The strategic importance of the Arabian Peninsula and the Persian Gulf area seldom waned for Western as well as Asian Powers throughout the centuries. In fact, the region has been an ideal crossroads for trade among countries of the Mediterranean basin and Asia for several millennia. From the Greek navigator Hippalus, who first developed a direct sea route from Arabia to India during the first century B.C., to the lucrative commercial relations established with China under the ‘Ummayads’ (661–750 A.D.), the Persian Gulf region gained importance in trade and commerce.1

Geopolitical considerations took on an air of importance with the discovery of petroleum in the Gulf at the turn of the 20th century, which tied the region’s fate to that of the oil-thirsty and rapidly expanding economic powers in Europe, as well as the Americas. In fact, developments in world energy markets after 1971 indicated that the Persian Gulf area was certain to command a major share of international attention well into the next century, which proved to be accurate even if highly contentious. The USA and the Soviet Union as well as a myriad of other states, both industrialized and less developed, considered the Persian Gulf’s natural resources indispensable to their economic well-being, and in some instances their survival. After 1973, the region’s strategic importance increased sharply, following serious disruptions that resulted in price increases levied by the Organization of the Petroleum Exporting Countries (OPEC) and the oil embargo imposed by the Organization of the Arab Petroleum Exporting Countries (OAPEC) in October of that year. Consequently, the world trade in petroleum was subjected to periodic fluctuations, as the Gulf recorded the 1979 Islamic Revolution in Iran, the 1980–88 Iran-Iraq war, the 1990 Iraqi invasion and occupation of Kuwait, the 1991 US-led, UN-sanctioned liberation of the Shaykhdom, the decade-long UN-imposed economic embargo on Iraq, the 2001 US war for Afghanistan and the 2003 US war for Iraq. Although a variety of reasons caused these conflicts that, in turn, generated undeniable consequences, oil was the single most important constant that motivated actions and reactions.

Saudi Arabia stood steadfast throughout the decades as it shepherded periodic price increases, particularly those of 1973, 1979, and 2001, which temporarily stabilized energy markets and momentarily strengthened OPEC’s bargaining posture. As oil producing countries experienced major swings ranging from the 1982 oil glut that mired the oil industry in a deep crisis, to more recent price increases that altered the oil balance of power, Saudi Arabia remained the critical
anchor that stabilized markets. By virtue of its immense holdings and an unparalleled capability
to increase production at will, the Kingdom of Saudi Arabia earned its unique and privileged
position as a stable energy producer, a trend destined to endure for the foreseeable future.

**OAPEC and the 1973 oil revolution**

From 1 January 1973 to 31 December 1974 a total of 17 oil price increases were recorded as the
price of Arabian light marker crude jumped from $2.00 a barrel to $10.46. These successive
increases brought about a worldwide reduction in petroleum consumption resulting in a leveling
out of Middle East oil production in 1974 and an actual decrease in 1975. Between 1975 and
1977, several OPEC member-states, led by Iran, pressed for higher prices, citing deteriorating
revenues due to worldwide inflation. At the height of extensive debates, Saudi Arabia and the
United Arab Emirates (UAE) led the more moderate position that called for lower future
increases, which proved a failed attempt. A compromise solution was adopted at the 1976 OPEC
meeting in Doha, Qatar, whereby Saudi Arabia and the UAE agreed to raise their prices by 5% on 1 January 1977, whereas the other 11 OPEC
member states planned to raise theirs by about 10%. This was one of the most contentious
OPEC gatherings in the organization’s history, as major differences on pricing and production
were aired, both in private debates as well as public prognostications. It was after this controversial
crime of Saudi Arabia, for example, decided to abandon its self-imposed 8.5mbpd limit on
production and decided to produce at maximum capacity—approximately 10mbpd—as a
countermove to the more adamant positions.

At the time, other OPEC producers threatened to further raise the price of their crude
production, although an agreement was reached to adopt a price adjustment with Saudi Arabia
and the UAE standing firm to a 5% increase. In the event, the Doha meeting demonstrated
that Saudi Arabia was ready and willing to forego certain organizational principles to protect
its perceived long-term interests, including favored relationships with key consuming states.
Still, notwithstanding these political manoeuvres, actual oil prices declined between 1974 and
1978, when measured in constant dollars, something that concerned decision-makers in the
kingdom.

Even if OPEC member states unilaterally assumed control of their natural resources, which
marked the beginning of a consolidation process that continued to unfold ever since, the 1973
“oil revolution” empowered Saudi Arabia more than any other oil producer. Riyadh was giddy
but cautious for despite the legal restoration of hydrocarbon resources to exporting states, which
stood as a major historical change between industrialized and developing countries, the process
fell far short of providing economic security to producers. Saudi Arabia was aware that its bar-
gaining power was systematically curtailed by a myriad of political forces that harbored little
more than perpetual control. Riyadh’s long-sought economic security was rejected as long as
Saudi Arabia remained a mere residual supplier of a “single” raw material, dependent on
importing refined products ranging from food to gasoline, all of which planted the seeds for
diversification in the petrochemical industries.

Indeed, the one-way dependence was unacceptable to Saudi Arabia, where decision-makers
quickly assessed their dire situation. Consequently, and much like the industrialized countries a
century earlier, Riyadh opted to go “downstream” and embarked on the refining, marketing,
transportation, and distribution of petroleum sectors. A rapid pace was adopted for the con-
struction of refineries within the kingdom, which were quickly supplemented by petrochem-
ical, gas, and fertilizer plants, certainly all novelties for the period. While industrial development
slowed down in 1983 after world oil price drops, the long-term outlook for “downstream”
industries in the Gulf remained promising. It was important, however, to note that these advances were not accomplished without sacrifice, and that many of the technical advances registered in the area were due to OAPEC’s concerted efforts to promote industrialization. OAPEC drew worldwide recognition after the 1973 oil embargo and its contribution to the economic development of the region was not unnoticed. Indeed, OAPEC’s economic policies after 1968, and its political decisions in 1973, were responsible for the coming of age of the oil producers, particularly those in the swing group (Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates), which represented a major change in the power relationship between consuming and producing countries. By most accounts, oil-exporting countries headed by Saudi Arabia, earned the reputation for being “regarded as major independent actors in world affairs by all the industrialized nations, including the United States.” This recent phenomenon, when contrasted with the relationship existing between 1908 and 1973, clearly indicated that the power and responsibility of the oil producers improved dramatically. Simultaneously, decisions and actions adopted in the 1970s demonstrated how fragile the world economy was, and highlighted OAPEC’s vulnerability to outside pressures, particularly when the results of the oil embargo were taken into account. Indeed, it may be accurate to conclude that the impact of the embargo was certainly felt in industrialized countries, without, however, altering the political balance in the Middle East. With long-term commitments to Israel’s security, the USA did not alter its policies even if logic dictated that Washington make necessary adjustments. That is not to say that a certain impact was not recorded for enough evidence emerged over the years that the oil embargo, and the simultaneous price increases, permanently altered global financial markets that resulted in the largest transfer of financial resources in recorded history. Under the circumstances, and to better understand the nascent oil power of Saudi Arabia, it was critical to ask what were the effects of the oil crunch on industrialized countries and how existing economic relationships between producers and consumers developed in the interim.

**Supply and demand concerns**

Throughout the 1970s and 1980s, Western economies experienced sharp economic slow-downs, which resulted in steady declines in the demand for petroleum products. Reduced oil consumption in industrialized countries was amplified by constant conservation measures, as well as a partial shifting to alternative energy sources. These developments left a significant impact on OPEC in general and Persian Gulf producers in particular. With low Iranian and Iraqi production levels necessitated by the 1980–88 Iran–Iraq war, Saudi Arabia agreed to play what eventually became known as the role of a swing producer, adapting its production ceilings to market conditions. Thus, while in 1973 petroleum consumption for major non-Communist industrialized countries totaled 36.4bbpd, consumption in 1975 decreased to 33bbpd, only to jump back up to an all-time record of 37bbpd in 1979 following the short-lived yet strong worldwide economic recovery. Since 1979 and until the end of the century, worldwide consumption declined steadily and stabilized around the 31–32mbpd figure. According to the US Energy Information Administration, Organization for Economic Co-operation and Development (OECD) countries accounted for nearly two-thirds of worldwide daily oil consumption, whereas “oil demand in the OECD grew by some 11% over the 1991–97 period.” Demand “outside the OECD (excluding the former Soviet Union) grew by 35%,” with a critical caveat on the former Soviet Union as the collapse of the Russian economy led to a sharp decline in oil consumption of more than 50% over the 1991–98 period. World crude oil production between 2000 and 2009 oscillated between 76.0mbpd and 79.9mbpd, with a peak figure of 82mbpd in 2008, which was truly significant.
Demand for petroleum produced by OPEC was sharply reduced in 1979 following the major increases in the price of a barrel of crude oil from $13.4 on 1 January 1979 to $26.00 on 1 January 1980. Although successive price hikes severely shocked the world economy in 1979 and 1980, when consumption in non-communist industrialized countries was only 31mbpd, events in and around the Persian Gulf—the Iranian Revolution, the Makkah uprising, the Iran-Iraq War—underscored the vulnerability of the area. While Saudi Arabia’s critical role as the world’s premier oil producer was well established by the early 1980s, these crises highlighted its value and, more important, alerted everyone to existing vulnerabilities. With the world’s largest deposits located in the Middle East, which possessed approximately 43% of the world’s proven oil reserves in 1984—a percentage that crossed the 52% mark in 2009—Saudi Arabia, as the undisputed leader in the pack with one-quarter of global reserves, occupied a privileged position. In 2009 Saudi Arabia alone held 264bn barrels of proven oil reserves, which represented approximately 25% of the world’s total reserves, and 205 trillion cubic feet of proven gas reserves (4% of world gas holdings).

Still, while Gulf petroleum production accounted for one-quarter of the world’s total, local consumption was approximately 5.0% of world demand in 1983, and less than 10% in 2009. The Kingdom of Saudi Arabia alone produced 10.8mbpd of which only 2.4 were used locally. An estimated 8.4mbpd were exported each day in 2009. Moreover, and as various statistical databases confirmed, the bulk of OPEC consumption continued to be in the Gulf region where rapid industrialization was under way. Despite this rising trend, nevertheless, local consumption of petroleum products in oil-producing states, including Saudi Arabia, remained limited especially when compared with consumption in the rest of the world. Overall OPEC consumption increased from 374,500 barrels per day to 2,889,600 barrels per day between 1963 and 1983. By 2008 OPEC states’ total consumption rates reached 8mbpd, of which Saudi Arabia was the largest end user at 2.3–2.4mbpd.

Beyond these issues, economic recovery throughout the world increased demand for oil, with Mexico, the United Kingdom and Canada providing additional supplies. Indeed, non-industrialized non-OPEC production rose sharply from the mid-1980s until 2008. For all these additional resources, Mexican oil production, which with an estimated 200bn barrels in proven reserves was once hailed as a panacea for the USA, turned out to be excessively optimistic. While earlier projections for large Mexican reserves may yet materialize, it was critical to note that Mexico’s oil policies throughout the 1980s and 1990s were very conservative, with exports seldom exceeding internal consumption. In fact, Mexican internal consumption grew at the rate of 7–8% per year throughout this period, which required a large share of domestic production to be diverted for internal needs. OTA estimated that Mexican production would remain in the 3.5–5.5mbpd range in the year 2000, subject to government policy changes, which was spot on. Similarly, while North Sea oil production rose from 1.1mbpd in 1977 to 2.9mbpd in 1983, it peaked in 1999. Without denying the proven facts that Mexican and North Sea oil fields added significant resources to global supplies, accelerated production in Canada and, in the aftermath of the nascent Central Asia Republics that embarked on massive searches for black gold, they did not, individually or collectively, duplicate the Middle East in general and Saudi Arabia in particular. Simply stated, the only promising areas for large new discoveries outside the Middle East were located in remote regions of the globe such as the Arctic, or in areas involving territorial disputes, such as the Malvinas basin off the Falkland Islands, and the South China Sea. Production costs in remote regions of the world remained uneconomical but may be necessary in the not too distant future. What was certain in 2010 was that significant oil resources would still be harvested in the Gulf region, especially in Saudi Arabia.
Saudi Arabia’s oil policy

Saudi Arabia’s oil policy rested first on the kingdom’s “ability to vary rates of oil production from a low of about 5mbpd to 6mbpd, to a maximum of over 10mbpd.” In addition, while production levels were not permitted to dip too far below the 5mbpd figure for development needs, Saudi Arabia retained the flexibility to meet short-term revenue requirements by drawing on its large financial reserves, estimated to be over $1 trillion. In 1983 and 1984, however, Saudi production was reduced to approximately 2.5mbpd in an effort to support the $27 bench-mark agreed to by OPEC. Needless to say, this created a serious economic dilemma for the ruling Al Sa’ud family, whose major expenditures could only be met through large borrowings from domestic banks. Throughout the 1980s, Riyadh ran significant budgetary deficits, which necessitated severe austerity measures.

At the time, and as global prices collapsed, Riyadh agreed to reduce its output simply to maintain its political position within the oil organization, even though it was highly doubtful whether it would acquiesce to this role in the future. In fact, sacrificing for the sake of the organization’s long-term interests created serious problems as long as all OPEC producers, led by Iran, cheated on their agreed quotas.

The second leg of Saudi oil policy was its pricing strategy, which was to pursue gradual increases pacing world inflation rates. This professed option, however, was not implemented successfully, particularly in 1979 when OPEC pricing strategies were imposed on all member states.

The third and final leg of Saudi oil policy was its readiness to extend financial assistance to developing countries that dramatically improved its political outlook. Saudi development assistance in real dollar amounts was second only to that of the USA. Between 1975 and 1982, for example, over $34bn were transferred to developing countries, averaging 5.61% of the kingdom’s annual GNPs. During the same period, the USA transferred $44.67bn, averaging 0.24% of US annual GNP. In the 1990s, that is between 1990 and 1999, Riyadh allocated $206bn for official development assistance (ODA). An additional $132bn was disbursed between 2000 and 2006. ODA loans are often made on concessional terms but an added feature of Saudi assistance was the policy under which transfers were and are still made. For the most part, assistance tended to be either concessional or interest-free, reflecting very liberal terms. In fact, between 1975 and 1981 some 46% of the Saudi Fund’s assistance was on a grant basis, although some of these terms changed more recently. It was clear that Saudi Arabia’s motives for providing economic assistance to developing countries, both Arab or Islamic and non-Arab non-Islamic states, were and are based on the awareness that Less-Developed Countries suffered from colonialism, poverty, and illiteracy among other deprivations, and that the kingdom had a responsibility to assist these states. Naturally, Saudi Arabia hoped that in exchange, these developing countries would support the Arab position in various Middle East crises although this was never a condition.

Long before Saudi Arabia reached the $500bn annual GDP figure in 2010, which transformed this formerly desert outpost into a G-20 member, few appreciated its potential wealth. Indeed, it may still be difficult to grasp the kingdom’s overall affluence, which now included a vibrant private sector that may be responsible for an estimated 40% of GDP. The kingdom’s petroleum reserves were the largest anywhere in the world, with considerable potential additions yet to come, especially in the largely unexplored Rub’ al-Khali Desert along the Omani and Emirati borders. Less than a few decades ago, the country was relatively poor, and its population living in dire conditions. While pockets of poverty persisted in 2010, a large portion of the population was doing well, with steady income returns at all levels. As oil prices
increased, the kingdom and its population changed dramatically too, since Riyadh was thrust into the international energy arena. Indeed, Saudi Arabia’s unprecedented wealth and economic growth brought massive responsibilities and a range of regional and international problems, all of which were tackled with utmost care.

Oil was discovered faster than it was being extracted in Saudi Arabia despite large daily production levels. In 2010 production hovered around the 10mbpd figure, roughly the same level as the 9.5mbpd ceiling extracted in 1979. Although capacity estimates varied, the figure of 14mbpd was often mentioned as a potential level that Riyadh aimed at, with Western experts generally in agreement that such a maximum was certainly possible to reach once current infrastructure investments were completed.24

Interestingly, while the bulk of Saudi oil was sold to Asian countries in the mid-1980s, the majority of the estimated 8.4mbpd in 2008 went to Japan, South Korea, China, and India. In fact, these four countries received nearly 50% of Saudi Arabia’s crude oil exports in 2010, a trend expected to continue for the foreseeable future. Moreover, the bulk of all refined petroleum products and Natural Liquified Gas exports were allocated to the same customers. Japan was then as now the single largest importer of Saudi crude in Asia. In the mid-1980s, Japan purchased over 1mbpd, whereas in 2008, the daily figure stood at 1.25mbpd.25 South Korea’s imports from Saudi Arabia increased significantly too, going from less than 100,000 barrels per day to approximately 875,000 barrels per day. If 1985 exports to the USA did not exceed 400,000 barrels per day, by 2008, Saudi Arabia exported an average of 1 to 1.5mbpd of petroleum liquids to its American customers, which accounted for approximately 12% of total US petroleum imports. In fact, in recent years, Saudi Arabia ranked second after Canada as a petroleum exporter to the USA.26

During most of 1980 and 1981, Saudi Arabia’s oil production remained close to the 10mbpd rate offsetting the losses of Iranian and Iraqi productions that were removed from the markets at the height of their war. As a result, OPEC price increases were moderate, with the $34 per barrel price agreed to by OPEC in 1981 sticking. A downturn in the world economy sharply reduced the demand for OPEC oil production that meant the $34 price could not be supported. Consequently, Riyadh reduced its output from 10mbpd to 5.6mbpd in 1982 to maintain the OPEC price, and continued to exercise some leverage on other producing states. In 1983 the kingdom supported a $5 cut in the price of a barrel to $29 and in 1984 the official OPEC price was further reduced to $27. At the time, analysts were predicting that “oil prices [would] drop to as little as $20 per barrel, producers would be hurt, the banking system would be strained, and consumers would be helped.”27 Certain OPEC producers, like Nigeria, Iran, and Iraq, were indeed hurt by these lower prices and production quotas imposed by the organization. The $27 price held for a while because Saudi production was cut in half to a low of 3.7mbpd in 1983, effectively removing from the market 5 to 8mbpd of crude oil. Still, it was clear that no other oil producer in the non-Communist world could produce at 2.5mbpd for a long period of time without feeling serious economic consequences. “It is this ability to adjust production levels over such a broad range,” opined one observer, that gave “Saudi Arabia its potential market power and [made] both producers and consumers of oil look to Riyadh and its oil policies with concern.”28 This ability to vary production rates with limited technical or financial consequences for Riyadh transformed the Kingdom into the main unofficial regulator of the oil industry. Accordingly, both OPEC and OAPEC sought the Saudi imprimatur in reaching common decisions. It was thus possible to speculate that Saudi Arabia’s capacity to influence world petroleum policies extended to the petrochemical industries, as Riyadh’s massive production of manufactured commodities reached world markets. Therefore, while consuming countries looked to the kingdom as a stabilizing force in world energy forums,
producing states perceived Riyadh’s policies with ambivalence. Moderation on prices and production rates were professed to be damaging factors in the policy formulations of the so-called militant states (Algeria, Iran and others). Conversely, Arab Gulf states with similar long-term interests sought Riyadh’s guidance in the turbulence of the international economic and political arenas, which underscored the kingdom’s power. However, since Saudi Arabia exercised a proportionately higher degree of control over the decision-making process in both OPEC and OAPEC, “militant” members opposed the kingdom’s middle-of-the-road approach. The question then arose as to whether Saudi Arabia would allow its policies to be influenced by other OPEC or OAPEC members. In the event, and after a decade of rapid expansion, Saudi Arabia’s oil policy aimed at consolidating its industrial potential. To achieve that goal, the kingdom pursued a moderate approach, permitting it to maintain a stable pricing structure and ensuring its customers in the industrialized world with adequate supplies. As William B. Quandt determined, “the overall picture [of Saudi Arabia was] not that of a country aggressively bent on wielding the oil weapon to extort profits and political payoffs from the industrialized West.” On the contrary, Saudi policies, with respect to production and pricing, aimed at selling sufficient quantities of oil on the world market to generate enough revenues for the kingdom’s socio-economic endeavors. If the best means to achieve these two goals was to operate within the OPEC and OAPEC forums, then there was little expectation that the Saudis would deviate from these paths. If, on the other hand, Saudis perceived that their goals were hampered by organizational constraints, chances were excellent that they would break away from the two bodies. OPEC and OAPEC members thus evaluated whether Saudi Arabia would voluntarily withdraw. Such options were very much on the table in 1983 as an oil crisis threatened to split OPEC in two camps.

After the mid-1980s, Arab Gulf producers perceived any destabilizing elements in the oil market as a threat to their long-term interests and, to prevent further crises, embarked on joint policies within the nascent Gulf Cooperation Council. Their common policies did not translate into unified negotiations with oil-importing states but allowed each country to defend its long-term financial interests without challenging those of their neighbors.

**Quest for a common Gulf oil policy**

Over the past few decades, OPEC and OAPEC were the main organizations through which Middle Eastern and especially Persian Gulf oil exporting countries exerted collective influence on world energy markets. Unlike OPEC’s activities, OAPEC historically concentrated on technical operations and though it demonstrated a flair for industrial and commercial affairs, it also maintained a strong line in production and pricing of oil. As such, OAPEC set an example of cooperation for the GCC and, as the GCC co-ordinated economic integration, it was clear that with respect to petroleum it intended to unify its member-states’ oil policies including those pertaining to “production, pricing, prospecting, gas exploitation, petrochemical industries, and downstream activities.” Still, the organization did not fully succeed in formulating a common multilateral policy capable of unifying different national political and economic interests although Riyadh insisted that such an initiative was critical. What prevented such an adoption were the significant influences exercised by major oil companies that preferred to deal with oil producing countries on a bilateral basis. GCC producers were challenged time and again as their dependence on a single source of income continued. It was only in the late 1990s and early 2000s that a more sustained diversification of resources added income to various treasuries. Saudi Arabia, in particular, managed to diversify its income and, starting in 2002, saw an estimated 40% of its GDP originating from non-petroleum sources.
An industrial power

A relatively complex economic structure emerged with the construction of major infrastructure systems starting in the late 1970s, when an industrial boom both private and public accelerated investments. Saudi Arabia’s rush to development transformed in less than a decade a desert monarchy into a regional industrial power. Saudi Arabia’s rush to development transformed in less than a decade a desert monarchy into a regional industrial power. Two new industrial complexes, at Yanbu on the Red Sea and at Jubail on the Gulf, literally emerged from the sand. Yanbu, which was built with the partnership of the Mobil Oil Corporation, became an export center from where refined products were shipped overseas. Jubail produced petrochemicals ranging from methanol to ethane. In addition, Jubail was the site of a large steel mill and an aluminum plant. Remarkably, a two-pipeline system carrying oil and gas from the Eastern Province to Yanbu (1,250 kilometers) linked the two cities, supplying the Western complex with its needed industrial fuel. Whereas petrochemical production stood around 2m. tons in 1970, Yanbu and Jubail set the trend for steady growth, which meant that by 2010, the country was producing close to 60m. tons. These two examples of industrial projects illustrated how far the Saudi economy came in recent years. Several other projects, including the development of mineral resources—gold, copper, lead, zinc, silver and iron—all of which were readily and abundantly available in the kingdom, saw light. While the government encouraged private enterprise participation in developing new industries, Riyadh stressed the need to diversify its development aims, and seemed cognizant of the fact that only it, as the central authority, could implement such large-scale projects without necessarily limiting them to industry. Still, these preferences evolved over the years, as the Saudi government increasingly relied on the private sector. Even agriculture, a particularly sensitive area because of its reliance on scarce water supplies, witnessed dramatic changes. Riyadh’s early appetite to produce wheat and other cash crops were gradually abandoned when it became clear that water must be preserved. Simply stated, there was not enough oil in Saudi Arabia to justify wasting a single drop of truly scarce water. Only the Asir Province received any rainfall and practically all of the kingdom’s needs in water were met by its three dozen desalination plants.

Saudi Arabia’s goal focused on the creation of jobs and increased economic activity to serve its young and growing population. No longer satisfied to simply export its petroleum resources, Riyadh aimed to transform hydrocarbon reserves into petrochemicals such as ethylene, which can earn higher returns. In 2010 Saudi Arabia was ranked tenth in terms of the production of petroleum derivatives, and seventh in terms of basic petrochemicals. By 2015 over 80 projects either in place or under development would, according to Minister of Petroleum and Mineral Resources Ali Al-Naimi, alter these rankings, making the kingdom the world’s third-largest petrochemical producer. By 2015 the kingdom was expected to hit the 100m. ton mark for petrochemical production, which would represent about 8% of global production. Riyadh maintained steady investments in this vital sector, which grew from a mere $500m. in the early 1980s, to an estimated $20bn in 2000, according to Al-Naimi.

Jubail and Yanbu industrial cities proved to be resounding successes and established a range of support industries and infrastructure. Consequently, primary and secondary industries were created around them, which attracted international joint venture companies from America, Europe and Asia. It was as a direct result of these types of positive developments that Riyadh initiated work on Jubail Industrial City II (Jubail II), situated about three kilometers west of the existing city, and which will be developed over four stages with the Royal Commission assuming all costs for new infrastructure, including roads, utilities, gas, electricity, seawater cooling, potable water, waste water treatment, feedstock and a product pipeline corridor to King Fahd Industrial...
Port. Even the port was under expansion, better to accommodate an expanded Saudi Aramco pipeline corridor that will link oilfields from Kuwait to Ras Tanura (KRT). There were many projects either under construction or planned for Jubail II, including the recently inaugurated Yanbu National Petrochemicals Co. (Yansab) with an annual production capacity of 4m. tons of petrochemicals, as well as new Saudi Arabian Basic Industries Corporation (SABIC) expansion projects to generate 500 megawatts of power, among others.

Conclusion

The Persian Gulf region is estimated to contain between 65 and 70% of the world’s oil reserves, of which large chunks are in Saudi Arabia. Likewise, the area is home to significant gas deposits, with entire sections of the desert still unexplored. Equally important, demand for oil and gas resources is slated to increase over the coming years, because of the massive expansion of Chinese, Indian and other emerging economies, with steady consumption in industrialized countries. Clearly, China and India are poised to embark on massive industrialization schemes, which will require additional energy supplies. Needless to say, most of this capacity will only be met by Gulf producers, especially those in the Kingdom of Saudi Arabia, which are unique because of the sheer volume of proven reserves. Major powers with deep-water exploration capabilities are already investing in the Arctic although costs are still prohibitive. For the foreseeable future, therefore, few alternatives to the Arab Gulf producers, especially Saudi Arabia, exist.

Notes


4 Ibid., p. 16.

5 Ibid., p. 15; the price increase agreed to by Saudi Arabia and the UAE in fact limited the total increase to 10% instead of the 15% advocated by other OPEC members. See also Nawaf E. Obaid, The Oil Kingdom at 100: Petroleum Policymaking in Saudi Arabia, Washington, D.C.: The Washington Institute for Near East Policy, 2000.

6 OAPEC, which is often confused with OPEC, was established on 9 January 1968 in Beirut, Lebanon by three Arab countries: Saudi Arabia, Kuwait, and Libya. According to the 1968 founding charter, OAPEC’s principle objective was to facilitate the closest cooperation among member states, particularly within the petroleum industry (Article 2). This objective emanated from a desire to “depoliticize” the oil industry within OPEC, and especially the League of Arab States, which were highly mobilized at the time. While OAPEC welcomed several new members after 1970, often with incompatible political and economic systems, it could not completely divorce its proceedings from regional political tensions. This was best illustrated by its devastating actions in 1973. For a complete discussion, see Abdellkader Maachou, L’OPAEP et le Pétrole Arabe: Organisation Internationale de Coopération Économique et Instrument d’Intégration Régionale, Paris: Berger-Levrault, 1982. For a discussion on the use of oil as a political weapon, see William R. Brown, “The Oil Weapon,” The Middle East Journal 36:3, Summer 1982, pp. 301–18.

11 For the 1984 data, see “Despite Capacity Surplus, World Oil Flow, Reserves Climb; Refining Capacity Drops,” Oil and Gas Journal 85:52, 31 December 1984, pp. 77–114. For the 2009 figure, see the BP Statistical Review of World Energy 2010, op. cit., at www.bp.com/sectiongenericarticle.do?categoryId=9023769&contentId=7044915. It may be useful to note that BP estimated the 2009 oil reserves at 1333.1bn barrels for its overall global proven oil reserves, with specific increases in Brazil, Denmark, Saudi Arabia, Egypt, and Indonesia that outpaced declines in Mexico, Russia, Norway, and Vietnam.
18 Quandt, op. cit., p. 1.
28 Quandt, op. cit., p. 4.
30 Quandt, op. cit., p. 1.
33 El Mallakh, op. cit., pp. 129–36. The construction of Yanbu and Jubail came under severe criticisms at the time when Western analysts labeled the projects as being “economically unjustifiable.” Somehow, Saudi Arabia would be wasting its resources by investing at home, advice that was routinely ignored. For a good illustration of this point, see Claude Feuillet, Le Système Saoud: Après l’Iran, l’Arabie? Lausanne, Switzerland: Editions Pierre-Marcel Favre, 1983, pp. 9–14. Needless to say, Riyadh accelerated its investments manyfold and embarked on the construction of industrial power plants, research universities and critical pipeline systems—all well protected—to further enhance its economic might.


35 Ibid.