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Prospects For Global Crude Oil Prices & The Gulf Investment Strategies

By
Pierre Shammas
President
APS Energy Group
apsnews@terra.net.lb

The world remains divided into a **paper economy, a dangerous element of casino capitalism** which is financial and driven by psychological factors with speculators motivated by quick profit, and a **real economy** with prices of physical goods and projects no longer rising beyond the rule of supply and demand as they used to do until July 11, 2008, when paper WTI hit a record of $147.27/barrel. Since then paper WTI have moved from a low of $32.40/barrel in on Dec. 19 to levels above $50/barrel.

In my presentation to the IEEJ meeting in May 2008, I explained the characteristics of both the paper economy and the real economy and the difference between them. What has changed since then are two things of major importance:

A. The world's economic order is no longer as unipolar as it used to be, but what is coming for the moment is merely an idea of multi-polarity which is only in the making. For example, capitalism remains the ruling concept; but we are certainly moving into some form of "regulated capitalism" in which the role of government for the future is yet to be universally defined and agreed upon. My guess is that the new order will look multi-polar from the outside; but, to the insiders of the Group of Seven (G-7) powers, it will remain **unipolar** – i.e., led by the G-7 where the US will be more equal than its six partners. This may be conveniently called "**Bretton Woods-II**" – a revised version of the 1944 Bretton Woods Agreement heralded by French President Nicolas Sarkozy in late October 2008.

B. The paper economy no longer has the power to set the rules for the real economy. But there again, things are just forming themselves, and there are things which are being formed by new market forces. There will be additional market forces of which we all know nothing, because they will emerge from new factors yet to be known.

In other words, now we are in a transitional phase. This phase could last even after the global recession has come to an end.

According to the IEA, there has been a 12% decline in energy investments since the global recession hit in the second half of 2008. The IEA estimates the world will have to invest $31 trillion by 2030 to develop new capacity to maintain energy supplies for the future. Dalton Garis, Associate Professor of Economics and Petroleum Market Behaviour at the Petroleum Institute in Abu Dhabi, in March 2009 said there were signs the US economy was improving.

Garis predicted: "The price of [crude] oil could well be between $70 and $80 per barrel by the end of this year. What we are now seeing is that the prices of heating oil have bottomed out and are beginning to rise again".

I have been intrigued by the use of the Fibonacci model in analysing paper WTI's performance, an analysis based on the sequence identified by Italian mathematician Leonardo Fibonacci in the 13th century and now utilised to forecast support and resistance levels for paper crude oil prices. In separate presentations on April 4, two chief technical analysts – one at Credit Suisse and the other at BNP Paribas - used the Fibonacci model to show where paper WTI could be before end-July 2009.

David Sneddon of Credit Suisse in London and Andrew Chaveriat of BNP in New York said separately said paper WTI at NYMEX had formed a "base" between $40 and $50/barrel in the first quarter of 2009 from which prices could rally further. Having broken out of the range set by the rally from Dec. 19's four-year low of $32.40 to the high of $50.47 on Jan. 6, prices were poised to move higher. Both said paper WTI may repeat the $18.07/barrel gain of that December-to-January advance, giving a target of about $68.50/barrel.

At a London presentation hosted by Bloomberg, Sneddon said: "You wouldn't give up on the rally yet, it still has legs". Paper WTI on NYMEX had risen 19% and on April 4 traded at $53.07/barrel. Paper WTI will first be drawn to $59.50, a price target shown on a Fibonacci chart as a 23.6% recovery of 2008's crash from July 11's record. Sneddon said paper WTI may then peak near $68.50/barrel.

In contrast to Seddon, BNP's Chaveriat on April 4 said paper WTI may surpass the target near $68/barrel and rise above $70/barrel within three months. Chaveriat said: WTI's contract will be drawn towards its next Fibonacci level of $76.28/barrel, a 38.2% retracement of 2008's decline, adding: "It would not be unreasonable to see $71 or $72 later this summer". He said: "The best barometer showing the path of least resistance is upwards in the medium term is the big base we built back in December-January".

The global recession is moving faster than OPEC can ever cut supplies, however. On March 31, the OECD confirmed it saw 2009 GDP dropping 4.2% in its member-countries, a downward revision from previous forecasts. The World Bank said GDP growth in the developing countries, which include key oil consumers China and India, will slow to 2.1% in 2009 from 5.8% in 2008. The new forecasts suggest demand for oil will be lower than expected, weakening prices. The World Bank said paper WTI would average $47/barrel for 2009, $27/barrel lower than earlier expectations.

If world oil demand continues to drop, the damage to the energy business will be significant. Addressing the final day of the 2009 Offshore Technology Conference at Reliant Park in Houston, Houston energy analyst Dan Pickering on May 7 said: "We could be at $70 oil much faster than we predict. But I think we'll be at $30 if demand is down again in 2010". The bullish side dominated on May 7 as paper WTI closed at $56.71/barrel, its highest price since mid-November, and paper natural gas closed at $4.081/million BTUs, its first close above $4 in six weeks.

Attendance at the annual oil and gas conference was down about 8.5%, to 66,800, but organisers said it was a good showing given the downturn in the economy, lower commodity prices and the swine flu threat that emerged just days before the event began on May 4. Pickering said he believed most independent oil and gas producers in the US were likely to make it through the downturn without a massive consolidation in the industry. He said: "You will see some guys over-stretched and not make it through this natural gas downturn, but most independents will remain healthy although they're limping along now. It will be tough in the back part of the year, but service costs are coming down, which should help, particularly on the drilling side".

Shipping analysts say around 100 million barrels of crude oil and about 25 million barrels of refined products, such as gasoil, are held in fleets of Very Large Crude Carriers (VLCCs) in Europe, West Africa, the US Gulf and off Asian ports. With tanker rental rates low and on-land oil stocks near record levels, it is cheap to store oil at sea, and using ships gives oil traders more flexibility than long-term storage tanks. The last time floating oil stock levels were anywhere near these was in 1991 after the first Gulf War. Tanks were drained then into a rising market. Now traders and analysts say only a rise in demand will clear the current stocks.

Rotterdam, Europe's largest port, is already running out of space to store crude oil as world oil demand posts its first back-to-back annual drop in a quarter-century. Rotterdam can store 11.9 million cubic metres of crude oil. That is equal to about 75 million barrels or enough to supply the 27-nation EU for about five days. The harbour is Europe's largest refining centre and a trading hub for fuels such as gasoline and diesel. Onshore storage tanks for oil products there are either full or have no unreserved space available and, in view of the space constraints, ships have been diverted or are waiting outside the port until space is available.

Total OECD oil inventories continue to build and are nearly back to the highs of the decade, last seen in 2006. The total of around 125 million barrels of oil stored at sea is equivalent to about 2.85 days of forward demand for the 30 OECD countries. The IEA estimated in its April report that on-land stocks were already equivalent to 61.6 days of forward OECD demand. Adding the floating storage pushes OECD stocks up to 64.45 days — exceptionally high by any measure. This is a source of real concern to the oil producers.

Historically, the general rule has been that 50 days of forward cover is very bullish for oil prices, 53 days is bullish, 57 days is bearish and 60 days is very bearish. And this is impacting the markets too, restraining the bulls, especially since there is little chance of a quick recovery in oil use as the world faces its worst recession since the 1930s. And the falling OPEC crude oil supplies need to be seen in this perspective. In April, OPEC crude oil supply fell for an 8th consecutive month. Supply from the 11 OPEC members bound by output quotas (i.e., excluding Iraq) declined to 25.52 million b/d from 25.63 million b/d in March. OPEC has made 84% of supply cutbacks promised since September, one of its highest ever rates of adherence. Disruptions in Nigerian production helped OPEC in higher than normal compliance with output cuts. Despite all its efforts, however, weak demand and rising stocks underlined the scale of the task OPEC had in hand in boosting the market.

With 2009 world oil demand forecast to fall by much more than previously expected, the prospects are not very rosy. The floating oil lake is so big that it is likely to keep a lid on prices for some time to come. And thus despite the recent upsurge, signals for the time being continue to be overly bearish — unless the global economy climbs out dramatically of its current depths.

OPEC Secretary-General ‘Abdullah al-Badri of Libya says he does not expect the group to cut production when its oil ministers meet in Vienna on May 28, despite weaker demand and swelling oil inventories in big oil consuming nations. OPEC is yet to fully implement agreements announced in September and December to remove 4.2 million b/d from world markets before embarking on more reductions. Badri says: "We need to take all that off the market before we can talk about new cuts".

Badri is echoing repeated warnings by Saudi Arabia that before full compliance with quota obligations, there will be no further cuts in OPEC production. Saudi Arabia, OPEC’s de facto leader which is producing about 250,000-300,000 b/d below its quota of just over 8 million b/d, has warned those members who are cheating that if they continue to over-produce there would be a free-for-all situation and that could – eventually – lead to an price war.

Those in OPEC who are cheating are the price hawks – mainly Algeria, Iran and Venezuela. Iran is producing 414,000 b/d over its quota of 3.336 million b/d. Venezuela is producing 214,000 b/d above its quota of 1.986 million b/d. Algeria is producing 150,000 b/d above its quota of 1.2 million b/d. Most other OPEC members, also price hawks, are cheating as well. Even Angola, a moderate as its oil minister is OPEC current president, is producing a bit above its quota.

The hawks, mainly Iran and Venezuela, are desperately in need of money and insist that the crude oil price should be in the $75/90/barrel range. The Saudi-led moderates (including Abu Dhabi, Kuwait and Qatar) are happy with paper WTI at $50/barrel. Algeria, Iran and Venezuela keep insisting that OPEC must cut production on May 28.

The state-owned Saudi Aramco will meet an end-June target for raising its crude oil production capacity to 12.5 million b/d. Its Senior VP for E&P Amin Nasser on May 7 told the Houston conference all oilfield development projects scheduled for completion in June were on target, including Khurais, Nu’ayyem and Shaybah, which will add a total of 1.45 million b/d of capacity. Khurais alone is set to add 1.2 million b/d. He said any further rise in capacity was to depend on crude oil prices reaching a range of $70/barrel.

Each of Kuwait and the UAE (95% Abu Dhabi) will increase their capacity to 4 million b/d by 2020.

Qatar hopes to raise its capacity from less than 1 million to more than 1.5 million b/d by 2013 and is already the world’s biggest exporter of LNG. Qatar’s LNG export capacity will reach 77 million tons/year by end-2010/early 2011.

Oman, not in OPEC, is hoping its crude oil and condensate production will not fall much below the 800,000 b/d targeted for 2010, up from less than 750,000 b/d now.

Bahrain is raising its crude oil production capacity from a little over 35,000 b/d to 75,000 b/d by 2013 and 100,000 b/d by 2017, and gas production capacity from 1,500 MCF/day to 2.5 MCF/day by 2013/14.

Iran claims to have a production capacity of 4.2 million b/d, but we estimate its sustainable capacity to be less than 3.9 million b/d. Iran is actually losing about 500,000 b/d of capacity every year due to under-investment and its international isolation. But its Petroleum Ministry keeps insisting that its capacity will rise to 5.3 million b/d by 2013, which we doubt.

Iraq, however, now is on track to raise its crude oil production capacity from 2.4 million b/d at present to between 6-7 million b/d by 2014/15. The expansion will come from two bidding rounds for service contracts. The first round, for six of its biggest oilfields and two gas fields, will be awarded on June 30 and signed in August. These will raise Iraq's capacity to between 4-4.5 million b/d by 2014. Similar contracts in the second round, involving 10 oilfields (some of which are huge such as Majnoon and West Qurna-2) and one gas field, will be awarded by end-2009 or in early 2010 and will raise the capacity by another 2-2.5 million b/d. All this excludes Iraqi Kurdistan, which can produce 100,000 b/d and hopes to begin crude oil exports through Turkey from June, projecting its output to reach 1 million b/d by 2013.

Towards An Oil Price War?

A White House-backed bill in Congress is to impose "crippling sanctions" on Iran, which is a Shi'ite theocracy. Tehran's nuclear and regional ambitions have alarmed all Sunni states as far west as Morocco. Rabat recently cut diplomatic ties with Tehran over alleged attempts to Shi'itise Moroccans. Cairo in April arrested a 49-man cell of Iran's Lebanese offshoot Hizbullah on charges of plotting attacks in Egypt, smuggling weapons to Hamas and trying to Shi'itise predominantly-Sunni Egyptians. A Saudi-led Sunni front in the Muslim world holds Iran responsible for trying to split the Muslims.

In its preamble, **The Iran Sanctions Enhancement Act** introduced by a bi-partisan group of US senators says its purpose is "to enhance US diplomatic efforts with respect to Iran by expanding economic sanctions against Iran to include refined petroleum, and for other purposes". US-based Iranian analyst and expert on Iranian negotiations over the nuclear issue Kaveh Afriasiabi wrote in Asia Times Online of May 2 that, while the move would cause "significant disruption in the Iranian economy", this would cause Iran to "retaliate…in the region by threatening US interests where they are the weakest" – i.e., the Arab side of the Gulf (GCC) and AfPak.

The US and UNSC have already imposed several rounds of sanctions on Tehran over its nuclear ambitions, which Iran's Sunni neighbours including Saudi Arabia and Egypt say are threatening them directly.

This coincided with an Iran-focused annual conference of the main pro-Israel lobby in Washington, the American Israeli Public Affairs Committee (AIPAC), on May 4-5, when Democratic Senator Evan Bayh (one of the bill's sponsors) said the move was to provide a strong weapon against Iran. Sen Joe Lieberman called it "another stick" and urged Obama's point-man for Iran, Dennis Ross then touring the Arab Gulf Co-operation Council (GCC) region including Saudi Arabia, to be firm in dealing with Tehran's threats.

Ross is an avid supporter of the "tougher sticks rather than carrots" approach to Iran. He has joined a group of US experts calling for military action if this is judged necessary as a last resort.

The Senate bill was introduced shortly after US Secretary of State Hillary Clinton's April 23-24 Congressional hearings, when she warned of the "crippling sanctions". She admitted that the past "stick and carrot" policy of the Republican administration of George W Bush was a "failure".

There is, meanwhile, the prospect of a devastating oil price war between Saudi Arabia and Iran, if the theocracy fails to curb its ambitions. Where the Saudi-led Sunni front is concerned, Iran's theocracy regards its "divine law" as the only source of authority by which it abides. This, combined with excessive use of the **taqiyah** (right to deceive) by Iranian and other Shi'ite leaders, makes the Sunni front very suspicious of Tehran's ambitions and of whatever binds them, such as Iran's commitment to comply with OPEC's crude oil production quotas.

Iran, the second-largest OPEC crude oil producer, is supplying full volumes to its customers on both sides of Suez through March 2010, shrugging off Saudi calls for full compliance with the group's quotas to defend prices. Riyadh has warned that, if OPEC members keep cheating on their quotas, there could be ensuing oil price war as bad as the one in 1986.

In 1986 the political reasons for a price war were strong. The tide of the Iran-Iraq war by then had been reversed in favour of Tehran, with Iranian forces having taken a large part of the oil-rich southern part of Iraq from the Majnoon field down to the Faw Peninsula; and Iran had escalated its offensive against oil tankers sailing to and from Iraq, Kuwait and Saudi Arabia, prompting the US to intervene which eventually led to virtual destruction of Iran’s navy in 2007. That forced Khomeini to accept a UNSC-ordered truce in mid-1988.

This time the political reasons for another such war could be equally as strong – if not more: Tehran’s ambitions are focusing on the Saudi-led Sunni front. Iran’s reach has run to Mauritania and Morocco, as well as to East Africa from Egypt to Somalia.

The oil price war, however, is the ultimate weapon in Saudi hands. For the time being, Riyadh is letting its diplomats go as far as they can in resolving the Saudi-Iran crisis peacefully. In its diplomatic efforts, the Saudi leadership is putting its weight in the Islamic world, in its role within the G-20 and in its alliance with the West, as well as its Sunni front – with the six-state GCC region being its core.

With Ross having met King ‘Abdullah and other Saudi leaders during his recent tour, Riyadh and fellow Sunni states are waiting to see how Iran will retaliate to the new US-proposed sanctions. An embargo on Iran’s fuel imports is likely to cause world prices of gasoline and diesel to fall well below current levels.

During a May 7-9 private visit to Beirut, a close aide to former President ‘Ali-Akbar Hashemi-Rafsanjani said the latter was “extremely worried” by the turn of events and about Saudi Arabia’s intentions. He said if the Saudis waged a price war against Iran, the theocracy’s Islamic Revolutionary Guard Corps (IRGC) might retaliate by sending suicide bombers to sabotage vital Saudi oil installations. He said that could be a first warning so that Riyadh stops the oil price war. The aide said Rafsanjani was also worried by the possibility of the IRGC retaliating in the Strait of Hormuz in the event of a US embargo on Iranian fuel imports. He said that would also cause world crude oil prices to fall and seriously hurt Iran, whose economy was already imploding.

Cutbacks in world travel already are further chiselling away at global oil demand which the IEA expects will fall by as much as 2.4 million b/d in 2009 to 83.4 million b/d. Jet fuel and kerosine being consumed by the OECD world in February averaged 3.9 million b/d, down steeply amid the global recession.

An IMF report on May 11 said the economies of Middle East oil exporters were likely to suffer from a possible prolonged global recession as demand for the region's crude oil fell. But it said government expenditure should mitigate the slowdown. The GCC states and other oil exporters in the Middle East were previously seen as less vulnerable to financial turmoil as they were cushioned by accumulated windfall revenues from oil. But with a continued oil price slide, those governments will be less inclined to maintain robust public spending, a key policy in mitigating the fallout from the economic downturn.

The report said: "If MEOE (Middle East oil exporter) governments come to believe that oil prices will remain depressed for a prolonged period of time, they are likely to reduce their spending to maintain fiscal sustainability". It said MEOE states had maintained a high level of capital spending, going from a massive collective surplus of US$400 billion in 2008 to a projected deficit of US$10 billion in 2009. It expected the region’s GDP growth rates to fall significantly, although public expenditure should moderate the slowdown in non-oil growth, projecting real GDP for the region to grow 2.3% in 2009 from 5.4% in 2008.

The report expected the GDP growth rate in the GCC area, the world's top oil exporter, to slow by more than one third to 1.3% in 2009. But it said this region’s economies were to fare better than those of the EU and the US, which are expected to shrink 4% and 2.8%, respectively. At a panel discussion in Dubai, the IMF's Middle East and Central Asia head Masood Ahmed said: "The reason why despite this drop in oil prices, they continue to do reasonably well is because most of them are using the reserves they've accumulated during the boom years to continue to maintain the level of public spending. This…is also having positive spillover effects on neighbouring countries".

Most GCC states estimated the crude oil price at an average of $45-50/ barrel when preparing their budgets for 2009. Consequently, they are likely to suffer only small budget deficits this year. If paper WTI rises to $60/barrel, these states will avoid deficits. First-quarter results for public joint stock companies, especially banks and financial institutions, have been promising. Some companies reported higher profits than in the first quarter of 2008. This led to a rise in GCC stock markets in April compared to March, and may lead to more improvement in the coming months, especially since global stock exchanges have seen a similar improvement.

One of the manifestations of the global crisis has been a shortage of credit and finance, which has resulted in a freeze of many economic activities. Yet, there have been signs of an improvement in this regard in GCC states in the last two months. Many banks have resumed promoting their finance services, albeit conservatively, which has helped other sectors to achieve stability.

The six GCC countries have fulfilled their outstanding financial obligations to suppliers and financers, including in the sectors which were severely affected by the crisis, such as the property market. This has spread an atmosphere of confidence in the ability of GCC economies to overcome the repercussions of the crisis faster than expected.

The GCC labour markets are stable and there has been a decline in the number of layoffs since the onset of the crisis. The government sector has even begun hiring again, and this may spread to the private sector if economic situations continue to improve in the next few months.

Thus, we can say that the worst of the crisis is over for the GCC states, with financial deterioration starting to slow at many affected institutions and disappearing at others. Signs of stability and growth are evident in the good performance of companies and the high rates of government expenditure, which have stimulated economic sectors in the GCC area and helped them overcome the repercussions of the crisis in a relatively short span of time. These developments will encourage local and foreign investors - who have been holding onto their money

The relaxation is evident in the flow of capital into GCC markets, including foreign cash, which means these markets are attracting investments in various sectors. This, however, does not mean the repercussions of the crisis have been completely overcome, since many of them will last for the next few months, and the recovery and growth process will take some time, especially for the sectors which suffered most from the crisis.

It seems the return to stability in the GCC region has begun and the potential for growth exists, suggesting the measures taken to address the crisis have been successful. This reflects the ability of the region's economies to cope with the worst crisis since the Great Depression of the 1930s.

Let me focus on the emirate of Abu Dhabi, in per capita terms and in terms of hard cash, now the wealthiest state in the world. On the surface, a luxury German car-maker, an English football team, a New York landmark and a troubled British bank may seem to have little in common. But in the GCC region, each one has come to represent the increasing ambitions of Abu Dhabi. Daimler, Manchester City, the Chrysler Building, and Barclays are among a growing list of global assets that have been the target of a multi-billion shopping spree by various state entities acting on behalf of the oil-rich emirate.

It was estimated by April 6 that some $15 billion had been invested overseas by the emirate’s funds in the previous six months. As Abu Dhabi entities are more aggressively courted by international companies desperate for capital during the crisis, questions have been raised about the extent of co-ordination between the various funds and whether the diversity heightens the risk of Abu Dhabi over-playing its hand.

Some financial analysts see the burgeoning stable of investment vehicles – there are at least eight of them – not only as a reflection of different strategies but also an illustration of the influence of the various members of Abu Dhabi’s ruling al-Nahyan family and their aides. The traditional investors, such as the Abu Dhabi Investment Authority (ADIA), is falling under Shaikh Khalifa bin Zayed al-Nahyan, the UAE president and Abu Dhabi’s ruler. The interventionist funds are closely associated with his younger half-brother and Crown Prince, Shaikh Muhammad bin Zayed.

Chairing Abu Dhabi’s Executive Council (EC), which is the local cabinet, and many other things, Shaikh Muhammad is the architect of Abu Dhabi’s more ambitious development in recent years, including in tourism and culture, and is the CEO of Abu Dhabi Inc. He is chairman of the huge Mubadala Development Co. (MDC), a highly visible and aggressively diversifying investment vehicle, and oversees all the other interventionist funds and companies which have moved into the petroleum business in a big way both within the UAE and overseas. His numerous full-brothers are in charge all the expanding funds and companies.

Shaikh Mansour, the ambitious 38-year-old full-brother of the crown prince and son-in-law of Dubai ruler Shaikh Muhammad bin Rashed who is the UAE vice-president and prime minister, at times acts in his personal capacity but at others as part of Abu Dhabi Inc. He bought Manchester City and is chairman of the EC-owned International Petroleum Investment Co. (IPIC) – the most active of the funds.

This, however, creates a potential risks as there is no transparency in Abu Dhabi Inc. A similar trend in nearby Dubai Inc in recent years generated fierce competition between government-backed investment funds, which went on a borrowing spree to grab high-profile deals but contributed to the emirate's recent financial decline. Government officials in Abu Dhabi play down such concerns and hint that there is a higher council that keeps track of all investments by the various vehicles.

During my visit there on my way to Tokyo in mid-May, one of the top Abu Dhabi executives close Shaikhs Muhammad, Mansour and the other full-brothers told me: "All of these companies are functioning under one master-strategy - the bigger picture. We are in the process of leveraging our experience, our money and our success. Now we have two world-class companies doing this work from Abu Dhabi; and you have not seen even a part of the bigger picture yet".

Just a few years ago, ADIA – now the world's largest sovereign wealth fund (SWF) with assets worth over $1 trillion – was the focal point of businessmen and political delegations who headed to the wealthy emirate in search of a deal. But the emirate of Abu Dhabi has another $1.7 trillion worth of assets. This emirate intends to become what the top executive described to me "a well-integrated mini-Japan Inc", and we are closely watched what was happening to Japan Inc. in recent years". His predictions puzzled me.

Yet there is no denying the fact that Abu Dhabi has embarked on a massive development plan; and it has cloned its best creation: to produce a multitude of investment vehicles hungry for overseas deals. All the EC-owned companies controlled by Crown Prince Muhammad and his full-brothers, are letting ADIA act on its own, in its conservative way, taking small stakes in largely listed companies and rarely creating noise about its deals. The exception was ADIA's ill-fated $7.5 billion investment in Citigroup in November 2007. Some of the newcomers are bolder.

One of the most notable changes has been the activity of IPIC, an old fund which once quietly invested in energy-related businesses but has taken on a new face. Displaying a new aggressiveness, it has spent billions of US dollars on investments, including the €1.95 billon acquisition of a 9.1% stake in Daimler that it bought through Aabar, another investment company IPIC controls. It also claims the $3.5 billion investment in Barclays, even though officials at the time said it was a private investment by Shaikh Mansour. That investment, however, is expected to be soon moved away from IPIC, according to Moody's, which earlier in May rated this company and understood that IPIC was merely the vehicle chosen to do the transaction.

Yet to some, the IPIC/Barclays deal illustrated the difficulty in understanding the relationships between individuals, the ruling family and the government. Officials argue that investment vehicles should not be judged as like-for-like entities, with ADIA seen as the "money chest" for the future and concentrating on securing long-term returns without seeking active management in the companies in which it invests.

At times, Abu Dhabi's development requires more active and nimble vehicles, particularly as the emirate tries to tap into the expertise of international groups and import their technology. This was indeed the raison d'être of Mubadala (MDC), which was set up in 2002 with a mandate not only to seek a return on investment but also to attract businesses to Abu Dhabi and help diversify the emirate's economy. Its early deals included an integrated company – Dolphin Energy Ltd (DEL), which now is producing natural gas in one part of Qatar's huge offshore North Field and is piping the gas to the UAE and Oman. DEL is a JV of MDC (51%), Occidental Petroleum (24.5%) and Total (24.5%).

MDC got 5% in Ferrari. More recently, it teamed up with General Electric to set up an Abu Dhabi-based global financial services company, with each committing $4 billion in the JV over the next three years. But MDC has a particularly broad mandate and its portfolio stretches across an increasingly wide range of sectors, from health to telecoms, to aerospace, finance and petroleum. Over the past six months, it has invested in US real estate, hotel and technology companies. Recently, it appointed a former BP executive as CEO of a petroleum division it has created which is to operate in various parts of the world.

The strategies of several other investment funds which Abu Dhabi's EC owns are also difficult to pin down. For example, the Abu Dhabi Investment Council was created in 2007 to focus on domestic and regional investment. It took in ADIA's holdings in local assets, including banks. But it also raised eyebrows with the high-profile 2008 acquisition of New York's Chrysler Building and is now deemed to have an international mandate. It has also been linked to the battle for the ownership of the car company Opel.

After an initial period of activity, the various EC-owned or controlled funds will emerge with more focused strategies. The top executive told me: "At some stage, probably later this year or in 2010, there will be an official clarification from the EC and a well-defined segregation of the roles of the different entities.

This executive and experts I consulted during my stop-over in Abu Dhabi and Dubai on May 14-16, cautioned that the power structure in Abu Dhabi should not be compared with that of Dubai and its system of competition between an elite group of executives who form an inner circle around Shaikh Khalifa bin Zayed. Dubai Inc's is a one-man show, run by Shaikh Muhammad bin Rashed and all those around him are described as "yes-men". In Abu Dhabi, the culture is based on collectivism.

In Dubai, CEOs appointed by Muhammad bin Zayed and their companies are competing for the same man, the same attention and the same money. In Abu Dhabi, you see a number of people from the same family who have to agree with each other and need to act with a common vision.

Focus On The EU & On US Gasoline

In an analysis published on April 24, the Cambridge Energy Research Associates (CERA) said the European Union was set to be the first advanced economic grouping to achieve a sustained reduction in its demand for energy, as policies to curb gas and electricity consumption took. It said the EU's energy efficiency strategy, even if only partially successful, will cut member-countries' dependence on imports of Russian gas and ease the need for new energy infrastructure such as power stations and gas pipelines.

This will create a challenge for European energy companies, which will face shrinking domestic markets. Yet, CERA said it was unlikely the EU will meet its target of improving energy efficiency by 20% by 2020. Doug Howe of CERA said: "Even though we think they can only get halfway, what they can do is astounding, and unprecedented".

Howe said he believed the EU will be able to cut its demand for gas, and stop electricity consumption growing, based only on technology in use today. By 2030, he said, EU gas consumption could be cut back to the levels of the early 1990s. **That would represent a cut of 125 BCM/year – equivalent to the combined consumption of Germany, France and Spain**.

Most of the potential for savings is in Europe's homes rather than industry, which has already improved its energy efficiency greatly. The biggest single contribution would come from greater use of more efficient condensing boilers, which are in use in 50% of homes in the Netherlands but are much less common in other EU countries. Cutting electricity demand is more difficult because of the spread of gadgets such as MP3 players and personal computers, but there are still large gains possible from using energy-saving light-bulbs and less wasteful standby modes on electronic products.

EU states will need to legislate to make these changes happen, as they have done with light-bulbs, because the more efficient products often cost more to buy. But the 2020 target creates pressure for that legislation to be passed. **Success in moving towards that target will cut the EU's dependence on Russian gas**, which would otherwise rise as the bloc's own production declines. It also weakens the commercial case for new gas import pipelines, such as the Russian-backed Nord Stream and South Stream routes and the proposed Nabucco pipeline to bring gas from the Caspian region to the EU via Turkey.

The disruption to supplies caused by the confrontation between Russia and Ukraine in January 2009 reignited concerns in the EU about securing gas imports. Howe noted: "When the Ukraine-Russia crisis hit, everyone was saying: 'We need to get those pipelines built'. But energy efficiency, if the EU manages to deliver it, could be the single biggest contribution possible for energy security in Europe".

Imagine what will happen in the US, by far the largest energy market in the world, if the Obama administration succeeds in ending American dependence on foreign oil through a ten-year low-carbon strategy drummed up by Barack Hussein Obama before and after his Nov. 4, 2008, election as the first African-American president of the US.

US gasoline demand may keep falling even as the economy recovers due to ambitious US policy pushing alternative fuels and efficiency - a prospect which could force American oil refineries to close. This will affect long-term demand for crude oil in the US, with major implications for world crude oil producers.

The outlook in the US refining sector has reversed course since the heady days of 2002-2007, when profits were soaring to all-time peaks and the government was pushing for construction of new plants to meet rising demand. Joanne Shore, lead analyst for the US Energy Department’s Energy Information Administration (EIA), was on March 26 quoted as saying: "It's more than just a business cycle. We know that this is a long-term change for gasoline demand".

US gasoline use in 2008 fell for the first time since 1991 under the weight of the financial crisis and experts attending conferences in San Antonio during the week to March 27 said rising production of ethanol and the **prospects for better auto efficiency standards in the years to come could mean consumption of gasoline as a key motor fuel had peaked**.

Alan Gelder, vice president of downstream oil for analyst Wood Mackenzie, was on March 26 quoted as saying: "We think US gasoline demand has peaked". Wood Mackenzie on March 23 released a study saying smaller, US East Coast refineries primarily producing gasoline would face the greatest challenges for surviving. Gelder said: "We think gasoline demand will never be back to 2007 levels. First it will be the recession then vehicle fuel efficiency".

Large US refineries which have added hydrocracking and coking units are best equipped for survival. These units can take crude oil grades which are cheaper but harder to process and produce gasoline and diesel for the most lucrative, environmentally stringent US or European markets.

お問合せ：report@tky.ieej.or.jp