MENA Prospect
The Political Week Ahead in the Middle East and North Africa

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Libyan Transition: The Next Steps

As Libya transitions from conflict to reconstruction, the fledgling rebel government will have to step up its efforts, demonstrating an ability to plan reconstruction and deliver concrete improvements for hard-pressed citizens alongside the less tangible freedoms of the post-Ghadafi era.

Libyan funds unfrozen by the international community will provide a pump primer in the near term, but a resumption of oil production and exports is crucial to allowing the import-reliant economy to restart in earnest.

In the medium term, constitutional reform and elections will help build a national consensus on the way forward; but in the short term, the National Transitional Council will have to do the political heavy lifting itself, by working to align regional and tribal interests with central government. For Libya to successfully restart refineries, meet its domestic fuel needs and resume crude oil exports, this process will be critical.

While the technical challenge of restarting oil production may be considerable in a few cases, the political obstructions loom much larger. With NATO keen to wrap up military operations by the end of the month, the window for ending the mopping up phase, including the pacification of Sirte, will start closing soon.

The NTC will need to demonstrate publicly that the Ghadafi era is well and truly over. Even if it succeeds in that through the capture or killing of Ghadafi senior or his son and heir Saif al-Islam, there is a risk that tribal and regional interests that are not onboard with Libya's new politics, especially away from the coastal, urban areas, will defy new the new government through armed attacks on pipelines and other oil infrastructure.

In other words, there is very little that is certain about Libya's new politics. To date, tensions within the opposition movement have been papered over reasonably well – but the challenges of meeting the needs of major cities while accommodating diverse tribal demands will stretch the capacity of the leadership, which will be unaccustomed to fluid alliances and its newly-vociferous constituency.

The Longer View - Gerald Butt

Syria: Grinding Down The Regime

Syrians are united in fear of the future. President Assad, the military and the ruling Baath Party are frightened of losing their grip on power. Syrians at large – supporters and opponents of the regime – fear the fragmentation of their country. Fear has pushed Syria to a point where the atmosphere is no longer conducive to reconciliation.

Exiled former vice-president Abdel Halim Khaddam understands the thinking of the Syrian leadership: "The regime has no connection whatsoever with the people. As a result, in order to stay in power it has no choice but to use violence and force." So, while the president has, for example, issued a new media law that stresses freedom of expression, state news outlets continue to toe the government line. "The problem," said an opposition commentator, "is not with the law, but with the regime that has no credibility."

But it's not over yet. The (Alawi) upper echelons of the military remain loyal, while defectors (Sunnis) from the lower ranks have largely melted away in fear. Khaddam rules out the possibility of a military rebellion, but adds that continued popular pressure alone will eventually bring the regime to its knees.

Assad, though, will take heart from the splits within the opposition. Syria lacks the overwhelming hostility to the regime that existed in Egypt. The recent formation in exile of a National Transitional Council was denounced by protesters inside the country as being the work of "ghosts" with "no relation whatsoever with the revolution." So there are still opportunities for Assad to try divide-and-rule tactics.

But the stick in Damascus looks more convincing than the carrot. With international sanctions tightening and even Syria's friends denouncing the violent repression there, the best bet is that the regime will eventually be ground down. The fear is what will replace it.

The Week Ahead

5 Sept: Trial of former Egyptian president Mubarak resumes – no longer broadcast live.

6 Sept: Iraq's parliament returns after summer break (see Policy Alerts).

6-7 Sept: Iran's Assembly of Experts meets for the first time since Rafsanjani stood down under pressure from conservatives.

7 Sept: Arab Finance Ministers to hold "exceptional" meeting in Abu Dhabi on impact of global economic woes on region.

9 Sept: First post-Ramadan rally in Tahrir Square in Cairo – calling for an end to military rule.

Policy Alerts

IRAQ: Days Of Indecision Ahead

President Talabani has summoned coalition leaders to a "last-chance" meeting midweek in an attempt to end government paralysis. Success is unlikely, with Prime Minister Maliki still blocking the formation of a National Policies Council to be headed by his rival Allawi. Then, how are the still vacant defence and interior posts to be filled? Should US military trainers stay after December? And will parliament accept the latest oil and gas law draft? Each issue will tear further the political fabric, leading to more government indecision and deteriorating security.

ALGERIA: Heading For Isolation

The arrival of some of the fleeing Qadhafi family has worsened already bad relations with the Libyan rebel leadership. Algeria and Morocco are still at loggerheads over Western Sahara, and the Algiers government continues to peek nervously at post-revolutionary Tunisia and Egypt. All this against a background of struggling oil output. Current sporadic protests over low pay are likely to be exacerbated in coming days by disquiet at Algeria's increasing isolation in the Maghreb region.

PALESTINE: Statehood – At A Price

Palestinian issues are about to return to centre stage. Ahead of President Abbas' attempt later this month to secure full UN membership, Palestinian ranks are far from united. Critics of Abbas say statehood is meaningless when the land is under occupation; and the dissolution of the PLO will effectively mean abandoning the struggle for refugees' rights. And Israel has threatened a tough response to any Palestinian unrest sparked by the moves at the UN, plus the cutting of political ties. So, with Fatah and Hamas still at odds, renewed tension and violence in Palestine/Israel are inevitable, adding to the current regional instability.

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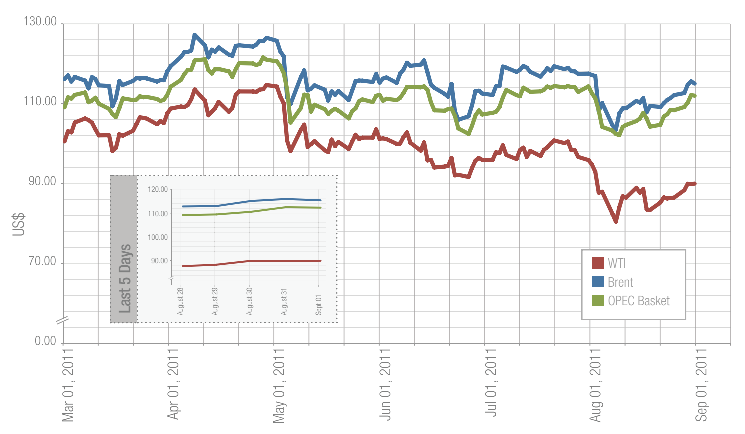
Oil Market Outlook

Macro In The Driving Seat

Macro economic data and policy continue to drive oil prices that have traded a range for much of August after the end-July slide. The US jobs report was the latest piece of bad news to reinforce the view of G3 economies bumping along the bottom, with the risk of double dip continuing to overshadow. Markets will look for restarted Libyan oil production in the weeks ahead but the move will be incremental and is more likely to soften the Brent/WTI premium and Brent time structure than to undermine outright prices, which for Brent are stable above $100. OPEC's major producers have made it clear they will not rush to pull back supply in expectation that Libyan output will resume, so markets will remain well supplied. Even so, oil prices are unlikely to soften as long as the threat of hurricane disruption persists and while MENA unrest continues in Syria, Libya and elsewhere.

With US oil data skewed by SPR releases, but demand apparently lagging overall US economic activity, we can expect demand forecasts to skid further in next week's monthly IEA and OPEC reports. While contracting manufacturing in Europe should be no surprise given the growth outlook, early signs of a slowdown in activity and oil demand in developing countries in Asia and Latin America should be the main concern for the oil complex in the weeks ahead.

Crude Oil Prices



Energy Data

OPEC Production – MP Estimates

	August	July	Production capacity
Algeria	1.25	1.25	1.30
Angola	1.65	1.75	2.10
Ecuador	0.47	0.47	0.50
Iran	3.50	3.55	3.65
Kuwait	2.55	2.55	2.60
Libya	0.02	0.03	1.70
Nigeria	2.25	2.20	2.40
Qatar	0.80	0.80	0.80
Saudi Arabia	9.90	9.80	12.50
UAE	2.60	2.55	2.75
Venezuela	2.20	2.20	2.20
Total OPEC-11	**27.19**	**27.15**	**32.50**
Iraq	2.65	2.68	2.70
Total OPEC	**29.84**	**29.83**	**35.20**

Global Oil Balance Forecasts 2H 2011 (Mn B/D)

	Demand		Non-OPEC Supply		OPEC NGLs		Call on OPEC plus stock change	
	3Q11	4Q11	3Q11	4Q11	3Q11	4Q11	3Q11	4Q11
IEA	90.1	90.7	53.0	54.0	5.9	6.0	31.2	30.7
OPEC	89.3	89.5	52.9	53.3	5.4	5.4	30.0	30.8
DOE	88.9	89.3	52.5	52.3	6.1	6.1	30.3	30.9

Energy Alerts

SYRIA: EU Oil Sanctions

EU sanctions on Syria's 100,000 b/d of oil exports will be a hindrance but not a knock-out blow for Damascus, which will now have to reconfigure its oil marketing efforts away from European lifters and towards Asia and neighbouring buyers including Turkey. The scope for wider international sanctions is unlikely, given opposition within the UN Security Council from Russia and China. However, EU sanctions combined with a hardening line against the Assad government from within the MENA region will increase Assad's isolation.

IRAN: Better Buybacks – For Local Firms

Faced with dwindling international participation in its oil sector, including from Russian and Chinese companies, Iran plans to improve the terms of its buy-back contracts to attract not foreign, but new Iranian companies into oil development. The move, which involves soft loans and other unlikely means of raising finance for Iranian contractors, is aimed at preventing Iranian production capacity falling. It is unlikely to halt a decline rate that is now running at around 100,000 b/d annually.

EGYPT: Floating Subsidy Cuts

Egypt has again floated plans aimed at reducing its huge $16bn energy subsidies bill but swift efforts to bring domestic prices in line with international levels are not expected. Under the Mubarak government, steps were taken to raise gas prices paid by some industrial sectors, including cement and fertilizers, but targeting subsidies at poorer citizens will be complex and expensive. More likely are moves to conserve gas production for domestic use, thereby displacing diesel assigned for power generation and industrial uses and reducing gas available for export/LNG.

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