

KUWAIT

Overview

Kuwait maintains a small but relatively open economy. Although the petroleum sector dominates the country's export revenue, the Kuwait economy is diversifying into non-petroleum-dependent industrial sectors. GDP growth rates in the early 1990's averaged 9%. The United States is the largest source of Kuwait's imports with a 35% share. In the military sector, Kuwait maintains one of the highest defense spending rates per capita in the world. The combination of post-war economic growth and a strong demand for U.S. products yields many business opportunities for U.S. firms in both the commercial and defense sectors.

Defense Industry Environment

The Ministry of Defense (MOD) has signed defense cooperation agreements with the U.S., UK, France, and Russia, and has expressed interest in an agreement with China to upgrade the self-defense capabilities of the Kuwait Military, and to provide training in the deployment and operation of the newly acquired military equipment. Kuwait is expected to increase its purchases from all of these countries, and perhaps more so from its newer allies.

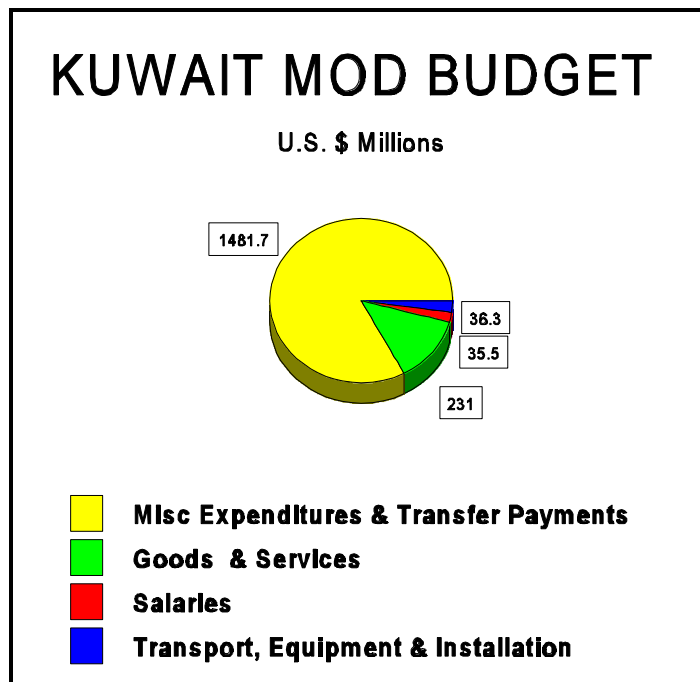
Implementation of these agreements is hampered by a shortage of military personnel. At optimum level, Kuwait's military will consist of approximately forty (40) thousand troops. Present strength is estimated at twenty (20) thousand in uniform.

The future trends of Kuwait's weapon systems procurement are to move towards higher technology equipment, due to the lack of manpower in the armed forces, and to adopt a more price-conscious purchasing policy as budget deficits persist.

It is also expected that future procurement of weapons will undergo tougher scrutiny on cost, financing and technical grounds by both the Ministry of Finance, which is responsible for allocating funds, and by the elected Parliament, which is responsible for examining Government expenditures. This trend may yield restrictions on vendors similar to those found in the U.S. Foreign Corrupt Practices Act.

Defense Budget Information

The FY 96/97 proposed appropriation for the Ministry of Defense (MOD) is KD 459 million (approx. \$1.517 billion) to cover routine operations. The categories of the budget are outlined in the following chart:



The Ministry of Finance budget also includes a supplementary Defense Enhancement budget of KD 400 million (\$1.32 billion) for FY 96/97. Therefore, the Kuwait Defense budget has two separate items. Established in 1992, the Defense Enhancement budget is funded at US\$ 10.5 billion. These funds are to be spent over 10 years on major equipment and strategic military purchases.

A Military Procurement Committee was formed in 1994 with members from the Ministries of Finance and Defense. The MOD officials negotiate the technical aspects of the armaments, and the Ministry of Finance officials review tenders and negotiate prices.

Traditional Suppliers of Defense Equipment

Kuwait has no domestic defense production firms. Consequently, the MOD relies on many foreign firms to meet its defense needs.

The traditional suppliers of defense equipment to Kuwait are listed below.

U.S.:	AAI	Environmental Chemical Corporation
	AM General	General Atomics
	Argosystems	General Dynamics
	BMY	General Electric
	Colt	Harris Communications
	Development Sciences, Inc.	Intergraph
	Dyncorp	Hughes Aircraft
	EDS	ITT
	E-Systems	

	Kay And Associates		Lurssen Werft
	Litton Ingalls		Mercedes
	Lockheed Martin		Siemens
	McDonnell Douglas		
	Olin Ordnance	Hungary:	Technika
	Oshkosh		
	Raytheon	Italy:	Alenia
	Rockwell International		Fincantieri
	Sikorsky		Otomelata
	T-Com		
	Teledyne Industries	Netherlands:	Royal Schelde
	Textron		Shipbuilding
	United Defense		
	Westinghouse	Norway:	Norconsult
Austria:	Steyr	Russia:	Rosvoorouzhenie
			Smersh
Canada:	CAE Link		
	CMC	Sweden:	Ericsson
	GM Diesel Corporation		Volvo
	Western Star		
Europe:	MIC Consortium	U.K.:	British Aerospace
			GEC Marconi
France:	Aerospatiale		GKN Defense
	Chantiers Maritimes de		Huntington
	Normandie (CMN)		MOAG
	DCI		Shorts Brothers
	Eurocopter		VSEC
	Matra		Vickers
	Thomson CSF		Vosper Thornycroft
			Yarrow Shipbuilding Ltd.
Germany:	Blohm and Voss		
	Faun		

Defense Opportunities

In 1995-96, MOD will take delivery of substantial amounts of military equipment and it is soliciting qualified companies to perform contract logistic support (CLS) services. To date, one contractor has been selected to provide CLS services for the M1A2 Tank at a cost of \$31.9 million over four years. Other CLS contracts likely to be awarded in 1995/96 are for support to the Warrior Tank Support Vehicle, the Patriot Missile Defense System, the F-18 Aircraft, and possibly an attack helicopter.

New Systems/Major Platforms

Major defense trade opportunities exist in the MOD at the Ministry level, as well as in Kuwait's Land Forces, Air Force, and Navy. Most of the larger sales are handled through the U.S. Government's Foreign Military Sales (FMS) program, while the smaller sales tend to be procured on a commercial basis. At the MOD level, opportunities exist in the areas of information technology, specifically command and control systems integration, and medical hospital management and equipment upgrades.

In the Kuwait Land Forces (KLF), opportunities exist for American firms to supply trucks, artillery, and light armored vehicles; to remove and/or refurbish ordnance; to refurbish artillery; to integrate command and control systems; and to maintain tanks, trucks and other KLF vehicles. Within the Kuwait Air Force (KAF), opportunities exist for American firms to supply helicopters and unmanned aerial vehicles; to maintain fighter aircraft; and to integrate command and control systems.

In the Kuwait Naval Forces (KNF), opportunities exist for American firms to supply ships, electronic combat systems, missiles, and to integrate command and control systems.

Outlined below is a list of the Kuwait MOD's potential major defense projects.

POTENTIAL DEFENSE PROGRAMS		
<i>Military Service</i>	<i>Project</i>	<i>Cost</i>
Ministry of Defense	JOC System Integration	\$500M
Air Force	Attack Helicopters	\$600M
Air Force	Utility Helicopters	\$500M
Air Force	Missiles	\$250M
Land Force	10 4 ton Military Trucks	\$100M
Land Force	5 Ton Trucks	\$200M
Navy	Offshore Missile Vessels	\$1B
Navy	Minesweepers	\$300M
Navy	Naval Surveillance Aircraft	\$300M

In addition to the projects listed above, the Government of Kuwait (GOK) has recently decided to enlarge its National Guard and to increase the National Guard budget, which is

expected to create opportunities for U.S. suppliers of armored personnel carriers and other material.

Defense Procurement Process

With the exception of FMS sales, all major procurements are done on a commercial basis. For commercial purchases above KD 5,000 (\$17,000), Kuwait uses a competitive selection (tender) process. This process requires vendors to respond to an invitation for bids, submit a bid package, and comply with a schedule and formal contracting rules and specifications. This process, however, does not apply to strategic military purchases which are handled through the Military Procurement Committee. Price and satisfaction of MOD technical requirements are important factors in MOD's evaluation process. Information on financing, including the vendor's use of export credit financing, is also required.

MOD has several internal committees that are responsible for the technical evaluation of bids. The Assistant Undersecretary of Defense for External Supply is responsible for the administrative aspects of purchasing military equipment and services. The majority of defense procurements are done on a government-to-government basis, but a substantial number of procurements are done commercially.

The MOD prohibits the payment of commissions to defense agents. Agents, however, may charge U.S. suppliers set fees for specified services, as long as the amount of the fees does not vary with the size of the sale. U.S. companies have found it practical and convenient to have a local agent/representative provide them with market intelligence and take care of necessary formalities in the procurement process. Tenders, bidders' conferences, awards and re-tenders are announced in the Official Gazette of the Government of Kuwait (Al Kuwait Al Youm), which is available in English translations.

Barriers to U.S. Firms

While U.S. defense firms may have an edge over other companies due to their role in the Gulf War, they face certain local commercial barriers that tend to hinder their operations in Kuwait. The following are examples:

- Protracted government procurement process
- Lack of a double tax treaty with the U.S.
- Lower margins due to offset requirements
- Restrictive immigration and labor laws

Lack of financing of U.S. military exports by the U.S. Eximbank is another major barrier for U.S. companies. Most foreign competitors offer defense export financing for all or some of their products through their national export credit agencies. The Ministry of Finance (MOF) has been recently appointed as the distributor of funds to MOD suppliers.

Listed below are the procurement agencies and decision-makers involved in the defense acquisition process:

Ministry of Defense

Minister: H.E. Sheikh Ahmed Homoud Al Sabah

Undersecretary: Dr. Homoud Al Otaibi

P.O.Box 1170, Safat

Kuwait 13012

Ministry of Finance

Minister: H.E. Mr. Naser A. Al Rodhan

Undersecretary: Mr. Abdul-Mohsen Al Hunaif

P.O.Box 55, Safat

Kuwait 13001

Military Procurement Committee

Chairman: Mr. Fawzi Al-Qassar

Assistant Undersecretary, Ministry of Finance

P.O.Box 55, Safat

Kuwait 13001

Diversification/Commercial Opportunities

The Kuwait market offers a wide variety of commercial opportunities for U.S. firms. The following is a brief description of industry sectors that are “best prospects” for U.S. exporters.

Law Enforcement Equipment

U.S. suppliers of law enforcement equipment have a \$100 million market in near term projects like the border security program and the Shuaiba Industrial Area. In addition, the Directorate General of Civil Aviation plans an extensive security system for the Kuwait International Airport. The Ministry of Interior proposes to place all banks and ministries under a central alarm system. The Ministry of Interior also plans to offer greater protection to ministers and other VIPs. This would include providing them armored vehicles, emergency signaling devices, and personal body protection accessories.

Commercial Aircraft and Aviation Equipment

Opportunities exist for U.S. suppliers of commercial aircraft and aviation equipment. While Airbus has supplied the bulk of Kuwait Airways' fleet of planes, Kuwait Airways recently procured two Boeing 777's. This opened a \$30 million market for suppliers of aircraft parts and support equipment such as airplane engines, communications equipment, radars, etc.

Airport and Ground Support Equipment

Kuwait also has an \$80 million market for airport and ground support equipment. The GOK's Directorate General of Civil Aviation has a master plan prepared by NAACO of the Netherlands to expand the existing airport to accommodate more traffic and passengers. This major project will require various types of equipment, including navigational instruments, radars and conveyors.

Medical/Diagnostic Equipment

The market for medical/diagnostic equipment is estimated at \$50 million. The GOK is planning to expand its medical services by replacing, upgrading, and modernizing its existing medical facilities and equipment. The Ministry of Public Health is planning to purchase over 20 ambulances, anesthesia equipment, infusion pumps and other diagnostic equipment. The Government's plan to privatize the public health care sector will give U.S. medical/diagnostic equipment suppliers and hospital management companies numerous new business opportunities.

Environmental Equipment

Environmental equipment suppliers can expect increased opportunities as the Kuwait Government continues an intensive campaign to clean up Kuwait, sponsored by the official Kuwait Environmental Action Team (KEAT), a partnership of government agencies and the private sector. In addition to strengthening laws to protect the environment, KEAT is responsible for cleaning up the remaining oil lakes of the Gulf war and assessing the environmental impact of major projects.

Recycling Equipment

The Kuwait Institute for Scientific Research (KISR) is also planning to upgrade Kuwait's environment through various projects such as the recycling of sewage, paper, waste products, and materials. Projects such as these should open up new opportunities for U.S. companies specialized in these fields.

Oil and Gas Field Machinery and Service

The oil and gas sector grew very rapidly in the past year. Both the state-owned Kuwait Oil Co. and Kuwait National Petroleum Co. embarked on major expansion programs. The planned construction of projects like the petrochemicals complex, gathering centers, pipelines, refinery upgrades, the drilling of oil wells, and the rebuilding of storage tanks open many opportunities for American goods and services. In addition, the petrochemicals joint venture between the Petrochemicals Industries Co. and Union Carbide will create opportunities for the construction of plastics and specialty chemical downstream industries.

Computers and Peripherals

Many major American computer firms are present in the Kuwait market and account for about 90 percent of the total imports of mainframes, minicomputers, microcomputers and data communications equipment. U.S. image processing systems are gaining wider acceptance. Several upcoming major projects will create an excellent potential market for U.S. computer equipment.

Computer Software

The U.S. firm Microsoft dominates the market. The following types of applications software would sell well in Kuwait: Image processing systems, banking, insurance, hospital management, computer networking, education, training, design support, graphic design, and business solutions. U.S. firms should assess their prospects in this market carefully as there is presently no copyright law in Kuwait.

Automotive Parts and Service Equipment

Demand for automobile spare parts and service equipment will likely continue to be high due to the tough weather conditions, poor after-sales service, and high accident rate. New car sales increase by 30,000-37,000 annually. U.S.- made cars have the majority share of this market. GM, Ford, and Chrysler (including Jeep) are represented locally. Japanese and European motor companies are also present. While genuine spare parts are favored, spare parts are widely available.

Telecommunications

The Ministry of Communications (MOC) provides almost all communications services to subscribers through 32 exchanges, 26 of which are fully digital. The Ministry needs \$11 million to install 70,000 new telephone lines. Several international companies such as AT&T, GPT (British), Alcatel (French), Fujitsu (Japanese), and Ericsson (Swedish) provide switches, though Ericsson traditionally dominates the market. Ministry plans include an integrated services digital network (ISDN), but this has been postponed due to low demand. MOC provides ten services including: call transfer, call forwarding, disconnecting the international dialing number, conference calls, call-waiting, hot line service, and status of outstanding bills. The building of tens of thousands of housing units in the next few years will increase the demand for telecommunications services. There are plans to build two new satellite earth stations, but these are on hold due to budgetary restraints. The Mobile Telecommunications Company (MTC) provides mobile telephone services to over 70,000 subscribers, and paging services to over 110,000 subscribers.

Scientific Laboratory Instruments

The existing public and private hospitals, private laboratories, Kuwait University, and Kuwait Institute for Scientific Research form a good market for scientific laboratory instruments. Although the 1995 figures indicate a decline in imports, a 5 percent increase is expected in 1996 because of plans for new private hospitals.

Key Ministries for Commercial Product Areas

Major business opportunities exist in Kuwait's large public sector procurements administered by entities such as the following:

Directorate of Civil Aviation P.O.Box 17, Safat 13001 Kuwait Tel.: (965) 431-0269 Fax.: (965) 471-0535	13001 Kuwait Tel.: (965) 489-6000 Fax.: (965) 489-7484
Kuwait Airways Corporation P.O.Box 394, Safat 13073 Kuwait Tel.: (965) 242-2493 Fax.: (965) 243-4906	Ministry of Interior P.O.Box 11, Safat 13001 Kuwait Tel.: (965) 255 5933 Fax.: (965) 252 3228
Kuwait National Petroleum Co. P.O.Box 70, Safat 13001 Kuwait Tel.: (965) 242-0120 Fax.: (965) 243-3839	Ministry of Oil P.O. Box 5077, Safat 22795 Kuwait Tel.: (965) 241-5201 Fax.: (965) 241-7088
Kuwait Oil Company P.O.Box 9758, Ahmadi 61008 Kuwait Tel.: (965) 398-3661 Fax.: (965) 398-4111	Ministry of Public Health P.O.Box 5, Safat 13001 Kuwait Tel.: (965) 476-2385 Fax.: (965) 241-9313
Kuwait Petroleum Corporation P.O.Box 26565, Safat 13126 Kuwait Tel.: (965) 245-5455 Fax.: (965) 242-3371	Ministry of Public Works P.O. Box 8, Safat 13001 Kuwait Tel.: (965) 244-9301 Fax.: (965) 242-8362
Ministry of Communications P.O.Box 318, Safat 13004 Kuwait Tel.: (965) 481-9033 Fax.: (965) 484-7058	Petrochemical Industries Co. P.O. Box 1084, Safat 13011 Kuwait Tel.: (965) 242-2141 Fax.: (965) 240-5791
Ministry of Electricity and Water P.O.Box 12, Safat	Public authority for Housing Care P.O.Box 23385, Safat 13094 Kuwait Tel.: (965) 433-0055 Fax.: (965) 431-9121

Doing Business in Kuwait

Visiting U.S. businessmen have no communication problems with their Kuwait counterparts as English is widely spoken and many Kuwaitis have been educated abroad. Government hours are from 8:00 a.m. to 2:00 p.m. five days a week (Saturday through Wednesday).

Private companies work six days a week (Saturday through Thursday). Some companies work from 8:00 a.m. to 5:00 p.m.; others work from 8:00 a.m. to 12:00 p.m. and from 4:30 p.m. to 8:30 p.m. On Thursdays, companies work from 8:00 a.m. to 1:00 p.m.

Trade Regulations

A U.S. defense contractor may sell directly to MOD. MOD discourages suppliers from using agents and prohibits the payment of commissions to agents.

MOD'S practice of not permitting agents contrasts sharply with the rest of public procurement in Kuwait, which requires agents to represent foreign suppliers. The Commercial Law No. 36 of 1964, as amended by the Commercial Law No. 68 of 1980, regulates commercial agency agreements. This law provides that foreign companies wishing to sell to any ministry (except MOD in practice) without setting up a Kuwait registered legal entity may only do so through a Kuwait national agent if the value of the sale exceeds KD 5,000 (\$17,000).

The above law covers the following:

- Commercial agents who undertake to promote a product/service for a company, negotiate deals on the principal's behalf, conclude such deals and carry them out.
- Distributors that promote, import, stock, and distribute the principal's products in the distributor's own name.
- Service agents or sponsors for foreign companies that intend to carry out government contract work as per Article 24 of Commerce Law No. 68/1980.

Tariffs in Kuwait do not inhibit the sale of U.S. or other foreign defense exports because they are very low - only 4% in most cases. Tariffs are not expected to increase beyond the 8% level recently agreed to within the Gulf Cooperation Council (GCC) because there is no defense manufacturing industry in Kuwait seeking protection from foreign competition.

Requirements for Import Licenses, End-Use Certification

Importers do not need an import license for each product to be imported or for each shipment. An importer does, however, need to obtain an annual import license from the Ministry of Commerce and Industry which authorizes the import, on a multiple-entry basis, of any amounts of goods from any country during its one-year term. To obtain this license, importing companies must fulfill the following conditions:

- They must be registered in the Commercial Section at the Ministry of Commerce and Industry, as well as with the Kuwait Chamber of Commerce and Industry.
- The Kuwait Shareholding in the capital of the company must be at least 51%.

A special import license from the Ministry of Interior is required to import certain kinds of goods, such as firearms and explosives.

Kuwait military authorities are willing to sign U.S. end-use certificates.

Technology Transfer Regulations

Kuwait does not require U.S. companies to transfer technology to Kuwait as a condition of purchase, although this issue may come up in negotiations of offset benefits. Kuwait welcomes co-production with U.S. suppliers.

Intellectual Property Rights

Kuwait is not currently a member of any international intellectual property rights convention, but it does have laws providing some patent, copyright, and trademark protection. These laws are not actively enforced, except for spot customs checks for imitation or counterfeit goods and/or goods bearing infringing trademarks.

Intellectual property rights protection remains extremely lax in Kuwait. Kuwait is not a party to any worldwide conventions for the protection of intellectual property rights. While it has had patent and trademark laws since 1962, the penalties are so low (a maximum fine of \$2,100) as to be ineffective in deterring illegal activities. The GOK is currently in the process of drafting new IPR laws.

Kuwait's patent law excludes certain chemical inventions involving food, pharmaceuticals and medicines and offers a term of protection of only fifteen rather than 20 years. Patent laws in Kuwait are under official review. Current laws do not meet currently accepted international standards. Kuwait has been a member of the GATT since 1963 and has signed the World Trade Organization agreement.

U.S. Government Points of Contact

Listed below are useful points of contact for U.S. firms interested in the Kuwait market.

United States and Foreign Commercial Service

Commercial Counselor: Mr. Johnny Brown
Embassy of the United States of America
Tel.: (965) 539-5307/8, ext. 2392/2430
Fax.: (965) 538-0281
Unit 69000, Box 10
APO AE 09880-9000

Office of Military Cooperation, Kuwait

Commander: Brigadier General Stephen Rippe
Embassy of the United States of America
Tel.: (965) 539-5307/8, ext. 2558
Fax.: (965) 539-0974
Unit 69000, Box-13
APO AE 09880-9000

American Business Council - Kuwait

President: Mr. Bill Ennenbach
P.O.Box 29992, Safat
13159 Kuwait
Tel.: (965) 243-0718
Fax.: (965) 240-9450