

Kuwait retenders parked Jurassic project



A crude oil flowline at the Maqwa oilfield. Kuwait needs to boost its gas production. (PA)

Verity Ratcliffe in Dubai

THE revival of Kuwait's Jurassic project looks promising for a country that badly needs to boost its gas production. But despite a much-needed switch in contracting models, the companies involved must overcome major obstacles before development gets underway.

"There are several constraints when it comes to Jurassic field development," Justin Dargin, energy and Middle East scholar at Oxford University, told *Interfax*.

"They run the gamut from legal, political and technical," said Dargin. "In terms of the political issues, Kuwait has had certain issues in getting all of the political stakeholders to agree on a unified energy policy that would spur production."

Kuwait's reputation for political wrangling may discourage companies from submitting bids to work on the Jurassic gas field development. "That's the problem with Kuwait – things go on for such a long time that you stop believing that anything will happen," said a Kuwait-based source.

The Jurassic development, which Kuwait believes has a production capacity of 150,000 barrels per day of sour crude oil and up to 14.4 million cubic metres per day (MMcm/d) of gas, was previously tendered as a build-operate-transfer (BOT) contract. This was

subsequently cancelled and last week Kuwait Oil Co. (KOC) reopened a tender for an engineering, procurement and construction (EPC) contract for the work.

KOC may have decided not to adjust the contract because any revisions would have needed the agreement of the country's legislature. Gaining parliamentary approval is a notoriously tricky task in Kuwait. The country's most powerful families are represented in parliament alongside some of Kuwait's biggest companies. Commercial decisions regarding all contracts, but especially energy deals, are often the subject of politically motivated investigations as a consequence.

Lucrative and long-term public-private-partnership deals are particularly contentious. "They wanted to go down the BOT route, but it was the wrong thing to do," the Kuwait-based source told *Interfax*. "They have found now that they cannot do that. It's just not possible... Kuwait is one of the richest countries in the world. I do not know why they wanted to do [it as a BOT] to start with."

However, parliamentary approval for an EPC contractor should be easier to secure, according to Kristian Coates Ulrichsen, a fellow at Rice University's Baker Institute.

"I think that they're trying to find a model that minimises the political risk,"

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► Ulrichsen told *Interfax*. "Also, it enables them to show that they're getting the best terms for Kuwait."

Ultimately, Kuwait will need to convince companies that there is enough political support for the project and that the tender will not be cancelled. Kuwait has benefited from a more stable political environment over the past two years compared with the previous five years. Even so, energy issues remain the most contentious.



International companies can get better terms elsewhere in the Gulf and without all of the political aggravation.

KRISTIAN COATES ULRICHSEN
Fellow, Rice University's Baker Institute

Regional competition

The Jurassic gas development needs to be appealing by regional standards to draw a healthy level of competition. "The nature of populist politics is that anything can blow up at any time," said Ulrichsen. "International companies can get better terms elsewhere in the Gulf and without all of the political aggravation. They might think that it's not worth all of the pain, aggravation and uncertainty. Probably, it's the volatility that is doing all of the damage. Whenever you sign a

contract [in Kuwait] you're never sure that it's going to be honoured."

Kuwait has a production target of 85 MMcm/d by 2030, a huge increase on current levels. It wants to substitute LNG imports and oil for domestic gas production to fuel its power plants. "Kuwait wants to develop its own gas resources so it is not forced to continue to rely upon LNG importation, which it purchases at relatively high international rates," said Dargin. "By developing its own gas resources, Kuwait would not have to burn crude for power generation, and [would] still be able to export it to the international market."

The revival of the Jurassic gas field development is a crucial part of this plan. Shell will assist KOC with the development, having been granted a one-year extension to its enhanced technical service agreement in March.

Shell was awarded the original contract, which covers the Jurassic gas field along with several other projects, in February 2010. Very little progress has been made since. A BOT contract was awarded to local firm Kharafi National in 2010, but it was terminated after a stalemate over conditions between Kharafi and KOC. Kharafi wanted step-in rights and certain other provisions included in its contract to make the project bankable, but KOC refused. ■

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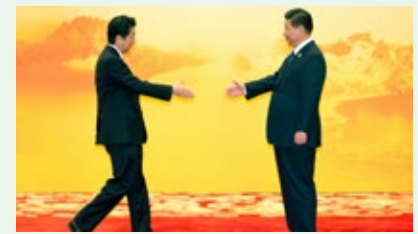
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