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Egypt, the Arabs, and gains and losses from the oil market drama

Ahmed El-Sayed Al-Naggar

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Oil markets have witnessed violent price movements since the last quarter of 2014 until now. These movements will have a significant impact, nationally, regionally and globally

Recent oil price movements have formed a hub for debate and various interpretations on their causes and expectations of consequences on Arab countries and the world, according to respective positions as exporting or importing countries of oil and natural gas.

The premises of interpretations on what's happening in the oil market revolve between political factors, particularly conflicts between nations on the international and regional levels, and economic considerations related to maintaining the competitiveness and superiority of oil against other sources of energy, especially renewable energy and oil shale, and maintaining production and exporting quotas in world markets.

Because Egypt's interest is the destination, ultimate objective and angle of our vision of world events, the question that pops up in the mind of every Egyptian is what are the effects of oil markets on the Egyptian economy? It is a question that is motivated by national interest and precedes other logical questions regarding what's going on in the world oil market.

If we look at the direct current interest we will find that Egypt has a deficit in its oil transactions (i.e., its imports are bigger than its exports). Thus, the drop in oil prices, reaching around 60 percent, will mean directly a drop in the deficit in the oil trade with the world. It will also lead to a huge decline in giant subsidies allocations, which is considered a main cause in the great deficit in the state's general budget.

Egypt's economy and the drop in oil prices

Official data shows that total Egyptian oil exports reached $12.452 billion in the year 2013/2014. In the same year, oil imports were $13.247 billion and the oil deficit reached $795 million. If prices remain at the current level, the oil deficit will fall to be approximately $300 million (i.e., the oil trade balance may improve by nearly half a billion dollars).

But what's noticeable in Egypt's oil trade is that Egypt exports crude oil and imports oil products, which is a miserable situation that some of the poorest countries got rid of through constructing oil refineries in order to raise the value-added in the oil sector, create job opportunities, and contribute in developing the economy and their self-sufficiency in providing oil products.

In the fiscal year 2013/2014, Egypt's crude oil exports reached around $7.7 billion while its imports were about $2.1 billion. Thus, there is a surplus in crude oil trade that amounts to $5.6 billion, like any state that did not achieve industrial progress, despite the fact that industry with its modern meaning started in Egypt two centuries ago in the age of the great Muhammad Ali and his son and the genius commander Ibrahim Pasha, the Egyptian military revivalist and the champion of Egypt's outstanding military victories in modern history.

As for the oil products trade, Egypt's exports in the aforementioned fiscal year reached about $3.3 billion, while its imports were around $10.6 billion, which is a big deficit crunching the surplus in the crude oil trade and puts the oil trade balance in deficit by about $1.7 billion. However, due to the natural gas surplus, the total deficit in this sector is declining to the level of $795 million, as mentioned above.

It is necessary to add that the drop in oil product prices is less than the drop in crude oil prices. Hence, Egypt's benefit from the drop in oil prices is lesser due to its dependence on exporting crude oil and importing refined oil products.

It is not acceptable to mention silly justifications for this state of affairs, such as the unavailability of financial allocations to construct oil refineries, because the success of such projects is secured due to the demand on their products. These projects can be constructed through initial public offerings that shareholders own totally, or by the participation of the state in order to reassure citizens who would subscribe in such projects. Investment from Egyptians living abroad can be encouraged in this respect, especially that the economic calculations for profitability of such projects in which demand for its products is available are considered good and promising for those financing these projects.

Many international corporations, particularly in East Asia and Russia, that have accumulated large financial reserves are eager to use these investment opportunities in this sector in Egypt or

any other country. Most of the offers presented by these corporations revolve around participation with governments, or through the BOT (build, operate, transfer) system.

As for the effect of the huge oil prices drop on the state's general budget, it is positive to a great extent in accordance with falling prices. For example, if the government has allocated LE100 billion as subsidies for energy, the current price drop will mean decreasing such subsidies to less than LE65 billion if the prices remain low as they are (i.e., less than $50 per barrel until the year's end). This would allow, in a way unforeseen by the government, the reduction of the state's general budget deficit to about LE205 billion instead of LE240 billion in the estimated budget, provided that other elements of expenditure are disciplined.

But the oil prices drop — or what you may call sharp decline — currently will mean the deterioration of the competitiveness of solar energy, burying the development programme to rely on it as a source of generating electricity for usage in Egypt and its exportation overseas, which means aborting the deployment of a giant natural wealth in Egypt that is also renewable and clean. Egypt enjoys a very distinguished solar field from the perspective of sun brightness all the year round, temperature, and the sun rays tilt angle. This makes Egypt one of the countries that can be at the forefront of exporting electricity production in the world, if oil prices remained above $100 per barrel and if big, medium and small investments were pumped into this sector.

Meanwhile, the decline in oil prices will be reflected in a negative way in Arab tourism abroad, and since Egypt is one of the main Arab tourism destinations, it is quite possible that Egypt will witness a decline in the Arab tourism directed to it.

It is necessary to point out that Arab tourism to Egypt was low after the January 25 Revolution. If it were not for the movement of Syrian and Libyan displaced peoples towards Egypt, fleeing the in-fighting and terrorism hitting their countries, the volume of Arab tourism in the last four years would have declined more sharply.

There is a vision that says that the oil prices drop will make Arab tourists favour less expensive destinations such as Egypt. Thus, even if the flow of Arab tourists traveling abroad decreased in general, their flow to Egypt may not be affected due to incoming groups that habitually travelled to Europe and America preferring Egypt instead.

Moreover, the misdeeds of religious extremists and the Western media focus on this image as a synonym for Arabs and Muslims will increase racist inclinations against them. It is probable that this will lead to the slackening of, or even decline in, the Arab tourism movement towards the West in favour of an increase of tourism movement towards Arab countries.

As for direct Arab investment, which Egypt expects to flow towards it after the recent improvement in the political and security spheres, most likely it won't happen given prior enormous reserves and vast investment sovereign funds owned by the main Arab petroleum exporting countries due to the oil prices leap since 2003 until now, slowed only by the global economic crisis in 2009.

Arab economies and the dramatic oil price decline

On the Arab level, any drop in oil prices forms a direct loss for the main Arab petroleum exporting countries. Arab countries have massive oil reserves, reaching in 2012 around 714 billion barrels, equivalent to about 57 percent of total oil world reserves amounting to 1,257 billion barrels. The reserves of Saudi Arabia, Iraq, Kuwait and the United Arab Emirates are 265, 141, 101 and 98 billion barrels respectively, occupying four of the first six positions in world oil reserves, which include Iran coming second with 155 billion barrels and Venezuela at fifth with reserves amounting to 99 billion barrels.

Arab oil production amounts to 24.2 million barrels daily, equivalent to 32 percent of the world's total oil production. Saudi Arabia produces alone 9.9 million barrels daily, coming a close second to Russia, which produces 10 billion barrels daily. It also occupies a unique position of having the biggest reserves, which enables it to increase production and influence price movements when it wishes.

Arab countries also have large natural gas reserves reaching 55 trillion cubic metres, equivalent to 28.4 percent of the total world reserves, which amounts to 192 trillion cubic metres. Arab countries hold a quota of 571 billion cubic metres of natural gas traded worldwide, equivalent to 17 percent of world production.

Consequently, any drop in oil and natural gas prices is reflected negatively on the royalties of these big Arab exports. With the decline in oil prices by approximately 60 percent, if prices continue to revolve around this level for a year, the total losses in Arab oil export royalties will be more than $350 billion annually. Since oil royalties form the sweeping majority of general budget revenues of Arab oil exporting states, it is expected that several budgets will face deficits unless the governments of these countries adopt austerity measures and cut spending in light of the big drop in oil sector royalties.

Yet, Arab oil countries did not show any sign of reducing public expenditure and addressing the oil prices drop crisis effectively. Subsequently, these countries will most likely draw on their reserves or liquidate some of their large investments from their sovereign funds — investment that amounts to more than $5 trillion outside the Arab world, especially in the United States, Europe and some Asian countries. This — i.e., investing Arab oil surpluses outside the Arab world, in addition to relying on non-Arab employment while there are more than 17 million unemployed Arabs — is considered one of the main signs of weakness in Arab economic integration, away from slogans, which do not materialise on the ground.

Against the losses that Arab oil exporting countries are facing and the expected decline in the domestic product of each country and the total domestic product for all Arab countries, some Arab countries will benefit from the oil prices decline — the oil and its products importing countries, such as Morocco. In this respect, the nationally-realised benefit will be very limited. A country such as Morocco, on the other hand, might be affected negatively from the decline in expected Arab tourism after the oil prices drop.

Between political and economic interpretations

The oil prices drop constitutes a sharp blow to several countries relying on export royalties which also are in conflict with the West, especially Russia, Iran and Venezuela. This point, as well as the shocking and rapid oil prices plunge, opened the door to interpretations that the plunge occurred due to deliberate action in consensus between the United States and oil producing and exporting states in the Arabian Gulf, to the detriment of the aforementioned countries.

In spite of the fact that the US does not refrain from doing anything to harm these countries, alone or through cooperation with the main oil exporting countries that are closely linked to it, it is not possible to ignore statements related to the world's oil supply and demand which point out there is a surplus in supply since the beginning of 2014. The bulletin published monthly by the Arab Oil Exporting Countries (OAPEC) mentioned that the world's supply surplus reached 0.9 million barrels daily last February and about 2.8 million barrels daily last March. This surplus continued to increase with the main oil exporting countries continuing to increase production and exports, and constituted a pressure on oil prices, especially that OPEC did not undertake any measure to cut or adjust spending. Even the biggest exporters in this organisation advocated not interfering in the market mechanism, despite the historical role the organisation played in controlling the market, in a way that illustrated it did not care about free market ideas.

Anyway, oil exports form 64 percent of total Russian commodity exports, 71 percent of Iranian export revenues, 93 percent of Venezuelan exports, 99 percent of Iraqi exports, and 97 percent of Algerian exports. Thus, any movement within these exports and their royalties will form a significant and influential factor in the fate of the economies of such countries and their standards of living. The contribution of natural resources in gross domestic product is considered too high in highly industrialised countries like Russia where it constitutes around 20 percent in comparison with 1.5 percent only in Britain. Oil alone contributes to 14.2 percent in Russian GDP. The contribution of oil in the GDP of Iraq is 69 percent, about 24 percent in Iran and about 18 percent in Venezuela.

The countries that had the clearest vision about what's going on in the world's oil market, and planned against it, were Venezuela and Russia.

It is strange that a large country such as Russia put itself in such a situation, for it is an advanced industrial country that can rely essentially on exporting industrial commodities. However, it fully depends on its oil and natural gas exports as a major source for its revenue from exports, in a way that made its non-oil and gas exports constitute merely 15 percent from its total exports. Perhaps the current crisis will force Russia to reconsider this matter even if it has oil reserves estimated at 80 billion barrels and natural gas reserves estimated at 48 trillion cubic metres, which puts it in the first rank globally with a quota amounting to a quarter of the world's natural gas reserves.

On the other hand, China, a strong competitor against the US over the throne of the global economy, will hugely benefit from the decline of oil prices for it imports approximately six million barrels of oil daily. Subsequently, its payments for these imports will decline while its trade surplus, which witnessed a decline last year, will increase. This state, with its real product reaching about $13 trillion in comparison with the US's $16 trillion, is close to breaking even

with the US and surpassing it by the end of the current decade. It is certain that it will benefit from the oil prices decline in its efforts to catch up with and transcend the US. However, this has undoubtedly been taken for granted in the US and can be dealt with, while viciously harming Russia currently is a mechanism in order to exert pressure on it in hotspots in which the two parties are engaged in the Ukraine and Syria.

On another level, the development and production of shale oil and shale gas became economic and even highly profitable in light of oil price increases above $100 per barrel. This in its turn generated fears among major oil producing countries and made them more ready to lower oil prices in order to make investment in shale oil uneconomic. The US was able to produce four million barrels daily from shale oil. It plans to double its volume of production by the year 2020, but may not be able to do so if the price of non-shale oil remains near $50 per barrel. Hence, the current decline in oil prices will ensure a curb on investment in shale oil and shale gas and ensure the continuity of the oil and natural gas hegemony as primary energy resources.

In fact, political and economic interpretations on what's happening in the oil market cannot be construed as alternatives; it is nearer to the mark to form an integrated image of political and economic justifications as to what is happening in this market.

Sustainable development and regional sharing

Amid the clamour of the markets and what's going on in them, activities of the Abu Dhabi Sustainability Week devoted to address the challenges of renewable energy and sustainable development continue. It is noticeable that such a conference is held in a main oil country like the United Arab Emirates, which has oil reserves estimated at 98 billion barrels and produces about 2.7 million barrels daily. The direct interest of this country is in the continuity of the oil hegemony, not in shifting to renewable energy resources. Even one of the interpretations of the current plunge in oil prices is that it is an attempt of the major oil producing countries and owners of the biggest reserves to make energy production from renewable resources — especially from solar energy — uneconomic in comparison with energy produced from cheap oil.

However, this pursuit towards highlighting the significance of renewable and clean energy for sustainable development is considered ultimately a good thing, whatever the justifications are. It is also important to regional sharing to spread the benefit from natural resources, whether oil or gas, not in the sense of division of resources but in the sense of sharing in operations related to this wealth. It is certain that spreading petrochemicals, fertilisers and refining industries, and using energy in manufacturing, and mineral and quarry wealth, and in agricultural products regionally, will help in pushing the development of regional economies, improving standards of living and calming tempers. Because it has been proven that any country or region characterised with huge disparities between its citizens becomes more vulnerable to internal tensions and regional disturbances. And Arab countries are in dire need to rise together on a base of mutual benefits and real economic integration.