Navigating the new cold war will be tricky

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- **Dubai government-related entities unable to service their debt, will once again become attractive assets for Abu Dhabi investment arms. We expect restructurings, downsizing, and mergers in the form of consolidations.**
- **Debt service options for Oman will become increasingly costly. Economic diversification will remain a priority, with acceleration in Omanisation, privatisation and closer ties with China.**
- **Iraq's new prime minister, Mustafa al-Kadhimi, is likely to try to push through incremental reforms, but they may not be enough to stop protests from turning into mass demonstrations.**
- **GCC businesses are continuing to expand into the Chinese market in sectors including education, leisure, and aviation.**

Saudi Arabia: Tackling austerity rapidly

The economic impact of the pandemic is compounding that of the drop in oil revenues. Managing heightened public expectations for the future will be crucial in maintaining public support for Crown Prince Mohammad Bin Salman when the pandemic subsides, and austerity hits the kingdom's generous social welfare programmes.

- The crisis is a test for the progress made on the aspirational Saudi Vision 2030, which promises huge developments in education, health and general welfare.
- Lower oil revenue led the kingdom to post a budget deficit of USD 9B (1.3% of GDP) in Q1 2020 versus a surplus of USD 7.4B (0.9% of GDP) in the same period last year.
  - The kingdom's stimulus package -- which makes up 4% of GDP and is equivalent to 13% of the 2020 budget -- is eroding the fiscal balance further, reinforcing plans to issue more debt. Minister of Finance Mohammad Al-Jadaan has said Saudi Arabia may borrow USD 60B this year to cover its budget deficit.
  - Saudi Arabia had initially projected a deficit of USD 50B this year, or 6.4% of GDP. But that was before the virus and the plunge in oil prices. Al-Jadaan has said the deficit could widen to up to 9% of GDP this year, but we believe it could be even higher.
  - Based on our USD 31.5 pb oil price forecast for Brent this year and with 2.51 Mb/d less output in Saudi Arabia, the kingdom's annual oil revenue could decline to as much as 46% of what was originally budgeted. (This also assumes the OPEC++ deal holds up.)
- New austerity measures have been put in place including raising VAT and stopping the allowance programme for Saudi citizens which has been in place since 2018. Further cuts and spending freezes are now inevitable, impacting the progress of key projects.
  - Steps taken to shore up revenue through higher VAT could generate up to USD 26.6B annually (4% of GDP) in total.
    - While we do not expect the tax increase to have much impact on revenue this year because people are spending less under the curfew, it will help government finances more in following years as economic activity resumes in full.

Table 1 – MENA Dashboard[1]

MENA Oil Exporters	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Algeria	0.7	-5.2	-9.3	-20.0
Bahrain	1.8	-3.6	-10.6	-15.7
Iran	-7.6	-6.0	-5.7	-9.9
Iraq	3.9	-4.7	-0.8	-22.3
KSA	0.3	-2.3	-4.5	-12.6
Kuwait	0.7	-1.1	4.8	-11.3
Libya	9.9	-58.7	8.8	-7.2
Oman	0.5	-2.8	-7.0	-16.9
Qatar	0.1	-4.3	4.1	5.2
UAE	1.3	-3.5	-0.8	-11.1
Yemen	2.1	-3.0	-3.8	-8.0
Average Ex-Libya & Yemen	**0.2**	**-3.7**	**-2.3**	**-11.8**

MENA Oil Importers	Real GDP Growth (%)		Fiscal Balance (% of GDP)	
	2019	2020f	2019	2020f
Djibouti	7.5	1.0	-0.8	-2.7
Egypt	5.6	2.0	-7.4	-7.7
Jordan	2.0	-3.7	-6.1	-6.7
Lebanon	-6.5	-12.0	-10.7	-15.3
Mauritania	5.9	-2.0	2.1	-3.3
Morocco	2.2	-3.7	-4.1	-7.1
Palestine	0.9	-5.0	-7.4	-10.7
Somalia	2.9	-2.5	0.1	0.2
Sudan	-2.5	-7.2	-10.8	-16.9
Syria	...	...	...	...
Tunisia	1.0	-4.3	-3.9	-4.3
Average Ex-Syria	**1.9**	**-3.7**	**-4.9**	**-7.5**

Table 2 – MENA Geopolitical Calendar 2020[2]

Country	Scheduled For	Event	Comment
Libya	H1 2019 Postponed	Referendum	No new date has been set yet.
		Presidential & Parliamentary (after referendum)	
Syria	Jul-20	Parliamentary elections	Postponed from 13 April to 20 May and further to 19 July
Jordan	Sep-20	Parliamentary elections	On track
Kuwait	Oct-20	Parliamentary elections	Date tbc
Egypt	Nov-20	Parliamentary elections	On track

[1] Arabia Monitor; IMF.

[2] Arabia Monitor.

- In June, the government will also end a cost-of-living monthly allowance paid to state workers. The SAR 1,000 (USD 266) payment was granted in 2018.
    - Instead, Saudi Arabia will target "Ramadan Aid" worth a total of USD 492M to social security beneficiaries: family providers will get SAR 1,000 and family members SAR 500 each (USD 133).
- Capital spending will also be impacted as the government delays or trims some projects. The kingdom has announced a cut of close to USD 8B (about 30% of the total planned) in the budgets for the Vision Realisation Programs and other megaprojects.
    - An example is a project to expand the holy mosque in Mecca, which the government had to slow down significantly to protect the health of construction workers.
    - Some of the kingdom's megaprojects, which include plans to build a tourism hub on the Red Sea and the new NEOM city, will also have their timelines extended.

➢ Some sectors that have received recent support, however, are mining and industry.
- New measures to support these sectors include facilitating the settlement of private sector dues, developing new products to support working capital, reducing ministry fees, and the automatic renewal of various licenses, among others.
- Electricity bills will also be slashed by 30% and payment terms extended.

UAE: The tune Dubai knows well

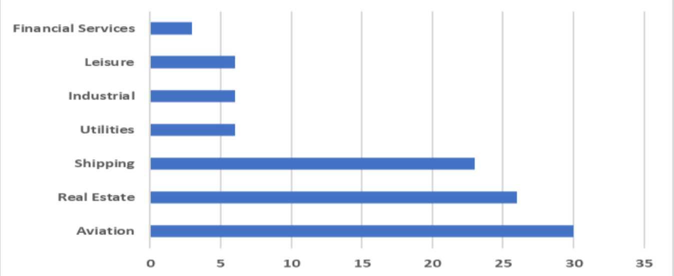
As in 2009 in the wake of the global financial crisis, and as in previous times as well, the financial implications of the slow-down in Dubai will require Federal support. Government-related entities (GREs) unable to service their debt, will once again become attractive assets for Abu Dhabi investment arms. We expect restructurings, downsizing, and mergers in the form of consolidations.

➢ One of many often-considered consolidations has been the merger of the two stock exchanges in Dubai and AD. Another could be a new look at government ministries and similar bodies, which exist in each emirate, large and small. But the federation is young, and local family interests have yet to gel into a seamless national identity.

➢ Because we will see GDP contracting severely this year and have our doubts about the chance of a meaningful and long-lasting OPEC++ deal, we expect the UAE economy to bounce back less rapidly than in previous, v-shaped recoveries.
- This time around, the relatively more diversified nature of the UAE economy also means it relies on more to rebound. This could make for a multi-quarter U-shaped recovery, at best.

➢ With events cancelled, flights grounded, and investment halted, Dubai is threatened both by the virus and a growing economic squeeze.

Figure 1 – Dubai GRE Debt, by Sector (%)[3]



➢ Multiple black swans in 2021 could include any combination of the following: global trade wars as the China-US enmity crystallizes further, continued depressed oil prices, difficult recovery for tourism on the back of slow solutions to contagion, and a postponed Expo 2020 beyond 2021.
- These principal economic drivers of Dubai -- trade, transportation, tourism, retail, and real estate -- have been disrupted with the world in lockdown.
- Dubai's Expo 2020 was expected to draw the equivalent of 1.5% of the UAE' s annual gross GDP.

➢ Under pressure even before the outbreak, Dubai and its vast web of state-linked industries have billions of dollars in looming debt repayments.
- Dubai's debt is estimated at 125% of GDP, with almost half due for repayment before the end of 2024.
- The emirate's GREs are involved in aviation, real estate, and shipping -- industries most exposed to the slowdown of global growth (Figure 1). These sectors also make up a third of GDP.
- We expect a similar debt-related pattern as seen in the financial crisis, including a rise in non-performing loans and a liquidity crunch.
    - Many GREs were banking on Expo 2020 for succour, so we expect a series of restructurings of at least some of their debt.
    - This means that the debt market is expected to be active, with both governments and GREs likely to issue.
    - China is the UAE's investment joker card, but playing this hand more aggressively will require a tightrope walk through the new cold war between the West and Beijing.

Oman: Seeking help for deteriorating economy

Oman will cut the government and armed forces budgets by a further 5% this year to add to the 5% cut enacted in mid-April. At issue now is whether Oman will seek financial support from neighbouring GCC states and whether its government can propel change in economic strategy for the sultanate.

➢ Financial support from its neighbours could help avert the need for Oman to abandon its dollar peg, a step no GCC country wants to see at this stage. Even so, the government is ramping up fiscal austerity more quickly than it did in 2014-16, knowing that once restrictions related to the coronavirus are lifted, economic recovery will be weak.

[3] Arabia Monitor; Bloomberg.

- The IMF has revised its forecast of 3.7% expansion in 2020 to a 2.8% contraction -- which would come after a mere 0.5% growth in 2019.
- The official 2020 budget forecasts a USD 6.5B deficit, equivalent to more than 8% of 2020 GDP. Given that the budget assumed an average oil price of USD 58 pb compared with the current price of USD 35 pb, the eventual deficit will be substantially higher.
- The stimulus package unveiled in March equates to 25% of GDP and 58% of the 2020 budget before the cuts, which adds pressure on the fiscal balance. The sultanate has little room to manoeuvre, pushing them to cut spending by government agencies for 2020 by 10% so far.
- The government has also suspended several business taxes and postponed repayments of government-backed business loans to help struggling firms.

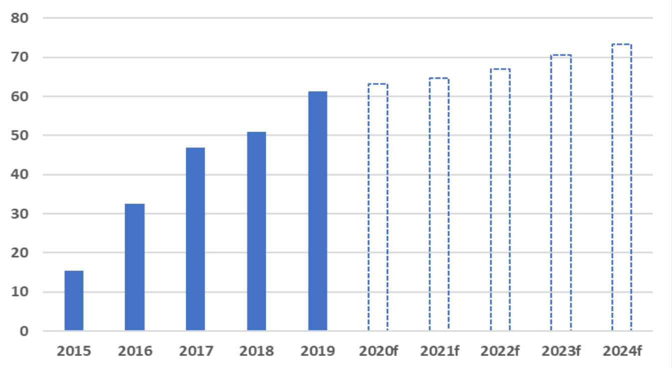
➢ Although it may need GCC help, Oman remains cautious about any “support” -- particularly from Saudi Arabia and the UAE -- that may compromise its position as a neutral regional mediator.
  - In the past, Oman has accepted economic relief from its neighbours, including in 2011 when Kuwait, Qatar, Saudi Arabia and the UAE offered USD 10B in grants.
  - If Oman opts to request support again from the GCC, the least risky source would be from Kuwait, which is similarly neutral in its approach to Gulf affairs.
    - Overall, we see this relationship as one that would only strengthen the GCC at an otherwise fragile time of significant shifts in global sands.

➢ Loan discussions to raise around USD 2B have been put on hold given the uncertain fiscal outlook.
  - With all three major credit rating agencies now sharing the same downbeat view, Oman’s borrowing costs have most certainly risen for now.
  - A better window could present itself in a few months, once a search for yield begins, with OECD country debt levels set to skyrocket.
  - -These times certainly beg a bold, new economic strategy from the new sultan.
  - While Sultan Haitham shares the modernising economic aspirations of his late predecessor, the deterioration in economic circumstances over 2020 cannot but lead to a revised government strategy.
    - Diversification will remain a priority, but the sequencing of the implementation of Vision 2040 will most probably need to be revisited and reordered.
    - We expect an acceleration in Omanisation and privatisation.
    - China is Oman’s largest export partner, accounting for 40% of export revenue. Delicately, Oman is certain to leverage this relationship further despite the new cold war.

Kuwait: New debt law for financing flexibility

With Kuwait yet to pass a revised debt law authorising the government to borrow, there are questions about how future central government deficits will be financed. We expect further fiscal consolidation, particularly after Kuwaiti Emir Sabah al-Ahmad al-Jaber al-Sabah's public statement regarding the impact of the oil price drop on state finances.

Figure 2 – Oman Gross Government Debt[4]



➢ In Kuwait's budget for fiscal year 2020/21, which began on 1 April, oil and gas revenues account for 87% of the total budget (USD 42.4B).[5]
  - But this calculation was based on a breakeven oil price of USD 55 pb, versus USD 35 pb currently.
  - It also assumed crude output of 2.7 Mb/d. However, under the OPEC++ agreement in April, Kuwait committed to capping its production at 2.1 Mb/d in May and June, and at 2.3 Mb/d in H2.
  - The budget forecasts a deficit of USD 30.4B (21% of GDP) after 10% transfers to the Future Generations Fund, part of the country’s more than USD 500B sovereign wealth fund. This compares with a USD 25.3B deficit in 2019 (18.4% of GDP). We expect the actual deficit to be considerably wider this year given the changed circumstances.

➢ Until it can return to debt markets again, Kuwait will continue to fund its fiscal deficit from the state’s ample reserves. Unlike other GCC countries that have been actively raising capital from international debt markets, Kuwait has not tapped the market since 2017 when it issued USD 8B in bonds.
  - Although the sovereign wealth fund is substantial at about 500% of GDP, the portion available for budgetary needs via the General Reserve Fund (GRF) is much smaller, estimated at around 50% of GDP.
  - Funding of the deficit could be a challenge and would exhaust most of the estimated USD 52B remaining in the GRF.
  - Passing a revised debt law has become a government priority and would provide for extra flexibility, especially since public debt stood at just 12% of GDP at the end of 2019, the lowest among all MENA oil exporters.

➢ The private sector -- which depends on expatriates -- could have a crucial role to play in supporting the economy, but the industry has received little support after COVID-19, and the presence of foreign workers is now under scrutiny by the government in a bid to balance the demographics with changes to the labour law.
  - The vast majority of the private sector depends on expatriates, who account for two-thirds of the population of 4.8 million. At the end of 2019, 19% of the Kuwaiti workforce was in the private sector.
  - Compared with its GCC peers, the private sector in Kuwait received less support from the government (vis à vis COVID-19) which offered only additional lending facilities without a fiscal stimulus plan.

[4] Arabia Monitor; IMF.

[5] Kuwaiti budget released in January 2020.

- The COVID-19 policy response so far has focused mostly on ensuring the supply of credit to affected firms and alleviating some of the pressure on households by postponing debt repayments.
- While there have been some cuts in government fees and a proposal to hike the private sector wage subsidy, Kuwait has so far stayed away from large, direct fiscal measures.

➢ Kuwait is scheduled to elect a new Parliament in November and the new Cabinet will be required to resign in accordance with the Constitution. This provides less room for the government to mount a significant fiscal policy response to the oil price and COVID-19 shock.
- In the meantime, we do not rule out further questioning of ministers as Kuwait seeks to overcome reports of widespread government corruption. This could prompt possible reshuffles, again slowing down reform implementation.[6]
- In mid-May, Foreign Minister Shaikh Ahmad Nasser Al Sabah was quizzed regarding the purchase of a penthouse valued at USD 16M by a diplomat of the Kuwaiti embassy in New York.

Egypt: Multilaterals keen to help

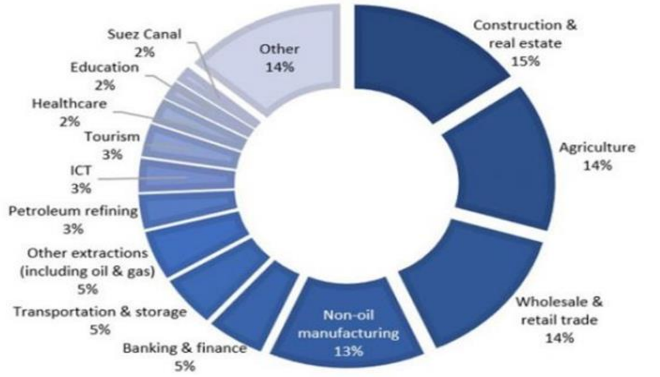
Egypt received USD 2.7B in emergency financing from the IMF and is seeking a further USD 5B. It also wants USD 4B from other sources. The pandemic has hammered tourism, overseas remittances and FDI. As a result, Egypt is facing immense pressure to keep its economy growing to create enough jobs and carry out major projects under construction or in the pipeline.

➢ With Djibouti, Egypt is one of only two countries in the MENA region that the IMF expects will post positive GDP growth this year. But it is projected at a relatively meagre 2%, less than half the 5% forecast previously.
- Although staying in the black would be an achievement in the current circumstance, the weakness in growth will take a toll on inflation and unemployment.
- Egypt needs growth rates of as high as 8% to create jobs for the 2.5 million people entering the workforce every year.
- The government is targeting 4.5% growth for next year, but that could be a stretch now that the crisis is lasting through mid-year.

➢ Inflation should manage to stay within the target of 9% plus or minus 3 percentage points by Q4 2020; pre-COVID-19, the IMF saw inflation at 10% in 2020 down from 14.3% in 2019, driven by the Central Bank of Egypt's (CBE) cautious monetary measures and currency appreciation. Prices could, however, increase further if the virus is not contained by the end of the year.

➢ The government fiscal deficit is expected to widen to 7.7% of GDP, due to lower tax revenues and scaled-up spending. Lower oil prices will help improve the balance, but reduced capital and remittance flows from GCC countries, combined with reduced revenue from other major GDP components such as tourism will have a greater impact.

Figure 3 – Egypt GDP Breakdown, by Sector[7]



➢ Risks include a sharp decline in foreign reserves due to the economic slowdown, with fears that the Egyptian pound could further weaken against the dollar. This prompted the government's request for the new financial package from the IMF for one year.
- Foreign currency reserves declined to about USD 37B (seven months of imports) at the end of April compared with about USD 40B at the end of March (about eight months of imports).
- The CBE used USD 3.1B during April to cover imports of strategic goods and to pay USD 1.6B in international debt obligations.
  - This included international bonds worth USD 1B as of end-April as well as the exit of some foreign portfolio investors through the CBE's mechanism for transferring money.[8]

➢ We expect mounting pressure on President Abdel Fattah el-Sisi as many Egyptians are sceptical about the government's plans to tackle COVID-19.
- There are also growing concerns about Sisi's ratification of a host of amendments to Egypt's emergency law. Some international human rights groups believe these expand "repressive powers".
- Despite significant economic progress initiated through the IMF programme, recent pressures could build up popular grievances again, renewing the protests that took place in October 2019.
  - Although protests then were small and quickly squashed, they were signs that the fruits of reform had yet to be delivered to the average citizen.
  - However, those protests were an alarm bell for the regime, suggesting that Sisi was no longer invincible.

Iraq: Turning the tide or just tough talk?

Iraq's new prime minister, Mustafa al-Kadhimi, is faced with an ailing economy, fractured infrastructure, and the resurgence of militant groups. He is likely to try to push through incremental reforms, but they may not be enough to stop protests from turning into mass demonstrations.

[6] Transparency International's Corruption Perception Index ranks Kuwait 81st out of 180 countries, the worst in the GCC.
[7] Arabia Monitor; CBE.

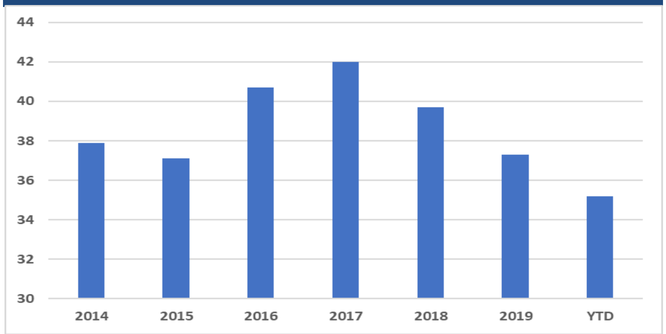
[8] The mechanism allowed the CBE to facilitate capital repatriation to dispel investor fears about forex transfers. It was halted in December 2019, but the CBE had pledged to continue transferring foreign investor money to those who had entered the Egyptian market through the mechanism before 4 December 2019.

- When Kadhimi was designated as prime minister, he was the most likely of Iraq's past three candidates to get a vote of confidence (which he did on 7 May).
    - His nomination was only pushed through when Parliament reached a quorum after a six-month government deadlock.
- He was able to overcome initial opposition from Shi'a groups who flipped their stance after he also received backing from Iran.
    - He is widely supported by the international community, including the US.
    - He has also brought back a key respected former Minister of Finance, Ali Allawi, into the same post he had occupied over 15 years ago.
- While political parties blocked some of his ministerial candidates, he has managed to get 15 through, albeit with key portfolio positions -- including Oil, Justice and Foreign Affairs -- remaining vacant. Rival political parties will make these appointments.
    - His approved Cabinet is largely comprised of technocrats with limited political affiliation.
    - Voting on new ministers of oil and foreign affairs remains delayed. Minister Allawi is acting as Minister of Oil, another good choice in terms of limiting corruption.
- His approval from the international community and to a degree, the country's political elite, is not necessarily a positive at home, however. Kadhimi has been met with cynicism from protesters demanding a change in Iraq's electoral and governmental structure.
- Since taking office, however, Kadhimi has been seeking to act in solidarity with protesters, reaching out to organisers directly with reform plans, in addition to televised attacks on the favouritism that is typical of Iraqi politics.
- His reform plan emphasises the protection of Iraqi sovereignty -- with both Iran and the US in sight -- and facilitating economic development.
- The protests, which began in October 2019, led to the resignation of then Prime Minister Adil Abdul Mahdi.
    - Over 600 protesters have died since then with tens of thousands injured. Kadhimi has called for an investigation into the deaths, promising that "those who have spilt Iraqi blood will not be allowed to rest".
    - His tough talk was turned into action after he arrested those allegedly responsible for violence against protesters in Basra.
- If protester grievances are not properly met, however, there is a risk of prolonging internal divisions, leaving room for external groups such as ISIS to fill the void.
    - We are already beginning to see this play out. In April, the group claimed 113 attacks in the country, compared with an average of 49 in prior months.

Lebanon: A perfect storm

Prime Minister Hassan Diab touted his government's achievements over its first 100 days as best he could on 21 May, but on the streets outside the mood was grim. Protesters once again took to the streets of Beirut to vent their frustrations, and Lebanon's banking association has rejected Diab's five-year rescue plans. The IMF will be unimpressed by stalled reforms.

Figure 4 – Lebanon BDL Foreign Assets (USD, B)[9]



- Diab painted the government's default on its USD 1.2B eurobond payment in March as a "bold decision that has saved the country". He argued that, had the payment been made, Lebanon would have been unable to cope with financial, health and social implications of the coronavirus pandemic.
    - Diab reiterated commitment to implementing reforms in line with decisions of the 2018 CEDRE donor conference in France and launched a workshop to discuss the implementation of those reforms. The workshop was attended by ambassadors of the CEDRE donor countries, but no concrete action was taken.
        - The government is only trying to show the IMF it has the political will to take the actions it needs to receive approval from the Fund on a financial rescue plan.
    - Although many of the laws Diab mentioned during his 100-day speech are in the process of being drafted or have been completed, most have yet to be ratified by Parliament.
- Meanwhile, Central Bank Governor Riad Salame said he would intervene in currency markets after 27 May if needed to protect the LBP against the USD. This could prove costly.
    - The Central Bank will also provide commercial banks with hard currency to finance imports of basic food items and raw materials for the food industry.
- In the Parliamentary session on 28 May, a USD 300M emergency fund was approved to support lowest-income families, agriculture, industry, and microfinance for other sectors. This is important given that the IMF has placed emphasis on the social dimension of their programmes and stressed the need for "inclusive growth".
    - But two key laws on the agenda remain pending:
        - An amnesty law for thousands of wanted/imprisoned people, and;
        - A capital controls law limiting transfers abroad.

Libya: Even on the back foot, Haftar fights on

Rebel General Khalifa Haftar will not surrender without a fight. He is continuing his offensive to seize Tripoli but is largely losing ground. In the past months, this has included the key airbase al-Watiya in the country's west and the towns of Sabrata and Sorman. Nonetheless, we see no sign that this civil war will end soon.

- Haftar has been unable to secure the military rule which he has been seeking nor to make any gains in his offensive in the west, including his goal of taking over the capital.

[9] Arabia Monitor; Banque du Liban.

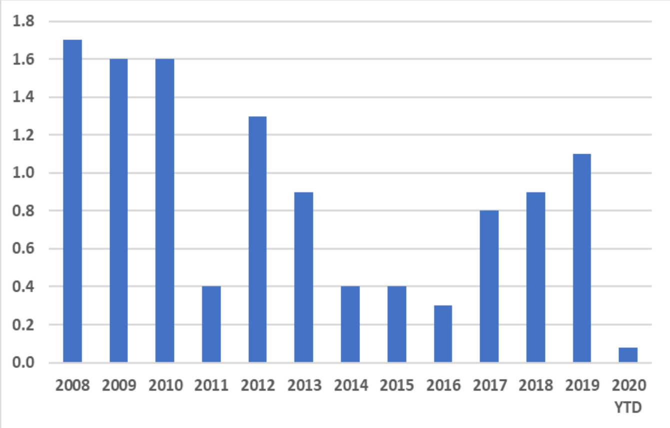
- The UN-recognised Government of National Accord (GNA) has made tremendous strides in their territorial gains with international -- mainly Turkish -- intervention.
  - But Haftar continues to be propped up by Russia, the UAE, and Egypt, although some of this support seems to be waning, at least for now.
  - The United Nations has begun an investigation into Russian-deployed planes that have arrived in eastern Libya, which Haftar controls.
  - Turkish support for GNA Prime Minister Fayez al-Sarraj has been largely aerial.
- This means another Russo-Turkish proxy war is playing out on Libyan soil.
  - Russia and Turkey faced off earlier this year in Syria after a conflict over the ceasefire and patrolling in the province of Idlib.
  - We do not believe the fragile relationship will escalate into direct conflict; both countries are at least publicly committed to dialogue.
  - Both countries may be content with carving up spheres of influence in Libya.
- But Haftar and his supporters are not going to surrender territorial gains without a fight and the conflict is likely to intensify, further fragmenting the country, and impacting oil output.

Sino-MENA:
GCC businesses look beyond energy

GCC businesses are continuing to expand into the Chinese market in sectors other than energy, benefitting from growing trade and transportation links. UAE companies have become increasingly active in sectors in which the Emirates lead, including education, leisure, and aviation.

- Bahrain's Al Baraka Bank is seeking a banking license in China, as well as future acquisition opportunities. It plans to set up a small commercial bank focusing on trade finance.
  - Arab banks mostly used to operate out of Singapore for their businesses in China, but increasingly they have set up representative offices or obtained licenses to open branches in China.
  - Growing trade links have increased demand for trade finance, while local banking and sharia-compliant products are gaining more interest, particularly among Arab businesses and Muslim-owned companies in China.
- Consultancies in Dubai, benefiting from experience in sectors such as education, leisure and aviation are increasingly viewing China as a high-growth market.
  - BBD Education, a Dubai-based education consultancy, is helping Scotland's Gordonstoun School to open in China.
  - Majid Al Futtaim, which owns Dubai’s indoor ski resort, has been commissioned to consult on the development of the largest indoor ski resort in the world, to be built in Shanghai.
  - Mubadala-owned Aerospace Turbine Services & Solutions, a maintenance, repair and overhaul provider for aero engines, has become the first such contractor from MENA to be certified by the Civil Aviation Administration of China.

Figure 5 – Libya Oil Production (Mb/d)[10]



- GCC airlines are among the first carriers in the aviation industry to plan to add flights to China. But challenges remain.
  - Qatar Airways planned to serve passenger flights to Beijing, Guangzhou and Shanghai by the end of June.
  - China, however, has at least initially restricted international passenger flights, effectively limiting airlines to having only one flight a week. The policy is expected to remain in place until October 2020, unless changes are announced.

MENA Energy Outlook:
Supermajors deal with GCC differently[11]

Since 2014, the supermajor pack in the GCC has radically reshuffled. Up to 2014, Shell, ExxonMobil, Total and BP had strong legacy positions in the GCC, ConocoPhillips had a lesser role and Chevron, ENI and even Equinor (ex-Statoil) were barely present.

- Total and ENI had, though, shown more interest in Iran and Iraq for business expansion. Since then, Total and ENI have competed aggressively for almost every GCC upstream opportunity that has appeared. US firms, however, have preferred to focus on domestic shale.
- Technology and capital have become less important than markets and relationships. The national oil companies (NOCs) now have abundant financing and can purchase leading-edge technologies.
  - The main benefits of partnerships with international oil companies (IOCs) now are giving access to markets (particularly for LNG), integrating complex value chains or project management, working on immature unconventional plays, and building relationships with major consumers and politically influential countries.
- IOCs have also built partnerships in international assets. ENI and Total have partnered with Qatar Petroleum (QP) in overseas exploration, and ExxonMobil works with QP in the Golden Pass LNG project in the US. Further partnerships are likely with QP and possibly ADNOC and Saudi Aramco in LNG. There could also be joint ventures in renewables or other ‘green’ energy.

[10] Arabia Monitor; National Oil Corporation.

[11] This section is a guest author contribution courtesy of Robin Mills & Maryam Salman, Energy Analysts, Qamar Energy.

- Qatar's LNG expansion is probably the last big IOC opportunity for some years.
  - Qatar is expanding LNG capacity from 77 million tonnes per year (Mtpa) to 126 Mtpa by 2027 in two phases. QP is going ahead on development on its own but plans to bring in IOC partners.
  - Existing partners Shell, ExxonMobil, Total, and possibly ConocoPhillips are well-placed.
    - If their bids are insufficient, ENI and Chevron are possible replacements.
  - It is likely Asian customers, such as Chinese firms CNPC or CNOOC, will also receive stakes.
- The UAE is by far the most varied partner for IOCs. While Shell and ExxonMobil greatly reduced their presence in recent years, Total and ENI, as well as various European, Asian and Russian firms, have grown.
  - The restructuring of Abu Dhabi's upstream sector is now largely complete, and remaining opportunities will be in exploration and unconventional hydrocarbons, as well as petrochemicals and new energy types (solar, batteries).
- Kuwait and Saudi Arabia will remain mostly off-limits. Chevron operates in the Saudi-Kuwait Neutral Zone onshore, which recently recommenced production after a dispute shut it down in 2015, but it has now stopped again because of OPEC+ limits.
  - BP and Shell have advised Kuwait under technical service agreements.
  - But it is unlikely that the upstream in either country will be opened more widely to private or international companies, despite growing technical challenges in Kuwait with heavy oil and sour gas.
- Oman and Bahrain are open but have less to offer. Shell and Total partner in Petroleum Development Oman (PDO), the country's main producer, but future opportunities focus on unconventional gas (including BP's Khazzan), enhanced oil recovery, and exploration.
  - Likewise, in Bahrain, ENI is exploring offshore while negotiations continue with IOCs on the Khalij Al Bahrain offshore unconventional oil/gas resource.
  - Both countries are under fiscal pressure and privatisations of state oil assets are likely.

Table 3 – IOC GCC Assets[12]

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Shell		TSA	PDO 34%	Qatargas IV Pearl GTL		Gasco 15%
Exxon Mobil				Qatargas I 10%, Ras Laffan II 30%, Qatargas II 18.3-30%, Ras Laffan III 30%, Barzan gas 10%	SAMREF refinery 50%	Upper Zakum 28%
Total			PDO 4%, Block 12 exploration 80%, Mukhaizna heavy oil 2%	Dolphin 24.5%, Ras Laffan refinery 10%, Petrochem 20-40%, Al Khalij oil 40%, Al Shaheen oil 30%, Qatargas I 10%, Qatargas II 16.7%	SATORP refinery 50%	Gasco 15%, ABK 100%, ADNOC Onshore 10%, ADNOC LNG 5%, Umm Shaif/ Nasr 20%, Lower Zakum 5%, Dhiyab unconventional gas, Shams solar 20%, Taweelah A1 power 40%
BP		TSA	Khazzan gas 60%			ADNOC Onshore 10%, ADNOC LNG 10%
ENI	Block 1 exploration		Block 47, 52, 77 exploration		Ibn Zahr petrochem 10%	Umm Shaif/ Nasr 10%, Lower Zakum 5%, Ghasha sour gas 25%, Abu Dhabi exploration 1, 2 Sharjah exploration A, B, C, Ras Al Khaimah exploration A, ADNOC Refining 10%
Chevron					Jubail petrochem, Neutral Zone 50%	
Conoco Phillips				Qatargas III 30%		

[12] Qamar Energy.

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