

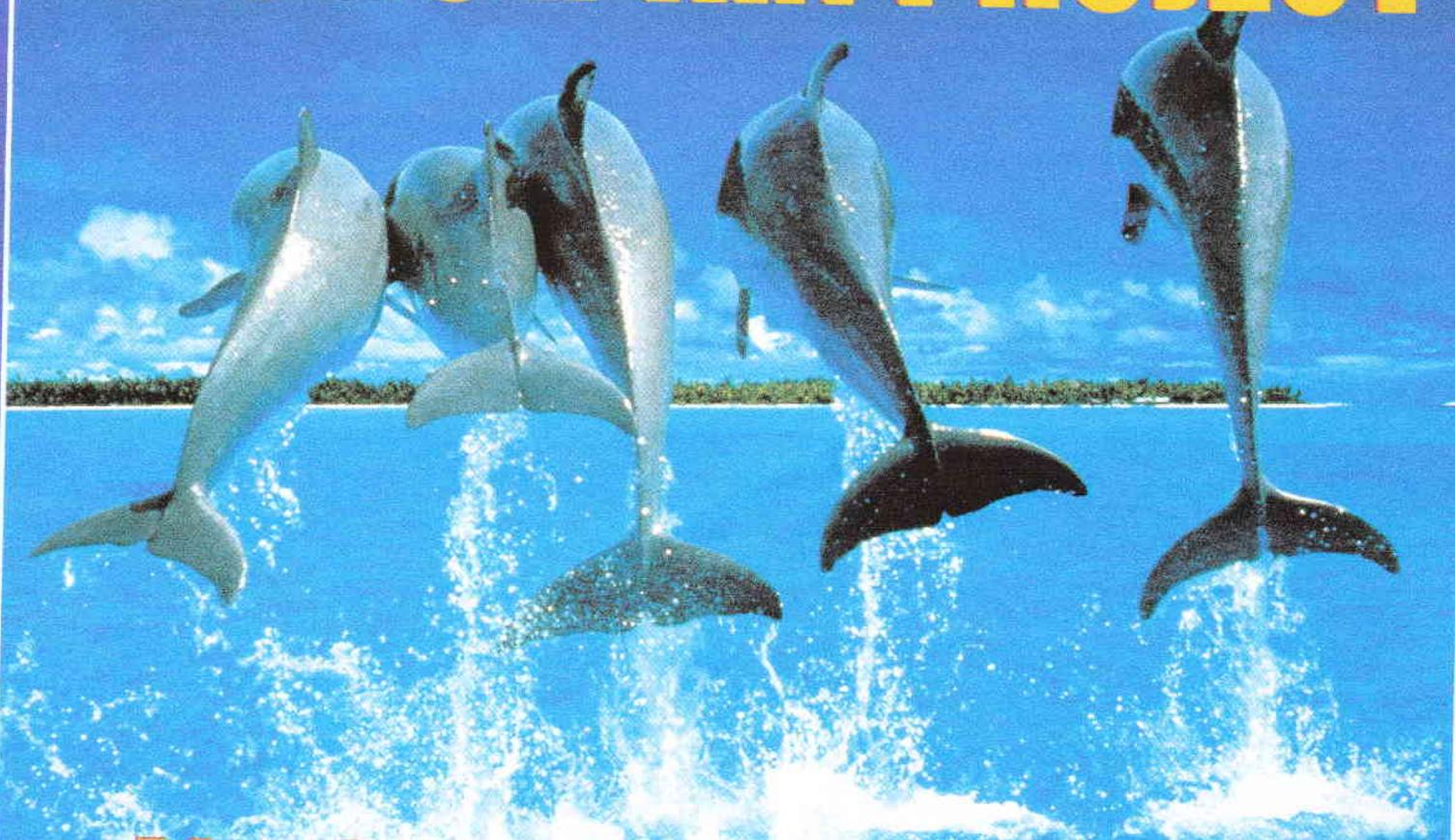
# MEEED

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## THE DOLPHIN PROJECT



**Abu Dhabi's vision of an  
integrated Gulf**

**SPECIAL REPORT: BANKING**

# MEED

MIDDLE EAST ECONOMIC DIGEST  
Vol 43 No 25 25 June 1999

**Finance:** 4

**Interview:** 6

Egypt's Foreign Affairs Minister Amr Moussa

**Regional Focus:** 28

**News:** 29-42

**Bahrain:** Private power back on track

**Egypt:** Six bid for BOOT water scheme

**Iran:** IMF asked for contingency loan

**Morocco:** Privatisation list trimmed

**Saudi Arabia:** King keeps faith with key ministers

**Briefing:** 43

New initiatives in UAE healthcare

**Stock Market Watch:** 44

MEED's weekly survey of the region's leading stock markets

**Tenders:** 45-48

77 tenders in 15 countries

**Iran:** Oil exploration projects

**Kuwait:** Water transfer system

**Lebanon:** Hospital rehabilitation

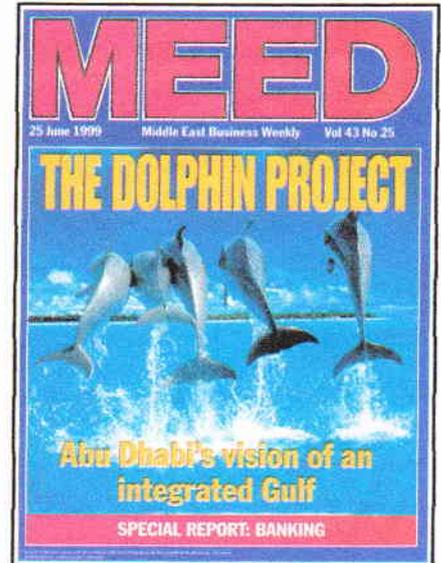
**Oman:** Harbour dredging

**Turkey:** Wastewater treatment plant

## Cover Story: DOLPHIN PROJECT

A \$10,000 million project promoted by Abu Dhabi is set to create the first cross-border energy grid to span the southern Gulf, turning talk of Gulf integration into a reality. Plans also call for its later extension to Pakistan. Based on Qatari gas, it will provide the feedstock for future power generation and industrial developments in the region. **Yawar Mian** reports

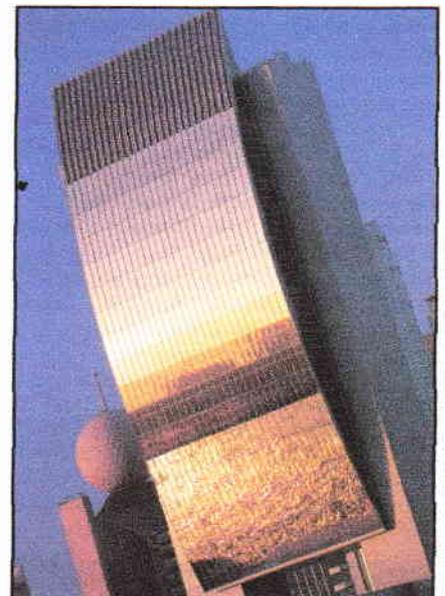
Pages 2-3



## Special Report: BANKING

In a mixed year for Gulf banks, volatile international capital markets and low oil prices brought net profits down slightly, while the balance sheets of banks profiled in MEED's annual survey grew by a healthy 7 per cent during the year. The prospects for foreign banks in Egypt are analysed. The country's Economy Minister Yousef Boutros Ghali and Commercial International Bank are also featured, along with a survey of Lebanese banking

Pages 9-28



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# Gas for the Gulf

*The \$10,000 million Dolphin project promoted by Abu Dhabi is set to create the first cross-border energy grid to span the southern Gulf. Based on Qatari gas, it will provide the feedstock for power generation and industrial developments, and plans call for its later extension to Pakistan. Yawar Mian reports from Abu Dhabi on the project that could turn talk of Gulf integration into a reality*

When a power failure brought Dubai to a standstill last month there was nowhere to turn for emergency supplies. The incident was a stark reminder that for all the talk of closer integration the seven emirates of the UAE maintain a very loose federation. There is no national grid and they generate electricity with little or no reference to each other. Dubai was blacked out by a dip in the gas supply and even Abu Dhabi, a major gas exporter, faces a domestic gas shortage.

Such realities are now forcing a serious rethink of the past self-reliance that allowed separate development to flourish. For all the region's energy riches, the distribution of reserves is uneven and the potential for transferring gas within the GCC has barely been tapped. In the most ambitious scheme of its kind to be seen in the region, Abu Dhabi is acting as the catalyst for a massive initiative that will not only bind the UAE closer together but promote the cause of GCC integration as well.

**"Dolphin aims at investing in the energy sectors to create a stable demand for gas"**

In Qatar it has a partner that is more than willing to oblige. The gas endowment of state energy company Qatar General Petroleum Corporation (QGPC) is the only one in the region not constrained by its association with oil production. With gas demand growing so rapidly and oil production restricted by OPEC quotas, Qatar's copious non-associated reserves are the only ones capable of meeting the demand.

If the Dolphin project, the brainchild of the UAE Offsets Group (UOG), makes sound economic sense, it also enjoys unprecedented political support. The UOG's patron is Shaikh Mohammed Bin Zayed al-Nahyan, chief of staff of the UAE Armed Forces and son of the UAE President Shaikh Zayed, who is driving the project forward.

"Dolphin aims at investing in the energy sectors of the Gulf and South Asia to create a stable demand for gas," says Amin Badr el-Din, chairman of the UOG. At root it offers a pragmatic response to the soaring regional demand for gas. The UOG

GCC gas demand for local utilisation: 1998-2005

(million cubic feet a day)			
	1998	2000	2005
Qatar	800	1,280	2,220
Dubai	600	800	1,100
Abu Dhabi	3,100	4,200	6,300
Northern emirates	390	420	520
Kuwait	1,260	1,350	2,000
Bahrain	1,000	1,100	1,300
Oman	800	800	1,200
Saudi Arabia	4,000	5,000	7,000
<b>Total</b>	<b>11,950</b>	<b>14,950</b>	<b>21,640</b>

Source: Nasser Jaidah, director of oil and gas ventures at QGPC, speaking at the 3rd Doha Conference on Natural Gas, 15-17 March

estimates that by 2005, demand will double to 7,500 million cubic feet a day (cf/d) in Abu Dhabi, to 1,500 million cf/d in Dubai and to 2,400 million cf/d in Oman.

Estimated to cost up to \$10,000 million over the next six-seven years, the phase one development will involve the construction of a subsea pipeline from Ras Laffan in Qatar to a landfall in Abu Dhabi which will then be extended to Dubai and Oman. In the first phase the pipeline will supply 3,000 million cf/d of Qatari gas to the UAE and Oman.

This equates to 30,000 million cubic metres a year (cm/y) and would account for nearly 10 per cent of world gas supplies shipped by pipeline. At base prices prevailing today, it should generate yearly revenues of at least \$1,200 million, promising a rate of return of 12 per cent. In

## Dolphin: the story so far

THE Dolphin programme of the UAE Offsets Group (UOG) was initiated in mid-1998. It aims to develop and supply 3,000 million cubic feet a day (cf/d) of gas from Qatar's North field to the markets of the UAE and Oman in its first phase. The first-phase development, estimated to cost up to \$10,000 million, will take six-seven years to complete.

The first phase will involve upstream, mid-stream and downstream developments. An 800-kilometre pipeline and distribution network will be built, with its core element being a subsea pipeline running from Ras Laffan in Qatar to Abu Dhabi. From Abu Dhabi the pipeline will run to Dubai and Oman. The pipeline will range from 30-48 inches in diameter. Up to 1 million tonnes of steel will be required for its construction. In the second phase, a subsea pipeline will be built to carry gas to Pakistan.

### MILESTONES

- **16 March** Statement of Principle (SoP) signed with Qatar General Petroleum Corporation (QGPC) to develop and supply 3,000 million cf/d of Qatari gas to the markets of the UAE and Oman. Annual shipments would be 30,000 million cubic metres, which is equivalent to 500,000 barrels a day of oil.
- **2 June** MoU signed with Oman's Petroleum & Minerals Ministry for the supply of between 300 million-600 million cf/d of gas
- **8 June** MoU signed with Pakistan's Petroleum & Natural Resources Ministry for the supply of between 1,000 million-1,500 million cf/d of gas via pipeline. An understanding was also reached between the UOG, the ministry and the Privatisation Commission of Pakistan for investments in the energy sector of Pakistan
- **14 June** MoU signed with the Dubai Supply Authority for the supply of between 200 million-700 million cf/d of gas. A detailed gas sales agreement is to be signed by the end of 1999.



North field: "In Qatar it has a partner that is more ti

a second phase, the pipeline will be extended along the sea bed to Pakistan and handle another 1,500 million cf/d of gas after 2005.

The full scope of Dolphin also envisions much more — the distribution and storage of gas in local markets, industrial developments in the UAE, petrochemical production, gas marketing and power generation projects.

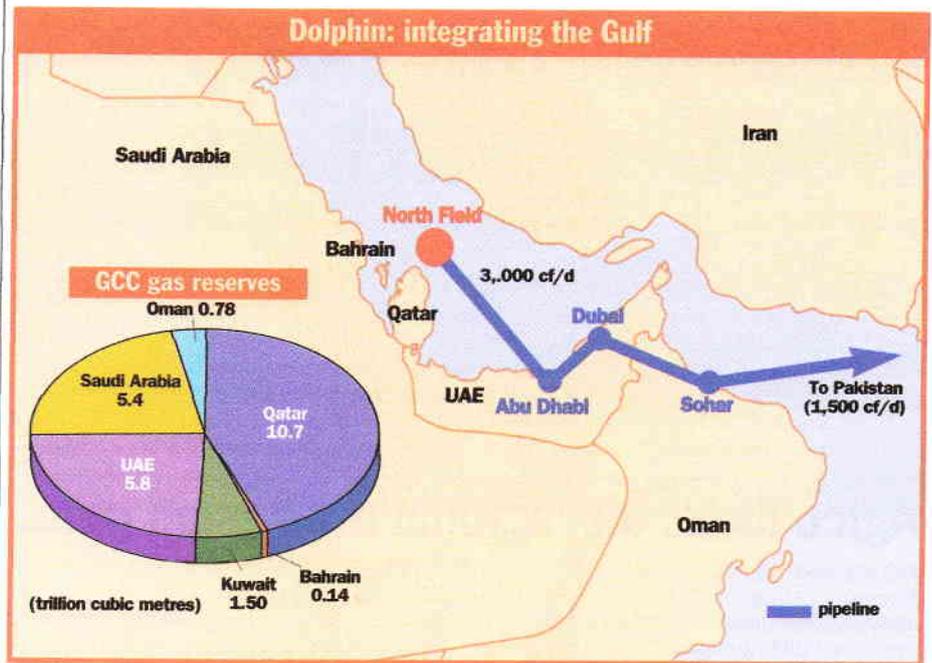
Since signing a statement of principle (SoP) with QGPC on 16 March, which secured the rights to develop and market Qatar's North field gas in the region, the UOG has moved swiftly to tie up prospective gas customers. In the first half of June it signed memoranda of understanding (MoUs) with three potential offtakers — Dubai, Oman and Pakistan — to take up to 2,800 million-cf/d from the project.

The next step will be to firm up the detailed sale and purchase agreements. The first is expected to be signed with Dubai by the end of the year. The next step will be to secure the host of technical partners that will be needed to turn the feasibility study into facts on the ground.

"The priority now is the implementation of the upstream part of the programme. We are in the process of picking partners," **Badr el-Din** says. Multinational energy companies that could be linked with the upstream development include the US' Mobil Corporation and Elf Aquitaine and Total, both of France. The UOG says it is confident of reaching agreements soon but declines to identify its likely partners. "We are in a fortunate position that we can be choosers. The shots have been fired and heads have been counted. Now we are going to pick the target," says **Badr el-Din**. Initial studies for the pipeline and gas marketing have been carried out by two US firms, Intec Engineering and Paragon. Booz Allen & Hamilton of the US is acting as overall adviser on the project.



'Obliging to oblige'



The intention is to finance Dolphin with a debt/equity package. To secure as broad a shareholding as possible, the UOG is expected initially to recruit other government agencies and seek some private investors. In line with the UOG's brief to generate wealth among UAE nationals by creating attractive investment opportunities, a public offering is also likely at some stage.

Dolphin's extension to Pakistan is based on long-term expectations of energy demand in a market of 130 million people rather than today's harsh economic realities. "We have a long-term view in Pakistan. Abu Dhabi is already involved in a number of areas through the International Petroleum Investment Company (IPIC) and has substantial real estate investments," **Badr el-Din** says.

Another reason is the direct interest shown in Pakistan by UAE President and Abu Dhabi Ruler Shaikh Zayed, who has had strong personal ties with Islamabad for more than three decades. "The best way to help Pakistan is not by writing a cheque. It is by creating value and the market for the benefit of both countries," **Badr el-Din** says.

The MoU with Pakistan is for a period of 30 years. It also involves an understanding with the Islamabad-based Privatisation Commission on investments in the domestic energy sector. The UOG is one of the eight prequalifiers for a stake and management control in the Karachi Electric Supply Corporation (KESC) and has expressed interest in buying into the Sui Northern Gas Company and the Sui Southern Gas Company. It has also declared an interest in buying gas-fired power stations.

"In Pakistan the UOG will be a buyer of gas through its involvement in various investments in the industries that will use gas supplied by Dolphin," says **Badr el-Din**, adding that the group is willing to invest

between \$2,000 million-3,000 million through the privatisation process. "Dolphin is independent of geography. Its objective is to create markets along the supply chain," he says.

Dolphin is not the first project to try and develop the abundant resources of the North field for export via pipeline to demand centres throughout the region. A proposal from the US' Arco to supply up to 1,200 million cf/d of gas to Dubai has been around since 1994, while the Sharjah-based Crescent Petroleum Company International, which signed a heads of agreement with QGPC in 1991, has discussed building a 1,600-kilometre pipeline to Pakistan.

What sets the Dolphin programme apart is the engagement of senior political figures in its development both at home and abroad. The promotion of Dolphin has already produced political dividends in the recent improvement of ties between the UAE and Qatar. The MoU with Oman came soon after the signing of a long-awaited border agreement in May. Oman also showed strong support for the federation in the face of differences with Saudi Arabia over its friendly overtures to Iran with which the UAE continues to be at odds over control of the three Gulf islands of Abu Musa and the Lesser and Greater Tunbs (MEED 18:6:99, Regional Focus).

By taking the lead in developing a practical economic project, Abu Dhabi stands to enhance its political stature within the GCC while binding it closer together. "For now, Dolphin locks the federation and the southern Gulf. It could easily be extended to the rest of the GCC to create greater benefits for the region," says a Western diplomat in Abu Dhabi. That remains to be seen, but if Abu Dhabi can pull it off, the Dolphin project will be a giant leap forward for a regional integration process that many would argue is long overdue.