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Saudi Arabia plans to set up a $10 billion oil refinery at Pakistan's deep water port of Gwadar, which is being developed with the help of China, the Saudi energy minister said on Saturday. — Reuters

Saudis plan huge investments in Pakistan

$10bn refinery and oil complex in strategic Gwadar Port among investment deals

DUBAI: A record investment package being prepared by Saudi Arabia for Pakistan will likely provide welcome relief for its cash-strapped Muslim ally, while also addressing regional geopolitical challenges, analysts say. At the heart of the investment is a reported $10 billion refinery and oil complex in the strategic Gwadar Port on the Arabian Sea, the ultimate destination for the massive multi-billion dollar China Pakistan Economic Corridor, which lies not far from the Indo-Iranian port of Chabahar.

Two Saudi sources have confirmed that heir apparent to the Gulf kingdom's throne, Crown Prince Mohammed bin Salman, will visit Islamabad shortly, without giving a date.

And a number of major investment deals are expected to be signed during a visit, officials from both countries have told AFP. Riyadh and Islamabad, decades-old allies, have been involved for months in talks to hammer out details of the deals in time for the high-profile visit.

"The outcome of the talks so far has been very positive and this is going to be one of the biggest-ever Saudi investments in Pakistan," a Pakistani senior finance ministry official said.

"We hope that an agreement to this effect will be signed during the upcoming visit of the Saudi crown prince to Pakistan," said the official, requesting anonymity. The Wall Street Journal reported last month that both Saudi Arabia and the United Arab Emirates, Islamabad's biggest trading partner in the Middle East, have offered Pakistani Prime Minister Imran Khan some $30 billion in investment and loans.

Saudi lifeline

Riyadh investments are expected to provide a lifeline for Pakistan's slumping economy which was downgraded in early February by S&P ratings agency from a B to a B-, Saudi economist Fadhl al-Bouenain said. "Saudi investment to Pakistan comes within an economic aid package aimed at relieving the stress of external debt and a shortage of foreign currency, besides boosting the sluggish economy," Bouenain said.

The OPEC heavyweight also aims to achieve strategic and commercial goals with investments in infrastructure and refinery projects, he said. Saudi Arabia and its Gulf partner, the UAE, have already deposited $3 billion each in Pakistan's central bank to help resolve a balance of payments crisis and shore up its declining rupee.

They have also reportedly deferred some $6 billion in oil imports payments as Islamabad has so far failed to secure fresh loans from the International Monetary Fund.

Khan has already visited Riyadh twice since taking office in July and in October attended a prestigious investment conference.

Khan also visited Qatar and Turkey, as well as China seeking investments. "One of the goals for Saudi Arabia expanding investments in refining worldwide is to secure market share and sustainable exports in the face of international competition," Bouenain said.

Saudi Energy Minister Khalid Al-Falih visited Gwadar in January and inspected the site for the proposed oil refinery at the deep sea port, just 70 kilometers (45 miles) away from its Iranian competitor, Chabahar. He was quoted by local media as saying the kingdom was studying plans to construct a $10 billion refinery and petrochemicals complex in Gwadar.

Cutting supply times

Like most oil suppliers, the world's top crude exporter has been investing heavily in refinery and petrochemicals projects across the globe to secure long-term buyers of its oil. A pipeline from Gwadar to China would cut the supply time from the current 40 days to just seven, experts say.

Developed as part of China's Belt and Road Initiative with investments worth some $60 billion, Gwadar is being billed as a regional industrial hub of the future, easily accessible for Central Asia, Afghanistan, the Middle East and Africa. "Pakistan needs a rich partner to enter as a third party besides China, capable of injecting needed cash," Bouenain said.

But so far China has rejected other partners for the corridor that seeks to connect its western province Xinjiang with Gwadar, including Saudi Arabia and UAE, said James M. Dorsey, a senior fellow at Singapore's S Rajaratnam School of International Studies. This is despite calls by Khan "for the Chinese investments to be restructured to include agriculture and job-creation sectors and not only in infrastructure", Dorsey said. Any Saudi investment in Gwadar will also have geopolitical dimensions, Dorsey said. Iran late last year inaugurated Chabahar which provides a key supply route to landlocked Afghanistan and allows India to bypass its historic enemy Pakistan.

India has seen Chabahar as a key way both to send supplies to Afghanistan and to step up trade with Central Asia as well as Africa. But Riyadh is not expected to get involved in any Indo-Pakistani rivalry and the kingdom also has major strategic energy deals with New Delhi, where demand for oil is growing fast. Indeed in April, the Saudis signed a $44 billion deal to build a huge refinery and petrochemicals complex in western India. — AFP

Gushing profits for oil majors on crude price

PARIS: The world's top energy companies booked enormous profits last year thanks to higher oil prices and keeping a tight lid on spending, even if that risked limiting their medium-term production capacity.

The five "supermajors"-US firms Chevron and ExxonMobil, Britain's BP, Anglo-Dutch Royal Dutch Shell and Total of France - earned nearly $80 billion in net profits last year. They all boosted their bottom line, with some hitting levels not seen since a plunge in crude prices from their perch above $100 per barrel in 2014.

Higher oil prices didn't hurt, of course, although the fourth quarter was marked by strong volatility.

Overall, the price of Brent crude was $71 per barrel last year, compared with $54 in 2017. But that's not the whole story. The supermajors have also maintained the financial discipline-cost-cutting and reducing investments-that they adopted following the 2014 crash in crude prices.

They tightened their belts enough to become profitable even when oil prices were low. And when crude prices rise again, their profits surge.

"Total's job is to be profitable and to lower the break-even point no matter what the price of oil is," said chief executive Patrick Pouyanne this past week.

"We're going to maintain discipline, there's volatility" in the market, he added.

The rollercoaster that crude prices have been on in recent months, due in large part to geopolitical uncertainty as the United States and China face off in trade dispute with major repercussions for the global economy, means that the supermajors can't rest on their laurels. BP chief Bob Dudley expects, like his fellow oil chiefs, oil prices "to remain volatile, with many uncertainties, including how markets respond to evolving sentiment around ongoing trade discussions" as well as a crisis situation in Venezuela.

Under-investment

The investments will thus remain limited. While investments in exploration and production rose seven percent last year to $382 billion, according to IFP Energies Nouvelles research group, they are still 40 percent below their 2014 peak. Moreover, they remain concentrated in North America where they are targeted at exploiting shale oil and gas. IFP Energies Nouvelles expects a modest increase of three to eight percent in investment spending this year. The oil services sector-made up of firms contracted to carry out lots of the exploration and production work-were hit hard as the supermajors cut back and tightened financial discipline.

While the number of tenders for work has increased, the "market recovery is slow", said Gael Bodenes, chief executive of Bourbon which offers marine services for offshore oil and gas projects.

But this restraint in investment also poses a risk over the medium term as oil installations need regular injections of cash to continue producing and new ones need to be brought online to replace fields that are exhausted. "Each year the world needs to replace 3 million barrels per day of supply lost from mature fields while also meeting robust demand growth. That is the equivalent of replacing one North Sea each year," the International Energy Agency warned.

The outlook is bright for the oil industry, for now. — AFP

While some supermajors are still increasing production, sometimes considerably, that is the result of investments launched years ago, not of a recent effort.

The long lead time to build new oil and gas installations means the effects of low investment now may not be felt in terms of supply shortfalls for several years.

"This industry has invested little for four years", since the collapse of crude prices, said Total chief Pouyanne. "One day we'll see that the capacity not launched risks being missed on the market" if US shale production fails to fill the gap. He said this could happen sometime between 2021 and 2023. — AFP