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An additional security buffer

Kuwait closer to opening up its oilfields to foreign firms

By Jad Mouawad

KUWAIT: Ending nearly a decade of debate and delays, Kuwait is close to opening up its lucrative oil production business to foreign companies, 30 years after they were first expelled from the country. The move, expected to be approved by Parliament next month, would mean that for the first time in decades, one of the top producers in the Gulf would lift some of the limits on its sensitive petroleum resources that have been imposed on foreign operators. Producers have come under growing pressure over the past year to raise their investments and get more oil to the market. While global demand for oil has been rising rapidly, driving up prices substantially, supplies, especially from Opec producers, have lagged.

The issue is so politically charged in Kuwait that the plan, Project Kuwait, has been mired in squabbles ever since it was first introduced in 1997. The opposition, which brought together a band of Islamic and liberal parties in Parliament, meant that production growth stalled while demand soared.

Most of the country's production have come from a single field, Burgan, which has accounted for 80 per cent of Kuwait's output.

That field, the world's second-largest after the Saudi field known as Ghawar, is showing signs of fatigue. Officials would like to reduce the pressure on it by pumping out more oil from other fields, including four in the north of the country that Project Kuwait would open to foreign companies.

"Our part of the world needs to increase its capacity to meet the projected growth in demand over the coming years," said Nader Sultan, the former chief executive of Kuwait Petroleum and a strong backer of the plan. "There is pressure on us to increase our capacity. The question then arises: Can we do it alone?"

If Parliament approves the plan when it meets on Jan 23, the government will award the bid on the basis of a single criterion: the minimum fee that each group is willing to take for each barrel it produces.

Three groups of international oil companies, led by BP, Chevron and Exxon Mobil, have long been interested in the $8.5 billion project.

Years of underinvestment mean that output has dropped since the 1970s. Officials say they need the help of the global oil giants to deal with difficult oil reservoirs, now that the easy oil has mostly been extracted.

Kuwait pumped about 3 per cent of all the oil produced worldwide last year, or about 2.5 million barrels a day. The country hopes to increase daily production by 2020 to four million barrels. By then, Project Kuwait is expected to account for a third of the country's production.

But at these volumes, Kuwait will also be pumping out 10 million barrels a day of water associated with the oil-production process, something that officials say the country's state-owned oil company cannot do without foreign expertise.

There also are non-technical reasons for the invitation. With oil near $60 a barrel, delaying any increase in production means Kuwait is missing out on the greatest oil boom in three decades and millions of dollars of lost profit every week. Some also believe that welcoming international oil companies, including Americans, would provide an additional security buffer for Kuwait, which was invaded by Iraq in 1990 and served as a major staging ground for the American invasion of Iraq in 2003.

The Kuwaiti Constitution bars foreign companies from owning or operating the country's oil resources. For Parliament, which has been fighting the government to gain a larger oversight role in running the country, this means that without a formal vote, the government cannot allow operators back. International companies are allowed only as service providers, not as operators.

Abdulla Al-Nibari, a former member of Parliament who helped nationalize the oil industry in 1975, opposes the project. Kuwait, he said, can keep using foreign service companies to provide technical assistance without bringing back the global giants that dominated the country's energy industry for decades.

"I don't buy the argument that the market needs more," Al-Nibari said. "We produce oil to get money to cover our expense. That's our responsibility. Two million barrels is enough. Our experience is that surplus money is squandered, sometimes embezzled. Oil in the ground is a much better form of savings."

To break the longstanding deadlock, the government has agreed to Parliament's main demands. For example, the oil produced will remain the property of Kuwait, ownership of the oil will not be transferred, and the contracts will be considered service agreements and not foreign concessions. All of this means the oil companies will not be allowed to book the reserves from the fields they operate.

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