Halliburton offshore contract raises hopes for Kuwaiti oil sector activity

The relatively bureaucratic-free award of an offshore drilling contract for the US giant is another sign that oil minister Khaled Al-Fadhel has been having a positive impact since taking on the job in December

The 1 July award of a $597m drilling services contract to United States-based oilfield services giant Halliburton represented the first offshore exploration project in Kuwait in some 30 years. It has breathed new life into Kuwait Oil Company (KOC)'s stuttering efforts to raise crude production capacity to a targeted 4m b/d. Crucially, KOC is doing this by circumventing Kuwait's sclerotic bureaucracy, having launched the drilling tender without going through the Central Agency for Public Tenders (CAPT).

KOC chief executive Emad Sultan is eyeing up a substantial ramp-up in offshore activity, which he believes can add 100,000 b/d to production capacity. However, reaching the 4m b/d target by 2020 – as KOC is committed to – looks all but impossible, given the Paris-based International Energy Agency (IEA)'s estimate that capacity this year will be just 2.95m b/d.

Kuwait's 250,000 b/d portion of the Neutral Zone production, shared with Saudi Arabia, has been shut for five years. There is little sign of real momentum to restart output despite talks between the two sides reported on 24 July (*GSN 1,069/10*).

The three-year contract for Halliburton will start in July 2020, with a second rig to be added in January 2021. It involves six high-pressure, high-temperature exploration wells, to be drilled by two jack-up rigs. The US firm will provide and manage the drilling, including the offshore rigs and supply vessels and all other logistical services.

Chinese drilling companies have already been recruited as subcontractors: China Oilfield Service Ltd (COSL) will charter two jack-up rigs – the Oriental Dragon and Oriental Phoenix – to drill the six wells.

The focus of drilling will be in southern areas, not far from the offshore Khafji field in the Neutral Zone. Both 2D and 3D seismic campaigns have already been undertaken, which will speed up the process. unexplored offshore areas are believed to offer the best chance of making finds that could help replace reserves from its maturing onshore acreage, such as the giant Burgan field, where output has dropped below 1.7m b/d.

The Halliburton award is significant because it suggests problems that have shackled KOC in the past are being dealt with. The contract is a sign the CAPT is allowing KOC to issue direct contracts in a streamlined fashion, notes Justin Dargin, Middle East energy expert at Oxford University. "While there are still the occasional obstacles, the awarding of oil service contracts appears to have been expedited, in line with meeting the goals of Kuwait's Vision 2035 to increase hydrocarbon production," he told *GSN*.

KOC's Sultan will hope this improvement is not just a repeat of the benign 2013-16 period, when relative political stability afforded greater scope for major strategic projects to make progress. KOC has made other contact awards this year. In late March, Malaysia's Scomi Energy Services won a $150m contact to provide services for development drilling work.

Other awards reveal CAPT's continued role. In early July, bids were invited for two North Kuwaiti Jurassic field development contracts. These will create an onshore surface production facility with the capacity to produce 50,000 b/d of oil and 150 million cubic feet/d of gas.

New minister makes positive impact

Increased activity in the Kuwaiti upstream may also point to oil minister Khaled Al-Fadhel's positive impact. Appointed in December, he is the fourth oil minister in the space of just two years. Al-Fadhel has sought to bring coherence to a contested organisational upheaval in the oil and gas sector.

Among initiatives on Fadhel's watch, the number of state-owned oil subsidiaries is being streamlined from eight to four; Kuwait Oil Tanker Company (KOTC) is modernising its crude oil fleet and increasing the number of gas tankers; and Kuwait Integrated Petroleum Industries Company (Kipic) is investing in its refinery supply chain.

Fadhel is being supported by former KOC chief executive Hashem Sayed Hashem, who in December took over from Nizar Al-Adsani as head of Kuwait Petroleum Corporation (KPC), the state company that oversees upstream, downstream, marketing and oil transport subsidiaries.

"Kuwait has been attempting to modernise its oil and gas sector for some time but has run into obstacles which run the gamut from the political to structural hydrocarbon production issues," Dargin said. "Fadhel is quite serious about modernising the Kuwaiti energy sector."

Many of the planned reforms are likely to face stiff opposition in the National Assembly, but that will not divert KOC from going after more 'low-hanging fruit', such as the recent offshore exploration developments. KOC is also now doubling down on heavy oil production, such as in the northern Al-Ritaq field, where output is due to reach 11,000 b/d by the end of summer.

Production from other heavy oil fields in the north is scheduled to begin later this year, rising to around 85,000 bl/d by 2021. The aim is to build heavy oil output from the current 50,000 b/d to 430,000 b/d, as part of a multi-phase series of projects.