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Energy: The Gulf Region's Engine of Development

By Dr. John Duke Anthony

The Gulf Cooperation Council, despite its youth, has become one of the world's most economically influential organizations, both regionally and globally. Its six members possess half of the world's proven oil reserves — Saudi Arabia alone accounts for 25% of the world's 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 and Canada in the process.

GCC member countries Kuwait and the United Arab Emirates both possess petroleum reserves greater than those of the U.S., and the reserves of Saudi Arabia, the world's number one exporter of energy, are greater than those of Kuwait and the United Arab Emirates 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 U.S., Canada and Europe combined. Its second-biggest field exceeds half those countries' reserves. The importance of Saudi Arabia, and by extension the GCC, in these matters is further underscored by the following:

*Of Saudi Arabia's 51 oil fields, it has never produced from more than 21;

*Its current production of around five million barrels a day — third highest in the world — comes from fewer than 500 oil wells, whereas current U.S. production of approximately 9.5 million barrels a day — after the Soviet Union, second highest in the world — comes from an estimated 650,000 wells;

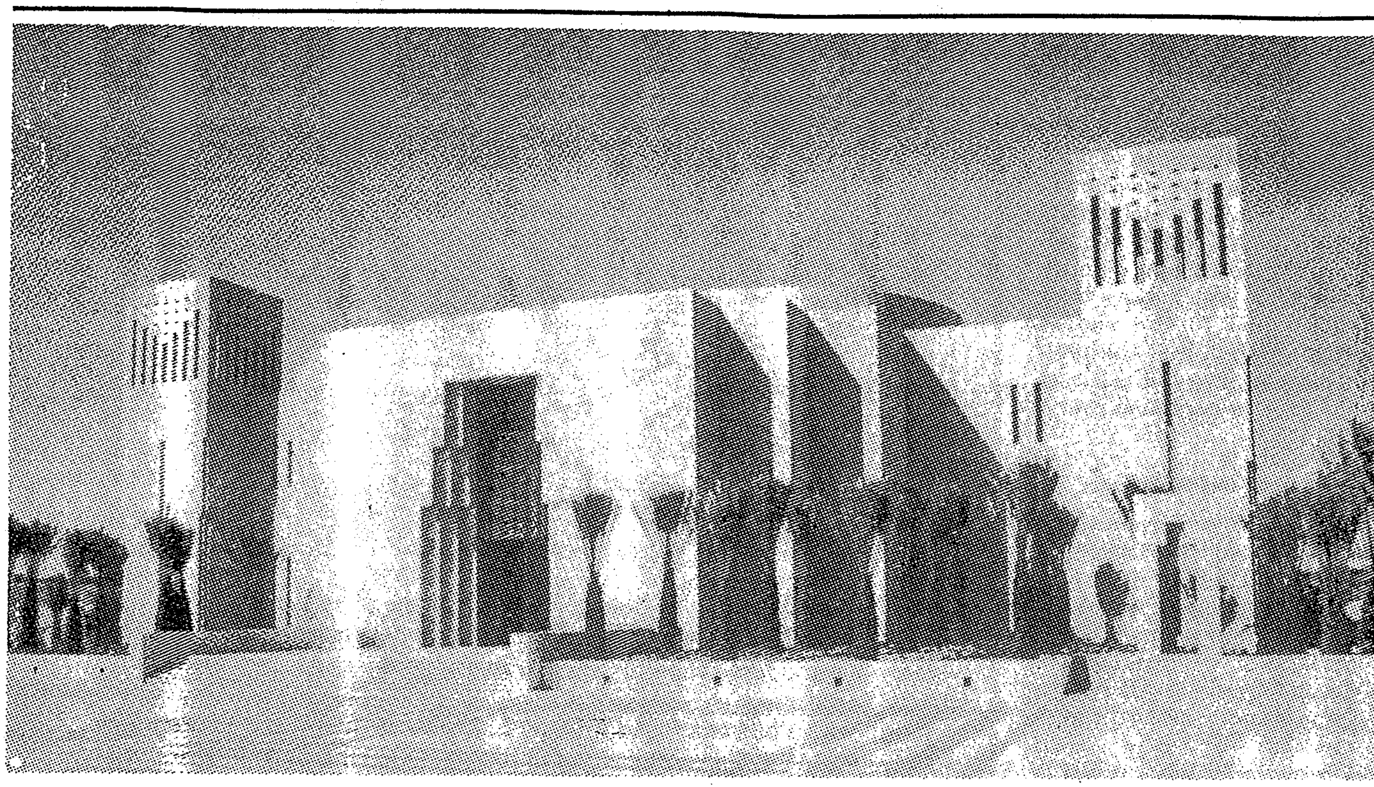
*Many Saudi wells produce as much as 25,000 barrels a day, in contrast to many wells in Texas that are considered doing well if they produce 100 barrels a day;

*The average Saudi well produces 12,000 barrels a day vs. the average American well's 14 barrels a day.

*Saudi 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;

*Saudi Arabia commands 25%, and the remaining five GCC countries another 25%, of the world's petroleum reserves, while the U.S. holds less than 3%.

There are several forces and factors favoring a more interdependent relationship between the U.S. and the countries of the Arabian Peninsula in the future, but among the most important are America's steadily deteriorating energy situation on the one hand, and the GCC's favorable position on the other. While each year since



The headquarters of the GCC secretariat in Riyadh

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 five million barrels-a-day 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. Kuwait and the United Arab Emirates are situated in comparably favorable circumstances.

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."

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."

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 U.S. 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, GCC oil revenues, which declined by half, from $145 billion to $72 billion

Of continuing and currently even greater importance than either of these two factors, however, has been the U.S.' and EC's high protectionist 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 it could become a burden, that it would require the diversification of resources from other areas."

Accordingly, he added, "We're inviting our partners to look into our respective energy sources 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."

(Dr. John Duke Anthony, president of the National Council on U.S.-Arab Relations in Washington, D.C., writes frequently on matters pertaining to American interests and involvement in the GCC and other Arab countries.)