

Sector Report

Power Sector Kuwait

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OVERVIEW

Kuwait's economy is heavily dependent on oil revenues which account for almost 50% of GDP, more than 80% of government revenues and over 90% of export earnings. Kuwait's GDP is estimated to have risen by 12% to reach US\$96 billion in 2006. The current high oil prices are producing a surge in oil revenue; this has fuelled strong growth to other sectors of the economy. Given the high oil prices during the Fiscal Year 06/07, Kuwait's budget surplus is expected to be at least \$25 billion.

Analysts predict a budget surplus for 2007/08 to be between \$17 - \$26 billion (assuming expenditures come between 94 and 96 per cent of the projected budget). Real gross domestic product (GDP) is forecast to grow by 5.6 percent in 2007. Kuwait Parliament has approved the state's largest budget in its history, projecting a deficit of \$10 billion, up 2% on the previous year and revenues at \$28 - 29 billion, down on last year's budget. However, revenues are likely to be far higher as the budget is based on a conservative oil price of \$36 barrel.

OPPORTUNITIES

The construction of the GCC power grid will provide opportunities for investment in the Kuwait power sector, as more power generating facilities need to be built in order to enable Kuwait to participate and provide additional power required to support the grid. There will also be opportunities for the sale of equipment and services related to the construction of the grid. At the same time there is the possibility of more grid linkage equipment and power generation facilities requirements should Kuwait's recent broader linkages and co-operation with other non-GCC Arab countries and Iran materialise.

With Kuwait facing severe power shortage, the government has announced plans to spend \$27 billion on power and water projects over the next eight years to meet the expected growth in consumption.

The plants slated to be built under this program are:

Az-Zour North: The proposed power station (steam turbine) will have a nominal generating capacity of 2500MW, net of any load imposed by the proposed 125 MIGPD seawater (MSF) desalination plant and a 25 MIGD seawater (SWRO) desalination plant which are to be combined in an independent development to be installed.

Status - As of August 2006, only one consortium had submitted its bid for the project. The consortium consisted - Washington Group / Doosan and CCC. The tender is to be re-tendered as the Central Tendering Committee procedures stipulates that there should be at least two tenders for evaluation. As of February 2007, there is the probability for change in scope - Gas fired turbines instead of Fuel oil.

Al Zour South Conversion: The project will entail converting the existing 1,000MW gas fired Al Zour South power plant to combined cycle. The scope of work includes supply and installation of heat recovery boilers and 2 steam turbines with a capacity of 250MW each.

Status - As of March 2007, the client (MEW) has awarded contract to Siemens and Alghanim International to convert the Al Zour south power plant to combined cycle.

Shuaiba North: The proposed plant will be gas fired with a generating capacity of 500MW and 60 MIGPD seawater (MSF) desalination plant.

Status: As of April 2007, it is believed that the contract is awarded to Doosan Heavy Industries & Construction / Siemens.

Subiya: The proposed plant will have a generating capacity of 1,500MW as a supplementary plant to the existing generating power stations to overcome the shortage of electricity expected during 2007 and 2009.

Status - The client (MEW) has awarded the contract to build the power plant to the consortium of General Electric / Hyundai Heavy Industries. GE will supply and install its gas and steam turbines and Hyundai Heavy Industries will carry out civil construction works.

Failaka: The proposed plant will consist of four gas turbines and one steam turbine of a total minimum net output capacity of 180MW.

Status - On hold

The above projects will without doubt provide ample opportunities for UK companies to supply their products and services relating to the power sector mainly as sub contractors. In addition, maintenance of Kuwait's current power network provides plenty of opportunities for the supply of spare parts, specialised maintenance contracts and consultancy services.

There is also a need for innovative and clean technology to improve efficiency of turbines at the new plants.

Kuwait power shortage

With the temperature in Kuwait during the summer reaching as high as +50°C, a large portion of the population choose to flee the country seeking cooler destinations, leaving the remaining population with little choice but to rely on high power consuming air-conditioning to escape the brutal heat. However, the reason for the country's power crisis is blamed on the government's poor management and indecisiveness in executing power projects.

Over the summer of 2006, Kuwait witnessed power cuts which have led the government to take a steps ton avert a repeat of last summer's situation. Through various emergency projects, the MEW currently has total installed capacity of 9,800MW. Experts predict that the summer peak demand is expected to approach 9,700MW. In a move to evade a repetition of the power crisis faced last summer, the MEW has signed contracts totalling over \$850 million for the fast track installation of almost 1,000MW of emergency power generating capacity.

The government is also running a number of campaigns appealing to the public to conserve electricity. The campaign launched by the government includes adverts in newspapers, tv advertising, street hoardings, sms texting, leaflets and setting up ad-hoc call centres.

The power situation has been of such grave concern that the MEW has been in direct negotiation with companies for the contracts bypassing the Central Tenders Committee (CTC). Under Tender Law No 37 of 1964, which regulates public sector contracts, the CTC oversees the tenders of all government contracts valued over KD 5,000. The power and water shortage in the country has been a relative hot topic of discussion in the National Assembly and the local press. The social and political consequences of the situation Kuwait finds itself in, is considered by many Kuwaitis to be quite worrying. With Kuwait considered to be one of the richest nations on the planet (taking into consideration its Per Capita Income), and with its huge money reserves and oil capacity, many Kuwaitis and experts find it inexcuseable for the country to find itself in its current situation.

Experts have warned that with rising economic and population growth, unless new substantial capacity is brought into stream, the power and water shortage will continue. Experts have advised that there is need for the contracting regulations to be revised to attract foreign companies to participate. There is need for the ministry to take more rapid and timely decisions in the execution of projects. Experts have also suggested that price for power and water be increased to rationalise its usage.

Summer Emergency Power -

It includes installation of more than 700MW at the Doha and Subiya plants (involves some refurbished gas fired turbines). Also included is the installation of 200MW additional power generation capacity at the Shuwaikh.

Status - The ministry awarded 5 contracts to the following companies

- Alghanim International
- ITH
- US/Jordanian Company
- Combined Group
- ECC Energy Solutions

UKTI publishes international [business opportunities](#) gathered by our network of British Embassies, High Commissions and Consulates worldwide. These opportunities appear in the Opportunities portlet on the relevant sector and country pages on the UKTI website. By setting up a profile you can be alerted by email when relevant new opportunities are published. New or updated **alert profiles** can be set in My Account on the website.

CHARACTERISTICS OF MARKET

Kuwait's first power plant was established in 1934 by the National Electricity Company. However, in 1951 with the government having bought stakes in the National Power Company, the Ministry for Electricity and Water was instituted.

Today Kuwait has five power stations (Doha East, Doha West, Al Subiya, Shuaiba South and Al Zour South) with a total electrical generation capacity of about 9.3 gigawatts (GW). The country's per capita electricity consumption is amongst the highest in the world with reliance on desalination for its water supply, heavy dependence on air-conditioning during summer and the high-subsidised rates to the consumer, which offer little incentive for the rational use of power have contributed to high consumption levels. Kuwaitis pay among the lowest prices for power in the world. The government charges a highly subsidised rate of 2 fils per kWh while the cost of production is between 20 - 25 fils per kWh. Given current per capita consumption, this amounts to a subsidy of somewhere in the region of \$2 billion a year.

Social factors such as fast rising population (population growth accelerated to 8% in 2004) and state funded welfare system which writes off power bills owed by citizens are also some of the reasons that are putting upward pressure on the power demand.

Kuwait's power demand has been growing rapidly and is expected to increase at 7-9 percent, which is well above the world average of 3 - 4 percent. This trend has become a threat to the 20 percent spinning reserve capacity the ministry maintains at its power plants.

Despite the above, Kuwait has remained one of the few GCC states that has stubbornly resisted privatisation. The Kuwaiti government is faced with the need to spend ever more heavily on meeting the widening gap between demand and supply. There have been media reports that the new government may yet go down the difficult route to privatise the power sector.

There have also been reports that the Ministry of Electricity and Water (MEW) will be introducing prepaid service for electricity consumption. This move is seen as a means to curtail the non-payment of electricity bill. However, the general consensus is that it is unlikely to be implemented for Kuwaiti citizens. If true this would defeat the object as they account for majority of the unpaid electricity bills.

Discovery of Gas in the northern fields

Kuwait's first reported substantial find of non-associated gas in early 2006 has been met with relief by the Energy ministry. Should the scale of the gas discovered live up to the early expectations, there is the possibility that the government could move from oil to gas for power generation. The discovered gas is believed to consist of 70 percent 'lean gas' which will be used to support the electricity and water sectors, while the remaining 30 percent will be used to supply the petrochemical industry.

With domestic demand steadily growing at 7 - 9 percent, the government is still pressing ahead with arrangements to import gas. Iraq and Iran remain the main import options, as Kuwait is both unable to attain permission from Saudi Arabia for the construction of the undersea pipeline from Qatar, and Qatar is not prepared to make available more gas for export beyond its present commitments.

Currently Kuwait's power plants are fired by heavy fuel oil. The planned refining complex was primarily envisaged to service the country's future power needs. However, both for environmental reasons and the ability to increase oil exports, the government is keen to see gas play a bigger role in fuelling power generation and water desalination plants in the country.

GCC power grid project

As a means to relieve the power shortage in the foreseeable future, the government has accepted a proposal to link up with the grids of other GCC countries. In theory the grid linkup would provide each GCC country with additional spare capacity to handle demand during summer. However, as observers have pointed out, peak demand is the same throughout the GCC and without plans to provide greater spare capacity the scheme seems unlikely to achieve its stated objective.

Work is currently underway on the first phase of the GCC power grid, which will connect Saudi Arabia, Kuwait, Bahrain and Qatar. It will have a capacity of 1,200MW and is targeted to be completed by mid 2009. Phase two will link Oman and the UAE. In the third phase, the two systems will be linked completing the regional grid. While it is estimated that phase one will cost \$1.189 billion, phases two and three are estimated to cost around \$300 and \$137 million respectively. The development costs of the GCC grid will be shared by all the GCC states.

Six companies - including ABB, Areva T&D and Nexans - have won 13 contracts worth over \$1 billion in total in the first phase of the GCC grid project. The winning companies were selected by the board of directors of the GCC Interconnection Authority (GCCIA).

KEY METHODS OF DOING BUSINESS

Kuwait's Commercial Companies Law provides for the establishment of the following types of companies and ventures.

- Limited liability company
- Shareholding company
- Partnership
- Joint venture
- Commercial agency
- Branch

All the above, with the exception of 'joint venture' possess a separate legal identity.

UK companies wishing to do business in Kuwait are advised to operate through a local agent or j/v partner. This is especially required for Government contracts. A local agent or partner will be more finely attuned to the local business environment and therefore, best suited to deal with

complicated issues that may arise. The agent/partner can facilitate the required registration on approved supplier lists of appropriate government entities and companies.

Choosing the right agent/partner and formulating an equitable agency agreement is therefore a critical element in doing business in Kuwait.

The Trade & Investment section at the British Embassy can assist in identifying an appropriate local representative. For further details on commissioning our services or obtaining further information on Kuwait's agency law and tendering procedures, kindly contact the Embassy

Or

**UK Trade & Investment (UKT&I) Kuwait Desk at Kingsgate House, 66-74 Victoria Street London SW1E 6SW, tel. +44 (0)207 215 4710,
Contact Ms Amanda Walton, email Amanda.Walton@berr.gsi.gov.uk**

Other background information on doing business in Kuwait can be found on UKTI's website. Simply go to the [Kuwait](#) country page where you will find information on:

- Economic background and geography
- Customs & regulations
- Selling & communications
- Contacts & setting up
- Visiting and social hints and tips

MORE DETAILED SECTOR REPORTS

When considering doing business in Kuwait, it is essential to obtain business, legal and financial/taxation advice. For further details, please contact:

For more information in the power sector in Kuwait contact

UKT&I International Sectors Group (ISG1) at Bay 425 Kingsgate House,
66-74 Victoria Street, London SW1E 6SW, Tel. +44 (0)20 7215 4639
Email : Bob.bish@uktradeinvest.gov.uk
Contact : Mr Bob Bish

The British Embassy – Trade & Investment Section, Kuwait

Tel. 00 965 259 4367 Fax 00 965 259 4368
Email : elvis.jerome@fco.gov.uk
Contact : Mr Elvis Noronha, Trade & Investment Officer

Research is critical when considering new markets. UKTI provides [market research](#) services which can help UK companies doing business overseas including:

- **Overseas Market Introduction Service (OMIS).** Bespoke research into potential markets, and support during your visits overseas
- **Export Marketing Research Scheme.** In-depth and subsidised service administered by the British chambers of Commerce on behalf of UKTI

Contact your local [International Trade Advisor](#) if you are interested in accessing these services, or for general advice in developing your export strategy.

PUBLICATIONS

- ❖ *"Middle East Economic Digest", MEED, www.meed.com, published by MEED, 33-39 Bowling Green Lane, London EC1R 0DA United Kingdom*
- ❖ *"Middle East Electricity", MEE, www.mee.antfx.com published by Media House Azalea Drive, Swanley, Kent BR8 8HU United Kingdom*

EVENTS

- ❖ ***POWER-GEN Middle East (Manama, Bahrain)
held annually in January.***

POWER-GEN Middle East is the region's premier power conference and exhibition.

It is attended by senior personnel from government organisations, project developers, project finance companies, consultants, utility companies, independent power producers, major oil operating companies and state-owned oil companies.

The event offers opportunities for international and national industry professionals to further their aims in the rapidly expanding power market. POWER-GEN Middle East presents a unique platform from which the market can develop to meet the region's power requirements, share information and conduct business in a face-to-face environment.

- ❖ ***Middle East Electricity & Exhibitions (Dubai, UAE)
held annually in February.***

Middle East Electricity is the largest and most significant showcase of products and services for the energy industry in the Middle East and North Africa. The 2006 event featured over 800 exhibitors from 51 countries and 18 country pavilions, including the world leaders in electricity, power generation, lighting, new and renewable energy and gas - each of which has a dedicated focus area within the exhibition.

Middle East Electricity Exhibition is internationally recognised as the power behind the Middle East Energy industry, and rated by exhibitors and visitors as one of the world's top events of its kind.

- ❖ ***Power Generation & Water Middle East (Abu Dhabi, UAE)
26 - 28 October 2008***

Power Generation & Water Middle East provides a unique platform for regional and international organisations to showcase their products and services for the power, water and energy sector. Sizeable increases in population and commercial activities have led to significantly higher demand for power, water, gas and new & renewable forms of energy within the Abu Dhabi emirate and across the region.

UK Trade & Investment's [Tradeshow Access Programme](#) (TAP) can help eligible UK businesses take part in overseas exhibitions. Attendance at TAP events offers significant benefits:

- possibilities for business opportunities both at the show and in the future
- a chance to assess new markets and develop useful contacts
- grants are available if you meet the criteria

- UKTI staff overseas will be available to assist delegates

Find out if you are eligible to apply to attend this event, and more about the support UKTI can offer, on the UKTI [Market Entry](#) web page.

Details of TAP events can be found in the **Events** portlet on the [country] page.

Other **Market Visit Support** may be available via your local International Trade Advisor.

CONTACT LISTS

Ministry of Electricity & Water

P O Box 12
Safat 13001 Kuwait
Tel: 00965 537 1000
Fax: 00965 537 1460
Web: www.moo.gov.kw

Ministry of Commerce & Industry

P O Box 2944
Safat 13030 Kuwait
Tel: 00965 248 0000
Fax: 00965 246 5103
Web: www.moci.gov.kw

Ministry of Public Works

P O Box 8
Safat 13001 Kuwait
Tel: 00965 538 5148
Fax: 00965 539 5532
Web: www.mpw.gov.kw

Kuwait Chamber of Commerce & Industry

P O Box 775
Safat 13008 Kuwait
Tel: 00965 805 580
Fax: 00965 243 3858
Web: www.kcci.org.kw

Some of the local private companies active in the power sector:

Al Meer Technical Services Company

P O Box 9240
Ahmadi 61003 Kuwait
Tel: 00965 398 6594
Fax: 00965 398 0682 / 6574

Kuwait Controls Company

P O Box 20298
Safat 13062 Kuwait
Tel: 00965 241 8830 / 4
Fax: 00965 243 3698 / 2254

Barq Al Khaleej Trad. & Cont. Co.

P O Box 2442
Safat 13025 Kuwait

Power – Kuwait

Tel: 00965 264 0820

Fax: 00965 264 0430

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For new and inexperienced exporters, our [Passport to Export](#) process will take you through the mechanics of exporting. An International Trade Adviser will provide professional advice on a range of services, including financial subsidies, export documentation, contacts in overseas markets, overseas visits, translating marketing material, e-commerce, subsidised export training and market research.