

Middle East Petroleum & Gas Conference  
Dubai, 2-4 October 2011

# **MENA Energy Investment and Financing in a Time of Turmoil**



Aissaoui, Senior Energy Policy Consultant  
Arab Petroleum Investments Corporation

# Outline

- Global context
- Regional investment climate
- New trends shaping the outlook
  - ✓ investment
  - ✓ financing
- Conclusions

# A challenging global context

- Slower global economy
- Declining world oil demand
- But OPEC Basket assumed bounded above \$90/bbl
- Greater natural gas markets uncertainty
- Gas prices keeping diverging between markets:
  - From \$4-5/MBtu in fully liberalized markets with abundant domestic supplies
  - to \$12-15/MBtu in markets relying on imports under traditional long term contracts

## Troubled regional environment: Ratings in pre- and current-turmoil periods

- Bahrain, Tunisia and Egypt downgraded
- Libya suspended
- Except for Bahrain's negative outlook, GCC countries are expected to retain their higher investment grades

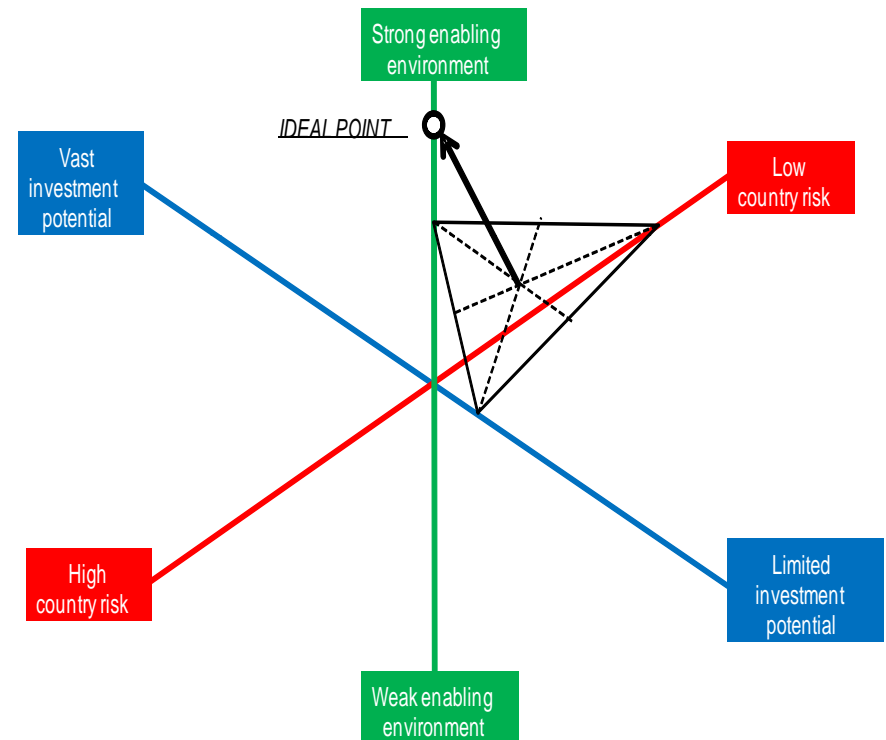
	Rated countries	Pre-turmoil	Current rating	Current outlook
Investment grade	Kuwait	Aa2	Aa2	<i>Stable</i>
	Qatar	Aa2	Aa2	<i>Stable</i>
	UAE	Aa2	Aa2	<i>Stable</i>
	Saudi Arabia	Aa3	Aa3	<i>Stable</i>
	Oman	A1	A1	<i>Stable</i>
	Bahrain	A3	Baa1	<i>Negative</i>
	Tunisia	Baa2	Baa3	<i>Negative</i>
Speculative	Morocco	<i>Ba1</i>	<i>Ba1</i>	<i>Stable</i>
	Jordan	<i>Ba2</i>	<i>Ba2</i>	<i>Negative</i>
	Egypt	<i>Ba1</i>	<i>Ba3</i>	<i>Negative</i>
	Lebanon	<i>B1</i>	<i>B1</i>	<i>Stable</i>
	Libya <sup>1</sup>	Suspen	Suspen	Suspended

<sup>1</sup> Libya is rated by Fitch and S&P

APICORP Research Compilation as of 12 September 2011

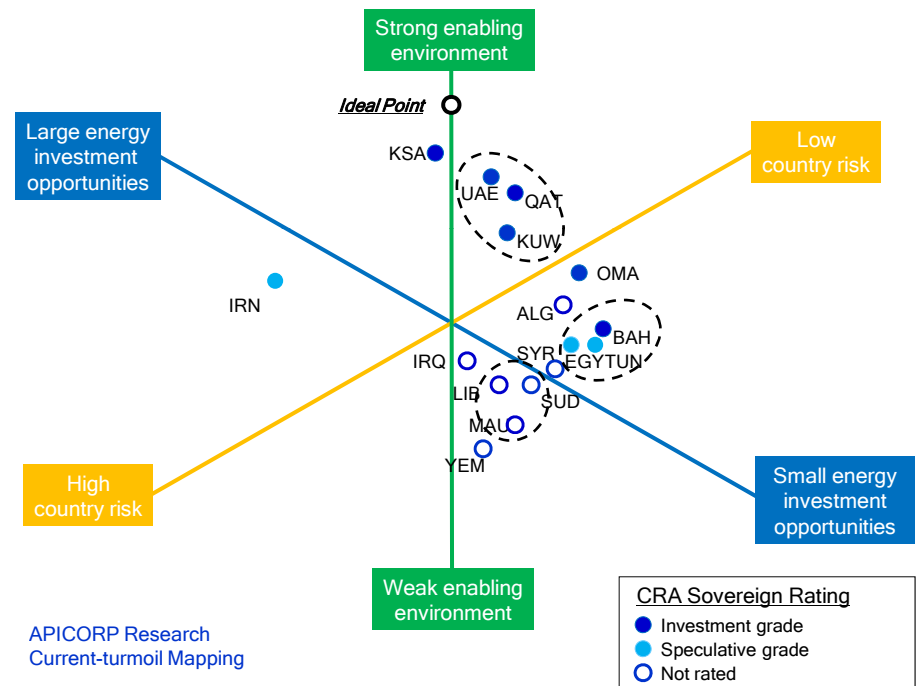
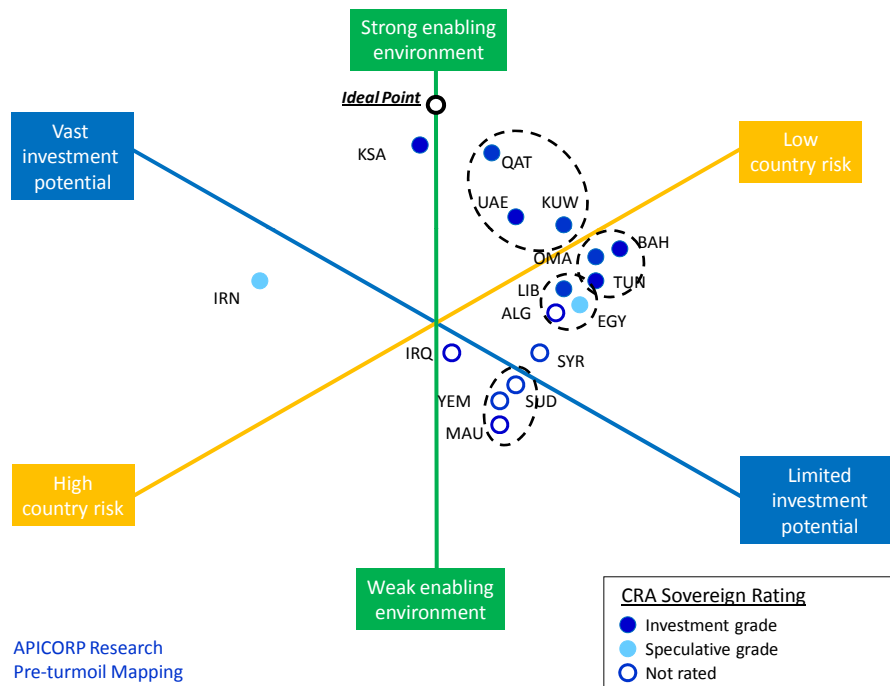
# Our “perceptual mapping” offers a more comprehensive picture

- Use a MDS analysis
- Three attributes:
  - potential investment
  - country risk
  - enabling environment
- A two dimensional representation of a 3-D space
- Note the “ideal point”



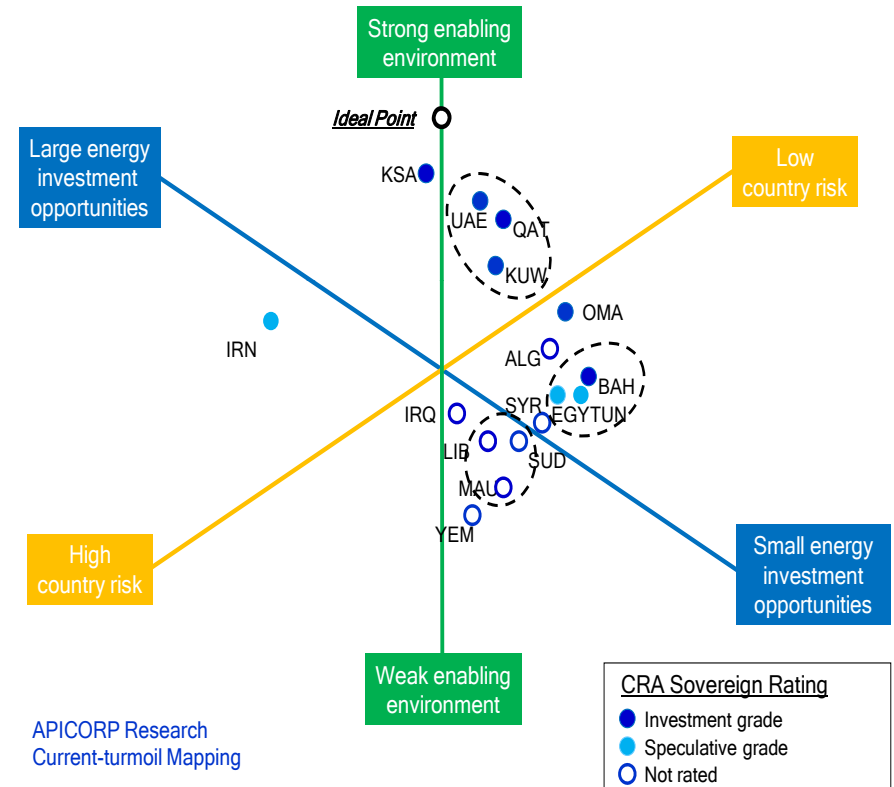
APICORP Research

# A pre- and current-period-turmoil snapshots point to significant position changes vs. the “ideal point”



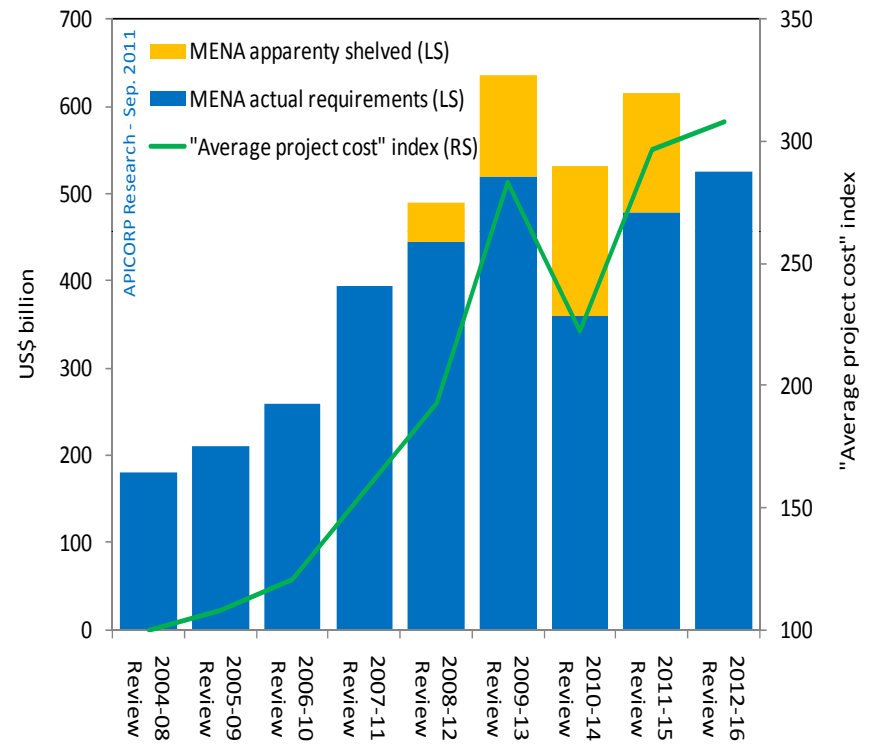
# Focus on position changes

- Saudi Arabia near the “ideal point”
- UAE, Qatar and Kuwait move back nearer to each other
- Iran and Iraq in an odd position
- Dislocation of the rest of clusters
  - Egypt, Libya and Syria break out of the Algerian cluster
  - Tunisia and Bahrain out of that formed of Oman
  - Yemen out of that of Mauritania



# MENA energy investment: broken momentum, mixed outlook

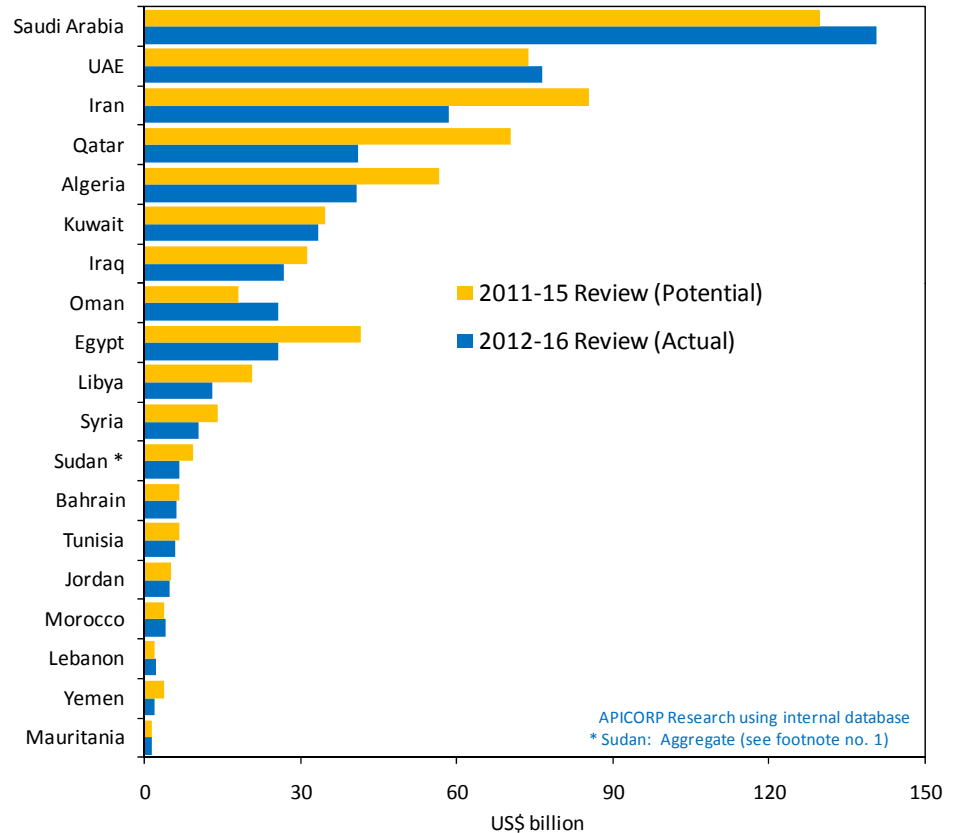
- Energy investment for the period 2012-16 appears on a downtrend
- Our standpoint is mixed: \$525bn
  - is higher than the \$478bn actual requirements found in the last review
  - But it remains well below the potential of \$615bn identified on that occasion





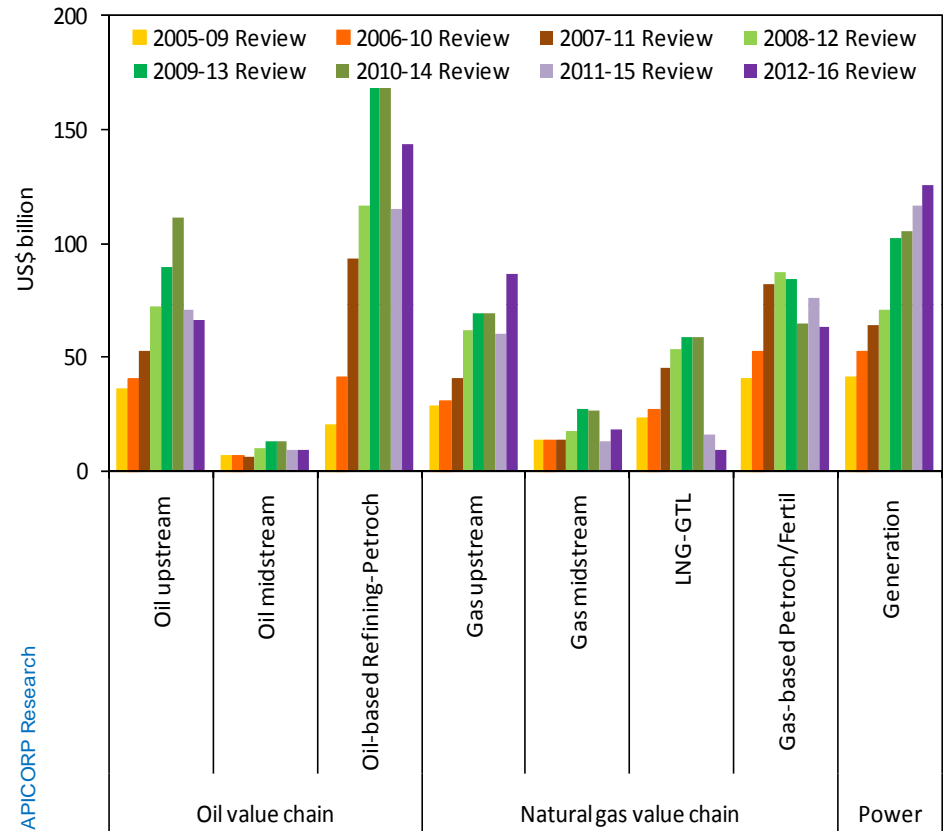
# Country pattern: a disturbed regional distribution

- Two-thirds of energy investment in Saudi Arabia, UAE, Iran, Qatar and Algeria
- None of which has faced the upheaval witnessed in Tunisia, Egypt, Libya, Yemen, Syria and to a lesser extent Bahrain
- In these, sharp decline relative to potential

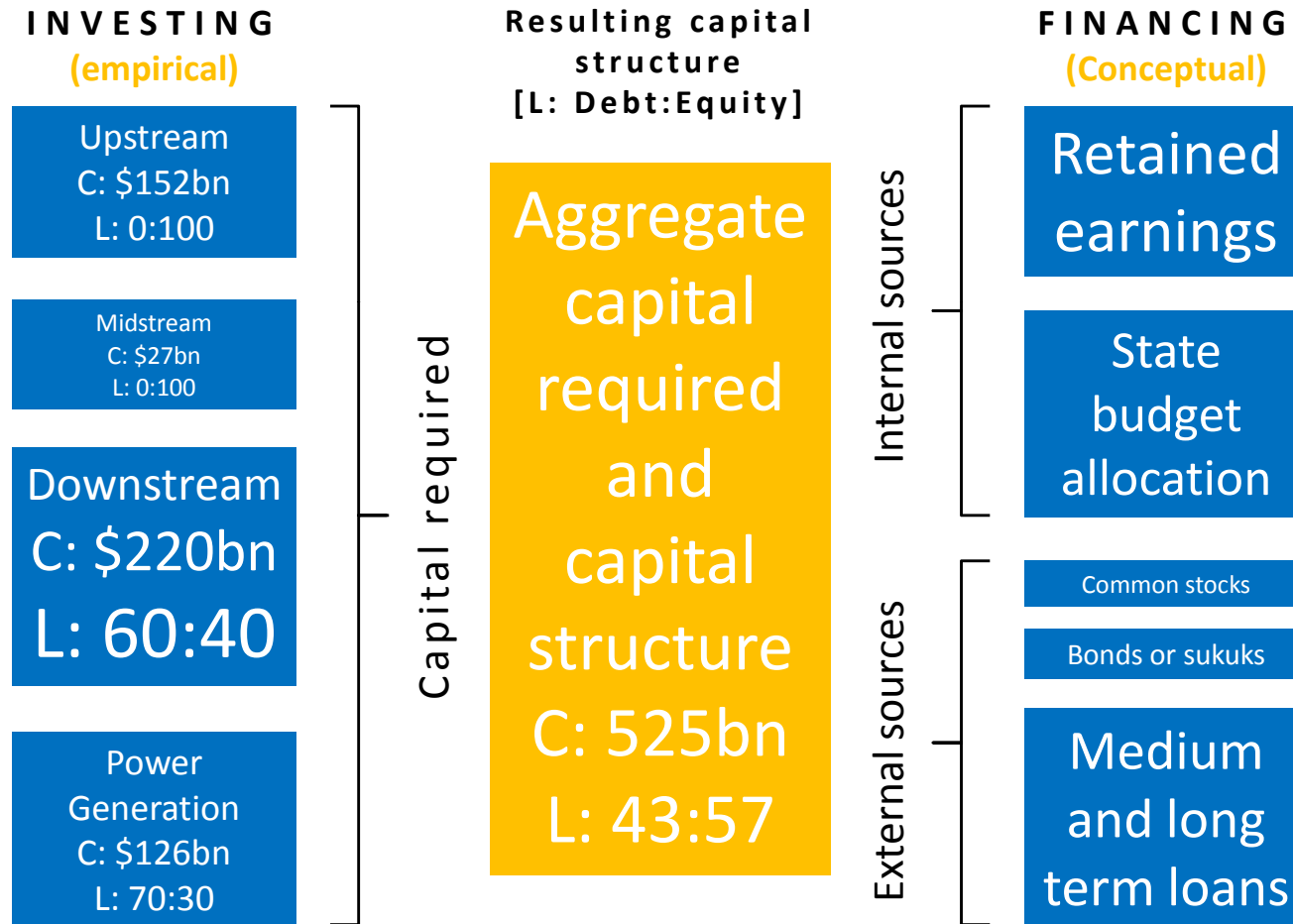


# Sectoral pattern: prominence of the oil downstream and steady growth of the power-water sector

- Distribution of investment
  - 42% in the oil value chain
  - 34% in the gas value chain
  - 24% in power/water
- Most salient link:
  - oil downstream sector
- Most steady growth:
  - power/water sector



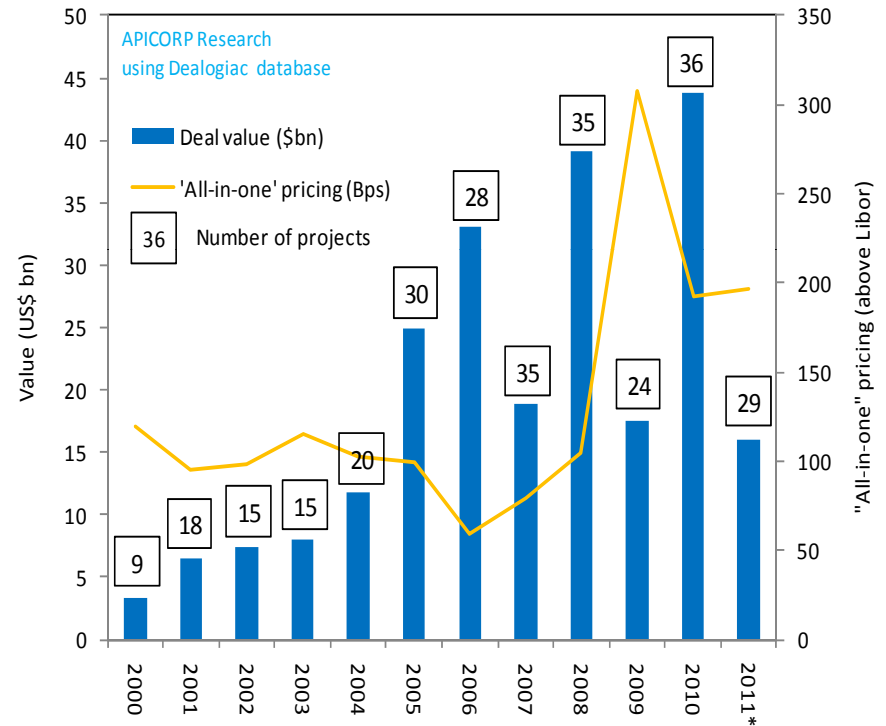
# MENA energy capital structure (empirical) and financing (conceptual)



APICORP Research

# External financing: Collapsing loan supply

- Strong but short-lived recovery in 2010
- Collapsing loan supply in 2011 and persistently high borrowing cost
- Shortfall could be even larger if the sources of local public investment funds dry up



# Conclusions

- Contexts: global economic downturn and regional political turmoil
- MENA energy investment: broken momentum, mixed outlook
- Many of the same challenges with funding most critical
- Given the level and structure of capital stemming from the review:
  - Internal financing is conditional to OPEC Basket crudes above \$90/bbl
  - External financing – predominantly loans - likely to be daunting
- Governments in the region must pursue two tracks simultaneously
  - Step in to fill some of the financing gap, as long as the allocation of public resources reflect their policy priorities
  - Step up their efforts to provide the assurances critical to regaining the lost momentum of private investment

## Further reading (from the same author)

- “MENA Energy Investment Outlook: Recovery Despite Uncertainty”, *MEES*, 4 October 2010.
- “The Changing Arab Political Landscape Impact on the Energy Investment Climate” *MEES’s Energy & Geopolitical Risk*, April 2011.
- “Financing MENA Energy Investment in a Time of Turmoil”, *MEES*, 13 June 2011.
- “MENA Energy Investment : Broken Momentum, Mixed Outlook”, *MEES*, 3 October 2011.