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UTILITIES | Thu Mar 7, 2013 | 4:40am EST

Shell set to abandon Saudi Empty Quarter gas search- sources

* High costs, low returns of Empty Quarter gas search

* Development terms the problem-sources

* Shell says talks with Saudi government continue

By Reem Shamseddine and Amena Bakr

KHOBAR/DUBAI, March 7 Royal Dutch Shell is set to pull out soon from a joint venture that has searched for gas in Saudi Arabia's Empty Quarter for years, due to disagreements with the government over terms, four industry sources familiar with the matter said.

The gas search has been a top priority for Saudi Arabia as it struggles to keep pace with rapidly rising domestic demand for energy, but the shale revolution has opened up more lucrative opportunities for energy companies elsewhere.

At least three foreign firms have already abandoned their searches for commercially viable gas deposits beneath the sea of sand dunes that cover south east Saudi Arabia.

Shell has stuck it out longer in its South Rub al-Khali Co. (SRAK) joint venture with state-run Saudi Aramco, after finding small quantities of gas in the Kidan area.

Shell set to abandon Saudi Empty Quarter gas search- sources

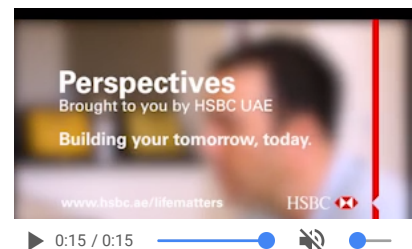
country, where gas sales prices are fixed at a fraction of produce production costs looks set to drive Shell away too.

"Shell has been wanting to pull out of the Empty Quarter for a while, and now they have decided to take this step but it hasn't been formalised yet," a Gulf-based industry source familiar with the matter told Reuters.

Aramco's insistence on buying the gas from the international firms at just \$0.75 per million British thermal units (mmbtu), at a time when gas buyers in east Asia are paying their suppliers over \$17/mmbtu, makes further foraging for gas very unattractive for international oil companies (IOCs).

Two other industry sources with knowledge of the project said Shell had decided to pull out after failing to reach agreement with the government on development terms.

<http://www.reuters.com/article/saudi-shell-idUSL6N0BXAGR20130307>



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"They didn't reach an agreement with Aramco and they withdrew," another industry source close to the project said.

A spokesman for Shell declined to say whether the company had decided to pull out of the SRAK joint venture, saying that talks with the government continued.

"Shell is in regular dialogue with officials at the Ministry of Petroleum and Mineral Resources and our joint venture partner Saudi Aramco," he said.

A Saudi industry official also said talks between Aramco and Shell were ongoing.

"Shell has not withdrawn and has not applied to withdraw," the official said.

A withdrawal of Shell after nearly a decade partnering Aramco in SRAK, would follow Italy's Eni and Spain's Repsol abandoning their futile searches for gas in the Empty Quarter in 2012.

France's oil major Total was initially a partner in the Kidan project, however discouraged by the poor results the firm abandoned the project in 2008 selling its 30 percent stake back to SRAK.

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BAD TERMS

Saudi Arabia has kept its vast and highly profitable oil reserves off-limits to foreigners, but needs gas to help cover domestic fuel demand and conserve oil for export. It invited investors in 2003-2004 to find and produce gas in the desert in Saudi Arabia's southeast, known as Rub Al Khail.

When the IOCs signed up to search the desert for gas, the global gas supply outlook was tight and prospects

for new finds limited.

But a boom in shale gas production across North America since then has radically altered the global gas supply outlook for decades to come and opened up many new prospects for IOCs in other countries that are easier to tap.

Kidan, near the remote 750,000 barrel per day (bpd) Shaybah oilfield, has high levels of deadly hydrogen sulphide making it tougher and more costly to produce.

And the terms they agreed with Aramco were so poor that the only way the international partners could make a profit was to sell condensate - a light oil - at international market prices to cover the cost of development, analysts say.

Last year, Aramco's CEO Khalid al-Falih acknowledged the challenge of low gas prices in Saudi Arabia, saying they do not make some of the more difficult gas deposits in the Empty Quarter economic

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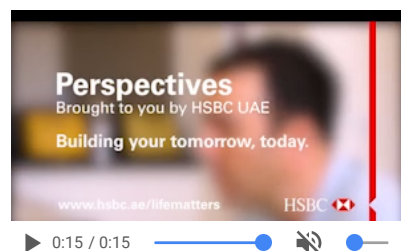
"The withdrawal of Shell was highly expected by everyone in the industry because of two reasons, first the empty quarter is really empty and second if they discover gas Shell would only be able to cover 50 percent of its research costs from the revenues," said Kamel Al Harami, an independent Kuwaiti analyst.

"All these oil majors have now realised that the cost of being in the Empty Quarter is really not worth it, and this shouldn't be a surprise for Aramco because it was really expected," said Al Harami.

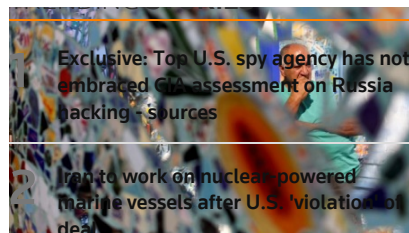
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WASHINGTON, Dec 13 President-elect Donald Trump has chosen former Texas Governor Rick Perry to head the U.S. Department of Energy, a source close to the transition said, putting him in charge of an agency he proposed eliminating during his bid for the 2012 Republican presidential nomination.



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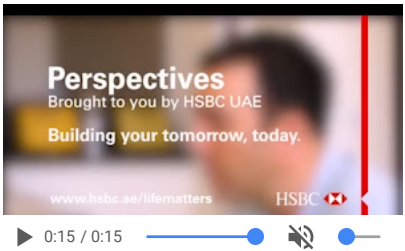
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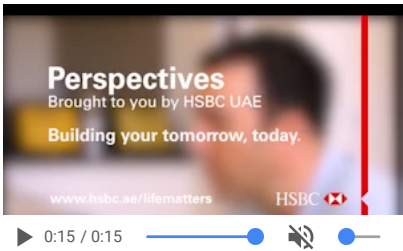
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