Oil concession deal 'for the people of Abu Dhabi'

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Topics: Adnoc

A US$500 million (Dh1.84 billion) deal between Abu Dhabi National Oil Company (Adnoc) and Occidental Petroleum to develop two small oilfields in the emirate is part of a broader government plan to expand infrastructure and supplies supporting the national capital. "It is in line with the development of Abu Dhabi," said a senior Adnoc official. "That is the main reason for developing some of these smaller fields." Ray Irani, the chief executive of Occidental, said that developing the two fields would "create value for the people of Abu Dhabi". The US oil and chemicals company said yesterday it would invest about $500m to develop Abu Dhabi's Jarn Yaphour onshore oilfield, near the capital, and the shallow-water Ramhan field, close to an oil refinery and 22km from the city centre. Under terms of the deal, it would receive 100 per cent of Abu Dhabi's first new oil concessions in 30 years. Production of 10,000 barrels per day (bpd) of oil from Jarn Yaphour is expected to begin next year, while similar output from Ramhan could start in 2011, the company said. The oil will be processed at the Abu Dhabi refinery, much the smaller of two petroleum refineries owned and operated by the Adnoc subsidiary, Takreer. Oil from the Ramhan field would be delivered to the refinery through a disused existing pipeline, the Adnoc executive said. He rejected suggestions that the national oil company had turned its attention to smaller oilfields as a strategic move to boost short-term crude production. Nonetheless, the preliminary deal with Occidental does reveal a new streak of pragmatism in Adnoc's approach to project management. As a result of rapid economic development in its energy-producing states, including the UAE and Saudi Arabia, the Middle East has emerged as the world's fastest growing market for petroleum products. Abu Dhabi, the UAE's biggest emirate, has a particular need to increase the supply of products such as petrol and diesel to the expanding population and growing number of businesses of its biggest city. It also has an urgent need to optimise the efficiency with which it uses its limited existing refining capacity, pending the completion of a new refinery. Takreer's Abu Dhabi refinery, the emirate's oldest, has 85,000 bpd of oil processing capacity. It is linked by pipeline to the 400,000 bpd Ruwais refinery on the Gulf coast, about 250km west of the national capital. Takreer plans to more than double the size of its Ruwais facilities by building a second large refinery at the site, scheduled to start production in 2013. It has awarded engineering and management contracts for that project to the US firms Bechtel and Flour. This summer, Adnoc announced a preliminary deal with ConocoPhillips, another US oil and gas company, to develop Abu Dhabi's Shah gasfield. The massive project, likely to cost about $10bn, was also driven by pragmatism, as development of the emirate's large but technically challenging gas deposits has lagged growth in domestic demand for gas to generate electricity and supply chemicals plants. In August, the Abu Dhabi Department of Planning and Economy said it had earmarked $20bn for oil development in the next two years in order to raise crude production by 30 per cent. The department said it would seek to boost the UAE's output - to which Abu Dhabi contributes 95 per cent - to 3.5 million barrels in 2010 from 2.7 million barrels currently. Analysts said the goal was ambitious, given the shortages of materials and labour afflicting the oil industry worldwide. In July, the International Energy Agency, the energy adviser to 28 industrialised nations, predicted in its medium-term oil market report that the UAE's production capacity would reach 2.82 million barrels in 2010 and 3.5 million barrels in 2019 at the earliest. It is possible that falling oil prices could soon help ease the shortages that in recent years routinely caused long delays and big cost overruns for energy projects worldwide. In a lower energy price environment, however, the Government might have to re-assess the long-term economic impact of raising crude exports. In the meantime, Adnoc appears most keen to tackle projects that strictly address domestic energy needs. tcarlisle@thenational.ae

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