

Kuwait's Best Strategic Options to Utilize Its Petroleum Resources and Energy Performance

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ABSTRACT

Kuwait has successfully reached a production rate of three million barrels and is planning to increase the oil production by 4 million barrels on the year 2020. Beside the production rate, Kuwait oil companies are getting ready to extend upstream and downstream areas including building new facilities since the demands are growing more and more and Kuwait has a responsibility for its nation since it is a successful and main country in exporting oil. Therefore, Kuwait must make sure that oil is being produced with the best current technologies and having the best people in production line with enough knowledge and experience with the plans and taking lowest risks to remain in first places of ranking and leading countries in oil production.

Keywords: Oil production; Petroleum; Resources

INTRODUCTION

The oil and gas industrial risks and their consequences is a reason that NOCs are required to work with IOCs. The partnership between NOC and IOC can have a lot of benefits, lowering the volatility and prices, helping with experts having experiences, sharing knowledge and practices, taking risks, safety and public awareness. For all these reasons it is necessary for governments and NOCs and IOCs and industries to accompany for a safer and healthy future of oil and gas [1].

Kuwait is one of the most famous oil producing countries and can get great results in market of petroleum from the relationship with IOCs whether in case of finance (business side benefits) or physical support. The best petroleum related strategy Kuwait could have in any time would be dependent upon national and international share.

This essay provides facts about how cooperation between national and international companies can boost the performance of the petroleum industry and the Kuwait's economic performance as a whole.

This article also covers some possible options to enhance the economic structure and create alternative revenue streams other than oil.

ASPECTS OF DEVELOPMENT

The Petroleum Industry

"Easy oil" was the reason behind the great wealth created in Kuwait and across the region; the issue that needs to be addressed is that easy oil is running out and so are easy options. Need for the "know-how" and capital are the priority for the future of oil industry in Kuwait. Building infrastructures for heavy and extra heavy oil is a must; in addition aging field will need new investments in order to develop. It is time to think of a healthier and safer future from now and that will be possible with the help of IOCs [2].

Another case that can lead to NOC-IOC partnership in Kuwait is the demand for natural gas as it is increasing, in addition to that Kuwait's plan to exploit its hydrocarbon resources in the offshore fields makes this collaboration necessary since the NOC's in the local Petroleum industry has no experience running such projects. Therefore, we should think about a possible chance for IOCs to aid the government with economics and technological support as well as skills.

In Kuwait, the government will need to allow IOCs to have access on some sectors of the industry. Additionally, IOCs will keep being a long term partners once they have started to work with other companies and thus workforce in the NOC's will gain more experience from training provided by the IOC's.

Should any sort of collaboration exist in the future between the local

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Received: July 05, 2021, **Accepted:** July 15, 2021, **Published:** July 21, 2021

Citation: Agha Z (2021) Kuwait's Best Strategic Options to Utilize Its Petroleum Resources and Energy Performance. J Pet Environ Biotechnol. 9: 428.

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companies in the petroleum industry and IOCs; new legislation should be created. Currently Kuwait adopts the "service contracts" agreements which allow the foreign and local private entities to provide services only to the local operator "NOC's" without having any kind of relation with the oil production's quantity and price. Unfortunately this type of agreement doesn't look appealing as an investment opportunity for the major international companies who look for partnership in production and marketing the hydrocarbon resources. Changing the petroleum agreement type can be a very long and complicated process but also vital should Kuwait want realize any type of enhancement in the petroleum industry's output [3].

Economic renovation

Cutting subsidies, applying VAT and privatization, three crucial steps towards developing the economic model in Kuwait, subsidies are popular for every wealthy nation's economy, under high returns the government offered high subsidies for decades, unfortunately with the price of oil dropping to the level of \$20 per barrel cutting expenses is a must. Besides increasing revenue which might take time in order to build a healthy platform before applying those steps, the government can wisely target certain areas where subsidies haven't been very beneficial and didn't create. In 2016 the cost of subsidies was around \$3 billion and without action it can keep on rising, it's very important to point out that a big block of this amount should be reconsidered, by no means does this research suggest the elimination of subsidies and the government's financial and social role towards the population. The idea behind subsidies is to boost growing industries and in western countries usually take the form of tax cuts, unfortunately not all subsidies boosted the benefited sectors or industries, the agricultural sector hasn't seen any noticed improvement and costs around 20 million Kuwaiti Dinar annually, other sectors that needs reconsiderations regarding the amount of subsidies are health, social care, education and financial aid [4].

Value Added tax is an important step towards improving the economy, 500 million KWD is being wasted from the government for every year the VAT isn't applied. Neighboring countries realized the importance of this step earlier; the United Arab Emirates and the Kingdom of Saudi Arabia have applied the value added tax, those countries have a similar economy to Kuwait's meaning they also depend heavily on oil exports. Results from the application of VAT may have appeared in Oman where the deficit in their general budget has decreased from 4.81 Billion Omani Riyals to 3.2 Billion Riyals in a time span of just 10 months.

The heavy burden on the government when it comes to services can only be solved by handling the private sector part of the responsibility to enhance the quality of services locals and expats can enjoy, governments no more indulge in such activities but rather regulate observe and correct the performance of the private sector. On the other hand 91% of Kuwaiti's work in the public sector, which translates to huge amounts being dedicated as salaries which already is the biggest chunk of the current public budget.

Norway is a very realistic successful model to follow based on the fact that this economy is also built on oil returns, investigating this economy will provide ideas and methods on how Kuwait can still be a country of welfare while having less dependency on oil, the Norwegians only use around 4% of their oil returns in their public budget.

Norway is a modern, highly developed country with a small but very strong economy. Per capita GDP is among the highest in the world, boosted by success in the oil and gas sector and other top-class industries. Norway is the largest oil exporting country in west Europe. In early stages of oil discoveries in Norway, there was a worry that the dependence on oil as the only main industry will result in extinction of man skills based industry which will create an imbalance in stable economic growth. But the reality is that Norway has a high income level, low inequality and a comprehensive public welfare systems supported by solid public finances that comes from diverse sources of productive industries.

A significant part of the Norwegian economy made up of service industries, including free market trade, banking, insurance, engineering, transport and communications and public services.

The three main strategies that the help in this kind of diversity in economy are:

1. Engagement in international trade and other economic interactions across borders. Open borders and lower transaction costs changes the demand and supply in Norway's international trade market and make the investments in Norway more attractive to the foreign countries. Openness to trade is also a source of technological progress.
2. Norway has established a positive competitive business environment for the local industries that pushes these industries to invest on technology and innovation to win the market.
3. Norway encourages the local products and business. The oil industry in Norway uses mainly the manufactured equipment's ,materials , and technologies that made in Norway

The work efficiency of Norway population has a direct effect on the economic growth of the country. Norway has high labor force participation and low unemployment. Since 1970, more women are engaged in the work place in Norway. The closure of gender gap in labor market has a significant effect on the country's work ethic.

DISCUSSION AND CONCLUSION

According to IEF in 2012, "While the strategic objectives of NOCs and IOCs vary, it is the ability of the two sets of organizations to recognize each other's aims and work together effectively that result in successful projects [5]."

In summary, the need for sharing risks and investments as well technology growth and man power and sharing knowledge and experiences for any issue are the top reasons that leads us to think about having a strong decision of partnership as a must. To prove what was stated in this paper, we will bravely mention some successful cases about NOC and IOC partnerships (the MENA region, Asia, FSU, sub-Saharan, and many others).

In addition, the Kuwait investment would face a huge positive change in the market of energy if energy is utilized from all possible kind of available resources. Energy companies have to remember to balance energy sources along with the environment and economy in order to have for a better planet in future.

We hope to look into future and expect the state of Kuwait to allow IOCs to participate in jobs and start getting some financial or

physical support. The decision of NOC is extremely important to us since it will lead to a win-to-win partnership between producers and consumer and will have a positive impact on the marketing in the economy world. We also expect Kuwait to enhance in education and technology which is possible along with cooperation with IOCs. Last but not least, “No single company has the resources to overcome all technology challenges or to support the required R&D efforts. as per IEF in 2012.

Finally, according to Martin Bachmann’s speech for the “The Gulf Intelligence UAE Energy Forum 2014”, “Those who work alone add those who work together, multiply.”

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