Kuwait Project

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Al-Shall Report

'Govt should undertake cost-benefit analysis of North Oilfields project'

'Supervise real estate transactions'

HASHIM AL-REFAI, the Executive Assistant of North Oilfields, replied to last week's Al-Shall's report dealing with the North Oilfields project. First of all, we thank and appreciate Mr Al-Refai for his reaction and re-emphasize his stand that in critical issues, we cannot be but a one team.

In fact, his response re-affirms all that we said about the incomplete realization of the Project's declared objectives, and that there are undeclared but legitimate objectives that should top the project's marketing program. Despite the pain, we shall accept and defend these objectives.

With apologies, we may repeat the declared, but not accomplished, objectives of the Project (he is right) because they are copied literally from the booklets and documents the Marketing Team distributed. The first and most popular target is "doubling production from 450,000 barrels/day to 900,000 barrels/day and maintaining the level too," says the Al-Shall Weekly Economic Report published by Al-Shall Consulting and Investment Co headed by Jassem Al-Saadoun.

The credible basis is the average quantity of produced oil over 20 years by both the foreign oil companies and KOC. As for foreign oil companies, the average is 689 thousand barrels/day and for KOC it is 545.2 thousand barrels/day. The difference is 143.8 thousand barrels/day throughout the project's life, or about 26.4 per cent and not the double quantity, and about 3.6 per cent of targeted Kuwait's oil production of 4 million barrels/day by 2020. Figures do not mislead and any achieved ceiling for any period is meaningless; consequently, understanding figures differently is of an alarming concern.

The second target contributing to the Project's marketing at its early phase was the condition for the Project's Kuwaiti labor force to reach 80 per cent under the project and giving that an implicit suggestion to solving the manpower problem. But then we discover later on that a $7 billion project can create 500-800 jobs, at least half of which will be transferred from KOC, with a cost of $21.53 million per each new job opportunity. Particularly, note that we are not against the creation of job opportunities but we don't want the impression being created at its marketing stage as if it were a solution to the unemployment problem. The most worrying is that the insistence on the foreign oil companies' extra production is considered as net return to the country without taking the value of oil into account in case of its non-productivity. This is certainly peculiar in financial analysis, even, for instance, plants and buildings enjoy a terminal value at the project-end; so what about oil, which will definitely become scarce over time.

In fact, if Hashim's intention was unfavorable when he wondered about Al-Shall's statement that if Kuwait would not produce oil at all and keep it underground, would Kuwait be a winner? Financially, and under the real oil prices level as at 1946 till present, Kuwait would be a better off. Economically, however, we should theoretically explore the advantages and disadvantages of the developmental uses of the return, which is somehow a complicated process. Nevertheless, professionally, this is not what was raised. What was raised is not about producing or not producing oil at all, but about producing additional 143,800 barrels/day, the advantages and disadvantages of making this increase in production and the other benefits of the Project.

Although we are very supportive of the idea behind new strategic plans for the oil sector and its modernization, we are not at ease with its real implications. We start with the Minister who is neither available nor a specialist in this field, and moving to the attrition of the sector's best and most qualified personnel as it has become an employment destination, not to mention its internal politics. Finally, the breaking of its components to companies such as Gulf Oil Company, North Oilfields Company, and a third in oil services while most international oil companies are actu-

Aramco looks out of place. In a recent statement by the Minister of Energy to Al-Rai Al-Aam newspaper about the North Oilfield Project he said: "It is a national, developmental and technical project and should be viewed within this context". Nonetheless, this jargon, for everyone and especially oil specialists, is neither professional nor meaningful. The Minister also added: "The duration of the project is estimated at 20 years, where if it is executed in a technically and legally sound manner, its real objectives will be clear and we shall distinguish the honest from the liar". We shall disregard the improper description, but we do believe that the oil sector is a critical and important pillar of the economy and it remains as our collective responsibility. We truthfully believe that the survival of our economy and our responsibility to identify the details and purposes of a project of that importance deserves more than what the proposed plan implies, especially that the survival of the economy depends on this resource. Therefore, we do not have the liberty nor are we willing to take the risk of waiting for 20 years to find out our oil situation being similar to the situation our sport finds itself now, just to see who was right and who was wrong.

We also hope that the Minister would cease saying that the Project would lead to a real estate or a commercial boom in northern Kuwait since development funds will be allocated for that purpose sooner or later, with or without such project. We also hope that he would cease to titillate people's desire for wealth by promising them shares in the Project's Company, KUFPEC, because the matter is a national responsibility and this method is not appropriate.

Finally, we reiterate our thanks to Hashim. We believe that his response was unsuccessful not because we are against the involvement of foreign companies, but for equal participation from both sides. Not to mention also that we do not believe the oil sector will be inadequate in 60 years of dealing with difficult oil, as Norway with half of our oil age retains more expertise and handles difficult oil of Saudi Arabia. We believe that before we discuss the declared and top topics of the marketing documents we should discuss and weigh the real advantages and disadvantages in addition to the beneficial aspects of the projects, if any, and especially the undeclared ones.

The Local Real estate

The latest data available from the Ministry of Justice, Department of Real Estate Registration and Authentication indicates that the activity of real estate market has dropped, as well as the liquidity level where the value of transactions for the third quarter was lower than that for the second quarter. The total value of contracts and agencies for the third quarter was KD 476.6 million, divided into KD 361.5 million for contract and KD 115.1 million for agencies. This is lower at 32.9 per cent than the second quarter. Private residence sales total for contracts and agencies KD 292.8 million or about 61.4 per cent of the total sales. The investment residence sales value totaled KD 159.9 million or 33.6 per cent approximately. This means that the private and investment residence maintained 95 per cent of the real estate market liquidity leaving about 5 per cent for commercial and stores real estate and other uses.

The total value of transactions for contracts and agencies for the second quarter totaled KD 710.2 million and went down to KD 476.6 million for the third quarter. This is an indication of a down trend. Thus, the total value of real estate sales market for the first nine months of the current year totals KD 1,725.5 million that represents 62.6 per cent of the 2004 level and 61 per cent of the real estate market sales in 2003 unprecedented level. Should we assume the continuous liquidity of the real estate market for the remainder of the year, the fourth quarter, at the same level, the value of real estate market transactions for both contracts and agencies will rise up to KD 2,300 million or a decrease of KD 457.9 million or about 16.6 per cent decrease than 2004 level of KD 2,759 million. This liquidity decrease, in case it continues, will put a pressure on the prices and especially those activities which include excess supply like the investment residence. This phenomenon needs supervision and follow up.

The characteristics of the transactions are variable. Private residence transactions went up and amounted to 64 per cent of the value of sale compared to 61 per cent for the first nine months of the previous year. The following chart explains the comparative distribution.

By dividing the value of investment and private residence over the number of transactions we notice that there is an increase in the average sold unit at 31.8 per cent for private residence, while there is a decrease by 55.2 per cent for investment residence. This means as we mentioned before the beginning of a pressure on the prices.

Among the first nine months of 2005 the month of June was most active. The value of transactions in this month totaled to 14.4 per cent of the overall transactions. The lowest was in September at 5.9 per cent. As we also believe that the market has started to show a surplus in real estate for both investment and commercial and perhaps hotel activity, it will continue to prevail for a period as long as the offices and private residence continue to be active. As for the range of the present real estate market activity cycle, we expect it to weaken for certain activities and continue to prevail for others. Eventually it will be affected negatively or positively by the development of the political and economical situation in Kuwait and Iraq.

The monthly report of Financial Administration Accounts

In the last fiscal year, we criticized the tardy publication of the data follow-up report – Al-Shall report #39/2004- even though it is an important report and its publishers, the Ministry of Finance, deserve commendations. But this important report was issued in 10/2004 covering April and May of 2004, which were the first two months of fiscal year 2004/2005, keeping in mind that we are currently in October 2005, the seventh month of fiscal year 2005/2006. The recently issued report only covered the month of April 2005, or the first month of the current fiscal year. This means that the condition of the report was even better last year, despite its delay. We wish once again that the Ministry of Finance would pay more attention to the updated information due to its significance. We expect a speedy and additional published information and not the opposite.

April's 2005 report indicates that public revenues scored KD 1.082 billion of which KD 1.040 billion were oil revenues (96.1 per cent) this number means that there is a sharp dependence on oil revenues in financing the budget. Kuwait had achieved revenues of KD 645 million in April 2004 of which KD 587 million (91 per cent) was from oil. The increase of dependence on oil this year arose mainly from increased oil prices and from declined non-oil revenues from KD 58 million in April of last fiscal year to about KD 42 million in April of this current fiscal year, a decrease by 27.6 per cent which is an uncomfortable trend.

The report's comments on the budget's expenditures have no significant meaning, the budget expenditures for the first month of the current fiscal year which reached KD 182 million, are less than the average actual monthly expenditures in the past fiscal year in the amount of KD 526.3 million (less by 65.4 per cent). The monthly average for the first two months in the past fiscal year was KD 232 million. Since most expenditures either increase in the last months of the fiscal year or become due and increase at the expense of the trust account because they belong to the same fiscal year, we do not recommend drawing any conclusions about the expenditures side in the monthly reports because they are inaccurate.

Kuwait Stock Exchange

The performance of the Kuwait Stock Exchange (KSE) for the last week was mixed, where the indices of trading volume and value showed a decrease while the general index showed an increase. Al-Shall Index (value weighted) closed at 635.8 points at the closing of last Wednesday, showing an increase of 4.1 points or about 0.6 per cent compared to previous week's closing. However, the index is up by 215.1 points or about 51.1 per cent compared to its closing at year end 2004.