

Kuwait consolidates dependence on energy imports

Unable to secure a sustainable regional solution to meet its excessive per capita consumption of energy, Kuwait is looking to the global gas market to help keep the lights on

On 4 March, Swiss-registered engineering firm Foster Wheeler announced that it had won the initial design contract for a new onshore liquefied natural gas (LNG) import and regasification terminal for the Kuwait National Petroleum Company (KNPC). The award, which follows feasibility studies for the new terminal, underlines Kuwait's persistent failure to develop domestic resources, and seems to bury Kuwait's hopes of securing a regional supply of gas to meet soaring demand.

Kuwaiti electricity demand and consumption have tripled since the end of the 1990–91 Gulf War, a problem that is replicated across the Gulf, where generous subsidies have spawned a culture of wasting energy (see graphic, page 12). Kuwait's increasing need for LNG imports is down to more than just huge demand, however. The country sits atop substantial reserves – 1.8tcm, around 1% of the world's conventional gas – but domestic politics and technical issues have stymied their development. Regional politics, meanwhile, have blocked attempts to buy in regional supplies.

In recent years, Kuwait has explored a number of options with Gulf neighbours (see box, page 14). As these have fallen by the wayside, it has bridged the supply gap with short-term measures. In 2009, it signed a deal with Qatar to receive 1.6 tonnes of LNG each summer for five years, an uneconomical but necessary step to cope with the seasonal spike in demand. A similar agreement was made with Royal Dutch Shell for the years 2010–13.

Also in 2009, the Mina Al-Ahmadi Gas Port began operations, a floating LNG terminal intended as a temporary measure to allow time for domestic gas reserves to be developed. The terminal provides seasonal gas (April–October) with a base load capacity of 500mcf/d and peak capacity of 600mcf/d. KNPC commissioned US-based Excelerate Energy with the project, and in 2013, awarded Bermuda-registered Golar LNG a five-year, \$213m contract to provide storage and regasification services for the terminal.

But all of these measures have been short term, and the continued failure to exploit reserves in the north has left Kuwait

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Pakistan ally

The recent spate of high-level Saudi visits to Pakistan has put the bilateral relationship back in the spotlight. The two countries have a long history of strategic co-operation, and their contrasting profiles – Saudi Arabia with a lot of money but a weak military, and Pakistan with a strong military but in need of cash – make them good partners, bound by religio-cultural factors. With a new push to revitalise links under way, the focus is again on defence co-operation, and potentially support in dealing with sectarianism.

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Libyan oil

An oil tanker which illegally lifted crude from Libya's As-Sidrah terminal on 12 March may have been heading for the Gulf. Oil market sources say that the Morning Glory – which was eventually commandeered by US Navy Seals in international waters near Cyprus on 17 March – may have intended to sell its cargo of 234,000 bbls in Fujairah, the main regional centre for blending and bunkering and a gateway to the Asian markets. It is still not clear who was behind the attempted trade.

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Qatar reaches out beyond the Gulf

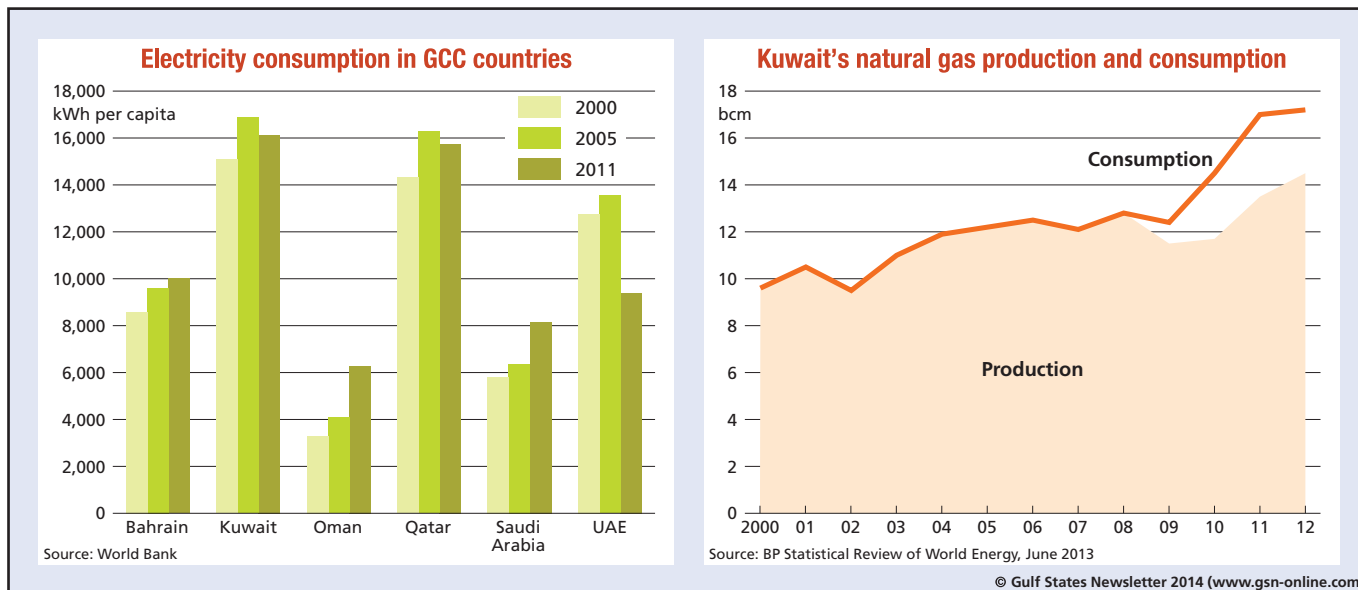
In the days since the UAE, Saudi Arabia and Bahrain withdrew their ambassadors from Qatar (GSN 965/7), Emir Sheikh Tamim has been taking calls from leaders in the region and beyond – among others, he has spoken to Oman's Sultan Qaboos, France's François Hollande, the UN's Ban Ki-moon, Morocco's King Mohammed VI, Tunisia's Mehdi Jomaa and Lebanon's Michel Sleiman (see *Royals and page 3*).

Undeterred by its isolation within the GCC, on 15 March, Qatar sent assistant minister for foreign affairs Mohammed Bin Abdullah Al-Rumaihi to Tehran for "political consultations". There has also been a lot of *va-et-vient* with

France of late (GSN 965/9); on 17 March, days after the conclusion of a joint military drill, minister of state for defence affairs Major General Hamad Bin Ali Al-Attiyah flew to Paris on an official visit.

On 17 March, state news agency QNA said the UAE's acting chargé d'affaires in Doha, Ahmed Shuweireb, had given foreign minister Khalid Bin Mohammed Al-Attiyah a message for Sheikh Tamim from Dubai ruler Mohammed Bin Rashid. Abu Dhabi quickly denied the letter was connected to recent developments, saying it was a courtesy linked to Expo 2020, but the incident shows the UAE has at least retained a diplomatic presence in Doha.

Kuwait: The biggest energy consumer in the GCC



Kuwait energy imports

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with no option but to find a more permanent solution. “Kuwaiti authorities were hoping that LNG imports would allow them time to develop deep gas in the country’s north, and perhaps wangle a pipeline deal with one of its gas-rich neighbours,” energy fellow at Rice University’s Baker Institute Jim Krane told GSN. “The fact that it now plans to replace its floating regasification unit with a permanent import terminal shows the failure of those efforts... Rather than burning ever greater amounts of crude oil, diesel and heavy fuel oil – which entail huge opportunity costs in lost exports – Kuwait has decided upon LNG. It’s the best of a handful of bad options.”

New terminal

The new 1.5bcf/d terminal, to be built at Al-Zour, is slated to start commercial operation in 2020, with four 180,000m³ full-containment LNG storage tanks. Foster Wheeler’s design will allow for future expansions up to 3bcf/d and the installation of a further four LNG storage tanks of the same capacity. The engineering firm will be working with an unnamed local partner, and is due to complete its pre-front-end and front-end engineering design in October 2014. It would not tell GSN how much the contract was worth, but a KNPC presentation in January 2013 valued the whole project at nearly \$700m.

It is not clear from where Kuwait plans to buy in its gas. Kuwait Petroleum Corporation (KPC) chief executive Nizar Adsani was recently quoted as saying medium-term LNG

import agreements with multiple suppliers would be concluded in April. Australia is one possibility, after Kuwait Foreign Petroleum Exploration Company (Kufpec), which, like KNPC, is a subsidiary of KPC, in January increased its stake in the Wheatstone LNG operation in Western Australia to 13.4% by purchasing Royal Dutch Shell’s 8% stake in the Wheatstone-Iago fields and 6.4% in the related 8.9m t/yr LNG plant for \$1.1bn. The Wheatstone project is operated by Chevron, which holds a 64.14% interest.

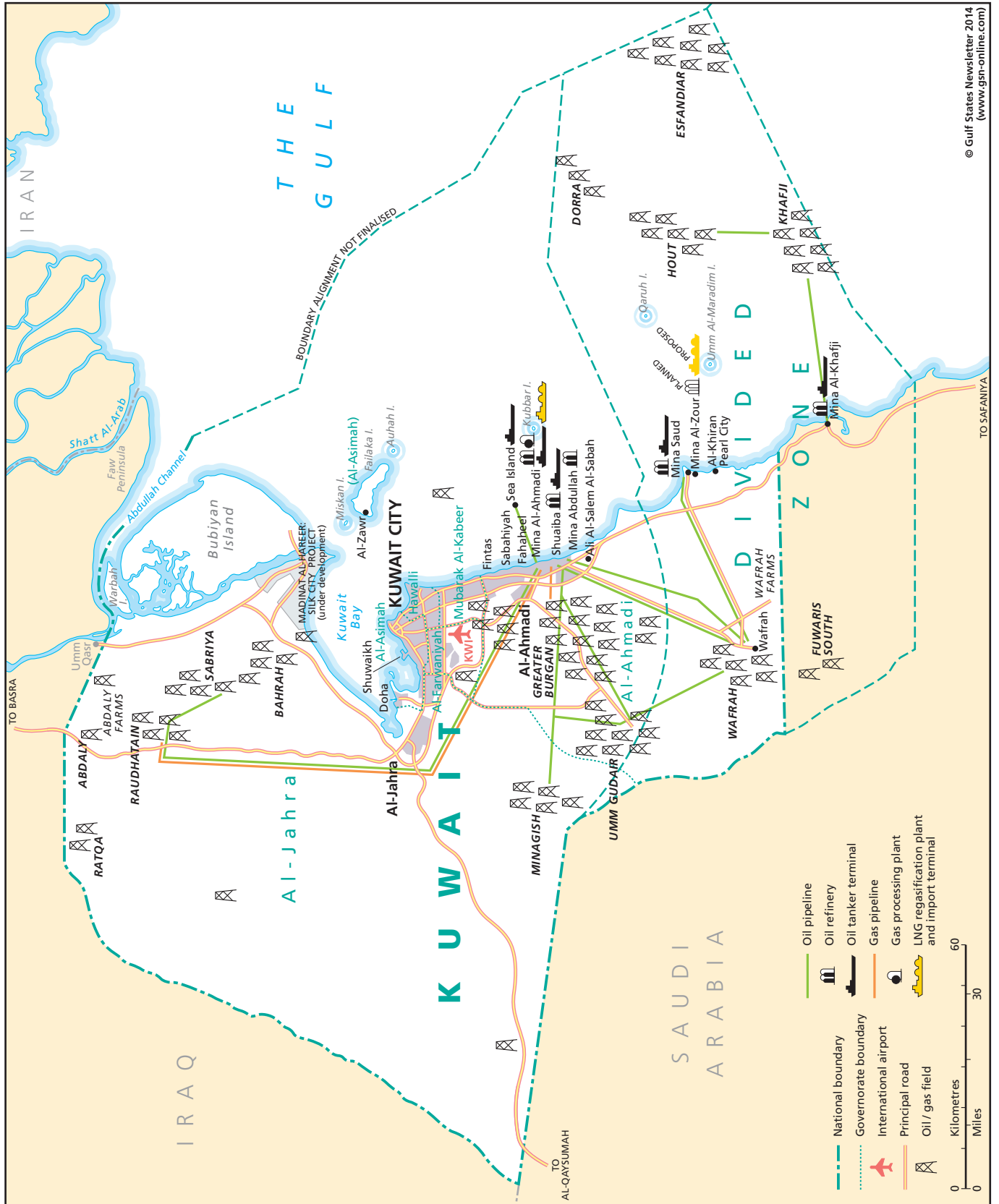
By the time the new terminal opens, shale gas from the US could be another option. “While LNG import over the long run is not less expensive, by the time the terminal opens, there should be a lot of price competitive LNG on the global market,” energy expert at the University of Oxford Justin Dargin said.

Domestic resources

The need to import gas into a country so rich in hydrocarbons is the product in part of Kuwaiti politics. Alongside the perpetual political gridlock caused by the high frequency of elections, the constitution prohibits foreign ownership of natural resources, something which has blocked most major initiatives in the past two decades.

In late 2010, the Kuwait Oil Company (KOC, another KPC subsidiary) awarded a \$1.56bn deal to local company Kharafi National for the Jurassic gas scheme in the north, but after three years, the project stalled due to a lack of financing, and there have been reports since that the authorities are considering a retender. The Ministry of Oil has long argued the case for international oil companies (IOCs) to provide

Kuwait: Oil and gas infrastructure



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technical expertise, but the issue is hotly contested in the National Assembly.

Dargin said there were also technical and geological issues. “Technical issues with the non-associated Jurassic fields in the north, the complexity of the fields and the higher cost of production has not encouraged IOCs,” he said. “Geologically, the ultra-deep reservoirs and higher pressures make recovery difficult – some observers who have assessed them have indicated that these are some of the most challenging ones out there, not impossible, but difficult.”

According to the US Energy Information Administration (EIA), gas reserves, found mostly in the north, have barely been touched since 2006, even though KOC had set a target of reaching 4bcf/d output by 2030, just under four times the current production level. “The Kuwaitis have been struggling to deliver from their significant onshore fields because of a lack of expertise – they have no real experience in gas,” Swedish Energy Agency analyst Samuel Ciszuk said. “They have tried to bring in foreign expertise but this has been thwarted by political problems and changing parliaments.”

EIA data shows that since 2009, Kuwait has consumed more natural gas than it has produced, largely due to ever-increasing demand for electricity in summer months. World Bank data shows that, in 2011, Kuwait’s electricity consumption per capita was the world’s fourth-highest, behind Canada, Norway and Iceland. As in the rest of the Gulf, subsidised energy is largely to blame, a policy which leaders are nervous to abandon because of the political ramifications. “Kuwait needs an LNG fix because of the country’s intensely wasteful energy consumption,” Krane said. “This behaviour stems from ridiculously low prices that allow residents to leave home air-conditioning units blasting while taking a month’s vacation. The Ministry of Electricity and Water sells power for just 5% of the cost of producing and delivering it. The price – 2 Kuwaiti fils or 0.7 US cents – has not changed since 1966.”

Peak demand has risen by 6–8% each year. It would be extremely difficult for the government to start revoking subsidies after decades of citizens enjoying low-cost utilities, but the result is a supply crunch. Building an import terminal is cheaper than investing in unconventional gas that must be sold at a loss.

International Monetary Fund estimates of the energy subsidy burden on individual governments in the Gulf Co-operation Council (GCC) ranged between 9% and 28% of revenue in 2011, and it is a problem which will only grow in urgency as populations grow. Put together, the six GCC economies consume more primary energy than the whole of Africa, according to a 2013 report by London’s Chatham House, *Saving Oil and Gas in the Gulf*. To overcome such major challenges, Gulf countries will require genuine, far-reaching economic diversification and a rethink of the social compacts that have governed behaviour for decades. But, for now,

Failed regional solutions

SAUDI ARABIA: Kuwait has made several attempts at finding a regional answer to its energy conundrum (*see main story*). One plan, initially agreed in 2000, was to join Saudi Arabia in developing the Dorra natural gas field, which lies in the two countries’ Neutral Zone (*GSN 761/1*). But after more than a decade, disagreement over how to split the gas resulted in the project being shelved in August. “The entire project is on hold, the budget is on hold, no new drilling is anticipated for the 2013–14 budget for Dorra,” a senior Kuwait energy source told *Reuters*.

In December, *The Wall Street Journal* reported that Saudi Arabia intended to develop the field on its own. The paper quoted sources as saying the perennial political deadlock in Kuwait was the reason for the collapse of the joint deal. “No official wanted to make a decision on sharing the costs of the project and get questioned later by the parliament for one reason or another, so they pulled out,” one source said.

The Dorra field had long been contentious. It is part-owned by Iran, and Iranian pressure may have played a part in the Kuwaiti/Saudi project’s failure. In 2012, Iran announced plans to unilaterally develop the field, known as Arash in Iran, if Kuwait did not accept an offer for joint development. In response, Kuwait’s foreign ministry undersecretary Khaled Al-Jarallah summoned the then Iranian chargé d’affaires Sayed Tahabi, and told him that “the two parties should not take any unilateral action in the area until it has been demarcated”.

QATAR: Hopes of getting a pipeline gas supply from Qatar were dashed in 2006 by Saudi Arabia. Kuwait had hoped a \$500m pipeline would have yielded 800mcf–1.4bcf/d of Qatari gas; the original plan saw deliveries from early 2005 (*GSN 776/12, 736/6, 682/12, 679/12*). But the 600km pipeline would have had to pass through Saudi territorial waters, and, after years of negotiations, Qatar gave up on the idea. Qatari officials suggested Riyadh’s hatred of *Al Jazeera* and anger at other perceived slights were behind the Saudi obstructionism, as it tried to prevent Qatar from emerging as a strategic gas hub in the Gulf (*GSN 933/9*). This told part of the story: a critical issue with regional projects has been pricing, with buyers arguing that Gulf Co-operation Council (GCC) solidarity should be reflected in well-below global market pricing for their feedstock. Qatar changed tack to become the world’s biggest LNG exporter, selling into Japan and other lucrative markets.

IRAN: Iran has also been suggested as a potential supplier of gas to the emirate, but those plans became mired in Gulf politics a decade ago (*GSN 777/11*). Efforts in the last 20 years to develop the disputed field have consistently stalled – as with most projects aimed at increasing energy co-operation between Iran and its Gulf neighbours.

IRAQ: The possibility of importing from southern Iraq has also been explored. This makes economic sense, given the distances involved, and the fact that Iraq is flaring up to 1bcf of gas every day. But neither is Iraq an easy neighbour; its political and security situation has impeded Kuwaiti efforts to secure a sustainable solution from Baghdad.