

Kuwait construction market yet to reach potential

Oil-wealthy state has billions of dollars of infrastructure plans in the pipeline, but red tape has stymied market growth.

The news last month that Kuwait was gearing up to launch a tender for a second terminal at its airport sparked cautious optimism among contractors in the Gulf state. The project, worth up to \$2.9bn, is not the largest in the Gulf state's development plan, but it's a sign Kuwait's long-overdue infrastructure boom could at last be getting underway.

On paper, OPEC's fourth largest oil exporter should be at the forefront of the GCC's construction resurgence. Kuwait has pressing infrastructure needs that span from power to housing and, critically, the financial firepower to ensure such projects are completed. Thanks to high global oil prices, it posted a budget surplus of \$47bn in the first nine months of 2011, nearly double the previous year's surplus. This fiscal year, Kuwait expects to spend around \$79bn, a rise of 13 percent on the previous year.

In theory, a chunk of this spending should be funnelled into the oil-wealthy state's projects market. Kuwait has some 324 infrastructure projects included in its 2012-13 development plan, minister of public works Fadhel Safar said March 26, worth around KD3.5bn. But doubt remains as to how many of these projects will progress past the tender stage to be awarded.

"Kuwait's has plenty of potential in 2012 and going forward," said Geraint Tudor Jones, construction analyst at Business Monitor International (BMI). "It has large spending budgets, it has the financing and it has identified its urgent domestic and infrastructure needs.

"Kuwait's problem, and we've seen this over the past decade, is these projects more often than not won't be awarded, or are built in a much longer timeframe than initially planned. If any of its planned projects are awarded we could see significant growth in the construction industry. But I think that is quite a big 'if' at the moment."

At the crux of the problem is Kuwait's dysfunctional political landscape. Years of bickering between the cabinet and parliament has paralysed the Gulf state, stalling crucial infrastructure and domestic projects and preventing its lavish spending budgets from being disbursed.

According to BMI, spending on projects in 2011 came in at 62 percent of the amount allotted under Kuwait's ambitious \$125bn five-year development plan.

"Infrastructure has been probably the biggest casualty of this political gridlock," said Jones. "The sector has massive growth potential but we haven't seen many tangible signs these projects are being pushed through in terms of contract awards."

BMI forecasts growth of 3.5 percent for the construction sector in 2012, up from 2.8 percent the previous year, when the sector was valued at an estimated \$2.4bn.

“By GCC standards it’s fairly modest. In other markets, growth of two to three percent might be reasonable, but given the kind of deficit of investment that there has been, this fails to meet the demand and doesn’t even really maintain the status quo,” Jones said.

Such instability has left contractors wary of Kuwait’s infrastructure market, despite the available funding and urgent requirements. A number of companies have bid for projects only to later see them retendered or, in some cases, awarded and then cancelled. UAE-based Habtoor Leighton Group tendered in 2009 for a runway project at Kuwait International Airport. The contract, worth an estimated \$485m, was cancelled and has since been retendered. The firm also tendered for the \$3bn Subiya Causeway, a project that has seen numerous false starts since its launch in 2001, and whose future remains in doubt.

“We invested a lot of time and effort in the [Subiya Causeway] bid. It still hasn’t been awarded and we don’t know what’s going on there,” said Chris Gordon, group general manager for strategy and corporate affairs at HLG. “That was a major infrastructure project and I think it is indicative of some of the issues that you have in Kuwait. They have the infrastructure requirements and they have the funds; but the projects just don’t get awarded.”

Kuwait awarded contracts worth an estimated \$10.6bn in 2011, a \$4.2bn decline on the value of projects awarded the previous year, according to the Middle East Economic Digest. “If you look at the numbers, Kuwait awarded just 42 percent of all tendered projects during 2011,” said Gordon. “The rate was 62 percent across the GCC and 42 percent in Kuwait, so it’s significantly below the market average.”

The Gulf state’s political stalemate has also restricted private sector growth, pushing the level of foreign direct investment in the country to the lowest in the region. Kuwait has lured \$1.5bn of foreign investment in the past decade, less than one percent of total GCC inflows. By comparison, Yemen attracted \$3.5bn.

But that’s not to suggest there has been no activity in Kuwait’s project market in the last 12 months. The first quarter of 2011 saw US-based URS-Scott Wilson secure a contract for the design audit and construction supervision of a new commercial sea port on Kuwait’s Bubiyan Island. The four-year, \$1.2bn deal is part of the Gulf state’s push to expand its port and bolster trade traffic.

Drake & Scull Kuwait, a subsidiary of the UAE-based contractor, in September won a contract to execute an administrative block and mosque project. The project, valued at around \$19.8m, has helped push DSI’s order book in the country to more than \$163m.

South Korea’s GS Engineering & Construction Corp was awarded a \$557m contract to build LPG facilities in March 2011, in a deal with Kuwait National Petroleum Co. This was followed by two contract wins worth \$738m in August, in signings with Kuwait Oil Co and the Ministry of Electricity & Water.

But contractors remain hopeful that 2012 will be the year Kuwait’s projects market takes off, triggered by the billions of dollars-worth of contracts planned and, as yet, unawarded.

The largest sector is refining, thanks to state-owned Kuwait National Petroleum Co’s (KNPC) clean fuel projects and new refinery. The budget for the combined projects is around

\$30.5bn and, should they progress, they will be among the largest ever undertaken in Kuwait, giving a significant boost to the value of the market.

The Gulf state plans to issue a tender in April to choose consultants for the projects, state-run news agency Kuna reported on March 20, with each contract valued at about \$300m. KNPC's planned new refinery has already faced controversy, however. The project stalled three years ago amid political opposition, after being tendered twice and awarded once, before winning first approval from the Supreme Council last June.

Construction is also a strong sector, with a slew of projects ranging from housing to universities, to hospital expansions yet to be awarded. Among the largest is the \$15bn Al-Khiran township, which includes the construction of 30,000 housing units across more than 35 acres. The project is one of several housing schemes under the remit of the Public Authority for Housing Welfare, aimed at keeping pace with Kuwait's growing population.

The Gulf state is also investing in its healthcare sector, with the contract for the planned 600-bed Kuwait Cancer Centre expected to be awarded this year. Bids for the estimated \$800m contract were submitted in January to the Health Ministry. The authority is also planning expansions to a nine existing hospitals, including Al-Amiri Hospital in Kuwait City.

In keeping with its wider economic development plan, the emirate is expected to press ahead with contract awards for Sabah al-Salem New University campus. The scheme aims to bring all the university's scattered facilities on to one site, with the campus able to accommodate up to 30,000 students on delivery. The \$5.2bn project is slated for completion in 2014. Looking to the infrastructure sector, among the projects due to be awarded this year are Kuwait's much-delayed airport expansion and the \$3bn Subiya Causeway. The civil aviation authority is scheduled to award phase 1 of the infrastructure and utilities package, which forms part of a wider overhaul of the country's largest airport.

Questions still remain as to whether the Subiya Causeway contract will be awarded this year. The scheme, designed to link Kuwait City with new projects in Subiya and Bubiya, has faced numerous delays amid wider contractual and political disputes, leading to multiple retenders.

More certainty can be found in Kuwait's power sector, thanks to electricity demand that is growing at about eight percent a year. Air conditioners in the Arab country run cheaply off state-subsidized oil-fired power plants, a situation that has seen the domestic consumption of oil more than double in the last decade. As Kuwait pushes to free up more oil for export, new power plants are needed to meet supply targets and avoid a return to summer blackouts.

Kuwait's Partnerships Technical Bureau (PTB), the authority tasked with attracting foreign investors to develop independent water and power projects (IWPP), invited bids to build the Al-Zour North IWPP in March 2011. Three bidding parties were confirmed in February.

The project is expected to be 40 percent owned by the private developer, with 10 percent held by a combination of public entities and the remainder by Kuwaiti nationals.

The first phase of the project, valued at about \$2bn, is due to be awarded this year. But all eyes are on the PTB for more than just Al Zour North. The authority may oversee all future water and power schemes above 500MW and has already taken on responsibility for more than 20 other public-private partnerships projects. These range from housing schemes for

labourers to national parks, to a rehabilitation hospital. The success of these projects will be critical for crafting a blueprint for future PPPs, by testing the political will to push these schemes through and the private sector's appetite to back them.

“PPP's require an established, well-conceived regulatory environment,” said BMI's Jones. “They aren't the answer to Kuwait's political stalemate but... if PTB can push these projects through parliament and get the contracts out in a reasonable timeframe; it would be hugely encouraging for the market.”

Kuwait already appears to be mulling a widespread overhaul of its laws regarding public tenders, as it strives to attract more private sector investment. Local media reports this month said a parliamentary committee has recommended the Gulf state allow foreign firms to bid directly for some tenders, without the need for a local partner. Further proposed changes would see Kuwait's Central Bank given the authority to deal with investment decisions and to supervise tenders, the reports claimed.

“It's a major deterrent for foreign companies that they have to partner with local companies, and this has hampered progress in the private sector,” said Jones. “There is discussion about tackling these laws, but nothing tangible yet. Generally, there are lots of things in Kuwait to be positive about, but the market is waiting for action.”

Social pressure may prove to be the trigger that forces Kuwait to ramp up its infrastructure plans. While the oil-rich emirate escaped the uprisings seen during the Arab Spring revolts it has, like other GCC nations, moved to underpin social peace with increased state spending. Both Saudi Arabia and the UAE are pressing ahead with multibillion-dollar spending plans, putting increased pressure on Kuwait to deliver on its ambitious infrastructure schemes.

“The other Gulf states inevitably show what Kuwait could be, if it met its demand for infrastructure,” said Jones. “That can't help but generate some momentum, in terms of demands for more housing, more development. Kuwait has a history of pandering to populist sentiment, so this will be a push to put its foot down on these projects.”

Contractors are certainly optimistic that will be the case. Drake & Scull International already has more than 750 people in its MEP business in Kuwait, but is mulling the addition of two new business streams – water and power and construction – if the projects market takes off.

“There is no question we expect it to be one of our biggest markets in the future,” said Zeina Al Tabari, chief corporate affairs officer at DSI. “Yes, there have been delays but we still believe Kuwait will be an important player – it has the demographics and it has the people. There will definitely be opportunities moving forward.”