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Ahmed Kenawi, senior MENA vice president of Halliburton, talks about how the world’s second largest oilfield services company is banking on its core strengths and R&D-fuelled offering to stay competitive and consolidate its position.

The global oil and gas industry has been going through testing times (not to mean that circumstances are any less trying now) brought about by the fall in crude oil prices, coercing NOCs and IOCs alike to roll back investments and slash capital expenditure. The impact has been detrimental to the very existence of product manufacturers, service providers and contractors alike, which have been left reeling in the last couple of years from the lack of demand for their offering – even if it is the case of the world’s second largest oilfield services company.

Of the many downturns in the global oil and gas industry that Halliburton has witnessed in nearly a century of its history, including about 75 years in the Middle East, the year 2016 has been one of the toughest years for doing business, according to the regional leader of the company. Although following the recent deal between OPEC and non-OPEC oil producers to cut output, Halliburton has begun to see some bright spots in its home market in North America – which has been suffering the most in the world from the decline of crude prices, Ahmed Kenawi feels it will be a while before the situation fully recovers on a global scale, for oilfield services providers like Halliburton to be able to sustain themselves.

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“We’ve encountered pricing pressure on existing...
ing contracts through discounting, as well as very competitive re-pricing on new tenders, as both large and small competitors try to maintain or grow their share of a shrinking customer budget,” Kenawi tells me during an exclusive interview. “We’ve responded to these pressures by focussing on cost reductions as well as optimisation and efficiency of how we conduct our operations. While revenue has declined year over year, these actions have helped mitigate the bottom line impact, but margins are off from the peak in prior years.”

Kenawi, who has been with Halliburton for 22 years now and has been the company’s senior vice president for the Middle East and North Africa region for the last couple of years, says international service providers doing business in the regional oil and gas industry have been feeling a greater pinch of the downturn due to the long-term nature of the contracts here that they work on. “In my opinion, North America is a transactional market. So they (players involved) work on very transactional prices and contracts. However, in the Middle East and North Africa, we (Halliburton) are based on long-term contracts; in some cases really long-term contracts, some (for a period of) over nine years. This is where you can see that during the down cycle, you can have tenders that can affect you with lower prices and this is what I see as one of the differences (between the two regional markets),” he says.

Halliburton’s resilience has been further tested in recent times, as coupled with the immense pressure of the market slowdown, the company has had to witness the unpleasant situation of having to deal with an unsuccessful merger bid. Halliburton’s ambitious attempt worth $28bn to merge with Baker Hughes, the third largest global oilfield services company, was prevented by authorities in the US and Europe from seeing the light of day, who cited anti-trust and duopoly concerns. The two parties in May last year announced that the deal stood nullified, dealing Halliburton a further financial blow of $3.5bn which it had to pay its Houston-based competitor as termination fee.

**Standing tall against odds**

‘That which does not kill us makes us stronger’, as the famed saying goes. Kenawi feels the failed merger attempt was nothing of a setback to Halliburton, and in fact says the entire episode has only strengthened the company’s resolve to actively seek more M&A opportunities. “What I can say about the merger, is the Baker acquisition (bid) was a means to an end. Our strategy is to grow and provide leading returns to our shareholders. The proposed Baker Hughes transaction was going to
help us accelerate the growth part of our strategy quickly, but it has not changed where we are going or what we’re doing,” Kenawi, a veteran who has been with the industry for 25 years, says.

“There will always be mergers and acquisitions in our industry as companies attempt to grow. The proposed transaction may change the names of the competitors or who is in charge, but it will not change our demonstrated track record of having a successful strategy, core values or the unique way we go to market,” Kenawi tells me.

As for tackling the prevailing harsh economic conditions, and driving the company’s growth despite the odds, Halliburton’s regional strategy, as per Kenawi, is aligned with the global three-pronged policy – to bank on the company’s core strength of working on mature fields, unconventional and deepwater projects. Barring a few in Egypt, since deepwater projects are uncommon in the MENA region, Halliburton’s principal focus is delivering on mature fields. It is worth noting that high levels of oil production has left the region’s NOCs with oilfields having maturing reserves, leading to a spurt in demand for developing mature assets – a domain that requires effective project management.

Kenawi elaborates: “Our principal focus is on mature fields, which requires strong project management. We believe that this ever-increasing demand for project management in these turnkey projects will enable continued leadership and expansion for Halliburton in this domain. (About) 84% of the MENA reservoirs are mature fields, (developing) which is based on intervention and we are growing in this area as well.

The other critical strategy for expansion is unconventional (projects), where we have a good market share in North America and can bring that experience to the MENA. To summarise, definitely we will go into mature fields and unconventional and we will grow dramatically in this. We will have acquisitions that help us achieve these solutions in these two areas.”

The growth in demand for mature fields projects has in turn led to increasing use of enhanced oil recovery (EOR) methods – which to Kenawi is an emerging trend in oilfield technologies. “I think that in the MENA region, EOR is the most important thing. The (oilfield services) provider that understands EOR and the benefits of all product service lines collaborating to deliver the best solutions will be a winner in this market,” he believes.

Halliburton, which has delivered multiple EOR works globally and regionally, is currently working on a couple of projects in the GCC. Its subsidiary...
company Landmark is working on a digital EOR project in the GCC, which Kenawi stopped short of naming, where it is working on controlling the asset's processes and workflows to achieve field optimisation. More recently, Halliburton has also started work on an unconventional project in Oman, where the company ousted a major competitor who had been incumbent on the project for seven years. Kenawi reveals Halliburton is set to begin work on three new project management contracts this year, including work on six additional rigs with full lump sum turnkey deals in Iraq and a few other regional states.

Considering the specialised work in the oilfield services domain that Halliburton delivers, whereby the company is more often than not required to offer customised solutions and address the peculiar issues faced by its clientele – which is a mix of international players and regional majors like Aramco, KOC and ADNOC group – technical innovation is key to maintain a modern, efficient oilfield services portfolio.

“It is part of our value proposition to collaborate to engineer solutions that help maximise asset value for our customers. If we start collaborating with the customer early to understand their challenge, then we go and invest in technology, old or new, to deliver the solution that helps them achieve lower cost per BoE,” Kenawi states. “For example, we have an R&D centre in Saudi Arabia that focuses on production optimisation. It is largely a chemistry-based R&D facility, where we can understand the challenges that we have with unconventional (assets), as well as even formation evaluation and we develop customised technology for these challenges to provide the right solution.”

Regarding innovative products and technologies, Kenawi goes on to speak about a number of offerings developed in-house by Halliburton, mainly aligned with the company’s value proposition to help its customers achieve cost efficiency. “One of our new technologies that is making a difference, specifically in mature fields, is what we call the Acoustic Conformance Xaminer (ACX) tool. Actually, this service is very simple in nature; it’s a new-generation acoustic analysis tool that uses hydrophone array technology to locate and describe communication paths and flow areas—vertically and radially in the wellbore area in real time. From here we can go and intervene and rework the well and restore it back to a producing well.”

“We have another technology,” Kenawi continues, “that is helping operators improve production called Spectrum Real-Time Coiled Tubing Services, which combines intervention and diagnostic services to help operators monitor and optimise job performance in real-time, resulting in greater efficiency, increased reliability, and higher return...
Ahmed Kenawi says, “Cypher Seismic-to-Stimulation Service is a collaborative, integrated workflow with subsurface insight to know where to drill, and where to fracture.”

We have also introduced in the region, due to the nature of the long horizontal drilling, two of our directional drilling services,” Kenawi further says. “The Geo-Pilot Duro Rotary Steerable System increases drilling efficiency with higher ROP (rate of penetration) and tripping speeds and provides accurate well placement with enhanced BHA dynamics and less formation damage, while Endure Motor Technology enhances motor reliability by preventing chunking, allowing for longer drilling runs and reduced NPT (non-productive time).”

Operational excellence (OpEx) seems to have become the lingua franca of the oil and gas industry, and companies that have been unable to implement effective OpEx strategies within their organisations or as part of their offering to customers have clearly been left teetering. However, providing efficient solutions does not only mean lowering the cost for the client, Kenawi argues.

“You need to create innovative products that replace expensive ones. For example, one of the most important elements in stimulation is propping and when we manage to replace that with local sand then we can achieve large discounts on the amount of the ticket, which is actually what we have done in Saudi Arabia and Egypt,” he says.

He continues: “The other example is where we have developed a very strong application called Cypher Seismic-to-Stimulation Service, which is a collaborative, integrated workflow that leverages subsurface insight to know precisely where to drill, how to drill, where to fracture, and how to fracture. With the Cypher service, operators will maximise the value of their asset by increasing production, lowering cost per BoE, and reducing uncertainty. If we go with this application at an early stage, we can identify the entire cost element and deliver lower cost per BoE. This is in a way delivering optimisation.”

For a global major as Halliburton growing is key to sustenance and the company is thus fuelling its expansion plans in order to dominate the game. Halliburton which is present today in 70 countries and employs approximately 50,000 people, about 9,000 of them in the region, besides constantly eyeing to “right-size” the company in terms of its workforce, is looking to branch out into uncharted territory – except Iran, where existing economic sanctions bar American companies from engaging in business with the Islamic Republic.

“Our strategy is based on two things: growing organically and through acquisitions that enhance our offerings and product service lines,” Kenawi says. “We are in almost all countries and yes there are a few where we don’t have a presence because of the profitability of these areas and the regulations. If you look at Halliburton, we are strengthening more, we are gaining market share and we are implementing our strategies. We are growing more in the areas where we are already present.”