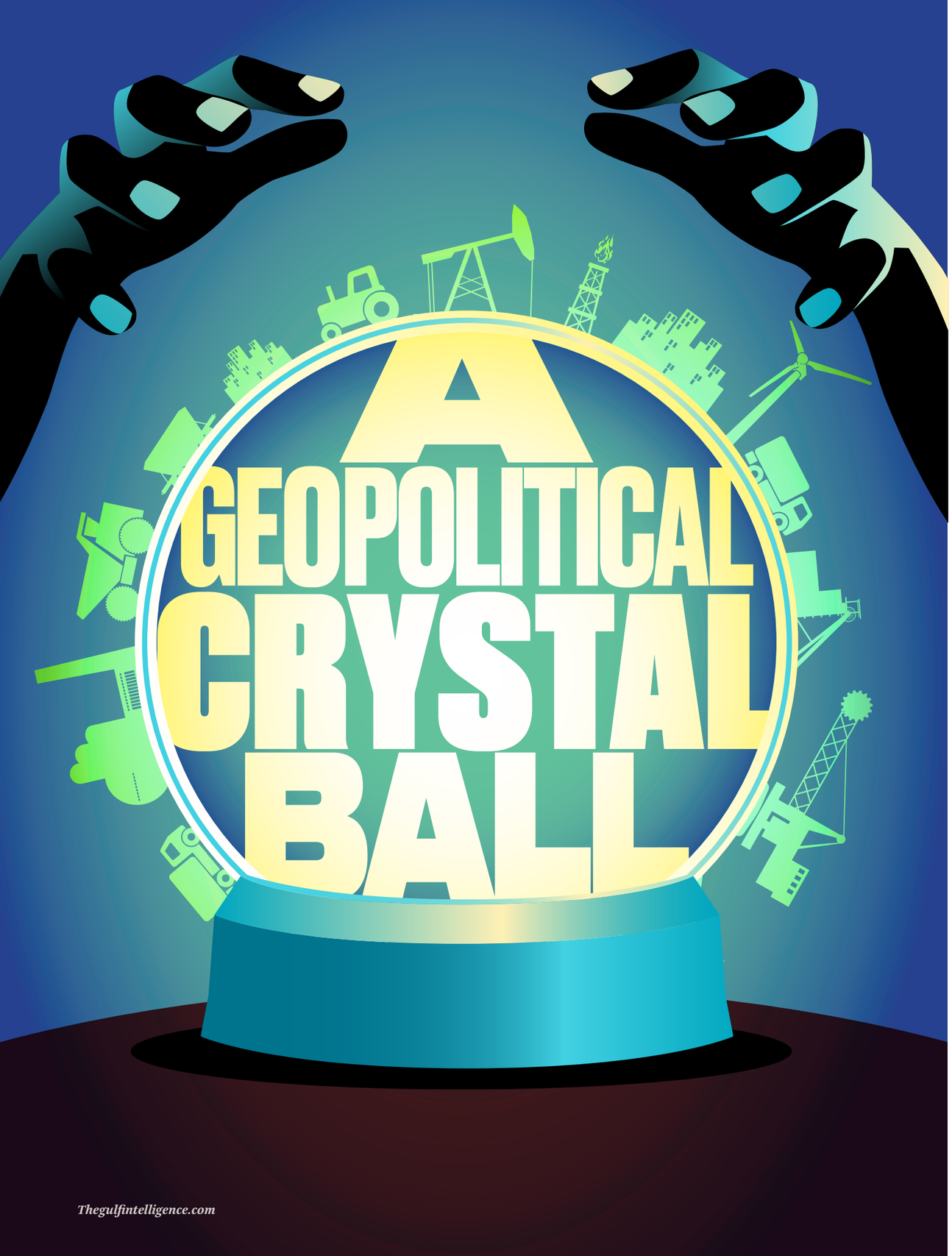

Key Challenges for the Energy Sector in 2018?

By Erwin Kroell, Senior Vice President, Middle East & Africa, OMV Exploration & Production GmbH

Energy markets and geopolitics are two sides of the same coin; the geopolitical DNA of energy markets means the two are inextricably linked. In this sense, the year ahead is best described as a weather forecast: largely blue skies with a chance of showers and maybe the occasional storm. Let's start with the blue skies. This year's economic picture has a tinge of rosiness. Global growth forecasts for 2018 and 2019 have been revised upward by 0.2% to 3.9%, reflecting increased global growth momentum and the expected impact of the recently approved US tax policy changes, according to the International Monetary Fund (IMF). Some 120 economies, accounting for three quarters of global GDP have seen a pickup in growth in year-on-year terms in 2017. This marks the broadest synchronized global growth upsurge since 2010. Plus, emerging and developing Asia will grow at around 6.5% over 2018 and 2019, which is broadly the same pace as in 2017. It is good news for the Middle East that its biggest client base is also the region accounting for over half of the world's growth.

The Middle East is also benefiting from China's large investments into its 'One Belt, One Road' initiative, as the country aims to deepen its economic ties in the Middle East, Asia, Russia and Africa. Chinese capital in the UAE's Hassyan Clean Coal project and Oman's Duqm port, to name just two, illustrates how blueprints in Beijing are having a tangible impact. As a united region, the Middle East also received a major nod of political support with International Atomic Energy Agency's (IAEA) backing of the UAE's plans to start operations at its Barakah Nuclear Power Plant this year – the first such project in the Arab world. And let's not forget that political and public momentum for low-carbon energy growth and the Paris Agreement are now an integral thread in the geopolitical equation. The Green Energy Barometer Survey conducted by Edelman Intelligence interviewed more than 26,000 people across 13 countries and found that 82% of people support the idea of a world fully powered by green energy.

> **"Greater transparency will play an integral role in helping grease the wheels of finance in the Middle East, especially as 'lower for longer' oil prices encourage national oil companies to increasingly seek more foreign direct investment for energy projects."**

Where are the potential clouds and occasional storms – what could challenge the energy sector in 2018? Despite the unprecedented success of compliance to the OPEC and non-OPEC agreement to curb production by 1.8m b/d this year, doubts persist. The market continues to question whether compliance goals will stick in 2018 and whether a clear exit strategy from the policy has been understood and agreed upon by all members. There is also the geopolitical uncertainty in the Arab world; Syria, Iraq, Yemen to name a few. The region's political and social crises are hindering the progress of energy roadmaps and deterring much-needed foreign investors, especially those with a more delicate risk-reward appetite. The UN warns that nearly 15m Syrian and Iraqi refugees are internally displaced people scattered across the region. And it remains to be seen what impact the success – or failure – of the initial public offering (IPO) of 5% of Saudi Aramco in late-2018 will have on geopolitical and economic sentiment in the region. Greater transparency will play an integral role in helping grease the wheels of finance in the wider Middle East, especially as 'lower for longer' oil prices encourage national oil companies (NOCs) to increasingly seek more foreign direct investment (FDI) for energy projects. The GCC's robust credit ratings should help considerably.

The only certainty is that 2018 will be a busy year and where there is action, there is a reaction. An ability to flex will be the best method for riding the potential wave of turbulence. As well summarized by American actor Will Rogers in the early 1900s: "Even if you're on the right track, you'll get run over if you just sit there." ■