

Adnoc concession confusion

Georgina Enzer , March 15th, 2014

Adnoc's onshore concessions expired on January 11th 2014, and, as this magazine went to press, the concessions had not been re-allocated. Adnoc has so far said nothing in public and was not available for comment to Oil & Gas Middle East as to what the next step will be for those concessions.

As IOCs wait to see who will be awarded the concessions, most of the former joint venture partners have stayed on in the fields; the only exception to this is Exxon, which has pulled its staff off the Adnoc fields.



"I think what Exxon did was very brave; they said that the current terms for the concessions would not come close to the threshold that they require to pay attention to them," said Paul Navratil, partner, PwC Middle East Energy, Utilities, & Mining Leader, PricewaterhouseCoopers.

"They were not willing to take part in the concessions unless the terms and conditions were changed substantially and favourably as they were in their Zadco operation.

Exxon's rationale was very clear. That statement, I suspect, has reverberated quite a bit with the other IOCs and I would be surprised if the others are not thinking about that themselves."

"Frankly all of us are wondering what will happen. There are very, very few people who are privy to that conversation that is happening and they are not letting much out of the bag now," said Navratil.

According to PricewaterhouseCoopers, the wait for the new concessions to be announced could be a result of intense negotiations, or a debate is going on over the best path to take.

However, Adnoc has got examples of great partnerships already in place; ADMA and Zadco are good examples.

"I would hope that the issue, if there is an issue, would be around how does Adnoc and Adco modernises its joint venture operative agreement to the extent that it does create a healthy partnership. I think everyone would be surprised if that partnership did not bring east and west together," said Navratil.

Adco does have a huge strategic growth agenda in front of it. The NOC is planning to bring on 500,000 new barrels of oil production a day, by enhancing existing fields and bringing on some new fields towards 2020. With that growth agenda, Adnoc will need now, much more than ever, technology, human capability, and potentially even more diverse sources of capital to help achieve its goals.

The big question everyone is now asking is whether or not Asian companies will be granted status in any new agreements. According to PricewaterhouseCoopers, including Asian oil companies in the mix, particularly Chinese IOCs, is likely to be a strategic move by the UAE government to secure a longer term outlet for UAE crude.

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"I think the United Arab Emirates will be glad to have closer relations with China. China is currently the second biggest crude oil consumer and importer in the world. In the near future, it is expected that China will replace the US as the biggest global importer of crude.

I think the oil producer countries are trying to get closer to the biggest buyers," said Li Li, head of research & strategy (Refining/Oil/Gas), at China-based analyst company ICIS C1 Energy.

Any potential partnership between the UAE and China would also provide Adnoc with closer communication with its crude oil buyers through the Chinese IOCs.

"The Asian companies are the end-users, so we can talk directly with the sellers, such as the UAE, and discuss the price directly and get closer cooperation.

However, I think other Asian countries like Korea may struggle for the concessions, as China may have an advantage because the two countries' governments have a good relationship. There will be competition between Asian countries for these concessions," said Li.

Another advantage of China potentially taking a stake in the Adnoc concessions is that Chinese IOCs have strong financial support; they are supported by the government and state-owned banks, so they would be good concession investors and good partners, according to ICIS C1 Energy.

This financial support may also mean that the Asian oil companies can extract the oil at a cheaper rate than western or European IOCs, giving them a direct advantage over non-Asian competitors in the Adnoc bids.

"Compared to other countries there is an Asian premium and I think that is what Adnoc expects. They want more income if they give Asian countries lower oil prices," said Li. "I think the Chinese IOCs will be very interested in this opportunity to get more cooperation in the UAE."

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