Saudi-Russian coordination instrumental in OPEC agreement

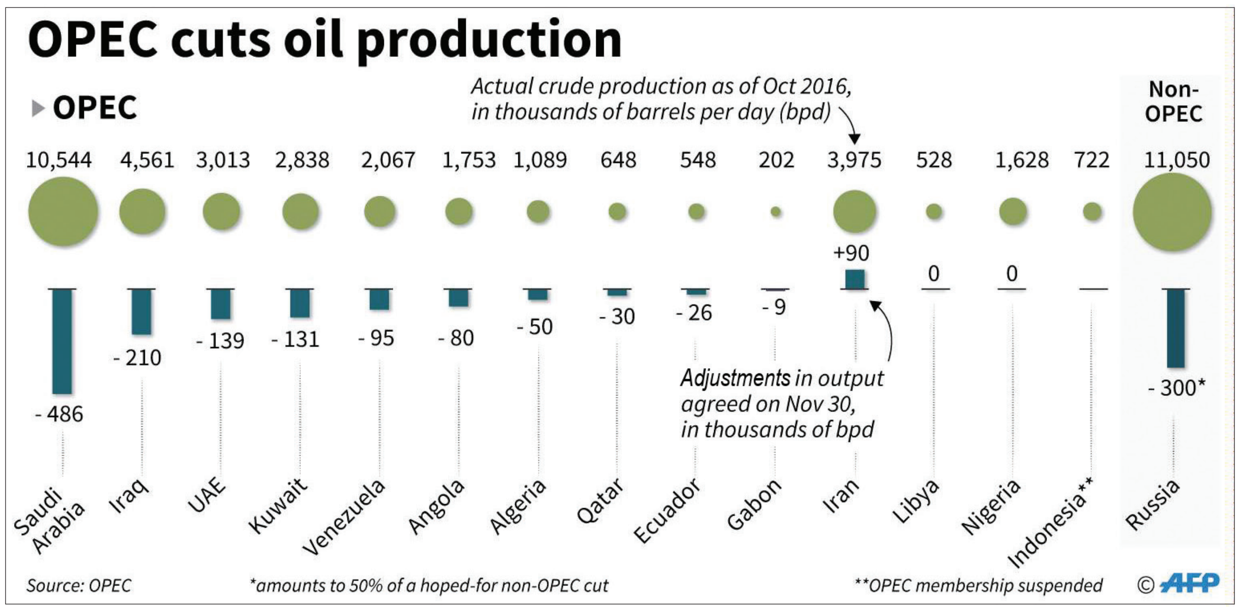
Walid Khadduri

Beirut

Oil ministers of the Organisation of the Petroleum Exporting Countries (OPEC) surprised the markets by announcing an agreement that called for a 4.5% production cut that would decrease OPEC production 1.2 million barrels per day (bpd) to a target ceiling of 32.5 million bpd for the first six months of 2017.

The cuts may be renewed for another six months upon the agreement of the council of ministers in a meeting May 25th. Non-OPEC producers have also pledged to reduce output by 600,000 bpd, leading to a total production cut of 1.8 million bpd. Russia will lead the non-OPEC cuts with a 300,000-bpd reduction.

The cuts are projected to decrease the record-level crude oil storage globally. Oil producers had marathon talks during the past few weeks. Saudi Arabia and Russia, the world's two biggest oil producers, played a pivotal role in ironing out the many differences among the producers.



> Putin "played a crucial role in helping OPEC rivals Iran and Saudi Arabia set aside differences."
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> **Reuters news agency**

The agreements' modest achievements are expected to establish a floor price of $50-$55 per barrel, a range that would assure producing countries revenue increases of billions of dollars. A major driving force behind the agreement is the financial constraint experienced by those countries during the oil price crash of 2014-16. They want to avoid a third year of low oil prices. Many of them are worried about the political consequences of prolonged budget constraints.

The floor price of $50-$55 per barrel is in the range of most of the producing countries' oil price estimate in their budget projections. The projected floor price remains below the price range that would trigger a resurgence of US shale oil production, which costs approximately $55-$75 a barrel to produce.

A $50-$55 per barrel Brent price would also stimulate investments in the upstream sector. There is much concern in the global oil industry that a shortfall of investments will result in an imbalanced supply and demand in global oil markets before the end of the decade, leading to a resurgence in oil prices.

Markets reacted positively to the agreement, rising quickly about 10% to $50 per barrel. Observers continue to question the credibility of the agreement and how faithfully the countries will adhere to their pledges. Many questions have been raised about Russia's commitment to its pledge. Some large Russian firms had announced that they plan to increase production in 2017.

A Russian energy source briefed on the discussions said: "President [Vladimir] Putin wants the deal... Russian companies will have to cut production." The Russian economy is heavily dependent on oil rent. The price crash of 2014-16 caused many constraints in the Russian economy.

Russia and Saudi Arabia, the world's two largest oil producers, cooperated closely to forge the agreement, succeeding to enlist support modifying the positions of the main producers (Saudi Arabia, Iran, Iraq and Russia).

Russia's main role was to negotiate with rival OPEC producers, mediating differences that OPEC members could not reach on their own because of their rivalries. Putin "played a crucial role in helping OPEC rivals Iran and Saudi Arabia set aside differences" to forge the agreement, Reuters reported.

Iran agreed to a modest increase in its allocation to 3.797 million bpd, compared to 3.75 million bpd and 3.78 million bpd during the past two consecutive months, instead of holding to its demands of a pre-sanction 4 million bpd production level and 12.7% of gross OPEC production. Saudi Arabia also agreed to take a cut of 486,000 bpd — the largest among OPEC states — and to be assigned a new allocation of 10.058 million bpd.

Iraq, the second largest OPEC producing country, accepted a cut of 210,000 bpd, the second largest reduction among OPEC states, to be allotted a production level of 4.351 million bpd. The Iraqi reduction was from the government production figures, as Baghdad had protested the use of secondary sources (energy news agency and consulting houses figures) used as a reference by OPEC.

The organisation, however, will continue using secondary sources as its main reference for production figures. OPEC established a committee of Kuwait, Algeria and Venezuela to review the monthly figures.

The encounter between OPEC and non-conventional oil is the first of many that are projected to flare up. Much will depend on the price level, whether it will move to record highs of more than $100 per barrel, as it did in the pre-2014 period, or even if it surpasses the $55-$75 per barrel cost range of non-conventional oil production. It will also depend on how low the cost of producing non-conventional oil can decline.

The 2014-16 price crash has driven home an important message to OPEC countries. They cannot any longer plan their budgets on record-level prices, investing billions of dollars in white elephant projects or endure massive corruption practices and huge unproductive employment in the public sector. Such practices carry heavy financial burdens that low oil prices cannot sustain.

> President Vladimir Putin wants the deal... Russian companies will have to cut production.
>
> **A Russian energy source**

The main lesson of the recent oil price crash should drive home a second one to the producing countries. It is necessary to diversify national economies, stop reliance on oil rent alone and provide for the rise of several productive economic sectors such as agriculture, high-tech industries and tourism.

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Egypt increases customs duties as it seeks to curb imports

Lin Noueihed and **Ehab Farouk**

Cairo

Egypt sharply raised customs duties on more than 300 goods to encourage domestic production and curb a ballooning trade deficit, prompting fears that consumers struggling to deal with double-digit inflation will face further price increases.

The increases, which saw many tariffs jump to 60%, are the second Egyptian officials imposed this year. Cairo relies heavily on imports of everything from wheat to luxury cars.

> ■ Analysts said discouraging imports could help ease pressure on the pound.

The increases follow a slew of other measures, including a currency flotation, increases in fuel and power prices and a new value-added tax. All are likely to fuel inflation, which was near 14% in October.

The Finance Ministry said the tariff increases on 320 categories of goods targeted manufactured products that are also made locally, such as carpets, ceramics and cosmetics. Duties were also raised on goods deemed non-essential, ranging from some types of fresh fruit to shampoo and toothbrushes.

Duties on cosmetics, dairy products, air conditioners, fans, refrigerators, microwave ovens, electric shavers, perfumes and a host other goods were increased to 60% from 40%. Duties on carpets and baked goods doubled to 60%.

"The amendments... aim to create the necessary climate to attract investment... and give a strong boost towards increasing productivity, which is the basis of economic growth, as well as cutting imports, which... have widened the trade deficit to more than $49 billion," the Finance Ministry statement said.

Egypt has faced a shortage of hard currency since a 2011 uprising ushered in a period of political instability that drove away tourists and foreign investors. It drained its foreign reserves defending a fixed exchange rate until November, when the central bank abandoned its peg of 8.8 pounds against the dollar. The pound has since depreciated to near 18 to the dollar.

Importers criticised the increases, saying Egyptian suppliers did not produce enough of any of the goods included. The move was likely to boost local monopolies rather than encourage competition, they said.

"We cannot bear the increased prices. The dollar has already increased costs by 110%, and then we put another 60% on at customs? People who don't have money, where will they buy?" said Ahmed Shiha, head of the importers division at the Cairo Chamber of Commerce.

"We do not have a single factory that makes a bottle of perfume... So how are we protecting Egyptian industries?"

The ministry said the increases, which went into effect at the start of December, were in compliance with World Trade Organisation standards and do not apply to countries or blocs with which Egypt has free trade agreements.

They would increase customs revenues by $339 million a year if the volume of imports remains the same, it said.

Analysts said discouraging imports could help ease pressure on the pound, protect some industries and raise revenue in a country with a gaping budget deficit.

> ■ Duties on carpets and baked goods doubled to 60%.

"I understand the frustration. Everything is getting more expensive and you are throwing this on top of it," said Timothy Kaldas, non-resident fellow at the Tahrir Institute for Middle East Policy, "but they are trying to create incentives for local investment while protecting local industries and simultaneously cutting pressure on the pound."

The duties raised the ire of Egyptians, who bemoaned the expected rise in prices and mocked on social media the goods deemed non-essential.

"Showers and toothpaste are considered provocative goods, so being clean and smelling good in this country is considered an excessive luxury," tweeted one Egyptian.

(Reuters)

Briefs

Exxon pulls out of exploration blocks in Kurdistan

Exxon Mobil has pulled out of half of the six exploration blocks it operated in the Kurdistan region, the Iraq Oil Report stated.

The oil company walked away from operations in the Qara Hanjeer, Arbat East and Betwata blocks, the magazine reported.

Chevron, the second-largest US oil company after Exxon Mobil, relinquished its interest in the Rovi block north of Erbil at the end of 2015 but continued to test wells in the Sarta area.

Since 2014, international oil companies have renounced 19 exploration blocks in Kurdistan, an analysis by the Iraq Oil Report revealed.

(Reuters)

Egypt sees '3-year strategy' to revive economy

Egypt has an ambitious 3-year reform plan that can revive its struggling economy, Minister of International Cooperation Sahar Nasr said.

The minister said the "3-year strategy" would lead to a return of investments, boost industrial production and create jobs.

"Once these reforms are all in place, there will be a positive impact on the economy," Nasr said.

(Agence France-Presse)

Qatar to spend $13 billion on 'mega projects' in 2017

Qatar will invest up to $13 billion in major infrastructure projects next year, the Gulf country's Finance minister said.

Finance Minister Ali Shareef al-Emadi predicted growth of 3.4% in 2017, up from a projected 3.2% this year.

"Increasing the investment in mega projects reiterates the country's commitment to achieving its goals," Emadi said at a Euromoney conference in Doha.

(Agence France-Presse)

Turkey's president renounces US dollar in bid to boost lira

Turkish President Recep Tayyip Erdogan has renounced the US dollar in favour of the weakening Turkish lira in keeping with his appeal to Turkish citizens to do the same.

Presidential spokesman Ibrahim Kalin said Erdogan had "exchanged all of the foreign currency in his accounts into Turkish liras" after urging his citizens to give up the greenback.

Erdogan called on Turkish citizens to convert savings held in foreign currencies into gold and Turkish lira to help boost the currency, which recently dropped to about 3.5 lira per dollar, the weakest exchange rate in more than a decade.

Turkish citizens often hold their money in dollars, euros and gold to mitigate the risk of a rapid devaluation of their currency.

(The Associated Press)