

## This Week

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## **1- North Oil Fields or Project Kuwait:**

The north oilfields project is under limelight nowadays. Debates are supposed to be limited to the basics and, its financial and economic aspects for our part. From this perspective, it does not achieve the declared objectives; but this does not necessarily mean that it won't achieve the necessary objectives, even though undeclared. It does not hurt if we repeat these declared objectives, which we believe are unachievable. There are some people within the project's marketing team who do not know or want to achieve these goals. This insistence causes anxiety and doubt over the entire project.

In an introduction of the written outline presented by the marketing team, "multiplying north oilfields' production and preserving them" top the objectives. The difference between what the project would produce and what would be produced without the assistance of foreign companies is 143.8 thousand barrels/day or about 26.4%, which is much below the doubled production during the project's duration. If we take that increase as a percentage of Kuwait's total production, it will form about 3.9% of total targeted production in 2020. In other words, it is a marginal target for the project and even more marginal for Kuwait.

The second objective is the employment of 60% to 80% Kuwaiti work force as one of the main conditions of the agreement with the foreign companies, which is a favorable condition, even though insignificant, for two reasons. First, all job opportunities to be created by the US\$ 7 billion project are 500-800 in 20 years in a country that annually needs 15 thousand job opportunities. Second, most of these opportunities will be transferred from Kuwait Oil Company (KOC) or its sister companies to the project. This means these are not new job opportunities, despite their severe scarcity.

The third objective that is constantly being repeated, an unjustified error, is calculating the increase in produced oil from the reserves because we assume that what KOC produces is pure financial revenue for Kuwait and this is wrong. In fact no one confirms whether Kuwait would win or lose financially, even though logic predicts it will lose. If the value of the remaining 1.05 billion barrels of underground oil to be produced by KOC and sold at higher prices by 2020, would only cover the expected return from realized funds by producing the same quantities by foreign companies, Kuwait then will lose and vice versa. According to the officially published figures, the north oilfields contain 9 billion barrels of fixed and proven reserves and only 3.97 billion barrels of which will remain if the

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project got approved and 5.02 billion barrels if KOC were entrusted with the task.

Therefore, we believe that the official objectives of the project will not be accomplished. The insistence of repeating and not revising these issues are a cause for concern. We believe that there is a necessity to discuss in transparency the hidden objectives. We now know that the Kuwaiti oil sector has not developed its capabilities after two generations, or 60 years. Using the project as a development focus base is acceptable even though futile if not associated with a strategy to develop the entire oil sector, ceasing its politicization, and using it as employment center. The second undeclared objective is the fear from sabotaging the oil fields reserves due to the inability of the Kuwaiti oil sector to utilize modern management and technological methods in dealing with them. Even though, it is a tough objective but it is legitimate and should be declared. The third objective is the doubt in the volume of Kuwait's reserves estimated at 99 billion barrels. This means that the north fields contribute more than the declared contribution, which is tough as well, although legitimate and pertains to the future of the country and should be openly addressed.

Finally, our country depends completely on oil, which is passing through a historical transformational phase. Project Kuwait is a main adjustment in the way we deal with oil. Making the future is vital and fundamental and we should not be divided in its formulation. We can not form a united domestic team if we do not deal equally with all facts.

## **2- Reactions to ALSHALL Report:**

Responses to reports number (36) and (38) issued on September 10 and 24, 2005 respectively, were published in Al-Qabas newspaper. The first came from the Ministry of Planning as a reaction to our criticism on the published statistics of population and manpower (Report No. 36 published 10/09/2005). The second came as a clarification from The Investment Dar Co. in regards to the declared estimate of growth in the value of the company's investments according to the percentage of ownership (Report No. 38 published on 24/09/05). Before we respond, we would like to emphasize that any of our criticisms or analyses is very carefully scrutinized by us and its aim is purely professional. Nonetheless, our estimates, and therefore our views, may not have always been precise. In these incidents, we have recognized our miscalculation which is something that we do not shun. Constructive criticism is appreciated and always taken into consideration and accepted as we stand corrected. However, although we believe that the response we received from The Investment Dar Co does stem from a set of different assumptions, it still stands correct in its context. Nonetheless, the response of the Ministry of Planning was not very convincing, and we shall explain why.

### **A-The Ministry of Planning and Population Statistics:**

We do not understand how the Ministry of Planning allowed a response that deepens the feeling not only with the wrong preliminary figures of the 2005 population census but also with the insistence on continuing the error. With all our due respect, the weak response is a sad thing.

The criticism was limited to differences in population figures released by two departments under the Minister of Planning, differences that reach 29.5% for the total population and about 10.5% for the Kuwaitis, and for total work force reached about 54.6% and for the Kuwaiti labor force was about 47%. These differences are so wide that we believe such differences are not acceptable enough to exist as officially published statistics. The published response came to focus on something far away from the point of contention. The focus of the argument was on the difference between the actual census and periodical registration and that the difference is justified within a 10% margin of error, which does not hold for the differences we mentioned. The argument also focuses on the theoretical dimension of the population figure and the logical and illogical provisions rates as if we were preparing a research about a remote country. However, we do agree with the Ministry's response on the significance and necessity of the population census to serve as basis for development plans and programs preparations, and are equally necessary for the projects of the private sector. Unfortunately, the preliminary demographic data published by the Ministry fits neither.

We shall not provide a lengthy answer, but will give two numerical examples on the extent of the error in statistics. The Census estimated the total Kuwaiti population by about 880,774 capita, while the statements of the KD 200 grant- distributed prior to the census- included contained full names for 957,389 Kuwaitis. The grant was distributed before the last April-end, namely, the real number at the census mission time must have been greater. So far, 5,283-individual

have not received the gift. This leads to a total of about 952,106 or more than the published census figure of 71,332 individuals, who received the grant. These facts confirm that the Public Authority for Civil Information (PACI) figure is closer to reality or there might be a suspicion of a stealth to the gift in the name of non-existing Kuwaitis, which is an impossible event.

The second example is about the Kuwaitis labor force with a difference between the two figures being 100,000. No need to conduct a census to reach a close estimate of the Kuwaiti labor force, at least. The census estimated them by 212,570; whereas, the Civil Service Commission, another governmental body, estimates them by 265,000 workers excluding the military and workers in government-owned establishments. It is certain that the Civil Information's estimate at 312,567-worker is closer to reality. Nevertheless, it is enough to recognize the error's extent in two areas, namely, Kuwaiti population and laborers, where errors shouldn't exist, to imagine error extent in other areas.

Finally, we would like to reiterate our respect and appreciation to the Ministry of Planning and its personnel, noting that errors occurrence in a vital and extremely important piece of information is unacceptable. However, this can be overcome upon correcting them. What raises our anxious and concerns is the obvious denial to the error and its justification attempts. On the other hand, what is required of the "in charge" Ministry of Planning is to enjoy the conscious sense by reconsidering and revising the quality, quantity and the state-of-the-art of the crucially basic

information in addition to attaching importance to the population census data, as the time has not elapsed yet for such adjustments measures.

### **B- The Investment Dar Co. and Declared Ownerships:**

In a previous report, we mentioned the impact of Kuwait Stock Exchange (KSE) on some declared equities and reviewed 7 definite cases, including The Investment Dar Co. We mentioned also that the growth rates in the value of these equities only for the period 30/06/2005 to 14/09/2005, and that growth might not be reflected in the Profit & Loss account because that depends on the owner's accounting policy and ownership percentage. We also said that rates were not good for drawing any conclusions. Since our objective is different, irrelevant to the financial performance, selective and not restrictive, all of what mentioned was right and useful to that paragraph in the report. The Investment Dar Co.'s reply is also correct because it stems from a different concept pertinent to its accounting policy and its ownership, particularly, in MADAR company managed over a different duration, which may go back to the date of possession for some assets management. As a result, the difference in figures is a justification for the difference in the objectives, financial policies, and time duration.

### **3- Discount Rate:**

On 03/10/2005, the Central Bank of Kuwait (CBK) raised the discount rate on the Kuwaiti dinar for the ninth time since 01/07/2004 and for the 4<sup>th</sup> time in the current year by a quarter point from 5.5% to 5.75%. The last increase was on July 3, 2005. We believe that raising the discount rate and

continuing that whenever there is an opportunity are a good measure and has more significance to the dinar than the US Dollar to contain the inflationary influences as a result of economic and financial expansion, more specifically on assets prices.

### **Discount rates – Kuwaiti Dinar**

	Date	Discount rate %	Change %
	07/11/2002	3.25	
1	01/07/2004	3.50	0.25
2	04/08/2004	4.00	0.50
3	22/09/2004	4.25	0.25
4	11/11/2004	4.50	0.25
5	15/12/2004	4.75	0.25
6	03/02/2005	5.00	0.25
7	23/03/2005	5.25	0.25
8	03/07/2005	5.50	0.25
9	03/10/2005	5.75	0.25
	Total		2.50%

### **4- Will the US Dollar Lose Its Dominance?**

In January 2003 Kuwait has decided to no longer have its currency pegged to a basket of currencies, instead the Kuwaiti Dinar is now pegged to the U.S. dollar, a move already taken in place in other GCC countries. By 2010 the six GCC countries are supposed -theoretically-, to unify their currency. The reason why the GCC countries have chosen to peg their currency to the U.S. Dollar is because their revenues, 90% of it to be exact, is from exported oil that is in U.S. Dollar and most of the public finance is done in U.S. Dollar. Not to mention that GCC's dealings with the United States is priority. In its 29/09/2005 issue, the Economist raised the issue of probable reduction in the Dollar's role in currency reserves of other countries. We are used to hearing this argument whenever the

U.S.Dollar faces downward pressures, which it has done four times in recently, the last of which began in 2002. Since then the Dollar, as well as oil revenues value, lost about 28% against the Euro and 14% against a large basket of other currencies. Nevertheless, it still represents 66% of the official reserves of currencies around the world, 25% for the Euro, 4% to the Yen and 3% to the Sterling.

In modern history, the changing of a country's reserve's currency to another has occurred only once. As Britain was changing from a net creditor to the outside world to a net debtor since 1914, and after two world wars fought by them, that gave a chance for the U.S Dollar to dominate by remaining the main convertible currency to gold from 1920 to 1925. The United States is facing a record deficit in its current account, approximately 6% of their total GDP. The United States' financial commitments to the outside world totaled 22% of its GDP, which is a close figure to its record foreign debt. Central banks around the world have reduced the purchase of American treasury bonds and the increase in these purchases during the first 7 months of 2005 did not exceed US\$ 2

billion, around US\$ 295 billion for the entire year 2004 and US\$ 175 for 2003.

In case the dollar does not pick up positive momentum, this will definitely benefit the Euro because its regional trade with the outside world is equal to that of the United States and its regional economies. However, the depth and might of the U.S. financial markets have kept the U.S. dollar serviced through tougher times. The magazine points to more than one research that discussed this phenomena. Despite the disagreement over its potential, the US Dollar continues to lose 3.6% of its value per annum to a basket of currencies whereas the Euro gains 4.6% annum, (2001-2004 average). According to another point of view, both the Euro and the dollar might share currency dominance. Around the world all possible outcomes are being studied and considered to make way for advance future decision making. We wish to view one serious research about the united Gulf currency, s implementation, obstacles and the probable impact of world's currency transfer from the Euro to the US Dollar.

### **5-The Weekly Performance of 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 631.7 points at the closing of last Wednesday, showing an increase of 13.5 points or about 2.2% compared to previous week's closing. However, the index is up by 211 points or about 50.2% compared to its closing at year end 2004.

**The following tables summarize last week's performance of KSE.**

Description			
Description	Week 40	Week 39	Dif
	5/10/2005	28/09/2005	%
Working days	5	5	
Al Shall index (42 Company)	631.7	618.2	2.2%
KSE index	10,515.4	10,233.3	2.8%
Value Trade (KD)	626,275,815	681,995,875	
Daily average (KD)	125,255,163	136,399,175	-8.2%
Volume Trade (KD)	1,210,428,000	1,431,772,000	
Daily average (KD)	242,085,600	286,354,400	-15.5%
Transactions	45,131	48,304	
Daily average	9,026	9,661	-6.6%

Table (2) – Most Active Sectors & Companies		
Description	Value Traded	% of Total
INVESTMENT SECTOR	296,133,500	47.3%
REAL ESTATE SECTOR	118,062,600	18.9%
SERVICES SECTOR	72,668,570	11.6%
Description	Value Traded	% of Total
Companies	KD	Market
THE NATIONAL INDUSTRIES	30,850,050	4.9%
AHLIA INVESTMENT	28,948,100	4.6%
INTERNATIONAL INV. GROUP	23,237,550	3.7%
KUWAIT FINANCIAL CENTER	21,717,250	3.5%
KUWAIT PRIVATIZATION PROJECT HOLDING CO.	21,139,800	3.4%
<b>Total</b>	<b>125,892,750</b>	<b>20.1%</b>

Description	Week 40	Week 39
	5/10/2005	28/09/2005
Increased Value (# of Companies)	23	19
Decreased Value (# of Companies)	13	15
Unchanged Value (# of Companies)	6	8
<b>Total Companies</b>	<b>42</b>	<b>42</b>

#	Company Name	WED	WED	DIFF	CLOSE	DIFF
		05/10/05	28/09/2005	%	2004	%
1	The National Bank Of Kuwait	337.0	333.7	1.0	215.1	56.7
2	The Gulf Bank	588.2	588.2	0.0	472.7	24.4
3	Commercial Bank Of Kuwait	723.9	663.5	9.1	428.3	69.0
4	Al-Ahli Bank Of Kuwait	277.1	277.1	0.0	195.4	41.8
5	Real Estate Bank	483.5	483.5	0.0	371.0	30.3
6	Bank Of Kuwait & The Middle East	208.6	204.6	2.0	216.5	(3.6)
7	Burgan Bank	351.1	339.0	3.6	221.0	58.9
8	Kuwait Finance House	1206.0	1168.7	3.2	926.9	30.1
	<b>Banking Sector</b>	<b>443.4</b>	<b>433.8</b>	<b>2.2</b>	<b>311.6</b>	<b>42.3</b>

9	Commercial Facilities Co	453.9	459.8	(1.3)	415.8	9.2
10	International Financial Advisors	5280.7	5403.5	(2.3)	3536.8	49.3
11	National Investments	1220.2	1182.1	3.2	481.2	153.6
12	Kuwait Investment Projects	650.0	633.3	2.6	343.3	89.3
13	Coast Investment & Development	474.6	436.7	8.7	263.2	80.3
	<b>Investment Sector</b>	<b>997.6</b>	<b>992.7</b>	<b>0.5</b>	<b>624.0</b>	<b>59.9</b>
14	Kuwait Insurance Company	120.3	116.3	3.4	90.2	33.4
15	Gulf Insurance Company	172.4	169.0	2.0	200.0	(13.8)
16	Al-Ahleia Insurance Company	153.5	156.1	(1.7)	171.5	(10.5)
17	Warba Insurance Company	426.2	408.2	4.4	330.1	29.1
	<b>Insurance Sector</b>	<b>160.9</b>	<b>157.5</b>	<b>2.2</b>	<b>147.3</b>	<b>9.2</b>
18	Kuwait Real Estate Company	459.6	466.1	(1.4)	350.1	31.3
19	United Realty Company	553.8	545.8	1.5	417.4	32.7
20	National Real Estate Company	1592.0	1670.3	(4.7)	987.2	61.3
21	Salhiah Real Estate Company	1813.0	1787.5	1.4	1327.9	36.5
22	Pearl Of Kuwait Real Estate Co	277.0	267.1	3.7	205.4	34.9
	<b>Real Estate Sector</b>	<b>768.5</b>	<b>783.4</b>	<b>(1.9)</b>	<b>526.7</b>	<b>45.9</b>
23	The National Industries	605.6	528.7	14.5	215.2	181.4
24	Kuwait Metal Pipe Industries Co	359.8	371.1	(3.0)	237.5	51.5
25	Kuwait Cement Co	871.2	721.5	20.7	505.6	72.3
26	Refrigeration Industries Co	262.2	265.2	(1.1)	271.2	(3.3)
27	Gulf Cable & Electrical Industries	649.0	649.0	0.0	545.8	18.9
28	Contracting & Marine Services Co	127.0	128.5	(1.2)	122.4	3.8
	<b>Industrial Sector</b>	<b>558.0</b>	<b>506.9</b>	<b>10.1</b>	<b>310.9</b>	<b>79.5</b>
29	Kuwait National Cinemas	545.2	545.2	0.0	746.1	(26.9)
30	Kuwait Hotels Company	100.0	104.0	(3.8)	121.0	(17.4)
31	The Public Warehousing Co	6404.5	6183.7	3.6	4203.7	52.4
32	Kuwait Commercial Markets Complex	1365.9	1463.5	(6.7)	1390.3	(1.8)
33	Mobile Telecommunications Co	3016.2	3016.2	0.0	1916.8	57.4
34	Kuwait Computer Co	225.9	213.1	6.0	186.9	20.9
	<b>Services Sector</b>	<b>2980.8</b>	<b>2947.4</b>	<b>1.1</b>	<b>1,991.2</b>	<b>49.7</b>
35	Livestock Transport & Trading Co	475.0	466.7	1.8	216.7	119.2
36	United Fisheries Of Kuwait	289.8	293.2	(1.2)	180.7	60.4
37	Kuwait United Poultry Co	83.3	78.7	5.8	74.0	12.6
38	Kuwait Food Co	808.5	832.8	(2.9)	631.4	28.0
	<b>Food Sector</b>	<b>432.4</b>	<b>437.0</b>	<b>(1.1)</b>	<b>297.8</b>	<b>45.2</b>
39	Arabian General Investment	1540.1	1507.3	2.2	587.1	162.3
40	Sharjah Cement Co	1620.9	1561.9	3.8	896.9	80.7
41	Gulf Cement Co	2145.0	2062.5	4.0	1134.4	89.1
42	Umm Al-Qaiwain Cement Industries	2848.7	2958.3	(3.7)	1575.0	80.9
	<b>Non Kuwaiti Companies</b>	<b>1031.3</b>	<b>1008.9</b>	<b>2.2</b>	<b>524.0</b>	<b>96.8</b>
	<b>General Index</b>	<b>631.7</b>	<b>618.2</b>	<b>2.2</b>	<b>420.7</b>	<b>50.2</b>