

An *IFC Reports* Interview with

**Mr. Tareq Al-Wazzan,
Chief Executive Officer,
AREF Energy Holding Company,
State of Kuwait**

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For our special report on Kuwait



IFC REPORTS: First of all, thank you very much for your time. To begin the interview, I would like to discuss some of the changes which are occurring in Kuwait right now. As you have seen a major focus of our report is the Development Plan that was approved last year which aims to heavily invest in and diversify the Kuwaiti economy away from the oil sector, however it needs to be noted that a large amount of the plan is still to be invested in the oil and gas sector namely to diversify areas such as downstream petrochemicals and to modernise the facilities that are available in upstream. What are your overall thoughts on the development plan, and how effective do you think it will be?

MR. TAREQ AL-WAZZAN: First of all, thank you very much and welcome to our country. In answer to your question, the vision for Kuwait's Development Plan was there all along, because as you are aware the Kuwaiti society is naturally business-oriented and our thirst to seek knowledge and business opportunity made us sail east and west. Our culture and history is an illustration of our track record. But the most important aspect about this now, is the development of the Kuwaitis knowhow as we are converting the country to an industrialised nation, this is the only solution to cope up with the future challenges, especially after the hydrocarbon era. Accordingly the Kuwait government put out a master plan for fundamental restructuring in all aspects, with a strong determination on going forward and to gain willingness and the confidence from the parliament, as well as the public and private sectors to push for the success of that plan. Now it's beyond every doubt that the development wheel is moving as per the set objectives. We must continuously believe that the success of the development plan is the way for Kuwait to continuity flourish and survive, therefore I strongly believe that there is no way back and we cannot afford not to pursue this strategy to success.

And now is the time, given the Middle East is booming and the expected development budgets over the next five years according to the studies by major financial organization and consultants, is that the region will be investing in the range of \$450 billion USD and a great portion of that will go to develop the energy industry. It's forecasted that 30 percent of budget will go in favour of the power, due to anticipate future demand growth that still leaves around \$300 billion to be injected into the oil and gas industry in the MENA region. The Gulf Cooperation Countries (GCC) represents a major share in OPEC production, which they have committed for the international market to create sufficient oil supply to meet the world oil demand and support stability on crude oil prices. This is done by creating alternatives solutions to meet the depletion rate challenges and also enhance the existing productions level. They also want to focus more on new discoveries to achieve a real cushion to manage unforeseen world crises or demand. Therefore the level of financial expenditure and know how to arrive at the desire target and commitment in the upstream will require huge capital. Nevertheless the financial magnitudes that will be required to also develop the energy sector in Iraq as well as Iran shall be significant in future. In addition to that Kuwait credentials make it the ideal launching centre to play a vital role in the GCC development as well the neighbouring countries especially Iraq and Iran.

IFC REPORTS: I would now like to focus on the Kuwaiti energy sector specifically and looking firstly at upstream, there are targets to increase production capacity to four million barrels per day by 2020, whilst in the gas sector there are plans to increase production to one billion cubic feet (per day) by 2016. What are your thoughts on these targets?

MR. TAREQ AL-WAZZAN: As we speak the average Kuwait oil production per day is in the range of 2.7-3.0 million barrels per day with expected reserves in the range of 100 billion barrels, yet the gas production is about 12.0 bcm with estimated reserve 1.7 tcm. The expected development budget for Kuwait energy sectors for the next five years is no less than 21 billion KD. As you can see no one can argue that Kuwait is very well-endowed when it comes to hydrocarbons, as a result producing Four million barrels per day is not stretched target, however it might be very challenging to meet future production objectives with local capabilities, so it will be more desirable for the energy sectors to seek the support of Western know-how in specific fields to achieve those targets. And since we are seriously focused on Kuwait's future development then what we will be able to produce today will have a better financial value than tomorrow. On the other hand, since we have the entire ingredient available plus the resources, subsequently Kuwait must push very hard to achieve these targets because they are not technically impossible or physically unrealistic. We do have the proper condition but we need to have the will and the political support to make it possible. The political support is what we are really lacking at the moment, we have lost great deal of financial revenues since early 1994 without anyone to claim responsibility, we cannot afford anymore to paralyse the development especially in the energy sectors, as so far it is the only source of income and major contributor to our GDP.

IFC REPORTS: What are AREF's forecasts for oil prices and oil price volatility in 2011?

MR. TAREQ AL-WAZZAN: Volatility in the price of hydrocarbons will continue basically due to some of the following factors; supply/demand, the size of the available spare capacity, world economics trend, geopolitics risk, weather conditions effect, and finally the influence of hydrocarbons trading in the financial market. These elements will always create ideal environment for large financial and non-financial companies to influence and impact the energy price volatilities. Until the world becomes able to develop practical and efficient substitute sources of energy to compliment world supply and help to meet future demand growth, then energy market price volatility will continue. Furthermore we cannot overlook the outstanding performance by OPEC members toward establishing fundamental support on their production target to balance the depletion rate plus bring new production to world demand and unforeseen supply crises. However the expected crude price forecast is bases on purely supply /demand during 2011 which is rallying between 80-100 USD, yet if geopolitics tensions continue in the Middle East as well as the unfortunate disaster in Japan, then the outcome will impact and influence the nuclear future requirements and the prices will go to unprecedented levels. Why? Because security of supply will be severely affected due to the loss of nuclear power supply, also there are strong signs of world economic recovery and growth is being forecasted above 2.5 percent, China and India will continue to show strong economy growth. Also as we can see that the USA stock market has already broken 12000 levels and this could be an indication of partial recovery which we have to monitor carefully.

IFC REPORTS: Returning to Kuwait's energy sector and the development plan, what specific opportunities would you highlight to our readers?

MR. TAREQ AL-WAZZAN: As far as I know, no less than \$90 billion USD is going to be invested into Kuwait's energy sector over the next five years, to upgrade and modernize power plants, the petroleum industry infrastructure, refining, petrochemical, upstream etc. This was the reason behind the creation of AREF Energy in Sep 2007 as its where our specialisation lies. After comprehensive analyses on Kuwait's future energy requirements, we have concluded that the goal in the years to come would be to hold strong partnership with international mid-

sized operational companies who are interested in joint ventures with dynamic and accountable local partners, giving them the appropriate foothold in the Middle East culture and business practices, along with financial support, strong foundation to achieve the right market share and to surf Beyond Kuwait for GCC countries plus Iraq and Iran. This is the art of what we are proud in doing and this is why we have invested in many service companies in the upstream, downstream and the environmental services, and this is what AREF Energy will continue to do. Over and above that we are a publicly listed company on the Kuwait Stock Exchange implementing the best international industry standards and practices.

IFC REPORTS: Given the US is such a prominent market for the oil and gas sectors, what importance do you place on them for the development of Kuwait in terms of their technologies and know-how and what message would you send to attract them here?

MR. TAREQ AL-WAZZAN: Whenever the Middle East name is mentioned in the West they might think of a war zone, my message to them is we live in the land of fortunes and opportunities. We have what civilization requires to continue to grow underneath our land; huge deposit of minerals, hydrocarbon and many other resources yet to be discovered. We will also be spending around 450 billion USD in the region and Kuwait will be spending in the range of 90 billion USD in the next five years alone, excluding any expenditure to be done in Iraq and Iran. This is the perfect wave that no one can afford not to ride and Aref Energy is the safest company to venture with, provided you have the spirit, aspiration and knowledge. We will sell the shovel if you wish to dig for the Gold, that's why Aref Energy is minimizing explorations portfolio and increasing its shares in energy Service Companies in the Upstream, Downstream, Environmental, GTL-GTE and Power in countries such as the USA, UAE, India, locally and in discussions with Europeans.

IFC REPORTS: What role does corporate social responsibility (CSR) play within the strategies of the company?

MR. TAREQ AL-WAZZAN: Aref Energy strongly believes that social responsibility is a promise to a better future for our children, as a result we make sure to support research and development in universities and sponsor environmental business opportunity, plus we are engage in partnership with USA base company (SYNFUELS) to provide flare gas solution. Nevertheless as and when a project is being awarded we make sure that part of the profit goes directly to locals to improve their standard of living. Although our company size is relatively small we contributed in 2010 1.3 million USD to non-profitable foundations and educational institutes.

IFC REPORTS: I think it is very important and commendable that you are doing this. I would like to focus now a little on your own personal experiences, as you've obviously spent many years working in the public sector at KPC (Kuwait Petroleum Corporation), out of curiosity what made you move over to the private sector?

MR. TAREQ AL-WAZZAN: I will always be grateful to Kuwait Petroleum Corporation and proud to be associated with them. After 23 years of experience in the international market, the timing was perfect to cash in all the excellent relationship I made over these years and also to take advantage of the valuable level of information that was collected during my path. My maturity and ambition drove me to look for new forms of knowledge and experience and I accepted that the private sector would provide me with this and it has proved to give me inner satisfaction for independent success.



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IFC REPORTS: Mr. Al-Wazzan I would sincerely like to thank you for your time.

MR. TAREQ AL-WAZZAN: It was a pleasure, thank you.