Six OPEC Members, Plus Russia, Now Open to Emergency Meeting. Picture: Arabian Business (Iran, Iraq and Russia open to emergency oil summit), 2016

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Manaar Analysis on Saudi Arabia

By Ambassador Jhon Craig (Senior Partner)

One of the most consequential Will they or won't they? Is a question frequently asked now about the oil production policy of Saudi Arabia. Will they adjust their production output downward to strengthen international crude oil prices? Or won't they? Former Secretary of State Madeline Albright believes they won't. Others believe it is too late for such a reduction to have any real effect on prices in the short or medium term. In the current extremely volatile and hostile environment in the Middle East, Saudi Arabia's policy makers are surrounded by complicated and threatening situations which they must consider in terms of future production policy. Following is an analysis of each of these factors and how they impact current Saudi Arabian oil production.

Political transition – The death of King Abdullah in February, 2015 forced the issue of succession on to the agenda in Saudi Arabia. Even though a crown prince, Prince Mitib, had been designated, the new king, Salman bin Abd al-Aziz, chose that moment to bring about revolutionary change in Saudi Arabia by dismissing the new crown prince, who was also of his generation, and appointing Prince Muhammad bin Naif, from the next generation of the al-Saud, as the crown prince. This move required the new king to gain the approval of the succession council made up of members of the al-Saud family appointed by King Abdullah. The council narrowly approved the change and in doing so they erased decades of speculation about how Saudi Arabia would reach to the next generation of leadership. The importance of this action cannot be overstated. Saudi Arabia even prior to the oil price decline was facing serious budgetary pressures owing to huge subsidies designed to retain the loyalty of the people. Likewise spending by uncontrolled ministries was out of control and national priorities did not exist or were not enforced. The direction of the country had to be changed.

Almost immediately, King Salman created another succession issue by appointing his own son, Prince Muhammad bin Salman as the deputy crown prince. In addition he put his son in charge of the necessary economic reforms by creating a national economic council to establish national priorities for the budget and to get the government under control; importantly this economic council is responsible for the level of Saudi Arabia's crude oil production. Prince Muhammad bin Salman is also the head of the Royal Diwan, and the Minister of Defence. Implicit in the appointment is the expectation that MBS will be the next Crown Prince. The appointment caused another rivalry to emerge, that between the Crown Prince and his deputy. Speculation is that MBS wants to replace MBN now.

For now he is bearing the responsibility for reducing over generous subsidies on water, electricity, education, health care, gasoline and other basic commodities. He must also deliver on the very hot and costly war in Yemen by defeating the Iranian backed Houthi tribesmen who are seeking to take over Yemen from a government that has emerged from the fog of the Arab spring revolutions. In short he needs all the revenues he can capture and that means ramping up production even when or maybe especially when oil prices are declining.

At the same time that King Abdulah's death posed a challenge to the succession strategy of the royal family, the stability of Saudi Arabia was widely believed to be under serious pressure from an external regional player, namely Iran. The Iranian revolution has long sought to bring down to House of Saud and replace it as the guardian of the holy places of Islam in Mecca and Medina. For more than 15 years, Saudi Arabia and Iran had been able to at least deal with each other as the result of a mini détente brokered by then Crown Prince Abdullah and President Katami. The détente stopped growing annual clashes between Iranian pilgrims (revolutionary guards) and Saudi Security forces which threatened to disrupt the peace of the pilgrimage to Mecca in the 1990s. Since 2011, Saudi Arabia and Iran have lined up against each other in proxy wars in Iraq, Syria and Yemen. And Iran is accused of involvement in Tunisia and Libya.

The ruling family in Saudi Arabia believe it is locked in a struggle for the very existence of the ruling structure in Saudi Arabia. And they believe that they are alone in this struggle, having been abandoned by the West and the US. They believe that any means is justified in this fight for survival of the ruling structure.

In addition to gaining additional revenue, one of the earlier strategies for increasing production was to counter growing U.S.A oil and gas production capabilities .Saudi Arabia has long prided itself on maintaining the price of crude oil at a level that stifles the development of alternative energy sources. S a result Saudi Arabia was unconcerned that crude oil prices were slipping due to its own continued high production levels. Driving prices down would surely also cause pain in other producing countries but especially Russia and Iran. Lower prices would also help European allies organize their energy supply on a more rational basis at significantly cheaper levels. This policy has succeeded but it has also had some unexpected side effects, some of which are affecting Saudi Arabia itself.

Nearly coterminous with the drop in oil prices, Saudis Arabia's defensive war in Yemen heated up requiring large expenditures of now declining reserves. The war in Syria has dragged on and Saudi Arabia is still suppling parties in that conflict with money and weapons to fight the Iranian backed Hezbollah. Domestic reforms will lower expenditures, but at an unknown risk of popular opposition. One can truly empathize with Saudi Arabian policy makers who face what they believe is an existential threat and who have few effective tools to use to protect their stability.

In the current situation, it would seem that Saudi Arabian policy makers have little choice but to continue to pursue a lower oil price policy.

Challenges of Middle East & Gulf National Oil Companies (NOCs)

By Jaafar Altaie (Managing Director)

Overview:

This paper summarizes an independent study undertaken by Manaar, examining the challenges of commercial operations for NOCs in the Middle East and the Gulf region. The study looks at how NOCs will be impacted by the market downturn and how changes in their operating models and structures can allow them to operate successfully under increasingly difficult market conditions. The term NOCs refers to six key National Oil Companies in the Middle East and Gulf region - Saudi Aramco, Abu Dhabi National Oil Company (ADNOC), Qatar Petroleum (Qatar), Kuwait Oil Company (Kuwait), National Iranian Oil Company (NIOC), Iraq's Ministry of Oil (assuming the role of the disbanded INOC). The term 'Operations' refers to the combination of technical and commercial factors throughout the petroleum value chain with the focus on upstream and production operations.

Economic & market drivers :

Demand dynamics: There can be little doubt that 2016 is a buyer's market where global demand, most notably from Asia is a key price driver. Our demand /supply model proposes a price range of $20/bl range in response to persistently sluggish demand throughout 2016 and $60/bl in the event of a sustained demand recovery. Aligning the model with market data suggests a range of $25-40/bl given current insights on Asian demand through 2016.

Supply contractions: Prospects of a price recovery in the $60 range are considered in the event of supply contractions. This can be a slow-down of high cost production or OPEC production cuts.

Supply distortion: The analysis also considers a gradual distortion of supply where persistently low prices erode supply elasticities (sensitivity to price), increase global dependence on low cost producers, raise the risk of under investment, overriding profit maximization concerns and subsequent supply shocks. The prospect of geopolitical shock is also considered, notwithstanding the minimal effect that growing regional conflicts have had on prices so far, but also noting that areas of production have largely escaped any direct impact.

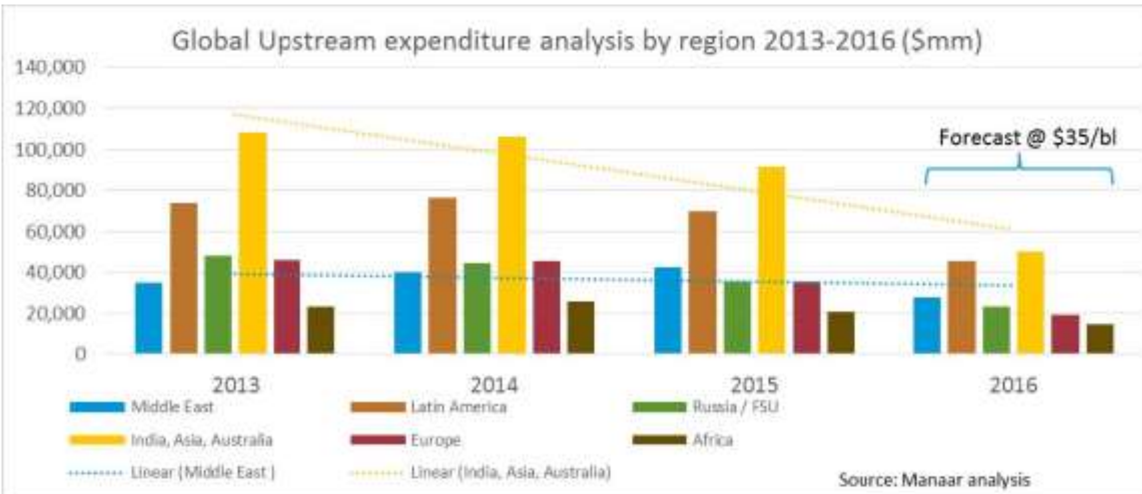
National obligations: While any type of sustained recovery would be welcome news, metrics such as the fiscal break-even price and national debt sustainability ratio serve as constant reminders for NOCs of the need to adopt increasingly conservative operating models and accelerate the pace of initiatives to maximize operating efficiency under any market scenario.

Operational priorities

Cost management

The immediate response of NOCs to the recent downturn has been to cut costs in line with global trends which could see reductions at an average of about 40% down from 2015, assuming current price levels.

ADNOC, Aramco and QP are taking steps to cut approximately 20%, with an increased emphasis on CAPEX, adopting a 'wait and see' aproach regarding further cuts. Iraq has taken more radical steps announcing cuts of



over 40% of total petroleum costs. These cuts aim to sustain reserve replacement programs, increasingly at the expense of riskier assets, G&G and new production. For all producers, effective cost management is likely to be complicated by factors outside the core production and cost planning processes. These include variables such as national debt sustainability ratios and budgetary decisions which will increasingly influence policy decisions on desired production rates and drilling programs.

Iraq has a weak debt sustainability and an oil sector dominated by foreign investment, suggesting that cost planning must be in line with hard economics. The Gulf NOCs have stronger autonomous investment capabilities and debt sustainabiliy allowing them greater policy levers and an arguablly more sophisticated cost management process.

However, in order for any cost cutting to achieve results in sustaining efficiency improvements, it must be accompanied by more far reaching changes in the structure and governance of NOC operations. National policy considerations, the dynamic nature of the global market and other factors outside of core production planning processes require reliable data and financial modelling know how as a pre condition to effective cost management. In the context of NOC operating models, this also means improvements in underlying risk management frameworks, particularly where this relates to improving a NOCs understanding of business and commercial risks at home and in global markets.

Commercial Risk Management

Commercial risk management has typically been the specialty of IOCs as part of their core operating models and global investment strategies. For NOCs, risk management has largely been confined to negotiation of conservative fiscal arrangements, the physical security of assets, infrastructure and management of the supply chain. Under current market conditions, NOCs are increasing efforts towards developing comprehensive risk management frameworks. The priorities are a better understanding of business, investment and technology risks to address challenges such as:

• **Access to capital**, such as equity and debt in global capital markets, amidst declining capitalization throughout the value chain .

• **Integrating demand security** with production and investment decisions, in the form of fiscal systems, marketing contracts, demand side projects and global partnerships.

• **Geo-economic risk management**, in areas such as OPEC strategy co-ordination and geopolitical forecasting, with emphasis on regional dynamics and their impacts on oil & gas operations.

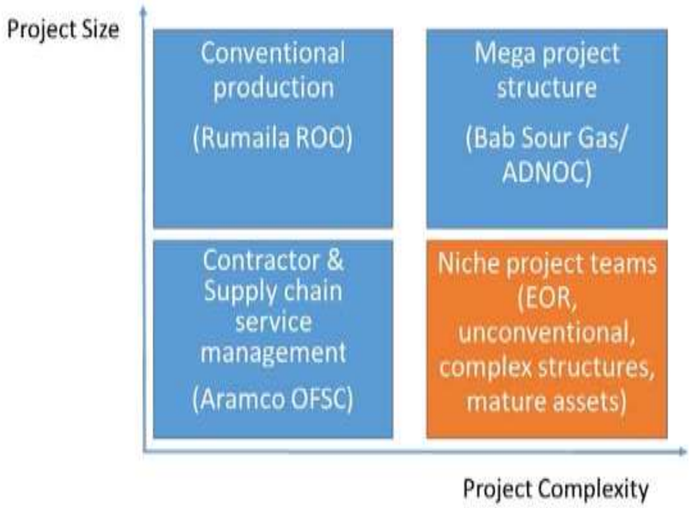
• **Technology benchmarking and adoption,** most notably in areas such as EOR/ hydraulic fracturing, reservoir management, big data and digital oilfields

The development and success of any new framework in is also likely to have impacts on the underlying operating models and structures in NOCs.

Operating models and structures

Evolutionary changes in operating models and project structures are likely to precede any radical transformations in corporate structure and governance as a response to the current downturn. Such changes are likely to include the restructuring of certain project teams around more defined goals in relation to asset optimization, deeper specializations and a significant rationalization of project risks.

• The common themes include deeper partnerships with IOCs and service providers,



alongside a stronger emphasis on strengthening local content to improve cost management and build private sector capabilities

• This could also entail greater flexibility in contracts between NOCs and service providers through increasingly hybrid agreements borrowing components from PSCs, Master Service Agreements, Pure Service Contracts and Joint Ventures, aimed at maximizing value for both parties

Under current market conditions, niche project models serve as operating models in their own right while assisting in the transfer of knowledge and effective operational integration. These niche specialization also strengthens NOC capabilities to expand globally.

Global initiatives

Part of rationalizing their upstream risk in response to falling prices, NOCs are increasingly compelled to strengthen their global relationships in terms of future restructuring but more immediately opportunities in midstream and downstream areas.

Partial privatization – The proposed Aramco IPO

Recent debates on this issue are part of a growing tendency among the Gulf NOCs to go one step further in strengthening their intergration with global markets. A full Aramco IPO is currently a very difficult proposition for Saudi authorities or global markets to consider. Aramco's politically sensitive position, doubts over shareholder entitlements and questions over Aramco's real profitability (particularly in low price cycles) are some initial constraints. Nevertheless, the possibility of floating downstream shares of Aramco's downstream business could be more realistic. Projects like Sadara Chemicals, Petro Rabih and Motiva are precedents for Saudi-led global private sector partnerships. While these projects do not hold the same strategic implications they can form an important basis of future discussions related to the planning, structure and timing of an Aramco IPO. While prospects of any type of IPO remain distant, market conditions and the thinking behind this proposition reflects a quest for a more effective and globalized NOC structure.

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Midstream and downstream private sector initiatives

Aramco has long been a regional trend setter in commercial and operational practices. A shift towards stronger global integration is bound to influence other regional NOCs. Gulf NOCs in particular have also developed a mature culture of global midstream and downstream partnershipsIt should be noted that Kuwait created the region's only scalable international downstream operation with Q8. The UAE and Qatar have also acquired equity in a growing number of global midstream and downstream operations. If a radical restructuring and global IPO of the Gulf NOCs remains unrealistic, the growth of midstream and downstream global partnerships is a logical answer under current market conditions and considering the need for NOCs to build increasingly strategic ties with consumers.

Integrated Value Projects

In contrast to global diversification, Iraq is looking at bringing global players into its market and negotiating the full value chain as part of investment contracts in selected areas. The Nassriyah Integrated Project (NIP) attempts to bundle E&P, refining and downstream marketing into a single package giving incentives to investors with integrated petroleum global expertise. There are major potential advantages and drawbacks to this project but once again we notice producers thinking beyond the historic upstream E&P business model and recognizing the need to maximize value from the enture value chain, which is particularly relevant in the current market.

Conclusions

Achieving and sustaining operational success is an economic, political and social challenge for NOCs. Even in the heyday of $100+ oil, NOCs met significant challenges in sustaining their productive and organizational targets. Gulf state NOCs were largely successful, having achieved significant milestones in their development as a resource custodian and world class organizations. They were also an integral part of the Gulf's near miraculous transformation. Despite a very high degree of talent, their counterparts in Iraq and Iran were stifled by excessive politics which also served to undermine the fabric of those countries.

The Gulf NOCs are best positioned to deal with cyclical market downturns but they must also contend with increasing technical and commercial complexities. In contrast, Iran's NOC (NIOC) has highly favorable geology, a massive hydrocarbon reserve, human talent, but the challenge of rebuilding its industry under some of the toughest conditions. Iraq, with equivalent reserves, has achieved unprecedented levels of production without a NOC, questioning if NOCs are really necessary in the present day. The problems in sustaining Iraq's achievements, however, show a clear role for how a progressively restructured NOC is the best hope to fill Iraq's operational and geo-economic gaps.

In a region boasting the world's greatest mineral wealth and its most dangerous conflicts, the National Oil Company remains a necessary custodian in balancing economic and political interests. While most were successful in this role, all NOCs now face new challenges. The days of being a bloated producer of low cost oil are numbered. The current market environment is as much of an opportunity as a threat for the evolution of NOCs into more efficient engines of development.

Political Risk Index for Iraq Oil Export: Reality & Predications.

By Ahmed Mousa Jiyad (Senior Associate)

Introduction

Oil export by a country could be impacted by a multiplicity of factors, but in the short term oil export could be highly sensitive to and impact by political developments on the national, regional or international levels; PRIX Index is meant to measure just that.

The latest fifth issue of PRIX Index covering first quarter of 2016 indicates that global index is very close to a threshold of "No change" in global net export of oil; an indication that supply glut, though still with us, it might be on the way of receding during this year for possible ending of supply glut and accordingly approaching oil price floor.
Recent news and movements within OPEC and from other producers are signaling on that direction.

In the meantime, Iraq PRIX index for the same quarter has moved upward and this could be, but definitely not for sure, interpreted to mean that the increase in Iraqi oil export has no impact on global oil supply as such increase might be smoothed/counterbalanced by either "no change" or "decline" or a combination of both by the remaining countries that are covered by PRIX Index.
But formal statements revealed Iraq's willingness to join in oil production cut in an effort to prevent further oil price deterioration and hopefully reverse it upward.

This brief article begins by introducing a relatively recent political risk index-PRIX; then assessing PRIX applicability to Iraq and also provides comparison with the global PRIX index; that was followed by an attempt to extrapolate the situation for the second quarter this year and finally highlights the main advantages of the Index.

I- PRIX Index: Measuring Political Risks on Oil Exports

PRIX Index is country analysts-based collective measure that has been formulated to be an indicator on the political developments that can affect oil exports from each of the world's 20 largest oil exporters on quarterly base since total, or individual countries, oil exports from these countries are important factor impacting oil price.

The first of PRIX index series covered first quarter Q1/2015 includes 15 oil exporting countries: Algeria, Angola, Iran, Iraq, Kazakhstan, Kuwait, Libya, Mexico, Nigeria, Oman, Qatar, Russia, Saudi Arabia, UAE and Venezuela. As from Q2/2015 until now the number of countries increased to 20 by adding Azerbaijan, Canada, Colombia, Ecuador and Norway.

The total number of country analysts was 189 for 1Q/2015 then increased significantly to a record high of 293 for Q2/2015 then dropped to 261 for Q3/2015 before increasing slightly to 265 for Q4/2015 and to 290 for Q1/2016.

It should be mentioned that the names and number of analysts for each country are anonymous; but individual analysts are free to disclose their association with PRIX, as is the case with this author.

For each PRIX index quarterly issue there is the same following question with the same three options for answer; each country analyst is contributing by choosing only one answer based on the analyst's personal professional opinion.

The question is: What consequences do you think political developments will have for the quantity of oil export from the country (i.e., Iraq) during the next three months?

- Increase oil exports.
- Reduce oil exports;
- No change in oil exports;

It is important to assert that the country analysts are not required to, and should not, quantify the increase or decrease in oil exports from the related country.

For each country, the PRIX Index value ranges between "0" and "100" and computed based on the analysts chosen answers by using the following diffusion index formula: [1]

Country PRIX Index = [(P1*1) + (P2*0.5) + (P3*0)] * 100

Where:

- P1 = percentage (%) of the country analysts who foresaw political developments leading to increase oil exports;
- P2 = percentage (%) of the country analysts who foresaw political developments leaving oil exports unchanged;
- P3 = percentage (%) of the country analysts who foresaw political developments leading to reduce oil exports.

An index value of 50 indicates that oil exports are expected to remain unchanged. A value above 50 indicates that political developments may contribute to rising oil exports; while a score below 50 indicates falling oil exports.
The further away from 50 threshold index value is, the greater the expected change, increase or decrease, in oil exports and possibly the greater the chance of an impact on the oil price, depending, off course, on the significance of that country in group oil export.

For each country the divergence/convergence among the answers of the analysts is calculated by using the known statistical Standard Deviation (with value ranging between 0 and 1: SD value of 0 indicates convergence/unanimity among the country analysts; while SD value of 1 indicates maximum divergence/disagreement among the country analysts).

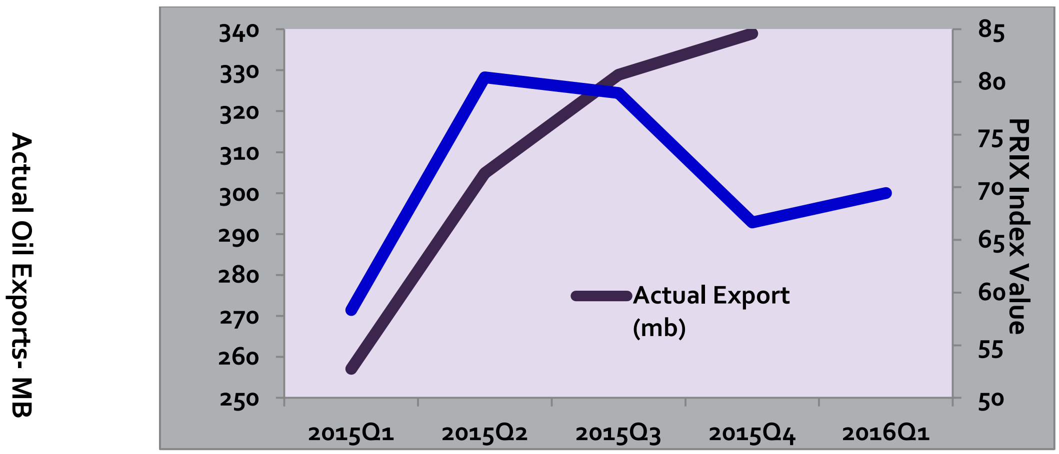
Theoretically, divergence and convergence can serve as an indication for the clarity and predictability of the political situation in the country. When the country analysts tend towards unanimity (less divergence and more convergence) in any direction of oil export (increase, decrease or no-change), the political trajectory of that country is probably more predictable and vice-versa, when country analysts give contradictory input about the country, the trajectory may be less predictable.
But the number of analysts for each country is important: a few analysts (say 5) might have lower SD value compared with much larger poll (say 15) of analysts, while, in fact, the views of a larger poll of analysts are more meaningful, reliable and credible in assessing and foreseeing the political development in that country. This is also applicable and valid for comparative purposes among the covered countries and for computing the group global PRIX Index.

[1] The formula can be written in different ways but deliver the same result, i.e., same index value.

II- Iraq PRIX Index: a Test of Reality

The following Chart 1 validates the assessment by the Iraq's analysts that country oil exports increased during each of the five quarterly issues of PRIX. The PRIX Index values (Blue curve) for Iraq has been constantly over the 50 threshold indicating increasing oil export during 2015 and expected to be so during the first quarter of 2016. PRIX predictions are confirmed by the country actual oil exports during each quarter in 2015 (Brown Curve).

Chart 1:
Iraq: PRIX Index vs. Actual Oil Export (Mb)



Source and Note on Chart 1: Author compilation and production. Data related to Iraq PRIX Index values are compiled from PRIX Index quarterly issues; data related to total actual oil exports are compiled from the websites of the Federal Ministry of Oil and KRG-MNR.

Total Iraqi oil exports has increased progressively from 257 million barrels (Mb) during first quarter of 2015 to 339 Mb during the last quarter of same year; a significant increase of ca. 32%.

The trend continued upward for January 2016 as the preliminary data on Iraqi oil export (federal government only) indicates it has increased to reached a record of 101,839,742 barrels (corresponding to 3.285 million barrels per day, assuming no suspension of loading due to bad weather conditions) from the southern export terminals on the Arabian Gulf; and increase of 2.2% over December 2015 export or by 37.4% over January 2015 export level.[2] On the other hand Iraq oil export price for January 2016 has reached a record low of $22.21 a barrel not seen even during the last price crash of 2008. Moreover, this price is almost half of the oil price adopted by State Budget Law Nr. 1 of 2016[3]; indicating further deterioration in the country's fiscal crisis and augmenting the difficulties facing the government.

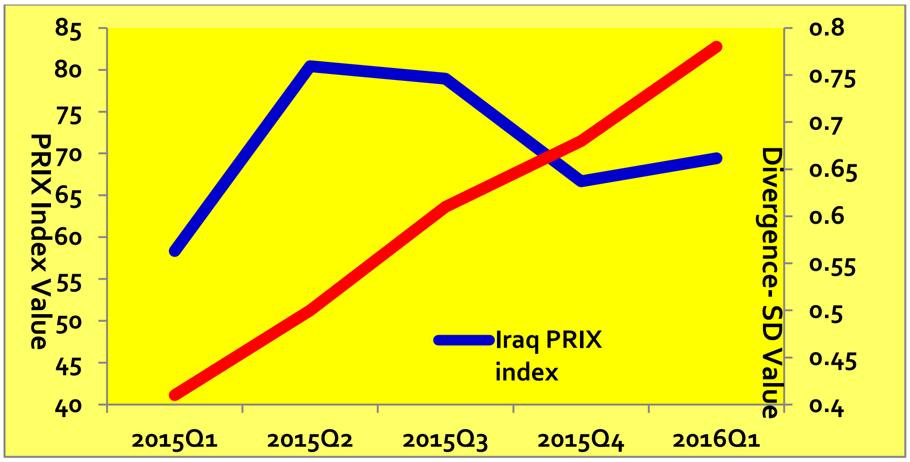
It appears that low oil price has also compelled KRG to rethink its relation with federal government in an attempt to face the withering fiscal problems of KRG. Prime Minister of KRG, Mr. Nechirvan Barzani headed a delegation that began formal visit, on 31 January, to Baghdad aiming at discussing and sorting out serious issues including oil matters.

In addition to oil price effect, obligations of both Federal and KR governments under budget law 2016 and Da'esh-related security threats, KRG was under international pressure to restart the dialogue with the federal government as stated by representatives of many Kurdish parties.[4]

The point here is that a workable accord between federal and KR governments based on and implementing both sides obligation under budget law 2016 could enhance the possibility of an increase in oil export, at east during the current quarter.

The pattern of Iraq PRIX Index values for 2015 is not consistent: increasing sharply from 58.33 for Q1/2015 to 80.43 for Q2/2015 then declines to 66.67 for last quarter of 2015 before improves slightly to 69.44 for first quarter of this year.
The apparent increasing disparity in the assessment of the country experts manifests itself in the values of the calculated Standard Deviation-SD (Red Curve), as exhibits in the following Chart 2.

Chart 2:
Iraq PRIX Index and Divergence among Country Analysts



Source and Note on Chart 2: Author compilation and production based on PRIX Index quarterly issues.

Despite the fact that all country analysts predicted, as mentioned above, that quarterly oil exports will increase during all the previous quarters, the divergence among them increased regularly to the extent that the Standard Deviation value almost doubled for Q1/2016 as compared with same quarter of the previous year.

This persistent and increased pattern of SD values could be explained in different ways and interpretations.

The weak unanimity clearly reflects growing unease among the consulted country analysts in reading Iraqi domestic economic and political conditions and their impacts on oil exports, let alone the complexities of the exogenous regional and international influential developments.

The double-whammy caused by the crash in oil prices and ISIS (Da'esh) effects had pushed the country into the brink of a very serious fiscal crisis, aggravated the difficulties of an already fragile state; all that had impacted investment allocation for upstream petroleum projects.

Despite the formation of the current new government and adopting a reform package, the domestic politics is far from conducive and enabling environment. Talks on and cases of plaguing corruption are on national screen on almost a daily base; crippling *kleptocracy* appears to be the "new normal" in Iraqi domestic politics that inflicting heavy losses and draining scarce resources; inefficiency and disguised unemployment contributes to low productivity; lack of sound planning, absence of clear developmental objectives on macro and sectoral levels and prevalence of very serious skills and professional capacity gaps, among others.
All the above had contributed to serious mismanagement of the country's resource revenues, causing the fiscal crisis that Iraq has been struggling with.

The continued political stalemate between the Federal Government and KRG and the independent oil export by the latter contrary to State Budget Laws had worsen the economic conditions of both governments even further. Moreover, the socio-economic and political conditions in the Kurdistan Region of Iraq had deteriorated rapidly and significantly during 2015, thus contributing to influence the views on the impacts of these conditions on KRG/ Iraq oil exports.

Apart from the above, there could be some procedural or technical reasons behind such growing divergence of opinion among Iraq analysts.

- First, we do not know how many Iraq analysts had contributed to each of the five PRIX quarterly issues;
- Second, also it is not known the distribution of the selected answers by the country analysts as the SD value is sensitive to both the number of respondents (the country analysts) and their choice of answers;
- Third, we do not know whether the same group of analysts did all the assessment since frequent turnover of the country analysts could contribute to impact the degree of divergence;
- Finally, we do not know also who are the Iraq analysts and their track-record of professional knowledge and expertise on the country; knowledgeable and professional analysts tend to provide objective and realistic selection of an answer instead of random answering.

The fact that these matters (names, number of each country specialists and how did they answer) are confidential, which is fully understandable, nevertheless, such non-disclosure could very well impact the results.
Declaring the number of analysts for each country in each PRIX issue does not infringe the anonymity of the analysts, while it enhances the credibility of the index. The same applies for discloser of the answering pattern and the input data for calculating the SD values.

III- The Country and Global PRIX Index

In addition to the twenty countries PRIX indices, the quarterly issue provides also a combined aggregated "weighted average" of the PRIX index for the twenty countries. The weighting of countries is based on each country's share of the net oil exports from the twenty countries[5], on the basis of data taken from the Joint Oil Data Initiative-JODI.[6]
Therefore, PRIX index number summarizes political risks for global oil markets during the coming three months.

The following Chart 3 provides comparative profiles of Iraq PRIX Index (Black curve), the global PRIX Weighted Average of the twenty countries (Blue curve) and the "No-Change" threshold (Red line) during the covered period: Q1/2015-Q1/2016.

As the blue curve indicates, the collective view of the 290 country analysts expect a very minor increase in oil exports from the twenty major oil producers during the first quarter of this year and coming closer to the "No-change" value of 50 threshold. Actually, the blue curve has been on the decline trend since second quarter of 2015, probably due to adding the five countries to the list of covered countries.

It remains to be seen whether this downward trends continues or not during the second quarter of 2016, when and whether it will cross the 50 threshold. This possibility is addressed in section four below.

Many interesting and relevant recent signals and statements from Russia and OPEC members lend support to global PRIX downward prediction.

A senior Lukoil official reportedly said Russia needed to work with OPEC to reduce oil supplies.

Reuter's news service on Jan. 27 cited Russian news agency TASS as reporting that Russia's state-owned oil pipeline company Transneft's top executive suggested Russia and OPEC might discuss possible oil production cuts.

Finally, Russian Energy Minister Alexander Novak reportedly said (on 28 January 2016) that Saudi Arabia had proposed a 5% cut in oil production.

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[5] To insure consistency and non-biasness the used country weights should be for the same period and the closer to the related quarter the better.

[6] Joint Oil Data Initiative is a collective entity by the following partner organisations: Asia Pacific Economic Cooperation-APEC, Statistical Office of the European Communities-, Gas Exporting Countries Forum-GECF, International Energy Agency-IEA, Latin American Energy Organization-OLADE, Organization of the Petroleum Exporting Countries-OPEC, United Nations Statistics Division-UNSD.

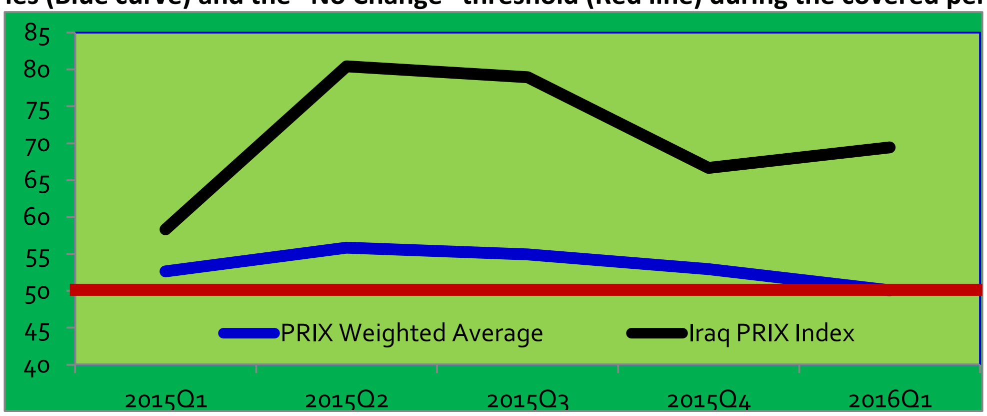
Similar news from OPEC began to leak like testing balloons. Al-Arabiya STV asserts that an anonymous Saudi source told the channel that Saudi Arabia is willing to cooperate with other producers on oil market, though the country was not behind the 5% cut in oil production.

The Venezuelan President Nicolas Maduro was reportedly said recently that OPEC is "close" to have agreement with other oil producers to prevent further deterioration in international oil price. For this purpose the Venezuelan Minister of Oil, Eulogio Del Pino, embarked on an uphill mission on 1st February in an attempt to convince to Russia, Iran, Qatar and Saudi Arabia.

On its part, Iraq has sent mixed messages on the country's readiness to consider production cut. In a recent interview with Reuters Iraq Minister of Finance, Hoshiar Zebari, was reportedly said that Iraq could consider lowering its production if all other OPEC countries and outside OPEC do the same. But the Minister of Oil, Adil abd Al-Mahdi, did not mention such a possibility in his speech, 26 January, before the Energy Strategy Forum held in Kuwait. Four days later, the Oil Minister echoed what Mr. Zebari has said regrading Iraq's readiness to consider production cut.

Undoubtedly, OPEC and non-OPEC agreement on tangible oil production cuts could have serious ramifications on global oil supplies and accordingly on oil price. But again there could be some serious uncertainties on such agreement or the magnitude of production cuts or when it takes effect or the cut burden-sharing threshold or any combination of the above.

Chart 3:
Comparative profiles of Iraq PRIX Index (Black curve), the global PRIX Weighted Average of the twenty countries (Blue curve) and the "No Change" threshold (Red line) during the covered period: Q1/2015-Q1/2016



Source and Note on Chart 3: Author compilation and production based on PRIX Index quarterly issues.

Trend-wise, Iraq and global PRIX indices followed same pattern and remained above the "No change" threshold, until first quarter of 2016 when Iraq index reversed direction and increased by 1.04 point while the global PRIX indices continued downward towards 50.06 and thus lost 2.86 points compared with previous quarter.

This could, but definitely not for sure, be interpreted to mean that the increase in Iraqi oil export has no impact on global oil supply as such increase will be smoothed/counterbalanced by either no change or decline or a combination of both by the remaining 19 countries; a matter at the discretion of the 290 analysts and the PRIX methodology.

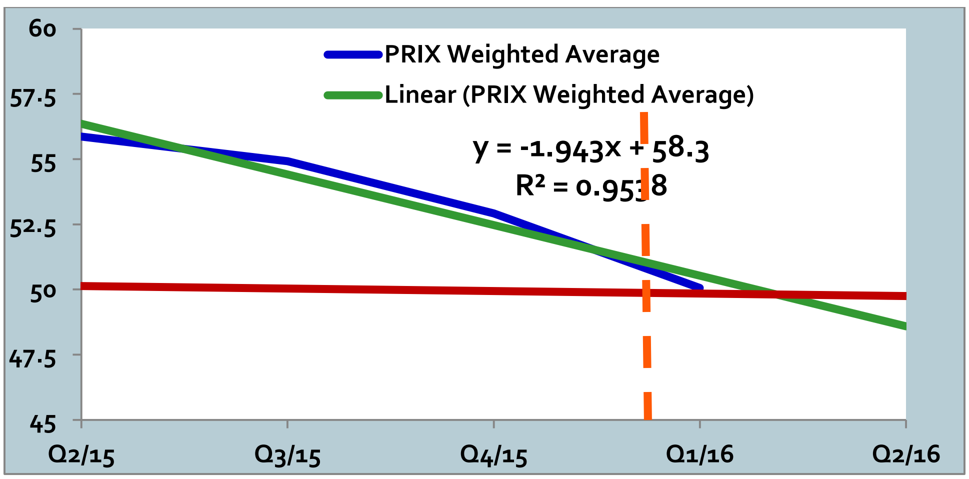
IV- Possible end to Oil Supply Glut

As mentioned in the previous section the collective view of the country analysts produced a declining global PRIX Index values since second quarter of 2015 and the value for first quarter of 2016 is very close to the 50 threshold; with good possibility of crossing that threshold, but the questions are when and at what angle.

So far, as stated earlier, there are five PRIX Index issues, with the first one was like at test-run while the remaining four are more consistent. Thus, the trend-line of the last four index values is more meaningful and statistically significant than the five index values and is used below.

Extrapolating the trend-line (the Green line in Chart 4) indicates that collective assessment of the PRIX country analysts (Blue curve) might cross the 50 threshold (Red line) by mid-second quarter this year; starting the gradual shrink of oil supply glut.

Chart 4:
Trend-line and Extrapolation of Global PRIX Index



Source and Note on Chart 3: Author compilation and production based on PRIX Index quarterly issues. MS Excel used to estimate trend line equation and extrapolation to second quarter 2016.

V- Advantages of PRIX Index

There are too many indices, indicators, measures and alike with very different compositions, number of included variables, complexity of methodologies, mathematical formulations, data requirements, time coverage and frequency of publications, among others.

Very briefly, PRIX Index possesses the following qualities and advantages in addition to my remarks that were highlighted throughout this paper:

- Simplicity: always there is one and same question requiring only one of three same answers;
- Collective professional judgments by all analysts for each country, with estimated divergence among them;
- Immediateness: it is related to the next quarter; and only three months to find out how reality matches expectations;
- Easiness: PRIX Index methodology and process is much easier than most of the known indices and requires much less time and efforts;
- "Doctoring-free": the Index represent a collective view of the country analysts; thus reducing/smoothing biasness, fabrication or doctoring subjective individual's one view;

- Independence and anonymity: the country analysts' names, affiliation, position and nationality are fully anonymous and they do not know each other; number of analysts per each country is also anonymous and thus they are fully independent from each other. The only known is the total number of all country analysts for each Index issue;
- Optional Opt-out: each country analyst is fully free to remain within the poll for PRIX Index, simply by answering the quarterly survey, or terminate the participation by not responding to the survey;
- In addition to the country indices, PRIX index produces quarterly global index based on the relative importance of each country in total oil exports; and thus possible impacts on oil prices;
- Indicative not deterministic: PRIX Index provides the direction of oil exports and thus of oil prices but it does not produce quantified forecast of both or either variables.

International undisclosed country analysts have contributed their expertise and insights to produce each of the quarterly issues of PRIX Index. Their collective view tells that net oil exports from the covered 20 countries is closing to a critical threshold and if crossed we might witness the beginning of the supply glut.

Recent political movements and signals from OPEC and some other oil producers lend support to such views end by an agreed-upon oil production cut; and our trend-line based extrapolation suggests this might occur by mid-second quarter this year.

Iraq analysts predict increase oil export during first quarter this year and January data validates, partially, that prediction. But formal statements by two Iraqi ministers affirm the country' readiness to cut oil productions, only if others do.

As always, reality seldom coincides with expectations. But time always tells.

Challenges of a commercial agency agreement in United Arab Emirates (UAE)

By Raya Abu Gulal (Legal Counsel)

UAE commercial agency Federal Law No. 18 of 1981 as amended (herein referred to as the 'Law') governs the relationship between a commercial agent and the foreign company. Agencies are essential for conducting business with the UAE federal government, mainly to encourage local private sector development and to provide a local interface for government clients. Throughout the course of the newsletter, we have provided a series on various aspects of commercial agencies in the UAE based on our first-hand experiences. This article discusses the termination of commercial agencies, as an area which is frequently under discussion and debate both from domestic and international stakeholders in these relationships. Nowhere is this more evident than in the oil & gas industry in the UAE.

In order to be afforded protection under the Law, a commercial agency agreement must be registered in the Commercial Agencies Register maintained by the Ministry of Economy (MOE) in the relevant Emirate or if for the entire UAE with the Ministry of Economy in the federal capital of the UAE, Abu Dhabi.

A party to such a commercial relationship may terminate the agreement in accordance with its terms and article 8 of the Law. Article 8 provides that, notwithstanding the written terms of the agreement, no termination or failure to renew a registered agency agreement is effective in the absence of a "valid reason" for termination as accepted by the MOE's Commercial Agencies Committee (herein referred to as the 'Committee'). The Committee was created to administer the Law and in case disputes arise between the parties.

Although the Law is silent on what qualifies a "valid reason" for termination, based on recent court cases and client experiences in that UAE, it is believed that a "valid reason" may include:

- Failure by the agent to meet specified sales targets mentioned in the agreement
- Where actions of the agent damage the reputation of the principal or its products or services
- Where the agent partakes in activities that compete with the products or services of the principal in case of reference to exclusivity in the agreement
- Any breach of the Law by the agent

The process of an agreed termination by both parties is a straightforward one and any party to the agreement or its representatives can approach the MOE for cancelling such an agreement by obtaining a de-registration certificate.

On the other hand, challenges start when one party refuses cancelling the agreement. This party can also seek compensation for such termination in accordance with the terms of the agreement and article 9 mentioned of the Law. The party must approach the Committee for such refusal. The Committee shall take following maters into consideration related to awarding compensation: duration of the agency agreement, exclusivity, and demonstrable efforts of the agent in promoting the products or services of the principal; or the net profit generated by the agent, being the value of the contract.

A first, the Committee shall request both parties to attend a meeting to settle their disputes amicably. If the parties do not resolve their disputes, the Committee may issue a resolution to settle the dispute accordingly either by cancelling the agency certificate, keeping it registered or request the parties to take the matter further to local courts.

A party to the agreement may challenge the resolution of the Committee by taken this matter further to the local courts after receiving notice of the Committee's resolution. In such a case, the MOE is not permitted to register and issue a new agency certificate in favour of any third party except after the local courts have passed a judgment concerning the dispute.

This means, that both parties will be not permitted to enter into other agency relationships until their disputes are fully resolved. This could delay a party's business locally and both parties may enter into lengthy procedurals requirements.

Iran's first steps on the route for growth

By Nuno Santos (Senior Analyst)

Iran's government is in cruise speed to attract foreign investment and secure contracts to bust his aviation, hydrocarbons and infrastructure sectors. However President Hassan Rowhani European tour has been considered a success achieving an impressive figure of $50 billion dollars in contracts, the economic reality is still very apprehensive to ordinary investors, in particularly North American ones that will not give a step forward in to this huge market until a new US President is in Office. The Europeans have a different mind-set, 'first in, first out' and that is always something pleasant during state visits and sign ceremonies in Paris and Rome but could bring risks on medium-long term when the European banking system is still fragile specially when we analyse their exposure and potential losses on the energy sector in result of the present oil prices and recent rumours of troubles on the Deutsche bank. At a national level the future priorities on GDP sustainable growth, social development goals and economic diversification will demand active political decisions and noticeable results by the general population.

This is a perfect moment to Iran implement structural reforms focusing financial, banking, public sector administration and state-owned enterprises reducing the economy and state budget dependence on hydrocarbons that leaves it vulnerable to oil and gas prices volatility. With deep reforms targeting efficiency and rationalization of resources, competition and licensing, private sector will have an important role to play on securing a low unemployment rate in a country with over 60% of the population of 77 million individuals estimated to be under the age of 30 and helping attract long term international private investors.

According with the Central Bank, inflation rate in November 2015 fall to 10.1% despite the recent monetary and fiscal policies, this is good news and a strong sign that the economy is aiming for reforms and with high expectations regarding what future can bring.

Manaar Presentations

- Gas Development in Middle East: Impact on Product Demand
- Feedstock Challenges and Market Implications for Middle East Petrochemical Products

For more presentations and research, please visit www.manaarco.com

Manaar Energy Consulting YouTube channel with media interviews https://www.youtube.com/channel/UCiYd0AOrMJIe4qoFa1tnLUQ

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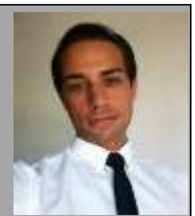

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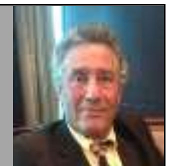
Ahmed Mousa Jiyad



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