

Bahrain poised to witness a gold rush: Falcon Petroleum

While Bahrain will benefit from the commercial delivery of oil and gas in the coming years, the local business community will miss out from the lion's share of capital spend unless they start gearing up now, says an industry expert

BAHRAIN'S huge discovery of shale oil and gas is of historic proportions, the initial impact of which will be felt on the kingdom's economic sector by mid next year when off-shore drilling activity in Khaleej Al Bahrain starting in Q4 this year will pick up pace and on-shore drilling and work-over activity in Awali field will gain momentum driven by new investment by oil and gas players, says Saud S Khawaja, managing director, Falcon Petroleum Consultants.

"The major impact from these activities will be seen upon commercial delivery of oil and gas volumes two to three years thereafter," says Khawaja in an interview with *OGN*.

There is a lot of front-end planning work done over the past two to three years, including initial exploratory offshore drilling in parallel with detailed technical studies carried out under Technical Evaluation Agreements between Noga and two global technology oilfield service companies and validation by third independent international petroleum consulting firm from the United States specialising in resource assessment of petroleum discoveries, he says.

"Bahrain is poised to witness a gold rush," he says. It will be clearer to the public after results of appraisal wells that are expected to start drilling in Q4 this year.

Appraisal wells establish the extent and size of oil and gas deposits, followed by delineation or step out wells to define the boundaries of the deposits. Upon nearing completion of these two phases, the real boom in economic activity will take place driven mainly by increased rig count, he explains.

The current rig count servicing existing wells to maintain production in Bahrain stands between five and six rigs. This is expected to double in 12 to 18 months and depending on well tests results can triple in 24 to 30 months, he predicts.

Some 15 to 20 rigs performing drilling and work-over operations within two to three years means much to the sectors connected with it. Increased rig count translates into arrival of large number of technical manpower, heavy equipment, machinery, consumables, and rising warehouse inventories. This will be required to perform more than a dozen up-stream core well services such as well construction, well intervention, production stimulation, etc. Core well activities also drive demand for more than two-dozen non-core services and supporting activities, furthermore midstream infrastructure to handle new oil & gas such as gathering



Khawaja ... 'viable to drill for shale oil in Bahrain'

stations, pipelines, dehydration plants etc. he says adding the total capital spend could be unprecedentedly large sum as a result of all these upstream and midstream activities.

Major oilfield service companies who provide core well services such as Halliburton, Schlumberger, Baker GE, and NESR (previously known as NPS) in addition to drilling contractors that are actively involved already in Bahrain stand to benefit from higher activity, he asserts this is due to the learning curve they have already gone through. Opportunities also exist for new players with niche expertise in well intervention for production stimulation of existing wells in Bahrain.

"Work volume for these companies can double or triple in coming two to three years. While existing oilfield service companies will ramp up delivery capability, there is an opportunity for new drilling contractors to supply additional rigs at competitive rates as this will require mobilising additional rigs into the country via existing rig contractors or new ones," he says.

It is here that the local private sector community and major business houses can chip in, he says.

At the moment there is not a single local company involved in core activities within the drilling and oilfield service sectors which means that more than 80 per cent of the capital spent in these sectors will be channeled to foreign-service providers. While Bahrain will benefit from the commercial delivery of oil and gas in the coming years, the local business community will miss out from the lion's share of capital spend unless they start gearing up now and develop drilling and oilfield service capability, he says.

The spin-off effect to support core and noncore services will be on support services such as mid and high-tier housing market for technical and management staff, medium to heavy transport and lifting equipment rental, civil works for access roads, fencing, preparation of pre-drilling well locations, food and catering at the well sites etc.

Amidst all these activities, Falcon Petroleum Consultants, which functions as a catalyst for accelerating the growth of clients facing ever-greater oil and gas challenges, is eminently poised to work as a beacon for new entrants in Bahrain.

Back in 2009, when Occidental Petroleum from the US and Mubadala from the UAE entered Bahrain to set up Tatweer Petroleum, Falcon helped establish two North American oilfield service companies in the kingdom and facilitated in winning contracts within Bahrain.

Falcon is strategically located in the business friendly Kingdom of Bahrain, right next to Saudi Arabia, the source of more than 40 per cent of the entire Mideast capital spent in upstream oil and gas sectors.

"We cater to global energy companies with our primary focus on the upstream petroleum industry of the Middle East," he says.

Falcon has provided consulting and advisory services to nogaholding in Bahrain for the last four years as well as recently to Tatweer Petroleum. While advising Saudi Arabia's Taqa for six years Falcon helped acquire two oil field service companies from North-America and Europe. Besides, Falcon recently helped Zurich North America salvage two stranded rigs in Yemen.

Falcon also teamed up with McKinsey and Com-

pany to offer niche expertise and carried out various upstream projects including Aramco's Drilling Capital Efficiency project.

The company is in talks with a foreign investment firm joining hands with a technology conglomerate, who wants to set up an oil and gas related manufacturing facility in Bahrain.

The company's niche expertise includes advisory and business strategy for new businesses, business process re-engineering for existing firms and manpower supply for sub-surface engineering, drilling and oilfield service operational experts.

Falcon's client base since inception in 2005 has expanded from Bahrain and Saudi Arabia, to UAE, Oman, Kuwait, Iraq, Pakistan, Azerbaijan, UK, France, Norway, Canada and the US.

"We are proud to say that over the years more than 80 per cent are recurring clients and the remaining 20 per cent require one-off service with assurance that they will revert if additional services are required," says Khawaja, a veteran who has worked with world-leading companies including Halliburton.

Referring to the risks associated with companies entering the fray in Bahrain, he says although the oil price was a concern three years back when the price floor dropped touch below \$30. By January 2016 recovery started and during 2016 the oil price floor was around \$30 and later reached the ceiling at \$50. In 2017 the oil price floor moved up to \$43 so did the ceiling to \$60. By 2018 the oil price floor moved up to \$62 and ceiling significantly upwards to \$80. So, in the past 36 months a steady increase in oil price by \$50/bbl. "If this is not healthy recovery than what is?" he asks, adding that today various blends of Mid-Eastern crude oil prices are hovering well above \$70/bbl.

Talking about the cost of drilling and oil production, he says depending on the quality of oil and complexity of sub surface geology, Middle-Eastern conventional oil costs in a band of single digit and less than \$10/bbl.

Compare this with most advanced North Sea and North America where the conventional oil cost ranges between \$30-\$40/bbl. Un-conventional oil over the past decade or so being produced from various geological basins in the US and established costs for horizontal drilling and fracking in fiercely competitive environment through technology innovation by oilfield service companies has come down significantly resulting in shale oil production costs in the US varying from \$40-\$50 range.

"Is it viable to drill for shale oil in Bahrain, the answer is yes. With healthy recovery in price of oil over the past three years stabilising around \$80/bbl. and by carefully planning with technology leaders as well as developing and maximising local capability in core activities, this is absolutely do-able," he asserts. Furthermore innovative methods are being smartly designed, he adds, to drill and produce Khaleej Al Bahrain's shale oil at lower than the cost of US shale oil.

There has been a lot of ground work carried out by Noga under the dynamic leadership of the oil minister Sheikh Mohamed bin Khalifa Al-Khalifa over the past two to three years prior to announcing this historic discovery, and keeping focus to further reduce the risk going forward re-starting drilling in Khaleej Al Bahrain this year to get a better handle on size and extent of the source rock. So, one has to look at it this way, there is always risk in business no matter when and where. One has to prepare and carefully plan to mitigate risk and Falcon can assist existing businesses and new entrants to accomplish this, he adds.

