

Dana aims to power Iraqi needs

The company is investing \$650m into a private sector project in the country while eschewing political conflict, says Simeon Kerr

In the twilight years of the Iraqi monarchy in the late 1950s, Dhia Jafar, then Iraqi development minister, inaugurated two hydroelectric dams in the mountains of Kurdistan. For more than half a century afterwards, no new power stations were commissioned in the northern regions of Iraq.

Now Hamid Jafar, the minister's son, is developing and transporting natural gas to fuel two new power stations in Irbil and Suleymaniya, aiming to deliver stable power to Iraqis who still have only a few hours of mains electricity a day.

Sharjah's Dana Gas, the company of which Mr Jafar is executive chairman, is investing \$650m into the largest private sector project to date in postwar Iraq. The project includes a 180km pipeline from gas fields in the north of the country across mountains and minefields. It is due to be completed in July in the double-quick time of about 14 months.

"Certainly, shareholder value is important, but we are also demonstrating our ability to serve local needs in challenging circumstances, while doing our bit for Iraq," says Mr Jafar, who was born in Baghdad.

Dana Gas, which takes its name from a rare Gulf pearl, is also working with the Kurdish regional government to create a "gas city", a 42 sq km business park using gas as a feedstock for industries such as steel, cement and fertilizer manufacturing. Dana Gas is planning to replicate the concept in Egypt, with a more export-oriented focus than landlocked Kurdistan.

Mr Jafar shrugs off threats made by the central government in Baghdad against foreign energy companies that sign agreements with the Kurdish regional government.

"There's a lot of internal politics in Iraq at the moment, but our project meets urgent local needs and will save the government billions of dollars per year," he says. "It is a service contract and we are totally convinced of the legal, moral and technical correctness of what we are doing."

Mr Jafar moved to Sharjah four decades ago and set up

'We are totally convinced of the legal, moral and technical correctness of what we are doing'

Crescent Petroleum. Then, along with the Sharjah government and 300 Gulf institutions, businessmen and powerbrokers, he set up Dana Gas. It is one of the most intriguing businesses in the Middle East.

As the only regionally listed entity with upstream gas assets in the Middle East, Dana launched its initial public offering on the Abu Dhabi stock exchange two-and-a-half years ago at the height of the Gulf stock boom. The company subsequently raised \$1bn in convertible Islamic bonds in London. In the longer-term it is considering floating its upstream assets on a western exchange.

As well as acreage in the

United Arab Emirates and Iraq, Dana Gas bought Centurion Energy, a deal that gave it upstream gas assets in Egypt, where it plans a \$170m drilling programme, part of its overall \$500m investment programme for the year.

The Middle East straddles 40 per cent of the world's natural gas reserves along with its prodigious oil resources. But the Gulf, paradoxically, also faces acute gas shortages - of up to 7,000bn cubic feet daily by 2015 - which have already left tower blocks empty and led some states to consider coal-fired power stations.

Other projects that may lead to an easing in the supply-demand equation are in difficulty. Total of France has abandoned its position in a Shell-led consortium, aiming at the first opening in Saudi Arabia's closely held upstream hydrocarbons sector. Abu Dhabi is dragging its feet over the awarding of a \$10bn sour gas development project, raising fears that new supplies of gas will not come onstream fast enough to meet demand.

That is what makes another of Dana Gas's projects, a gas-import pipeline from neighbouring Iran, vital for the growth of the UAE. The project has already been delayed by two years due to contracting problems on the Iranian side, according to Mr Jafar, but the Iranians are now finishing the facilities and should be able to deliver gas within a few months.

Iranian officials have also suggested that the gas will not flow to the gas-hungry UAE unless Crescent Petroleum, the counter-party to the agreement, increases the

amount it is willing to pay. The expected initial volumes are 500m-600m cfd in a pipeline that can take up to 1,000m cfd.

"Crescent and the National Iranian Oil Company are having regular discussions on prices and quantities within the terms of the 25-year, internationally binding gas contract," says Mr Jafar. "We are confident the supplier will meet its obligations."

Dana Gas has signed agreements with the Sharjah and federal utility authorities to supply some of the 15

per cent annual demand rise for power to the smaller members of the UAE.

So, while other energy majors are pulling out of Iran as its international isolation deepens, Dana Gas avoids politicking.

As a regional private sector player, it aims to complement the state-backed oil groups of the region rather than compete with them. It aims to exploit the growing sense on the part of Gulf governments that the public sector cannot deliver the jobs needed over the coming decades.

MORE ONLINE

For news and analysis go to www.ft.com/mideast