

**I RAPPORTI ITALO-SAUDITI:
SVILUPPO, COOPERAZIONE
E INTERESSI COMUNI,
EUROPA E MEDIO ORIENTE**

**ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION
AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST**



141

Roma 4-5 Marzo 1995

Centro Italiano Culturale d'Italia
Via della Moschea, 22

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718

21 MAG. 1999

BIBLIOTECA

IL FUTURO DELLE RELAZIONI ITALO-SAUDITE NEL SETTORE PRIVATO E NEL TURISMO

Relatori: Ing. Usamah Kurdi, Segretario generale del Consiglio delle Camere Saudite di Commercio e Industria, Riyadh
Mohammed Al Kathiri, General Manager, SABIC, Italia
Dr. Abdulaziz Al-Nowaiser, Presidente del Comitato sul Turismo, Gedda

Commenti: Arch. Sergio Marini, Presidente, Camera di Commercio Italia-Paesi Arabi, Roma

L'EVOLUZIONE COMMERCIALE FRA ARABIA SAUDITA E UNIONE EUROPEA

Relatore: Dr. Abdulrahman Al Ali, Università Re Saud, Riyadh

I TRASFERIMENTI DI TECNOLOGIA NELLE RELAZIONI EURO-SAUDITE

Relatore: Dr. Marcello Colitti, Presidente, Enichem, Milano

Commenti: Dr. Abdulrahman Al Barrak, Università Re Saud, Riyadh

17.00 Dibattito

17.30 Pausa Caffè

18.30

LE RELAZIONI ECONOMICHE EURO-SAUDITE NEL CONTESTO REGIONALE E GLOBALE

Presidente: Arch. Sergio Marini, Presidente, Camera di Commercio Italia-Paesi Arabi, Roma

IL DIALOGO FRA L'UNIONE EUROPEA E IL CONSIGLIO DI COOPERAZIONE DEL GOLFO

Relatore: Prof. Bichara Khader, Università di Nuova Lovanio

Commenti: Dr. Saleh Al Mani, Università Re Saud, Riyadh

IL FUTURO DEL MERCATO PETROLIFERO INTERNAZIONALE E IL RUOLO DELL'ARABIA SAUDITA

Relatori: Dr. Majed Al Monif, consulente del Ministero del Petrolio, Riyadh
Dr. Giacomo Luciani, Ente Nazionale Idrocarburi-ENI, Roma

Commenti: Dr. Saud Al Amari, consulente del Ministro saudita del Petrolio, Riyadh

Dibattito / Fine della Conferenza

Si ringrazia per la gentile collaborazione:

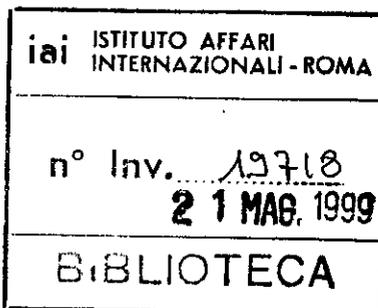


Informazioni su come recarsi al Centro Culturale Islamico:

da Piazzale Flaminio, stazione ferroviaria Roma-Nord, direzione Prima Porta, fermata "Campi Sportivi", 200 metri a piedi

How to get to the Islamic Cultural Center:

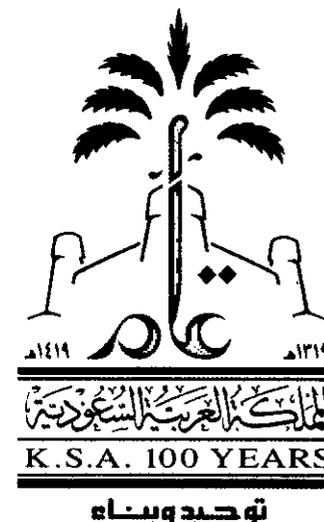
from Piazzale Flaminio, railway station Roma-Nord, direction Prima Porta, train stop "Campi sportivi", 200 metres walking distance



Segreteria Organizzativa:



Borgo S. Lazzaro, 17 - 00136 Roma
Tel. 06/39725540-5 - Fax 06/39725541



**I RAPPORTI ITALO-SAUDITI:
SVILUPPO, COOPERAZIONE
E INTERESSI COMUNI,
EUROPA E MEDIO ORIENTE**

Roma, 4-5 Marzo 1999
Centro Islamico Culturale d'Italia
Viale della Moschea, 85



IAI
Istituto Affari Internazionali

PROGRAMMA

GIOVEDÌ 4 MARZO

9.00

LE RELAZIONI FRA ITALIA-ARABIA SAUDITA ED EUROPA: DA IERI AD OGGI

Presidente: Dr. Othman Al-Rawaf, membro del Majlis Al Shura (Consiglio Consultivo) ed Università Re Saud, Riyadh

UNA RASSEGNA STORICA DELLE RELAZIONI FRA ARABIA SAUDITA ED EUROPA

13.15

Relatori: Prof. Gerd Nonneman, Università di Lancaster e Direttore della British Society for Middle Eastern Studies, Regno Unito
Dr. Jameel Mirdad, Ministero degli Affari Esteri, Istituto Diplomatico, Riyadh

15.15

Commenti: Prof. Vincenzo Strika, Istituto Universitario Orientale, Napoli

UNA RASSEGNA STORICA DELLE RELAZIONI FRA ARABIA SAUDITA ED ITALIA

Relatore: Prof. Pier Giovanni Donini, Istituto Universitario Orientale, Napoli

Commenti: Dr. Abdel Karim Al Dakhyil, Università Re Saud, Riyadh

Dibattito

10.30

Pausa Caffè

11.00

L'ARABIA SAUDITA: 100 ANNI DI CRESCITA DELLE ISTITUZIONI E DELLA SOCIETÀ

Presidente: Dr. Abdulaziz Al Favez, membro del Majlis Al Shura (Consiglio Consultivo), Riyadh

LA QUESTIONE DEI DIRITTI UMANI IN ARABIA SAUDITA: UNA PROSPETTIVA ISLAMICA

Relatore: Dr. Ahmed Seif Eldin, Università Imam Mohammed Ibn Saud, Riyadh

ISLAM E SOCIETÀ IN ARABIA SAUDITA

Relatore: Dr. Abdullah Al Khalifa, Università Imam Mohammed Ibn Saud, Riyadh

L'EVOLUZIONE SOCIO-ECONOMICA IN ARABIA SAUDITA

Relatore: Dr. Abdullah Al Fowsan, Università Re Saud, Riyadh

17.00

17.30

ISTITUZIONI E SVILUPPO POLITICO IN ARABIA SAUDITA

Relatore: Dr. Fahad Al Harthy, membro del Majlis Al Shura (Consiglio Consultivo), Riyadh

Commenti: Prof. Frank Vogel, Università di Harvard, Cambridge (Ma),
Prof. Franco Cardini, Università di Firenze

Dibattito

Buffet

SICUREZZA NEL GOLFO: PERCEZIONI E PROSPETTIVE

Presidente: H.R.H Prince Mansour bin Mot'aib bin Abdulaziz Al Saud, King Saud University, Riyadh

SICUREZZA NEL GOLFO: PERCEZIONI ED INTERESSI SAUDITI

Relatore: Dr. Othman Al Rawaf, membro del Majlis Al Shura (Consiglio Consultivo) ed Università Re Saud, Riyadh

Commenti: D.ssa Laura Guazzone, Istituto Affari Internazionali (IAI), Roma
Dr. Jerrold D. Green, Rand Co., Santa Monica (Ca)

IL RUOLO DELL'EUROPA NELLA SICUREZZA DEL GOLFO

Relatore: Prof. Stefano Silvestri, Vicepresidente, Istituto Affari Internazionali (IAI), Roma

Commenti: Dr. Abdulaziz Al Favez, membro del Majlis Al Shura (Consiglio Consultivo), Riyadh

LE RELAZIONI FRA STATI UNITI E UNIONE EUROPEA E LA SICUREZZA DEL GOLFO

Relatore: Dr. F. Stephen Larrabee, Rand Co., Santa Monica (Ca)

Commenti: Dr. Abdul Mohsen Al Akkas, Saudi Publishing and Marketing Co.

9.00

VENERDÌ 5 MARZO

PROSPETTIVE COMUNI E CONVERGENZE POLITICHE DELL'EUROPA E DELL'ARABIA SAUDITA

Presidente: Amb. Luigi Vittorio Ferraris, Segretario Generale SIOI, Roma

INDIRIZZO DEL MINISTRO ITALIANO DELLA DIFESA, On. Prof. Carlo Scognamiglio

ISLAM E OCCIDENTE: IL RUOLO DELL'ARABIA SAUDITA

Relatore: Dr. Abdulaziz Al Sowail, Gabinetto del Ministro saudita della Difesa, Riyadh

Commenti: Prof. Valeria Piacentini, Università Cattolica del Sacro Cuore, Milano

IL PROCESSO DI PACE IN MEDIO ORIENTE E LA QUESTIONE DI GERUSALEMME

Relatore: Dr. Adel Abdul Kareem, Università Re Saud, Riyadh

Commenti: Prof. Rodolfo Ragionieri, Università di Firenze

I MASS MEDIA E L'IMMAGINE DEI MUSULMANI E DEL MONDO ARABO

Relatore: Prof. Isabella Camera d'Afflitto, Istituto Universitario Orientale, Napoli

Commenti: Dr. Nasser Alburaiik, Preside del Dipartimento di Scienze Politiche dell'Università Re Saud, Riyadh

I MUSULMANI IN EUROPA

Relatore: Prof. Francesco Castro, Università di Tor Vergata, Roma

Commenti: Dr. Ibrahim Al Jouair, Università Imam Mohammed Ibn Saud, Riyadh

11.00

Pausa Caffè

11.30

Dibattito

13.15

Buffet

15.15

LE RELAZIONI ECONOMICHE EURO-SAUDITE: SCAMBI COMMERCIALI E TECNOLOGICI

Presidente: Prof. Gerd Nonneman, University of Lancaster e Direttore della British Society for Middle Eastern Studies, Regno Unito



1



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST

Rome, 3-5 March 1999

Intervento di S.A.R.
Principe Mohammad bin Nawaf
bin Abdulaziz Al Saud
Ambasciatore del Regno dell'Arabia
Saudita in Italia



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

Ministro Dini, Ministro Scognamiglio, Giudice della Corte Costituzionale Prof. Guizzi, Capo di Stato Maggiore Gen. Arpino, Sindaco Rutelli, Illustri Ospiti,

A nome mio e a nome di S.A.R. il Principe Saud Al Faisal, Ministro degli Affari Esteri del Regno dell'Arabia Saudita sono lieto di aprire i lavori di questa conferenza sui rapporti Italo-Sauditi, realizzata unitamente all'Istituto Affari Internazionali. Vorrei iniziare esprimendo la speranza che questa conferenza possa rappresentare un elemento catalizzatore per una dibattito ampiamente costruttivo, che possa dare avvio ad uno sviluppo di idee e progetti per il futuro.

Per meglio collocare questa conferenza nel suo contesto, vorrei iniziare col sottolineare il fatto che questo nostro incontro coincide con il centesimo anniversario dell'unificazione del Regno dell'Arabia Saudita, sotto il vessillo dell'Islam. Fino ad oggi il popolo dell'Arabia Saudita, i popoli della regione araba e tutti coloro che, a livello internazionale, si interessano ai loro avvenimenti, apprezzano ed ammirano i grandi obiettivi realizzati dal fondatore del moderno Stato Saudita - Re Abdul Aziz Ibn Saud. Questi alti obiettivi sono stati raggiunti in condizioni sociali ed economiche estremamente difficili che furono ulteriormente inasprite da trascuratezza, guerre intestine, ed arretratezza. La penuria di risorse fu in parte compensata dalla sincerità e dal fervore religioso.

Io personalmente sono molto orgoglioso di questa esperienza storica che è inscindibilmente collegata all'idea dello stato moderno nel contesto della Sharia Islamica.

Nel corso dello stesso periodo storico, anche Roma, la Roma delle illimitate risorse e tesori accumulati nei secoli, anch'essa ha dovuto affrontare molte delle sfide - sociali, economiche, e politiche - del XX secolo.

Oggi l'Italia, insieme ai suoi partner Europei, si trova a fronteggiare una nuova sfida economica e sociale di convergenza ed unificazione, mirando, nel contempo, a conservare la propria individualità.

In Arabia Saudita e in tutta la nostra regione araba, anche noi abbiamo dinnanzi una sfida analoga per l'integrazione dello sviluppo sociale ed economico, per essere al livello dell'era moderna pur preservando, al tempo stesso, la nostra fede e il patrimonio culturale di cui andiamo orgogliosi.

Non sono solo gli Italiani e i Sauditi a dover far fronte a sfide, anche voi, come partecipanti alla conferenza, oggi affrontate una sfida ugualmente importante per l'edificazione del futuro, che è quella di apprendere dal passato, per comprendere il presente, attraverso un dibattito tra eruditi, onde contribuire ad influenzare il nostro futuro.

Cio' non si puo' avverare che con una piena cognizione delle nostre esperienze e dei nostri comuni obiettivi.

Nell'indurVi a riflettere, Vi invito a considerare le concezioni errate e i malintesi che sono stati il frutto di un'animosità di antiche radici e di inimicizia che è risultata essere troppo forte per venir dimenticata dall'Europa, come invece ha fatto per i suoi vecchi attriti. Anche il nostro mondo arabo islamico non ha potuto superare queste idee. Opinioni polarizzate pervadono l'intero spettro dei nostri convincimenti, valori, stili di vita non risparmiando neanche le nostre fedi e sono anche di grande impedimento per un'ulteriore mutua cooperazione costruttiva. Vi invito a mettere l'accento sul nostro comune desiderio di salutare il nuovo millennio in un'atmosfera di pace, progresso e stabilità per il bene di tutta l'umanità.

Ed insistiamo sulla nostra comune convergenza e sul nostro desiderio, Sauditi ed Italiani, di operare per aprire la strada ad una cooperazione che porterà pace e stabilità di buon auspicio per il prossimo secolo.

In questo contesto, non dovremmo inoltre perdere di vista le vitali esigenze del mio paese e del mio popolo che richiedono di concentrarsi di continuo sul trasferimento e sullo sviluppo di competenze e conoscenza e sulla crescita degli investimenti europei in Arabia Saudita per poter realizzare un certo equilibrio. Noi riteniamo che questo sia un ingrediente fondamentale nella ricetta per un

successo economico e sociale futuro - un tema che io credo sarà ugualmente apprezzato in Italia, il paese europeo piu' aperto nei suoi scambi con il mondo arabo.

Signore e Signori, sono certo che quella di oggi si rivelerà essere una seria occasione, per le nostre due regioni, di plasmare un'opinione pubblica alternativa, che sia piu' tollerante e piu' recettiva delle posizioni di entrambe le parti, e che accetterà una presenza culturale che getterà le basi di una cooperazione su una piattaforma comunemente accettata. La creazione di un tale terreno comune rappresenterà un impegno sia stimolante che in ultima analisi ricompensatorio. Sono certo che sarete all'altezza di questa sfida.

Auspico per voi ogni successo nelle Vostre discussioni e delibere prese in questa sede e sono certo che l'applicazione della vostra conoscenza non avverrà in vano.

Illustri ospiti, la presenza del Ministro oggi - nonostante il Suo oneroso calendario - rafforza la consapevolezza di quanto egli sia interessato a questa conferenza e al Vostro contributo. Chi tra noi conosce il Ministro non puo' che riconoscere con gratitudine che nel corso della sua intera carriera egli è stato e continua a rappresentare una forza ed un'influenza positiva nel promuovere i rapporti Italo-Sauditi, e piu' ampiamente, la cooperazione tra l'Europa e il mondo Arabo.

Sono perciò lieto di inaugurare questa conferenza e dare il benvenuto
al Ministro degli Affari Esteri, On. Dini.

Grazie

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

LIOTECA



**International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
*Rome, 3-5 March 1999***

Gerd Nonneman

**Saudi-European Relations:
A Thematic Historical Overview**



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

SAUDI-EUROPEAN RELATIONS: A THEMATIC HISTORICAL OVERVIEW¹

*Dr Gerd Nonneman*²

Throughout the 20th century, the key themes in Saudi foreign policy towards, and relations with, Europe have been:

- (1) geopolitical balancing;
- (2) the acquisition of economic resources - initially subsidies and loans, subsequently an increased share in the wealth derived from oil production, and finally the safeguarding of markets for this oil and, lately, petrochemicals;
- (3) both of these first two pursuits aimed to secure a third: the survival and flourishing of polity and regime;
- (4) ideology -- both religious (Islam) and political (the Palestinian cause) -- has increasingly been a feature since 1948, but it never dominated.

From the European side, relations must be seen in the wider context of European interest in the Gulf. This was and remains driven by:

- (1) strategic calculations with regard to shipping lanes;
- (2) competition between the great powers of Europe, shifting to containment of the Soviet Union, as well as rivalry between European actors and the US;
- (3) increasingly, access to oil; and,
- (4) since the 1970s, access to the markets of the Gulf and of Saudi Arabia in particular.

Each of these four themes is, of course, interrelated with the others.

From both sides, therefore, policy towards each other has been driven essentially by pragmatic considerations of political and economic advantage. This is not to say there have not been issues where deep conviction (whether religious or political), matters of pride, or questions of inter-cultural communication have come very much to the fore. Examples would include the decision by King Faysal in 1973 to impose an oil boycott in response to Western support for Israel; on a much smaller scale, the upset over the *Death of a Princess* episode in 1980 which demonstrated a mutual lack of comprehension; or, recently, the debate in the late 1990s over policy towards Iraq. Yet such issues usually become especially important when they link in with the key considerations listed (e.g. when they are seen to impact on the legitimacy of the Saudi regime, or on the security of mutual economic interests). On their own, and away

¹ Please note that this is a draft paper only. A complete and revised version can be obtained from the author: Department of Politics, Lancaster University, Lancaster LA1 4YL, UK. e-mail: g.nonneman@lancaster.ac.uk.

² Executive Director of the *British Society for Middle Eastern Studies* (BRISMES), and Senior Lecturer in International Relations & Middle East Politics at Lancaster University. The author specialises in Foreign Policy Analysis, the international relations of the Middle East, and the political economy of the Gulf states. Recent books include *The Middle East and Europe: the Search for Stability and Integration*; *War and Peace in the Gulf*; and *Muslim Communities in the New Europe*.

from those linkages, they tend not to reorient policy very significantly or for very long.

The management of these relations has, for the Al-Saud, been spectacularly successful. Of course there have been difficult dilemmas to resolve (or at least contain) in Saudi foreign policy, and some of these continue to hold destabilising potential. Yet such difficulties have been largely inherent in Saudi Arabia's geographical position, the pressures and expectations associated with being a central member of the Muslim and Arab world, and its exposed, vulnerable wealth. The measure of success has been in the vast strides made from the humble beginnings in 1902 (at the turn of the century the Al-Saud were under the protection of the Sheikh of Kuwait), and in the way in which those inherent foreign policy limitations have been coped with.

Much of this success must be credited to the person of Abdul Aziz bin Abdul Rahman Al-Saud, who, starting with the reconquest of Riyadh in 1902, welded Najd (centre), al-Hasa (east), Shammar (north) and the Hejaz (west) together in what became, in 1932, the Kingdom of Saudi Arabia. The welding process was not merely a feat of territorial conquest, but at least as much one of constructing a viable polity on political, ideological, traditional-tribal, and personal foundations. This growing domestic strength is part of the *explanation* for the success in managing relations with the outside world. At the same time, however, it was also in part the *result* of this success. On the one hand, Abdul Aziz (often referred to in the West as 'Ibn Saud') *needed* to handle his external relations carefully in order to secure the success of this new state-building exercise (it was the Al-Saud's third, following earlier periods of Saudi expansion dating back to the 18th century). On the other hand, part of the reason why he was *able* increasingly to extract the necessary assistance and/or tolerance from the external powers he was dealing with, was that those powers recognised that he, and the fledgling Saudi state, were indeed growing into a local power to be reckoned with. In other words, domestic success at state building increased his bargaining power with actors such as Great Britain, while the successful management of relations with those powers at the same time helped the state-building exercise succeed and thereby helped secure the rule of the Al-Saud. It is only from this already more secure basis that the arrival of the oil age would bring additional internal resources and more extensive external interest, both of which would again be harnessed by King Abdul Aziz and his successors to the project of consolidating the state and the rule of the Al-Saud.³

Saudi-European relations before World War II

Until the Second World War, the history of Saudi relations with the great powers was that of relations with Europe and, before 1918, with the Ottoman Empire: the US only entered the region in any significant way from the Second World War onwards. The European powers that mattered were Great Britain - already dominant in the Gulf - and its competitors France, Russia and Germany. Prior to 1918, Abdul Aziz also had

³ For an interesting study of the early days of Saudi foreign policy, see J. Goldberg, *The Foreign policy of Saudi Arabia: the Formative Years, 1902-1918* (Cambridge, Mass.: Harvard University Press, 1986).

to deal with the Ottomans, who not only claimed suzerainty over al-Hasa and the Hejaz, but also supported the Al-Saud's rivals in Shammar (in what is now northern Saudi Arabia), the Al-Rasheed. The first and second Saudi states, indeed, had been brought down in part as a result of Ottoman-Egyptian intervention as well as that of local challengers. Even then, however, relations with Europe were rightly seen as crucial by the young Saudi ruler of Najd, who made every effort to obtain an alliance with Britain, trying thereby to counter the Ottoman grip. Yet British reluctance to annoy Istanbul unnecessarily, meant that no agreement was concluded along the lines Abdul Aziz would have wanted. At the same time, when the Ottomans chose the German side in the First World War, it was the Hashimite Sherif Hussein of Mecca that Britain turned to for assistance against the Turkish garrisons in the Hejaz and Syria, rather than the Al-Saud. While there were British voices arguing the case that it was the Al-Saud who would be the real power house in Arabia (among them Captain Shakespear, and Harry St John Philby), the majority view among the British foreign policy establishment was that the long-established rule of the Hashimite family of Mecca, and their religious legitimacy as protectors of the holy places and descendants of the Prophet Muhammad's family, made them the best ally against the Ottoman Sultan who was, after all, also nominally the Caliph of all Muslims.

The defeat of the Ottomans and the subsequent dismemberment of the Empire, however, left Saudi rule in Arabia stronger than before. Before long, the rival rule of the Al-Rasheed in Shammar (no longer assisted by their Ottoman patrons) was extinguished. In 1925, after the Sherif Hussein had claimed he was taking over the now vacant title of Caliph, Abdul Aziz's *Ikhwan* troops routed the Hashimite forces, and the Sherif himself soon fled the Hejaz, never to return. Abdul Aziz now became the Sultan of Najd, Hejaz and dependencies, being recognised as such by Britain.

Indeed, the First World War and its aftermath was a turning point not just for the Middle East as a whole, and for Saudi fortunes in particular, but also for British-Saudi relations more specifically. It bears repeating here, that Britain had succeeded by now in seeing off its European challengers in the Gulf, although in Persia competition with Russia (and subsequently the USSR) remained. This dominance was unchallenged along the Gulf littoral, and would also become evident to the north, when the two new states of Iraq and Trans-Jordan were carved out as Hashimite monarchies under British tutelage (under the Sherif's sons Abdallah and Faysal respectively). For the most part, therefore, Saudi-European relations now meant Saudi-British relations.

Nevertheless, as we shall see, the Saudi ruler always kept his options and other channels of communication open – a policy facilitated by the recognition on the part of Germany and the Soviet Union, among others, that he was the power to be reckoned with in an ever more strategically important part of the world. It was a policy that would in essence be maintained also when Britain was replaced by the US after the Second World War as the dominant superpower in the region: although Saudi-US relations would become very close, Saudi policy makers always made sure to maintain alternative channels. In other words, the geopolitics of the region and the imperative of consolidating and maintaining Al-Saud rule prior to 1945 demanded a close relationship with Great Britain, with alternative relationships (including with the US) being kept open. After 1945, the same factors demanded a close relationship with

the US, with alternative relationships (now mainly Western Europe and, increasingly, Japan) nevertheless being cultivated.

The evolution of Saudi-British relations

It appears clear that Abdul Aziz was convinced almost from the start of the hegemony of the British Empire, and hence the need to establish a close relationship. He also knew what might bring this about, and what sacrifices he might have to make in order to get it. When the Russian Consul toured the Gulf in 1903, offering benefits and a special relationship, Abdul Aziz immediately made British representatives aware of the Russian offer. Through his friend, British representative Captain Shakespear, he tried to obtain an alliance in 1914. Until the outbreak of World War I, the British response was tempered by a desire not to upset relations with Istanbul, but the War brought a turn-around, as the Al-Saud now became a potential ally against the Turks. Even so, the main stress was initially laid on the relationship with the Hashimites of the Hejaz. With the death of Shakespear in 1915 in battle alongside the Al-Saud, against the latter's Turkish-allied foes, the Al-Rasheed,⁴ Britain was sucked in further, and Abdul Aziz "became a British protégé at last, assured of a reliable source of arms and money for the first time".⁵ By the end of the year, Britain had officially recognised him as the independent ruler of Najd and its dependencies under British protection, and in June 1916 provided a £20,000 loan and a shipment of arms, followed by a temporary stipend of £5000 a month. Between the end of the war and March 1924 (when British subsidies to the Middle East were suspended), the Saudi ruler is thought to have received some £60,000 a year from Britain.⁶ By far the largest slice of these resources went into the consolidation of the new Saudi polity, through military means and acts of patronage and generosity towards Abdul Aziz's supporters as well as many of his vanquished foes.

The upward trajectory of the Saudi ruler would be complicated by two main factors: one political, one economic. Politically, internal forces rubbed up against with external constraints. The very success of the Saudi state-building exercise, with the defeat of the Rasheed dynasty in the north, had brought Saudi control right up to the ill-defined boundaries of the new British-protected Hashimite Kingdoms of Iraq and Trans-Jordan - while still being bounded by the original Hashimite dominions in the west. Much of the expansion had been made possible by the total commitment of the *Ikhwan* forces, who were driven as much by religious motivation as by loyalty to Abdul-Aziz. They saw no obstacle in nominal boundaries. Yet Britain made clear that any further expansion into the territories of their protectorates - be it the two new Kingdoms or Kuwait - would not be tolerated. Abdul-Aziz reined in his *Ikhwan* troops, much against their determined wishes (he would eventually be forced to impose his will by defeating them in battle). In the Uqayr conference of 1922-3,

⁴ King Abdul Aziz was later quoted as having referred to Captain Shakespear as "the greatest living European". H. V. F. Winstone, *Captain Shakespear: A Portrait* (London: Cape, 1967), p. 224.

⁵ D. Holden & R. Johns, *The House of Saud* (London: Pan Books, 1982), p. 50.

⁶ *Ibid.*, pp. 50 and 74; and R. Lacey, *The Kingdom: Arabia & the House of Saud* (New York: Avon Books, 1981), p. 185.

presided over by the British political agent Sir Percy Cox, the boundaries of the new Saudi domains with Iraq and Kuwait were defined for the first time. Saudi expansion northward was halted, in return for a slice of territory which the Sheikh of Kuwait had considered his, and for a strengthened alliance with the Imperial power of Britain.⁷ (It would also allow the Al-Saud to feel strong enough to take over the Hejaz a few years later – by which time Hashimite rule there had lost both its internal strength and its use for Britain).

The other complicating factor was financial. With the increasing size of the Saudi state came increasing demands on the ruler's purse; combined with the suspension of British subsidies and the effect of the economic collapse in the region and the world in the early 1930s, this resulted in a financial crisis. According to Philby, Abdul-Aziz's debts at the time amounted to some £300,000.⁸ Attempts to find relief also brought renewed contacts with the Soviet Union, who in 1932 offered a debt write-off and a new £1 million loan. Although in the end this would never be carried out, it did lend extra weight to a renewed demand for British aid. When Abdul-Aziz that same year declared the Kingdom of Saudi Arabia, Moscow offered immediate recognition – another spur to Britain to take note.

Although on the surface it seemed as if the Saudi state was now in a similar position *vis-à-vis* Britain as the other Gulf protectorates, there were in fact significant differences. First, Al-Saud rule had greater internal strength and legitimacy than many of the littoral principalities. Second, and in part underlying the first, the Kingdom had never been truly colonised. Third, this *de facto* independence was ably maintained by playing off different external actors against each other. And fourth – an example of this 'game' – Abdul-Aziz was the only ruler who did not sign an oil concession with British interests.

Britain did pursue an oil concession, but not with the determination necessary to compete with alternative offers (in part because, having extracted the Uqayr concession, they felt that extra pressure might be ill-advised, and in part because the Anglo-Persian Oil Company, which had been exploring in Persia and Iraq, had discovered ample reserves in any case). Abdul-Aziz instead gave the concession to Major Frank Holmes, an adventurous entrepreneur from New Zealand. Although the latter would not prove successful, the American oil firms subsequently found him easier to take over from, than Anglo-Persian (or its daughter company, the Iraq Petroleum Company) would have been. British and French interests were still supposed to be protected by the 1929 Red Line agreement between the major oil companies, according to which none would take a concession without also offering a share in it to the others. Standard Oil of California (SOCAL), however, obtained an oil concession in 1933, having offered Saudi Arabia a loan of £30,000 and an immediate £20,000 payment, plus a monthly rental of £5,000. After the Second World War, the Red line agreement became void when Caltex (joint venture of

⁷ H. R. P. Dickson, *Kuwait and her Neighbours* (Allen & Unwin, 1956), p. 274.

⁸ Holden & Johns, *op. cit.*, p. 107.

SOCAL and Texaco), Exxon and Mobil effectively bought off the British and French IPC shareholders.

The Second World War was, again, a watershed in regional, as well as world, politics. Oil had by now been discovered in most of the states surrounding the Gulf, including in Saudi Arabia; the significance of oil as an energy source in the war effort became abundantly clear; Britain would be economically exhausted; and the US would obtain a physical presence in the Middle East, and increasingly important interests. The British position as Saudi Arabia's pre-eminent partner hence came under increasing challenge.

It is worth noting, however, that in the lead-up to the war, Abdul-Aziz had also made sure to open lines of communications to other actors around Europe. In the late 1930s, he concluded an arms agreement with the Italian leader Mussolini, and in 1937 Italy had taken over the construction of the airfield at Jeddah, which Britain had left uncompleted. In January 1939 diplomatic relations were established with Germany. Subsequently, he had a number of warm conversations with Dr Fritz Grobba, the German envoy, and in July 1939 a deal was concluded with Germany for the supply of 4000 rifles and ammunition and the establishment of an arms factory near Riyadh. The outbreak of the war meant that this deal was never enacted. Indeed, the importance of the Saudi link for Britain in these new circumstances was such that from 1940, the Kingdom began receiving a British subsidy of £1 million per year.⁹

Yet from this time onward the US was competing directly with Britain for Saudi favours. Both US oil companies and the US government increasingly proved able to outspend Britain. As Holden & Johns aptly put it: "Britain was rowing against the tide of her own exhaustion and America's expanding power".¹⁰ A symbol of this new US interest and access was the famous meeting between President Roosevelt and the Saudi King aboard the USS Quincy in February 1945 – an event of which the British were informed only at the very last moment. The 'buying out' of the Red Line agreement by US oil firms, referred to above, illustrated and consolidated this trend (and formed the beginning of Aramco -- the Arabian American Oil Company).

The post-War era: oil, arms and commerce

The increased US role would remain a feature of Saudi Arabia's economic and foreign policy. Yet, as before, the Saudi leadership made sure to keep other options open. This proved especially important in the context of increased US support for Israel after 1967. The US-Israeli alliance caused difficulties in three ways: first, there has been the genuine conviction that Israel was transgressing against Arab and Muslim rights, and that the US was condoning this; second, domestic and regional opinion made it difficult and potentially dangerous to be seen as too close to the US and not sufficiently committed to the Palestinian cause; and third, the pro-Israeli lobby in the US succeeded in imposing a number of limitations on arms exports to Saudi Arabia.

⁹ N. Safran, *Saudi Arabia: the Ceaseless Quest for Security* (Cambridge, Mass.: Harvard University Press, 1985), p. 69; Lacey, *op. cit.*, p. 257; Holden & Johns, *op. cit.*, p. 126.

¹⁰ *Ibid.*, p. 130.

All of this is significant for Saudi-European relations, as it provided an opening for Europe to 'come back in'.

Europe, too, however, had its difficulties with Saudi Arabia. A low point in relations came with the Suez crisis of 1956, in which France and Britain had colluded with Israel to take back the newly-nationalised Suez canal and to bring down the nationalist leadership of Gamal Abdul-Nasser of Egypt. Diplomatic relations with France and Britain were broken off, and Saudi Arabia joined in the first Arab oil embargo to be attempted. Now often written off as unsuccessful, it is worth noting that this embargo did lead to petrol rationing in both countries. In the context of the 'Arab Cold War' between traditional pro-Western regimes and the younger radical nationalist republics, an additional problem with France was the Algerian question, which the Saudi leadership could not ignore. With Britain, a long-running dispute centred on the oasis of Buraimi, today shared by the United Arab Emirates and Oman, but once claimed as a Saudi dependency.¹¹ With Britain acting as the protector of both Abu Dhabi and Oman, and Saudi 'possession' of Buraimi already some time in the past, London was not prepared to countenance the Saudi claim.

Relations with France were only restored in 1962, upon Algerian independence. Britain had to wait until 1963: at that time, Saudi Arabia was embroiled in a struggle with the new republican regime in Yemen, which had overthrown the monarchical system of the Imam. Saudi Arabia supported the royalist forces. Britain, for its part, delayed recognition of the new government, as it was concerned about the impact this revolution might have on its own hold over Aden and southern Yemen. British intelligence gave information to the Saudi side, and airlifted a quantity of arms to Saudi Arabia to assist in the attempt to contain the North Yemeni revolution.

Intelligence cooperation would soon also be established with France, and of course the US. Alongside this, from the 1960s competition for the supply of modern arms really began. The US and Britain, in particular, competed to supply Saudi Arabia with the beginnings of an airforce; this, especially for Britain, clearly fitted in with the concern over the war in Yemen, where Egyptian forces had weighed in on the side of the republicans. I will return to the development of the arms trade and security collaboration below.

Yet the renewed development of Saudi-Western relations was again interrupted by the Arab-Israeli war of 1967. Saudi Arabia reluctantly took part in the subsequent oil embargo. It would, however, be France and Britain which benefited most from the perception that the US had become Israel's main protector: between 1967 and 1970, the only arms transactions concluded were French and British.¹² After 1970s, the US role expanded again -- only to come up against new difficulties in 1973.

¹¹ See J. Wilkinson, 'Britain's role in boundary drawing in Arabia', in R. Schofield (ed.), *The Territorial Foundations of the Gulf States* (London: UCL Press, 1994), pp. 94-108: pp.100-104.

¹² Safran, *op. cit.*, p. 203.

The Oil Weapon and its effect on Saudi-European relations

In the 1973 Arab-Israeli war, Saudi Arabia's King Faysal was again initially reluctant to impose an oil embargo against those perceived as supporting Israel. This was not only because oil revenue would be lost, and because he valued the relationships the Kingdom had built up with the US and European powers, but also because he was aware of the damage this could do to the oil market and the economies of the West – both already quite important at the time for Saudi Arabia's own longer-term well-being. Yet when it became clear that the US, under President Nixon, was engaged in a massive campaign of support for Israel – organising a airlift of weapons and equipment, and committing financial assistance of \$2.2 billion – the King changed gear decisively, and became the leading figure in the implementation of the oil boycott decided on by OAPEC on 20 October 1973. An immediate embargo was proclaimed against the US and the Netherlands, and an overall reduction of supply of 5% each month was announced as long as countries did not change their policy on Palestine.

France, Spain and (provisionally) the UK were placed on a 'most favoured' list, which exempted them from the worst effects of the boycott. But given the importance of the Rotterdam spot market for oil supplies throughout Europe, even consumers not directly targeted still felt the effects. Saudi Arabia agreed therefore to sell an additional 200,000 barrels/day to the UK.¹³

It was clearly not coincidental that the European Community already on 11 November came out with a joint declaration on Palestine, in which the rights of the Palestinians were recognised. A week later, the additional 5% per month cut in supplies was lifted for the EC countries except the Netherlands and Denmark. On 14 December joint pressure from Arab ministers on an EC meeting in Copenhagen to do more, brought another EC statement two days later, strengthening the previous one. The differential treatment which European countries were now receiving, incidentally, led to some considerable friction among them. On 18 March 1974 the embargo was lifted, except, temporarily, on the Netherlands and Denmark.

The consequence of this use of Arab oil muscle – which *de facto* meant Saudi oil muscle – would be a genuine change in the way Europe henceforth dealt with the Arab-Israeli issue, as well as a general greater awareness of, and sensitivity to, Arab grievances and views.

A second dramatic consequence of the use of the oil weapon was, of course, the oil price explosion and the quadrupling of the Gulf states' oil revenues. In absolute terms, the increase in Saudi Arabia's revenues – and therefore in its potential growth as a market for arms, goods and services supplied by Europe or its competitors, was by far the greatest. From this 1974 watershed, European commercial interests in Saudi Arabia expanded dramatically, as did Saudi oil exports to Europe; at the same time, politics – especially Arab and Muslim politics – took a much more prominent place in European-Saudi relations.

¹³ Holden & Johns, *op. cit.* pp. 343-5.

Contemporary Saudi-European relations since the oil boom: a continued balancing act

In terms of oil exploitation and industrial development, as well as in terms of military security, the United States continued to occupy the pre-eminent position for the Saudi Kingdom and the royal family. Even as Saudi Arabia gradually took over what became known as Saudi Aramco, US involvement remained crucial; the US also remained the de facto guarantor of Saudi security – albeit, until the 1990 Gulf crisis, mainly ‘over the horizon’.

But Saudi Arabia was “never an eager participant in the superpower struggle for influence in the Middle East”.¹⁴ There was little sympathy for the Soviet Union, but the Saudi leadership – as most others in the region – did not buy into the American view that the USSR was the main threat to the region. Anti-Soviet feeling had to do with the atheist character of that system, and with the support Moscow had been giving to a number of revolutionary movements regimes around the world and especially within the region, who were critical of the Al-Saud’s rule and/or policies. But the closeness with the US was based on historical experience, practical benefit, and a rational calculation on both sides that the other had as much to gain from it as one’s own. By the same token, both practical considerations of a different kind, and friction over US support for Israel, led the Saudi leadership always to maintain constructive dealings with other industrialised powers – especially Western Europe and Japan.

Politically, Saudi Arabia expected from Western Europe a more balanced stance on the Arab-Israeli dispute, and possibly a degree of pressure or at least persuasion on Washington over this issue. Since 1974, that is in fact was Europe provided – albeit with limited effect.

Military, limitations on US arms supplies to Saudi Arabia, induced by the pro-Israeli lobby, led Riyadh to look elsewhere. France, West-Germany, Britain and Italy, in particular, made major efforts of their own to capture their slice of the market. From the 1980s, French and British arms contracts began to overtake the US. France was first into the breach, followed by Britain.¹⁵ The most striking European contract was the al-Yamamah deal signed in July 1988, which was worth some \$30 billion to Britain and which became known also for its ‘offset’ component of return investment, oil-component of Saudi payment (which BP and Shell are contracted to handle). The deal also led to five joint companies being set up, and is estimated to have supported some 30,000 jobs in Britain.¹⁶

¹⁴ W. Quandt, *Saudi Arabia in the 1980s: Foreign Policy, Security and Oil* (Washington: Brookings, 1981), p. 71.

¹⁵ B. Korany, ‘Defending the Faith amid Change: the Foreign policy of Saudi Arabia’, in B. Korany & A. Dessouki (eds.), *The Foreign policies of Arab States - 2nd edition* (Boulder: Westview Press, 1991), pp. 310-353: p. 337.

¹⁶ R. Hollis, ‘Europe and Gulf Security: a competitive business’, in D. Long & C. Koch (eds.), *Gulf Security in the Twenty-First Century* (Abu Dhabi: Emirates Center for Strategic Studies & Research, 1997), pp. 75-89: pp. 81-3.

In 1979-83, the US accounted for \$5.1 billion of a \$12.1 billion arms market in Saudi Arabia, whereas France sold \$2.5 billion, the UK \$1.9 billion, and West Germany \$500 million. In the 1985-89 period, of a total of \$23 billion, the share of the US was \$5 billion, while France and Britain obtained over \$7 billion-worth of contracts each. In the period 1991-94, the US supplied \$10.9 billion of a total \$27.9 billion, while the European share was \$16.5 billion. The US, in other words, has been decisively overtaken. Additionally, British and French security experts continue to be used both on the domestic and external security fronts.¹⁷

Recent and current European arms contracts with Saudi Arabia

	no.	type	order	delivery
UK	48	Tornado aircraft	1993	1996-1998
	20	Hawk tr. aircraft	1993	1997
	3	Sandown minehunters	1988	1997
	73	LAVAMS mortars	1996	1998
CH	20	PC-9 training aircraft	1993	1996
FR	12	AS-532 helicopters	1996	1998
	3	La Fayette frigates	1994	2003
IT	40	AB-412 helicopters	1997	

Source: IISS, *Military Balance 1998/99*

Defence deals clearly have a very major economic impact; in terms of revenues for European exporters, such deals are often worth at least as much as non-defence exports. UK sales to Saudi Arabia, for instance, stood at \$2.3 billion in 1994; about half of these were defence-related. In the same year, France concluded a \$3.7 billion deal (short on the heels of another \$700 million one), to supply air-defence frigates, shore facilities and upgrading of existing facilities; the country's other exports to the kingdom that year totalled \$1.4 billion. German exports have been relatively less defence-related, and have also on the whole been considerably lower than those of France and the UK.¹⁸

Trade and commerce have been more than arms-related, of course. The oil-induced development boom in Saudi Arabia also led to a sizeable European presence within Saudi Arabia. In 1980 -- at the height of the boom -- there were some 40,000 Americans in the Kingdom, compared to over 65,000 Western Europeans (including 25,000 British, 15,000 French, 13,000 Italians, and 10,000 Germans).¹⁹

¹⁷ A. Cordesman, *Saudi Arabia: Guarding the Desert Kingdom* (Boulder: Westview, 1997), pp. 109-111.

¹⁸ Hollis, *Op. Cit.*, p. 83.

¹⁹ Safran, *Op. Cit.*, p. 223.

In 1995, Saudi Arabia's main trading partners for exports (mainly oil and petroleum products), were Japan (18%) and the US (15%), followed by France (4%). Its main import partners that year were the US (21%), followed by the UK (9%), Germany (8%), Japan (8%), Switzerland (5%), and France (5%). In fact, since the mid-1980s, the share of Saudi exports in the decade prior to this, fluctuated around 5% for both France and the Netherlands, and around 4% for Italy. The share of Saudi imports in the same period fluctuated between 7-11% for Britain, around 8% for Germany, 4-5 % for France, 5-7% for Italy, and 3-6% for Switzerland. The EC as a whole accounted for between 35-40 % of Saudi imports between 1981 and 1987. Figures for the early 1990s give a similar picture.²⁰ Currently, one concern for European exporters is to what extent the Saudi market will be able to be maintained given the collapse in oil prices. From the Saudi side, the main issue is one of extended market access in Europe – especially for its petrochemical industry. This should bring us to a brief consideration of the main current issues in Saudi-European relations – but not without first at least briefly reminding ourselves of the two wars that scarred the Gulf region since 1980.

The Two Gulf Wars

This is not the place to recapitulate the story of the Gulf crisis,²¹ but it is worth noting the European participation in the operation in particular, and the continued role which has been played since the Iraqi defeat, by European actors. It is also worth noting that this active European presence in the Gulf -- in part to bolster the security of Saudi Arabia – did not begin with this Gulf crisis: since 1987, US naval forces had formed the bulk of the protective shield extended to shipping in the Gulf, safeguarding it from Iranian attacks (and in effect helping Iraq). But European forces too played a role. By the summer of 1988, The US had 32 warships in the Gulf, compared to the USSR's 8, the UK's 8 (the 'Armilla patrol'), France's 7, Italy's 6, and two each from Belgium and the Netherlands. These figures had been even higher for the European participants only the previous winter: at that time, the UK had 18 ships present, France 14, Italy 8, and Belgium and the Netherlands each 4.²² The reason for this involvement was not hard to guess: it concerned the safety of oil supplies from the Gulf to the rest of the world - not least to Europe itself, which was, and is, dependent on Gulf oil for 25-30% of its requirements.

This foreign protection, of course, changed both its composition as well as its nature and its target, between the cease-fire in the Iraq-Iran war, and the invasion of Kuwait. The Iraqi invasion led to a declaration by the EC of solidarity with the UN and US in their demands for Iraqi withdrawal. The UK, Italy and France had immediately frozen Iraqi assets. This was also one occasion where the WEU (the Western European

²⁰ Data from EIU, SAMA, CIA, Saudi British Bank, and Eurostat.

²¹ For analyses and information on the Iraqi invasion of Kuwait and the subsequent military build-up and Operations Desert Shield and Desert Storm, see L. Freedman & E. Karsh, *The Gulf Conflict 1990-1991* (London: Faber & Faber, 1993); A. Ehteshami & G. Nonneman, *War and Peace in the Gulf* (Reading: Ithaca Press, 1991), pp. 71-90, 166-224, 238-255; and R. Dannreuther, *The Gulf Conflict: A Political and Strategic Analysis* (= Adelphi Paper no. 264) (London: Brassey's, 1992), in addition to the memoirs of the military protagonists of the alliance - General Norman Schwarzkopf, General Sir Peter de la Billiere, and General Prince Khalid bin Sultan Al-Saud.

²² See N. El-Sayed El-Shazly, *The Gulf Tanker War* (London: Macmillan, 1998), pp. 239 & 256.

Union) adopted a slightly higher profile than usual, agreeing on 21 August to step up and coordinate European naval operations in the Gulf. King Fahd had accepted the help of US forces on 7 August, and had also formally requested forces from Britain, in a conversation with Foreign Secretary Douglas Hurd. Britain announced on 8 August that several aircraft would be sent, in addition to the Armilla patrol which was being beefed up. On 14 September, Britain decided to send ground troops and tanks (the 7th Armoured Brigade, or 'Desert Rats') to take part in the operation to defend Saudi Arabia, plus additional Tornado squadrons. They were followed the next day by France which also committed ground troops - its ambassador's residence having been assaulted. As Operation Desert Shield -- officially aimed at protecting Saudi Arabia from a potential Iraqi attack -- gradually changed into preparations for Operation Desert Storm, troop levels rose. In the eventual attack against the Iraqi forces, the US was quite obviously the dominant partner, but the British Royal Air Force participated extensively in the air war (taking relatively heavy losses), while both British and French troops were engaged in the short land war which followed.

Since the end of the fighting, there has remained a level of security cooperation on the part of Britain and France, including the stationing of some personnel, although most of this is related to arms supply contracts. In addition, Saudi Arabia has continued to pay 1/3 (\$300 million) of the cost of maintaining the southern no-fly zone in Iraq, which is enforced by the SA and Britain. Britain maintains some 200 personnel and 6 Tornado GR-1A aircraft in place as part of this 'Southern Watch', while France, at least until 1998, had some 130 personnel, 6 Mirage 2000C, and 3 C135 transport aircraft in Saudi Arabia as part of the same operation. Saudi Arabia did not conclude explicit defence agreements with the US, the UK and France as the other Arab Gulf states did in the wake of the Gulf crisis, but there is a very extensive understanding and cooperation in defence terms with the USA in particular (the US maintains an estimated 5000 troops in the Kingdom). As we have already seen, though, that has not meant an exclusive reliance on US weapons imports -- rather the contrary. It is worth noting, also, that Saudi Arabia was among those refusing permission for its territory to be used to launch attacks on Iraq in late 1998. This, again, brings us to a summing up of the current issues in relations between the Kingdom and Europe.

Current issues

The key issues currently colouring Saudi-European relations can be summed up, against the background provided above, under the categories of Oil; Trade; Security; Middle East and Gulf Politics; EU-GCC relations; and cultural understanding.

[headings only: needs completing]

Oil

- markets
- dependence
- price
- long-term
- taxes

Trade

markets access *versus* protection

Security

arms deals
defence agreements
limitations
→ Gulf security →

regional politics

Palestine
Iraq
Iran

EU-GCC

Saudi Arabia heavyweight
economics; customs union? Other issues?
exclusion from Barcelona process
mutual cultural appreciation →

Culture and religion

Islam in Europe²³
Mutual understanding
University collaboration ? European studies?
Gulf studies in Europe ?

²³ See G. Nonneman *et al*, *Muslim Communities in the New Europe* (Reading: Ithaca Press, 1997)

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA



3



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST

Rome, 3-5 March 1999

Pier Giovanni Donini

A Survey of Relations

between Saudi Arabia and Italy



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

A SURVEY OF RELATIONS BETWEEN SAUDI ARABIA AND ITALY

Pier Giovanni Donini

Istituto Universitario Orientale - Napoli

Relations between Italy and Saudi Arabia started off on the wrong foot. When 'Abd al-'Aziz ibn Sa'ud conquered Riyad in 1902, thus laying the foundations of the present Kingdom of Saudi Arabia, Italy's interest in the Arabian Peninsula was concentrated on the Yemen, where our navy had blockaded Hodeida in 1901 with the immediate intention of checking piracy and the slave trade, a longer-term goal being securing safety in communications between Italian possessions in Eritrea on the Red Sea and the Benadir ports on the Indian Ocean in what was to become Italian Somalia.

At the outbreak of the Yemeni revolt a couple of years later Italy was faced with the need to coordinate or at least accommodate her policy in the Red Sea area with her European allies and rivals. In the region, and in the Yemen itself, the paramount influence was of course Britain's. Opposition came mainly from Germany and Russia as well as, to a lesser extent, France: the main issue at stake being the imminent, as it was generally believed, disintegration of the Ottoman Empire, which France on the whole considered premature. Within this context Italy was inclined to side with France and Russia in abstaining from any initiative likely to hasten the Ottoman Empire's collapse. It should be recalled in this connection that our planned occupation of Libya was believed to have a better chance of success if carried out before the final demise of the Sick Man of Europe rather than in its immediate aftermath, when it was feared, with some reason, that one of our more powerful rivals, France and Britain, might get there first.

Italy was therefore in favour of preserving the status quo in the Peninsula, even though it did not completely refrain from unofficial or covert activities in the Yemen and the 'Asir. This changed after the occupation of Libya in 1911, which had an interesting by-product in the Red Sea, where Muhammad ibn 'Ali al-Idrisi accepted Italian aid against the Turks. This, incidentally, had some negative repercussions in France and Britain, so that when peace talks began with Turkey in 1912 Italy refrained from advancing any claims to the 'Asir. The consensus was, at the time, that a suitable opportunity for extending Italian influence in the Peninsula had been missed. At the same time, however, a medical unit of the Italian Army maintained a peaceful presence in the Hijaz - then involved in Husein's first campaign against Ibn Sa'ud - up to the outbreak of World War I.

On a wider plane, it was felt - before and after World War I - that had Italy sided with Germany and Turkey, she might have acquired greater influence in Arabia. Regions such as the 'Asir and the Yemen, where our leverage was strongest, were also those where Turkish authority was most efficient and hence less likely to be challenged in case of conflict. By siding with France and Britain, Italy was destined to achieve only limited influence in the Peninsula, where any Italian post-war claim would be dependent on our allies' goodwill. In any case, Italy's attention was directed towards those areas of the Ottoman Empire which were unofficially earmarked as Italian spoils in the anticipated partition of the Empire, that is the Adalia region in Anatolia.

Once war started and Italy joined in with the Allies, another opportunity for extending our influence in the Yemen was missed when the Imam Yahya proved reluctant to rebel against the Turks, presumably because of his border dispute with British Aden; but Italy, with her resources overextended on the Austrian front, was in no position to offer Yemen protection against both

Turkish occupation and British pressure. Neither Inner Arabia, nor the Red Sea coast were in any case discussed when Italy protested at being left out of the planned dismembering of the Ottoman Empire, once the Sykes-Picot agreement became known. The issue of Italian influence in the Yemen was raised, however, at the Peace Conference, with limited results. As for Italian relations with, or influence in, Central Arabia, the matter was considered of secondary importance so long as Central Arabia - or, more specifically, Najd - had no outlet to the Red Sea.

Again, this changed after the outbreak of hostilities between Najd and Hijaz. As late as early 1924, however, Italy was involved in the latter, providing economic and military assistance. The outcome of the war was viewed in Italy (and France) as a British success - which in the short term it was. As "Muslim countries" in the rather limited sense that they had a number of Muslim colonial subjects, however, Italy and France could and did view the triumph of Saudi arms - and the suppression or stillbirth of the ill-advised Hashimi Caliphate - as a welcome step in the direction of greater stability in and around the Holy Places. And "Muslim relations" were indeed an important element in early Italian-Saudi relations.

The emergence of Saudi power in the Peninsula effectively checked Italian ambitions in the region, and hindered penetration efforts attempted with renewed intensity by the new Fascist regime. Diversion of initiatives towards the Yemen was the only alternative left, which goes a long way to explaining Italian commitment. 1925 saw intensified Italian naval and other activities at and near Hodeida, which led to the treaty of September 2, 1926 between Italy and the Yemen. This was viewed, among other things, as an initiative hostile to the Saudi State, or Kingdom of Nejd and Hijaz as it then still was. Italy was in fact one of the last of the great powers to grant diplomatic recognition to the Saudi State. The situation was belatedly rectified by the Treaty of Jeddah in 1932.

When war broke out in 1934 between the Saudi State and the Yemen, Italy's sympathies were visibly with the latter, where Italian economic interests were more considerable. This gave credence to widespread - albeit officially denied - reports of outright Italian involvement in the conflict. Saudi military success faced Italy with the need to play down her former pro-Yemeni stand and stress the recently established but friendly relations with the Kingdom of Saudi Arabia. The Treaty of et-Taif, concluded on May 20, 1934, between the Kingdom and the Yemen was greeted in Italy as a masterstroke of Saudi diplomacy. This show of opportunism apparently left no hard feelings in Saudi Arabia, which did not join in applying sanctions against Italy as decreed by the League of Nations after our aggression against Ethiopia in 1935, and indeed extended official recognition of the newly-proclaimed Italian Empire in 1937.

The Kingdom maintained strict neutrality when World War II broke out, and only demanded closure of the Italian Legation at Jeddah in February 1942 at British insistence (or "blackmail", according to the official Italian view). This is particularly interesting in view of the fact that Saudi Arabia would have been justified in taking an anti-Italian stand when her territory was hit - albeit accidentally - by units of the Italian Air Force during a bombing raid against Bahrein on October 20, 1940, but rather benevolently accepted the Italian government's justification and pursued the matter no further. Aviation had, of course, played a role in the first stages of Italian-Saudi relations, when Italy had donated or sold planes to Saudi Arabia and trained Saudi pilots, following a tradition which had been established in the context of relations with the Yemen.

After World War II Italian foreign policy, and hence relations with Saudi Arabia, entered a new stage. To summarise, up to the early Forties we had a foreign policy; after 1945 we had an alliance with the United States.

The policy of the Italian State towards what is now the Arab World has focused since its inception on two partially incompatible aims: taking advantage of Italy's unique geographical position in order to develop a sort of special relationship with the whole Mediterranean Basin, or acting in this area in accordance with a pattern set by other European powers. Italy's aggression of Libya in 1911 was a typical, albeit belated, example of conformity to a European colonial model, while Mussolini's Arab policy of the 1920s and 1930s was a significant expression of what used to be called Italy's Mediterranean vocation.

After World War II the whole concept of a Mediterranean-centered foreign policy was initially discredited by its close association with Italy's Fascist past. During the 1930s, the popularity enjoyed by Fascism among some Arab nationalist circles had given Italy the unprecedented opportunity of exploiting anti-British and anti-French feelings in the Arab world. Some propaganda mileage was indeed achieved in Egypt, Algeria, Tunisia, and Syria among those Arabs who were naive - or cynical - enough to forget that the self-styled "Protector of Islam" was the same Mussolini under whose rule Muslims were being oppressed in Libya and other Italian colonies. Those were embarrassing memories in post-war Italy, which go a long way toward explaining a widespread tendency to reject or forget the past. A more specific factor was, after 1947, the partition of Palestine and the birth of the State of Israel. The almost universal - albeit unjustified - belief that this was right and proper compensation for the wrongs which European Jews had suffered in Europe at European hands drove a succession of Italian Governments to align Italy's position with the predominantly pro-Zionist, and later pro-Israel, trend in Europe and the United States, even if this meant throwing out the baby of good Arab relations with the bathwater of Fascist propaganda.

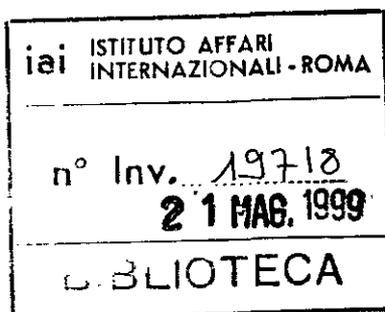
This is probably a good opportunity to recall that Italy had no independent foreign policy to speak of after the Christian Democrats ousted the Socialists and the Communists who had shared power with them in the first post-war coalition governments. This was achieved with US backing in order to ensure democratic stability and was accompanied by the injection of over 10 billion dollars into the Italian economy between 1948 and 1952 through the European Recovery Program, which was later to influence our economic relations with the Arab countries by increasing Italy's oil dependence. The official Italian view on Near and Middle Eastern issues thus tended to coincide with Washington's most of the time, the connection being further strengthened when Italy joined NATO in April 1948 and by so doing found herself bound to defend US interests in the Mediterranean.

No wonder, then, that no particular efforts were devoted to developing trade relations with the Arab countries: the 1950s saw the beginning of European economic integration, which was rightly considered vital for Italy's future, and everybody was looking anxiously over the Alps. Attention for the southern shore of the Mediterranean was merely residual. This was due to change in the 1960s, when the pace of industrial development in Italy caused increased demand for crude oil, which the Arab countries had no difficulty in supplying.

A radically different situation emerged after 1973, when oil price rises and the proclaimed intention of using oil supplies as a political weapon in order to persuade Europe to exert pressure on Israel. Italy, as well as most Western countries, had to carry out urgent measures to develop exports to the oil-producing countries. This again turned Saudi Arabia into an extremely interesting partner, and hardly a year has gone by since 1974 without a high-level Italian official visit to Saudi Arabia, or vice versa. Two-way trade between our countries currently stands at about 4 billion dollars per year, and the general state of mutual relations is characterized as "excellent".

An impressive achievement, no doubt, but some misgivings seem justified. A significant difference between pre- and post-war Arab policy in Italy consists in the fact that whereas the driving force used to be Politics with a capital P - in other words, a plan based on medium- and long-term geo-strategic considerations - this was replaced by short-term perceptions based on day-to-day, hand-to-mouth, knee-jerk reactions. This is highlighted by the sad fate of the Euro-Arab Dialogue, which began with much media enthusiasm and petered out largely because of European indifference and US hostility. There were some shortcomings on the Arab side too. Non-oil producing Arab countries such as Jordan went all out for multi-lateral Euro-Arab cooperation. Oil-producing countries like Saudi Arabia could afford to give such a project a lower priority, to come and shop in Europe for whatever they needed without worrying about long-term developments, or the evolution of US, EU and East Asian inter-relations and the respective perceptions of long-term interests.

Another aspect involves the specific field of cultural relations. These were a pillar of Italian foreign policy during the 1930s, when the man in charge of accompanying Italy's Muslims on the hajj was no less a person than Carlo Alfonso Nallino, an Arabist of international repute. Now culture is the poor relation of international relations with the Arab world, including Saudi Arabia. With some ridiculous results, as when an exalted Italian personage about to leave on an official visit was stopped at the last moment, by a lucky chance, from presenting the King with a Qur'an in translation, which was undiplomatic enough, bound in the best pigskin the Italian tanning industry could offer. The present trend in Italian-Saudi relations is certainly good for business on both sides, but neither of our countries is really doing enough in order to improve mutual understanding.





4



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Abdillah H. M. Al-Khalifah

Islam and Society in Saudi Arabia



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

**Kingdom of Saudi Arabia
Ministry of Higher Education**

Islam and Society in Saudi Arabia

By:

**Abdullah H.M. Al-Khalifah
Professor of Sociology
Department of Sociology
College of Social Sciences
Imam Muhammad Bin Saudi Islamic University**

February, 22, 1999

Islam and Society in Saudi Arabia

Abstract

The sociological notion that religion has a social reality whenever it exists and comes into practice is applied in this paper to analyze the role of Islam in Saudi society. Islam is seen to represent very essential and dynamic role. The social order of Saudi society, the consolidation of the state and the legitimization of the state's authority, all emerged out of religious forces. Islam in Saudi Arabia proved to be of important integrative homogenizing mechanism. The cultural tribal differentiation, once fostered continuing conflicts, has been relaxed through policies of Bedouin sedentarization, which comes possible on religious grounds. The importance of Islam in Saudi Arabia is not confined to its influence in the maintenance of the social order. Rather, it paved the road to modernize the society in accordance to religiously defined goals. Thus, the religiously grounded goals of development, along with the roles played by Ulama of shariyaaa (Islamic Law) regarding developments and changes, proved to be of vital importance when putting people's adaptation and adjustment to economic development and change into the picture. Finally, the religious nature of Saudi Arabian society, backed up by some historical and geographic significance, is what makes Saudi Arabia's roles in the international politics and affairs of distinctive nature.

Introduction

This paper represents an attempt to analyze the role of Islamic religion in Saudi Arabia. It is argued here that Islam plays very important and dominant role in all social political and economic spheres in Saudi Society. To analyze this role, this paper is divided into three parts. In the first part, a short and general theoretical perspective account of the role of religion in society is given. From this, we will proceed to the second part, which will focus on the political role of Islam in bringing about the Saudi Arabian social system in the first place and then in maintaining and preserving its social equilibrium. In the third part, we will examine the relationship of Islam to economic development and social change.

I-Theoretical perspectives: Religion and Society

Religion has been very important subject in sociological inquiry. No major theory throughout the history of sociology has neglected this factor in its investigation. For instance, Bin Khuldon, in his analysis of social solidarity, saw religion as the most cohesive force in large sedentary people. The sweeping conquest of the Muslim Arabs in the seventh century was made possible by the fusion of tribal and religious solidarity. Further more, in the writing of the 19th century sociologists including Comnt, Durkheim, Marx and Weber, to name view, religion took important role. Their writings represent the cornerstone for later investigations, concerning the role of religion in societies (Al-Khalifah, 1997, P: 3).

The functionalist school in sociology gives religion a central importance in the making up of society. Cultural system is seen generally speaking to be the source of social order and cohesion. It is the cultural system that represents the cornerstone for the social conscience, the morality, the law and education in society (Durkheim, 1915; 1933). To conflict theorists religion is looked at from two angles. The Positivistic conflict branch views religion as an ideological stabilizing force (Gouldner, 1980); but the critical conflict branch considers religion as a mechanism, on which charismatic leaders based their uprising for social reform and justice (Weber, 1947, PP: 358-373).

These early writings and others constitute the basis for later investigations, concerning the significance of religion in societies. Inspired by the assumption that "religion is the most substantial bond of humanity" (Wach, 1944, P: 6), students of the sociology of religion have been trying to show how religion acts and interacts with almost all social phenomena in its complex forms: i.e. economic, social, political and personal...etc.

The importance of religion in later era has been challenged by the so called "modernization school", which emerges during the decades following World War II. Modernization theorists contend that the process of modernization will eventually lead to the decline of religious vitality. The fundamental and the theoretical roots of this orientation go back to the early writing of the major 19th century sociologists particularly Karl Marx. He views the economic structure of society as being the infrastructure of the society as a whole, which determines all superstructures including social classes, the state and religion. This view provides the starting theoretical reference of the modernization orientation, which links casually religious change to modernization processes.

But the last two decades of the present century (1980-2000), which witness the emergence of new Geo-Political maps resulting from the collapse of the eastern block countries, raises serious challenges to the modernization perspective, which link religious decline to the growing modernization forces. In stead, it yields fundamental support to the so-called "cultural Perspectives", which link changes and development of the social and political reality in society to cultural and religious influences. The writing of Durkheim (1915; 1933) in general and Weber (1958) in particular forms the classic theoretical frame of reference for this orientation. Durkheim for example sees the social conscience, which represents religious and other cultural elements, to be independent social facts determining all sociological phenomena. But perhaps, it is Max Weber (1958) who puts the issue in a straight clear manner; that is Weber, in contrast to Marx, saw in Protestantism, as a believe system, the cause of capitalist economic enterprise.

Also, it is important to note that over the last decades the relationship of religion to society has received great attention from social scientists who have been paying considerable efforts to issue of religious revivalism or fundamentalism, as it has become a world wide cultural phenomenon. (See: Gabriel et. al. 1995). Generally speaking, one can draw a macro picture out of the growing body of fundamentalism literature, showing the revival of religion in the present era and its growing significance. Such literature reflects great deals of a variety of uprising issues, ranging from as limited scale an issue as the question of ethnic group identity to one as macro scale an issue as education, media and politics...etc.

The present research is an attempt to show how Islam in its social reality represents the dynamic force standing behind the historical and present development of Saudi social order.

II- Religion and the Question of Social Order

To analyze how social order of Saudi society comes about, we will deal below with how the state has emerged out of religious necessities. Then, we will see how the state's authority comes to have legitimacy and how Islamic principles underlie the bureaucratic structure of society. Finally, we will deal with how religion serves as an ideological paradigm by which the Bedouins, who once constitutes the majority of the population, come to be integrated in the Saudi main stream society.

Islam and the State:

We begin our analysis of the role of Islam in Saudi society by showing how Saudi state throughout its three stages have been made possible by religious forces. Before 1744, almost all parts of the Arabian Peninsula were ruled by local traditional authorities, which largely consists of tribal *Sheikhs*. Continuing conflicts among tribes or among other social groupings dominated much of the social scene at that time. Various forms of social injustice and corruption characterized great deal of social and political relationships. These social conditions have set the stage for social reform. Given the cultural and social nature of the inhabitant of Arabian peninsula during the 18th century, social reform based on religious roots proved to be of significant effectiveness in putting to an end such a social disruptions and chaos. Imam Muhammad Bin Abdul Wahhab, who socially comes from the heart of Arabia, and intellectually got religious education both locally (under the auspices of his father) and at abroad (in some of the neighboring countries of the time, Iraq, India...etc.) was capable of providing the cultural means by which such social problems could be solved. The Imam attributed the existing social problems to people's being far away from Islamic teaching and practices.

Thus his strategy of social reform was based on Islamic Ideology which must be readapted if just and stable social reform is to be maintained. But the readaptation of Islam by people after long period of decay and deviation was not an easy matter. Thus, it becomes necessary to have the political support from those who can provide it. Imam Bin Abdul Wahhab's initial attempts (in the village of Oyyenah) to gain such support had failed. Thus, the Imam has sought support in another village namely Duryyah. There, and specifically in 1744, Bin Abdulwahhab met the ruler of Duryyah namely Muhammad Bin Saud, who saw him the kind of leader who is independent and strong enough to provide the political means needed to convert his Islamic vision of social reform into a reality. The meeting resulted in a religious and political alliance between the ruler of Duryyah and Bin Abdul Wahhab. The emergence of the first stage of Saudi State (1747-1818), which took place over short period, and put much of Arabian Peninsula under its domination, had resulted out of this alliance. The growing power of the new state had constituted major threats to Ottoman Empire who managed through its Egyptian representative to destroy the newly emerging power in 1818. But the absence of Saudi authority did not last long. In seven years after the decline of the first Saudi State, the state reemerged under one of Imam Muhammad Bin Saud's descendant, namely Turkey Bin Abdullah. The significance of Islam in the foundation of Saudi State is not confined to its first stage, but continued throughout its second and third stages. Thus, Imam Turkey, like his ancestor, continued to base his authority on Islamic ground, which helped reestablishing the state again (1825-1891) after its destruction under Ottoman-Egyptian forces. Like the first stage of Saudi State, the second had declined in 1891 mostly out of internal conflicts fostered by external interference. After ten years, the Saudi State in its third stage had emerged under the hand of King Abdulaziz who

managed to recapture the city of Riyadh in 1902 and the rest parts and regions in less than three decades of struggle and unification.

Based on this short overview of historical account of the development of Saudi state, one can undoubtedly see that Islam represents the basic religious ideology for the Saudi state throughout all its three stages, a matter that is well documented by many various national and international sources (Othaimain, 1418H; Abue Aliyah, 1418H). But, what is important to bring here is to show how Islamic role in society have become more pronounced and activated to influence and shape all the sub elements of the system, whether Political, social, economic, cultural. The preceding passages will show how these elements have been shaped by Islam.

Islam and Legitimization of Authority:

It is difficult for any analyst to grasp the nature of the political authority of Saudi society without accounting for religious considerations. This is to say that, from the very beginning of the state, Islam and authority have been coincided with one another. Social reform movement of Bin Abdulwahhab did not succeed with the political support of the ruler of Bin Saud. Like wise, the ability of the ruler of Duryyah to put much of the Arabian Peninsulas under his political domination and control only became possible by making this control as a mean for bringing about social reform based on Islamic goals and values. This can explain largely the fast adaptation or acceptance of this emerging social order by the people and various social groups who were used to have lived long and bitter social conflicts. Thus one can see the interacting process between Islam and authority in Saudi Arabia. That is, where the state acts as a mechanism for the inclined or adherence of people and social groups to Islamic teaching and practices, Islam, in return, has given authority the

kind of legitimization necessary to make the state perform its functions in society via its various apparatus and agencies. The Russian historian namely (Vassiliev, 1986) indicates that Saudi rulers have based their struggle for the unification and independence of their state upon religious reform. He also indicate that obeying the ruler as he represents the religious leader, *Imam*, proves to be a social uniting factor and makes religion to be the halo of the highest authority in the state.

It goes without saying that the alliances between religion and the state in Saudi Arabia was not peculiar to the first and second stage. Rather, it becomes more central and interdependent in the third stage of the state. It is in this stage that religion has played solid role specially in solving some practical political problems, which believed by some observers to be important factor underling the fall of the first and second stages of the Saudi State. Such problems include the Bedouin urban dualism, and the isolation of the Bedouins, from the main stream of the society. The Bedouins, as a social group, used to constitute the majority of the inhabitants of Saudi Society. The role of religion in solving such problem will be dealt with later in this paper, but what is important to high light here is that, King Abdulaziz throughout his struggle to reunify the state had followed the same religious path as his ancestors. The first manifesto issued following the successful attempt of recapturing Riyadh in 1902, which signifies the rebirth of the current state was that "The Reign is only for God and Then For Abdulaziz", a statement that stresses the religious nature of the authority of the King. The king, as vasselv, (Vassiliev, 1986) indicates "had took his ancestor's footstep in observing Islamic values and teachings, specially those of Bin Tuymeyah's school of faith to enhance the central authority of the state. It should be pointed out here that, this particular school of faith views ideal society to be one in which constitutive authority is to be on the hand of religious Ulama, where as

the executive and political authority is to be left to the ruler (Vassiliev, 1986, P: 355). In addition, the basic statement of the constitution of the country declares that the exercise of the authority is to be in accordance with the Quran, and the tradition of Muhammad, the Prophet (See: Al-senaidy, 1418H, P: 93). Furthermore, the role of the King reflects to great extent this religious and political interdependence. That is, the King supervises the application and execution of Islamic law (shariyaaa), which is to be applied to all people equally; overseeing the state activities; and the maintenance of security and social services. The King also represent the source of all social and economic decrees and commands that aim to grantee the self-steam for each citizen in the context of Islamic law (Vassiliev, 1986, P: 350).

The role of Islam in Saudi society goes beyond the consolidation of the state and creating a legitimate authority by which macro and micro scale regulations are accepted and adopted by the various social units of the entire system. That is, the social equilibrium is in many ways a function of this very religious factor. But what is important to point out here is the role of Islam in bringing back such equilibrium in times of social and political crises. As it will be dealt with later, Saudi society, like any social system, has experienced numerous occasions where the social order got disrupted internally and externally. This includes Ikhwan movement, the occupation of the Grand Mosque, and the intellectual movement following the Gulf second War. In all these occasions and similar others, religion stood up in the side of the state against those challenging its legitimization. Thus, religion here has proved to be stabilizing force in times of ciao and disorder.

Religion and The Sedentarization of Bedouin:

The central significance of Islam in the case of Saudi Arabian development is not confined to the creation and consolidation of the Saudi State. It goes, instead, beyond that to underlie the state's efforts toward Social inclusion and integration of the society's inhabitants, who are sharply different from each other in terms of their social and cultural and tribal backgrounds. These significant differences were to be put to an end, if social equilibrium is to be maintained and to have a meaning in the first place. To illustrate, it is known that, before the political unification of the country, the population composite of the country consisted of three major groups. The Bedouin population is the first and by far the largest group accounting for more than three fourth of the population. This group used to live in the dessert relying mostly on animal husbandry. Their social and economic life is environmentally determined; it is inclined toward stability and harmony only during the rainy seasons, but turned to turmoil and conflicts during the drought seasons. The rural dwellers consisted of smaller segments of the country's inhabitants. Their social and economic life depends mainly on agriculture and related activities. The smallest portion of the inhabitants lived in small towns relying mainly on small-scale crafts and commerce.

These divisions were not independent of the political phenomenon of that time. Rural and urban population have sided up in most cases with the central authority of the family of all Saud in all three stages, but the loyalty of the Bedouins to that authority was not always a reality. It is well documented that many Bedouin tribes stood against the rulers of al Saud and sided up with their adversaries. This situation has undoubtedly resulted partially in the decline of the first and second stages of Saudi State. Thus, it is highly expected, that King Abdulaziz, drawing on listens from the past of his ancestry's rule, realized from the very beginning of

his movement the needs of homogenizing the country population, so that all people of the society share common values and expectation. Such homogenization can also make the Bedouins more controllable than ever before. The urban and rural compositions of the population share more common values and expectation, due to the role of Ulama of shariyeh (Islamic law) (See Mutawa, 1989), but the Bedouins have less common values with other two groups. This is due to the urban nature of the religion, which can only be internalized and practice in urban stable settings.

Thus, when King Abdulaziz recaptured the city of Riyadh and surrounding more settled areas, he started encouraging the Bedouins to settle down. But the King's call was only to succeed through religious means. That, is the Bedouins got convinced and believed of the contradictory and conflicting nature of nomadism and religiosity, since certain religious duties can only be performed in urban setting (such as Jumaa Pray, fasting the Month of Ramadan... etc.). The Ulama and their students, whom King Abdulaziz had sent to the deserts to religiously educate the Bedouins, were succeed in making the Bedouins adopt the idea that in order for the Bedouins to be true believers, they have to quit nomadism and settle down which then will be possible for them to learn Islamic teaching and putting it into practice. Consequently, the Bedouins started, slowly but surely, settling down and selling their *camals*, the dynamic transportation force behind their frequent roams. They settled in places called *Hijer* (plural of *Hijra*), a name that has a historical and religious connotation, meaning the abandonee of places of the infidels to places of the true believers. The name also historically takes after the emigration of the Messenger of Islam (Muhammad, the prophet peace be upon him) and his companions, from Makkah to the city of Madinah during the early days of Islam. The first established hijra, namely the

hijrah of *Al-Artawyah* (of *Mutair* Tribe), located about 180 miles north of the city of Riyadh, took place in 1912. In eighteen years following this date, about two hundred hijrs were established, some housing as many as 10,000 inhabitants (Shamekh, 1975, P: 47; Al-Abbadi, 1981, P: 209). Most of these hijrs developed, over the successive years of their emergence, to villages, and some of them have become even urban centers.

The political and social significance of the sedentarization of Bedouins is multifold. First, "the settlement enhanced the government's ability to monitor loyalty to Bin Saud" (George, 1975, P: 28). Second, these settlements represented manpower basis, which can provide the state army with fighters on a short notice. In this sense, the sedentarization process can be seen to have speeded the political unification of the country. The Ikhwan, as it is well publicly known, played very central role in recapturing Hijaz and adjacent regions. Finally, under the influence of religion, the sedentarization process has abridged the social and cultural gaps between the Bedouins in one side and rural and urban dwellers in the other side. In the then new social order, the three groups come to share common cultural values. The vital importance of the settlement process continued throughout the following decades, which witnessed the discovery of oil and the consequent government's efforts of modernizing the society. That is, the hijrs have served not only as acculturation mechanism, but also as transitory locations, where Bedouins who then became more inclined toward urban life moved from these hijrs to cities, where more social and economic opportunities are awaiting.

In short, the sedentarization of Bedouins which, as we have seen, results in the social inclusion and absorption of Bedouins in the main stream Saudi society represents a unique and living example of nation state

building, where the largest segment of the population and yet the most backward and disrupting is destined to become very important integral part of the nation as a whole. But these gigantic social and political achievements could not have been possible without putting religion in the focal point of the whole picture.

Islam and Bureaucracy:

The relation of religion to Saudi society is further reflected in the nature of bureaucracy. If Islam, as we have seen above has help creating a national unity, then one can expect that religious values and principles are to underline the larger social goals directing much of the social actions of all social units i.e. individuals, groups, institutions etc.. Bureaucracy in Saudi Arabia as it constitutes the societal instrument to achieve or to help social units achieve such goals has been structured in a way to take into account Islamic values and principles. As Al-senaidy (1418H, P: 309) indicates “rules and regulations are in conformity with Islamic law”. That is, the goals of each administrative sector are defined in the context of the larger societal goals. Furthermore, the analysis of the bylaw documents pertaining to sub social political and economic system, show in a direct manner that the procedures and regulation defined in these bylaws echo the religious nature of the society. Moreover, if we focus upon the specialty of the larger administrative branches including ministries national committees and other large scale administrative units, we can notice that more than ten macro administrative branches are assigned special religious functions in the domain of justice, pilgrimage affairs, endowments and Islamic affairs, Legal Opinion Advisory Affairs, and the supervision of the Two Holy Mosques etc. The same is true for public policy pertaining to education, health and social services. These policies reflect Islamic basics and principles at large. That is General Islamic

principles are accounted for in these policies. As examples, the curriculum of public education programs includes large proportion of courses teaching Islamic and related subjects. Also, at all three public education levels, student can enroll in schools specializing mainly in Islamic subjects. At the college level, three out of eight universities in Saudi Arabia are majored in Islamic specialization.

In short, the bureaucratic structure of the state, representing those means and procedures related to fields of social and political socialization (education, media, justice) labor and economics and security, all have been designed to take into consideration the social and religious nature of the society.

Islam and Saudi Every Day Life:

The notion that Islam in Saudi Arabia has a social reality can perhaps be more observed in the more micro processes of actions of every day life. The reality of every day life is not independent of the religious cultural structure of the society. Thus, it is not hard to observe that such structure penetrates all social activities and actions carried by people throughout their day to day life. Perhaps the most noticeable of these, particularly for outsider observers, is the intersection between daily social activities and the religious ones, such as prayers, fasting the month of Ramadan, and pilgrimage. The timing of the performance of these religious duties has obvious influence on the timing and duration during which social and business actions are to be carried out. Two weak public holidays are observed at the end of Ramadan and the beginning of the pilgrimage month.

Moreover, one can observed a close link between the way in which mosques in all places are sat up to face the direction of Kaaba and the urban structure of these places. In other words, this urban aspect of the

mosque has determined other urban units including housings, public or private buildings by letting one side out of four facing the same direction as that of the Mosque. Most streets and ways go either facing or intersecting the same direction.

In addition, one can also observe the social reality of religion in many other daily affairs. In theory, "Islam as it is both doctrine and law is seen to dominate and permeate every minutes of the Muslim life" (Goves et. al., 1987, P: 496), and this very nature of the Islamic religion is what makes religious meanings and symbols are manifested in a variety of daily acts in almost all spheres including as an example norms and habits of eating, drinking; manners and habits associated with marriage, greeting ...etc. Included also the fact that, the majority of people are given names that have religious connotations such as these names indicating the absolute obedience to God. Or those named after the Messenger and his Companions, and those named after those who played major roles in the spread of Arab Islamic civilization.

All in all, these living micro aspects of Saudi society mirror the fundamental structure upon which the whole society is based.

III- Religion and the Questions of Development and Change

If social order of Saudi Society is an outcome of Islamic principles and values, then any transformation or change occurring within that order must be guided or at least rationalized on Islamic grounds. In the following sections, we will see how Islamic values helped facilitate the application of development programs, and how they represent protective

mechanism for the social order against various aspects of social uprisings and conflicts.

Islam and Social Development:

If the emergence of Saudi Arabia, specially in its third stage, and the settlement of Bedouins are perhaps the major events in Arabian peninsula during the first half of the twentieth century, it can be argued that the discovery of oil and its role in the social and economic transformation of Saudi Arabia represents the most major event in the second half of the present century. This process has undoubtedly changed the means of production, transforming the Saudi society from one relying on economies of subsistence such as pasturing, hunting and simple scale agriculture, commerce and industries, to one with strong and complex economic basis represented by oil and its derivative industries.

But what is very important in this regard is to see how religion comes to play a vital role in such a social and economic transformation brought about by the oil economies. Since the discovery of oil in 1938, the economic scene of the country has changed as a result of the government policies aimed at improving the social and economic conditions in the country. Cancellation of taxes, financial support to the needy and establishing education and health programs are among the early steps taken by the state to modernize the society. Since early 1970, a period of economic boom resulting from the dramatic rise in the world oil prices, the state has adopted the so called "Five Year Development Plans" by which development programs are designed and executed in a more organized manner. That is, for each five-year period, specific goals are to be defined and given priority, then certain strategies and programs are to be executed during the same period to achieve such goals. A close

examination of the development plans' goals (1970-2000) shows these goals to be grounded on Islamic principles and values.

As it can be expected with the application of the early development plans (1970-1980), the modernization strategies and programs started to reshape all aspects and phenomena in the country; new way of living have replaced the old ones to the extent that one can observe no element or sphere has escaped the influence of these changes. The fast pace and strong influence of development poses legitimate question to social scientists; That is, what makes Saudi Arabian people come to accept, in the first place, these social policies aiming to reshape the social scene through modern forces and technology. And how it becomes possible, in the second place, for people to adopt to that outcomes and influence of development. To answer these questions, one can argue that the state has let the development process be guided by goals grounded on Islamic values. In addition, social considerations are given first priorities before pure economic ones. Religion has also been given central role when designing the development goals and in making choices concerning means to achieve such goals. This strategic process has prevented, to a great degree, any possible social conflict opposing modernization policies on religion ground. Furthermore, religion has served as a filtering agent of modernization. People, voluntarily, who find themselves in a social setting full of modern ways in almost every sphere, confront varieties of issues raising religious questions about the religious legality of their uses. Thus, the Ulama of Islamic Law has been playing essential roles in the adjustment of people with development outcomes.

Islam and Social Conflict:

Throughout The above discussion, we have seen how the social order in Saudi Arabian has become possible under the influence of Islam. That is,

Islam does not only help the creation of the state in the first place, but also serves as an ideological frame of reference, which is to be the basis for the governmental programs and strategies toward the organization and development of the society.

It is this centrality of religion in Saudi society, therefore, that makes Islam at the crossroad with all phenomenon. Social conflicts are among such phenomenon in which religion has major influence both in their rise and fall.

In short, the effort of the state to modernize the society has been from the very beginning of the third stage of the state associated with the rise of social conflict. On a theoretical sense, the relationships between modernization and social conflicts have received great parts of social scientists' attentions. Historically speaking, no country, in which economic development process took place, has escaped the negative outcome of such process. It is well documented that, all countries, regardless of their current stage of development have experienced one sort or another of economic social problems including at the economic level the sharpening lines among social classes, the rising levels of poverty, and unemployment...etc.

But what is unique about social conflicts in Saudi Arabia, is not in their links to modernization policies, but in their very religious tone. That is, most major conflicts occurring in Saudi Arabia have tried to base their call on a religious ground.

The *Ikhwan* uprising during 1929, the occupation of Grand Holy Mosque during late 1979, and the emergence of some intillectual and religious groups following Gulf war the Second, among others, are important examples of internal conflicts grounding their cause on religious basis. But these movements did not succeed or rise to reach a macro level and soon were distend to vanish. It is important here to realize the crucial

role of religion in bringing down such movement. In Islamic Sunni School of Faith, the head of state is assigned religious and political authority which must be obeyed and never be challenged as long as the head of the state continues in basing his rules in Islamic law. For this reason, almost all political movements and conflicts are seen not only by the religious establishment, but also by the main stream Saudis, as deviant behavior, which is to be condemned and stopped.

Consequently, one can see that Islam in Saudi Arabia has been representing the major force not only in bringing about social equilibrium, but also in preventing any process or disturbance that may upset the social order of the society.

Summary and some Implications

The social reality of Islam in the case of Saudi Arabia constituted the subject matter of the present investigation. Islam is seen to represent the infrastructure of the society. The social order of the society, in the first place, emerged out of religious forces. After long period of social and political dismays and disorganization throughout Arabian Peninsula, the religious based social reform movement led by Bin Abdulwahhab and Bin Saud, succeeded in bring about a unified nation covering most parts of the Peninsula in a considerable short time. This process, furthermore, helped the authority of the state to be seen or considered by the ruled people as a legitimate authority, which facilitate the public acceptance of the state's regulations regarding any societal sphere. The bureaucracy, which represents the most important tool of the state to apply its various regulations, is structured in a way that accounts for the religious and

cultural nature of the society. It is that legitimization dimension of the authority which represents a driving force by which major social changes (including the sedentarization of Bedouins, the application of the government Five Year Development Programs...etc.) occurred smoothly, or took place without major social reactionary uprisings. Moreover, the religious nature of the society goes beyond the macro structure of the society to penetrate the micro processes including the actions and interactions of people in their every day life. Finally, the religious supremacy in Saudi society makes Islam intersects not only with those phenomena reflecting the evolution maintenance and consolidation of social order, but places it in the focal social scene, in times of social disruption and conflict.

Needless to say that, the fact that Islam comes to play essential role in Saudi Society is due to the historic and geographic significance of Saudi Arabia. Historically, Saudi Arabia constitutes the largest proportion of the Arabian Peninsula, a strategic location, seen by the entire Muslim community to be the place from where the Islamic Civilization has first emerged and spread all over. Geographically, the existence of the two Holy Mosques in the city of Makkah and the city of Madinah, places visited by more than two million Muslims from all over the world annually during the month of Ramadan and the Pilgrimage month, has deepened the religious role of Saudi Arabia.

With this in mind, one can understand the peculiar position of Saudi Arabia in international politics and affairs. At the international level, Saudi Arabia has been influential in defending the rights of Muslim countries and Muslim minorities living in non-Muslim countries. Also, the Saudi Arabian's attitude towards World political issues reflects clearly its religious role. At the Muslim countries' level, Saudi Arabia has been a forerunner in the establishment of the major Islamic and

Arabic organizations, aiming at bringing about more integrative, cohesive and cooperative Muslim community.

References

- Abue Aliyah, A. (1418H), Social Reform during King Abdulaziz's Era, Riyadh: Al-Mareadh Publishing House (In Arabic).
- Al-Abbacy, A. (1981), Nomadic Settlements in Saudi Arabia: A Socio-Historical and Analytical Case Study. East Lansing: Michigan State University.
- Al-Harthy, S. (1415), King Abdulaziz, Riyadh: Alqemam Media House (In Arabic)
- Al-Khalifah, Abdullah (1997), Religion and modernization in Saudi Arabia, paper presented at the Annual meeting of BRISMES (British Society of Middle Eastern Studies).
- Al-Khalifah, Abdullah, 1995, "Urban Social Structure" PP:89-112 in S. Al-Hathlul and N. Edadan, Urban Development in Saudi Arabia, Riyadh: Dar Alsaħan.
- Al-senaidy, A. (1418H), Stages of the Development of the Organization of Government Administration in the Kingdom of Saudi Arabia, and Overview of its Achievements, Riyadh; Al-Farazdaq Bookstore. (In Arabic).
- Al-Shamekh, A. (1975), spatial Patterns of Bedouins Settlements in Al-Qasim Region, Saudi Arabia. Ph.D. Dissertation. Lexington: University of Kentucky.
- Bin Khuldon, A. (1399H), History of Bin Khuldon: The muqademah, Beirut: Jamal Establishment for Publishing and Distribution (In Arabic).
- Central Planning Organization (1970-1975), Development Plan, Riyadh.
- Durkheim, Emile (1915), The Elementary Forms of the Religious Life, New York: Macmillan.
- Durkheim, Emile (1933), The Division of Labor in Society, New York: Macmillan.
- Gabriel A. almond, Emmanuel Sivan, and Scott Appleby, 1995, examining The Cases, chapter 18 in Fundamentalism observed, PP: 445-482.
- Gabriel A. almond, Emmanuel Sivan, and Scott Appleby, 1995, Explaining Fundamentalism ,chapter 17 in Fundamentalism observed, PP: 425-444.
- Gouldner, Alvin (1980), The Two Marxism, New York: The Seabury Press.
- Martindale, Don (1981), The Nature and Types of Sociological Theory, Boston: Houghton Mifflin Company.
- Ministry of planning (1975), Second Development Plan 1395-1400 A. H., 1975-1980 A. D, Jeddah: Dar Okaz.

- Ministry of Planning (1985), Fourth Development Plan 1405-1410 A. H., 1985-1990 A. D. Riyadh: Ministry of Planning.
- Mutawa, Abdullah (1989), The Ulama of Najd From The Sixteenth Century to The Mid-Eighteenth Century, Lose Angeles: University of California (Dissertation).
- Othaimain, A. (1418H), History of Kingdom of Saudi Arabian, Riyadh: Obaikan Bookstore (In Arabic).
- Parsons, Talacott (1951), The social System, New York: The Free Press.
- Parsons, Talacott (1971), Societies: Evolutionary and comparative Perspectives and The Systems of Modern Societies, N.J: Prentice-Hall.
- Ritzer, George (1996) Sociological Theory, New York: The McGraw-Hill companies.
- Souryal, Sam (1987), "The Religionization of a Society: The Continuing application of shariyaaa Law in Saudi Arabia, Journal of The Scientific Study of Religion, Vol. 26(4), PP: 429-449.
- Vassiliev, A. M., (1986), History of Saudi Arabia, (In Arabic), Translated by Khairy Al-Dhamen and Ghalal Al-Hashitah, Moscow.
- Wallace, Ruth and Alison Wolf (1980), Contemporary Sociological Theory, Englewood Cliffs: Prentice-Hall, Inc.
- Weber, Max (1947), The Theory of Social and Economic Organization, New York: Macmillan.
- Weber, Max (1958), The Protestant Ethic and The Spirit of Capitalism, Charles Scribner' Stack, 1984 Sons.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718

21 MAR. 1999

BIBLIOTECA

5



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Abdallah M. Al-Fauzan

Social and Political Developments
in the Kingdom of Saudi Arabia



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

Social and Political Developments in the Kingdom of Saudi Arabia

BY
DR. Abdallah M. AL-Fauzan
Associate Professor of Sociology
Department of Social Studies
College of Arts
King Saud University

Introduction:

In order to give a clear picture of social and political developments taking place in Saudi Arabia today, it is important, first, to provide a brief historical background on the nature of our society prior to the unification of the Kingdom of Saudi Arabia by King Abdul aziz Ibn Saud in 1932. In that period what is today called Saudi Arabia was the Arabian Peninsula, and its society was divided into many tribes with no central government. In 1901, the central area of what is known today as Saudi Arabia was under the control of one tribal leader, a member of the house of Rasheed. Ibn Rasheed had control of the city of Riyadh and the tribes of that area. The Ottoman Turks controlled the east coast (Al-Hasa) and the southwest (Hijaz), with the major cities of Mecca, Madina, and Jeddah (Alman, 1981: 67-68). Fighting over water resources and revenge among tribes characterized this era. Each tribe had its own political and legal system. The economy was based on exchange of agriculture products and trade with other nations. Activities such as farming, sheep herding, pearling, and fishing were the means of income. Education was primitive and limited to Koranic instructions provided to few people in the urban areas. Health services were based on traditional practices and people suffered from widespread diseases. The extended family was the primary kinship unit of this era, and the eldest male had a dominant role over its affairs (Alfauzan, 1992).

The interesting point here is that even though Saudi Arabia is in a strategic geographical location, since it lies at the crossroads of three continents, Europe, Asia, and Africa, it did not attract the interest of the colonial powers at that time either because of the desert nature of its land and the lack of its natural resources or because of its religious sensitivity.

During this stage Abdul Aziz Ibn Saud was born in 1880 and raised until the age of ten in Riyadh. He and his family were then forced to live in exile in Kuwait as after they lost power to the house of Rasheed in 1890.

Political Development:

In 1901, at the age of twenty, King Abdul Aziz decided to regain what his father had lost, namely control over Riyadh. For this purpose, he left Kuwait with 60 men and traveled secretly on Camels 300 miles across the desert to the city of Riyadh. There he defeated ibn Rasheed and took power.

After capturing the city of Riyadh, Abdul aziz Ibn Saud began to conquer the various tribes in the central area, bringing the feuding tribes under his control. He believed that the stability and continuity of his rule depended on his ability to gain the loyalty of the tribal men.

In order to achieve internal stability and to start his social reforms, King Abdul aziz Ibn Saud first settled the feuding nomads in agricultural communities. This step had led to the redirection of their loyalties from their tribal leaders to God and to himself. These communities settled around artesian wells and were supplied with religious teachers who followed the teachings and instructions of Mohammed Ibn Abdul wahab, a religious reformer who allied himself with the house of Ibn Saud during the eighteenth century; thus, King Abdul Aziz remained faithful to his Islamic teachings and instructions. These settled tribal communities gradually came to be strong supporters of the Wahabi movement and came to be known as the Ikhwan (The Brethren) movement. With the help of the Ikhwan, Abdul Aziz Ibn Saud was able to gain control of Qassim in 1903 by defeating Ibn Rasheed there, then he defeated the Ottoman Turks in 1914, when he gained control of the East Cost (Al-Hasa). In 1917, he gained control of Asir (the southwestern part of the kingdom) and of Hail (the main center of Ibn Rasheed, located in the northern part of the kingdom) in 1923 by defeating Ibn Rasheed and ending his rule completely. By 1924, he had defeated the Sherif of Hijaz in the southwest of the kingdom, which had also been under the control of the Ottoman Turks. This was the period when the Ikhwan entered the city of Taif and later Mecca, thereby allowing Abdul Aziz Ibn Saud to end the rule of the Sherif in the Southwest. He then declared himself ruler of Najd (the central part of the kingdom) and the King of Hijaz (the Southwest part of the kingdom). In 1932, Abdul Aziz Ibn Saud named the land under his control The Kingdom of Saudi Arabia and declared himself king of it. It extends from the Arabian Gulf in the East to the Red Sea in the West, and from the

southern borders of Kuwait, Iraq, and Jordan in the North to the northern borders of Yemen and the Sultanate of Oman in the south. The unification of Saudi Arabia pushed it into a new era. It moved from a tribal interaction level to a position of an autonomous state with international recognition (Almana, 1981).

In order to rule the country, King Abdul Aziz appointed tribal Shiekhs in the settlements and among the tribes which retained their nomadic way of life. In the towns, he appointed governors those he had mostly trusted among his men.

From the previous discussion we find that unifying the whole country was the first task King Abdul Aziz had to achieve in order to build the state and society in the kingdom. After succeeding in this task, he started to think of building a stable society based on Islamic Sharyah, which calls for integration and peaceful living among the members of Islamic society. The third task that confronted King Abdul Aziz was the eradication of social disorder and the establishment of stability in the areas under his control.

After achieving political unification, King Abdul Aziz started to build, in a gradual way, constitutional as well as administrative institutions in all parts of the country. First he established an advisory council to share with him the organization of the country. In 1953, he created the Council of Ministers, which consisted of ministers of finance, education, foreign affairs, defense, interior, justice, and health. This Council of Ministers was to be a policy-making body with legislative and executive powers. In 1958, King Saud, the eldest son of the King Abdul Aziz, who succeeded his father, added the Ministries of Agriculture, Communication, Petroleum, and Labor. Other ministries that are available in the kingdom include, the Ministry of Commerce, the Ministry of Industry and Electricity, the Ministry of Housing and Public Works, the Ministry of Information, the Ministry of Municipal and rural affairs, the Ministry of Planning, the Ministry of Telegraph, Mail, and Telephone, the Ministry of Islamic Affairs and Endowment, and the Ministry of Pilgrimage (Bin Baz, 1998).

The major internal political event in Saudi Arabia was the establishment of Shura Council by King Fahad in 1992. This governmental body affords more political and administrative participation for the citizens of Saudi Arabia, virtually side by side with the government. It consists of 90 members selected every four years, who consult with and advise the government regarding local as well as international affairs.

Today, Saudi Arabia is a member of many regional and international organizations such as the United Nations, the Arab League States, and the Gulf Countries Cooperation Council. It plays a significant role in the international political arena. It also maintains Friendly relationships with almost all the world's countries in general and with European countries in particular.

Economic Development:

Prior to the discovery of oil, Saudi Arabia was a poor country with few resources, and the majority of the people were living at or below subsistence levels. Dates, camels, sheep, and horses were the primary exports of the country. The revenues from these commodities were used to import rice, coffee, clothing, and other necessities. Tribal wars leading to the country's unification added more strains to the economy. In order to meet the pressing need for money, King Abdul Aziz called on western companies working in the gulf countries to search for oil in the kingdom. The Standard Oil Company of California was able to win a concession for this purpose. Religious men, who feared that the presence of foreigners might introduce what could be contrary to the teachings of Islam, opposed this call by King Abdul Aziz. However, King Abdul Aziz was able to curtail their opposition, and allowed the Oil Company to go ahead with its exploration. After four years, the Oil Company succeeded in finding oil in 1938, and in 1939 the income of oil reached \$10 million.

As Saudi Arabia became one of the major oil producing and exporting countries, the government demanded more control over its resources. In 1960, Saudi Arabia joined many other oil exporting countries and formed the Organization of Petroleum Exporting Countries (OPEC). Since 1973, Saudi Arabia has become one of the most influential countries in the international economic arena. It is ranked third among world countries in providing financial assistance to Third World countries (Alfauzan, 1992).

The average of annual per capita income reached \$ 7,518 in 1991, and the average growth of the national income 9.7%. The revenue from exports reached \$ 47, 682 million in 1991, and the inflation rate 4.7%.

Today, following a drop in oil prices, the government of Saudi Arabia has started to diversify its economy by investing in other activities such as agriculture and industry. It has also began to explore for more resources such as gold and natural gas.

In order to increase the standard of living among its citizens and to increase their productivity, the government of Saudi Arabia has established many banks for development, which provide long and medium term loans with no interest either to individuals or to corporations. Among these banks are 1) The Saudi Loans Bank which was established in 1971 and has provided loans to the citizens worth more than 4.8 thousand million Saudi riyals up to 1995, 2) The Saudi Agricultural Bank which was established in 1962 and has provided loans to farmers worth more than 28,1 billion Saudi riyals up to 1995, 3) The Saudi Industrial Development Fund, which was established in 1974 to support industrial development in the private sector by providing long and medium term loans. The total amount of these loans reached 55.6 thousand million Riyals up to 1995, 4) The Saudi Development Fund, which was established in 1974 to provide loans to Third World countries which amounted to more than 21 thousand million riyals up to 1994. Up to 1995, Saudi Arabia has also provided more than \$ 71 billion in loans to a number of United Nations' organizations and other humanitarian organizations.

To organize its expenditures covering all aspects of development and to evaluate its achievements, the government has followed five-year plans since 1970. It has also established an annual budget, which controls the expenditures in each sector during each fiscal year (Ministry of Information).

Educational Development:

Prior to the unification of Saudi Arabia, education was limited to people living in areas controlled by the Ottoman Turks, such as Mecca, Madina, Jeddah and Alahsa. Among schools available at that time, were The Rashidiyah School in Mecca and in Jeddah, The Solatiyah School in Mecca, The Ottoman Fakhryyah School in Mecca, and The Alflah School and The Alnajah School in Mecca. Other parts of the country had no schools outside of some religious lectures through which Koran was being taught to a small number of young people.

Even before completing the unification of the country, King Abdul Aziz gave priority to the education of his people in all areas under his control. In 1926, a Directorate General for Education was established. On December 24, 1953, the Directorate became the Ministry of Education. During the period of King Abdul Aziz, the number of schools for all levels grew to 356 (all for boys) with 46,950 students and 1,954 teachers. In

1952-53, the number of intermediate and secondary schools grew to 10 (also all for boys). Other institutions for Islamic law and the Arabic language were established in the major cities of the country. Due to the lack of local teachers, most of the teachers in the elementary and intermediate schools and other institutes were recruited from Egypt and other neighboring Arab states (Almana, 1981).

Until 1960, women in Saudi Arabia were denied education. In 1960, the General Presidency for Girl's Education was established, and in the same year 15 elementary schools for girls were opened. Three years later, 4 intermediate schools were opened. This number increased to 7 schools in 1965. Secondary education for girls started in 1964.

Today, many organizations provide education for both boys and girls at all levels. Among these organizations are the Ministry of Education, the General Presidency for Girls' education, the Ministry of Higher Education, the General Institution of Technical Education and Vocational Training, the Ministry of Defense, the National Guard, the Ministry of Interior, the Ministry of Labor and Social Affairs, the Ministry of Health, the Ministry of Telegraph, Mail, and Telephone, and other private organizations.

The education budget increased from 513,890 thousand riyals in 1965 to 38, 817 thousand million riyals in 1995. The number of male students in elementary schools increased to 1, 174, 4111 in 1997, and the number of schools and male teachers reached 5,933 and 84,790 respectively in the same year. For girls education, the number of girls in this level increased from 5,180 in 1960 to 1, 109, 813 in 1997, and the number of schools and female teachers increased from 15 and 113 in 1960 to 5847 and 94624 respectively in 1997.

With regard to intermediate education, the number of male students increased from 2,515 students in 1958 to 516,426 students in 1997. The number of schools increased from 20 in 1958 to 2,928 in 1997, and the number of teachers increased from 173 in 1958 to 38,545 in 1997. For girls education, the number of girls in intermediate schools increased from 235 in 1963 to 443,395 in 1997, and the number of schools and female teachers increased from 5 and less than 26 in 1963 to 2,434 and 39,600 in 1997.

In secondary education, the number of male students increased from 1,697 in 1953 to 299, 208 in 1997, and the number of schools and male teachers increased from 12 and 176 in 1953 to 1,345 and 19,122 in 1997.

Female students at this level increased from 21 in 1963 to 308,686 in 1997 and the number of schools and female teachers increased from 1 and less than 14 in 1963 to 1,288 and 25,610 in 1997 (Alhugail, 1998).

The kingdom of Saudi Arabia has eight universities. Among them are 1) King Saud university, which was established in Riyadh in 1957 and became the first university in Saudi Arabia. It has 19 colleges and two hospitals, and more than 40 thousand students. 2) The Islamic university, which was established in Madina in 1961. It has five colleges and 7000 students. 3) King Fahad University for Petroleum and Minerals, which was established in Dhahran in the east province in 1963. It has 7 colleges and 6000 students. 4) King Abdulaziz University, which was established in Jeddah in 1971. It has nine colleges and 34 thousand students. 5) Imam Mohamad ibn Saud university, which was established in Riyadh in 1974. It is an Islamic university and has ten colleges and 27 thousand students. 6) King Faisal University, which was established in Al-Ahsa in 1974. It has 6 colleges and 6000 students. 7) Um Alqura University which was established in Mecca in 1981. It has eight colleges and 14600 students. 8) King Khalid University, which was established in Abha in the southern province in 1998.

There are other educational institutions, such as King Abdul Aziz City for Science and Technology, which provide grants for scientific research projects, and eight technical colleges and many institutions with more than 40 thousand students are available in the kingdom today. There are also more than 57 institutes that provide education for 6,258 disabled male and female students.

Generally speaking, the number of male and female students at all levels of education has increased from 600 thousand students in 1968 to 4 million students in 1997. The average annual growth was 7.1% for male students and 13% for female students. Also, the number of schools and colleges has increased from 3,283 in 1969 to 22 thousand in 1995. There was an increase in the number of male schools, from 2,654 in 1969 to 10,419 in 1993, with an annual growth of 6%. For female schools, the number increased from 453 in 1969 to 10,558 in 1994, with an annual growth of 13,8%. (Ministry of Information, 1996).

Health Service Development:

No institutionalized health services appear to have existed prior to the unification of Saudi Arabia. Health services were mainly based on traditional practices. As American oil companies started searching for oil in the kingdom, they provided medical care for their workers by establishing hospitals. Today, the Ministry of Health, as well as many governmental and non-governmental organizations provide medical care for all people in the kingdom in both urban and rural areas. During the period between 1970 and 1994, the number of governmental hospitals increased from 74 to 279. Also the number of medical centers for primary care increased from 591 to 3254. Furthermore, the number of hospital beds increased from 9,039 in 1970 to 41,827 in 1994, and during the same period, the number of male and female doctors increased from 1,172 to 29,227, with an annual growth rate of 16.1%.

There are 2.4 hospital beds for each 1000 people and one doctor for each 601 people. The number of nursing personnel increased from 3,261 in 1970 to 61,246 in 1994, with an annual growth rate of 15%. Among the major hospitals in the kingdom today are King Faisal Specialist Hospital and Research Center, The Military Hospital, and King Fahad Medical Center. In recent years, medical evacuation has been introduced into the kingdom by the ministry of defense (Ministry of Information, 1996)

Agricultural Development:

As we have mentioned earlier, King Abdulaziz used agriculture as a means for the settlement nomads. He provided them with all materials needed to encourage the production of agricultural products. Today, agriculture is the second greater producer of income after oil in Saudi Arabia because the government has taken the following steps by:

- 1- distributing more than two million hectares of land freely to individuals and corporations.
- 2- bearing 45% of the costs of agricultural materials and machines.
- 3- establishing the Saudi Agricultural Bank to provide long and medium term loans for farmers and agricultural corporations.
- 4- providing veterinary services and agricultural guidance.
- 5- establishing many agricultural corporations to support agricultural production and encourage the private sector to invest in agricultural activities.
- 6- buying wheat and barley from farmers to encourage productivity.

In 1992, the total production of wheat reached 4.2 million tons, whereas it was only 26 thousand tons in 1970. The production of dates increased from 240 thousand tons in 1970 to 600 thousand tons in 1995. The production of all kinds of fruit increased from 470 thousand tons in 1980 to 956 thousand tons in 1993. The production of chickens reached 250 million, and of eggs 2.3 billion. The production of fish reached 50,000 tons (Ministry of Information, 1996).

Industrial Development:

Since the beginning of the implementation of the first five year plan, the government of Saudi Arabia has focused on the productive sectors of its economy. Among these sectors was industry. It established eight industrial areas in Riyadh, Jeddah, Dammam, Qassim, Ahsa, Mecca, and two major industrial cities, Jubail and Yanbu.

The government also encouraged the private sector to establish factories that can satisfy the needs of domestic markets for consumers goods and materials. As a result, the number of factories increased from 199 in 1970 to 2,458 in 1995. The number of workers also increased from 14 thousand in 1970 to 218 thousand in 1995. The total loans provided to industrial projects increased from 35 million riyals in 1974 to 55.6 billion riyals in 1994.

The second type of industry in Saudi Arabia is that supported and supervised by the government. To maximize efficiency in the utilization of both energy and human resources, the government established two major industrial cities. The first, Aljubail city is located on the eastern coast of the kingdom, and the second, Yanbu City is located on the western coast. Both cities were established to produce oil-related industries. They have played major roles in diversifying the oil industry in the kingdom.

Transportation and Communication Development:

The explosion of wealth in Saudi Arabia has had a significant impact on transportation and communication services. Beginning with the first development plan in 1970, the country established a comprehensive road network in less than two decades at a cost of 26 billion dollars. Today, the kingdom is served by more than 100 thousand kilometers of urban and rural roads, whereas these were only 8 thousand kilometers in 1970.

The railroads are also another part of the transportation network in Saudi Arabia. They link Riyadh, Dammam, and Hofuf, and carry more than 300, 000 passengers and two million tons of goods each year.

Since Saudi Arabia is a continent by itself, it relies heavily on air transport to surmount its vast distances. In 1945, Saudi Arabia had only three DC-3 Airplanes. Today, it has one of the world's major airlines. Among the major airports in Saudi Arabia are King Abdul Aziz international Airport in Jeddah, King Khalid International Airport in Riyadh, and the International Airport at Dammam. There are also three regional and 13 local airports located in different cities throughout the kingdom today.

Another part of the Saudi Arabian transportation network is marine transport. Saudi Arabia has 21 modernized ports. The major ones are located at Jeddah, Yanbu, and Jizan on the Red Sea and at Dammam on the Arabian Gulf, with a total annual capacity of 52 million tons. The country's commercial fleet has helped the kingdom to meet its objective of carrying a huge amount of exported oil and non-oil products on Saudi carriers.

In regard to communication, Saudi Arabia had wireless telegraph stations only in Mecca, Taif, Jeddah, and Riyadh during the 40's and 50's of this century. Today, it has a modernized telecommunication system. The postal service has experienced tremendous development in recent decade. Approximately 450 post offices are in service today and they deliver roughly 600 million postal articles each year to 4000 cities, towns, and villages around the kingdom. Express and electronic postal delivery reaches many cities and towns of the kingdom along with a number of foreign countries.

Saudi Arabia also has one of the world's most modern and efficient telephone systems. The telephone exchange capacity in Saudi Arabia reached more than 1.3 million lines in 1987. Approximately 340 cities and towns now have telephone service, and domestic microwave service is being inaugurated between smaller cities.

The telex network is also another part of the communication system in Saudi Arabia. It has also experienced tremendous growth. For example, the number of lines increased from 10,000 lines in 1980 to 30,000 in 1987. The telex network links about 150 cities and villages within the country, and links Saudi Arabia with countries around the world.

To strengthen its international links, Saudi Arabia, along with other members of the Arab League in 1985, launched Arabsat, the Arab world's first communication satellite, with its major ground station in Riyadh (Alfauzan, 1992).

Mass Media Development:

Saudi Arabia had only one radio station thirty years ago; today, it has many radio stations in Riyadh, Jeddah, and Mecca. It also has two television stations, one in Arabic and the other in English, with some of its programs conducted in French. Newspapers such as Asharq Al-Awsat, Al-Bilad, Al-Jazirah, Al-Riyadh, Al-Madinah, Al-Yaum, and Ukaz are the major Arabic daily publications. English daily publications include The Arab News, The Saudi Gazette, and The Riyadh Daily. The major magazines include Almajallah, Iqra, Saiydaty, Alyamamah, and Aldawah (Alfauzan, 1992).

Social Services Development:

At the time of its unification, Saudi Arabia was a very poor country. It remained so until the discovery of oil. The family and tribe were the main source of care for individuals. The people during these early periods suffered from hunger and disease. Social services started only with King Abdul Aziz, who provided rice, wheat, sugar, and tea to poor families through tribal sheiks and through his trusted men, who traveled throughout the kingdom for this purpose.

The first institutionalized social service provided by King Abdul Aziz was the establishment of the orphanage in Mecca. Today, the Ministry of Labor and Social Affairs is in charge of improving the standard of living in the kingdom. It provides care and rehabilitation to individuals and families who are in need of financial, social, and health services. The disabled, orphans, aged people, and juvenile delinquents all benefit of these services.

The above services are provided by many institutions. Among them are 14 orphanages, 12 rehabilitation centers for juvenile delinquents, 23 rehabilitation centers for people with disabilities, 9 nursing centers for the aged, and 141 benevolent associations which provide financial support to the needy families as well as care for disabled children.

Social security is provided to orphans, widowers, and the disabled. It is also provided to the prisoners' families and other families that lose their breadwinners. In 1993, the budget for social security reached 2.7 billion riyals (Ministry of Information, 1996).

Urban Development:

Prior to the unification of Saudi Arabia, the majority of the people were living in nomadic and rural areas. The expansion of wealth, the development of transportation, and the spread of industrialization, which

resulted from the discovery of oil, have led to many changes in the traditional structure of Saudi society. Millions of people moved from the deserts and villages to cities in search of better economic privileges, jobs, and medical as well as educational services.

To expand the process of urbanization, the government of Saudi Arabia granted lands free of charge to millions of people in the major cities. The government also provided loans without interest through the Real Estate Bank to help them build their own houses.

The process of urbanization played a crucial role in breaking down the strong family relations and traditional kinship ties. Social status is no longer measured by individual's tribal or familial roots. Rather, education, occupation, and income have become the most important determinants of one's social class and prestige.

The Role of European Countries in the Development of Saudi Arabia:

No body can deny the vital role of European countries in the development of Saudi Arabia. The role of European countries in the development of Saudi Arabia can be seen in many facets. In the political arena, they were among the first world countries to give recognition to its autonomy. In the economic arena, they helped very much in building its infrastructures. Thousands of European workers contributed in modernizing the country's traditional structures. European countries also provided Saudi Arabia with all technologies necessary for building its educational, health, transportation, communication, military, sports, and social organizations. Tens of European companies, including Italian companies, participated in all aspects of development in the kingdom. In the cultural arena, thousands of Saudi students graduated from many European Universities. Another evidence of cooperation between Saudi Arabia and the European countries is the exchange of publications and scholars to build a mutual understanding of both Arabic and European cultures.

References

Alfauzan, Abdallah, 1992, The impact of American culture on the attitudes of Saudi Arabian students in the United States toward women's participation in the labor force in Saudi Arabia. Ph.d dissertation, Mississippi State University, U. S. A.

Alhugail, Sulaiman, 1998, Educational system and policy in the Kingdom of Saudi Arabia, King Fahad Local Library, Riyadh, Saudi Arabia.

Almana, Aisha, 1981, Economic development and its impact on the status of women in Saudi Arabia. Ph.d dissertation, University of Colorado at Boulder, U.S. A.

Bin Baz, Ahmed, 1998, Political and Constitutional System in the Kingdom of Saudi Arabia, King Fahad Local Library, Riyadh, Saudi Arabia.

The Ministry of Information, 1996, The Kingdom of Saudi Arabia: Masiratu Albina, Riyadh, Saudi Arabia.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST

Rome, 3-5 March 1999

Othman Y. Al Rawaf

Saudi Gulf Policy and

the Security of the Gulf



Saudi Gulf Policy and
the security of the Gulf;

Othman Y. AlRawaf
King Saud University
Riyadh, Saudi Arabia

Saudi Gulf Policy and the Security of the Gulf,

To understand the Saudi Gulf policy and the concerns of Saudi Arabia in Gulf security, one may need to go back to the beginning of the 1960s. However it was not until the beginning of the 1980s that the question of Gulf security has become a Primary issue in Saudi Arabia and the other five member states of the Gulf cooperation council (GCC) Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates (UAE) . There are three reasons that have attributed since then to the worries of these countries :

First, the aftermath of the Iranian revolution ; second the Iran / Iraq war ; and third, the invasion of Kuwait by the Iraqi troops in August 1990 . Eight years after the liberation of Kuwait, the question of Gulf security remains today a vital concern in all GCC states and a new problem has developed in Gulf, Middle Eastern, and western politics known as the Iraqi issue or the Iraqi crisis some American troops are still in the Gulf to deter Iraq and to a lesser extent Iran from endangering the security and stability of the Gulf .

What are the Saudi view and the Saudi policy concerning Gulf security and stability ? This question can be best answered by examining Saudi policies and positions toward Iraq Iran, as well as,

the USA in all Matters relevant to the Gulf. There Were two reasons for Saudi discontent with Iraqi Gulf policy in the 1960s and the First half of the 1970s. In June 1961, the Iraqi government under General Abdulkarim al-Qassim claimed its sovereignty over Kuwait. Iraqi troops were sent to invade Kuwait, but under pressure from Great Britain, Saudi Arabia, and Egypt, they were forced to withdraw . Although the government of the Baath party which overthrew Qasim's regime in 1963, relinquished the Iraqi claim over Kuwait, the Iraqi troops crossed the Kuwaiti border in March 1973 in an attempt to control the two Kuwaiti islands of Bubian and Warba . The Iraqi government, however, withdrew its forces after reminding Kuwait and the other small Gulf countries that Iraq was a major Gulf power . On April 9,1972, Iraq signed a fifteen-year treaty of Friendship and cooperation with the soviet union. This has add to the Saudi disapproval of Iraqi Gulf policy . The Soviet union, as viewed by Saudi Arabia, then was a major potential threat to Gulf security, The Soviets were seeking influence in the Gulf and their ships became more active in the Indian Ocean than in the mediterranean at that time . A main goal of Saudi policy in the Gulf during that period was the prevention of Soviet influence from expanding in the area . This policy has caused some tension with

revolutionary socialist pro Soviet Iraq. It must be mentioned however, that conflicting Saudi Iraqi Gulf policies during the 1960s and 1970s was kept under control and had never led to an open Saudi/Iraqi conflict. As a matter of fact, there were several signs of friendship between the two countries including exchange visits by military and political leaders.

The entire scene of Gulf politics has changed dramatically during the 1980s. After the Iranian revolution all GCC countries especially Saudi Arabia and Kuwait had supported the Iraqi government in the long standing war between Iran and Iraq. The Iraqi leader Saddam Hussein has admitted in several occasions to Saudi and Kuwaiti officials that without the aid of Saudi Arabia and Kuwait, Iraq would have suffered a major military defeat by Iran. After the end of the First Gulf war the Iraqi government in an unexpected move turned against the two states that without their aid and support Iraq would have lost its war with Iran two years after it had started it. In August 1990 the Iraqi troops occupied Kuwait and in February 1991 Kuwait was liberated by an international coalition of forces led by the American Army. It was thought then that the Iraqi regime will soon collapse after its harsh defeat in 1991. But eight years later the Iraqi leader still in command. He survived few

American strikes including the last major us and British strike that took place in December 1998. What is the Saudi policy towards the present situation in Iraq ?

The Iraqi government has repeatedly refused to accept some important United Nations resolutions and to fulfill its international obligations related to its aggression on Kuwait .

The Provocation that led to the latest American and British strike on Iraq, the Iraqi refusal to cooperate with the United Nation team, and the withdrawal of the Iraqi Foreign Minister from the meeting of Arab Foreign Ministers held in Cairo in January 1999, as well as his criticism to the balanced communique issued at the conclusion of the conference, showed that no changes whatsoever have occurred in the political mentality and stubbornness of the Iraqi leader Saddam Hussein . in assessing his political intentions it is reasonable to assume that the Iraqi leader, considering his previous behavior and the damage caused to him by the defeat of Desert Storm, would never miss an opportunity to take revenge from and retaliate on Kuwait and Saudi Arabia . As a matter of fact Iraq has repeatedly threaten Saudi Arabia and Kuwait of its retaliation . As long As Saddam Hussein is in power the perception of Iraq's retaliatory intentions is most likely to remain unchanged in Saudi

Arabia and Kuwait . Saudi policy towards Iraq may be summarized as follows :

- 1 - The Iraqi government must accept all United Nations resolutions related to its aggression on Kuwait .
- 2 - The Iraqi government must clearly apologize for its occupation to Kuwait and regret its assault on the Kuwaiti people . Iraq must also relinquish its claim to Kuwait in an explicit unambiguous official statement .
- 3 - Saudi Arabia opposes any actions that might endanger the sovereignty of Iraq and the integrity of its people .
- 4 - Saudi Arabia will not allow any foreign power to use its territories to strike on Iraq .
- 5 - Saudi Arabia refuses to participate or to be involved in any plot to overthrow Saddam Hussein .
- 6 - Saudi Arabia has felt the tragedy of the Iraqi people and sympathized with them . Farthermore; the Saudi government has led an Arb and international efforts to organize a continuous assistance to the Iraqi People, but its initiative was rejected and undermined by the Iraqi government .

Turening our attention to Iran we can notice that unlike Iraq, Iran during the 1960s and 1970s took an anti-soviet stand in the Gulf. This has prepared the way for mutual understanding between

Saudi Arabia and Iran in their opposition to communist influence in the Gulf. However, there was some friction between Saudi Arabia and Iran under the shah over four main issues . First, Saudi Arabia strongly opposed the Iranian claim to Bahrain, Saudi Arabia also opposed the November 1971 Iranian occupation of the (UAE) islands of Greater and lesser Tumbs . Third, Saudi Arabia also rejected the argument presented by the shah that after the British withdrawal from the Gulf in 1971, Iran as the strongest regional power should be the main one responsible for the security of the Gulf. Forth, the Saudi government was not satisfied also with the shah's relations and cooperation with Israel .

After the Iranian revolution of 1979, a new security threats to all Arab Gulf states has developed and increased dramatically . Iran was not only determined to export the Islamic revolution to the Arab countries in the Gulf, but it was actively involved in revolutionizing and mobilizing certian segments of the shi'ite population of the Gulf, and in supporting almost all radical groups in the middle East. Due to the funding of Iraq by GCC member states during the Iran/Iraq war, Iran retaliated by attacking the oil tankers of the Arab Gulf states, aiming in particular at Kuwaiti oil shipments . This has led to the reflagging of Kuwaiti ships by the us navy present in the Gulf .

The Islamic revolutionary leaders in Tehran had frequently used during the 1980s, the annual haj, the muslim pilgrimage to mecca, to articulate their radical messages . The Iranian pilgrims have repeatedly attempted to use the religious gathering to hold political mass rallies to protest against Western governments . The Iranian protesters clashed with Saudi security during the Haj of 1982, 1987, 1993 and other years . The worst incident happened during the Haj of 1987 in which several hundred people from both sides were killed.

The present Iranian military capability is the largest in the Gulf . The estimate of the Iranian armed forces is about half a million men, and it has by far the largest number of artillery, tanks, and surface - to - surface missiles. It also has a large number of jet fighters and armed helicopters . The real threat of the Iranian military capacity is reflected in its build-up of weapons of mass destruction .

Based on the assessment of intentions, it can be argued, however, that Iran represent a much less potential threat to Saudi Arabia and other GCC states than Iraq . This perception which has been based on few signals of moderations shown during the first few years of the 1990s, is strongly reemphasized by the election of the

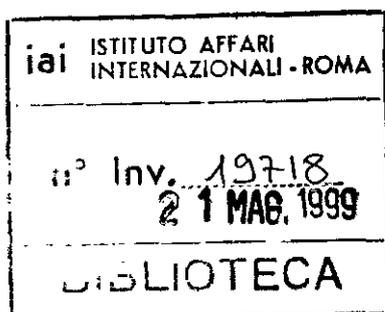
Iranian moderate leader Khatami . But it is very difficult to know however, how far he can go in facing the radical groups and in implementing his moderate policies towards GCC states .

Soon After the end of Iran Iraq war and when tension in the Gulf seemed to be reduced to a very small level, the Iraqi leader surprised the world by invading and occupying Kuwait in August 1990. For the first time since their independence, the Arab states were involved in active war against each other. The aftermath of the Gulf war was tremendous in the politics of both the Middle East and the Gulf .

The Gulf crisis demonstrated how vulnerable GCC states are, and that a regional threat to these states by Iraq, and Iran is not a matter of theoretical or academic assumption, but is an actual reality. A very real and dangerous threat have emerged in the immediate area of the Gulf itself, and international security assistance had to come from thousands of miles away. Security concerns in GCC countries have risen to an unprecedented high since then, and their dependence on United States and to a less extent, British forces for protection has increased tremendously during the 1990s. Some of the small GCC states have signed joint defense agreements with the United States. All GCC states have

found it necessary for its defense to accept some forms of military arrangements with US forces in the area. American interests in the Gulf are both economic and strategic. The highest proven oil reserves in the world exist in the Gulf. Saudi Arabia in particular will continue to produce oil long after oil production in many other oil producing countries would end. It is important to say however, that Saudi Gulf policy views the presence of US forces in the area as a temporary defence necessity. The long term aim of Saudi policy in the Gulf is the establishment of strong foundation of peace, and cooperations between GCC states and Iraq as well as Iran. Due to the American long standing support to Israel, the presence of the American troops in the Gulf is causing many difficulties for GCC states in their politics with some Arab states. The American government have tried in the 1980s to separate between its Gulf policy and its position in the Arab Israeli conflict. The United States government however, have changed its attempt to dislink its Gulf policy from its Middle Eastern stand after the 1990/91 Gulf crisis. Soon after the end of the crisis the United States government introduced its famous peace initiative. but Washington seems unable to exercise enough pressure on Israel. At the same time the American government has been attempting to influence some Arab

states including Saudi Arabia to normalize its relations with Israel. Although Saudi Arabia supports the peace process it continues to refuse to be involved in any deplomatic, political, or economic normalization with Israel. Saudi position will not be changed before reaching a final acceptable settlement to the Middle East problem. If the United Stats continues to be unable to pressure Israel, the presence of its troops in the Gulf will caused more problems for GCC countrics in the Arab and muslem worlds. Saudi Arabia and other GCC countries may be forced under these circumstances to look for alternative defence and security arrangements. The role of Europe in this regard immediately comes to mind. But can Europe replace the United States in defending Gcc states against any outside threat ? Is Europe willing to play this role ? And what about Europe interests with both Iraq and Iran ? All these questions must be dealt with before assessing the role of Europe in Gulf security. But what may be said for the present is that Europe more than the United States of America seems cabable of playing an active role in reducing the security tensions in the Gulf which caused by the Iraqi and Iranian threats to Gcc countrics .





7



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST

Rome, 3-5 March 1999

Stefano Silvestri

Challenges of Middle Eastern Security



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

Stefano Silvestri
Rome, 1 marzo 1999

Challenges of Middle Eastern Security (outline)

The Gulf in the new Strategic scenario

With the end of the Cold War and the disappearance of the Soviet Union, the Strategic area of the Middle East has become more complex and large. Many political, economic and cultural reasons enlarge the "new" Middle East to the former Soviet states of Central Asia and of the Caspian region. The Gulf, once a "flank" of the area, has become much more central. Its strategic importance increases, both for the USA and for Russia (thus, for the World). At the same time, Turkey and Pakistan normally considered as relatively *marginal* to the regional balance, while maintaining their strong reference to other strategic theatres (respectively in Europe and in South Asia), are playing a greater strategic role (e.g. in Afghanistan, with Israel, on nuclear Proliferation etc.).

The end of the Cold war has put an end to the traditional Middle Eastern scenarios. Important events like the Gulf war, the peace process in Palestine, the decreasing value of oil revenues, increase the fragmentation of the Arab world. National priorities become more important. Foreign and security policy distinctions among the Arab states can diminish the domestic political consensus and complicate the perspective of building a regional security system.

The United States is the major outside power present in the area. Its presence remains essential to guarantee the strategic balance, but its policy of continuous military intervention, coupled with the double containment approach towards both Iran and Iraq does not simplify the matter. Crisis management practices and peace enforcing policies challenge the traditional concept of national sovereignty. Such an approach points to the existence of a basic difference between the *actors* (the intervening countries) and the *objects* (the managed countries): it poses the problem of a better international decision-making, of legitimacy and of consensus.

The future American policy will depend from various factors, among them:

- The relationship with Russia, which is again increasingly interested in the Middle East. Moscow's influence and role, however, are limited by the present crisis of the Russian state and economy. Yet It remains a powerful factor, especially as far as the so-called "*near abroad*" (including Central Asia and Iran) is concerned.

- The future situation in Asia, starting with the India-Pakistan nuclear crisis, but also China and the Koreas. These regional actors play an important role for the overall stability of the region.
- The future cooperation (division of roles? responsibility sharing?) between the USA and the European Union on non Proliferation, oil security and Mediterranean stability. The major test-case will be Iran, but a key role could be played by the policy in the Balkans, Turkey and Egypt.

Non-military security factors are increasingly important for the future stability of the states of the regions. They are largely discussed by other papers: demography, migration, urbanization processes, cultural and religious radicalism, a difficult and contradictory democratization process, an insufficient rate of economic growth, and so on. Also, domestic crises may rapidly combine with global interests and policies.

Europe, the Middle East and the Gulf

In recent years Europe has not been a major player of Middle Eastern policies. Certainly, a number of European powers have contributed to the Gulf military operations (sometimes even under a common institutional hat, like the WEU) and have maintained a number of political relations with the countries of the region, even the most difficult ones, like Iran, through a "critical dialogue". Yet Western Europe is only marginally present in the major peace negotiations on Palestine, is lead by the United States on non Proliferation policies and its member states frequently take different stances on important issues like the use of force. These limitations and weaknesses, however, do not change the fact that the Europeans have good reasons to continue to be interested in this region and possibly to attempt to play a more significant role. Among them:

- the constant vital importance of energy supplies (oil and gas),
- the threats from terrorism (low-level violence),
- the unlikely (in the short term) possibility of high-level threats (Proliferation of weapons of mass destruction),
- the control of migration flows,
- the long-term check (and eventual containment) of Russian power.

The defence of these interests does not necessarily require a continuous Western military presence, unless a major crisis arise, threatening vital interests. Moreover, the existing alliances with local actors can secure these Western strategic interests in the short term even if they require some improvement in the longer term. The security picture could be improved significantly if the process of regional cooperation will effectively increase the ability of the local powers to defend alone their own security.

This latter perspective, however, runs counter the present fragmentation of the region, and the domestic weaknesses of many local governments. This is the reason why Saudi Arabia and Kuwait embrace the "unholy" alliance with Washington, why Egypt (notwithstanding its domestic Islamic opposition) choose to pursue special relationships with the USA and Israel and why Israel and Turkey have forged their own personal

strategic relationship. Yet, this also means that some Middle Eastern countries end up like "international pariahs", largely isolated and thus condemned to the role of trouble-makers: Iraq, Libya and Iran are cases in point. Syria may be able to avoid this downgrading thanks to the (difficult) possibility of reaching a peace agreement with Israel. This new division between "friends" and "foes" is largely in contrast with local policy perceptions and could contribute to the fragility of the security scenario.

The present security system of the Gulf is based on the maintenance of the imposition of a strong external will on the region. The problem is that such a policy is very expensive and thus will increasingly need more than the USA alone, but should enlist the active cooperation of other important global actors such as Russia, Europe and Japan. Yet no real agreement exists among these powers on the policy to be followed. Can this model survive? Among its most evident limits we can list the following:

- it relies excessively on the actual use of military force,
- it is almost exclusively based on the commitment of the Americans,
- there is no serious social-political project (no long-term perspectives to reinforce local autonomy and self-reliance) to deal with economic and social domestic crises,
- there is a strong religious and political opposition of relatively weak governments,
- no policy has been agreed to deal effectively with "rogue" states and to avoid the establishment of "pariah" states,
- it has high economic costs.

One hypothesis to strengthen it could be based on the greater mobilization of local actors, trying to put together a viable regional stability system. This approach, if successful, would certainly be the most promising, but it is also very difficult to realize. The problem is that some of the local alliances are very fragile, while nationalistic pressures may create new instabilities or reinforce the old ones. Moreover, until now it has failed also because of a lack of political coherence between the policies of the major external powers and those of the local regional powers.. From a geopolitical point of view, regional security in the Gulf will depend from the evolution and choices of the three major regional actors: Iran, Iraq and Saudi Arabia. Right now, however, none of them can modify the situation without major shifts of the American policy in the area. In fact, all regional perspectives depend heavily from the American presence and policy.

This unavoidable American centrality, however, could develop along different ways, fostering important changes:

- A. The prosecution of the present "*dual containment*" policy: it would most likely maintain a high level of uncertainty, because it is based on the continued military American presence in Saudi Arabia and on the ability to maintain Iraq under pressure, barring its political or military resurgence, while at the same time maintaining Iran on the far edge of regional policies: too many objectives to be reached with the present energies.

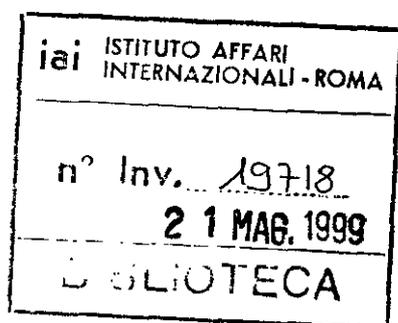
- B. A progressive retreat from the Gulf: without a previous reorganization of the regional balance of power, however, the result would be a general Strategic instability and a strong competition for regional leadership among the three major regional actors.
- C. The re-establishment of better relations with Iran. Of course it is difficult to imagine that such a relationship could evolve to the point of making it possible a return to a new version of the old American policy of "double pillar" (this time based on Saudi Arabia and Iran). Yet, also a more limited approach could enormously strengthen the overall stability of the region. In fact it could be the necessary precondition and the first step in direction of a more stable and self-sustaining balance in the Gulf.

Western Europe may play a significant role, both strengthening the Western presence and offering a moderate alternative to the "America only" present option. Yet it should first overcome some important strategic limits of its own:

- the difficulties of its integration process, and some political differences among its major member countries
- the difficulty of putting together and utilizing effectively its significant military might,
- its largely negative (confrontational) perception of Islamism and Middle eastern migrants,
- its difficulty of devising a coherent strategy and of mobilizing enough resources to deal at the same time with Eastern Europe and the Mediterranean-Middle East.

In general, a more positive European approach could:

- give a higher priority to social-economic and cultural factors,
- devise a strategy to redeem "pariah" countries,
- increase the importance of regional mechanisms for conflict reduction and crisis control,
- multilateralize the present "central" American role (sharing burdens and responsibilities),
- accept an higher degree of cultural diversity, provided that the democratization process will continue.





International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

F. Stephen Larrabee

**The U.S., Europe, and Persian
 Gulf Security**



THE U.S., EUROPE, AND PERSIAN GULF SECURITY

By F. Stephen Larrabee*

THE CHANGING TRANSATLANTIC AGENDA

The issue of Persian Gulf security and its role in U.S.-European relations needs to be seen within the broader context of important changes in the Transatlantic agenda that have occurred since the end of the Cold War. During the Cold War the Transatlantic agenda was dominated by European issues. "Out of area" issues, especially those related to the Persian Gulf, played only a minor role in U.S.-European relations.¹

With the end of the Cold War, this situation has begun to change. Today non-European issues, especially those related to the Gulf, occupy an increasingly prominent role on the Transatlantic agenda. The most contentious disputes are not over European interests. On these, there is relatively broad agreement.

The real differences between the U.S. and its European allies are over issues outside of Europe--particularly policy toward the Persian Gulf. On these issues, the U.S. and Europeans are fundamentally at odds. Most Europeans do not support the U.S. policy of "dual containment" (neither, it should be added, do many members of the American policy community). Witness the general lack of support in Europe, even criticism, of the U.S. and British air attacks on Iraq in December 1998.

On one level this criticism reflects differences over tactics not the goals of U.S. policy. But at a deeper level it reflects a basic difference of approach to security in the post-Cold War era. With the end of the Cold War, the U.S. is increasingly focused on threats beyond

* F. Stephen Larrabee is a Senior Staff Member at RAND in Washington, D.C. The views expressed here are his own and do not represent those of RAND or any of the sponsors.

¹The Suez crisis (1956) and the Soviet invasion of Afghanistan (1979) represent notable exceptions.

Europe's borders, particularly the Persian Gulf. The Bottom-Up Review (BUR)--the first comprehensive review of U.S. defense strategy after the end of the Cold War--focused on two Major Regional Contingencies (MRCs), one in the Persian Gulf and the other in Northeast Asia. Europe was barely mentioned. Its successor, the Quadrennial Review (QDR), maintained that essential focus.

Europe, on the other hand, is concerned mainly with threats to security in and around Europe. Most European forces (Britain and France excepted) are still configured to defend territory that is no longer threatened. They have only limited power projection capabilities. This has led to a growing--and potentially dangerous--disconnect in American and European strategic agendas, one which could have serious and far-reaching implications for U.S.-European relations over the long run.

NATO'S STRATEGIC CONCEPT

These differences have been reflected in the debate over NATO's new Strategic Concept, to be unveiled at the Washington Summit in April 1999. The Clinton Administration has pushed for an expansive interpretation of NATO's missions, one designed to adapt NATO to deal with what it regards as the new threats and challenges that NATO is likely to face in the 21st Century. Many of these challenges are on Europe's periphery or beyond its borders. They include threats from Weapons of Mass Destruction (WMD) as well as potential threats to Western energy supplies--many of which emanate or could emanate from the Persian Gulf.

To meet these challenges the Administration has launched several new initiatives. The two most important are a WMD initiative and the Defense Capabilities Initiative (DCI). The former is aimed at enhancing the Alliance's ability to address new threats from Weapons of Mass Destruction, while the latter is designed to enhance the ability of the Alliance to operate more effectively together and to increase the Alliance's capability to project power.

Many Europeans, however, are uncomfortable with these new missions and Washington's expansive interpretation of NATO's new role.² They prefer to see NATO's role limited to managing crises "in and around" Europe. For many "around Europe" means the Balkans and perhaps the Mediterranean. But certainly not the Gulf. The military capabilities to deal with these "low-intensity" crises are quite different than those needed to deal with "high-intensity" conflicts such as those in the Gulf.

Many Europeans are also unpersuaded about the seriousness of the WMD threat and regard Washington's concern as overblown. Unlike the United States, they do not expect to have to fight in a WMD environment. Hence they are far less willing to spend scarce resources to address the WMD threat, though they probably will agree to some small steps such as intelligence-sharing and data collection.

The debates over the Strategic Concept have largely been conducted behind closed doors and among a small group of U.S. and European defense analysts. Nonetheless, they highlight the very different strategic agendas and concerns that animate U.S. and European policy. For the U.S. the key challenges are beyond Europe's borders--particularly in the Gulf. However, its military forces are stretched thin and it wants more help from its European allies in addressing these challenges. For America's European allies, the main security challenges remain primarily in Europe and they are reluctant to see NATO become a vehicle for addressing these challenges.

U.S.-EUROPEAN DIFFERENCES OVER IRAN

These broader differences have been reinforced by specific differences over how to deal with rogue or "backlash states" such as

²See Joseph Fitchett, "A More United Europe Worries About Globalizing NATO," *International Herald Tribune*, December 31, 1998; David Buchan, "U.S. Urges NATO to Take on Wider Role," *Financial Times*, December 7, 1998. Roger Cohen, "A Policy Struggle Stirs Within NATO," *New York Times*, November 28, 1998. For a critical European view, see Karl-Heinz Kamp, "Eine 'globale' Rolle für die NATO?" *Frankfurter Allgemeine Zeitung*, April 2, 1998.

Iran and Iraq.³ Broadly speaking, the U.S. and Europe have tended to adopt different approaches to dealing with these states. The U.S. has favored a policy of containment whereas Europe has favored engagement and using trade as a lever to foster change in such regimes. The U.S. has also been more willing to use military force than its European allies, with the notable exception of Britain.⁴

These differences have been most pronounced on policy toward Iran. The U.S. has sought essentially to pursue a policy of containment toward Iran. This policy has been designed to isolate Iran and force it to change its approach to three critical issues: its support for international terrorism, its effort to subvert the Middle East Peace process, and its attempt to acquire nuclear weapons. The U.S. has adopted a wide range of punitive sanctions against Iran in an effort to force it to change its policy on these issues.⁵

America's European allies, however, do not support this approach. They generally see trade as a means to foster greater openness and argue that a policy of isolation only serves to strengthen the hand of the hard-liners in Iran. Instead they have pursued a policy of engagement and "critical dialogue" with Iran, which they insist is more likely to lead to a change in regime in Iran over the medium and long run. As one former high-ranking German official has put it: "If the West could...build up economic cultural and political ties, it would reply to

³For the first public articulation of U.S. policy on rogue states, see the speech by former U.S. National Security Advisor Anthony Lake, "Confronting Backlash States," *Foreign Affairs*, Vol. 73, No. 2, March-April 1994, pp. 44-45.

⁴For a comprehensive discussion of these differences, see Philip Gordon, "The Transatlantic Allies and the Changing Middle East," *Adelphi Paper 322* (London: International Institute of Strategic Studies, 1998).

⁵The controversial Iran and Libya Sanctions Act (ILSA), for instance, was specifically designed "to deny Iran the ability to support acts of international terrorism and to fund the development and acquisition of weapons of mass destruction and the means to deliver them by limiting the development of Iran's ability to explore for, extract, refine, or transport by pipeline petroleum resources of Iran." See Section 3(a) of the *U.S. Public Law 104-172: The Iran and Libya Sanctions Act of 1996*.

a great interest in the emerging bourgeoisie and encourage the gradual opening of Iran's foreign policy."⁶

The EU did temporarily withdraw its ambassadors in April 1997 for a few months after a German court found Iranian complicity in the 1992 political murder in the Mykonos restaurant incident in Berlin. But this disruption lasted only a few months. By the end of 1997, most European ambassadors had returned to their posts, stressing the need to maintain a policy of "critical dialogue" and engagement with Tehran.

The U.S., by contrast, has had no diplomatic relations with Iran since 1980 and has imposed a variety of sanctions against Iran. The most controversial of these has been the 1996 Iran and Libya Sanctions Act (ILSA), which obliged the President to impose sanctions on any company, whether based in the U.S. or otherwise, that invested more than \$40 million in developing the Iranian or Libyan energy sectors. The passage of the Act caused an outcry in Europe and led to a serious deterioration of U.S.-European trade relations until May 1998 when President Clinton agreed to waive the sanctions.

However, since the election of President Mohammed Khatami in May 1997, U.S. policy has begun to shift and the U.S. has shown a greater interest in engaging the Iranian regime in a limited dialogue. Together with President Clinton's waiver of the Iran-Libya Sanctions Act, this more conciliatory U.S. policy has served to narrow the differences between the U.S. and its European allies and removed an important irritant in U.S.-European relations. However, this does not mean that the U.S. has essentially adopted the "European approach" to Iran. U.S. policy has shifted. But this shift has been in response to changes in Iran and Iranian policy not because the U.S. has become convinced that the European policy of engagement was right after all.

In fact, neither U.S. policy nor European policy toward Iran has been very effective. Iran has moderated its policy over the last year.

⁶Rheinhard Schlageintweit, "Positive Approaches to Iran and Iraq," in *Report of the Trilateral Commission on the Middle East* (New York: Trilateral Commission, 1998), p. 12. Cited in Gordon, *The Transatlantic Allies and the Changing Middle East*, p. 54.

But these changes have had little to do with U.S. or European policy. Rather they have been a product of *domestic changes in Iran*.

The U.S. has recognized these changes and cautiously responded to them. This has led to a number of small steps destined to reduce hostility. But neither Washington nor Tehran has fundamentally altered its policy. Indeed, Khatami has openly rejected a fundamental change in relations--at least for the moment. Whether he will push for a far-reaching rapprochement will largely depend on internal developments in Iran, particularly the outcome of the ongoing internal power struggle--a matter over which the U.S. and Europe have little control.

Thus, it is too early to definitely conclude that the period of Transatlantic disagreements over Iran has ended. A setback in reform in Iran could spark a new outbreak of Transatlantic discord over policy toward Iran, creating new issues within the Alliance. Moreover, the Iran and Libya Sanctions Act remains on the books. Its waiver has prevented a damaging trade war, but it has not ended the differences between the U.S. and Europe over trade and investment in Iran. If reform fails, these differences could reemerge, especially since the U.S. Congress tends to take a much more hawkish approach toward Iran and sanctions than the Clinton Administration does.⁷

POLICY TOWARD IRAQ

Differences between the U.S. and its European allies over Iraq has been less pronounced. Most Europeans agree that containment is necessary because of Saddam Hussein's flagrant violation of the UN inspection regime. At the same time, most European allies, especially France and Turkey, are more willing to engage with Iraq. Moreover, most strongly disagree with the U.S. view that sanctions should stay in place as long as Saddam Hussein is in power. Most Europeans regard sanctions as a way of forcing Saddam to comply with his obligations under the UN Resolutions, not as a means to promote his removal.

⁷Only a month after the waiver on ILSA, the U.S. Congress passed new legislation, despite the objections of the Clinton Administration, for sanctions to be imposed on companies anywhere in the world supplying Iran with ballistic missile technology. See Nancy Dunne, "Clinton Vetoes Sanctions Law," *Financial Times*, June 25, 1998.

U.S. policy has posed particular problems for Turkey. While there is no love lost between Turkey and Saddam, when faced with a choice between Saddam in power and a disintegrating Iraq, most Turkish leaders would prefer Saddam. They fear that Saddam's removal could lead to Iraq's disintegration and result in the emergence of an independent Kurdish state on Turkey's southern border, exacerbating Turkey's own Kurdish problem. They have thus been reluctant to support U.S. policy toward Iraq. While they have allowed the U.S. to use Turkish air bases to monitor the no-flight zone against Iraq, they have put important constraints on these operations.

In addition, Turkey has strong economic interests in trade with Iraq. Before the imposition of the UN sanctions against Iraq, Iraq was Turkey's third largest trade partner and its largest oil supplier. According to Turkish sources, the embargo has cost Turkey more than \$30 billion in lost revenue. Thus, Turkey has a strong economic interest in seeing the sanctions lifted and Iraq's economic isolation ended.

Indeed, on policy toward Iraq Turkey's views are much closer to those of America's European allies than those of the U.S. France, in particular, has called for an easing of the sanctions against Iraq.⁸ Thus the differences with Turkey represent broader fault lines within the Alliance that may make it difficult for the U.S. to get European support for its Iraqi policy in the future.

In the case of Iraq, the differences between the U.S. and Europe are not about the nature of the threat--most Europeans agree that Saddam poses an important threat to regional stability--but about how best to deal with the threat. Most European states (with the exception of Britain) are skeptical that bombing will do much to reduce Saddam's nuclear and chemical weapons capacity--the main threat to Western interests--and fear it could actually strengthen his position.

The European allies, especially France, have also been concerned by what they consider to be a tendency on the part of the U.S. to act

⁸For a trenchant French critique of U.S. policy toward Iraq and "Dual Containment" more generally, see Eric Rouleau, "America's Unyielding Policy Toward Iraq," *Foreign Affairs*, Vol. 14, No. 1, January-February 1998, pp. 59-72.

unilaterally and disregard the authority of the UN Security Council. This concern was particularly evident during the 1997-1998 arms inspection crisis. The U.S. insisted that it had all the authority it needed to act, including using military force. France, however, stressed that a new Security Council resolution was needed.

The debate about the UN authority is part of a larger debate about when and under what circumstances the U.S. or international organizations can act without an explicit UN mandate. Most European states have tended to take a more restrictive position than the U.S. or Britain. However, the debate has by no means been resolved and is likely to continue, with France and Russia continuing to insist that an explicit resolution from the Security Council is needed before any military action can take place.

At the same time, U.S. policy has begun to shift toward openly trying to topple Saddam. In October 1998 the U.S. Congress authorized \$97 million to support Iraq's democratic resistance groups. And in November, President Clinton announced a readiness to work with the "forces of change" in Iraq and seek a "new government that is committed to represent and respect its people, not repress them." A host of commentators and Congressmen have come forward arguing that the U.S. goal should be to topple Saddam not contain him.

In short, the idea of a new rollback policy is gaining ground, both within the Congress and policy circles. Yet on close examination, none of the strategies for toppling Saddam pass muster. Airpower alone cannot drive Saddam from Iraq and there is no support among the U.S. public for putting U.S. ground troops in Iraq. Other strategies such as establishing an enclave or supporting an Afghan style guerrilla campaign are also unrealistic.⁹

The U.S. and its allies are thus left with little choice but to pursue a long-term policy of containment. The real challenge therefore is how to make this policy work rather than looking for unrealistic and cost-free quick fixes. Making containment work would require some

⁹See Daniel Byman, Kenneth Pollack, and Gideon Rose, "The Rollback Fantasy," *Foreign Affairs*, Vol. 38, No. 1, January-February 1998, pp. 24-41.

relaxation or lifting of the unpopular sanctions in return for a stronger commitment on the part of America's European allies to support efforts--including air strikes--to destroy, or at least erode, Saddam's capacity to produce WMD and hinder his ability to build up his conventional military forces.

In addition, the U.S. and its European allies would have to give greater support to the democratic Iraqi opposition. This policy, however, would be part of a broader policy of containment, not an effort to supplant it. It would be designed to keep the pressure on Saddam, forcing him to concentrate on shoring up his regime rather than threatening his neighbors.

Such a policy is emotionally less satisfying than calling for an all-out effort to topple Saddam. But it is more realistic. And it has a better chance of obtaining the support of America's European allies.

CONCLUSION

The foregoing discussion underscores the way in which challenges outside of Europe--especially those in the Persian Gulf--have begun to affect Transatlantic relations and the broader U.S.-European security relationship. The boundaries between European security and Persian Gulf security are becoming increasingly blurred and can no longer be neatly separated. As a result, the Persian Gulf security issues now occupy an important place on the Transatlantic agenda.

At the same time, the differences over policy toward Iran and Iraq highlight the need for a coordinated Western strategy. None of these problems can be successfully managed by the United States alone. As Robert Blackwill and Michael Stürmer have noted, "The United States does not have the domestic support, political will, financial resources, international influence, or sustained diplomatic excellence to go its own way. Europe is even less prepared to do so."¹⁰ Thus the U.S. and Europe have little choice but to develop coordinated and cooperative policies for dealing with the challenges.

¹⁰Robert D. Blackwill and Michael Stürmer, "Conclusions" in Robert D. Blackwill and Michael Sturmer (eds.), *Allies Divided Transatlantic Policies for the Greater Middle East* (Cambridge, MA: The MIT Press, 1997), p. 304.

The division of labor favored by many Europeans whereby Europe deals with soft-security and the U.S. provides the hard-security is anachronistic and not sustainable. It needs to be supplemented by a broader partnership, one which is more global and more equal.¹¹ This will require changes on both sides of the Atlantic. The Europeans will need to recognize that threats in the Gulf can vitally affect their security and be willing to develop the capabilities, including in the military field, to address these challenges. The U.S. will need to be willing to give more responsibility to the Europeans for dealing with these challenges.

Persian Gulf issues also need to be given a more prominent place on the Transatlantic policy agenda. What is needed is an effort to develop a shared analysis of the nature of the challenges and their implications. This can provide the basis for the development of joint policies and strategies. But for this to happen both Europe and the United States need to recognize the degree to which Persian Gulf and Transatlantic security are increasingly linked.

¹¹See David C. Gompert and F. Stephen Larrabee, *America and Europe: A Partnership for a New Era* (New York: Cambridge University Press, 1997).

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA

9



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Friedmann Müller

Asia and Gulf Security



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

Asia and Gulf Security

Friedemann Müller

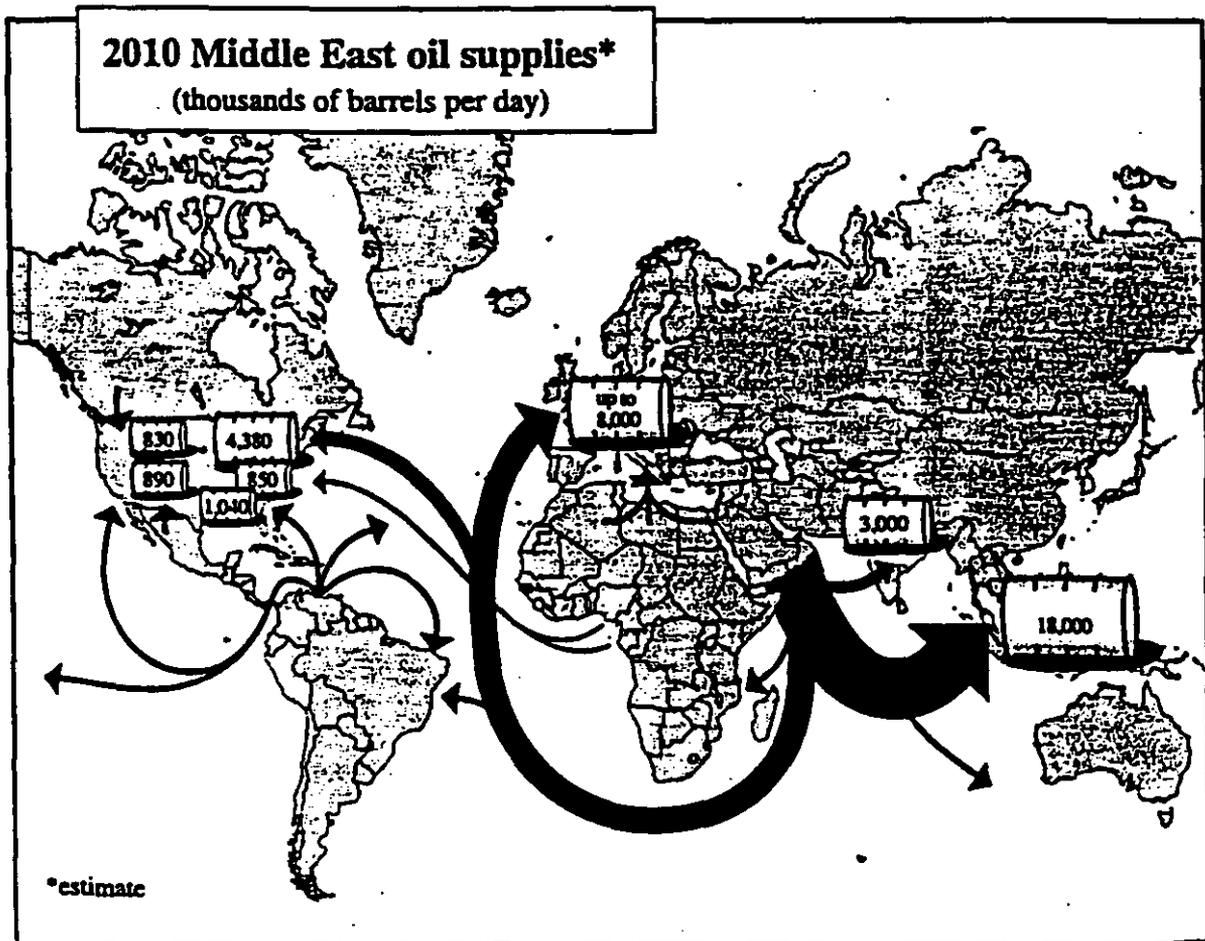
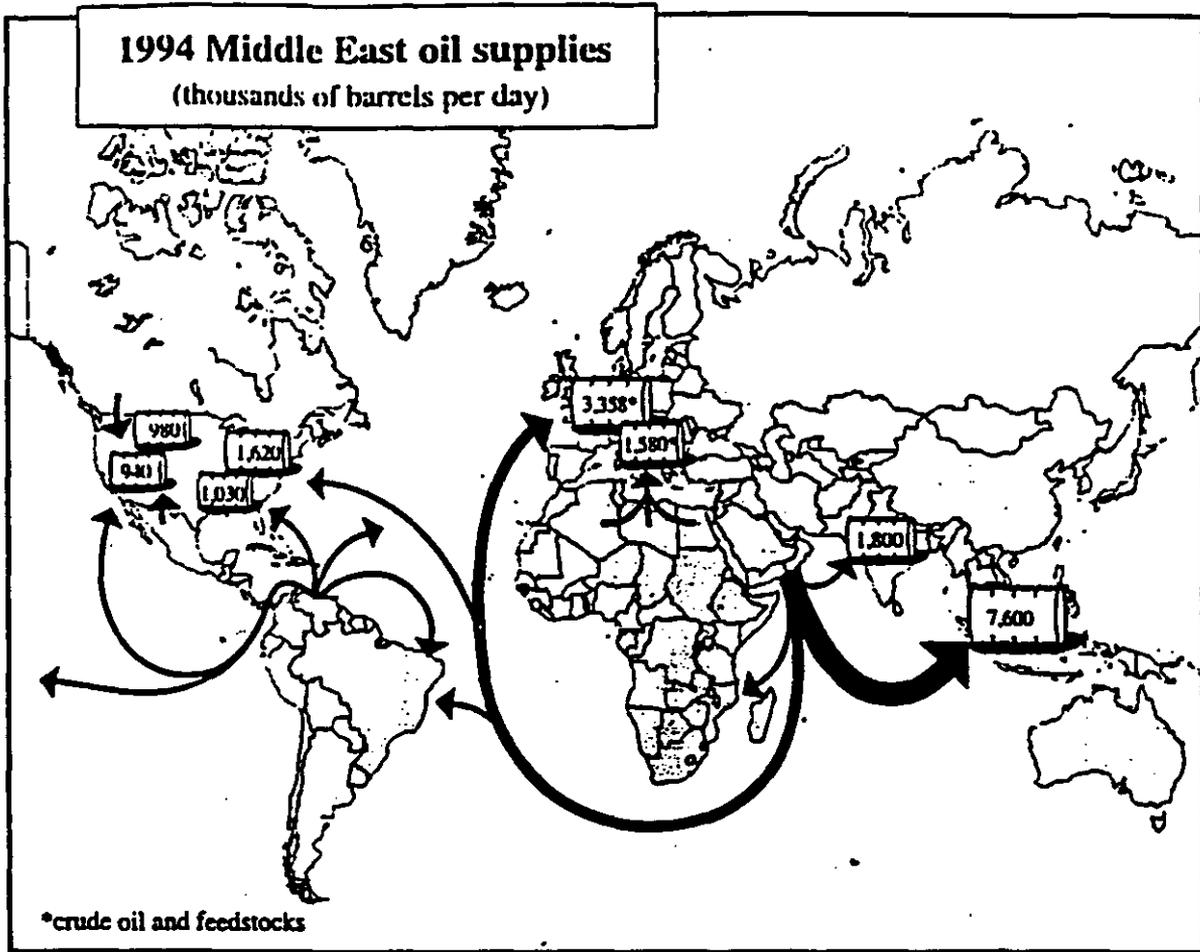
Twenty-five years ago the well-being of the Western economies seemed to be closely related to the readiness of the Gulf States to provide them with oil and with the functioning of the transport routes, particularly the sensitive Straits of Hormuz. The oil crises of 1973/74 and 1979/80 demonstrated this vulnerability. The Straits of Hormuz, for good reasons, was called the „Achilles heel“ of the Western economies. The reaction of the Western world to this dependence revealed by the two oil crises was manifold:

- First, a strong military presence of the U.S. was established and this has determined the regional military balance ever since.
- Second, the International Energy Agency was founded by the OECD, the club of Western industrialized countries. This agency is responsible for common rules and international assistance among the member countries in case of oil supply shortages. Stock-piles were built up, the pipeline network was improved, and flexibility for switching among different energy sources was increased.
- Thirdly, the diversification of supply was extended, e.g. oil fields within OECD regions like Alaska and the North Sea were explored and exploited but also the share of non-OPEC countries in OECD oil imports as that of the Soviet Union was increased.
- The fourth reaction expressed itself in long term structural change. Oil lost shares in the energy mix of the Western states in comparison to natural gas and nuclear energy, and the energy consumption as a whole was, for all practical purposes, totally decoupled from economic growth. At least in most of the highly developed European OECD countries and Japan, energy consumption today is less than 5 percent above energy consumption in 1973.

The result of these measures was a change of the world oil market from a sellers to a buyers market and forms the basis of the current weakness of OPEC. There was, however, also a change in the consideration of oil as a unique product. Under the impression of the two world wars, oil was considered a truly strategic good important not only to run an economy but also to allow military mobility. Therefore, it was assumed, those powers with a special relationship to oil producers or with militarily guaranteed access to oil production and transportation routes had a strategic advantage. While the strategic quality of oil is still incontestable, the access to oil follows different rules. During the past quarter of a century this has changed fundamentally. Long term agreements between sellers and buyers and military protection of transport routes are in decline. The world oil market has become a truly globalized market, it has even become a pioneer of globalization. This includes a spot market and a price that is as sensitive to demand and supply as any exchange rate or stock. Everybody who pays the price receives as much oil as he wishes.

There is, of course, a substantial exception from this free market game. Even if OPEC became weak due to a potential oversupply of the world market, the Straits of Hormuz would not change its geographic peculiarity. More than 60 percent of the internationally traded oil supply lead through this bottleneck. If these Straits were closed this would hurt the world economy drastically. This is one, maybe the major, reason for the undiminished U.S. military presence in the Gulf. What has changed, however, is the main direction the tankers use to leave the Persian Gulf. As Figure 1 shows, two thirds of the supplies are going eastwards, only one third to Europe and North America. and current tendencies point to further increase in the Asian share of Gulf oil.

Figure 1



Does it mean that „Gulf security“ is perceived now as a mainly Asian problem? It looks more like the Asian countries are adopting a low profile with respect to this question and are rather satisfied with the current regime since they are unable to offer another option. This constellation, however, may not remain stable for ever. Thus, it is worth investigating the problem of Gulf security for the Asian states in a longer perspective.

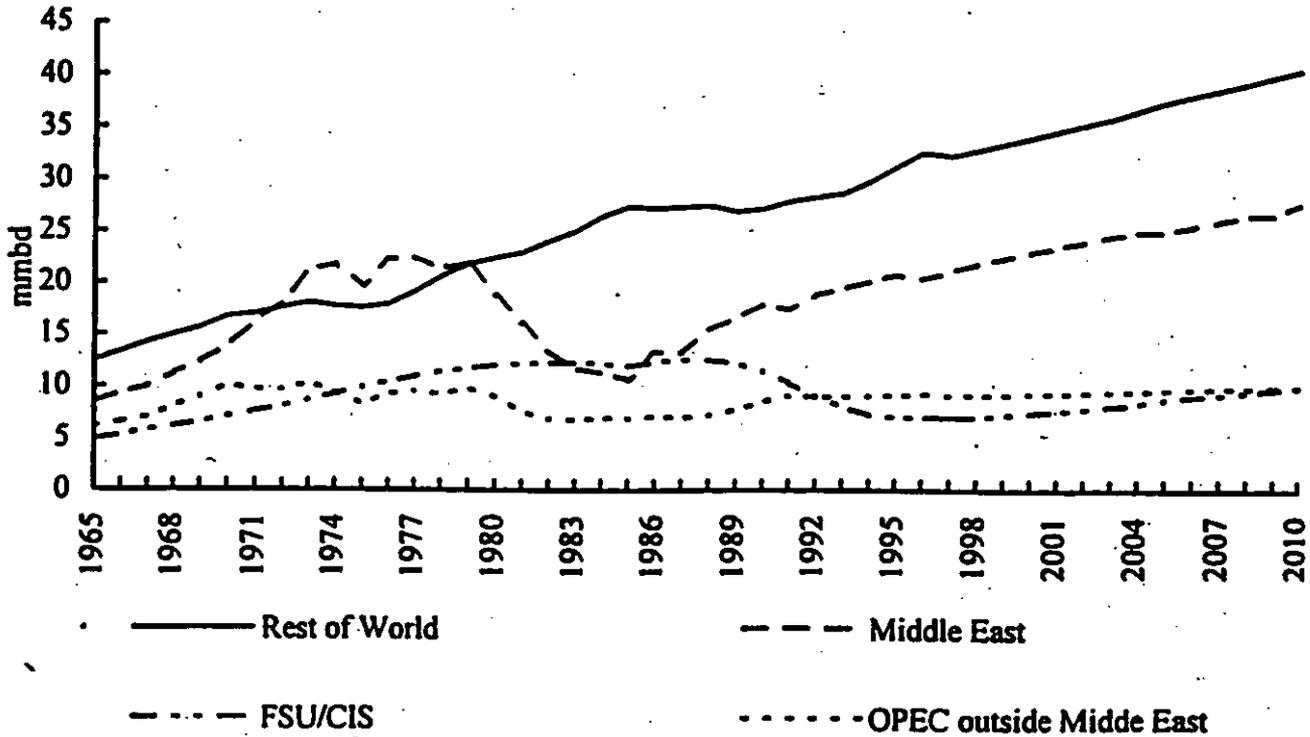
I. World Energy Supply and the Role of the Gulf States

As Figure 2 shows, among the four oil producing regions - the Gulf (Middle East), OPEC outside Middle East, the (Former) Soviet Union (FSU) and the Rest of World - the Gulf was top producer only during a few years in the mid-1970s. The real decline in Gulf oil production, however, was stopped in 1985. Since that time we are witnessing a steady growth until now, with a high probability of a further continuation. The other three groups have had a more steady production performance, with a considerable decline in the FSU after the late 1980s and a more or less stable annual production of OPEC outside the Middle East.

John Mitchell, the author of this figure, assumes a mainly constant development of oil production of the last two groups and a continuous increase in oil production in the Middle East and the Rest of World until the year 2010. The International Energy Agency (IEA), however, disagrees with respect to the Gulf and the Rest of World production insofar as it assumes a decline of all non-Gulf regions (World excluding Middle East OPEC) from 52 million barrels a day (mbd) in 1996 to 49 mbd in 2010. At the same time it expects a sharp increase of Gulf (Middle East OPEC) production from 18.5 mbd to 44 mbd. This tendency will continue, according to IEA, continue. Oil production in 2020 will be 49 mbd in the Gulf and 41 mbd in all other

Figure 2

World Oil Production 1996 - 2010
Main Production Regions



Source: RIIA, John Mitchell, 1996, p.24

regions. This means that the Gulf share in world oil production (excluding unconventional oil and natural gas liquids, NGL) will increase from 26% (1996) to 47% (2010) and 55% (2020). This future increase of oil supply from the Gulf region is not only founded in the production capacities but even more in the distribution of world proven reserves. According to different estimates¹ OPEC has a share of slightly above 70% of world oil reserves and the Gulf states alone amounts to 61%. Among the Gulf states, Saudi Arabia's reserves are 260 billion barrels (bb), Iran has 59 bb, Iraq 99 bb, Kuwait 95 bb and Abu Dhabi 62 bb.

¹ documented by IEA, World Energy Outlook 1998, p.94

The IEA, however, assumes a growing share of unconventional oil and NGLs in world oil demand, particularly after the year 2010, so that the Gulf share in world oil demand - if one includes these energy sources - will be „only“ 46% in 2010 and 44% in 2020.

Table 1

World Oil Production *
million barrels per day (mbd) and percent

	1996		2010		2020	
	mbd	%	mbd	%	mbd	%
Middle East OPEC	18.5	26%	43.8	47%	49.0	55%
World excluding Middle East OPEC	52.0	74%	48.9	53%	40.8	45%
World	70.5		92.7		89.9	

* = excluding Unconventional Oil and Natural Gas Liquids

Source: International Energy Agency, World Economic Outlook 1998, p. 101.

Whether we follow Mitchell or the IEA, it is obvious that the Gulf will regain market shares and importance in world oil supply. The average between Mitchell's and IEA projections is a 40% share of the Gulf in world oil supply in 2010 which is the same percentage as in 1973, the all time peak up to now.

Table 2 gives an idea of demand and supply distribution among the major world regions.

According to these data, the Middle East net exports will increase almost two-and-a-half fold from 16.3 to 39.7 mbd between 1996 and 2010. OECD net imports of oil will increase during that time by 50%, while China and „other Asia“ (this excludes Japan) will increase its net imports from 5.3 mbd to 15.2 mbd, which is almost tripling the imports. This explains the further shift of Gulf oil from Western countries to Asia.

Table 2

Oil Demand, Supply and Net Import
 1996 – 2010 UEA Projection
 million barrels per day (mbd)

	1996			2010		
	Demand	Supply	Net Import	Demand	Supply	Net Import
OECD North America	20.3	11.1	9.3	23.4	8.6	14.8
OECD Europe	14.4	6.7	7.7	17.0	4.5	12.5
OECD Pacific	6.7	0.7	6.0	7.7	0.3	7.4
Total OECD	41.4	18.4	23.0	48.1	13.4	34.7
Transition Countries	5.5	7.3	-1.8	7.2	10.2	-3.0
Africa	2.2	7.7	-5.5	3.3	7.8	-4.6
China	3.6	3.1	0.5	7.1	3.2	3.9
Other Asia	8.5	3.7	4.8	14.2	2.9	11.3
Latin America	6.3	9.8	-3.5	9.0	10.4	-1.4
Middle East	4.1	20.4	-16.3	4.9	44.7	-39.7
World	71.7	70.5	1.1	94.2	92.7	1.5

Source: IEA, World Energy Outlook 1998, p. 117.

The share of oil in world energy supply will only slightly decline, from 40% to 39% during the period until 2010, as Table 3 shows, while natural gas will improve its position from 22% to 24%, but will not pass coal as the second most important energy source (28%).

Table 3

World Primary Energy Supply
 1995 – 2010
 million tons of oil equivalent (mtoe)

	1995		2010	
	mtoe	%	mtoe	%
Solid fuels	2 347	28%	3 269	28%
Oil	3 324	40%	4 468	39%
Natural gas	1 810	22%	2 721	24%
Nuclear	608	7%	670	6%
Hydro	215	3%	296	2%
other renewables	36	0%	83	1%
Total	8 341	100%	11 508	100%

Source: IEA, World Energy Outlook 1998, p. 413.

This section might be summarized as follows:

- Oil will keep its importance in world energy supply until 2010, with an approximately share of 40% in total energy supply. After 2010 this share might decline due to the limited conventional reserves.
- The role of the Gulf will grow considerably according to its potential to increase production and considering the production decline elsewhere.
- The demand for Gulf oil will further shift towards Asia.

This supports the thesis that Gulf security could be an increasingly important issue for Asian energy supply.

II. The Energy Balance of Asian Regions

Asia, of course, is no homogenous entity. For the purpose of this paper, however, it makes no sense to treat each country separately. It is more appropriate to divide Asia into the following groups: China, Japan, East Asia (excluding China, Japan), and South Asia. These regions are the Asian energy net importers. Central Asia and the Middle East are treated only as energy suppliers.

The expected development of Asian energy supply is growing much more rapidly than the world energy supply. While the latter is growing between 1995 and 2010 by 38% (Table 3), Asian energy supply (of the four groups) is expected to grow by 67%, China even by 80% and South Asia by 96% (Table 4).

Table 4

Primary Energy Supply of Asian Regions
(million tons of oil equivalent)

	1995	2010	2020
China	864	1559	2 101
Japan and Australia	607	755	815
East Asia excl. China/Japan	464	890	1 275
South Asia	284	558	811

Source: IEA, World Energy Outlook 1998, pp. 429, 436, 444, 449.

It is obvious that three of the four regions are considered to follow a growth path for energy consumption far above the world average. They are China, East Asia and South Asia, while the fourth region - Japan and Australia/New Zealand² - will have a very moderate growth. Like other industrialized countries they have largely decoupled their economic growth from increases in energy consumption.

A similar picture arises from Table 5. It shows oil consumption for China and South Asia almost doubling until 2010, while the growth for Japan (and Australia) will be only 15%.

Table 5

Oil Supply of Asian Regions
(million tons of oil equivalents)

	1995	2010	2020
China	164	355	506
Japan and Australia	309	354	361
East Asia excl. China/Japan	264	472	639
South Asia	99	191	277
Asia	837	1 372	1 783

Source: IEA, World Energy Outlook 1998, pp. 429, 436, 444, 449.

² Different statistics, among them World Energy Outlook of the IEA consider Japan, Australia and New Zealand as a group (OECD Pacific). Japan has a share of 75% to 80% in energy consumption within this group.

The growth rate of oil import demand will be even higher. Table 6 divides the overall supply into indigenous production and net imports. It shows that production in the four regions will decline from 7.5 mbd (1996) to 7.1 mbd (2010). China and South Asia will have small production growth and one that cannot compensate for the production decline in Japan and East Asia.

Table 6

Oil Production and Net Imports
in Asia
1996 – 2010

	Production		Net Imports	
	1996	2010	1996	2010
China	3.1	3.2	0.5	3.9
Japan + Australia	0.7	0.3	6.0	7.4
East Asia (excl. China/Japan)	2.9	2.1	3.3	8.0
South Asia	0.8	1.5	0.8	3.3
Asia	7.5	7.1	10.6	22.6

Source: IEA World Energy Outlook 1998, pp. 242, 293, 316, 341.

However, due to the demand growth the net import growth will not only be particularly high in China and East Asia, but also in South Asia. Overall Asian net imports will grow more than two-fold. Considering the very limited alternatives to the Middle East as a net exporter there is no question that the predominant share of this more than doubled net import has to be provided by the Gulf states.

III. Alternative Supply: Russia and Central Asia

Table 2 explains sufficiently that alternatives to the Gulf oil are a rather limited option and are reduced to Russia and Central Asia if the longer route, from Nigeria or Venezuela should be discounted. The engagement of Chinese and Japanese companies in other East Asian states, particularly Indonesia, Thailand and Malaysia, does not solve the supply problem either since East Asian countries without China and Japan are becoming increasingly net importers themselves.

Both regions, Russia and Central Asia, located not too far away from East Asia have some excess capacities. Insofar, these FSU regions might meet the desire for diversification of Asian countries. The amount of investment into these Eastern energy regions of the post-Soviet states and thus the real future production is, of course, not fixed as the projections might suggest but dependent on demand and project profitability, which certainly can be influenced by Asian states. The main restricting factor in addition to economic cost calculations, however, is politics.

1. Russia

Different from Russia's abundant natural gas reserves, amounting to between one third and 40% of world natural gas resources, its oil reserves are more limited - less than ten percent of world reserves - and more exploited. With the exception of Sakhalin oil, there is not too much room for oil exports towards Asia. The traditional oil fields in West Siberia are oriented in their infrastructure towards Europe. Eastern Siberian oil exploitation is still far from becoming real. The distance from the Northern Siberian oil fields to East and South Asia does not, for the time being, allow the construction of a profitable infrastructure. Sakhalin, however, is an interesting project, but mainly for Japan. The tender of Sakhalin I (1993) and Sakhalin II

(1995) led to a considerable interest of Western oil field. The project leader of the Sakhalin I consortium with its investment volume of \$ 15 billion, became Exxon (30% share). The Japanese company Sodeco also has a 30% share. The rest is divided between the two Russian companies Rosneft and Sachalimorneftegas. The Sakhalin II consortium, called Sakhalin Energy Investment Company, is led by Marathon Oil (37%); Mitsui and Shell have a 25% and Mitsubishi a 12.5% share. The investment volume is \$ 10 billion. A third Sakhalin project is subject of a tender. Sakhalin II is closest to realization.

The political problems are twofold. One is, that the political relations between Japan and Russia are far from normal. Therefore, Japan hesitates to become overly dependent on Russian oil deliveries. This, however, does not prevent Japanese firms from making business, if it is profitable. The second reason is the still unsufficiently solved production sharing legislation and the treatment of foreign investors in Russia. Although the volume of potential business of foreign oil and natural gas companies in Russia is much higher than that in Central Asia, the currently realized foreign investment in the Caspian Sea States (mainly Azerbaijan and Kazakhstan) is much bigger. Sakhalin, due to its geography far from Moscow and close to Japan, is in the position to treat foreign investment in a more pragmatic way than oil regions in Siberia. Nevertheless, the lack of transparency and predictability of the framework conditions is a major restricting factor. For the time being, other Asian regions besides Japan will certainly not cover a significant share in their oil supply from Russia.

The picture looks different for natural gas. In principle, there is an oversupply of natural gas in Asia. Countries like Iran or Turkmenistan could produce much more if they found a market to sell the gas. The peculiarity of natural gas is that, in a strict sense, there is no world market. Due to different transportation systems - more than 80% of internationally traded natural gas is distributed by pipeline, while the overwhelming share of oil is transported by tanker - the natural gas market is divided into regional markets depending on the pipeline infrastructure.

East and South Asia will have to make the strategic decisions about their future pipeline infrastructure, since pipelines have to operate for 25 or 30 years until they get amortized. Considering the deficiency of political confidence among major Asian states this can only mean a diversified infrastructure. China, therefore, is negotiating large projects with Russia, among them a 3,360 km pipeline from the Irkutsk region through Mongolia to the Chinese Pacific coast with a prospective extension to Korea and Japan.³ Russia is extremely interested to open the Asian market for East Siberian natural gas. This applies even more to Sakhalin natural gas, which can find a market almost exclusively in East Asia. That might become the basis of a rather stable mutual dependence between Russia as a natural gas supplier and East Asia, particularly Japan and China as consumer countries.

2. Central Asia

Caspian proven oil reserves at present are about 16 bb. Estimates for possible resources exceed ten times this figure.⁴ Probable reserves, however are mainly given in the range of 30 to 70 bb. This range of oil reserves would mean rather less than more than 5% of world oil reserves (more than 1000 bb proven reserves). The real (up to 1995) and estimated oil production of the three Newly Independent States (NIS) in the Caspian region from 1990 to 2020 is shown in Table 7.

³ Matthew Sagers, Jennifer Nicoud, Development of East Siberian Gas Field and Pipeline to China, Post Soviet Geography and Economics, 1997 No.5, pp.288-295

⁴ U.S. Department of State, Caspian Region Energy Development Report, April 1997, p.4

Table 7

Oil production, consumption and
net export of the Caspian states
in million tons *

	1990	1995	2000	2005	2010	2020
Kazakhstan						
production	25.2	20.5	42.5	62.5	87.5	145.0
consumption	27.2	10.4	17.8	29.0	38.5	68.0
net export	-2.0	10.1	24.7	33.5	48.0	77.0
Azerbaijan						
production	12.3	9.2	14.0	27.5	57.5	105.0
consumption	8.6	7.0	10.2	13.0	14.9	23.9
net export	3.7	2.2	3.8	14.5	42.6	81.1
Turkmenistan						
production	3.4	3.5	8.0	8.7	9.5	11.0
consumption	4.8	5.7	6.5	6.7	7.0	8.0
net export	-1.4	-2.2	1.5	2.0	2.5	3.0

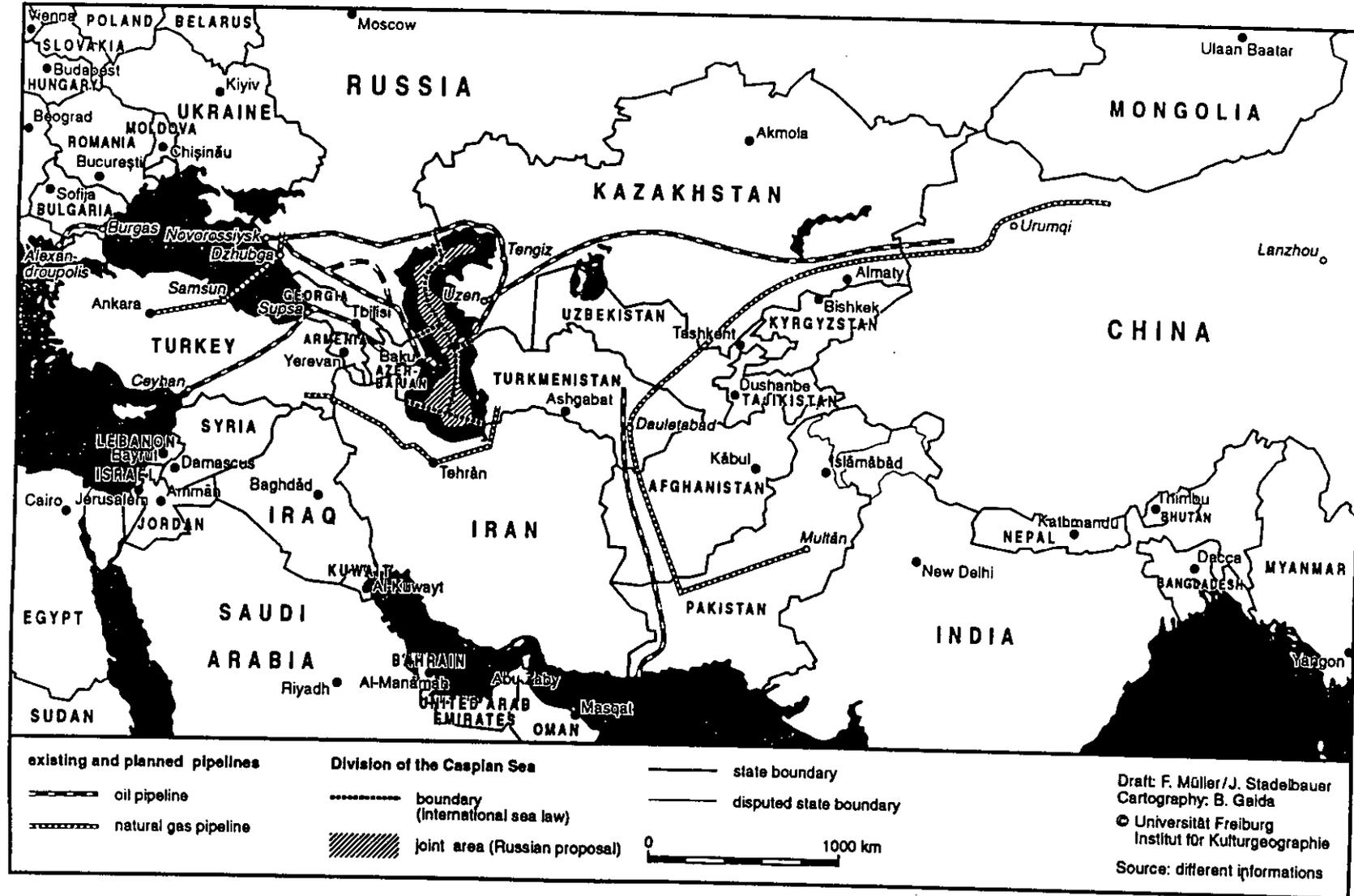
* = The given data are average values of the "high case" and the "low case" scenario.

50 tons per year = 1 mbd

Source: International Energy Agency, Caspian Oil and Gas 1998, p. 51.

China contracted on September 24, 1997 its largest foreign investment project (\$ 9.5 billion) ever. The agreement provides for the exploration of the Uzen field in Kazakhstan at the East shore of the Caspian Sea (production capacity 160,000 barrel per day from 2002 on), three smaller fields nearby in the Aktobe region and the Aktyubinsk oil field, as well as the transportation of a considerable share of this oil by a 3000 km pipeline to West China (Figure 3). Considering the Kazakh net export capacity of 48 million tons (approximately 1 mbd) in 2010 and also the major orientation of Kazakh oil supply to the Black Sea ports (due to the large diameter pipeline construction to Novorossiisk), China can certainly not expect more than 0.2 mbd from Kazakhstan in 2010. This would cover only 5% of the expected Chinese net imports in that year and would not leave oil for other Asian states. It seems rather improbable that China could receive a significant amount of oil from other Caspian states. Azerbaijan, with its location at the West coast of the Caspian Sea and the corresponding infrastructure is

Figure 3



oriented towards West, and Turkmenistan will not be a significant net exporter of oil (Table 7).
 The same is true for Uzbekistan.

Nevertheless, both states hope to become oil exporters not to China but to South Asia. Since 1996 plans have been advanced to construct not only a natural gas but also an oil pipeline from Turkmenistan via Afghanistan to Pakistan. The Argentinian company Bridas and the U.S. company Unocal have competed in getting a contract for this construction. Finally, on July 23, 1997, an agreement was signed between Pakistan and Turkmenistan and a consortium of Unocal and Delta to construct a natural gas pipeline until the year 2000. In December 1998, however, before construction started, Unocal withdrew from the contract. This was due to the political instabilities in Afghanistan. Even if the civil war in Afghanistan were finally to come to an end, it would be rather questionable whether an oil pipeline ever would become profitable. The transportation of natural gas to Pakistan and India, as well as to China, however, makes sense and is very likely to be realized in the long run. Up to now, both regions have a very low share of natural gas in their energy mix. If they follow the changing energy mix of the industrialized states the demand for natural gas will grow; the supply can certainly be provided in Russia, Turkmenistan, and Iran. Each of the suppliers would be extremely happy if China and South Asia were to look for natural gas from their region and would contribute to the infrastructure for this.

Japanese companies are involved in a number of Caspian consortia. Itochu, for instance, bought a 10% share in the famous „deal of the century“, a contract signed by the state of Azerbaijan and Azerbaijan International Operating Company (AIOC), a consortium of private oil companies in September 1994. The total investment will be \$ 7.8 billion. Itochu became member of AIOC only in 1996. Since then Japanese companies like Japan Petroleum Ltd. and Teikoku Oil Co. have been involved in a number of smaller contracts.

Summarizing the alternative options of Asian oil supply to Gulf oil, the main points can be stated as follows:

- Considering the three net exporter world regions (Former Soviet Union, Africa/Nigeria and Latin America/Venezuela) as presented in Table 2, and bearing in mind the geographic constraints only the Former Soviet Union (FSU) is a realistic partner for oil supply of Aisa in the next century.
- The FSU is to be divided into two supply regions, Russia and Central Asia. Russia's production, supported by geography and infrastructure, is almost totally reserved for domestic and European consumption. Only Sakhalin oil can be economically directed to Japan.
- In Central Asia and the Caspian Sea, China is already engaged with at least one major investment project. Also Japanese companies are partners of several consortia. Nevertheless, the possible supply from this region will cover not more than approximately five percent of Chinese import demand in 2010, and in the case of Japan that share will even be smaller. East and South Asia will probably get not much oil from either of the two post-Soviet regions.
- The picture looks different in the case of natural gas. Here, a considerable demand growth meets a high supply potential in Russia as well as in Turkmenistan, but also in Iran.

China and Japan will probably make efforts to realize the existing options in Russia and Central Asia to reach a minimum of supply diversification. It appears, however, inevitable that at least 90 percent of Chinese, East and South Asian oil imports will flow through the Straits of Hormuz in 2010. Japan will be in a slightly better position only, if all political obstacles for the exploitation and export of Sakhalin oil can be removed. It is not obvious that this will happen soon.

IV. Security Risk Scenarios

In an article on „Energy Supply and the Security of East Asia“⁵ Thomas Bernauer has described four reasons that might create security risks:

- Suppliers exploit their export power as political instruments.
- Importers put military pressure on energy producer countries.
- Third states interrupt transportation routes.
- Conflicts between or within states have a negative side effect on the energy supply.

The *first risk* was turned into reality by OPEC countries in the 1970s. Can it happen again if OPEC and particularly the Gulf states gain back the market shares of the 1970s?

The instrument to realize the *second risk*, to some degree, is monopolized by the United States military presence. If this presence does not put pressure on the production states it, at least, prevents any other military dominance in the region, as the 1991 Gulf War exemplified. Is this a comfortable constellation for Asian countries? Will they have influence to change it?

The *third and fourth risk*, that of transport route interruption is only imaginable in the Gulf region if the American military presence were to be reduced and a major conflict breaks out between littoral states. Can Asian countries do anything to prevent such a situation?

Whether the Gulf states will again be in a position to use energy supply as a political weapon is hard to say. That possibility could become reality because of the fact, that the Gulf share in world oil supply will probably be as high in 10-12 years as it was in 1973. However, in the long run the OPEC countries were the losers of their political game in 1973/74. They forced the Western states to restructure their energy policy, with the effect of their much reduced

⁵ Thomas Bernauer, Energieversorgung und Sicherheit in Ostasien, Neue Züricher Zeitung, November 22/23, 1997, p.39

dependence and a declining oil price. Furthermore, to be considered are also the effects of globalization. International economic interaction and integration are growing fast. This produces the effect is that even states with totally different political or economic structures (for instance Russia and Turkey) get more and more interdependent (Turkey as a transit country of Russian natural gas requiring expensive investment). This phenomenon is, for instance, very visible in the region of the Caspian Sea, where the so-called „Great Game“, that is another zero sum game, like in the 19th century cannot be played because the players are too much interdependent. There is no doubt that this process, which started between the industrialized countries, will increasingly grasp countries like the Gulf states. Regions that try to protect themselves against the globalization effects will not be competitive and therefore will be marginalized. Efforts should be made to pave the way for the Gulf states to become fully integrated into this global network. Whether Asian countries are the ones which promote this strategy can be doubted since many of them have more pressing problems than opening the Gulf states to the world market.

An alternative to the U.S. military presence to keeping the military balance in the Gulf region is hardly imaginable. Asian states cannot substitute the U.S. military in the Gulf. As Amy Myers Jaffe and Robert Manning, however, have pointed out, China might become very dissatisfied with the status quo of American military protection on Chinese energy supply. This imbalance can lead to all sorts of changes in the U.S. - Chinese relationship.⁶

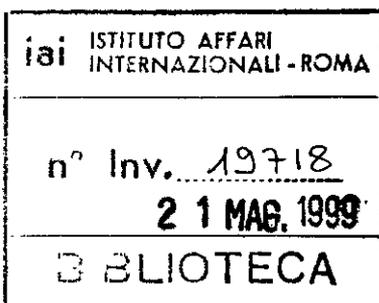
The question on transport route interruptions again cannot lead to an active security policy of Asian countries as long as the U.S. presence makes this unnecessary. If it were in the interest of the United States they could propose to build up an Asian alliance to secure stability in the Gulf region, including the use of military force, a sort of OSCGulf. Such a proposal, however,

⁶ Amy Myers Jaffe and Robert A. Manning, *The Myth of the Caspian „Great Game“: The real geopolitics of energy*, *Survival*, vol. 40, no. 4, Winter 1998/99, pp.112-129

is unlikely to be realized in the foreseeable future. The U.S. probably would not be ready to divide military power in this sensitive region, and the Asian states would neither be ready nor able to find a common standard and doctrine with the United States.

The desire to look for an alternative to the current stability structure in the Gulf region is not strong enough as to overcome the reality of political interests and military strength.

Nevertheless, the imbalance between those, who are dependent on the supply from the Gulf and those who have the instruments to keep stability in the region, might in the longer term lead to a new cooperative approach. The forces of globalization certainly work in this direction.





International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Abdulaziz I. Al-Sweel

Islam and the West

and

Saudi Arabian Role in

establishing a constructive dialogue



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ.

Islam and the West
And
Saudi Arabian Role
In
Establishing a constructive dialogue

Dr. Abdulaziz I. Al-Sweel

King Saud University

Riyadh

I. Introduction;

I will try to divide my paper into two main parts. The first part will be dedicated to the Islamic/Western relation past and present. Being a mere student, however, I will raise more questions than offer answers.

There are no given facts in this field. Point of views are not always academically rigorous. They are almost always either Islamic (or worse yet fundamentalist) or Western (worse yet colonialist). These points of view are accepted by one party, rejected by the other. One rarely encounters a balanced academically oriented study. This field, unlike other aspects of the ever on-going human quest for knowledge; is not immune

from cultural, religious, racial and political shades that not only dye it with their ever changing colors but also try to define its future tracks. Such a discipline of study will probably be besieged by these limiting powers for decades to come.

The second part will be confined to Saudi Arabian efforts to bridge a gap between the two cultures using every usable tool to do so. Most central, of course, is introducing Islam as a different but worth respecting way of looking at things. We think we have to start afresh to be able to appreciate our resemblances and admire our differences.

II. We Muslims complain of being misunderstood in the West. I am of this conviction. I think that the state of affairs we are witnessing nowadays is due to factors that have to do with contemporary Muslims and the practices of some of them. Some other factors nevertheless, are beyond Muslims. Islam itself, surely, has nothing to do with anything that is happening in our times.

Islam's clear stand on dialogue with believers is depicted in the *verse*

"Say (O. Muhammad (SAAWS) people of the scripture come to a word that is just between us and you." 3:64. Islam's insistence on peaceful means is spelled out in the verse "Invite (mankind O Muhammad (SAAWS) to the way of your Lord (i.e. Islam) with wisdom and fair breaching, and argue with them in a way that is better." 16:125, and "Repel evil with that which is

better. We are Best-Acquainted with the things they utter.”
23:96, and” Say (O Muhammad (SAAWS) we believe in Allah
and in what has been sent down to us, and what was sent down
to Abraham, Ishmael, Isaac, Jacob, and his sons and what was
given to Moses, Jesus and the Prophets from their Lord.”3:84.
History reveals that Islam spread peacefully by merchants many
folds more than it did with the sword .

I think it only makes sense to address the sour relations
between Islam and the West and will try to pinpoint examples of
what I think created this somewhat sore question.

I am hoping that through a constructive dialogue we will
come to the conclusion that it is only misunderstanding.
Constructive dialogue is possible after singling out crucial facts
and analyzing them. It also takes two equal parties eager to dig
out the truth. Misunderstanding will disappear to leave an ample
room for appreciation and respect of each party to its equal.

1. In his somewhat provocative book “Islam and the West”
Bernard Lewis intelligently notices “Between the two terms
‘Europe’ and ‘Islam’ there is, or there would appear to be, a
certain asymmetry. The one is a geographical expression, the
name of a continent.... The other is a religion.”. The same
remark stands correct in regard to talking about Islam and the
West. In fact the latter is even more asymmetric since it connects
a tangible entity such as a practiced, lived religion to an abstract

direction that is being forced to encompass a whole range of sub-races and sub-cultures.

The analyst will face a real dilemma of reconciling the two parts of the phrase when faced with the fact that Islam (the first half of the phrase) never addresses peoples of directions. It, however, recognizes the two other monotheistic religions. In fact it extensively documents its recognition quite heavily in the holy Qura'an, in the prophet's tradition, and in the practices of mainstream Muslims.

The Islamic (or rather Qura'anic) term for believers of other monotheistic religions is "people of the scripture or people of the book". Some of them are not only accepted in words as well as in deeds, but also, at situations, they are praised as being true believers and friendly lovers of Muslims "And when they (the Christians) listen to what has been sent down to the messenger (Muhammad) you see their eyes overflow with tears because of the truth they have recognized." 5:83, and "And you will find the nearest in love to the believers (Muslims) those who say 'We are Christians' that is because amongst them are priests and monks and they are not proud (arrogant)." 5:82, and "A party of the people of the scripture stand for the right" 3:113.

Lewis's other remark, worthy of considering, is his notion that "Islam and Christendom have lived side by side – always as neighbors....". This again is heavily attested to in the holy Qura'an, prophet's tradition, and practice of mainstream

Muslims starting at the dawn of Islam and culminating in the 'saga of Andalusia'.

The two questions that pose themselves, here, are why insist on the phrase "Islam and the West"? And, in whose interest?

It would be more reasonable to cast more light on Islamic /Christian relationship, or for that matter, relationship between any two other religions. We will then be comparing similar things rather than apples to oranges. But these two questions stand out stubbornly in the field of Islamic or Arabic or Middle Eastern studies.

2. Unfortunately, most of the Western stereotypes of the East are built on the orientalist's images of that part of the world. Edward Sa'id summarizes this image as follows "The orient was almost a European invention, and had been since antiquity a place of romance, exotic beings, haunting memories and landscapes, remarkable experiences". This image evaporated immediately upon exposing it to rules of international relations. The orient is not only what makes this imaginable picture. It is a lot more. It is a complicated mosaic of peoples, cultures, religions, and political entities.

Unfortunately, again, in the concrete world of interests, imaginative and exotic stereotypes worth almost nothing. Is this one of the seeds of the state of affairs we see today?

Isn't it the job of scholars, intellectuals, and specialists of international studies to address these facts and give this field the integrity it deserves?

3. The study of Islam and Muslims in Western Institutions has always suffered from applying Western criteria. This happened for so many different reasons. At best Western apologists (often called scholars) compare Islamic practices with Western ideals. It is also true that Muslim apologists have compared the Islamic ideal with Western practice. Points that bear on this issue, have to do with factors such as:

1. The depth and importance of the issues covered.
2. The quality of specialization and information resources.
3. The scope of interest.
4. The degree of recognition and comprehension.

At this juncture, it is quite legitimate to ask the following questions: Isn't the discipline of Islamic and Arabic studies (media included) worthy of an evaluative pause? Shouldn't we motivate students and professionals in the field to implement more practical realistic approaches and methodology if we are to reach a better understanding of the religion and the people?

4. Another question that bears on this issue has to do with what Western scholars deem more interesting. The majority of studies concentrate on peripheral issues. Mainstream Islamic thoughts seem to have made way for these.

Only very few specialists tackle the history and ideas of Sunny Ulama such as Ibn Taymeyyah, Ibn Al-Jawzy, and Ibn Al-Qayyem, but there are many other studies about Ibn Rushd, Ibn Al-Arabi, and Al-Ghazaly. This is not to say that the latter thinkers are not worthy of study. It is, however, contra to acceptable statistical comprehension to devote 80% of the effort to the 20% peripheries. Mainstream Muslims make more than 80% of the total. Is this because its more appealing to study complicated and sophisticated philosophical thoughts? Islam is a simple message that doesn't opt to challenge the mind. As such it may not be an interesting academic topic.

Did the domination of Islamic philosophical works distract Western Scholars from real Islam?

5. In modern times some scholars talk about what they call "conflict of civilizations". Islam, along with totally unrelated powers is advanced as the new enemy of the west. Questions related to this new theory are so numerous and debatable.

It, nevertheless, is still a theory under consideration. We will wait to see how seriously scholars of international relations will take it, and to what extent it holds water?

III. Saudi Arabia both as a people and as a nation possesses some ingredients that make it a good candidate to play a major role in the Islamic/Western relationship bridging process. Saudi political discourse has always been that of low tone, reasonable one and attainable, achievable goals. Compared to other militant

or at least less sensitive discourses the Saudi stands high to offer the alternative needed. This has ignited an international interest in this newly born approach. Many nations would prefer dealing with the kingdom when it comes to handling sensitive Islamic issues of concern to their Muslim citizens. It however, is not the habit of Saudi Arabia to do more than what helps Muslims in the West to be productive peace-loving citizens of the countries they chose to live in. We in Saudi Arabia believe that a person is simply not a good Muslim, if he or she is not the source of love, peace and sharing. A Muslim is not a mere individual, he ought to be a living example of all that this great religion and way of life calls for. This is attainable via helping this person to be like that. It also presupposes a human being to be one that has the will to be like that. This, off course, is the core of the reason why the Saudi way proved to be the most favorable to Western authorities and moderate Muslim communities in Western countries.

The alliance between the Saudis and Islamic call (da'awah) is as old as the first Saudi state about 300 years. It all started with the virtuous agreement between the great far-sighted Imam Mohammed Bin Saud, the founder of the First Saudi State and the known religious reformer Sheikh Mohammed Bin Abdulwahab. The two consecutive Saudi states followed the same path. King Abdulaziz (the founder of modern Saudi

Arabia) lived and practiced that, and so did and are doing his sons after him.

The kingdom of Saudi Arabia is celebrating its centennial this year (1419H-1999). This is a suitable point in history to pause and look back to evaluate Saudi efforts in fostering Islamic/western relation through explaining true Islam and extending a helping hand to moderate Muslims all over the world.

These efforts come in five main aspects;

1. Exhibiting Islamic morals and practices in all diplomatic, commercial and legal exchanges with other nations, respecting all others and appreciating their beliefs and laws. The kingdom also adheres to Islamic practices in its entire international agreements and relations especially in the context of international organizations. This has always been respected and appreciated by others.

2. Educating Muslims in the west to be good Muslims in order to participate in the development and prosperity of their newly chosen societies. This is usually achieved either by opening schools for young western Muslims in their countries or by offering them scholarships in the kingdom.

3. Cooperating with local authorities to provide practicing Muslims with places of worship. These places serve also as cultural centers to avail Islam to whoever seeks knowledge about it or about Muslims.

4. Exchanging points of view through participating in highly respected academic forums (such as this one). Saudi Arabia is of the belief that nothing is as productive as civilized dialogue to bring nations together and make the best of what we all have, to come to a peaceful, prosperous, balanced world.

5. Finally, Saudi Arabia embodies Islam within its own boundaries. Islam, as I am sure you know, is not practiced only in places of worship. It is a comprehensive way of life. It offers its own solutions to human questions and presents its looks both political, economic, social and others “We have neglected nothing in the Book, then unto their Lord they (all) shall be gathered.”6:38. The Saudi experience, we would like to believe, proves that practically Islam is very suitable for every time and everybody everywhere. We hope that this discourse of reason is lended an ear despite the noise of destruction and the loud shouting that try to overcast it.

Lets now take a more detailed look at each one of these aspects:

1. Since its unification and foundation by the late King Abdulaziz bin Saud, the Kingdom of Saudi Arabia has established its renounced reputation as being an Islamic state. In his now classical meeting with President Roosevelt and P.M Churchill, the founder of the Kingdom symbolized the open minded practicing Muslim. Respecting his international commitments and professionally handling his talks with these

very prominent historical figures, under circumstances he knew to be quite exceptional, yet he insisted on pausing to pray five times a day at intervals that were seemingly pretty much needed by the other parties who would seize the chance to have a break. Smoking in front of a Muslim King is not only a gesture of distaste but is also politically incorrect. The Muslim King respected all his agreements and felt deeply towards whom he considered a peace- loving understanding respectful partner. On the other hand he gave up nothing of what he deemed to be a religious or patriotic responsibility. It is quite moving to read what president Roosevelt had to say after that historical summit. He said "I've learned from Ibn Saud about the Middle East in five minutes a lot more than I've learned in the past sixteen years". The King was so sad when he learned about the death of his peace partner a short while later. The King was actually just reliving Islamic traditions as revealed in the holy Qura'an and reported about the prophet Mohammed (SAAWS).

The Saudi international political system represented by Saudi embassies all over the world has ever been a mere resemblance of these early steps. A Saudi ambassador is prepared to represent Islamic character and is expected to stem in every move from Islamic essence. Saudi embassies are regarded as the source of wisdom and the spring of Islamic knowledge. It is practically the house of answer 'Dar Al fatwa' for most Muslims abroad. This

came about only after a long experience of being trustworthy and reliable.

Saudi Arabian support for regional and international Islamic organizations are unmatched. To give examples, one may mention The Islamic soldiery Fund, The Islamic Development Bank, World Muslim league and the International Islamic organization for Relief. These organizations enjoy a full Saudi Arabian financial support and are located on Saudi territory as well.

2. All Saudi consecutive Kings looked at educating Muslims as the corner stone of any human development. This expanded from their own citizens within their own country to all their brothers all over the world. The only precondition to admit a pupil to Saudi schools abroad is to be a productive peaceful citizen in his society of choice. There are a number of main academies in Washington, London, Moscow, and Bone. Hundreds of weekend schools are being supported almost in every city where there are Muslims around the globe. Islamic institutes in America, Japan, Indonesia, and other countries are regarded by scholars as respected research centers that are wroth exchanging knowledge with. Hundreds of students graduate from these institutes to add to the developing and enrichment of their society. A number of academic chairs, professorships and scholarships are being sustained in respectful academic centers in many countries. The graduates of these institutions are doing

their part in bridging the cultural gap between our two great cultures. These institutions are too numerous to list. They have been a great academic, cultural and educational additions to their local communities. They are welcome and encouraged, sometimes supported by local authorities.

The kingdom has established a university in the holy city of Medina for the sole purpose of educating Muslims who come from outside the kingdom. The student body of that university is composed of over sixty nationalities ranging from the Japanese Islands in the east to the Americas in the west. This is an oasis that reminds us of the great Islamic learning centers of the peak of the Islamic civilization. Hundreds of Muslim students are offered scholarships to attend the other seven high education institutions in the kingdom. Tens of professors visit Saudi universities to teach and do cooperative academic research with their Saudi counterparts.

3. The kingdom is keen to open an Islamic center in every capital city that accepts and welcomes that. Already there are cultural centers in many European, American, Asian and African capitals. The only purpose of these centers is to exchange knowledge with other believers who are willing to get engaged in a civilized dialogue. None of these centers have ever been the source of discomfort to local authorities. Quite the contrary, these centers are places to shape proud Muslims who feel allegiance to their countries of choice. They are centers where

Muslims welcome open- minded, and accepting believers of other practices, and exchange dialogue with them exploring the understanding between people of all races, religions and walks of life. The great Islamic center in Rome is a living example of this philosophy. All possible measures are usually taken to leave running the centers to local Muslims in accordance with local laws and regulations, and in total observance of religious and social sensitivities of hosting nations. Centers are always encouraged to participate in every activity that enhances understanding, respect and love among neighbors and friends of Muslims. Their doors are open to anyone who seeks information or merely stops to have a look and says 'hello'. With this long-standing policy, these centers have been in existence for decades and have been welcomed by both governments and people alike. Again listing them may take us a bit afield . If you live in a capital you most probably know or hear of an Islamic center there.

4- There is a constant Saudi belief that, through cultural exchange, people can resolve their differences and discover their resemblance's. For the past 14 (fourteen) years the Al-Jenadriyah Festival has been a cultural landmark. This annual event has established itself as one of the most respected and valued forums worldwide. In a totally free atmosphere, thinkers are listened to unchecked, uninterrupted with an equal chance to hear other points of view. Thinkers come from all corners of the

globe with conflicting ideas. They live, eat and entertain together; then, they convene in the grand King Faisal conference hall to mind-storm.

I will always remember prominent western thinkers who differ drastically with Muslims and Arabs. These people do not believe it when they present their research papers in the heart of Riyadh. Samuel Huntington last year was astonished when he presented a paper he thought would, at best, be rejected by the conference preparing committees. It was, off course, met with the fiercest challenge. But he was sitting with conference organizers on the dinner table only half an hour later expressing to them how much he appreciated that chance to explore Saudi Arabia and meet with Muslims in general first hand instead of falling victim to biased stereotypes.

John Espisito told his Saudi friends that he always looked forward to Aljenadriyah, where he gets to see more scholars than anywhere else under one roof. High political figures also make the trip to Riyadh to attend this annual cultural event. In last year's conference, which was dedicated to discussing Islam and the west (for two years in a row in fact) Prince Charles, the Prince of Wales was there. So many people listened to the prince's praises of the religion of Islam and the fine art of Muslims. This understanding and open mindedness of western figures of the princes caliber is certainly welcomed by fairness and justice thirsty Muslims. Arab thinkers who represent the

whole political and thought spectrum look at Aljenadriyah as their annual pilgrimage where they express their thoughts freely. It was reported that sheikh Al-Ghazaly (a scholar of Islamic jurisprudence) murmured his desire to interject at what he considered a clear unmistakable disbelief in God minutes before he passed away with a heart attack. This happened in that same grand hall while Dr. Fahmy Jada'an, a leftist modernist Arab was presenting a paper about modernist thoughts.

A number of other smaller conferences are held in different parts of the kingdom during the course of the year. Wide range political, religious, social and economic issues are tackled in these conferences which are attended by Saudi thinkers alongside guests from outside. Saudi scholars are envied to participate in international forums whenever possible. Saudi graduate students attending schools in western universities are encouraged and financially supported to attend workshops and conferences and make presentations within their schools or outside them. These efforts all made Saudi Arabia the respected welcome country everywhere it or its representatives are encountered.

5. Historically, as mentioned before, Saudi Arabia is based solely on Islam as the source of all aspects of life. There are no non-Muslim minorities in Saudi Arabia. Islam is present in all activities from the most essential Islamic slogan (shahadatain) on

the national flag to every little detail in a Saudi individuals' daily routine.

All Saudi law, regulations and systems stem from Islam. The constitution of the Kingdom is the holy Qura'an, and (sharia'a) is the only practiced law of the land. Modern developments that require instructions or regulations such as traffic laws, are strictly based on Islamic grounds as interpreted by Ulama (Islamic scholars). The three basic laws announced by King Fahad recently, namely the law of governance and the law of the consultative council and the law of territories are exactly as spelled out in the Qura'an and the prophet's tradition. Daily life and government procedures are run in accordance with Islamic codes. The two most holy shrines of Islam in Makkah and Madinah are on Saudi territories. Saudi government considers catering for pilgrims a duty. It, off course, is entrusted with maintaining, operating and securing the holy places.

All the above mentioned measures and facts resulted in a state of tranquility and a record of security in the Saudi society matched by very few societies. Statistics show, year after year, a rate of crime, especially capital crime, which is very low.

In conclusion, it's hoped that these Saudi relentless efforts will keep bearing the fruits that we witness now. It is worth noticing that all our friends in Europe view these efforts with an

eye of appreciation, and Saudi Arabians re-separate with appreciation for all European efforts to Understand and respect Islam and to play host to a number of Muslims who seek a peaceful life and aim to participate in their new societies' development. This, coupled with the great opportunities we share economic and otherwise, furnishes stable grounds for the coming century presentable to next generations.

Thank you, and may peace and mercy of Allah the Almighty be upon us all.

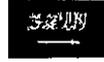
Dr. Abdulaziz Ibrahim Al-Sweel
P.O Box 52382
Riyadh Saudi Arabia 11563

- Graduated with BA in English and Education, King Saud University 1976.
- Graduated with master's degree in English and linguistic. University of Washington, Seattle U.S 1980.
- Has Ph.D. in linguistics form the University of Washington 1983.
- Associate professor English and linguistics, Department of English, King Saud University, Riyadh.
- Vice-Dean, college of Arts (KSU) (1987-1989).
- Assistant Cultural Attaché for Academic Affairs Royal Embassy of Saudi Arabia. Washington D.C. USA. (1989-1994).
- Secretary General of the Supreme Council for Islamic Affairs. Riyadh (1994-1998).
- Special consultant and Associate Prof. School of languages and translation, King Saud University, Riyadh.
- Student of Islamics. Interested in Islamic/Western relations.
- Gave lectures on this topic and participated in many conferences.

iai	ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° Inv.	19718
	21 MAG. 1999
BIBLIOTECA	



11



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Isabella Camera D'Afflitto

**Italian Mass-Media and the Image of the
Arab and Muslim World**



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

Isabella Camera d'Afflitto

Italian mass media and the image of the Arab and Muslim world

I want first of all to thank the Embassy of the Kingdom of Saudi Arabia in Rome and Istituto Affari Internazionali for the great honour of inviting me to take part in this important occasion.

When I received the invitation I thought that my only possible role in this kind of conference, considering that I'm not a mass media specialist, should consist in speaking about my experience as a university scholar and as a translator of modern Arab literature, which for about twenty years I have been trying to promote in Italy. The first obstacle I had to face was the solid wall of prejudice built by the mass media, separating us from a whole culture which is generally still unknown to us. And it is unknown because the perception we have is still distorted by the same old and hateful stereotypes which were current during the age of colonialism.

What I would like to stress is that the media have not only continued to offer the Italian reader a distorted image of Arab literary production, but, and this is the most serious aspect, they have also deformed the image of Arab and Islamic society and culture as a whole.

Although there is nowadays in Europe a number of readers who are extremely interested in the literary production of the non-Western world, they are of course a very small minority, generally an elite of intellectuals. One even has the impression, sometimes, that their interest in such literature is dictated by interest in, and support for, the countries concerned and the issues raised by the writers in question, rather than in the sort of literature produced by the writers themselves.

And this is what Arab writers usually complain about, when they are invited in Europe, and are interviewed by journalists. They are usually asked exclusively about political questions concerning the history of their countries, as if they were the representatives of their respective governments. What is usually irritating to a writer is the idea that he or she should automatically be considered a politically engaged writer, *multazimin bil qadiyya*, and that the purely literary aspect of their works should be ignored.

But they are also bothered by the questions about the Islamic religion, that always seem to fascinate Europeans. The examples that can be quoted are numerous, and not specifically restricted to Italy; they are common in the whole of Europe, indeed in the West as a whole.

For years I've been in contact with European translators and publishing houses, working on multilateral translation projects, one of which concerns the publishing project "Memories of the Mediterranean", promoted by the European Cultural Foundation in Amsterdam, and in our annual meetings we always have to face the same kind of problems.

But how can this attitude be explained? There is certainly an element of incompetence, but also a

provincial diffidence toward the unknown. And this attitude towards contemporary Arab culture works against the best writers whose works are generally translated by small publishing houses, which fail to penetrate the impassable wall of reviewers' indifference. Perhaps the small and daring publishing houses would do well to save the review copies that they send to unnoticed journalists, who only have eyes and ears for what they know, or think they know, already, and prefer to go on ignoring whatever looks or sounds new. Thus, meetings on the Mediterranean are organised all over Italy –as in the rest of Europe –, Arab writers are invited to speak, but then this whole fashionable activity is not followed by any real increase in the knowledge of the Arab world.

When they speak of Arab writers, newspapers almost always feel compelled to make ridiculous comparisons, dictated by a limited, Europe-centered perception of the wider literary scene. Hence Nagib Mahfuz will be described as the “Maupassant of the East”, another writer will be the “Checov of Egypt”, and someone else the “Flaubert of Africa.” A child scattering bits of paper over a map of the world might perhaps obtain more interesting results.

A case in point is that of the Egyptian writer Edwar al-Kharrat, who has repeatedly visited Italy. He was often interviewed by the press and television, but exclusively on a single subject: the Islamic religion and the issue of fundamentalism in Egypt. Now this is particularly amazing because the writer is not a Muslim, he is an Egyptian Arab from a Coptic family. And so the title that introduced one of the interviews, and was obviously conceived so as to catch the reader's attention, was as follows: “Different fundamentalisms in two Arab writers' experience - Under the sun of God - Religion is for Allah and Egypt for all.” (*I'Unità*, 25/4/1994). Another title: “*The new Islamic integralism. The infidels of the word*” (*Il Mattino*, 21/7/1993); and again, still on the subject of books by Egyptian authors, Baha Taher and Edwar Kharrat, *The sad face of the other Egypt, Novels of cruelty and nostalgia* (*Il Mattino*, (24/7/1994); And to complete this absurd collection of titles I will quote an article published in 1993 dealing with a beautiful novel by Baha Taher set in Upper Egypt: *Biting on a chador* (*Il sole* 24 ore, 12/12/1993).

What is amazing is that these titles generally don't reflect the content of the articles which, frequently enough, are not quite disparaging; they even constitute, sometimes, correct political and cultural analyses. In the case of Edwar al-Kharrat, for example, it is often stressed that he is a writer who, at long last, describes an Alexandria which is inhabited by, and belongs to, the Egyptians, thus destroying the European literary myth, which for too long has projected the unreal image of a cosmopolitan Alexandria peopled by all sorts of European expatriates, where the only Egyptians you meet are the servants who serve tea or coffee.

But examples of this kind are all too numerous, unfortunately, and they don't concern only literature.

In a survey carried out in 1985 by the Arab League and the Basso Foundation, under the direction of

Clara Gallini and Biancamaria Scarcia and, whose title was "*The image of the Arab world through the mass media in Italy*", and whose results ran to eight volumes, a number of scholars have systematically analysed some Italian publications in order to identify the stereotype of the Arab as perceived in Italy. Unfortunately, however, these results have never been published.

In another more recent study, published in 1994 by RAI, the Italian public television network, under the title "*Television and Islam*", the scandalous extent of Italian medias' lack of information on Arab and Islamic matters is mercilessly exposed. The book, edited by Carlo Marletti, a sociologist at the university of Turin, offers a detailed analysis of television programmes from October 1992 to May 1993, as well as a scrutiny of some daily newspapers and two weekly magazines, *L'Espresso* and *Panorama*. As far as television is concerned, the examination was based on a systematical analysis of all the programs: from news reports to documentaries and fiction on the three national public channels, the three *Fininvest* channels and Telemontecarlo. The time range was from seven in the morning to midnight and in some cases up to two in the morning, whenever at such late hours – when RAI traditionally broadcasts its most interesting and controversial, but less popular programmes – anything relevant to the project in question was to be found.

The authors of this study, including Clara Gallini, Enrico Sarnelli and Khaled Fouad Allam, have thus described a situation which is not at all encouraging, in which Islam is very often identified as "Political Islam" and described as a totalitarian regime. They also stress that the media almost exclusively deal with Arab Islam and that maximum attention is given to "integralist" or "fundamentalist" matters. It seems that in just two months, March and April 1993, the word "fundamentalist" was used over 500 times in our newscasts.

Between 1993 and today many things have certainly changed, the presence of Muslim immigrants has increased considerably in Italy and there has been an increase in the number of Italian converts to Islam. But despite the growing presence of Muslims in our country, the attitude of the press and the mass media in general has not changed, and the Islamic religion is still represented as an "intolerant" religion in which the element of "fanaticism" is not an exception but a constituent or necessary element of Islam.

A typical example is a series of articles published in November 1998 by one of Italy's most influential and widely-read dailies, "La Repubblica", whose subject-matter can easily be revealed by the titles themselves:

The first article was titled: *Dreaming of a Muslim Italy in the ghettos of Allah's fanatics*. The second: *A yearning for an "Italian Islam" among the believers of Allah*"; the third "*Poisons and plots of Arabia: the Rome Mosque at stake*"; the fourth "*The other half of Islam, a journey through Italian harems*"; the fifth and fortunately last title of this shameful series is the following: "*Italians struck by Allah's lightning: rejoicing in the closeness of God.*"

I believe that no comment is needed even if, inside the articles, the journalist has interviewed some respectable persons who tried in vain to give a correct image of Islam. The sad fact remains that these titles, printed in big characters, are enough for consolidating not just one image, but all the negative and stereotyped images of the Arabs and Islam in Italian readers' imagination; that is: Arab is synonymous with Muslim and Muslim means a stupid, fanatical Arab. There is almost no mention of the many non-Arab Muslims living in Italy. Concerning Italian Muslims, they are mostly depicted in ironical tones as people in search of the exotic and not as persons who sincerely converted to Islam for serious reasons.

In a recent book by a Moroccan researcher, Zuhayr al-Wasini, with the very explicit title "*Qatl al-Arabi*" (*Kill the Arab, mata moro* in Spanish), published in Morocco in 1998, the author has written an analysis in which he highlights the relationship between mass media and business in Europe. He stresses in fact that the mass media have not created a new image, but merely reinforced a stereotyped image corresponding to what is already in the mind of Western people and has been drilled into their minds ever since they started going to school.

In the chapter entitled "The Arab as media merchandise", the author quotes for instance the case of the Moroccan sociologist Fatima Mernissi, whose name was supposed to be included into a self-styled black list promulgated by the Iranian government and published by leading European magazines and newspapers, including *Le Monde* and *Jeune Afrique* and naturally quoted by the Italian press. When this news item was revealed as absolutely false, and denied by the Iranian government, the Moroccan sociologist asked the newspapers in question to publish the official denial, but it was never done. Maybe so that nobody should forget about the Salman Rushdie affair, which sells well in the West.

Another example can be seen in the change of attitude of what I have just referred to as the "media-merchandise". I mean those Arabs who are aware of what Westerner readers like and expect from them and so they play at this European game for their own profit, even if this means they help consolidate the traditional, distorted and ultimately harmful image of the Arab. Zuhayr al-Wasini in his book also provides some examples drawn from some TV programmes which are extremely popular with the Italian public. In one specific case he deals with some girls in Morocco, who were shown completely veiled and portrayed as people whose work consists in dyeing the hands of foreigners with *henna* and telling them sad tales of fathers and husbands keeping them locked up in the harem. They were then seen in the streets and hotels of the city of Marrakesh, in full Western attire, wearing jeans and so on. But the same attitude of Arabs consolidating anti-Arab stereotypes can also be found in the field of literature where some writers do not hesitate to write novels and stories according to the taste of the European market in order to acquire a better chance of being translated in Europe. And this is a strong craving which is shared by a growing number of contemporary Arab writers.

On the subject of literature, that is my specific field of research, I can say however that the situation has at least improved in comparison to some years ago. If we consider the huge number of novels translated from Arabic after 1988, when Nagib Mahfuz was awarded the Nobel prize which certainly helped introduce the Italian reading public to the Arab literary world as a whole, we must feel entitled to some encouragement and satisfaction.

Between 1988 and 1998 about seventy novels, translated directly from Arabic, were published in Italy. This is a significant development if we consider that during the preceding half-century, that is from 1940 to 1988, only 14 books were translated from Arabic into Italian, most of them in university editions.

Another important new development is the fact that, in 1994, a small publishing house in Rome, Jouvence, founded a literary collection called "*Contemporary Arabic Writers*", which is entirely devoted to Arabic fiction; during the last five years about thirty books were published and others are already scheduled.

There is no time to discuss the issue of the effectiveness of such initiatives by a number of daring and enterprising small publishers who have played a pioneering role in introducing the Italian reading public to segments of world literature neglected by the big publishers. One cannot, however, help wondering whether today this literary production is actually known and appreciated by the Italian reader, despite the elevated number of translated works. My impression is that, on the whole, indifference still rules as far as Arab culture is concerned. In other words, knowledge of Arabic literature is scanty and distorted. It is, indeed, paradoxical that today's average reader has more or less the same amount of overall information about the Arab world as the reader of yesterday, when the number of translations from the Arabic was much smaller and books on the Arab World and Islam were much harder to find. What is worse, this reader is still generally plagued by the same attitudes, the same stereotypes and the same prejudice toward the Arab world and its culture.

The growing number of translations and the general increase in media interest for the Arab and Muslim world, have not, in other words, caused a proportional increase in knowledge of this world. It seems, on the contrary, that the amount of information offered by reliable publications is swamped by the tide of inaccurate information that the media continue to direct at the Western reader's mind.

Let me state once more that this situation is more or less shared by the whole West, and not specific to Italy. The European experience of the project "Memories of the Mediterranean", which I have already mentioned before, is a case in point.

Nevertheless, in reviewing all that which has been done so far, I think that scholars and specialists of the past generations should look at their own work with a critical eye in order to understand whether the general failure should only be attributed to publishing policies and politics (which on the whole follow

Politics with a capital P, in which case specialists would bear no responsibility); or whether, on the contrary, they do share some responsibility because, as experts and specialists, they have not encouraged European readers to approach the world of Arabic literature.

Except for some infrequent exceptions, in fact, the orientalists of the past generally never worried about popularisation which, they felt, diverted their attention from proper scientific interests. Besides, they have not prepared the younger generations to face a changing world, and have not been farsighted enough to view translation as a tool of cultural transmission. In other words, they neither taught their students how to translate properly nor gave proper consideration to the process of translation itself. Above all, they do not seem to have realised how important contemporary literary production was for the Arabs, whom they condemned as it were to keep dwelling in the past as if they didn't have anything good to offer today's humanity. Such being their outlook, it is no wonder that they relegated contemporary Arab literary production and culture to the remotest outskirts of general lack of interest. They thought Arabic was an obsolete classical language like ancient Greek or Latin, good only for the scholar's desk, something to be tackled with dictionaries and lots of footnotes. They did not teach translators that they should strive not for mechanical, word-by-word faithfulness to the original, but rather for those words and expressions which, in Italian, best reflect the original Arabic's meaning and feelings.

If I have given so far a negative image of Western mass media toward all that is Arab or Islamic, I must however also state that there are some positive elements.

Whereas some time ago it was always necessary to explain any Arabic word to Italian readers, because it was thought that the average reader could not understand it, a lot of words are now well known because they have entered our culture. A simple example is the word Ramadan, that in a very near past it was always necessary to explain in books by means of glossaries or footnotes: today this is no longer necessary, as the word has become familiar even to young primary school students in Italy, who know that it has something to do with Muslims, and the month during which they fast in accordance with their religion.

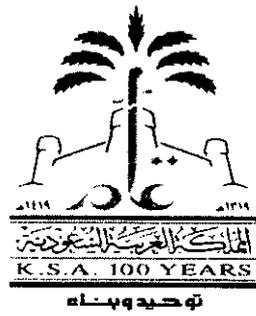
To corroborate this impression one merely has to consider some articles recently published by the Italian press, or some television programs.

Some dailies in Naples, for instance, including *Il Mattino* and the local edition of *La Repubblica*, on January 18 and 19, 1999, published many reports informing their readers, in a very respectful way, about the Great Muslim Feast.

So I want to conclude my presentation on a more optimistic note, hoping that in the future we shall no longer have to speak on the subject of stereotypes against the Arab and Muslim world. I hope this

matter will be relegated into the past where it belongs, together with the guilty conscience of the West. It does not belong in a future which should be free from mutual misunderstandings.

iai ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° Inv. <u>19718</u> 21 MAR. 1999
BIBLIOTECA



12



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Usamah Kurdi

The Saudi Economy
and
Its Development



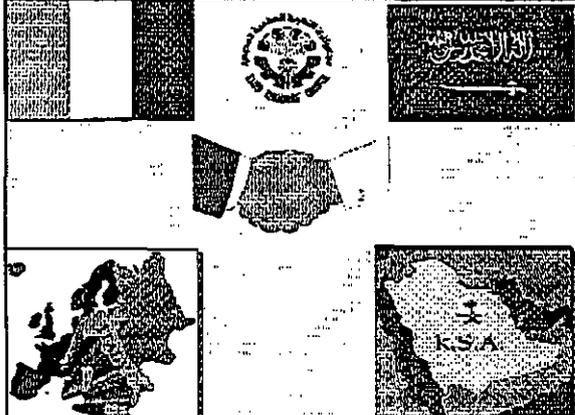
IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it



**THE KINGDOM OF SAUDI ARABIA
AND ITS ECONOMY**

PRESENTED BY :
USAMAH M. AL-KURDI
SECRETARY GENERAL
THE COUNCIL OF SAUDI CHAMBERS



**THE SAUDI ECONOMY
AND ITS DEVELOPMENT**



**THE COUNCIL
OF SAUDI CHAMBERS**

- COORDINATION AMONG CHAMBERS.
- REPRESENTATION WITH THE GOVERNMENT.
- INTERNATIONAL REPRESENTATION.

THE SAUDI ECONOMY (1997)

2- GENERAL ECONOMIC INDICATORS

- GDP US\$ 146 BILLION, PER CAPITA \$7414.
- GDP GROWTH RATE 7.1 %.
- NON-OIL GDP-GROWTH RATE 6 %.
- THE SHARE OF NON-OIL SECTOR IN GDP 63%.
- THE SHARE OF PRIVATE SECTOR IN GDP 34%.
- NON-OIL EXPORTS US\$ 7 BILLION.
- NON-OIL EXPORTS GREW BY 10 %.
- INFLATION 1 % (10 YEAR AVERAGE).
- POSITIVE CURRENT ACCOUNT.
- GROWTH OF STOCK MARKET : 28 %.

THE SAUDI ECONOMY(1997)

1-CHARACTERISTICS:

- * FREE MARKET ECONOMY.
- * HISTORICALLY OIL BASED ECONOMY.
- * PETROCHEMICALS AND REFINING.
- * DOWNSTREAM INDUSTRIES.
- * AGRICULTURE.
- * SERVICES.
- * PROSPECTIVE W.T.O. MEMBER.
- * STRATEGIC LOCATION OF KINGDOM.

THE SIGNIFICANCE OF SAUDI ECONOMY TO THE WORLD ECONOMY

GENERAL ECONOMIC INFORMATION (1997)

- SAUDI GDP IS 23.6 % OF TOTAL ARAB COUNTRIES GDP.
- SAUDI STOCK MARKET ACCOUNTS FOR 40.8% OF TOTAL ARAB CAPITALIZATION.
- SAUDI GDP COMPARED TO OTHER ARAB COUNTRIES (1996):

- SAUDI ARABIA		GDP: US\$ 136 BN
- EGYPT	2	US\$ 67.7 BN
- U. A. E.	3	US\$ 44.6 BN
- KWAIT	4	US\$ 31 BN

SAUDI BANKING SECTOR

THE SIGNIFICANCE OF SAUDI ECONOMY

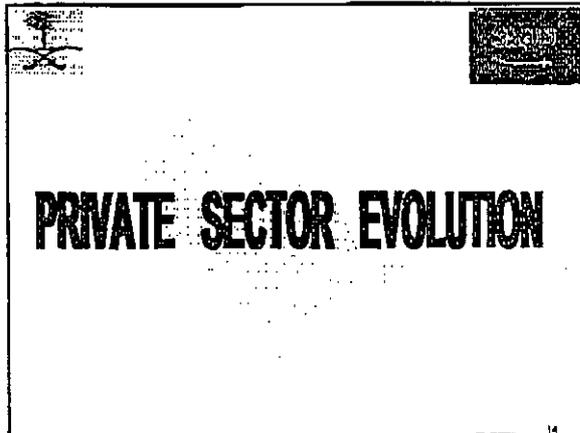
- THE BIGGEST ECONOMY IN THE MIDDLE EAST.
- CENTRAL ROLE IN WORLD OIL MARKET.
- BIGGEST PRODUCER OF PETROCHEMICAL PRODUCTS IN THE ARAB WORLD (7% OF THE WORLD'S).
- A BIG MARKET FOR WORLD PRODUCTS.
- AN IMPORTANT CONTRIBUTOR TO THIRD WORLD COUNTRIES.
- A MEMBER OF INTERNATIONAL ORG..

STOCK MARKET

SAUDI BANKING SECTOR (1997)

- THERE ARE (11) COMMERCIAL BANKS WITH 1200 BRANCHES.
- OWNERSHIP OF BANKS:

• PRIVATE		90.06%
- SAUDI	76.72%	
- FOREIGN	13.34%	
• GOVERNMENT		9.94%
- TWO SAUDI BANKS ARE IN THE LIST OF TOP 200 BANKS IN THE WORLD.



PRIVATE SECTOR EVOLUTION

SAUDI STOCK MARKET (1997)

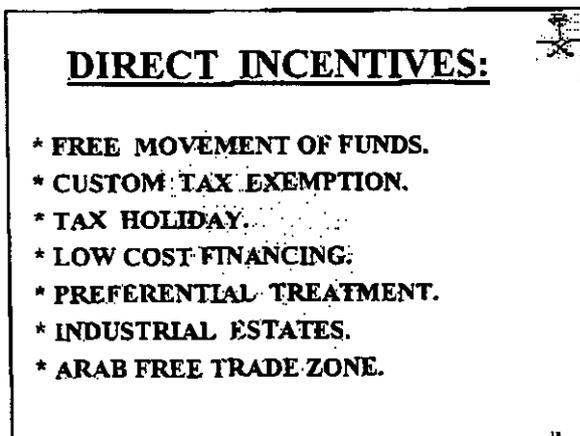
- 94 JOINT STOCK COMPANIES.
- THE LARGEST IN THE ARAB WORLD (40.8%)
- OPERATES THROUGH COMPUTERIZED SYSTEM AND SUPERVISED BY SAMA.
- THE SYSTEM IS :
 - TRANSPARENT, EFFICIENT, QUICK TO SETTLE
- THE PARTICIPATION OF INTERNATIONAL INVESTORS (SAIF) .



BUSINESS & INVESTMENT ENVIRONMENT

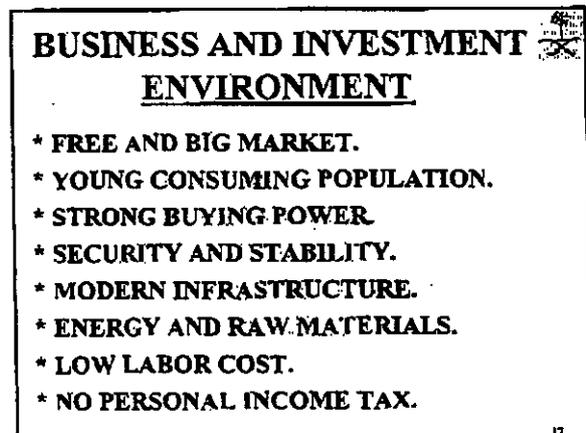
PRIVATE SECTOR EVOLUTION

- * GROWING SIGNIFICANCE.
- * CONTRIBUTION TO THE GDP.
- * POSITIVE PERFORMANCE IN THE INDUSTRIAL SECTOR.
- * AGRICULTURAL DEVELOPMENT BIGGEST FARM.
- * POSITIVE INDICATORS FOR THE BANKING SECTORS.



DIRECT INCENTIVES:

- * FREE MOVEMENT OF FUNDS.
- * CUSTOM TAX EXEMPTION.
- * TAX HOLIDAY.
- * LOW COST FINANCING.
- * PREFERENTIAL TREATMENT.
- * INDUSTRIAL ESTATES.
- * ARAB FREE TRADE ZONE.



BUSINESS AND INVESTMENT ENVIRONMENT

- * FREE AND BIG MARKET.
- * YOUNG CONSUMING POPULATION.
- * STRONG BUYING POWER
- * SECURITY AND STABILITY.
- * MODERN INFRASTRUCTURE.
- * ENERGY AND RAW MATERIALS.
- * LOW LABOR COST.
- * NO PERSONAL INCOME TAX.




FUTURE OUT-LOOK & PROGRESS

20

INTERNATIONAL INVESTORS



* MOBIL.	* CITIBANK.
* SHELL.	* INDUSUEZ.
* EXXON.	* GUARDIAN.
* CHEVRON.	* SUMITOMO
* MITSUBISHI.	* TAIWAN FERTILISERS
* HOECHST.	* P&G.
* ABB.	* ENICHEM.
* G. E.	* BOEING.
* LUCENT	* SIEMENS.
* GENERAL MOTORS.	

19

PRIVATIZATION

- SPECIALITY OF PRIVATIZATION MORE IN SAUDI ARABIA.
- IMPORTANCE OF PRIVATIZATION IN SAUDI ECONOMY.
- SAUDI CABENETS ANNOUNCEMENT OF PRIVATIZATION STRATEGY IN SAUDI ARABIA.
- "TELECOMMUNICATIONS" IS A START.
- FIELDS UNDER STUDY TO BE PRIVATIZED:
 - SAUDI AIRLINES - ELECTRICITY - RAILWAYS.
 - PORTS - POSTS - MUNICIPAL PROJECTS.

21

BASICS



- * DEPENDABLE SOURCE OF OIL / GAS.
- * HIGH POPULATION GROWTH.
- * OFFSET PROGRAMS.
- * MONETARY STABILITY.
- * SECURITY & STABILITY.
- * EXPORT PROMOTION.
- * PRIVATIZATION.
- * SAUDIZATION.
- * DIVERSIFICATION.

21





ECONOMIC RELATIONSHIP BETWEEN ITALY AND SAUDI ARABIA



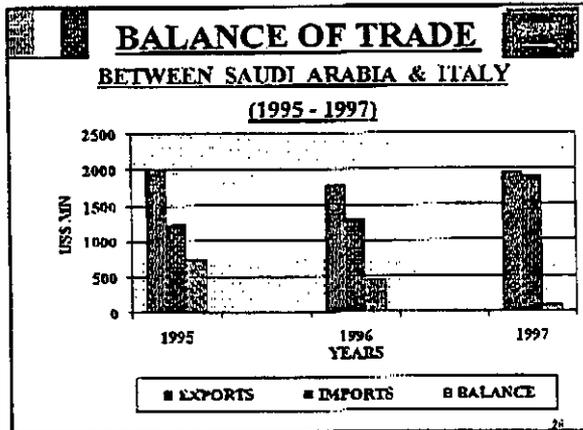
24

BUSINESS AND INVESTMENT ENVIRONMENT

AREAS OF POSSIBLE PROGRESS:

- * TAX LAW.
- * VISA PROCEDURE.
- * INVESTMENT LAW.
- * INFORMATION.
- * INFRASTRUCTURE.
- * PROCEDURAL.

25



BALANCE OF TRADE
BETWEEN SAUDI ARABIA & ITALY
(1995 - 1997) (US\$ MN)

YEAR	EXPORT	IMPORT	BALANCE
1995	1973	1232	741
1996	1771	1307	464
1997	1956	1886	70

CLASSIFICATION OF
SAUDI IMPORTS FROM ITALY
(1996)

• FINISHED PRODUCTS	33 %
• INTERMEDIATE PRODUCTS	44 %
• CAPITAL GOODS	23 %

CLASSIFICATION OF
SAUDI EXPORTS TO ITALY (1996)

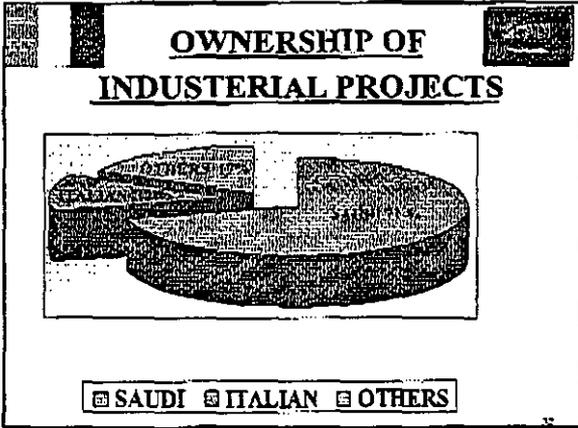
• FINISHED PRODUCTS	0.17 %
• INTERMEDIATE PRODUCTS	99.66 %
• CAPITAL GOODS	0.17 %

MAIN IMPORTED
GOODS FROM ITALY(1996)

• TEXTILES AND READY-MADE GARMENTS.
• COSMETICS.
• FOOTWEAR
• SANITARY PRODUCTS.
• FURNITURE.
• HOUSEHOLD APPLIANCES.

SOME TRADE
INDICATORS (1997)

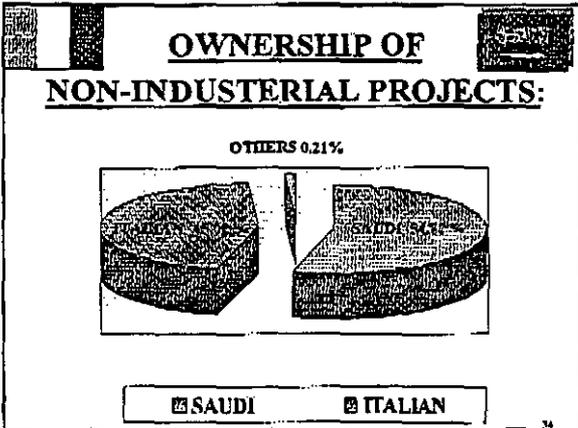
• EXPORTS TO ITALY / TOTAL EXPORTS	3 %
• EXPORTS TO ITALY / EXPORTS TO EU	17.9 %
• IMPORTS FROM ITALY / TOTAL IMPORTS	4.7 %
• IMPORTS FROM ITALY / IMPORTS FROM EU	11.9 %



JOINT PROJECTS IN K.S.A. UP TO (20/10/1998)

INDUSTRIAL PROJECTS:

- NO. OF PROJECTS 13
- TOTAL CAPITAL US\$ 6453 MN
- PERCENTAGE OF SHARE:
 - SAUDI 71%
 - ITALIAN 12%
 - OTHERS 17%



JOINT PROJECTS IN K.S.A. UP TO (20/10/1998)

NON-INDUSTRIAL PROJECTS:

- NO. OF PROJECTS 21
- TOTAL CAPITAL US\$ 16 MN
- PERCENTAGE OF SHARE:
 - SAUDI 54.77%
 - ITALIAN 45.02%
 - OTHERS 0.21%

- ### WAYS TO INCREASE ECONOMIC COOPERATION
- OVERCOMING DIFFICULTIES.
 - ACTIVATING THE CURRENT MECHANISMS.
 - EXPANDING THE ROLE OF PRIVATE SECTOR.

- ### AREAS NEED MORE COOPERATION
- TRADE.
 - JOINT INVESTMENT.
 - TECHNOLOGY TRANSFER.
 - SMALL & MEDIUM ENTERPRISES.
 - TRAINING.

ACTIVATING THE CURRENT MECHANISMS

- ECONOMIC, INDUSTRIAL, TECHNOLOGICAL & FINANCIAL COOPERATION AGREEMENT (1975)
- SAUDI-ITALIAN JOINT COMMITTEE (1990).
- ENCOURAGEMENT OF MUTUAL INVESTMENT PROTECTION AGREEMENT (1998).
- JOINT BUSINESS COUNCIL (1998).

OVERCOMING DIFFICULTIES

SUCH AS:

- EU ALUMINEUM TAX IMPOSED ON GCC EXPORTS.
- EU DUMPING CLAIMS ON SOME GCC COMPANIES.
- SOME INVESTMENT PROCEDURES IN SAUDI ARABIA.

AREAS OF INVESTMENT

- EQUIPMENTS AND SPARE PARTS.
- TEXTILES AND READY - MADE GARMENTS.
- CONSUMER ELECTRONICS.
- POWER GENERATION.
- WATER DESALINATION.
- PETROCHEMICALS DOWNSTREAM.
- CARS AND TRANSPORTING MEANS.
- LEATHER PRODUCTS.
- MINING.
- FURNITURE.
- NATIONAL TOURISM.

EXPANDING THE PRIVATE SECTOR'S ROLE

- ACTIVATING THE ROLE OF PRIVATE SECTOR'S INSTITUTIONS.
- EXCHANGING DATA, INVESTMENT OPPORTUNITIES AND BUSINESS DELEGATION.
- PRIVATIZING MORE GOVERNMENT PROJECTS.

WITH THE COMPLIMENTS



THE COUNCIL OF SAUDI CHAMBERS

NATIONAL TOURISM

- NATURAL, CULTURAL AND ENVIRONMENT FEATURES.
- MODERN TRANSPORTATION NETWORK.
- HIGH QUALITY TOURISM SERVICES.
- THE NEED OF INTERNATIONAL EXPERIENCE.

iai	ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° Inv.	19718 2.1 MAR. 1999
BIBLIOTECA	



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Mohammed Al-Kathiri

SABIC Role in Saudi Arabia



Ladies and Gentlemen,

I am greatly honoured to be here today. I appreciate this opportunity to speak about the company that I represent – the Saudi Basic Industries Corporation, generally known as SABIC and its role in Saudi Arabia and global growth. My task here today is to help you understand what SABIC is and the role it has played in fulfilling the aspirations of the Kingdom of Saudi Arabia.

There are probably hundreds of companies all over the world that are as large as, or much larger than, SABIC. So, when we talk about SABIC's role in enhancing Saudi Arabia's economy, the inevitable question is "Why SABIC?"

We need a little historical perspective on Saudi Arabia to understand what makes SABIC unique. The Kingdom of Saudi Arabia was founded in 1932 by the late King Abdulaziz Al-Saud. The discovery of oil in 1938 gave wings to our aspirations as a nation. Yes, the availability of oil and its power as a commodity that was and is in demand offered us tremendous possibilities. Today, the Kingdom of Saudi Arabia is the world's leading producer of oil and natural gas.

The vision of industrialising Saudi Arabia began with the idea of capturing gases and converting them into value-added products – mainly into what are generally described as basic petrochemicals and their downstream derivative products and as energy source for such industry and the metal industry. And SABIC was born with that vision. Availability of abundant hydrocarbon feedstocks played a key role in the mid 1970's to establish a Saudi Arabian petrochemical industry.

SABIC was one of the three key elements of Saudi Arabia's long-term industrialisation program. The first was the establishment of a national Master Gas Gathering System that would collect, process and distribute associated and natural gas for industrial consumption; the second was the development of the two modern industrial cities of Al-Jubail on the Arabian Gulf, and Yanbu, on the Red Sea, to house budding and anticipated basic and downstream industries; and the third was the formulation of SABIC in 1976 to oversee the development of national basic industries from its headquarters in Riyadh, the Saudi capital city.

The Saudi government, and the Kingdom's industrial planners had a clear long-term vision of what SABIC would do. SABIC would add value to the Kingdom's abundant natural hydrocarbon resources by creating

economically viable modern and world scale industries; it would earn valuable export revenues and considerably reduce the Kingdom's dependence on imports for industrial and agricultural products; it would strive to achieve the national goal of human resources development; it would produce a wide range of basic industrial products that would become the raw material for a variety of downstream industries and thus, support the private sector industrial ventures and diversification; it would bring in the most modern technology and manufacturing processes by entering into joint venture agreements with reputed industry leaders. This area we will cover in more detail shortly.

That was twenty-three years ago. In these two decades, SABIC and its chain of industries in Saudi Arabia have grown multi-fold in terms of production and profitability and have played a very significant role in the country's overall progress. We have not stopped growing. In fact, today SABIC is recognised among industry circles as one of the fastest growing, and profitable operations world-wide. Let's now look at some of our joint venture partnerships.

Now why do we need Joint Ventures.....

Let me give you a brief statistical update of our achievements. Today, the SABIC industrial family consists of 17 world-class manufacturing complexes in Saudi Arabia; an international marketing network that supplies about 60 SABIC products to nearly 100 countries and a world-scale, state-of-the-art Research and Technology Complex in Riyadh, and a growing overseas research presence in Houston, Texas and India.

In Europe, SABIC has established an extensive international marketing network. We operate from five important locations, such as the Italian market served by SABIC Italy in Milan; SABIC Germany in Essen; SABIC Iberica in Barcelona, Spain; SABIC France in Paris; and SABIC Global in London, UK. I am sure that most of this audience is already aware of SABIC's presence in Europe and the effective logistic network facilities for both liquid and solid products, in addition to European wide distribution centres, continually enhancing our commitment to better serve our customers.

****First Slide 8*

Then...

In 1998, SABIC companies produced a total of about 25 million metric tons of chemicals and petrochemicals, plastic resins, fertilisers, steel products and industrial gases. SABIC earned a profit of US\$ 537 million last year; it currently employs nearly 16,000 people, about 71 percent of them Saudi Nationals.

At the beginning of my remarks, I made reference to SABIC's achievements. But, I would like to focus your attention on certain of these, because I think it is interesting to compare them with the long-term vision that was laid out for SABIC. If you do that you will immediately realise the immense role that SABIC has been playing in the Saudi economy.

Slide 9 - ~~Fertiliser products, steel products, plastic products~~

SABIC's fertiliser products have been vital in boosting the Kingdom's agricultural *sector; SABIC's steel products are widely used by construction industries throughout the Kingdom and the Region; and SABIC is consistently increasing production of primary plastics resulting in a robust downstream plastics industry in Saudi Arabia.

Slides 12 & 13

An important point I would like to note here, is the environment aspect of industrialisation. A major advantage that we had in planning our industrialisation program in the 1970's was that we could draw from the wealth of knowledge and experience that our predecessors had accumulated over the years. While this has been largely true of all the technologies and production equipment that we use at SABIC plants, it has benefited us much more in the area of environmental protection.

We have set-up large-scale chemical and petrochemical industries and we have done so without polluting our land, water and atmosphere by utilising state-of-the-art technologies. When SABIC set out to industrialise, special emphasis was given to environmental protection. There was the highest-level of commitment to adopt the most widely accepted pollution control standards. That commitment has paid off because we have managed to ensure that the damage to our environment is pegged at the lowest possible level.

I am sure that all of us recognize that the relations between Saudi Arabia and Italy continue to be excellent. More specifically is SABIC's recognition of the valuable role Italian companies – and the managers and

engineers of these companies – have played in the planning, development and growth of SABIC. This development and growth is continuing, but the channels for growth have become wider and deeper. As a result, the number of opportunities for Italian investment in Saudi Arabia have greatly increased.

First, a word of thanks and appreciation to all of the Italian companies, large and small, who from the beginning 23 years ago, have been vital to SABIC's success.

Is there more for Italian firms to consider doing in Saudi Arabia? Obviously, the answer is yes. Saudi Arabia has spelled out its privatization plans, saying it aims to increase the competitiveness of local industry, lure foreign capital and cut state spending, while providing more jobs for its 12 million nationals. The key goals of government planning include:

- encouraging national and foreign capital to invest locally;
- increasing job opportunities and raising per-capita income;
- increasing the effectiveness of the Saudi economy and its ability to face world competition.

The participation of Italian companies is welcome and encouraged, especially in light of the Kingdom joining the World Trade Organization (WTO).

Saudi Arabia has applied for membership in the WTO, which would expand export markets for Saudi products – especially petrochemical and other downstream products. Much has been written lately about the phenomenon of globalization and “the new world order”. In many respects, the new world order is “old hat” for Saudi Arabia. As you are already aware, Saudi Arabia has emphasized foreign direct investment, technology transfer, manpower education and training, public health and welfare, and infrastructure modernization and development since its boom years. This strategy has paid many dividends. Saudi Arabia currently expects full accession to the WTO by 2002. And again, the Kingdom will welcome Italy's support in achieving this goal.

In conclusion, if someone asks me today to describe SABIC as briefly as possible, I would say: SABIC has played, and continues to play, a vital role as Saudi Arabia's spearhead of industrial diversification.

SABIC has supplied the world with chemicals, plastic resins, fertilisers and steel, the products that constitute the industrial building blocks of humanity's essential needs of clothing, food and shelter.

SABIC's growth has been acclaimed as "one of the most rapid and coherent industrialisation **developments of the 20th century." SABIC offers a great example of how a developing country can gainfully utilise its natural resources in cooperation with the developed world, bartering resources for technology.

Slides 15 & 16

I hope I have helped you to appreciate what SABIC is and the role it has played in fulfilling the aspirations of Saudi Arabia and how it has and continues to attract investment ventures within the Kingdom.

Thank you for your kind attention.

- end -

- 5 -

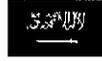
iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA



14



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Abdulrahman Al- Aali

Commercial developments between
Saudi Arabia and the EU



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

COMMERCIAL DEVELOPMENTS BETWEEN SAUDI ARABIA AND THE EU

A Paper by:

Abdulrahman Al-Aali, Ph.D.

Associate Professor of International Business & Marketing
Vice-Dean, Research & Consulting Institute
King Saud University, Riyadh, Saudi Arabia
Tel 966(1)467-7800 Fax 966(1)467-3311

Presented at:

ITALIAN-SAUDI RELATIONS AND EUROPE:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS CONFERENCE
Rome 3-5 March 1999

Abdulrahman Al-Aali is an Associate Professor of International Business & Marketing. Currently, he is the Vice-Dean, Research & Consulting Institute and was Chairman of Business Administration Department, King Saud University in Riyadh. He received his college and graduate education in Business at Georgia State University, Atlanta.

Dr. Al-Aali consulted many companies and organizations including International Systems Engineering (a Boeing JV in Saudi Arabia), The Philip Dew Consultancy (Bahrain), UNDP, and the Saudi Export Development Center

Dr. Al-Aali advised the Ministry of Higher Education, the Ministry of Commerce, and is a member of the Board of the Saudi Export Development Center. He was a member of Saudi delegation to the Saudi accession to the WTO and the Coordinator of the 7th Joint Saudi-Australian Ministerial Committee.

Dr. Al-Aali was a Fulbright Fellow at The George Washington University and has authored or co-authored three books and over twenty academic articles.

COMMERCIAL DEVELOPMENTS BETWEEN SAUDI ARABIA AND THE EU

By: Abdulrahman Al-Aali, Ph.D.

Introduction

Aside from political and historical linkages between Saudi Arabia and the member states of the European Union (EU), the commercial side is very prominent. Traditional trade between the two partners were evident for many generations.

Since the 1970s, these relationships were strengthened with the massive industrialization Saudi Arabia has embarked upon. This required importation of all sorts of goods whether it be consumer, intermediate, or capital goods. The traditional sources were the United States, Japan, and Europe.

Today, the linkage of the Saudi economy to the world community is obvious. Saudi Arabian economy, in a relative sense, is more international than US or Japan for example, since its exports represent over one-thirds of its GDP. However, this figure is misleading since around 88% of exports are crude and refined oil which witnessed severe volume and price swings. As we know, the buying power of a barrel of oil is deteriorating. Hence, economic diversification and industrialization remains a must for our long-term economic well being.

Naturally, Saudi Arabia would turn to its major trading partners to help in achieving this goal. Therefore, this paper tries to chart the trading relations between Saudi Arabia and one of its major trading partner, the EU. Thereafter, the situation of EU direct investment in Saudi Arabia is explored and some hypotheses are suggested as to the intensity of these investments and how they relate to the trade volume. The paper concludes with a discussion of some trade and investment issues as perceived by the Saudi business community.

Saudi-EU Trade

For years, the United States and Japan were the major export markets for Saudi Arabia. In 1997, Japan imported \$ 10.9 billion and the US imported \$ 9.4 billion worth of Saudi goods, as shown in Table (1). As a group, EU is also a major market for Saudi Arabia where in 1997 it imported \$ 11 billion. Within EU, France came first during the last 2 years when it imported \$ 2.6 billion in 1996 and \$ 2.4 billion in 1997. During 1997, the Netherlands received \$ 2 billion of Saudi oil (mainly), followed by Italy (\$ 1.9 billion), UK (\$ 1.5 billion), and Spain (\$ 1.2 billion). Table (2) shows the relative share of Saudi exports to each the of EU states and the average for the past 3 years. Overall, EU share of Saudi exports was declining since 1993 when it was 22.9% and it dropped to 18% in 1997.

As for Saudi imports from the EU, they are around \$ 10 billion annually which is higher than the combined imports from the US and Japan since 1991 with the exception of 1992, however. The relative share of Saudi imports from the EU is declining since 1991 and in 1997 it reached 33.6%. Table (3) shows the Saudi imports from the EU, Japan, and the US since 1991 while Table (4) gives the share of each EU state and the 3-year average for the imports value.

The merchandise trade balance for Saudi Arabia and EU is shown in Table (5), however. One should not jump to the conclusion that Saudi Arabia has a positive balance with EU. Actually, before 1994, Saudi Arabia experienced negative balances with the EU. The positive balance of \$ 1433 million in 1997 is only in the merchandise trade. When taking services trade into account, the EU has a positive balance vis-a-vis Saudi Arabia. Actually, Saudi Arabia is a heavy net importer of services. In 1997, it imported \$ 25.5 billion of services and exported only \$ 4.5 billion (IFS, January 1999).

The Saudi-EU trade is biased where our imports from EU are diversified and fall under all the three broad classifications of goods: consumer, intermediate, and capital. While, Saudi Arabia exports to the EU are mainly intermediate goods, 99.6% of Saudi exports to the EU. Put differently, around 94.7% of Saudi exports to the EU is crude and partially refined oil (Chapter 27 of the HS code).

Table (1) Saudi Exports to the EU

(\$ Million, Ranked by 1997 figures)

Country	1991	1992	1993	1994	1995	1996	1997
France	2192	2200	1858	2262	1962	2601	2411
Netherlands	2898	2651	1821	2052	2324	1858	2012
Italy	2048	2038	2128	2174	1976	1718	1956
UK	938	988	1380	841	734	1072	1484
Spain	952	1108	639	572	1164	1172	1208
Germany	269	532	489	529	256	847	784
Greece	322	746	713	558	462	508	564
Portugal	155	232	152	202	322	324	351
Austria	3	7	108	42	16	157	147
Belgium- Luxembourg	236	38	35	107	500	66	103
Sweden	46	272	376	285	250	114	33
Ireland	8	1			1	3	6
Finland	191	250	19	1	3	5	4
Denmark	1		1	1	9	2	3
EU Total	10259	11063	9719	9626	9979	10447	11066
EU Share of Saudi Exports	21.46	22.00	22.95	22.60	19.96	18.21	18.00

Japan	7635	8222	7150	6801	8103	9702	10805
Japan Share of Saudi Exports	15.97	16.35	16.88	15.97	16.20	16.92	17.58
USA	10906	10728	7402	7882	8476	8584	9412
USA Share of Saudi Exports	22.81	21.33	17.48	18.51	16.95	14.97	15.31

Saudi Exports	47816	50287	42357	42584	50005	57357	61472
---------------	-------	-------	-------	-------	-------	-------	-------

Source: Direction of Trade Statistics Yearbook 1998, IMF.

Table (2) Share of Saudi Exports to the EU
and 3-Year Annual Average

(\$ Million, Ranked by 1997 share)

Country	1997 EU Share	3-Year Average
France	21.8	2325
Netherlands	18.2	2065
Italy	17.7	1883
UK	13.4	1097
Spain	10.9	1181
Germany	7.1	585
Greece	5.1	189
Portugal	3.2	332
Austria	1.3	107
Belgium-Luxembourg	0.9	223
Sweden	0.3	132
Ireland	0.1	3
Denmark	0.0	5
Finland	0.0	4
Total EU	100.0 %	10497

Source: Calculated from Table (1).

Table (3) Saudi Imports from the EU

(\$ Million, Ranked by 1997 figures)

Country	1991	1992	1993	1994	1995	1996	1997
UK	3275	3583	3112	1976	2375	2492	3008
Germany	2275	2473	1977	1935	2152	2082	1554
Italy	1343	1650	1427	1099	1222	1309	1323
France	1166	1603	1161	1016	1339	1152	1291
Netherlands	561	527	487	406	530	473	551
Belgium-Luxembourg	554	622	539	455	518	568	449
Spain	370	387	328	353	414	378	377
Sweden	383	416	391	340	387	344	317
Denmark	211	139	121	122	295	234	235
Ireland	132	139	100	82	184	159	178
Austria	198	230	177	132	144	148	124
Greece	102	90	96	65	77	72	111
Finland	97	87	94	90	122	142	83
Portugal	20	31	28	26	24	28	32
EU Total	10687	11977	10038	8097	9783	9581	9633
EU Share of Saudi Imports	36.76	36.00	35.59	34.69	35.64	34.51	33.56

Japan	3983	4697	3558	2742	2113	1953	1899
Japan Share of Saudi Imports	13.70	14.12	12.62	11.75	7.70	7.03	6.62
USA	5875	7497	5801	4982	5863	6081	6382
USA Share of Saudi Imports	20.21	22.53	20.57	21.34	21.36	21.90	22.23

Saudi Imports	29074	33273	28202	23343	27449	27764	28705
---------------	-------	-------	-------	-------	-------	-------	-------

Source: Direction of Trade Statistics Yearbook 1998, IMF, except for 1997 which is from Import Statistics 1997, Central Dept. of Statistics, Ministry of Planning, Saudi Arabia.

Table (4) Share of Saudi Imports from the EU
and 3-Year Annual Average

(\$ Million, Ranked by 1997 share)

Country	1997 EU Share	3-Year Average
UK	31.2	2625
Germany	16.1	1929
Italy	13.7	1285
France	13.4	1261
Netherlands	5.7	518
Belgium-Luxembourg	4.7	512
Spain	3.9	390
Sweden	3.3	349
Denmark	2.4	255
Ireland	1.8	174
Austria	1.3	139
Greece	1.2	87
Finland	0.9	116
Portugal	0.3	28
Total EU	100.0 %	9666

Source: Calculated from Table (3).

Table (5) Saudi - EU Merchandise Trade Balance

(\$ Million)

Country	1991	1992	1993	1994	1995	1996	1997
Saudi Exports	10259	11063	9719	9626	9979	10447	11066
Saudi Imports	10687	11977	10038	8097	9783	9581	9633
Balance of Trade	-428	-914	-319	1529	196	866	1433

Source: Calculated from Table (4).

Investment In Saudi Arabia

The investment relationship between Saudi Arabia and members of the EU is centuries old. Actually, since the early part of this century many European investors established businesses in Saudi Arabia. This is especially true in the case of investment in the banking sector.

Today, EU members direct investment in Saudi Arabia is modest. As an observer would notice, almost all foreign investment in Saudi Arabia is in the form of joint ventures (JVs), however. The Saudi Foreign Capital Investment regulation does not preclude a 100% foreign-owned enterprise. There are a few manufacturing and service JVs that are totally foreign-owned. An investor, among other reasons, wants to invest in a country that provides incentives, so, local participation brings added benefits to the foreign partner in the form of incentives.

Table (6) details the manufacturing JVs (Mfg-JVs) and Table (7) gives the situation of service JVs (Svc-JVs) in Saudi Arabia. Also, statistics on the Japanese and the American JVs are provided.

In the Mfg-JVs, UK and Germany have the largest number of European JVs in Saudi Arabia with 31 and 30 JVs, respectively. However, in terms of the value of the EU partner in these JVs, UK by far is the largest investor (\$ 304 million), followed by Italy (\$ 260 million) and Finland (\$ 208 million).

Finnish and Italian investors seem to be cautious in their participation in the equity of the JV. The average Finnish share in the Mfg-JV is only 10% and the Italian's 12%. The average Saudi share in these JVs is about 71-72% and third country investors hold another 17-18%. On the other hand, among the top EU Mfg-JV investors, the Dutch and English are more aggressive as they hold around 36-46% of the JV equity. Germans are in between with an average equity holding of around 26%.

The average size of manufacturing JVs that EU participate in is \$ 44.19 million and the average investment of the EU partner is \$ 8.66 million which amounts to 19.6%

share of the equity. On the other hand, the average size of manufacturing JVs that USA participate in is \$ 186.86 million and the average investment of the American partner is \$ 89.18 million which amounts to a share of 47.7%.

On the other hand, the average size of Mfg-JVs that Japanese partners invest in is high and reaches \$ 556.9 million and the average investment of the Japanese partner is \$ 274.9 million which amounts to 49.4% equity participation. This high figure is due to the limited number of Japanese JVs in the manufacturing sector (8 JVs) combined with the fact that some investments were made in the mega-size petrochemical industry.

As for service JVs in Saudi Arabia, they are small in terms of investment size but more in terms of number compared to M-JVs. The top five Svc-JV partners are: UK (82 JVs), Germany (44), France (43), Italy (21), and the Netherlands (20), respectively. Among EU Svc-JV partners, the Netherlands has the highest value of investment of around a quarter-billion dollars. France comes second with an investment of around \$ 170 million, followed by the UK (\$ 45 million).

Average size of Svc-JVs that EU participate in is \$ 5.24 million and the average investment of the EU partner is \$ 2.20 million which amounts to an equity position of 42.0 %. This JV size is not that different from the American Svc-JV size of \$ 5.99 million and the average investment of an American partner is \$ 1.74 million which amounts to 29.0 % of service JV investment. Moreover, the average size of Svc-JVs that Japan participate in (25 JVs) is \$ 10.0 million and the average investment of the Japanese partner is \$ 0.96 million which amounts to 9.6 % of service JV investment.

Overall the number of EU Svc-JVs (237 JVs) are more than the combined US and Japan Svc-JVs (total of 193). The equity position of the EU Svc-JVs (\$ 521 million) is also higher than the combined US and Japan JVs (\$ 316 million).

The combined number of Mfg-JVs and Svc-JVs for the EU (377 JVs) is clearly more than American and Japanese JVs (288 JVs), however. The EU total investment in both types of JVs of \$ 1,732 million is considerably less than Japanese investment (\$ 2,221 million) or the American ones (\$ 8,051 million).

Therefore, further correlation of the EU JV investment figures to the Saudi import value from the EU may shed some light on the pattern of EU JVs. Same analysis is also applied to the Japanese and American investment. Table (8) shows the results of JV investment intensity which is calculated as the value of the EU equity in all types of JVs in Saudi Arabia, divided by the average annual imports for the EU member.

The top eight EU exporters to Saudi Arabia have very little JV investment related to the average annual imports for the latest 3-years, with the exception of the Netherlands which has JV investment intensity of 62.2%. The ratio for the other top four exporters is: UK (13.3%), Germany (8.0%), Italy (20.8%), and France (19.1%). The overall EU JV investment in Saudi Arabia index is 18%.

These ratios are very low compared to the Japanese intensity of 111% and American's of 131%. The Japanese ratio, although it seems reasonable, is considered low by the Saudi business community. Saudi Arabia welcomes foreign investment in the form of JVs as evidenced by the revision of the Foreign Capital Investment Code which is expected to be announced soon.

Table (6) Saudi - EU Manufacturing Joint Ventures

(As of 20 October 1998, Ranked by Investment value)

	No of JVs	EU Investment US \$	Share (%)	
			Saudi	EU
UK	31	304.6	60	36
Italy	13	259.9	71	12
Finland	4	208.3	72	10
Germany	30	120.5	72	26
Netherlands	15	73.7	53	46
France	14	70.9	67	29
Luxembourg	2	64.5	53	47
Denmark	4	31.9	35	47
Sweden	8	29.3	59	41
Austria	5	20.4	45	14
Belgium	8	20.0	68	30
Spain	3	3.9	71	12
Portugal	1	2.8	30	70
Ireland	1	2.2	51	49
Greece	1	1.6	50	50
EU Total	140	1214.5	71	20
USA	87	7758.4	51	48
Japan	8	2199.5	51	49

Source: Extracted from "Industrial and Non-Industrial Joint Ventures", Ministry of Industry & Electricity.

Note: Saudi and EU shares may not add up to 100% because of the existence of third country partners.

Table (7) Saudi - EU Service Joint Ventures

(As of 20 October 1998, Ranked by Investment value)

	No of JVs	EU Investment US \$	Share (%)	
			Saudi	EU
Netherlands	20	248.2	53	46
France	43	170.1	67	33
UK	82	45.3	46	52
Germany	44	33.6	37	62
Italy	21	7.1	55	45
Spain	2	6.8	51	49
Finland	7	2.7	67	33
Sweden	5	1.8	56	41
Luxembourg	2	1.4	40	60
Belgium	3	1.2	50	50
Austria	1	1.1	0	100
Denmark	3	0.7	63	37
Portugal	1	0.7	50	50
Ireland	2	0.5	50	50
Greece	1	0.1	51	5
EU Total	237	521.3	58	42

USA	168	292.1	70	29
Japan	25	23.9	84	10

Source: Extracted from "Industrial and Non-Industrial Joint Ventures", Ministry of Industry & Electricity.

Note: Saudi and EU shares may not add up to 100% because of the existence of third country partners.

Table (8) EU Partner JV Investment Intensity

(\$ Million, except Intensity, Ranked by Import Size)

Country	EU Partner Investment (US\$ mil)	Ave Annual Import (US\$ mil)	JV Investment Intensity	Comments
	(A)	(B)	(A/C)	
UK	350	2625	13.3	Very Low
Germany	154	1929	8.0	Very Low
Italy	267	1285	20.8	Very Low
France	241	1261	19.1	Very Low
Netherlands	322	518	62.2	Medium
Belgium-Luxembourg	87	512	17.0	Very Low
Spain	11	390	2.8	Very Low
Sweden	31	349	8.9	Very Low
Denmark	33	255	13.0	-
Ireland	3	174	1.7	-
Austria	21	139	15.1	-
Finland	211	116	182.4	-
Greece	2	87	2.3	-
Portugal	3	28	10.7	-
Total EU	1736	9666	18.0	Very Low
Japan	221	1988	111.7	High
USA	8051	6109	131.8	High

Source: Computed from Tables (4, 6, 7).

Notes: (A) The EU partner total investment in industrial and non-industrial joint ventures in Saudi Arabia. This total may slightly differ from the sum of two types of projects due to rounding of figures.

(B) Saudi average annual imports from the EU partner for the last 3-years (1995, 1996, & 1997).

(C) JV Investment Intensity is the EU partner total JV investment as a percentage of annual imports to Saudi Arabia.

Trade and Investment Issues

This section explores, in brief, some Saudi concerns as they relate to the EU. Some of these concerns are:

- lack of progress in the EU-GCC free trade area talks,
- low EU investment in Saudi Arabia,
- frequent EU subsidy/dumping charges against Saudi and GCC national companies,
- oil taxes and carbon tax,
- accession of Saudi Arabia to the World Trade Organization (WTO).

In 1988, the EU and the GCC sides agreed to form a free trade area between the two economic blocks. Since then, many talks were held but no progress was achieved yet. In reality, the GCC has a negative merchandise trade with the EU. This deficit was around \$ 16 billion in 1996 (GCC Economic Bulletin, 1997). If we take into account the services trade, the deficit would be even larger. There is doubt of EU sincerity to establish such free trade area with the GCC as expressed by an official of the Arab British Chamber of Commerce and industry in London (Al-Eqtisadi, 22-28 November, 1997).

The Saudi business community feels that EU is a passive investor interested only in selling their products in Saudi Arabia (Al-Riyadh, 4 February, 1999). The EU investment in Saudi manufacturing and service JVs seems to support this notion as shown by the JV Investment Intensity Index. The EU investment in Saudi Arabia is about \$ 1.7 billion, while GCC investment in the EU is estimated to be \$ 150 billion (Al-Iqtisad Al-Khaleeji, June/July, 1997). Actually, EU JV investment in Saudi Arabia amounts to 78% of the Japanese investment and only 21.6% of the US investment. Saudi investment incentives have been in place for many years and the new proposed Foreign Capital Investment Code is hailed as more transparent and takes care of many bureaucratic concerns from the viewpoint of investors.

Another area of concern to the Saudi business community is the frequent EU cases of dumping charges brought against Saudi and GCC firms. Two such cases highlight the GCC businessmen feelings that EU is targeting them for counter actions.

- Alba company, the Bahraini aluminum producer faces 6% counter duty by the EU and the issue is not resolved yet. Alba contends that this duty is not levied against other aluminum producers (Al-Eqtisadiyah, 10 February, 1999).
- On the other hand, the recent case of the Saudi Yarn & Knitting Technology Factory (SYNTECH) accused of dumping poly propylene yarns was dropped by the EU (Al-Riyadh, 26 January, 1999).

Saudi and GCC business firms are hoping that these kinds of unfounded charges will not be brought up again because they tend to make people doubt the sincerity of Europe to strengthen its business commitment to the GCC and there are WTO rules to be followed for such actions. They regard business commitment as a two-way street that should benefit all partners.

The fourth concern to the Saudis is the heavy taxes on oil in Europe and the proposed carbon tax. A Gulf investment house estimates that internal consumption taxes on a barrel of oil in the EU is around \$ 60 per barrel (Al-Iqtisad Al-Khaleeji, October/November, 1995). Certainly, these taxes dampen consumption, reduce the welfare of the EU consumers, and affect the EU competitiveness. In addition, the proposed carbon tax is another interference in the free trade flow that will negatively affect EU long-term economic growth and cost European consumers. At the same time, experts believe that this tax will affect the oil derived income of the GCC states, hence it will affect oil industry investment expansions with all its ramifications in the long-term.

Another issue important to Saudi Arabia is its accession to the World Trade Organization (WTO). Saudi membership is of a vital interest not only to Saudi Arabia but also to its trading partners. As a matter of fact, Saudi Arabia is the largest market-based economy that is still outside the WTO. EU is certainly a major commercial partner of Saudi Arabia and Saudi businessmen expect the EU business community to support the smooth accession of Saudi Arabia into the WTO as a

developing nation that needs some flexibility to reach the sophistication level required to implement all WTO rules.

References

- Al-Amwal Magazine. April 1997, pp. 82-85.
- Al-Eqtisadi Magazine. 22-28 November 1997, pp. 22-25.
- Al-Eqtisadiyah Newspaper. 10 February 1999, p. 3.
- Al-Iqtisad Al-Khaleeji Magazine. June/July 1997, pp. 8-14.
- Al-Iqtisad Al-Khaleeji Magazine. October/November 1995, pp. 8-19.
- Al-Riyadh Newspaper. 26 January 1999, p. 25.
- Al-Riyadh Newspaper. 4 February 1999, p. 23.
- Al-Riyadh Newspaper. 4 February 1999, p. 23.
- Direction of Trade Statistics Yearbook. IMF, 1998.
- GCC Economic Bulletin. 1997, pp. 35 & 36.
- Import Statistics. Central Department of Statistics, Ministry of Planning, Saudi Arabia, 1997.
- International Financial Statistics. IMF, January 1999.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Marcello Colitti

Technology transfers in Saudi – EU
economic relations





**Technology transfers
in Saudi-EU economic relations**

Marcello Colitti

 **EniChem**

PAST EXPERIENCE

There is a large experience of technology transfer to the Kingdom from Europe, United States and Japan.

Technology transfer has been the key factor for the development of the oil, gas and chemical industry there.

In general, industrial development in the Kingdom has followed the path of the technological advance of the industrialised countries.

The paradox of the Saudi industrial project

The Saudi industrial project entailed a real paradox, that is, to develop an industry without a domestic market.

In the petrochemical field the Kingdom had one big advantage given by the use of ethane and methane from oil and gas production, which were sold to the industry at a price which gave to it a serious advantage at least on the Virgin Naphtha crackers of Europe.

THE RAW MATERIAL ADVANTAGE WAS BALANCED BY THE EXTRA COSTS OF THE NEWCOMER

- A **COSTLY LOGISTIC SYSTEM** was needed to reach the European and American markets, where the new producer had to create a marketing and sales organisation. Such costs were reduced but not cancelled by the commitments of the international partners;
- **INDUSTRY REQUIRED SERVICES**, like electricity, and the creation of industrial areas, etc.; workers and managers had to be trained;
- Finally, the sophisticated markets of the West are used to **TOP QUALITY PRODUCTS**, and would not accept inferior qualities, even at a discount.

The industrial strategy

To take into account all these factors, the industrial strategy had to aim at **COMPETITIVITY**, and therefore needed **STATE-OF-THE-ART TECHNOLOGY** not only for industrial processes, but also, and perhaps even more important, for the supply of industrial raw material, of electricity, and of the facilities which support modern industry, for example, an efficient harbour.

The new industrial strategy had a number of key points

- State-of-the-art technology essential for the success of the operation
- Cheap raw material and services to be provided
- All plants to be world-scale concentrated in two sites
- Bulk products were chosen, leaving more sophisticated ones for a later phase

The instruments: the industrial companies

The instruments for this strategy have been the Saudi large industrial companies, which have developed the oil and gas and the petrochemical industry. The whole investment drive in the latter has been based on the Joint Venture strategy, which has effectively involved the largest petrochemical operators of the world in the development of the industry in the Kingdom. This strategy offered the Saudi company effective access to state-of-the-art technology developed by their partners.

The instruments: the Royal Commission for Al Jubail and Yanbu

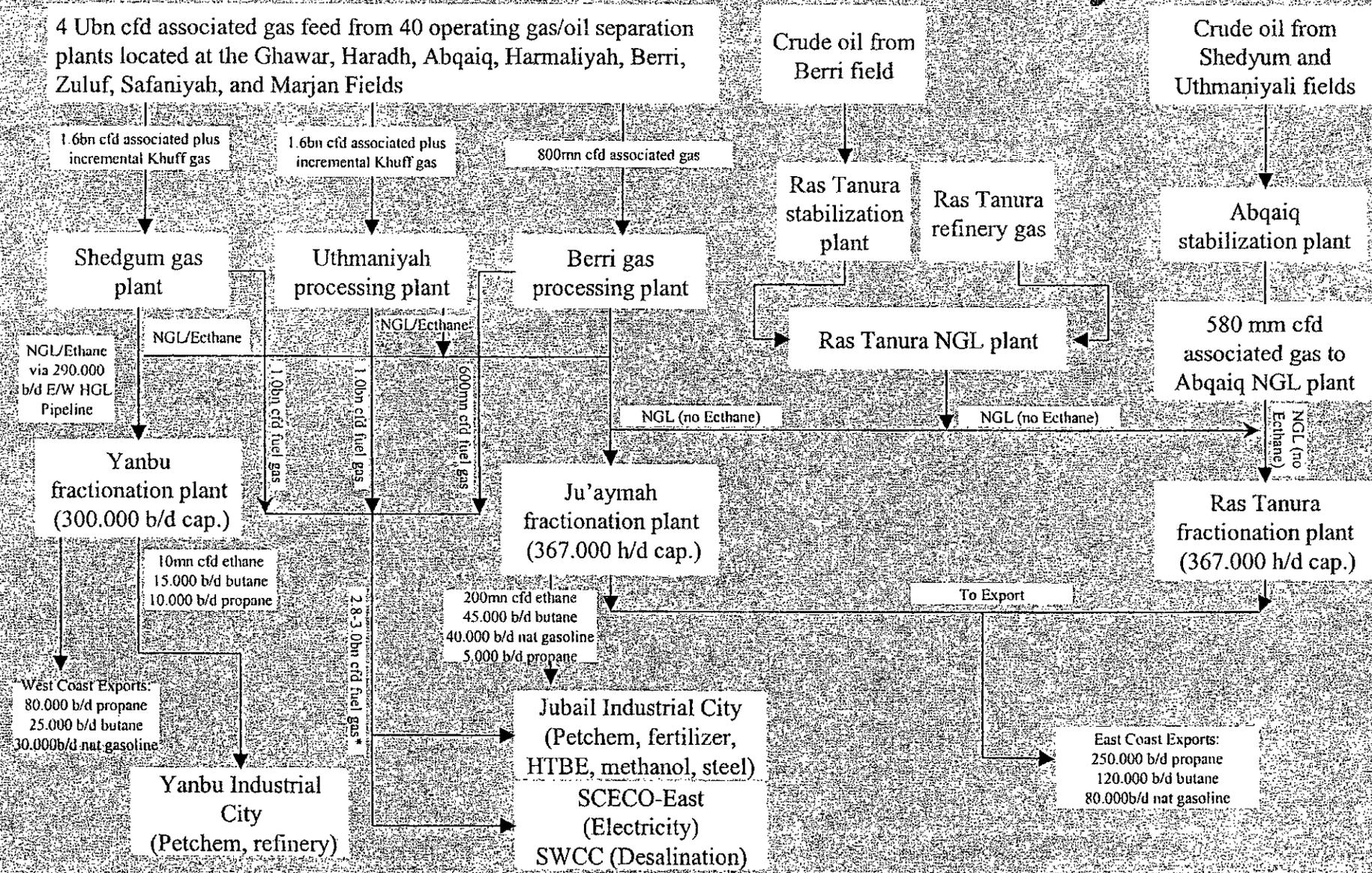
A key role was played in this contest by the Royal Commission for Al Jubail and Yanbu which designed and created a credible and effective infrastructure, offering an industrial environment at the top of the scale.

THE RESULTS: the raw materials

The result has been to place the Saudi petrochemical effort at the highest level, and to allow it to compete on the international market. The first great result was to secure a continuing and increasing production of gas and oil, and to implement a daring plan for gas separation and utilisation, which gave the petrochemical industry its needed raw materials. This was completed in a relatively short time. Its complexity can be appreciated from the following synthetic presentation.



Saudi Arabia's Master Gas System



* Includes 200-400mn cfd of fuel gas from processing plants located at the Safaniyah field which add sweet gas directly into the domestic gas grid

Notes: Total Khuff gas feed estimated at a maximum of 450 mn cfd. Can fluctuate widely.

Total HGL/ethane stream estimated at 900,000 - 1.0 mn b/d.

Eastern Province butane demand expected to increase to 60-65,000 b/d when Sadf's 700,000 ton/year MTBE plant comes on stream 2

The gas infrastructure

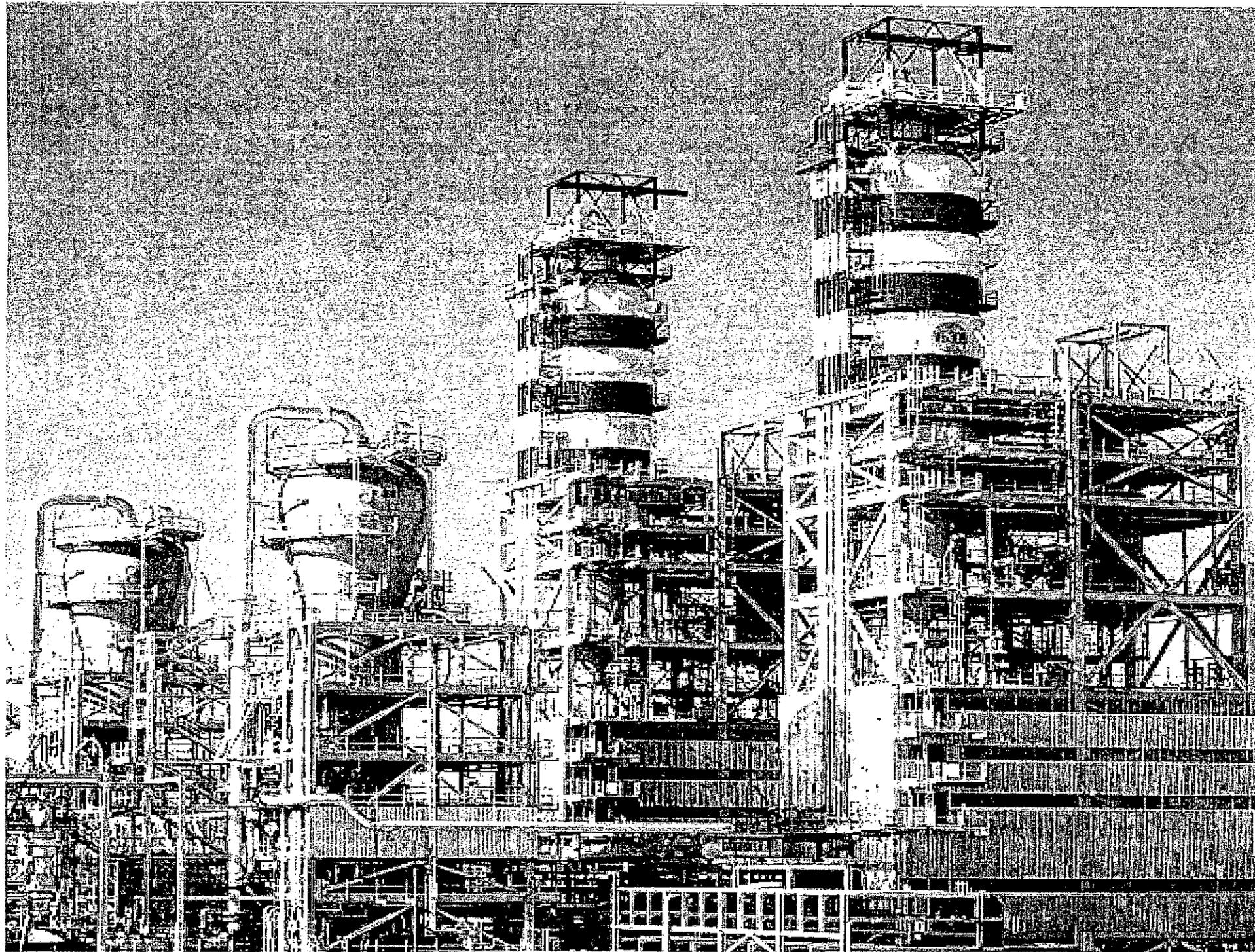
The Master Gas System (MGGS) built and operated by Saudi ARAMCO:

- ⇒ freed the oil production from the constraint of flaring the increasing amounts of associated gas;
- ⇒ resulted in an large export LPG (about 19 million tons in 1997) added to the external revenue of the Kingdom;
- ⇒ made available large volume of non liquefiable gas to be used in the Kingdom to produce electricity, desalt water, and supply the country's petrochemical industry;
- ⇒ is one of the most important infrastructures of the Kingdom, one of few instances of an oil exporting country able to translate its riches not only in export revenue, but also in successful development effort.

The results: petrochemicals

With the strength of this ethane and natural gas liquids the industry did develop effectively and fast. Today, the main petrochemical company of the Kingdom, Sabic, is one of the world players in this sector and has an industrial structure second to none. Sabic applied to the technology transfer two main principles:

- ⇒ the supplier became partner in the technology based company;
- ⇒ Sabic obtained the right to use that technology in the Kingdom for investment purposes even if operating alone.



The results: the industrial areas

The consequence of this strategy was to create industrial establishments - Al Jubail and Yanbu - fully made up of plants built and operated with the latest technologies. This applies to the production processes, but also to the building of the plants, to the logistic and services systems, etc.

THE FUTURE NEEDS OF THE KINGDOM

- »»»» To develop new products and processes
- »»»» To develop and rationalise the energy sector, by developing natural gas production, transport and distribution
- »»»» To supply new services to an increasingly educated population

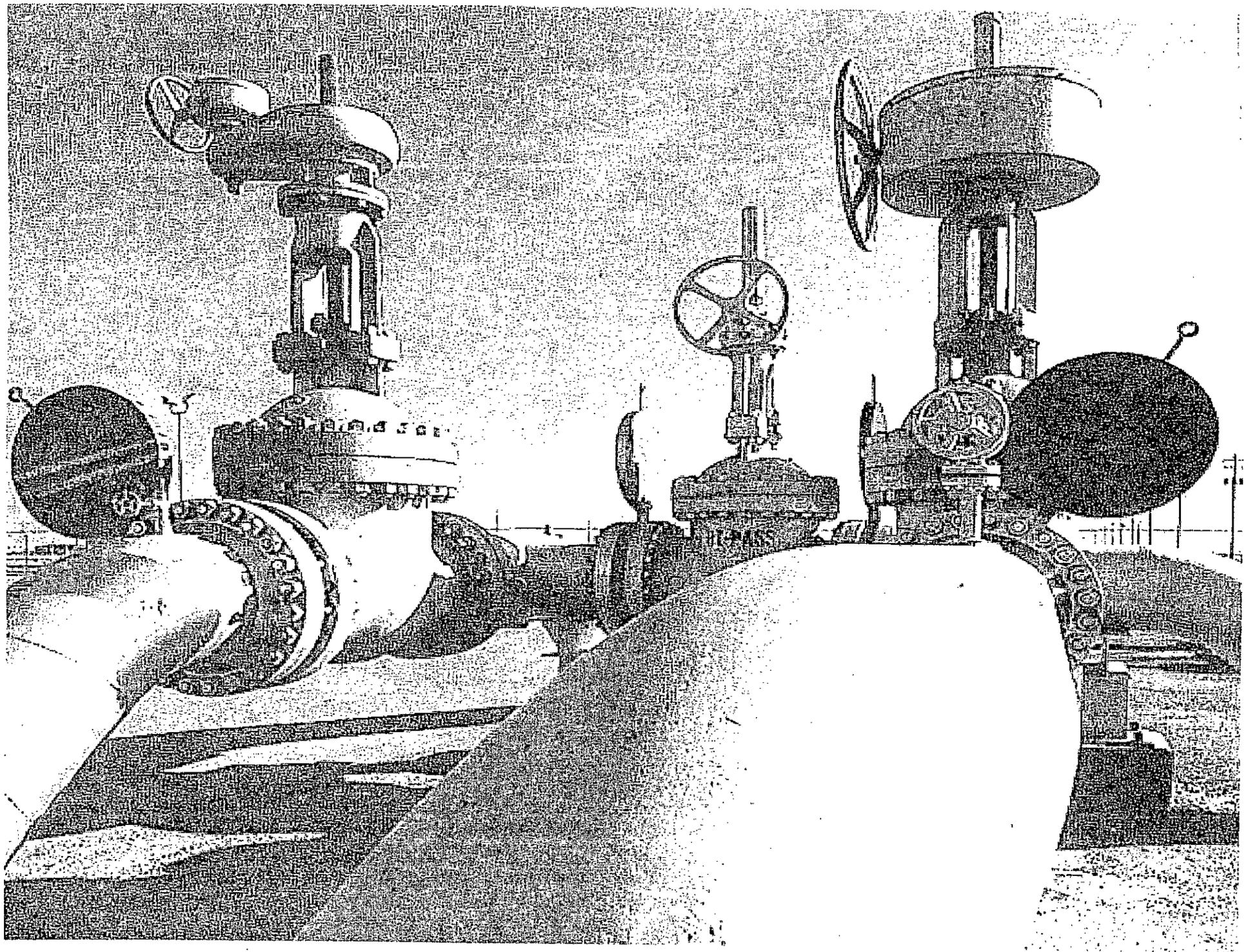
Obtaining new technology

New technologies have to be obtained or created in the Kingdom.

In the oil industry for new exploration techniques, horizontal and directional drilling, new refinery configuration.

In the petrochemical industry for new processes and products and new raw materials. New advanced technologies, like for example dehydro, are already being applied, and a new petrochemical research establishment not only performs sophisticated tasks like the production of catalysts, but also works on new areas.

The future phase of technology transfer from Europe or the USA is not only for single plants or products but also for general Kingdom-wide system, like gas transport and distribution.



NATURAL GAS OFFERS GREAT ADVANTAGES TO THE ENERGY CONSUMER

- ✓ **HIGH CALORIFIC VALUE.** Natural gas also offers important advantages to fuel consumer. It has a high caloric value per unit of volume (9-10.000 calories per cubic meter), it is delivered directly from a well or a pipe-line network, and competes with sources (coal, fuel oil, gasoil) which have higher utilisation costs.
- ✓ **THE INDUSTRIAL CONSUMER OF GAS** does not need to invest in a tank farm, or in a coal loader, or to pulverise, clean or otherwise move his energy source; his equipment is simple and easy to run.

THE ADVANTAGES OF NATURAL GAS IN INDUSTRY

- ✓ Gas flame can be pinpointed at will and brought in contact with objects. Manufacture is cheaper, fully automated, and of high and constant quality.
- ✓ Ceramics, glass, metallurgy, plastics, food, and others industries, obtain important cost advantages from the use of gas.

THE ADVANTAGES OF NATURAL GAS FOR ELECTRICITY

- ✓ Recently, a new method for producing electricity has been made available called Combined Gas Cycle which by combining a gas turbine with a steam-driven generator strongly increases the efficiency of the system, and reduces the capital cost and the cost of production.
- ✓ Comparison between different sources and different technologies to produce electricity conclude that a gas-driven gas turbine or combined cycle are competitive with other sources or technologies up to a price of gas of \$ 4 per billion BTU, a price much higher of that minimum in Europe.

THE ADVANTAGES OF NATURAL GAS IN THE HOUSEHOLD

- ✓ Gas and electricity compete with each other in the household for cooking, hot water, space heating, air conditioning. Low temperature energy should be obtained by using gas and not electricity, thus saving energy by avoiding the high temperature reached in power stations.
- ✓ Gas offer a clear advantage in cooking. This was the usage for which gas was originally distributed in the European and American cities, and its demand was at that time enough to justify the laying down of a capillary city networks.
- ✓ Wherever natural gas is available, LPG are used only in households that are too remote to be connected with the pipe system.

THE ADVANTAGES OF NATURAL GAS for the environment

- ✓ Finally, gas has a very important advantage for the whole society, as its combustion does not produce fumes, releases very little sulphur and no volatile hydrocarbons in the atmosphere: a good management of its burning avoids also the Nitrogen Oxides produced by every combustion. Gas burning produces CO₂ in smaller quantities than any other competitive energy source. Electricity is also very clean, but requires bulk burning at the production stage and can compete with gas on the environment side only if actually produced by gas-firing stations.
- ✓ In conclusion, natural gas offers to the consumers and to the society in which it is consumed so many advantages as to make it the preferred source of thermal energy wherever it is available.

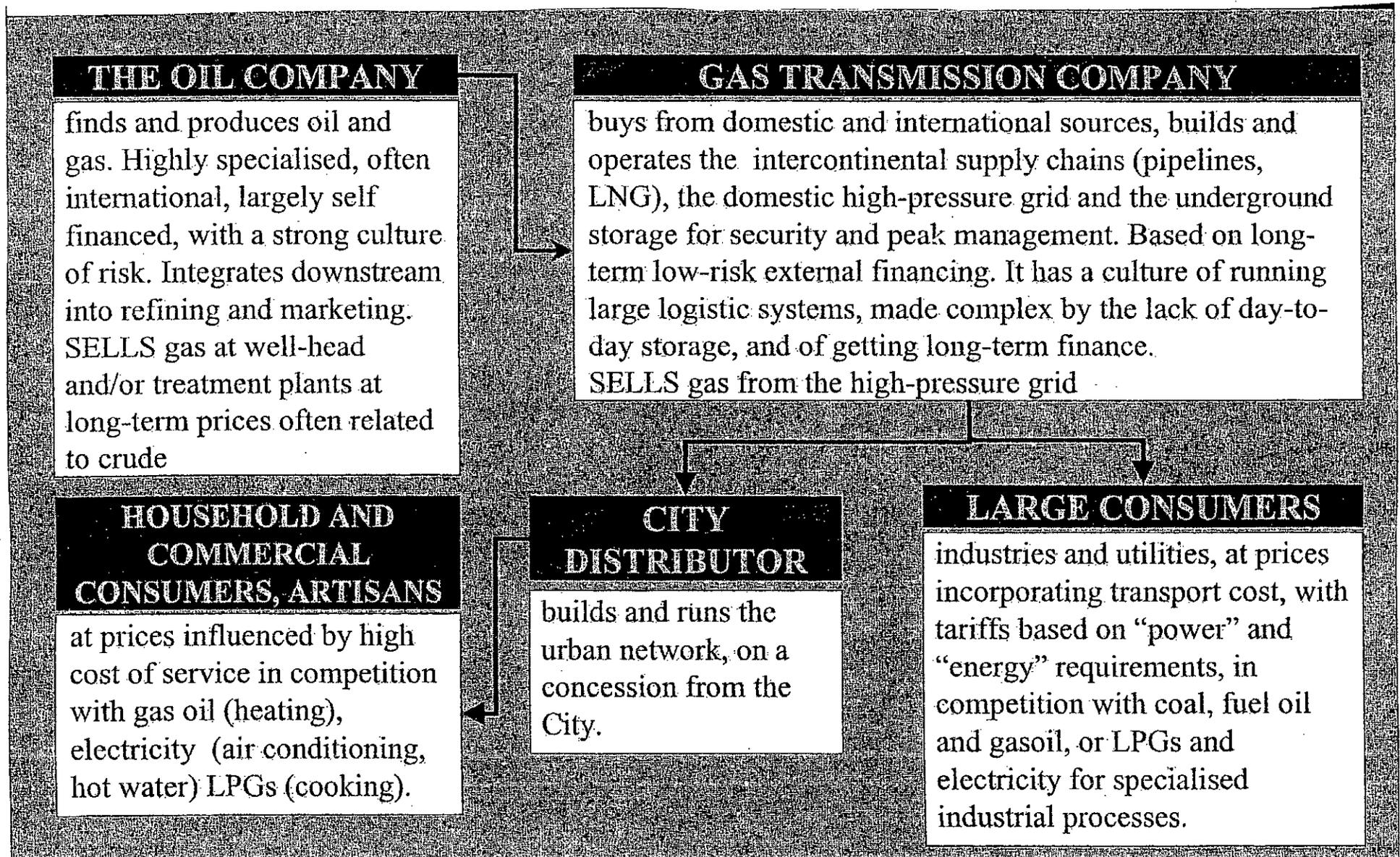
The structure of a modern gas system

What follows describes the structure of gas industry as it developed in Europe and in the USA, areas where gas is distributed in every town and industry since at least one century. Such a structure sees three main actors:

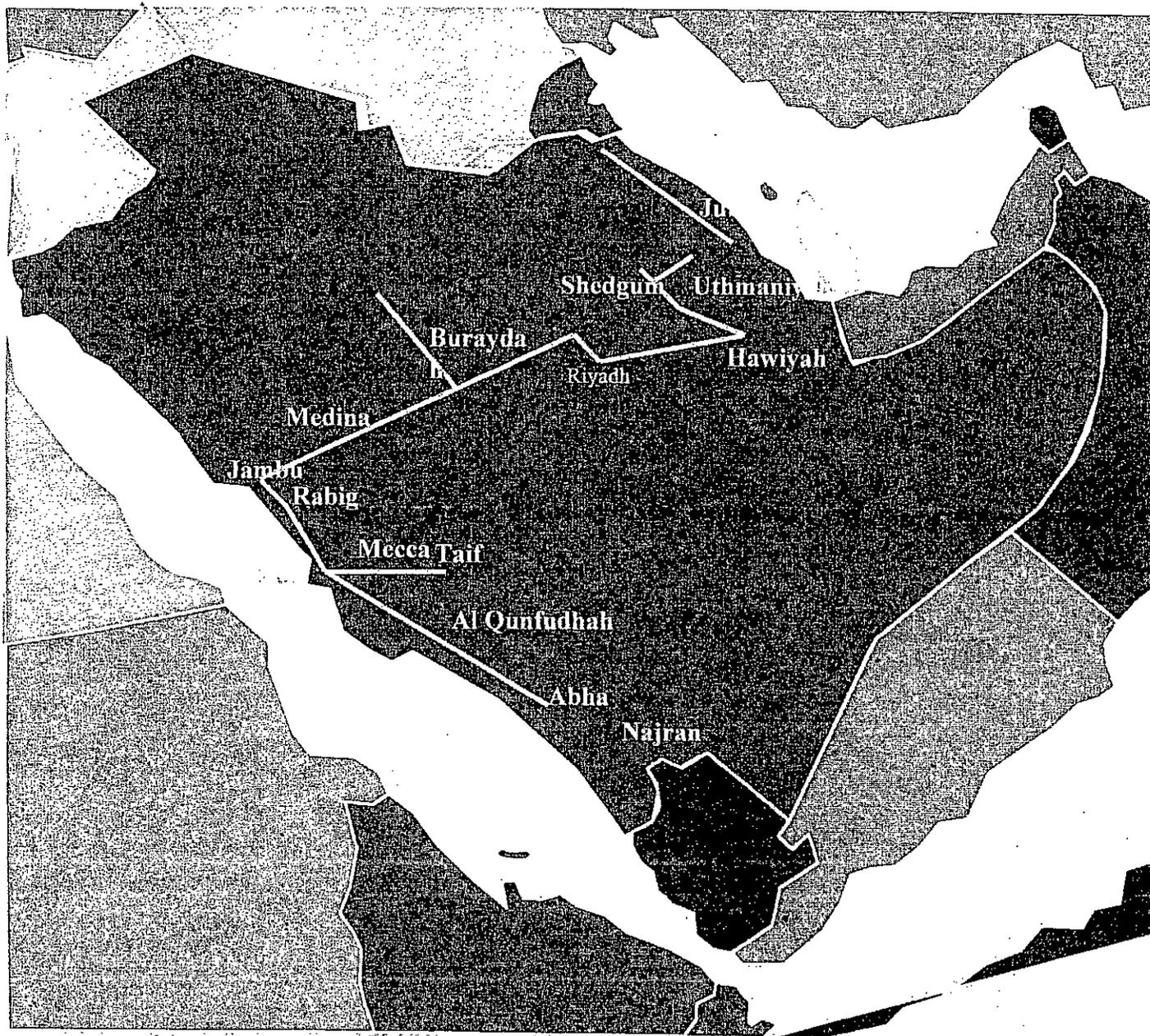
- The oil company, which obtains gas by production or separation;
- The gas transmission company, which transports it to the areas of consumption and to the big consumers;
- The city distributor which sells gas to the household consumers.

Such a structure needs a Natural Gas Grid reaching all the areas of potential and actual consumption.

Synoptic table of the structure of the gas industry



PLANNING CRITERIA APPLICABLE TO THE GAS SECTOR

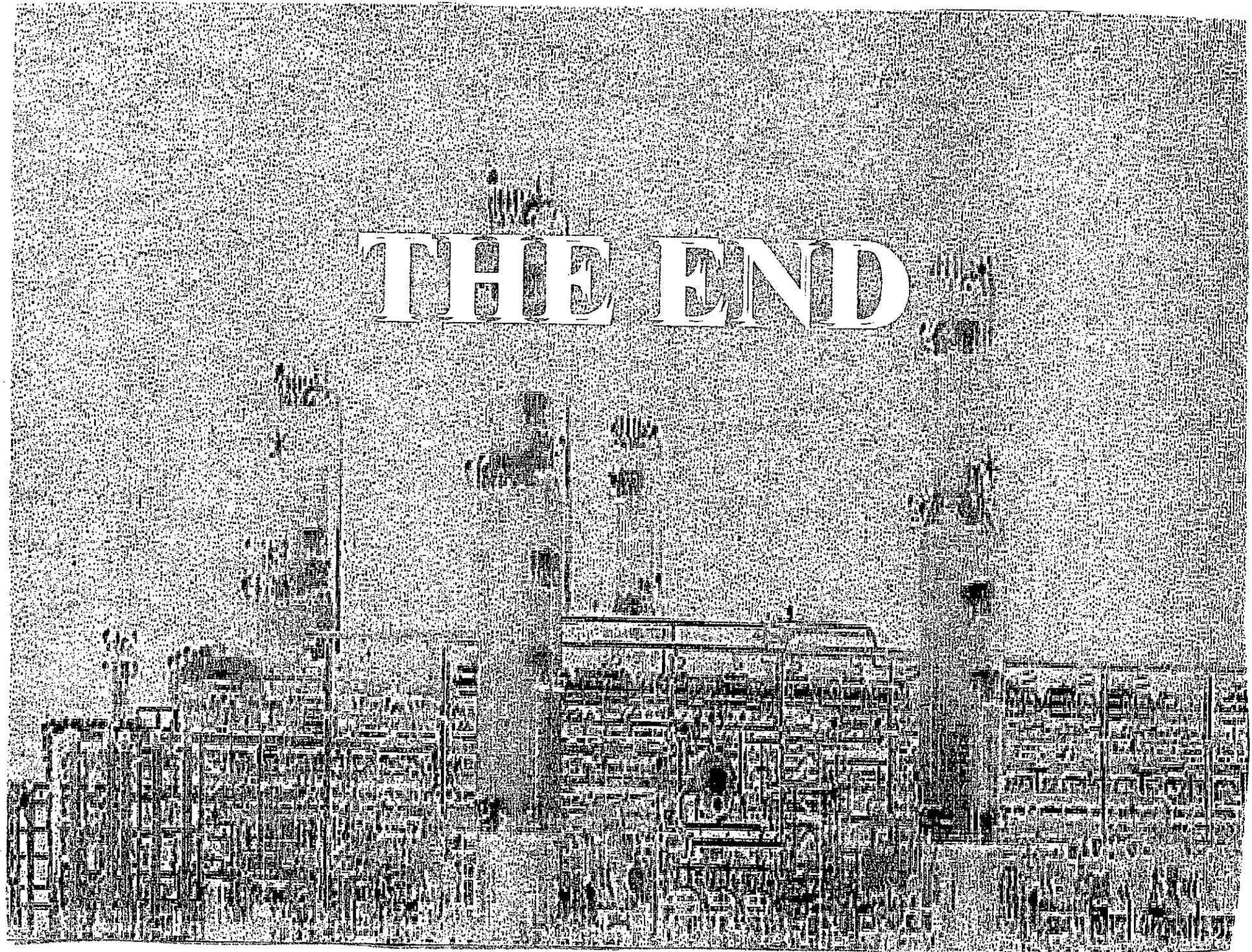


A new area of co-operation with Europe opens up

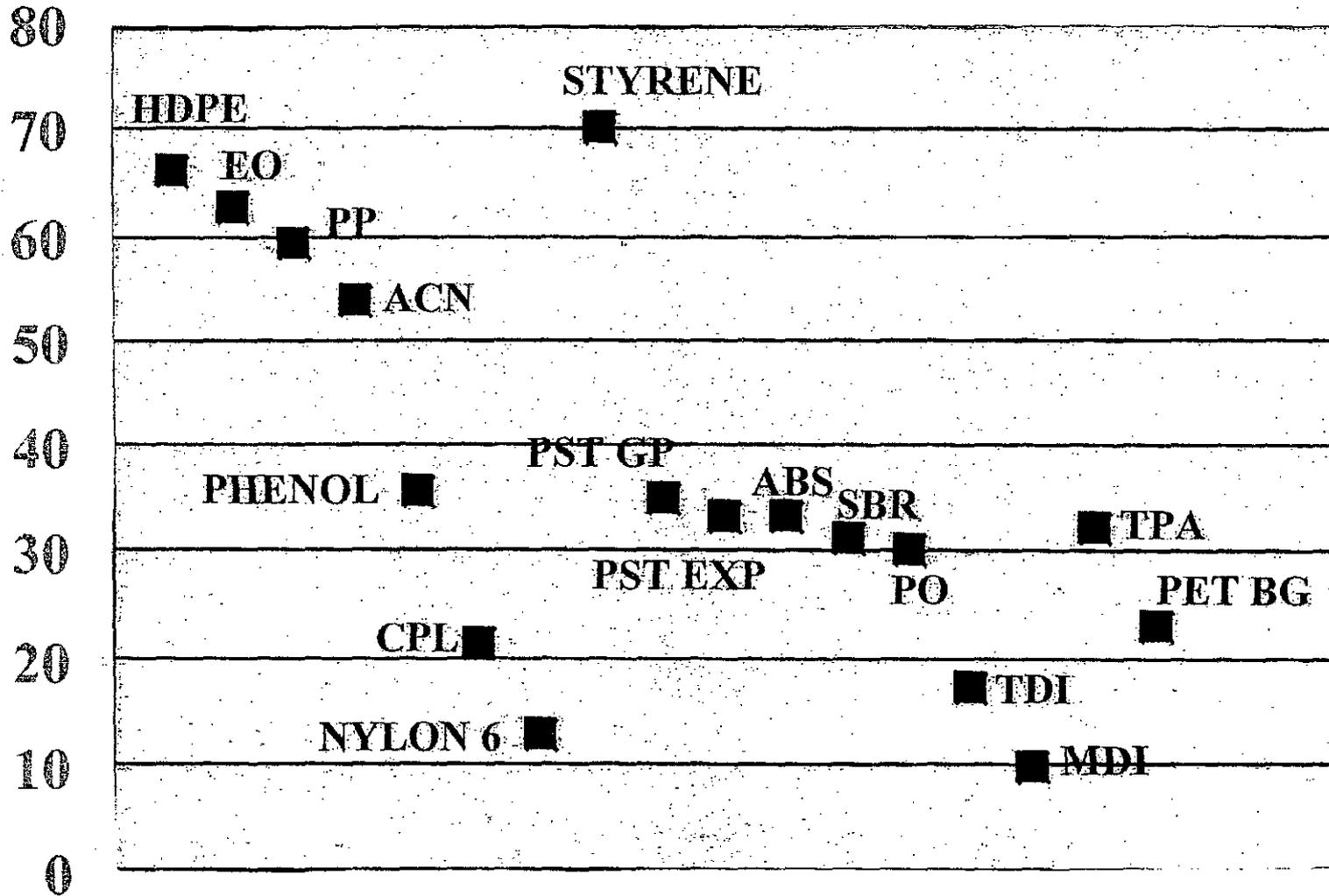
Europe has developed through centuries not only the technology but also the know-how necessary for a speedy development of a natural gas system, which is a necessary support to any industrialisation process.

Europe is fully available to start a new round of technology transfer with the Kingdom of Saudi Arabia, which will take the economies of both areas to an higher level.

THE END



Incidence of monomers price on petrochemicals' production cost Western Europe 1995



L. AMERICA - FAR EAST - MIDDLE EAST-MEDITERRANEAN - RUSSIA

	Cheap Feedstock and Energy	Logistic Position	Availability of Capital	Availability of Industrial Services	Local Demand
Latin America	Yes	Good near US and Europe	Average	Average to good	Good
Far East	No	Average near China	Average	Average to good	Very good
Middle East	Yes	Good almost baricentric	Good	Good	Small but growing
Mediterranean	Yes	Good	Good	Only on North Shore	Great Potential
Russia	Yes (?)	Not for export	Poor	Poor	Potentially very high: to be developed

Technology transfers in Saudi- EU economic relations

Marcello Colitti

ENICHEM

The gas infrastructure

- The existing gas infrastructure is basically made up of the Master Gas Gathering System (MGGS) whose construction was started in the late '70s and entered into operation in 1982. The system consists of a network of plants for gas-oil separation, processing and fractionation linked by a computer-controlled pipeline system totalling 7,266 miles (11.625 km) and including a long distance pipe-line taking NGL to the Western Coast, to the industrial area of Yanbu. All in all, the natural gas transport pipeline system (as distinguished from the gathering pipes) includes 1.600 km of pipelines for natural gas liquids, and 600 km of methane lines.

THE GAS INFRASTRUCTURE

•Given the state of the industry and of the economy in those years, the interest of providing fuel gas, that is, methane, was at that time relatively limited, so the emphasis for long distance transport was clearly on Natural Gas Liquids for export and petrochemical feedstock. It is no surprise, therefore, that methane supply was limited to the Eastern Area. At present, there is no country-wide infrastructure for the transport of methane, and the familiar structure of an high-pressure long-distance gas transport feeding a low-pressure distribution in cities and industrial areas is not present in the Kingdom.

THE GAS INFRASTRUCTURE

An important element of the Kingdom's gas strategy was the price of the gas resulting from separation and from the production of dry gas. In the '70s, the price was fixed for methane and ethane, which at the time could not be exported and had little value in a country with a limited demand for energy.

•The cost of transporting methane and ethane to an high demand area (say, Europe) was probably found to be so high that their well-head prices would be negative. The price was fixed well above that, and the 50 cents of US dollar per million BTU was considered a reasonable price for products which would have been otherwise flared. NGL were indeed exported, and their export price was fixed in the general picture of the export prices the Kingdom was asking for crude and refined oil. The MGGS was in fact inaugurated by a British ship, the Cavendish, the first to leave Yanbu with a cargo of NGL in the year 1981.

The price for methane and ethane was probably fixed at that time also with an eye to its promotional value: as this effect was not expected to be important, crude bonuses were offered to companies investing in the Kingdom.

In fact, this price turned out to be a strong incentive to industrial investments, and the Saudi ability in negotiating and running industrial Joint Ventures made the rest.

The gas infrastructure

•The most eager to invest in the Kingdom were the petrochemical companies (although one of the first ventures of SABIC was in iron and steel) which in a period of high crude prices were suffering for the high price of feedstock; and which, being subsidiaries of oil companies, were eager to participate in the industrial growth of the larger exporter of crude oil.

The gas infrastructure

•The result of this complex strategy, defined and applied with no lack of vision, is now for anybody to see. Saudi Arabia has been able to develop the production of crude oil, with only the limitation coming from the world market; and it has become a large petrochemical producer, with 6.4 billion dollars of sales the largest part of it from exports. The Kingdom has gone a long step ahead on the road of industrialisation. Finally, the large exports of LPG over the world, and in particular to Japan, has given the Kingdom a very distinct position in the world-wide LPG market.

PLANNING CRITERIA APPLICABLE TO THE GAS SECTOR

The definition of a gas policy and its implementation in a planning process needs to be based on general principles related to both demand and supply.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° inv. 19718
21 MAG. 1999

BIBLIOTECA



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Bichara Khader

EU - GCC Relations:
Challenges and Opportunities



E.U. - G.C.C. RELATIONS : CHALLENGES AND OPPORTUNITIES

BACKGROUND

When the Euro-Arab dialogue was launched in the aftermath of the October war and the first oil crisis of 1973, the GCC was not yet set up. But as members of the Arab Group, Gulf states played an active role in this first exercise of euro-arab multilateral diplomacy. As all other arab countries, Gulf states sought, through the Euro-Arab dialogue, to ensure EC support in the Arab-Israeli conflict.

While for the European countries, the dialogue was supposed to provide them with a regular supply of oil¹ at «reasonable price», the opening-up of Arab markets to Europe's exports and the recycling of Arab surplus petrodollars in European financial systems².

In the 70's, neither the U.S. nor the Soviet Union looked favorably on this new involvement of Europe in the Arab World, a region which the two world powers considered to be their «hunting ground», at least since the Suez Crisis and the British retreat of the Gulf States, with the independence of Kuwait on June 19, 1961 and the establishment of the United Arab Emirates in 1971.

Besides the superpowers' opposition, the European Community had to come to grips with the PLO participation in the dialogue. The Dublin compromise (Feb. 11, 1975) managed to circumvent the problem of the PLO participation by forging the formula for negotiation between *groups* and not between States, thus allowing for the participation of Palestinians within the *Arab Group*, without recognising the PLO as the sole representative of the Palestinians. As soon as this compromise unlocked the situation at organisational level, the EAD was soon shaken up by the mini-storm that followed the signing of the trade agreement between the EC and Israel on May 11, 1975. For the Arabs, this constituted an «occupation premium», because it enabled Israel to break out of its international isolation. This was but a futile protest : the EC did highlight that this agreement was part of its new «*Global Mediterranean Policy*» and that it had no intention whatsoever to dissociate itself from Israel.

One year later, the first meeting of the General Commission of EAD took place in Luxembourg (May 1976) followed by three other meetings in Tunis (Feb. 1977), Brussels (Oct. 1977) and Damascus (Dec. 1978). But at this last meeting, the climate was tense and morose, since it took place after Sadat's visit to Jerusalem (Nov. 1977) and the Camp David Agreement (Sept. 1978) which had torn to pieces Arab consensus, thus putting in jeopardy the continuation of their collective dialogue with the EC.

The Europeans themselves were divided between those who hailed Sadat's gesture as a «historic turning point» in the Arab-Israeli conflict and those who felt that this Israeli-Egyptian Treaty (March 1979) should only be a stepping-stone for a comprehensive settlement in which all the parties involved, including the representatives of the Palestinian People, would be able to take part. For the first time, during his visit to the Gulf States in March 1980, Giscard d'Estaing spoke of the *Palestinian rights to self-determination* which implies the PLO participation.

Three months later (June 1980) the Venice Declaration reiterated with clarity the French stand which became a European policy.

During the first five years of the EAD, Gulf countries put all their weight to enhance the Arab stand and prop up their demands for a just and lasting peace in the Middle East as a pre-condition for economic take-off and political stability.

¹ Gawdat Bahgat : «Gulf security and Western Policy», in *The International Spectator*, n° 3, 1996, pp.39-49.

² For more details, see Bichara Khader : *Europa e il mondo arabo : le ragioni del dialogo*, L'Harmattan-Italia, Torino, 1996.

But the launching of the EAD coincided with the break out of the Lebanese civil war, followed with the Egyptian defection, the ensuing disintegration of the Arab system that started to drift aimlessly without a captain and without a rudder.

The Euro-Arab Dialogue which was brought to a halt by the Israeli-Egyptian Treaty entered, soon after the Venice Declaration, in a prolonged period of hibernation between 1981 and 1989. Reactivated by President Mitterand in December 1989, the EAD could not survive the severe blow of the Iraqi invasion of Kuwait in 1991.

We have to keep all these elements in mind because it is during the period of EAD's deadlock, after the Israeli-Egyptian Treaty, that the Gulf Co-operation Council will be established and that the *Euro-Gulf rapprochement will take place.*

The Gulf Cooperation Council

In the late 1970's and beginning of the 1980's, the Gulf region and the Arabian Peninsula have become the theatre of increasing tensions.

- a) the fall of the Shah of Iran in the wake of the Khomeiny-led Iranian revolution (January 1979);
- b) the signing of a «*friendship treaty*» between South Yemen and the Soviet Union (Oct.1979), thus overtly challenging Saudi Arabia;
- c) the severing of diplomatic relations between Gulf States (with the exception of Oman) and Egypt after 1979, thus increasing a feeling of vulnerability in the Gulf States;
- d) the Grand Mosque attack in Mecca between the 20th of November and the 3rd of December 1979;
- e) the Soviet intervention in Afghanistan in December 1979;
- f) the outbreak of the first Gulf war between Iran and Iraq in September 1980.

All these events as well as their ramifications have produced an immense feeling of anxiety in all the Gulf States¹. It is in this turbulent context that took place, on the 25th of May 1981, at the Intercontinental Hotel of Abu Dhabi, the first summit of Gulf Emirates and Monarchies which decided, on the 26th of May, to set up the Gulf Co-operation Council.

At the outset, the six Gulf States endeavoured to let the Council appear to be a regional economic grouping and not a security alliance in order to prevent Arab criticism or provoke negative Iranian reactions. But it was obvious that the «Islamic Iranian revolution» and the Iraq-Iran war strengthened fears of subversive forces and negative spill over effects, thus offering a stimulus for drawing together².

In that year of 1981, Gulf States produced some 14.5 millions barrels of oil per day, — i.e. 23.5% of the total world production and more than 52% of the total OPEC production — exported some 13.4 millions b/d, at an average price of 32\$ per barrel.

¹ — See Nimrod Novik and Joyce Starr (eds) : *Challenges in the Middle East : Regional dynamics and Western Security*, Praeger, N.Y., 1981.

² See B.T. Pridham (ed) : *The Arab Gulf and the Arab World*, Center for Gulf Studies, University of Exeter, Croom Helm, 1988.

Europe and the Gulf Co-operation Council

After the stagnation of the Euro-Arab dialogue, the European Community felt that it was imperative to establish formal links with the Arab Gulf States. The creation of the GCC provided a window of opportunity for such a rapprochement, in view of the intensive economic interaction between the two sides. The Community's vested interest in the region was obviously to secure access to oil and not to see oil supply fall into hostile hands. In 1981, the Arab Gulf States accounted for more than 70% of EEC imports from Arab League States, thus making the Gulf region of crucial importance to Europe. No wonder that very soon, in the aftermath of the 1979 turmoil, European ministers tried to open channels of dialogue with the Gulf States to avoid disruptions in their respective countries through unpredictable hikes of oil prices or delivery fluctuations¹. Speaking in the beginning of 1980, Herr Genscher, the German foreign minister has been the main advocate of such an open dialogue. At the Community level, it was felt that time was ripe to go beyond agreements between individual Community member States and individual Gulf States and try to reach close relations with the Gulf countries *through agreements co-ordinated at Community level*. It was felt that only such a multilateral agreement could avoid senseless competition within the Community member States.

As a matter of fact, the late years of the 1970's witnessed an unprecedented competition among European countries to conclude *bilateral trade-in-exchange-for-oil* agreements with individual Gulf States. Each European country was endeavouring to cycle its money back by increasing its exports through direct negotiations. In 1979, Community exports to the Arab Gulf States accounted for almost 47% of EEC exports to the Arab World, with Saudi Arabia alone accounting for 21,8% of the total.

To the attractiveness of the Gulf States as oil producers and export markets, one has to add the availability of huge sums of *Gulf surplus capital* seeking secure investments. The European countries were concerned with the recycling of this money on a long term basis, in order to offset their deficits.

For all these reasons, the Community showed a keen interest, mainly in the beginning of the 80's, in concluding an agreement with Gulf States that would secure full access to oil supplies, to Gulf markets, and set up procedures for smooth recycling of oil revenue surpluses.

The long way to the Co-operation Agreement of 1988.

From 1982 to the signing of the Co-operation Agreement in 1988, the economic picture of the Gulf States has changed dramatically. The reverse shock in oil prices in 1982 and mainly in 1985 halved oil revenues. Government expenditures were reduced. Governments have been forced to run down foreign reserves to finance deficits. All Gulf States witnessed a painful transition from surplus in the balance of payments and government budgets into deficits.

The GCC countries recorded an aggregate current account deficit of around 4.3 billion \$ in 1985, a sharp decline from surpluses of more than 66.5 billion \$ in 1981. Total GCC imports from the EEC declined by 23% in 1983-1985. Saudi Arabia, by far the largest consumer market in the region, recorded a drop of 40% in its imports from major trading partners².

But still, at the end of 1985, I estimated the *Gulf official reserves invested abroad to a total of 300 billion \$*³ of which some 40% was invested in Europe, in bank deposits, in industrial stocks and in real estate.

When the EEC-Gulf dialogue was proposed in the beginning of the 1980's, the Gulf States were at the height of the economic strength. The German foreign minister, Herr Genscher, was the first

¹ See Haifaa Jawad : *Euro-arab relations, a study in collective diplomacy*, Ithaca Press, Reading, 1992, p.167.

² For an economic analysis of the Gulf economies in the 1980's, see Henry Azzam : *The Gulf Economies in Transition*, Macmillan, London, 1988.

³ Bichara Khader : *Arab' Money in the West*, report to the Arab League, Tunis, 1986.

to advocate the idea of opening a dialogue with the Gulf States, at a meeting in Brussels on Jan.15, 1980. On Feb.5, 1980, the European Council of ministers approved the German proposal and asked the Commission to sound out the six Gulf States *and Iraq* «on the possibilities for following up the Community initiative».

After exploratory talks of the Commission representatives in the Gulf States, the European Council decided to halt the dialogue in September 1980. The French were reluctant because they believed that there is already a framework for dialogue, that is the Euro-Arab dialogue and there was no need for duplication¹, while in the Gulf States themselves, Iraq, Kuwait and Saudi Arabia argued that the EEC-Gulf dialogue was oil-driven and did not stem from a strategic vision which encompasses the short-term and the long-term issues as well as the economic and political dimensions. They also confirmed that they would prefer to develop their relations through the Euro-Arab dialogue.

The initiative of dialogue was thus shelved, for a while. But soon after the establishment of the GCC, the European Council decided, in September 1981, to initiate preliminary talks with the Secretariat of the GCC in order to examine the proposed co-operation. Exchange of visits took place between Mr Bishara, Secretary General of the GCC, who visited the European headquarters in June 1982 and European representatives who paid a visit to Saudi Arabia in March 1983. The exploratory talks were followed by a series of other meetings with the aim of exploring the possibilities for formal negotiations on a co-operation agreement between the two regions.

The first meeting, at ministerial level, took place on the 14th of October 1985 in Luxembourg. In the joint Communiqué, the EEC and Gulf representatives affirmed their willingness to proceed with the dialogue, which was supposed to «complement» the EAD and not to «replace it» and examined the scope for the proposed agreement.

At this stage, the European Parliament asked Mr Costanzo to prepare a report on EEC-Gulf relations. This report was discussed on Feb.19 and 20,1987. The Parliament adopted a resolution on economic and commercial relations between EEC and the GCC. This was rather difficult because the question of Gulf Petrochemicals exports had almost blocked the debate.

With the green light of the Parliament, a second ministerial meeting took place in Brussels on June 23,1987. One year later, on June 15, the Co-operation agreement was signed by Mr Genscher (president of the Council) and Claude Cheysson, Commissioner, on the European side and by His Highness Prince Abdul Aziz Saud Al Faysal (foreign minister of Saudi Arabia) and Abdallah Bishara, Secretary General of the GCC.

The agreement set a contractual relationship between the EEC and the GCC countries. It covered a wide spectrum of subjects: economic co-operation, agriculture and fisheries, industry, energy, science, technology, investment, the environment and trade. But the agreement did not solve the major issue that has been the bone of contention in all EEC-GCC contacts namely Gulf petrochemical exports².

What induced the Gulf States to drop their reservations with regard to a specific agreement with the EEC remains a question of debate. I think that Gulf States came to realise that the dramatic slump in oil prices and slowdown of their economies offered them new incentives to reach a region-to-region agreement with Europe, and that being a smaller unit than the Arab League, the GCC was more likely to show coherence and enhance its negotiating power. Unfortunately, the invasion of Kuwait, the catastrophic fall-out of its liberation and the second reverse oil-shock of 1998 will erode the GCC's ability to negotiate from a strong position.

¹ Haifaa Jawad : *op.cit.*, p.185.

² See Bichara Khader : *L'Europe et les pays arabes du Golfe : des partenaires distants*, Quorum-Publisud-Paris, 1994.

EEC-Gulf relations 1988-1998 : skipping through the Joint Councils Communiqués

At the institutional level, the 1988 EEC-Gulf agreement provided for the establishment of a *joint Council* that was supposed to meet, on an annual basis, to follow up its implementation. In the last 10 years, 8 ministerial meetings took place¹.

- 1) Muscat : March 17, 1990
- 2) Luxembourg : May 17, 1991
- 3) Kuwait : May 16, 1992
- 4) Brussels : May 16, 1993
- 5) Riyadh : May 8, 1994
- 6) Luxembourg : April 22, 1996
- 7) Doha : February 17, 1997
- 8) Luxembourg : October 27, 1998

The joint Communiqués reflect perfectly the main concerns of the EEC and the Gulf.

The first communiqué of March 1990 devotes enough space to the Arab-Israeli conflict, to the tragic situation of Lebanon, to the stalemate between Iraq and Iran, and insists upon the «complementary nature» of EEC-Gulf co-operation agreement that cannot be a «substitute for Euro-Arab dialogue». The energy issues and the petrochemical thorny question are set aside and not even mentioned.

The second joint Communiqué follows the 2nd Gulf war and the liberation of Kuwait.

Four of the sixteen paragraphs are devoted to the Iraqi invasion, the ecological catastrophe in the Gulf region, the plight of the civilian population in «Northern and Southern Iraq» and the «reestablishment of international law that has been violated by Iraq». But the ministers considered that «the Arab-Israeli conflict and the Palestinian question were also root causes of instability in the region». A special mention is made of the «future co-operation» between the GCC, Syria and Egypt, and the «important role» that Iran could play in the future stability of the region.

On the economic aspects, the Communiqué stresses the importance of an «appropriate environment for the encouragement and protection of investment», and the need to step up their efforts in regional co-operation.

The 21 paragraphs of the 3rd communiqué (Kuwait, May 16, 1992) look more substantial than the two preceding ones. After the expression of their satisfaction at the restoration of peace and stability in the Gulf, the ministers reiterated the importance of co-operation in the field of energy, of environment protection, of industrial upgrading, and in other fields such as investment, joint ventures, science and technology, standards and human resources development. For the first time, the issue of CO₂ emissions is tackled and the GCC «questioned the effectiveness of the proposed (energy/carbon) tax in controlling emissions and pointed out that oil is already overtaxed in the Community».

The question of CO₂ emissions comes to the fore in the 4th communiqué of Brussels, in May 1993. The European side endeavoured to reassure the Gulf States that the energy/carbon tax «would not have a discriminatory effect on oil and that its introduction would be conditional on comparable measures being introduced by other countries of the OECD.»

For the first time, the «Free Trade» issue is raised. The ministers welcomed the resumption of negotiations in this respect. The remaining paragraphs of the Communiqué deal with political issues such as the commitment «to the unity, territorial integrity and sovereignty of Iraq», the «sufferings of the entire Iraqi population for which the Iraqi regime bears the sole responsibility», the UAE/Iran dispute on the Islands, the Convention of Non-Proliferation of chemical weapons, the Middle East peace process, Israeli settlements and the deterioration of the situation in the Occupied Territories. The

¹ Com (95) 541 final.

ministers also reaffirmed their firm determination to continue *«to contribute to the stability and sustainable development of the Arab World, including the Maghreb region»*.

The singling out of the Maghreb region is understandable since the EU has discussed the EU/Maghreb relations in the Lisbon European Council, few months ago. Another region has captured the attention of the ministers : Bosnia-Herzegovina where the «brutal attacks on Srebrenica» have provoked great concern among Moslem and Gulf countries.

The Riyadh (May 8,1994) communiqué took note of the Report of the AD Hoc Group on the interrelated issues of energy and environment, set up in accordance with the Joint Council's decision. The ministers welcomed the proposal for a 3 year programme of co-operation between the *Standardisation and Metrology Organisation of the GCC countries and European standards organisations*, and expressed their satisfaction with the extensive 2 year programme of «training GCC customs officials».

For the first time, the issue of *human rights* is debated. The GCC ministers, while noting the diversity of systems of values, «joined the EC ministers in reiterating their continuing commitment to the promotion of human rights». On the political aspects, the ministers noted with the utmost concern the continued Iraqi defiance of UN Security Council Resolutions, acknowledged the right of countries to acquire the means to «defend themselves», reaffirmed their strong opposition to «all forms of terrorism» ... as well as «subversive activities in other countries», paid tribute to the courage «of the Palestinian and Israeli leaders who signed the Historic Declaration of Principles in Washington on Sept. 13,1993», highlighted the importance of achieving substantial progress in other bilateral negotiations, «particularly the Syrian Track», showed concern for the eruption of the hostilities in Yemen, and welcomed the agreement on a Constitution for a Muslim-Croatia Federation.

In the year 1995, no joint Council has been convened.

**The Granada meeting (July 20,1995) : a first balance sheet of the EC-GCC
co-operation.**

After five Joint Council's meetings, concrete results deriving from the Co-operation agreement have been slow and limited to:

- a) holding a number of Energy working group meetings, an EC-GCC Energy symposium in Muscat in April 1994 and the EC-GCC Ad Hoc Group's Joint Report on Interrelated issues of Energy and the Environment;
- b) EC-GCC Industrial Conferences (Granada 1990, Doha 1992 and Muscat 1995);
- c) Co-operation in the fields of customs standards;
- d) Free trade negotiations, which nevertheless have been marred by the Energy/Carbon tax and the Petrochemicals' issue.

Thus although the EC-GCC co-operation agreement had taken-off, it was obvious that it did not fly high. That's why the Joint Council ministerial meeting scheduled for 1995 was postponed and replaced by a first ever EU-GCC Troika Ministerial meeting held in Granada on July 20,1995 to assess past achievements and to give new impetus to their co-operation, through the following recommendations:

- a) to strengthen political dialogue;
- b) to propose solutions for unlocking the ongoing free trade negotiations;
- c) to promote reciprocal knowledge and understanding.

These recommendations were endorsed by EU and GCC Foreign ministers meeting in New York on September 29,1995.

Less than two months later, the Commission prepared a Communication to the Council reviewing the Granada recommendations and preparing for their successful implementation. Released on November 22,1995 (only five days before the Euro-Mediterranean Barcelona Conference), the Communication was entitled: «*improving relations between the EU and the Countries of the GCC*»¹.

The Communication recalls the importance of the GCC for the EU and vice versa. Thus at the end of 1994, the GCC was the fifth largest market for EU exports after the USA, Japan, Central and Eastern Europe, and ASEAN countries.

Total EU-GCC bilateral trade reached over 30 billion Ecu. EU exports amounted to 19.3 billion Ecu and EU trade surplus was 7.9 billion Ecu. And since oil continued to represent 45% of the EU energy consumption, the GCC countries were the single most important source of EU oil imports (23.7%), a share which was bound to increase in the future given the huge proven reserves of the Gulf countries.

For Gulf countries, EU was, in 1994, the second most important market, accounting for some 15% of GCC oil exports. The EU absorbed also an important share of GCC exports of refined petroleum products, petrochemical products and aluminium. The EU member countries were also the second foreign investor in the GCC countries, behind the USA, and the second destination of GCC foreign investments.

After reiterating the EU-GCC interdependence, the Communication of the Commission reviews the Granada recommendations.

¹ Com (95) 541 final.

At the political level, it recommends a «regular, senior-official level, reinforced political dialogue», in security issues, in the follow-up of the Middle East Peace Process, in the Euro-Mediterranean policy. The Commission believes that a strengthened political dialogue would enable the two sides to discuss questions of democracy, human rights and the prevention of terrorism, and on the whole, to increase reciprocal understanding.

At the economic level, the Commission proposes an improved framework for EU-GCC energy interdependence through the reinforcement of greater cross-investments in refining and downstream activities. Regarding future trade relations, the Commission admits that a free trade agreement is in the best interest of both sides: it would give a *duty-free access* for the GCC industrial products, to a huge and geographically close market of some 500 million inhabitants after the forthcoming enlargements.

While Europe would benefit from free access to the Gulf countries, since the EU exporters pay GCC duties, which are on average, higher than the EU duties.

Duties on petrochemical products will no longer constitute a bone of contention since the Uruguay Round provides already for a harmonised reduction of duties.

On the cultural and scientific level, the proposals of the Commission do not get off the trodden track : the EU remains on the message-sending side. It believes that the espousal of international standards of human rights is essential for long-term social and political stability, although it concedes that it shall endeavour to obtain better insight and judgement on how traditional Islam can accommodate modern concepts of human rights.

The Commission encourages decentralised co-operation which would allow for greater involvement of civil society and it advocates more collaboration of the GCC countries with the Euro-Arab Management School of Granada and with the Institute for Prospective Technological Studies in Seville.

Finally, the Commission recommends the opening of a Commission delegation in Riyadh, accredited to the GCC in order to promote all the programmes of enhanced co-operation.

As can be seen from this brief summary, the Communication looks like a twin-sister of the Barcelona Declaration of November 28, 1995 with its three baskets, with the only difference that energy related matters are predominant in the economic basket in the EU-GCC dialogue.

Joint Councils 1996-1998

The sixth EU-GCC Joint Council which was scheduled in 1995, took place in Luxembourg on 22 April 1996. Judging from the length of the final Communiqué, one could presume that it has tackled a wide range of issues. Indeed, issues which were hardly touched upon in the past, are object of careful scrutiny. Thus with regard to trade, EC and GCC ministers expressed their satisfaction that the negotiations of free trade are proceeding satisfactorily. The two sides acknowledged the positive role of foreign direct investments and underlined the importance of the reform of the regulatory environment. They welcomed not only the decentralized cooperation but also the introduction into the GCC of EC instruments such as BRE (Bureau de Rapprochement des Entreprises) and BC net (Business Cooperation Network) to foster the access of industrial information.

With regard to political issues, *the Peace Process* captured the attention of the Joint Council, along with the Iraqi question, and the situation in Bosnia-Herzegovina.

The *Seventh Joint Council* was held in Doha (17 february 1997). No new salient points are worth noting with the exception of some mentions regarding a proposed study on prospects for future EU natural gas imports from the Gulf, a joint workshop between the Euro-Arab Management School of Granada and the Arab Gulf University in Bahrain, and the introduction of European Studies in Gulf Universities and Gulf studies in European universities.

On the political issues, the Communiqué reiterated the traditional views of the Joint Council on Iraq, the Peace Process, the fight against terrorism, and the establishment of a zone free from all weapons of mass destruction in the Middle East, including the Gulf region.

The last Joint Council was convened in Luxembourg (27 October 1998). The 42 paragraphs of the joint communiqué are only a «variation» on the same piece of music. The Communiqué announced that the «free trade negotiations should be concluded soon», that a study has been completed on «direct investment» in the GCC countries¹, that a long-term resident European expert has taken up duty in Riyadh where he worked with the Standards and Metrology Organization of the GCC (GSMO), and that various conferences took place specially on oil and gas technologies. As for business cooperation, the Joint Council took note of the successful organisation of the first *EC-GCC Interprise Event*, which took place in Riyadh in 1997, and reaffirmed its support for the Euro-Arab management School in Granada. A special mention is made of Media Cooperation.

On other matters, the ministers showed concern for the lack of progress in efforts to resolve the dispute between UAE and Iran over the question of Abu Musa and Tunb islands. A larger space has been devoted to the question of the weapons of mass destruction, and to the Iraqi refusal to comply with the provisions of the relevant UN resolutions. Curiously enough, this is the first communiqué which does not mention the Arab-Israeli Peace Process, the dramatic situation of the Palestinians in the Occupied Territories, or the continuation of the settlement policies in East Jerusalem and the West Bank.

The Turn-down of GCC Economies (1998)

Ten years after the signing of the first cooperation agreement with the EC, the economic feature of Gulf economic was gloomy. Estimates indicate that in 1998, the combined real GDP of the GCC countries, as a group, registered a negative growth rate of 0,2 per cent.

Real GDP and Growth rates (in billion \$) in GCC countries (in %)

Country	1998	1999	Growth rates in %	
			1998	1999
Bahrain	6,0	6,2	2,2	2,5
Kuwait	30,3	30,8	- 1,0	1,7
Oman	16,0	16,5	2,5	3,5
Qatar	10,1	10,7	4,4	6,5
Saudi Arabia	126,9	129,7	- 0,6	2,2
UAE	42,4	43,2	- 0,8	2,0
GCC countries	231,9	237,4	- 0,2	2,3

Source : ESCWA

This economic slump is intimately linked to the plummeting oil prices and revenues. The average price of oil barrel is estimated to \$ 12,44 for 1998, \$ 6,24 lower than its level of \$ 18.68 in

¹ Clifford Chance : *Study for the European Commission on direct investments in the Countries of the Arabian Gulf Cooperation Council.*

1997, representing a dramatic 33,4% decline. Accounting for inflation, oil price in 1998 was around its level prior to the first major oil price surge in 1973-1974.

A result of this oil reverse-shock, budget deficit, as a percentage of GDP, increased significantly in each and every GCC country. Almost all countries had to curtail Government expenditures to levels significantly below those planned, in order to keep budget deficit at manageable levels.

This painful economic oil-driven turndown had severe adverse effects on the region's exports in 1998, while the volume of imports remained stable or declined slightly. The total Balance surplus of the GCC countries shrank significantly. If we take the sole case of Saudi Arabia, total exports are estimated to have registered \$ 38,8 billion in 1998 down from almost \$ 57 billion in 1997.

What are the consequences of this situation for EU-GCC relations? Confronted by low levels of economic growth and expectations of lower prices and revenues in the coming years, GCC countries will accelerate the pace of economic reforms, including creating a healthy private sector, providing new opportunities for private domestic and foreign investors. All GCC countries will engage in joint ventures with foreign companies and corporations, and will seek foreign finance, technical expertise and marketing know-how. One may expect a gradual removal of trade barriers and an equalising of the taxation system in the various GCC countries. This will act as a major incentive to attract new investments. Moreover the extension of stock exchanges and «the establishment of a regional stock exchange will allow the region to develop the use of more sophisticated financial instruments which in turn should encourage the flow of money towards the GCC»¹.

Also, one may expect a rapid implementation of the GCC Unified Economic Agreement which would translate, in effect, into a GCC single market and thus increase the attractiveness of the GCC as a destination for new investments.

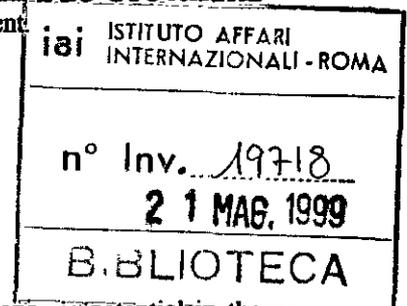
All these changes cannot be delayed. GCC countries are becoming more and more aware that the extraction and export of oil is tantamount to a sale of an asset, that a depletable resource-based economy cannot, in the long run, withstand the stormy winds of globalisation and that they cannot afford to skew taxing their citizens in order to address budgetary and equity issues².

In the light of these possible developments, the EU countries cannot drag their feet and should, without delay, seize this window of opportunity to engage in joint ventures with the Gulf Countries. EU institutions must promote ECIP programme, provide advisory services to the EU economic operators wishing to invest in the Gulf.

Developed market economies remain major trading partners of Gulf countries. Everybody knows that the GCC countries are considered as *major markets for commodities* for developed market economies. Their imports oscillate at an average \$ 70 billion in the last three years. And these countries have the advantage of being able to finance their imports from their export revenues, and not from new debt-contracting. Since 1996, about 50% of Gulf exports have been directed to developed market economies. Exports to EU countries decreased from 17,9% in 1996 to 16,2 % in 1997, thus coming in the third place as trading partner after Asian Countries (respectively 34,3% & 34,0) and Japan (22% & 23,4%). But if the EU was the first trading partner for Gulf imports with 35% in 1996 (as compared to Asian countries with 28,5%) it shared the first place with Asian countries in 1997 (with 30,5%). This means that it might be distanced, in the near future, by Asian countries and Japan, if EU-GCC relations are not given the required impetus of a reciprocally beneficial free trade agreement.

¹ Clifford Chance : *op cit.*, p.45.

² See Hossein Askari, Maha Bazzari and William Tyler : «Policies and Economic potential in the Countries of the GCC» in Nemat Shafik (ed) : *Economic challenges facing Middle Eastern and North African Countries*, Macmillan Press, London, 1998.





(17)



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Saleh A. Al-Mani

**The GCC Dialogue with
the European Union**



IAI

Via A. Brunetti, 9 - 00186 Rome - Tel.: 0039063224360 - fax: 0039063224363 - E-mail: n.champion@iai.it

THE GCC DIALOGUE WITH THE EUROPEAN UNION

By

Saleh A. Al-Mani, Ph.D.

Professor, Department of Politics
King Saud University
Riyadh, Saudi Arabia
March 1999

THE GCC DIALOGUE WITH THE EUROPEAN UNION

By: Prof. Saleh A. Al-Mani'

Relations between the Gulf Cooperation Council and the European Union can be studied through three dimensions, political, security, and economic. While the two sides have almost always shared similar perspectives regarding Gulf security, they did not always have similar views or policies on trade and economic issues. Here is an attempt to address trade negotiations and economic relations between the two sides from the middle of the 1980's to the present.

The Basis of the Dialogue:

The twelve countries of the European Community and the six Gulf Countries have political and economic interests that flourished during the past three decades. Since the oil revolution of the 1970s, the Gulf states have become a major market place for civilian goods and services. Today the GCC is the fourth largest market for European goods, coming after the United States, Japan, and other Central and Eastern European countries. Within the Arab Gulf States, some four hundred European companies are engaged in a variety of activities ranging from milk production, to water processing and aircraft maintenance. Another 200,000 European managers, engineers and skilled workers make their residence in the cities of the Gulf.

Since its inception in 1981, the GCC has been very active in making itself an island of stability amidst turbulence and threats of foreign intervention. The Council attempted to galvanize the policies of its member states, and continued to develop the non-oil sectors of their economies. The two pillars of self-sustained economic development and free-market interaction with

Dr. SALEH A. AL-MANI', is a professor of Politics at King Saud University, Riyadh, Saudi Arabia

the outside world became an ethos for the new coalition. While other similar groups chose to enclose themselves within a customs union or to erect a trading wall, the GCC strove to open up its markets and sought reciprocal policies from its trading partners.

The policies of the GCC were motivated by economics as well as politics, since they are an extension of long-standing economic and political ties to the West. The proof that GCC strategy was correct came in 1990 when the United States and its European allies amassed an army of over half a million soldiers to liberate Kuwait and patrol the lanes of the Gulf to securing the uninterrupted flow of oil through the Straits of Hormuz to Western consumers.

Western European nations have always been aware of their reliance on and interaction with the Gulf States. After all, some twenty per cent of their oil supply originates in the Gulf petroleum and gas terminals. For the Gulf States, Europe has always been an important Western neighbor, which imports some sixty-seven per cent of their petrochemicals. The Gulf bazaars also absorb some 36 per cent of total EC exports to Third World markets.

While security and political interests worked to draw the Europeans and Arab Gulf states together, their differences concerning access to markets would widen. The European Community enacted a set of tariffs against imports of Gulf petrochemical products in 1983. The tariffs were suddenly raised from zero to 13.5 per cent at a time when most of GCC investment in petrochemicals and refining products were being realized after many years of planning and construction. The Gulf countries, particularly Saudi Arabia and Kuwait, viewed this protectionist move on the part of the European Community as an attempt to injure a newly developed petrochemical industry, in which the Saudis and the Kuwaitis had invested over twenty billion dollars, and which they hoped would carry their economies into the twenty first century. The Commission, on its part, argued that the GCC countries could no longer avail themselves of the Community's General System of Preferences (GSP). Even within this category, the two states petrochemical products had already surpassed the fixed ceiling for some of these imports. By imposing these tariffs, the Europeans were exerting pressure on the Japanese and American chemical multinationals, which had invested heavily in the petrochemical sectors of the oil-producing states, while at the same time trying to give their chemical industries a breathing space in the midst of the 1980-1983

recession. The Gulf states reacted by inviting European Multinationals to take part in new petrochemical investments. Economic differences between the two sides, arose therefore, despite a congruence of political and organizational objectives. The GCC had organized itself using as a model European economic and political integration. It sought to create a small customs union among the six member states, and it began to organize periodic meetings of foreign ministers and heads of states on the rotational model of the European Political Cooperation System. Like the Commission, the GCC Secretariat was seeking a voice in international negotiation forums. The economic crisis of 1983 provided the two Secretariats in Brussels and in Riyadh with a good opportunity to expand their roles into the external domain. The Commission had already envisaged, as early as 1980, a framework for bilateral cooperation and trade agreements that would expand the domain of the Community's associative diplomacy into the Arabian Peninsula. Only Bahrain and North Yemen headed the call at the time. North Yemen opened up negotiations with the EC and concluded in 1984, the first agreement between the European Community and an Arab state in the Arabian Peninsula.

Saudi Arabia and Oman were too involved at the time with pressing regional issues and with establishing the new Council (the GCC) to give much attention to the proposal. A network of bilateral agreements and joint commissions with several European countries served as important links between the countries concerned, and were successfully carrying forward many aspects of trade, investments, and technical cooperation among the countries. The Commission was the first, in 1980, to call for a formal multilateral agreement with the Gulf oil producers in order to at least have a grip on future changes in the price and supply of oil. Toward that end, it sought to enlist the support of the European Parliament to create the necessary elan in the EC member states to push for the agreement.

Other forms of multilateral collaboration between development agencies in the two regions had been very much in evidence since the middle of the 1970s, with the co-financing of development projects in Africa and Asia.

1. For a discussion of the arguments put forth by the two sides, see: Bichara Khader, "The European Economic Community and the Gulf: Relations and Stakes," *Journal of Arab Affairs*, Vol. 7, No. 1, pp. 78-80, and EFIC-APPE, Responses to the Questionnaire on Gulf States (European Parliament Paper), Sept. 29, 1986.

The beginning of the Gulf war in 1980 seemed, however, to freeze for a period of time the Commission's plans. Since most European countries were playing a neutral role in the first phase of the war, the Commission's low profile in the region was also in order. Lack of real and pressing needs on both sides worked against the opening up of negotiations. Other European countries in the period 1981-1983, such as Denmark and Ireland, thought it appropriate to forge new bilateral ties with some of the Gulf oil producers. It was not until 1984 that a major crisis in the relationship between the two sides would make trade agreement between the two bloc's imperative.

The Imposition of EC Tariffs and GCC Response

The EC decision of June 1983 to hike its tariff on Saudi and Kuwaiti petrochemicals by 13.5 per cent, created much resentment in the two countries. SABIC (The Saudi Arabian Basic Industrial Corporation) had just been partially privatized. Thirty per cent of its stock was sold to the public while the government held the remaining 70 per cent. As a result, there was a vociferous demand in an otherwise complacent press for a reply in kind to European protectionism. Many newspaper articles argued that only a similar increase in the zero-level tariff on imports from Europe could convince the Community to rescind its earlier tariff hikes. Even within the government, the ministries concerned with overseeing the affairs of industry, including SABIC, were very vocal in criticizing the Commission's decision. Other governmental bureaucracies were more restrained in their criticism, and advanced a host of alternatives ranging from negotiations with the Europeans for a multilateral economic and political accord, to a possible accession to the General Agreement on Tariff and Trade (GATT), of which only Kuwait was then a full member. A third alternative was the redirection of the petrochemical trade to other markets in East Asia. GCC countries choose to embark upon a multi-dimensional approach, encompassing elements of redirection of trade and negotiations with trading partners. After consulting with a former director-general of GATT, most of the Gulf states became observers at GATT. Today, the majority of Gulf producers apply, de facto, GATT rules to their imports. 2

On the whole, Saudi diplomacy found a powerful cause in promoting its newly developed chemical products and finding outlets for those products. Chemicals produced in the Gulf are said to be of higher quality and lower prices than comparable European goods, since they are produced by gas stocks rather than the cracking of naphtha, a technique still in use in most

European factories. Also, transportation costs favor the Saudi and Kuwaiti producers. In addition, some Saudi and Qatari firms were willing to enter into counter trade arrangements with some Asian producers. Only after the Saudis and Kuwaitis began to make their presence known in Asian markets did the Europeans become convinced of the necessity of opening a dialogue with the Gulf states.

The GCC Secretariat and its chief negotiator, the late Mamaun Kurdi, were successful in obtaining the European Parliament's backing for an agreement with the GCC. Mr. Kurdi and a delegation from the GCC Secretariat paid two visits to the Parliament's headquarters in the summer and winter of 1986. Discussions with members of the European Parliament's Committee on External Economic Relations and the resulting report by the Committee, known as the Costanzo Report, inched very close to the GCC demand for most-favored nation treatment for their exports to Europe.³ It called on the Commission to begin negotiation for a full and wide-ranging cooperation and trade agreement between the two sides and mentioned a free-trade agreement as one possible outcome. The Report was also very supportive of the GCC call for the need to diversify its exports and to open-up European markets to Gulf Industrial products.

2. For a comparison of the benefit of bilateral agreements between underdeveloped countries and the European Community against the accession of these countries to GATT and other international multilateral organization see, Meinhard Hilf, et al, *The European Community and GATT* (Antwerp, The Netherlands: Klower) Deventer, 1986, and L.B. Mennes and Jacob Kol, eds. *European Trade Policies and the Developing World* (London: Croom Helm, 1988).

3. See European Parliament, Committee on External Economic Relations, *Report on Economic and Trade Relations between the EEC and the Gulf States* (January 12, 1987). P.E. 98.019.

Yet the report also spoke of religious freedom for expatriates, which was considered in some Arab circles as tantamount to opening up of the Gulf to Christian missionary work, a historic aim of European churches.⁴ The latter proposal was not well received by the GCC Secretariat but was never publicly aired or debated. The report also called for the use of the European unit of account (ECU) for the pricing of crude oil.

Exploratory talks between the two sides began on October 14, 1985, with a visit to Brussels by H.E. Sheikh Sabah Al-Ahmad Al-Jaber, foreign minister of Kuwait and president of the GCC Council of Ministers, and the former GCC Secretary-General Abdullah Bishara. They met with Mr. Poos, who at the time was president of the EC Council of Ministers, and Claude Cheysson, commissioner for Mediterranean Affairs. The meeting resulted in an agreement to open formal talks towards concluding a global agreement, which in the parlance of the European Community refers to a wide-ranging agreement addressing political, trade, and economic issues within a bilateral institutional framework. Some of the Community representatives, however, stood fast against granting a free-trade agreement to members of the GCC.

In developments leading to the first phase of the agreement, the Arab side requested establishment of a free-trade area, linking western Europe and the Gulf, that would gradually liberalize trade between the two regions over a five to seven-year period. Negotiators representing the GCC asked for a free-trade agreement similar to the one concluded between the European Community and Israel. The size of the trade, investments, and work opportunities made such a request all the more reasonable. The European Community's member states were divided over the issue. Germany and the United Kingdom favored the Commission proposal calling for general economic and political cooperation based on the most-favored nation clause and similar to the agreement with ASEAN (Association of South-East Asian Nations). France and Greece supported the GCC request for a free-trade agreement. This created a deadlock in inter-community negotiations within the framework of the EC Council of Foreign Ministers.

The Council discussed the subject twice in the fall of 1987 (Oct. 4, and Oct. 19, 1987). In both cases, it failed to reach the required absolute majority and had to vote to refer the issue to COREPER (Committee of Permanent Representatives) for further deliberations with the Commission.

4. Ibid., p. 10.

5. European Report (Oct. 24, 1987).

Finally, Commissioner Cheysson proposed a two-stage agreement to be concluded with the GCC states. The first part would deal with general economic and political cooperation and set up a bilateral council that would meet annually to discuss issues relating to political and economic cooperation. By delaying discussion of a trade pact, the Commission had hoped to defuse the trade problems between the two blocs. At this point, Italy and the Netherlands questioned the necessity of a second stage agreement. Some other members were adamant in refusing to call the second stage agreement "a free-trade agreement."

It took the personal intervention of Prince Saud Al-Faisal, the foreign minister of Saudi Arabia and the president of the GCC Council of Ministers, at the EC Council of Ministers' meeting in Brussels on November 23, 1987, to resolve the impasse. The GCC offered to accept a trade agreement leading to the abolishing of tariffs between the two blocks over a period of time, without using the phrase "free trade," since "it would appear to be taboo for certain member states and European industry."⁶ Meanwhile, the United States had dropped its earlier objection to a free-trade agreement between the GCC and the EC since the U.S. had signed a free-trade agreement with Israel and mounting political tensions in the Gulf called for cultivating Western European support for U.S. policy in the region. Thus in 1987, the ground was finally set for discussing the details of the first agreement.

Details of the 1988 Agreement:

On June 15, 1988, three foreign ministers of the Gulf Cooperation Council (GCC) signed a historic cooperation agreement with their counterparts in the European Community (EC). It was ratified in December, 1988 by the Ninth Summit Meeting of GCC heads of state and the European Council, and contained twenty-six articles. The most important was the eleventh article, which called for pursuing negotiations between the two sides "to the highest possible level of trade liberalization," was interpreted by the Arab side as the establishment of a free-trade area between the two sides.⁷ The EC, while referring to a free-trade area in the press communiqué following the joint meeting between the two sides on the 20th of June, did not want to include the exact phrase in the actual text of the agreement.

6. European Report (Nov. 24, 1987).

7. See the full text of the Agreement in Al Sharq Al Awsat (December 23, 1988), p. 7.

The agreement also called for extending most-favored nation treatment to the exports of each other, and the establishment of political and economic ties between the two sides, as well as cooperation in technology-transfer, agriculture, fishing, and training. The agreement (Article 6) called for the sharing of information on energy policy and marketing. Gathering information on the anticipated levels of oil production of the GCC states has been a long-term objective of the Commission since the first energy crisis of 1974. In an indirect reference to the 1973 Arab embargo of oil shipments to the Netherlands, Article 19 prohibits any discrimination directed against any member state of the Community or the GCC. Article eleven conferred most-favored nation status on each other and froze the legal regime governing trade between the two sides to existing conditions.

The decisions of the Community's Council of Ministers in December 1988 to cut the GSP ceilings by half in 1989, and to totally abolish the GSP quota for Saudi Arabia by 1990, may be interpreted as a possible breach in the agreement. Articles 16 to 21 outlined the functions of a Joint Council that would be established and meet annually to examine ways and means to advance mutual trade and serve as a possible forum for solving future disagreements and/or misinterpretations.

The agreement empowers the proposed council to engage in limited commercial adjudication and outlines procedure for joint arbitration committees without violating national legal norms.

The Second Stage of Negotiation:

The first agreement, which took almost two and a half-years to negotiate, put a freeze on new tariffs on inter-regional trade. The European Commission always held the view that the petrochemical sector was one of the "sensitive" sectors in the Community, which needed and, according to some lobbyists, continues to need protection. The GCC Secretariat's initial position was that there was a need to open up a structurally integrated market, and any protection would be in the form of temporary intervention, rather than a norm. For some time, the GCC seems to have delayed its proposed customs union in order to aim for a future free trade market with the EC.

A policy of establishing a free-trade area between the Gulf States and Europe would, in the short to medium run, help Gulf oil and petrochemi

particularly effecting infant industries such as cement, aluminum, and the subsidized agricultural sector in the Gulf. Future prospects for utilizing the vast reserves of natural gas (the Gulf has the third largest proven reserves in the world), for aluminum and metal foundries look promising. The second agreement must address this point, as well as, the deteriorating GCC balance of payments with the Community. In view of the previously outlined objection of some EU member states to a wide-ranging free trade, the GCC Secretariat seemed to be outlining a fall-back proposal that for the time being would identify a list of possible goods and services, including of course petrochemical products, that would over a period of five years be imported into the Community, without tariffs. Goods that currently are not taxed at the border, such as imports of refined oil products or crude oil, would continue to be treated at existing levels.

However, the chemical lobby in Europe, the European Council of Chemical Manufacturers Federations (EFIC), despite record profits for the past two years, continued to oppose any lessening of tariffs on Gulf products. Furthermore, it called for the removal of some GCC states, such as Saudi Arabia, from the Community's General System of Preferences (GSP) list. At the EC Council of Ministers meeting on November 22, 1988, the Dutch delegation tabled a proposal for that purpose. Five member states initially voted against the proposal. A later refinement of this proposal, calling for halving the Saudi quota of GSP imports for some petrochemicals in 1989 and total removal of the Saudi quota by 1990, did pass the Council late in December.⁸

There are therefore two competing trends in the EU approach towards the Gulf region. The first is directed by the Commission, and seeks to expand contractual agreements with the GCC. The second, which is headed by the chemical industry, and is powerful both at the national level and in the EU Council of Ministers, seeks to strengthen and to enhance existing protectionist measures. The resulting bureaucratic outcome of negotiation and compromise in the Union itself produces some times policies that are contrary to the letter of the first agreement. Initial expectation of a wide-ranging free-trade agreement, may have been overly optimistic.

8. Oil and Gas Journal (Jan. 2, 1989).

What the two groups are finally reaching for, may in the end be an ASEAN-type agreement.

The Dialogue in the 1990's:

The first part of the 1990's witnessed an increase in tensions in economic relations between the EU and the GCC, particularly over a proposed increase in tariffs on imported oil. The European Commission suggested levying additional taxes through the so-called carbon tax to help in minimizing carbon emissions from cars and automobiles. The GCC states argued that the real incentive behind any application of a new tax is to raise additional revenues at the expense of both the producers of oil and European consumers.

They further argued that if the Commission was truly interested in fighting air pollution it should target atmospheric emissions produced by coal, and cease direct subsidies to coal-producing companies that range between \$19 per ton in the UK, and \$51 per ton in Belgium. Additional non-direct subsidies to these companies, through the so-called P.S.E. was calculated in the early part of the 1990's to reach \$236 per ton in Belgium and \$1954 per ton in the UK. 9

GCC negotiators pointed out that local taxes levied in EU countries on imported oil is the highest in both the developed and under developed world, including those local taxes imposed on gasoline consumption in the United States and Japan. They argued that such collected taxes in Italy, for example which reach 300% of net prices, surpass total annual income from producing oil in Saudi Arabia. It seems that these arguments have convinced the EU Commission, for the time being of the judiciousness of the GCC argument, and the whole idea of increasing taxes on imported oil products has been shelved since 1995.

Petrochemical products produced in the Gulf states whose prices are very much tied to the price of oil suffered a major decline in prices during the past year. It has nonetheless benefited from a worldwide reduction of tariffs on trade in industrial products, which was enacted in 1996 by the WTO. In addition most European countries have increased local taxes on gasoline and profited from the declining prices at the border, without additional burden to final consumers.

9. GCC and Oxford Institute For Energy Studies, Petroleum Products Taxation in OECD and Developing Countries, Oxford, OIES, 1991.

The European and the Gulf foreign ministers convene at least once in annual meetings since 1990. And negotiations between the two sides are well underway to establish a free trade agreement between the two sides by the year 2001. The European Union has conditioned such an agreement on establishing a full customs union between the member states of the GCC themselves.

It is expected that the trade agreement would divide traded goods into three categories:

- 1) Fully exempted goods.
- 2) Basic goods.
- 3) Other goods.

The first two categories would cover about ninety percent of all traded goods. This category would include petrochemicals and Aluminum. The EU considers these goods of the so-called "sensitive" type, and it proposes a 12-year period of transition regime. The GCC negotiators propose that these goods and their own "infant industry" products to be under a temporary status for a maximum period of five to six years. 10 Cooperation between the two sides has developed into other areas such as holding of periodic meetings of businessmen and cooperation among universities and academic researchers.

Conclusion:

This paper has attempted to delineate the evolution of relationship and dialogue between the European Union and the Gulf Cooperation Council. It has shown that the incessant drive behind the EU commission to conclude a wide-ranging agreement between the two sides in the Eighties to secure European access to oil at reasonable prices has been replaced by an eager attempt by the GCC Secretariat to conclude a trade agreement that would facilitate marketing of Gulf oil and petrochemical products to European consumers with the least trade and tariff impediments. It is hoped that this agreement coupled with the anticipated access of most Gulf states to the WTO would eliminate all artificial hindrance to a normal exchange of goods and services between the two sides commensurate with the excellent political and security ties that bind the two blocks.

10. Interviews with the concerned negotiators, Feb. 1999.

iai ISTITUTO AFFARI
INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS,
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Majid A. Al-Moneef

**The Future of the International Oil
Market and the Role of Saudi Arabia**



**The Future of the International
Oil market and The Role of Saudi Arabia**

**International conference
Italian – Saudi Relations and Europe
Development, cooperation and common concerns
Rome 3 – 5 March 1999**

**Dr. Majid A. Al-Moneef
Saudi Arabia**

The Future of the International Oil market and The Role of Saudi Arabia

Introduction

The international oil market has gone through major changes in the past few decades reflecting changes in world political and economic environments, and in the world energy requirements and relations. The structure and working of the market has been characterized by different contrasts and splits. On the demand side, there is the difference between crude and product markets and between OECD and developing countries demand patterns. On the supply side, there is the difference between OPEC and non – OPEC production, high cost versus low cost oil, and local versus imported oil etc. On prices there are the interrelations among spot, forward, future and formula prices as well as the crude / product prices and netback values. The industry itself is grouped into majors and independents, national and multinational oil firms, and the upstream, and downstream.

But despite the changes in world energy and oil relations, three facts remain as important today as they were three decades ago. **First**, although oil lost relative share in world energy requirements from 54 percent in the early seventies to 40 percent in 1997, it still accounts for the highest share in world energy consumption (43 percent in the OECD and 44 percent in the EU) **Second**, although production from non – OPEC areas increased remarkably in the past two decades, from around 19.0 mbd in 1973 to 35.0 mbd in 1997, the Middle East is still the principal world proven oil reserve area with 65 percent share, and is the worlds` main oil supplier with 45 percent share of internationally traded oil. **Third**, Saudi Arabia is still the worlds` leading reserve holder, producer and exporter with, 25 percent, 15 and 20 percent shares of world`s proven petroleum reserves liquid production and exports respectively. These facts have

interacted to shape oil market relations in the past and will contribute to shaping future world oil market outlook and relations.

1 – World Oil Outlook.

As of the end of 1997, the world oil picture stands as follows: Of total world energy requirements of 8.5 billion tons of oil equivalent, 3.4 billion is accounted by oil and 5.4 billion by oil and gas, or 64 percent of world energy consumption. The two fuels command even higher shares in the industrialized and the emerging economies. The evolution of world energy and oil demands across country groupings and in relation to GDP are also important. Although the OECD have the lowest GDP to energy growth ratio and accounts for 55 percent of energy and 60 percent of world oil consumption, such shares in world oil and energy demands are much lower than the 70 and 75 percent they were twenty five years ago. For example, of a total oil demand growth of 22.2 million barrels per day in the past 25 years, some 14.8 million barrels per day, or around two thirds was consumed by the developing countries, who have a ratio of GDP to energy or oil growth three times that of the industrialized countries. Asia Pacific alone accounted for half of the incremental world oil demand during a period characterized by market volatility and frequent supply interruptions. As a matter of fact, while world oil demand was growing at a slow rate of 1 percent annually, the developing countries demand was growing at four times that.

The conclusion from the above demand picture is that despite energy diversification and strides in energy and efficiencies especially in the OECD, oil and gas are still the principal fuels worldwide. They are readily available, their infrastructures are in place, and they are cheap and versatile. The other conclusion is that the emerging market economies' oil demand has been shaping world oil trade and investment relations and contributing to oil market strength and supply availability. This was evident, when world oil demand increased by only 300.000 barrels per day in 1998

as a result of the economic crisis in Asia, compared to an average 1.4 mbd in the 1990 – 1997 period.

On the supply side, it is diversified among 60 countries with OPEC's share only 41 percent. The Middle East with 65 percent of world oil reserves and 33 percent of world gas reserves produced only 29 percent and 7 percent of the two fuels, respectively. But out of 40 million barrels per day of internationally traded oil in 1997, the Middle East accounted for 18.2 mbd or 46 percent, which makes it vital to world economic and political stability. The conclusion from the prevailing supply picture, is that despite the development of oil supplies outside the traditional Middle East Area over the past two decades, the region still commands the same share in world oil reserves, supply and export it had twenty years ago. In the past ten years, the Gulf producers provided 7.1 mbd of the 9.1 mbd net increase in world oil supply, with Saudi Arabia providing one third of that increment.

The future world oil market outlook depends on many factors such as the prospects of world economic growth the evolution of the global energy/ environment relations, the structure of the oil and energy markets and the geopolitical situation in the main producing areas such as the Arabian Gulf and the Caspian Sea. It should be noted that the reliability of many medium and long term oil market forecasts made in the past two decades was questioned. The accelerated changes in the market environment invalidated many of the underlying assumptions of these forecasts, which at times cast doubts on the merit of forecasting a market as dynamic as the oil market. But if forecasts start from sound assumptions and are built on strong modeling procedures, they might be helpful in showing the direction of the main variables of the oil market for policymaking and business decisions. Today, there are many long and medium term forecasts of the oil market built on elaborate macroeconomic and energy models by specialized institutions such as the International Energy Agency (IEA) (1998) OPEC (1999) U.S Department of Energy (DOE) (1998) and the world Bank (1995).

While differing in their assumptions and methodologies, the base case outlook in all of the above forecasts show an annual increase in world demand in the next decade by 1.2 – 1.6 million barrels per day. Some forecast a moderate increase in non – OPEC supply while others forecast a net decline over the period resulting in a net annual increase in OPEC production or the Middle East by 0.8 – 1.2 mbd until the year 2010, with all the above forecasts assume moderate oil prices over the period. The following world oil demand and supply outlook by OPEC secretariat show lower demand forecasts than the IEA and DOE, but is similar to the world Bank in its conservative assessment of world oil demand and non – OPEC supply (Table1).

Table (1)
World Oil Demand and Supply outlook
(Million barrels per day)

	1997	2000	2010
World Demand	73.4	76.2	87.9
OECD	43.6	44.8	48.5
LDCs	24.1	25.6	32.8
World Supply			
Non – OPEC	44.4	46.4	48.3
OPEC	29.0	29.8	39.6
Price \$/bbl (1997)	18.3	16.7	19.4

Source: OPEC oil and Energy outlook, January 1999.

The above business - as - usual case assumes no structural changes in the demand and supply of oil. For example, a change in the existing energy / environment or in the energy / technology relations could affect demand and supply patterns and outlook. The global environment challenge is evidenced in the U.N framework convention on climate change (FCCC) which was ratified in 1994 and the negotiation to

implement it, resulted in the Kyoto protocol in 1997. The protocol sets specific targets for reducing greenhouse gas (GHG) emissions for the 27 countries of Annex I of FCCC which include the OECD, Russia and the Eastern European countries. The average emissions reduction for the group as a whole for the 2008 – 2012 period is estimated at 5.2 percent from the 1990 emission levels.

Since carbon dioxide (CO₂) is the main greenhouse gas believed to be contributing to global warming and climate change and since burning fossil fuels (oil, gas and coal) is the main source of man-made CO₂ emission, the focus of policies to reduce GHG emissions has been on reducing the consumption of fossil fuels. Although oil and gas emit less CO₂ than coal by 29 and 53 percent respectively, and the Kyoto protocols have not yet been ratified, the oil market would be impacted by the policies to mitigate climate change. **First**, the international process to implement the Kyoto protocol is already underway and is likely to gain momentum in the years ahead. **Second**, gas and oil together account for 70 percent of world consumption of fossil fuels while oil alone accounts for 44 percent. These fuels would therefore take the brunt of any measures taken. **Third**, the oil consumption of Annex I countries who are obliged under the protocols to reduce emissions is 71 percent of the world's total oil consumption which makes their commitment under Kyoto detrimental. **Fourth**, the energy markets are already distorted in many countries, whereby, the most polluting fuel, i.e coal, still receives subsidies in some countries while oil is heavily taxed at the final product end.

The ultimate impact on the oil market of the mitigation measures to implement the Kyoto protocol depends on the types of policies taken in each of the countries concerned and their interaction locally, regionally and globally. The modeling of the effect of applying the Kyoto protocol on oil demand and prices is still not advanced, but results of OPEC's OWEM model show that world oil demand would be reduced in a range of 7-3.5 mbd by the year, 2010 from the reference case projected demand of 88 mbd depending of the types of measure taken. This demand decline is assumed to be

absorbed by OPEC production which is estimated to reduce OPEC's average annual oil revenues by \$ 11 – 20 billion until the year 2010, from the base case estimated average annual revenues of \$ 133 billion over the period 1997 - 2010. This is potentially a very significant impact on OPEC's member states.

The other element of uncertainty over the oil market outlook is the future relation between energy and technological innovation. Although technology has been advancing rapidly in all aspects of energy production and consumption, oil continued to play a major role in energy relations. Technological advances in exploration and production such as horizontal and deepwater drilling and 3-D seismic contributed to reducing costs considerably in many producing regions especially in non – OPEC, which contributed to a rise in its production or delaying the rate of its decline in the past few years. If this trend is intensified next decade, the outlook for non – OPEC production would be higher than the projected levels of (table 1). Likewise advances in the technology and economics of the fuel cell to power automobiles could affect the role of oil in the sector in which it has virtual monopoly, i.e. transportation.

But aside from the above uncertainties most market outlooks forecast an increasing need for oil from OPEC and principally from the resource endowed countries of the Gulf. The role of Saudi Arabia with the highest world crude reserves, production and exports is central to market stability and security into the next century. This poses the question of the determinants of Saudi Arabia's role in the international oil market and its prospects.

The Role of Saudi Arabia in the International Oil market.

Few month after the unification of different parts of the Arabian peninsula under the Kingdom of Saudi Arabia in September 1932, its government signed the now famous concession Agreement with the U.S company SOCAL. As it turned out, the concession and the discovery of oil in Saudi Arabia and the realization of its size and

potential would have tremendous impact on the oil market relations, the economy of the Kingdom as well as the strategic importance of the area. The role of Saudi Arabia was pivotal in the period of confrontation between the producing governments and the concessionaires which led to the creation of OPEC, and its subsequent role. It has also been an important player in the international oil market since 1973.

Throughout the history of oil in Saudi Arabia, whether in the government/concessionaire relations or in its role within OPEC or through its behavior in the oil market, Saudi Arabia's role and decision parameters have been determined by different factors which influenced its price and production preferences, the development of its oil industry and the growth potential of its economy. The most important factors are:

1. The size of its oil reserves and its production and export volumes and potential.
2. The diversity of its export market outlets.
3. The dominance of oil in its economy.

Since the mid sixties, Saudi Arabia has had the largest proven world crude oil reserves. And with every increase in world oil reserves over the years due to new discoveries or technological improvements, Saudi Arabia's reserves continued to increase. As shown in (table 2), when world crude oil reserves increased threefold from 290 billion barrels in 1965 to 1017 billion barrels in 1995, Saudi Arabia's reserves increased fourfold, from 60 billion barrels to 261 billion barrels. Such increases occurred despite cumulative world and Saudi production of 700 and 65 billion barrels respectively, a fact which mitigated the concerns of resource scarcity and supply security, Having the highest world proven reserves with a share of 26 percent of world total, a reserve to production ratio of 85 years, and the highest share in world oil production and exports for the past twenty years at 25 percent, Saudi Arabia adopted a

longer time horizon towards the oil market. This was reflected in its price and production behavior throughout the period. During the fixed price regime from 1974 – 1985 it advocated moderate prices, to allow for growth in world oil demand. It used its production capacity to make supplies available in crisis times as evidenced in the 1979 – 1980 Iranian and then Iranian - Iraqi and the 1990 – 1991 Iraqi – Kuwaiti export interruptions.

TABLE 2
Historical Development of World and Saudi Arabia's proven oil Reserves (billion barrels)

	World	Saudi Arabia	% Share
1965	290	60.5	21
1975	667	151.8	23
1985	709	171.5	24
1997	1037	261.5	25.2
Cumulative Production	752	80.0	11

Source: OPEC Annual Statistical Bulletin (1997)
 BP Review of world Energy (1997)

The Second determinant of Saudi Arabia's role in the oil market is the diversity of its export outlets. Unlike other producers whose exports reach mainly one or two international markets, due to the small share of their production in world total and the limited quality of their crude's, Saudi Arabia's exports reach the three main oil markets: the U.S, Europe and the Far East with 23 percent 19 and 40 percent of its oil exports directed to those markets respectively. Its crude qualities are more diversified than other producers ranging from extra light to heavy crudes. This diversity of outlets and crude types have given Saudi Arabia marketing flexibility and affected its oil industry's

strategies and its market outlook. When the national oil company, Saudi Aramco, decided in the late eighties to invest in downstream refining and distribution assets internationally to reach higher levels of integration, its strategy was to look for ventures in its three main world markets, and refineries who would process its crudes. With the aim of securing markets over the long term, it was able to acquire downstream assets in the U.S., Korea, Philippines and Greece with total refining capacity of 1.4 mbd and a Saudi crude supply to those refineries of 1.2 mbd in 1997. (table2)

Table 3
Saudi Arabia's Petroleum Exports and Saudi Aramco
Downstream Joint Ventures Refining Capacities
In Different Markets (1997)

	MBD	%	%
North America	1446	19	
Texaco – Shell/ U.S	615		44
Europe	1666	22	
M.Hellas/ Greece	100		7
Asia	3185	44	
Ssangyong/ S. Korea	525		37
Petron/ Philippines	165		12
Total Exports	7453	100	
Total Foreign Refining (FR)	1405		100
Shares in FR. Capacities	608	43	
Crude Supply to FR	1160	83	

Source: World Oil Trade, June, 1997

The third determinant of Saudi Arabia's position in the oil market pertains to the role of oil revenues and the oil sector in the government's expenditures, balance of payments and in GDP. In 1997, net oil revenues accounted for 78 percent of total government revenues and 72 percent of expenditures, oil exports accounted for 86 percent of merchandise exports and the oil sector contributed 36 percent to GDP in that year. Although Saudi Arabia managed, through six successive five year

development plans to lessen dependence on oil by developing other sectors and initiating other sources of budgetary revenues, oil is still dominant in the Saudi economy. The budgetary and current account deficits present since 1983, averaging 14 percent and 12 percent of GDP over the 1983 – 1997 period, makes oil revenues more needed to reduce both the budgetary and current account deficits. But in this regard, short term revenue needs might contradict long term objectives of maximizing the return from the resource over its lifetime. This trade off feature between the short term needs and the long term objectives have influenced Saudi Arabia's oil decisions at different times throughout the modern history of oil.

TABLE 4
The Share of Oil in the Saudi Economy
(Percent)

	1985	1990	1997
Oil Revenues/Total Revenue	91	76	78
Oil Revenues/Total Expenditure	66	56	72
Budget Deficit/GDP	16	14	3
Current Account Deficit / GDP	15	4	17
Oil Sector/GDP	31	38	4

Source: SAMA Annual Report, Different Issues.

1 – The role of Saudi Arabia under the system of Fixed oil prices:

After the eventual transfer of oil pricing and production decisions to the governments in late 1973 who coordinated policies within OPEC, the world was focused on Saudi Arabia as the "market leader" or the dominant force in OPEC. Although the transfer of power was eminent in light of the prevailing world political and

oil market relations, the political climate in the Middle East and worldwide affected the process of transfer and its public perception especially in the West. The passing of control from the companies to the governments accompanied a major Middle East War (the October 1973 Arab-Israeli War) and the first use of oil as a political weapon through uniform production cutbacks by some Arab oil producers. This aspect, and the consequences on the economies of the OECD (the recession of 1974-75) of the quadrupling of oil prices from \$3.0 per barrel in October 1973 to \$11.6 per barrel in January 1974, as well as the consequences on the transportation and residential sectors in the major industrialized countries heightened the security of supply concerns in those countries.

Saudi Arabia considered the price increase of 1973-74 as a necessary correction that put the price along long term equilibrium path. The price regime that resulted from the transfer of power to the governments, was a continuation of the old fixed prices system which was used by the companies, but now the fixed prices became government set official selling prices. Between 1973-1978, Saudi Arabia would emerge as the price moderate within the cartel, resisting calls for further price increases. But the political events in the Gulf during 1978-1980 had the oil market out of control. The Iranian Revolution of 1978-79 and the out-break of Iran-Iraq War in September 1980 and the panic buying caused spot prices to surpass officially set prices. The decision of Saudi Arabia to fill the supply gap caused by the two crises and to sell at lower official prices was not enough to keep prices checked. Ultimately official prices were adjusted to the crises prices and were increased from \$13.3/bl in January 1979 to \$34.0/bl in October 1981. Such price increase was not sustainable under normal market conditions. The decline in world oil demand and the increasing production from non-OPEC resulting partly from higher prices, would confront the producers with the choice of defending the prices through production cutbacks or lowering the prices to their pre-crisis levels. The policies of Saudi Arabia were

instrumental during the period 1982-1985 resulting in what came to be known as Saudi Arabia's "swing role" in OPEC.

When world oil demand started a downward trend in 1982, due to higher oil prices, conservation and energy diversification measures in OECD, concomitantly non-OPEC production started its upward trend, due to large investments and higher prices. This resulted in lower OPEC oil production since it was the residual world producer. Faced with this market environment, OPEC opted to defend the officially fixed higher prices by adopting a ceiling apportioned into quotas among its members in 1982. Thus a new regime emerged whereby prices and production were managed making the task of balancing the market harder especially in the light of the dynamic changes in supply and demand and the growth of forward and futures oil markets.

The decline in OPEC's market share and its power over prices started then. Its choice of maintaining higher prices by adjusting volume, thus keeping idle capacity, at times of declining demand and rising supplies from elsewhere at competitive prices put further pressure on spot prices and forced it to adjust its official fixed prices more than once. The production programming through the quota system was far from efficient with the burden befallen on Saudi Arabia. Its production declined from 10.2 mbd in 1982, to as low as 3.6 mbd in 1985 contributing 65 percent of the decline in OPEC production over the period.

Although Saudi Arabia did swing its production before to moderate prices or fill some supply interruption, but in the swing role in 1982 – 1985 prices were higher than optimum and caused decline in demand and OPEC's and Saudi Arabia's shares in the market. When the role of swing producer became burdensome as the share and revenues of Saudi Arabia declined considerably, it decided to abandon that role in late 1985 and recapture its market share through netback pricing. A temporary free-for-all in production by OPEC member countries ensued, causing spot oil prices to decline from \$27.9/bl for Arab Light in December 1985 to as low as \$8.5/bl in July 1986. The price

collapse had many consequences on the market and the economies of the oil exporters and that of Saudi Arabia.

2. The Role of Saudi Arabia under the system of Flexible Prices:

Since 1987, prices have been market determined and influenced by demand and supply factors. One of the supply factors is OPEC's total production and the production behavior of its members especially Saudi Arabia, who has had an average 30 percent share of OPEC's ceiling over the period. Ten years into this flexible system of prices resulted in more stable prices, growing oil demand and increasing OPEC and Saudi market shares. Over the period, prices of Brent averaged \$ 17.7/bl, oil consumption increased by around 10.0 mbd and OPEC's and Saudi Arabia's production increased by 10.8 and 4.8 mbd respectively with 41.5 percent and 13 percent shares, in total world production.

The new regime relieved Saudi Arabia from the burden of swing production to protect prices, and reaffirmed its dominant role in the market differently. **First**, throughout the history of OPEC's ceiling/ quota system, violation of the quotas by some members has been the norm. Saudi Arabia, being the most quota observant became the beholder of OPEC's market management system. The credibility of OPEC and its quota system in the market depended to a large extent on the behavior and credibility of its major producer, Saudi Arabia, to abide by its quota. **Second**, except for some short periods and for few OPEC member countries, most of the others have been producing at or near their maximum sustainable capacities. Saudi Arabia all along, and few other members at different times, maintained excess production capacity, which served as a balancing factor and a supply cushion in times of crisis, **The third** aspect of the special role of Saudi Arabia in the current market environment is the diversity of its markets and types of crudes. By exporting to the three main markets in North America, Europe and the Far East, different types of crudes, its price formula of linking

is crudes prices to the spot prices of WTI, Brent and Dubai crudes became closely watched by the different market players, which added to Saudi Arabia's special role in the market.

Future market challenges facing Saudi Arabia:

The oil market outlook of the OPEC's secretariat outlined above point to a 10 mbd increase in OPEC's production from now until the year 2010 while other forecasts such as the IEA project a 23 mbd increase in Middle East OPEC alone by the year 2010, and the DOE projects 12.3 mbd production increase from OPEC. If the history of production, the reserve size and the production capacity criteria are applied, about one third of the incremental production from OPEC or the Middle East will be from Saudi Arabia. This poses two challenges. **First**, devising the appropriate tools to deal with the market environment characterized by increasing competition and industry restructuring. **Second**, there is the ever present challenge since the beginning of development planning in 1970, of lessening the dependence of the Saudi economy on oil.

1 – The oil market framework.

Saudi Arabia has been the most important oil market player in the past twenty five years. Its policies on prices and production contributed to balance the market and enhanced world energy trade and investment despite the different regional and international political and economic crises. In short, Saudi Arabia's oil policies and commitment to stability was the only certain feature in a world of uncertainties and different turns in the political, economic and oil relations in the past twenty five years. The Future oil market outlook points to a continuation of Saudi Arabia's role from different aspects.

With production capacity of 10.3 mbd and at current production levels, Saudi Arabia holds the largest excess capacity in the world of more than 2 mbd. And with its high reserve base, and other economic advantages enables it to expand capacity at lower cost than any other area. Most recently, it developed the shayba field in the Empty Quarter with 500,000 bd at \$ 2.5 billion cost, which is one fourth the cost of developing a comparable project elsewhere in the world. Unlike some other countries in OPEC who chose to expand capacities through some new forms of production and fiscal relationships with foreign companies, Saudi Aramco has enough excess capacity for the medium term as well as the technical and financial capabilities and channels to expand production capacity in the foreseeable future. The ability of Saudi Aramco to build, maintain and utilize the production capacity in the Kingdom most efficiently is recognized worldwide. The buildup of a strong indigenous Saudi oil industry continued after the gradual and smooth transfer of ownership from the four major U.S companies (Exxon, Chevron, Texaco and Mobil) to the Saudi government in the mid seventies. The training of Saudi manpower in all aspects of the industry to master the technology and the purely business criteria it pursues in conducting its operations, qualified Saudi Aramco to become an internationally integrated oil company capable of developing the hydrocarbon resources of the Kingdom and marketing it in the most efficient way. The future role of the Kingdom in the international oil market depends on the continuation of Saudi Aramco's role as the leader of the Kingdom's oil industry.

The Second feature of the future of Saudi Arabia in the market relates to the direction of market relations as the world supply and demand picture evolves. Although the oil market is now more competitive and transparent, the strategic significance of oil and its role in the economies of the oil producers necessitates policy responses and initiatives, to ensure stability and transparency. The role of OPEC in the past and the prospects for it in the future as well as the need for measures to supplement market forces will be a challenging task for Saudi Arabia and the other producers. The experience of the year 1998 is a case in point. When world oil demand declined after

the economic crisis in Asia, and the world oil supply continued unchecked, oil prices declined precipitously, affecting the economies of the oil producers and the energy investment worldwide with consequences on consumer as well.

This unstable market situation called for response initiatives from the supply side to correct the imbalance and bring prices to more sustainable levels. The role of Saudi Arabia, being the largest world supplier, was instrumental in the efforts made during that year to bring about wide participation from producers in OPEC and non-OPEC to balance the market through 'voluntary production cuts. The Riyadh and Amsterdam Agreements in March and June 1998 between Mexico, Saudi Arabia and Venezuela paved the way for a 3.1 mbd total production cuts from 16 oil exporting countries in OPEC and non-OPEC. That experience could be built upon to find a framework for cooperation among all oil producers in the future. Although OPEC still has a role to play in the market, the evolving market relations and the search for price stability should extend beyond existing structures.

The challenge of Diversifying the Saudi Economy:

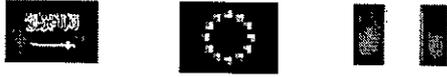
Since the beginning of development planning in the Kingdom, the issue of diversifying the economy and developing other sources of income was paramount in all development plans. The higher oil revenues in the initial stages of development were utilized to build the infrastructure and stimulate growth in the other productive sectors which resulted in an increase in their relative shares in GDP. Furthermore, the development of the natural gas industry in the Kingdom from the construction and operation of the Master Gas System by Saudi Aramco in the seventies, to the continued efforts of exploration and development of associated and non-associated gas resources contributed to the diversification drive. The remarkable growth of Saudi Arabia's petrochemical industry and in the power generation and water desalination sectors was possible through the continued availability of gas resources as feedstock and fuel of choice.

The first aspect of this challenge to the Kingdom is how to achieve higher economic growth in light of the projected future oil revenues and oil price volatility. The second is for the continuation of the role of the oil and gas sector as a vehicle for economic diversification. The continuation of the budgetary deficit for the past fifteen years highlighted the need for additional measures to increase the share of non-oil revenues and to reduce government expenditures while sustaining economic growth. The government has taken steps in that direction since 1995 while measures to enhance the role of the private sector to accelerate the process of privatization has been underway for the past few years, and is likely to continue.

The second aspect of this challenge of economic diversification is the future contribution of the oil and gas industry in such drive. Aside from providing oil export revenues to the government for development expenditure, the oil industry is the largest employer of Saudi manpower outside the civil service. It plays an important role in the development of the private sector Kingdomwide. These roles will continue with the future expansion and growth of the industry and the accelerated efforts to explore, develop, process and utilize the Kingdom's natural gas resource. Recently the government of Saudi Arabia extended its invitation to foreign companies to invest in the processing and transformation of natural gas into petrochemicals, as feedstock and into megawatts and water, as clean and efficient fuel, to add value to the Kingdom and reasonable return to the investment.

While Saudi Arabia's oil resources, policies and its experience in the oil business are generally known, the achievements of natural gas development and utilization in the Kingdom is as important. The ability of Saudi Aramco to increase gas reserves by more than 20 percent in the past five years and to increase the share of non associated gas to 35 percent has been impressive, with potentials for expanded gas reserves and increasing its production and utilization in the industry and utilities.

iai	ISTITUTO AFFARI INTERNAZIONALI - ROMA
n° Inv.	19718
	21 MAG. 1999
BIBLIOTECA	



International Conference
ITALIAN-SAUDI RELATIONS:
DEVELOPMENT, COOPERATION AND COMMON CONCERNS
EUROPE AND THE MIDDLE EAST
Rome, 3-5 March 1999

Giacomo Luciani

The Future of the International Oil Market
and
The Role of Saudi Arabia



IAI International Conference

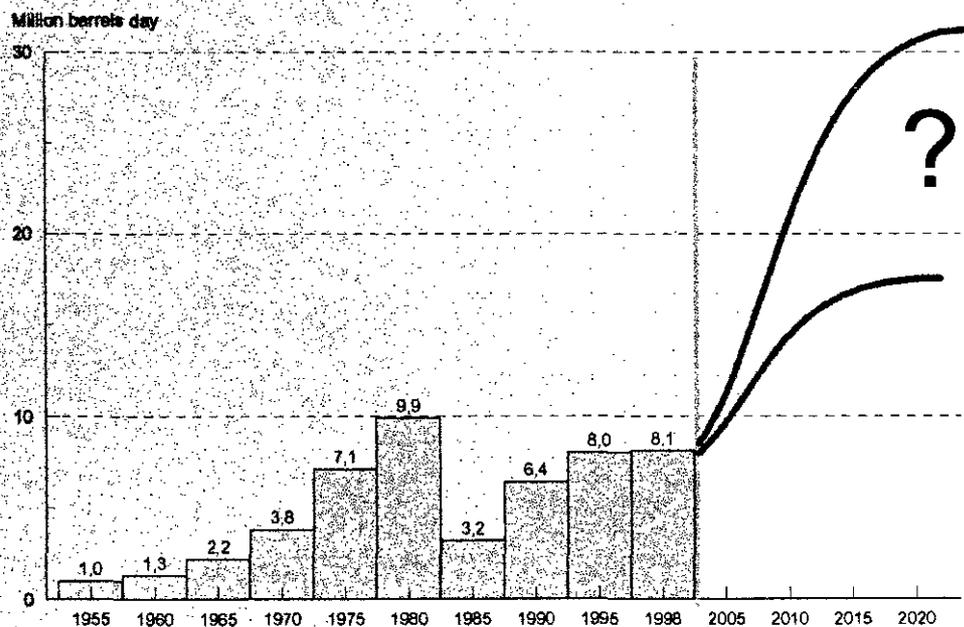
The Future of the International Oil Market and the Role of Saudi Arabia

Giacomo Luciani



Rome, 5 March 1999

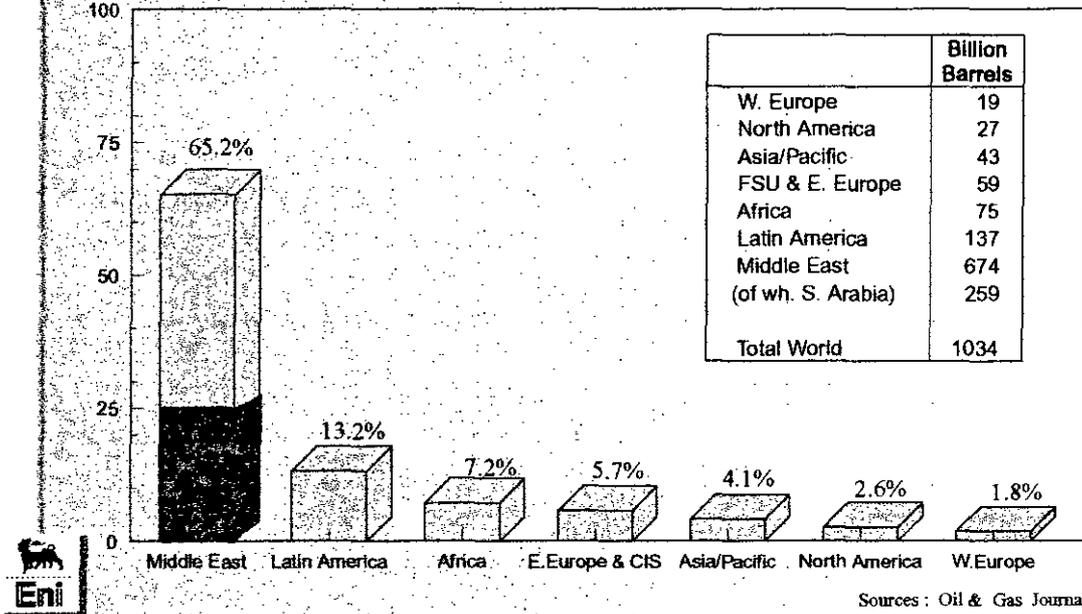
Projections of Saudi Arabia Crude Oil Production



Sources : OPEC until 1998

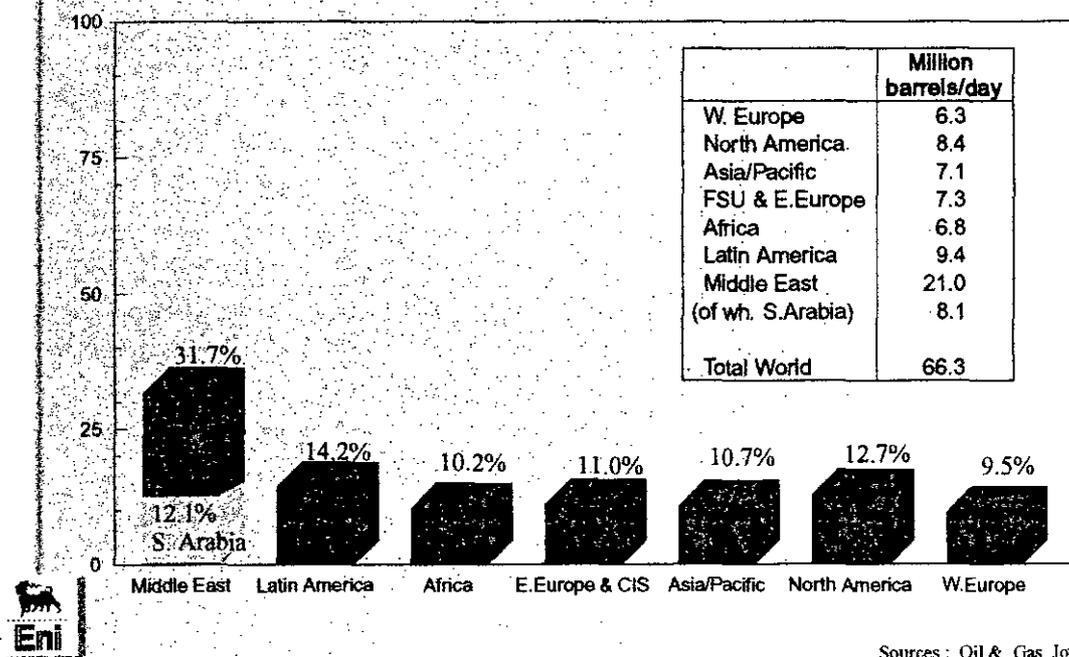
Actual World Distribution of Estimated Proved Oil Reserves

% on total world As of Dec. 31, 1998

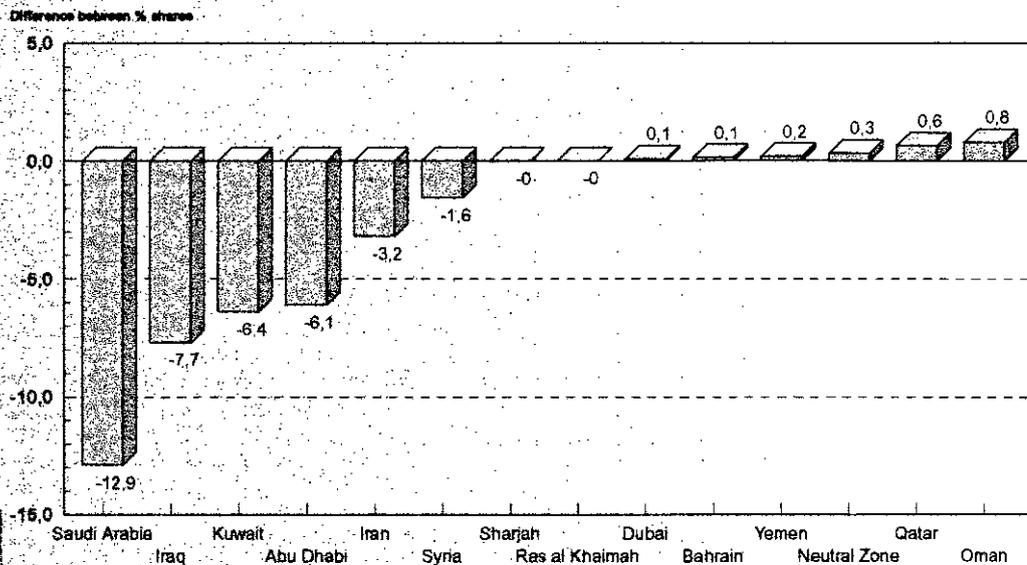


World Distribution of Crude Oil Production 1998

% on total world



Differences between shares of World Oil Production and Reserves in the Middle East - 1998



Factors in favor of increased reliance on Middle East Oil

- The region contains the largest reserve base in the world
- It would be economically rational to exploit this reserve base more rapidly
- It is also to a certain extent inevitable that - sooner or later - reliance on the Middle East will increase



Lifetime of Oil Reserves (Years)

Static lifetime of reserves

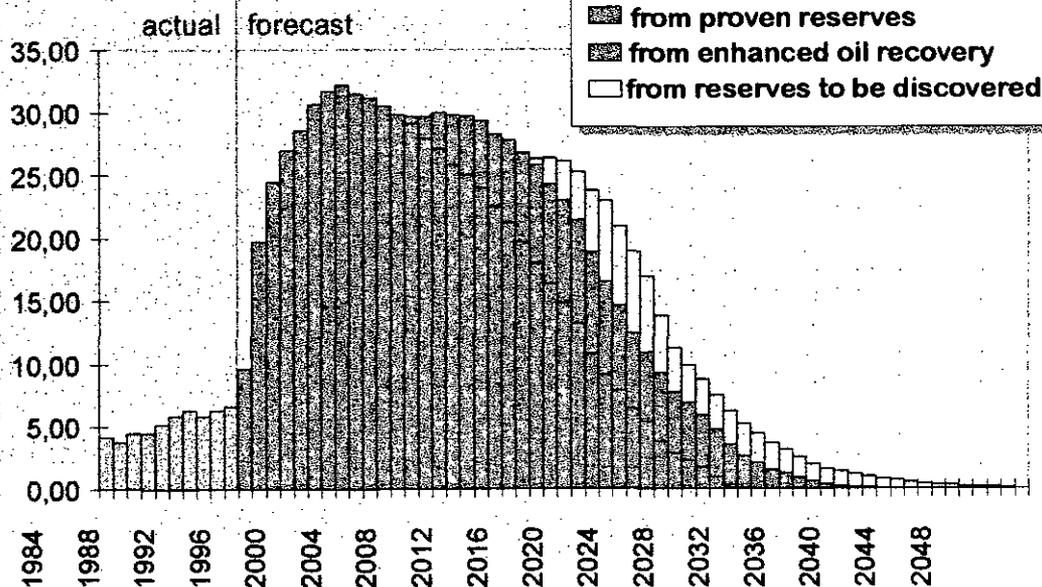
(Ratio between reserves and 1998 production)

	Proven	Proven+ to be discovered+ re-evaluations and extensions	Proven+ to be discovered+ re-evaluated and extensions+ enhanced recovery
Western Europe	8	21	23
Middle East	88	110	120
Africa	30	48	55
USA & Canada	9	34	40
Latin America	40	65	72
Asia/Pacific	17	40	44
FSU & E. Europe	22	62	74
WORLD	43	67	75



MIDDLE EAST: Oil production at maximum efficient rate (MER)

billions barrels/year



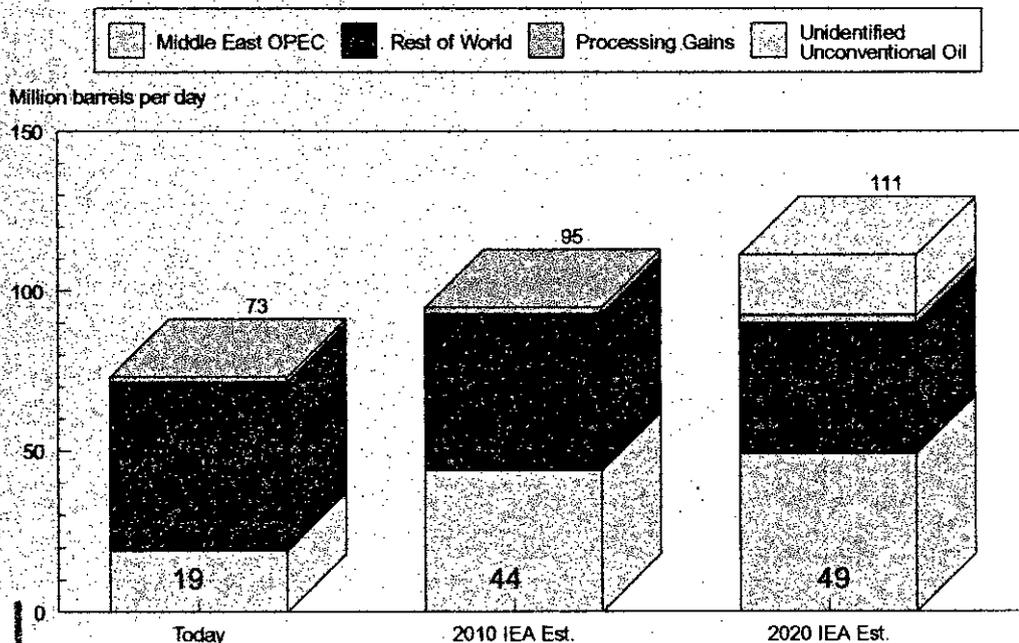
Sources : "Perspectives of Oil and Gas: The Road to Interdependence" by M. Colitti and C. Simeoni

IEA World Oil Supply Prospects

- Fossil fuels are expected to provide 95% of additional global energy demand to 2020
- Explicit link between oil production and reserves (Hubbert curve)
- Non-conventional sources (heavy oils and tar sands, deep off-shore oil, coal and gas based liquids) could begin to play an increasingly important role as 2020 approaches.
- Oil will continue to be supplied mainly from Middle East production over the period to 2020



IEA Oil Supply Prospects - BAU (Based on 2.300 billion barrels ultimate conventional oil resources)



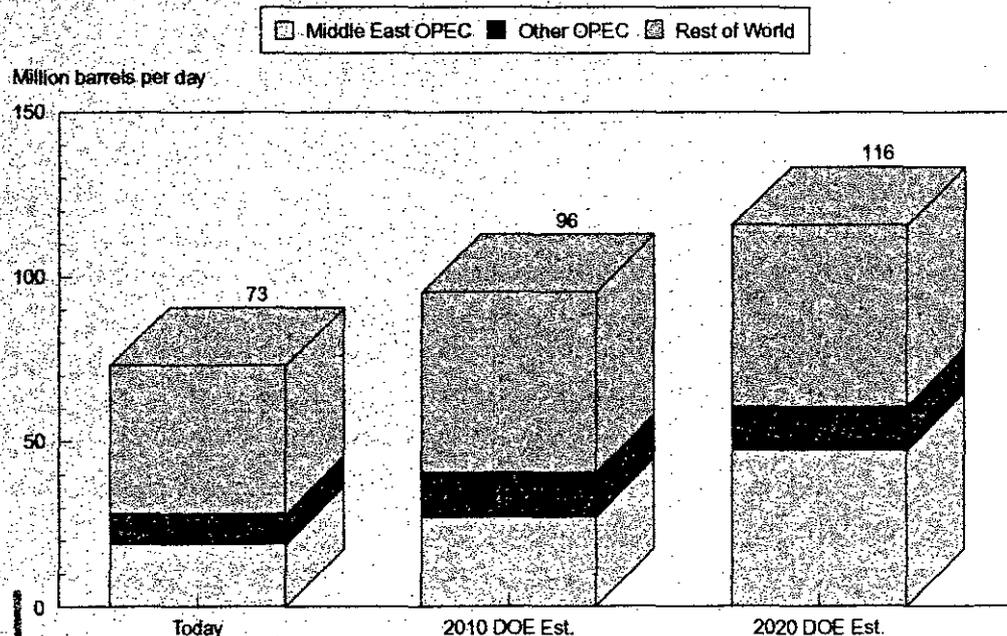
IEA does not foresee any shortage of liquids fuels before 2020

- A peaking of conventional oil production could occur between years 2010 and 2020, depending on assumptions for the level of reserves
- Oil production outside OPEC Middle East would peak before OPEC Middle East. A more optimistic view of oil reserves however would postpone the production peak of conventional oil and the possible associated rise in world oil price.
- Middle East OPEC share in 2020 estimated about 49 million barrels per day.



DOE/EIA long-term Oil Supply Projection

(Reference Case)



DOE/EIA long-term Oil Supply Projection

(Reference Case)

Total oil supply similar to IEA projection; no explicit differences between conventional and unconventional oil.

Only Western Europe and U.S. are projected to have lower production in 2020.

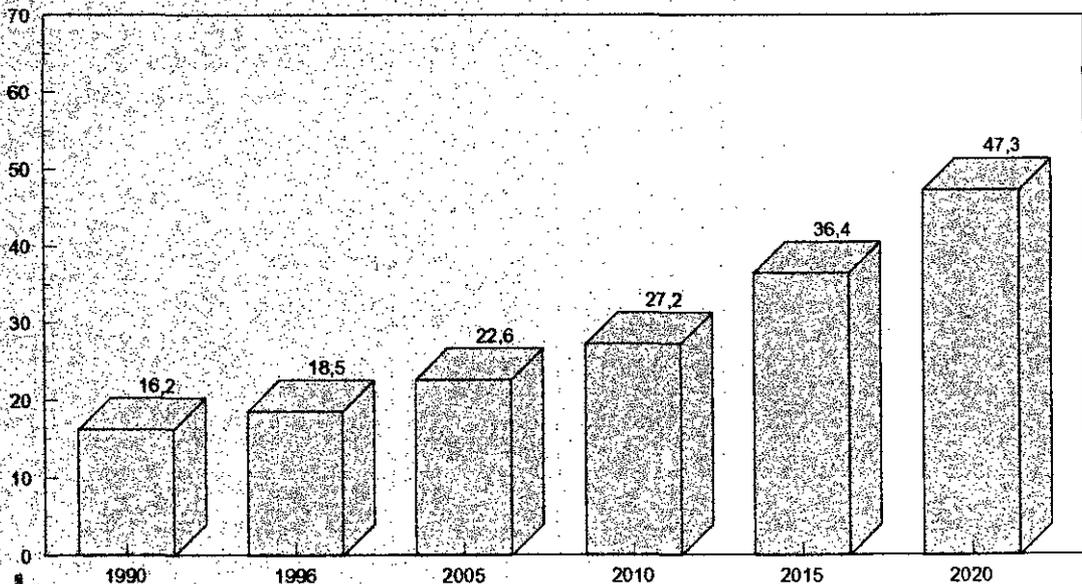
Middle East OPEC production estimated 47 million barrels per day in 2020.



DOE/EIA Projection of Middle East OPEC Crude Oil Production

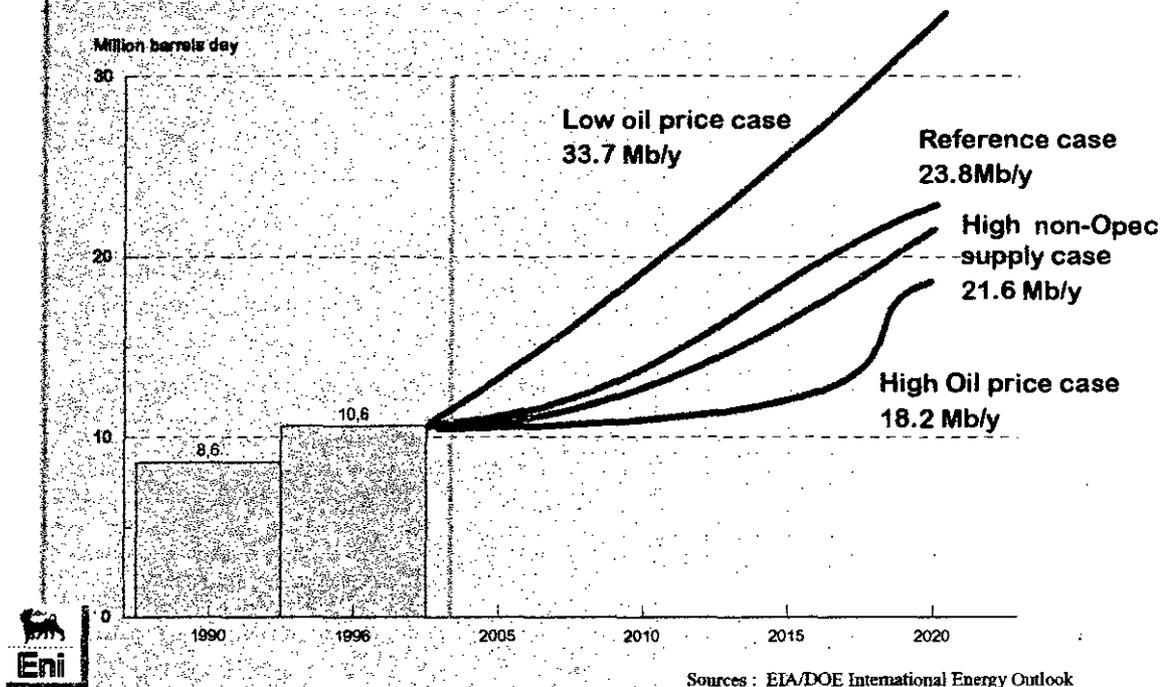
(Reference Case)

Million barrels day



Sources : EIA/DOE

Saudi Arabia Production Capacity EIA/DOE Long-term Projections



Factors retarding increased reliance on Middle East oil

- ▶ Oil companies are discovering and developing oil reserves outside the Middle East
- ▶ Technological progress is changing the definition of recoverable oil
- ▶ Finding costs are constantly decreasing - there is no indication that oil is becoming scarcer

Low crude prices blues

Cyclicity of oil industry returns.

Upstream returns have fallen for three consecutive years:
are we at the bottom of the latest oil price cycle ?

Effects: falling expenditure budgets and restructuring

Companies without critical mass cannot compete with
integrated companies



Petrofinance evaluations on Saudi Arabia Oil Policy Options

A. To defend oil prices

Higher prices encourage non-OPEC production

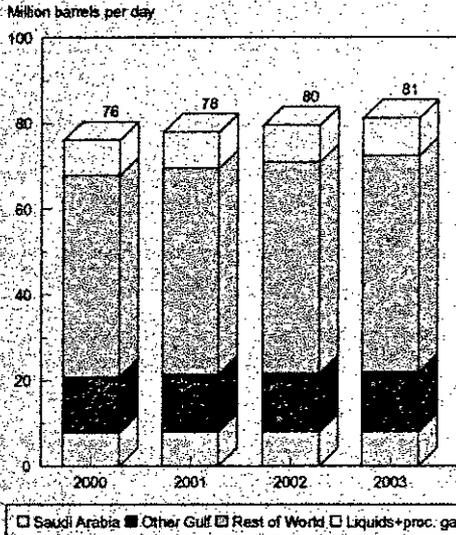
B. To defend market share

Low-cost producers in the Gulf favoured

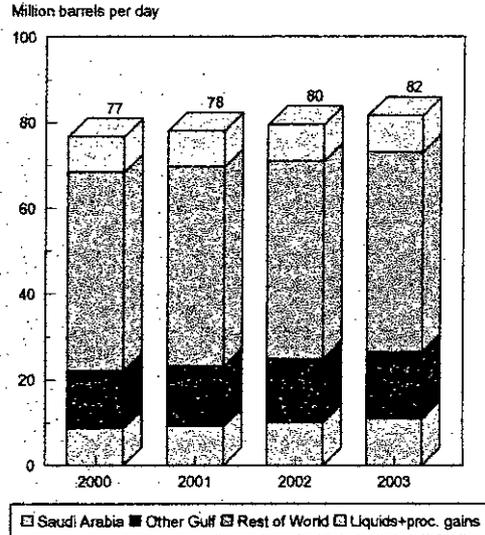


Petrofinance short-term scenarios for Global Oil Supply

High Price Scenario



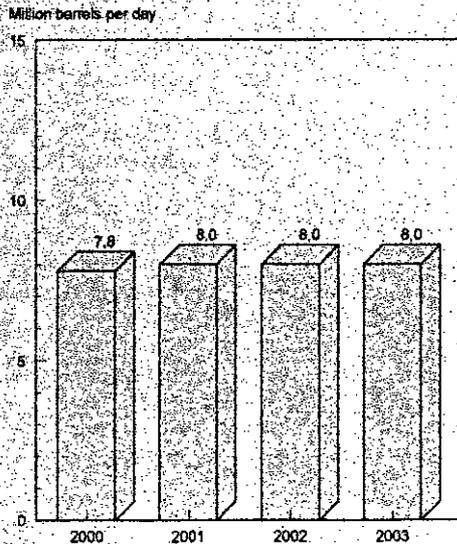
Low price Scenario



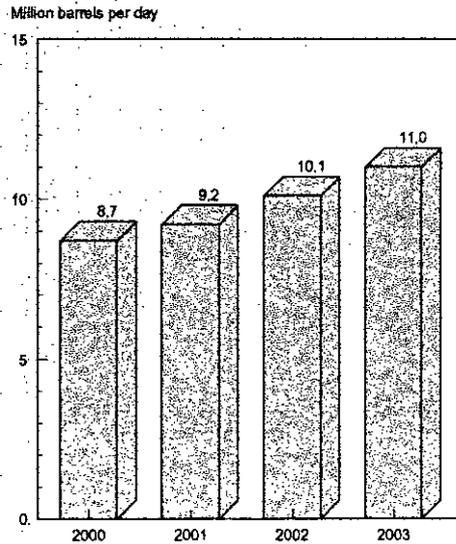
Petroleum Finance Company, Dec 1998

Petrofinance short-term scenarios for Saudi Arabia Oil Supply

High Price Scenario



Low price Scenario



Petroleum Finance Company, Dec 1998

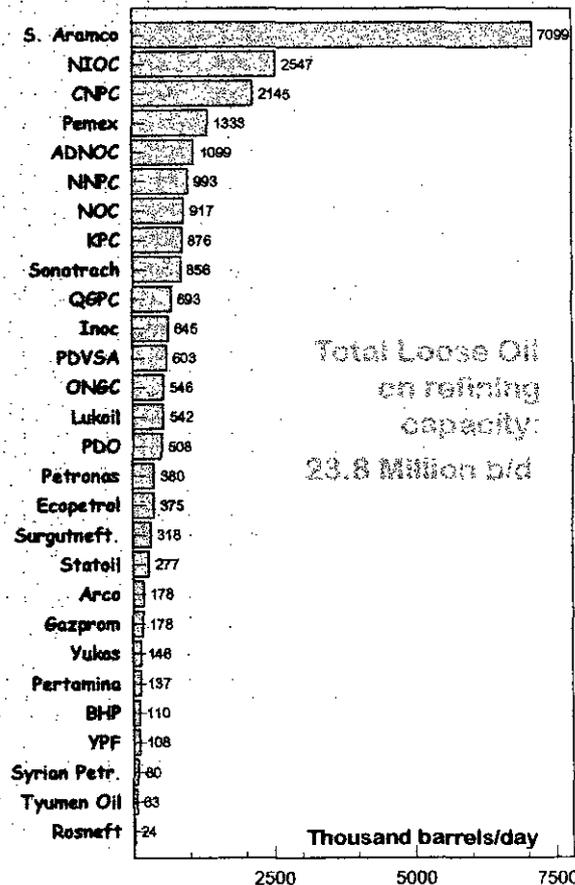
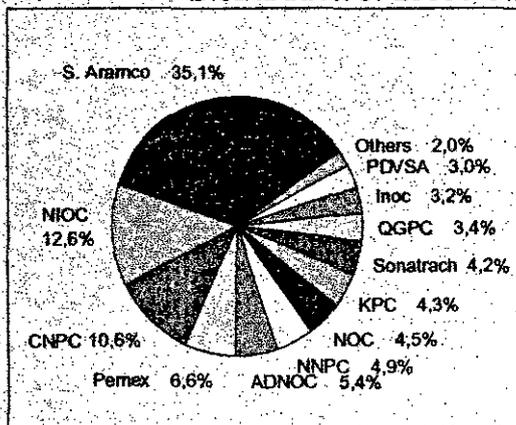
Four critical factors for the future role of Middle East oil

- Perception of security of access and of supply
- Openness to international investment
- Vertical integration of National Oil Companies into expanding markets in South and East Asia
- Creation of a free market for Gulf crudes



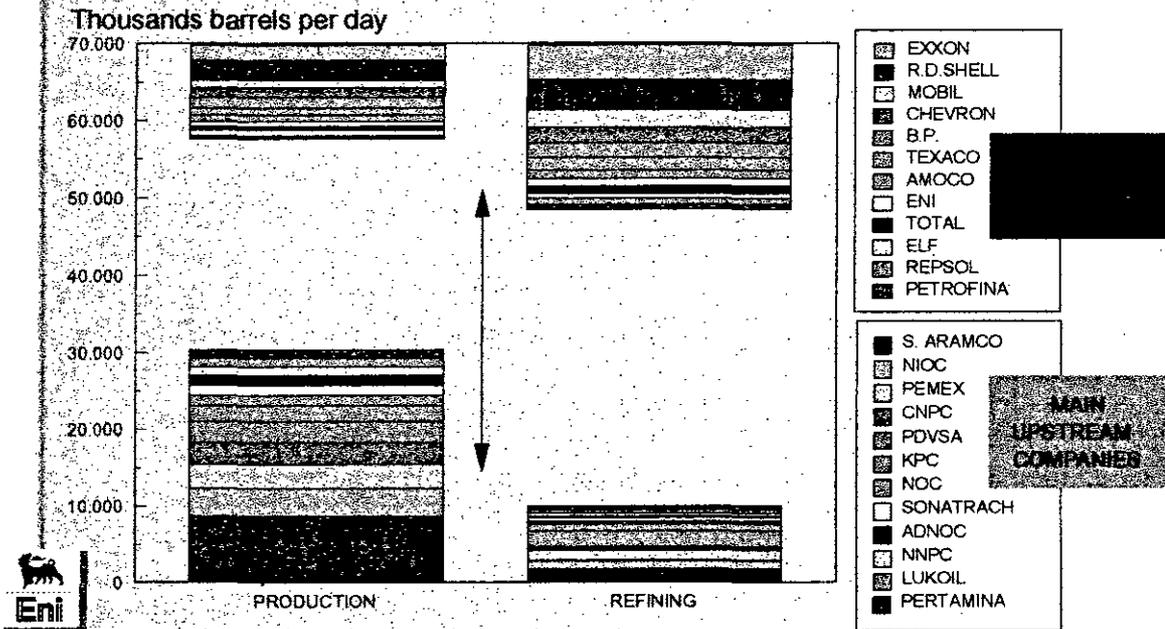
"Loose Oil" for PIW's Top 50 -1997

Distribution of Loose Oil



Source: PIW

A Representation of the International Petroleum Market



Conditions for development of a free market in Gulf crudes

- There should be a plurality of sellers
- Major streams should be involved representing an array of different qualities
- Resale + paper instruments must be allowed in addition to wet barrels to industry offtakers
- Market must be free of political interference

Why not a market dealing in Euros
in a Mediterranean location?

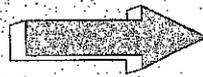
Demand security ?

- "Demand security" may be pursued by offering distant futures contracts in addition to spot and short futures.
- The NOC's of the major producing countries should conduct regular auctions for quantities to be delivered in the distant future (3-5 years)

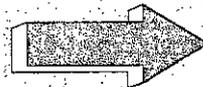


The shape of today's market

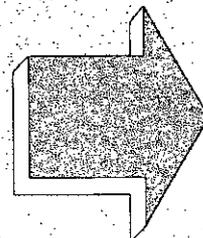
**Middle
East
Oil**



Vertically
integrated NOC's



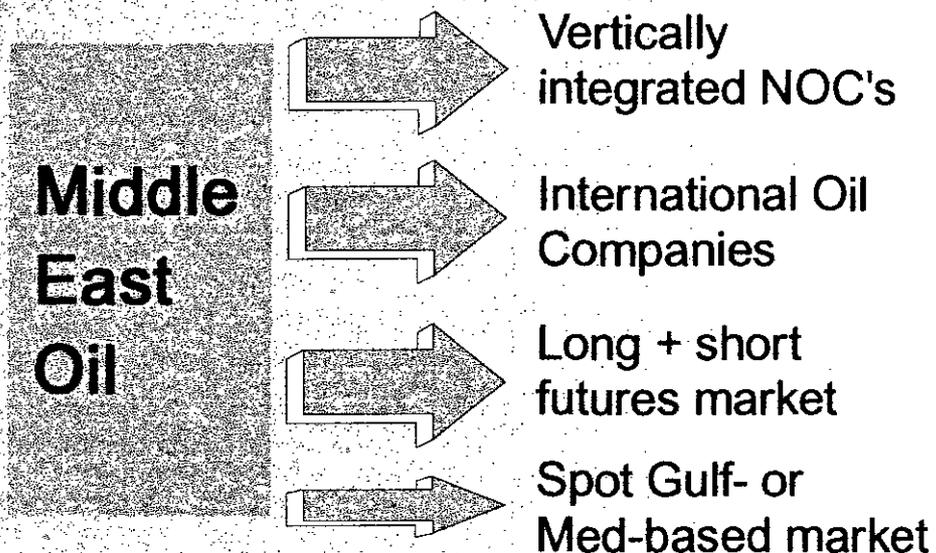
International Oil
Companies



Spot market
related (mostly
Brent)



The possible shape of tomorrow's market



the end



iai ISTITUTO AFFARI INTERNAZIONALI - ROMA

n° Inv. 19718
21 MAG. 1999

BIBLIOTECA