



شركة النفط العمانية ش.م.ع.م.
Oman Oil Company S.A.O.C.

UNCONVENTIONAL RISK – CONVENTIONAL RISK MANAGEMENT

**Presentation for OOC Strategy Retreat
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This is an informative presentation and needs to be used as such.

The topic is dynamic and the Presenter shall not be held liable for any business decision taken based on this session.

Each Business & individual makes their decision on specific circumstances and the business environment at the time of decision making.



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Effects of the Arab Spring on the economy (2010-2013)....



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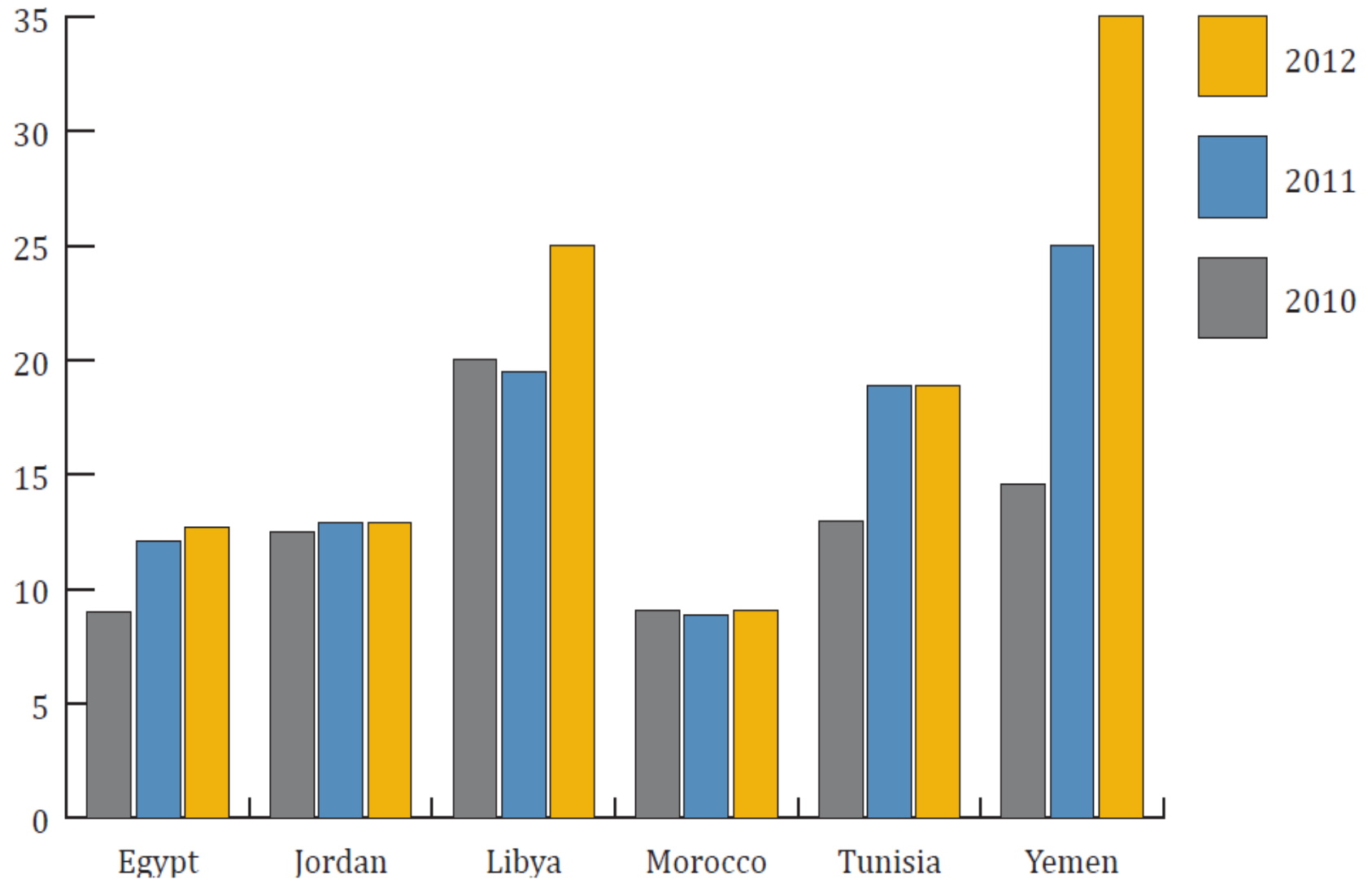
	Real GDP (percent change)				Inflation (percent)			
	2010	2011	2012	2013	2010	2011	2012	2013
Egypt	5.1	1.8	2.2	1.8	11.4	10.0	7.8	8.6
Jordan	2.3	2.6	2.8	3.5	5.0	4.4	4.8	6.0
Libya	5.0	-62.1	104.5	-5.0	2.5	16.0	6.1	4.0
Morocco	3.6	5.0	2.7	5.0	1.0	0.9	1.3	2.3
Tunisia	2.9	-1.9	3.6	3.0	4.4	3.5	5.6	6.0
Yemen	7.7	-12.7	2.4	6.0	11.2	19.5	9.9	12.0

Source: IMF; Institute of International Finance

.... Fueling Unemployment (2010-12)....



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.... And External Current Account and Fiscal Balance deficits



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	Current Account (percent of GDP)				Fiscal Balance (percent of GDP)			
	2010	2011	2012	2013	2010	2011	2012	2013
Egypt	-2.0	-2.6	-3.1	-2.6	-8.3	-9.9	-10.7	-14.0
Jordan	-5.3	-12.0	-18.1	-10.0	-5.6	-5.7	-8.8	-9.0
Libya	19.5	9.1	29.2	-3.0	15.9	-9.0	19.3	-6.0
Morocco	-4.1	-8.1	-10.0	-7.2	-4.4	-6.7	-7.6	-6.0
Tunisia	-4.8	-7.3	-8.1	-8.0	-0.4	-3.0	-4.4	-7.0
Yemen	-3.7	-4.1	-0.9	-3.0	-4.0	-4.3	-6.3	-6.0

Source: IMF; Institute of International Finance

In a global economy, geopolitical ripples are felt immediately in the market place



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Russia key **interest rate** raised to 7.5% from 5.5% in March.



Standard & Poor's downgraded Russia **credit rating** to near junk status - first time in 5 years



Central Banks target **inflation rate** of 5%, exceeded in February 5.6%, and March 6.0%



Ruble is worst performing Emerging Markets **currency** - lost over 8.5% against the dollar in 2014



IMF slashed Russia **GDP growth** to to 1.3 % in 2014, against Russia's expectation of 2.5%, citing geopolitical risks.



High oil prices stabilizing **domestic economy and state finances** with Oil and gas export revenues accounting for more than half of the Russian budget.

The „Orange Revolution” 2.0....



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2004-
2005

Orange Revolution – US and Europe failed to anchor Ukraine to the West.

2008

Russian invasion of Georgia – Russia sets boundaries of Western support to Russia’s bordering countries

2011

U.S. NGO encouraged **anti-government protests in Russia**

2013

Russia out-maneuvered the US on **Syria** and showcased **Edward Snowden's** National Security Agency leaks - undermining the US relations with its allies

2014

US and Europe latch onto protests against Ukrainian pro-Russian President Viktor Yanukovich's decision to back away from **EU association agreement** - hit Russia in the most sensitive spot in its periphery

EU fragmentation and dependence on gas supply from Russia result in limited response to Russian annexation of Crimea

US reminds Russia of its covert reach, yet not in a position to sustain a high level of **confrontation** with Moscow.

.... with deep consequences on the geopolitical landscape



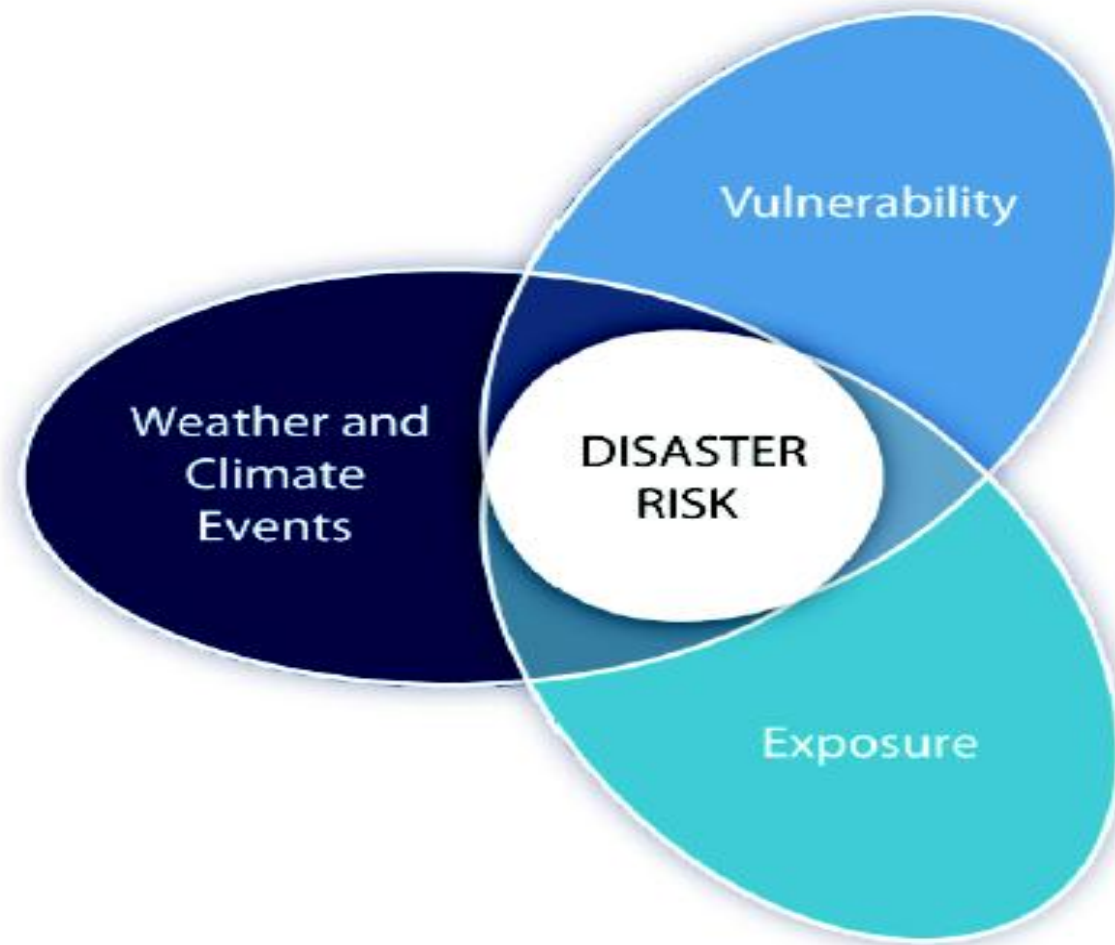
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- The revolutionary euphoria in **Ukraine** will fade quickly as **austerity** measures set in and reinvigorate the natural divisiveness in Kiev's political scene.
- The **Russian economy** will continue to **slow** in the second quarter. High oil price will help Russian sustain its economy in short term.
- This development will drive countries across **Europe** to consider increasing their **defence budgets** after years of cuts.
- For **Sweden and Finland**, the issue means questioning their **neutrality** and debating **NATO membership** and deeper defence cooperation in the region.
- **Germany** is likely to reform its **Energy Policy** to reduce the cost of the transition to renewable energy sources
- Russia may propose deals to supply **Iran** with **nuclear reactors** and advanced weaponry, as well as barter deals to frustrate US Iran negotiations.
- **China** benefits from **USA** checking Russia rising power and Russia looking for alternative **energy sales** from Europe giving China greater bargaining power.
- **Japan** is also likely beneficiary to secure **energy deals** and check aggression

The climate challenge



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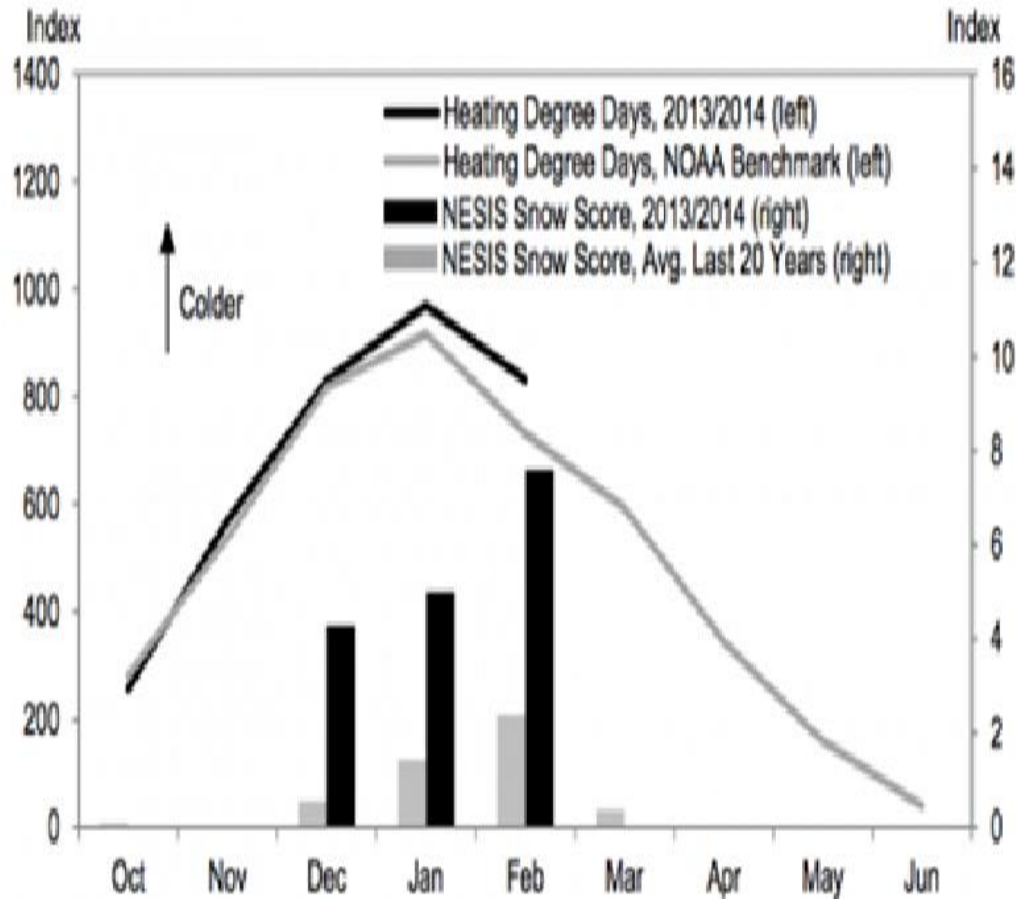


Changing weather patterns have direct influence on macroeconomics



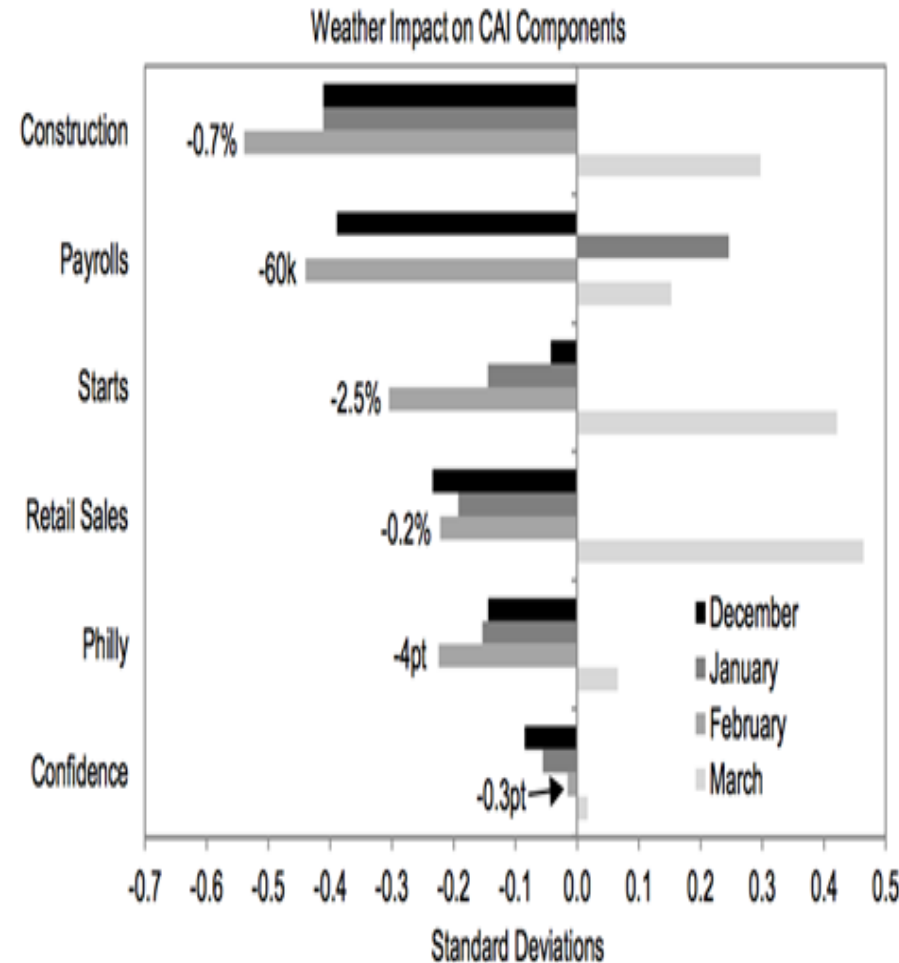
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This Winter Has Seen Colder Temperatures and More Snowstorms



Note: February values are estimates based on data available so far.

Weather Impact on Key Indicators



El Niño is back... with a vengeance



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- Geneva, 15 April 2014 (WMO) - **Sub-surface water temperatures in the tropical Pacific** similar to the onset of an El Niño event - WMO experts predict a steady warming of the tropical Pacific during the months ahead.
- El Niño events, can result in **abnormally dry conditions over northern Australia, Indonesia and the Philippines**. Drier than normal conditions also observed over south eastern Africa and northern Brazil, during winter season.
- According to Bank of America Merrill Lynch, a confirmed El Niño would push **inflation up to 8-10%** and force the Reserve Bank of India to postpone any rate cuts until 2015. It could also **shave off 50-75 basis points from its 5.75% GDP** forecast for FY15.
- **Agriculture** represents a large chunk of the **consumer price index (CPI)** in many parts of Asia
- **More vigorous storms in the Gulf of Mexico** and along the southeast coast of the United States resulting in wetter than normal conditions and disrupted oil production.
- University of South Wales warns, “this latest research based on rainfall patterns, suggests that **extreme El Niño events are likely to double in frequency** as the world warms leading to direct impacts on extreme weather events worldwide”.

Oman summers are hot.... And getting hotter



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Sur's annual average temperature rising by 1°C every decade since 1980

- twice the GCC average increase (0.4°C)
- three times higher than the global average rise (0.27°C)
- ▶ Rise in electricity consumption hence gas consumption
- ▶ Rise in water consumption hence gas consumption
- ▶ Possibility of increase in health problems due to rising temperatures

Symptoms of Climate change before our eyes.... The cure is still in the making



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Consensus in the scientific community* that the world is changing in ways that could influence the actions & policies of countries for decades to come.

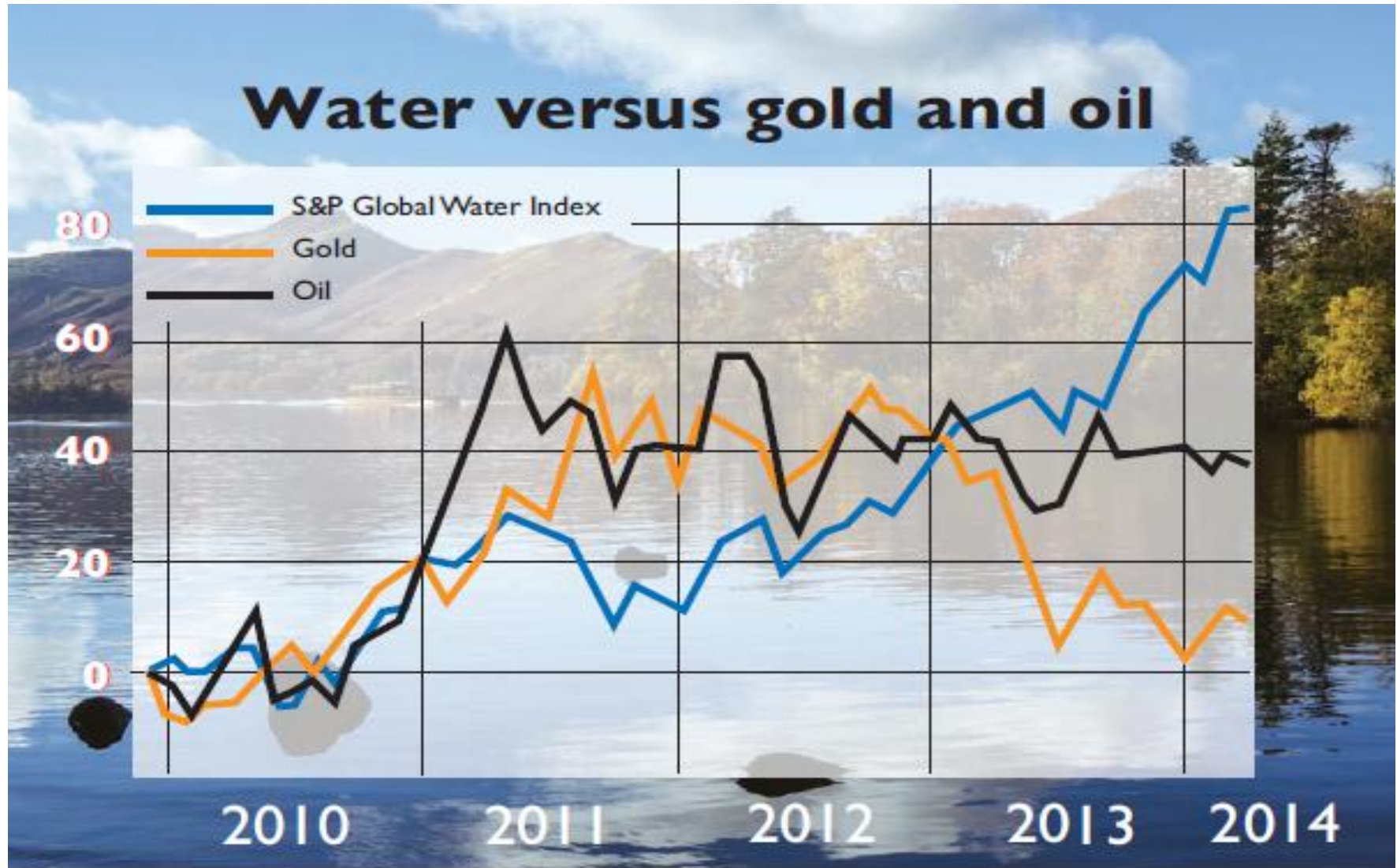
- ▶ Encouragement of technological development, including renewable energy production and new crop varieties.
- ▶ Wealthy, technologically advanced states better equipped to deal with the economic impact of climate change.
 - scientific consensus on the issue though political barriers remain to promote needed investment in energy-efficient technology.
- ▶ Middle-tier countries need to develop such technology or obtain it through other means.
- ▶ Least-developed states will rely on developed countries and international organizations to mitigate consequences.

(*) U.S. National Academy of Sciences, United Kingdom's Royal Society, Intergovernmental Panel on Climate Change

Tap into the Water... the most valuable commodity?



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The scale of Water Challenges & Opportunities

- **Globally only 3% of water only is recycled (BoA Merrill Lynch)**
- **Water desalination sector could be worth \$12.6bn by 2015, from \$8bn in 2011 (Ernst & Young)**
- **\$20bn worth of water lost every year to leakage (World Bank)**
 - Two thirds lost in low and middle-income countries.
 - A third of water is lost to leaks in British and American cities
- **\$335bn expenditure required in USA on public water systems to deal with existing problems (World Bank)**
 - Developed markets' infrastructure is old - \$335bn investment needed "to improve systems" (EPA)
 - ▶ Part of the solution is smart meters (BoA Merrill Lynch)
 - Infrastructure in developing markets is limited or non-existent, or developed too slowly to cope with with population growth.

Spreading Computerization is Changing the Developed World



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Technology a bright spot for demographic challenges in the developed world



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Population drop & increasing longevity

- Shrinking and greying work force support higher levels of debt and large retired populations

Computerized/automated production

- Productivity increases, offsetting the declining workforce.
- ▶ **Increased taxation and wealth redistribution to offset the cost of aging populations**

And / or

- ▶ **falling prices of goods and services to lower the cost of living for workers**



The changing job market

18th -19th
centuries

Industrial Revolutions both destroyed and created jobs.

- Machines and mass production put craftsmen out of business
- created a large class of factory workers

20th
century

Spread of powered assembly lines

- unskilled factory workers replaced with factory line technicians

21th
century

Continued computerization advancements & automation

- decreasing number of manufacturing jobs & technicians
- growth in the financial, logistics and computer industries supporting manufacturing

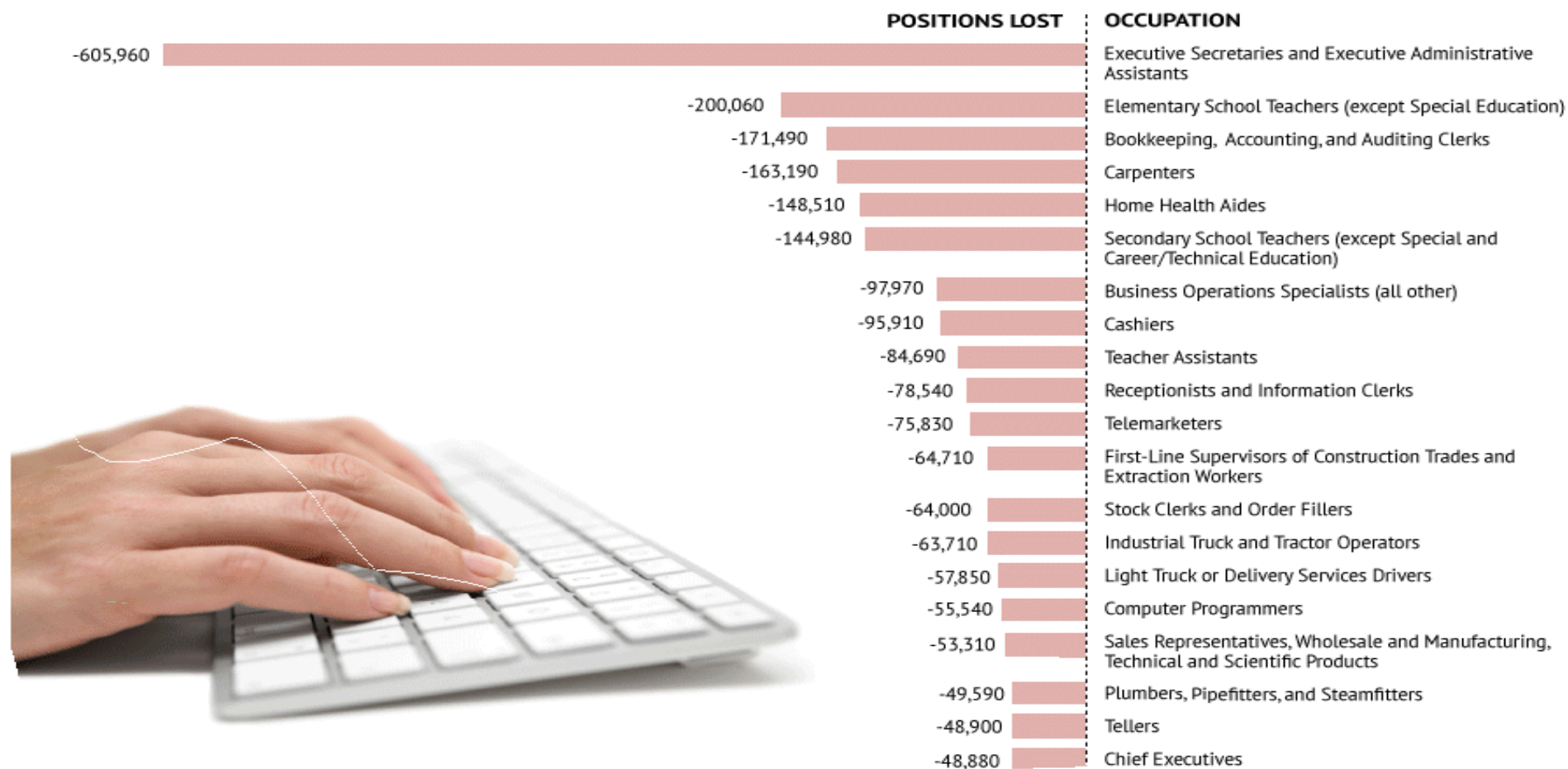
- Through all these shifts chronic underemployment avoided through labor reallocation and economic growth
- Push to computerize routine/cognitive work will continue to impact the service sector in the developed world for the next two decades.
- 47% of U.S. jobs had the potential to be automated in the coming decades.



COMPUTERIZING JOBS

JOBS LOST

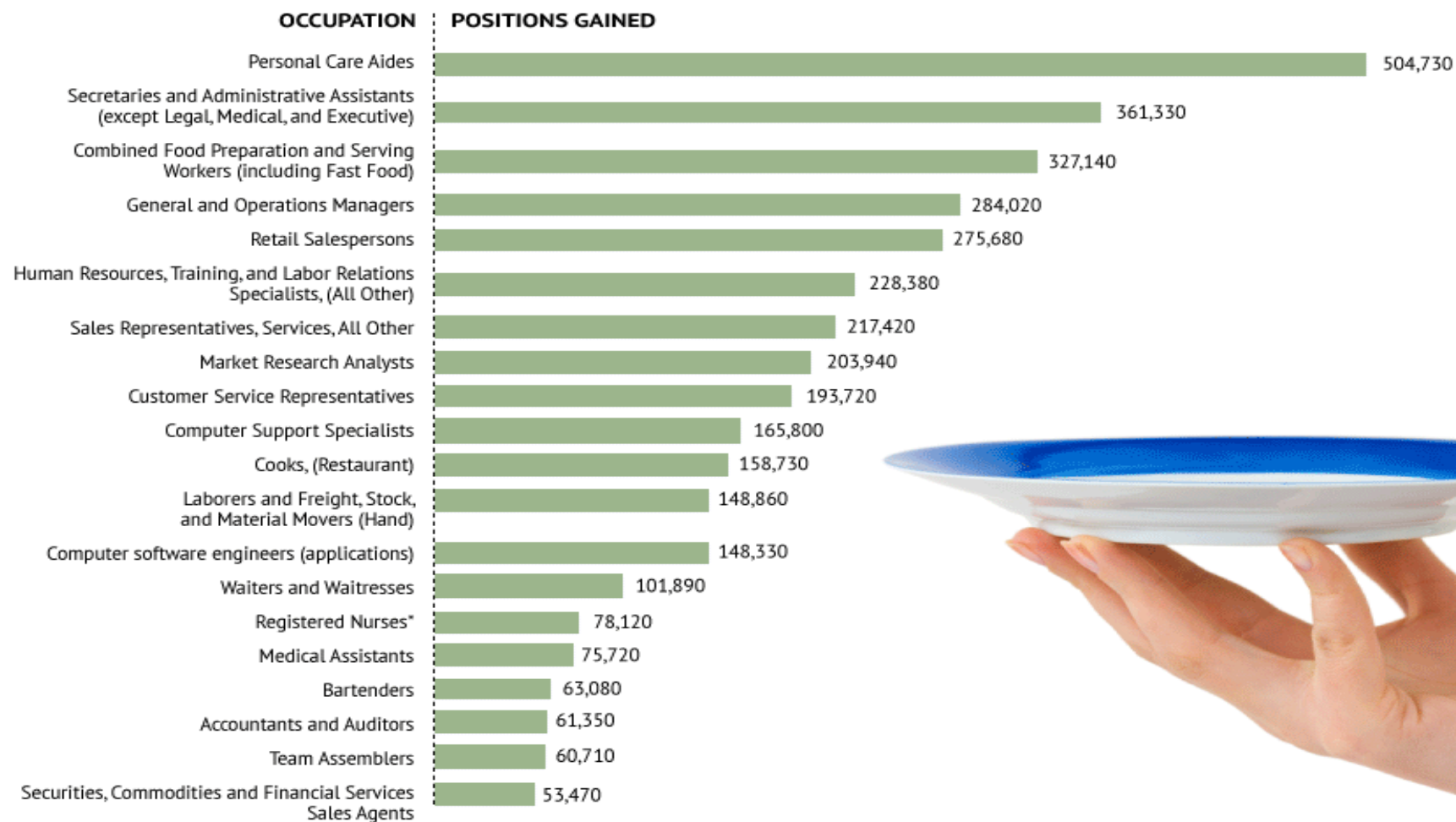
TOP 20 DECLINING U.S. OCCUPATIONS FROM 2009 TO 2013





JOBS GAINED

TOP 20 INCREASING U.S. OCCUPATIONS FROM 2009 TO 2013





WHAT'S NEXT?

In an Oxford University study of more than 700 jobs, these were the top ten jobs most and least vulnerable to computerization in the coming decades.

IN DANGER OF BEING REPLACED

1. Telemarketers
2. Title Examiners, Abstractors and Searchers
3. Hand Sewers
4. Mathematical Technicians
5. Insurance Underwriters
6. Watch Repairers
7. Cargo and Freight Agents
8. Tax Preparers
9. Photographic Process Workers and Processing Machine Operators
10. New Accounts Clerks

SAFEST

1. Recreational Therapists
2. First-line Supervisors of Mechanics, Installers and Repairers
3. Emergency Management Directors
4. Mental Health and Substance Abuse Social Workers
5. Audiologists
6. Occupational Therapists
7. Orthotists and Prosthetists
8. Healthcare Social Workers
9. Oral and Maxillofacial Surgeons
10. First-line Supervisors of Firefighting and Prevention Workers

Source: The future of employment: How susceptible are jobs to computerisation? Carl Benedikt Frey and Michael A. Osborne, September 17, 2013

Robotics... the next economic frontier for the developed world?



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Breakthroughs in robotics present the possibility of manufacturing renaissance in the developed world. However....

- Industrial robots are energy-intensive, and energy is expensive
- Robotic manufacturing requires advanced battery technology
- Cost of living differences and proximity to consumer markets (freight cost)
- Shale Gas in US will likely balance out slower progress in energy storage technology enabling low cost renewable energy.
- Competition from South Korea, Taiwan and China encroaching on Japan and Germany may speed up advancements in low cost robotic technology

Get braced for irreversible changes....



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Geopolitical Instabilities....

- Cold war tensions resurfacing
- Inequality of income and wealth fueling unrest
- New World Order in the making?

Climate Change & Water.....

- Water increasingly becoming scarce but wasted
- Climate change induced weather events on the rise
- Political will and consensus missing

Technology developments

- Offers hope for stagnating developed economies
- Structural unemployment - a real challenge