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Despite its ups and downs, the overall GCC transformers market is still a large demand centre for both power and distribution transformers

ABSTRACT

GCC market has been having its ups and downs in the last few years. What used to be one of the most attractive T&D equipment markets might be losing its high place in the eyes of international manufacturers. A big part of it has to do with the region's dependency on oil revenues, which, in the last few years, have not been stable, owing to the lower oil prices. Infrastructure consumption has reduced significantly over the years with austerity measures in place. In addition to this, the overall geopolitical situation in the Middle-East region has had its toll on the GCC markets, making it difficult for international manufacturers to do business in the rest of the region using GCC countries as a regional base.

KEYWORDS

COVID-19, distribution transformers, future trends, GCC, Gulf countries, market overview, power transformers

GCC transformers market

Is the region still an attractive market for manufacturers?

GCC market has been having its ups and downs in the last few years. What used to be one of the most attractive T&D equipment markets might be losing its

high place in the eyes of international manufacturers. A big part of it has to do with the region's dependency on oil revenues, which have not been stable in the



last few years owing to lower oil prices. Infrastructure consumption has reduced significantly over the years with austerity measures in place. In addition to this, the overall geopolitical situation in the Middle East region has taken its toll on the GCC markets, making it difficult for international manufacturers to do business in the rest of the region using GCC countries as a regional base.

Changes in the regional market

The situation is expected to ease up a little with infrastructure projects coming back

online again in lieu of the mega projects in the region. Against the backdrop of these developments, it is important to note that GCC market has been undergoing the following changes.

Local content requirements

Countries in the GCC, especially Saudi Arabia, are trying to encourage foreign companies to participate actively in the

Local distribution transformer suppliers are leading the market, whereas, due to limited power transformer manufacturing, foreign players with no local manufacturing hold a higher share of the market

Current megaprojects, coupled with large power generation projects in UAE, Oman, Saudi Arabia, and some petrochemical projects will contribute to a stable transformers demand at least for the next few years

local economy. Frameworks like Saudization, vision 2030 local content, and UAE's ADLC / ICV have been in place encouraging local production.

Manufacturers operating in the region now need to have local production, local partnerships, and local workforce to be able to do business in the region. And this is true not only for utilities but also for the state-owned oil and gas companies like Saudi Aramco, ADNOC, and Kuwait Petroleum, which are also large buyers of transformers. These programs do not necessarily mean that foreign businesses with no local presence cannot do business in these countries. It means they have a disadvantage in bid evalua-

tions ranging from 10 % upwards in the score.

Companies must rethink their approach in terms of local content if they want to continue having a presence in the region. Today it practically means that in the transformers business, local distribution transformer suppliers are leading the market, whereas, due to limited power transformer manufacturing, foreign players with no local manufacturing have a higher share of the market as well.

Funding problems due to oil prices

Unstable oil and gas prices play a huge role in infrastructure development. Starting in

2015, oil prices have been significantly lower due to decreased oil revenues and hence lower investments. More recently, the Russia – OPEC+ agreement has been signed, leading to a slight improvement in the prices, but overall revenues remain low. This has impacted the regional investments in the power grid sector too, with even large buyers such as the Saudi electric company not placing orders as large as before.

Infrastructure projects reviving slowly

Despite the oil prices fluctuating, there is an increasing focus from the Gulf states to create alternate sources of revenue in addition to oil, which will lead to infrastructure consumption. However, this is primarily due to mega projects like NEOM, King Abdullah Economic City, Expo 2020, and other large initiatives to promote the tourism and services sector in the region. These megaprojects, coupled with large power generation projects in UAE, Oman, Saudi Arabia, and some petrochemical projects (e.g., ADNOC-OMV-ENI) will contribute to a stable

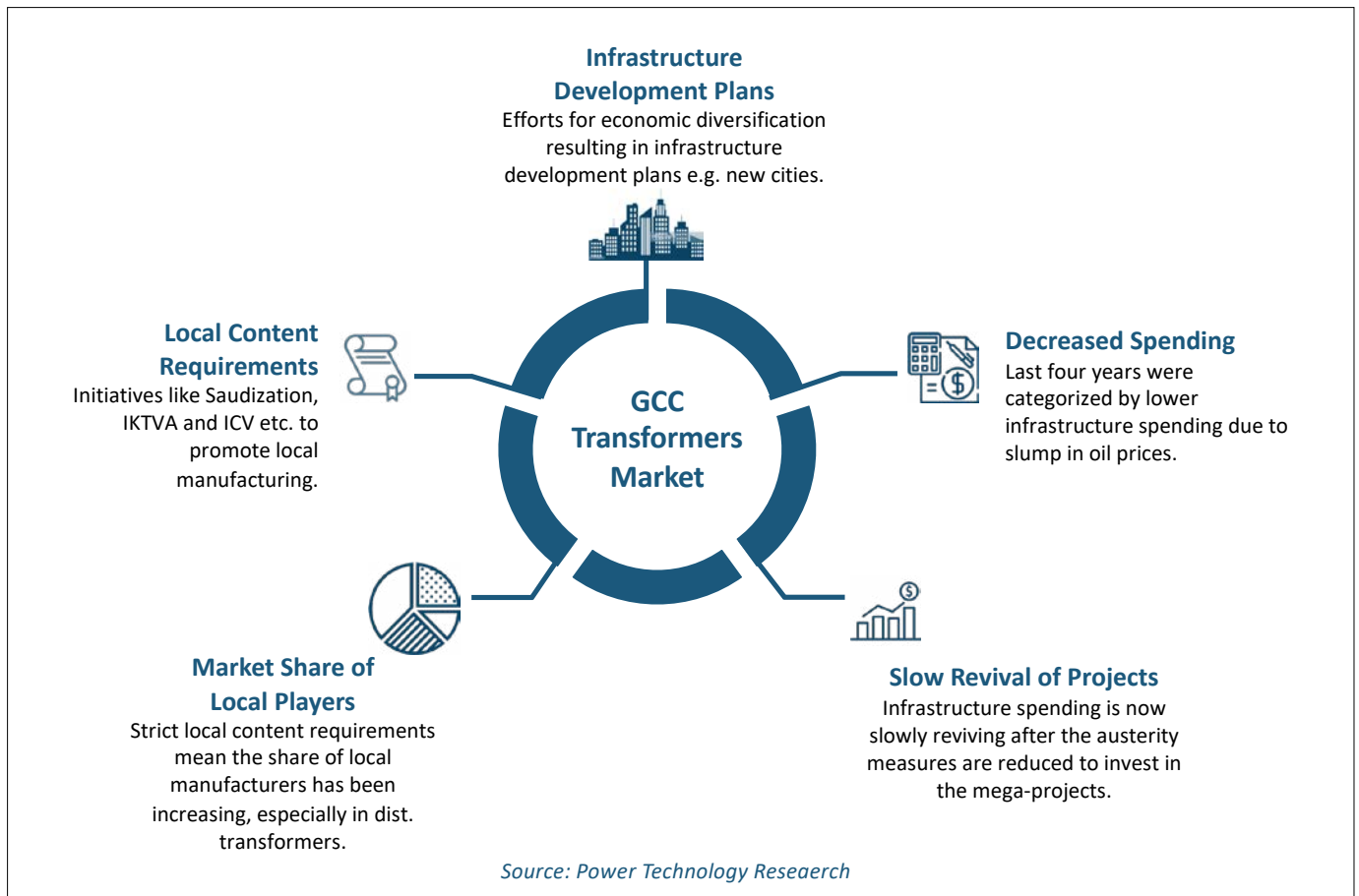


Figure 1. GCC transformers market specifics [1-2]

transformers demand at least in the next few years.

GCC transformers market specifics

Market size

Despite its ups and downs, the overall GCC transformers market is still a large demand centre for both power and distribution transformers. In 2019, the total demand for transformers in the region reached around \$1.17 B. A big portion of this demand came from power generations and infrastructure segments, followed by oil and gas. Contrary to the usual, in 2019, UAE was the largest transformer market with Saudi Arabia as the close second followed by Oman.

However, looking at the last 5 years (2016 – 2020) the market was led by Saudi Arabia followed by UAE, Qatar, Oman, Kuwait, and Bahrain, respectively.

Table 1. GCC transformers market - country market ranking by size [1-2]

Country ranking by market size (2016 – 2020)	
1.	Saudi Arabia
2.	UAE
3.	Qatar
4.	Oman
5.	Kuwait
6.	Bahrain

Supply - side: Key players

In GCC, the transformers market from a supplier category can be segmented into power and distribution transformers. A major chunk of distribution transformers market is served by local manufacturers, especially in Saudi Arabia or by foreign manufacturers with local manufacturing or local partnerships. However, the picture is quite different for power transformers. Limited local manufacturing (e.g., SPTC in Saudi Arabia) means the market is dominated by foreign suppliers.

The overall GCC transformers market is still a large demand centre for both power and distribution transformers with the total demand for transformers in the region reaching around \$1.17 B in 2019

Tables 2 and 3 show the top five distribution transformer and power transformer suppliers in the GCC region in the order of their market position.

Table 2. Distribution transformer supplier positioning (GCC) [2]

Distribution transformers	
1.	Hitachi ABB Power Grids
2.	Saudi Transformers Company (STC)
3.	Alfanar
4.	Siemens
5.	Schneider Electric
6.	Bahrain

Table 3. Power transformer supplier positioning (GCC) [1]

Power transformers	
1.	Hyundai HI
2.	Hyosung
3.	Hitachi ABB Power Grids
4.	Siemens
5.	SPTC

Key drivers of demand in the GCC market

Looking at the main drivers of the market, the following are the three main drivers of transformer demand in the region:

1. The efforts towards diversification of the economy to increase non-oil revenues are one of the big reasons for investment in the infrastructure. This leads to new transformers demand from commercial and industrial projects.
2. Power generation projects to cater to the regional electricity demand along with large renewable development plans are also a big contributor to the GCC transformers market.
3. Large projects in the petrochemical sector, e.g., Duqm Refinery and Petrochemical complex in Oman, and ADNOC-OMV-ENI Joint Venture Refinery in Ruwais, are also contributing to the transformers demand leading to a growth in the transformers market.

Saudi Arabia's transformers market

Focusing on the largest market in the GCC region, Saudi Arabia is still one of the highly attractive markets not only in GCC but also in the MENA region, too. Moving forward, it is expected to still stay the largest demand centre for transformers. Major drivers of growth are:

- High tech NEOM City, Qiddiya entertainment city (worth \$8 B), and the Red Sea project are some of the large infrastructure projects planned under

The key drivers of transformer demand are infrastructure projects, power generation projects, and large projects in the petrochemical sector

Saudi Arabian policy is to give 10 % advantage to the local product manufacturers compared to foreign manufacturers in order to encourage the local production and suppliers

Vision 2030 economic diversification program which will drive the market of transformers in the Kingdom.

- Historically, Saudi Arabia has relied on crude oil to fuel its electricity needs, but with the Kingdom's plans to move from its dependence on oil resources, for the first time in the history of KSA, large renewable energy projects are planned under Vision 2030 to achieve 27.3 GW of clean energy by 2024, which will, in turn, lead to transformers demand.
- To accommodate this injection of power into the system, a lot of greenfield investments are planned by Saudi Electric Company (SEC) to expand T&D infrastructure in the future years.

Another important element of the Saudi Arabian market is the local content guidelines. Saudi Arabia has some of the strictest local content requirements in the region to encourage foreign companies to participate actively in the development of local economy and workforce (Saudization) in addition to the Kingdom's goal of promoting local companies into becoming regional entities. The Kingdom's Vision 2030 program goal is to localise 70 % of the procurement and services by 2021. Looking at the two major transformers buyers in the country for their specific local content programs:

Saudi Aramco

In 2015, the world's largest oil company introduced the IKTVA (In Kingdom Total Value Add) programme promoting localisation. According to this program, in addition to the technical compliance and low cost, IKTVA score will also be a deciding factor in evaluating suppliers.

Saudi Electric Company (SEC)

In addition to having a pre-approved list of suppliers, SEC incorporates local content in bid evaluation. During bid eval-

uation, among the qualifying suppliers based on technical features, locally produced products are given a 10 % advantage compared to foreign products, favouring the evaluation for local suppliers.

COVID-19 impact and beyond

COVID-19 situation has adversely affected the GCC market in two ways. First, the demand for transformers was decreased, especially in Q2, with demand shifting to Q4 and onwards. Second, disruption in the supply chain as it has been difficult for local manufacturers to import raw materials and components on time, resulting in longer lead times and fulfilment delays. The situation has eased up a little as the main component / raw material supply factories in China and India are slowly coming back online operating on higher capacity. Local projects are also coming back online with order in-take becoming better. However, despite this short-term recovery from COVID-19's effect, the big question remains: Would

GCC still be an attractive market in the future as it used to be, beyond the current megaprojects?

With local content requirements increasing in time, the geopolitical situation is changing, foreign manufacturers, especially those in the west, are reluctant to heavily invest in the power grid business in the region. A little promise of returns from the rest of the MENA region might not be enough for the manufacturers to consider the region as the base for a larger market, maybe for software solutions business.

Today, however, there is still a decent demand to be fulfilled in the region for the next couple of years. Moving forward, the success of these mega projects in shifting the dependence of the GCC economy on oil revenues will decide how attractive the market is for both local and foreign manufacturers.

Bibliography

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- [2] Distribution Transformers Market Research, Power Technology Research, 2020, <https://powertechresearch.com/services/grid/distribution-transformers>

Despite recent recoveries, COVID-19 has negatively influenced the market and supply chains, but the question that remains is, will the GCC still be an attractive market in the future as it used to be before?

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