

1977

Abu Musa

## SHARJAH

SHARJAH lies near the geographical centre of the United Arab Emirates. Its territories are extended by various enclaves on the eastern coast along the Gulf of Oman, including Kalba, Khor Fakkan, and Hisn Diba. (Kalba, formerly an independent territory, was merged with Sharjah in 1952.) The population is about 100,000, of whom some 25,000 to 35,000 are native Sharjans, a relatively high number for the Gulf. The remainder are migrant workers from the Arab world and the Indian sub-continent, with some 10,000 European expatriates as well.

The shaikhdom was formerly a member of the Trucial States under British protection and was an important base until Britain's military withdrawal from the Gulf in 1972. In December that year it joined with Abu Dhabi, Dubai and other shaikhdoms to form the UAE.

Under the energetic leadership of its Ruler, Shaikh Sultan bin Mohammed al Qasimi, the country has launched on a period of economic expansion and development. The Ruler is following the ambitions of his predecessors to make Sharjah as rich as its neighbour, Dubai. It was the discovery and exploitation of oil that has made these plans possible.

## Problems Over Oil Development

Sharjah's oil development has been hedged about with problems. The first exploration attempts by the IPC subsidiary Petroleum Development (Trucial Coast) Ltd in the late 1950s/early 1960s failed to find oil and its onshore and offshore concessions were relinquished. Further drilling by the US independent Mecom, Pure Oil, and Union of California, was also unsuccessful. In 1968 the Ruler invited bids for concessions both on and offshore and in February 1970, Buttes Oil and Gas Company and the Clayco Petroleum Corporation - US independents which had not previously operated abroad - acquired the rights to a 562 square miles offshore concession in territorial waters including all islands and their territorial waters and the contiguous offshore areas in the Gulf.

The islands mentioned included Abu Musa (some 30 miles off the west coast of Sharjah) and two other islands, all of which were claimed by Iran. The conflict was resolved when, after the British withdrawal, the Ruler of Sharjah concluded an agreement with the Shah under which Iran occupied Abu Musa but the shaikhdom was allowed to continue drilling; revenues from any oil production were to be shared. Iran made a grant to Sharjah

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of £1½ million a year until such time as the state had an oil income amounting to not less than £3 million a year. On conclusion of the agreement, Sharjah confirmed Butte's rights to the concession. A consortium, Crescent Petroleum Company, was formed in which the partners were Buttes (as operator with 35 per cent), Ashland Exploration Co (25), Skelly Oil, in which Getty had a 70 per cent interest, (25) Kerr McGee Corp (12.5), and Juniper Petroleum Corp, a Buttes affiliate, (2.5). Cities Service later acquired a 10 per cent interest, reducing Buttes' share to 25.7 per cent and Juniper to 1.8 per cent.

The first field discovered was Mubarak, off Abu Musa island, late in 1972. The discovery well, Mubarak A-1, was tested in October that year at a combined rate of 13,955 barrels daily with 30.25 million cubic feet per day of gas. A second well was tested in June 1973 at a combined production rate from three producing zones of 59,500 b/d. The oil was of high quality with only 0.6 per cent sulphur content. Production began in July 1974, after remarkably quick development work. The Ruler spoke of possible production of about 200,000 b/d by the end of 1974. But a problem arose over its ownership.

In the earlier days of oil exploration and the argument with Iran, Sharjah declared that its territorial waters extended to 12 instead of three miles. As applied to the island of Abu Musa, this conflicted with concession rights already awarded by the Shaikhdum of Umm al Qaiwain to Occidental, another US oil group, before Sharjah extended its territorial waters. The British, in their last days of power, had forbidden both Buttes and Occidental to drill in the disputed waters until the conflict was resolved. But following Britain's withdrawal and solution of the dispute with Iran, Sharjah's Ruler confirmed Buttes' rights.

Occidental, disputing the grant to Buttes, brought the matter before the US Courts. Two lower Court actions were dismissed and a petition to the Supreme Court for a review of the dismissals was rejected on the 24th October 1972. In spite of this, Occidental continued its claims and a \$100 million suit was filed against Buttes in the California Supreme Court, only to be dismissed in February 1973. Further legal actions followed, including a warning by Occidental to prospective buyers of Mubarak crude that it was prepared to use all available legal remedies to recover either the crude oil or the proceeds from any sales. Soon after production began in 1974, Occidental took steps to attach the first consignment of crude from Sharjah to Lake Charles, Louisiana. This again failed, as did another suit filed against Buttes in the California Supreme Court in 1975.

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These various territorial disputes have meant a heavy cut in Sharjah's actual income from oil. As mentioned, Iran receives a half share of the proceeds from Mubarak, and Sharjah also pays 30 per cent of its remaining share to Umm al Qaiwain in settlement of their past delineation problems. The government "take" in tax and royalty has been estimated at between \$7 - \$8 per barrel. Production averaged about 38,000 b/d in both 1975 and 1976, rising higher towards 50,000 in 1977. The average revenue is estimated at about \$36 million.

#### Development Problems

The Mubarak structure lies between 13,000 and 14,000 <sup>what?</sup> below the seabed in a water depth of 200 feet, which makes it the deepest oil-producing reservoir in the Gulf so far. The very high well pressure, combined with the particular type of geological formations, has caused problems usually involving the sheering of the well casings. One well had to be abandoned altogether in 1975. These conditions make the cost of production high, estimated at \$2.5 to \$3 per barrel compared with, for example, \$1 per barrel offshore Abu Dhabi. This is somewhat compensated for, however, by the high quality of the oil, which commands a high premium. It is sold directly to the shareholders in the consortium and goes mostly to the USA although some has been taken to Japan under exchange arrangements. The quantities of associated gas are too small to make exploitation worthwhile.

Nominally, of course, Sharjah comes under the UAE's membership of OPEC. It has little official contact with the Federal Ministry of Petroleum, however, and the Ruler makes his agreements with the oil companies quite independently. Since the Emirate is anxious to encourage exploration and production in areas which are frequently difficult, there is as yet no question of participation agreements. The Ruler's expansion plans for Sharjah rest largely on increased oil and gas output; it is equally certain that the present income from that source is not sufficient for what he intends. Much depends, therefore, on future prospects for exploration and development.

Crescent is concentrating on developing its existing field so that exploration elsewhere is not contemplated for the moment. Other oil-bearing structures are thought to exist inside the company's concession area. One of these may be in the four kilometres wide corridor between Dubai and Sharjah, ownership of which is claimed by the former. (The close grouping of

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the members of the Emirates perhaps makes boundary disputes inevitable, particularly when there is a question of oil involved.) Crescent had relinquished one-quarter of its concession, under the terms of the agreement with the Ruler, by 1976. The new concessionaire is Houston Oil and Minerals and the company has begun work on that area.

Onshore, Sharjah appears to have had nearly as many problems as in the offshore concessions. In 1969 a concession was granted to Shell in partnership with Bomin Bochumer Mineralol-gesellschaft, as well as another concession to Shell on its own. The area on the mainland covered 2,100 square kilometres. But the territory was relinquished in December 1971, after two dry holes had been drilled. The next company to acquire onshore territory was Crystal Sharjah but it, too gave up the concession in the face of high drilling costs. It had attempted to bring on stream production from a well drilled earlier by Shell, but was unsuccessful.

In July 1976, the Ruler granted Nicklos Drilling Company and Pinnacle Oil and Gas, two Texas independents, exploration rights to the 1,000 kilometres of territory relinquished by Crystal. Under the terms of the agreement, any oil was to be shared 60/40 in favour of the government. The companies have committed themselves to investing \$12 million in the first three years and are to drill three holes of 16,000 feet over a period of 30 months. The companies began seismic work in the area known as Sharjah West and equipment capable of drilling to 25,000 feet has been brought in. Exploration is difficult in the area near the mountains but there have been some oil shows there in the past. The last area remaining is that offshore the east coast where Sharjah possesses the enclaves mentioned earlier. This area is shared with Fujairah and a concession for the whole of it has been granted to Reserve Oil and Gas which is currently operating there.

