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THE IMPACT OF LOW OIL PRICES AND  
TAXATION ON THE GCC COUNTRIES

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ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314

Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS:

IBRAHIM FRAIHAT, Moderator  
Senior Foreign Policy Fellow  
The Brookings Institution

ABDEL AZIZ ABU HAMAD ALUWAI SHEG  
Assistant Secretary General for Foreign Affairs  
Gulf Cooperation Council

FADI MAKKI  
Senior Visiting Fellow, Georgetown University  
Qatar and the Issam Fares Institute  
Managing Director, Addima Consulting

ROBIN MILLS  
Nonresident Fellow for Energy  
Brookings Doha Center

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## P R O C E E D I N G S

MR. FRAIHAT: Hello. Welcome to the Brookings Doha Center event on oil prices and taxation in the Gulf and the political aspects of that. It is a very important event, and we would like to thank you for being here to have this discussion with us.

This is actually one of the first events in a long time that we had to actually close registration, for how many RSVPs that we received, all people expressing interest in this discussion. Congratulations for making it and RSVP'ing, and to make it here. We apologize for not being able to accommodate all the requests to be at this event and take part in the discussion. Congratulations and I thank you for acting quickly. In the future, we will do our best to have more of these discussions.

As you can see, this reflects actually how important this subject is for the people here in the Gulf and for people outside. This is something that has caused some panic, reduction of oil prices to below \$30 for an oil barrel. I should say this is not

the first time that oil prices go below \$30 actually. In 1986, it went below \$30, and in 1997 as well it went below \$30.

What is so different, if any, the experts will tell us, this time, that this has caused some panic and concerns. As I said, like the people who expressed interest in this discussion. Not only people's response to it but also we're talking about for the first time, taxes or some other measures.

This is very important for us here in this region and for the world markets as well. There are many people around the world that also watch and would like to hear from the experts about this as well.

Should we expect to see -- I'm pleased we have the GCC here with us today, should we expect to see more of a GCC response to this. Should we expect to see more of a coordinated or collaborated effort between the GCC countries, and also historically or at least the past couple of years, I heard a lot about more of expecting Saudi Arabia to cut oil production.

Another question, why is Saudi Arabia

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important, it's the largest oil producer, but there are others as well that can impact the oil prices. It seems that we have gone beyond this kind of discussion where I remember probably almost a year ago, we were talking about or the debate was about whether reduction of oil prices is a tool that Saudi Arabia used against Iran or this kind of discussion.

We're not hearing this any longer by the way. This is something to keep in mind while we are talking about a different type of discussion today, and also why aren't we seeing more of other countries like Russia, major countries, affecting oil prices, are not acting.

So many questions, which is also related to the political aspect. We hope our experts today can help us understand all these questions.

We are very fortunate to have three distinguished speakers on the subject that we're going to discuss today. I will begin with Robin to tell us what is going on on the oil prices.

Robin Mills is a Nonresident Fellow for  
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Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

Energy at the Brookings Doha Center. He is also head of Consulting at Manaar Energy. He's the author of two important books on the oil crisis, "The Myth of the Oil Crisis" and "Capturing Carbon." Robin is a columnist on energy and environmental issues at The National. He writes frequently.

He is an advisor to the Berkeley Program on Middle East Entrepreneurship and a member of the International Association for Energy Economics, and the Association of International Petroleum Negotiators.

Robin, thank you for being with us, and the floor is yours.

MR. MILLS: Thank you, Ibrahim. Thanks to everybody for being here this evening, and such an important topic, the topic of oil prices and energy prices and the energy market in general.

Back in the early 1900s, J.P. Morgan, the founder of the famous bank, was asked what he thought would happen to stock prices, and he said they would fluctuate. I think the same is true of oil prices.

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Everybody has their theory about where oil prices are going, up or down, and inevitably people are proven wrong whichever direction they guess.

I, too, have my own theories about oil prices, and I will give some views on that. I don't advise any of you to invest on the views I may say, whether they are going up or down. I will try to point to some of the factors that are affecting oil prices and why in some ways what we are seeing now is quite similar to events we have seen before, but also as Ibrahim alludes to, why things are quite different in some ways as well, why this situation may be different from oil price slumps we have seen in the past.

I will try to talk about some of the dynamics of the market and indeed why some things are different and why some of the key players in the market are acting differently from how they have done in the past, and I'll also try a little bit longer term think about what is the longer term outlook for the oil market in general over a longer period, 5, 10,

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or even a 20 year period.

I will try to touch a little bit on what is the impact of this on the GCC countries, what can they be doing, what are they doing, what should they be doing. I think my colleagues will address that far more, but I will touch a bit on the impact on the energy sector.

Where are we now? As Ibrahim reminds us, we are in a case where oil prices have briefly gone below \$30 a barrel, they are now slightly above, but they are far below the \$100 a barrel we got used to in the \$100 a barrel period we had between 2012 through the middle of 2014.

We have been in let's say a high price, relatively high price world ever since 2003 or so when oil prices rose dramatically and reached a peak of \$147 per barrel in 2008. That was interrupted by the financial crisis and prices did fall very sharply then. They fell to \$34 a barrel at one point, but they rebounded very quickly.

That might lead us to ask will this be

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similar, will prices also rebound very quickly from the low point they are right now. I think the answer to that is no, they won't. This cycle is different.

In some ways, this is a classic oil price cycle. It is driven by a combination of a long period of high prices, that forces efficiency, it forces cuts in demand by oil consumers, new technologies, new more efficient technologies in ways of using oil, alternative fuels and so on.

At the same time, it drives a surge in supply, so high cost supply comes into the market, and again, we have seen that over recent years, nowhere more than in the U.S. where the invention and the development of the technology of producing shale oil through horizontal drilling, hydraulic fracturing, has led the U.S. oil production to rebound remarkably.

The U.S., which in 2006 was importing something like 10 million barrels per day now imports less than 5 million barrels per day. U.S. oil production, which was somewhat over 5 million barrels per day has now reached up to almost 10 million

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barrels per a day through this technology.

That is an incredible turn around, and I think an unexpected one. Although the magnitude of this turn around is unexpected, we shouldn't have been so surprised to see something like this because the lesson of high prices is they always bring new supply, the saying is the best year of high prices is high prices, and eventually we see a cycle and we see oil prices falling again as new supply comes.

Ibrahim mentioned my book "The Myth of the Oil Crisis," which was published in 2008, about the time of the peak in oil prices, and this is what I said at the time, that these very high oil prices were unsustainable, they especially would bring new supply on the market, and at some point, prices would fall again. We were not running out of oil. Oil resources around the world are very abundant, not only in the U.S. and of course in the Middle East, but in many other areas as well.

In a way, this is another classic oil price cycle. It is also different. I want to say a little

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bit about why it is different. One reason why it is different, I think, is the rise of U.S. shale oil. Your shale oil is quite different from conventional oil production. Conventional oil production, as we have had in other parts of the world for many years, involves very long investments, it can take three to four years to explore a new area, for example, when the North Sea was explored in the early 1970s.

It can then take another three to four years when a field is discovered to develop it, and then that field will produce at pretty low operating costs for 20 to 30 years.

Once that investment is sunk, it is very hard to stop it, to stop production or reduce production.

Shale oil production is quite different. A shale oil well is easy to drill, now shale oil wells can be drilled in a few weeks. They produce a very high amount of oil in the early phase and it very quickly declines to very low levels. An individual shale oil well pays out very, very quickly, and within a year or so, its production is quite minimal.

That makes it quite radically different from conventional oil production. When oil prices are high, a company can easily drill a well and they know they will get their money back within a year. Anything after that is profit.

When oil prices are low as we have now, the company can also easily stop drilling, and yes, their production will decline, but they're not stuck with a lot of sunk capital expenditure.

This makes shale oil quite different, and there's a theory in the market that this new shale oil will bounce the market much more quickly. When the oil price goes up, shale oil guys will start drilling, production will come, price will fall, they will stop drilling, price will recover. We may see much shorter cycles in the oil market and oil prices we have had before. That theory is still to be tested.

This oil price fall started in the middle of 2014. We are now at the start of 2016, a year and a half later. Oil prices are still low. Shale oil production has fallen to a degree but not by much, and

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the U.S. shale oil industry has proven surprisingly robust. 2016 may be the year that shale oil companies start getting into serious trouble and we start seeing bankruptcies, but still, it has been a lot more robust, I think, than a lot of people expected, and shale oil producers have shown a remarkable ability to cut their costs and to keep producing even at low prices.

A couple of years ago, you would have heard that shale oil drillers needed \$80 per barrel prices to be profitable, now a lot of companies are quite confident they can be profitable at \$50 a barrel. That is above current levels, but not too far above.

I think this is part of why this cycle may be different, and there is the possibility, of course, that shale oil production may spread worldwide. There is no reason to expect that it is just the U.S. that has this unique geology. We find shale oil formations that can produce oil all over the world, and we are seeing already Canada produces shale oil, and we are seeing some quite promising experiments being done in

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Argentina, in Russia, and I think there is also promise in Australia and probably other parts of the world, including here in the Middle East as well.

We could expect if prices were to go higher or remain high that we would see the shale oil production spreading worldwide. This consideration has made OPEC in this case to behave quite differently from what it has done previously. If you look at the previous oil price falls, we had very low oil prices back in 1998 and then again in 2008/2009 following the financial crisis, OPEC was able to step in, cut production, and after a year or two, prices recovered to a higher level.

OPEC has not done that this time. Now, when we say OPEC, I think we are really in this case talking about Saudi Arabia. Saudi Arabia is the key lead country within OPEC. It is also by some way the biggest producer. It has always taken that leadership role. Kuwait and the UA have generally supported Saudi Arabia very closely, so you can think about those three GCC countries as working together quite

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closely within OPEC.

This time, they have chosen not to reduce production. In fact, they have actually increased production even though oil prices are low. They have done that, I think, in response to this new world and this new challenge of shale oil where they see were they to cut production and oil prices increase, that will just encourage shale oil drillers to come back to the market and start drilling and increase U.S. oil production.

We had a case in 2012, 2013, and 2014 when U.S. oil production was increasing 1.5 or 1.8 million barrels per day in that year, considerably more than the entire global demand growth. In other words, the U.S. was taking a larger and larger share of the global market.

Saudi Arabia, I think, looked back to the point in the 1980s when they cut production to defend prices, and they discovered they couldn't defend their level of prices, and at some point, they would have been producing no oil at all if they had stuck with

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that strategy.

I think Saudi Arabia this time is far more proactive and thought we're not going to get in that situation again of cutting production very sharply and finding our market disappearing. They are going to be proactive, keep production relatively high and accept that prices will be low, and this will maintain their market share, hopefully demand will revive a bit, but particularly some of these competitors, the U.S. shale oil and any other high cost competitor will be driven out of the market.

I think if I were looking at this from a Saudi point of view, I wouldn't care particularly whether it's shale oil, I would be happy to see any high cost producer come out of the market. We see enormous cuts in the oil industry investment this year and last year in expensive areas such as the Canadian oil sands, such as deep water drilling, such as drilling in the Arctic, such as drilling in very mature areas like the North Sea where production has been declining for years.



Those areas in years to come will see a decline in production and that should open up more demand for OPEC oil. I think the theory and the hope would be that we get to a situation that is stable where U.S. shale oil production can increase at a reasonable rate, and yes, it can help meet demand, but it is not flooding the market, and there is still room for OPEC to increase production.

Remember, of course, with OPEC, there are several other countries, not only the four GCC members, Saudi Arabia, Kuwait, the UA, and Qatar, but also many other important oil producers, particularly Iran and Iraq, and of course, Venezuela, Nigeria, and so on.

Some of those also have their own plans to increase production. Iraq has increased production quite sharply particularly last year, and now we have Iran coming back in a full way to the market following the deal on its nuclear issue and sanctions. Iran will also add a lot of oil to the market this year.

That is another factor, I think, in the

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Saudi decision that they would not be wishing to cut production acceding the market to Iran and Iraq. There might be political conspiracy theories about this, that Saudi Arabia is keeping prices low to punish Iran or to punish Russia or somebody else. I personally don't buy these theories.

Saudi Arabia and Iran has well known political differences going back a long way, and certainly from 2012 when the sanctions were imposed on Iran, and yet the Saudis did not take action until the middle of 2014. In fact, you could say they didn't take action until late 2014 in the OPEC meeting in November when they didn't support production cuts.

Are the Saudis aware of the impact that low oil prices have on other countries, of course, they are. I think that is different from saying this is being used as a deliberate challenge to those countries. There are very good market reasons and economic reasons for this policy. Yes, it's painful in the short term but the hope is it will have a long return benefit. I think in that sense it's the right

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policy and probably the only policy the countries can pursue.

Will there be agreement within OPEC and with some non-OPEC members to cut production collectively, so OPEC and Russia and maybe some other countries to cut production, that's been talked about. There has been a lot of diplomatic activity. The Venezuelan Minister flying all over the world recently to discuss this.

I'm quite skeptical that an agreement will be reached at least now. It's too hard now to say what a proper level of production should be. Iran is still coming back, and until the end of the year, we won't really know what Iran can produce on a sustainable basis. It's hard to see there is any room for agreement now. Perhaps by the end of the year there might be room for such an agreement, I'm still a bit skeptical. It will depend on what's happening at the end of the year, I think, in terms of oil prices on the global market.

I did promise I would give you some of my

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theories about oil prices. I think we will see the current prices down at \$30 a barrel is too low for most producers. The Middle East can produce very happily at these levels, it costs probably \$10 per barrel or less, but most other producers, it's very difficult, for shale oil producers, in particular. I said they could sit at \$50, but probably not at \$30, most of them. We are seeing U.S. shale oil production declining.

I think we can expect yes, prices will recover, but not dramatically, come up from current levels, but not a long way. This year, of course, we have Iran weighing on the market, going to next year, we may see some recovery in prices. I do not expect prices to get back to \$100 a barrel level for a long time if ever. Always, of course, excluding any major geopolitical conflict or crisis that would seriously interrupt oil production somewhere.

Yes, we can expect something of a recovery, but it will nevertheless be a difficult period. I think when you look at the challenges of the GCC

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countries, they have a challenge to share a credible policy that they are accepting low oil prices, and of course, that means they have to show economically they can survive these prices, and their economies and their budgets can keep running at an acceptable level, so they can show they are more competitive than some other oil producing countries which will struggle and will be forced to cut production or make other changes first.

It's an important part. It goes both ways. Yes, low oil prices have impact on the budgets and the economy, but having a robust economy is also part of being able to sustain and survive low oil prices.

We are seeing measures such as cutting subsidies, for example, cutting energy subsidies. We have seen most of the GCC countries raising fuel prices, raising electricity prices recently, and saving in that way. We will see, I think, more such measures.

Overall, the GCC countries, yes, this is certainly uncomfortable for them. My colleagues will

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talk about some of the ways the GCC countries can address these economic challenges and budgetary challenges. It's an important part of surviving this process.

It's uncomfortable for them but they are not in the worse position. You can point to several other countries, oil producing countries, which are in a far worse economic position for whom this situation is already very painful.

In the longer term, I think we should not look for a major recovery in oil prices. Every oil producing country needs a robust budget and robust economic plan that is good for 20 years without being reliant on the return to very high oil prices.

Thank you.

MR. FRAIHAT: Thank you, Robin. Thank you for these insights on oil prices. I'm not sure if this is adding more concerns or panic about the oil market, but we will see. Thank you.

Now, we will go to discussion on the impact of reduction of oil prices and particularly on

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taxation. As I said before, this is probably the first time we have seen heavy measures are being taken in the Gulf in order to cope with the reduction in oil prices, and we are seeing for the first time talking about that and other types of measures that are being taken.

It does not mean this is only the beginning, should we expect to see more measures taken to respond to the reduction in oil prices, are we talking about the imposition of that, like for certain, or there is still room to talk about this. Also, what does that mean for just the ordinary citizen, about imposing the VAT tax here.

Such difficult and complex situation about the tax and what it really means, and here we are delighted to have a senior expert on this level to educate us about this. Fadi Makki is a Senior Fellow at the Issam Fares Institute at the American University of Beirut. He is working on a research project on consumer/citizens using behavioral insights. He has 18 years experience in strategy

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consulting, public sector reform, economic and sustainable development, trade policy, education and social entrepreneurship.

Currently, Fadi is a visiting Senior Fellow at Georgetown University in Qatar. He is also the Managing Director of Addima Consulting. Before that, Fadi served as the Director General of the Ministry on Economy and Trade in Lebanon.

He held senior posts in the GCC actually, the GCC public sector, including the Qatar National Food Security Program and the Ministry of Finance, Economy, and Commerce in Qatar.

Thank you, Fadi, for being with us. The floor is yours.

MR. MAKKI: Thank you very much. I'm delighted and honored to be on such a distinguished panel. My intervention will cover four parts, macroeconomic development and the need for reform, then move to VAT, and then move to the potential impact of the VAT in the GCC, ending with some concluding remarks. (Audio malfunction) I hope

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that's not an attempt to silence me. (Laughter)

MR. FRAIHAT: Certainly not.

MR. MAKKI: Let's start with the macroeconomic development, and where do we stand. Not so great performance over the last year or so. We have seen global growth has slowed down to 3.3 percent in 2015, and economic slow down in emerging markets and developing countries.

Growth in China has gone down to 6.5 percent, and this is a reality, a new fact that we need to get used to. Not the growth we got used to previously.

Oil prices over the last 18 months or so went down by 75 percent. The world, as Robin mentioned, is abashed with oil and more so with Iran re-entering the market. Some gloomy year end endings for large oil companies. One needs to note BP, Shell, Chevron, and so on. Sharp slow down in world trade. On this one, I would just mention the merchandise trade in 2015 is going to be registering one percent growth, no more, down from 3.1 percent in 2014.

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Probably that's the worse in a long time, probably since the dot.com bust.

That will see a shift towards regionalization, and not only because of lack of progress, but also there is a move towards regionalism, the Trans-Pacific Partnership is the biggest example, that brings 12 countries together, including the U.S. It is currently being reviewed with Congress. It will go through.

Really, these 12 countries are 40 percent of the global economy. That is a huge free trade agreement. If that goes through, it there will be more free trade agreements, more regionalism.

On macroeconomic developments, the negative interest rates is expanding, and the most recent -- the founders of that some 20 years back, Japan, and that is very interesting to watch.

Even in the region, growth is expected to slow. IMF projections suggesting some 3.2 percent growth in 2015 and 2.7 in 2016. Export revenues are expected to be nearly \$2.75 billion lower in 2015 than

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in 2014. That is significant. As a result, fiscal budgets are going to be deteriorating and some kind of significant deficits as well.

All and all, that calls for a reform. I am going to mention those four and focus on only one. The first level of reform that is needed I would say is removing subsidies, but rationalizing, rationing subsidies and reducing them. Reforming the government institutions, making them lean and efficient, pursuing the diversification away from oil and gas. These are things that have been happening, but pursuing them more persistently.

Last, enhancing the revenue generation, in particular through new ways of generating taxes, such as introducing the value-added tax, VAT.

Just to mention, of course, that is very important because other funds are no longer possible, because of commitments of the GCC countries as part of the WG#1 and other free trade agreements.

Covering a bit on the VAT landscape and global practices, the VAT is widely implemented as a

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revenue instrument across the world. Currently, there are some 158 countries that use the VAT. Over the last 10 years, some 20 more countries have been added to that list.

It's popular for several reasons. For instance, it is the relative ease of its administration and collection, once you have gone through the legal instruments, the laws and so on. It is fairly predictable as far as revenue stream is concerned. That's extremely important.

There are a number of reasons why this is kind of popular and very important. It helps us as policy makers know better our economy, so the granularity that is provided by collecting VAT is just amazing. It provides a wealth of information of data to decision makers to design very focused and targeted economic policies. That is not to be underestimated.

Now, the VAT rates and structure is very substantial. There is no one rule fits everybody. You have the lower VAT rates, for instance, within the Asia Pacific region, and you have higher rates, 20 and

25 percent and even more in Western Europe. Even the UA has its own variable rates. You have 17 percent, 20 percent, 25, 27. It is quite variable.

Since its roll out, for instance, many of the countries have changed their VAT rates and increased it mostly. There are some reductions but mostly there have been increases.

If I look briefly at some of the potential impact of introducing VAT in the GCC, I would look at only three aspects here. One, the potential impact on revenue, on inflation, and on doing business. Of course, on the revenue, it depends on many things. It depends on the rate that we choose up front on the exclusions, on the level of imports, because much of the VAT is collected at the border, on the loopholes in the system, on the efficiency and administration, and so on.

Overall, estimates suggest that at five percent of VAT, the VAT revenue as a percentage of GDP is going to be between .8 percent and 1.6 percent, depending on the country in the GCC.

More important than the revenue in the initial period is the impact on other related aspects, such as improving compliance in all aspects of taxation, promoting transparency. As I said earlier and I keep stressing that because that's one of the key themes I want to discuss, the fact that it helps you better know your economy, to better design targeted policies, the granularity is just amazing.

On inflation, of course, from studies that have been done so far, on the first round impact of the VAT, inflation is expected to be limited, not only because the maximum effect is not likely to exceed the actual rate itself, but because of potential exemption rates that is going to reduce the inflationary impact.

To be noted, typically when introducing VAT, some businesses try to widen the margin, particularly at the beginning, and that calls for special attention from the regulators, particularly consumer protection agencies, up front. That is something to pay attention to.

The impact of businesses generally. The key

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impact is going to be initially the cost of compliance. Essentially, the business is going to play the role of tax collector, pushing it further down the value chain, and the more they comply, the less impact there will be, so the more transparent, the more they push the burden away from them.

When we talk about designing the VAT, we should always bear in mind three kinds of stakeholders, government interest, business interest, and citizens' interest. For each one of those components, we need to bear in mind those three stakeholders.

On the five percent that is going to be the policy going forward, that's potentially a start. It could be increased later on. It gives time for everyone to get used to it and will reduce the potential impact on inflation and prices.

Of course, it looks like they are going with a single rate, so no multiple rates, and that is the recommendation from most of the big institutions, IMF and OSD and the World Bank. Of course, not only

because of the complexities of introducing multiple VAT rates, that is going to be a nightmare actually.

Variability, we are not at the discussion of variability across countries of tax rates. It's going to be the same one, although there might be different movers. There could be last movers which is to what extent a last mover would slow down the whole process. For implementation, we're talking about two years of implementation starting January 2018 to be seen if a country that is going to not be ready, it is going to slow down or go as a second phase.

Institutional aspects, of course, a few points from practice. One is to look at increasing the posture of a possible VAT DG in every Ministry of Finance or restructure altogether the revenue authority, and then under it Customs, other taxation, so it's an opportunity to look at that.

It is important also to distinguish policy, VAT policy in operation of VAT, to be coordinated and to have cooperation with GCC wide for this.

A key success factor, to finally conclude,

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is the good planning and the good strategy where the proper legal framework that goes into the entire processes and aspects and procedures of the value chain of the VAT. Human capabilities from practice. It is important not only to prepare through courses and so on but to have them shadow other tax administrations in like-minded countries, countries in the region who have success stories in this area.

At the end, I will conclude with one thing. Before really embarking, I would not be exaggerating if I say more and more impact assessment on the sectors, on the economy, on the countries to be done as soon as possible, from different angles.

That will ensure readiness on all levels, understanding the 80/20, where most of the VAT income is to come from, is it Customs, do we focus on Customs, capacity, and so on. More importantly, this readiness assessment will help countries maximize opportunities for private sector to be part of this process. For instance, collection could be outsourced to banks, worked through banks. Additional areas

could also be thought of for including private sector in its implementation.

Eventually, there could be hurdles, and it is expected in the first start, but going forward, the multiplier effect of doing such a VAT could be amazing if well introduced and phased. Thank you.

MR. FRAIHAT: Thank you very much, Fadi, for this great discussion on VAT and the taxes, and for helping us understand this better.

Now, as you all know, it's all about politics. We need the political dimension of this. We need more of the comprehensive picture, where we are very fortunate to have Dr. Abdel Aziz Aluwaisheg from the GCC, to take us through what this means, to put it in a context level over GCC, and more on the political context of this.

Dr. Abdel Aziz, thank you for being with us. He is the GCC Assistant Secretary General for Foreign Affairs. He is responsible for coordination of the GCC foreign policy towards regional and international issues.

Dr. Abdel Aziz is also responsible for trade relations and negotiations between the GCC as a bloc and other countries and bloc's as well. Dr. Abdel Aziz has served as the GCC Director General for International Relations and also the Director of Economic Integration. He was also overseeing the GCC economic integration process. He was also responsible for the establishment of the GCC common market, which was established and launched in December 2007.

Dr. Abdel Aziz, thank you for your time and for being with us, and the floor is yours.

DR. AZIZ: Thank you very much. Thank you, Robin and Fadi, for setting the stage and for helping us all understand where we are regarding the causes for the current challenge, and also some of the remedies through the tax system.

I think as Robin pointed out, and I think he's correct, this is a different kind of crisis in oil prices. I would say not for the same reasons probably Robin meant.

The last time we had seriously low prices

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was in 1998 when the oil price was about \$10, even dipped below \$10 a barrel. At the time, the challenge for GCC countries was to maintain revenue. Why? Because almost all six countries had run deficits for over 10 years, public debt was in dangerous positions, exceeding 100 percent of GDP in some countries, so in 1998, the picture was pretty dim, and the main objective was to maintain government revenue.

We are now in a different ball game. It is no longer an issue of revenue. It's about market share. Since market share means to maintain market share, it means dealing with non-OPEC producers, and if it is true that Russia, which is the number one, the United States and Russia are the two main countries outside OPEC, the prospects for coordinating with them are remote, as Robin implied about Russia. We have smaller players like Mexico and Norway, but these are the two big ones.

If the prospects for coordination with them, meaning agreeing to reduce supply, than we should expect oil prices to continue. That's the presumption

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that most GCC countries, all of us in fact, are expecting. Oil prices will stay with us, low oil prices, will stay for a while.

We are in a good position to deal with that, unlike in 1998. Take Saudi Arabia, for example. In 1998, its public debt was about 100 percent of GDP, \$630 billion at the time. Now, it is 1.6 of GDP, 1.6 percent. Even if they doubled it or tripled it or quadrupled it, you are still talking about 8 percent maybe, 7.5 percent of GDP, way below the danger zone.

Saudi Arabia is in no hurry to go back to its role and reduce oil production to maintain its revenue, because that is not the concern now. The concern is to bring about discipline in the oil market, which is lacking now. Now we have all the other GCC countries coordinating. We have a committee where the ministers meet regularly. Their assistants also meet regularly. They coordinate policies, so when they go to OPEC, they also have the same position. Not all GCC countries are members of OPEC, but they coordinate nevertheless on the policies.

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Given the fact that we do not expect oil revenue to rebound any time soon, we have undertaken other measures. One reason why we have been able to deal with the difficulties that we had in 1998, the high public debt, the high deficits, on and on, was an idea that was introduced in 2001, which is the monetary union.

Under the monetary union, by GCC law, all member states have to bring their economies to converge, as they call it, on five indicators. Inflation, interest rates, and the level of reserves, they have to keep to maintain the strength of their economies, and a fiscal indicator, which is budget deficit and the public debt.

Between 2001 and 2007 or 2008, all countries were able to converge and reach the levels that were set by the heads of state, which is three percent for the annual deficit, and 60 percent for the public debt, and also inflation rates were brought, as you probably recall if you lived here in those days, to reasonable levels, despite the fact that the economies

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were heating up. The economies were growing at double digits and inflation was going down.

I think the GCC member states were happy with those results, happy with their policies. Now, I think they are in a better position to deal with the crisis. I would take the example of Saudi Arabia. Yes, this year the budget for 2016, they expect to have a deficit. Saudi Arabia for 2016 has announced two budgets, one, assuming oil prices will go at the same level or lower, and the other one, if oil prices by some miracle picks up during 2016.

Under the worse case scenario, Saudi Arabia will have a deficit, one-third of its budget will be covered by borrowing or by issuing bonds, different methods.

Even at one-third of the budget, 13 percent of GDP, it still has other assets that will make it -- other countries in the same position -- to give you some numbers, reserves, that means cash or some illiquid reserves, about \$700 billion, most are outside the country.

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Then you have two sovereign funds within the country, and you have what is called the general fund, and about three or four development banks. If you calculate all the assets owned by the government, in these fully owned entities, fully owned by the government, talk about maybe 3.5, and you add to that half of the capitalization, half of the shares in the Saudi stock market, which is the largest stock market in the region, is owned by the government.

The government could also use those, should it choose to do so, can liquidate some of those assets to cover its expenses. So, you have two sources.

Third, which I think has been talked about a lot, sensational, about companies that are not listed, that are also fully owned by the government, and the biggest one is probably the most valuable asset, I don't think anybody knows how valuable it is, but about \$4-5 trillion. The government could liquidate one percent from that, could sell, one percent should cover the deficit problem for several years.

The same thing for other GCC countries, most

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of them. They are in a good position. That's why you see certain policies that some people think, well, it doesn't make sense if your revenue is declining by 70 percent from oil, and the common advice which we get all the time from the IMF, reduce costs, reduce government spending, cut back.

I really don't think we need to do that. I think it is actually good economic advice. If there is a recession, if you augment it by taking on even more measures, it will make the recession even worse, especially since you don't need to.

However, I think clever as they are, Ministers of Finance and others have figured this is a good time to introduce some belt tightening measures. We need the revenue but we need the discipline. We need the long term fiscal sustainability. You cannot sustain deficits indefinitely at one-third of the budget or 13 percent of GDP.

In 2015, we estimated we lost about \$300 plus million, in potential revenue that we could have had had the money, had the oil price been -- we see

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those numbers, and I use them all the time, just for sensational reasons, when we think about it, oil has been less than \$2-3 a barrel for most of its history. Oil prices should probably be at these levels.

There is no harm in it, as long as you develop other alternatives, develop non-oil revenue. Saudi Arabia announced at the beginning of this year they were able to increase their non-oil revenue by 29 percent for 2015. 2016, they will probably increase it more. If you notice, the speeches by the King and by the Minister of Finance and others around the time the budget was announced, they were talking about they were not happy with the effectiveness of government spending. They are not happy with the waste in the government. Again, this is an opportunity to cut waste.

Price supports, it cost the government about 20 percent of its budget. That is wasted, a lot of it was wasted. Support for basic goods, it also cost the government a huge chunk.

None of that is necessary, and you can do it

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without hurting people with limited incomes. You can adjust people who are on fixed income, adjust retirement ages, adjust the people in the lower ranks of the civil service or the military, and you still have a lot of change left if you rationalize the price supports.

That is what we are working on. You probably saw the announcements from several governments of the GCC, trying to bring their prices to a reasonable level, a level that limits the burden on the government, and at the same time does not affect consumers that much.

What is missing so far, and I think is something we need to work on, is the remedies for people who are on welfare. That is still being worked out. You need to do that because that obviously has affected the cost of their basic consumption.

I think cutting waste is important, reducing price supports is another, and the third one is introducing new revenue generating measures. One is the VAT. I will just speak a little bit about the VAT

because Fadi covered most of it.

The decision has been made for a while now to introduce a VAT system in the GCC, a collective system for all GCC countries, will treat all GCC countries as one tax zone, which is very important because a VAT system is based on not only collecting tax but also getting credit for the inputs.

The six countries are dealt with as one tax system, one tax zone. That way you will avoid what is called "cascading," meaning you multiple taxes, in Saudi Arabia, in Kuwait, so you are able to use it as just one system.

It's a five percent unified level, and it has been ready now for several years. Started thinking about it and working on it in 2005, in fact. The purpose for it at the time was two things. One, to reform the tax system. GCC countries have in fact several hundred what is called "nuisance taxes," levies and taxes. (Audio malfunction) Is that a hint? (Laughter)

The idea was to do away with some of those

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nuisance taxes, and introduce this more efficient, more transparent tax system that will prevent what I called "cascading" in particular, unlike a sales tax, for instance, you are familiar with from the United States, sales tax, you pay at every level of production, while a VAT is five percent for the whole production process, more or less.

The second objective for the VAT system at the time when we started thinking about it in 2005 was the fact that the GCC collectively was entering into FTA negotiations with almost all of its trading partners, which mean by virtue of those agreements, Customs revenue will go down, and you need something to compensate for that.

The idea at the time or the instructions we had was the new tax has to be revenue neutral, only cover the loss from eliminating nuisance taxes and from losing the Customs revenue. That, of course, has changed. Now, I think we probably need it to generate revenue for the governments, and our calculations are slightly different from Fadi's, about 3 percent of

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GDP, if the connection levels are reasonable, meaning if you are able to implement it.

The threshold will be high enough in the beginning not to burden small businesses, \$1 million turn over, but otherwise, it should cover the whole economy. It is supposed to enter into effect, as Fadi said, at the beginning of 2018.

I think it has a third purpose, which is very important, and I'm not sure that Fadi covered it, which is it's the only tool we have to deal with the recession, considering that our monetary policy is blunted by the fact that our currencies -- to the dollar.

Having a system, after it works for a while, you can adjust the rate up and down, to deal with the economy, recession, you can reduce the rate, and if it is heating up, you can do the opposite. You can raise the VAT.

Now, Ibrahim wanted me to also talk about how is that affecting the relationship between people and governments. You have seen when price supports

were removed in some countries, people were upset, took to the streets. You didn't see any of that in the GCC. I think in part because people understand this time is important for everybody to chip in, and also I think they realize even after raising the price supports for fuel, some of the lowest prices of fuel in the world, and I don't think it has affected negatively that relationship between people and the government.

The second thing, if anything, it has brought them into the discussion about what sound fiscal policy should be like. As long as the government is raking in hundreds of billions of dollars of oil and spending it, you know, there is plenty of money to go around, people didn't care because they were getting their share anyway.

I think now the government is leveling with people, most of them, and saying we have a challenge, and we need to deal with it, and I think people seem to appreciate it being taken seriously and dealt with as adults for a change.

Thank you.

MR. FRAIHAT: Thank you very much. That is an excellent presentation on what to expect on the bigger picture.

There are many questions, but I will not monopolize the time, and try to have all my questions in one round, for each one of the speakers, so I can give you time to ask your questions.

Robin, I like you, never bought into this discussion that Saudi Arabia was using the reduction of oil prices to penalize Iran or that type of discussion that we had almost a year ago, or when the oil prices started to fall below \$60, and the fact that it's not part of the major debate today actually reflects on that the reduction is genuine, serious, that there are causes behind this reduction and it wasn't about political use or manipulation of this.

My question on this is Saudi Arabia is traditionally and historically blamed for the impact of oil prices. You know, go up or go down.

Understandable, Saudi being the major oil producing



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country. It's not only Saudi Arabia.

Why aren't we talking about Russia or now more about Iran entering the oil market again with production. Why don't see Russia to have an impact, not only Saudi Arabia.

Do you think this might actually present some sort of an opportunity for collaboration probably between like the three countries that are not getting along very well politically, Russia, Iran, and Saudi Arabia, for more of a collaboration on how to deal with the oil markets and to have an impact on the prices in the oil market.

MR. MILLS: Well, Saudi Arabia has traditionally been blamed or praised, depending on which side you come from, for changes in the oil price. As someone who works in the oil industry, I am very happy for prices to go up. Of course, that is not the view of everybody.

The Saudis have taken an active role in the market at certain times, and a lot of this comes from the 1970s and the oil embargo that was imposed on the

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U.S. and the very high prices at that time, and that's almost kind of ancient history now, I don't think the Saudis or any other OPEC country would ever try anything like that again, and the market has moved on.

The Saudis obviously do take an active role in managing the market assisted by some of their colleagues in OPEC, and they did this following the financial crisis. They persuaded various countries in OPEC to cut production and prices did recover.

They had an active role in doing that, and that's why people look to the Saudis. If you take the U.S. or Russia, they are oil producers of pretty much the same size as Saudi Arabia, but they don't take an active role in market management.

The U.S. has thousands of producers ranging from the Shell's and the Exxon-Mobil's down to very, very small mom and pop operators. Russia, not quite as much. Russia has a number of large companies as well as small ones, but it has state companies, it has private companies. Again, it doesn't have an oil industry that can be easily ordered to turn production

on and off.

Those countries have never really coordinated with OPEC. As Dr. Abdel Aziz mentioned, Mexico, Norway, yes, they have cooperated with OPEC at times, and you can imagine that happening again.

MR. FRAIHAT: Just a very quick question on this because what came up to ask this question, why do the people of the world want the prices to go up? You're in the oil industry and you are for higher prices. Does the world really want the prices to go up? Why not keep them down?

MR. MILLS: For most oil consumers, and oil consuming countries, the U.S. is a lot more self sufficient than it was 10 years ago, but the U.S. is still importing five million barrels per day. Europe is a major oil importer, so is Japan, China, India. A lot of major countries that import a lot of oil. In principle, they should all want the price to come down.

Particularly in the U.S., you have strong domestic interests like oil producers and oil

producing states, like Texas, who would like prices to stay up.

I think we are also seeing that the current low oil price, in the long term, it would be a good thing for the world economy, in the short term, not so clear, because a lot of oil companies get hit. Oil companies are big investors. You take an economic hit on the low oil price some time before the effect filters through to economic growth generally.

You are also seeing major oil producers withdrawing money from their sovereign wealth funds and withdrawing from their savings overseas, so we are seeing outflows of capital.

There are short term effects which are negative for the economy, even if the long term effect is positive.

MR. FRAIHAT: Thank you, Robin. Fadi, you talked about the easiness of implementing VAT, which is convenient, great. Now, my question is does that solve the problem or should we still expect to see additional measures beyond the VAT?

The other question is on the same issue, what does that mean just for the ordinary citizen? How is this imposing implementation of the VAT going to affect the life of an ordinary citizen? Does that mean traveling less, going less to the restaurant this number of times in a month? One car instead of two cars. What does that really mean for the ordinary citizen in their daily lives, imposing the VAT or additional measures?

MR. MAKKI: On the first point, of course, as I mentioned, revenue generation or improving revenue generation, should only be one of four levels. I mentioned reducing or reforming subsidies. I mentioned also reforming government institutions, make them lean, less heavy, and mentioned also diversification, and at the end, the VAT.

Now, there are other revenues in the taxation that could be proved. Dr. Abdel Aziz mentioned also the excise that could still be introduced while Customs would no longer be changed, just because they are bound at a certain rate.

it is a basket of reforms, and VAT comes handy because of usefulness, because of its ease, because of its predictable revenue stream, and as I mentioned again and again, it collects so much information on the economy at a very granular level.

Now, what does it mean to the citizen? Of course, the citizen with the structure of the VAT bears most of the VAT. That is why to make it less impactful, countries resort typically to multiple rate, exclusions, food, other things, but given the fact that it was wisely set or these discussions to have it around five percent is not going to be hardly felt by the citizens at the end of the day.

MR. FRAIHAT: Great. Thank you. Dr. Aziz, I agree, I don't think we are talking about a serious crisis between the government and the citizens, of the GCC, as a result of this. I agree with you, lowest energy or oil prices in the Gulf. The governments still supporting the citizens in many ways compared to other countries in the world.

Let me ask about the terms of the social

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contract. Don't you think or do you think that there is now this opening room for more demands on reform, political reform? Whether that bid on taxation would be more expectation of representation, for example? Should we expect some sort of reform? That is the first question.

The second question is do you think the reduction of oil prices, since you are in charge of external operations of the GCC, would that have an impact on the external relationships of the GCC, especially in terms of involvement with an international crisis, mainly on foreign aid, would that be expected also, should we expect to see less foreign aid coming from the GCC or less involvement in other conflicts because conflict has a cost? Would that affect the external relationships of the GCC on the political level? Thank you.

DR. AZIZ: On the first question, I think the call for political reform has been around for a long time, before oil prices went down. I think it is something that should be judged on its own merits.

We saw in Saudi Arabia the report of the elections for the first time, women were allowed to vote, two-thirds of the seats instead of one-half of the seat were elected.

I think the march towards reform has been around for a while, and I think it should progress regardless of the decline in oil revenue.

Who knows, maybe if people pay more taxes, maybe something will happen. At five percent of VAT, it's hardly noticeable because in 2015, for example, there were several FTA agreements that went into effect with Switzerland, Norway, Iceland, Singapore, and a number of other countries, which reduced actually the cost of goods that we imported from those countries by eliminating Customs tariffs.

Did you feel the five percent reduction? It's so small. Same thing if it goes up five percent. If we talk about 10 percent, 15 percent, 20 percent, as we see in European countries -- on top of that, say you live in the United States, you pay about 20 percent of your income, if you're in a high income



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bracket, for income tax. Then sales tax and all kinds of other tax, local, state. Easily, 50 percent of your income, you pay for taxes.

Maybe if we reach those levels, and the governments would probably be happy to get people to vote, if they are willing to pay those high government taxes. (Laughter)

MR. FRAIHAT: Thank you.

DR. AZIZ: The second question?

MR. FRAIHAT: External involvement, foreign aid, possible involvement.

DR. AZIZ: A lesson from history. The Gulf War of 1990/1991 cost Saudi Arabia alone over \$50 billion. That was during a time when the government was in a deficit from 1985 until almost 2000. That did not stop them from engaging in a war they felt was necessary to join, to liberate Kuwait.

I think there is a good cause to defend the country or other GCC countries. I don't think money would be an issue.

The second thing is foreign aid presents

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less than one percent of GDP. It doesn't really -- even if you doubled it, it's not going to be a big thing. I don't expect foreign aid to be affected.

MR. FRAITHAT: Great. Thank you so much for these questions and answers and the discussion. Now, we are ready for you to have your time to ask questions. Yes, sir? Please introduce yourself and ask your question.

QUESTIONER: (Inaudible) My question to Dr. Aziz, two years back, the idea of introducing any kind of tax was out of the question, like a taboo, don't even mention it. Is the era of GCC as a tax haven gone forever, number one, and is it a prelude to another form of taxes in the future, maybe knowing that more than 80 percent of people living in the GCC are exports, so it won't affect the GCC nationals as much as it will affect the non-nationals.

MR. FRAIHAT: If I might add to that question. A large part of people who live here are exports. If you can also touch base on how his this going to affect the exports also living in GCC?

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DR. AZIZ: I think the VAT will be implemented and everybody will have to pay it, regardless of their nationality, so it is going to be the same effect on everybody. I think it's a myth to think that the GCC countries are tax free. We have lower rates than most other countries, but there are a lot of taxes.

As I said earlier, one of the objectives of the VAT is to try to eliminate some of those nuisance taxes that you pay. We have hundreds of them.

The VAT is a reform measure to improve the tax system. It does add additional revenue to the government, but that is not the main objective. As I said, five percent, this level, is not going to affect prices that much.

In terms of distribution, whether this will affect the normal income consumers, yes, it might, because it's a flat rate. That is why we are introducing with the VAT an excise tax system. An excise tax system will be imposed, still the list is not agreed completely, but it will target two types of

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groups. One, like alcohol and soft drinks, things like that, and the other is modulators. Luxury goods will probably be targeted by excise taxes, and the bad things also will get taxed. (Laughter)

QUESTIONER: Cigarettes?

DR. AZIZ: Cigarettes? Yes. Cigarettes have been taxed all along but they may double the tax on them.

The excise tax especially for luxury goods will improve the distribution, meaning if they target higher income people.

MR. FRAIHAT: Great. Yes, sir? Go ahead.

QUESTIONER: My name is Louis Spinkcal. I am a visiting scholar from the School of International Public Affairs. My question is this is a key for oil prices, especially because of some uncertainties probably this year will become more clear, and that might affect the volatility of the oil prices by year end or beginning of the next year, especially we are going to know how much oil Iran will actually be able to deliver this year, that is one of the main

uncertainties, and we are going to have a better picture of the structure of the non-conventional producers in the U.S., and also the actual financial soundness.

Most likely, the most recent forecasts are saying production in the United States will fall maybe by 600,000 barrels a day this year. In case that happens, how do you see the role of OPEC and Saudi to accelerate a rebounding in oil prices by year end or the beginning of next year, and will they do that with an agreement with non-OPEC countries, like Russia, which is very unlikely now probably, OPEC countries know that Russia doesn't necessarily commit with the agreements they make.

Will OPEC be willing in the scenario in which oil production falls -- will OPEC be willing to get their position as a producer again or not? How do you see that happening?

MR. FRAIHAT: Thank you very much. Yes, ma'am, question?

QUESTIONER: Thank you, International  
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Affairs Department at the University. My question is to Robin regarding -- the question is regarding the environmental impacts that shale wells affect the environment and whether if you compare them to traditional shale wells, is this affecting public involvement in calling for using or not using such types of oil.

I have the same question regarding the impact of oil prices on social and political reforms. I was remembering visiting in the 1990s in the aftermath of the Gulf War, and how it affected not only Saudi Arabia but the whole Gulf, and it pressured the states to go into reform, and we saw all the councils created during that period.

I take your answer that the prices are not that serious yet, but don't you think the Gulf countries will go some way into accepting some of the participation and demands on more public participation?

MR. FRAITHAT: Thank you for the question.

Let's take the last question, absolutely the last

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question. Yes?

QUESTIONER: Hello. Thank you very much. I'm from the British Embassy. Dr. Aziz, Your Excellency, you mentioned that VAT will be introduced in 2018. Could you just say what steps will be taken ahead of 2018 to help lead into the reform? Thank you.

MR. FRAIHAT: Thank you very much. Here is what we are going to do. I would like for all our speakers to respond to the questions and take one additional minute after you respond to the questions, closing remarks on your part, if you would like to say anything on this discussion. We will begin with Robin.

MR. MILLS: Yes. To the first question, current global over supply of oil is perhaps on the order of 1.5 million barrels per day. That oil is going to storage. At the end of last year, there was some three billion barrels of oil in storage around the world. It will be more than that now.

The market has to get back in balance before

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that excess inventory starts getting drawn down, and then you can expect or hope for prices to increase.

As you said, U.S. oil production forecast to decrease by 600,000 barrels per day this year.

Iranian production, in my view, and I'm probably a little more optimistic on that than some others, but in my view, that may increase by 600,000 to 800,000 barrels per say.

You can add up all these moving parts and consider the demand, of course, is also growing by 1.2 million barrels per day. You could by the end of the year see a market that is kind of close to getting back to balance. It may be a bit earlier than the end of the year, maybe a bit later, but something like that if these numbers are correct. At that point, you could hope, yes, you see some improvement in prices.

That is, of course, if the U.S. oil production may be more robust. Iran may add more or may add less. Chinese economy may slow down. There are many moving parts. That is kind of a reasonable outline of the scenario, I think.



Would OPEC then take action at the end of the year? Well, I think OPEC will take a look at the market and see where things are. As I said, I think it's very difficult to take action now particularly with Iran, you don't know what Iran's sustainable level of production will be, and we will only probably know by the end of the year.

If, for example, Saudi Arabia were to get together with Iran today and say let's come to an agreement on production, Iran will say we can add a million barrels per day, and the Saudis decide no, we think you are going to have half a million, who is to say who is correct until we actually see what really happens. It's very hard to reach agreement until we have some real facts.

I think OPEC will be cautious because let's say prices have increased substantially and U.S. oil production has fallen, OPEC will then say well, the strategy has worked, that's fine, we have done what we set out to do, we have dented the high cost of production and we have recovered market share.

If prices are still low at that point, then OPEC would be in a difficult position to be thinking if we cut, we are just going to make it easy for these shale oil guys, and in that case, they have proved to be very resilient, well, we're just throwing them a life line.

In that case, anybody who is running a shale oil company or financing it will think this is great because whenever the oil price goes down, OPEC will step in and save me, so I can't lose.

I think whatever the situation is, it's difficult, and for the reasons I said, I think it's also difficult for Iran, Russia, and Saudi Arabia to reach an agreement on this. They will talk, and of course the talking is useful for reaching a common understanding, but that is not to say it will lead to any kind of common action.

On the environmental question, there has certainly been a lot of concern and attention to the environmental impacts of shale oil and shale gas production in the U.S. You have seen some parts of

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the world where that environmental concern has almost entirely stopped shale gas development, for example, in the U.K., there has been one shale gas well that has been drilled and tested, and there was such a degree of public opposition -- I think that was four years ago now -- no company has been able to go ahead with any further drilling since then. It may happen eventually, but it is certainly greatly delayed.

France has brought in a moratorium on shale gas production. It's been very difficult in Germany and so on.

Other countries, and I mentioned Argentina, Russia, and so on, are going ahead quite happily and I don't think there will be opposition there. To be honest, I think the U.S. is largely used to it. I think the areas where it is happening, Texas, Montana, North Dakota, most of the kind of oil states, the oil industry is a huge employer and a huge taxpayer, and they are not willing to kill the golden goose by enforcing a lot of restrictive environmental standards.

I think shale gas and shale oil production can be done safely. I don't think it's significantly more environmentally damaging than convention production if it's done right, and we have learned a lot over the past five or six years about how to do shale gas production in a responsible way.

One final point I want to make is we have looked quite a bit at the short term in the oil market and the GCC economies, I think we also need to think about long term. I think we talk about how do we cover our budget this year, next year, but we also need to think on a 30 year horizon. That would be increasing pressure on oil use, tightening climate policy, there will be other innovations, electric vehicles, for example, will become more available, cheaper, more effective.

This has been said many times, it's not new, but a real need to diversify the economy. Raising revenues is great but you need a sustainable economy to provide those revenues and the oil industry, yes, is an important part of the economy, but not is the

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sole support. That for me is the real 20-30 year policy challenge, to develop those alternative industries and other sources of growth.

MR. FRAIHAT: Thank you, Robin. Fadi?

MR. MAKKI: My final thoughts on this is two years is not a lot of time. Yes, the GCC has been getting ready for so many years, but now they have kind of committed to doing it in two years, and there is a lot that needs to be done, and sequencing to help.

We have seen from many experiences in introducing VAT, it could go wrong. I would stress three things, human capabilities, developing human capabilities, we are not talking about study tools, workshops, we are talking about shadowing, literally planting those VAT administrators to be in various authorities all over the world, preferably in similar regional settings, to be able to be trained and get ready for that.

Institutional development, as I said. There are several options that need to be responded to, is

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it going to be part of a Ministry of Finance, is it going to be an authority, how much independence, what do we do with the revenue? Do we set up a separate fund for that to be used under the control, pay attention to implications using them for private sector and so on.

Last, what do we do with the consumers. A lot of awareness raising needs to happen from now until the milestone of January. Communication certainly needs to be in place to educate the citizens, businesses, various consumers, associations, as well as government entities on the implementation.

MR. FRAIHAT: Thank you. Dr. Aziz?

DR. AZIZ: Thank you. I think on oil prices, I think we talked about the supply side and I think there is a consensus that in the short term probably the supply factors will probably push for lower prices and maintaining prices, unless there is a major conflict.

On the demand side, the low prices are driven by sluggish demand around the world, if that

changes next year, in China and other places, I think that could lead to a rebound in the prices.

On the link between reform and economic crisis, this is an important issue. I see the issue of low oil prices, the drastic reduction of the importers of oil as a source of government revenue, is focusing the minds of policy makers, fiscal policy makers, not so much on the political side but on fixing the economy, and we see now more the prices of fuel brought even more to the international price level, support for imported goods, basic goods, has been reduced only in a couple of countries, but has not really been tackled yet.

That, I think, is another source of reform that we need to address. Water, electricity, all of these things, I think, all the economic reforms that we have been putting off for a long time, I think now is the time to think about it, to introduce serious reforms there.

I think politically, I don't know if the issue of taxation outweighs other factors, the fact

that we are living in the neighborhood of huge political conflict and polarization, throughout the region. If you open up the system, who knows if that polarization would also be important.

I think these gradual steps, with the municipal elections in Saudi Arabia bringing about positive results and do not cause political polarization or social polarization, which has threatened to do during the election campaign, and I think if we were able to manage these steps in a prudent way, I think the governments would be more relaxed to introducing more steps.

However, if the opposite happens, the elections could cause either way, and we saw it in Egypt and other places, it could act as a polarizing factor. I think that would probably postpone any further steps.

The question from my Turkish friend, I think we started working on the VAT system in 2005, and since 2005, the work has been both at the legal level, meaning putting together a blueprint that should be



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finalized in 2016, but the more important part which takes time is building capacity. I think most countries now are ready to introduce the VAT probably tomorrow, in terms of capacity. Not all of them. When all the six countries are ready to introduce the tax, then the capacity, training people, hiring people, all of that.

The VAT system or any tax system is very complicated, very difficult. You learn from the European experience that fraud is almost possible at every level of collection. We have to work on that, we have to coordinate with all the stakeholders. That takes time.

I think by 2018, almost all if not all GCC countries will be ready for implementing the tax.

MR. FRAIHAT: Thank you. On my part, I'm not an oil expert, so I cannot tell you whether the prices will go higher or will stay at this level, but I come from a different background, I come from a conflict resolution background.

On this, I always have a view on how we can

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deal with a crisis. Any crisis could be a threat and it could be an opportunity. I genuinely believe that there is an opportunity with reduction of oil prices for many good things to come out of it.

I can mention many benefits that could come out of this, including but not limited to more efficiency in government performance, and less bureaucracy, sustainable development, alternatives to energy, and reform, accountability is another thing that we can talk about or discuss where the reduction in oil prices can remind us of accountability. Here, I don't mean only accountability of government, but accountability of the citizen, on our spending, how we behave, how we spend, our consumption.

This should be a reminder for us as citizens also that we have to look at other alternatives, that we have to be accountable to ourselves first and foremost, and with that in mind, the good news I have also for you is that our next event on the 17th of this month, we are having another discussion on Yemen.

Yemen is part of this political discussion

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we are having, and today we touched on issues like external politics and how this is going to affect dealing with it.

On the 17th, we are going to have another discussion on Yemen and how this is going to -- not related to oil prices -- with great speakers from Yemen and from other countries as well.

With that, I end, and I thank you so much for your patience and for your interest in this discussion, and we will see you on the 17th.

(Applause)

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