Middle East offshore is balanced, onshore growing

MIDDLE EAST DRILLING activity is mixed when discussing offshore and onshore drilling. The offshore segment is balancing on a fine line while its onshore brethren are looking at a tight market with potential strengthening.

Dayrates for offshore rigs in some of the countries in the region are in the mid-$50,000 area, while dayrates for large rigs onshore in certain countries are approaching $30,000 with the potential for increases during the coming year.

ONSHORE MARKET

Bid activity is increasing in virtually every country in the region as far as the onshore market is concerned, and there could possibly be a shortage of the large, 2,000-3,000 horsepower rigs during the next year.

"I would say across the board in the Middle East that bidding activity has increased exponentially in the past several months," said **Ian Kelly**, Senior Vice President, International for **Precision Drilling** in Canada.

Saudi Aramco is the main player, according to Mr Kelly, and he made it clear that they are ramping up their E&P activity, turning to oil exploration from gas previously.

The operator, as well as several other operators in the region, is seeking heavy duty, 2,000-3,000 horsepower rigs for their exploration efforts, with a number of rig tenders outstanding for work to begin in the first half of 2005.

Saudi Aramco alone is tendering for 11 large rigs that are scheduled to begin exploration programs next year.

There are not many 2,000-3,000 hp units readily available around the world, Mr Kelly noted, so fulfilling these tenders could put extreme pressure on that particular market segment, not only in the Middle East but globally as well.

Additionally, Kuwait may have a requirement for additional large land rigs beginning in 2005, which could further tighten that market segment.

Still another development that could tighten the region's large rig market is coupled with Saudi Aramco's projects.

The operator previously targeted natural gas drilling but now the operator is trending toward more E&P aimed at increasing its oil production.

Precision Drilling's Rig 150 is working for Petroleum Development Oman.

There is still plenty of natural gas to be discovered in the country, and quite a bit of it is in the southern areas where Saudi Aramco has struck E&P agreements with several non-Saudi oil companies.

"That exploration effort is still a good year away," Mr Kelly explained, "and by then there will be another influx of large 2,000-3,000 horsepower rigs that they will need because the gas is so deep.

"By this time next year, by the time they are seeking rigs for southern gas exploration, there won't be any (large) rigs in this part of the world."

DAYRATES ON THE RISE

"We are looking at a very tight market," Mr Kelly said, "and surely the dayrates will reflect that."

Dayrates in the region have been around $20,000 in the not too distant past, but contractors are commanding rates in the high-$20,000s these days, particularly in Saudi Arabia.

The contracts also include a fairly significant mobilization fee. Also, many of the contracts are long-term, up to 3-4 years, again particularly in Saudi Arabia.

However, as mentioned earlier, with Kuwait potentially seeking several large rigs for its possible project to increase production, it is likely that dayrates in that country will follow the increase that is expected to occur in Saudi Arabia. They could be in the $30,000 area within a year.

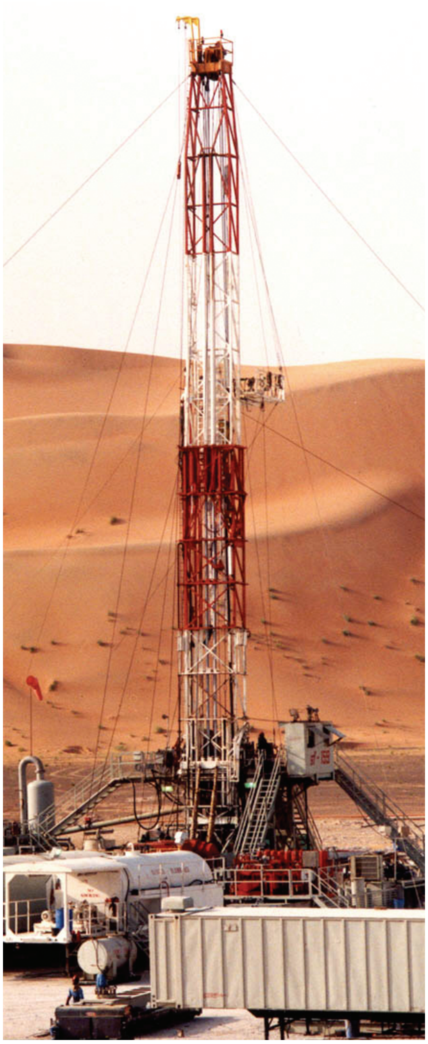
POSSIBLE NEW RIGS

There are few existing large land rigs that are suitable for drilling in Saudi Arabia or Kuwait, mainly due to the high specifications required by Saudi Aramco, **Kuwait Oil Company** and others.

Some large rigs could be brought from the US, however, Mr Kelly believes that likely won't happen due to the high cost of bringing them up to Saudi Aramco's standards, which could cost as much as $10 million.

What's more likely to happen is moving rigs from other countries such as Venezuela since the rigs have already been "internationalized".

Saudi Aramco's specifications usually call for a 120 person camp, multiple BOPs, multiple drill strings, and strict



Precision Drilling's Rig 159 is in Oman. The rig had previously drilled for PDO.

specifications for power, mud capacity, etc.

"It is a higher specification of land rig that you won't find anywhere in the world," Mr Kelly said. "The specifications are as high as they get."

Why there are such high specifications is a mystery to some people since the contractor is drilling essentially the same wells with the same depth as in other parts of the world and with a lot less equipment.

On the other hand, Mr Kelly explained, "if you are working in the US you could call someone within 24 hours notice. Here in the middle of the desert you have to have the equipment on hand.

"You can't just call up a rental company and tell them to send some drilling jars."

The potential lack of available existing rigs begs the question, will the market be strong enough and lucrative enough that contractors will build new rigs to supply it?

"Ask me in another year," Mr Kelly said.

"To build a rig to specs that Saudi Aramco or others would give you would probably cost around $30 million," Mr Kelly noted, "so if dayrates begin moving north of $30,000, I'm sure people will begin looking at that."

OTHER MID EAST MARKETS

There are other Middle East countries beside Saudi Arabia and Kuwait, of course, but they are comparatively small markets.

There is little activity onshore Qatar as the country is focusing almost entirely offshore with its huge gas fields and its move toward LNG projects.

Oman, according to Mr Kelly, is struggling just to keep up enough production to meet its OPEC quota.

"It is a small country and I don't think there is much left to explore," he said, "although there has been some talk of a couple of rigs to be used for pure exploration."

Those would be the smaller rigs, however, as the country is not a market for the high horsepower units.

Precision Drilling is also active in Iran where it operates several rigs. "We receive a lot of inquiries there as well," Mr Kelly said.

Another area that he expects will see increased activity is Libya, which recently opened up again for Western companies.

DELICATE BALANCE

Persian Gulf rig demand is expected to increase, according to ODS-Petrodata, but there is sufficient supply in the region to meet increased demand.

The company said offshore rig demand could increase from 61 rigs in mid-October to as high as 74 rigs by May 2005. There is a caveat, of course.

Tightening markets elsewhere in the world and a lack of desire by contractors to work in politically unstable environments could result in demand peaking in the high 60-rig area. The result could be an oversupply of rigs, particularly 250 ft jackups.

Nevertheless, the company says there are still about 20 open rig requirements beginning from early November to mid-2005, with the bulk scheduled to begin during the first half of next year.

Operators are seeking potentially seven rigs for work offshore Qatar, five off-

GlobalSantaFe's jackup Rig 124 is working for Devon Energy in the Gulf of Suez offshore Egypt.

shore Iran, three off Saudi Arabia, two off UAE and one offshore Oman.

"Qatar is definitely the driving force in the area (for offshore activity)," said **Ben Bollinger**, Vice President, Sales and Contracts for **GlobalSantaFe**.

"Although Qatar employs around 40% of the offshore rigs in the area, the number of opportunities in the near future is almost exclusively in Qatar."

Mr Bollinger, agreeing with ODS-Petrodata on the supply side of the equation, noted that most of the bid documents his company receives call for increasingly higher equipment specifications.

As a result, Mr Bollinger noted, "there is

GlobalSantaFe's jackup Key Singapore is drilling for GUPCO in the Mediterranean offshore Egypt.

speculation whether we may be oversupplied in some of the smaller jackups."

GlobalSantaFe has four rigs currently in the Persian Gulf, all working offshore Qatar. Three of the rigs (Rig 103, Rig 127 and Key Hawaii) are under long-term contracts that run to 2006.

The fourth rig, High Island 9, is working under a contract set to expire during the first quarter 2005, but Mr Bollinger is not too concerned that the rig won't find followon work.

"The High Island 9 is the only rig we have to seek other opportunities within that market," he said, "unless we bring in others from outside.

"There are plenty of (work) opportunities, and based upon the amount of work in the area, I feel confident we will have a fixture for it."

The company also operates three jackups offshore Egypt in the Gulf of Suez. Mr Bollinger believes that market is in delicate balance and could be oversupplied by perhaps one rig.

The market there is 100% utilized as of mid-October but contract terms in the region are shorter than others.

"We see some gaps based upon demand that we forecast," Mr Bollinger explained.

"Unless those gaps can be closed there is the potential for one rig falling idle."

The Gulf of Suez market is not at the point yet where GlobalSantaFe would think about pulling a rig out of the area, although the region is not as strong in terms of the amount of work as it was previously.

An additional potential problem is the short-term nature of the present work.

OFFSHORE DAYRATES

Dayrates for rigs working offshore Qatar are presently up to the mid-$50,000 area for the 300 ft units, but Mr Bollinger doesn't see those rates increasing significantly soon.

"Most of those fixtures in the mid-$50,000 were made on long-term, 800 days, for example, 550 days for another one."

Dayrates offshore Egypt are in the low-$30,000 area for the lower specification jackups, and have been in a fairly narrow range encompassing that rate for a long time.

Mr Bollinger doesn't believe having only one idle rig in the region would impact dayrates significantly.