Economic Trends and Capital Projects in the GCC Countries

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The Gulf Cooperation Council (GCC) economies include:

1. Saudi Arabia
2. Kuwait
3. UAE
4. Oman
5. Qatar
• Established in 1933

• Headquarters in Dhahran Saudi Arabia

• State-owned national oil company of Saudi Arabia

• Largest oil corporation in the world with the largest proven crude oil reserves

• Fully integrated oil company with operations in exploration, producing, refining, marketing, shipping and distribution

• Extensive network of refining and distribution facilities

• Subsidiaries, affiliates, and joint ventures nationally and internationally

• Employs more than 54,000 employees
Presentation Outline

- The Hot EPC Market: 2005 to mid-2008
- The Market Correction: mid-2008 to 2009
- Market Outlook: 2010 - 2015
The Hot EPC Market

Robust Economic Growth

Real GDP Growth (%)

05  06  07  08

0%  2%  4%  6%  8%  10%
**UNCTAD Global FDI Rankings**

- **2006**: 27
- **2007**: 20
- **2008**: 18
- **2009**: 14

• 38.2 USD Bn Reported in *World Investment Report 2009*
The Hot EPC Market

Project Workload

Ambitious Mega-Projects in the Region:
- Khurais Program, KSA
- KAUST, KSA
- Petro Rabigh, KSA
- Ras Gas, Qatar
- Burj Al-Khalifah, UAE
- Palm Jumeirah, UAE
- Crude Export Facility, Kuwait
KAUST Objective

KAUST an international, graduate-level research university dedicated to inspiring a new age of scientific achievement in the Kingdom that will also benefit the region and the world.

KAUST is the realization of a decades-long vision of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud.
KAUST Location
Project Location

• KAUST @ Thuwal
  • Located 90 KM North of Jeddah

• King Abdullah Economic City

• Thuwal

• Jeddah
Final Master Plan
KAUST Quick Facts

- Total Area = 36,000,000 Sq. m. (On shore Area 16,500,000 Sq. m. Off Shore Area = 19,500,000 Sq. m.)
- 3 million square meters of floor area
- 3,134 residential units
- 1.1 million cubic meters of concrete
- 250,000 tons of structural steel – 25 Eiffel Towers
- 900,000 square meters of marble/ceramic – 150 football fields
- 100,000 square meters of terracotta tile
- 1.5 million pre-cast panel units
- 200 km of fire water piping
- 210 km of ductwork
- 35,000 palm and other trees, plus over half a million other plants
- Supercomputing facility and various advanced research labs
- Construction workforce peaked at 50,000+
• PROJECT FACTS

- Total Area = 36,000,000 Sq. m
- 1.1 million cubic meters of concrete
- 900,000 square meters of marble/ceramic – 150 football fields
- 600+ Architects and Engineers
- 3,134 residential units
- PROFESSIONAL OFFICES FROM 22 CITIES WORLDWIDE

- project site August 1, 2007
- project site May, 2008
The economic cities are an infrastructure priority and are expected to attract $100b in investment

- **King Abdullah Economic City (West)**
  - Located in Rabigh
  - Announced in Dec. 20th, 2005

- **Prince Abdulaziz Bin Mousaedd Economic City (North)**
  - Located in Hail
  - Announced in June 16th, 2006

- **Knowledge Economic City (Mid-West)**
  - Located in Medina
  - Announced in June 17th, 2006

- **Jazan City (South)**
  - Located in Jazan

- **ALEC Energy City (North East)**
  - Located in Alhassa

- **Tabouk City (North West)**
  - Located in Tabouk

• In 2020:
  • ~4.5m residents are expected in the economic cities
  • Combined GDP for the new cities is expected to reach $150b
Smart cities around the world have shown impressive results

• Significant deployment of broadband
• Connectivity to knowledge workers
• Digital inclusion of all sectors of society
• Willingness to innovate and take calculated risks
• Effective marketing to attract new businesses

What does it really take?

Success stories

• Busan, South Korea – The Logistics Hub
• Taipei, Taiwan – The ICT City
• Ichikawa, Japan – The internet city

Source: Intelligent community forum
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The Hot EPC Market

Bulk Materials

- Structural Steel
- Pipe
- Cable
- Concrete

- Robust global economy
- High demand for commodities
- High project work loads
- Shortage of manufacturing capacity
- Cost increases
The Hot EPC Market

Equipment

- **Pumps**

- **Compressors**

- **Turbines, Boilers and Exchangers**

- High levels of capital expenditure
- High demand with limited supply
- No significant expansion in capacity
- Quality and reliability issues
- Longer lead times
The Hot EPC Market

Engineering and Project Management

- Increased demand for engineering services
- Shortage of quality engineers
- Significant price increases
- Increase in outsourcing
- Lower productivity and quality
The Hot EPC Market

Construction

- Reliance on expatriate work force
- Competition for limited pool
- GCC currencies generally pegged to U.S. Dollar
- Inflationary pressures
The Hot EPC Market

- Saudi Aramco Experience
  - Market constraints throughout EPC value chain
  - Innovations in contracting strategies: Reduce risk to contractors
  - New contractors and manufacturers: China and South Korea
  - Alliances with local manufacturers
  - Development of local construction work force
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The Market Correction

Economic Decline and Recovery

Real GDP Growth (%)

Baltic Dry Index
The Market Correction

Project Workload

- Sustained Project Activity
- Cancellation or Deferral of Real Estate Projects: $51 BN
- Projects “on Hold”: $105 BN
- Shift to Industrial-Driven Projects

Real Estate 60% Industrial 40% January 2008

Real Estate 34% Industrial 66% January 2009
The Market Correction

Bulk Materials

- Decline in global project activities
- Decline in global demand for commodities
- Highly volatile market
The Market Correction

Equipment

- **Pumps**
  - Large backlog of orders
  - Sustained high price level
  - Improved lead times

- **Turbines, Boilers and Exchangers**

- **Compressors**
The Market Correction

Engineering and Project Management

- Global decline in projects
- Sustained high rate for engineering
- More competitive bids
- Productivity increases
The Market Correction

Construction

- Global decline in projects
- Labor supply increase
- Sustained high demand for skilled workers
- Lower inflation pressure
- More competitive bids
The Market Correction

Saudi Aramco Experience

- Drive for gas
- Leveraged opportunities in EPC markets
- Flexible execution strategies
- Assisted cash flows of contractors
- Localization of FEED and EPC resources
- Growing market share of South Korean EPC contractors
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Market Outlook

Economic Growth

Real GDP Growth (%)

0% 2% 4% 6% 8% 10%

05 06 07 08 09 10 11 12 13 14 15
Market Outlook

Project Workload

- Saudi Aramco joint ventures
- Saudi Aramco oil/gas mega-projects
- Economic Cities, KSA
- GCC railway network
- Abu Dhabi Integrated Gas Development
- Qatar Pearl development
- Ruwais Petrochemical expansion, UAE
- Sabah Al-Ahmad Township, Kuwait
Market Outlook

Capital Cost Trend

- 2010 - Lower cost escalation projections
- 2011 - Mid-levels of cost escalation
- 2012 - 2014 - Higher levels of cost escalation
- 2015 - Level out
Market Outlook

Saudi Aramco Views

- Ambitious 5-year capital program focused on gas, refining, petrochemicals and infrastructure projects
- Diminishing capacity in global EPC value chain
- Continued diversification of EPC resources
- Leverage efforts to localize FEED and EPC work
- Tight markets locally and scattered regional hot spots globally

"Ambitious 5-year capital program focused on gas, refining, petrochemicals and infrastructure projects"

"Diminishing capacity in global EPC value chain"

"Continued diversification of EPC resources"

"Leverage efforts to localize FEED and EPC work"

"Tight markets locally and scattered regional hot spots globally"
Thank You

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