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OIL & GAS

UAE Capitalizes On Cheap LNG Imports

The UAE's efforts to develop its gas reserves have faltered, with Shell withdrawing from plans to develop the Bab gas field earlier this year. But the setback has come at a time of falling gas prices, and the UAE is seizing the opportunity, taking delivery of its second FSRU this month. ***Page 2***

REFINING & PETCHEMS

Oman Refinery Expansion Pushed Back

Orpic's commissioning plans for new units at Sohar refinery have slipped, yet exports data show a major turnaround was completed ahead of the planned integration. ***Page 4***

OPEC

Saudi H1 Crude Burn At Three-Year Low

Saudi crude burn levels are at a three-year low thanks to gas capacity gains, enabling it to maximize exports as it aggressively pursues market share. ***Page 6***

GEOPOLITICAL RISK

Politics & Prices Stifling East Med Gas Hopes

Israel, Cyprus and Lebanon remain hopeful that Egypt's 25 tcf Zohr gas field will reignite interest in their upstream sectors, but they face major stumbling blocks. ***Page 8***

GEOPOLITICAL RISK

Iraq Swears In New Oil Minister

Iraq's new oil minister has made ambitious statements about ramping up oil and gas production and cutting fuel prices. Are they realistic? ***Page 9***

GEOPOLITICAL RISK

GCC Subsidy Reforms; A Good Start

Low oil prices have spurred GCC countries into making much-needed subsidy cuts, but further reforms are required in the coming years even if prices rebound. ***Page 10***

CORPORATE

Egypt, UAE Boost Dana Gas Output

Dana Gas has managed to reverse production losses thanks to gains in Egypt and the UAE. But sky high receivables remain a concern for the company. ***Page 12***

ECONOMICS & FINANCE

Egypt Faces Austerity Measures

Egypt has secured a $12bn loan facility from the IMF, but as the government looks to get its finances in order it is implementing cost saving measures. ***Page 13***

ECONOMICS & FINANCE

Iran Struggles To Curtail Cash Handouts

Iran is cutting four million people from the 75 million-strong list of recipients of cash handouts as it seeks to tackle the state's $16bn annual outlay. ***Page 14***

UAE Moors 2nd FSRU As It Looks To Take Advantage Of Cheap LNG

ADNOC has taken delivery of its first FSRU from US-based Excelerate Energy as part of efforts to avert supply shortages during the peak demand season. But while the move shows the emirates' gas supply vulnerabilities, it will enable it to take advantage of lower global LNG prices.

The newly-chartered floating storage and regasification unit (FSRU) was delivered earlier this month, and is currently moored off the coast of Ruwais, 240 km west of Abu Dhabi city, making it the second LNG import facility in the UAE.

The FSRU which will be able to process 500mn cfd is being commissioned, having loaded its tank at Das Island, home to the emirate's 5.8mn ton/year liquefaction plant, operated by ADGAS, a subsidiary of ADNOC.

In addition to commissioning works, a commercial agreement between ADNOC and state-owned energy utility Abu Dhabi Water and Electricity Company (ADWEC) has yet to be finalized so the cargo can be discharged, MEES understands. Talks are ongoing with expectations that the home-produced volumes will be offloaded within the next week or two. However, it remains unclear when commercial operations will actually start.

REDUCING RELIANCE ON DOLPHIN

The FSRU was ordered earlier this year by ADNOC in order to address severe gas supply shortages. ADWEC is a subsidiary of ADWEA (Abu Dhabi Water and Electricity Authority) which was cited as the main offtaker to supply its power plants as power consumption continues to rise (MEES, 6 May).

The UAE is working hard to boost its power production capacity (including the construction of Barakah nuclear power plants), and plans to reduce its reliance on gas from around 90% of the energy mix to 70% by 2021. Power consumption is anticipated to rise by around 6%/year through to 2020.

The FSRU will help balance volumes during the summer in tandem with shipments from Qatar through the 3.2 bn cfd of Dolphin pipeline. LNG imports could displace interruptible gas supplies during the summer, reducing flows to contracted volumes of around 1.9 bn cfd.

Increasing supplies through the Dolphin pipeline remains a talking point as only two thirds of its capacity is currently utilized. But price remains a sticking point with Qatar, underscoring the need for alternative sources.

The price of Dophin gas was reported at $1.30/mn BTU, with escalators, a figure agreed in the 1990s, before Qatar had developed its gas industry. Still this was deemed by Doha too low when compared with the global market value of LNG – despite tumbling over the past 18 months, Qatari volumes to Japan still retail at $5.06/mn BTU. However, the interruptible gas price was virtually identical at around $5/mn BTU when it was contracted in 2009.

OPPORTUNISM

LNG was initially considered a temporary solution to the UAE's gas shortage problems, as well as in neighboring countries such as Kuwait, which blazed the trail in the region by becoming the GCC's first LNG importer in 2009. The UAE followed suit in 2010 with the installation of an FSRU off Jebel Ali in the emirate of Dubai.

While it appears counter-intuitive for Middle East nations to resort to LNG imports to meet domestic demand while sitting on vast gas reserves, there is no sign of this gap closing in the near future, with the IEA forecasting the Middle East to be a key bright spot of demand growth (MEES, 20 November).

The UAE's gas reserves stand at 6.1 tcm (215.1 tcf), the sixth largest in the world, behind Russia, Iran, Qatar, Saudi Arabia and Turkmenistan. But production, which mostly comes from associated gas, has failed to keep up with consumption, leaving a shortfall of 13.3bcm in 2015.

But the mind-set is shifting, with the local LNG business mostly driven by pure opportunism given its cost effectiveness, when compared with exploration and production activities. ADNOC has certainly intensified efforts to develop some key sour gas fields, bringing the 1bn cfd Shah gas field fully onstream late last year (MEES, 8 April).

However the fields' high sulfur content means significant investment in processing and treatment technologies is required, which is becoming riskier given current oil prices.

Indeed, the withdrawal of Shell from the $10bn sour gas Bab project earlier this year dealt a blow to the UAE as the company pursues its cost-cutting policy due to a more challenging oil price environment (MEES, 22 January).

Production costs at Bab, whose gas is not only sour but also dry, are estimated at least above $5/mn BTU, while the Shah field gas yields condensate and sulfur, the returns of which can be considered to compensate for high production costs to some extent.

"Shell's decision to leave Bab gas project has been a setback for Abu Dhabi's gas supplies, leaving it to increase its reliance on Shah gas project," Abhishek Kumar, senior energy and modeling analyst at Interfax says.

Attention is increasingly turning to the offshore Hail and Ghasha fields, where US-firm Occidental, UAE's state investment firm Mubadala and Austria's OMV are involved in preliminary studies (MEES, 22 April).

But weaker LNG prices reduce the imperative to bring fields online. Spot LNG prices in East Asia fell from around $14/mn BTU in the first half of 2014 to around $5.5/mn BTU currently, as more liquefaction capacity has come onstream (MEES, 17 June), and demand growth has faltered. Prices were recently bolstered partly by above average temperatures this summer in East Asia, especially in Japan, the world's largest buyer of the fuel, but could well soften once the summer peak season is over.

The change in the LNG supply and demand balance has not only weighed on LNG spot prices over the past two years. Most importantly, it is changing dynamics in the market, boosting short-term trade and bringing greater flexibility in terms of pricing structure and delivery terms in oil-indexed contracts, echoing buyers' demands.

WINDOW OF OPPORTUNITY

The FSRU will also allow ADNOC to capture market value more quickly, through spot purchases and medium-term contracts. This is especially true as the 9mn t/y Fujairah onshore terminal project proposed by Emirates LNG has come to a standstill. Some sources even consider it "dead".

Whether it has been shelved or indefinitely canceled remains subject to speculation. Clearly the changes at the helm of Abu Dhabi's oil and gas sector - including the announced merger of Mubadala and the International Petroleum Investment Company (IPIC), which are behind the Fujairah project through their joint-venture Emirates LNG - confirm that the project will be further delayed, at best.

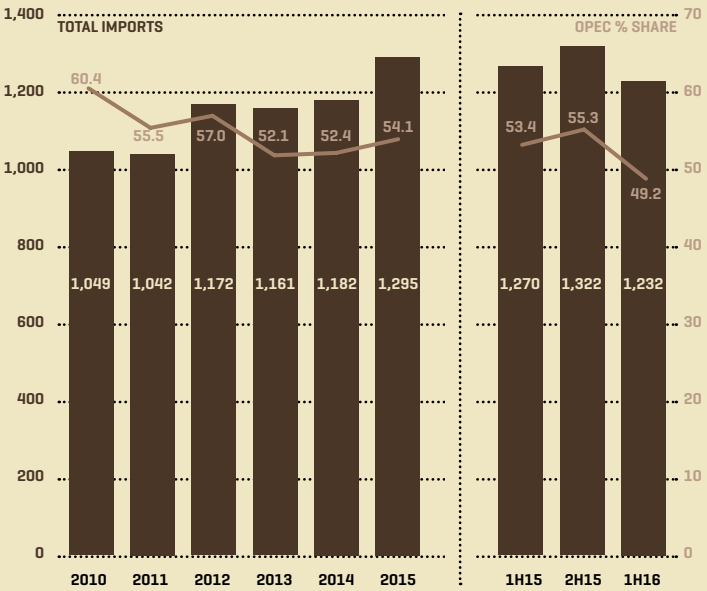
But even if the scheme were to be revived in the medium term, it would take much longer to build the onshore facility (up to 4-5 years). "So far, ADNOC is the main entity that has authority for gas imports into the Abu Dhabi Emirate," Siamak Adibi, senior consultant at Facts Global Energy says. For this reason, ADNOC can be forgiven for coming in first, and for wanting to take advantage of the current market conditions. ◆◆

SPANISH CRUDE IMPORTS ('000 B/D): MIDEAST SUPPLIERS CAPITALIZE ON COLLAPSE IN ANGOLAN & VENEZUELAN VOLUMES. CAN IRAN, TOP SUPPLIER TILL 2010, INCREASE ITS GAINS?

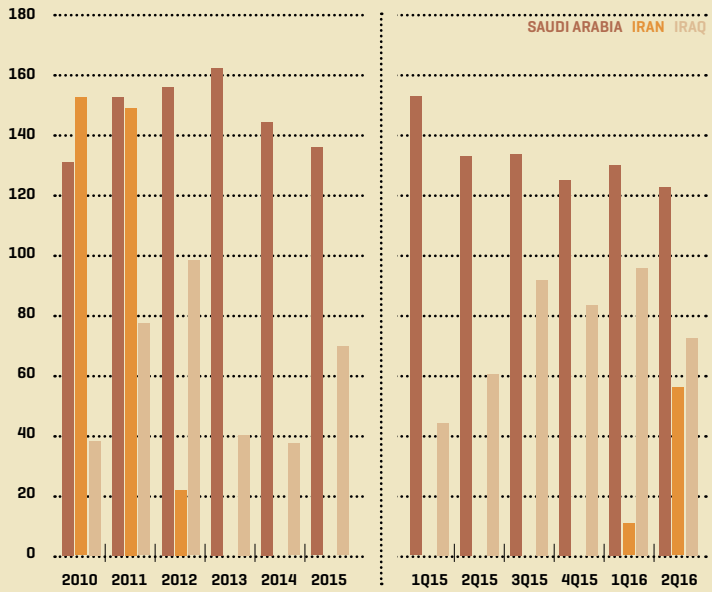
		vs1H15				vs2Q15										
	1H16	000 b/d	%	1H15	2Q16	000 b/d	%	1Q16	4Q15	3Q15	2Q15	Apr-16	May-16	Jun-16	2014	2015
Middle East	**247.9**	**+52.1**	**+26.6**	**195.8**	**251.9**	**+57.7**	**+29.7**	**244.0**	**209.1**	**225.8**	**194.2**	**238.7**	**197.5**	**319.4**	**182.2**	**206.0**
Saudi Arabia (Opec)	126.8	-16.7	-11.6	143.4	123.0	-10.5	-7.8	130.5	125.4	134.0	133.5	101.5	96.5	171.1	144.8	136.2
Iraq (Opec)	84.4	+32.0	+61.0	52.4	72.7	+12.1	+19.9	96.0	83.6	91.9	60.6	35.1	100.9	82.1	37.4	69.8
Iran (Opec)	33.4	+33.4	-	0.0	56.1	+56.1	-	10.6	0.0	0.0	0.0	102.2	0.0	66.2	0.0	0.0
Syria	0.0	-	-	0.0	0.0	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
other*	3.4	+3.4	-	0.0	0.0	-	-	6.8	0.0	0.0	0.0	0	0	0	0.0	0.0
North Africa	**100.9**	**+16.3**	**+19.2**	**84.6**	**97.4**	**-1.5**	**-1.5**	**104.4**	**147.2**	**79.9**	**98.9**	**68.5**	**103.7**	**120.0**	**81.1**	**99.8**
Algeria (Opec)	26.3	-31.8	-54.7	58.1	28.7	-49.3	-63.2	23.9	67.7	66.9	78.0	7.9	17.0	61.3	44.8	63.1
Libya (Opec)	57.4	+30.9	+116.6	26.5	48.2	+27.4	+131.3	66.6	62.1	13.0	20.8	60.7	41.8	42.0	28.8	32.4
Egypt	17.2	+17.2	-	0.0	20.5	+20.5	-	13.9	15.8	0.0	0.0	0.0	44.9	16.6	4.7	3.9
Tunisia	0.0	-	-	0.0	0.0	-	-	0.0	1.7	0.0	0.0	0.0	0.0	0.0	2.7	0.4
Ex Mena Opec Nigeria	199.0	-8.2	-4.0	207.2	176.6	-23.5	-11.7	221.4	258.6	207.0	200.0	157.1	189.8	182.8	201.0	219.7
Angola	49.5	-73.1	-59.6	122.6	54.1	-50.4	-48.2	44.8	87.4	140.8	104.5	132.0	30.4	0.0	104.8	118.2
Venezuela	26.8	-38.2	-58.8	65.0	21.3	-41.9	-66.3	32.3	67.2	50.4	63.2	49.8	0.0	14.0	56.1	61.4
Ecuador	0.0	-	-	0.0	0.0	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	
Europe/FSU	**263.9**	**+26.3**	**+11.0**	**237.6**	**252.5**	**+9.0**	**+3.7**	**275.2**	**192.0**	**270.4**	**243.5**	**291.4**	**273.8**	**192.3**	**230.9**	**237.0**
Russia	92.0	+17.7	+23.8	74.3	88.4	+16.4	+22.8	95.7	85.3	87.2	72.0	73.1	94.3	97.7	91.5	80.3
Caspian (Azer, Kaz)	110.5	+14.7	+15.4	95.8	101.6	+13.7	+15.6	119.4	47.2	96.4	87.9	154.4	106.6	44.0	80.7	83.8
North Sea	53.0	-6.5	-11.0	59.6	58.5	-16.4	-21.9	47.6	60.3	75.9	74.9	58.9	72.8	43.8	51.5	64.0
other Europe	8.3	+0.3	+4.2	8.0	4.0	-4.8	-54.4	12.6	8.8	10.9	8.7	5.1	0.0	6.8	7.2	9.0
Mexico	160.5	-7.2	-4.3	167.7	164.1	+9.5	+6.1	157.0	146.9	198.0	154.6	186.3	168.2	137.8	163.2	169.4
Colombia	50.6	-18.5	-26.7	69.1	36.7	-40.5	-52.5	64.6	54.3	59.9	77.2	73.4	0.0	36.8	80.4	63.3
other Americas^	61.8	+20.5	+49.8	41.3	61.0	+22.7	+59.4	62.6	50.5	64.9	38.2	20.5	69.3	93.1	28.0	49.7
Africa (sub-Saharan)^^	70.8	-8.3	-10.4	79.0	50.3	-35.3	-41.2	91.2	39.5	84.6	85.6	67.4	50.4	33.2	52.7	70.5
TOTAL	**1,231.7**	**-38.3**	**-3.0**	**1,269.9**	**1,165.9**	**-94.2**	**-7.5**	**1,297.5**	**1,262.2**	**1,381.7**	**1,260.1**	**1,285.2**	**1,082.9**	**1,129.5**	**1,182.3**	**1,295.0**
of which MENA	348.8	+68.4	+24.4	280.4	349.3	+56.3	+19.2	348.3	356.3	305.7	293.0	307.3	301.2	439.4	263.3	305.8
MENA %	*28.6*	*+6.4*		*22.2*	*30.2*	*+7.0*		*26.9*	*28.3*	*22.2*	*23.2*	*23.9*	*27.8*	*38.9*	*22.3*	*23.6*
Opec	**603.4**	**-71.7**	**-10.6**	**675.2**	**580.7**	**-80.1**	**-12.1**	**626.2**	**751.9**	**703.9**	**660.8**	**646.1**	**476.5**	**619.6**	**619.7**	**700.7**
Opec %	***49.2***	***-4.2***		***53.4***	***49.7***	***-2.6***		***48.7***	***59.6***	***51.0***	***52.3***	***50.3***	***44.0***	***54.9***	***52.4***	***54.1***

*UAE, KUWAIT, OMAN, YEMEN. ^EX VENEZUELA, ECUADOR, MEXICO, COLOMBIA, ^^EX NIGERIA, ANGOLA. SOURCE: CORES, MEES.

OPEC SHARE OF SPANISH IMPORTS DIPS BELOW 50% IN FIRST HALF OF 2016 ('000 B/D)



RETURN OF IRAN INTENSIFIES BATTLE FOR SPANISH MARKET SHARE AMONG MIDDLE EASTERN PRODUCERS ('000 B/D)



Oman's Sohar $2.1bn Refinery Expansion Schedule Pushed Back

Orpic's plans for commissioning new units at Sohar refinery have slipped. Exports data suggest a major turnaround at Sohar has been completed ahead of the planned integration, though.

Oman's Minister of Oil and Gas Muhammad al-Rumhy says that state refiner Orpic will not begin commissioning its expanded Sohar refinery until the first quarter of 2017, having initially aimed to have the plant ready to begin commercial operations by the end of 2016.

The refinery's crude processing capacity is being expanded from 116,000 b/d to 197,000 b/d by UK's Petrofac and Korea's Daelim under a $2.1bn engineering, procurement and construction contract awarded in late 2013.

Besides installing a new crude distillation unit, the project involves revamping existing units and adding new vacuum distillation, hydrocracker and deasphalting units. These will maximize output of transport fuels and enable the processing of heavier crudes (MEES, 29 November 2013).

REFINERY TURNAROUND

While Mr Rumhy gave no reason for the slide in the Sohar expansion schedule, data available to date suggest that Orpic did complete as planned a scheduled turnaround of Sohar refinery and its 350,000 tons/year polypropylene plant ahead of the hook-up of the new units.

As it began the shutdown, which was scheduled to take place from 23 February to 23 April, Orpic said that a large turnaround is undertaken at its refineries every three years. As normal, this shutdown would include work to "improve the operational performance" of existing units.

The company added that "this time the scope will be larger, as Orpic wants to make modifications to the existing plant to allow a full integration of the new units being constructed under the Sohar Refinery Improvement Project, which is due for commissioning later in the year."

Orpic also said that the shutdown would include a "large revamp of the resid catalytic cracker unit which is the core of the existing refinery." Orpic said at the end of March that the turnaround was "progressing well" but it has not since confirmed that the work program has been completed.

Oman processed an average 183,000 b/d of crude at its Sohar and 106,000 b/d capacity Mina al-Fahal refineries in January and February 2016, according to data submitted by Oman to the Riyadh-based Joint Organizations Data Initiative (Jodi). Oman has not submitted data to Jodi since.

However, the Sohar shutdown is reflected in recent Oman oil export data, which shows record exports of 999,000 b/d in March. A decline in exports to 869,000 b/d for May and 870,000 b/d for June – a differential of around 130,000 b/d – suggests that Sohar is back online (MEES, 29 July).

While the slip in the schedule is unexplained, it does appear to be recent. In early August Orpic CEO Musab al-Mahruqi told the Times of Oman that the project was on track for completion by the end of the year. However, this week Mr Rumhy told Reuters there has "been a delay."

DOWNSTREAM PUSH

Orpic's next project will be a flare gas recovery system at Sohar refinery. The company has invited international contractors to bid for an engineering, procurement, construction and commissioning project for the unit. Basic design has reportedly been completed by US firm John Zink Hamworthy.

Oman's downstream firms are currently undertaking a major development program. Besides expanding Sohar refinery, Orpic is building the 1.1mn t/y Liwa Plastics petchems project at Sohar for 2018 start-up and a 93,000 b/d products pipeline network linking its refineries with storage facilities.

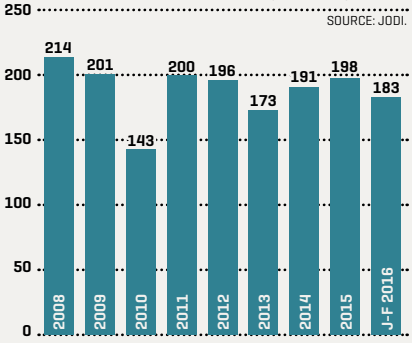
Meanwhile, the DRPIC joint venture of state oil firm OOC and Abu Dhabi investment fund IPIC is building a 230,000 b/d refinery at Duqm for start-up in 2019. OOC is also involved in the Ompet venture with Korea's LG and Oman's Takamul Investment, which plans to build a packaging materials plant at Sohar (MEES, 27 November 2015). ◆◆

ORPIC'S SOHAR REFINERY EXPANSION

Crude Processing:	'000 B/D
Current CDU Capacity	116
Expanded CDU Capacity	197
Main New Units:	
Crude Distillation	71.5
Vacuum Distillation	96.8
Hydrocracker	66.4
Solvent Deasphalter	42.4

SOURCE: MEES.

OMAN REFINERIES CRUDE INTAKE ('000 B/D)



OMAN DOWNSTREAM PLANTS/PROJECTS

REFINING - Current:	'000 B/D
Sohar	116
Mina al-Fahal	106
Total Current	**222**
Refining Planned:	
Sohar Expansion (2017)	81
Duqm (2019)	230
Total Refining End-2020	**533**
PETROCHEMICALS - Current:	**'000 T/Y**
Aromatics	1,016
- Paraxylene	818
- Benzene	198
Polypropylene	350
Total Current	**1,366**
Petrochemicals Planned:	
Liwa Plastics (2019)	1,100
- Cracker	880
- Linear Low Density Polyethylene	500
- High Density Polyethylene	300
- Polypropylene	215
- Methyl Tertiary Butyl Ether	40
- Butane-1	45
PTA/PET (2019?)	1,600
- Purified Terephthalic Acid	1,100
- Polyethylene Terephthalate	500
Total Petchems End-2020	**4,066**
PIPELINE & STORAGE	
Muscat-Sohar Products Pipeline (2017)	93,000 b/d
Jifnain Terminal (2017)	170,000m³

SOURCE: ORPIC, DRPIC, OMPET.

SEC Identifying Sites For Solar Plants, Sanctions 300MW Renewables Program

Saudi Electricity Company (SEC) has begun technical studies into generating electricity from renewables sources, including a project to identify sites throughout the kingdom which are suitable for solar power plants.

SEC CEO Ziyad al-Shiha says the company's board has approved an initiative to develop solar and wind projects with a combined capacity of 300MW. These will save the equivalent of 25.5mn barrels of fuel oil through their 25-year operational life, he says. Mr Shiha listed the projects to be developed under the initiative as 50MW solar plants at Aflaj, Al-Jawf and Rafha, a 50MW wind farm at Amlaj, and 50MW solar components in integrated solar combined cycle (ISCC) plants at Dhuba and Waad al-Shamal.

"Since the announcement of Saudi Arabia's Vision 2030," says Mr Shiha, "SEC is working closely with the Ministry of Energy and Mineral Resources to develop plans for renewable energy projects with a combined capacity of 9.5GW."

Saudi Arabia has been slow to adopt renewable energy technologies, and currently has only 25MW of solar photovoltaic (PV) capacity in a number of small plants. Mr Shiha says the first of these was a 500kW plant on Farasan Island off the Saudi Red Sea coast. This delivers 860MWh/year of electricity.

Until recently Riyadh's renewables target was enormous – 54GW of capacity by 2032, including 41GW of solar and 9GW of wind – but its progress was negligible. Now Deputy Crown Prince Muhammad's plan to end the Saudi "addiction to oil" includes more realistic renewables goals.

Prince Muhammad's target for renewables capacity is now 9.5GW by 2030, with a medium term target of 3.45GW by 2020. So far SEC and state petroleum firm Aramco have announced solar and wind projects with a combined capacity of 483MW (see table). SEC and King 'Abd al-'Aziz City for Science and Technology (Kacst) were the first Saudi firms to announce a utility-scale renewables project. They signed a memorandum of understanding to build a solar PV plant in the desert town of Layla, 330km south of Riyadh.

SEC subsequently invited expressions of interest for solar PV projects at Al-Jawf and Rafha in the north, to be developed under independent power producer (IPP) terms. SEC is also considering solar projects at Sharurah in the south, at Mahd ah-Dhahab, Al-Qurayyat, Najran "and more" (MEES, 10 June).

SAUDI RENEWABLES PROJECTS

Company	Project/Location	Type	MW	Start-Up
Aramco/GE	Harimale, Turaif	Wind	3	2016
SEC (IPP)	Dhuba-1 (605MW)	ISCC	50	2017
SEC	Waad Al-Shamal (1.39GW)	ISCC	50	2018
SEC	Amlaj	Wind	50	na
SEC/Kacst	Layla	Solar PV	50	na
SEC (IPP)	Al-Jawf	Solar PV	50	na
SEC (IPP)	Rafha	Solar PV	50	na
SEC (IPP)	Taiba (3.78GW)	ISCC	180	na
Projects Total			**483**	
Current Capacity*		Solar PV	25	

ISCC = INTEGRATED SOLAR COMBINED CYCLE, TOTAL CAPACITY IN BRACKETS. SOURCE: SEC, *IRENA.

FIRST WIND

Saudi Arabia has no wind capacity, but state petroleum firm Aramco and US turbines giant General Electric (GE) have announced a plan to install a 2.75MW wind turbine at a products storage facility in Turaif in the northwest of the kingdom (MEES, 17 June). SEC – owned 74% by the Saudi government, 19% by private investors and 7% by Aramco – will incorporate lessons learned from the Turaif project in planning a 50MW wind farm to be built at Amlaj on the Saudi Red Sea coast.

Saudi Arabia is also looking to deploy ISCC technology, in which solar units are used to heat steam to improve the thermal efficiency of heat recovery steam generators in conventional combined cycle power plants. SEC has invited bids for building a 605MW ISCC plant at Dhuba on the Red Sea coast. The plant's combined cycle unit will normally burn gas and condensate, with Arab Super Light crude as back-up. It will incorporate a parabolic trough concentrated solar power (CSP) unit.

SEC has awarded GE a SR3.68bn ($980mn) contract to build a 1.39GW ISCC plant at Waad al-Shamal near the border with Jordan, where it will power expanded phosphate mining operations. SEC has also requested technical proposals for a 3.78GW ISCC plant to be built at Taiba near Medina. ◆◆

EGYPT SIGNS $3BN SOLAR DEAL WITH CHINA

Egypt has signed a memorandum of understanding (MoU) with the Chinese government for the construction of a 1GW solar power park, to be built in two 500MW phases, as well as a solar panels manufacturing facility.

The MoU calls for the Chinese government to fund the solar park and factory with $3.3bn of concession financing, according to Daily News Egypt. The Ministry of Military Production and the Ministry of International Cooperation were the Egyptian signatories to the deal.

The Chinese deal comes at a time when Egypt's Ministry of Electricity is struggling to attract investment in its planned 4.3GW solar photovoltaic and wind power development program. China has already signed preliminary agreements with Egypt for two coal-fired plants expected to cost $4.6bn (MEES, 29 January).

Potential investors from outside Egypt are being deterred by Cairo's perilous financial situation and the electricity ministry's insistence that domestic courts will be used to solve any contract disputes that may arise. This week a number of international firms pursuing Egyptian renewables projects have been trying to renegotiate more agreeable terms before signing power purchase agreements with the Ministry of Electricity.

While the ministry has set out feed-in-tariffs for both solar and wind projects and the Egyptian Electricity Utility and Consumer Protection Regulatory Authority has issued 56 temporary licenses, Electricity Minister Muhammad Shakir insists that developers must agree to "arbitration in Egypt."

Mr Shakir also says that companies must raise 85% of the finance for any renewables projects from international banks and 15% from Egyptian banks. As long as the local arbitration requirement remains in place, international banks are unlikely to lend money to project developers.

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SAUDI ARABIA FIRST HALF CRUDE BURN AT THREE-YEAR LOW

OPEC

Saudi Arabia is aggressively protecting market share in the face of rising exports from fellow Opec members Iran and Iraq and the threat of a resurgence in US oil shale production if oil prices rally further. The latest monthly data from the Riyadh-based Joint Organizations Data Initiative (Jodi) show that Aramco's crude exports are on track for record highs. Averaging 7.52mn b/d in the first half of 2016, they are slightly up on the same period in 2013. The 7.42mn b/d average then paved the way for an annual record of 7.54mn b/d.

June exports reached 7.46mn b/d, although this was well short of March 2015's record 7.9mn b/d. This was when Aramco began its now 17-month long run of production in excess of 10mn b/d – the key weapon in its 'market share over oil prices' policy, which has dismayed some fellow Opec producers.

Saudi Arabia will be meeting with fellow Opec and non-Opec members in Algeria next month. Energy Minister Khalid al-Falih has said the kingdom is prepared to act in coordination with these "if there is a need to take any action to help the market rebalance." Such action looks unlikely, but Brent has subsequently risen $4/B to breach the $50/B barrier. Saudi Arabia's official production figures show output surging from 10.55mn b/d in June to a record 10.67mn b/d in July. Output in the first half averaged 10.29mn b/d – slightly above the MEES estimate of 10.23mn b/d – which was a slight increase over the same period in 2015.

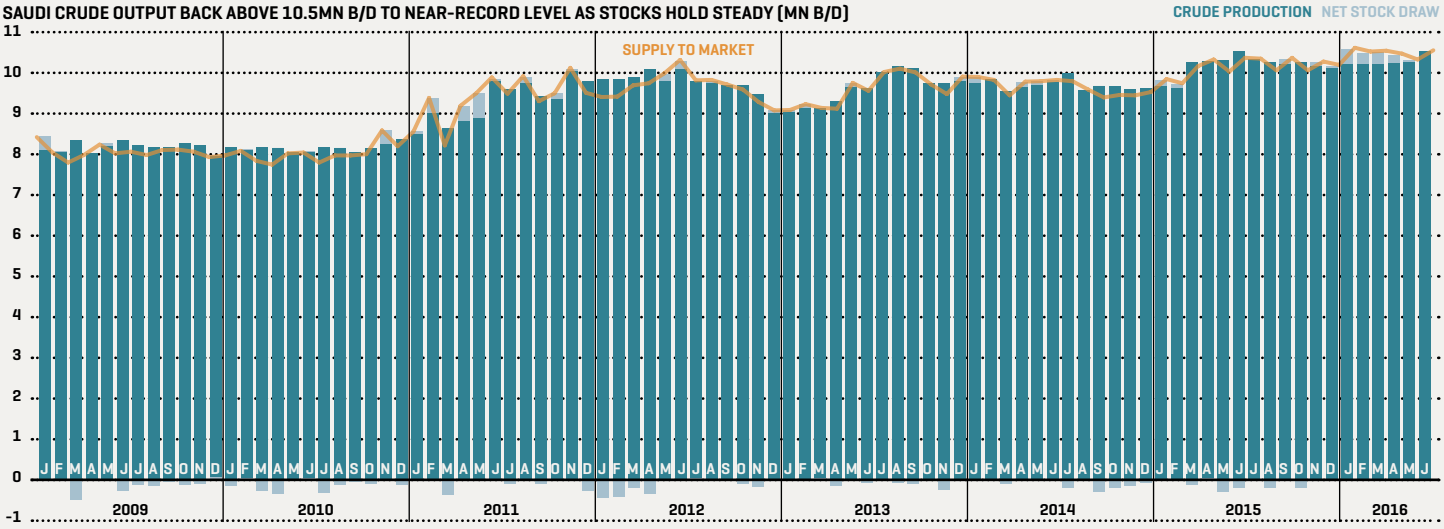
And these highs are being compounded by the government's recent success in increasing gas production. Direct crude burning in power plants has taken a large chunk out of Saudi crude exports in recent years, but start-up of the 1.7bn cfd Wasit gas plant in March increased the supply of gas for power generators, and appears to be reducing the need to burn crude.

Second quarter 2016 direct crude burn was 90.1% higher than Q1 at 622,000 b/d – but this was only to be expected as electricity demand ramps up in the warmer months. A better indicator is first half crude burn – down by 0.9% on 1H15 at 474,000 b/d. The latest monthly data was also encouraging – 704,000 b/d in June 2016, compared with the record 894,000 b/d burn recorded in June 2015. Crude burn in the first half of the year is the lowest since 2013.

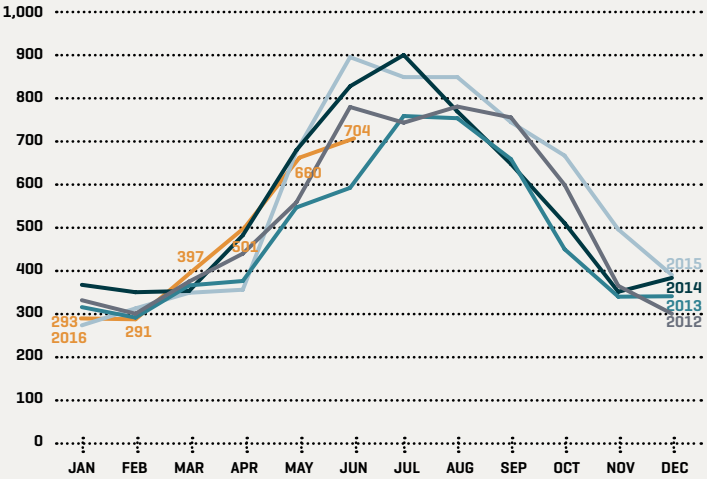
The biggest domestic call on crude is for refineries, whose total capacity is 2.9mn b/d. Aramco brought two 400,000 b/d capacity refineries online in stages during 2013-15, as it looked to get a better return on its crude resources by increasing its exports of products. In June refinery output was 2.699mn b/d, the lowest monthly average for 2016 and significantly below the March peak of 2.851mn b/d, although refinery intake for the month was up slightly at 2.381mn b/d. The refinery output decline was reflected in net products exports, which fell to 729,000 b/d having peaked at 1.131mn b/d in February. Despite the recent decline, first half 2016 refinery output was 17.6% higher than for 1H15 at 2.764mn b/d (see p7 for full data).

Crude stocks rose slightly, by 300,000 barrels, bringing an end to a run of seven consecutive months of drawdowns. They currently stand at 289.4mn barrels, down more than 30mn over the past year. Product stocks however fell 3.3mn barrels to 87.3mn, down 7.4mn from their March 2016 record high. ◆◆

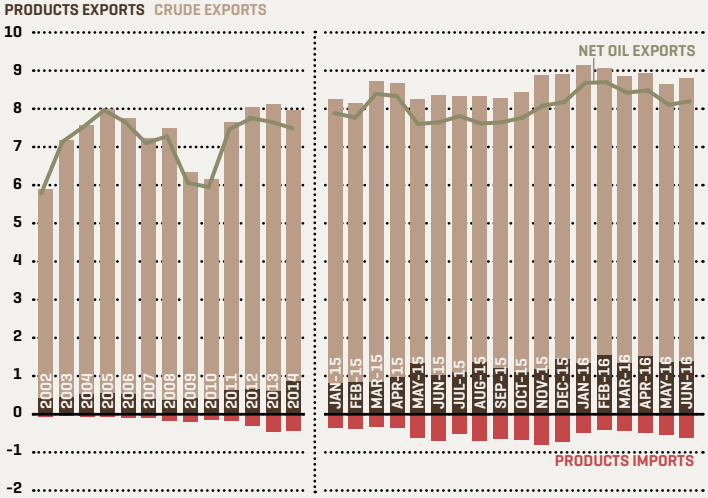
SAUDI CRUDE OUTPUT BACK ABOVE 10.5MN B/D TO NEAR-RECORD LEVEL AS STOCKS HOLD STEADY (MN B/D)



CRUDE BURN SHOWS FIRST YEAR-ON-YEAR DECLINE SINCE 2013 AFTER GAS SUPPLIES INCREASE ('000 B/D)



SAUDI OIL EXPORTS REMAIN AT NEAR RECORD LEVELS (MN B/D)



SAUDI ARABIA KEY OIL DATA ('000 B/D)

OPEC

		vs 1H15				vs 1Q16									
	1H16	**'000 b/d	%	1H15	2Q16	**'000 b/d	%	4Q15	1Q16	Apr-16	May-16	Jun-16	2013	2014	2015
Crude Production	**10,296**	**+160**	**+1.6**	**10,136**	**10,361**	**+129**	**+1.3**	**10,202**	**10,231**	**10,262**	**10,270**	**10,550**	**9,634**	**9,714**	**10,189**
Crude Exports	**7,521**	**+61**	**+0.8**	**7,460**	**7,398**	**-176**	**-2.3**	**7,523**	**7,643**	**7,444**	**7,295**	**7,456**	**7,542**	**7,106**	**7,393**
% of crude production	*73.1*	*-0.6*		*73.7*	*71.4*	*-3.3*		*73.7*	*74.7*	*72.5*	*71.0*	*70.7*	*78.3*	*73.2*	*72.6*
Refinery Crude Intake	**2,495**	**+355**	**+16.6**	**2,141**	**2,420**	**-151**	**-5.9**	**2,131**	**2,571**	**2,510**	**2,369**	**2,381**	**1,577**	**1,997**	**2,181**
% of crude production	*24.6*	*+3.4*		*21.1*	*23.8*	*-1.4*		*20.9*	*25.1*	*24.5*	*23.1*	*22.6*	*16.4*	*20.6*	*21.4*
Run rate (% of capacity)	*86.6*	*+13.0*		*73.6*	*83.9*	*-4.5*		*73.3*	*88.4*	*86.3*	*81.5*	*81.9*	*72.6*	*80.3*	*75.0*
Direct Burn Crude	**474**	**-4**	**-0.9**	**479**	**622**	**+295**	**+90.1**	**519**	**327**	**501**	**660**	**704**	**483**	**553**	**572**
% of crude production	*4.2*	*-0.5*		*4.7*	*5.7*	*+2.5*		*5.1*	*3.2*	*4.9*	*6.4*	*6.4*	*5.0*	*5.7*	*5.6*
Total Oil Burn^	**886**	**+3**	**+0.4**	**882**	**1045**	**+318**	**+43.8**	**924**	**726**	**818**	**1096**	**1220**	**794**	**938**	**975**
% of crude production	*8.0*	*-0.7*		*8.6*	*9.3*	*+2.2*		*9.0*	*7.1*	*8.0*	*10.7*	*11.6*	*8.2*	*9.6*	*9.5*
Crude Stocks (mn bl, end period)	**289.4**	**-30.1**	**-9.4**	**319.5**	**289.4**	**-7.2**	**-2.4**	**325.5**	**296.7**	**290.9**	**289.2**	**289.4**	**287.9**	**308.7**	**325.5**
crude stock change (mn bl)	*-36.0*	*-46.8*	*-434.6*	*+10.8*	*-7.2*	*+21.6*	*-75.0*	*+2.8*	*-28.8*	*-5.8*	*-1.7*	*+0.3*	*+11.3*	*+20.8*	*+16.7*
('000 b/d)	*-169.2*	*-219.9*	*-433.0*	*+50.8*	*-79.3*	*+237.4*	*-75.0*	*+30.0*	*-316.6*	*-193.4*	*-54.3*	*+9.0*	*+30.9*	*+57.1*	*+45.9*
Crude Supply to Market	**10,494**	**+415.1**	**+4.1**	**10,079**	**10,440**	**-107.3**	**-1.0**	**10,173**	**10,547**	**10,455**	**10,324**	**10,541**	**9,603**	**9,657**	**10,145**
Oil Product stocks (mn bl, end period)	**87.3**	**-1.5**	**-1.6**	**88.8**	**87.3**	**-7.3**	**-7.7**	**88.5**	**94.7**	**94.5**	**90.6**	**87.3**	**87.6**	**85.5**	**88.5**
of which: Gasoline	30.4	+0.6	+2.1	29.7	30.4	-1.4	-4.3	29.0	31.7	33.0	32.5	30.4	26.5	28.1	29.0
Jet-Kero	16.6	+2.1	+14.4	14.5	16.6	-0.4	-2.6	15.5	17.1	17.2	16.9	16.6	16.1	15.4	15.5
Diesel/Gasoil	28.8	-2.2	-7.0	30.9	28.8	-4.4	-13.4	31.3	33.2	31.4	29.1	28.8	30.8	28.5	31.3
Total Oil Stocks	**376.8**	**-31.5**	**-7.7**	**408.3**	**376.8**	**-14.5**	**-3.7**	**413.9**	**391.3**	**385.4**	**379.8**	**376.8**	**375.6**	**394.2**	**413.9**
oil stock change (mn bl)	*-37.1*	*-51.3*	*-363.3*	*+14.1*	*-14.5*	*+8.1*	*-35.7*	*+1.3*	*-22.6*	*-6.0*	*-5.6*	*-3.0*	*+16.3*	*+18.6*	*+19.7*
('000 b/d)	*-174.4*	*-241.0*	*-362.1*	*+66.5*	*-159.7*	*+88.8*	*-35.7*	*+14.4*	*-248.5*	*-198.4*	*-180.0*	*-100.0*	*+44.5*	*+51.1*	*+54.1*
REFINERY OUTPUT	**2,764**	**+413**	**+17.6**	**2,351**	**2,712**	**-105**	**-3.7**	**2,544**	**2,817**	**2,706**	**2,730**	**2,699**	**1,839**	**2,104**	**2,439**
LPG	37	-14	-27.3	51	33	-8	-19.4	40	41	29	32	39	38	43	46
Gasoline	547	+84	+18.2	463	555	+16	+2.9	485	539	546	582	536	384	425	486
Jet-Kero	248	+23	+10.1	225	237	-22	-8.4	251	259	251	225	235	160	199	224
Diesel/Gasoil	1,074	+225	+26.5	849	1,061	-26	-2.4	1,072	1,086	1,008	1123	1,051	590	711	942
Fuel Oil	453	-18	-3.9	471	428	-49	-10.3	396	477	458	390	437	436	469	447
other products	406	+113	+38.7	293	398	-16	-3.9	300	414	414	378	401	231	257	294
REFINED PRODUCTS DEMAND*	**1,905**	**-42**	**-2.1**	**1,946**	**1,940**	**+72**	**+3.8**	**1,950**	**1,869**	**1,789**	**1,976**	**2,056**	**1,723**	**1,861**	**1,967**
LPG*	47	+2	+3.3	46	46	-3	-5.5	45	48	45	45	47	42	42	44
Gasoline	577	+12	+2.2	565	569	-16	-2.7	577	585	580	560	568	506	528	568
Jet-Kero	94	+9	+10.0	85	92	-4	-3.8	87	95	93	88	94	71	79	88
Diesel/Gasoil	718	-44	-5.8	762	753	+70	+10.3	756	683	707	780	772	730	753	779
Fuel Oil	411	+8	+1.9	404	423	+24	+5.9	405	399	317	436	516	311	384	403
other products	58	-27	-32.2	85	58	-	-	80	58	47	67	59	64	75	85
PRODUCTS EXPORTS (GROSS)*	**1,415**	**+460**	**+48.2**	**955**	**1,419**	**+7**	**+0.5**	**1,239**	**1,411**	**1,524**	**1361**	**1,371**	**600**	**862**	**1,088**
Gasoline	215	+85	+65.6	130	226	+22	+10.8	225	204	237	219	221	38	99	166
Jet-Kero	157	+15	+10.4	142	169	+24	+16.6	96	145	188	140	179	82	135	127
Diesel/Gasoil	583	+303	+108.1	280	595	+24	+4.2	539	571	586	613	586	105	243	399
Fuel Oil	256	+61	+31.3	195	219	-73	-25.1	228	293	283	183	192	222	197	204
Crude & Products Exports (gross)*	**8,936**	**+521**	**+6.2**	**8,415**	**8,817**	**-237**	**-2.6**	**8,762**	**9,054**	**8,968**	**8656**	**8,827**	**8,142**	**7,968**	**8,481**
% of crude production	*86.8*	*+3.7*		*83.1*	*85.1*	*-3.4*		*85.9*	*88.5*	*87.4*	*84.3*	*83.7*	*84.5*	*82.0*	*83.3*
IMPORTS	**518**	**+40**	**+8.3**	**478**	**567**	**+98**	**+20.9**	**757**	**469**	**503**	**556**	**642**	**482**	**465**	**588**
Gasoline	219	+7	+3.2	212	204	-28	-12.2	255	233	243	200	170	134	158	221
Diesel/Gasoil	200	+28	+16.1	173	252	+103	+69.5	347	149	185	253	318	247	236	249
Fuel Oil	90	+14	+18.1	77	108	+35	+47.5	122	73	72	100	151	101	60	99
NET PRODUCTS EXPORTS*	**897**	**+420**	**+88.2**	**477**	**852**	**-91**	**-9.6**	**482**	**942**	**1,021**	**805**	**729**	**118**	**396**	**500**
Naphtha	204	-3	-1.6	208	210	+11	+5.4	151	199	230	206	193	153	188	192
Gasoline	-4	+78	-95.3	-82	21	+50	-173.6	-31	-29	-6	19	51	-96	-60	-54
Jet-Kero	153	+11	+7.9	142	169	+31	+22.2	77	138	187	140	179	82	135	121
Diesel	383	+275	+255.4	108	343	-79	-18.8	192	422	401	360	268	-142	7	150
Fuel Oil	166	+47	+39.8	119	112	-108	-49.2	106	220	211	83	41	121	137	105
Crude & Products Exports (Net)*	**8,418**	**+481**	**+6.1**	**7,937**	**8,250**	**-335**	**-3.9**	**8,005**	**8,585**	**8,465**	**8100**	**8,185**	**7,660**	**7,502**	**7,893**

*EXCLUDES FIELD LPG (650-700,000 B/D), NGLS AND CONDENSATE. **OR RESPECTIVE UNITS. CHANGES IN % NUMBERS ARE EXPRESSED IN % POINT TERMS. ^PRESUMES ALL FUEL OIL CONSUMPTION IS BURNT IN POWER PLANTS. SOURCE: JODI, MEES EST.

Politics And Prices Stifling East Mediterranean Gas Hopes

Israel, Cyprus and Lebanon remain hopeful that the August 2015 discovery of the 25 tcf Zohr gas field offshore Egypt will reignite interest in their upstream sectors but regulatory issues, lack of viable export options and domestic politics are proving difficult hurdles to overcome.

Israel is planning on offering 24 offshore blocks (see map) each 400km² in an international bid round slated for November of this year, following firmly in the footsteps of its neighbor Cyprus, which placed three blocks on offer in March. But although the Cypriots received bids from US-major ExxonMobil, Qatar's QP, France's Total, Italy's Eni and Norway's Statoil (MEES, 29 July), Israel could be left with egg on its face, if firms opt against bidding for blocks for fear of a boycott from Mideast Arab states.

No exploration has taken place offshore Israel for the last four years as the main players, US-firm Noble Energy and its Israeli partner the Delek Group, have been embroiled in an antitrust case that saw the intervention of Prime Minister Benyamin Netanyahu. The government though in December gave final approval of a gas framework deal that should see the development of Israel's largest gas discovery, the 22 tcf Leviathan (MEES, 27 May). Israel is currently wholly dependent on Noble and Delek's 10 tcf Tamar gas field, which hit a Q1 record of 700mn cfd this year (MEES, 15 July), and any outage could cause extensive blackouts in the country. Israel's energy policy in power stations is seeing a shift from coal to gas, with gas now contributing 60% of the country's energy mix.

As part of the gas framework deal, Noble and Delek have been forced to sell the Karish and Tanin fields which hold approximately 3 tcf of gas combined, located to the north east of Leviathan. Greek firm Energean which is active offshore Israel with a 25% stake in the Myra and Sara blocks has put in an offer of $148mn for the fields which has been accepted but still requires government approval, which usually requires 45 days to go ahead. The firm also operates blocks in Egypt's Western Desert.

Italian firm Edison was also interested in acquiring the two fields as it operates the Royee license in Israel and North Port Fouad and North Thekah on the Egyptian side of the maritime border. Edison operates both with a 100% stake following February's $9.5mn purchase of bankrupt Irish independent Petroceltic's 50% stake in both.

Leviathan's development though is dependent on Israel finding an export market, an issue that could deter any possible bidders in the upcoming bid round. One of the Arab neighbors Israel has any sort of diplomatic relations with is Egypt (and also Jordan to a lesser extent), but history shows that any deal to send Israeli gas to Egypt or vice versa is at best risky. Egypt's former oil minister Sameh Fahmi was sentenced to 15 years in jail in 2012 for his role in the 2005 deal to send Egyptian gas to Israel, which was terminated following the 2011 ouster of former president Husni Mubarak (MEES, 30 April 2012). He was acquitted in February last year but this is an indication of the frayed relations between the two countries.

Following the discovery of Zohr, Cairo is hoping to become energy self-sufficient by the turn of the decade, which would diminish the need to import gas. But it may be too soon to write off Egypt's need for Israeli gas. Egypt had touted the possible restart of exports from its LNG export terminals at Idku and Damietta, but with soaring demand for gas and high rates of decline from existing fields, Cairo will need all the gas it can get its hands on to satiate the domestic market.

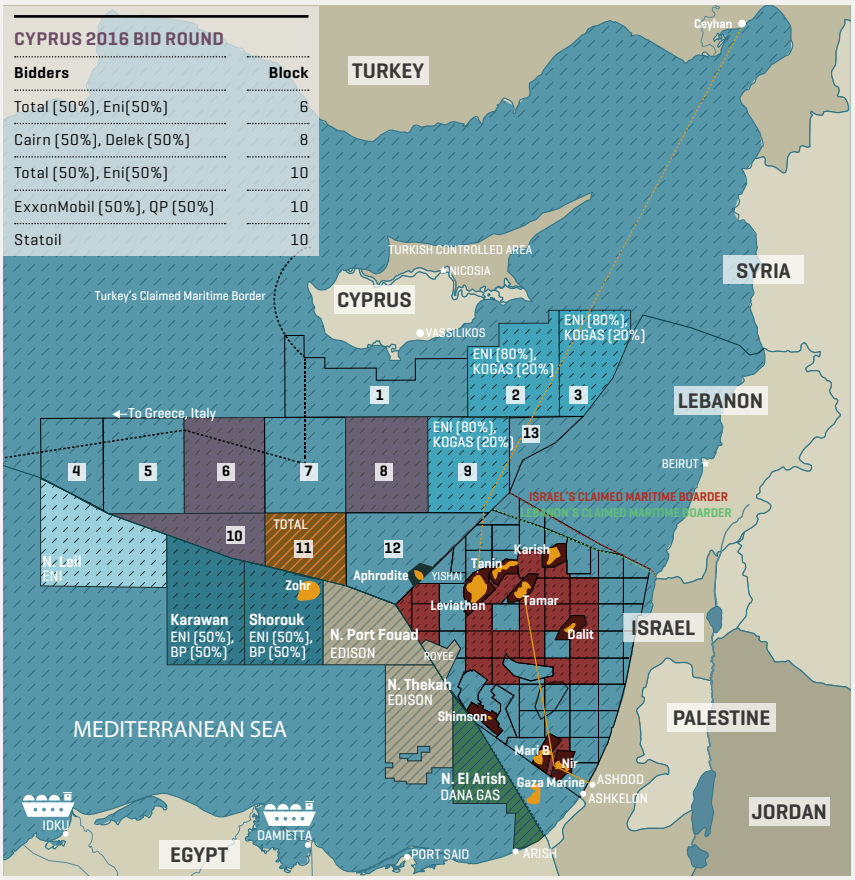
The possibility of sending Leviathan gas to Turkey has been discussed by the two countries but without a solution to the 42-year division of Cyprus, such a deal becomes much more complicated. Any pipeline from Leviathan to Turkey's Mediterranean port of Ceyhan would need to traverse Cyprus' exclusive economic zone (EEZ) but the officially recognized Greek-Cypriot government in the south has made it clear it would not grant permission without a solution to the island's division. But the UN's Convention on The Law of the Sea (UNCLOS) is somewhat ambiguous on how strongly and how long a coastal state can avoid granting permission. The island has been divided since a Turkish-led invasion in 1974 and subsequent occupation of the northern third of the island.

Things are further complicated as Turkey has threatened Total and Eni, who have jointly bid on Block 6 in Cyprus' latest bid round that any exploratory activity is unauthorized as part of the block lies

Continued on – p9

KEY EAST MEDITERRANEAN OFFSHORE BLOCKS AND GAS FIELDS

GAS FIELD/PIPELINE – – PROPOSED PIPELINE LNG ● ISRAELI BLOCKS TO BE AUCTIONED



CYPRUS 2016 BID ROUND

Bidders	Block
Total (50%), Eni(50%)	6
Cairn (50%), Delek (50%)	8
Total (50%), Eni(50%)	10
ExxonMobil (50%), QP (50%)	10
Statoil	10

Continued from – p8

within the Turkish continental shelf.

The future of Cyprus' only to-date discovery, the 5 tcf Aphrodite, has also been put into serious doubt with discussions still ongoing between Cyprus and Israel regarding unitization, with the latter claiming it is part of the same structure as its Yishai field. Aphrodite is operated by Noble which holds a 35% stake while Delek holds 30% and Anglo-Dutch major Shell (through a takeover of BG) holds the remaining 35%, which it purchased from the US firm last year in November (MEES, 27 November 2015).

The non-agreement on unitization complicates any plans to develop the field and it has been seen as an attempt by Israel to block the field's development, which is considered a competitor to Leviathan despite the size. A mooted joint development plan for both fields though would be of benefit to all parties and see both countries come to a quick solution on unitization.

Israel also has disputed maritime borders with Lebanon to the north and the Palestinian Authority to the south. Lebanon is still some way from passing two decrees deemed necessary to announce a bid round for offshore acreage with the government in a state of permanent stasis over sectarian disagreements (MEES, 31 July 2015).

To the south the Palestinian Authority's Shell (again previously BG) operated 1 tcf Gaza Marine remains undeveloped.

But regional politics are not the only issue, with suppressed gas prices further complicating any possible export plans.

And with Australian and US LNG making its way to market, "global gas prices are set to stay under pressure" for the remainder of the decade whatever happens to oil prices, the IEA says in its latest Medium Term Gas Market Report released in June (MEES, 17 June).

NEW IRAQI OIL MINISTER SETS OUT PRIORITIES

Jabbar al-Luaibi was sworn in as Iraq's new Oil minister on 15 August and has wasted no time in getting to grips with his new mandate.

Prime Minister Haidar al-'Abadi had been acting oil minister since May, following 'Adil 'Abd al-Mahdi's announcement in March that he would be absent from office until parliament examined his resignation. Deputy Oil Minister Fayadh al-Nema took over day-to-day responsibility.

Mr Luaibi was previously nominated for the position in April. He is a Basrawi and previously headed up the South Oil Company which oversees production in Iraq's oil producing heartland of Basra. His appointment might help improve relations between Baghdad and Basra, where resentment that the province doesn't benefit financially from its oil production runs deep.

A press release from the Oil Ministry reported that he held a meeting with senior Iraqi figures from the oil and gas sector on 16 August, where he stressed his main priorities. Firstly, to increase oil and gas production through additional exploration and investment, indicating that the days of Iraq urging IOCs to slash spending may be ending.

Production is still running at record levels, at 4.35mn b/d for January-July, up from 3.77mn b/d for the same period last year. But with firms cutting costs, the number of active drilling rigs fell to 39 in July, the lowest level since May 2012 (MEES, 12 August) and production has stalled accordingly at around 3.35mn b/d.

With oil revenues on track to fall to 10-year lows due to Iraqi exports averaging just $32/B in the first seven months of the year (MEES, 5 August), the incentive to boost production is clear. But can Iraq afford to? Under its technical service contracts (TSC) IOCs are paid a set fee per barrel regardless of the price of oil. The proportion due to IOCs was 28.6% last year, but is set to rise to around 35-40% this year. Iraq has been looking to restructure contract terms since last year, but progress has been slow (MEES, 27 May). This is likely to be a significant priority for Mr Luaibi.

He met with Lukoil Senior Vice President Gati al-Jebouri on 17 August. Iraq's Oil Ministry said the minister emphasized the importance of close collaboration between the ministry and IOCs such as Lukoil, which operates the 400,000 b/d West Qurna II field in Basra.

The second priority Mr Luaibi highlighted was to "improve the services provided to citizens" regarding petroleum products. He expanded this on his Facebook page the same day, saying he wants to bring the price of gasoline – assumed to be 95 RON – down to ID350/liter ($0.21). 95 RON gasoline is currently at $0.64/liter, but Mr Luaibi's statement looks overly ambitious. Neighboring Kuwait has the cheapest gasoline in the world at $0.22/liter yet this would undercut that. But Kuwait is planning to increase this to $0.35/liter next month as it looks to eliminate costly subsidies (see p10).

Any move to bring in expensive new subsidies will be viewed negatively by the IMF due to the additional strain it will pose on Baghdad's creaking finances – set to run a deficit of around $22bn this year. It has agreed to trim its 2016 planned budget expenditure by ID13 trillion ($11bn), or 13% in nominal terms, as part of the fiscal consolidation demanded by the IMF to approve its $5.4bn standby arrangement (SBA) for Iraq (MEES, 22 July).

Safeen Dizayee, spokesman for the Kurdistan Regional Government (KRG), told local news outlet Rudaw that he welcomed comments by the new minister that he wants to resolve the dispute over oil exports and payments, that saw the revenue sharing agreement between the two collapse in July 2015.

Given the lack of trust between the two, a resolution appears as distant as ever and it will take considerable effort to reach an agreement, let alone one that is adhered to fully. Furthermore, there is a considerable difference between the financial expectations of each party. The KRG has previously insisted its share of the budget should be around $820mn/month, but MEES calculates that the value of its oil exports has averaged just $430mn/month.

Absent a considerable increase in the price of oil, the KRG needs to significantly increase oil production if it's going to substantially boost its oil revenues. But this doesn't look like occurring any time soon.

UAE's Taqa announced last week that first oil at the Atrush field – planned for 30,000 b/d – might slip into Q1 2017. Taqa is partnered with US-firm Marathon and Canada's Shamaran. Shamaran's Q2 results released on 18 August firmed up the likelihood of this additional delay, which it attributed to "legal and commercial discussions [which] proved to be more complex and have taken longer than initially envisaged."

Norway's DNO remains confident it can increase production capacity from 120,000 b/d to 135,000 b/d by year-end. Output is currently 114,000 b/d. Regular payments mean the firm is investing to bring a third drilling rig to its operations and will drill five new wells by year-end. But these investments are "contingent on these payments coming in on an ongoing basis" according to Executive Chairman Bijan Mossavar-Rahmani and the firm has yet to be paid fully for June production (MEES, 12 August).

He took an upbeat tone during DNO's Q2 results call on 18 August saying that it felt good to "be back in business as a growth company again."

The Peshkabir-2 appraisal well is due to be spudded in October with results expected early 2017.

DNO's results say that "testing has shown higher volumes of oil-in-place for the Benenan heavy oil field, currently estimated to hold more than two billion barrels." Benenan is in the Erbil license and DNO has previously mooted bringing in a partner with heavy oil experience to help develop the field. This highlights a clear upside for the company of its $300mn bid for Gulf Keystone Petroleum, operator of the 40,000 b/d Shaikan heavy oil field in Kurdistan. Mr Mossavar-Rahmani said DNO is hoping for a response to its bid in early September.

GCC Fiscal Reforms: Long Overdue And A Long Road Ahead

The sustained low oil price has served as a wake-up call to GCC governments that fiscal consolidation is urgently needed. Subsidy cuts are already taking effect but many other reforms will be necessary in the coming years. Will the appetite for reform withstand any oil price gains?

A wash with petrodollars only a couple of years ago, times have certainly changed for the Gulf countries. Between June 2014 and February 2016, the international oil price plunged by 70% and the IMF forecasts that GCC states' oil export earnings will fall by $300bn in 2016. This is in line with MEES calculations of a fall of around $309bn since 2014.

Little surprise then that this has led to ballooning public deficits – the size of which have not been experienced since the late 1990s. Moody's forecasts that all six GCC sovereigns will post fiscal deficits in 2016, ranging from around 14% to 17% of GDP in Bahrain, Oman and Saudi Arabia, to the high single digits in Kuwait, Qatar and the UAE. While the latter three governments have comparatively smaller deficits, Bahrain, Oman and Saudi Arabia have more limited fiscal space and higher social constraints.

In April, the IMF revised its 2016 GDP growth forecast for the Gulf to 1.8% from the previous 2.75% forecast it had made in October last year. Gulf GDP stood at 3.3% in 2015.

"The GCC is still growing, and not in a formal recession, but the rates are much lower than even international financial institutions predicted last year," Karen Young, Senior Resident Scholar at the Arab Gulf States Institute in Washington (AGSIW) tells MEES. "The continued oil price slump is creating a cyclical wind down of economic activity."

In an effort to put a lid on any further expansion in their respective deficits, the GCC governments have been hastily implementing unprecedented pricing reforms in domestic energy and related resources.

The UAE took the lead on this front when it linked the cost of its transport fuel to international market prices in August 2015. In late December 2015, Saudi Arabia announced its 2016 budget and increases in the price of its natural gas, transport fuel, electricity and water tariffs - constituting the most radical price reform in the kingdom's history (MEES, 8 January).

Subsequently, Qatar, Bahrain and Oman, the latter two of which had already raised domestic gas prices in 2015, significantly hiked both gasoline and diesel prices in January 2016 (MEES, 15 January).

Then in May 2016, Qatar went further and scrapped gasoline and diesel subsidies, following the UAE's lead in linking transportation fuel to international prices. Currently ranked as the world's richest nation, with a 2016 GDP per capita of $140,649, Qatar is forecast to record a deficit this year that could be as high as $18bn after more than a decade of budget surpluses (MEES, 24 June).

Most recently, on 31 July, Kuwait's cabinet approved a plan to cut its road fuel subsidies. Beginning 1 September, Kuwait will raise the price of its three gasoline grades by 42%, 62% and 83%.

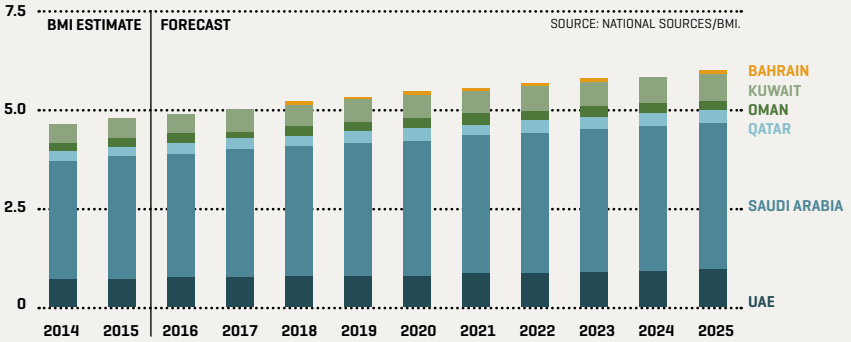
Kuwait's gasoline prices are currently the world's lowest - the price increase will make them the second lowest in the GCC, with 95 RON gasoline costing $0.35/liter at the pump. Current GCC prices for 95 RON gasoline range from $0.24/liter in Saudi Arabia to $0.44/liter in the UAE. (MEES, 5 August). Kuwait is set to run a record budget deficit of KD7bn ($23bn) for the fiscal 2016-17 year (MEES, 8 July). The gasoline price increases are expected to help reduce government spending on subsidies by 22.1% for the year to KD2.90bn ($9.59bn) and form part of a broader government program to reduce subsidies.

"I think the revenue from GCC subsidy cuts for now will be used to reduce deficits. As the fiscal position improves, subsidy cuts can contribute more to investment," Robin Mills, CEO of Qamar Energy, tells MEES. "I was not surprised by the Kuwaiti subsidy cuts, but the question is whether they will be sustained."

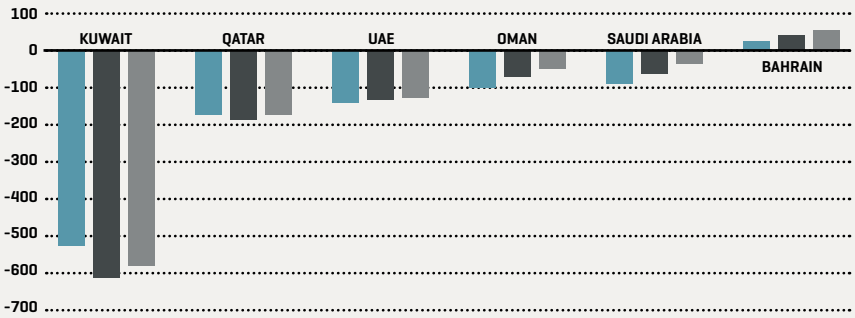
Indeed, the sudden wave of subsidy reforms across the entire GCC serves to

Continued on – p11

GCC: A KEY GROWTH AREA FOR REFINED PRODUCTS CONSUMPTION (MN B/D)



KUWAIT'S FISCAL CONSTRAINTS LARGEST IN GCC (NET GEN. GOVT. DEBT, % OF GDP)



*BMI ESTIMATE. ^FORECAST. SOURCE: NATIONAL AUTHORITIES, IMF, MOODY'S INVESTORS SERVICE.

Continued from – p10

highlight how long overdue they are, but it has also led some industry commentators to question whether they are too severe.

"The slowing consumption in Oman causes concern that other countries that have enacted or plan to roll out subsidy reforms might see a greater impact than first anticipated," noted a BMI Research report published on 26 July.

"Qatar, the UAE, Saudi Arabia and Bahrain have all slashed fuel subsidy payments, either setting higher prices, or in the case of Qatar and the UAE, letting fuel prices more closely track global market prices. The result has been substantially higher pump prices, in percentage terms, making them more vulnerable to a slowdown in consumption growth."

Gasoline demand in Oman grew 1% during the first four months of this year, far below the annual average growth rate of 9.6% over the past decade, according to BMI.

Meanwhile, in Saudi Arabia, consumption of gasoline, kerosene and other refined products contracted in the first half of 2016, slipping by 41,000 b/d in the first decline since at least 2002, when the Joint Organisations Data Initiative (Jodi) in Riyadh began tracking data (see p7).

The IMF also voiced concerns in a report it published on 27 July in which it said that the UAE should ease the pace of spending cuts and instead tap its ample financial reserves to balance the budget and help push growth higher this year. The fund's growth forecast for the UAE is 2.3% for this year, significantly down from the 4% growth in 2015.

However, other industry insiders point to the fact that the overall slowdown in GCC economic growth is having a greater impact on energy demand in the region than the implementation of subsidy removals.

"The social impact has been substantial in that people's economic behavior seems to be changing significantly. Without concrete survey data it is difficult to quantify, but in anecdotal studies, we see reactions in driving patterns, spending patterns as people make efforts to reduce household consumption, especially of gasoline," says Ms Young.

"However, the broad wind down of large infrastructure and real estate projects will have a greater impact on consumption growth than these first subsidy removal efforts. In fact, the potential savings in subsidy reduction to fiscal revenue is not substantial."

Indeed, the subsidy reforms are just one aspect – albeit a crucial one – of GCC governments' fiscal consolidation strategies.

"Following some limited measures in 2015, the 2016 GCC budgets outline credit-positive fiscal reforms, such as cuts in energy subsidies, halts to new infrastructure projects, public sector hiring freezes, and renegotiated payments to contractors. On the revenue side, increases in government fees and indirect taxation should support non-oil income, despite the slowdown in growth," observes a Moody's report entitled 'Peer Comparison - Institutional Strength Determines Adjustment To Lower Oil Prices' published on 25 May.

"However, the reforms - while positive - will only partly compensate for the continued oil price slump, so imbalances will remain considerable. As such, we expect fiscal and external constraints to persist beyond 2016. Medium-term changes, including labor market reforms, revenue diversification and privatization will face more resistance to implementation. These reforms will determine the pace and level of adjustment and gradually relieve pressure on governments' balance sheets."

GCC-WIDE VAT

In a meeting on 16 June this year, the GCC's finance ministers approved in principle the value-added tax (VAT) and excise tax treaties, providing a common framework for the development of national legislation. The formal announcement of the treaties is expected in the last quarter of this year. The agreement paves the way for the introduction of these taxes in the GCC from 1 January 2017, for excise duty, and 1 January 2018, for VAT, respectively.

The introduction of a GCC-wide VAT of 5% in 2018 will play a central role in supporting revenue diversification, however the list of exemptions will be key in assessing the level of fiscal earnings it can provide.

"The introduction of a 5% VAT will be credit positive - we should bear in mind that this has been talked about for a while but we think that it will happen now. However, we still need to see the finer details – what goods would be exempted, whether there will be more generous handouts to the local populations through the back door and so on," Steffen Dyck, Senior Credit Officer and lead sovereign analyst for Saudi Arabia at Moody's tells MEES.

"Other revenue-enhancing options are direct taxes on corporates or on personal income. I still think that the introduction of personal income tax on citizens is a last resort. On the other hand, the expenditure side is quite rigid, although we'll probably see more reforms on other utility prices."

Saudi Arabia has stated that it wants to make subsidies more targeted under its Vision 2030 plan. It aims to raise non-oil revenue to SR530bn ($141bn) by 2020, more than triple the current figure, and plans to achieve this through measures that include raising the price of fuel and utilities as well as introducing a VAT.

In June this year, Saudi unveiled the National Transformation Program 2020 (NTP), the blueprint to help it achieve its Vision 2030, which targets cutting water and electricity subsidies by SR200bn ($53bn); the tariffs charged on water would cover 100% of actual costs, versus the current 30% (MEES, 10 June). The plan also sets aside costs for the "preparation and implementation" of income tax on residents as well as "the unified income tax."

GCC GASOLINE PRICES ($/L, 95 RON) SOURCE: MEES.

	*Current	^End-15	% Chg
UAE	0.44	0.46	-4.3
Oman	0.44	0.31	41.9
Bahrain	0.42	0.27	55.6
Qatar	0.40	0.27	48.1
Kuwait	0.35	0.22	59.1
Saudi Arabia	0.24	0.16	50.0

*FROM 1 SEP FOR KUWAIT. ^JULY 2015 VALUE FOR UAE.

However, the key aim of the subsidy cuts in the short term is to help offset GCC countries' deficits and in that regard they should prove effective. Saudi Arabia's budget deficit is forecast at $87bn for this year, assuming an oil price of about $40/B. With its Arab Light export averaging just $37.28/B in the first seven months, the deficit could be bigger still.

Saudi subsidies amounted to $107bn in 2014, with the kingdom's investment bank Jadwa forecasting this to fall to $61bn this year. Therefore, eliminating energy subsidies would remove most of the kingdom's deficit. In April this year, Bahrain's Energy Minister 'Abd al-Husain 'Ali Mirza said he expects the kingdom to save $1.6bn (BD620mn) by 2019 through its various cuts and redirecting of subsidies – this equates to just less than half the expected national budget deficit for 2016.

Projected savings from subsidy reforms in Oman and Kuwait meanwhile are in the range of $1.2-2.3bn per year.

"If fiscal consolidation is maintained by spending cuts over the short to medium term rather than reserves deployment, I don't see any severe impact on the economy," John Sfakianakis, Director of Economics Research at the Gulf Research Center in Riyadh, tells MEES.

"Through spending cuts, the authorities are helping to rationalize and create better spending efficiencies, which is welcome."

The long-term goal however will be for GCC countries to use the revenue generated from subsidy cuts to invest in the local economy and broaden their diversification efforts. On top of that, to make fiscal accounts more sustainable and to better shield them from oil price fluctuations, a whole range of reforms will be necessary, as previously outlined.

"We think what these governments will likely continue to do is embark on a fiscal consolidation strategy. However, it is open to debate whether slightly improving oil prices will deter the appetite for further and more deep-rooted fiscal reforms," says Mr Dyck.

"Ultimately if you look at the revenue composition for all these countries to varying degrees – the share of hydrocarbon-related revenues will remain large. So even if you move down from an 80% share, or even higher from before the oil price crash, to something closer to 50%, this will still keep the fiscal accounts vulnerable to further oil price volatility."

Dana Gas Eyes Further Egyptian Production Gains

Dana Gas' net oil and gas production rose above 65,000 boe/day in Q2 for the first time since the same period last year. With production averaging 66,700 boe/d, the firm recorded a 1.4% year-on-year increase, and a 10.2% increase on Q1 thanks to increased UAE and Egyptian output.

A 33% quarter-on-quarter increase in oil prices helped boost Dana's revenues by $14mn to $96mn. But this still represented a yearly decrease of $20mn. Nevertheless, indicative of the cost-cutting measures that IOCs have embarked on to withstand the low oil prices, last quarter's net profit of $7mn was the same as in the same quarter of 2015.

CEO Patrick Allman-Ward told the Dana Gas Q2 results conference call on 11 August that the firm's $13mn net profit in the first half of the year was a "noteworthy achievement" given the price environment. Dana secured 100% realization of its billed amounts in the first half of the year, amounting to $99mn.

In particular, Mr Allman-Ward praised the company's performance in Egypt, where it has overcome declines and is now adding to its net production. Production rose more than 3,500 boe/d from the previous quarter, which in itself marked a near-3,000 boe/d rise on Q4 2015(MEES, 6 May). Q2's output gains have largely been down to incremental production from additional wells in South Abu el-Naga and West el-Manzala, both in the onshore Nile Delta, according to CFO Chris Herne.

Dana is eyeing further gains in Egypt and General Manager UAE and Egypt Iman Hill told the call that the firm plans to tie in the Balsam-5 well, also in the Nile Delta, in December. The well had a flow rate of 11mn cfd in testing. The BP-operated Mocha-1 well in Block 3 was spudded in May. Results are expected before end-2016 and Ms Hill said it has the potential to be "game changing" for Dana's Egypt operations.

Continuous production at the Zora gas field in the UAE also contributed, with output up from 1,300 boe/d in Q1 to 3,250 boe/d last quarter. Planned well workovers are scheduled for Q3, which will temporarily reduce output. Production is below the 5,000 boe/d guidance, which Ms Hill attributed to a higher than expected water cut. Condensate production is also higher than expected – currently 200 b/d alongside 16mn cfd gas. In Kurdistan gross output at the firm's Chemchemal and Khor Mor fields is relatively static at 74,500 boe/d, down from 75,000 boe/d in Q2 2015. The two fields are primarily gas plays, providing Dana Gas with 110mn cfd, 4,725 b/d condensate and 280 t/d of LPG in Q2. The fields are operated by the Pearl Petroleum Consortium which comprises Dana Gas (35%), UAE's Crescent Petroleum (35%), Germany's RWE (10%), Austria's OMV (10%) and Hungary's MOL (10%).

Dana's net Kurdistan production however is down year-on-year from 30,000 boe/d in Q2 2015 to 26,100 boe/d last quarter. This is due to Dana and Marathon having each handed 5% of Pearl to RWE as part of an arbitration settlement in November (MEES, 19 February).

Dana's investments in Kurdistan have been slashed due to ongoing legal disputes with the Kurdistan Regional Government (KRG), but it remains confident that this production will not decline for some time.

The London Court of International Arbitration ruled in November that the KRG has breached its contractual obligation to pay the consortium for the produced condensate and LPG at international prices. The two have been in dispute since 2009 over Dana and Crescent's decision to farm out their stakes to MOL and OMV (MEES, 10 July 2015).

A two week hearing over Pearl's near-$2bn claim and the KRG's $3bn counter-claim will be held by the court in early September. A further hearing for the level of damages will take place. A date has yet to be confirmed, but Mr Allman-Ward expects it to be in 4Q16 or Q1 of 2017.

The English High Court last year ordered the KRG to pay $100mn of this, and Mr Allman-Ward told the results call that "depending on oil prices, we expect to be able to recover that sum in its totality within a 12-16-month timeframe."

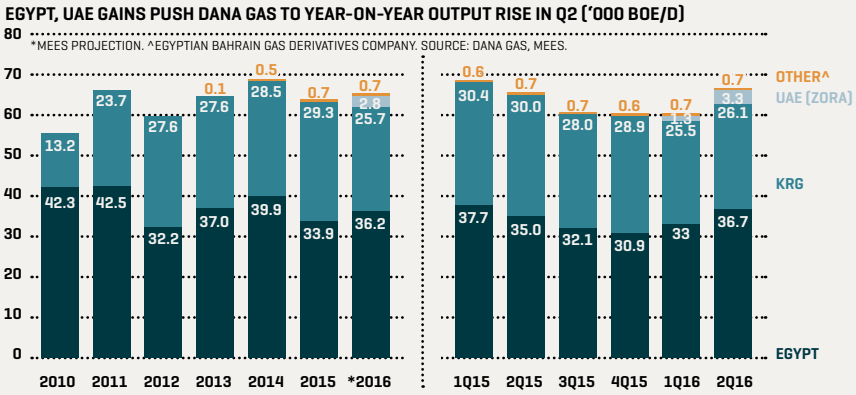
Of course at this rate it would take another 20 or so years to wipe off the amount owed to the Pearl Consortium, which currently stands at $2.07bn, down from $2.09bn at the end of the previous quarter. Of this, Dana is owed $726mn. Dana collected $42mn in the first half, 117% of the $36mn it invoiced. The majority of this is from local sales to local buyers, not the KRG, Mr Allman-Ward says.

Regardless of the outcome of the arbitration, prompt payment from the KRG of its receivables is highly unlikely. It is struggling to pay IOCs for their oil production and oil revenues dipped below $500mn last month (MEES, 12 August).

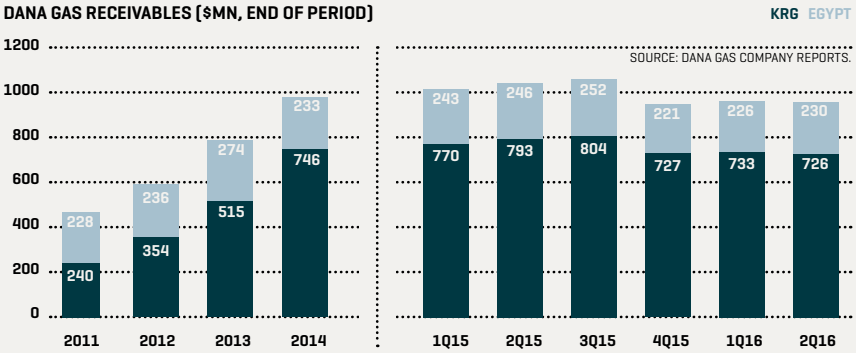
Egyptian receivables edged up by $4mn quarter-on-quarter to $230mn, bringing the total amount of receivables Dana is owed to $956mn, down from $959mn.

Another arbitration case is progressing, this time against the National Iranian Oil Company over the non-provision of 600mn cfd of gas from the Salman field. Mr Allman-Ward said the NIOC has no remaining grounds of appeal and that a final hearing on damages will take place in the Hague on 28 October. ◆◆

EGYPT, UAE GAINS PUSH DANA GAS TO YEAR-ON-YEAR OUTPUT RISE IN Q2 ('000 BOE/D)



DANA GAS RECEIVABLES ($MN, END OF PERIOD)



IMF Loan To Egypt Will Need To Be Supplemented With Serious Reforms

The staff-level agreement announced on 11 August between Egypt and the IMF for the long-awaited $12bn Extended Fund Facility (EFF) will bring with it austerity measures and tough economic reforms, Egyptian economists have warned.

IMF mission chief for Egypt Chris Jarvis told the local daily Ahram Online this week that as "all-IMF supported programs have to be fully financed," the fund in Egypt's case would be looking for commitments of around $5-6bn from bilateral creditors, before the staff-level agreement can be presented to the board for discussion and the final green light for the three-year facility can be given. But he added that "the IMF will be working with the Egyptian authorities in the coming weeks to secure this financing."

Egyptian officials have given no indication as to where this required bilateral financing could be sourced. Last month Finance Minister 'Amr al-Garhy said that Egypt needed to raise a total of $21bn in aid over the next three years, including the $12bn from the IMF. The remainder, he explained, will come from the $3bn World Bank loan and $1.5bn African Development Bank loan, both signed at the end of 2015, as well as a $2-3bn international bond issue (MEES, 29 July).

Egypt may be looking for another rescue package from three GCC countries – Saudi Arabia, Kuwait and the UAE - which have supported the current Egyptian government in the past by granting it at least $40bn in aid since the ousting of Islamist-backed president Muhammad Mursi. But given the crash in oil prices since mid-2014, these countries are no longer in a position to provide the same level of support.

In March 2015, these three countries announced an aid package of $12bn ($4bn each) to Egypt, half of which was placed as a cash deposit with the Central Bank of Egypt (CBE) and the other half went to finance investment projects (MEES, 20 March 2015). In April the UAE announced a further $4bn in aid to Egypt, half of which will be placed with the CBE to boost foreign reserves and the other half to finance projects (MEES, 29 April).

But this latest package of $4bn from the UAE has yet to be transferred to Egypt. According to CBE Governor 'Amir Tariq, the $2bn intended to be placed at the CBE is not expected to materialize soon and Egypt had not received any GCC aid since last year. Although Egypt this week suggested a further $2bn could be coming from Saudi.

The CBE chief, at a joint press conference with Mr Garhy, shortly after the IMF announced the loan facility, said that the government has drawn up a short-term strategy to restore economic stability and run the economy at full capacity, to compensate for slow growth previously. It has also prepared a long-term plan aimed at tackling structural problems relating to its financial and monetary conditions.

He noted that Egypt is facing a number of key challenges, including the twin budget and trade deficits and a decline in foreign direct investment. The budget deficit has ranged between 11% and 13% of GDP in the past six years, Mr Garhy said last month (MEES, 29 July). The current account deficit hit a record $14.5bn, or 4.1% of GDP, in the nine-month period July 2015 to March 2016, from $8.3bn, or 2.5% of GDP in the corresponding period of the previous year, according to latest statistics from the ministry of finance.

Mr Tariq stressed that the economic reform plan approved by parliament was drawn up by Egypt alone and that association with the IMF will help to boost the plan's international credibility. He said that in the meantime Egypt continues to honor its foreign debts, although the country had not received any grants since last year.

Mr Garhy for his part, noted that the negotiations with the IMF should be seen in conjunction with the government's growth and reform plan for the periods 2016-17 and 2017-18, as well as that for Egypt's 2030 vision. He acknowledged the massive GCC aid to Egypt in the past few years and said without it the budget deficit would have soared to 16% of GDP.

The minister said that in addition to the fiscal and trade deficits, Egypt has accumulated a large public debt mainly financed by domestic borrowing, which has further raised interest and inflation rates and piled more pressure on citizens. In the EFF announcement, the IMF notes that general government debt is expected to decline from 98% of GDP in 2016-17 to about 88% of GDP in 2018-19. Mr Garhy also said that revenue from tourism had fallen by two-thirds to $4bn in 2015-16 from $12bn in 2009 due to security concerns, thereby curtailing the supply of foreign exchange in the market.

The minister sees the deal with the IMF as a step to help reform the economy and realize a growth rate of 6-7%, with the private sector playing a bigger role in generating growth and creating employment opportunities. The plan also envisages a social safety net where spending would effectively target the needy Egyptians, in contrast to the previous five years, when high earners were the main beneficiaries of energy subsidies.

Egyptian economists are warning that the implementation of an IMF-supported reform program will lead to higher inflation. Alia al-Mahdi, an economics professor says that the increase in electricity rates with effect from 1 July, the application of the value-added tax shortly, and further reduction in the petroleum product subsidies will push the inflation rate to 16-17% from the current 14.8%. Also if the reforms include a devaluation of the Egyptian pound, then the inflation rate could further spike.

Another economics professor Ahmad Kamaly was quoted by AFP as saying that "the loan will be like an aspirin... It's a raft of measures to stabilize the economy and exchange debts for other debts." Former Egyptian finance minister Samir Radwan agrees and says "we will not be able to pay the foreign loan interest if we do not get the IMF loan."

SISI EXPECTS EGYPTIANS TO HELP

Egyptian President 'Abd al-Fattah al-Sisi called on all Egyptians to cooperate in dealing with the dire economic situation facing the country. Speaking at the inauguration of the polyethylene project Ethydco near Alexandria (MEES, 5 August), he said he will not hesitate to adopt tough economic reforms which his predecessors avoided for fear of popular protests, and singled out "terrorism and corruption" as two factors which have weakened the Egyptian economy.

He also observed that for many years the economy was being run on "a war footing" at a high cost to the country. He added that although revolutions have their positive outcomes, they also have "negative repercussions on society." After the 2011 revolution, the government bowed to popular pressure and hired some 900,000 people in civil servant jobs, which were not needed, raising the wage bill by an annual E£150bn ($16mn at current rates). There is therefore a need to reduce this "over employment" in the civil service to cut the perennial budget deficit, he said.

President Sisi also disclosed that Egypt currently spends about E£80bn ($9bn) per year on the import of LNG to run the country's power plants. LNG imports have become a necessity as the country's gas output slipped to 3.87bn cfd in 2Q16, the lowest levels in more than a decade (see p16).

Egypt has cut its spending on petroleum subsidies by 23% from E£71.5bn in 2014-15 to E£55bn in 2015-16, with a further cut to E£35bn projected in the 2016-17 budget, according to state-oil firm EGPC. ◆◆

Iran Struggles To Reduce Cash Subsidies Outlay

As Iran struggles to balance its fiscal budget with oil prices fluctuating around $45-50/B, the Iranian parliament is pressing on with plans to reduce its cash subsidies bill. Specifically, it is focusing on the sensitive issue of cutting the number of recipients of cash handouts paid by the state under the subsidy reform plan. The issue has proven contentious and difficult to implement, but if successful could save the government considerable sums.

The government has paid IR137,000bn ($3.9bn) in cash subsidies during the first four months of the current fiscal year (21 March - 21 July), Mohammad Mofateh, spokesman of the Majlis Planning and Budget Commission told a local news agency.

On an annualized basis this amounts to total cash subsidies of $11.7bn, which is considerably less than the figure of $16bn allocated in the original 2016-17 budget (MEES, 22 January). Cash handouts in previous years have totaled around $16bn. Of course, with inflation in double figures, even keeping the subsidies at the same levels entails a considerable cut in real terms.

He added that some 75.2 million Iranians out of a population of around 80 million received their cash payment in the Iranian month of Tir ending on 22 July. Given the high number still receiving handouts, it's unclear how the amount handed out can have fallen by so much.

This week Iranian Minister of Cooperatives, Labor and Social Affairs, Ali Rabii, indicated that four million Iranian recipients of the cash handouts will be removed from the list at the request of parliament. The minister said new criteria will be taken into consideration to determine which current recipients would be crossed out from the active lists, based on people's homes, cars, income and their holiday trips, Mehr News Agency reported.

The vague nature of the criteria highlights the difficulties the government faces in determining who is eligible for the cash handouts as it lacks complete records on the population.

Cutting four million from the list is a considerably more conservative attempt than previous ones made by parliament. Last April parliament asked the government to remove around 24 million Iranians whose annual income exceeds IR350mn ($10,000) from the active list of recipients but the government rejected this request because it found it excessive. Instead it removed only about two million.

Parliament insists that those whose annual income exceeds IR350mn ($10,000) are classified as being in high income brackets and should be removed from the list by the end of the current fiscal year ending on 20 March 2017. Mohammad Nobakht, head of the Management and Planning Organization, argued then that the $10,000 cut-off point was too harsh (MEES, 27 May).

People in this high income bracket, who would be potential candidates to be deleted from the active list, would include merchants and business owners, members of parliament, judges, faculty members of universities, civil servants, doctors, employees of government and non-government organizations, executives and members on the board of directors of public and private companies, and Iranian expatriates.

HEAVY ECONOMIC BURDEN

The direct cash handouts to Iranians under the subsidy reform plan were introduced in December 2010 during former president Mahmoud Ahmadinejad's administration. To compensate for the gradual lifting of heavy subsidies on food and fuel over a five-year period, the government undertook to pay every Iranian a monthly cash allowance of IR450,000 ($13).

But the cost of this program became unwieldy especially since the 70% collapse in oil prices since mid-2014. It also contributed to high inflation, which rose above 40% during 2013, but which the IMF projects will be down to 11.5% in the current financial year.

Reducing the cash subsidies will release new savings for the government which could be used to finance key development projects and create more job opportunities in the country, Iranian politicians and analysts maintain.

To lower the burden on the state, the government of President Hassan Rohani who took office in mid-2013 urged all Iranians, who were benefiting from the handouts, to declare their net worth and pleaded with the ones with higher incomes to voluntarily give up the cash subsidy. Unsurprisingly this appeal fell on deaf ears and only a tiny fraction of the population of 80 million complied.

A year ago Oil Minister Bijan Zanganeh suggested that some 10 million Iranians will have to be deleted from the cash handouts scheme so that his ministry can use the revenue for priority projects (MEES, 7 August 2015). ◆◆

Israel Ordered To Settle Iran Debt

The Swiss Federal Tribunal, the highest in the country, has ordered Israel to pay Iran $1.1bn after the former lost an appeal in a long-standing dispute over an oil pipeline that was built before the 1979 Islamic revolution. Israel was also ordered to pay Iran over $461,700 in court costs and legal fees.

The Federal Tribunal verdict dated 27 June ruled in favor of Iran, upholding a decision about a year ago by a lower Swiss court ordering Israel to pay Iran the $1.1bn compensation. But Israel has refused to pay on the grounds that under the laws of trade, it "cannot transfer funds to an enemy country," according to a statement issued by the Finance Minister.

The Eilat Ashkelon Pipeline Company (EAPC), is an Israeli-Iranian joint venture established in 1968 during the reign of Iran's deposed monarch Mohammad Reza Pahlavi whose country had friendly relations with Israel. Originally the pipeline was intended to transport Iranian crude from Israel's Red Sea port of Eilat to Ashkelon on the Mediterranean. It also provides long-term terminal storage and crude oil blending services and infrastructure services for LPG, fuel oil products, natural gas, and coal.

As relations between Israel and Iran were severed after the Islamic revolution, Tehran dropped out of the arrangement and Israel nationalized the company. But since 1994 Iran has pursued Israel in courts in France and Switzerland for billions of dollars of damages for assets and revenues alleged to be lost and for unsettled debts. After 1979 the company became involved in transportation of crude oil for the Soviet Union.

Based in Ashkelon, EAPC's operations are shrouded in secrecy including reports on its earnings and other news, subject to military censorship, according to the Financial Times. Iranian news channel Press TV said on 12 August that another Israeli company Trans Asiatic Oil was ordered by the Swiss Supreme Court to pay Iran $1.2bn for oil supplied to Israel before the 1979 revolution.

CRUDE OFFICIAL SELLING PRICES ($/B)

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
IRAN															
to Asia (FOB Kharg Island, vs Oman/Dubai average)															
Iranian Light (33-34°)	+0.20	+0.10	+0.60	+0.25	-1.45	-1.15	-1.20	-0.60	-0.80	-0.50	-0.60	+0.50	+0.85	+0.45	-0.85
vs Saudi Arab Light	+0.20	+0.20	+0.20	+0.15	+0.15	+0.15	+0.20	+0.20	+0.20	+0.25	+0.25	+0.25	+0.25	+0.25	+0.15
Iranian Heavy (30-31°)	-1.05	-1.35	-0.85	-1.37	-3.27	-2.97	-3.30	-2.60	-2.60	-2.60	-2.60	-1.60	-1.25	-1.45	-1.45
vs Saudi Arab Medium	-0.05	-0.05	-0.05	-0.07	-0.07	-0.07	-0.10	-0.10	-0.20	-0.20	-0.20	-0.30	-0.25	-0.25	+0.75
Foroozan (31°)	-0.88	-1.18	-0.68	-1.20	-3.10	-2.80	-3.13	-2.43	-2.43	-2.43	-2.43	-1.40	-1.05	-1.25	-2.25
Soroush (18.6°) (vs Iranian Heavy)	-6.50	-6.50	-6.30	-6.78	-6.78	-6.68	-6.65	-6.45	-5.70	-5.65	-5.65	-5.60	-5.55	-5.45	-5.45
Norooz (20.6°) (vs Iranian Heavy)*	-6.50	-6.50	-6.30	-6.78	-6.78	-6.80	-6.65	-6.45	-5.70	-5.65	-5.65	n/a	n/a	n/a	n/a
to Northwest Europe/South Africa (FOB Kharg Island, vs BWAVE)															
Iranian Light (33-34°)	-2.85	-2.65	-3.00	-3.55	-3.50	-3.50	-4.30	-4.85	-4.95	-4.65	-4.60	-4.40	-4.75	-4.55	-4.30
Iranian Heavy (30.7°)	-4.50	-4.20	-4.40	-5.15	-5.10	-5.10	-6.00	-6.55	-6.30	-6.20	-6.45	-6.40	-6.85	-6.40	-5.80
Foroozan (31°)	-4.32	-4.00	-4.20	-4.95	-4.90	-4.90	-5.80	-6.35	-6.10	-6.00	-6.25	-6.20	-6.65	-6.20	-5.60
to Mediterranean (FOB Kharg Island, vs BWAVE)															
Iranian Light (33-34°)	-3.20	-2.95	-4.40	-3.95	-4.45	-5.00	-4.55	-4.70	-4.95	-5.00	-5.05	-4.75	-4.85	-5.30	-4.70
Iranian Heavy (30-31°)	-4.70	-4.35	-5.65	-5.35	-5.75	-6.25	-5.95	-6.05	-6.40	-6.50	-6.85	-6.75	-7.05	-7.20	-6.25
Foroozan (31°)	-4.52	-4.15	-5.45	-5.15	-5.55	-6.05	-5.75	-5.90	-6.25	-6.30	-6.65	-6.55	-6.85	-7.00	-6.05
Soroush (18.6°)	-9.65	-8.85	-10.15	-10.15	-10.45	-10.95	-10.85	-10.85	-10.25	-10.35	-10.95	-10.75	-11.20	-11.05	-9.65
Norooz (20.6°)*	-9.65	-8.85	-10.15	-10.15	-10.45	-10.95	-10.85	-10.85	-10.25	-10.35	-10.95	n/a	n/a	n/a	n/a
IRAQ															
to Asia (vs Oman/Dubai average)															
Basra Light (FOB)	-1.60	-1.95	-1.45	-1.95	-3.70	-3.35	-3.45	-2.80	-2.60	-2.60	-2.50	-1.40	-1.10	-1.30	-2.30
vs Saudi Arab Medium	-0.60	-0.65	-0.65	-0.65	-0.50	-0.45	-0.25	-0.30	-0.20	-0.20	-0.10	-0.10	-0.10	-0.10	-0.10
Basra Heavy (FOB)	-5.60	-6.00	-5.55	-6.65	-8.65	-8.15	-8.20	-7.30	-6.30	-6.55	-6.60	-5.70	-5.60	-5.75	-6.40
to US (vs ASCI)															
Basra Light (FOB)	-0.15	-0.25	-0.15	-0.65	-0.65	-0.55	-0.80	-0.95	-0.55	-0.55	-0.35	-0.50	-0.50	-0.60	-0.60
Basra Heavy (FOB)	-3.50	-3.65	-3.90	-5.65	-5.85	-5.85	-6.25	-6.40	-5.65	-5.65	-5.60	-5.55	-5.45	-5.30	-5.00
Kirkuk (FOB Ceyhan)	+0.75	+0.75	+0.50	+0.30	+0.30	+0.30	+0.30	+0.20	+0.70	+0.90	+0.80	+0.80	+0.50	+0.50	+0.80
to Europe (vs Dated Brent)															
Basra Light (FOB)	-4.60	-4.05	-5.15	-4.60	-4.60	-5.25	-4.75	-5.05	-4.95	-4.85	-5.00	-4.65	-4.85	-4.70	-3.95
Basra Heavy (FOB)	-8.45	-8.10	-9.10	-9.75	-10.35	-10.55	-10.30	-10.40	-9.60	-9.60	-9.75	-9.30	-9.45	-8.95	-7.95
Kirkuk (FOB Ceyhan)	-4.25	-4.25	-5.15	-4.60	-4.60	-5.05	-4.65	-4.65	-4.50	-4.55	-4.55	-4.45	-4.40	-4.30	-4.05
SAUDI ARABIA															
to Asia (FOB Ras Tanura, vs Oman/Dubai average)															
Arab Super Light (>40°)	+1.40	+1.90	+2.00	+2.10	+1.10	+2.10	+2.90	+3.90	+2.30	+2.55	+2.95	+3.95	+4.05	+3.35	+2.55
Arab Extra Light (36-40°)	+0.90	+1.10	+1.60	+1.60	+0.40	+0.80	+1.00	+1.70	+1.30	+1.65	+1.80	+2.60	+2.60	+1.70	+0.10
Arab Light (32-36°)	+0.00	-0.10	+0.40	+0.10	-1.60	-1.30	-1.40	-0.80	-1.00	-0.75	-0.85	+0.25	+0.60	+0.20	-1.00
Arab Medium (29-32°)	-1.00	-1.30	-0.80	-1.30	-3.20	-2.90	-3.20	-2.50	-2.40	-2.40	-2.40	-1.30	-1.00	-1.20	-2.20
Arab Heavy (<29°)	-2.65	-3.05	-2.15	-2.95	-4.95	-4.45	-4.65	-3.75	-3.05	-3.30	-3.65	-2.75	-2.65	-2.80	-3.50
to US (FOB Ras Tanura, vs ASCI)															
Arab Extra Light (36-40°)	+3.55	+3.95	+4.65	+4.15	+3.65	+3.55	+2.85	+2.35	+2.15	+1.85	+2.60	+2.40	+2.10	+1.70	+1.30
Arab Light (32-36°)	+1.55	+1.55	+1.55	+0.95	+0.65	+0.45	+0.15	+0.15	+0.15	-0.05	+0.35	+0.35	+0.55	+0.45	+0.25
Arab Medium (29-32°)	-0.05	-0.05	+0.05	-0.55	-0.85	-1.05	-1.35	-1.35	-1.25	-1.45	-1.05	-1.25	-1.05	-1.15	-1.15
Arab Heavy (<29°)	-0.55	-0.55	+0.35	-0.95	-1.25	-1.45	-1.75	-1.75	-1.75	-1.95	-1.55	-1.75	-1.55	-1.65	-1.65
to Northwest Europe (FOB Ras Tanura, vs BWAVE)															
Arab Extra Light (36-40°)	-1.35	-0.75	-0.95	-1.45	-1.65	-2.65	-1.95	-2.35	-2.65	-2.45	-1.85	-1.95	-2.55	-2.55	-2.85
Arab Light (32-36°)	-2.90	-2.65	-3.05	-3.55	-3.45	-4.75	-4.25	-4.85	-4.95	-4.60	-4.60	-4.45	-4.80	-4.50	-4.25
Arab Medium (29-32°)	-4.55	-4.20	-4.45	-5.15	-5.05	-6.40	-5.90	-6.40	-6.00	-5.80	-6.05	-5.95	-6.45	-5.95	-5.35
Arab Heavy (<29°)	-6.90	-6.45	-6.45	-7.35	-7.25	-8.50	-8.10	-8.50	-7.70	-7.50	-8.20	-8.05	-8.60	-7.95	-6.85
to Mediterranean (FOB Ras Tanura, vs BWAVE)															
Arab Extra Light (36-40°)	-0.80	-0.70	-1.85	-1.25	-1.25	-1.65	-0.85	-0.85	-1.60	-1.60	-1.10	-1.20	-1.80	-2.60	-2.60
Arab Light (32-36°)	-2.30	-1.95	-3.35	-3.00	-3.00	-4.00	-3.60	-3.80	-4.10	-4.10	-4.20	-3.95	-4.05	-4.50	-3.90
Arab Medium (29-32°)	-3.85	-3.35	-4.70	-4.45	-4.75	-5.25	-4.95	-4.95	-5.15	-5.25	-5.55	-5.40	-5.70	-5.90	-4.90
Arab Heavy (<29°)	-5.65	-4.85	-6.15	-6.15	-6.45	-6.85	-6.75	-6.75	-6.15	-6.35	-6.95	-6.75	-7.20	-7.20	-5.80

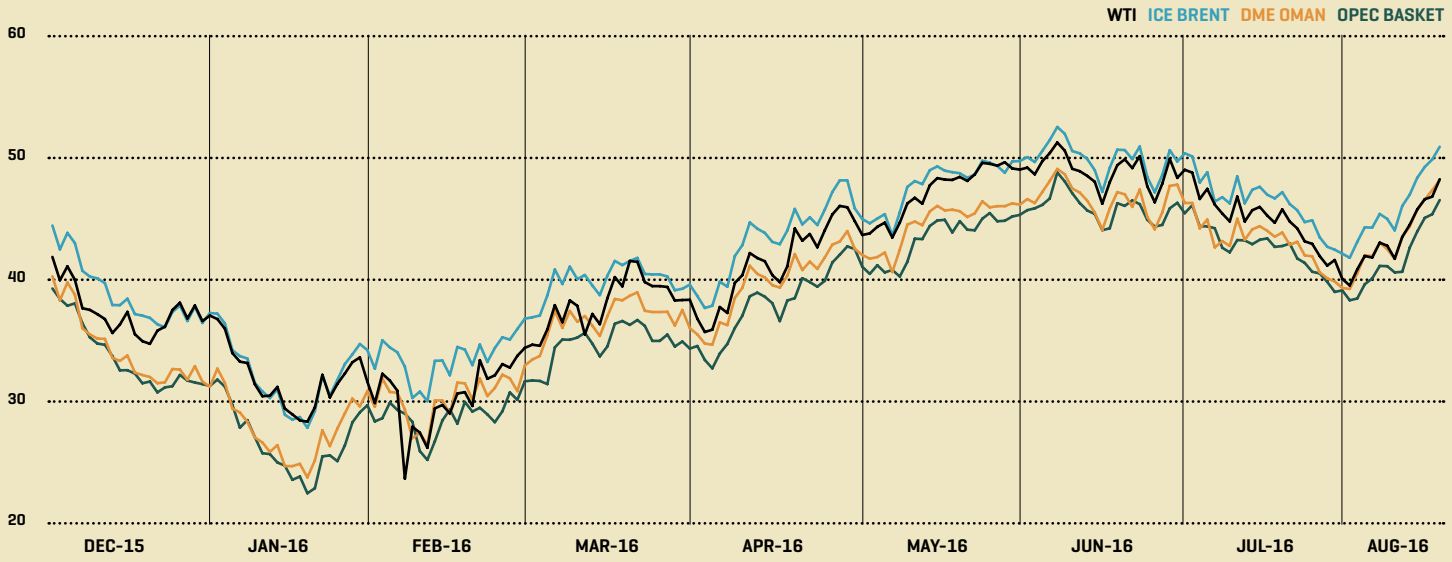
*SEPARATE PRICE FOR NOROOZ NOT PUBLISHED FROM JUNE 2016. BLENDED WITH SOROUSH.

SELECTED DATA

BENCHMARK CRUDE PRICES ($/B)

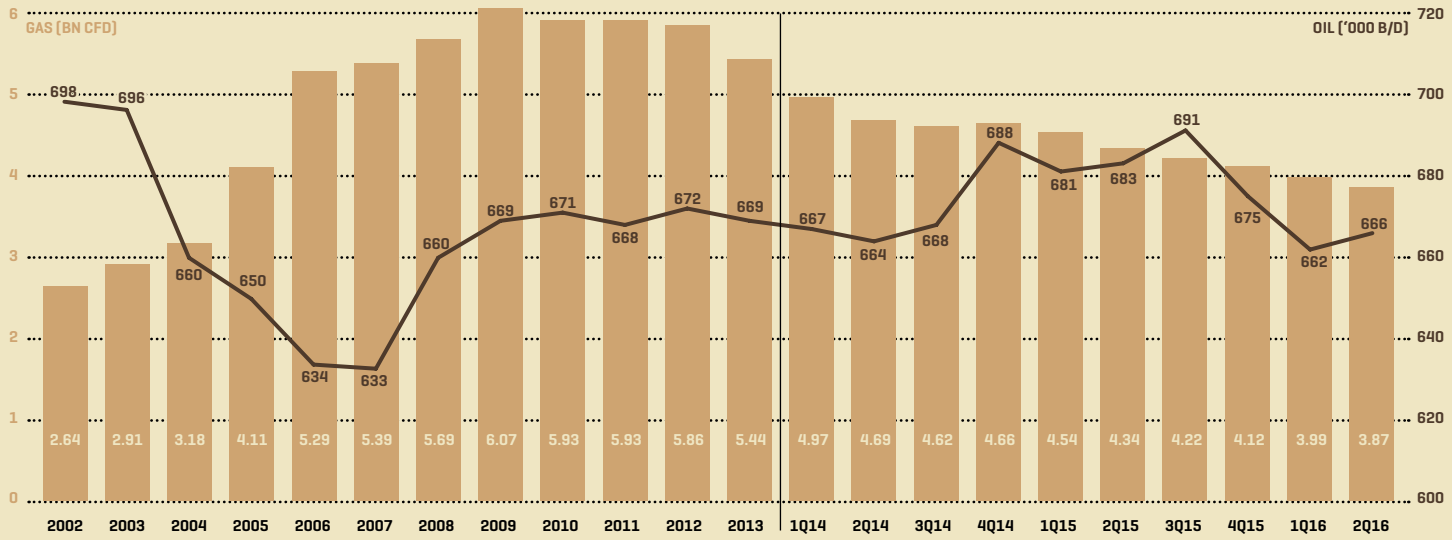
	18-Aug	8-12 Aug	1-5 Aug	Jul-16	Jun-16	Q2 2016	Q1 2016	Q4 2015	2015	2014	2013
WTI	48.22	43.10	40.83	45.07	48.90	45.75	33.53	42.21	48.83	92.92	98.03
ICE Brent	50.89	45.49	43.12	46.53	49.93	47.01	35.22	44.69	53.59	99.44	108.69
DME Oman	48.13	43.00	40.58	43.26	46.62	43.62	31.69	40.80	51.20	96.95	105.47
ICE Dubai	48.25	43.12	40.30	43.11	46.63	43.70	32.00	40.93	51.37	96.97	105.49
OPEC Basket*	46.50	41.19	39.10	42.68	45.88	42.39	30.14	39.71	49.51	96.30	105.89
JCC	na	na	na	na	45.24	40.97	33.18	46.31	55.03	105.17	110.38

AVERAGE SETTLEMENT PRICES FOR PERIOD IN QUESTION.*OPEC BASKET INCLUDES INDONESIA'S MINAS FROM JANUARY 2016.



EGYPT GAS OUTPUT CONTINUES TO FALL IN Q2 AS OIL PRODUCTION RECORDS MARGINAL GAIN

SOURCE: JODI, EGPC, MEES CALCULATIONS.



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