

Achieving key targets

INTERVIEW WITH HE SHEIKH ALI JARRAH AL-SABAH

MINISTER OF ENERGY, KUWAIT



SHEIKH ALI JARRAH AL-SABAH

was born in 1950. He graduated from Kuwait University in 1972 with a degree in Political Science and Economics. He joined the Ministry of Foreign Affairs and in 1973 was appointed First Secretary in the Embassy of the State of Kuwait in Tehran. Since then he has held senior posts at the Department of Investment in the Ministry of Finance and the Kuwait Investment Office, London before his appointment as Minister for Energy in July 2006.

How would you define the key priorities of your Ministry?

The current outlook for increased global oil demand has set challenges for Kuwait, as one of the major oil producers. Hence, the Kuwaiti oil sector has developed ambitious plans to face these challenges, which have been translated into long-term strategic objectives up to the year 2020. These objectives can be summarised as follows:

- Increase crude oil production capacity in Kuwait up to 4 million barrels per day by 2020.
- Expand refining capacity in Kuwait up to 1.5 million barrels per day with deep conversion.
- Pursue growth in petrochemicals both inside and outside Kuwait, with a focus on high growth petrochemical products and with the involvement of local private sector and foreign partners.
- Increase the oil sector contribution to the growth and development of the local economy through creating viable investment opportunities for the private sector.
- Pursue applications of the best and most appropriate International Health, Safety and Environmental standards so that KPC becomes a regional leader in HSE performance.

Therefore, our priorities involve the development and implementation of effective and efficient plans to reach the above targets. Additionally, we intend to exploit and start producing from the recently discovered gas reserves and finalise the plans for the participation of the International Oil Companies in developing our oil fields. Furthermore, we are working hard to meet Kuwait's energy demands both in the short and long term.

The ownership and control of hydrocarbon reserves is a highly sensitive issue in many parts of the world. To what extent are Kuwait's energy resources viewed as a strategic asset, in this regard?

As you know, oil is the backbone of Kuwait's economy. Since the late 1940s, when oil exports began in Kuwait, oil has remained pivotal to the country's development. It represents the largest proportion of Kuwaiti GDP and Kuwaiti revenues, enabling the country to build modern infrastructure, achieve its social welfare programmes and provide the necessary infrastructure to both natives and residents. Moreover, the oil sector has supported the Kuwaiti private sector, which has had a positive impact on economic development rates. For these reasons the Kuwaiti oil sector is continuing its efforts to optimise the management of the State's hydrocarbon resources for

the prosperity of Kuwait. Furthermore, exploration and production, in Kuwait, is being governed by regulations that are set and monitored by the government to ensure implementation of best and most up to date reservoir management techniques.

We in Kuwait aim to maximise oil reserves by using the latest technologies, seismic techniques and exploratory programs and complex geological studies. This will allow us to improve exploration operations and understand reservoir characteristics. Additionally, we apply the latest production techniques to ensure the optimum exploitation of our current reservoirs to increase productivity and improve crude oil extraction from the current fields.

How do you see the country's overall hydrocarbon potential? What is Kuwait's expected oil and gas production levels over the next ten years?

As you are aware, Kuwait has immense oil reserves and is ranked the fifth largest reserve base. Currently, we are implementing a challenging program to achieve our intensive growth strategy in all business segments including oil production. As I mentioned earlier, we are targeting crude production capacity of 4 million barrels per day by 2020. In the course of achieving such a target, we foresee our production capacity level to reach 3.0 million barrels per day in 2009 and about 3.5 million barrels per day in 2015. In this context, large projects have been identified to boost production capacity, including the addition of new gathering centres and upgrading existing ones. The development of Kuwait's North field with the assistance of International Oil Companies is also one of the initiatives that will help us to achieve this strategic target.

What are the latest developments with regard to the non-associated gas reserves? To what extent will this find meet Kuwait's fuel requirements for power generation, in the coming years?

Currently, we are working to complete the non-associated gas studies including natural fractures, static matrix and dynamic modelling. Preliminary predictions show that we will reach a gas production rate of 1 billion cubic feet per day by 2014/15. This plateau rate can be maintained for an extended period of time. Further work will be carried out to develop an implementation plan including the best production options. Based on these findings, the new gas along with the existing reserves, would cover about 50-60

per cent of the power sector demand in 2010/11.

It is worth mentioning that the new gas discoveries would provide environmentally friendly fuel to power plants. Moreover, it would free more LPG and ethane that could be made available as petrochemicals feedstock for more value added.

The oil sector is a clear priority. What role will enhanced oil recovery techniques play in ensuring that targets are met, especially on Burgan?

Although we are currently concentrating on primary production methods as we consider that we are currently producing the 'easy oil', we have already anticipated the need for enhanced oil recovery techniques in the coming years as the reservoir characteristics gets more difficult and water cut increases.

By having the EOR projects in place, this will lead to the fulfilment of our strategic targets and reduce dependency on the Burgan field.

How are relationships with the international oil and gas companies developing? What role can these companies play in Kuwait's development? Are you expecting further volumes of direct inward investment, in the medium term?

As already mentioned, we are heading towards substantial growth in all segments of the oil industry inside and outside Kuwait. We believe our strategic directions are going to be challenging and require an immense effort on our part, as well as support from the International Oil companies, to achieve them.

For instance, a number of technical service agreements with International Oil Companies are currently in place for our domestic upstream segment. The development of Kuwait's North fields would also require their assistance, where efforts are under way to finalise the required agreements and obtain the necessary approvals.

IOCs technology and expertise would certainly be of great benefit in developing our fields with high efficiency, in order to reach the targeted production levels and reserves additions. Moreover, they would offer valuable learning opportunities to our national manpower resources.

Additionally we have several International oil and gas service companies providing their services and expertise in both the upstream and downstream operations in Kuwait.



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Meanwhile, we are targeting new Joint Venture opportunities in Asia and North America in the refining and marketing business.

We are also pursuing expansion in petrochemicals both inside and outside Kuwait. In this regard, a strategic alliance with Dow Chemical Company was signed in July 2004. Under the umbrella of this alliance, some petrochemical assets in Canada and Europe were purchased and other endeavours are still taking place to seize some other petrochemical opportunities in the world's high growth areas.

Evidently, the Kuwaiti oil sector has numerous opportunities and we genuinely seek to build stronger relationships and closer communication channels with the International Oil Companies around the world to the mutual benefit of our business operations into the future.

What are the prospects for achieving genuinely sustainable global energy security? Is there a long-term solution to this dilemma?

Efforts to address the availability of energy at all times by sustaining supply and securing demand, in various forms, at affordable prices needs to be broadened beyond single solutions made by individual countries or institutions. This implies a need for co-operative solutions that move beyond short-term responses. Various key areas can be identified in any strategic solution for tackling energy security challenges, such as:

- Increasing the transparency, predictability and stability of global energy markets.
- Enhancing energy efficiency and the development of technologies.
- Ensuring adequate investment and improving the investment climate in the energy sector.
- Diversifying the energy mix.
- Strengthening the global energy dialogue.

The International Energy Forum is playing a role in promoting the producer-consumer dialogue. How important is this dialogue?

Under the umbrella of the International Energy Forum (IEF) a multilateral co-operative dialogue in the energy field has been established among producing and consuming countries and other industry players. Since the start of such a dialogue in the early '90s, Kuwait has played a decisive role in enhancing and deepening this process.

The importance of such a dialogue emerges not only from the need to achieve mutual interests for key energy players in an ever-interdependent world, but also eliminating the preconception and mistrust that characterised the previous era and bring about greater transparency and better awareness of long-term common interests. This, in turn, can provide a relaxing signal to the tense energy market in times of geopolitical and other uncertainties.

To what extent is OPEC helping to stabilise the global oil market? Are there improvements that can be made?

Through our active participation in OPEC ministerial meetings, we can clearly see the organisation's efforts to ensure the stabilisation of oil prices in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers and a fair return on capital to those investing in the petroleum industry. This comes as part of OPEC's mission which has been effective over time by the quick response of member countries in using their significant spare oil production capacity, which enabled them to increase production in a short period of time. This enabled sufficient supplies of crude oil to world markets to be secured during unforeseen shortages as a result of technical, natural or political unrest and oil prices to be maintained.

However, since OPEC is not the only player in the oil market, it cannot, by itself, guarantee the stability of oil prices, or the availability of supplies to all consumers at all times.

What is your mission for Kuwait's energy sector in the medium term?

Our mission is to manage and operate the oil sector, which includes exploration, production, refining, marketing, petrochemicals and transportation worldwide, in the most efficient and professional manner. In addition we aim to enhance shareholder value. To achieve this mission we have the following responsibilities to our stakeholders:

- Government: ensure the optimum exploitation of Kuwaiti hydrocarbon resources in a manner that is consistent with the interests of Kuwait and its people, and in line with the State's general directions.
- Employees: make full use of the talents and capabilities of employees and ensure the provision of all their rights and appropriate training.
- Customers/suppliers: be committed to satisfy the needs of our customers and maintain fair and ethical conduct in all our relationships and business dealings.
- Community: act as a responsible and active member of society and take a positive initiative in fostering constructive relations with the communities in which we operate.
- Shareholder: Manage KPC's businesses efficiently to grow and create superior value for the shareholder.

Also, we have a responsibility to the Health, Safety and Environmental (HSE) aspects of the businesses. Therefore, we manage the businesses according to the best industry practices in HSE, both in terms of targets and cost effectiveness, so as to ensure the protection of the environment, health and safety of employees and customers wherever we conduct businesses.