



Foreign &
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Office



GCC and Iraq Economic Summary

October 2013

MACROECONOMICS

IMF Expects Average GCC Real Growth of 3.7% in 2013, and 4.1% in 2014

1. Following a meeting in Riyadh between its own director, and finance ministers and central bank governors from across the GCC, the IMF issued a statement saying that it expected real growth across the six GCC member states to average 3.7% for 2013. Whilst this is less than the 2010-2012 average of 6.4% (a result of historically high global energy prices), the IMF expect growth will increase to 4.1% in 2014, largely owing to increased oil production, state capital expenditure and non-oil private sector growth.
2. The IMF used the opportunity to re-state the risks and recommendations they identified in their Article IV reports for the Gulf, and highlighted that GCC member states need to work hard to create employment opportunities for their growing populations, and transition to models of high-skill, private sector led growth. The IMF saw the fiscal buffers most GCC states had built-up in recent years as bulwarks against future instability, though urged Gulf states to do more to rationalise public spending and develop better mechanisms for managing risks in their financial sectors.

Another Push for Progress on Kuwait's National Development Plan

3. Ahead of the first session of the new Kuwaiti Parliament on 29 October, the Kuwaiti government released their annual development proposal and an appraisal of the \$110bn four-year National Development Plan (due to end this FY). The proposal highlighted a shift in immediate focus towards housing and healthcare, and more importantly gave the first information on the Government's initial target for privatisation – the energy sector (specifically electricity production).
4. The new focus on healthcare infrastructure projects is in evidence with the release of design, build and equip tenders for the expansion of Al Adan and Al Farwaniya Hospitals. These tenders include a number of specialist clinics and up to 1600 new beds, and have been assessed to include an accessible value of £112m for UK competitors.

Economic Reform in Oman

5. A surprise announcement earlier this summer showing the Omani state budget to be in deficit by \$220m has been accompanied by a series of indications suggesting the government is seeking to implement the economic and social reforms necessary to transition to a model of private sector-led growth. Examples include:

- a productive conference on SMEs which resulted in a set of practical recommendations to grow this badly underdeveloped sector;
- a promising announcement by the Minister of Finance on energy subsidy reform;
- a privatisation programme due to start in 2014;
- the preparation of a new labour law which will give more rights to employers; and
- potential greater scope for funding investment in infrastructure through sovereign debt.

6. The detail and pace of these reforms is yet to emerge. But it is clear they will play a key part in delivering the changes called for in the IMF's most recent Article IV report on Oman.

ENERGY

US to Become the World's Largest Producer of Petroleum Liquids, But Saudi Dominance in Crude Oil Production Will Continue

7. The US government's Energy Information Administration (EIA) estimated in mid-October that the US would overtake Saudi Arabia as the world's largest producer of petroleum liquids in 2013. EIA data shows the US overtook Russia in 2012 to become the world's second largest producer of petroleum liquids, with an average of 11.1 million barrels per day (mbpd). It estimated Saudi Arabia produced just over 11.7mbpd in 2012, and independent US energy consultancy PIRA predicted this figure will rise to 11.8mbpd over the course of this year. But they expect total US output to rise to just over 12.1mbpd over the same period due mainly to increased unconventional oil and gas extraction.

8. It's worth setting out what this means. The term 'petroleum liquids' includes all forms of petroleum products that are liquid at a standard atmospheric temperature and pressure. For the most part they comprise:

- crude oil (including condensates);
- natural gas liquids (NGLs);
- biofuels; and
- refinery gain (the additional volume of liquid that results from refining crude oil into less dense products like gasoline and diesel).

9. Most of the US growth appears to be the result of increased production of crude oil from unconventional shale production (PIRA estimate an increase of 0.8mbpd over 2013), whilst NGL production looks set to rise by 0.3mbpd (primarily owing to increased production of unconventional shale gas). Meanwhile, data from the EIA suggests refinery gain for 2013 is likely to decline to just over 1.06 mbpd, down from a historic high of 1.08 mbpd in 2011.

10. But the US (the world's third largest producer of crude in 2012) is unlikely to match Saudi crude output. EIA data showed the US produced an average of 6.48 mbpd in 2012, compared with 9.83mbpd for Saudi Arabia. Furthermore, EIA figures suggest that whilst the US benefitted from over a million barrels per day of refinery gain in 2012, Saudi Arabia's refineries produced 8,400 additional barrels per day (a figure which will likely increase as Saudi Arabia invests in its refining capacity and downstream infrastructure more generally).

11. Looking ahead, the EIA estimates total US petroleum liquid production will reach between 12.0 and 18.2mbpd by 2040. But In terms of crude production, Saudi Arabia looks set to continue its dominance. The EIA expects the US to produce 6.2 mbpd of crude by 2040, or in a best case scenario, 10.2mbpd. This is still below Saudi Arabia's current productive capacity of 12.5mbpd of crude, and well below the 15mbpd capacity that some Saudis are talking about trying to reach.

Iraqi Government Offers Update on Oil Production and Plans to Meet Domestic Energy Needs Through Increased Iranian Supply

12. Iraqi oil production is expected to rise to 3.5mbpd by the end of the year according to Iraq's oil Minister. China and India, Iraq's two biggest customers, have both requested additional supplies next year. According to Deputy Prime Minister Shahristani, China will import 900k-1million bpd of Iraqi crude next year, while India will purchase around 400k bpd in 2014.

13. But despite its impressive production figures, Iraq is having to import gas from Iran to meet domestic demand. A gas pipeline between Iran and Iraq will likely become operational in November and deliver 850m cubic feet of gas per day. This will be used to feed three power plants in Central Iraq. Iraq is also working on another deal with Iran to supply southern Iraq with gas for power generation, with the pipeline due to be completed by March 2014.

14. The Prime Minister's Advisory Council also estimated this month that the electricity shortages result in around US\$40bn of losses to the economy annually. Whilst Iraq experienced three weeks of uninterrupted power supply this month (primarily due to cooler October temperatures reducing demand for air conditioning), it has resurrected its private power programme, with the aim of using the private sector to provide greater generating capacity.

Qatar Petroleum's (QP) New Strategy

15. On 3 October, Qatar Petroleum (QP), unveiled a new strategy designed to help it compete with the world's largest energy companies.

16. The strategy will focus heavily on Asia, where prices have been higher than in European and other markets. Chinese LNG imports increased by approximately 25% to 12.87m tonnes in the first nine months of 2013, and in October, QatarGas delivered its first LNG cargo to China National Offshore Oil Corp's (CNOOC) Zhuhai LNG terminal in the Guangdong province. (QatarGas, which is part-owned by QP – and CNOOC have an existing sales and purchase agreement signed in 2008 for the supply of a total of 2mn tonnes per year of LNG.)

17. The strategy also aims to increase QP's portfolio of investments abroad, through expanding the work of Qatar Petroleum International (QPI), which manages a multibillion dollar portfolio of international energy investments. QPI will likely be supported by the Qatar Investment Authority (QIA), Qatar's \$115bn sovereign wealth fund.

Saudi Solar Contract Awarded

18. The King `Abdullah Petroleum Sciences and Research Centre (KAPSARC) has announced it has awarded a contract to install 1.78GW worth of photovoltaic generating capacity to Canadian Solar. KAPSARC is a semi-independent non-profit institution that focuses on energy economics, policy, technology, and environmental research. The panels have reportedly been tested in desert sand-blast conditions, and are covered by a 10-year warranty on materials and workmanship, along with a 25-year linear power output performance guarantee.

19. This contract represents an initial step towards the Kingdom meeting its ambitious target of generating 54GW of its electricity renewably by 2032. Out of this total, 16GW is planned to come from photovoltaic cells.

Dubai Opens First Phase of 1GW Solar Plant

20. Dubai opened in late September Phase 1 of its Shaykh Muhammad Bin Rashid al-Maktoum Solar Park. This first phase uses a combination of concentrated solar thermal and 152,000 individual photovoltaic cells to give a generating capacity of 13MW. Its \$32m construction cost was funded by Dubai Supreme Council of Energy (DSCE) and operated by Dubai Electricity and Water Authority (DEWA), but the second phase (which will boost the park's generating capacity by a 100MW) will be delivered through a public-private partnership. The DSCE aim to issue tenders for a 49% stake in project in the next six months, and to increase the overall generating capacity of the park to 1GW by 2030.

21. The Shaykh Muhammad Bin Rashid al-Maktoum Solar Park is an important part of Dubai's energy strategy, which aims for the emirate to meet 5% of its energy needs from the sun, 12% from coal, 12% from nuclear and 71% from gas by 2030.

FINANCE

Dubai to Host 10th World Islamic Economic Forum in 2014

22. Dubai will host the 10th World Islamic Economic Forum (WIEF) in 2014. The announcement came during the opening day of this year's WIEF in London. In November, the Global Islamic Economy (GIES) Summit, a forum for practitioners in Islamic Finance sector and broader Halal industries, will take place in Dubai.

23. Dubai's success is a major step forward in its ambition to become the global capital of Islamic economy. Both events form an integral part of Dubai's *Capital of the Islamic Economy initiative*, which was launched by HE Mohammed Bin Rashid al Maktoum, ruler of Dubai, earlier this year. It is intended to spur investments into Dubai and promote further economic diversification. The initiative also involves the introduction of a new higher Shari'a Council which would oversee the work of the Shari'a boards of the eight Islamic banks now operating in the UAE.

ECONOMIC AID

UAE Pledges More Aid to Egypt

24. The United Arab Emirates has pledged an additional \$3.9bn worth of aid to Egypt. This aid is in addition to the \$3bn worth of support promised on 9 July 2013 (which comprised a \$1bn deposit in the Egyptian Central Bank, and a \$2bn interest free loan). This new aid package was signed during the visit of Egyptian Prime Minister to the UAE. It includes just over \$1bn worth of fuel, with the majority of the remainder going towards development projects.