OIL

Gelvin, Chapter 16 - notes by Denis Bašić
Governments in the Middle East acquired revenues from

- nationalization of properties of foreigners and "enemies of the state"
- foreign aid
- direct or indirect exploitation of oil
Economists call RENT any kind of income acquired by states from resources other than taxation.

Rentier states are the states that heavily rely on RENT as the source of their income.

Rentier states are sometimes called by economists Allocation states, for the states distribute the rent they receive to favored clients and projects.

No other part of the world has been so reliant on the RENT as the Middle Eastern states.
RELIANCE ON RENT

- In the early 1990’s, 98% of government expenditures in Kuwait came from rent (oil sales) while the figure for Saudi Arabia was about 80%.
- Before the Iraqi-Iranian war (1980-1988), more than 50% of Iraqi income came from oil revenues.
- At the same time, the rent accounted for 33% of the Egyptian government revenue and 25% of the Syrian government revenue.
- In the Egyptian rent, the major role played 2 billion dollars a year that the US government gave to Egypt as assistance. Syria received protection money from its neighbors.
- As a comparison, France derives 10% of its income from rent.
The first industrial revolution started with the coal and vapor engine in the end of the 18th century.

The second industrial revolution started with oil and internal combustion engine in the end of the 19th century.

The second industrial revolution established the petroleum-based economies.

In 1900, Russia was the world’s largest producer of oil. (Today, it’s the third after US and Saudi Arabia). About 50% of world’s oil at the time came from Russia.

Other producers were the US, Mexico, and Romania.

Oil was not discovered in Saudi Arabia before 1931 and started being exploited 7 years later.
D’Arcy concession of 1901 (see ch. 5) demonstrated all of the risks of investing into oil drilling. D’Arcy run out of money before he was able to draw a profit. He was forced to sell the concession to the British government that established Anglo-Persian Oil Company. The profits came soon thereafter. However, the lesson of risky investment was not forgotten.

A few years later, the Ottoman government granted a similar concession. The Turkish Petroleum Company (later Iraq Petroleum Company), which received the right to exploit all the oil in the imperial domains, was a join effort bringing together the Anglo-Persian Oil Company (50%), Royal Dutch Shell (25%), and various German interests (25%).

Consortium (pl. consortia) is a group of companies that band together to undertake a project that would be beyond the means of any single company.

After D’Arcy concession all concessions were granted to consortia.
Concessions until 1950’s

Besides being granted to consortia, all concessions given during the first 30 years of the 20th century:

- were of long duration, usually 60-75 years (D’Arcy was 60);
- covered immense areas such as most of Persia or all Kuwait;
- included the right to pursue all operations connected with the industry including exploration, production, refining, transport, and marketing;
- included the rights to unlimited exploitation, production, and free price formation;
- included the obligation to pay royalties and fees and no profit share.
In 1970’s there was a culmination of a step-by-step whittling down of these privileges by the countries under whose territory oil lay.

In 1961, the Iraqis asserted the right to drill for oil on their territories not covered by the Iraq Petroleum Company.

The oil producing countries won the right to set the oil prices, along with the terms of concessions, not earlier than in 1971.

Only in 1975 did the first Persian-gulf oil producing countries, Kuwait and Dubai, take the full control over the consortia operating in their countries.

Rather than using the phrase “nationalization,” which would have set red flags in the mind of Western diplomats, the oil countries started using the phrase “100% participation” in the consortia working in their territories.
ARAMCO

- Saudi Aramco's history dates back to May 29, 1933, when the Government of Saudi Arabia signed a concessionary agreement with Standard Oil of California (Socal) allowing them to explore Saudi Arabia for oil.
- Later, Texas Oil Co. (30%), Standard Oil of NJ (30%), and Sucony Vacuum (10%) joined and Arabian American Company (ARAMCO) was established in 1944.
- In 1950, King Abdul Aziz Ibn Saud threatened to nationalize his country's oil facilities, thus pressuring ARAMCO to agree to share its profits on oil sales 50/50. A similar process had taken place with American oil companies in Venezuela a few years earlier.
- In 1973, the Saudi government acquired 25% of the shares of ARAMCO. A year later they acquired 60%, and it was not until 1980 that they acquired all 100%.
- 100% participation of the Saudi Arabian state in share holding is, de facto, nationalization.
Oil reach countries were able to assume greater control of their resources in part because they acted in concert.

The idea of forming the Organization of Petroleum Exporting Countries (OPEC) came from Venezuela in 1947, not from the Middle East.

Toward the end of WWII Venezuela was the largest oil producer in the world and was afraid that the US could start playing one oil producing country against the other in order to cut the prices of oil.

In 1960’s oil companies slashed oil prices to stimulate demand. This was right before the recession. Since at that time the consortia had to pay 50% profit to most of the oil countries, the countries felt to be at loss.

Outraged representatives of Venezuela, Saudi Arabia, Kuwait, Iraq, and Iran decided to finally establish the organization that would protect their interests. Thus, OPEC was born in 1960.

Currently, member states: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, & Venezuela.
The final transformation of OPEC happened in 1982 when the organization became a cartel.

**Cartel** is a group of businesses, in this case states, that coordinate policies to limit competition.

Saudi ministers have traditionally fought to keep prices down to prevent new sources of oil from becoming economical. Namely, they were afraid that the Westerners may start looking for alternative energy sources if oil becomes too expensive (for instance, in North Sea, Alaska,...)

OPEC countries once used to produce 75% of world oil. Now only 40%.

Iran has a large population and an industrial infrastructure that Saudi Arabia can only envy. Since 1950’s Iran sought to end its dependance on oil and revenues by becoming an industrial power. Therefore, **Iranian ministers**, on the other side, advocated high prices hoping to reap immediate profits.

Iraq on the third side wanted to be even with its Iranian neighbor though its population is 2.5 times smaller than the Iranian.
Before the **OPEC cartel**, the world oil industry was completely controlled by *the cartel of the “Seven Sisters”* - Exxon (Standard Oil of New Jersey), Mobil (Standard Oil of New York), Chevron (Standard Oil of California), Gulf (Pittsburgh, PA), Texaco, British Petroleum (Anglo-Persian Oil Company), and Royal Dutch Shell. [Watch the Al-Jazeera documentary *Seven Sisters*](#)

Because of the importance of oil for national economies, the cartel could count on the support of Western governments in their negotiations or confrontations with their hosts.

Thus, in **1951**, when the Iranian government had the temerity to nationalize the holdings of *the Anglo-Iranian Oil Company*, the British and American governments imposed sanctions on Iran, arranged for an international boycott of Iranian oil, and organized a **coup d’état** that brought the Iranian government down.

The oil revolution merely replaced one cartel with another - and a not particularly effective one at that.
In 1971 America was forced to sever the official relationship between the dollar and gold and lower the value of dollar in comparison to other currencies.

Since oil was priced in dollars and the prices remained the same, oil producers started practically being paid less for the same amounts of oil.

Using the Arab-Israeli war of 1973 as a pretext, Arab members of OPEC temporarily decreased production, terribly limiting supplies and raising prices.

The oil prices jumped 380% and wealth flowed back into the region from the industrialized, petroleum importing world.
**Yom Kippur War - 1973 Arab-Israeli War**

- **Yom Kippur War** - is the Israeli name for the 1973 Arab-Israeli war, which is also called the *October War* by the Arabs. The war began on 6 October, the Feast of YOM KIPPUR, Israel's important holy day, when Egyptian forces crossed the Suez Canal and breached the Israeli Bar Lev Line. Syrian troops threw back Israeli forces on the Golan Heights, occupied by the latter since the Six-Day War (1967). The war lasted three weeks, in which time Israel pushed Syrian forces back into Syria and crossed the Canal, encircling an Egyptian army. In the aftermath, disengagement agreements were signed by Israel with Syria in 1974 and with Egypt in 1974 and 1975. The Israeli withdrawal from Sinai was completed in 1982 after the 1978 Israeli-Egyptian peace treaty.
Map and the actual view of the Suez Canal
1973 Arab Oil Crisis (1973): OAPEC (Organization of Arab Petroleum Exporting Countries) placed an oil embargo against nations supporting Israel in the Yom Kippur War (the October War), including the U.S., Japan and Western Europe powers. In addition, oil exporters realized they could raise prices significantly without reducing demand for their product, resulting in sharp price increases throughout the world. This oil shock caused a global recession, ending the long-lasting period of economic growth throughout the U.S. and Western Europe, which had begun just after WWII. Some scholars believe that Western European nations were compelled to take a more Pro-Arab stance since they imported the vast majority of their oil from the Middle East, while the U.S. could have remained more firmly supportive of Israel in large part due to its lesser reliance on the Middle Eastern oil, as it imported the majority of its oil from non-Arab nations. (For the US oil imports, check this chart.)

The crisis would compel the Soviets to explore and develop its vast oil reservoirs, becoming the world’s leading producer of oil by 1980, competing with the Arab states. The Russian rivalry would cause the Arabs to make alliances rather with Western powers, particularly the U.S., resulting in more U.S. involvement and cooperation in Middle Eastern Arab states, especially Saudi Arabia, which would allow the U.S. to establish military bases. The U.S. and Western European powers gained more leverage with the Soviet invasion of Afghanistan, which further inflamed fears of the prospect of a Soviet invasion.
The French historian, Ferdinand Braudel, assumed that the oil revolution will change the flow of the wealth from toward the West to toward the East. (From the 15th up to the 18th century > East, from the 18th to the 20th > West.) However, no dramatic change has ever happened? Why?

From 1970’s on, large sums of money did go from the West to the East. However, much of it returned to the West as investments or was deposited in Western banks, where it was “recycled.” (Saudi Investments in the US)

In spite of the fact that the US continued to enforce sanctions against the regime in Baghdad, in the aftermath of the first Gulf war (1990/91), the US was the biggest consumer of the Iraqi oil that Saddam was allowed to sell.

The oil revolution has brought many changes in economic, political, and social life within the Middle East. There have been tremendous economic improvements in some areas. However, the West has not vanished.

The Middle East remains highly dependent on its oil revenues and on the world oil market, which makes the region highly vulnerable.
OIL BASICS: QUALITY

- The quality of oil is determined by its API gravity (the lighter, the better) and by its sulphur content (the less sulphur, the better.)

- Density of oil is classified by the American Petroleum Institute (API). API gravity is defined based on density at a temperature of 15.6 °C.
  - The higher the API gravity, the lighter the crude. Light crude generally has an API gravity of 38 degrees or more, and heavy crude an API gravity of 22 degrees or less. Crude with an API gravity between 22 and 38 degrees is generally referred as medium crude.

- Sulphur Content:
  - Sweet crude is commonly defined as oil with a sulfur content of less than 0.5%, while sour crude has a sulfur content of greater than 0.5%. (Source: Neste oil.)
Crude oils have different quality characteristics

Density and sulfur content of selected crude oils
sulfur content (percentage)

<table>
<thead>
<tr>
<th>Source</th>
<th>Sulfur Content (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico - Maya</td>
<td>3.5</td>
</tr>
<tr>
<td>Saudi Arabia - Arab</td>
<td>Heavy</td>
</tr>
<tr>
<td>Saudi Arabia - Arab</td>
<td>Light</td>
</tr>
<tr>
<td>Kuwait - Kuwait</td>
<td></td>
</tr>
<tr>
<td>United States - Mars</td>
<td></td>
</tr>
<tr>
<td>UAE - Dubai</td>
<td></td>
</tr>
<tr>
<td>Iran - Iran Heavy</td>
<td></td>
</tr>
<tr>
<td>Iran - Iran Light</td>
<td></td>
</tr>
<tr>
<td>FSU - Urals</td>
<td></td>
</tr>
<tr>
<td>Oman - Oman</td>
<td></td>
</tr>
<tr>
<td>Ecuador - Oriente</td>
<td></td>
</tr>
<tr>
<td>North Sea - Brent</td>
<td></td>
</tr>
<tr>
<td>Libya - Es Sider</td>
<td>Light</td>
</tr>
<tr>
<td>Nigeria - Bonny Light</td>
<td></td>
</tr>
<tr>
<td>United States - WTI</td>
<td></td>
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<tr>
<td>United States - LLS</td>
<td></td>
</tr>
<tr>
<td>Algeria - Sahara Blend</td>
<td></td>
</tr>
<tr>
<td>Malaysia - Tapis</td>
<td></td>
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</tbody>
</table>


Notes: Points on the graph are labeled by country and benchmark name and are color coded to correspond with regions in the map below. The graph does not indicate price or volume output values. United States-Mars is an offshore drilling site in the Gulf of Mexico. WTI = West Texas Intermediate; LLS = Louisiana Light Sweet; FSU = Former Soviet Union; UAE = United Arab Emirates.
Some political scientists have ascribed the **Iranian Revolution** to the collapse of oil prices in 1975-1977. No longer able to meet the expectations of its citizens and no longer able to balance repression with bribery, the government of the shah was doomed to collapse.

Other political scientists note that this explanation, like any other “monocausal” explanations for the Iranian Revolution is simplistic. They argue that other states that heavily rely on oil, such as Saudi Arabia, did not experience revolutions. On the other side, states that have very little or no oil, such as Nicaragua, Poland, or Philippines, experienced revolutionary uprisings at around the same time.
The Gulf region, considered a social and cultural backwater by many in the more populous and cosmopolitan regions of the Middle East, assumed a new and important role in the inter-Arab balance of power.

For example, after the 1967 Arab-Israeli war, Saudi Arabia, Kuwait, and Libya began paying subsidies to the so-called frontline states bordering on Israel to enable them to restock their arsenals.

Because the payments were made in quarterly installment, the oil states maintained constant leverage over the foreign policies of Egypt, Jordan, and Syria.
**Labor Migrations**

- In 1968, only about 10,000 Egyptians worked abroad.
- By 1978, that number was about 500,000.
- Between 1973 and 1985, about 33% of all rural Egyptian men worked at some time during their lives in the Gulf.
- During the same time, 40% of Jordanians worked abroad.
- These laborers send home *remittances* - financial support. While this money supports the local economy, some political scientists argue that sometimes the economic independence of these families is considered as threatening to the states, for their citizens are becoming less dependent on their favors.
- Also, if the host country decides to expel the guests workers, that can have an immediate economic and political impact on the home states of the migrant workers.
On the eve of the Gulf war (1990-91), Iraq expelled 1,000,000 Egyptian workers since Egypt was a member of the Gulf War coalition.

After the war, Kuwait expelled upward of 70,000 Palestinians whom they accused of acting as the fifth column for the Iraqis.

Saudi Arabia expelled 1,000,000 Yemeni guest-workers the same year to protest Yemen’s support for Iraq.

Hence, labor migrations have further strengthened the hand of labor importers in the regional balance of power.
The phenomenon of the feminization of the Egyptian families. New forms of community bounds in Egypt.

Non-citizens in the oil producing countries (from within and without the region) make up 1/3 of the inhabitants of Saudi Arabia and Libya (before the war), 2/3 of the inhabitants of Kuwait, and 4/5 of the inhabitants of Qatar.

While the Pakistanis and Bangladeshis who live in the impoverished Kuwaiti towns provide unskilled labor for the oil rich principality, they are shunned by the privileged minority of native born citizens.
Tribal leaders, merchants, landowners, and ‘ulama, claiming to represent the “traditional” values of society, often resist the policies and practices of the Westernizers. Thus, for example, in 1999 when the Kuwaiti amir decreed that women would have the right to vote, his decree was overturned by the majority of the members, per Gelvin, “of that most Western of all institutions - a Parliament.”

On the other side, many of the so-called Westernizing policies and practices in the smaller Gulf states are imposed from the top by kings and sheiks.

The “tradition,” i.e. the length of the existence of the Gulf kingdoms and sheikdoms is often contested. It was the British who transformed influential tribes in Kuwait, Oman, Bahrain, Qatar, and United Arab Emirates into royal dynasties by signing agreements with them during the 19th and early 20th centuries.

The British supported their dynastic ambitions and the newly appointed rulers in turn recognized special British rights in their territories.
OIL & THE U.S. INTEREST IN IT

- To demonstrate how much the US government has been interested in the Middle Eastern oil, Gelvin portrays and compares the US involvement in the Kuwaiti crisis of 1990-91 and the Liberian crisis of 1989.

- Liberia was founded by the American freed slaves in 1822 and over the 19th & 20th century Liberia resembled an American colony in deed if not in word. On the other side, the US had no historical connection to Kuwait, which was the British protectorate until 1962.

- During the Kuwaiti war, far fewer Kuwaitis (several hundreds) were killed than the number of Liberians who have perished in that country’s civil war.

- Yet the US put together an international coalition and sent 500,000 of its own troops to liberate Kuwait. After the UN secretary Kofi Annan appealed to the US government in 2003, the administration sent 200 marines to Liberia.

- Kuwait is one of the world’s largest producers of oil (currently #13) and is located in the midst of one of the biggest pools of oil in the world. Liberian oil reserves are at best “moderate” even according to the Liberian government.
OPEC Share of World Crude Oil Reserves 2012

- OPEC: 1,200 billion barrels (81%)
- Non-OPEC: 277 billion barrels (19%)

OPEC proven crude oil reserves, end 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Reserves (billion barrels)</th>
<th>OPEC Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>297.7</td>
<td>24.8%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>265.9</td>
<td>22.1%</td>
</tr>
<tr>
<td>Iran, I.R.</td>
<td>157.3</td>
<td>13.1%</td>
</tr>
<tr>
<td>Iraq</td>
<td>140.3</td>
<td>11.7%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>101.5</td>
<td>8.5%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>97.8</td>
<td>8.1%</td>
</tr>
<tr>
<td>Libya</td>
<td>48.5</td>
<td>4.0%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>37.1</td>
<td>3.1%</td>
</tr>
<tr>
<td>Qatar</td>
<td>25.2</td>
<td>2.1%</td>
</tr>
<tr>
<td>Angola</td>
<td>9.1</td>
<td>0.8%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8.2</td>
<td>0.7%</td>
</tr>
<tr>
<td>Algeria</td>
<td>12.2</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: OPEC: Annual Statistical Bulletin 2013
Data through 2012 by country, region, and commercial group (OECD, OPEC) for 219 countries including total and crude oil production, oil consumption, natural gas production and consumption, coal production and consumption, electricity generation and consumption, primary energy, energy intensity, CO₂ emissions and imports and exports for all fuels.

Source: U.S. Energy Information Administration
Source: U.S. Energy Information Administration
Let’s Do the Math: Population vs. Consumption

- US population: 317,652,722 (March 7, 2014). World Population 7,151,559,253 (March 7, 2014). - Source: U.S. Census - Population Clock. This means that Americans make about 4.5% of the world’s population. In 2012, these 4.5% of world population consumed 18.5 millions of barrels of oil per day, or ~21% of world’s produced oil in 2012, according to the U.S. Energy Information Agency. (See also the data for 2011 Rep. Gerry Connolly, D-VA.)

- As a comparison, China has 1,355,692,576 (March 7, 2014) citizens, which makes about 19% of the world’s population and which is more than 4 times larger population than the U.S. However, in 2012, China consumed 10.3 millions of barrels of oil per day, which is a bit less than a half of the US consumption (18.5 mil/day).
According to the 2012 statistics, the U.S. has 26.5 billions of barrels of oil in reserves. Speaking hypothetically, if we would have to rely on our oil reserves only, with the consumption of 18.5 millions of barrels per day, which makes 6.75 billions of barrels per year, we would use up our oil reserves in about 4 years. And what then? With its proven reserves and current consumption, China could live for another 5.5 years, and Russia for another 51 year.

While the United States consumes roughly 18.5 million barrels of oil a day, mostly to power its 253 million registered vehicles, it produces only about 11.1 million barrels (or 60%) of that total domestically. The other 40 percent -- some 7.4 million barrels a day -- of our oil has to be imported from other countries and our reserves are getting shorter. (Source: U.S. Department of Transportation, 2011.)
In October 2010, Noble Energy, Inc. announced a significant natural gas discovery at the Leviathan exploration prospect offshore Israel. Since the field seems to be covering the maritime area of Lebanon, Syria, Turkey, and Egypt, besides Israel, it could potentially become a cause for new disputes.

Read the article: “Israel could use force to shield Gas Find.”
AP: Italy’s Eni finds ‘supergiant’ natural gas field off Egypt
LEVIATHAN GAS FIELD & ZOHKR GAS FIELD
In November 2015, the Israeli and American representatives of the Genie Energy Co. announced the discovery of an oil reservoir “with the potential of billions of barrels” in the area of the Golan Heights. The biggest problems, though, revolve around the issue of sovereignty. Israel’s decision in 1981 to annex the Golan (unlike the West Bank, which remains formally under military occupation) caused a diplomatic crisis with America. The heights are still regarded internationally as illegally-occupied Syrian territory. Israel’s leaders in the past have offered to pull back from the Golan, which it captured in 1967, in return for a comprehensive peace treaty with the Syrian government. But any such deal has been firmly out of the question since Syria began disintegrating in 2011.

For more, read the Economist article Black Gold Under the Golan and the Oil Price article Cheney-Linked company to Drill in Occupied Golan Heights.
THE U.S. FOREIGN POLICY, OIL, & THE IRAQ WAR OF 2003