUSTRY

Robin Mills • A version of this article appeared in *The National*, Jun. '23 • **COVER STORY**



ADNOC has recently racked up an interesting list of large and innovative financial transactions. That announced today is the biggest yet: \$10.1 billion from a consortium of international investors for the 20-year lease of 49 per cent of its gas pipeline unit. This is an important sign of confidence during a tough time for the energy industry.

November 2017 saw ADNOC receive \$3bn from a bond issue for the Abu Dhabi Crude Oil Pipeline, the strategic export route from Habshan to Fujairah on the east coast. In December 2017, it raised Dh3.1 billion from the initial public offering of 10 per cent of fuel retail arm ADNOC distribution on the Abu Dhabi exchange. In October 2018, US oil services firm Baker Hughes acquired a 5 per cent stake in ADNOC Drilling for \$550 million.

In January 2019, the state oil firm agreed to sell 35 per cent of its refining unit to OMV and Eni for \$5.8 billion, and that July it established a trading joint venture with these companies. Also in July, it received about \$5 billion for a 49 per cent share in its oil pipelines subsidiary from Singaporean sovereign wealth fund GIC, US private equity groups KKR and BlackRock, and the Abu Dhabi Retirement Pensions and Benefit Fund. Saudi Aramco, of course, carried out an initial public offering of 2 per cent of its shares in December, raising \$29.4bn. But otherwise, ADNOC's slew of deals is bigger than any other national oil company's, and it is much more varied.

The deals differ in detail, but the general aim is to free up capital from ADNOC's non-core or supporting businesses to reinvest in more strategic projects, while retaining control and long-term ownership. Preferable here are relatively simple businesses such as the pipelines, where the future cashflows can be quite easily isolated and valued.

Exposure to the rigours of the market and international partners should improve competitiveness and the understanding of

where commercial value is generated. And in the case of companies such as Eni and Baker Hughes, the strategic partner should bring skills and new market access.

The latest transaction has an interesting cast: Global Infrastructure Partners of the US, Ontario Teachers' Pension Plan Board and Brookfield Asset Management from Canada, GIC, NH Investment and Securities from South Korea, and Snam, the Italian infrastructure firm formerly owned by Eni. With the exception of Snam and GIP, they are generalist financial investors but four of the consortium have a particular focus on infrastructure. They are attracted by steady, long-term returns. This is particularly important for pension funds, who have to match long-term liabilities in a world of near-zero interest rates.

They are quite different from the international oil companies who acquired positions in Abu Dhabi's oil and gas production as legacy concessions were restructured between 2015 and 2018. Those featured a wide cast of industry specialists, American, European, Russian, Indian, Chinese, Japanese and South Korean. This brought expertise in international technology and operations, helped diversify the emirate's political relationships, and built bridges to key future customers for its hydrocarbon exports.

The gas pipeline business, by contrast, is entirely a domestic affair. It moves gas and natural gas liquids (derived from processing raw gas) from offshore and onshore production sites to processing sites, consumers and the offshore Das Island liquified natural gas export facility. The partners will be paid a tariff based on the volumes transported, so they are not exposed to volatile oil and gas prices. However, they do have to rely on robust flows of gas through the pipelines. National demand has probably dipped during the pandemic and the OPEC+ oil production cuts. The emirate is diversifying its power generation

by adding nuclear and solar to its gas-fired stations. On the other hand, ADNOC has ambitious production growth plans from “sour” (hydrogen sulphide-bearing), unconventional and other reservoirs. New industries at the petrochemical and refining centre of Ruwais in Al Dhafra region and the industrial hub at Kizad should create extra demand. ADNOC’s master plan aims to help make the UAE self-sufficient in gas. Additional opportunities could materialise in exporting to neighbours. Gas, a clean-burning and relatively low-carbon fuel, has a key part in most major petroleum companies’ strategies. A company such as Snam could be a valuable assistant in future-proofing the emirate’s gas infrastructure by improving efficiency, tightening up on leakage of the powerful greenhouse gas methane, and innovating on zero-carbon gases such as hydrogen.

Closing such a big deal amid the coronavirus pandemic without major delays is a welcome achievement for ADNOC. It is a vote of confidence in the country’s stability and financial robustness. The capital thus released can be used by ADNOC or its shareholder for more strategic or diversified investments. At a time when other Middle Eastern countries are struggling to move privatisation programmes forward, this transaction offers some encouragement.

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## HOW CAN MENA SURVIVE COVID-19, OIL MARKET VOLATILITY & CLIMATE CHANGE?

Robin Mills • *A version of this article appeared in The National, Jun. 01, '20*

The arteries of Middle East and North African economies pulse with oil and gas. But to survive and evolve beyond the triple crises of coronavirus, oil market volatility and climate change, the region needs a new anatomy. Three new commodities can do that – electricity, hydrogen and carbon – but not simply by cloning the traditional hydrocarbon system.

The challenges of Mena countries are well-known. For some, great resources of oil and gas have driven economic growth for decades, but for other countries, they have not. Even the well-run states face wild oscillations in revenues, upsetting budgeting and long-term planning. The Covid-19 crisis has led oil prices to plunge, while hammering sectors relied on for diversification, such as tourism. Energy-intensive industries such as petrochemicals, fertilisers, aluminium and steel have been success stories in several regional countries, but the price of their products is also correlated to oil. They are heavy emitters of greenhouse gases, and neither they nor the oil industry employ many people. The region has struggled to build sophisticated manufacturing or technology businesses.

In the longer-term, the rise of non-hydrocarbon technologies, such as electric vehicles and renewables, threaten to erode the demand and price for oil and gas. This is further encouraged by global climate change policy, with Europe in particular, likely to spend heavily post-virus on a green stimulus. However, the Mena region has important advantages for a sustainable economic future: abundant unused land, intense sunlight, still large remaining resources of low-cost hydrocarbons, big underground geological reservoirs, and a central geography.

This is where the three key products of electricity, hydrogen and carbon come in. A key part of tackling climate change is widespread electrification – of homes, industrial processes, and transport through battery vehicles. Dubai, Abu Dhabi and Saudi

Arabia continue to set world record low solar prices. Versatile, clean hydrogen can fuel long-distance transport such as ships and perhaps planes; it can substitute natural gas and coal in home heating and industry; and can be used to store surplus electricity for re-use.

It can be made from natural gas, with the resulting carbon dioxide captured to avoid contributing to climate change, yielding so-called “blue hydrogen”. Or, it can be made by splitting water with electrolysis using zero-carbon electricity, namely “green hydrogen”. The end product is identical; the names just identify the method of production. Finally, carbon dioxide (CO<sub>2</sub>) is the undesirable end-product of burning coal, oil and gas, and the main contributor in the atmosphere to global warming.

However, with carbon capture and storage, CO<sub>2</sub> can be locked away safely for millions of years underground in the same geological reservoirs that hold the Mena region’s hydrocarbons. It can be used for enhanced oil recovery, as ADNOC does with CO<sub>2</sub> from the Emirates Steel plant in its Bab and Rumaitha fields.

An increasing number of technology firms are looking at making polymers, cement, ceramics, synthetic fuels, food and other materials from captured CO<sub>2</sub>, though this faces cost and thermodynamic hurdles. CO<sub>2</sub> can also be taken directly from ambient air, as US oil firm Occidental is working on for enhanced oil recovery. However, a Mena economy based on electrons, hydrogen and carbon will not resemble the old model, where oil and gas are extracted cheaply and exported worldwide at much higher prices.

Mena region solar power is very low-cost, but Europe and South Asia have their own renewable resources, and transmitting electricity over long distances is expensive and often politically fraught. Spain’s and Morocco’s grids are interconnected, while undersea connections are planned to link Tunisia to Italy, and Egypt to Cyprus and on to Greece. Gulf countries could look east, to Pakistan and India as markets. This helps in balancing variable renewable power, but its profits will not underpin an economy. Because of its low density, hydrogen is also expensive to transport. Germany and Japan both have hydrogen strategies based on a mix of imported and home-generated supply. But whether blue or green, Mena region hydrogen production needs major investment and technological advances, as well as a complex commercial set-up, to arrive in markets at a competitive price.

So, new Mena energy economies needs three features. The first is greater intra-regional electricity trade and connectivity, to maximise the cost advantage and reliability of its renewable energy. The second is selective progress on exporting power and hydrogen, and perhaps importing excess CO<sub>2</sub> for disposal or offering carbon-neutral offsets to other countries. The third should be the production of decarbonised materials. Instead of the tough task of bringing electrons or hydrogen over thousands of kilometres to Europe or Japan, such areas can meet their carbon-neutral ambitions by importing materials. Most obviously, this includes steel, aluminium, cement, plastics, fertilisers and zero-carbon fuels.

There are other, more sophisticated options. For instance, Saudi Aramco has been introducing non-metallic materials that can replace steel in piping. Graphene, made of carbon, is the world’s strongest, thinnest and most conductive material, used in electronics, cars, aerospace and many other applications.



Interestingly, the Financial Times recently reported on two start-ups, Finland's Solar Foods and California's Air Protein, which use atmospheric carbon dioxide and hydrogen from renewable energy to generate protein that could replace soy and chicken. Deep Branch Biotech, from the UK's University of Nottingham, hopes to make synthetic feed for fish-farming.

These are the kind of industries that build on the region's existing competitive advantages to deliver the magic combination of employment, diversification, technological sophistication, food security, non-oil exports and sustainability. Now is the time for some bold and imaginative invention and investment.

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## COVID-19 HAS MADE THE IMPORTANCE OF CHINA'S ENERGY MARKETS CLEARER

Robin Mills • *A version of this article appeared in The National, May 25, '20*

China's National People's Congress, which was scheduled for March but delayed by the coronavirus, opened on Friday for a week and is expected to announce the direction of policy for the year. The country is facing two major shocks: the pandemic, and the escalating trade and political confrontation with the US. By far the world's largest energy consumer and importer, China's decisions will have a huge impact on its suppliers and the environment.

The economy is facing its worst year since Deng Xiaoping, who led China after the death of chairman Mao Zedong, began reforms in the late 1970s. After output dropped 6.8 per cent in the first quarter, Premier Li Keqiang avoided setting a quantitative target for growth this year, given the continuing uncertainties. The stimulus package he announced is so far less aggressive than expected, and smaller than that tabled after the 2008 global financial crisis, indicating government concerns about escalating debt. Oil prices, which had been mounting a comeback, dipped 4 per cent on the lack of strong Chinese action.

Instead of iron and concrete, bricks and mortar, the new stimulus focuses more on digital infrastructure, data centres, artificial intelligence and the "Internet of Things". The energy and transport sections concentrate on advanced areas such as ultra-high voltage electricity transmission and more high-speed rail. However, the announcement avoids a specific target for energy efficiency improvement. The priority seems clear: economic recovery without excessive financial strain. Environmental gains will be pursued where this can be done cheaply. This stimulus probably will not resemble that of 2009, weighted towards construction and heavy industry, but it will not be China's Green New Deal either.

China does have many opportunities for greener growth. With gas at record low prices and in surplus, it can accelerate again its replacement of coal in home heating and industry. A major reform came in December, when it formed a national gas pipeline company, which should give smaller suppliers more access to markets. A more electrified economy should need new generation from gas, nuclear and – especially – renewables, along with grid extensions. China is trying to make its domestic solar photovoltaic market self-sustaining, without subsidies.

Plans from the Communist Party's central committee to develop the western region mention wind, solar, and long-distance electricity transmission to the populous east. However, they put more emphasis on new mines and transportation routes for coal. On the international stage, president Xi Jinping's signature Belt and Road Initiative has been criticised for building too much coal and environmentally destructive hydroelectric projects. It faces further challenges as many of the partner countries will struggle to repay project debt because of the pandemic. Ideas for a more open and greener BRI, heralded last April, have yet to show many concrete results. China's State Grid Corporation, the world's largest utility, has pioneered long-distance ultra-high voltage transmission, and has ambitious plans to create continent-spanning interconnections.

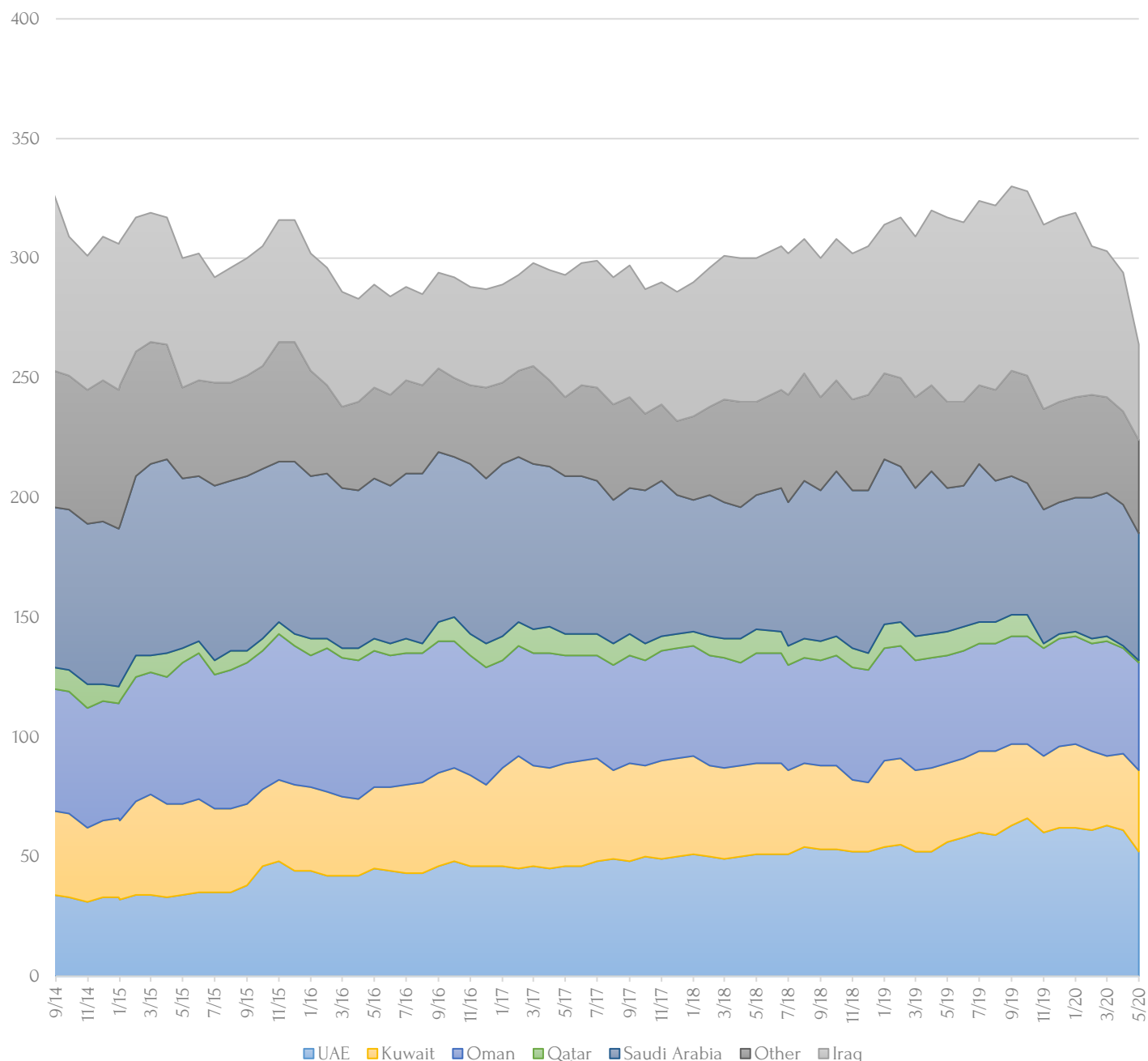
These face many practical and political problems. But the country's international energy approach includes dominating manufacturing in new and emerging industries, such as solar panels and electric vehicles, and setting the rules of the game. In this, it has moved ahead of America, which has denigrated multilateral institutions, focused on exporting bulk commodities instead of high-tech goods, and turned towards crudely mercantile managed trade. Under Beijing's phase one trade deal with Washington, it committed to increase purchases of US energy by \$19 billion (Dh70bn) in 2020 and \$34bn in 2021. This was already not feasible before the pandemic. Afterwards, it has become triply so because of the collapse and partial recovery in China's own energy demand, the slump in oil and gas prices and drying US oil exports as America's high-cost shale production falls. As hostility between the two powers grows, it is even less likely that Beijing will rely for most of its energy needs on the US rather than on long-term reliable partners in Russia, central Asia and the Arabian Gulf.

The Covid-19 pandemic has made the centrality of China to energy markets even clearer. Though hit hardest at first, it is now one of the few bright spots for oil demand, vindicating the focus of the main Gulf national oil companies on it over the past few years. This may eventually present Middle Eastern states with some tough choices. The US unsuccessfully tried to pressure European countries into not buying Chinese giant Huawei's 5G network technology, over security fears. It has asked Israel to review a Hong Kong company's bid to construct a desalination plant.

China has increasingly invested in Middle Eastern energy assets in recent years, while US companies have stepped back. Its state companies are collectively the leading player in oil production in Iraq, it is the only remaining paying customer for Iranian crude and shares in one of Saudi Arabia's largest refineries. Jinko Solar built the Noor Abu Dhabi photovoltaic plant and Harbin Electric is a partner in the construction of Dubai's Hassyan coal station. Other Chinese companies have taken stakes in several of ADNOC's oil concessions since 2014. Such investments are vital in cementing trade links and will be even more welcome in a post-pandemic Middle East when cash will be short.

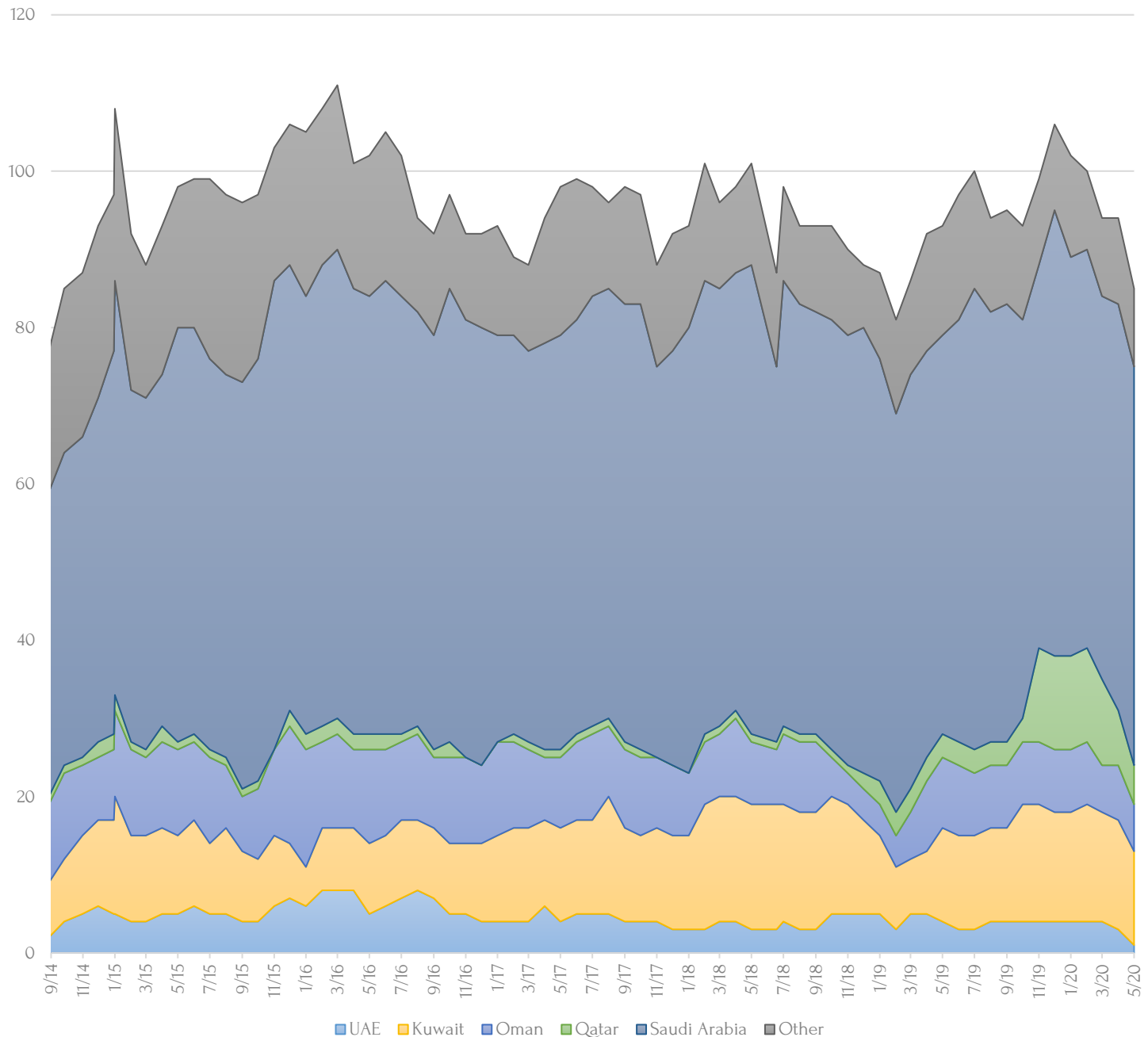
However, the US will be wary if it thinks Beijing is growing too influential in the Middle East, if financially troubled countries look to China for bailouts or if particular projects trigger security warnings. The direction of China's post-pandemic energy economy, at home and abroad, is crucial. Solid growth with a greener turn would be very welcome. States need to watch where the congress points and understand how they can safely deepen their engagement.

## RIG COUNT SNAPSHOT: OIL



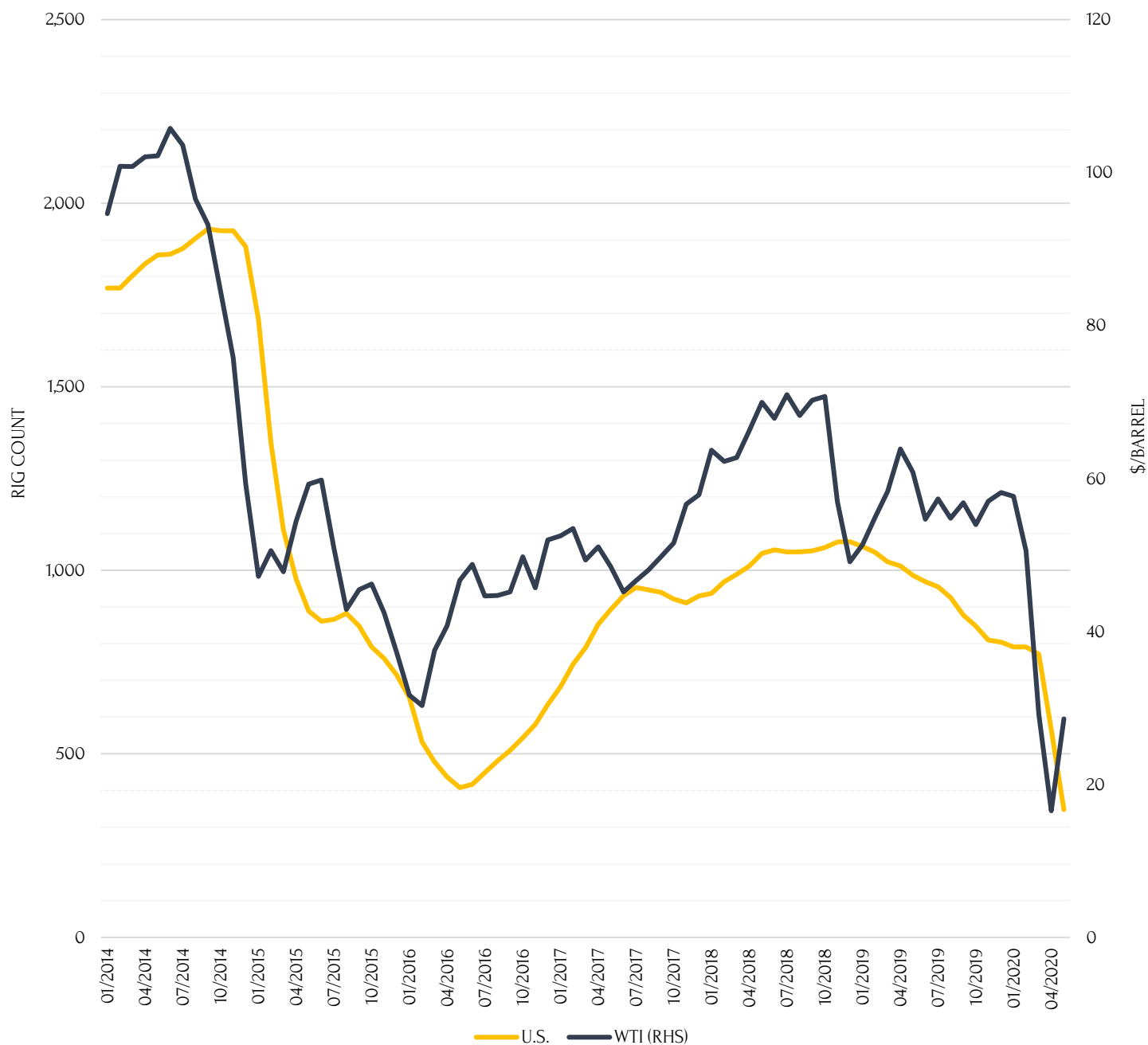
- The Middle East's overall oil rig count in May decreased sharply by -30 excluding Iran due to the OPEC+ agreement.
- Iran's rig count is not included by Baker Hughes; OPEC estimates total (oil and gas) rig count in Iran at 157 in 2018, remaining the same till December 2019, which is doubtful, due to falling production and exports in the face of sanctions and CoVid-19.
- Iraq's rig count decreased by -18 in May to reach 40, the lowest since February 2017. Rig count will fall further as BP cuts an additional 10% from its 1.5 Mbpd Rumaila, Lukoil cuts an extra 50 kbpd from West Qurna-2 (after May's 70 kbpd cut) and Exxon an additional 70 kbpd from West Qurna-1, as the country tries to comply with the extended 9.7 Mbpd OPEC+ cuts.
- The UAE's rig count decreased by -9 to stand at 52 in May, after it increased to 63 in March and 61 in April due to the failure of the previous OPEC+ deal. The downward trend will continue as production decreased to an average 2.464 Mbpd in the first two weeks of June, with output cuts from Murban and Upper Zakum by 15%, and Umm Lulu and Das by 5% expected to last till end-June.
- Kuwait's May rig count increased by +2 to reach 34, despite production falling to 2.19 Mbpd. This figure is set to decrease further as Kuwait and Saudi Arabia agreed to halt production from the Neutral Zone in June, after agreeing to additional voluntary cuts of 80 kbpd and 1 Mbpd respectively. PNZ output will resume in July.
- Saudi Arabia's May rig count decreased by -6 to stand at 53, with output falling to 8.48 Mbpd. Production is expected to fall further to 7.5 Mbpd in June due to the additional voluntary 1 Mbpd cut.

## RIG COUNT SNAPSHOT: GAS



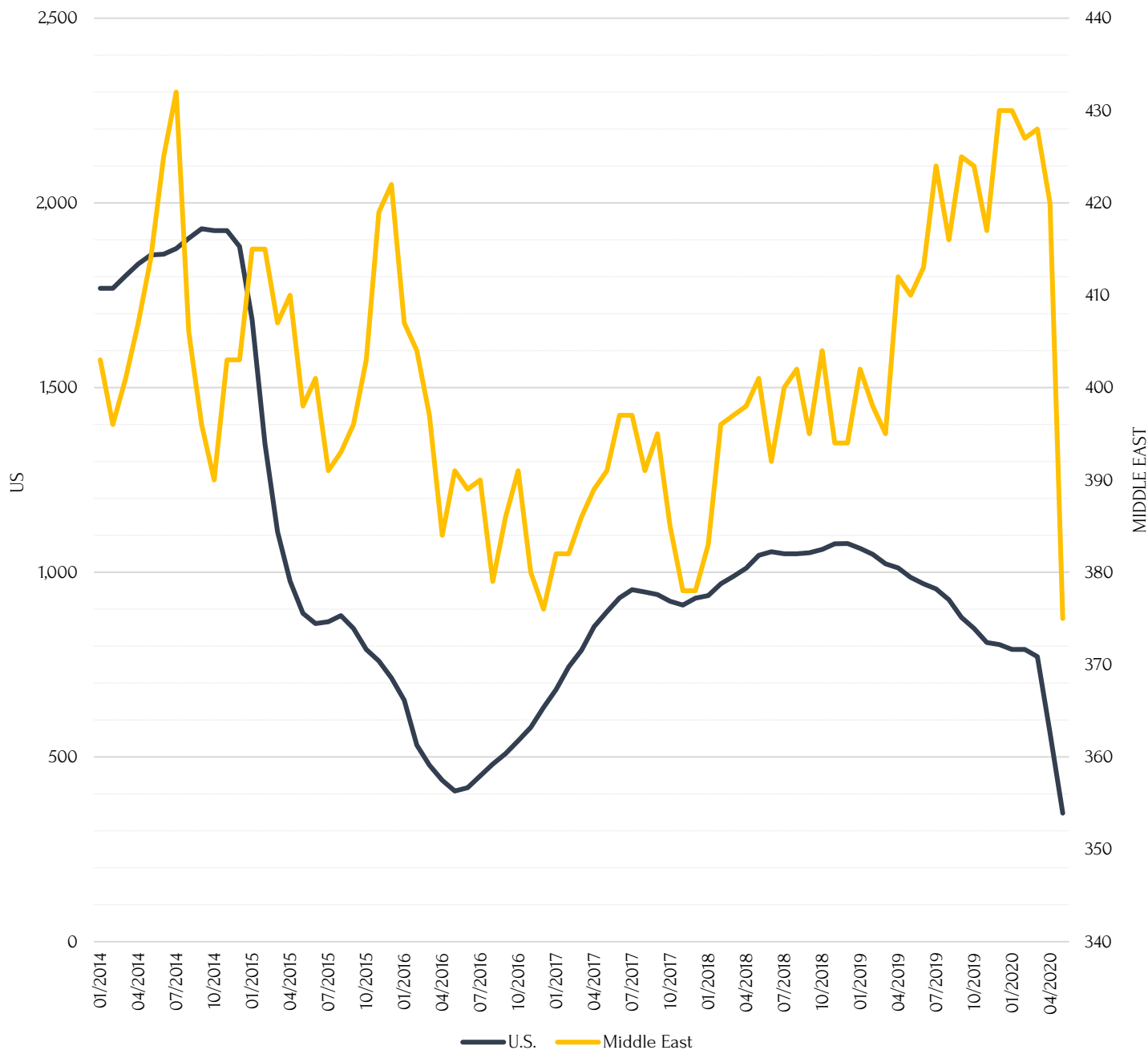
- The Middle East's overall gas rig count fell by -9 in May to reach 85, down -9 from April's figure (94).
- Oman's May rig count increased by +1, and could increase further with (i) the launch of a 14.16 mcm/d project at Ghazeer in Block 61 by year-end, (ii) the expansion of the 932 km gas pipeline system from 64 mcm/d to 80 mcm/d, (iii) a deal with Total and PTTEP to develop non-associated gas in Block 12 and (iv) Oman LNG and Baker Hughes' EPC agreement to revive a debottlenecking project for three trains, which will increase production by 10% to 15.5 BCM.
- Kuwait's rig count decreased by -2 in May, even as the country targets increased non-associated gas production to meet its gas demand. Kuwait can finally develop its share of the 14.16 mcm/d Dorra gas field (part of which Iran too has laid a claim over) now that its long-standing dispute with Saudi Arabia over the Neutral Zone has ended.
- The UAE's May rig count decreased by -2 to stand at 1, down from its Q1 2020 average of 4, following the cancellation of two EPC contracts worth US\$ 1.65 B for the Dalma Gas Project.
- Qatar's rig count fell by -2 to reach 5 in May due to weak demand and oversupply, but could increase with the signing of a \$19.1 B deal with South Korea to build > 100 ships for its LNG exports till 2027. Production is unlikely to witness major growth in the near-term due to delays in the selections for expansion partnerships for the NFE project.
- Saudi Arabia's rig count decreased by -1 in May to 51. This is expected to fall further after the Kingdom delayed the \$18 B Marjan and Berri expansion project by 6 months as well as the \$110 B development project of the 5.6 TCM Jafurah gas field due to CoVid-19's economic impact.

## RIGS VERSUS OIL PRICES: US RIGS & WTI



- US rig count for June fell to an all-time low of 266 as of June 19, a y-o-y drop of 684 rigs from June 2019.
- The major fall in rig count is at the Permian Basin, where rigs have fallen by -5 as of June 19 to 132, down ~70% from June 2019's figure (439), even as the OPEC+ agreement has helped shore up prices and demand somewhat. The fall is a result of expenditure cuts by high-cost producers due to rising debts and pressure for shareholder returns. Operating costs in the Permian Basin have not reduced, even though it has better economics than other basins. The fall in number of rigs reveals higher productivity per rig and fracking crew, but also the need for higher prices to encourage more capital investment.
- The EIA revised US crude production to average 11.6 Mbpd in 2020 due to Covid-19, down 0.7 Mbpd from 2019's production at 12.3 Mbpd.

## RIG COUNT: US & MIDDLE EAST



- The US' offshore rig count decreased by -2 to 11 in June, mainly as producers started significantly cutting their capital budget due to falling crude prices, driving oil rigs to reach their lowest recorded weekly cut. The decline in onshore drilling is set to accelerate in Q2 2020 as continued low prices limit companies' capital budgets, forcing them to reduce drilling activity.
- Total Middle East rig count fell by -45 at 375 in May, as major MENA producers cut their production substantially (Saudi Arabia's output decreased to 8.48 Mbpd) in line with the OPEC+ agreement.



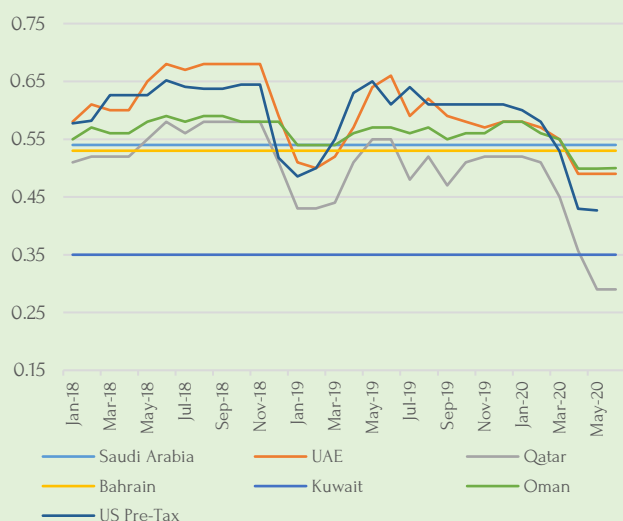
# FUEL PRICES & SUBSIDY REFORMS

June 2020

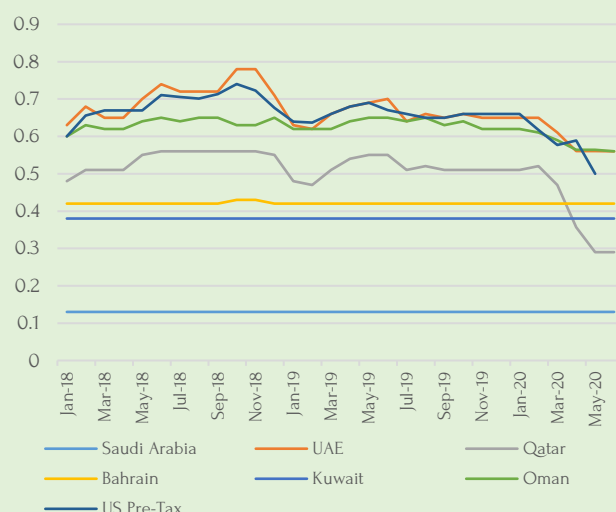
- In the UAE, gasoline and diesel June prices remained steady at \$0.49 and \$0.56 per litre respectively, with diesel recording its lowest price since October 2017, 20% down year-on-year from June 2019's \$0.70.
- In Qatar, June prices for gasoline and diesel fell both to \$0.29 per litre, a massive 47.27% y-o-y drop for both.
- In Oman, the price of M95 and diesel in June stands at \$0.50 and \$0.56 per litre respectively, with a slight 0.2% increase in M95.
- In Kuwait, the Parliament's Financial and Economic committee has approved the cancellation of the decision enforced in September 2016 to raise fuel prices to 'reduce financial burdens on citizens.' Its gasoline prices remain the lowest in the GCC.
- Similarly, in Bahrain the Council of Representatives urged the government to rethink its fuel price hike just a day after it was approved, finding the change 'too sudden'. In May 2018, the High Administrative Appeals Court dismissed the complaint, allowing the Ministry of Oil & Gas to raise fuel prices from September 2018 but this decision hasn't come into force yet.

The following charts represent the prices of gasoline 95 and diesel (\$/litre) till June 2020 in the GCC countries.

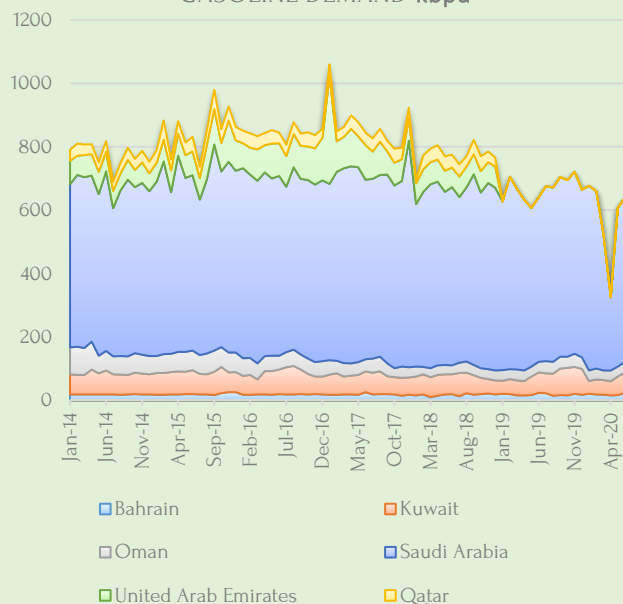
GASOLINE PRICES \$ Litre



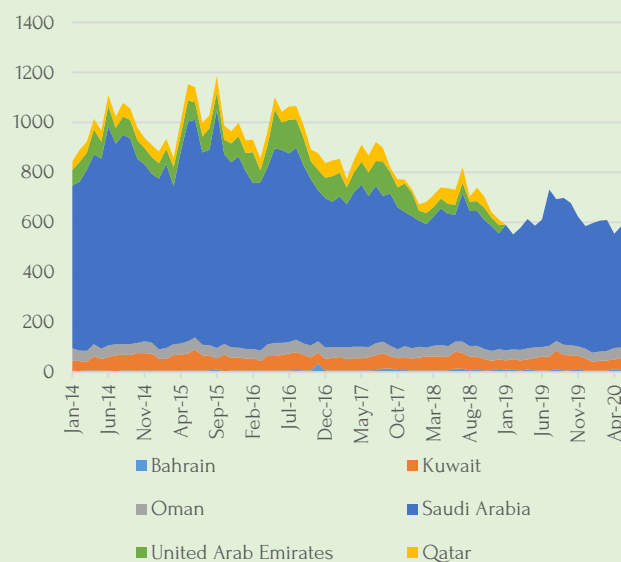
DIESEL PRICES \$ Litre



GASOLINE DEMAND kbpd



DIESEL DEMAND kbpd



*Note: JODI UAE and Qatar gasoline and diesel figures are unavailable for 2019 and 2020.*

# ARABIA MONITOR ENERGY:

A Collaboration Between  
Arabia Monitor & Qamar Energy



## ARABIA MONITOR ENERGY

Oil and gas tensions in the Middle East continue to influence the volatility of the world's energy markets. The Arabia Monitor Energy, a novel collaborative effort by Qamar Energy and Arabia Monitor, combines macroeconomics, geopolitics and energy intelligence to explain what the region's energy geo-economics mean for business.

## WHAT SETS IT APART?

### 1. INSIDE OPEC

Focussed assessment of the month's OPEC developments, policy advancements and strategies.

### 2. NOC & IOC ANALYSES

Examination of factors affecting NOC and IOC policies, and their impact on regional diversification schemes.

### 3. SPOTLIGHT THIS MONTH

Targeted reading of the geopolitical, macroeconomic and energy landscape of a MENA country utilising our specialised energy intel.

### 4. SCENARIOS TO WATCH

Detailed forecast of global oil developments and their impact on the risks and opportunities for MENA's oil production.

### 5. STRATEGIC IMPLICATIONS

Concise summary of major oil trends and their effect on investment strategies under bearish, bullish, and wobble scenarios.

### 6. OUTLOOK FOR THE YEAR

Cohesive outlook of the oil production, gas production, renewable energy projects, and geopolitics of key MENA countries.



## WHO BENEFITS?

### ENERGY TRADERS

- What factors will contribute to oil and gas price fluctuations?
- What is the outlook for oil and gas pricing?
- What is the outlook for OPEC's production and export strategy?
- How are NOCs adapting their oil marketing strategies?

### INVESTMENT AND RISK ANALYSIS

- What are the operational risks and investment opportunities in MENA?
- How do economics, politics, government policy changes, production and export bottlenecks contribute to risk mitigation?

### UPSTREAM FIRMS

- What are the chief economic, political and fiscal regime factors driving/limiting upstream investment decisions and progress?
- What are the oil supply outlooks for the countries by project?

### DOWNSTREAM FIRMS

- What are the demand challenges, patterns, and trends for oil and oil products?

### NATIONAL OIL COMPANIES

- What are future oil and gas pricing trends?
- What developments will intensify or weaken demand?
- What are IOCs' incentives and drawbacks in operating in the country?

### ALTERNATIVE / RENEWABLE ENERGY ORGANISATIONS

- What are the challenges to renewable energy targets?
- What is the progress of major renewable energy projects?
- Are there opportunities for more entrants?

## THE DELIVERABLES

### 8 MONTHLIES

- Oil Price Scorecard
- Headline Developments
- Spotlight this Month
- Scenarios to Watch
- Projects in the News
- Macro Dashboard for Oil Exporters/Importers
- Outlook for the year

### 4 QUARTERLIES

- MENA Map as per Political Grouping
- Map of New Licensing Rounds
- Political & Regional Security Issues
- Oil & Gas Prices Outlook
- Global Barriers to Oil & Gas Production
- Deep Dive into OPEC & NOPEC
- MENA Energy Investments
- MENA Energy Fiscal System
- MENA Energy Upstream Bidding map
- MENA Economic Outlook
- Probability Scorecard for Bearish & Bullish Oil Supply/Demand
- Investor Implication Scenarios (Under 3 Oil Price Dynamics)

### For Further Information, Contact Us On:

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Arabia Monitor  
Economic Research and Strategy



# QAMAR SUPPLY CHAIN CONSULTANCY



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MAXIMISING REVENUE

INCREASING SUPPLY NETWORK AGILITY

DEBOTTLENECKING SHORTCOMINGS

# OPEC WATCH

AVERAGE CRUDE PRODUCTION FOR MAY 2020

# 24.19 Mbpd

## - 6.3 Mbpd

From April 2020

**Non-OPEC Oil Supply\***

# 65.69 Mbpd

## -3.74 Mbpd

from April '20

\*including OPEC NGLs

**Global Crude Output**

89.89 Mbpd

- 10.04 Mbpd

From April '20

## LATEST ORGANISATIONAL CHANGES

- At the 11<sup>th</sup> OPEC and Non-OPEC Ministerial meeting on June 6, the alliance agreed to extend the 9.7 Mbpd till end-July, with additional voluntary cuts by Saudi Arabia, the UAE, and Kuwait, ceasing by end-June. Cuts will be reduced to 7.7 Mbpd from August till end-2020 and to 5.8 Mbpd from January 2021 to April 2022.
- The historic OPEC+ deal is backed by the US and the G20 countries who agreed to reduce production based on "market forces", although no concrete pledges were made.
- The new OPEC+ cuts are based on October 2018 production levels, except Saudi Arabia and Russia, who each have a baseline of 11 Mbpd.

## OPEC+ COMPLIANCE

- OPEC+ overall compliance reached 85% in May, reducing the coalition's overall production by 8.28 Mbpd, with the largest cuts coming from Saudi Arabia and Russia at 2.5 Mbpd and 2.4 Mbpd respectively, in an attempt to balance the market.
- Russian compliance reached 96% in May, with production decreasing to 8.59 Mbpd from 11.35 Mbpd in April, the highest monthly average output since January 2019 (11.38 Mbpd).
- Iraq's compliance stood at 44% in May as production increased 600 kbpd above the country's cap, making it the largest non-complier of the month.
- Nigeria, the second non-complier, increased its production by 300 kbpd above its quota, reducing its compliance to 31% in May. Although Nigeria vows full compliance by mid-July, this is questionable as the country's economy relies mainly on export revenues, with economic contraction projected at 3.2% in 2020 (worst performance since the 1980s).
- The UAE's May compliance stands at 96% as output decreased to 2.47 Mbpd, 1.7 Mbpd down from April's levels (4.2 Mbpd). Compliance is nearing 100% as output averaged 2.46 Mbpd in June.

## OPEC PRODUCTION

- The Libyan National Army blockade of the 120 kbpd Zawiya refinery, following the shutting-in of all major terminals in January, has diminished output to 70 kbpd in May, which renders plans to boost production to 1.5 Mbpd in 2020 impossible. Output might increase as GNA recovered some territory from LNA end-April.
- Due to political instability, power cuts, US sanctions, the threat of civil disturbances, and plunging oil demand and prices, Venezuela's output in May decreased by 70 kbpd from April's levels to reach 550 kbpd.
- Angola's May production increased to 1.27 Mbpd, 90 kbpd above its cap. Better compliance is expected by July with Angolan crude exports scheduled to fall to 1.18 Mbpd, 70 kbpd below the country's quota.
- Kuwait's production fell to 2.19 Mbpd in May, 960 kbpd down from April's levels (3.15 Mbpd), raising its compliance up to 97%.
- Algeria's May production decreased to 820 kbpd down from April's 1 Mbpd. This is expected to decrease to 816 kbpd by May under the new OPEC+ deal, plunging oil revenues further and risking a new economic turmoil.

## NEXT OPEC MEETING: December 2020 (TBC)

180<sup>th</sup> (Ordinary) Meeting of the OPEC Conference in Vienna, Austria



# KEY MENA ENERGY SCORECARD

JUNE 2020

## QATAR DEVELOPMENTS

QP entered a farm-in agreement with Total to acquire 45% participating interest in the offshore Blocks CI-705 and CI-706 in Côte d'Ivoire; QP also entered into 3 farm-in agreements in Mexico to acquire 30% of Total's interest in the offshore blocks 15, 33 and 34; Qatar signed a \$19.1 B deal with South Korean shipbuilders to construct more than 100 ships for its LNG carrier fleet; QP entered into an agreement to reserve LNG ship construction capacity in China to be utilised for its future LNG carrier fleet requirements till 2027; On June 11, QP announced its decision to integrate Qatar Chemical and Petrochemical Marketing and Distribution Company (Muntajat) into QP to "strengthen its global competitive position" in the downstream sector; QP is moving ahead with the North Field expansion (NFE) project, despite a slump in global energy demand; the overall NFE project aimed to increase capacity from 77 Mtpa to 126 Mtpa is likely to require an investment of more than \$50 B, but approvals could be delayed until 2021.



## FEDERAL IRAQ DEVELOPMENTS

Petrofac secured a further 6-month contract extension with Basra Oil Company for its long-standing Iraq Crude Oil Export Expansion Project (ICOEEP); Iraq awarded China's CPECC a \$203.5 M contract to build a sour gas treatment facility at Majnoon oilfield, expected to be completed in 29 months, and treat 4.39 MCM of sour gas per day; Export revenues were slightly up in May at \$2.09 B, from April's \$1.42 B, at an average price of \$21 per barrel; Overall exports from both Federal Iraq and the KRG fell to 3.634 Mbpd in May, 6% down from April's level; Total exports averaged 3.21 Mbpd in May, down from the 3.43 Mbpd recorded in April. Production is expected to decrease in June and July as the country asks IOCs to make further cuts (10% from Rumaila field, 50 kbpd from West Qurna-2 and 70 kbpd from West Qurna-1) in line with the OPEC+ agreement.



## MENA ENERGY PRICE REFORM

In the UAE, DEWA's new net metering regulations introduced a 2.08 MW cap for rooftop installations and excluded ground-mounted solar projects; Saudi Arabia increased VAT to 15%, while the cost of living allowances were suspended to raise revenues; Meanwhile, the UAE ruled out any plan to increase VAT and has considered temporary suspension till the economy is back on track; Abu Dhabi will offer industrial companies a reduction of 40% on electricity tariffs under its Ghadan-21 Programme to support the private sector in exchange for significant contributions to the economy; the scheme is dependent on companies improving energy efficient practices; the reduction follows the Federal Electricity & Water Authority's decision to slash tariffs by 40% for residents in Northern Emirates in January 2019; Dubai and Sharjah cut utility prices by 10% in March 2020 and FEWA (northern emirates) by 20%; Meanwhile, Egypt's domestic fuel prices decreased (92-octane fuel at \$0.48 in April) under the IMF-backed pricing mechanism.



## MENA NUCLEAR POWER

Saudi Arabia is assessing Umm Huwayd and Khor Duweihin for its first nuclear power plant near the UAE and Qatari borders and has shortlisted Rosatom and KEPCO, among others; Tendering is set for 2020, but will face significant delays due to technical plans, and ongoing negotiations with the US, who insists that it shall provide Saudi Arabia with nuclear technology only if the latter agrees to "intrusive snap inspections" by the IAEA; On March 3, the UAE became the first peaceful nuclear energy operator in the Arab World following fuel assembly loading into unit 1; 3 more units are now closer to completion, with Unit 3 connected to the country's electricity grid on August 05 2019; Overall completion of the plant's 4 units is now over 93% (Unit 1: 100%, Unit 2: 95%, Unit 3: 91%, Unit 4: 82%); Australian Worley to advise Egypt's Nuclear Power Plants Authority on the construction of its 1<sup>st</sup> Nuclear plant at El Dabaa (contract's value not disclosed), while Rosatom will build 4 VVER-1200 reactors and supply nuclear fuel for the entire lifetime of the plant, with operations of 1<sup>st</sup> reactor expected February 2026, 2<sup>nd</sup> reactor by August 2026, 3<sup>rd</sup> by August 2027 and 4<sup>th</sup> by February 2028.



No Change ↔ Very Positive  
Deterioration in the last month ↓ Positive  
Improvement in the last month ↑ Negative  
Very Negative

# KEY MENA ENERGY SCORECARD

JUNE 2020

## MENA ENERGY INFRASTRUCTURE SECURITY

Blockades on significant oil and gas infrastructure continue in Libya, diminishing production to 70 kbpd in May with revenues down by \$6 B; The 300 kbpd El Sharara remains shut-in, following a brief re-opening in April; Meanwhile, force majeure is lifted on (i) El Feel oilfield which will resume production at a reduced rate of 12 kbpd and (ii) the Zawiya refinery to produce fuel for domestic use; Pipeline vandalism, sabotages and theft are on the rise in Nigeria, with a pipeline explosion and leakage in March, leading the Nigerian National Petroleum Corporation (NNPC) to shut down supply, along with an explosion on a pipeline connecting to the Brass Terminal; sabotage at the Trans Forcados pipeline and Nembe Creek trunk line are causing frequent shutdowns, and with the ageing dilapidated infrastructure, production disruptions are expected to increase by 400 kbpd; Nigeria also recently removed fuel subsidies as it struggles with the fall in oil demand and prices, which could instigate new protests.



## ABU DHABI DEVELOPMENTS

ADNOC signed a \$20.7 B energy assets deal with a consortium which will collectively acquire a 49% stake in ADNOC Gas Pipeline Assets, a newly established ADNOC subsidiary, offering lease rights to 38 pipelines covering a total of 982.3 km; ADNOC extended the bid submission deadline for the "feed-to-EPCI" competition for the \$1.5 B Umm Shaif Gas development project till 15 June; ADNOC terminated two EPC contracts worth \$1.65bn awarded for Petrofac and a JV between Petrofac and Sapura Energy for the Dalma Gas development project due to the CoVid-19 crisis; ADNOC is still awaiting a spending decision on the US\$ 20 B Hail & Ghasha development project, after the bid deadline was pushed back to end-May.



## IRAN DEVELOPMENTS

Iran's 2020 exports are expected to average just under 500 kbpd, estimated by the IMF, which is still optimistic given the current surplus in the oil market and fall of oil prices; Q2 2020 exports are estimated at just 140 kbpd; Exports to India fell by 94% in Q1 2020, while exports to China dropped by 61% y-o-y at 70 kbpd, with revenues expected at \$46 B in 2020, less than half of what it earned in 2018; South Pars 11's drilling operations will be carried in the next 12 months as announced by the Ministry of Petroleum; The country plans to expand its oil infrastructure capacity through the construction of a \$1.8bn pipeline connected to the Jask Port; The National Iranian South Oil Company awarded Mapna Group a \$1.3bn 10-year contract for 2 onshore fields' (Parsi and Paranj) improved oil recovery, with production expected to increase from 85 kbpd to 121 kbpd over the next 10 years.



## KUWAIT DEVELOPMENTS

Kuwait halted output from the Neutral Zone's Khafji oilfield in June as to comply with the OPEC+ new cuts, with production from the NZ to resume on July 1 at 80 kbpd, gradually increasing to 100 kbpd after 2 months of production; Chevron meanwhile has restarted production at Wafra, and is expected to reach 145 kbpd after a year; Kuwait's 2020 production capacity target is now likely delayed due to the OPEC+ new cuts; Due to the uncertain political environment of the sector, KOC's efforts to maximise production capacity have been hampered, leading it to downsize its 2020 target to 3.1 Mbpd from the previous target of 3.65 Mbpd; Despite the significant decline in output from 1.68 Mbpd to 1.52 Mbpd at the giant Burgan field, output from its Minagish reservoir increased to 30 kbpd, its highest level since 1983.



No Change ⇄ ● Very Positive  
Deterioration in the last month ⇓ ● Positive  
Improvement in the last month ⇕ ● Negative  
Very Negative ●

# KEY MENA ENERGY SCORECARD

JUNE 2020

## MENA RENEWABLE ENERGY

In Saudi Arabia, German Schmid has successfully created a JV with Nusaned Investment for the development and manufacture of Vanadium Redox Flow Batteries (VRFB) with plans for a 3 GWh factory; Dubai's DEWA introduced restrictions to its net metering scheme, excluding mounted solar projects and setting a 2.08 MW cap for rooftop installations; In Oman, Chinese Arctech Solar produced 575 MW of solar trackers and shipped the major tracker components to the Ibri II solar project; In Oman, the 100 MW Amin PV farm worth \$94 M has kicked off commercial operations supplying power for PDO under a 23-year agreement; Sterling and Wilson Solar Ltd brought online a 125 MW direct current solar park in Oman on behalf of Amin Renewable Energy; In Yemen, China's Trina Solar Co Ltd will provide 6 MW PV modules to Yemeni Al Raebi from its Vertex series; In Jordan, the Arab Petroleum Investment Corporation (APICORP) acquired 20% in the developer of the 117MW Tafila wind farm, consisting of 38 turbines; In Syria, the Public Establishment of Electricity for generation opened bids for the construction of 3 solar PV parks with a combined capacity of 67 MW, while setting August 10, 2020 as the deadline for all three tenders; Morocco and Germany signed an MoU to develop (i) a 100 MW green hydrogen plant in Morocco and (ii) a Power-to-X scheme for the production of green hydrogen; Maroc Bureau will be powering its 2 production sites with rooftop solar panel installations set to cover 70% of the 2 facilities' demand; In Tunisia, bids in a tender for the 70 MW of solar PV projects reached prices as low as \$0.0442 per kWh; Algeria plans to develop Tafouk 1, a 4 GW solar PV project worth \$3.2 B by 2024 in a bid to meet rising domestic demand.

## MEDITERRANEAN GAS COMMERCIALISATION

In Lebanon, Total E&P Liban completed drilling of Byblos well 16/1 on block 4 yielding a negative result; Work at block 9 is likely to be delayed to the 3<sup>rd</sup> or 4<sup>th</sup> quarter due to CoVid-19's impact on IOCs; Sharjah's SNOC awarded Petrofac a \$40 million contract to develop the Moveyeid Gas Storage Surface Facility project, expected to be commissioned by end-2020 and wells drilled by 2023; In Egypt, United Oil and Gas stated that El Salmiyah-5 well's tests exceeded pre-drill estimates by 120m with a further 18 MMscf/d gas; In Egypt, the Ministry of Petroleum added two gas wells to the Mediterranean production (new "Zohr-17" well is added to the Zohr gas field while "Baltim Southwest-7" well is expected to increase the Nile Delta region's gas output – their combined capacity is 390 Mcf per day and 1,300 barrels of condensates per day); The competition over the Mediterranean's Leviathan Basin gas resources, estimated at 122 TCF of recoverable gas reserves, has temporarily settled now due to CoVid-19's impact on IOCs, pushing Chevron and Total to cut their capex by 20% each, BP by 25%, ExxonMobil by 30% while Royal Dutch cut its capex by \$5bn; Tensions remain strained between Egypt and Turkey, the latter of whom signed a maritime and military MoU with Libya's GNA, which could also be aimed at gas explorations in the Mediterranean waters; In Algeria, Maire Tecnimont has been awarded a \$400 M EPC agreement for the execution of the Bir Seba Phase II and Mouiat Outlad Messouad Field Development project by Groupment Bir Seba.



No Change ↔ Very Positive  
Deterioration in the last month ↓ Positive  
Improvement in the last month ↑ Negative  
Very Negative

## ABOUT US

Qamar Energy provides leading-edge strategy, commercial and economic consulting across the energy spectrum to governments, international oil companies (IOCs), national oil companies (NOCs), investors, and oil traders.

### ROBIN MILLS • CEO

Robin is an expert on Middle East energy strategy and economics, described by Foreign Policy as "one of the energy world's great minds". He is the author of two books, *The Myth of the Oil Crisis* and *Capturing Carbon*, columnist on energy and environmental issues for Bloomberg and The National, and comments widely on energy issues in the media, including the Financial Times, Foreign Policy, Atlantic, CNN, BBC, Sky News and others. He is a Senior Fellow with the Iraq Energy Institute, and a non-resident fellow at the Columbia Centre for Global Energy Policy. He holds a first-class degree in Geology from the University of Cambridge, and speaks five languages including Farsi and Arabic.



### RECENT & UPCOMING APPEARANCES & TALKS



**The IAEE, KAPSARC, and Khalifa University Joint Workshop:  
"Opportunities for natural gas in the GCC;" 23<sup>rd</sup> June 2020**



**The Benelux Business Council and Netherlands Business Council  
UAE Joint Webinar: "The Oil & Gas Industry and the Economy in  
COVID-19 times;" 14<sup>th</sup> June 2020**



**The Energy Industries Council Webinar: "Middle East Renewables  
Market Update;" 8<sup>th</sup> June 2020**

#### QAMAR NEWSLETTER ARCHIVES

[August 2018](#) • [October 2018](#) • [November 2018](#) • [December 2018](#) •  
[February 2019](#) • [March 2019](#) • [June 2019](#) • [August 2019](#) • [October 2019](#)  
• [January 2020](#) • [February 2020](#) • [March 2020](#) • [May 2020](#)



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