Oman

The Sultanate of Oman (Oman) is a stable market in a volatile region, with a modern infrastructure, an educated population and respect for international standards that are enshrined in the U.S.-Oman Free Trade Agreement (FTA). Opportunities in Oman are focused on its reliance on enhanced oil recovery (EOR) technology to access hard to reach hydrocarbon reserves. Challenges persist, however, including the relative size of the market, instability of nearby countries and market access issues.

Background

Oman holds the world’s 22nd largest proved reserves of crude oil and the 30th largest proved reserves of natural gas. While Oman is not a member of OPEC, it is the largest producing non-member in the region and has maintained that it is willing to work with the bloc to stabilize the oil market by cutting production in 2016. Furthermore, Oman is a member of the Cooperation Council for the Arab States of the Gulf (alternatively, the Gulf Cooperation Council), which has sought greater regional integration, including on O&G policies.

Located at the crossroads between the Arabian Sea, the Persian Gulf, the Gulf of Oman and the Strait of Hormuz, Oman’s geostrategic position is linked to some of the world’s busiest energy corridors. Oman’s oil production is centered on the Oman Basin, which crosses the entire country. The Omani government has indicated its intention to maintain its crude oil production levels, utilizing EOR technologies when necessary, including polymer, miscible and steam injection techniques.

The country’s gross natural gas production declined to 1.09 Tcf in 2014 (from 1.13 Tcf in 2013) with more than 80 percent of its gross production coming from non-associated natural gas fields. The growth of the Omani natural gas sector has been tied to the construction of the country’s two LNG facilities near the city of Sur in the Gulf of Oman. The facilities allowed dry natural gas production to increase from 322 Bcf in 2000 to 1.09 Tcf in 2014. Oman is a member of the Gas Exporting Countries Forum (GECF) and exported 375 Bcf of LNG, almost entirely to South Korea and Japan in 2014. While rising domestic demand is forcing Oman to reduce its
exports of natural gas, LNG production may expand if Iran contracts with Oman Liquefied Natural Gas (OLNG) to liquefy Iranian gas for export, rather than selling the gas directly onto the Omani grid.

Oman’s O&G sector is managed by the Ministry of Oil and Gas, however, oversight and final authorization on oil policy is reserved for the Sultan of Oman, Qaboos bin Said al Said. The Omani government owns a 60 percent majority stake in Petroleum Development Oman (PDO), an exploration and production company that controls most of the country’s reserves and 70 percent of its production. Several IOCs have a stake in PDO, including Shell (34 percent) and Total (4 percent). PDO has an even stronger role in the natural gas sector, accounting for almost all of the country’s supply. OLNG, which is jointly owned by internal oil companies and the Omani government, controls all of Oman’s LNG activities.

Market Analysis

In 2015, U.S. exports of O&G equipment to Oman totaled $97.9 million. The main products exported included parts for boring or sinking machinery and machinery/mechanical appliances, representing half of total U.S. O&G exports to Oman. In 2013 and 2014, Oman relied on a few key sources for O&G equipment imports including the United Arab Emirates (31 percent of 2014 imports), China (26 percent), the United States (11 percent) and Saudi Arabia (8 percent). Oman remains a minor player in the exporting of O&G equipment, exporting only $106.6 million in 2013 and $6.3 million in 2014. The primary export markets are countries near to Oman, including the United Arab Emirates, Sudan, Bahrain, Pakistan, Singapore, India and Yemen.

Policy Context: Opportunities and Challenges

Oman offers an attractive market setting as it provides stable conditions in an unstable region. The country observes rule of law and relatively free markets, has modern infrastructure and has an educated population. However, low oil prices have severely hurt Oman and created a rising budget deficit due to Oman’s reliance on hydrocarbon exports to stimulate government revenue. As a result, the government has been forced to implement spending cuts, tax increases and reform its subsidy programs. The Omani parliament voted in December 2015 to place tax hikes specifically on O&G sector companies while the Omani Shura Council voted separately to raise the corporate tax rate. Outside of these larger macroeconomic constraints, there are also several market challenges in the country, including a relatively small population, competition from nearby countries (including the United Arab Emirates and Saudi Arabia), and the attractiveness of other nearby markets that offer higher industrial subsidies and lower national hiring quotas. Other market access challenges also persist, including long clearances for visas and permits, a moratorium on real property rights for foreigners and the lack of delineation between the public and private sectors.

Oman’s O&G production is intimately linked to EOR technologies, which has increased the operating cost for IOCs that are involved in exploration and production. This relative difficulty, however, has forced the Omani government to offer incentives to companies, including more generous contract terms, such as greater equity shares than other countries in the region. According to the Ministry of Oil and Gas, Occidental Petroleum has the greatest stake of any foreign firm. Other companies involved in the Sultanate include Shell, Total, Partex, BP, CNPC, KoGas and Repsol. In terms of O&G equipment trade, the United States and Oman entered into a FTA in January 2009 in order to create export opportunities for American products, encourage greater liberalization of Oman’s trade and economic policies and solidify intellectual property rights. The FTA allows American companies to register as Omani firms, with no requirement for a local partner.