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Kuwait:

Oil, Gas & Petrochemicals

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MAP OF KUWAIT

Source : PRS Group

EXECUTIVE SUMMARY

Although the oil industry has been a key source of wealth, Kuwait's nearly complete dependence on oil has been a detriment to the country's economy in recent years. Kuwait's GDP plummeted during the 2009 financial downturn, signalling the country's overlying dependence on oil resources, which will naturally dry up in coming years. Additionally, recent years of slow economic growth, largely attributed to low oil prices and an ongoing dispute with Saudi Arabia over shared resources, have hit the larger economy, with noticeable contractions within key sectors such as construction and real estate. Nonetheless, developments within the oil and gas sector, including recent discoveries and improved production efficiencies are expected to propel the sector to healthy growth in the medium-term, with growth in the non-oil sectors expected to rise in tandem in coming years as the domestic economy strengthens in line with modest recovery in oil prices.

The majority of Kuwait's associated natural gas is produced in the northern part of the country. However, increased domestic demand for gas consumption has forced Kuwait to explore and produce natural gas in more volatile parts of the country. The Jurassic non-associated gas field was discovered in 2006, with an estimated 35 trillion cubic feet (tcf) of reserves. This project has been described as the most difficult in the world, for its geologic composition and the technical complexities that this presents. A rapid rise in domestic demand, as well as increasingly high quality standards in the international market has resulted in a US$ 31 bn project to overhaul the country's refining sector.

Until recently, the Kuwaiti government has done very little to diversify the economy. This is partly due to the economy's strength, as well as the strained relationship between the executive branch and the National Assembly, which has made economic reforms difficult. There are no known sanctions against Kuwait, and the state is party to bilateral trade and investment agreements with the United States. As a member of the Gulf Cooperation Council (GCC), Kuwait is also pursuing free trade agreements with the EU, China, Japan, Malaysia, and Pakistan, although uncertainty over these deals casts a shadow over any potential benefit they may bring. In recent years the government has examined privatising its oil services sector, a move that could prove a huge boon for the economy but would also jeopardise the country's 'cradle to grave' welfare state.

Kuwait is facing significant challenges in the gas sector. Increased domestic and petrochemical demand for natural gas has largely gone unanswered. While Kuwait is in the process of exploring new gas producing options, geographical challenges are proving insurmountable. The shortage in natural gas has meant that Kuwait regularly consumes more gas than it produces. Kuwait's electricity demand, the generation of which is fuelled increasingly by natural gas, has outpaced natural gas production during the summer months, resulting in the shutdown of refinery and petrochemical operations to meet the increased demand of electricity.

Looking ahead, growth within the domestic oil and gas sector will be supported by new discoveries, a resumption of production in the neutral zone in 2017 and a steady rise in oil prices. In order to sustain production levels and garner increasing levels of foreign investment, the government needs to continue to implement pro-business reform while weighing the potential costs and benefits of privatising its oil services sector. In spite of such difficulties, Kuwait remains a key and integral player in the global oil, gas and petrochemicals market. Growth and progress is expected to remain strong in the medium term as the economy recovers from a sustained dip in low oil prices, with possible further improvements in the long term if efforts are made to further diversify and strengthen the country's economy as a whole.

INDUSTRY STRUCTURE

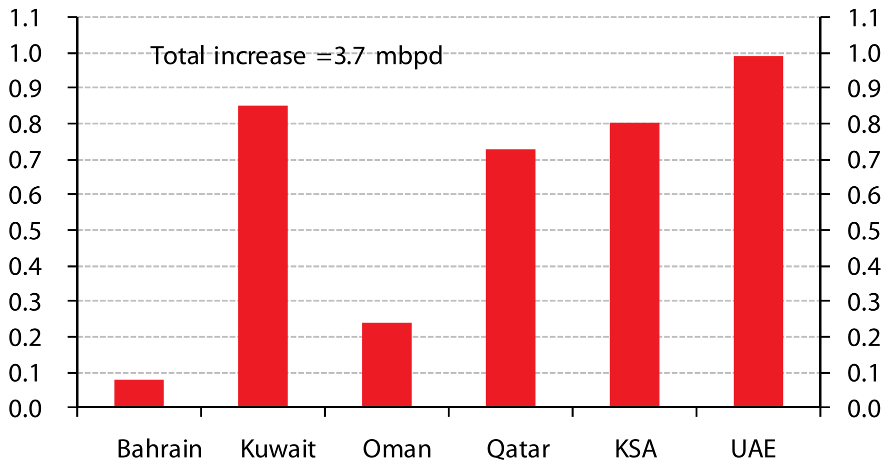
The oil, gas and petrochemicals industry encompasses a variety of activities, products and services that together enable the exploration, extraction, refining, transport and marketing of oil, gas and petrochemicals in their various forms. Petroleum products are sold in raw and refined form, and, together with petrochemicals, are used in the production of a variety of products including pharmaceuticals, solvents, fertilisers, pesticides and plastics. The dynamics of the industry are tied closely to world oil prices, global weather and conditions and, often, international politics.

Kuwait has thirteen onshore oil fields concentrated in the north and southwestern part of the country, as well as one onshore gas field. Kuwait's petroleum industry is state-run under the management of the Supreme Petroleum Council (SPC) and the Kuwait Petroleum Corporation (KPC). Extraction and processing, upstream and down, are done either directly by the KPC or one of its many subsidiaries. The SPC is headed by the Prime Minister, with the remaining council comprising of six ministers and six representatives from the private sector, and are selected by the emir. Natural gas and petrochemicals are also controlled by the KPC or its subsidiaries. Foreign firms are largely excluded from the oil and gas sector.

MARKET OVERVIEW

Located on the coast of the Gulf between Saudi Arabia and Iraq, the tiny constitutional monarchy of Kuwait is one of the Middle East and North Africa (MENA) region's most eminent success stories. Over 90% of the estimated three million people of Kuwait live within a 500 square kilometre area surrounding Kuwait City and its harbour. Kuwait is a significant hydrocarbons producer, with oil and gas currently accounting for nearly 60% of the country's GDP, 95% of export revenues, and 95% of government income as of 2015.

Forecasted Oil Capacity

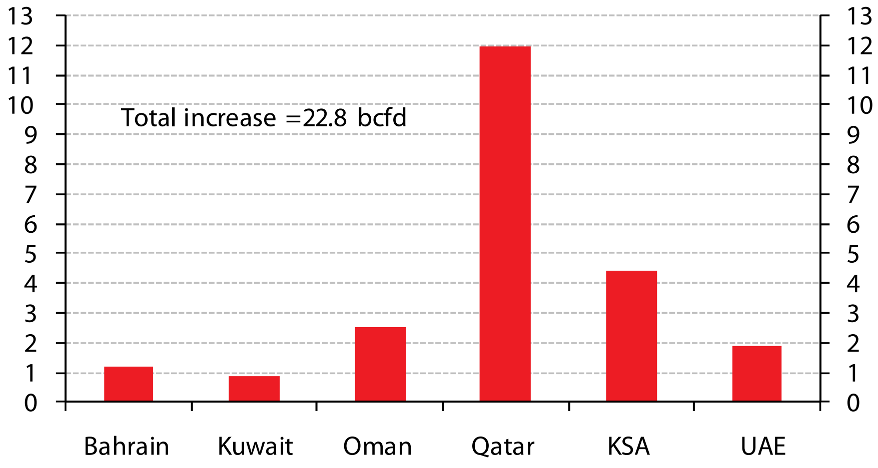


Source : NBK

Although the oil industry has been a key source of wealth, Kuwait's nearly complete dependence on oil has been a detriment to the country's economy in recent years. Kuwait's GDP plummeted during the 2009 financial downturn, signalling the country's overlying dependence on oil resources, which will naturally dry up in coming years. Additionally, recent years of slow economic growth, largely attributed to low oil prices and an ongoing dispute with Saudi Arabia over shared resources, have hit the larger economy, with noticeable contractions within key sectors such as construction and real estate. Nonetheless, developments within the oil and gas sector, including recent discoveries and improved production efficiencies are expected to propel the sector to healthy growth in the medium-term, with growth in the non-oil sectors expected to rise in tandem in coming years as the domestic economy strengthens in line with modest recovery in oil prices.

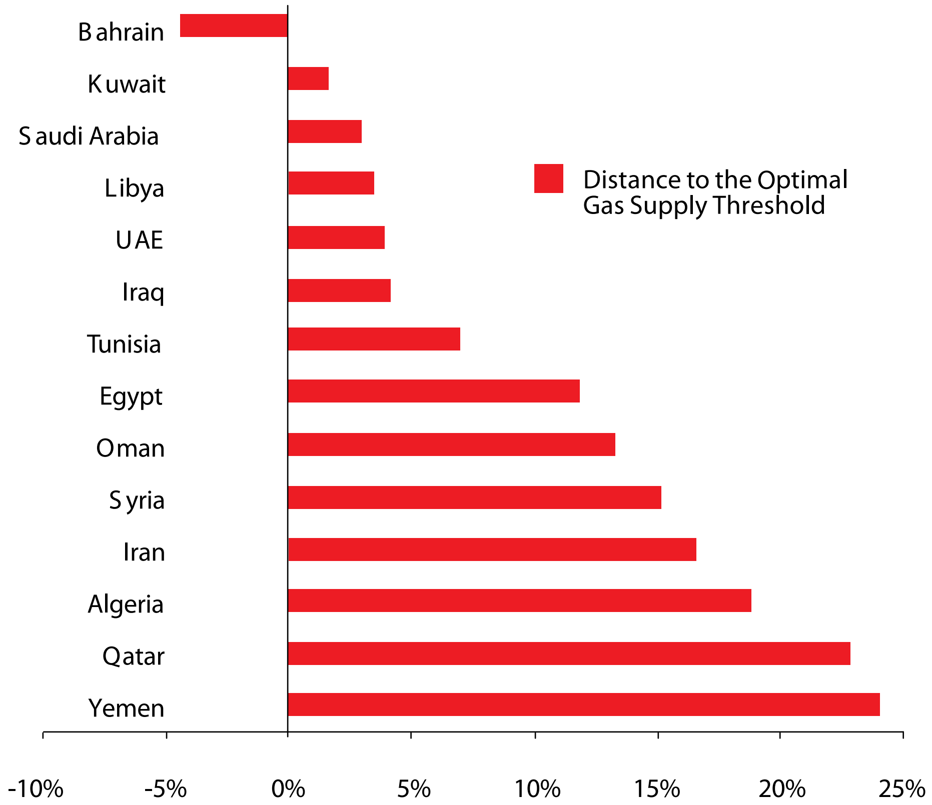
Efforts are also being focused on finding a suitable solution to the country's shortage of natural gas. Kuwait has struggled with a shortage of natural gas production for over a decade because of insufficient foreign investment and upstream project delays. As of January 2016, Kuwait had an estimated 63 tcf of proven natural gas reserves. Natural gas reserves have remained consistent since 2006. Compared to the country's oil reserves, Kuwait's reserves are not significant, which has resulted in an extensive drive in natural gas exploration. However, there are several impediments to any rapid expansion of both reserves and production, including unattractive contract structures and political uncertainty. In addition, new discoveries of tight and sour gas deposits are geologically complex, requiring more sophisticated and costly development. Despite this, vast discoveries of non-associated gas in the country's north have attracted increasing interest from international oil companies (IOCs), although contract structures and political uncertainty continue to impede production expansion.

Forecasted Gas Capacity



Source : NBK

Optimal Gas Supply Gap



Source : APRICORP

Foreign ownership laws continue to slow down Kuwait's oil and gas sector. There is a constitution ban on foreign ownership of its resources and revenues in the country. In recent years, however, the government has taken measures to increase foreign participation in the sector through technical and service contacts. Frequent delays of energy projects and contracts involving foreign companies and project logistics are often a result of political disagreements between the Emir and the parliament.

While it maintains firm control over the sector through state petroleum company Kuwait Petroleum Corporation; (KPC), the Kuwaiti government has begun to seek international involvement through a combination of direct initiatives and partnerships with foreign players. Internal political turmoil has historically impeded the prevalence of foreign players on the market, but as foreign experience and technological know-how becomes increasingly needed, particularly within the energy sector, opportunities are likely to open up. In an effort to provide incentives for foreign investment and participation, the government has embarked on an initiative, known as Project Kuwait, to boost production capacity to 4 mn barrels per day (bpd) by 2020. First proposed in 1997, under the initiative the government retains full ownership of oil reserves and control over production levels, while foreign firms are paid a per barrel fee in addition to allowances for capital recovery and incentive fees for increasing reserves.

Kuwait's petroleum industry is state-run under the management of the Supreme Petroleum Council (SPC) and the Kuwait Petroleum Corporation. The Ministry of Petroleum supervises all aspects of policy implementation in the upstream and downstream portions of both the oil and natural gas sectors. The KPC manages domestic and foreign oil investments, and is a holding company for various Kuwaiti oil companies that subsequently control the sector. In July 2016 it was announced that the Kuwaiti government will go through with plans to sell a stake in its domestic oil and gas operations. This move is part of a greater economic reform play to shrink its budget deficit, forecast to be US$ 38.6 bn in 2016. While no date has been set for the public offering, recent announcements suggest that the Kuwaiti government committed to building a strong public-private partnership in the near future.

Kuwait has been a leading producer of oil since the Kuwait Oil Company (KOC) in Burgan, now the world's second largest oilfield, first made discoveries in 1938. In 1975 the Kuwaiti government decided to nationalise the industry leading to both BP and Chevron being forced to give up their concession, and resulting in the birth of the KPC. Nearly two decades later, in 1991, Kuwait's oilfields made international headlines again as the Gulf War led to an estimated loss of between 1% and 2% of Kuwait's oil reserves and massive environmental damage. Cleaning up this damage is still in progress and will continue for some time in the future.

Currently, Kuwait's oil production stands at 2.8 million barrels per day (bpd), although the country is aiming for a growth in production of 4 million bpd by 2020. The government is currently focusing on plans to invest US$ 80 bn in upgrading existing facilities as well as developing new facilities. A number of major upstream contracts have been signed in 2015 and 2016, and there is a renewed interest in offshore exploration. In August 2015, BGP began a 3D transition zone survey of 2,500 sq km within Kuwait Bay. One of the largest 3D surveys in the world, the project was launched in partnership with the China National Petroleum Company. Aside from the Medina and Khafki fields off the Production Neutral Zone, Kuwait's offshore potential remains largely unexplored and government officials have expressed optimism in regards to the areas prospects. Upstream activities are expected to cost over US$ 55 bn, while downstream projects are slated for US$ 25 bn. The government also plans to increase production in Kuwait's northern fields from 600,000 bpd to 900,000 bpd.

Despite the predominance of oil in the country, Kuwait is looking to expand its gas and petrochemicals sector. Domestic demand and petrochemical need for gas is growing. The country aims to replace the use of fuel oil for the power stations by using gas, which is more environmentally friendly and cheaper. As such, Kuwait has increased the share of natural gas in its primary energy consumption fro 34% in 2009 to 43% in 2015. However, the supply and production of natural gas is not enough to satiate demand. As a result, Kuwait has been relying on overseas import of liquefied natural gas (LNG). More durable solutions are being investigated, particularly the development of gas fields in the Jurassic layers in northern Kuwait. The government is also exploring renewable energy development, with a goal to generate 15% of total electricity from wind farms by 2030.

Overall, the outlook for Kuwait's oil and gas sector remains mixed. Looking ahead, sector activity will be supported by new discoveries, a resumption of production in the neutral zone and increasing participation and investment from the private sector.

While these factors are expected to boost growth levels in the medium-term, the government will need to focus on implementing business-friendly reform and simulating non-oil sectors in order to reduce the budget deficit and lay a strong foundation for the country's post-oil economy.

Natural Gas Exploration and Production

As of January 2016, Kuwait had an estimated 63 tcf of proven natural gas reserves, which have remained at the same level since 2006. Compared to the country's oil reserves, Kuwait's reserves are not significant, which has resulted in an extensive drive in natural gas exploration. However, there are several impediments to any rapid expansion of both reserves and production, including unattractive contract structures and political uncertainty. In addition, new discoveries of tight and sour gas deposits are geologically complex, requiring more sophisticated and costly development. Despite this, the country's gas reserves are piquing the interest of international oil companies. Kuwait itself has recently become a net importer of natural gas, allowing the country to focus more on exploration and development for domestic consumption. With peak demand for electricity expected to grow by 6-8% annually in coming years, there is a pressing need for Kuwait to expand its natural gas supply.

All of Kuwait's natural gas resources are wholly owned by the KPC, whose subsidiaries oversee the production of gas. In 2014, Kuwait produced 1.5 bn cubic feet per day (bcf/d) of natural gas, an increase of 15% from 2009. Given the predominance of associated natural gas in Kuwaiti production, domestic natural gas supplies decreased as a result of lower OPEC crude production quotas. Kuwait increasingly requires supplies of natural gas for the generation of electricity, water desalination, and petrochemicals, as well as increased use for enhanced oil recovery (EOR) techniques to boost oil production. As such, Kuwait is shifting its exploration drive in order to focus on natural gas discoveries to mitigate imports of LNG and decrease the proportion of oil used domestically. The government has announced an ambitious production target of 3 bcf/d by 2030, about four times the current production level.

Associated natural gas makes up the majority of Kuwait's overall production. In 2014, the country produced 1 bcf/d from associated gas. Non-associated gas production only amounted to 150-200 million cubic feet per day (mcf/d). Most of Kuwait's associated natural gas is produced in the northern part of the country, and this area continues to be seen as the most promising source of future natural gas production. Due to Kuwait's challenging political and economic climate, limited progress has been made in exploring offshore prospects. KPC has stated its intent to produce 1 bcf/d of non-associated gas from these fields by 2015. As projects have experienced delays, however, this production goal is likely to be pushed back to 2020.

However, increased domestic demand for gas consumption has forced Kuwait to search for and produce natural gas in more volatile parts of the country. The Jurassic non-associated gas field was discovered in 2006, with an estimated 35 tcf of reserves. This project has been described as the most difficult in the world, for its geologic composition and the technical complexities that this presents. Initially, the plant was expected to produce 170 mcf/d of natural gas by 2008. According to HIS Energy, the Jurassic field reached a production plateau of 140 mcf/d. A second phase, currently under construction, has a projected capacity of 500 mcf/d, with a third plan in the works that will bring production capacity up to 1 bcf/d. However, political difficulties have stalled the project, as the government has held up future phases of the Jurassic project as it investigates foreign contract terms with energy giant Shell.

The Dorra gas field offshore PNZ is a plausible solution for increasing Kuwait's non-associated natural gas production. Shared by Kuwait, Saudi Arabia, and Iran, planned production was originally supposed to commence by 2017, providing an additional 500 mcf/d to Kuwait. Further political tensions and disagreements have stalled the project. Kuwait and Saudi Arabia both decided to delay project development in 2013 because of disputes over allocation of resources and ashore locations. Political problems between these two countries and Iran will continue to be preclude any long-term settlement of mutual development.

Kuwait's increasing electricity demand, increasingly fuelled by natural gas, has outpaced natural gas production. Currently, Kuwait consumes some 200,000-300,000 barrels of oil per day solely for power generation. In 2014, Kuwait consumed approximately 1.8 bcf of natural gas. Since 2008, Kuwait has consumed more natural gas than it has produced, resulting in electricity outages and making the availability of feedstock precarious. As a result, Kuwait has resorted to importing LNG to make up for the supply gas.

In 2014, Kuwait imported 212 mcf/d of LNG, representing 12% of total natural gas supply. Kuwait formerly had signed supply purchase agreements with Shell and Vitol to receive LNG supplies from 2009 to 2013. Kuwait recently signed a five-year contract with Golar LNG to charter a floating LNG vessel with a capacity of 760 mcf/d. Currently, LNG imports are largely coming from Qatar, with small amounts also coming from Nigeria. Kuwait has also recently been interested in acquiring supplies from the impending natural gas project in Southern Iraq, which is currently being developed by Shell, Mitsubishi, and Iraqi state-owned Southern Oil Company (SOC). Production start date will largely be determined by the on going political situation in Iraq.

Nuclear Energy

Following the March 2011 nuclear disaster at the Daiichi nuclear power complex in Japan, which was devastated by a magnitude-9 earthquake and then hit by a tsunami, Kuwait has decided to abandon civilian nuclear power production. Prior to the devastation in Japan, Kuwait was undergoing long-term plans to utilise nuclear energy in an effort to diversify the economy away from an oil-base. In March 2009, the country announced its intention to establish a nuclear commission. Subsequently, in January 2010, the head of the National Nuclear Energy Committee announced a 20-year cooperative deal with the French Atomic Energy Commission in the development of nuclear power in Kuwait. Kuwait announced plans to build four fully operational nuclear power plants by 2022, and agreed to allow International Atomic Energy Agency (IAEA) inspectors into any future nuclear sites. Given the lasting effects from the nuclear disaster in Japan, these plans have largely been abandoned.

Oil Exploration and Production

Kuwait's oil production reached just under 2.8 mn bpd in 2015, up from 2.4 mn bpd in 2011. Although Kuwait is bound by the target production capacities of OPEC, the country was allowed to ramp up production to make up for the loss in oil caused by the Libyan civil war. Kuwait has over 14 onshore oil fields, but nearly 50% of the country's production comes from the southeastern part of the country, where the Burgan field, which has a production capacity of between 1.7 million bpd, is located.

As part of Kuwait's development plan, massive investments have recently been made into upgrading the domestic oil industry. In 2014, on the heels of a five-year spending plan that expired in 2014, The KPC has initiated a US$ 75 bn expansion plan encompassing both upstream, with US$ 40 bn allocated, and downstream production, with US$ 35 bn allocated. Included in this are plans to upgrade Kuwait's production and export infrastructure and its tanker fleet, expand exploration, and build downstream facilities, both domestically and abroad. All of this is expected to boost oil production to 4 million bpd by 2020, with production capacity to be maintained through 2030.

A focal point of this ambitious production capacity date is Project Kuwait, which aims to attain a production capacity of 4 million bd. First proposed in 1997, Project Kuwait was a concentrated effort to create substantial incentives for attracting foreign investment. However, the progress of Project Kuwait has been impeded for a number of years, as the National Assembly challenged the contract structure to be unconstitutional. The project aims to increase the country's oil production capacity from the four northern oil fields of Raudhatain, Sabriya, al-Ratqa, and Abdali, with output targets of nearly 1.1 million bpd, up from about 700,000 bpd in 2014. KOC has announced it plans to spend US $15 bn to expand output from the Sabriya and Raudhatain fields by about 300,000 bpd. The Ratqa field is epected to provide 60,000 bpd by 2017, 270,000 bpd by 2020, and 270,000 bpd by 2030. KOC has also admitted the project is ambitious enough to require the assistance of IOCs. Agreements have been made thus far is with Royal Dutch Shell. Some progress in production has been made in recent years, with production in the north approaching 800,000 bpd with the installation of a 120,000 bpd early production facility at the Sabriya field.

Although production and exploration is strained, exports in the country remain high. Kuwait exported about 2 mn bpd of crude oil in 2015. Kuwait is currently the sixth-largest exporter of crude oil among OPEC producers. Kuwait is able to export such a sizeable portion of its oil production because domestic consumption is negligible. The country only consumed 470,000 bpd in 2014, leaving 86% of oil available for export. Consumption is increasing, partially as a result of increased petroleum-fired electricity, but the majority of oil is likely to be slated for export for the near future.

The majority of crude oil is sold on term contracts, and crude exports are a single blend of all crude types. The Asia-Pacific region remains Kuwait's biggest market for exports, receiving approximately 1.5 mn bpd in 2014, while exports to the United States average 334,000 bpd, and Western Europe 500,000 bpd. The largest importer is South Korea. In an effort to continue to secure more supply contracts in Asia, Kuwait signed another 10 year contract to double its supply to China's Sinopec to 300,000 bpd starting in 2015. Kuwait exports crude oil through its system of ports. The main port Mina al-Ahmadi is the largest exporter, although the country also has operational oil export terminals at Mina Abdullah, Shuaiba, and at Mina Saud. To handle increased production generated by Iraq and the northern fields, a new terminal is currently under construction on Boubyan Island. The US$ 1.3 bn terminal is slated to come online in 2017.

Petrochemicals

Although a relatively small market, the Kuwaiti government has been paying an increasing amount of attention to the country's petrochemical industry. Indeed, Kuwait is looking to ramp up domestic production while also exploring overseas markets. In 2010, Petrochemical Industries Company (PIC) announced a US$ 10 bn investment expansion plan. The goal of this investment is to turn Kuwait into a leading regional player in the petrochemicals market. PIC plans to increase it petrochemical income to make up more than 50% of Kuwait's non-oil income.

US$ 5 bn of this investment is has been spent on building a third mixed feed olefins facility. The new plant, which is slated to be operational by 2017, will have an annual capacity of 1.4 mn tonnes of ethylene, with the added potential for ethylene-glycol, polyethylene and polypropylene production. PIC is also carrying out a feasibility study on the olefins plant, which will cost another US$ 5 bn. Additionally, PIC is investigating growth in areas where there are good prospects for feedstock, possibly in Yemen, Algeria, Libya or Asia.

The lucrative joint venture with China's Sinopec has provided another boost to the Kuwaiti petrochemicals sector. Located in the Guangdong province, the US$ 8.7 bn oil refinery will also serve as a petrochemical plant. Slated for completion around 2018-2019, the plant will have an annual production capacity of 1 mn tonnes of ethylene and related products, as well as a 15 mn tonnes per annual (tpa) oil refining capability.

There is substantial room for growth in Kuwait's petrochemical sector, as evidenced by the country's current petrochemical capacity. Kuwait is currently ranked 21st among 59 ethylene producers in terms of ethylene capacity. Kuwait has an ethylene capacity of 1.6 mn tonnes per annum (tpa) feeding downstream units that included 825,000 tpa linear low-density polyethylene, accounting for around 7% of regional capacity. It also has 370,000 tpa of benzene, 822,000 tpa of xylenes, one million tpa of ethylene glycol, 765,000 tpa of ethylene oxide and 160,000 tpa of polypropylene capacity. In the fertiliser sector, Kuwait has capacities of 1.04 mn tpa urea and 885,000 tpa ammonia. Facilities belonging to Equate Petrochemical Co., which represents 60% of Kuwait's non-oil exports, is the 11th largest ethylene production complex in the world. The company is increasingly successful on global markets, prompting investments in debottlenecking its 825,000 tpa high-density polyethylene swing plant and a 500,000 tpa MEG unit that is slated to come online in 2016.

The largest obstacle to the development of Kuwait's petrochemical sector is the lack of raw materials. Natural gas, which is paramount to producing petrochemicals, is insufficient in Kuwait. The current reserves of natural gas are unable to satisfy both the growing demand for domestic consumption and the need for natural gas in the petrochemical sector. Until new gas fields are discovered and invested in, Kuwait will have to rely on overseas supply. The exploitation of gas reserves will also be crucial to ensuring access to cheaper ethane feedstock that holds the key to improving margins and competitiveness of Kuwaiti petrochemicals production.

Refining

Kuwait is a large exporter of refined products, as refining capacity is about three times the level of domestic demand for petroleum. Currently, the refining sector is marked by increased demand for higher quality products, resulting in a wave of new expansion projects in Asia. The country's domestic refining process, which employs three plants, currently stands at 936,000 bpd. The largest refinery is Mina al-Ahmadi, which was built in 1949, and has a capacity of 466,000 bpd. Mina Abdullah has a capacity of 273,000 bpd while al-Shuaiba has a capacity of 190,000 bpd.

The Kuwait National Petroleum Company (KNPC) owns all three of these refineries, and is charged with the refinement of all domestic crude oil. The KPC-owned Kuwait Petroleum International (KPI), manages KPC's refining and marketing operations internationally. Its operations include 4,000 retail stations across Belgium, Spain, Sweden, Luxembourg, and Italy. KPI has interests in two refineries, with ownership of an 80,000 bpd refinery in Rotterdam, Netherlands, and a 50-50 joint venture with Italian major ENI in the 240,000 bpd capacity refinery in Milazzo, Italy.

As high potential demand is growing for high-quality product, particularly in the Asian market, Kuwait is increasingly looking to cultivate downstream interest. In China's Guangdong Province, KPC is negotiating a refinery and petrochemical joint venture with China's Sinopec, with a remaining stake intended to be allocated to a third company in the near future. The plant will feature a 300,000 bpd capacity refinery, and will also have an ethylene steam cracker with the capacity to produce one million tonnes per year. Final approval was given in March 2011, making Kuwait the second Arab oil producer after Saudi Arabia to have a major downstream facility in China. Analysts predict a planned commission date of 2018 to 2019, although Sinopec announced plans to start construction in 2014. With the conclusion of the refinery, Kuwait aims to increase its exports from 200,000 bpd to 500,000 bpd.

In addition to the refinery in China, the Kuwait Petroleum International (KPI) joined with PetroVietnam and Japan's Idemitsu to construct a 200,000 bpd refinery in Nhi Son, Vietnam. In November 2010, the Vietnamese government approved the project, which was scheduled for completion by 2014, although project delays will see operations pushed back to mid-2017. KPI currently holds a 35% stake, although this will be reduced for PetroVietnam to take a majority stake once the refinery comes on-line. Indonesian officials have also announced a possible US$ 8 bn to US$ 9 bn 300,000 bpd refinery with KPC on the island of Java.

A rapid rise in domestic demand, as well as increasingly high quality standards in the international market has resulted in a US$ 31 bn project to overhaul the country's refining sector. The Clean Fuels Project (CFP) is the project under which Kuwait's existing refineries will be upgraded. The CFP seeks to build the al-Zour refinery, retiring old units and installing new components, while shutting down the al-Shuaiba refinery altogether. A crude distillation unit (CDU) will be taken out of commission at the Mina al-Ahmadi, while Mina Abdullah will lose a number of components, but its overall capacity will increase by 184,000 bpd.

The building of the Al Zour refinery has once again resumed after a political gridlock resulted in the suspension of the project. The refinery was originally tendered in 2008, but political opposition led to the cancellation of the bid round, forcing the KPC to compensate companies who has spent resources on preparing their bid. Contracts were signed in October 2015 with a number of companies including Daewoo Engineering and Construction, Tecnicas Reunidas SA and Hyundai Heavy Industries for the construction of the US$ 16 bn Al Zour refinery. Heavy oil from new fields in Kuwait will be used at the refinery to produce low-sulfur diesel, including 340,000 bpd of high value light products and 225,000 bpd of fuel oil to feed domestic power generation plants. The refinery, with a capacity of 615,000 bpd, is expected to raise Kuwait's total refining capacity to 1.4 million bpd when it comes online in 2019.

KEY PLAYERS

Kuwait Petroleum Corporation (KPC)

Founded on January 27, 1980 as an umbrella company integrating the KOC, KOTC, KNPC and the Petroleum Industries Company (PIC), the KPC is Kuwait's national oil company, currently responsible for eleven subsidiaries. The company has an independent legal character and is supervised by the oil minister. In addition to ownership over a variety of national corporations in oil, gas, fuel distribution, fertilisers and petrochemicals, the KOC is involved in foreign upstream and downstream operations. Foreign upstream exploration interests led to the creation of the KUFPEC in 1981; that same year, the KOC acquired the US-based drilling company Santa Fe. To satisfy downstream operations and global expansion, the KPC established Kuwait Petroleum International (KPI) in London. With the help of KPI, KPC launched the well-known Q8 brand, which includes retail service stations. The KPC now remotely operates, through KPI, across Scandinavia, Western Europe and Hong Kong.

Kuwait National Petroleum Company (KNPC)

The KNPC is the national oil refining company of Kuwait. Established in October 1960 as a share-holding company owned by the Kuwait government and private sector, KNPC became wholly government-owned in 1975. In 1980, following the restructuring of the oil sector in Kuwait, KNPC was placed under the newly created Kuwait Petroleum Corporation (KPC), which was also government owned. Under this position, KNPC took control of distributing petroleum products within Kuwait, along with the ownership of the Mina Ahmadi and Mina Abdullah refineries. The company currently owns three refineries across Kuwait: Mina Abdullah, Mina Al-Ahmadi, Shuaiba, and Al Zour. The company has a combined refining capability output of 370,000 bpd.

Kuwait Foreign Petroleum Exploration Company (KUFPEC)

In 1981, foreign upstream exploration interests held by the KPC and the Ministry of Oil were consolidated into one entity, the Kuwait Foreign Petroleum Exploration Company. The company is empowered to undertake crude oil and natural gas exploration, development, and production operations outside Kuwait. Indeed, since 1984, KUFPEC has acquired petroleum concessions for discovery and development in Bahrain, Tunisia, Egypt, China and Indonesia. Today KUFPEC operates in several locations around Australia, Africa, Asia, and the Middle East. The company has been doing well in the past few years, as exploration permits have allowed them to discover new oil fields around the world.

Kuwait Oil Company (KOC)

Originally founded in 1934 by the Anglo-Persian Oil Company and Gulf Oil Company, the KOC has been drilling for oil in Kuwait since discoveries were originally made at the Burgan field in 1938. In 1975, the Kuwaiti government assumed 100% ownership over the KOC. Today, the company is headquartered in Ahmadi, Kuwait, and is a subsidiary of the government-owned holding company Kuwait Petroleum Corporation (KPC). The company has made some important discoveries in the last few years, including super light crude oil at the Sabriya fields in 2005. A year later, natural gas was found in deep Jurassic reservoirs at Rahiya, Mutriba, Um Niga and other fields. The KOC is the world's fourth-largest oil exporter.

Kuwait Petroleum International (KPI)

Between 1983 and 1987, KPC acquired most of Gulf Oil's refining and marketing operations in Western Europe. KPI was established in London to directly manage these interests, and today acts as the international arm of the KPC, marketing and refining fuel, lubricants and other petroleum derivatives across Europe. KPI is the owner of the Q8 brand, which was launched in 1986. It supplies 4,000 retail service stations, as well as direct sales operations delivering fuel and heating oil to domestic and industrial users.

Q8 also operates an International Diesel Service (IDS), a secure fuel card service supported by automated technology for international road transportation companies, through more than 700 strategically located sites throughout Europe. Q8 also has a significant aviation business, marketing jet fuel at more than 40 airports worldwide. The company also works in the lubricants business, with five lubricants blending plants, direct sales and marketing activities across Europe and export sales to over 75 countries worldwide. KPI has expanded operations into Spain, Luxembourg, Belgium, Sweden and Italy. Today, KPI markets approximately 301,000 barrels of products per day in Western Europe with an additional 90,000 barrels per day being sold directly from its two refineries through more than 4,000 retail stations. It operates its own refinery in the Europoort and Milazzo.

Royal Dutch Shell

The Dutch-owned energy giant Shell has been operating in Kuwait for more than sixty years, and is currently the only IOC to have signed a contract with the KPI through Project Kuwait. Shell is currently responsible for delivering LNG to Kuwait, and was the first IOC to do so, in 2009. Shell is also assisting the KOC in developing the Jurassic Gas fields. Under the agreement, Shell Kuwait Exploration and Production will deploy a number of technical experts to Kuwait to support KOC in managing the on going development of the Jurassic Gas fields.

ECONOMIC OVERVIEW

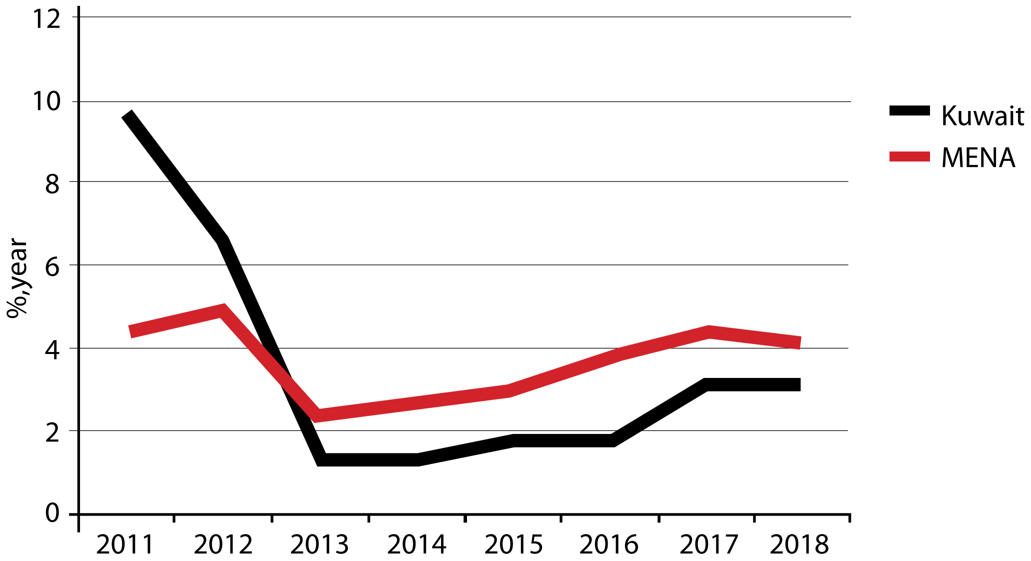
Economics forecasts

Subject Descriptor	Units	2013	2014	2015	2016	2017	2018
GDP, constant prices	% change	1.5	1.3	1.7	1.8	3.1	3.1
GDP, current prices	US dollars	175.8	172.3	134.4	148.9	161.9	173.3
GDP per capita, current prices	US dollars	45,188	43,103	32,720	35,235	37,280	38,837
Total investment	%, GDP	14.1	16.6	22.6	22.4	22.4	22.8
Inflation, average consumer prices	% change	2.7	2.9	3.3	3.6	4.0	4.0
Volume of imports of goods and services	% change	0.8	7.0	9.4	7.3	7.1	7.1
Volume of Imports of goods	% change	0.8	7.0	9.4	7.3	7.1	7.1
Volume of exports of goods and services	% change	-2.5	-3.9	4.5	-1.0	2.1	2.7
Volume of exports of goods	% change	-2.3	-1.8	0.0	-0.1	2.0	2.1
Unemployment rate	%, total labour force	2.1	2.1	2.1	2.1	2.1	2.1
Population	Millions	3.9	4.0	4.1	4.2	4.3	4.5
General government structural balance	%, potential GDP	34.9	25.5	6.2	13.0	15.4	15.3
General government gross debt	%, GDP	6.5	7.1	9.5	8.8	8.3	8.0
Current account balance	%, GDP	36.9	35.3	15.7	19.3	20.8	19.3

Source: IMF

Flat growth in oil activities in 2014 offset a robust performance from non-oil sectors to leave Kuwait's GDP growth at an estimated 1.3% in 2014. Non-oil growth is projected to increase to 3.5% in 2014 from an estimated 2.8% in 2013. There was strong growth in the electricity, construction, trade, hotels, transport & communication, and domestic services sectors. The figures indicate that the government's strategy to diversify the economy from oil, as set out in the 2010/2011-2013/2014 development plan, has not yet fully come to fruition. The oil economy still accounts for around half of economic activity while services, which are dominated by the government, account for some 40% and non-oil manufacturing 6%. However NBK bank has pencilled a growth forecast of 3.6% for 2016, substantially above the IMF outlook. It sees oil growth stabilising at 2% after falling in 2015 and non-oil growth rising to 6%, driven by capital spending and the government's development plan.

GDP Growth



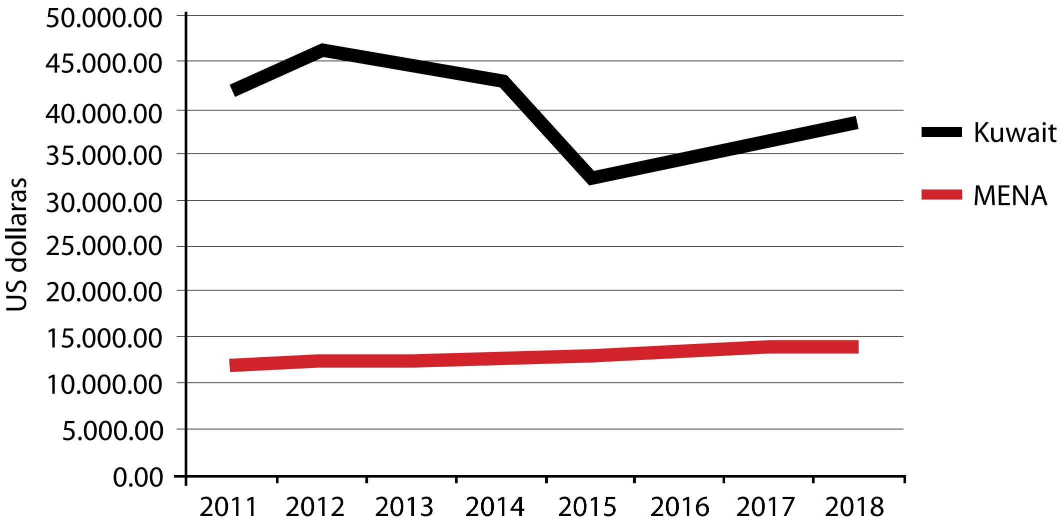
Source: IMF World Economic Outlook database, April 2015

In February 2015 the National Assembly strongly approved a new five-year development plan that set out spending KWD 34.2bn (US$ 10.4 bn) on development projects over the fiscal years 2015/2016-2019/2020 with KWD 6.6 bn of expenditure in the first year. The plan sets a target of the construction of 45,000 housing units. Other projects include the construction of a metro system, a railway network and a large number of major oil projects, including a new refinery. It also aims to increase the share of the private sector within the economy from 26.4% currently to 41.9% by 2020. Kuwait has the 17th highest GDP per capita in the world. According to NBK bank a total of KWD 8.4 bn (US$ 28 bn) of projects have been awarded this year including a new Kuwait National Petroleum Company refinery project at al-Zour and a new terminal building at Kuwait Airport.

However there is concern that substantial disagreements between parliament and the executive will hold back any chance of the timely implementation of many of those projects. A number of MPs have criticised the government for failing to meet the goals of the previous development plan. On a more serious note, 2014 saw Kuwaiti police fire tear gas and stun grenades to disperse protesters demanding the release of Musallam al-Barrak, an opposition leader, and a purge of corrupt judges. He had claimed to have uncovered evidence of the theft of public funds running into the billions of dollars by former government officials and senior members of the judiciary. On the international front a suicide bomber killed 27 Shia worshippers in Kuwait City - the country's first ever suicide attack on a Shia mosque. The attack was claimed by Islamic State (IS). Kuwaiti authorities identified the suicide bomber as a Saudi citizen, lowering the risk of an internally-organised attack.

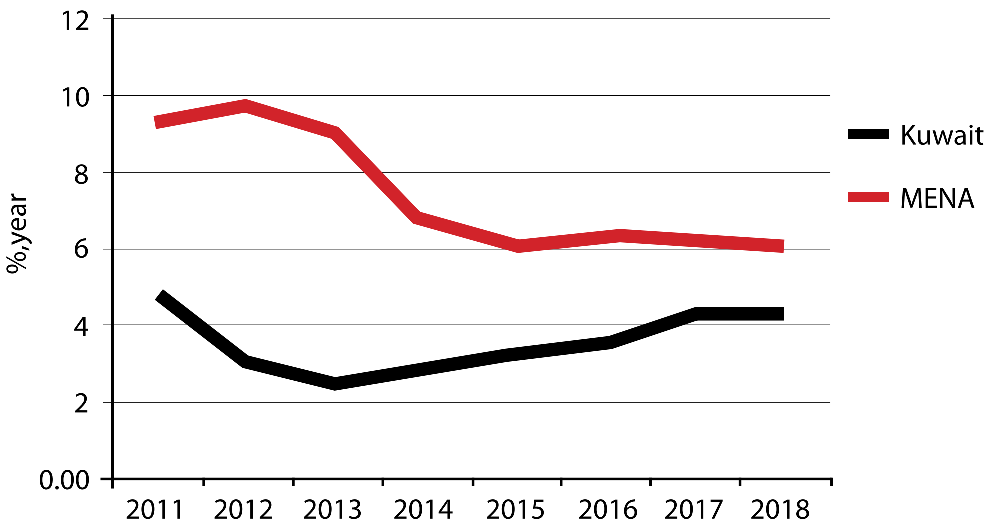
Price pressures have mounted this year with the annual inflation rate coming in at 3.5% in June up from 3.3% in May and the highest since April 2012 but within the IMF's forecast for inflation to remain within a range of 3%-4%. The main culprits for the higher inflation were home furnishings (4.2%), food and beverages (3.65%), and restaurants and hotels (6.9(%). They offset falls in clothing and footwear (-1.5%) and recreation and culture (-0.5%). With economic activity set to remain somewhat subdued, NBK bank expects the headline inflation rate to remain modest and steady in 2015 and 2016, at around 3.0% per year. However the International Monetary Fund has forecast 4.0% inflation for the following two years. The bank has kept its official interest rate unchanged at 2.0% since October 2012 when it announced an unexpected 50 basis-point interest rate cut to boost business competitiveness.

GDP per capita



Source: IMF World Economic Outlook database, April 2015

CPI inflation

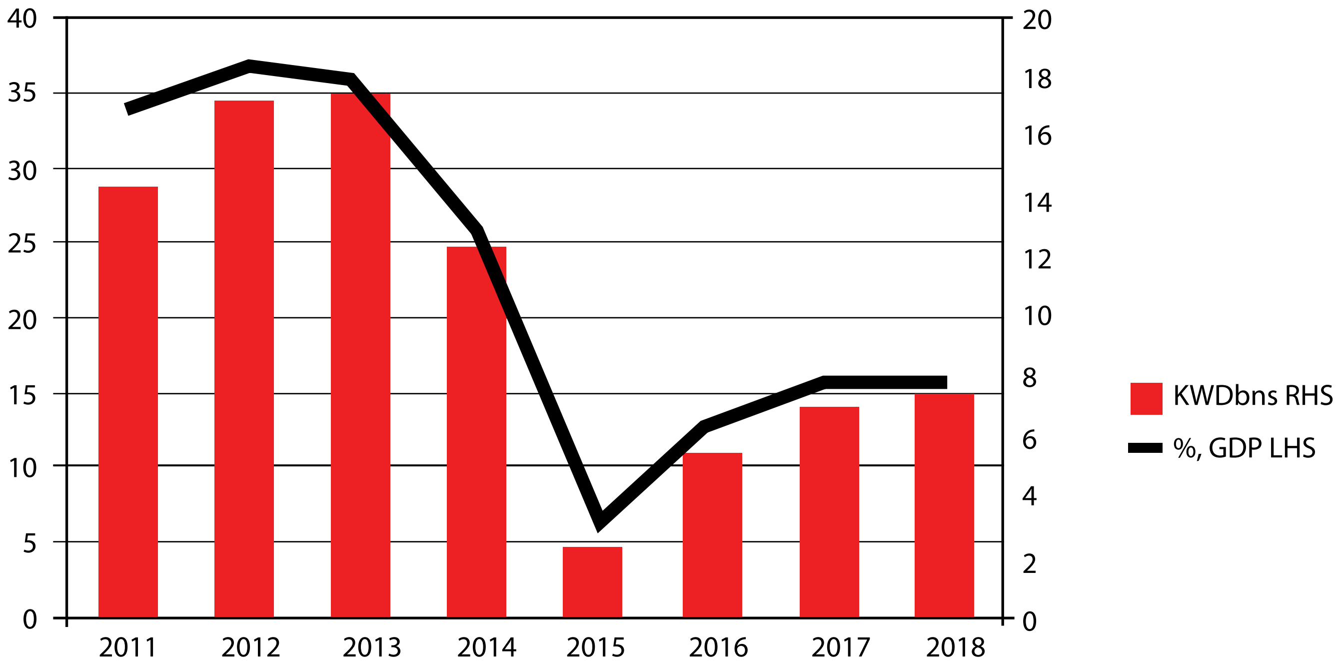


Source: IMF World Economic Outlook database, April 2015

Kuwait's peg of the dinar to a basket of currencies — rather than simply to the US dollar as most of its neighbours do — has acted as a credible monetary anchor. Since most consumer goods are imported, the pegged exchange rate ensures that the inflation rate stays broadly in line with world market price movements. The dinar is likely to appreciate against most other currencies as the US dollar continues to appreciate amid speculation of a likely US interest rates rise in September 2015. The IMF in its December 2014 Article IV assessment of the economy found that the real exchange rate was broadly in line with fundamentals, while there was no compelling evidence that the exchange rate was misaligned. The central bank is unlikely to alter the level of the peg other than very marginally, according to the Economist Intelligence Unit.

High oil prices and production have contributed to sizeable fiscal surpluses. However the fall in oil prices and Kuwait's commitment to raise government spending will remove some of that cushion. Oil has contributed almost more than nine-tenths of Kuwait's revenues over the past 16 fiscal years. Fitch, the credit rating agency, estimates that the Kuwait's fiscal breakeven oil price for the 2014 fiscal year was $48bn, which is one of the lowest among oil exporters and close to current market prices. However the IMF still forecasts that the fiscal surplus will decline from 35% of GDP in 2013 to 26% in 2014 and 6% this year. Government debt is also forecast to rise but will still be at 8% of GDP by 2018, which is a fairly sustainable level. The government has substantial reserves, which Standard & Poor's estimates as more than 2.7 times GDP in 2014.

Government net lending



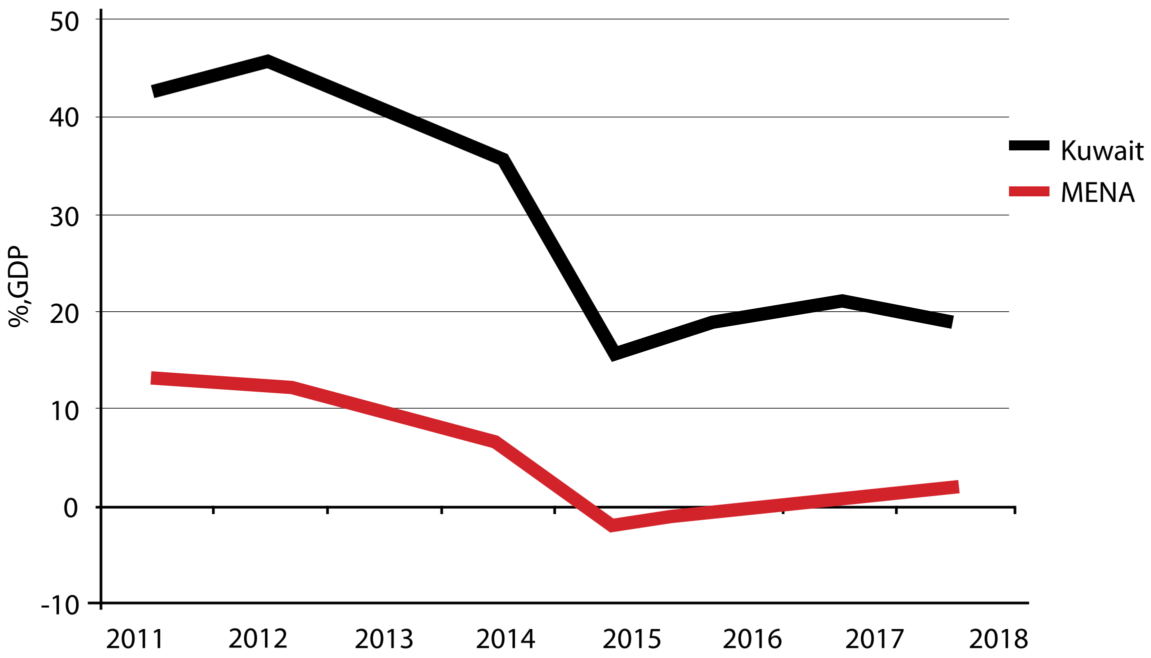
Source: IMF World Economic Outlook database, April 2015

The oil price fall may also have a noticeable impact on Kuwait's balance of payments as oil accounts for more than 90% of its merchandise export revenues. However Kuwait is the one Gulf economy that is best placed to withstand a period of low oil prices. Even with oil at around US$ 50 per barrel, the country is still likely to run a current account surplus. The surplus is forecast by the IMF to drop from 36% of GDP in 2014 to 16% this year but will still be in the black by 20% of GDP by 2018. Central bank reserves have remained stable in the range of about 6.5–8 months of imports over the past few years while the sovereign wealth fund (Kuwait Investment Authority) has an estimated US$ 550 bn as of the end of 2013. Overall foreign exchange reserves and SWF assets are estimated to amount to 350% of annual GDP.

Unemployment is very low in Kuwait although the vast majority of jobs are carried out by migrant workers, who make up 2.4 mn out of a 3.2 mn workforce. The availability of cheap migrant labour keeps wage costs down and inflation moderate. However MPs have criticised the government for the rising expatriate labour force within the public sector and stressed on the need to create job opportunities for citizens in the private sector.

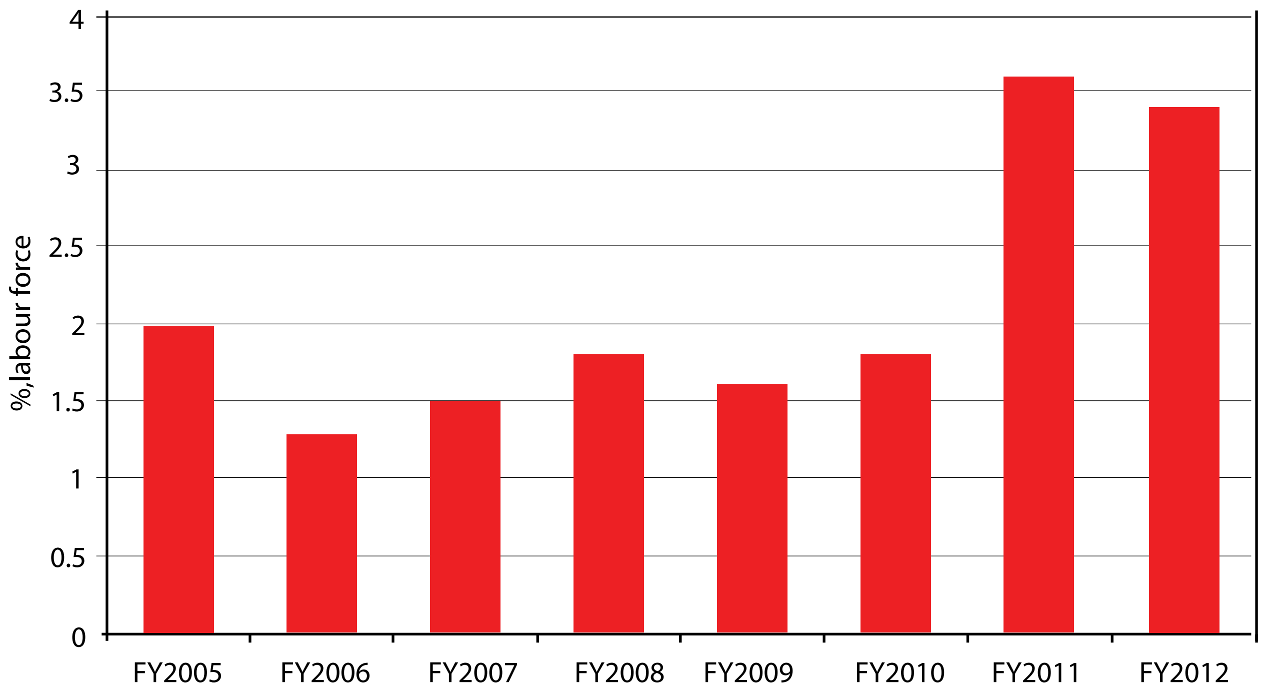
Kuwait is well positioned to cope with the impacts on economic growth and its fiscal and external financial position of the fall in oil prices. While the economy is heavily dependent on the hydrocarbon sector for economic activity, tax and export revenues, it has built up substantial reserves over the preceding decade of high oil prices that will insulate it against the fall. However the reduced surpluses and lower growth would act as a reminder of the need to diversify away from the oil sector as part of the next five-year development plan.

Current account balance



Source: IMF World Economic Outlook database, April 2015

Unemployment



Source: World Bank, Global Economic Prospects, January 2015

Despite the positive backdrop, Kuwait faces both economic and political risks. On the economic front, if a sustained drop in oil prices were to materialise, further consolidation in expenditure would be needed in the medium term, which would threaten efforts to diversify away from hydrocarbons. The government is already looking at measures to boost non-oil revenues and limit spending growth in the coming years. However failure to implement the 2015-2020 Development Plan would compound those concerns.

On the political front, a continuing source of internal volatility is the uncertainty ahead of an eventual succession to the 85-year-old emir, Sheikh Sabah al-Ahmed al-Sabah. The tensions between the parliament and the government also threaten to delay further reforms while last year saw the re-emergence of the public protests that arose in the wake of the Arab Spring.

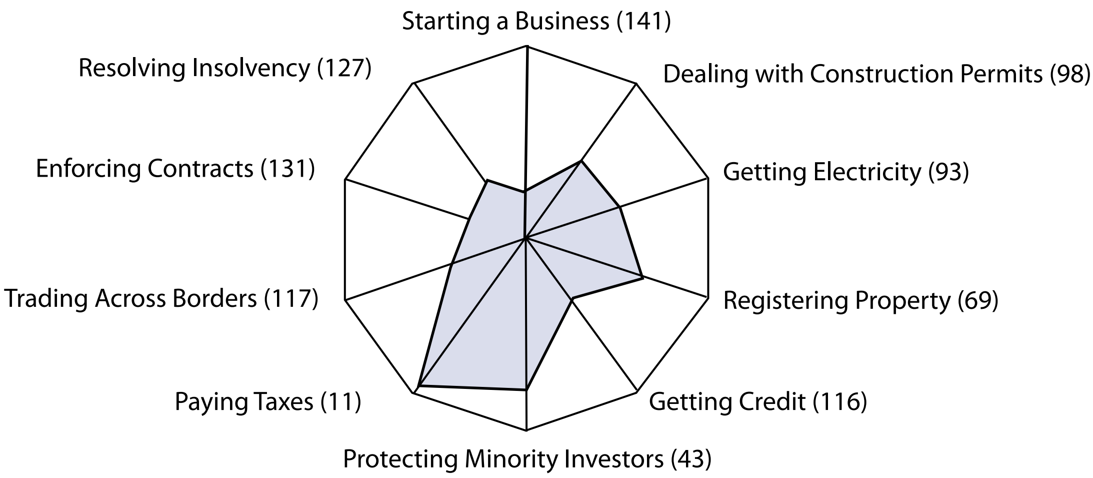
Kuwait has been relatively immune from international terrorism although a repeat of the June 2015 suicide bombing on a Kuwait City mosque remains a risk. The lack of over-reaction by the authorities to that atrocity is a positive sign. In March Kuwait's defence ministry announced it was sending three squadrons of its F18 Super Hornet aircrafts to Saudi's King Abdulaziz airbase in Dhahran to take part in the Yemen offensive. Although Kuwait did not take part in the coalition carrying out air strikes against Islamic State terrorists in Syria along with other Arab states, the move will be seen as an indicator that the emirate shares a hardening position among Gulf countries towards Iran.

Kuwait is a stable constitutional monarchy where the Emir is head of state and exerts executive power, while legislative power is held by a National Assembly made up of 50 elected MPs and 16 cabinet members. However there are three key risks to political stability. Firstly there have been political tensions between the legislative and the executive. Power struggles within the ruling family that have been played out in the form of parliamentary dissolutions and government reshuffles. This is likely to hinder government efforts to raise much needed investment, which is the lowest in the Gulf. Secondly public protests that emerged in the wake of the Arab Spring in 2011 re-emerged last year and saw Kuwaiti police fire tear gas and stun grenades to disperse protesters demanding the release of Musallam al-Barrak, an opposition leader. Lastly, risks of terrorist activity have risen. Although the suicide bombing of a Kuwait City mosque in June 2014 was the first outrage committed by Islamic State militants, it will clearly raise concerns of repeat incidents. Kuwait has since said it has uncovered a network of IS militants who fought in Iraq and Syria and detained some of its members. This concern may be exacerbated by the decision by the government to send warplanes to join the military assault against the Houthis in Yemen being coordinated by Saudi Arabia.

Kuwait is a wealthy country with an increased appetite for international investment overseas. However it does have a complex domestic business environment that means delays and obstacles to foreign investors. The Direct Foreign Capital Investment Law states that Kuwaiti courts alone are responsible for adjudicating any disputes involving a foreign investor and other parties. Kuwait has one of the lowest rankings of any Gulf Cooperation Council member in the World Bank's 2015 Doing Business Report, ranked at 86 out of its 189 countries, a fall of seven places from the 2014 report. It scores worst on measures such as starting a business (150) and enforcing contracts (131). Kuwait made starting a business more difficult between 2014 and 2015 by increasing the commercial licence fee.

Kuwait ranked 67 out of 175 countries in Transparency International's 2014 Corruption Perceptions Index, a slight deterioration on 63 in 2013. The large amount of bureaucracy and red tape that exists in Kuwait has created conditions for corruption although the Kuwait government has committed to eradicate such activity especially in relation to government contracts.

Doing Business in Kuwait



Source: World Bank, Doing Business Report, 2015

CHALLENGES TO INDUSTRY

By looking at Kuwait's production and export numbers, one would assume that the country is performing relatively well within its capabilities. However, a closer look at the industry reveals several problems that have impeded growth and progress. Undoubtedly, the majority of Kuwait's oil and gas sector problems can be traced to the dysfunction and fragmentation of the government, which has translated into excessive interference, distrust of foreign investment, and incoherent governance of the sector.

An unfortunate dichotomy is at work in the Kuwaiti government: ministers are appointed by the Emir, but these ministers are subject to withering scrutiny from the elected National Assembly, resulting in excessively cautious behaviour that often hampers economic growth. Within the oil and gas sector, strategies only reflect the wishes of the oil minister, a position that has been held by five different people in the last ten years. Unworkable governance structures further inhibit effective strategy and execution. For example, the oil minister may approve a decision in his role as chair of the board of KPC and then overturn it with his ministerial hat on. Such inconsistency has resulted in the termination of the joint venture between the KOC and Dow, and has slowed down progress on several projects, including Project Kuwait.

Kuwait is also facing significant challenges in the gas sector. Increased domestic and petrochemical demand for natural gas has largely gone unanswered. While Kuwait is in the process of exploring new gas producing options, geographical challenges are proving insurmountable. The Jurassic non-associated gas fields, which have an estimated 35 tcf of natural gas, are marred by its geological composition and the technical complexities it creates.

The shortage in natural gas has meant that Kuwait regularly consumes more gas than it produces. Kuwait's electricity demand, the generation of which is fuelled increasingly by natural gas, has outpaced natural gas production during the summer months, resulting in the shutdown of refinery and petrochemical operations to meet the increased demand of electricity. This shortage has forced Kuwait to turn to other countries for imports of LNG, resulting in an unsubstantial dependency on importation.

SWOT CHART

Strengths

• The government's US$ 85 bn development plan to strengthen the economy, including reconstruction and upgrading of existing oil and gas production plants and refineries.

• Kuwait's strategic location, robust infrastructure and strong transport networks have allowed it to develop into a powerful exporter of oil and gas.

• Due to its small population, Kuwait is able to benefit from healthy oil and gas exports.

• With proven oil reserves of 101.5 billion barrels (104 billion including the Neutral Zone with Saudi Arabia), oil production and exploration is likely to remain strong for the foreseeable future.

• Kuwait's oil and gas sector benefits from sophisticated technology and machinery, keeping it at the cutting edge of the global industry.

Weaknesses

• Kuwait is currently too dependent on foreign gas imports to satiate domestic demand. The country should monetise the significant non-associated gas in the Jurassic fields, but production is proving to be very challenging.

• With all current projects driven by the public sector, private involvement is limited to joint ventures and production sharing agreements with Kuwaiti companies.

• Oil exploration in Kuwait remains week, with no new discoveries being made since 2005-2006.

• Over-reliance on crude oil with unbalanced investment in natural gas development and other alternative energy products is a threat to the long-term economy.

• A lack of economic diversification has left the country almost exclusively dependent on oil revenues to sustain government budget expenditures.

Opportunities

• Regulatory approval of the long-delayed al-Zour refinery and the Clean Fuels Project will allow Kuwait to significantly boost both production and exports of refined products, including low sulphur diesel and Euro-4 gasoline.

• It is expected that Kuwait will eventually open up to foreign investment, to replace assist in refurbishing the depleted, existing oil fields.

• Kuwait will need technical assistance and experience in the natural gas industry if it wishes to produce enough gas to satiate domestic and petrochemical demand.

• The rise of emerging economies, particularly China, will lead to an increased global demand for crude oil and refined oil products.

Threats

• International oil companies (IOCs) are by and large banned from investing in Kuwait's oil and gas sector, and strict limitations on partnerships with IOCs have hampered the development of several projects.

• Political disputes within the Kuwaiti government have undermined progress in the oil and gas sector, and have either slowed down or completely ruined several projects, agreements and contracts.

• Instability in the world economy has led to a slump in global oil prices.

• Rising demand for electricity in response to healthy population growth levels continues to threaten domestic production and export revenues.

PROJECTIONS

Economic Projections

	2017	2018	2019	2020	2021
Nominal GDP (US$ bn)	119.6	122.4	125.4	129.4	134.6
Real GDP Growth (%)	2.3	2.5	3.2	4.0	4.2
GDP Per Capita (US$)	30,202	30,896	31,668	32,681	33,989
Population (mn)	4.26	4.32	4.39	4.45	4.52

Source : Noozz

Industry Projections

	2017	2018	2019	2020	2021
Crude Oil Production (000 bpd)	2,969	3,117	3,273	3,436	3,608
Refined Products Production (000 bpd)	698.6	712.5	783.7	862.1	879.3
Refined Products Consumption (000 bpd)	549.8	565.7	581.3	592.8	604.6

Source : Noozz

NEEDS ASSESSMENT

• Political reform is necessary to ensure long-term stability in Kuwait. The long-standing power struggle between an elected 50-member parliament and a government dominated by the al-Sabah family is unlikely to be resolved without serious concessions and reform.

• Kuwait must revise its attitude towards foreign investment in the oil and gas sector. Strict limitations for international oil companies has resulted in failed projects, contracts and negotiations, and has only served to undermine progress in the sector.

• Natural gas production must increase in order to satiate domestic and petrochemical demand. The Jurassic fields, which have proven to be very challenging, should be developed more systematically, with open help from IOCs.

• Kuwait will have to seriously implement and execute the government's development plan in order to ensure the long term stability of the country's economy.

• The government of Kuwait should continue to focus on the expansion and development of new petroleum refinery facilities to anticipate increased global demand for refined petroleum products, particularly from Asian markets such as China.

• An opening up of both upstream and downstream oil markets to foreign investment and joint ventures would increase production and exploration capacity and augment overall market potential.

• The continued development of domestic and international transport networks will allow Kuwait to capitalise on its geographic location and relationships with global economies to extend its export reach.

• A commitment to exploring alternative energy strategies and investing in strategic projects will aid in Kuwait's diversification plans, secure alternative sources of power, and put the country at the cutting edge of renewable energy development.

MENA-WIDE OVERVIEW

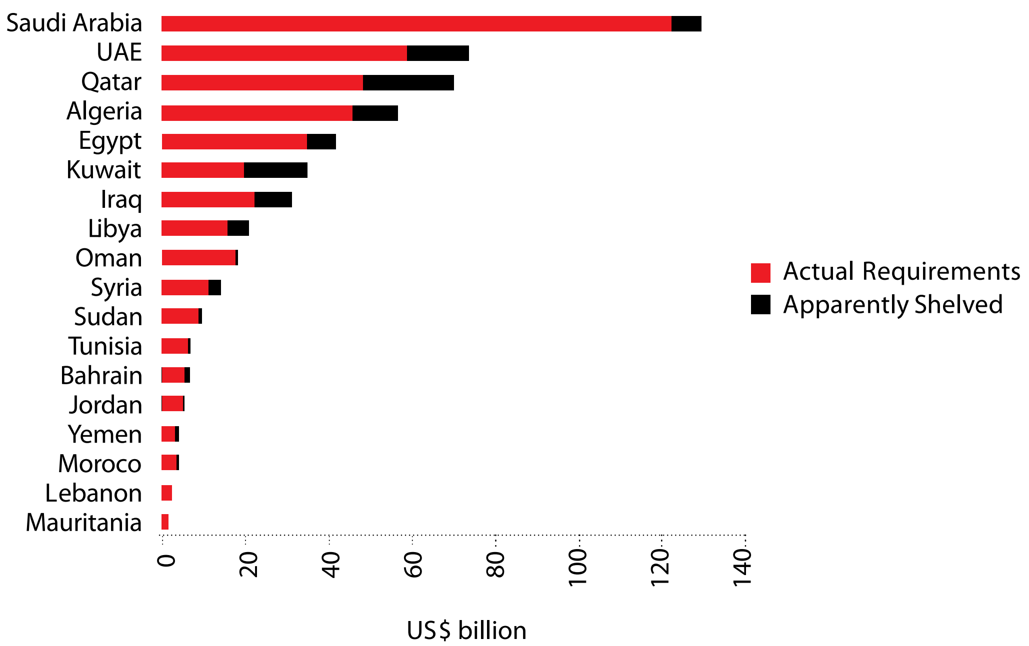
The MENA region accounts for over one third of global oil and gas production. Indeed, despite its large natural reserves, however, the MENA region only accounts for 37% of global oil output. Similarly, though it holds 46% of proven natural gas reserves, the region contributes only 17% of total global gas output. Among the region's producers, Iran and Qatar hold the largest share of natural gas reserves, representing 15.7% and 14.4% of proven reserves, respectively. However, these countries together only contribute to 6% of world gas production, suggesting that the natural gas sector in both countries, and the MENA region more broadly, remains a major potential growth area.

Indeed, traditionally, the MENA region has produced only enough natural gas to meet domestic consumption, thus freeing up oil for export. Saudi Arabia, Kuwait and Iran's entire gas production is consumed internally, with Algeria only one of two countries in the region, along with Qatar, that enjoys meaningful net gas exports. Regional and domestic unrest, coupled with modest oil reserves, places countries such as Egypt far behind its regional competitors in the gas sector despite the potential for unproven and undiscovered reserves.

Regional unrest since January 2011 has had an impact on regional oil and gas production. It is estimated that 10% of OPEC infrastructure was damaged as a result of uprisings in various regional countries since 2011. LNG operations in Yemen operated by French giant Total experienced shutdowns due to attacks on pipelines and political instability. Libya, which holds the largest reserves in Africa and the eighth largest in the world, has experienced a major slowdown since 2011, with exports from its largest ports only recently resuming in 2016. In addition to sanctions imposed on Syria by the Arab League, the United States and the European Union forcing Royal Dutch, Shell and Total to cut production estimates drastically, while violence since 2011 has seen production dwindle to a mere 9,500 bpd in 2016, as compared to an average of 350,000 bpd in 2010.

Larger producers, however, such as Qatar, the United Arab Emirates (UAE) and Saudi Arabia, remain largely unaffected by regional unrest, making them particularly attractive targets for foreign investment. Despite conflict in the country, Iraq's oil and gas sector is getting back on its feet, with the government in talks with top companies for development of key assets across the country. Algeria, Kuwait, Bahrain and Iran are also significant regional producers attracting significant investments.

Energy Investments by Country



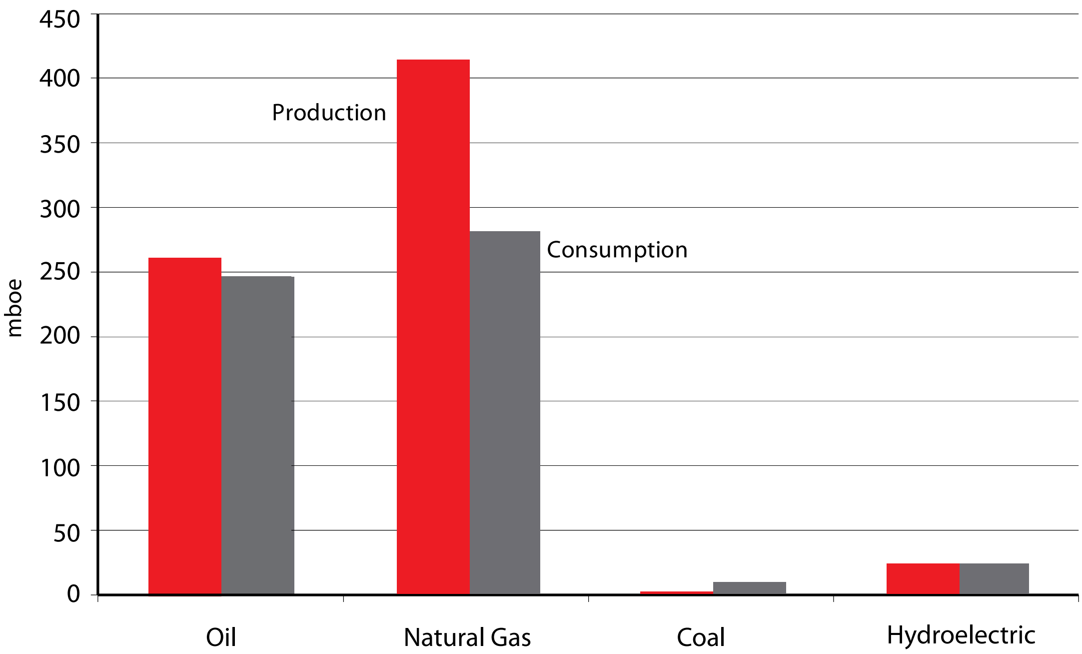
Source : APICORP

The recent Joint Comprehensive Plan of Action (JCOPA) between Iran and the United States is expected to spur international investment in Iran's oil sector as the government begins to open the economy to western participation. Though political unrest has continued to plague the region well into 2016, with no signs of abating, particularly in Syria, Iraq and South Sudan, oil and gas output has stabilised in the last year.

According to the IMF, GDP growth in MENA oil exports will rise by an average of 3% in the 2015-2020 period. Iraq, which holds the world's fourth largest proven oil reserves, had boosted production levels to over 4 mn barrels per day over the course of 2016. However, the Islamist insurgency has hit oil exports from Iraq's northern pipeline, and while the southern oilfields have not been affected by the Iraqi's fight with the Islamic State, a multi-billion dollar seawater injection scheme to boost production in the south is currently tied up in bureaucratic red tape.
Subsidies remain a point of contention and a massive burden on governments with large populations relative to oil and gas reserves, such as Egypt, and in recent years governments have taken steps to reduce or eliminate costly energy subsidies in order to minimise budget deficits and simulate the economy. In Gulf countries such as Kuwait, it can be expected that high subsidies will remain in place for the foreseeable future, although budgetary pressures have forced the Saudi government to consider implementing subsidy reform in 2016. Governments seeking to scale back subsidies can look to Iran for inspiration. The Iranian government enacted a largely successful reform to energy subsidies at the end of 2010, drastically cutting price controls and allowing energy prices to rise closer to market prices. Plans are in place to up prices to 90% of international energy levels by 2016.

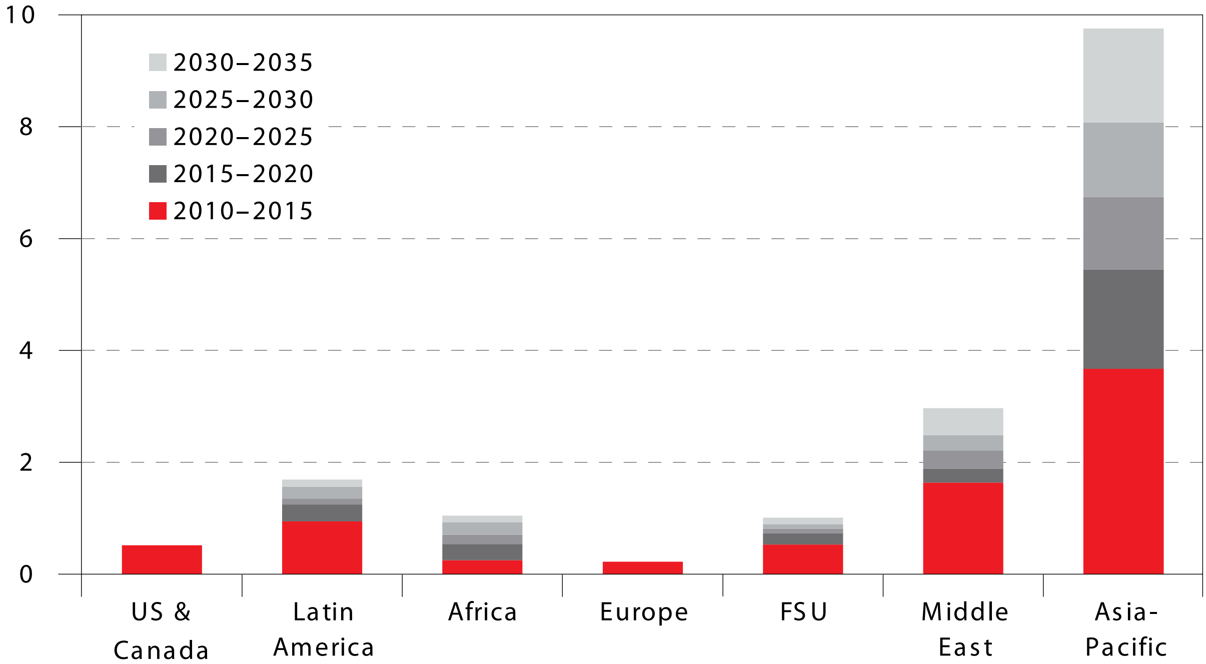
This action has not been met with any major protest actions within the country, and succeeded in driving consumption down by between 5 and 20% in the first two weeks following implementation. Continued cooperation between regional and global producers to create beneficial and sustainable policies will be crucial to the future development of the regional oil and gas industry. Investments in technology and training, the development of clean energy solutions and the securing of new export and energy sharing contracts will contribute to the dynamism of the regional sector going forward. As global energy demand continues to rise year after year, oil and gas producing countries such as Kuwait will enjoy an ever-increasing source of geo-political power and steadily rising income.

Energy Production and Consumption



Source : BP Statistical Review of World Energy

Global Capacity Requirements



Source : OPEC

Despite sustained unrest in the region since 2011, Kuwait's hydrocarbon industry remains an attractive investment prospect based on its existing and under-explored resources and its strong gas industry. However, the country remains well behind its regional neighbours in terms of the ease of doing business, according to the latest World Bank statistics. As long as Kuwait's relative competitiveness remains behind its regional competitors, the country will struggle to attract the investment necessary to truly grow its hydrocarbon sector in the long term.

Furthermore, as Kuwait seeks to ramp up its oil production in the coming years to drive economic growth and fund its diversification, the Kuwaiti government will inevitably encounter resistance from other OPEC members in the region. This will be particularly true as neighbouring Libya returns production to normal levels following the country's revolution and Iraq also seeks to ramp up its post-war production. In addition, as with other oil producers in the MENA region, Kuwait will remain highly dependent upon oil revenues to fund its infrastructure development, social welfare spending and investments in economic diversification. Volatility in global oil prices is known to critically affect national budgets in down times or else lead to price bubbles during periods of high oil prices. During the price spike of 2008, for instance, many governments in oil-producing countries in the region boosted spending on new oil and gas projects as well as other development initiatives. As prices slumped once more in 2009, however, the same governments faced the possibility of budget surpluses turning into budget deficits, leading to a drastic reduction in government spending.

Kuwait will have to continue to monitor developments in world oil prices closely in order to ensure that the national budget, along with planned investment programmes, does not fall victim to a declining market price. In the meantime, attractive prospects in the Kuwaiti oil, gas and petrochemicals sector stemming from under-explored reserves and growing domestic demand will continue to be circumscribed by a difficult commercial environment until the government is able to implement private sector reform.