Mideast rig activity: Stable onshore, mixed offshore

THE MIDDLE EAST is sometimes overshadowed by other regions more “glamorous” and doesn’t always receive the attention it might deserve. The truth is, the land rig activity in the region is stable with generally longer term contract terms than seen for offshore rigs. It is a fairly large jackup market due to the shallow water, with 70 units in the region, according to **ODS-Petrodata**. There may be some softening in offshore activity of certain countries, however, some of the surplus jackups could see their way to India, which seems to be constantly tendering for rigs.

Nabors Drilling’s Rig 70 is drilling for Saudi Aramco in Saudi Arabia. Nabors operates 14 land rigs in the country, about 20% of the Saudi Arabian market.

The Middle East region is a mature area, with much of the present activity in the development phase rather than exploration. However, there is new exploration on the horizon, primarily gas drilling as countries direct their surplus oil for export sales.

Due to post 9/11 tensions in the area, some drillers have seen higher than usual security measures, while others have seen measures that are perhaps not so obvious.

ONSHORE ACTIVITY STABLE

Onshore activity in the region is stable but high, with primarily larger horsepower rigs working under long-term contracts. Several smaller rigs and workover units have been stacked in the area, some for half a dozen years or more, depending upon the contractor. However, for the most part these long stacked units could probably be put back into service within three months should a requirement arise.

There is some new activity on the horizon as evidenced by several bid tenders circulating among contractors. In Oman, **Petroleum Development Oman** (PDO), the joint venture of Shell and Oman’s national oil company, has issued tenders for about half a dozen light to medium rigs in the 1,000 HP range. Some of these are rebids of rigs the company already is contracting and two are for new additions. While the company’s land rig fleet is not expected to expand by six units, this is a potential opportunity for a contractor to increase its presence there.

PDO is expected to make a rig hiring decision by year-end and the drilling program is expected to begin in 2003. PDO may be issuing tenders for additional rigs later.

Saudi Arabia is a very active area for some contractors. **Nabors**, for example, has 14 land rigs there, approximately 20% of the market, according to the company. **GlobalSantaFe** operates four rigs there. The activity has been very stable in the country but there appears at present to be little opportunity for increased bidding activity. It will be interesting to see what develops with the international operators that have been pursuing conversations with **Saudi Aramco**. Work in the western area of Saudi Arabia could develop, as well as offshore in the Red Sea.

However, when this might come about is anyone’s guess. Reportedly, negotiations between Saudi Aramco and foreign oil and gas companies are not going as well as initially hoped. The negotiations appear to be stalled on the rate of return expected by foreign operators, causing some consternation among them. Also, in a drive to monetize gas assets, Saudi Aramco reportedly negotiated only for gas producing assets with foreign operators rather than oil development. While the discussions with operators were about gas and not oil, several foreign operators apparently felt compelled to get their foot in the door even if only for gas development.

Dayrates have not moved much, partly a result of the long-term market. GlobalSantaFe, for example, reports that most of its land rigs in the Middle East are earning generally in a range from the low to mid-teens, with a few in the high teens, depending upon the area and horsepower. A majority of the contractor’s land rigs in the region are under one- or two-year contracts that began in 2001, meaning several will be working against expiring charters later this year. The company’s land rig fleet was acquired in the merger with **Santa Fe Drilling**.

However, there are some ways to increase revenue, depending upon the type of agreement with the operator. For example, Nabors has optimized its equipment to mobilize quicker to the next location in order to reduce non-drilling time. This becomes even more important if the contractor has a lump-sum mobilization payment agreement. Reducing the time to move to the next well from three days to two days, for example, means the contractor is still paid the contracted mobilization fee plus he is on location and earning a dayrate even sooner.

OFFSHORE ACTIVITY MIXED

As mentioned previously, the offshore market in the Middle East generally works under shorter term contracts although most of the jackups in the region are contracted through at least early 2003. However, a number of units are nearing contract expiration during the third and fourth quarters this year and, depending upon where they are working, the region may see some additional surplus equipment.

Qatar, for example, with 11 jackups working there currently, is one country that may see fewer offshore rigs working in the future. **Nabors Offshore**, which is contracting the Ocean Master 8 to **Oxy** off Qatar, says dayrates there are generally decreasing while activity is relatively stable albeit with potentially lower future demand.

"It appears that demand is decreasing," said **Andy Lozano**, Director of Business Development, International, for Nabors Offshore, "but even so the dayrates are ahead of the down curve for actual activity."

Nabors Offshore jackup Ocean Master VIII is presently operating for Occidental offshore Qatar. The country is one of the most active offshore in the Middle East region.

While GlobalSantaFe reports that one of its rigs in Qatar rig is receiving a rate in the low $50,000s, the dayrates generally for jackups offshore Qatar are in the low to mid $40,000s, according to Nabors.

Occidental is currently contracting three jackups offshore Qatar, but that number could be reduced by one in the near future. Oxy is re-tendering for new work but only for two rigs. The situation for contractors working for Oxy (presently Nabors, GlobalSantaFe and **ENSCO International**) is that there appears to be a bidding war for the work, which is perhaps just what Oxy was hoping would happen.

However, Oxy may have already made its decision at least on one rig, as reports from the area say that the operator has already extended the contract on Santa Fe Rig 127 until mid-2004.

GlobalSantaFe is also reporting that in its SEC filings. The contract terms have been revised, that now include an initially lower dayrate that is tied to market oil prices. The dayrate is adjusted monthly.

The company says it is talking with Oxy now about a contract extension on one rig and contracting an additional rig to the operator.

Qatar Petroleum Corporation (QPC) and **Dolphin Energy**, which is already contracting the Noble Jimmy Puckett, are said to be coming out with tenders later this year.

RasGas has also tendered for a jackup for offshore Qatar but a rig has not yet been contracted.

National Drilling of Abu Dhabi gets the lion's share of the work in the UAE, but other contractors are active offshore there as well. **ADMA-OPCO** has a tender outstanding for a 2-3 year program for a jackup.

A potential wildcard in play is India, which recently tendered for about 10 jackups. Often, ONGC ends up contracting fewer rigs than specified in its tenders, but that could still have the effect of tightening the Middle East region as surplus jackups in the area will likely be bid for the ONGC tenders.

TIGHTENING SECURITY

With tensions in the Middle East at perhaps the highest level as a result of the September 11, 2001 attack on the World Trade Center, security around oilfields and facilities have been tightened, both onshore and offshore.

While there has always been a certain level of security around oilfield installations and drilling rigs in the region, there is a more noticeable level presently.

Jon Marshall, Executive Vice President and COO for GlobalSantaFe, says the company is more aware of its surroundings in the Middle East but to date the company has not found it necessary to take any additional security measures.

"The oil companies in the Middle East are highly security conscious," Mr Marshall noted.

"It is very difficult to get into any of those areas unless you have gone through a series of checkpoints."

Nabors Rig 98 is currently in Yemen, where the company operates five other land rigs that represent 75% of the onshore drilling market.

"We haven't increased security per se," said Mr Lozano with Nabors Offshore. "The operators are in charge of security per our contracts."

In Yemen, however, where Nabors has about 75% of the land rig market, the military has stepped in to provide security rather than operators requesting more security.

"With oil companies having production sharing agreements with the government in these countries, the governments have obvious interests to keep things safe." Mr Lozano said. "There is a noticeable increase in security."

The same reasoning applies offshore. In the Arabian Gulf, for example, there are already a substantial number of naval vessels.

And due to the vested interest of the governments, they are not going to let anything happen if at all possible.