# A modern construct

Oman's engineering and construction sector received a boost in 2010 through increased government spending and a growing portfolio of upstream projects. However, an influx of foreign companies moved into Oman, challenging the local sector, which lacks large-scale engineering, procurement and construction contracting expertise and capacity.

**Unlike the oilfield services sector, the engineering and construction industry in Oman** was more deeply affected by the global economic downturn OF 2008 AND 2009, albeit indirectly. The government's determination to reverse the decline in production from the country's oil and gas fields has led to a steady supply of work in the upstream sector. The development of tight gas and heavy oil, both of which require more extensive infrastructure than traditional projects, has increased the workload for the engineering and construction sector in Oman. However, the shelving of construction projects in other countries including the UAE, also led to an influx of outside contractors offering their services at reduced rates. These foreign players forced many Omani construction companies to the sidelines.

## A BUILD UP

The complexity of Oman's geology and large number of field developments means the engineering sector has been raised on numerous upstream contracts. There are a number of construction and engineering companies that have grown up in Oman along with the development of the country's numerous oil and gas fields. Some of them, such as Al Hassan Engineering and Bahwan Engineering Company, are competitive in the construction market, even with the arrival of foreign contractors. The Local Community Contractor programme, by which Petroleum Development Oman (PDO) has sponsored the development of many companies by entrepreneurs living in its concession area, has also created an Omani sector specialised in small-scale engineering jobs on the oilfield. PDO itself set up a front-end engineering and design office of its own in 2009. The aim is to build the company's own knowledge of the engineering skills required for large enhanced oil recovery (EOR) techniques projects, which will enable PDO to benchmark the performance of its contractors on projects that have few precedents.

Omani engineering and construction firms, just like local service and supply companies, have developed specialised competencies through the growth of EOR in the upstream sector. In December 2010 Al Hassan won a $29-million contract from Oxy Mukhaizna to build a power transmission and distribution system for the steam flood Mukhaizna project. PDO also has several EOR pilot programmes in miscible gas injection, thermal recovery and polymer flooding. In 2010 BP began tight gas appraisal at two fields in Block 61. These projects can stabilise Oman's long-term oil and gas production, but for the engineering and construction sector they have the added value of contributing greater technical expertise to an already skilled sector. Moving forward, Omani firms can press this advantage by exporting their services abroad.

## MANY PARTS

One of the major weaknesses in the sector is that few Omani companies can act independently as engineering, procurement and construction (EPC) contractors. The engineering and construction sector is fragmented into specialised and localised firms and there has been a lack of development in manufacturing. While sympathetic to local companies, PDO's main focus is on increasing production, and contracts are awarded on a competitive basis. The broadening of the exploration and production sector has increased the number of operators in Oman to 17. While this expansion does offer more work, international producers such as PDO prioritise cost and skills in their choice of contractors.

During the economic downturn of 2008 and 2009, EPC contractors from around the world were able to out-compete local firms in both price and range of services. In 2007 PDO awarded an EPC contract to a consortium of French and British firms to build water treatment facilities at the Marmul heavy oilfield for polymer flooding. In 2008 Indian firm Punj Lloyd completed EPC work on 300 kilometres of gas pipeline in Oman. In 2010 the Wood Group-CCC joint venture signed an $800-million deal with PDO for engineering, maintenance and support services.

The situation is improving for Omani contractors. According to the government's economic diversification plans, the manufacturing sector in Oman is growing, as evidenced by the construction of the Gulf International Pipe Industry pipeline manufacturing complex. Global economy recovery (and of oil prices) has also led to more work outside Oman, which will draw off some of the international competition and create opportunities for overseas expansion.

## IN FIGURES

**PLANNED CAPACITY OF SOHAR REFINERY**

188,000 boepd

ARTICLE

*The expansion of Oman's ports is an important part of its infrastructure modernisation*

## IN FIGURES

**INVESTMENT IN ROAD INFRASTRUCTURE**

**$4.4 billion**

2010

### CHEMICAL BROTHERS

Over the past decade Oman has made great strides in developing its downstream sector, which has led to increasing levels of engineering and construction work as downstream production drives further economic diversification. The Port of Sohar has seen much of Oman's downstream growth. The Sohar Refinery opened in 2007, with a capacity of 116,000 barrels of oil equivalent per day (boepd). In February 2011, CB&I Lummus won a contract to oversee the expansion of the refinery's capacity to 188,000 boepd. A number of other petrochemicals industries rely on the refinery for feedstock.

The growth of the petrochemicals industry has also fuelled expansion of the production of raw materials and, in turn, manufactured products. For example, one of the sultanate's notable projects, Sohar Aluminium, began production in 2008. Also adding to downstream capacity, Jindal Shadeed's Sohar steel complex began production in January 2011, and the company plans to expand the facility. Another example of growth, Oman Polypropylene's facility produces 340,000 metric tonnes of polypropylene per year, used to manufacture bottles and packaging.

Naturally, growth of the downstream and industrial sectors has led to increased demand for electricity and water. In January 2010 Singapore company Sembcorp Industries formed a joint venture with Oman Investment Corporation to execute a 15-year contract to plan, build and operate an independent water and power project at Salalah. The $1-billion facility will generate 445 MW of power and produce 68,000 cubic metres of desalinated water. The plant is expected to enter operation in 2012. In September 2010 Oman Power and Water Procurement requested proposals for a new independent power project to be located at Sur. In September 2010 a consortium of companies led by GDF Suez and including Omani firm Bahwan Engineering Company began work on the construction of the Barka III and Sohar II independent power projects. The two gas-fired plants will generate 1.5 GW when operational in 2013.

### PASS THE PORT

Another area offering potential for contractors is the expansion of Oman's infrastructure. Industrial diversification has led to the expansion of the Sohar and Salalah ports, with new contracts for jetties, berths and terminals awarded.

Oman's transportation infrastructure is set to grow dramatically in the coming years. In June 2010 31 EPC firms submitted prequalification bids to construct the Oman national railway, which will provide freight and passenger links throughout the country. In the same month Strabag Oman won a $71-million contract to build the airfield at Sohar Airport, which will be operational in 2013. In 2010 the government also allocated approximately $4.4 billion for investment in the development and expansion of Oman's road infrastructure. Most infrastructure contracts are being awarded to international firms, however, the volume of government spending is trickling down to Omani firms in the form of subcontracting work.

Oman's engineering and construction industry has not established a strong presence overseas and many firms are wary of the risk posed by branching out. International work is only performed when equipment and personnel are not occupied at home. With so much work in the upstream, downstream and infrastructure sectors, Omani contractors have their hands full. ■