Doing Business in the Middle East

Reviewing a Consultancy Start-up for the Oil and Gas Sector

By Jeremiah Josey
www.JeremiahJosey.com

Member of Mensa International

Introduction

- Oil and Gas resources in the Middle East are mature, with the majority of reserves in decline. However, due to the size of these reserves, the decline is not expected to have any appreciable effect on demand for new primary and secondary processing facilities for some decades (hence skilled project personnel).
- Additionally, demand for petrochemical facilities (tertiary facilities) is increasing. If a crude oil demand tipping point is reached (see Risks and Barriers to Entry below), in which demand for oil declines, the demand for projects, and hence demand for skilled project personnel in the Gulf Corporation Countries (GCC), ***will continue*** for the foreseeable future as GCC States invest into more petrochemical projects to maintain revenues.
- Therefore prospects remain good regardless of the world outlook, environmentally and financially, for many years to come in the Middle East.
- This does not take into account other market sectors such as power generation and infrastructure projects, also predicted to contribute.

Summary

- Providing Project Management Teams (PMT) and Project Control (PC) resources is a viable means to produce consulting revenues from all members of the Gulf Corporation Council (GCC): Bahrain, Kuwait, Oman, Qatar, United Arab Emirates and Saudi Arabia.
- Putting aside resource constraints, revenue from the GCC – excluding Saudi Arabia – could reach USD7.45m per year at the end of the first year and USD22.25m per year by the end of year 3 for a grass-roots start-up PMT or PC company.
- Each GCC country is different in their approach and attitude towards foreign investment and skilled expatriate project personnel.
- For example Kuwait and UAE represent two extremes: Kuwait drives a low cost model with state ownership, high bureaucracy and a low skilled workforce. The result is perhaps the longest project cycle in the world.
- The UAE embraces joint ventures with IOCs and looks favourably to working with western expatriates to enhance project delivery and hence ultimately their economic position. This is similar in Saudi Arabia.
- Each GCC country therefore requires a different business acquisition strategy.
- This presentation ignores this difference for the moment, focusing on gross project amounts to determine the potential market size and estimated revenues from a PMT and PC marketing strategy in the GCC region.
- Major firms like Amec, Fluor and WorleyParsons are all building presence as fast as the Middle East will allow them. Bechtel and SNC-Lavalin have also expressed interest in doing business in Kuwait in particular.

Immediate Strategy - Kuwait

- The Kuwait Oil Company (KOC) has strategic objective to reach 4 million barrels per day production by 2020. This was reinforced recently as the 7th of October 2009, when the Minister of Oil and Information early in the day stated that the year target was 2030, and only a few hours later retracted this and maintained the 2020 target date. This is a significant point, highlighting the significant political pressure to maintain the 2020 target.
- This report delays the target to 2030: http://www.moo.gov.kw/Default.aspx?nid=10102&pageId=60
- This report retracts the previous and maintains the 2020 target: http://news.yahoo.com/s/afp/20091007/bs_afp/kuwaitoilcapacityinvestment
- Both statements were made by the same person: Minister for Oil and Information, Sheikh Ahmad Al-Abdullah Al-Ahmad Al-Sabah.
- General consensus amongst consultants in Kuwait is that the 2020 target is <u>not possible to achieve</u> without significant change to project execution practices.
- This was identified in a recent Middle East Business Journal which stated that there has been “no noticeable improvement in KOCs [project] performance” with bureaucracy being the major problem. (page 34, MEED 19-25 June 2009).

Follow On Strategy – Rest of GCC

- Traditional methods would be employed: meetings, presentations and submission of RFPs.

Analysis of Market Size

- Oil and Gas projects are dependent on the reserves and production rates in the GCC
- The next few slides show public data collected from various web sites on oil and gas production in the Middle East
- The sources are shown at the end of the presentation

Reserves

Country	Oil Reserves (million barrels)	Gas Reserves (billion cu meters)
Bahrain	125	92
Kuwait	104,000	1,586
Oman	5,500	850
Qatar	15,210	25,630
UAE	98,000	6,071
Saudi Arabia	267,000	7,167

Current Production Rates

Country	Current Oil Production (2006) (1,000 bbl/day)	Current N. Gas Production (billion cu meters)	Current Oil Refining Capacity (1,000 bbl/day)
Bahrain	49	11	267
Kuwait	2,675	12.5	940
Oman	743	24	201
Qatar	1,141	60	543
UAE	2,945	49	560
Saudi Arabia	10,665	76	2,175

Oil Production Targets and Anticipated Expenditure

Country	Oil Production Targets (2015/2020) (1,000 bbl/day)	Anticipated Expenditure (2015/2020) (USD billions)
Bahrain	0.105	20
Kuwait	4,000	60
Oman	Unknown	4
Qatar	1,100	5
UAE	4,000	60
Saudi Arabia	23,000	500
TOTAL		**649**

Potential Market Size

- Total market potential for PMT and PC is assumed to be 0.5% of total Anticipated Expenditure in the GCC.
- This is based on the total PMC costs in Kuwait, which are approximately 1% of the total value of projects under management.

Country	**Total PMT/PC Market Over 10 Years (USD millions)**	**12 Months (USD millions)**	**3 Years (USD millions)**
Bahrain	100	10	30
Kuwait	300	30	90
Oman	20	2	6
Qatar	25	2.5	7.5
UAE	300	30	90
Saudi Arabia	2,500	250	750
TOTALS	**3,245**	**324.5**	**973.5**

Forecast Revenue

- Assuming an business acquisition rate of 10% of available revenue

Country	PMT/PC Over 10 Years (USD millions)	PMT/PC 12 Months (USD Millions)	PMC/PC 3 years (USD Millions)
Bahrain	10	1	3
Kuwait	30	3	9
Oman	2	0.2	0.6
Qatar	2.5	0.25	0.75
UAE	30	3	9
Saudi Arabia	250	25	75
TOTALS	**324.5**	**32.45**	**97.35**
Total Ex SA	**74.5**	**7.45**	**22.35**

Sample of Known Projects

- Projects that are known to have been recently awarded or in the bidding process:

Project	Country	Value (USD billion)
Integrated Gas Development (IGD)	United Arab Emirates	9.2
Shah Sour Gas Development	United Arab Emirates	10
The Borouge 3 Expansion Project	United Arab Emirates	4
Khalifa Point & Fujairah Refineries	United Arab Emirates	10
Abu Dhabi crude oil pipeline	United Arab Emirates	3.2
Oman oilfield services contract	Oman	7
Kauther gas plant	Oman	0.2
Kuwait oil company drilling platform	Kuwait	7.2
Manifa offshore oilfield project	Saudi Arabia	9
Shaybah phase 2	Saudi Arabia	3
Jubail export refinery project	Saudi Arabia	9.6
Ras Tanura Integrated project	Saudi Arabia	27
Petro Rabigh Complex	Saudi Arabia	10
Yanbu export refinery project	Saudi Arabia	10
Khurais expansion phase 2	Saudi Arabia	2
Pearl GTL	Saudi Arabia	24
Al-Shaheen expansion	Saudi Arabia	10
RasGas 2 Train 7	Saudi Arabia	3.2
QatarGas 3 Train 6	Saudi Arabia	4
New Refinery Project	Kuwait	15
Vision 2020	Kuwait	45
TOTAL VALUE		**222.6**

Competition in Kuwait

Already established:

- Amec, presently with 4 contracts in Kuwait with 60m GBP per annum turnover. Staff of 300. See here for more information: http://www.amec.com/explore_amec/projects/oil_and_gas/project_manage_k =sector&all=
- Fluor similar scale to Amec
- WorleyParsons similar scale to Amec
- Bechtel no presence in Kuwait, but very interested to participate
- Halliburton
- Turner and Townsend – Active in the Middle East
- Tecnimont – Active in the Middle East
- Kappa International – Looking to expand to the Middle East
- Additional competition comes from NOCs doing it themselves. However they are learning - albeit slowly - that their practices of the past are not serving them for the future.
- It is estimated that for every unbiased Request for Proposal, there would be 5 competing consultants

Risks and Barriers to Entry

- Middle East business mentality: Work now, pay later. Generally cost conscious, but comparatively benefit unconscious, typical government type bureaucracy.
- Reliance on Eastern expat advice: 1) cheap, 2) mostly advises what is wanted; frequently conflicting improved performance. Focus on procedures not performance. Delays decision process within NOCs.
- Short/Medium term: 90% relationship, 10% performance.
- Long Term: 50/50 but a good relationship is still superior to low performance if the relationship is with the right level of authority.
- Oil Tipping Point: Decline in oil demand due to alternatives for transport. 70% of crude oil production is used for transport, of that, 40% is used for personal transportation. Fully electric and hybrid vehicles will significantly reduce crude oil demand.

  In 2011 Renault will release 4 fully electric vehicles models. GM is releasing an all electric vehicle in November 2010. These events signal an impending potential tipping point for demand of crude oil. If these and others vehicles are successful, then crude oil demand could fall by as much as 50% world wide in a relatively short period of time say 3 to 5 years.

  There is however an opportunity arises in this for the GCC States: production of materials made from crude oil (polymers, resins, chemicals). Using their massive cash reserves, GCC States can invest heavily into tertiary production facilities that would satisfy world demand for the foreseeable future. (Only 3.5% of current world production is used in petrochemicals; however revenue from this small percentage equals that from crude oil). A well positioned PMT/PC strategy would do well in such a market shift.

SWOT Analysis for PMC/PT Start-Up in the Middle East

<table>
<tr>
<td>

Strengths

- Must have proven project skills
- Must have minimum 5 years experience
- Must have previous Oil and Gas experience
- Established relationships in key centers of Abu Dhabi and Kuwait
- British background favored by Arabs

</td>
<td>

Opportunities

- Significant investment planned across GCC
- Increasing IOC involvement in resource development
- Leverage other services into the GCC

</td>
</tr>
<tr>
<td>

Weaknesses

- Small client base
- Starting from Square 1

</td>
<td>

Threats

- Potentially political instability and government interference with major development projects
- Availability of good quality resources
- New entrants and competition starting to emerge as other market reduce due to economic recession
- Tipping point from Crude Oil

</td>
</tr>
</table>

Survey Snapshot for GCC Potential Continued…

Comments received from selected Middle Eastern contacts when asked about the future of oil and gas in the Middle East:

- *The market is promising in Gulf Cooperation Council GCC, because of the world oil market demands compared with existing low capacity of facilities across the GCC.*
- *Energy trading will remain integral to the economics of the M.E. In 20 years, oil and gas will be a staple for most Gulf States.*
- *Steady increasing refined product demand in M.E. coupled with availability of economical heavy sour crude, better tax incentives and support of cash rich national oil companies have encouraged significant refinery investment in the region.*
- *By 2015, on the IEA estimates, KSA alone will be required to export some 15 to 16 mn bpd of oil to balance the world market.*
- *The world holds 1000 bn barrels of oil which have been found but not yet produced and some 5500tcf of natural gas also found but not yet produced. At current consumption rate this is enough for approx. 50 years. There is the fundamental physical reason why there should be a shortage in the next 10 years, or indeed for many decades beyond that.*
- *Overall, more than 100 billion (approx.) has been allocated for Oil & Gas development in ME. Saudi Aramco alone will spend 60 billion dollars in next 5 years.*
- *GCC & Saudi Arabia feedstock and geographic advantages in petrochemicals is essential driver for long insight investment.*

Survey Snapshot for GCC Potential

- *The challenges facing Saudi/oil/gas/petrochemical contractors and the sector would continue to expand due to high global demand and the significant developmental investments, almost US$ 500 BN in next 5 years as announced by SAMA authorities.*
- *It is expected that SR94 billion will be spent on petrochemical projects in the Kingdom during the period from 2010 to 2014, as stated by last PETCHEM conference.*
- *The contractors will shoulder the major risk of material and service price fluctuations.*
- *There is suffering from an acute shortage of skilled, imported manpower and the migration of expatriate worker.*
- *There is an optimistic anticipation for finance environment, joint-venture strategies and the major role of technology in the sustainable economic development of GCC as frequent announcement by governments and chairpersons.*
- *The direction in the manufacturing industries for maximizing effective use of hydrocarbon resources, and incorporating energy-saving technologies into plant / factory processes.*
- *The GCC region is on track to become the global petrochemical hub, with many sources that nearly 75 percent of all forecasted petrochemical investments are slated for the Gulf Cooperation Council states.*
- *According to SAGIA's (Saudi Arabian General Investment Authority's) estimates, approximately $90 billion in investment is expected in the Kingdom's petrochemical industry. This is nearly a third of the $270 billion expected for the Kingdom's power generation, petrochemical and water desalination sectors.*

Sources

- Author's personal contacts as well as the following:
- www.wikipedia.org
- www.cia.gov/library/publications/the-world-factbook
- www.rigzone.com
- www.zawya.com
- www.gulfoilandgas.com
- www.moo.gov.kw
- www.oman-oil.com
- www.qatargas.com

Many thanks to all those that have contributed to this report