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ENERGY: THE GCC'S ENGINE OF DEVELOPMENT

By

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The GCC, despite its youth, has become one of the world's most economically influential organizations, both regionally and globally. Its members possess half the world's proven oil reserves and lift most of the oil produced by OPEC. The relative stability in OPEC oil prices these past two and a half years, notwithstanding the contribution of market forces and other variables, is largely due to GCC influence within OPEC.

What the GCC has plenty of -- energy -- is the backbone of the U.S. economy. More than any other commodity, it drives not only the GCC's engine of development but, also, the engine of American productivity. In this context, GCC influence on the day-to-day life of millions of Americans is increasingly obvious: the U.S. has become both the world's largest consumer and largest importer of oil. In the past year, Saudi Arabia alone became America's single largest supplier of imported oil, passing Mexico, Venezuela, Nigeria, and Canada in the process.

GCC member countries Kuwait and the United Arab Emirates (UAE) both possess petroleum reserves greater than those of the United States, and the reserves of Saudi Arabia, the world's number one exporter of energy, are greater than those of Kuwait and the UAE together. Indeed, in just one of Saudi Arabia's oil fields there is more oil than there is in all the oil fields in the United States, Canada, and Europe combined. The Kingdom's second biggest field exceeds half that amount. The importance of Saudi Arabia, and by extension the GCC, in these matters is further underscored by the following:

- o Of Saudi Arabia's 51 oil fields, oil has never been produced from more than 21;
- o Its current production of around 5 million barrels a day (mbd) -- third highest in the world -- comes from fewer than 500 oil wells, whereas current U.S. production of approximately 9.5 mbd -- after the Soviet Union, second highest in the world -- comes from an estimated 650,000 wells;

- o Many of its wells produce as much as 25,000 barrels per day (bpd), in contrast to many wells in Texas that are doing well if they produce 100 bpd;
- o Its average well produces 12,000 bpd versus the average American well which produces 14 bpd;
- o Its wells produce oil freely through the "gravity flow" process which means that, once discovered, without special equipment, it would be difficult to keep the oil in the ground, whereas America's challenge is to get any oil discovered out of the ground, something it's been unable to do for quite some time without the benefit of pumps and other devices, all of which add energy, capital, and maintenance costs to the end product's price;
- o It commands 25 per cent, and the rest of the GCC countries another 25 per cent, of the world's petroleum reserves, whereas America holds less than 3 per cent.

The American Component

The American involvement in all this, not only in Saudi Arabia but in most of the other GCC countries as well, is long-standing and ongoing. At the Dhahran, Saudi Arabia headquarters of the Arabian American Oil Company (Aramco), the Free World's largest oil producer, is the largest contingent of American civilian employees abroad. Some 2,500 Americans work for Aramco. Living with them are an additional 4,000 American dependents.

Almost any description of what Aramco is, does, and has, is one that abounds with superlatives. For example, it is the world's largest exporter of crude oil and natural gas liquids; it designed, built, and operates a national gas-gathering system that has been called one of the largest engineering feats ever and is the backbone of the Kingdom's industrial diversification efforts; its 530,000-barrel-a-day refinery at Ras Tanura is among the world's largest; its human resource development program is one of the biggest of its kind; and the Company's Exploration and Petroleum Engineering Center in Dhahran, a geoscience facility supported by a high-powered computer center, is the most sophisticated in the Middle East and one of the most advanced in the world.

There are several forces and factors favoring a more interdependent relationship between the U.S. and the GCC countries in the future, but among the most important are America's steadily deteriorating energy situation, on one hand, and the GCC's favorable energy situation, on the other. For example, whereas each year since 1969 America's oil reserves have been declining, Saudi Arabia, during the same period, has annually discovered more oil than it produced and has steadily added to its reserves. At a continuous production level of the Kingdom's current 5 mbd average -- even if not an additional barrel were discovered -- Saudi Arabia's reserves would last until well into the first quarter of the 22nd century. Moreover, Kuwait and the UAE are situated in comparably favorable circumstances.

Meanwhile, world-wide demand for the GCC's oil reserves is certain to increase in the period ahead. Given present domestic oil production costs and oil recovery technology, U.S. petroleum reserves are expected to be exhausted by or around 1995. Likewise, the year 2000 will see a significant diminution of the Soviet Union's reserves. Petroleum geologists agree that there are no more non-Arabian fields on the order of a North Slope or a North Sea waiting to be discovered.

GCC Concerns

Lest one conclude that the GCC countries themselves have nothing to worry about, listen to what one of its leading petroleum strategists has to say: "With most GCC member countries dependent on oil for over 80% of their export earnings and government revenues, diversification away from crude oil exports stands as our most daunting challenge. Even continued dependence on exporting such a critical commodity as oil has been difficult for us to manage."

In light of its own economic circumstances, GCC planners have focused on enhancing the prospects for expanding member states' activities in international oil operations. The breadth of the mandate to increase GCC involvement in the petroleum sector is evident in a resolution passed at the first GCC summit meeting in Abu Dhabi in May 1981.

The resolution called for "joint cooperation in order to establish an integrated oil industry, including exploration, refining, marketing, industrialization, pricing, transport, utilization of gas, and development of energy resources." Upon reading the text, an American petroleum engineer quipped wryly: "Can't get much more comprehensive than that."

In this regard, American fears and perceptions of vulnerability in the overall energy equation have become a subject of some concern to GCC planners. Addressing this concern, a high-ranking GCC official commented: "It's important to understand that it's we who need to diversify, not the U.S., not the EC, not Japan. All of us acknowledge that we'll continue to be dependent on the export of oil. It's obvious, too, that our total dependence on oil is much greater than America and others' partial dependence on it. In this light, it's we, not our major trading partners, who are vulnerable."

Present and Future Challenges

During the past decade, the partial success of industrialized countries in launching energy conservation programs and the degree to which some were able to switch to non-oil alternatives complicated such matters. Indeed, some major consumers, particularly the United States and Western Europe, were temporarily able to re-orient the sources of a portion of their oil to suppliers outside the GCC. That, plus the reduced international demand beginning in 1983, caused the price of oil to fall and, along with it, during the 1980-83 period, GCC oil revenues, which declined by half, from \$145 billion to \$72 billion.

Of continuing and presently even greater importance than either of these two factors, however, have been the U.S. and European Community's high tariff barriers against the importation of refined oil products and

petrochemicals. In an effort to surmount such barriers, the GCC has been engaged in separate economic consultations for several years with both the U.S. and the EC.

"What we're trying to do in these talks," says one of the participants from the GCC side, "is to eliminate the fears of any of our major trading partners, fears that our part of the world is not worthy of a long-term relationship, that it could become a burden, that it would require the diversification of resources from other areas."

Accordingly, he added, "We're inviting our trading partners to look into our respective energy sectors as two distinct parties, each one in need of the other, and in need of harmonizing the relationship for the long term. Only in this way can we evolve to a stage where each can rely on the other with confidence. We're seeking a change not only in the way we're perceived. We're seeking a partnership for the future."

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