

An *IFC Reports* Interview with

**Mr. Walid Al-Hashash
Chairman**

AREF Energy Holding Company, State of Kuwait

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For our special report on Kuwait



IFC REPORTS: The Development Plan was implemented last year with the main aim of diversifying the economy away from the oil sector and increasing private sector participation. What is your opinion on the development plan and how realistic do you think its targets are?

MR. WALID AL-HASHASH: We have to be quite frank. The targets for the development plan are composed of delayed and outstanding projects that were supposed to be developed over the past ten years. Now they are just compiling it from all sectors and ministries and they are being executed under the umbrella of the development plan; Hospitals, roads and schools and developing the new Kuwait University City, which was approved in the late 1970s and then reapproved again with modifications. We are talking about long awaited projects; mostly related to infrastructure. Kuwait wants to be the hub for finance and trading in the region. I think today in the Gulf, Bahrain is known as the financial centre, even Dubai is not known as this because offshore banks have been in Bahrain for a long time and nobody can take this from them. Kuwait still has a good opportunity to be a trading hub; the roots of the country are based on trading. All Kuwaitis are traders, but the platform is not ready to keep up with the new trading developments in the world. When we talk about trading hubs we need excellent facilities, ports, airports and roads to connect you to the countries you are exporting to. The way we see it is that development is not just the building of infrastructure. What we need is diversification in the economy and to lessen our dependency on oil, which has been the mission of the country over the past forty years. Diversity of the economy outside the oil sector will not come just from building more schools and roads. The real project's that are considered development is building the new ports, expanding the airport. We are late by about 7 or 8 years in building this airport expansion. We are also late on the extension at the University. These are vital developments but also long waited. We are also late on power plants. We read about them and they have been delayed and now they are on the fast track. Some of these projects will hopefully lead to the development objectives.

IFC REPORTS: Oil has played an important role in Kuwait's economy since its discovery in 1938. Looking at some of the current targets, the oil sector is looking at increasing output capacity of oil to 4 million barrels a day and increasing gas from 140 million cubic feet per day to one billion. How realistic do you feel these targets are given the current investment climate?

MR. WALID AL-HASHASH: These are very modest targets considering KPC had indeed reached 3MMBPD of production late 70's , but Kuwait Petroleum Corporation (KPC) sets these targets and is responsible for exploiting the hydrocarbon resources in Kuwait. The problem is that the government politicizes this entity so not all the targets set by the KPC are that great. Not because of KPC but because it is subjected to government bureaucracy and the political scenery of the country. These things are really going to be real challenges for KPC to overcome in order to reach its goals.

IFC REPORTS: Despite this what opportunities do you believe can come out of these targets and aims?

MR. WALID AL-HASHASH: They have created a section for privatization with KPC. The first project was selling the Salt (clore) Plant, then the gas stations. Yet it wasn't completed, the gas station privatization was stopped in the middle of the process. We have only 120 gas stations in Kuwait. It is not easy for the private sector to focus on a certain part of the energy sector. All private sector companies aim to have a partnership, we are not partnered yet. We are talking

about downstream, pipe network, logistics, shipping, fleet & ports. These are supporting services and the government will not lose any sovereignty if they allow somebody to partner with them. This is what most of the private sector is eyeing up right now, yet you cannot be optimistic because certain things need to be done before they open the door for us. AREF Energy presence in Kuwait is through a contractor that we control and we are very cautious not to enter before extensive study.

IFC REPORTS: Do you see any opportunities for foreign companies to come in?

MR. WALID AL-HASHASH: It is too complicated. Foreign companies want to see stability in this sector, not a change of CEO's & top management every few years. Yet they are in Kuwait but again stable management will add more comfort for their presence.

IFC REPORTS: How about for contracting services?

MR. WALID AL-HASHASH: They are here already; we have Shell and BP and other IOC's. There are other contracts in the pipeline. Due to the situation in Kuwait, any initiatives are looked at suspiciously. These obstacles will hinder the KPC targets. For example at the moment we are at our 2005 target of production capacity.

IFC REPORTS: What is your view on renewable energy? KPC has a fund investing in companies looking at renewable energy. Do you see any future in this?

MR. WALID AL-HASHASH: They are very picky about how they invest, only in renewables that do not collide with the consumption of oil and gas, so they can only support and invest in certain parts of renewables. For them as long as it does not affect the consumption of oil & Gas, like hybrid cars as that will still use oil, it's ok, but I do not think they would invest in wind farms for instance, as it does not compliment the oil and gas consumption. So there are challenges here.

However the true challenge for Kuwait is to reduce the consumption of energy. Now the GCC are consuming its own production expediently. The GCC oil/gas consumption per capita is the highest in the world.

IFC REPORTS: One aspect we are focusing on is the growth and development of the GCC as a region and the need for greater complementarity. Qatar for example, has a lot of gas and Kuwait a lot of oil. Do you see any sign of synergies that could be formed?

MR. WALID AL-HASHASH: There are certain synergies. On the energy side they already have a combined grid for the electricity but all of us have the same peaks in the summer, so the same problems. In oil and gas there are lots of opportunities that have not been explored.

They are all competing at the same time and producing the same product. If they had some sort of coordination down from the macro level to the micro level they would do much better. With more optimization between them I think it would be much better and there is a lot of scope for this.

IFC REPORTS: AREF Energy was established in 2007 as a subsidiary of AREF Investment Group, which is a subsidiary of KFH. Could you provide us with a brief introduction to the company and the reasons for its establishment?

MR. WALID AL-HASHASH: AREF Investment Group (AIG) established AREF Energy Holding; late 2007. During that time AIG had a stake in around 34 companies across the board, in all sectors; energy, logistics, banking, education, real estate. At the end of 2007 they decided to create HOLDINGS; one taking care of energy, one for logistics, education and so on. We are a holding company not an operational company. all energy investments were put in one pool which is AREF Energy Holding(AEH). AEH set its strategy in 2008 to shift our inherited investments from E&P to more Oil & Gas services. We will continue in that direction, we think our 75 million KD capital is not adequate for E&P, which needs a lot of cash. So we either dedicate the whole capital to E&P or exit. We will push more for oil & gas services. The crisis proved to us this is good, as during the crisis the share prices of many oil production companies were very volatile, however the shares of oil & gas services companies kept their shares intact, as everyone needs them to produce oil. In 2009 our oil & gas service company called KDD had zero contracts and now we have 35 million dollars in contracts; so in over one year we managed to push it to this level. We have a good stake in a company in Saudi Arabia, specialized in oil and gas services called Makamen . Their contracts now reached around 100 million US \$ in just a year and a half. We are active in Sudan in oil and Gas through a large company. These are things that we want to promote more. We also took a stake in Shalel Gas venture in the U.S. We entered and left after two years and made exceptional returns. We are in technology of GTL which is oil and gas downstream technology converting gas to liquid where we chase flared gas and remote gas. We are talking to countries on the Caspian Sea where there is huge flaring. We have investments in India related to drilling of oil and gas and have a good stake in Kuwait Energy Company (KEC); a very successful E&P company in the region. They have around 14,000 barrels a day in Yemen, Egypt, Pakistan and Ukraine. We have been doing this for the past few years and will continue and push more investment for oil and gas services.

We are trying to build up the synergies between for our local and foreign investments as we do not invest outside the region, if we invest outside of the region then our aim is to bring the transfer of technologies and knowledge to the area.

IFC REPORTS: What role do you think the American companies play when it comes to bringing technology to the sector?

MR. WALID AL-HASHASH: When it comes to oil and gas and the energy sector, the pioneers are the Americans. American products are the best, oil was discovered there and until today most of the products & equipments required to produce oil are manufactured in the U.S The Chinese said that 50% of their contracts in China for the oil & gas sector are awarded to American companies, yet the Chinese are very smart doing business around the world. They just want the technology and the knowhow.

IFC REPORTS: Are you looking at any partnerships or ventures with the U.S.?

MR. WALID AL-HASHASH: We partnered with American & Chinese partners to form a company for raising funds. This fund will start with us\$ 100 M. This first fund will focus on waste to energy; a German Technology bought by the Chinese, and developed by the Chinese and now is used by the Chinese. Everything is in China, now we are associated with them to transfer it to the region. It is a very successful venture and the Chinese government is also supporting it.



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IFC REPORTS: What role do you think AREF energy plays in representing Kuwait internationally across the world?

MR. WALID AL-HASHASH: We are trying to represent Kuwait in seeking good opportunities, aligning ourselves with trustworthy partners and keep our conduct of business ethically. Some of our projects are with governments and you have to be very delicate, it is hard to deal with government sectors, compared to private sectors.

IFC REPORTS: As Chairman of AREF Energy and having held many important roles in the past what would you like to pass on to future generations here in Kuwait? What is your leadership philosophy?

MR. WALID AL-HASHASH: All the staff at AREF Energy are ex-KPC from different sectors, and they are highly educated, highly trained and command high caliber. KPC is considered a major training centre in Kuwait so we recruited them mainly from middle management and I believe they will run the company in the future.

IFC REPORTS: Thank you very much.