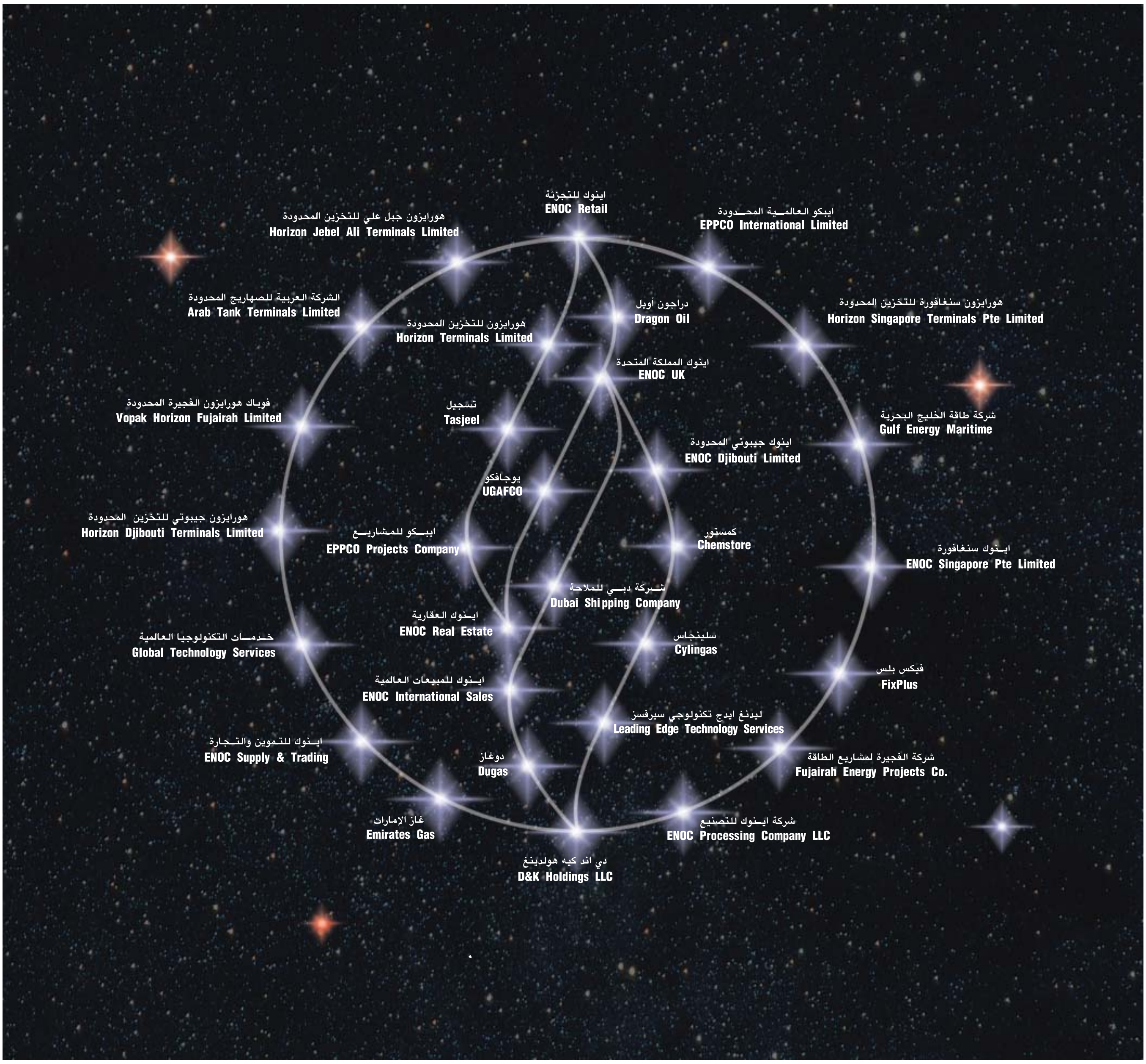
The UAE Energy Sector 2006

A Special Report From
Oil and Gas Investor and
Global Business Reports



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Punching Above Its Weight

As a politically and economically stable global oil and gas player, the UAE is undoubtedly a key market in the most important oil and gas region in the world.

Imagine a country barely 30 years old, dominated by barren desert and scorching summer temperatures, yet possessing a GDP set to touch $139.4 billion within two years, a high per capita annual income ($29,000) and a sizeable annual trade surplus. You are no doubt thinking that no such place exists, that such figures for such an inhospitable and young country are impossible?

If you are then think again. The United Arab Emirates was often dismissed as a backward desert region, yet this young country offers much more than historically met the eye. Both economically and politically it has emerged as an important state, growing on the world stage and demanding to be noticed.

Although a late starter in the oil-export business, the Emirates' current eminence seems obvious when considering that, according to latest estimates, it possesses 97.8 billion barrels of oil, the equivalent of 9% of the world's total. Combine this with its strategically important location along the southern approach to the Strait of Hormuz on the Persian Gulf—a vital transit point for world crude oil—and its status as a pre-eminent oil producer is boosted.

Born out of the remnants of the British colonial presence in the Persian Gulf, the UAE was established in 1971. A federation of seven emirates (Abu Dhabi, Ajman, Al Fujairah, Dubai, Ras Al Khaimah, Sharjah and Umm Al Quwain), it has undergone a rapid transformation from the loosely assembled undeveloped desert emirates that the British left in their wake. Before the discovery of oil in the 1950s the economy was dependant on fishing and the declining pearl industries. Now it is as distinct from its medieval past as the skylines of Abu Dhabi and Dubai are from their low-rise beginnings.

Since 1962, when Abu Dhabi became the first of the emirates to begin exporting oil, both the country's economy and society have been transformed. The UAE's per capita annual GDP is on a par with leading Western European nations, it is a member of the World Trade Organization (WTO), and it has become a major international business center and one of the most stable and untroubled countries in the world.

If the change since the country's formation has been rapid then the development of the economy in the last decade can be considered supersonic. The UAE now ranks 24th among top global exporters, above India and Australia. Its nominal GDP has risen from $69 million in 2001 to $103 million in 2004—14% a year. And the economy has grown by 6% per year on average over the past decade and 9% from 2003 to 2005.

The UAE Central Bank predicts that the economy will grow by more than 8% this year and inflation will drop to 4%.

Confidence, although shaken by the readjustment in the Dubai stock market in March, remains high and UAE companies are projecting the image of a vibrant and growing economy through their increasing global presence. The recent high-level maneuverings surrounding Dubai Port World's (DPW) takeover of P&O illustrated the level of global clout the UAE now enjoys.

It is also currently undergoing free-trade agreement negotiations with both the U.S. and EU. The business environment characterized by "free zones" and absence of taxes, created by the late president Sheikh Zayed bin Sultan Al Nahyan and late prime minister and vice president Sheikh Maktoum Bin Rashid Al Maktoum, is as "western friendly" as any one will find east of Europe.

In recent years the government has undertaken several projects to diversify the economy and reduce its dependence on oil and gas revenues. The non-oil sectors of the economy presently contribute 70% of the UAE's total GDP and around 30% of its exports. The federal government has invested heavily in sectors such as aluminum production, tourism, aviation, telecommunications and re-export commerce. Yet in spite of this, there is no getting away from the fact that the UAE's hydrocarbon industry was and will remain the main driver of this rapidly developing

This special report *was prepared by London-based Global Business Reports. The authors are Elouisa Dalli (Elouisa@gbreports.com) and Gregory Wilcox (Gregory@gbreports.com).*

An aerial view of Dubai Dry Docks, the largest repair, conversion and building yard in the Persian Gulf region.

nation.

By far the biggest deposits of oil in the emirates are to be found in Abu Dhabi. The emirate controls more than 85% of the UAE's oil output and more than 90% of its reserves, making it a global player in the oil market in its own right. Its dominance will become even greater in the coming years as it increases its production and exports of natural gas.

Yet it would be a mistake to view the UAE hydrocarbon sector as a one-emirate show. While the other emirates have not been blessed with the same natural reserves as its dominant neighbor—Dubai oil production peaked in 1991 at 410,000 barrels per day—the UAE has a dynamic oil and gas market and key competencies are present across all the former Trucial states.

Dubai, with its world-class repair, conversion and building shipyard, Dubai Dry Docks, plus the presence of Jebel Ali, the large industrial free zone, has become the location of choice for many companies serving the oil and gas industry not only in the UAE but across the Middle East. Sharjah, too, is home to many service companies and is also, after Abu Dhabi, the largest gas producer. And Fujairah is developing its industrial base; its ability to serve the oil and gas sector will only increase.

Historically, the UAE has followed its own path, distinguishing itself from its fellow Arab and OPEC partners. Ever since the 1930s, when the British government had the right to reject or approve the granting of oil concessions in the Gulf, there has always been an international presence and role in the UAE oil and gas industry. This did not stop with the first oil shock in 1973. While Saudi Arabia expelled international oil companies, the UAE continued to welcome them.

The important role of international oil companies in the UAE continues to this day. The Abu Dhabi National Oil Co. (Adnoc), the dominant Emirati oil company, brought in ExxonMobil in June 2004 as a strategic partner in the development of the Upper Zakum Field with a 28% ownership after a competitive bidding process. The company knew it needed the technology and expertise that an international powerhouse such as ExxonMobil could provide, to raise its capacity from 550,000 barrels per day to 750,000 by 2008 and 1.2 million by 2010.

The international feel to the sector is testament to the receptiveness of UAE companies to new technologies and competencies that international firms, be they multinationals such as Halliburton or smaller independents such as Nordic Well Services, offer. Since the earliest days of oil discoveries, the UAE has demonstrated its realization of the need for constant technological improvements to keep pace with demand and its fellow oil producing competitors.

Foreign companies

in the UAE have created a sense of legitimacy and global excellence.

Foreign companies in the UAE have created a sense of legitimacy and global excellence. The UAE realized that for its industry to grow and develop, it needed Western technology. Foreign companies have brought with them efficiencies built up through years of experience and have inevitably been invaluable in the country's aim to increase production.

The optimism surrounding the industry here is partly due to this willingness to embrace new technologies. Indeed, now that the country is aiming to boost the levels of production from its current 2.6 million barrels per day to 3.6 million by 2010 (a sharp increase considering that in 2000 the country was producing 2,492,000 barrels per day), international companies are more welcome than ever. Adnoc, with foreign help, is also currently developing four new fields and has already increased its production 25% from the past two years.

In turn, the legitimacy and expertise imparted by the foreign presence has created an ever-more confident and expert local industry. Local oil-focused companies are replicating their fellow Emirati companies, such as DPW, in increasingly making themselves noticed beyond the UAE borders

Throughout the UAE, projects are being initiated with the upgrading of infrastructure being the order of the day. One such undertaking is the project to increase capacity at the onshore Bu Hasa Field that includes the construction of natural gas separation units, and the drilling of natural gas reinjection wells and water injection. The avowed aim is to push the sustainable production capacity from its present day 550,000 barrels per day to 730,000 by year-end.

Upgrades of Bu Hasa's fellow Emirati oil fields, the Asab and Bab, are also under way, again driven by the desire for increased production.

Increased domestic consumption of electricity and the growing demand from the burgeoning petrochemical industry have provided incentives for the UAE to increase its use of natural gas. During the last decade natural gas consumption in Abu Dhabi alone has doubled. The country is blessed with 212 trillion cubic feet of gas. This is the fifth-largest reserve in the world, after Russia, Iran, Qatar and Saudi Arabia.

The largest reserve in the UAE is in Abu Dhabi, where the non-associated khuff gas reservoirs beneath the Umm Shaif and Abu al-Bukhoosh oil fields rank among the world's largest.

Yet this has not stopped the country looking further afield for supplies to support its increased gas needs. The Dolphin Energy project is the largest energy initiative in the Middle East and aims to supply substantial quantities of gas from offshore Qatar to the UAE. The crossborder project, which also involves the delivery of Omani gas, is a first and highlights the innovative approach being taken to the energy needs of the country and the emphasis placed on cooperation.

All the above paints a picture of an industry moving forward with confidence and that has much to offer potential entrants to the market. Yet the optimism is further enhanced when one looks at the broader geopolitical picture of the oil industry. This illustrates why a look at the UAE's oil and gas sector is so timely. During the production of this report, oil and oil-producing states have dominated the news. The first half of 2006 has seen increasing unease in three crucial oil-producing nations. The troubles in the Nigerian delta, the attempted terrorist attack on the Abqaiq oil-processing facility in Saudi Arabia, and the growing dispute over Iran's nuclear ambition have brought into closer focus the need for stable, guaranteed sources of oil at a time when the world's thirst for "black gold" shows no sign of abating.

The UAE's reputation as the region's most stable country, both politically and economically, means its importance should not be underestimated. At a time of rising global production and demand and high oil prices, the UAE is ready and more than able to capitalize on the opportunities that have been created. It also offers a safe and attractive environment for business, in stark contrast to some of its OPEC partners.

At times of skyrocketing oil and gas prices, ever-more global demand for energy and uncertainties surrounding supplies from several of its OPEC partners, the UAE is poised to play an ever-more important role on the global energy stage.

The scope for growth across the sector is huge and this report seeks to present a clear and balanced picture of the sector at present, the challenges and opportunities that exist and how it might evolve during the boom period the industry is experiencing. The UAE is undoubtedly a key market in the most important oil and gas region in the world, and given its determination to keep its place among those nations that are quick to realize the need to adapt to both consumer demands and changing circumstances, it should increase its prominence. □

The Price of Oil

Even at $50 oil, the prospects of increased oil E&P in the UAE remain high.

The past three years have seen the price of oil rise by more than $40 and this year, one has not been able to pick up a newspaper without there being significant coverage and analysis on whether the industry can expect to see further increases. This has led people to ask the age-old question: "Is the era of cheap energy over?" At press time, the price of crude oil had hit a record high of $72 per barrel and the expectation was that it would not stop there.

While the value of oil in real terms is still below those of the early 1980s, the recent hike in cost has created a flurry of predictions and a buzz throughout the industry as everyone seeks to capitalize on the increased amounts of money to be made. When meeting the UAE oil and gas community, the general atmosphere was one of uncontained excitement. As Mohamed Fawkey, of International Development Co., boasted, "Anyone can succeed in this market now."

Yet the strength of the UAE industry has been in part created by steady and sensible growth, so it would seem pertinent to share the prevalent views within the emirates on what they feel will happen to the oil price and how they plan to react to it.

A quick glace at any news channel will confirm that many of the factors that drove world oil markets in 2005 are present in 2006—namely geopolitical disquiet in the Middle East, driven mainly by Iran's nuclear ambitions and continued strong global consumption.

There is little doubt that spiraling prices are the result of uncertainties about future market conditions and it is fair to say that a price range of $50 to 55 has replaced the $15 to $30 range as the sustainable long-term crude price.

Samir J. Fancy, chief executive of Topaz Energy and Marine Ltd., says, "If (these higher oil prices) had happened 20 years ago, the world would have entered a serious economic recession."

Geoff Taylor, chief executive of Dubai Dry Docks, feels that for the meantime, at least, this is where the price will stay. "I do not see the price of oil plummeting. Even if it does drop, it is not going to fall back to $25 a barrel…It would probably go to $45 a barrel, but I do not even see that happening as OPEC countries would not let it."

The obvious consequence of this prevalent view is that there now exists greater incentives for national oil companies and oil multinationals to increase spending on exploration and development. This has a trickle-down effect as E&P firms are once again looking into opening fields that had been shut because they were not viable when oil prices were low.

This growth in oil price has posed questions of oil producers. The Abu Dhabi National Oil Co. (Adnoc), the dominant Emirati oil company and standard bearer for the hydrocarbon sector in the UAE, is aware of its duty. It sees its role during this current climate as one of reinvesting the profits gained into the future of the oil industry. It plans to spend billions to increase its oil infrastructure and expand both its upstream and downstream capabilities.

Adnoc chief executive H.E. Yousef Omair Bin Yousef recently acknowledged the part the company has to play in helping the consumer in this current era of price volatility. Adnoc sees stability as the key to the industry's growth and, therefore, attaches a great importance to its ability to both raise capacity and stabilize world prices.

The present climate though has encouraged many companies to predict annual growth rates of between 15% to as much as 25%, all on the generally held assumption that the oil price will remain high.

This view is also held within the financial sector of the UAE. Michael Ladenburg, head of corporate finance at the National Bank of Abu Dhabi, says, "I see the oil price remaining at significant levels, which will in turn aid the development of industry across the country."

Yet it might be wise to question whether a continued rise in the price of oil would really be as beneficial for all concerned as currently believed. A recent World Bank report, while concluding that prices would remain high for a prolonged period, calculated that if prices rise above $90 for more than a year, world output would decline 1.5%.

Hussein M. Sultan, chief executive of Dragon Oil, is of the opinion that "whether [the price of oil] will shoot up to US$100 a barrel is a difficult question. I honestly feel that the right price for everyone for the next couple of years is in the range of US$45 to US$60 a barrel, though the upstream companies will probably want more. This is the price that is fair to both consumers as well as producers."

He is aware though that if the price does stay in his preferred range that the benefits to be accrued are enormous. "The industry here in the UAE is geared for substantial investments in projects that will substantially increase the production of oil and gas. We need more gas to run our power utilities, our industries and also for petrochemical projects. There will also be investments downstream and new refineries will be built to meet the growing demand. So as long as the demand continues to grow and the oil price remains at a reasonable level, then we should see more investments in the oil and gas industry."

A reactor vessel fabricated for a major oil and gas client in the UAE by Adyard in Abu Dhabi.

A paradigm shift has occurred and we are now seeing some independents basing investment decisions on a $55-per-barrel price, with multinationals being more cautious in benchmarking their investment plans on the premise of $35 a barrel. But will they soon be benchmarking at even higher levels? The honest answer is, as many in the UAE have acknowledged, that one cannot tell. While fears exist that increased tension across the Strait of Hormuz in Iran will push prices as high as $90 or even $100, others feel the market will be able to cope.

Samir J. Fancy, chief executive of Topaz Energy and Marine Ltd., says, "When the price of oil started to reach between $30 and $40, some said the world would not be able to cope. But this did not happen. The markets are more efficient today; market efficiency has changed the relevance of the price of oil. If this had happened 20 years ago, the world would have entered a serious economic recession."

What is clear is that the industry in the UAE has adapted to the changing times and is gearing up for increased spending and work that the current oil price affords. If the price does continue to rise, then perhaps the world markets and economies could be able to cope, but the prevalent view is that the doomsday scenario of $100 to $200 prices will not emerge.

As Fancy says, "There has been a paradigm shift in recognition of the intrinsic value of oil," meaning that while the era of low prices may be gone forever, it would simply be wild speculation to say that $100 will soon be breached.

The new acting secretary general of OPEC, Mohammed Burkindo, echoes Dragon Oil's Sultan by recently stating that OPEC would like to see oil priced at a level acceptable to both consumer and producer and that he expects it to move towards $50 this year. Even at this level though, the prospects of increased spending remain. □

The Fuel of the Future

With tremendous gas reserves and growing gas demand, the UAE is aiding the growth of Gulf economies through use of clean fuel.

"Natural Gas is the future," extols Khalil Al Khouri, general manager of Setegi Thermax Systems, and all indications go to show that he is right. The growing economy and the onset of the Dolphin project all point towards an economy that will be driven not so much by oil as by gas.

The needs of the country, with its ever-expanding demand for cheaper and cleaner fuel combined with its own vast reserves and ingenuity at utilizing them, mean natural gas is and will play an increasingly leading role for the Emirates throughout the 21st century.

The development of the UAE cannot be looked at in isolation from its hydrocarbon industry; without the latter, the success of the former would not have been possible.

Yet the buzz word around all the Emirates is diversification. While oil and gas may have had a significant part to play in the short history of the UAE, the aim of those in power is to wean the economy's dependence off oil and gas. Therefore, during the past decade new energy-intensive industries have sprung up, adding to the already present plants, such as the Abu Dhabi Water and Electricity Authority (Adwea), which is responsible for producing large amounts of fresh water using desalination plants.

In highlighting two sectors the UAE has developed, one sees that the future energy requirements of the UAE are rising sharply. The Dubai Aluminum Co. (Dubal), a huge aluminum-processing plant in Dubai established in the late 1970s, requires its own 1,450-megawatt power station comprising 18 industrial gas turbine generators, and has the ability to import 200 megawatts of electricity from Dubai Electricity and Water Authority's power station in neighboring Jebal Ali.

Bourouge, a partnership of Abu Dhabi National Oil Co. (Adnoc) and Borealis, recently awarded four contracts for its proposed major expansion of its petrochemical complex in Ruwais to be called Bourouge 2. This multi-billion-dollar project will be able to produce 2 million tons of enhanced polyolefins per annum. The consequence of these developments is that the UAE's total primary energy demand, which is already high in per-capita terms, is projected to grow 2.9% per year. In

An Arabian Industrial Gases Co. plant in the UAE.

Dubai alone it is estimated that daily electricity demand will reach 8,513 megawatts by 2011, an increase of more than 100% from 2005.

With this drive to create an indigenous industrial sector comes certain energy requirements, and the irony is that in diversifying the economy away from its hydrocarbon roots, it is in fact increasing the need for natural gas. During the last decade, natural gas consumption in Abu Dhabi has doubled, and it currently stands at nearly 4 billion cubic feet (Bcf) per day.

The response to this new reality has seen the UAE embark on a massive, multi-billion-dollar program of investment in its natural gas sector, including a shift toward gas-fired power plants and the transformation of the Taweelah commercial district, Abu Dhabi, into a natural gas-based industrial zone.

The second phase of the UAE's $1-billion onshore natural gas development program (OGD-2) at the Habshan complex directly over the Bab oil and gas field was completed in early 2001. This second phase included the construction of four trains to process a daily average of 1 Bcf of gas, 300 to 500 tons of gas liquids (NGLs), 35,000 to 55,000 tons of condensate and up to 2,100 tons of sulphur. Additional capacity expansion is planned in the third phase, OGD-3, and will involve the construction of two additional gas-processing trains. This is essentially designed to produce higher volumes of NGLs and condensate and reinjection of gas into oil fields.

The rise in consumption of natural gas both in terms of using it for power to domestic application has created opportunities for companies both local and foreign. Lootah BC Gas is one such company that noticed the openings present in the Emirates. Established in 1997 Lootah BC Gas, a joint venture of the Lootah Group and Terasen, a Canadian company, was formed primarily to focus on gas pipeline networks with the onset of the gas-distribution project in Sharjah. This was completed in three phases using more than 800 kilometers of piping, the expansion of which is ongoing.

The company has since ventured into Dubai where it is involved in LPG distribution systems and into Abu Dhabi where it has just completed the FEED (front-end engineering design) for Adnoc. The growth in the company's portfolio mirrors the growth in demand for gas across the country.

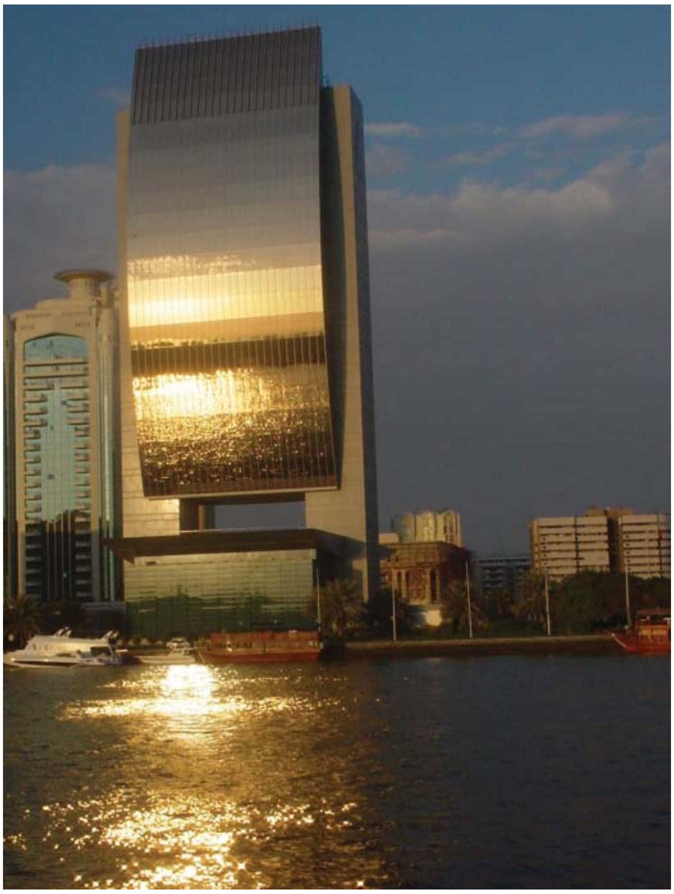
Dan Danesh, Lootah BC Gas' general manager, says, "Ten years ago we identified that gas distribution would become part of the everyday energy life here as the Gulf countries expanded. The change occurred earlier in Europe and North America; here they had much more oil. But as the Gulf moves to get more and more developed, there is a greater need for more and more energy."

The expansion of the gas-distribution systems in Dubai and Abu Dhabi will offer yet more opportunities for companies like Lootah BC Gas. Yet, the chance for companies based in the UAE to go forth and operate elsewhere in the Middle East is also present as rising gas usage is not simply an Emirati phenomenon as Danesh points out. "Jordan is thinking about distribution. Saudi Arabia is looking at distribution. Oman is looking at distribution. All these countries have matured to a level where they have gone from using gas for power to using gas for domestic uses."

While the rise in oil price has created excitement in the UAE oil sector, the appreciation that gas, in both an industrial and domestic sense, is "coming in a big way" has also stirred the imagination of what is possible for companies in the gas sector. "It is a new era for the company—the culture has totally changed," says Salah abd El Bari, general manager of Unigas. "We are now trying to capitalize on the current boom phase of the 'gas industry' in the UAE." Unigas is a Sharjah-based industrial gas company that, due to the changing landscape brought about by the increasing use and demand for gas, is diversifying into the pipeline sector.

This is not a unique example. Throughout the UAE, companies are latching onto the new reality and reaping the benefits. "The growth over the past five years has been phenomenal—and the asset base we have now compared with five years ago has completely changed. It seems as if we are a totally different company. We have a growth rate of 40% per year. It all looks very beautiful on a financial statement!"

Naji Skaf, general manager of Arabian Industrial Gases (Aigco), says growth here is attributable to the increasing demands of the industrial sector. And with further investment in the downstream market and other industries expected during the next five years, one can see why companies such as Aigco are so bullish about the future. The market for service providers of gas to the oil and power industries is bright and due to get even brighter.



Dubai has established itself as a Western-style business center in the Middle East region.

"I think *the Saudi market may need to be copied...."*
Naji Skaf,
Arabian Industrial Gases Co.

Skaf says, "On the oil side, the UAE has been lagging behind in adding value. It is still pretty much a crude oil exporter. I think the Saudi market may need to be copied whereby you keep the oil in the country and add value to it further down the chain. The UAE needs to copy this model, but by investing in petrochemical plants.

"This should occur over the next 10 years, enabling plenty of opportunities for ancillary industries." But one project—Dolphin—epitomizes and encapsulates the future of energy usage more than any other.

At this time, a 48-inch export pipeline is being laid over some 370 kilometers through joint Qatari-UAE waters from the specialist pipelay vessel, *Castoro-6*. This is the largest and longest subsea line in the Gulf Country Community (GCC). That alone is impressive enough, but when told that this is the final piece of an "energy jigsaw," the creation of which is a behemoth in terms of its financing, construction, cooperation required and innovation displayed, then one begins to understand the importance of the Dolphin project.

The largest energy initiative ever undertaken in the Middle East is the logical, yet innovative, solution of marrying enormous gas supply, namely Qatar's offshore North Field, with a thirsty market, namely the UAE, especially Dubai. It is possibly the best illustration of what the UAE, along with desired cooperation, is capable of in the hydrocarbon sector.

This unique strategic energy initiative, costing some $4.4 billion, will produce large quantities of natural gas from Qatar's offshore North Field—the largest single gas field in the world—and transport it by pipeline to Qatar's Ras Laffan industrial city. There it will be processed, so that valuable byproducts are extracted for sale elsewhere. Meanwhile up to 2 Bcf a day of refined gas will travel by export pipeline to the UAE for distribution to customers throughout the Emirates and in Oman. This very brief overview of the project's basic structure does not do it justice in either importance or size.

In terms of importance it cannot be overestimated. Dolphin Energy will become the UAE's main gas resource supplier as soon as it has reached full production. Once fully up and running, it will be processing 2 Bcf of gas a day, allowing it to supply around 20 billion cubic meters (Bcm) of gas annually to Taweelah.

Of this 10%—or the equivalent of 33,000 daily barrels of oil—will be sold to Oman, still leaving 18 Bcm daily (equivalent to 300,000 barrels of oil) for direct use in the UAE economy. What this ultimately means for the Emirates is that it has secured a stable source for 30% of all gas to be used in the Emirati power stations.

Such a distinction and role is not one that Dolphin Energy takes lightly. Dolphin Energy's chief executive, Ahmed Ali Al Sayegh, comments, "This fact does not, and will not, make us too proud or complacent. On the contrary, it makes us highly conscious of the weight of responsibility that we shall carry, on a daily basis, to provide the UAE with the energy it needs. The concept has become more than a reality—it is now a duty that we shall take very seriously indeed."

Aside from the mere statistics associated with the project, its importance also resides in geopolitical terms; an example of regional cooperation, bringing together three GCC members and realizing such an ingenious project bodes well for future partnership. That the UAE took the initiative once again demonstrates the country's realization for constant innovation and improvement to support the development of substantial, long-term, industrial investments for its future well-being.

The innovation the UAE has shown with the Dolphin project is not limited to its uniqueness. That Abu Dhabi has the fourth-largest gas reserves in the Middle East, and yet the Dolphin project was deemed necessary to cope with increased gas demands, may seem bizarre. But it has allowed the UAE to husband its own gas reserves for long-term use, such as injecting it into declining oil fields.

A National Drilling Co. facility.

Once up and running (latest predictions are that it will be in first-quarter 2007), Dolphin Energy will have an immediate impact. This impact will only grow with time for a second stage to its project—allowing for a further 1.2 Bcf of gas to be supplied from Qatar at a future date—is being planned. With this in mind, an export pipeline is being built so that it can take the 60% additional quantity of gas without difficulty—however, additional wells, sea lines and processing facilities will be required.

Sayegh says, "We shall also have to make a new agreement with our good friends in the Qatar government—without whom, of course, none of what we do would have been possible. The matter is now under study. And this is to stress the very important role Dolphin will assume as a principal gas supplier to the UAE, once the gas begins to flow."

In terms of financing it also illustrates what is possible—drawing on original solutions, Dolphin Energy went out to regional and world financial markets in late 2003 to seek initial bridge financing. This was based on a shareholders' agreement to provide some 30% of total funding with 70% sought from banks worldwide.

In the first tranche, completed in mid-2004, $1.36 billion was raised through a conventional loan facility at very competitive rates. The second tranche, which combined innovative Islamic as well as conventional components, raised $3.45 billion last summer on even more favorable terms—and enabled Dolphin Energy to retire the first tranche. Now, the focus is on long-term financing—aiming to secure permanent facilities over 10 to 15 years, consistent with the life of the project.

What is not in doubt is that this has remolded the industry and energy landscape of not just the UAE but of the entire region. The first interconnected gas grid between three countries allows the resources of one country to benefit the development of two others. With its emphasis on aiding the growth of Gulf economies through use of clean fuel, it has also answered the questions posed by the global environmental lobby.

Throughout the globe there is an ever-increasing shift towards gas and cleaner, more environmental friendly fuels in general. In adapting in such a dramatic way, it is fair to say that the Dolphin project is at the forefront of the new energy paradigm. □

Rolling With Good Times

Tax-free zones, proximity to the hydrocarbon industry and a long history of marine services contribute to the UAE's growing attractiveness as an oilfield-services center.

There is a prevailing mood of optimism in the UAE oilfield-service sector. "Anyone can succeed in this market in the next three years. Ten years ago it was a big challenge for companies like ours to grow—now growth is expected," says Mohammed Fawkey of International Development Co., one of the major suppliers of equipment to the oil and gas sector in Abu Dhabi.

The newly found wealth and increased number of "petrodollars" have permeated the industry and the service sector is experiencing a "boom time" that is characterized in several ways from expanding scopes of operations, a growing diversification of services offered and a general fattening of wallets.

The service industry in the UAE is multifaceted and although large international companies such as Halliburton and Schlumberger play very visible and important roles, the number of local companies busy expanding their operations in the country, as well as within the region, is noticeable. This is a dynamic sector built up during the past few decades as hydrocarbon production developed.

Stringent regulations, such as minimum local-content requirements for foreign operators, have allowed the development of local proficiencies, which during the past few years have flourished with the increasing number of foreign entities entering this buoyant market.

The Bin Ghalib Group of Cos. is a good example of a local company now acting in much the same manner as many of its more illustrious and better-known foreign competitors. Established some 25 years ago, this family-based company offers engineering and automation solutions to the industry. Mohammed Bin Ghalib, the group's chief executive, boasts, "Twenty years ago it would have been hard to find a local company doing what we are doing now."

> **"Twenty years** *ago it would have been hard to find a local company doing what we are doing now."*
> *Mohammed Bin Ghalib,*
> *The Bin Ghalib Group of Cos.*

He is alluding to the fact that, although he is rightly proud of the company's emphasis and history as a local entity, it is now looking beyond the Emirati borders. "We are looking to serve other parts of the region, countries such as Pakistan, Afghanistan, Bangladesh and Iran, places near to us. Being based here allows us to expand to these areas."

This growing confidence is indicative of two important facts: the high level of local knowledge and expertise and the current high oil price. "Because of the high oil prices, dying companies have been rejuvenated. There are now new players in the market from China, Korea and India, not just the usual complement of Americans, Europeans and Canadians. There are a lot of opportunities for everyone. The industry is booming."

As companies such as Bin Ghalib develop and regional markets mature, the possibilities for further expansion look strong.

This "can do" approach is noticeable beyond the walls of the Bin Ghalib Group headquarters and is facilitated by two circumstances, which, when combined, constitute the UAE's main competitive advantage over its fellow Gulf neighbors. First, the UAE's enviable location at the heart of the world's most important oil and gas region, and secondly, the growing confidence in the UAE economy coupled with a business-friendly environment.

Whether companies are in Abu Dhabi, Dubai, Sharjah or Fujairah, the notion that they are based in a regional and evermore viable global logistics and trading hub is more than appropriate. Fadi Michel Matta, president of the Africa and Middle East office of National Oilwell Varco, an American company focused on providing a slew of equipment and services to the sector, acknowledged the huge advantage of the UAE over and above even its closest Gulf neighbors. "There are no logistical problems in being based here in Dubai."

That the UAE is an attractive place for anyone wanting to operate in the Middle East, the North Africa region and even as far afield as the former Soviet states is a view widely held in the industry and testament to the ease of doing business in the UAE.

Yet, having already generated a strong reputation as a hub for the hydrocarbon industry, the country is not resting on its laurels. Determined to push back the boundaries of what is possible, institutions such as the Abu Dhabi Chamber of Commerce and Industry (ADCCI) are looking to entice more foreign companies to the UAE.

ADCCI's newly elected president, Salah Salem Bin Omaeir Al Shamsi, says, "We want to market Abu Dhabi as an oil and gas hub. We have the infrastructure for communications, we have the market and then we have the competitive advantage of a good business environment. It is a "one stop shop." There are so many things that mean that this is a good place to base yourself. The UAE is a young country, but it has developed very quickly due to the open economy and open minds present here."

Today, tapping into the beneficial economic regime and location are a host of service companies that operate around the globe and so have much to which to compare the UAE. One such heavyweight is Petrofac International, serving the Gulf region's oil and gas sector from its Sharjah base since 1991.

Maroun A. Semaan, chief executive of Petrofac (E&C), says, "There are many benefits to working in a modern environment of a dynamic tax-free economy with high growth rates and abundance of support services. Being based here has offered us the opportunities to serve our key clients around the region in an efficient manner.

"One can go to Kuwait in the same time as one can drive to Abu Dhabi and there are several daily flights to Doha and Muscat. Modern infrastructure and good communication are keys to our success."

Based in the UAE

Petrofac is by no means alone in finding that they have much

Maroun Semaan, president and CEO, Petrofac

to gain by basing their Gulf operations in the UAE. Many service companies have based their regional headquarters in the Emirates. Semaan continues, "We have since consolidated our position here as the base for international operations of the company executing mainly lump-sum turnkey projects (EPC) for the upstream industry. This has proved to be a wise decision—the UAE is well-placed in the GCC region to support markets like Iran, the Caspian Region, Georgia, Kazakhstan, Russia as well as North and West African markets."

The creation of tax-free zones such as Jebel Ali, Dubai, and Hamriya, Sharjah, to name but two of the 32 present in the UAE, have allowed foreign companies such as SGS Gulf Ltd. and National Oilwell Varco to set up their Middle East headquarters in the UAE. This has enabled them to bypass laws dominant throughout the region, not just the UAE, that require more than 50% ownership by a local company.

Combined with world-class infrastructure and economies of scale, this allows both home-grown and foreign companies to capitalize on the enviable location with which the UAE is blessed.

Mike Manion, SGS' country manager, says, "The advantage of being here is that we can create companies whereby we can have branches of the SGS in nearby regions—places like Bahrain. We can create a company within the free zone, and register it here too, then we can operate in other Gulf countries without a sponsor or agency agreement. It gives us the ability to work elsewhere as an independent company."

The philosophy present in the UAE oil and gas service sector—perhaps distinct from other parts of the UAE economy dominated by monopolies such as Etisalat, its telecommunications giant—is the fact that competition is soundly encouraged. After the first oil shock in 1973, while many of its OPEC brethren were seen to be expelling foreign companies, the UAE continued to keep the door open to them.

Competition is seen as healthy. With little government interference, the quality and standards within the industry rose and, with them, new companies brought new technologies. This has allowed the marrying of foreign technologies with local know-how, which in turn has created more synergies to be built upon.

This "Western" feel to the sector means foreign companies need not think twice before coming to serve the ever-expanding hydrocarbon industry in the UAE. There exists a symbiotic relationship between the foreign companies and the UAE producers. While there is much for the foreigners to gain, the benefits are not simply one-sided.

With the rise in oil prices has come a rise in the importance of efficiency. For example, when the oil price was a mere $10 a barrel, lost drilling time cost producers very little. Any time lost today means a huge loss of revenue that cannot be reclaimed.

This realization has underlined the need for foreign expertise and know-how. Companies that have worked all over the globe apply their own experiences and lessons to the UAE market. Foreign companies coming to the UAE tend to place a lot more emphasis on research and development than their local counterparts—research that could limit revenue loss through mistakes.

Companies such as Nordic Well Services, an engineering and service firm specializing in thru-tubing interventions and rigless workovers, have seen the opportunities present and come preaching their gospel of "increased efficiency" and found a receptive audience ready to convert. Though not necessarily with a missionary zeal, Sonny Sola, Nordic Well Services managing director, is excited by what the future may hold for companies like his.

"The message we preach is that you need new technology to increase production and efficiency. And the sector is becoming more receptive to this message. Change is occurring in the industry across the region—the realization is that you need foreign help and cooperation in order to progress."

With the avowed aim, not only in the UAE, but across the oil-producing world, to step up levels of production, the success may well depend on just how receptive countries are to new technologies. To this extent Sola foresees hard work ahead. "This is not an easy market to penetrate. It is a very conservative area and you have to be different, to offer something new and be able to show the benefits and value of your product in order to achieve success."

But, in general, the need for further foreign assistance from service companies

Petrofac played a major role in the realization of the multi-billion-dollar Azerbaijan-Georgia-Turkey (AGT) pipeline project.

such as Nordic Well Services or Petrofac, is generally accepted if the increased levels of production over the coming years are achieved. The importance of joint ventures and the need for them in the UAE is emphasized by the ADCCI's Shamsi. "Abu Dhabi has a long history of working with project partners. Look at all our companies in the industry today. They are all involved in joint ventures and they are all unique."

That oil prices and increased levels of production have changed the landscape of the sector during the past three years can no better be seen by observing the changing fortunes of fabrication companies. Samir J. Fancy, chairman of Topaz Energy and Marine Ltd., which owns Adyard, one of the region's most respected EPC contractors and based in the industrial zone of Mussafah, Abu Dhabi, is extremely excited about the prospects of increased work in this market.

"We are at the tip of the coming spend. Already we are getting used to the higher oil prices, but oil companies do not simply make decisions the day the oil price reaches $50. And so we are now beginning to see the change of increased levels of business and work, and we feel far more is to come and we are gearing up for it." Ordinarily a fabrication yard would have a backlog of two to six months of work, yet the order book for Adyard is already full through first-quarter 2007.

This is not an isolated case; at a time of increasing demand for energy all the oil companies are trying to sell their products at this market price and obviously looking at investment to enable them to boost production—especially in the UAE. Now, more and more companies are investing in maintenance. This change really happened two years ago but in the opinion of Fritz Hoffbauer, chief executive of IMCC, it was already too late.

"If companies had invested earlier they would have been in a better position as fabrication and engineering yards were not so busy and steel prices were half what they are now—they would have made a big saving!"

The result, in a region where there will soon be a shortage of quality fabrication capability of the kind possessed by Adyard and IMCC, is that a bottleneck will be created. The fabrication business has always been very competitive with tight margins, but now the UAE is seeing that companies are having to think more strategically.

Hoffbauer continues, "We have to be careful in selecting the right projects to bid for, so as to avoid high-risk projects as well as ensuring decent margins. There is so much on the market now that our main worry is that we don't overheat, so as to ensure that we have some spare capacity for six to eight months' time."

So while there is much for the service sector to cheer about, the increased levels of work that three years ago would have been considered manna from heaven have brought with it some problems. With major projects every piece of kit is crucial to timelines and the consequence of more business and higher spending on maintenance is that the market has become much tighter.

International Development Co.'s Fawkey illustrates the sea change that the service sector in the UAE has undergone. "The landscape has been changed by high oil prices. Everyone wants to make quick profits now. This is reflected by the activities of the contractors—it is now a supplier's market.

"Previously, the market was controlled by the end-users. There are projects now where the end-users are begging the contractors to show interest and bid. The market is extremely busy—it has never been like this in the Middle East."

Schlumberger, a global leader, has been present in the UAE for 50 years and is well-placed to offer a fair picture of the service sector there. Based on the reasonable assumption that future increased production will require increased maintenance of existing wells, along with producers returning to operate in "brown fields," Schlumberger is shooting for 15% to 20% year-on-year growth. Yet, it does have some reservations about the future.

While companies such as Schlumberger spend $500 million a year on research and development, there is a worrying growth on the horizon of foreign companies, especially from China, entering the market with an emphasis on cheaper costs. Ihab Gueneid, Schlumberger's marketing manager in the UAE, says, "They place no importance on research and development. Rather, they take obsolete technology from companies such as ours. If the buyer is going after price and not technology then they can undercut the market."

Despite the fact that the UAE service sector is currently buoyant, those with the aim of increasing efficiency and hence production need to be weary of potential "good deals" in the future. The receptivity to new technology will be tested, and the success of the UAE sector and how easily it ramps up oil production may well depend on how welcome companies from China and Korea are made to feel.

Yet the change in the UAE service sector from just three years ago is apparent from the current general mood of optimism and excitement. Companies such as Petrofac are committed to the UAE because favorable business conditions abound, and although the market is getting tight and tough choices may be needed to be taken in the near future, it is unlikely to become a victim of its own success.

A sea of optimism

A century ago, the view from the Trucial coast would have been dominated by weather-beaten dhows that have sailed the Arabian Gulf waters for 5,000 years alongside smaller vessels carrying pearl divers to the oyster beds. This was then the driver of the Emirati economy.

Today the vista has changed. But only slightly, for while the vessels one sees are generally larger and more costly, they are still to be found serving the interests of the main economic driver—the oil and gas sector. Along with the increase in fabrication work, offshore activities in the Gulf are crucial to the future of the industry with several marine companies ratcheting up the level of their operations in response to the rocketing demand.

Once again the primary driver of this change is the price of oil. The needs of the industry have evolved quickly and the UAE is developing accordingly to meet these demands. One such example is the creation of Dubai Maritime City. Due for completion in 2007, this world-class facility aims, along with the presence of Dubai Dry Docks, to make Dubai a global maritime hub with all the major shipping companies basing major operations there.

Such moves in the public sector have been complemented by developments in the private sector. Companies of varying sizes and geographical scope have rushed in to fill the capability void that existed a few years ago.

Ship operators already present in the region have found an increasing amount of work coming from the oil and gas sector. Although there have always been very apparent synergies between the marine and hydrocarbon industries, it is fair to say that, in the Gulf especially, the distinction between the two sectors has become increasingly blurred and this will only continue under the present market conditions.

Based in Dubai, Mubarak Marine was

established in 1979 as a ship operator. Within five years, the company was already to be found serving the oil and gas industry. Now much of the business is focused on providing, among other things, supply boats and hook-up barges to offshore operators.

Juma Mubarak, Mubarak Marine's managing director, attributes much of the increased focus on the oil and gas sector and, subsequently, the recent growth of the company to the rising oil price. He notes that, in the past two years, "all oil companies have aggressively looked for equipment. In turn we have tried to be more aggressive in meeting market expectations." He foresees his fleet growing as much as fivefold.

Such developments have created a growing number of opportunities for companies serving the offshore sector as Prashant Kamath, managing director of Solas Marine Services, concedes. "We have tapped into the growing number of ships coming into Dubai and the UAE. This has allowed us to become more aggressive in reaching our objectives. With the increase in oil and gas exploration, the opportunities for companies like ours have grown as well. We have grown by 30% over the last three years."

Today's buoyant market and long-term spending commitments on infrastructure by the majors, alongside the UAE's desirable location, have allowed marine-based companies to expand not only the size of the business but also their geographical scope. With more than 80 vessels, operating not only in the Middle East but also Southeast Asia and the Caspian Sea Basin, the Topaz Energy and Marine ship-owning division (Nico World and BUE Marine) is recognized as one of the most diversified and modern offshore fleets in the world.

This clout is very attractive for oil and gas companies requiring offshore support services. Based in Dubai for 33 years, Topaz has managed to strengthen its core ship-owning business to provide greater market reach and expanded capabilities.

It has achieved this by integrating companies that add value to the Topaz brand. Its acquisition of BUE Marine in 2005 meant that the company's geographical footprint has extended far beyond its original imprint of the Arabian Gulf. Of the potential growth of the marine offshore-support service sector, Topaz's Fancy says, "We are committed to making substantial investments in new-build vessels both in the Arabian Gulf and Caspian over the next two to three years."

The presence of world-class and ever-expanding offshore oil and gas support services in the UAE is augmented by the presence of Dubai Dry Docks, the largest repair, conversion and building yard in the whole Gulf region and among the biggest operations in the world.

Chief executive Geoff Taylor only sees an increase in the level of importance of the oil and gas sector to the operation. Aiming for at least 40% of work coming from offshore companies, he says, "For the offshore side I see nothing but growth for the next five years—marginal fields are now viable fields so the requirement for FPSOs (floating production, storage and offloading vessels) or movable structures is going to explode. Geographically speaking, we are in a great position for this boom. We are near the loading ports for the hydrocarbons so there is a ready-made market for offshore exploration already here."

At a time when a lot of rigs are going to be up for repair, a major aim for Dubai Dry Docks is to service more offshore rigs. Taylor has also identified that there is potential in the new building market and identified the potential in building offshore structures. So a new fabrication facility called the Safina project—with an investment of $60 million—will be completed in September, capable of meeting these needs.

The FPSO market is a good illustration of the growing global clout the UAE possesses in the maritime sector. Dubai Dry Docks has become one of the leading tanker-conversion yards in the world.

> **"For the offshore** *side I see nothing but growth for the next five years...."*
> *Geoff Taylor, Dubai Dry Docks*

This has generated work for large fabrication yards, such as those owned by IMCC and Adyard, to make modules and turrets for FPSOs.

Before, the tankers were integrated in Singapore, but now the UAE has an advantage. The conversion can be done in one area, meaning shipping costs for the modules are competitive, creating a price advantage over anyone operating outside of the Gulf area.

Increased offshore activity affecting the outlook and plans of marine-service companies to meet the growing demands of the oil and gas sector and the marrying of marine and hydrocarbon capabilities is occurring throughout the UAE. Gogas, an offshore service company based in Abu Dhabi, is actively pursuing the increased level of offshore maintenance work present.

Nabil Atta, general manager, says, "We have the offshore background as we own our own marine vessels—our two lines of work complement each, making us attractive to companies seeking offshore maintenance work."

Once Dubai Maritime City is up and running, Dubai and, by extension, the UAE will be able to lay claim to being the global hub for the maritime sector over and above Singapore—something that can only benefit the hydrocarbon industry. Synergies are being created and, along with the cluster of world-class fabrication facilities, the outlook for the offshore sector is bright. ☐

The View From Enoc

Emirates National Oil Co. Ltd. has grown from its home base in the UAE to operate in more than 20 countries currently. Here, its chief executive describes its past and its future.

Hussain M. Sultan is recognized within the UAE oil and gas sector as one of the local leading lights. Sultan is group chief executive and board member of Dubai-based Emirates National Oil Co. Ltd. (Enoc), a conglomerate whose reach stretches from E&P to marketing and also has real estate holdings. Global Business Reports met with Sultan to discuss the company, the local business environment and opportunities for growth.

Hussain M. Sultan, group CEO, Enoc

GBR What role did you have to play in the early days of the industry here in Dubai and the UAE?

Sultan My role in the earlier days of the industry began in 1969, assisting in the modernization of the downstream and, in particular, the petroleum-retailing sector, initially in Dubai and the other emirates, and later in Abu Dhabi.

Since 1974, with the formation of Enoc Group, I have enjoyed an instrumental role in its development and diversification into the various businesses and the creation of a small, fully integrated energy group, that is involved in retailing, refining, shipping, liquid storage, gas, oil trading, etc.

GBR Would the industry in the UAE be where it is today without the technological input of foreign companies and multinationals?

Sultan Current industry trends in the UAE reflect the huge melting pot that the Emirates have become due to the influx of foreign investment and multinationals. Undoubtedly, the Emirates have witnessed an amazing level of growth since their formation a mere 35 years ago. This is due to the visionary leadership of our rulers, who encouraged the development of the region with opportunities to invest, zero tax on personal and corporate income, and low import duties.

This has resulted in the UAE becoming a business and tourism hub in one of the richest countries in the world. As well as technological input, the human factor is an important ingredient in the UAE's growth and an expatriate-friendly environment has been encouraged since the UAE's inception. Foreign labor and expertise contributed immensely to the present UAE.

GBR Enoc's motto is "Your partner in progress." How much emphasis do you place on the value of partnerships and joint ventures, and is this view of cooperation commonplace with the UAE oil and gas sector?

Sultan As a wholly owned company of the government of Dubai, Enoc aims to promote Dubai's interests in the oil and gas sector through the development of both downstream and upstream activities.

Our vision is to be the reliable and responsible energy partner of choice and, through each of our business segments, we encourage economic diversification in Dubai and the UAE.

Joint ventures act as key drivers for our business. We are not a public company, and therefore we are not growing as fast as we would like, given our limited resources. Seeking strong partnerships and joint ventures in the UAE and overseas is crucial for our future growth.

A significant partnership is our liquid-storage business, located in Jebel Ali and Fujairah, one of the world's largest bunker ports that has established itself as one of the two major bunker suppliers in Asia in the last three years. We are a major player as a bunker supplier.

Shipping also represents an important area of our business. Through a recent partnership with Abu Dhabi and Oman governments, as well as France-based Thales, we have formed Gulf Energy Maritime. Within a short space of time, GEM became well-placed in achieving its goal of tripling its fleet size and has secured an enviable position as a significant player in the tanker industry.

GBR Enoc has a presence in more than 20 countries. Where do you foresee operating next and why?

Sultan We go wherever we feel we can contribute and benefit both the place where we operate and ourselves. The Singapore market is thriving, demonstrating sustained excellence in infrastructure, which, for a trading company like Enoc, heralds interesting times.

Asia is an important region for us and we are now investing in a major storage facility in Singapore that is scheduled to be commissioned in the fourth quarter of this year. The 840,000-cubic-meter project will comprise 30 tanks and act as a springboard for Enoc's presence farther into Asia, and specifically China—the region's fastest-growing oil market.

Many oil-producing countries have found themselves with large surpluses they can invest. The Asian region has reacted swiftly to this changing reality and one clear manifestation of this has been the growth of Islamic banking. Singapore has also made significant strides in this direction.

The new set of circumstances in Asia presents unprecedented opportunities to corporations to grow and thrive. For a trading company like Enoc, these are interesting times.

We have seen tremendous increases in consumption of petroleum products and crude oil in the Asian economies. Since the region is short of crude, of necessity, petroleum finished products and crude have to be sourced from other parts of the globe either to be processed here or consumed. Changing technical specifications also increase the potential for trading opportunities. Freight markets add to the arbitrage opportunities that present themselves to market players.

GBR The Middle East is constantly viewed as an area of instability. What can companies like Enoc do to reassure the international oil and gas community on security?

Sultan Instability is a relative term. Every country in the world has a degree of instability. We choose the areas where we operate in as well as the projects, after very careful study. We choose the right partners and operate in a strictly commercial sense, and so far we have been able to live with a volatile market and changing political conditions.

GBR Where do you think the industry is heading in the UAE and where do you expect the price of oil to go?

Sultan The oil and gas industry is currently booming with crude oil prices continuing to rise. Last year saw big changes for both gas retailers and consumers across the Emirates, with the decision taken by the federal government of Dubai to approve small price increases. The agreement was taken as part of gradual steps to stem substantial and spiraling losses in the petroleum business of all the distributing companies in the region.

High oil prices are not in the best interests of consumers or producers. I think we have reached the higher end for the present time. It is encouraging investment in the sector, but one has to watch its effect on demand and the global economy. □

A Sound Future?

The UAE hosts an abundance of natural and made-for-business resources, such as tax-free zones. What could possibly be of worry?

The UAE is a young country, yet it has managed to establish itself as an important player in the international oil and gas industry. Also, as shown by its role in the Dolphin natural gas project and receptiveness to foreign assistance, the UAE possesses an innovative and individual voice. Long seen as an investment and business hub, it is now rightly portraying itself as a regional and global energy hub.

While there is a lot to shout about and marvel at, there are also signs and developments that should be noted when fully considering the potential of this industry. The UAE possesses an economy built on confidence and steady growth. The country, and Dubai in particular, has for a long time been an attractive destination for investors.

But stock-market fluctuations in the first half of 2006 may indicate that the confidence, on which the economy is built, may be waning. The Dubai Financial Services market is down 41% on closing-2005 figures, while the Abu Dhabi Securities market is down 23%.

What one needs to ask perhaps, is whether this is the start of a worrying trend or simply, as some including the UAE Central Bank, which still predicts growth of as much as 8%, say a "readjustment" to a more realistic level—the markets having been vastly overvalued.

Louis Scotto, president of the American Business Council of Dubai and the Northern Emirates, feels it is the latter. "It was a natural occurrence often experienced in countries or regions that have experienced rapid expansion."

Yet this came on the back of another blow to the perception of the UAE as a safe and stable place in which to invest and do business. The recent furor in the U.S. over Dubai Port World's takeover of P&O, and with it control of six U.S. ports, gave the UAE much negative press coverage.

Many in the UAE hydrocarbon industry emphasize the beauty of the UAE's location not only in logistical terms, but also in that it is known as an oasis of stability in a region that is rarely placid. This perception took a hammering with the UAE name and brand being tarnished as U.S. senators refused to have an "Arabic" entity control its ports.

As Scotto concedes, it was not ideal to have arguments based on "hype and ignorance" dominate the international media. But as for long-term effects of this episode, in terms of U.S. investment into the UAE, Scotto feels that will be minimal. "Overall, the UAE came out of it well. It showed itself as a mature and very forward-thinking country."

While the perception of the UAE may have been challenged, there is one recent development that has had a far more direct impact on the oil and gas sector in the UAE. It may be a boom time but, as seen earlier with the service sector getting ever "tighter," this bonanza does bring with it some problems.

With a plethora of projects, to both bid for and work on, many companies are finding that there exists a skills shortage. While this is being felt across the world, the shortage is particularly being felt in the Middle East.

Fadi Michel Matta, president of the Africa and Middle East office of National Oilwell Varco, says, "The really big problem is meeting customer demands; therefore, we have to expand, if we are to meet this new level of work."

Throughout the sector priorities are being readjusted and top of this new list is finding the skills to enable companies to really reap the rewards on offer.

An equally worrying sign concerning human resources is the rising cost of living. One of the major attractions for foreign companies coming to the UAE is the vast pool of cheap labor its multinational workforce offers. Dominated by ex-pats, UAE nationals are in a minority in their own country. Yet the fact that the vast majority of the immigrants are from the sub-continent means the labor on offer in the UAE is inexpensive and skilled.

But concomitant with the growth in the economy has been a rise in inflation. This has affected rents more than any other sector. If this trend continues, then it would not be a surprise to see one of the main attractions for business diminish in size. Naji Skaf, general manager of Arabian Industrial Gases (Aigco), explains, "A lot of our employees are Indian ex-patriots, especially the middle- and low-skilled operators, and these guys like any other people would like to go back home.

"In Dubai it is getting tougher to save, and India is witnessing a very strong growth, with salaries increasing and the gap closing. A lot of people in the past year have already sent their families home and maybe at some point they will go home too. If this happens, the UAE will lose one of its big plus points—its talent pool."

An Abu Dhabi Gas Liquefaction Co. Ltd. (Adgas) facility

It is not just companies like Aigco feeling the pinch of rising costs. Companies such as Dubai Dry Docks are having to accommodate themselves to the new economic pressures the economic growth has created. Chief executive Geoff Taylor says, "The only negative thing we have noticed is that the growth of Dubai is happening at such a rate that we are worried costs may get to a rate that will affect business."

So the UAE needs to be careful that it does not become a victim of its own success. With careful management, the hallmark of the country's growth thus far, these problems can be avoided.

What is not in doubt is that the strong presence of many international oil and gas companies in the UAE is indicative of the increasingly important role the Emirates play on the global stage. The biannual Abu Dhabi International Petroleum Exhibition & Conference (Adipec) is a fine example of this. Aiming for the exchange of know-how and technology transfer to provide solutions to major challenges currently encountered by industry, Adipec has grown since its inception in 1984.

This year's event will see more than 200 oil and gas companies congregate to discuss how, through cooperation, they can address the rising production demands—a microcosm of the permanent oil and gas community already present in the UAE.

The combination of good labor, international partners and adoption of cutting-edge technology should aid expansion aboard and entice yet more foreign companies to the UAE. The diversity present is strong and ever-evolving. New companies with innovative solutions to age-old problems have found a large and welcoming audience present.

Image Grafix, established in 1996, using the very latest technology, provides the hydrocarbon sector with IT-based solutions for, amongst other things, plant design. Managing director Amir M. Heshmati feels the UAE is the place to be. "The country is developing rapidly due to the new reality that diversification is the new name of the game—value-added industries, such as petrochemical industries, are growing at a huge rate. Because of this, we expect to see 20% growth year-on-year."

Another young company that views the UAE as the ideal location to base itself is Seacor Environmental Services (Middle East) Ltd. (Sesme). Primarily an oil-spill-response firm, its Emirates base affords it the chance to expand the scope of its work. It has mirrored the UAE economy in diversifying to offer more services, such as hazardous-waste removal and consultancy, alongside training and oil-spill equipment sales and service.

Simon Waterman, general manager, is extremely hopeful for the future. "This office is very important to the larger Seacor family. This is a rapidly growing area, and we are looking for a significant increase in turnover during the next 12 months."

The characteristics of the industry here are easy to see. Innovative, open to joint ventures to aid growth in services, geographical expansion and technological transfer, and all in a safe and business-friendly environment. The message coming out of this vibrant market is one of hope and expectation.

The change experienced in the UAE has been exponential and one does not need to be a soothsayer to predict that further change, especially in the oil and gas sector, is to come. The Abu Dhabi Chamber of Commerce and Industry's newly elected president, Salah Salem Bin Omaeir Al Shamsi, predicts this open economy will soon serve up even more juicy propositions for the potential investor.

"We are looking for investors in both the upstream and downstream sectors because one day the government will open up the sector," he says. "There will be a time when the oil and gas industry will be opened more to the private sector, so companies have to position themselves for that."

So it might well be a wise decision to take up Al Shamsi's challenge as there exist plenty of investment opportunities for those willing to enter the fray, and these could soon rapidly increase in number.