A fine balance
H.E. Salim bin Nasser AL AUFI
Undersecretary of the Ministry of Oil and Gas

Blessing in disguise
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The long view
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WE DID IT OUR WAY!

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Diplomacy & Politics

Oman strives to maintain positive relations with countries in its region, pursuing strong and stable diplomatic and economic ties. Muscat is now uniquely positioned for economic co-operation with Iran as its neighbour across the Strait of Hormuz opens new trade ties. The sultanate’s quiet approach to foreign relations has benefited its stability at home and opportunities for trade abroad.

Exploration & Production

Omani oil production reached 992,700 barrels per day in June 2015. The country’s target is 980,000 barrels per day for the year. The government is expanding its push to step up the use of enhanced oil recovery techniques in its maturing assets and heavy oilfields, an approach that has turned around a decline in output over the past decade. Developments such as the Khazzan tight gas project and Amal West’s heavy oil extraction are expected to boost production in coming years.

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The Year's Focus: Development of SLCCs and LCCs

Oman's fifth super local community contractor was registered in June 2015. The initiative, led by Petroleum Development Oman and the Ministry of Oil and Gas, is steadily directing greater amounts of hydrocarbons wealth to communities living in concession areas. Some companies have welcomed the programme, while others believe it dampens competition.

Engineering & Construction

Engineering and construction companies in Oman are preparing to operate with lower profit margins as the price of oil remains in a slump. In the first quarter of 2015, the country saw a decrease of 43.3 percent in contract awards. However, project spending will continue, undergirded by the sultanate's robust sovereign wealth fund. In this climate, local companies are continuing a struggle to claim a larger share of the sector's projects.

Oilfield Services

The Omani government spent $11.5 billion on drilling projects in 2014 in its continuing efforts to keep oil and gas production on a steady rise. This spending has been paralleled by an expansion in the industry's enhanced oil recovery projects, and these two trends mean a constant stream of work both for local and international oilfield services companies that will continue for many years.
110 Services & Supplies

With production shutdowns due to equipment failures and maintenance causing a persistent loss of 50,000-70,000 barrels of oil per day in Oman’s oil production, facility and equipment upgrades are sorely needed to ensure a higher and more reliable rate of oil and gas output. Ageing equipment is also placing health, safety and environmental standards in the spotlight. The sultanate needs to tackle both issues with the help of inspection services providers.

118 Downstream & Power Generation

The drop in oil prices has prompted the Omani government to push to expand the country’s downstream and petrochemicals sectors in order to add value to its hydrocarbons products. Investments such as the $3.6-billion Liwa Plastics Project are being made in tandem with support to raise feedstock production from gasfields such as Khazzan and Makarem.

128 Marine & Logistics

Oman’s location, paired with recent developments in local and regional infrastructure, has positioned the country as a potential logistics centre and gateway for trade between the Middle East, North Africa and Asia. The government is investing in expanding its railway network as well as the ports at Salalah, Duqm and Sohar – which is located on the Strait of Hormuz. The country is also developing industrial zones alongside these ports in a bid to secure this role.
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Photo courtesy of Sohar Port and Freezone
H.E. Salim bin Nasser AL AUFI
A fine balance

Undersecretary of the Ministry of Oil and Gas H.E. Salim bin Nasser Al Auﬁ describes the challenges still prevalent in Oman’s energy industry and outlines how the country’s oil production could reach 980,000 barrels per day in 2015. The ministry is aiming to create a more efﬁcient hydrocarbons industry by cutting waste and boosting market conﬁdence.

The cost of oil production in Oman is still low and major operators are working hard with services providers and other local companies to increase efﬁciency. All parties are examining the value chain and cutting waste to transform the challenge of low oil prices into an opportunity.

This topic was discussed at the Society of Petroleum Engineers conference in March 2015, when the consensus among all the players was that greater collaboration was necessary in order to create trust within the industry. Operators do not have to prescribe everything to their services providers, and should trust them to execute quality work without the need to interfere.

**A FAIR PRICE:** The gap between Oman’s cost of production and global oil prices is wide enough for exploration and production companies to make a proﬁt. There may be a few operators that struggle during this oil cycle phase because their output is low. In such cases, operators that are producing small amounts of oil and gas will need to scrutinise their costs, and make cuts accordingly.

The proﬁt margins for operators in Oman are realistic and companies are not expected to go bankrupt. There is a reasonable return on their investments, compared to returns seen in many other oil-rich countries.

Debates regarding fair oil prices are ongoing. A barrel price of $110 is too high for the consumer, but $50 per barrel of oil is too low for the producer. Shale oil produced in the US initially flooded the market, but now many exploration ﬁrms in North America are struggling to turn a proﬁt. For example, producers of Canadian oil sands need oil prices of at least $90 per barrel to break even.

The Omani budget was balanced at a much higher oil price than this, and the country has large public expenditures. The Ministry of Oil and Gas has made it clear that if the price of oil drops below the cost of production, we will behave similarly to other businesses by purposefully reducing our activities.

**READY TO PRODUCE:** Global energy consumption is increasing annually due to a rising population and rapid industrialisation in some regions of the world. Oil and gas have been oversupplied at times in history, and the price of hydrocarbons was self-corrected by the market. This is what is currently taking place.

The Ministry of Oil and Gas has already clariﬁed that it will continue to invest in Oman’s energy industry, but will be more cautious with investment decisions. Operators prefer to keep investing in Oman because drilling operations pay off in six months, on average. Small and medium-sized projects, whether for conventional or secondary recovery, will most likely reimburse the operators’ initial investments within three years.

Rabab Harweel, an enhanced oil recovery project led by majority state-owned Petroleum Development Oman, was launched when oil prices were high and is now proﬁtable. By February 2015, it had recovered the initial investment, so the only cost is the cost of operation. If the oil and gas industry ceases investment when crude supply is high, the world will encounter a fuel shortage within a few years.

Fortunately, the majority of upstream companies in Oman have the will and capabilities to help the ministry in increasing the country’s output to 980,000 barrels of oil per day (bopd). For example, local company CC Energy Development Oman ended 2014 having extracted 30,000 bopd. State-owned Oman Oil Company Exploration & Production did not produce oil in 2014, but its output in 2015 has already grown quickly to reach around 6,000 bopd.

Oman has the potential to produce 1 million bopd [if] it does not continue to experience frequent unscheduled deferments of 50,000-70,000 bopd.

**OFFSHORE ENCOURAGEMENT:** Norway’s DNO and US company PetroTel are both present in offshore blocks north of the country. In April 2015, block 41 was relinquished by Total as the company could not justify continuing operations after studying the block in depth. The ministry is reviewing the marketing strategy for open blocks where historical exploration activities were not successful. This could include executing data-gathering programmes before pushing blocks back on the market.
The Sohar Refinery Improvement Project is underway. In May 2014, state-owned Oman Oil Refineries and Petroleum Industries Company secured $2.8 billion in financing for the structure’s modernisation. The project will increase the refinery’s capacity from 116,000 barrels of oil per day to at least 180,000 barrels of oil per day and improve the Oman Export Blend, ensuring that it meets Euro 4 standards. The UK’s Petrofac and South Korea’s Daelim have been awarded $2.1 billion for engineering, procurement and construction works for the project, which will come on line in 2016.

Founded in 1972, Galfar Engineering & Contracting (GEC) is Oman’s largest local engineering and contracting firm with ongoing endeavours valued at $1.75 billion. The firm specialises in hydrocarbons and civil construction projects. In July 2014, PDO announced that the company’s $100-million GEC north Oman service contract had been extended from August 2014 to August 2015. Contracts won since 2014 include a $56-million deal to clear a site for the Duqm Refinery and a $110-million agreement to construct a gas gathering system for the Khazzan Gas Project.

Intaj is the 100-percent Omani-owned new operator in the nation’s hydrocarbons market. In November 2014, the Ministry of Oil and Gas awarded 5,808-square-kilometre block 56 to a joint venture composed of Indonesian energy firm MedcoEnerji (75 percent) and locally owned Intaj (25 percent). The play’s first well is expected to be drilled no later than 2016. The services arm of Intaj has been involved in surface, downhole service and manufacturing activities. The local company is also planning to expand its footprint into the coiled tubing business.

Established in 2011, Al Sahari Oil Services (SOSCO) is the second super local community contractor, or SLCC, working in the southern concession area. In May 2013, the company began work on a $110-million well intervention services contract awarded by PDO. SOSCO has 217 employees and a 93-percent Omanisation rate. The firm manages 52 local companies; 12 of which are participating in PDO projects. SOSCO’s commitment to searching for and implementing new technology has helped the company to triple in value since entering the Omani market.

National Training Institute (NTI) became a part of UK’s Babcock International Group in 2014. The institute specialises in a number of disciplines such as technical training, business skills and IT. In Oman, NTI is training locals to become top-end hydrocarbons technicians for upcoming projects, such as the Khazzan Project. NTI, the government and industry operators are developing a local workforce through the Omanisation programme. NTI’s technician training centre in Ghala is currently preparing Omani locals for work on the Khazzan Project.
**POLITICS**
- **Official name:** Sultanate of Oman
- **Political system:** monarchy
- **Head of state:** H.M. Sultan Qaboos bin Said Al Said
- **Population:** 4.16 million (2.35 million Omanis and 1.81 million expatriates)
- **Population growth rate:** 2.07 percent

**GEOGRAPHY**
- **Area:** 309,500 square kilometres
- **Capital city:** Muscat
- **Natural resources:** oil and gas, copper, asbestos, marble and limestone
- **Major languages:** Arabic and English

**ECONOMY**
- **Currency:** rial (OMR1:$2.5884)
- **GDP:** $77.8 billion (2014)
- **Major trading partners:** China, Japan, UAE, South Korea and India
- **Labour force:** 968,800
- **Fiscal year:** calendar year

**ENERGY**
- **Oil production:** 943,000 barrels per day (2014)
- **Natural gas production:** 35.7 bcm (1.26 tcf) (2014)
- **Reserves:** 5.2 billion barrels (end-2014)

**Sources:** CIA World Factbook, NCSI, IMF, Ministry of Oil and Gas
The Oman 2015 Investors Index

A rating of 69.1 in 2015 compared to the 91.1 recorded by TOGY in 2014 highlights some of the challenges that go hand in hand with a significant drop in global oil prices. While the Ministry of Oil and Gas conveyed that the government would continue funding the industry, services providers are concerned about the lack of projects and contracts.

The Oman Society for Petroleum Services, a non-profit organisation aiming to increase local participation and the industry’s Omaniisation rate, has reassured domestic services providers that they will receive work equivalent to at least 10 percent of the value of projects.

MORE FD: Oman is among the safest and most stable countries. This is reflected by the almost 90 percent of oil and gas executives who rated the political and economic stability of the domestic hydrocarbons industry as either highly stable or stable.

This atmosphere has attracted major oil companies such as BP, Shell, Occidental Petroleum and the China National Petroleum Corporation. Nonetheless, challenges remain and this is underlined by the almost 55 percent of participants claiming that starting an oil and gas business in the sultanate is difficult.

However, while 60.6 percent of the CEOs interviewed felt that Oman’s hydrocarbons industry is either very transparent or transparent, 39.4 percent of executives said the industry was not transparent.

Oman has been gripped by a string of graft cases involving some of the senior personnel of national oil companies and several of the country’s largest services providers. The government responded to the crisis by handing long sentences to those convicted and tightening regulatory measures to prevent such incidents from reoccurring.

PRO-BUSINESS, BUT RESTRICTIVE: Around 66.7 percent of interviewees described government policies as pro-business, but restrictive. Both suppliers and producers have complained about the bureaucracy in the industry.

Raoul Restucci, managing director of majority-nationalised Petroleum Development Oman, and Ministry of Oil and Gas Under-secretary H.E. Salim bin Nasser Al Aufi have both called for greater co-operation between hydrocarbons extractors and domestic services providers, especially as oil prices are unlikely to rebound to above $100 per barrel in 2016.

ABOUT THE INDEX: The TOGY Investors Index is designed to measure confidence among oil and gas investors as expressed in their level of spending in any given market. The index is a figure based on the response of 33 oil and gas executives in the Omani market. The survey consists of five questions in which participants are asked to provide positive or negative responses. A reading above 50 percent on the index represents a positive perception among oil and gas industry investors, while a reading below 50 indicates a more pessimistic outlook.

How would you describe the policies of this government vis-à-vis the oil and gas industry?

- Pro-business: 18.2%
- Pro-business, but restrictive: 66.7%
- Anti-business, but accommodating: 12.1%
- Anti-business: 3.03%

How would you rate the ease of starting an oil and gas business in this market?

- Very easy: 6.06%
- Easy: 30.3%
- Difficult: 42.4%
- Extremely difficult: 9.09%

How would you rate the ease of doing business in this country?

- Very easy: 6.06%
- Easy: 30.3%
- Difficult: 54.6%
- Extremely difficult: 9.09%

How would you rate the level of transparency in this oil and gas market?

- Very transparent: 12.1%
- Transparent: 48.5%
- Not transparent: 39.4%
- Corrupt: 0%

How would you rate the level of political and economic stability in this oil and gas market?

- Highly stable: 18.2%
- Stable: 69.7%
- Unstable: 9.09%
- Highly unstable: 3.03%

**Source:** Survey conducted by The Oil & Gas Year in Oman between January 2015 and May 2015
Mutual benefits

The UK is Oman’s biggest foreign investor and one of its top trading partners, with exports of UK goods to Oman doubling between 2007 and 2014. Jonathan Wilks, UK ambassador to Oman, talks to TOGY about the business opportunities available for UK companies in the sultanate and the will to increase collaboration already established between the two nations.

Why do UK-headquartered companies view Oman as an attractive place to do business?
It is an exciting and dynamic market that many corporations are competing to invest in. It is perceived as a stable country with an incredible vision for the development of its infrastructure and its oil and gas industry.

UK companies also have a historical presence in Oman, understand how the country is changing and want to play a part in its continued development. The government of Oman is facing a period of low oil prices but the Ministry of Oil and Gas is taking the necessary steps to increase the industry’s profitability. The challenges are being discussed with honesty.

The government is also conscious of the need to diversify the hydrocarbons-dependent economy, and the necessity of creating a highly skilled local workforce. The energy industry in the country is still dominant compared with other industries such as finance and retail, and UK companies can help strengthen non-oil and gas sectors by entering the market.

The UK embassy helped about 500 UK companies doing business in Oman in 2014. It did this by providing in-country expertise and business guides, sign posting to relevant local partners, facilitating meetings, arranging visit programmes and providing networking opportunities. There are also 10 FTSE 100 companies that have an active presence in the sultanate.

How are UK companies helping to develop sectors in Oman’s energy industry?
BP Oman, the super-major’s local subsidiary, has a 60-percent stake in block 61 and will help the country gain expertise in the production of tight gas. The state-owned Oman Oil Company Exploration & Production has a 40-percent interest as a non-operator and will be involved in the block’s Khazzan tight gas project. This will lead to the transfer of technology from the international operator to the national oil company.

Shell’s in-country subsidiary, Shell Development Oman (SDO), is a 34-percent shareholder in Petroleum Development Oman. The company is assisting the majority-nationalised operator in increasing its output at block 6. SDO has been able to add value to Petroleum Development Oman through both innovation and training.

Foreign companies entering the market need to commit to creating jobs for Omanis. Both SDO and BP Oman train Omanis to be capable of executing complex oil and gas projects.

BP Oman signed a memorandum of understanding to build a greenfield acetic acid plant at the Port of Duqm special economic zone.

UK company Babcock International, which recently acquired the National Training Institute, is playing a significant role in vocational oil and gas training. The company is training 100 Omanis to become technicians for BP Oman.

Can these benefits be seen in the economy beyond the oil and gas industry?
Enhancements in the oil and gas industry must have a knock-on effect on the wider economy. Shell’s Intilaqah programme, for instance, aims to increase entrepreneurship among Omanis, and to shift the economy away from oil and gas.

Areas of the economy such as downstream, tourism, fisheries and minerals should all benefit and mature with the help of the revenues accumulated from the upstream sector.

Overall, I want the UK to be a leading partner in Oman’s broader economic development by offering technical advice, sharing experience and investment. Although there is a strong UK-Omani relationship, over the past 44 years the sultanate has strengthened ties with China, India, Brazil, European nations and the US.

I want the UK to be active and to play a leading role in Oman, and we are happy to compete for that. Competition benefits Oman.

Does the Omanisation initiative deter foreign companies from investing in the sultanate?
The Omanisation initiative is absolutely essential for the future of the country, its stability and prosperity. However, the quotas are to an extent a burden on private investors.

There are two major issues: Some private enterprises are hiring expatriates when they should be focusing more on recruiting from the local pool of talent, and Omanis must reduce their job and salary expectations.

Some private enterprises are hiring expatriates when they should be focusing more on recruiting from the local pool of talent, and Omanis must reduce their job and salary expectations.

IN FIGURES
Value of UK exports to Oman in 2014
£551 million
Value of UK imports from Oman in 2014
£227 million
**08** US company GlassPoint receives $53 million from Oman’s State General Reserve Fund, Shell and existing partners for solar steam generators to reduce natural gas consumption at oilfields by up to 80 percent.

**09** H.E. Ahmed bin Saleh Al Maimani, undersecretary at the Ministry of Commerce and Industry, calls for an increase in offshore production during the Offshore Development Oman conference.

**01** BP Oman awards two major contracts for the Khazzan Project: a $400-million contract to KCA Deutag for the construction and operation of five newbuild onshore rigs and $330 million to Abraj Energy Service to supply three drilling rigs.

**02** Ministry of Oil and Gas Undersecretary H.E. Salim bin Nasser Al Aufi announces that Oman’s production target for 2015 will rise to 980,000 barrels per day and requests that oil producers review their operation costs in light of falling oil prices.

**04** Oman Oil Company signs a $1.85-billion two-part loan agreement for general business purposes with more than 15 banks.

**05** Oman’s Ministry of Oil and Gas invites hydrocarbons companies for a new bidding round on five oil and gas blocks. Acreages include offshore blocks 18, 59 and onshore blocks 43A, 54 and 58.

**06** Chevron Exploration and Production Netherlands entered a share-sale agreement with Petrogas E&P part of MB Holding group, for its 11 North Sea offshore blocks.

**09** Joint venture Oman Oil Refineries and Petroleum Industries Logistics signs an engineering, procurement and construction and financing agreement for the $320-million Muscat-Sohar Pipeline Project.

**08** The commencement of commercial tight gas and condensates exports from block 60 is announced by Oman Oil Company Exploration & Production.

**10** The Ministry of Finance gives Oman Oil Refineries and Petroleum Industries Company preliminary approval for an initial public offering by 2018 following the completion of the $3.6-billion Liwa plastics plant at Sohar.
09 Irish exploration and production firm Circle Oil announces that it will quit the onshore Shisr-1 well in block 49 following drilling difficulties.

12 The Supreme Court overturns the 23-year prison sentence handed down to former CEO of Oman Oil Company Ahmed Al Wahaibi for accepting bribes, abuse of office and money laundering.

07 Dave Campbell, BP Oman chief operating officer, announces that the company expects to drill 16 wells in the Khazzan tight gas field and have nine rigs active at the development by the close of 2015.

08 GlassPoint reveals plans to build the $600-million Miraah plant, which will produce steam for injection at the Amal West field.

11 Petrofac is awarded a $900-million engineering and procurement contract by PDO to develop the Yibal Khuff gasfield.

11 Petrogas Kahil, the Omani subsidiary of Petrogas E&P, announces that it will invest $40 million in exploring onshore block 55 in southeastern Oman.

14 UK construction company Carillion’s Omani joint venture will build accommodation for BP’s Khazzan tight gas project. The contract is worth around $125 million.

15 Oman Oil Company Exploration & Production announced plans to drill two exploration wells in the east of the country at the Sharqiya structure.

16 Oman’s first downstream summit, Oman Refining and Petrochemicals Exhibition and Conference, is launched to highlight opportunities in the petrochemicals sector.

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23 Oman and Indonesia plan to create a joint business council by 2016 to facilitate bilateral trade between the two countries, which will result in more investment in the nations’ oil and gas industry.

29 Indonesia’s Energy Minister Sudirman Said confirms Omani investment of $7 billion to develop the nation’s downstream sector including a petrochemicals plant, refinery and oil storage facilities.

30 Oman Trading International says it will invest in facilities to store fuel in Mozambique, Tanzania or Kenya to supply markets in Africa’s interior.

30 Oman and Iran hold talks on building a pipeline between Iran’s Rudan and the Port of Sohar. The countries have a $60-million agreement for the supply of 28 mcfd (989 mcf) per day of Iranian gas to Oman.
The power of pragmatism

Live and learn
Musallam AL MANDHARI
Acting CEO
OMAN SOCIETY FOR PETROLEUM SERVICES

Seoul position
KIM Daesik
South Korean Ambassador to Oman
The power of pragmatism

Oman pursues a quiet brand of diplomacy. The country has carved out a calm niche in an increasingly loud neighbourhood, and its positive relations with Iran have yielded a large-scale gas supply deal. Further abroad, Oman maintains mutually beneficial economic and diplomatic ties with the likes of the US, the UK and China and has new trade openings with Indonesia.

Oman projects a voice for calm and stability in a tumultuous region. Its diplomatic initiatives evince an independent and pragmatic foreign policy.

Recently, the sultanate has taken a neutral approach to the 2015 conflict in neighbouring Yemen, for instance. It is the only GCC member country that declined to join the Saudi Arabia-led military campaign against the Houthi rebels.

H.M. Sultan Qaboos bin Said Al Said’s return to Oman after eight months of medical treatment in Germany in March 2015 boosted market confidence and quietened speculations about a post-Qaboos era. The monarch has played a pivotal role in Oman’s development since taking power in 1970.

As Oman pursues a pragmatic foreign policy, it is maintaining and growing trade ties with a diverse array of countries, including Iran, the US, Indonesia and Saudi Arabia.

THE IRAN EDGE: Oman maintains close diplomatic ties with Iran, its neighbour to the north. With its relations with the West and membership in the GCC, the sultanate is able to act as a bridge between Iran and regional and international administrations.

In November 2014, Muscat hosted nuclear talks between Iran and the US, which laid the groundwork for ongoing negotiations on a nuclear deal.

Iran and Oman are planning a 200-kilometre, $1-billion subsea gas pipeline from the province of Hormozgan to Sohar. An Iranian consultant has been selected to conduct feasibility studies for the project, which will be the first-ever hydrocarbons pipeline between Iran and a GCC country.

In March 2014, the two governments reached a 25-year gas supply agreement valued at $60 billion. Under the deal, total of 10 bcm (353 bcf) of gas per year will flow from Iran to the sultanate.

IN THE GCC, OUT OF OPEC: With average oil production in 2014 at 943,000 barrels of oil per day, Oman is the most prolific Middle Eastern producer that is not a member of OPEC. As expected, the 2014-2015 slide in global oil prices has dealt a blow to the country’s finances. Oman derives 83 percent of its income from the oil and gas industry, and because of the price drop, it has predicted a budget shortfall of OR1.5 billion ($3.88 billion) for 2015.

OPEC’s lack of will to address the price slump has prompted criticism from Oman officials. At a conference in early 2015, Minister of Oil and Gas H.E. Mohammad bin Hamad Al Rumhy said the cartel had put its market share before revenue. At a June 2015 meeting, OPEC elected to keep its production ceiling at 30 million barrels of oil per day, signalling its intention to let the low price stand.

BRANCH OUT: With lower oil revenue expected for the medium term, Oman’s drive to diversify its economy, which is already underway, has taken on a new sense of urgency.

The government has been working to establish Oman as a logistics hub. In early 2015, throughput at the Port of Salalah rose to an average of 1 million tonnes per month, an increase over 2014’s 860,000 tonnes per month.

The country’s new deepwater port at Duqm will also contribute to Oman’s logistics capacity. With these facilities taking on more industrial cargo, the port of Muscat will be freed up to support government efforts to boost tourism.

TRADE TIES: Most of Oman’s exports are crude oil or hydrocarbons products. The country’s top export destinations are in Asia, with China leading the pack, followed by Japan and South Korea.

The UK contributes about one-third of all foreign direct investment in Oman, making it the largest source of investment from abroad. The US is another important trading partner for Oman. Since 2009, a free-trade agreement has been in effect. Oman’s exports to the US were around $1 billion in 2013, and $1.5 billion went from the US to Oman.

Indonesia is emerging as an important trade partner for Oman. Trade between the two countries was valued at around $438 million in 2014, a 2.9-percent increase over 2010. By the end of 2015, Oman and Indonesia plan to set up a joint business council to facilitate trade between the countries.

With attention to diversifying its economy and increasing trade, supported by a pragmatic foreign policy, Oman is positioning itself to circumvent the economic and political storms its neighbours face.
What role are in-country value initiatives playing in Oman's oil and gas industry?

In-country value initiatives were implemented to generate jobs and ensure a sustainable increase of domestic spending on projects. The Ministry of Oil and Gas created a pathway so that in-country value will be taken seriously by operators, producers and contractors, which are expected to provide contracts to local services companies and create opportunities to develop local manufacturing expertise. Companies in the upstream sector are working to identify areas that can be further localised.

What can companies do differently to meet the required Omanisation rate?

Greater collaboration is needed between OPAL and the Ministry of Manpower to identify which positions can be Omanised.

Will low crude prices slow down projects?

Low oil prices are not a new phenomenon, particularly in the Middle East. Based on past cycles of price fluctuation, this is just another wave that oil and gas companies and the government will have to ride out. Projects that have yet to begin might be postponed, and ongoing ones will either be put on hold or reduced in scope. Companies in the oil and gas industry are already familiar with the challenges that are brought on by low oil prices. Some projections during the 1980s and 1990s, an era of low crude oil prices, suggested that crude would be as low as $10 per barrel. The price of oil has stabilised far above that level and should rise gradually.

About OPAL

OPAL plays a direct role in training Omani nationals for the future employment in the oil and gas industry. The institution works closely with the Ministry of Oil and Gas, the Ministry of Manpower and private enterprises to ensure that nationals benefit from the oil and gas industry. The organisation also focuses on the Omanisation and the health, safety and environment compliance record of oil and gas companies operating in Oman.

The role of Oman Society for Petroleum Services (OPAL) is to help members share best practices. OPAL’s acting CEO, Musallam Al Mandhari, talks to TOGY about government initiatives that assist communities affected by oil and gas operations, as well as the challenges faced by companies attempting to increase local content.
Seoul position

Oman and South Korea celebrated 40 years of diplomatic relations in 2014. Cooperation between the two countries is mainly energy-related, as South Korea imports both oil and gas from the sultanate. An agreement was reached in January 2015 to extend the supply of hydrocarbons from the Gulf nation to its partner.

Since the launch of diplomatic relations between Oman and South Korea, ties between the two countries have been strengthened by the need for energy co-operation. South Korea relies on imports to meet 97 percent of its energy needs. Oman is a crucial partner, accounting for 13 percent of South Korea’s LNG imports. It also contributes 2 percent of South Korea’s oil imports. This trade is based on a 25-year purchase agreement that came into effect in 2000.

To South Korean Ambassador to Oman Kim Daesik, the fall in oil prices will not alter his country’s will to trade on a long-term basis. “When there is some turbulence in oil and gas markets, long-term contracts are still considered as a much better option to access stable production of LNG,” he said.

DURABLE RELATIONS: South Korea would like to increase the share of its hydrocarbons imports from Oman when production increases, Kim told TOGY.

Oman’s Ministry of Oil and Gas and upstream companies have intensified the search for new finds both onshore and offshore. The Khazzan tight gas project aims to raise the country’s daily production by 28.3 mcm (1 bcf) of gas and 25,000 barrels of gas condensate from 2017 onwards.

The project is expected to make up 30 percent of Oman’s gas supply by 2020, ultimately boosting its export potential to partners such as South Korea and China.

LAND OF OPPORTUNITY: Beyond Oman’s security and stability, recent developments have made the country a more attractive destination for foreign investment.

The creation of special economic zones in Duqm, Sohar and Salalah has incentivised foreign companies to enter the market.

South Korean companies such as Hyundai Engineering, Daewoo Shipbuilding and Marine Engineering, and LG International have expanded their presence in the country by entering joint ventures with state enterprises such as the Oman Oil Company.

Hyundai Engineering and Construction was awarded a $480-million contract for the engineering, procurement and construction of the Musandam Gas Plant in December 2011. The plant is expected to be commissioned in the third quarter of 2015.

In the Port of Duqm, Daewoo Shipbuilding and Marine Engineering has participated in building and managing a $1.5-billion shipyard.

Meanwhile, South Korea’s LG International has agreed on a joint-venture deal with Oman Oil Company to develop an industrial chemicals project at the Port of Sohar.

The companies will produce 1.1 million tonnes of purified terephthalic acid and 500,000 tonnes of polyethylene terephthalate per year. The $850-million project is expected to come on line by the end of 2016.

In addition to petrochemicals projects, Oman’s national railway development is an area where South Korea is primed to contribute. “South Korea’s petrochemicals and railway sectors are extremely advanced. Related co-operation between the two countries is likely to materialise,” Kim said.

As Oman plans to continue long-term hydrocarbons projects across the value chain in spite of the global oil price slump, South Korean companies are poised to support.

When there is some turbulence in oil and gas markets, long-term contracts are still considered as a much better option to access stable production of LNG.

**TRADE**

Oman’s crude oil exports by destination, 2014 (million barrels)

- China 211
- Japan 15.8
- South Korea 6.68
- Singapore 3.34
- Thailand 33.5
- Taiwan 15.1
- Others 4.56
- India 4.9

Source: National Centre for Statistics and Information

KIM Daesik
South Korean Ambassador to Oman