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With the new OPEC+ deal it's the long term that matters. Cover story by Robin Mills.

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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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WITH THE NEW OPEC+ DEAL IT'S THE LONG TERM THAT MATTERS

Robin Mills • *A version of this article appeared in The National, Apr. 12, '20* • **COVER STORY**

The latest OPEC+ deal had almost achieved the near-impossible. For now, an agreement hangs on the knife-edge of Mexican resistance. But despite all the attention on the next month or two, the accord's real importance is in the long term. The proposed steep cut in OPEC+ oil output, encouraged by a vacillating Trump administration, quickly reconciled Russia and Saudi Arabia after their price war began at the end of last month. And it had been advocated not just by famously independent Texas and Alberta, but by the largely oil-importing nations of the G20 in their communique on Friday.

The headline cut of 10 million barrels per day in May actually amounts to 7.4 million bpd on February levels – still an unprecedented reduction. It goes some way towards easing the glut arising from the coronavirus-induced demand collapse that might now have wiped out some 30 million bpd. The US, Canada and other major producers outside OPEC+ have not committed to cuts but they will suffer "rationing by the purse": low oil prices will force some of their fields to shut down. The US might lose three million bpd this year and Canada one million bpd or more.

Returning to co-operation required a change of heart in the Kremlin. Russian President Vladimir Putin's right-hand man, Igor Sechin, the head of state oil giant Rosneft, had argued for striking against US shale oil. But the reality of very low oil prices and awkward access to markets for Russian oil companies and the state budget seems to have sunk in.

Riyadh and Moscow agreed to parity in the deal: each has a notional benchmark of 11 million bpd from which they should cut 2.5 million bpd. But Saudi Arabia was only producing 9.7 million bpd in February; it has benefited from its demonstrated ability to flood the market. The UAE takes more of the burden, being judged on its constrained production in October 2018, not its more recent increase.

Kazakhstan and Brunei were eventually brought on board. But Mexico has so far held out because of president Andres Manuel Lopez Obrador's insistence that national oil company Pemex will increase production, even though with low prices and underinvestment, it clearly won't. Mexico is famously the only sovereign oil producer to hedge most of its output for the year ahead, guaranteeing a minimal level of revenue. However, next year is another matter – and the country badly needs prices to be on the way up by then. If Mexico's position is accepted, other countries – for instance, Malaysia, Kazakhstan, or even OPEC member Nigeria or Iraq – might plead special circumstances for a lower cut.

Then the deal would have to be negotiated all over again, and probably become untenable. Others have escaped by not showing up. Brazil, another big Latin American producer in the G20, has never been part of the OPEC+ alliance, despite President Jair Bolsanaro's flirtation with joining OPEC. Ecuador dropped out of the group but it had struggled to export its crude anyway. Mexico's intransigence is a get-out clause. The rest of OPEC+, in particular Saudi Arabia and Russia, came under US pressure with complaints from legislators from oil-producing states, threatening tariffs, embargoes on US imports of their oil or even the withdrawal of military aid. In light of the Mexican standoff, they can blame any failure on its president.

Still, the deal as it stands has to be viewed sceptically. It only comes into action in May and then is due to be scaled back from July onwards. Russia hardly complied with cuts of 300 000 barrels per day over many months under the last OPEC+ deal, so will it now cut more than two million bpd?
Iraq and Nigeria also did not comply fully. Apart from Oman, the other non-OPEC countries in the previous deal mostly volunteered their natural decline in production. This time, they will have to make actual cuts. Reality will play out more

chaotically as storage in various places fills up. Some countries may find they can't even sell the limited volumes they're allowed. Others may discover that they can export extra amounts and think it best to take their chance while the market exists. Libya, which is not bound by a target, might rebound if the blockade of its oil ports is lifted.

The G20 countries have been asked to fill their emergency storage to soak up some of the excess supply but only some 85 million barrels of space remains in OECD countries, of which 77 million of that in America strategic reserve. So, unless there's a dramatic turnaround in demand, the deal as it stands will just delay filling storage by a month or two. But it will have an important long-term effect: preserving spare capacity. When mature or low-productivity wells and fields are shut in, it may never be economic to restart them. North American shale production will drop off sharply at current prices as the drilling and completion of new wells is unprofitable almost everywhere. As the world economy recovers, this could mean a squeeze.

Shale optimists may think production would bounce back at the right price but it's very unlikely that a consolidated and capital-starved industry will be able to grow again at the pace of recent years. Now, assuming the Mexican hiccup is overcome and the rest of the deal holds together, major producers will retain a lot of spare powder rather than pumping flat-out. The market has paid too much attention to the impossible burden on OEPC+ in the near-term but not enough to the flexibility it regains in the long term.

INVESTING IN ENERGY CAN HELP BUILD A GREENER WORLD POST-DEPRESSION

Robin Mills • *A version of this article appeared in The National, May 4, '20*

The world currently faces four interconnected crises: public health, economic, energy and climate. The number of unemployed Americans has increased to 30 million in the past month because of the coronavirus pandemic, wiping out all the jobs created in the past decade. The European Central Bank's interest rate is at zero per cent and the US Federal Reserve is nearly the same. American oil prices recently went into negative territory. These crazy numbers tell us it is time to focus less on anti-fossil fuel campaigns, and more on massive investment in a clean, new energy economy.

First, of course, we have to control the spread of the coronavirus and, hopefully, develop effective treatments and vaccines. Nothing constructive can happen until then. Once that happens, some countries will face the equivalent of recovering after an economic heart-attack, with mass unemployment, debt and corporate bankruptcies.

The International Monetary Fund said last month that the global economy was set to slide into the deepest recession since the Great Depression of the 1930s. Oil and gas exporters are enduring record low prices. The East Asian manufacturing giants will suffer while important markets in Europe and North America remain partially locked down.

Even before the Great Recession of 2008 to 2009, some economists argued the developed countries had entered a phase of "secular stagnation", with slow growth because technological innovation was running out. After the financial crisis, recovery was slow and patchy, and stored up problems of government debt despite or because of painful austerity, and social and regional inequality. In turn, these have yielded toxic politics, international hostility, trade barriers and populist leaders floundering in face of the virus. That experience cannot be repeated.

During the Great Depression, US President Franklin Roosevelt's New Deal put a priority on infrastructure and energy. The Tennessee Valley Authority, set up in 1933, built dams and hydroelectric power stations through the south-east. The Hoover Dam on the Colorado River, then the world's largest hydroelectric dam, was finished in 1936. The Rural Electrification Administration, established in 1935, took the share of farms with electricity from 10 per cent to 90 per cent by Mr Roosevelt's death in 1945. Before the coronavirus crisis, two New Deal-inspired environmental investment programmes had been proposed - the Green New Deal by some Democratic politicians in the US, and the European Green Deal to make the European Union carbon-neutral by 2050. The Democrats' agenda includes energy efficiency, smart grids, a move towards all renewable power, public transport, high-speed rail and clean manufacturing.

The European plan covers not just energy but also forest management and support to ensure farmers store carbon in soil, revitalise rural areas and revive natural habitats. It also includes carbon tariffs on imports from countries not managing their greenhouse gas emissions. Similar initiatives are crucial, not just in the US and EU, but worldwide. The International Energy Agency estimates greenhouse gas emissions this year will fall by 8 per cent. Probably, 2019 will prove to have been the year in which carbon emissions hit an all-time high. But emissions will first rebound from this year's low level, before falling only slowly – too slowly to arrest the build-up of atmospheric carbon dioxide and hold global warming below 1.5 degrees Celsius. Solar, wind and efficient gas power are now cheaper than coal in most locations.

Nevertheless, coal power will continue to operate unless the funds are there to replace it. Coal mines provide local jobs and fund governments. Climate rhetoric needs to shift. Environmental groups have pushed for laws to ban investment into fossil fuel projects. With Japan expected to join this movement, China is almost the last source of state financing for international coal, while the European Investment Bank's policy, announced in November, effectively prevents funding even gas-fired power plants.

Commercial banks, insurers and equipment suppliers face pressure to withdraw from carbon fuels, with German industrial company Siemens confronting hostility in January over a relatively small contract to supply rail equipment to an Australian coal mine. Yet, divestment campaigners have it exactly the wrong way around. Instead of trying to block fossil fuel investment, they should be removing the barriers to low-carbon energy. If a pension fund or a university divests from fossil fuels, it should commit twice as much to low-carbon technologies. About $330 billion (Dh1.2 trillion) was invested in renewables in 2019. But the International Renewable Energy Agency in Abu Dhabi estimates this has to rise to $737bn annually by 2030 to meet climate targets. Governments do not have to invest all this themselves; they need to create the conditions to encourage private capital. Low interest rates and high unemployment create both the reward and the urgency to act. In April, Shell and Equinor cut their dividends. In Shell's case, this was the first time since the

Second World War. This recognises the unique severity of the Covid-19 crisis. But it also frees up cash for investment in new growth areas such as offshore wind farms, electricity networks, batteries and hydrogen.

The role of governments is still essential. Prices for emitting carbon dioxide need to be imposed where they don't exist and be raised where they do. The state should underwrite fundamental research and selectively pre-invest in areas such as surveys for offshore wind sites. Breakthrough technology needs finance, especially for the first large-scale demonstration projects such as advanced nuclear reactors, hydrogen production and low-carbon steel and cement plants, and new carbon capture systems. Crucial infrastructure such as electric vehicle charging, hydrogen distribution, carbon capture hubs and high-voltage continental super grids needs government to lead. These massive, intricate projects require international co-operation to share the risk, to maximise value and avoid wasteful duplication.

Our quadruple crisis outweighs the Great Depression in suddenness and complexity, but we can still learn from its solutions to build our own green future.

WHY GAS CAN EMERGE FROM COVID-19 AS THE KEY FUTURE HYDROCARBON

Robin Mills • *A version of this article appeared in The National, Apr. 26, '20*

Oil was not the first commodity to hit negative pricing in the current crisis. Gas in Texas went negative in January, and the global gas market was oversupplied even last year. Yet, perhaps, the long-term picture looks better for gas than oil. For gas suppliers 2019 was a tough year. A wave of new production came online, particularly liquefied natural gas (LNG) from the US, Australia and Russia, setting a record for annual increase in capacity: 38.8 million tonnes per year, in a global market of about 437 million tonnes. Another 70.4 million tonnes made final investment decisions last year, promising a further surge in supply.

Demand growth in China, the world's second-largest LNG importer and biggest gas importer overall, rose strongly but more slowly than in 2018. Demand in Japan, the leading LNG importer, fell. Surplus cargoes had to be dumped in Europe, where winter disruptions were feared over deadlocked negotiations between Russia and Ukraine concerning gas transit. But on the last day of the year, a five-year deal was reached, warding off any interruptions. The European winter was the hottest ever recorded, reducing gas demand for heating. Storage entered the winter almost 100 per cent full, and was still 60 per cent full by March, when companies generally begin stocking up again. By then, the coronavirus pandemic was gathering speed, and electricity demand dropping. New York's demand is down 10 per cent, the UK's by 15-19 per cent.

From early March, following the collapse of the OPEC+ deal, oil prices plunged, dragging down the price of LNG in many contracts in Asia, which are typically specified in relation to oil. On Thursday, the Japan-Korea market (JKM), the leading Asian benchmark, fell to a record low $1.938 per million British thermal units, equivalent to about $11 per barrel of oil. As US oil production drops under the stress of low prices, associated gas output is also falling. After a decade of ultra-cheap gas, American prices are now slightly higher than those in both Asia and Europe. The gas glut and virus crisis together have brought about a remarkable convergence of global gas prices, which previously traded at very different levels.

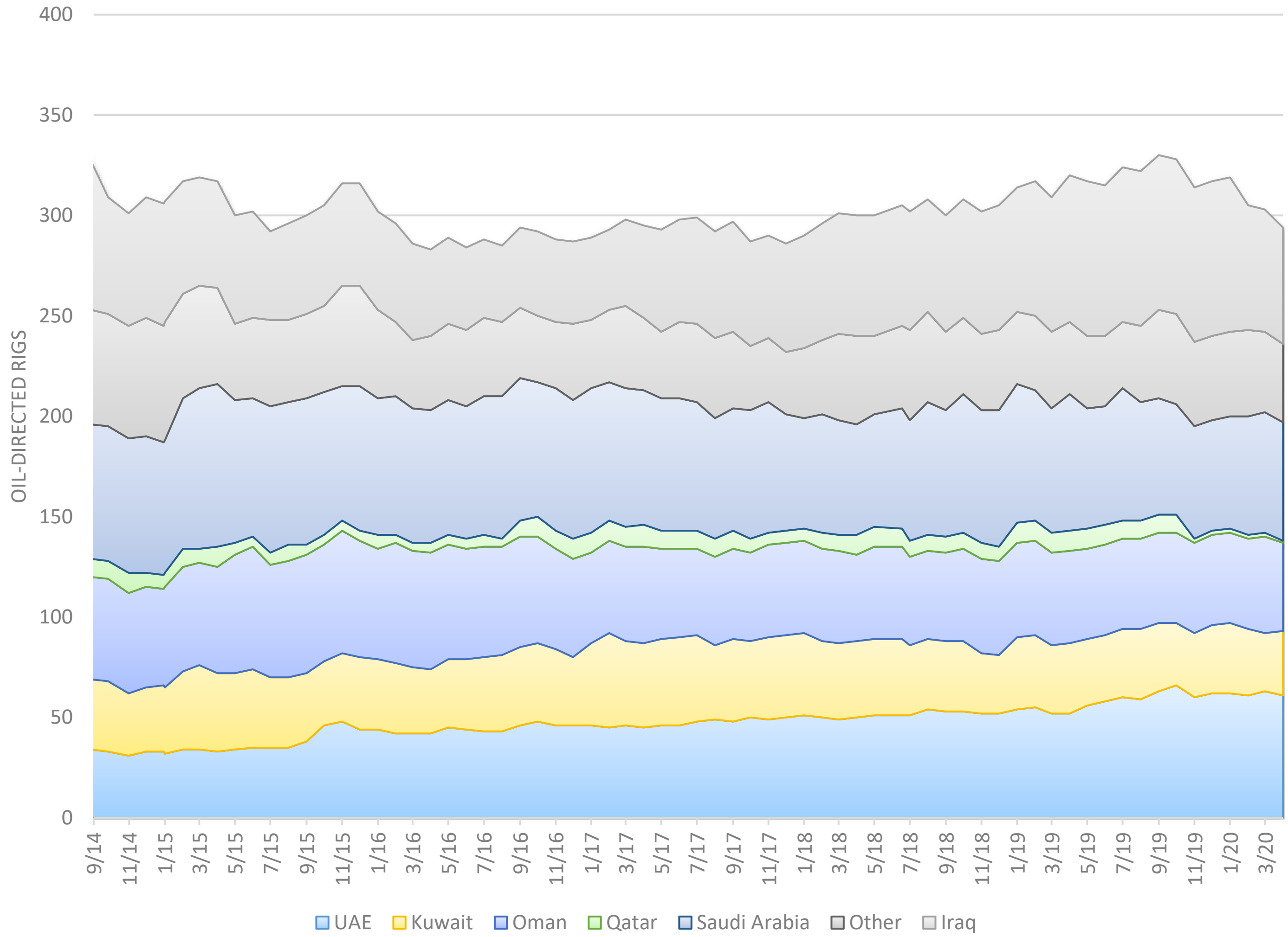
This undermines the economics of the new US LNG export plants. There is little point in paying to liquefy gas and ship it thousands of kilometres, to receive a lower price. Some cargoes have been cancelled, but because of contractual commitments and the cost of restarting a halted LNG plant, many exports will likely continue. Such prices are far too low for most new LNG projects to progress. The next wave of US facilities was already struggling to secure financing. Projects in Australia and Mozambique have been stricken by the coronavirus, halting progress, while travel restrictions will hamper new construction. Proponents there and in Canada, Australia, Russia and several African countries are betting that the market will have tightened again by around 2025 when plants commencing production today would be expected to come into service.

This market situation is very painful for current exporters. But it carries the seeds of revival. Even while spot LNG prices had fallen, oil-linked prices remained high, preventing the fuel from making inroads against coal in key growth markets such as India. It makes no sense any more to index gas against a completely different fuel. Now the main existing regional benchmarks are aligned, the LNG market could become more flexible, liquid and with only small price differentials between regions. China and the Middle East need their own tradable gas hubs to help them align several different sources of supply with uncertain demand.

The prospects for demand revival are better than for oil – lockdowns halt planes and cars, but gas and electricity are still needed for factories, heating, Zoom and Netflix. If much cleaner-burning gas can consistently be sold at a moderate premium to coal, it can drive this dirty fuel out of the energy mix, as it has already done in the US and UK. That would be good news for the climate and for the smoky skies of India and China. Plans for recovery from the crisis call for a European Green Deal and, if the Democrats win the presidency in November, a Green New Deal. Renewable energy, electric vehicles and other low-carbon technologies will be a major part of stimulus packages. A big push on climate can be favourable for gas in coal-heavy Asian and eastern European countries. In western Europe and North America, gas has to re-establish its environmental credentials against environmentalist hostility. It can do this by leveraging recovery funding to build future industries. These include carbon capture and storage (CCS), to make gas a near-zero emissions fuel.

CCS is widely recognised as an essential part of the climate toolkit, but current projects need to scale up by some 15 times over this decade. Germany, Japan and Australia are among countries looking to create a market for hydrogen, a clean energy carrier, that can substitute for gas in heating networks, or be used as a fuel for ships and planes. The cheapest way of making low-carbon hydrogen is from natural gas with CCS. The current situation is pretty grim for gas. But it may be further through its slump than oil, since it was already in the downturn last year, before the coronavirus showed up. With some smart and bold investments, it still can emerge from this crisis as the major future hydrocarbon.

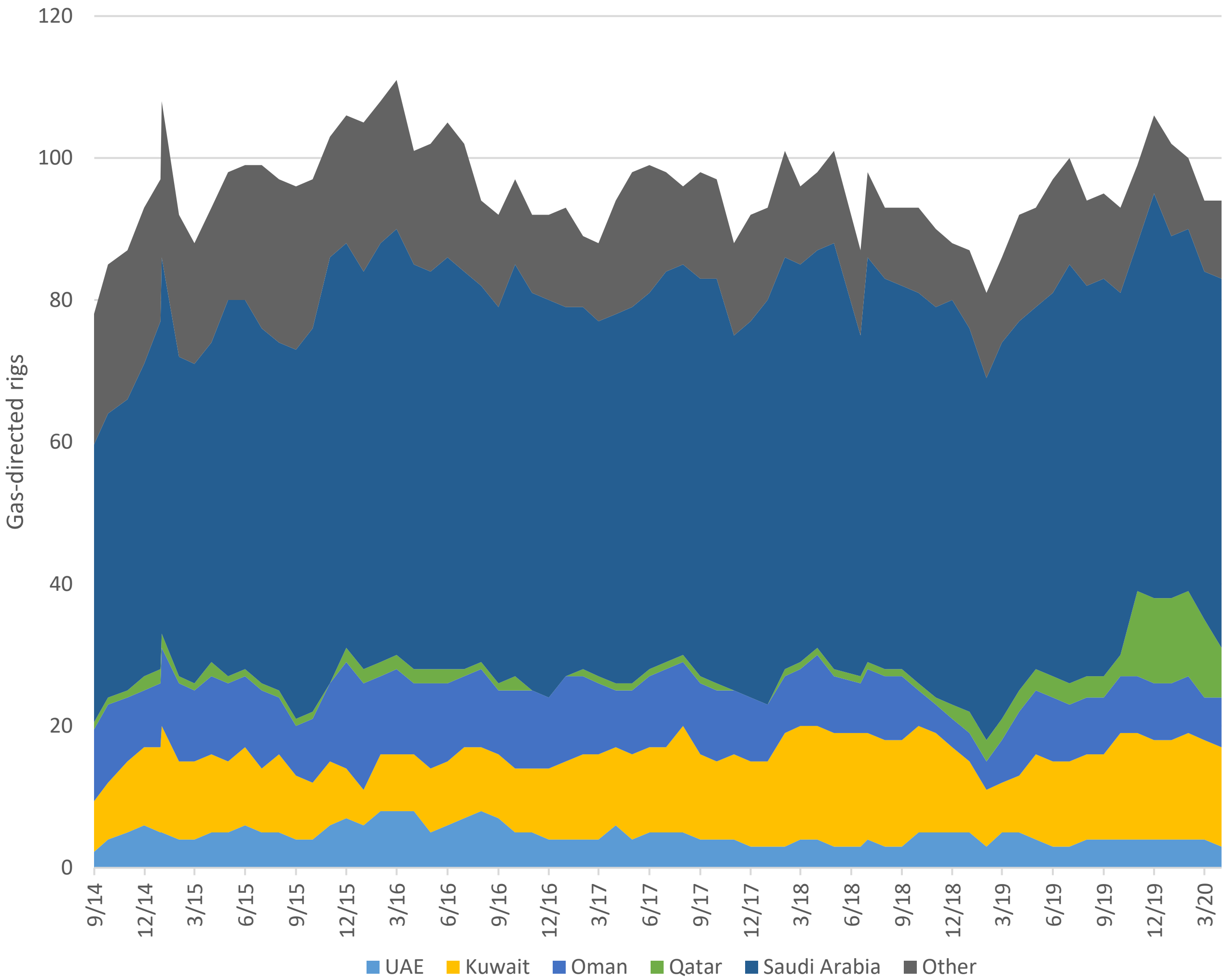
RIG COUNT SNAPSHOT: **OIL**



- The Middle East's overall oil rig count in April decreased by -9 excluding Iran.
- 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 -3 in April to reach 58, the lowest count since September 2018. Rig count will fall further as Iraq cuts production by 1.06 Mbpd in May, following the new OPEC+ deal to balance the CoVid-19's demand destruction. Iraq's Oil Ministry shall oversee 600 kbpd of production cuts in May, >80% of which shall come from IOC-operated fields (Rumaila down 90 kbpd, West Qurna-2 down by 70 kbpd, West Qurna-1 down by 50 kbpd, Zubair down by 40 kbpd, and Gharraf, which has been offline since March, down by 95 kbpd), Technical, financial and political barriers will make it hard for Iraq to meet its new target output (3.59 Mbpd) by May.
- The UAE's rig totals decreased by -2 to stand at 61 in April, although still exceeding July 2019's record of 60. The downward trend will continue as ADNOC announced output cuts from Murban and Upper Zakum by 15%, and Umm Lulu and Das by 5% in May, in line with the country's new OPEC+ target output for Mayof 2.44 Mbpd.
- Kuwait's April rig count increased by +3 to reach 32, although still lower than January's 35, as production increased to 3.15 Mbpd after resumption of activity from the Neutral Zone (100 kbpd). Production is set to decrease by 31% from April levels (down 982 kbpd) in May to 2.16 Mbpd to meet the country's obligations under the new OPEC+ deal.
- Saudi Arabia's April rig count decreased by -1 to stand at 59, while output increased by 1.64 Mbpd to reach 11.7 Mbpd, amid an oil price and market share war with Russia. Output is set to decrease to 8.49 Mbpd in May, down ~27% (3.2 Mbpd), after reaching a deal with Russia to reduce OPEC+ oil supply by 10% to 9.7 Mbpd due to the unprecedented impact of the CoVid-19 outbreak on world demand. Production is set to fall further as Saudi Arabia announced on May 11 an additional 1 Mbpd voluntary cut in June.

Source: Baker Hughes; OPEC

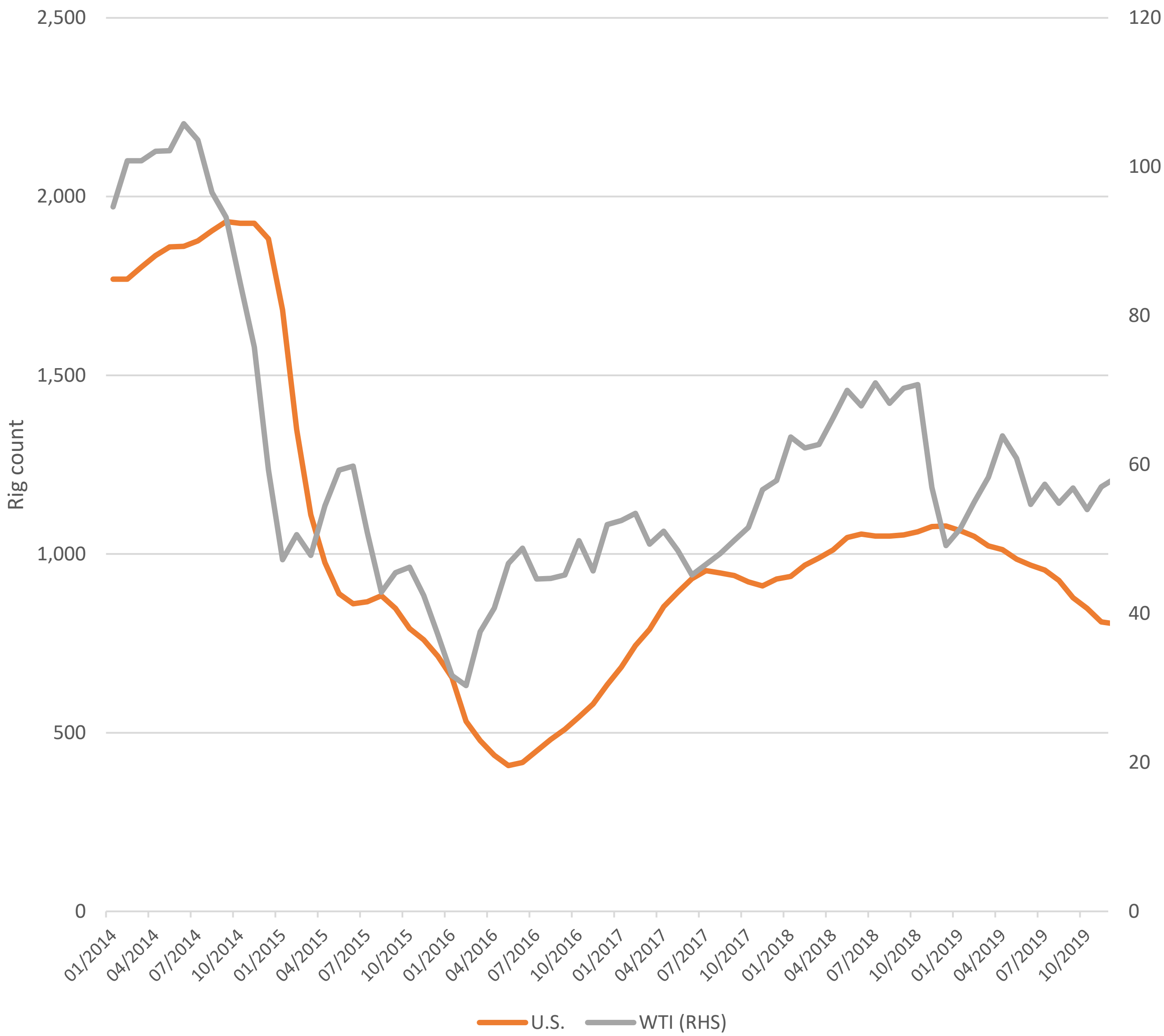
RIG COUNT SNAPSHOT: **GAS**



- The Middle East's overall gas rig count remained unchanged in April at 94, down 11.3% from December's figure (106).
- Oman's April rig count increased by +1. This could increase with (i) the expansion of the country's 932 km gas pipeline system from 64 mcm/d to 80 mcm/d (connecting Nimr with Salalah and the central gas network from Rawl to Sur), (ii) the deal with Total and Thailand's PTTEP, awarded 80% and 20% respectively, to explore and develop the non-associated gas in Block 12 and (iii) 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 remained stable in April at 14, while the country targets increased non-associated gas production to meet soaring gas demand. Kuwait can finally develop its share of the 500 MMscf/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 April rig count decreased by -1 to stand at 3 for the first time since July 2019. We expect rig count to remain steady even though ADNOC has cancelled two EPC contracts worth US$ 1.65 B with Petrofac and the JV between Petrofac and Sapura Energy Berhad to develop the Dalma Gas Project.
- Qatar's rig count fell by -4 in April, from January's figure (12). Production is expected to remain steady as the North Field East expansion project and selections for expansion partnerships have been delayed due to CoVid-19's impact on global demand.
- Saudi Arabia's rig count increased by +3 in April at 52, as the Kingdom invests US$110 B to develop the 200 Tcf Jafurah gas field, with production planned to start in 2024 and gradually reach 2.2 Bcf/d by 2036.

Source: Baker Hughes

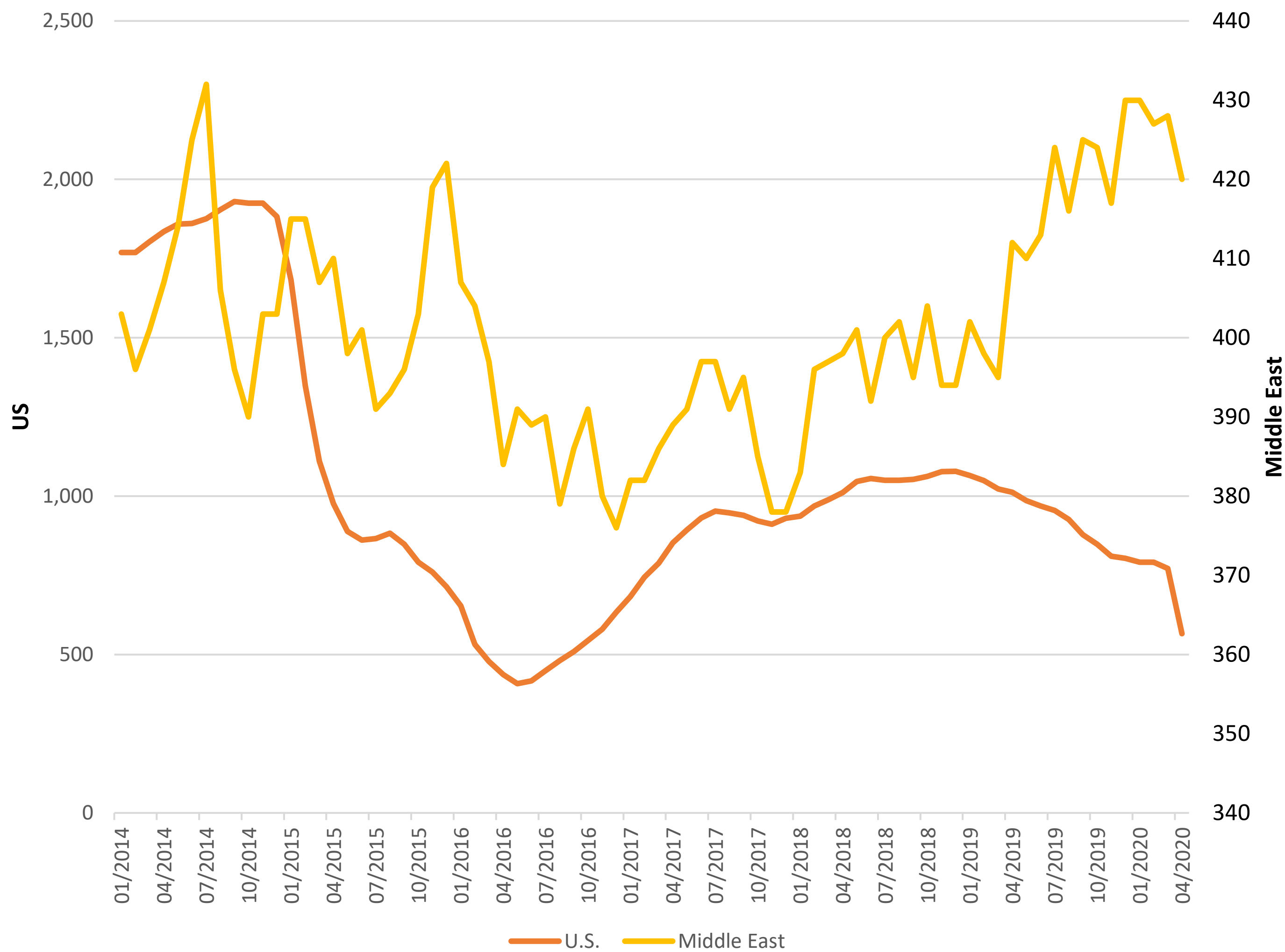
RIGS VERSUS OIL PRICES: US RIGS & WTI



- US rig count for April fell by -206 at 566, a y-o-y drop of ~45% from April 2019 (-446 rigs), the biggest drop since October 2016.
- The major fall in rig count is at the Permian Basin, where rigs have fallen by -33 in April to 229, down 47% from April 2019's figure, as oil demand and prices plunged. The fall accounts for producers' expenditure cuts due to rising debts and pressure for shareholder returns, especially after the Saudi-Russia oil price war, and WTI futures for May plunging into negative territory (-US$ 37.63/bbl) for the first time in history. 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 11.8 Mbpd in 2020 due to Covid-19, down 0.5 Mbpd from 2019's production at 12.2 Mbpd.

Source: Baker Hughes

RIG COUNT: US & MIDDLE EAST



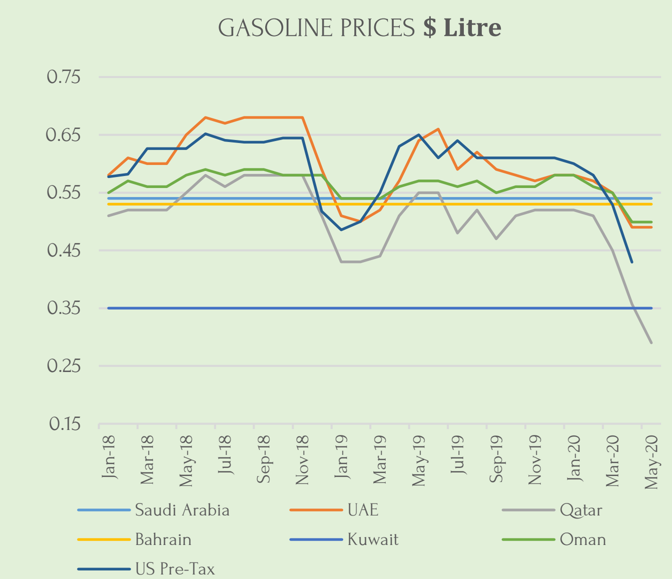
- The US' offshore rig count decreased by -2 to 17 in April, mainly as producers started significantly cutting their capital budget due to falling crude prices, driving oil rigs to reach their lowest recorded weekly cut since April 2019. The decline in onshore drilling is set to accelerate in Q2 2020 as continued low prices limit companies' capital budgets, forcing them to reduce drilling activity.
- Total Middle East rig count fell by -8 at 420 in April, still exceeding April 2019's count, even though production from major MENA producers surged in April (Saudi Arabia's output rose by 1.64 Mbpd).

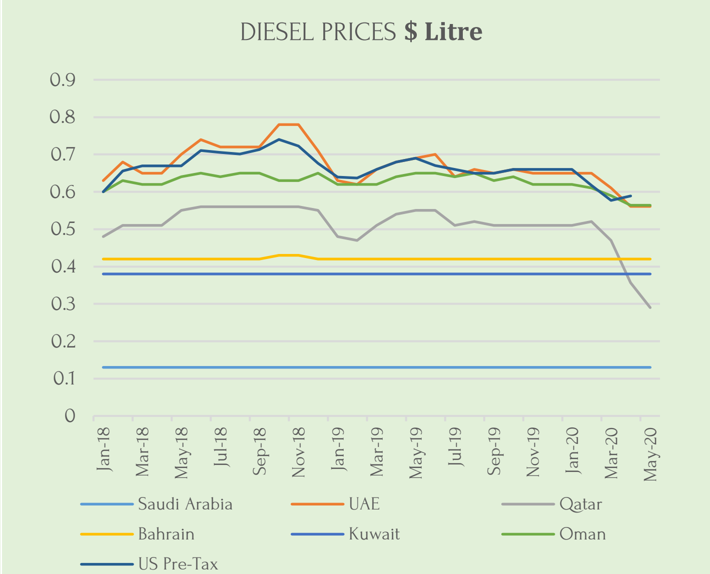
FUEL PRICES & SUBSIDY REFORMS

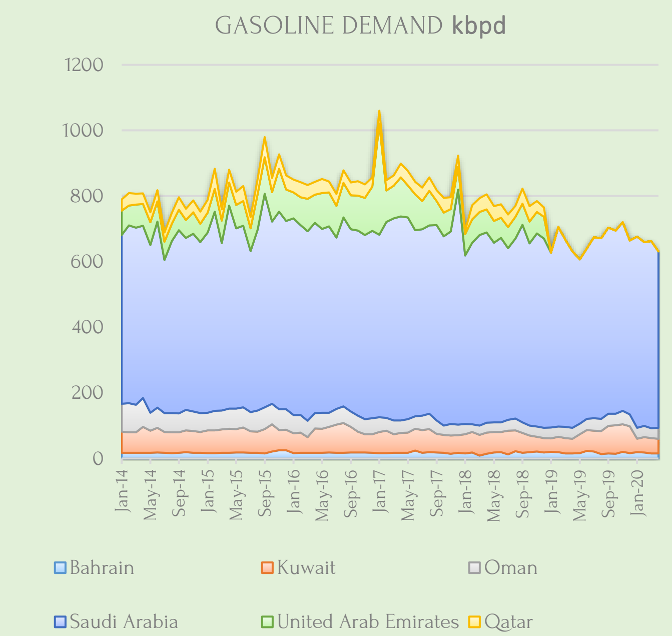
May 2020

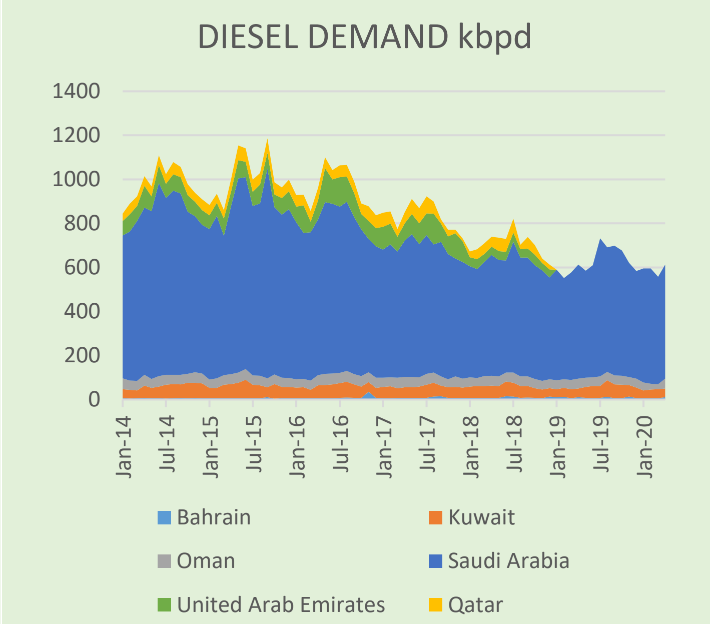
- In the UAE, gasoline and diesel April and May prices remained steady at $0.49 and $0.56 per litre respectively, with diesel recorded its lowest price, 20% down from June 2019's record of $0.70.
- In Qatar, April prices for gasoline and diesel fell both to $0.36 per litre, further falling to $0.29 in May, a massive 47% y-o-y drop for both.
- In Oman, the price of M95 and diesel decreased in April and May to stand at $0.49 and $0.56 per litre respectively, with 14% y-o-y drop for both.
- 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 May 2020 in the GCC countries.









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

Source: Baker Hughes, EIA

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)

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- MAXIMISING REVENUE
- INCREASING SUPPLY NETWORK AGILITY
- DEBOTTLENECKING SHORTCOMINGS

OPEC WATCH

AVERAGE CRUDE PRODUCTION FOR MARCH 2020

28.61 Mbpd

+ 821 kbpd

From February 2020

Non-OPEC Oil Supply*

71.25 Mbpd

- 0.20 Mbpd

from Feb. '20

*including OPEC NGLs

Global Crude Output

99.86 Mbpd

+ 0.62 Mbpd

OPEC+ COMPLIANCE

- The old OPEC deal expired on March 31. OPEC compliance for the new deal will be calculated starting May onwards. OPEC production increased dramatically in April due to the OPEC fallout on March 06, with Saudi output reaching 11.7 Mbpd, up 1.64 Mbpd from March.
- Russian production jumped to 11.35 Mbpd in April from 11.29 Mbpd in March, highest monthly average output since January 2019 (11.38 Mbpd).
- Iraq decreased its production by 0.11 Mbpd to 4.54 Mbpd in April, in response to the falling demand and plummeting prices. Petronas-operated Gharraf (95 kbpd) which stopped producing in March, remains offline.
- Nigeria's production fell by 40 kbpd to reach 1.88 Mbpd in April, and will decline to 1.41 Mbpd, in line with the new OPEC + deal. Nigeria's compliance with OPEC cuts has historically been patchy, which could be exacerbated by the closure of a pipeline that feeds the Brass terminal as well as an explosion on the Lagos pipeline on March 15.
- The UAE's April output rose by 0.38 Mbpd to reach 3.84 Mbpd, and is expected to decrease under the new OPEC+ deal to 2.44 Mbpd, 27% cut from April production levels. The UAE has pledged an additional 100 kbpd cut in June.

NEXT OPEC MEETING: June 2020

179th (Ordinary) Meeting of the OPEC Conference in Vienna, Austria

LATEST ORGANISATIONAL CHANGES

- At the 10th Extraordinary OPEC meeting in April 12, OPEC producers and allies agreed to make the largest cut in history, 9.7 Mbpd, beginning May 1, till end-June. Cuts will be reduced to 7.7 Mbpd from July 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 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 95 kbpd as of April 28, 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.
- Saudi production surged by 1.64 Mbpd to 11.7 Mbpd in April, following the oil price war with Russia; Output is set to decrease to 8.49 Mbpd in May and fall even further as the country announces an additional 1 Mbpd voluntary cut in June.
- Due to political instability, power cuts, US sanctions, the threat of civil disturbances, and plunging oil demand and prices, Venezuela's output in April decreased by 30 kbpd from March's levels to reach 620 kbpd.
- Kuwait April production increased by 250 kbpd to reach 3.15 Mbpd, and is expected to fall to 2.16 Mbpd in May. June production will diminish further as the country announces a voluntary cut of 80 kbpd.
- Algeria's April production stood at 1 Mbpd, 30 kbpd down from March levels. 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.

KEY MENA ENERGY SCORECARD

MAY 2020

QATAR DEVELOPMENTS

QP signed a $3bn deal to reserve LNG ship construction capacity in China which will support future LNG carrier fleet requirements; QP will delay the start-up of the North Field Expansion (NFE) Project up to 6 months due to CoVid-19, pushing back production till 2025; 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; QP signed a deal to deliver almost 3 Mtpa to France's LNG terminal Montoir-De-Bretagne up to 2035; Qatargas and Shell signed a long-term agreement to deliver 1 Mtpa of LNG to Kuwait starting 2020; A commissioning LNG cargo was delivered by Qatargas to India's newest LNG terminal Mundra, carrying 216,000 cubic meters.

FEDERAL IRAQ DEVELOPMENTS

As the new OPEC+ deal takes effect on May 1, the Ministry of Oil announced that 80% of the 600 kbpd cut will come from IOC-operated fields with Rumaila down 90 kbpd, West Qurna-2 by 70 kbpd, West-Qurna-1 by 50 Kbpd, Zubair by 40 kbpd and Gharraf by 95 kbpd; 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; Federal Iraq posted its worst month for oil revenues ($1.42bn) in April due to the decline in demand and oil prices, marking the lowest figure recorded since the early years after the 2003 US invasion, as overall exports from both Federal Iraq and the KRG diminished month-on-month from March. Total exports averaged 3.44 Mbpd, down 442 kbpd from the 3.88 Mbpd recorded in March; Iraq plans to cut output in May by 600 kbpd to meet its new target of 3.59 Mbpd under the new OPEC+ in response to the deteriorating global demand.

MENA ENERGY PRICE REFORM

Saudi Arabia, the UAE and Kuwait increased their economic stimulus packages to $31.9bn, $70bn and $16.5bn respectively, while Qatar, Bahrain, and Oman's packages remained at $23.35bn, $11.4bn, and $20.8bn respectively to support their countries' private sector and financial institutions amid nCoV breakout; 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 1st 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 1st reactor expected February 2026, 2nd reactor by August 2026, 3rd by August 2027 and 4th 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

MAY 2020

MENA ENERGY INFRASTRUCTURE SECURITY

Blockades on significant oil and gas infrastructure have continued in Libya, diminishing production to 95 kbpd in April with revenues down by $4bn; El Sharara and El Feel (combined capacity of ~415 kbpd), remain shut-in, as well as the 120 kbpd Al Zawiya refinery, and a gas pipeline in Sidi el-Sayeh illegally closed, putting the country's economy on edge; the situation is exacerbated due to Covid-19; Pipeline vandalism, sabotages and theft are on the rise in Nigeria, with the recent pipeline explosion and leakage, leading the Nigerian National Petroleum Corporation 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 caused 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.

IRAN DEVELOPMENTS

Iran's 2020 exports are expected to average just 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; Apart from Syria, most of these volumes are likely making their way to Chinese shores; 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; Iran awarded Petropars the rights to develop the 21.7 Tcf Farzad-B field, having given up on negotiations with an Indian consortium including ONGC.

ABU DHABI DEVELOPMENTS

ADNOC terminated two EPC contracts worth $1.65bn awarded for Petrofac and a JV between Petrofac and Sapura Energy for the Dalma Gas development project due to the CoVid-19 crisis; objectives". Also, ADNOC has pushed back the bid deadline for four packages for the US$ 20 B Hail & Ghasha development project until end May; Blackrock along with KKR stepped down from their race to become investors in ADNOC's natural gas pipeline assets; ADNOC signed a framework agreement with Indian refining and chemicals conglomerate, Reliance Industries Limited (RIL), to develop an ethylene dichloride (EDC) facility in Ruwais; The agreement includes a feasibility study of the facility next to the already established integrated refining and petrochemical site in Ruwais.

KUWAIT DEVELOPMENTS

As Kuwait and Saudi Arabia resolved their dispute over the Neutral Zone (NZ), Kuwait offered its first crude oil cargo from Khafji oilfield for exports in April; Output from the NZ has reached 100 kbpd; 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
Positive
Deterioration in the last month ⇩ Negative
Improvement in the last month ⇧ Very Negative

KEY MENA ENERGY SCORECARD

MAY 2020

MENA RENEWABLE ENERGY

Saudi Arabia announced the shortlisted bidders for round 2 of category A of the National Renewable Energy Programme (NREP), which includes Masdar, ACWA Power, Marubeni, Total Solar INTL, Al Blagha Holding for Investments Company and First Solar International Middle East (FZ-LLC) for the 50 MW Madinah, 20 MW Rafha, 300 MW Jeddah, 300 MW Rabigh and 200 MW Qurrayat; NREP identified two categories for bidding: the 80 MW Layla and the 120 MW Wadi Al-Dawaser will be covered by small-medium companies (Round A) and the 300 MW Saad and the 700 MW Ar Rass will be covered under Round B (larger schemes); Finnish Wartsila Corp signed a contract to engineer and equip a 44 MW of solar power to a new Saudi gold mine, to be commissioned by 2021 and operational by 2022; In the UAE, EWEC received the world's lowest tariff for solar power ($0.0135 per kWh) to build the 2 GW Al Dhafra PV plant in Abu Dhabi; In Oman, DEME Concessions plan to develop HYPORT, a green hydrogen plant in Duqm port with a 500 MW electrolyser capacity in the first phase (FID for the other stages expected in 2021); In Yemen, China's Trina Solar Co Ltd will provide 6 MW PV modules to Yemeni Ai Raebi from its Vertex series; In Morocco, Swedish Azelio finalised the construction of an energy storage facility at the 850 MW Noor Ouarzazate hybrid solar power complex; In Tunisia, German ABO Wind AG commissioned 12 PV rooftop systems with a total output of 1.5 MW at Poulina Holding Group farms; UAE AMEA signed a PPA with the Egyptian Electricity Transmission Company to build, own and operate a 700 MW project (200 MW solar park and 500 MW wind farm). In a tender intended to secure 150 MW, the Algerian Electricity and Gas Regulation Commission selected only a 50 MW project at a final price of $0.069/KWh, the largest share of which is owned by Condor.

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 3rd or 4th 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, the Ministry of Petroleum added two gas wells to the Mediterranean production (combined capacity of 390 Mcf per day and 1,300 barrels of condensates per day); The deal to restart Egypt's 5 Mtpa Damietta LNG plant, operated by a JV of Eni and Naturgy, collapsed, pushing back the plant's start even further; 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, Sonatrach and Lukoil signed an MoU to look at opportunities to invest in exploration and production in the Algerian hydrocarbons sector; With the agreement of Libya's government, Total and NOC signed an agreement to implement the participation of Total in the Waha concessions as long as Total provides the necessary technology and expertise required and develops the 180 kbpd North Gialo and NC 98 fields.

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 Arab Gulf States Institute in Washington Webinar "After Agreement to Cut Production, What's Next for Oil and Gas Producing Countries; 22nd April 2020

The Istituto Affari Internazionali Webinar on The Impact of the Oil Crisis on the MENA Region; 27th April 2020

Dubai Multi Commodities Centre (DMCC) Webinar on Renewable Energy in the Middle East post-CoVid-19; 19th May 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

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