

China strikes deal with Adnoc on Abu Dhabi oil exploration

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China is set to secure oil exploration rights in Abu Dhabi, giving the world's top oil importer access to one of the world's most stable oilproducing countries.

China National Petroleum Company has established a joint venture with Adnoc to develop crude in the emirate, the state news agency Wam said without specifying any concessions that have been awarded. Since 2012, CNPC has been appraising the technical potential of five onshore and two offshore undeveloped blocks covering much of the area west of Abu Dhabi's legacy fields.

For China, the award marks a breakaway from its role as a cheap go-to for construction projects – such as the Fujairah pipeline that bypasses the Strait of Hormuz – and a producer willing to go where others did not dare: Iraq, Sudan, Afghanistan.

“The real strength of Chinese upstream oil companies is that they appear to have an unlimited appetite for political risk,” said Chris Gunson, an oil and gas lawyer at Pillsbury in Abu Dhabi. “In Abu Dhabi there is no political risk, which means that everyone can get involved and the margins are extremely low.

“So when you think about why China would want to be involved, it's an interesting diversification away from politically messy places to one of the most stable and reliable producers.”

The new joint venture, which has been named Al Yasat and will be 40 per cent owned by CNPC, comes as Abu Dhabi ponders the future of its legacy contracts and its relationships with western powers.

A source with knowledge of Abu Dhabi's oil industry said that it would be “extremely unlikely” that Al Yasat would be given fields that are already producing oil but instead would be awarded riskier, less developed assets.

The legacy players – Total, ExxonMobil, BP, Partex and Royal Dutch Shell – lost the rights to an onshore concession responsible for half of the emirate's output at the end of its 75-year run in January.

Since it began producing oil half a century ago, Abu Dhabi has gradually diversified its partners, bringing in the Japanese) and Austria's OMV, Germany's Wintershall, and Korea National Oil Company.

Adnoc even floated the possibility of granting small fields to Mubadala Petroleum, the government-owned company that explores for oil and gas outside the country, in an agreement signed late last year.

New partners must be approved by the Supreme Petroleum Council, the emirate's top energy decision-making body that includes members of the ruling family. Among the considerations are technical skills as well as alignment with the world's growing economic and political powers in Asia.

CNPC had originally hoped to launch drilling in Abu Dhabi in early 2013, but progress on Abu Dhabi-China energy cooperation stalled as delays arose with the strategic Fujairah pipeline built by a CNPC subsidiary.

The pipeline, which allows all of the emirate's current onshore production to bypass the Strait of Hormuz bottleneck by connecting to Fujairah, was plagued by technical problems stemming from late payments.

"Adnoc is very happy with their Chinese partner," Suhail Al Mazrouei, the Minister of Energy, said late last year. "They are keen on the exploration and doing the work in the ground to test their credibility on the ground, rather than just being a partner."

Adnoc is expected to send its recommendation for the onshore concession, operated by Abu Dhabi Company for Onshore Oil Operations (Adco), to the Supreme Petroleum Council within weeks.

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