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REMARKS AT AIRPORT UPON ARRIVAL IN SAUDI ARABIA

It is a great pleasure to be here on my first visit to Saudi Arabia. I look forward to this opportunity of seeing your country at first hand and the progress which has been made. I hope to explore with the Government the ways and means in which the Bank may be of assistance.

Over the last two years the Saudi Arabian Government and the Bank have re-established a working relationship. The Bank's financial involvement has not been required but it has agreed to provide technical assistance by acting as Executing Agency for a United Nations Development Program Transportation Survey. I welcome the Bank involvement with the transport study and I do hope that this will lead to greater understanding and collaboration.

The year 1972, in a sense, is a landmark in the growing relations between the Arab World and the Bank Group. Our lending to the Arab countries in the Middle East and North Africa reached a record level of $210 million in that year. It was more than six times our annual lending average in the years 1964-68. Increase in our lending in the area has been accompanied by notable changes in the scope and complexity of our operations--changes designed to contribute most to development. It was the first year which brought to fruition many years of efforts to establish an active relationship with the Arab countries. I am confident that, within our over-all lending program, we will continue to move forward in the years ahead.

Saudi Arabia has contributed to the cause of development of the Arab world. In addition your country has started to choose the World Bank as a medium to assist global development efforts.* I have no doubt in my mind that Saudi Arabia will continue this great service. The Bank Group stands ready to work closely with you in every aspect.

*Has purchased $63 m of WBk bonds

C


SAUDI ARABIA
Railroad
Surfaced road
Unsurfaced road
Track or trail
Airfield
Port
Populated places
Over 30,000
10,000 to 30,000
Under 10,000
Scale 1:6,020,000
Statute Miles
Kilometers
IRAQ
IRAN
JORDAN
EGYPT
ISRAEL
SINAI
KUWAIT
NEUTRAL ZONE
BAHRAIN
QATAR
TRUCIAL STATES
SUDAN
PERSIAN GULF
RED SEA
GULF OF OMAN
Mediterranean Sea
Dead Sea
Gulf of Aqaba
'AMMĀN
Jerusalem
Gaza
Beersheba
Oron
Ma'ān
Ra's an Naqb
Elat
Al 'Aqabah
Al Mudawwarah
(Israeli-occupied)
Armistice line
Haql
Al Bi'r
Dhahab
JAZĪRAT TĪRĀN
Al Bid'
Tabūk
Sharm ash Shaykh
Ash Sharmah
Ḑibā'
Taymā'
Al Wajh
Al 'Ulā
Hejaz Railway (U/C)
Wādī al Ḩamḑ
Umm Lajj
Ḩanak
Yanbu'
Medina
Badr Ḩunayn
Rābigh
Khulayş
Juddah
Mecca
Aţ Ţā'if
Turabah
Al Khafaqān (Sabkha)
Administrative boundary
Political boundary
Aţ Ţurayf
Sabkhat Hawzawzā' (Sabkha)
Badanah
'Ar'ar
Al 'Uwayqīlah (oil pumping station)
Sakākā
Al Jawf
Rafḩā'
Jubbah
Mawqaq
Ḩā'il
Ḩulayfā'
Ash Shurayf
'Uqlat aş Şuqūr
Wādī ar Rummah
Buraydah
'Unayzah
Ar Rass
Az Zilfī
Al Ḩinākīyah
Qā' Hawzawzā'
Al Qay'īyah
'Afīf
Ad Dafīnah
Zalim
'Ushayrah
As Sūq (mine)
Ash Shaqrā'
Marāh
Khuff
Ad Dawādimī
Ash Sha'rā'
Ḑurmā
RIYADH
As Salamīyah
Sanām
Laylá
Al Badī'
Ar Rimāḩ
Khurayş
Al Mubarraz
Al Hufūf
Ḩaraḑ
Wādī as Sahbā'
Al Khunn
Sabkhat al Budū'
Al 'Ubaylah
Ḩafar al Bāţin
Al Qayşūmah
An Nu'ayrīyah
Abū Ḩadrīyah
Al Jubayl
Şafwā
Ras Tanura
Al Qaţīf
Ad Dammām
Al Khubar
Dhahran
Abqaiq
MANAMA
Umm Bāb
Dukhān
AD DAWḨAH
Al Khawr
Musay'īd
Sabkhat Maţţī
no defined boundary
Ad Dīwānīyah
An Nāşirīyah
Euphrates
Tigris
Al Başrah
Az Zubayr
Umm Qaşr
Al Fāw
Dezfūl
Masjed Soleymān
Rūd-e Kārūn
Ahvāz
Khorramshahr
Ābādān
Bandar-e Shāhpūr
Boundary in dispute
Behbehān
Kāzerūn
Shīrāz
KUWAIT
Būshehr
JAZĪREH-YE FĀRSĪ
Bandar 'Abbās
QESHM
RA'S AL KHAYMAH
UMM AL QAYWAYN
'UJMĀN
ASH SHĀRIQAH
DUBAYY
ABŪ ZABY
Dibbah
To OMAN
AL FUJAYRAH
Şuḩār
Al Buraymī
MUSCAT
Izkī
Fuhūd
UMM AŞ ŞAMĪM (SABKHA)
AL MAŞĪRAH
Ḩakkān

KINGDOM OF SAUDI ARABIA

Population: 5 million (1970 est.)
Capital: Riyadh (Foreign Ministry and Diplomatic Corps located at Jidda)

Saudi Arabia occupies most of the Arabian Peninsula in the Near East. With an area of approximately 873,000 square miles, it is almost the size of Texas and California combined.

From a range of mountains near the Red Sea, the land slopes gently eastward toward the Persian Gulf. The country is notable for its hot, dry climate and desert geography, with the Rub al-Khali (Empty Quarter), a vast expanse in the south, too arid to support life. Rainfall averages 2-4 inches annually but is sufficient for agriculture only in a limited area in the southwest (the region of Asir adjacent to Yemen). Wells support intensive irrigation agriculture in the central region of Najd and in the Hufuf and Qatif oases in the east.

The two principal holy cities of Islam, Mecca and Medina, as well as the commercial center of the country, Jidda, are located in the west (the Hejaz). The region of Najd is situated in the heart of the country. The Eastern Province (also known as al-Hasa), bordering on the Persian Gulf, contains the principal oil installations.

The flag of Saudi Arabia is green and white. The Arabic script filling the green field is the Moslem creed: "There is no god but God, and Mohammed is His Prophet." The sword of Islam underlines the motto.

THE PEOPLE

No official census has been taken in Saudi Arabia, and population estimates vary between 3.2 million and 7 million inhabitants, with 5 million probably being the most reliable. The annual population growth rate is estimated at 2.7 percent. Density is very uneven with the major urban centers around Dhahran, Riyadh, Jidda, and Mecca. The principal cities and their populations are: Riyadh (170,000-200,000), Jidda (150,000), and Mecca (150,000).

Saudis are composed primarily of descendants of the indigenous Arab tribes, with some admixture of Negro blood from descendants of African slaves. Some inhabitants of the towns along the Persian Gulf are of Iranian descent, while numerous Indians, Turks, and Indonesians reside at Mecca and Medina. Until recently a large proportion of the people were nomads or seminomads; however, under the impact of general economic growth, the settled population in the principal towns is increasing. The overwhelming majority of the Saudi Arabs are Sunni Moslems, adherents of the puritan Wahhabi sect of the Hanbali school. Arabic is the official language, and the literacy rate is about 15 percent.

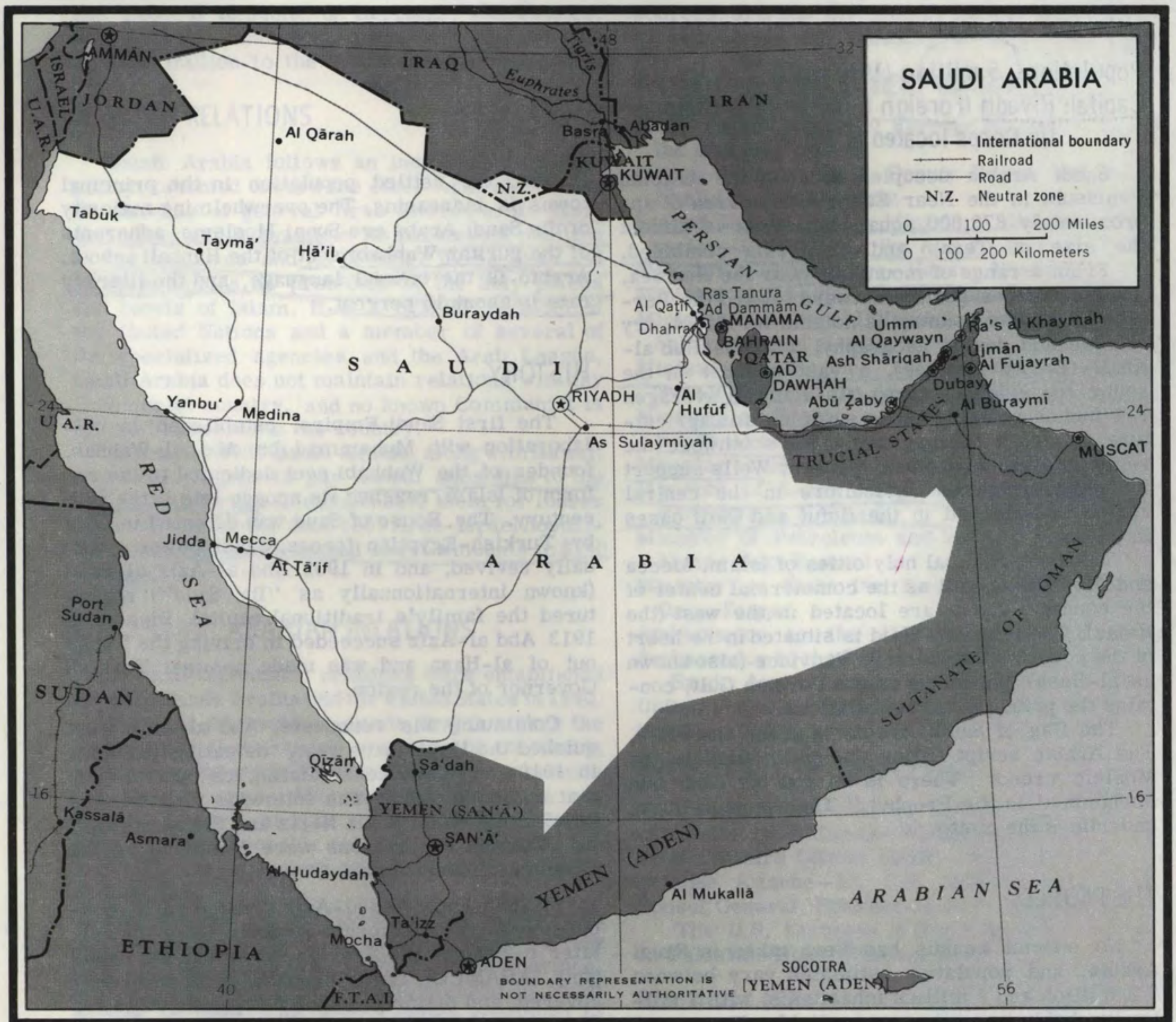
HISTORY

The first Saudi Empire, established in collaboration with Muhammad ibn Abd al-Wahhab, founder of the Wahhabi sect dedicated to the reform of Islam, reached its apogee late in the 18th century. The House of Saud was defeated in 1818 by Turkish-Egyptian forces. Saudi power gradually revived, and in 1902 Abd al-Aziz al-Saud (known internationnally as "Ibn Saud") recaptured the family's traditional capital, Riyadh. In 1913 Abd al-Aziz succeeded in driving the Turks out of al-Hasa and was made nominal Turkish Governor of the region.

Continuing his conquests, Abd al-Aziz vanquished the Hejaz in the west, defeating its forces in 1919 and finally consolidating his control over that region in 1925. The following year he was proclaimed King of the Hejaz and Sultan of Najd. In 1932 the two regions were combined as the Kingdom of Saudi Arbia.

In 1933 King Abd al-Aziz granted an oil concession to the California-Arabian Oil Company, later to become the Arabian-American Oil Company (ARAMCO). Large deposits of oil were discovered, and major production began shortly after World War II. More recently, Saudi Arabia has granted concessions to the Getty Oil Company (U.S.) for the southern half of the Kuwait-Saudi Arabian Neutral Zone, and, in conjunction with Kuwait, to the Arabian Oil Company (Japanese) for the Neutral Zone's offshore area. These concessionaires have discovered important deposits of oil.

King Saud bin Abd al-Aziz ascended the throne in 1953 after his father's death. From 1953 to 1958 and from December 1960 to October 1962 the King exercised direct rule and personally presided over the Council of Ministers. Early in 1958, following a period of chaos in the national finances and of strained relations with the United Arab Republic (U.A.R.), members of the royal


SAUDI ARABIA
International boundary
Railroad
Road
N.Z. Neutral zone
0 100 200 Miles
0 100 200 Kilometers
IRAQ
IRAN
JORDAN
ISRAEL
U.A.R.
AMMAN
Euphrates
Tigris
Basra
Abadan
KUWAIT
KUWAIT
N.Z.
PERSIAN GULF
Al Qārah
Tabūk
Taymā'
Hā'il
Buraydah
Ras Tanura
Al Qaţīf
Ad Dammām
Dhahran
MANAMA
BAHRAIN
QATAR
AD DAWḨAH
Umm Al Qaywayn
Ra's al Khaymah
Ash Shāriqah
'Ujmān
Al Fujayrah
Dubayy
Abū Zaby
Al Buraymī
TRUCIAL STATES
MUSCAT
SAUDI ARABIA
RIYADH
Al Hufūf
As Sulaymīyah
Yanbu'
Medina
U.A.R.
RED SEA
Jidda
Mecca
Aţ Ţā'if
Port Sudan
SUDAN
SULTANATE OF OMAN
Qīzān
Şa'dah
YEMEN (SAN'Ā')
SAN'Ā'
Kassalā
Asmara
Al Hudaydah
YEMEN (ADEN)
Al Mukallā
ARABIAN SEA
Ta'izz
Mocha
ADEN
ETHIOPIA
F.T.A.I.
SOCOTRA
(YEMEN (ADEN))
BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
48
32
24
16
40
56

510765 3-71

family persuaded King Saud to delegate the direct conduct of governmental affairs to his younger brother, Crown Prince Faisal.

With the advice of International Monetary Fund (IMF) experts, Prince Faisal, as Prime Minister, instituted energetic measures to establish fiscal stability. Curbs were placed on expenditures by the royal family, and fiscal austerity was imposed on the various ministries. Previous inflationary practices were discontinued, overextended bank credit reduced, and 100 percent currency cover was announced. After resumption of direct control of affairs in December 1960, King Saud continued to follow the sound fiscal policies laid down by Prince Faisal.

In October 1962 poor health, coupled with growing internal pressures for reform, external pressures generated by U. A. R. propaganda, and Saudi involvement on the royalist side in the Yemen revolution, induced the King again to delegate the direct conduct of governmental affairs to the Crown Prince. In March 1964, in implementation of a royal decree, Crown Prince Faisal assumed complete authority and responsibility for the Government. On November 2, 1964, he was proclaimed King by the senior members of the royal family and religious leaders in place of his ailing elder brother who subsequently died in exile at Athens, Greece, on February 23, 1969.

GOVERNMENT & POLITICAL CONDITIONS

Saudi Arabia is an independent monarchy with no constitution. Executive and legislative governmental authority is exercised by the King (Chief of State and Head of Government) and his appointed Council of Ministers (cabinet) within the framework of Arab tradition and shari'a (Islamic) law. The King is also the supreme religious leader of the country. The courts, whose judges are appointed by the Islamic leadership, also apply shari'a law.

For administrative purposes the country is divided into a number of districts some of which are Mecca, Medina, Riyadh, Eastern Province, Asir, and Northern Frontiers. The senior official in each district is the Amir (Prince), although only some are members of the royal family.

Political parties in the Western sense are unknown in Saudi Arabia. Despite rapid economic progress, society remains strongly conservative and religious with a tribal orientation. Although the Government is paternalistic in character, there is a strong element of egalitarianism in the traditional form of rule in which individual rights, particularly the right to present grievances, are well defined.

ECONOMY

Saudi Arabia's gross national product (GNP) in 1969 was approximately U.S. $2.9 billion, or about $577 per capita. In recent years the average real economic growth rate has been more than 9 percent annually. The budget for the fiscal year beginning September 2, 1970, totals $1.5 billion—almost 40 percent is earmarked for development and about 40 percent for national defense and security.

The greatest single factor of economic importance in Saudi Arabia is oil. Current production exceeds 3.7 million barrels a day, from which the Government realizes an annual income of more than $1 billion, or 85 percent of its total revenue. More than 90 percent of this oil is produced by the Arabian-American Oil Company (ARAMCO).

Saudi Arabia is beginning to expand and diversify its industrial potential through the use of income from the petroleum industry. Private capital is being encouraged to take an active role in industrial development. Of major importance are current government projects for construction of a water desalting and electric power plant near Jidda and petrochemical plants near Dammam. The Government, through the Petroleum and Minerals Organization, is also encouraging development of its own petroleum industry, including refining and marketing facilities.

The annual Islamic religious pilgrimage (the haj) draws foreign pilgrims (more than 400,000 in 1970) to the holy cities of Mecca and Medina. This influx has created a large tourist industry and generated considerable revenue (about $70 million in 1970) in return for goods and services.

Although about 15 percent of the total land area is estimated to be arable, because of scarcity of water only 1 percent or less is actually under cultivation. Dates, traditionally the principal crop, are being supplemented by items such as wheat, corn, alfalfa, grapes, and rice. Coffee is grown on the slopes in the Asir region. Local food production is supplemented by large imports of staples. The Government, with technical advice from the U.N. Food and Agriculture Organization (FAO), is setting up an agricultural institute to give advice on improving crops, grazing, and animal husbandry.

The Government is making considerable progress in its transportation and water development programs. The country now has more than 4,000 miles of main roads completed, and more than 2,500 additional miles are planned. Expansion and improvement of Jidda's port facilities are in progress, and similar projects for other ports are under study. In addition to the 5 million-gallons-per-day desalting plant being constructed near Jidda with the cooperation of the U.S. Government, a 7.5 million-gallons-per-day plant will be built in the Eastern Province by the U.S. firm, Aqua-Chem.

Financial reforms, begun in 1958, have resulted in a high degree of fiscal stability and confidence in the Saudi riyal (1 riyal = U.S. $0.22). This sound currency, together with energetic implementation of the development program, has resulted in a prosperous and booming economy.

In 1970 Saudi imports amounted to an estimated $798 million, a 5-percent decrease from 1969's. In addition to foodstuffs, its major imports include transportation equipment and machinery. The United States is the leading supplier, accounting for almost one-fourth of the total. Exports, of which petroleum products form more than 90 percent, totaled $1.8 billion in 1969. Other major trading partners are the United Kingdom, Japan, the Federal Republic of Germany, and France. Saudi Arabia makes an annual net contribution of $500 million to the U.S. balance of payments.

FOREIGN RELATIONS

Saudi Arabia follows an independent foreign policy, oriented toward the other Arab states and the defense of general Arab interests. Its basic objectives are to maintain its paramount position in the peninsula and its prestige in the Arab and Moslem worlds as protector of the holy places and tenets of Islam. It is a charter member of the United Nations and a member of several of its specialized agencies and the Arab League. Saudi Arabia does not maintain relations with any Communist country, and no known Communist is allowed to reside in the country.

In August 1967 Saudi Arabia, along with Kuwait and Libya, agree to pay annual subsidies to the U.A.R and Jordan to compensate them for losses suffered during the June 1967 Arab-Israel hostilities. Saudi Arabia's annual share amounts to $140 million.

U.S.-SAUDI ARABIAN RELATIONS

Formal diplomatic relations were established between Saudi Arabia and the United States in 1940.

U.S. oil interests in Saudi Arabia makes the security of that country a matter of continuing concern to the United States. ARAMCO represents the largest single American investment in any foreign country, and the continued availability of Saudi oil on reasonable terms is important to the security and prosperity of U.S. allies in Western Europe and of Japan.

In 1945 the United States, by agreement with the late King Abd al-Aziz, began the construction of an airport at Dhahran in the Eastern Province. The airport was formally transferred to Saudi Arabia in 1949. The United States continued to enjoy certain operational privileges at the airfield on the basis of bilateral agreements, the last one a 5-year agreement signed April 2, 1957. This agreement also provided for an expanded U.S. military mission in Saudi Arabia and U.S. grant economic assistance in the amount of $25 million for improvements to the port of Dammam and for construction of a civil air terminal at Dhahran. Arrangements established by a procurement assistance agreement signed June 18, 1951, were also continued, permitting Saudi Arabia to purchase U.S. military equipment.

In early 1961 King Saud announced the Saudi Government's desire to terminate the airfield agreement, which duly expired on April 2, 1962. However, the Government stated its interest in retaining the U.S. Military Training Mission, and mission personnel are continuing their operations there. It continues to be in U.S. interests that Saudi Arabia remain a stable, sovereign state, that there be orderly development of Saudi resources, and that the country be able to contribute to the peace and stability in the Near East.

PRINCIPAL GOVERNMENT OFFICIALS

King; Prime Minister; Foreign Minister—Faisal ibn Abd al-Aziz
Crown Prince; First Deputy Prime Minister—Khalid ibn Abd al-Aziz
Second Deputy Prime Minister; Minister of Interior—Prince Fahd ibn Abd al-Aziz
Minister of Agriculture—Hassan Mishari
Minister of Commerce and Industry—Abid Shaykh
Minister of National Defense and Aviation—Prince Sultan ibn Abd al-Aziz
Minister of Finance and National Economy—Prince Musa'ad ibn Abd ar-Rahman
Minister of Education—Hasan ibn Abd Allah ibn Hasan Al ash-Shaykh
Minister of Information—Ibrahim al-Angari
Minister of Labor and Social Affairs—Abd ar-Rahman Aba al-Khayl
Minister of Petroleum and Mineral Resources—Ahmad Zaki Yamani
Minister of State for Foreign Affairs—Sayyid Omar Saqqaf
Ambassador to the U.S.—Ibrahim al-Sowayel
Ambassador to the U.N.—Jamil Baroody

Saudi Arabia maintains an Embassy in the United States at 1520-18th Street, N.W., Washington, D.C. 20036.

PRINCIPAL U.S. OFFICIALS

Ambassador—Nicholas G. Thacher
Counselor of Embassy—William A. Stoltzfus, Jr.
Public Affairs Officer (USIS)—William Rugh
Defense Attaché—Lt. Col. William Fifer, USA
Consul General, Dhahran—Lee F. Dinsmore

The U.S. Embassy in Saudi Arabia is located on Palestine Road, Ruwais, Jidda.

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DEPARTMENT OF STATE PUBLICATION 7835, Revised March 1971
Office of Media Services, Bureau of Public Affairs

D

Saudi Arabia

D. LIST OF CABINET MEMBERS AND BIOGRAPHICAL DATA

* King	Sa'ud, Faysal ibn 'Abd al-'Aziz Al
Prime Minister	Sa'ud, Faysal ibn 'Abd al-'Aziz Al
Dept. Prime Minister	Sa'ud, Khalid ibn 'Abd al-'Aziz Al
* 2nd Dep. Prime Minister	Sa'ud Fahd ibn 'Abd al-'Aziz Al
Min. of Agriculture & Water	Mishari, Hasan
Min. of Communications	Tawfiq, Muhammad 'Umar
Min. of Defense & Aviation	Sa'ud Sultan ibn 'Abd al-'Aziz Al
Min. of Education	Shaykh, Hasan ibn 'Abdallah Al al-
* Min. of Finance & Natl. Economy	Sa' ud Musa'id Abd al-Rahman Al
Min. of Foreign Affairs	Sa'ud Faysal ibn 'Abd al-'Aziz Al
Min. of Health	Hujaylan, Jamil
Min. of Information	Anqari, Ibrahim al-
Min. of Interior	Sa'ud, Fahd ibn 'Abd al-'Aziz Al
Min. of Justice	Harkan, Muhammad ibn 'Ali al-
Min. of Labor & Social Affairs	Aba al-Khayl, 'Abd al-Rahman
* Min. of Petroleum & Mineral Wealth	Yamani, Ahmad Zaki
Min. of Pilgrimage Affairs & Religious Trusts	Kutbi, Hasan Muhammad
Min. of Trade & Industry	Awadi, Muhammad al-
Min. of State	'Abd al-Wasi', Abd al-Wahab Ahmad
Min. of State	Qurayshi, 'Abd al-'Aziz ibn Zayd al-
Min. of State	Husayn, Salih ibn 'Abd al-Rahman al-
* Min. of State and Head, Central Planning Organization	Nazir, Hisham Muhyi al-Din
Min. of State for Financial Affairs & National Economy	Aba al-Khayl, Muhammad
Min. of State for Foreign Affairs	Saqqaf, 'Umar al-

Biographical notes (provided by the State Department) on the King and on those members of the Council of Ministers whom Mr. McNamara is most likely to meet officially (asterisked) are attached, together with a biographical note on Prince Saud ibn Faisal Al Sa'ud, Deputy Minister of Petroleum Affairs, who called on Mr. McNamara in July, 1972. We have no personal knowledge in the Bank of any of these officials.

His Majesty Faisal ibn 'Abd al-Aziz a Al Sa'ud

King Faisal, who is about 67 years of age, came to the throne in November 1964, following the deposition of his older brother, Saud. Faisal has played a major role in his country's history serving it in many capacities prior to becoming King. A friend of the West and particularly of the United States, he is nevertheless deeply concerned over US policy regarding Israel. He has often expressed his fear at the spread of communism and has often asserted that a link exists between Zionism and Communism. A deeply religious man, he is committed to the Islamic solidarity movement.

Faisal's father, King ibn Saud, groomed him to be Saudi Arabia's foreign affairs expert. In 1919 Faisal was sent on a tour of Europe when he met a number of officials who had participated in the Versailles Peace Conference. In 1926 he became the Governor of the Hijaz Province a position which he held until his father's death. In 1932 he became Minister of Foreign Affairs, a position which he still holds (the Minister of State for Foreign Affairs is Omar Saqqaf). During the 1950s, Faisal also held a number of other ministerial posts (Commerce, Finance and Interior). In 1958 he was responsible for instituting the first comprehensive budget for Saudi Arabia which was one of the institutional reforms that he pressed for on the then King Saud. He was also responsible for making the Saudi Arabian Monetary Agency an independent institution which was given authority to stabilize the economy, allow external debts which Saud had accumulated to be paid off rapidly and to build up a budgetary surplus which began to be used for development purposes in the early 1960s. In 1962, Faisal became Prime Minister, a position he has also retained since becoming King.

Faisal is an intelligent man with a strong sense of honor. He regards personal disloyalty and lack of principle as a major sin. An able debater, he can be either acerbic or very friendly, as the occasion demands. He has a keen sense of humor and a dignified, unpretentious manner. He has traveled on a number of occasions and has been in the US many times. He is married and has eight sons and four daughters; all except the first two sons have studied in the US. In recent years, Faisal has suffered from ill health; he had an operation for ulcers and has been treated for bilharzia. His doctors however find that he has made a good recovery and have pronounced him to be in good health. Faisal understands English but uses an interpreter for substantive talks.

The King is reported to be highly influenced by two of his advisors: Mr. Anwar Ali, Governor of the Saudi Arabian Monetary Agency; and Mr. Zaki Saad, Counselor to the King. Mr. Ali is from Pakistan, Mr. Saad from Egypt.

Fahd ibn 'Abd al-'Aziz Al Sa'ud

Second Deputy Prime Minister
And Minister of Interior

Prince Fahd, 51, was appointed by his half-brother, King Faisal, to be Minister of Interior in October 1962. In October 1967 he was assigned the additional responsibilities of Second Deputy Prime Minister. As the King himself is Prime Minister and the First Deputy, Crown Prince Khalid, is inactive, Prince Fahd normally chairs meetings of the Council of Ministers. He has long been close to Faisal, whom he supported against the late King Saudi in the events of 1963-64 that brought Faisal to the throne. Today Fahd is second in influence only to the King.

Fahd is an intelligent and capable man who in recent years has grown in stature and in ability as he has been entrusted with increasingly greater responsibilities within the Saudi Government. Although his outlook is essentially conservative, he is thought to have pressed within the Royal Family for greater efficiency in government and for expansion of government services to the people. His leadership of a tightly-knit group of seven full brothers, who control several key government posts, has enhanced his power.

Fahd shares Faisal's desire to continue Saudi Arabia's close relationship with the United States so long as this serves Saudi interests. He first visited the United States in 1945 and came to Washington in October 1969 as the official guest of the Secretary of State. He was received by the President at that time and on the occasion of a subsequent, private visit in September 1971. Three of his sons have studied in Santa Barbara, California; Fahd knows a little English but will prefer to speak in Arabic through an interpreter.

Musa'id ibn 'Abd al-Rahman al-Sa'ud

Minister of Finance and National Economy

Amir Musa'id ibn 'Abd al-Rahman al-Sa'ud, uncle of the King, has been Minister of Finance and National Economy since March 1962. He is invariably calm, practical and far-sighted, with an obviously independent turn of mind. His mind is astute and analytical. As Finance Minister, he has acquired a great depth of experience in the Kingdom's internal affairs.

Musa'id was acting Minister of Foreign Affairs in the fall of 1962, in addition to his regular post. Musa'id was retained as Minister of Finance when the present Cabinet was formed in October 1962. He was appointed a member of the Supreme Defense Council and vice chairman of the Supreme Planning Board in 1963. In October 1964 he led a delegation to Lebanon to officially congratulate the new Lebanese President. Amir Musa'id has been critical of some of the government's spending policies. In the last year an increasing amount of the Amir Musa'id's duties have been assumed by the Minister of State for Financial Affairs and National Economy, Muhammad Aba al-Khayl.

Musa'id was born about 1922, while his older brother 'Abd al'Aziz was conquering the area which became Saudi Arabia. He was presumably educated at the princes' school in Riyadh. He first took part in government affairs in 1954, when he was appointed chairman of the Grievance Board of the King's diwan. In 1955 he was sent to Kabul as mediator in the Afghan-Pakistani dispute. He investigated labor problems in the Eastern province in 1956. He accompanied King Sa'ud to Cairo, Baghdad and the US in 1957, and was named head of the Regency Council during Sa'ud's state visit to Jordan the same year. Between trips he was appointed chairman of a special committee to hear the complaints of merchants and importers and to advise on currency policy. He was made comptroller of state accounts in June 1957 and Counselor with the rank of Cabinet Minister the following September. He was Acting Prime Minister during Faysal's absence in 1959, and supported Faysal against Sa'ud's attempts to oust him from the Cabinet in early 1960. In 1960, Musa'id was appointed Minister of Interior.

Musa'id is small in stature. He is very scholarly. Amir Musa'id is believed to speak only Arabic.

Ahmad Zaki Yamani

Minister of Petroleum and Mineral Resources

Yamani is a lawyer by background who became Minister of Petroleum and Mineral Resources in March 1962. He is also one of the Saudi directors of ARAMCO. He served as Secretary General of the Organization of Arab Petroleum Exporting Countries in 1968-1969 and is currently acting as negotiator for the Gulf OAPEC governments in the participation talks.

Yamani has been a leading advocate of producer government participation in existing oil concessions. Earlier, he favored government participation in "downstream" oil operations but more recently has focused on obtaining from the oil companies a 20 to 51 percent share of the existing "upstream" operations. Yamani appears to have the solid backing of the King on the participation issue. Yamani's other interests include government organization and legal reform. In the mid-60's, he wrote several newspaper articles advocating the modification of Saudi Arabia's traditional Islamic legal institutions. He is also interested in education, particularly in the technical fields, and has been the guiding hand behind the College of Petroleum and Mineral Resources in Dhahran.

Yamani is regarded as a pragmatist who likes to find sensible solutions to problems. He does not have a forceful personality, however, and is unwilling to stand too firmly against the mainstream of Arab opinion. He is intelligent and courteous but is considered a poor administrator. In the current participation talks, he has shown himself to be an adroit, flexible negotiator.

Yamani was born July 2, 1930 in Mecca. He studied law at Cairo University and subsequently at NYU and Harvard where he specialized in the problems of capital investment and international disputes. Returning to Saudi Arabia in 1957, Yamani established a private law practice while serving as legal advisor to the Directorate General of Petroleum and Mineral Affairs. In 1958, he was appointed legal advisor to the Council of Ministers. He resigned from government service in December 1960 to return to private practice until appointed Minister in 1962.

Hisham Muhyi al-Din Nazir

Minister of State and Chairman,
Central Planning Organization

Hisham Nazir is regarded as among the most important and influential of the educated new generation of Saudis. An able civil servant, he can discuss complex technical matters with scope and depth. He is known as an articulate and logical spokesman on development matters. As Chairman of the Central Planning Organization, Nazir has supervised the putting together (with expert help from Stanford Research Institute) of the comprehensive Saudi Arabian Government development plan announced in September 1970. He also works with individual Saudi ministries on implementation of the development program.

Born in Jidda in 1932, Nazir received his higher education in the United States. He has a BA degree in International Relations and an MA in Political Science from UCLA. In 1958 he returned to Saudi Arabia as an Assistant Legal Adviser in the Directorate General of Petroleum Affairs. He became Director General, Ministry of Petroleum in 1961 and Deputy Minister in 1962. While with that Ministry he attended several Arab and international petroleum conferences and participated in an oil official exchange program with Venezuela. He was named Chairman of the newly-created Central Planning Organization in 1968. Since being named a Minister of State in July 1971 Nazir also attends meetings of the Council of Ministers where he is one of several younger, Western-educated Saudis who help to shape Saudi domestic policies.

Nazir is married and the father of two children. He speaks excellent English and some Spanish and Turkish. He reportedly returned from his educational experience in the United States with an interest in baseball, movies, and other aspects of American culture.

Umar 'Abbas al-Saqqaf

Minister of State for Foreign Affairs

'Umar al-Saqqaf, Saudi Arabia's most capable and experienced diplomat, was appointed Minister of State for Foreign Affairs on April 1, 1968. Although King Faisal retains the formal title of Minister of Foreign Affairs, Saqqaf serves as de facto head of the Foreign Ministry and attends Council of Ministers meetings as its representative. He also represents Saudi Arabia at most Foreign Minister-level conferences and has routinely headed the Saudi Arabian delegation to the United Nations General Assembly for the past eight years. He appears to enjoy the complete confidence of the King in most foreign affairs matters.

The son of a prominent Madina family, Saqqaf, 51, is proud of his descent from the Prophet Muhammad and is normally addressed by the honorific "Sayyid." He received part of his secondary education in Cairo and in 1947 earned a BA degree from the American University of Beirut. He immediately entered the Saudi Arabian Foreign Ministry serving as Chief of Protocol. He subsequently had diplomatic assignments to Indonesia, London, and Rome. He also was briefly assigned in 1957 as Ambassador to Ethiopia but never took up this position, remaining instead in Jidda as Acting Permanent Under Secretary of Foreign Affairs until 1959. After a brief period outside the government, Saqqaf was named by Prime Minister and then Crown Prince Faisal to be Permanent Under Secretary of Foreign Affairs in October 1962.

Saqqaf is a shrewd, patient man with a soft-spoken, controlled manner. He is an ardent bridge player. He is married to a Lebanese woman who divides her time between Jidda and Beirut, where their three children are in school. Saqqaf speaks fairly good English in addition to his native Arabic.

Saud ibn Faisal Al Sa'ud

Deputy Minister of Petroleum for
Petroleum Affairs

Prince Saud ibn Faisal Al Sa'ud, the fourth son of King Faisal, became Deputy Minister of Petroleum for Petroleum Affairs in June 1971. He is 31 years old. He previously served for a year as the Deputy Governor for Planning in Petromin, the state-owned General Petroleum and Mineral Organization. He is presently the Saudi liaison officer with OPEC. The Prince is considered intelligent and competent.

Prince Saud attended the Hun School in Princeton, New Jersey. He graduated from Princeton University in 1965 with a degree in economics. In 1966 the Prince worked as an economic adviser in the office of the Minister of Petroleum and Mineral Resources. That same year he was named secretary to the chairman of the Board of Petromin. The same year he was a member of the Saudi delegation to the OPEC meeting in Vienna. He was also a delegate to the OPEC meeting held in Beirut in September 1971.

The Prince is married to Jawharah, granddaughter of ex-king Saud. In 1967 they had a one-year-old daughter. Prince Saud speaks excellent English and also has an excellent command of classical Arabic. He reads Hemingway, F. Scott Fitzgerald and the ancient Arab poets with equal facility.

E

TOPICS FOR DISCUSSION

Background

1. Saudi Arabia is today a major aid donor, making available about $200 million annually, a little over 4 percent of its present GNP (5+% in 1971) to neighbouring Arab and Islamic countries. Egypt, Jordan, and Yemen have been the major beneficiaries. Egypt and Jordan have been given large grants under the Khartoum Agreement; Yemen has been given mainly short-term credits expected to be rolled over or not repaid. Smaller amounts have been furnished from time to time in response to specific requests for help from countries such as Sudan, Somalia and Uganda. Following the recent India/Pakistan conflict, Saudi Arabia, together with Iran and Kuwait, agreed to a standby arrangement to bolster Pakistan's foreign exchange reserves; there is no evidence of any disbursements so far. No formal mechanism exists for evaluating aid projects or channelling assistance; this contrasts, for example, with the UK, whose aid program is comparable in size.

how do they plan to manage in the future

2. Besides direct aid, Saudi Arabia has stated its intention of supporting the embryonic Arab Fund for Economic Development. Probably with the aim of investing its reserves soundly rather than contributing to world development efforts, Saudi Arabia has purchased $33 million in 2-year IBRD bonds and a further $30 million in long-term IBRD bonds.

when will it join

3. By 1975, the country's GNP is likely to rise to about $7 billion. If Saudi Arabia continues to provide direct aid at the 1971 level of 5 percent of its GNP, over the next few years it could provide between ~~$300 to~~ $350 million a year. Further, by 1975, its oil revenues are projected to also rise to about $4.5 billion from the current level of $2.7 billion. Taking account of its growing balance of payments surplus -- even assuming a maximum use of resources for its own substantial development needs -- Saudi Arabia will build up substantial reserves by 1980.

what are their plans

4. However, it cannot be assumed that the Saudi authorities will necessarily want to expand their aid efforts. A possibly revealing statement was made recently by Mr. Anwar Ali, Governor of the Saudi Arabian Monetary Agency, who is reported to have a great deal of influence with the King. Mr. Ali emphasized that the country's economic position should not be judged by its level of reserves. He noted that the neglect of centuries required massive investments to improve the physical and social infrastructure and to diversify the economy, relieving its overwhelming dependence on oil. Reserves were bound to accumulate in the initial stage, he said, but "gradually, as the absorptive capacity increases, the accumulated reserves will undoubtedly be utilized for the development of the country". Saudi Arabia's effort to increase its development spending is already evident from the 160 percent increase in the projects budget over the last two years. On the other hand, in an

interview with Mr. Vickers of the Wall Street Journal, Mr. Ali indicated recently that Saudi Arabia needs help in finding opportunities to invest its surplus funds. (Clipping enclosed as Attachment C to Petroleum Sector Brief).

5. These statements are not contradictory. They suggest that the time perspective will be important in determining the terms on which the Saudis may make aid funds available. They may also be hesitant about longer term commitments until they get a better idea of the costs of reclaiming their deserts or moving into major "downstream" investments. Saudi aid other than through the Khartoum Agreement has typically taken the form of loans with rather short maturities (3-5 years) and fairly high interest rates. The Saudis recognize that Yemen, for example, cannot service debts on these terms, and they have privately assured Yemen that the loans will be rolled over. But they are not ready formally to put their aid on a concessionary basis.

What are their future plans

6. Because of our lack of direct contact with Saudi Arabia, we do not have reliable knowledge of present Saudi attitudes towards aid to non-Muslim peoples. Nor do we know which arguments for foreign aid may be most persuasive. Thus, in view of both what we do know and what we don't know, a cautious approach on these matters would seem in order, especially in view of reports of disagreement within the Council of Ministers on economic policy. A ministerial committee has been set up to consider the implications of the recent agreement on participation in the production of oil by international oil companies. One group of ministers, probably including Dr. Hisham Nazer, favors a policy of industrialization, while others believe that oil reserves are intrinsically more sound than financial investments, and favor a policy of limiting oil production.

7. A few further notes of caution may be sounded. Mr. Nafie has suggested that our approach for funds should be "to the heart rather than to the head", and that we should avoid direct references to the wealth of the "rich" countries and how and where they should invest their funds. At least until the recent oil agreements, we know that Saudi Arabians did not think themselves rich. Should this issue be raised, Mr. McNamara may feel it would be appropriate to point out the distinction that should be drawn between the importance of Saudi Arabia's role in the international monetary field and her role as an aid donor.

8. Finally, Mr. Dajani has suggested that Mr. McNamara should avoid all mention of Kuwait or the United Arab Emirates unless the King himself mentions them. It may appear natural that close cooperation between the Bank and those countries would be mentioned when discussing future cooperation with Saudi Arabia. However, the King apparently considers himself to be far above comparison with "newcomers" such as Kuwait and the U.A.E. -- particularly the latter, whom he still does not recognize because of the dispute over the Buraimi area.

stress we look to Saudi Arabia as setting example to other Arab states for supporting devel [illegible]

A Suggested Approach

9. Keeping the above background in mind, Mr. McNamara may wish to highlight the Bank Group's recent efforts in providing both Bank and IDA monies to Middle East countries, and to express appreciation of Saudi Arabia's role as a major aid donor in the area. He may wish to say that the Bank has been prepared to respond to any Saudi expressions of interest in Bank advice or assistance, noting that following their 1971 request for our help with a transportation survey, five Bank missions were mounted. that
The discussion may then turn to the benefits of increased cooperation between the Bank Group, Saudi Arabia and other oil producing countries in the area. These benefits would include:

a) The direct financial returns to states investing in medium-and long-term bonds of the Bank;
b) The benefits from Bank Group technical assistance;
c) The provision of international contacts, in-depth studies and other information which could be of considerable assistance to the economic planning of these countries; and
d) More resources for the poorer Arab countries (e.g. Jordan, the Yemen Arab Republic, Syria, Egypt) where IDA outlays have been increased substantially in recent years, but where our level of assistance is severely constrained by the shortage of IDA funds.

10. Mr. McNamara may enquire about possible Saudi plans over the next five to ten years for providing development assistance to other countries. Mr. Nafie suggests that direct questions about the Khartoum Agreement assistance (e.g., what would happen to the level of aid to Egypt if the Suez Canal were reopened through an interim solution) should be avoided; this is an emotional issue. Mr. McNamara may wish to refer to the points raised in paragraph 3 above, observing that Saudi Arabia's share of aid in GNP, although high by international standards, is declining. He may wish to tell the King that the Bank Group stands ready to be a channel for Saudi aid or, if the King prefers, participate in joint operations on the Sweden/IDA model.

11. It may prove that, because of the considerations described in paras. 4-6 above, the Saudis will be reluctant to provide assistance to other than Arab or Muslim countries, or to commit their financial resources beyond the short-to-medium term, in which case Mr. McNamara may wish to propose the following:

a) The Bank could arrange to issue Bank bonds in Saudi Arabia, for periods varying from 5 to 10 years as the Bank has done in Libya and Kuwait; or

b) A special account, to be funded by Saudi Arabia, may be created in the Bank for providing soft aid to Arab and Islamic countries. This fund could be used jointly with resources normally made available by the Bank Group. Alternatively, the Saudis may prefer to channel soft aid through a bilateral agency. In this event, Mr. McNamara may wish to offer technical assistance in setting up this agency, as was done for the Kuwait Fund.

F

COUNTRY DATA

A country data sheet has never been prepared by the Bank. The data shown below are derived from published sources of uncertain reliability.

Area	Population	Density
600,000-920,000 sq. miles	3½-11 million; no census;	perhaps 7 per sq. mile
Some boundaries indefinite	published range: 5-8 million	

Population Characteristics

Crude birth rate (per 1000) 50.0 (1965-70)
Crude death rate (per 1000) 22.7 (1965-70)
Infant mortality (per 1000 live births) 152 (1970-71)

Health

Population per hospital bed 784 (1970)
Population per physician 6,770 (1970)

Nutrition

Calorie intake per day 2080
(as % of requirement) 89%
Protein intake per day (grammes) 56

Education

Primary enrollment ratio	31%	(1968)
(females)	18%	(1968)
Secondary enrollment ratio	7%	(1968)
(females)	2%	(1968)
Literacy rate (total pop.)	5-15%	(1971)

GNP per capita: (range of estimates)
$440 (1970) - World Bank Atlas, 1972
$725 (1971) - S.A. Monetary Agency
$1000(1972) - see text

GDP in 1971 1/	U.S.$ bil.	% of GDP
GNP at factor cost 2/	3.85	75
Net factor payments	1.29	25
GDP at factor cost	5.14	100
Petroleum	3.09	60
Agriculture	.25	5
Industry and construction	.32	6
Services	1.48	29

Labor Force (1970)	('000)	(%)
Nomads	145	12
Agriculture	331	28
Petroleum	15	1
Mining, Manuf. Construction	208	18
Services	480	41
Total	1,179	100

Government Finance (1972) 3/	Riyal bill	% of GNP at f.c. 4/
Total revenue	10.78	56
(oil revenue)	9.86	52
Budgeted expenditure	10.78	56
Defense	2.70	14
Agriculture	.57	3
Education	.96	5
Aid to Arab countries 5/	.66	3
Other	5.89	31

1/ Actually 1390/91 in the Hejira fiscal year, from Sept. 1, 1970 to Aug. 22, 1971 in the Gregorian calendar.
2/ Riyals converted at current exchange rate of $1.00 = Riyals 4.14.
3/ 1391/92 in the Hejira fiscal year.
4/ Calculated on the assumption that 1972 (1391/92) GNP rose by 20%.
5/ Does not include all aid, some of which does not pass through the budget.

COUNTRY DATA

Money, Credit and Prices	1969	1970	1971	July 1972
	(billions of riyals outstanding, end period)			
Money	2.32	2.40	2.65	3.07
Quasi Money	.64	.74	.94	1.11
Claims on private sector	1.61	1.71	1.82	1.73
Net foreign assets	3.71	4.31	7.35	10.33

Balance of Payments, 1969-71	1969	1970	1971
		($ millions)	
Exports of goods and services	2,020	2,370	3,853
(of which: oil exports)	(1,840)	(2,173)	(3,615)
Imports of goods and services	-1,881	-2,078	-2,783
(of which: investment income)	(-724)	(-895)	(-1,433)
Current balance (excl. transfers)	139	292	1,070
Net transfers	-227	-274	-258
Capital movements	9	91	-49
Change in reserves (increase -)	127	-87	-805
Errors and omissions	-48	-22	42
Reserve Position, end of period			
Gross reserves of S.A. Monetary Agency[1]	607	662	1,465

Rate of Exchange

Before December 1971: U.S.$ 1.00 = Riyals 4.50
Riyals 1.00= U.S.$ 0.22

Since December 1971 : U.S.$1.00 = Riyals 4.14
Riyals 1.00= U.S.$ 0.24

POLITICAL BACKGROUND

1. Saudi Arabia as a political entity dates from 1924/25 when Abdul-Aziz ibn Saud, father of the present king, completed his conquest of the country, a process started in 1902 with the capture of Riyadh. He first took the title of the King of Hejaz, then of Nejd and finally in 1932, of Saudi Arabia. When he died in 1953 he was succeeded by his son King Saud, who was deposed in November 1964 by his brother, the present King Faisal ibn Abdul-Aziz.

2. Saudi Arabia is an absolute monarchy. King Faisal heads the government as Prime Minister and Minister of Foreign Affairs. The members of the Council of Ministers (a full list is given in Section D) include many from the royal family. Ministers are responsible to the king.

3. The apparatus of modern government -- ministries, civil service, budgeting, etc. -- has been rapidly built up in less than a decade. There are neither political parties nor popular franchise. However, a constitution, an independent judiciary, and a modern judicial system form part of an important reform programme begun in 1962. A minister of justice was appointed in 1970.

4. In 1970, there were some signs of growing unrest among certain sections of the armed forces, civil service and the oil industry. A number of arrests were made, and the political situation has been calm since then.

External Affairs

5. Since Faisal became king, Saudi Arabia has become the focal point for the "traditionalist" camp in Arab politics and has sought to strengthen its ties with other conservative and pro-Western countries in the area through the notion of an Islamic Pact. Until the six-day war of 1967, King Faisal's politics, together with his support for the royalists in the Yemen civil war, created a considerable degree of friction with his more left-wing Arab neighbors. Relations with Egypt, which backed the opposing republican regime in Yemen, were particularly strained. Since then Saudi Arabia has tempered its anti-Egyptian line as a gesture towards Arab unity. Meanwhile, Egypt, which is receiving substantial amounts of aid from Saudi Arabia, has shelved its campaign against King Faisal. Relations between the two countries are now cordial. A number of trade, economic and social agreements have been signed, and in the summer of 1971, King Faisal paid a state visit to Cairo.

6. Saudi Arabia has played a heavy-handed role in the affairs of her ally, the Yemen Arab Republic. The Saudis are known to view the proposed union of the Yemens with considerable misgivings, probably because of the powerful radical influence in the Peoples Democratic Republic.

inquire re outlook

7. Saudi Arabia is a member of the League of Arab States and of the Arab States Defense Pact. It is also a member of the Organization of Petroleum Exporting Countries (OPEC) and the Organization of Arab Petroleum Exporting Countries (OAPEC). It has a mutual Defense Assistance Agreement with the US covering procurement of weapons and assistance in training Saudi military forces.

8. Until recently one of the more remote Arab countries, Saudi Arabia, under the leadership of Sheik Yamani, the Minister of Petroleum and Wealth (see Section D), has played a leading role in the negotiations on participation between OPEC and the international oil companies.

9. The King is mainly interested in foreign affairs. Reputedly a friend of the United States, he is nevertheless deeply concerned over U.S. policy on Israel. The King is strongly anti-communist, and he asserts that there is a link between Zionism and communism. The State Department believes that the King will take the opportunity of his meeting with Mr. McNamara to air his views on this issue. The King's interest in promoting Moslem solidarity is a long-standing one. Like Col. Khedaffi of Libya, King Faisal is a very conservative Moslem, and both are beginning to exploit the potential powers of their financial resources to the ends of strengthening Islam and combatting Israeli influence in Islamic areas of Black Africa, as well as in the Arab World. Until recently, Saudi Arabia's financial commitments to Africa had been very modest, consisting largely in small grants for mosque construction, etc. However, the recent credit to Uganda (cited in Part E) was quite substantial -- in the order of $15 million. There are also press reports that King Faisal made a $10 million gift to Niger upon his recent visit there, but these reports have not been substantiated, and the State Department doubts their reliability. Given the reported antipathy between Faisal and Khedaffi, however, there seems a greater likelihood of Saudi-Libyan rivalry than of cooperation in these areas.

January 30, 1973

THE SAUDI ARABIAN ECONOMY

1. Saudi Arabia covers about four-fifths of the Arabian Peninsula and has an estimated area of 900,000 sq. miles. The country is divided into four provinces: Hejaz (northwest), Asir (southwest), Nejd (central plateau) and Al-Hasa (known in English as the Eastern Province) on the Arabian Gulf. The total population is uncertain, as a census has never been taken. Estimates range between 3½-11 million; published figures range between 5-8 million. Population growth probably exceeds 2% per annum. Over half of the population reportedly are nomadic or semi-nomadic, the remainder being farmers living in small scattered agricultural communities, and townspeople. Only about 1 percent of the land area (750,000 acres) is cultivated, although it is estimated that a much larger area is arable. Average land density is 7 per sq. mile, but most people live in the coastal regions, either in cultivable areas or commercial centers. The main cities are Riyadh, the administrative capital (about 300,000), Jeddah, the main business center (250,000), Mecca, the religious capital (200,000), and Medina (72,000), Taif (100,000), Hofuf (60,000), Dammam (40,000), and Dhahran, center of the oil industry (7,000, mainly expatriates). The indigenous population is entirely Arab.

2. Education: The literacy rate is estimated at under 20 percent of the population, Elementary, secondary, and higher education are free but not compulsory. Poor children are encouraged to attend school by financial subsidies, free books and free meals. Free education is also provided for Saudis at the university level abroad. In 1971, there were 19 colleges of higher education in Saudi Arabia; the first college for girls was opened in 1970. In 1969/70 there were reportedly 1700 primary schools (compared to only 600 a decade earlier) and 441 post primary schools. Total enrollment was reported at about 590,000 students in 1971 -- a more than threefold increase in the preceding eight years. The current government budget allocates roughly $350 million to education -- about 11% of the total budget.

3. Health: Life expectancy is estimated at about 44 years, infant mortality at about 152 per 1000 live births. The number of physicians in 1971 was reported as 820 -- about one per 7000 persons (using official population figures), or perhaps one per 4000 persons using a more realistic population estimate. In any event, Saudi health facilities remain grossly deficient. In 1971 there were perhaps 80 hospitals with 7,300 beds, but these hospitals were generally poorly staffed and poorly equipped. The Saudi's average daily caloric consumption is estimated at 2,100 calories per capita, but malnutrition remains prevalent.

4. Per Capita Income and its Distribution: The World Bank Atlas puts the 1970 per capita income at $440 -- based on an assumed 1970 population of 7.4 million. If the actual population is closer to half this much, as many believe, then the 1972 per capita income would be close to $1000. The Saudis estimated 1971 per capita income at $725. In any event, the income is distributed very unequally,

and the oil wealth has had relatively little effect on living standards of the people as a whole. Transport and communications facilities have been improved, the capital city has been modernized, and some progress has been made recently in increasing educational and public health facilities. But productive investment in developing other sectors has just begun to take place. The southern region (near the Yemen border) is said to be especially neglected. An estimated 75 percent of the population remains engaged in agriculture, which generates only 7 percent of the GNP. Saudi Arabia's present development policy has three broad objectives: the diversification of production and reduction of dependence on oil; increased employment in the modern sector; and a more equal distribution of wealth.

5. Structure and Growth of Output: The following table shows the evolution of the sectoral structure of the Saudi economy in recent years:

	Percent of GDP (f.c.)[a/] 1965	1971	Value of Output, 1971 ($ millions)[b/]	Av. Annual Growth (%) 1965-71
Petroleum[c/]	50.4	60.1	3,090	12.8
Agriculture	8.5	4.5	250	1.8
Manufacturing & Mining	2.1	2.0	101	11.1
Construction	4.9	4.2	215	4.6
Transp. & Comm.	7.2	6.7	346	11.6
Public Administration & defense	8.3	6.2	317	3.1
Other services	18.6	16.3	838	7.0
Net factor income payments to abroad	21.4	25.1	1,291	12.8

The growth of GDP in the six year period averaged 9.9 percent annually, and that of GNP, 9.0 percent annually.

6. The predominance of petroleum in the Saudi economy is underlined by the fact that in 1971, petroleum production and refining contributed over 60 percent of GDP. Petroleum revenues accounted for over 90 percent of total government revenues, and petroleum exports for over 97 percent of total exports. There is little mineral development except for oil, although mineral prospects are reportedly good, particularly for phosphate, iron ore, and heavy metals. Agriculture remains very backward. Dates are the staple crop and mainstay of life in the desert. Other Saudi crops include wheat, fruits, and vegetables.

a) Shares calculated from current prices series, growth rates from constant price series.
b) Riyals converted at $1 = 4.14.
c) Including refining.

Livestock (camels, goats and sheep) provide the means of livelihood for the majority of the people. A large and growing proportion of the country's food requirements are imported. The government has given increased emphasis to agricultural and water resources development (including desalinization plants) in recent years. According to a U.S. estimate, up to 15 percent of Saudi Arabia's land area is potentially cultivable, which suggests that this sector may become capable of absorbing very large amounts of capital in the coming decade. Until very recently, Saudi industry was limited to such items as soft drinks, paper products, building materials, etc. However, the General Petroleum and Mineral Organization (petromin) has branched out into refinery construction, steel rolling, fertilizers and other oil-based industries. Tourism has grown in absolute terms as the number of foreign Haj pilgrims reached nearly 500,000 last year, bringing total travel earnings to well over $100 million. But these earnings now comprise only 3 percent of total exports, and are declining in relative importance in view of the preponderance of oil.

Should we help organ a sector study + long-range devt plan

7. The Development Plan: Saudi Arabia's first Development Plan was launched in September 1970. It was originally intended to cover the five years following that date, but it was feared that insufficient funds would be available to permit its implementation within five years. In the aftermath of the 1967 Middle Eastern conflict, Saudi Arabia's oil output was increasing only slowly, while increased demands on revenues were being made for military expenditure and for aid to Egypt and Jordan under the Khartoum Agreement. Thus, in 1968 and 1969, consecutive deficits appeared in the balance of payments, and external reserves declined by over $150 million. The authorities then foresaw a revenue shortfall of about $2 billion below the Plan's projected outlays of $5.1 billion in current expenditures and $4.1 billion in capital expenditures over the five year period.

8. Since mid-1970, of course, the projected oil revenue prospects have changed dramatically as a result of various new oil agreements. Indeed, revenues have been increasing at perhaps twice the projected rate, which implies that Saudi Arabia will get about $5-6 billion more than was then anticipated over the five year period. In these circumstances, and for at least the short run, the binding constraint on Saudi development will not be financial availabilities, but rather absorptive capacity -- particularly the shortage of trained manpower. The heavy claims on resources by the military is also seen as a constraint. In 1971, military spending absorbed over 30 percent of the budget.

9. The Plan itself recognizes that Saudi Arabia's potential will depend largely on manpower training, changes in the occupational distribution of the labor force, on improved legal and administrative procedures, addition to the physical infrastructure (feeder roads, secondary airports, telecommunications, low-cost urban housing municipal water and sewerage systems, rural electrification), and diversification especially in the field of agriculture and small

industry. In the view of the U.S. Government, the Saudis now seem committed to the Plan's success, though it is also reported that the existing Plan may be supplanted by a new Plan, to be issued in about two years. The existing Plan aims at a GDP growth rate of about 10 percent annually, with target rates of 5 percent for agriculture, 23 percent for non-petroleum mining, 14 percent for manufacturing, 13 percent for transport and communications, 19 percent for education, and 10 percent for health. Of the projected investment outlays, 30 percent was allocated for defense, 31 percent for transport and communications, 18 percent for public utilities and urban development, 7 percent for education, and 5 percent or less for administration, industry, agriculture and health and social affairs.

inquire about development prog & new budget for agriculture pt

10. Government Finances: The following table presents a summary of the evolution of Government finances in recent years:

Central Government Budgets

	Fiscal years ending 1969	1970	1971	1972	1973		
	millions of riyals					$ bil	%
Total Revenue	5,101	5,553	6,380	10,782	13,200	3.19	100
of which: Oil revenue	4,196	4,784	5,436	9,855	..	..	..
Total Expenditure	5,536	5,966	6,380	10,782	13,200	3.19	100
Defense	1,448	1,818	2,008	2,695	3,951	.95	30
Agriculture	487	382	313	569	708	.17	5
Education	487	484	546	960	1,410	.34	11
Health	170	168	177	279	421	.10	3
Communications	795	701	633	1,483	1,435	.35	11
Aid to Arab countries			400	660	660	.16	5
Other	2,154	2,413	2,303	4,136	4,615	1.11	35
Deficit	435	413	-	-	-	-	-
Memorandum Item							
Cash outlays (not incl. Arab aid)	4,940	5,417	5,756	7,195	..	..	..
(as % of total expend.)	89%	91%	90%	67%	..	..	..
Privy purse allocation	..	173	173	173	173		

11. This table represents budgetary allocations; actual expenditures are indicated only by a summary figure at the bottom. Saudi budgets are required by law to be balanced, but there are various funds and reserves which obscure this issue. In any event, it may be seen from the table how completely oil revenues dominate the fiscal structure, and how significant on the expenditure side are outlays for defense, communications, and aid to Arab countries. The share of expenditure on social services may also be seen to have risen substantially. The Government does not have a capital budget as such, but capital formation in the public sector is approximated by the "project expenditures" of the development budget. This budget remained at close to Rls 2.6 billion from 1968-70, and was increased to Rls 5.0 billion in 1971. In recent years, actual outlays under the project budget averaged about 80 percent of allocations, and about 15 percent of GNP. Total investment in 1971 was estimated at about 20 percent of GNP.

12. This apparent limit to absorptive capacity suggests that the shortfall in coming years may widen considerably, as oil revenues are projected to rise by an average of about 20 percent annually over the next several years, reaching $4.5 billion by 1975 and $8.7 billion by 1980. Even if the Saudis experience a considerable rise in their capital output ratio (as might be expected as they push this absorptive capacity for investment to the limit), and even if high levels of consumption as well as investment are financed by these revenues, it still appears inevitable that enormous external reserves may continue to be accumulated through the decade. Gross foreign exchange reserves already stand at $2.3 billion (10 months' imports at the 1971 level), having risen by $800 million in 1971 and by another $820 million in the first eleven months of 1972. In 1973, Saudi Arabia should achieve its target of having reserves equivalent to a full year's imports.

what is the Saudi allocation

13. On the basis of interviews in Saudi Arabia, Mr. Vickers of the Wall Street Journal cited an estimate that reserves would reach $30 billion within the next decade. (See attached article of January 23, 1973, in Section I). It is not known whether this figure represents the Saudi's current estimate or Mr. Vickers' personal guess, but it does not seem out of bounds. By our own estimates, total cumulative Saudi oil revenues (including additions from participation) in the ten years 1973-82 would approximate $70 billion. On this basis, in order to reach a reserve level of $30 billion, Saudi Arabia would have to spend $42 billion of its oil revenues over the decade -- a sum equivalent to 6½ times the cumulative oil revenues of the 1960's, or more than 10 times the 1971 GNP. The Saudis appear to be trying hard to expand their absorptive capacity (the project budget was nearly doubled in 1972 and was increased by another 33 percent this year), but obviously they can't begin for some years to absorb productively the wealth now beginning to accrue to them. However, we do not know to what extent they may be inclined to use the increased revenues for consumption, or to push their absorptive capacity

how will they use

to the limit (e.g. through expensive reclamation projects with very low rates of return), or to invest their resourcesoutside the country, whether "downstream" in the oil industry or elsewhere.

14. Balance of Payments: The Uses of Oil Earnings: The sources and uses of oil revenues from a budgetary point of view was described in paragraphs 10 and 11 above. The following table gives a sources and uses breakdown for calendar years 1970-71, from a balance of payments' perspective:

Sources and Uses of Oil Export Receipts, 1970-1971 *

	1970	1971
	(In millions of $)	
Receipts		
Exports of oil 1/	2173	3615
Payments		
Investment income	895	1433
Other goods and services, net	986	1112
Unrequited transfers, net	274	258
(Gross outflows: private 2/	(188)	(177)
government)	(147)	(147)
Direct investment	-20	115
Private long-term capital, net	-82	9
Private short-term capital, net	-12	-98
Central government capital, net	-	-
Commercial bank capital 3/, net	23	23
Errors and omissions	22	-42
Increase in reserves	87	805

It may be seen that the gross oil exports less investment income payments, as reported above, very closely approximate the net oil revenues reported in the central government budgets (para. 10). The small discrepancy is probably attributable to the fiscal year-calendar year difference. The table above is essentially self-explanatory, though attention should be given to footnotes (2) and (3).

1/ On the basis of posted prices less allowances.
2/ Includes donations in cash and kind to other Arab countries.
3/ It is believed that some Saudi loan assistance to other countries (e.g. Yemen and Uganda) has been channelled through commercial banks' accounts.

* Source: Adapted from IMF Balance of Payments Yearbook and data from the S.A. Monetary Agency.

FOREIGN ASSISTANCE AND DEBT

1. Foreign Assistance: What we know about Saudi Arabia's foreign assistance has been described in Part E.

2. External Debt: We have no information on this. It is presumed that official debt is negligible, though there might be some military debt outstanding. Loans received (gross) by the central government have averaged only $14 million annually over the past five years. Trade credits to the private sector have averaged $50 million (net) over the same period. The only interest payments reported in the balance of payments (under investment income) apply to loans from the U.S. Government for the purchase of military equipment; these payments have averaged only a few million dollars annually.

SAUDI ARABIA

THE PETROLEUM SECTOR: ITS POSITION AND PROSPECTS

Background

1. Concessions: The original and most important producer and exporter of petroleum is the Arabian American Oil Company (ARAMCO), owned 30% each by Standard California, Exxon and Texaco and 10% by Mobil. In 1972 it exported about 6.0 million barrels per day (b/d) of oil.1/ The balance of Saudi oil is produced in the Saudi Arabia-Kuwait neutral zone. Exports of Saudi Arabia's half-interest in 1971 averaged 189,000 b/d from the Arabian Oil Company (AOC)'s offshore fields, and 93,000 b/d from Getty Oil's onshore fields. The above and other concession holders' fields are briefly described in Attachment A. (All references to attachments apply only to this sector brief, not to the country brief as a whole.)

2. Reserves: Proven recoverable reserves of oil at end-1972 are conservatively estimated at 138 billion barrels, or 20% of world reserves. These reserves could support over 60 years of production at the current rate of offtake. Production comes from about 535 wells, indicating a high average production of 8,700 b/d per well. Saudi Arabia is now the world's third largest oil producer (after the U.S. and Soviet Union), and is the world's largest oil exporter.

3. Refinery: ARAMCO's refinery at Ras Tanura has a crude oil distillation capacity of 415,000 barrels per stream day; the refinery also processes condensate (propane, butane and some heavier hydrocarbons) as feedstock for other refinery units. Exports of refined products in 1971 averaged 494,000 b/d.

Petromin

4. The state enterprise Petromin was formed to operate in all phases of oil and other minerals in Saudi Arabia. Its interests include a steel rolling mill at Jidda and a 51% holding in companies for geophysical survey, drilling and marine petroleum construction. Its exploration activities are described in Attachment A. Petromin is understood to be the Government's instrument in holding an initial 25% participation in ARAMCO. It has taken over from ARAMCO the distribution of refined products in the local market; this amounted to about 25,000 b/d in 1971. Petromin

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1/ One million barrels per day (b/d) equal to about 50 million tons per year. On average there are 7.30 barrels per metric ton of Saudi Arabian crude.

has a 71% interest in SARCO, which operated a refinery at Jidda; this has a capacity of 12,000 b/d, planned to be expanded to 45,000 b/d. Petromin also has a 71% interest (Mobil 29%) in a 50,000 barrel/year lubricating oil blending plant at Jidda.

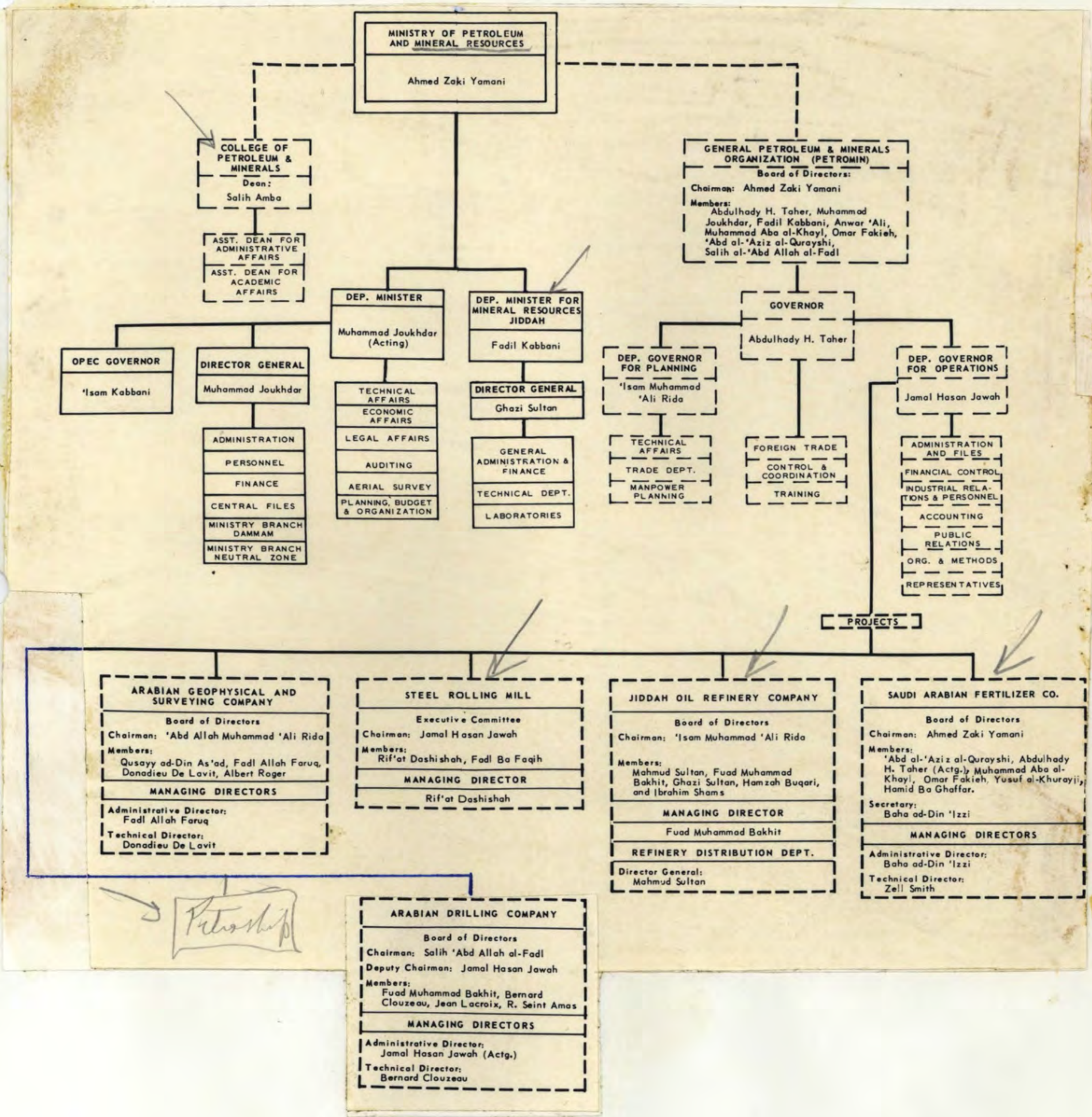
5. Petromin has 51% interest in the Saudi Arabian Fertilizer Company (SAFCO); the remaining 49% is Saudi private capital. SAFCO has completed an ammonia-urea plant for $40 million at Damman, taking ARAMCO's associated gas as feedstock. Occidental Petroleum will manage the plant (for an unknown period of years) and market the output of anhydrous ammonia, urea, and sulphur. A sulphur recovery plant at Damman is planned in association with Occidental Petroleum. A petrochemical venture is similarly planned in association with ANIC, a petrochemical subsidiary of ENI.

6. Petromin's subsidiary Petroship is being developed as a tanker owner and operator. In addition, Saudi Arabia has ratified the OAPEC agreement to form a joint tanker fleet, to be named the Arab Maritime Company for Petroleum Transportation.

7. Organization of the Sector: The chart on page 3, prepared by ARAMCO in 1969, shows the structure of the Ministry of Petroleum and Mineral Resources and of Petromin. The number of projects in which Petromin is engaged has increased since the chart was prepared, and some positions may have changed, but the basic organization remains the same. It should be noted that Sheik Yamani is not only Minister of Petroleum but also Chairman of the Board of Petromin.

SAUDI ARABIA

ORGANIZATION OF PETROLEUM ADMINISTRATION



Source: Prepared by ARAMCO, 1969

Production, Prices, and Government Revenues

8. Table 1 summarizes Saudi Arabia's crude oil exports (measured in both tons and barrels), revenues per barrel and total government revenues over the period 1955-71 (actual), as estimated for 1972, and as projected to 1985. It may be seen from this table that between 1960-70 oil exports increased nearly threefold, while revenues per barrel rose by only 17%, with the consequence that total revenues increased by a factor of 3.4. Between 1970-80, the volume of exports is projected to increase by a factor of 3.2, revenues per barrel by a factor of 2.3, and total revenues by a factor of 7.2, excluding the effect of participation. Including the effects of participation, total revenues are projected to reach nearly 8 times 1970 revenues by 1980 and nearly 15 times 1970 revenues by 1985. In the ten year period 1971-80, cumulative production is projected at 4.2 billion tons, and cumulative revenues at some $50 billion (excluding effects of participation), or about $52 billion including effects of participation. The background to this past growth and the assumptions underlying the projected future growth are described below.

Table 1.

Petroleum Production, Prices, and Revenues

I. Crude Oil Exports

A. In millions of metric tons

1955	48	1969	160	1975	410
1960	65	1970	188	1976	443
1965	109	1971	236	1977	478
1966	129	1972 est.	301	1978	517
1967	139	1973	315	1979	558
1968	152	1974	357	1980	603

B. In millions of barrels

1955	350	1969	1158	1975	2746
1960	474	1970	1359	1976	2936
1965	787	1971	1706	1977	3182
1966	932	1972 est.	2200	1978	3443
1967	1005	1973	2300	1979	3862
1968	1099	1974	2405	1980	4342
				1985	6831

Table 1. (Continuation)

Petroleum Production, Prices, and Revenues

II. Government Revenue per Barrel (Cents)

1955	82	1969	87	1975	163
1960	75	1970	88	1976	170
1965	83	1971	127	1977	177
1966	83	1972 est.	144	1978	185
1967	85	1973	149	1979	192
1968	88	1974	156	1980	200
				1985	243

III. Total Government Revenues 1/
(millions of U.S. dollars)

1955	288	1969	1008	1975	4451
1960	355	1970	1200	1976	4985
1965	655	1971	2160	1977	5637
1966	777	1972 est.	3170	1978	6358
1967	852	1973	3430	1979	7428
1968	965	1974	3747	1980	8689
				1985	16580

1/ Revenues on a calendar year and accrual basis, these figures may differ somewhat from text figures reported on a fiscal year and collection basis. Projected revenues do not include estimated benefits from participation.

Source: OPEC

9. Government Revenues, 1960-72: Oil revenues accruing to Saudi Arabia rose from $355 million equivalent in 1960 to $1.2 billion calendar 1970 on an accrual basis ($1.15 billion on a collection basis). This mostly reflected growth in export volumes, as government revenue per barrel increased only a little, as a consequence of a 1964 requirement that royalties be deducted in computing net taxable income.

10. However, successful Libyan negotiations led to increases effective September 1, 1970 of posted prices (i.e. tax-reference prices) and tax rates of crudes exported from Mediterranean and Nigerian ports. The posted price of Arabian Light (34.0°) f.o.b. Sidon, Lebanon was raised from $2.17

to $2.37 per barrel, although Tapline remained closed from May 3, 1970 to January 29, 1971. Then, effective November 14, 1970 tax rates of crudes exported from the Persian/Arabian Gulf including Saudi Arabia were raised from 50 to 55 percent. Posted prices f.o.b. Ras Tanura remained unchanged at $1.80 per barrel for Arabian Light (34.0°) but were increased by nine cents each for Arabian Medium (31.0°) and Heavy (27.0°) to levels of $1.68 and $1.56 respectively. [See tables 4.5 and 6 below.] Government "take" per barrel rose by an average 11% per barrel for the above crudes (weighted 75:5:20, respectively).

11. The <u>Teheran Agreement</u>, effective February 15, 1971 between oil companies and governments of six countries including Saudi Arabia, resulted both in a major increase in posted prices and in a consolidation of tax rates at 55%. The above postings became $2.18, $2.085 and $1.96 for Light, Medium and Heavy crudes respectively, and Government revenue rose by an average 29% per barrel. The agreement was to constitute a final settlement of Government "take" per barrel and of the companies' financial obligations until end-1975. It provided for contractual escalation of posted prices during this period of 2.5% for inflation and 5 cents per barrel for general escalation on June 1, 1971 and each January, 1973-1975.

12. Posted prices and tax rates for crudes exported from Mediterranean ports were similarly increased, effective March 20, 1971, in agreements between governments and companies. The first of these agreements was the <u>Tripoli Agreement</u> which raised the posted price for Arabian light (34.0°) f.o.b. Sidon, Lebanon to $3.181 per barrel. This raise consists of two elements: (i) a base posting which escalates in line with the Teheran Agreement, and (ii) two temporary premia which represent Saudi Arabia's freight advantage -- including that from closure of the Suez Canal -- over the Arabian Gulf to the NW European market. The income tax rate for such exports was consolidated at 55%.

13. Total production in 1971 was 4.8 million b/d, an increase of 26% over 1970. Moreover, Government revenue per barrel increased by an average 40% over 1970. Thus Government oil revenue was $2.16 billion in 1971 on an accrual basis, an 80% increase over 1970. On a collection basis it was $1.95 billion, 69% higher than in 1970.

14. <u>The Geneva Agreement and 1972 Revenues</u>: Effective January 20, 1972 posted prices in the Gulf States were again increased by 8.49% under the Geneva Agreement in compensation for the international currency realignment of December 1971. Parallel agreements also effective January 20 were subsequently reached for exports from Mediterranean ports. All agreements include a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with the U.S. dollar; the index has not yet been brought into use. Posted prices f.o.b. Ras Tanura thereby rose to $2.479, $2.373 and $2.239 per

barrel for Arabian Light, Medium and Heavy crudes respectively per barrel; and Government revenue from each crude rose by 14% over the weighted averages for 1971. The posted price f.o.b. Sidon for Arabian Light rose to $3.370 per barrel. Crude oil exports are estimated at about 301 million tons in 1972 (6.0 million b/d), which is an increase of 29% over 1971. Thus Government revenue is estimated at $3.17 billion in 1972, up 47% over 1971 on an accrual basis.

Future Expansion of Output

15. ARAMCO is planning additional capacity to raise output to 10 million b/d by 1977 if demand warrants it. It has nearly completed works needed for an initial expansion, which (i) will bring in production from the offshore Zuluf and Marjan fields and will export such crude via a 230,000 dwt storage tanker, and (ii) will double the capacity of the Berri field to 600,000 b/d. It has also just increased the berths from six to eight at the Ras Tanura terminal. ARAMCO is understood to be planning a new port able to load the largest tankers under construction; this port would eventually more than double ARAMCO's export capacity.

16. Saudi Arabia -- and to a lesser extent Iran and Abu Dhabi -- evidently stand ready to act as "swing" sources of oil, from which increased production will be available to accommodate changes in world demand. On this basis, we forecast Saudi production in the order of 12 million b/d by 1980 and nearly 19 million b/d by 1985 (see Table 2). That this is feasible is supported by the statement in May 1972 by Sheikh Yamani, the Minister of Petroleum and Mineral Resources, that Saudi Arabia envisages increasing its crude oil output to 20 million b/d (1,000 million tons p.a.) by 1980. This amount would represent roughly the entire predicted Western European oil demand that year.

Saudi Arabia's Proposal for a Special Oil Relationship with U.S.

17. Sheikh Yamani's statement is particularly important in light of his widely reported address in September 1972 at the Middle East Institute's annual meeting in Washington D.C. on "Prospects for Cooperation between Oil Producers, Marketers and Consumers". (Attachment I). He foresaw two problems to be tackled after that of government participation in concessions: (i) new oil prices when the Teheran Agreement expires at end-1975, and (ii) the likely shortage of energy supplies in the 1980's. He said that Saudi Arabia extended its hand to the U.S., and he called for a commercial oil agreement which would give Saudi oil a special place in the U.S., by exempting it from restrictions and duties and by encouraging additional investment of Saudi capital in marketing such oil in the U.S. He made clear that this proposed relationship would give the U.S. preference over Europe and Japan. The Saudi proposal seeks: (i) a steady and growing supply of Saudi oil to meet the U.S. growing energy deficit; (ii) large-scale Saudi investment in downstream facitilities in the U.S. which would help alleviate the U.S. energy import bill; and (iii) a steadying influence on relations between Arab oil producers and the U.S.

companies are summarized in Attachment A to the memorandum on OPEC oil projections (in the Gulf Region brief). Effective from January 1, 1973, Saudi Arabia acquires an initial 25% participation in the equity of ARAMCO for a sum of $500 million. This was calculated on the basis of the updated book formula in the General Agreement.

22. The formula for the prices at which foreign partners will buy back the Government's share of output follows the lines envisaged in the General Agreement. The foreign partners are now negotiating with their customers to pass on the additional cost incurred in buying back such crude, which had been available to them at tax-paid cost prior to January 1, 1973. Their average cost of oil liftings -- including their own crude, bridging crude and phase-in crude -- is calculated to rise in 1973 by about an average 9½ cents per barrel for Arabian Light, 8 cents for Medium and 7½ cents for Heavy crudes (Tables 4, 5, and 6). These increases are additional to those of about 6½ cents per barrel also on January 1, resulting from escalation under the Teheran Agreement. In practice, foreign partners are currently seeking widely different price increases (ranging from 7.5 cents to 15 cents per barrel) to offset their differing costs of replacing previous availability to equity crude. For example, if they are overlifting in excess of their equity share of output, they would have to buy the overlifted crude at market price.

23. The revenue to Saudi Arabia from selling its share of output, both to foreign partners as bridging and phase-in crude and to third parties for export, is estimated at about 8-10 cents per barrel of total output during 1973-1978. This is additional to what it would obtain from royalty and taxation. This additional participation revenue per barrel of output could likely double by the early eighties.

24. The gross annual benefit to Saudi Arabia from participation is hence about $200 million p.a. during 1973-1976, increasing to about $600 million by 1980 and $1.2 billion by 1985 (Table 3). Assuming that payments for Saudi Arabia's initial equity participation are made over three years, the indicated installments in 1973-1975 would leave a balance of about $35 million of net yearly benefits on average. However, the benefits are predicted to rise strongly thereafter to about $500 million by 1980, and to perhaps $1.2 billion by 1985.

Table 2

SAUDI ARABIA: FORECAST OF CRUDE OIL PRODUCTION, 1973-1985

	1973	1974	1975	1976	1977	1978	1979	1980	1985
	(million metric tons)								
Total output a/	315.0	329.5	374.8	402.1	436.0	471.7	529.1	594.8	936.0
	(million b/d)								
Total output	6.3	6.6	7.5	8.0	8.7	9.4	10.6	11.9	18.7
ARAMCO via Arabian Gulf	5.6	5.9	6.8	7.3	8.0	8.7	9.9	11.2	18.0
ARAMCO via Sidon	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
	(million barrels)								
Total output	2,300	2,405	2,736	2,935	3,182	3,443	3,862	4,342	6,831
ARAMCO via Arabian Gulf	2,047	2,152	2,480	2,680	2,926	3,187	3,606	4,086	6,575
ARAMCO via Sidon	183	183	183	183	183	183	183	183	183
Other	70	70	73	72	73	73	73	73	73
Partners' share in output	(barrel of output a/)								
Foreign share	0.75	0.75	0.75	0.75	0.75	0.70	0.65	0.60	0.49
National share	0.25	0.25	0.25	0.25	0.25	0.30	0.35	0.40	0.51
- bridging	0.1875	0.125	0.0625	-	-	-	-	-	-
- phase-in crude b/	0.0375	0.075	0.1250	0.175	0.1625	0.195	0.21	0.2225	0.1495
- retained b/	0.0250	0.050	0.0625	0.075	0.0875	0.105	0.14	0.1775	0.3605
Foreign partners' liftings	(barrel of output b/)								
ARAMCO:	0.975	0.95	0.9375	0.919	0.888	0.852	0.794	0.735	0.546
- own share	0.75	0.75	0.75	0.75	0.75	0.70	0.65	0.60	0.49
- bridging crude	0.1875	0.125	0.0625	-	-	-	-	-	-
- phase-in crude c/	0.0375	0.075	0.1250	0.162	0.138	0.152	0.144	0.135	0.056

a/ Conversions assume 7.37, 7.24 and 7.06 barrels per metric ton to Arabian light (34.0°), medium (31.0°) and heavy (27.0°) crudes respectively. The ratio of output is assumed to be 75:5:20 respectively. Weighted conversion is hence 7.30 barrels per metric ton.

b/ General Agreement on Participation expressed the phase-in and retained parts of its share of output after 1975 purely in terms of 1975 output.

c/ The foreign partners lift (i) their own share and (ii) the bridging and phase-in parts of the national share of output. It is all, including that lifted after 1975, expressed in terms of output in the year in question.

Table 3

SAUDI ARABIA: FORECAST OF EXPORT RECEIPTS AND GOVERNMENT REVENUE, 1973-1985

	1973	1974	1975	1976	1977	1978	1979	1980	1985
	(US$ million)								
Gross Export Receipts	4668.0	5036.2	5036.2	6462.1	7256.6	8149.5	9445.6	10952.7	19809.0
ARAMCO via Arabian Gulf	4114.0	4463.2	5309.7	5845.1	6618.6	7489.5	8762.6	10247.7	19166.0
ARAMCO via Sidon	426.0	441.0	456.0	472.0	488.0	504.0	521.0	538.0	447.0
Others	128.0	132.0	142.0	145.0	150.0	156.0	162.0	167.0	196.0
Government Revenue from royalties and taxes	3430.0	3746.6	4451.1	4985.1	5636.8	6358.1	7427.6	8688.8	16579.3
ARAMCO via Arabian Gulf	3005.0	3303.3	3983.4	4497.6	5127.5	5827.0	6874.5	8113.2	15881.3
ARAMCO via Sidon	329.6	344.2	359.4	374.1	390.7	407.2	423.8	440.8	533.1
Others	94.5	99.1	108.3	113.4	118.6	123.9	129.3	134.8	164.9
Government Benefit from Participation									
Additonal gross revenue									
ARAMCO via Arabian Gulf	202.7	208.7	230.6	183.9	252.5	340.7	457.6	599.4	1167.7
Less Purchase Price of Share ARAMCO	150.0	201.2	188.1	-	-	30.0	70.3	107.9	-
Net Benefit	52.7	7.5	42.5	183.9	252.5	310.7	387.3	491.5	1167.7

Attachment A

Concession Holders and Producing Fields

1. ARAMCO holds 272,000 sq. km. in the eastern part of Saudi Arabia, having made relinquishments in 1960, 1963 and 1968. ARAMCO's fields fall into three main groups:

(i) Five producing fields are located south and west of the export terminal and refinery at Ras Tanura. These are: the Ghawar field - the world's largest field, divided into sections (Haradh, Hawiyah, Uthmaniyah, Shedum, Ain-Dar and Fazran); the Khurais field; the Abqaiq field in the north-east (second largest in Saudi Arabia); the Qatif field (extending offshore); and the Damman field. ARAMCO's administrative headquarters at Dhahram are situated on the Damman field. Crude oil from the above fields is sent by ARAMCO pipeline to: (a) the Ras Tanura terminal for export as crude or for refining into products for exports, (b) via submarine pipeline to the Bahrein refinery for export or (c) to the Mediterranean loading terminal at Sidon, Lebanon via the Trans-Arabian Pipeline (Tapline) through Jordan and Syria. In 1971 two other fields, Harmaliyah and Mazalij, were discovered in this area.

(ii) Two fields, Abu Hadriya and Fadhili, are close to the ARAMCO pipeline at Qaisumah. Their crude is sent through this line and Tapline for export at Sidon, Lebanon.

(iii) A northern group of fields is linked by a pipeline system from the offshore Safaniya field (just south of the Saudi-Kuwait Neutral Zone) to Ras Tanura. The fields are: Safaniya (the world's largest offshore field and the third largest Saudi Arabian field); the Manifa offshore field; the Khursaniyah onshore field; and the Berri field (both on and offshore). A separate offshore field is Abu Safah, which is linked by pipeline directly to Ran Tanura; its revenues are shared with Bahrein. ARAMCO has not yet brought into production the offshore fields in this area at Karan and Jana (found in 1967) and at Zuluf and Marjan (newly found).

2. The state enterprise Petromin (General Petroleum and Mineral Organization) has done much surveying of the Rea Sea coastal area and of ARAMCO's relinquished areas in central Arabia. It is reported to have located promising structures.

3. In 1967 a concession was granted to the French state enterprise, ERAP. This covers 26,800 sq. km. along the Red Sea. Tenneco later acquired a one-third interest in ERAP's rights. A gas and condensate field was found at Bargan. Part or the remaining area has been relinquished. Petromin can opt to participate 40% in the concession - and vote 50% - if commercial oil is proven.

4. Joint venture agreements have been signed with a ENI-Phillips group and with Sinclair (replaced by Sun Oil)/Natomas/Pakistan government agency group, covering other areas in Saudi Arabia. Thus far, no commercial oil is reported to have been found.

5. Saudi Arabia is expected to award grants shortly for two concession areas in central Arabia recently relinquished by ARAMCO. Bids have been submitted by Mobil, Occidental and an Overseas Petroleum (Japanese)/ Sun Oil/Cities Service group. Petromin is likely to take a 51% share in the concessions.

SAUDI ARABIA: ACTUAL AND FORECAST TAX-PAID COST OF ARABIAN LIGHT CRUDE OIL (34.0° API) F.O.B. RAS TANURA, 1970-1985
(U.S. Cents per Barrel)

Effective Date of Agreement To:	Nov 13, 1970	Nov 14, 1970	February 15, 1971/a		January 20, 1972/b				Mission Assumptions/c									
Date of Price Calculation	Jan 1, 1970	Jan 1, 1971	Feb 15, 1971	June 1, 1971	Jan 20, 1972	Jan 1, 1973	Jan 1, 1974	Jan 1, 1975	Jan 1, 1976	Jan 1, 1977	Jan 1, 1978	Jan 1, 1979	Jan 1, 1980	Jan 1, 1981	Jan 1, 1982	Jan 1, 1983	Jan 1, 1984	Jan 1, 1985
Posted price effective since 1968	180.0	180.0	180.0															
add: general increase			33.0															
freight disparity			2.0															
gravity adjustment			3.0															
Base posting			218.0	218.0	228.5	247.9	259.1	270.6	282.4	294.5	306.9	319.6	332.6	345.9	359.5	373.5	387.8	402.5
add: escalation of 2.5%				5.5	-	6.2	6.5	6.8	7.1	7.4	7.7	8.0	8.3	8.6	9.0	9.3	9.7	10.1
escalation of 5 cents				5.0	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
supplement of 8.49%				-	19.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Posted price	180.0	180.0	218.0	228.5	247.9	259.1	270.6	282.4	294.5	306.9	319.6	332.6	345.9	359.5	373.5	387.8	402.5	417.6
less: gravity allowance	3.1	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
percent allowance	6.3	3.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
marketing allowance	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
royalty	22.5	22.5	27.3	28.6	31.0	32.4	33.8	35.3	36.8	38.4	40.0	41.6	43.2	44.9	46.7	48.5	50.3	52.2
Deductible costs	45.4	43.1	40.3	41.6	44.0	45.4	46.8	48.3	49.8	51.4	53.0	54.6	56.2	57.9	59.7	61.5	63.3	65.2
Net Taxable Income	134.6	136.9	177.7	186.9	203.9	213.7	223.8	234.1	244.7	255.5	266.6	278.0	289.7	301.6	313.8	326.3	339.2	352.4
	(@ 50%)																	
Income Tax @ 55%	67.3	75.3	97.7	102.8	112.1	117.5	123.1	128.8	134.6	140.5	146.6	152.9	159.3	165.9	172.6	179.5	186.6	193.8
	22.5	22.5	27.3	28.6	31.0	32.4	33.8	35.3	36.8	38.4	40.0	41.6	43.2	44.9	46.7	48.5	50.3	52.2
Government "Take"	89.8	97.8	125.0	131.4	143.1	149.9	156.9	164.1	171.4	178.9	186.6	194.5	202.5	210.8	219.3	228.0	236.9	246.0
add: production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Tax-paid cost to producer	102.8	110.8	138.0	144.4	156.1	162.9	169.9	177.1	184.4	191.9	199.6	207.5	215.5	223.8	232.3	241.0	249.9	259.0
Foreign Partners' Participation cost						9.6	8.6	7.7	4.7	5.3	6.3	6.4	6.4					3.6
Producers' margin						34.5	34.5	35.2	34.9	34.8	35.1	35.1	35.1					35.4
Realized f.o.b. export price						207.0	213.0	220.0	224.0	232.0	241.0	249.0	257.0					298.0

a/ Under the Teheran Agreement of February 15, 1971 the base postings for the Gulf exporters of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, rising on June 1, 1971 and on each January 1, 1973 - 1975 by 2.5% for inflation plus 5¢ for general escalation. They also rise by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities, plus an additional increase of 1¢ for Iranian Heavy, Arabian Medium and Kuwait Crudes.

b/ Under the Geneva Agreement of January 20, 1972 posted prices for the above Gulf exporters were increased that date by 8.49% to compensate for the international currency realignment of December 1971. The increase is close to the revaluation of sterling to the US dollar; sterling is the currency used for oil revenue payments by most Gulf exporters other than Saudi Arabia. The Agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with US dollar; the projections assume no change in the index.

c/ The Teheran and Geneva Agreements expire on December 31, 1975. Projections thereafter assume that the same provisions would continue through 1980.

HBothwell/JFoster:jl
January 25, 1973

TABLE 5

SAUDI ARABIA: ACTUAL AND FORECAST TAX-PAID COST OF ARABIAN MEDIUM CRUDE OIL (31° API), F.O.B. RAS TANURA, 1970-1985
(U.S. Cents per Barrel)

Effective Date of Agreement	Nov 13, 1970	Nov. 14, 1970	February 15, 1971 /a		January 20, 1972 /b				Mission Assumptions /c									
Date of Price Calculation	Jan 1, 1970	Jan 1, 1971	Feb 15, 1971	June 1, 1971	Jan 20, 1972	Jan 1, 1973	Jan 1, 1974	Jan 1, 1975	Jan 1, 1976	Jan 1, 1977	Jan 1, 1978	Jan 1, 1979	Jan 1, 1980	Jan 1, 1981	Jan 1, 1982	Jan 1, 1983	Jan 1, 1984	Jan 1, 1985
Posted price effective since 1968	159.0	168.0	168.0															
add: general increase	-	-	33.0															
additional	-	-	1.0															
freight disparity	-	-	2.0															
gravity adjustment	-	-	4.5															
Base posting			208.5	208.5	218.7	237.3	248.2	259.4	270.9	282.7	294.8	307.2	319.9	332.9	346.2	359.9	373.9	388.2
add: escalation of 2.5%			-	5.2	-	5.9	6.2	6.5	6.8	7.1	7.4	7.7	8.0	8.3	8.7	9.0	9.3	9.7
escalation of 5 cents			-	5.0	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
supplement of 8.49%			-	-	18.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Posted price	159.0	168.0	208.5	218.7	237.3	248.2	259.4	270.9	282.7	294.8	307.2	319.9	332.9	346.2	359.9	373.9	388.2	402.9
less: gravity allowance /d	1.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
percent allowance	5.6	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
marketing allowance	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
royalty	19.9	21.0	26.1	27.3	29.7	31.0	32.4	33.9	35.3	36.9	38.4	40.0	41.6	43.3	45.0	46.7	48.5	50.4
Deductible costs	40.8	39.9	39.1	40.3	42.7	44.0	45.4	46.9	48.3	49.9	51.4	53.0	54.6	56.3	58.0	59.7	61.5	63.4
Net Taxable Income	118.2	128.1	169.4	178.4	194.6	204.2	214.0	224.0	234.4	244.9	255.8	266.9	278.3	289.9	301.9	314.2	326.7	339.5
	(@ 50%)																	
Income Tax @ 55%	59.1	70.5	93.2	98.1	107.0	112.3	117.7	123.2	128.9	134.7	140.7	146.8	153.1	159.4	166.0	172.8	179.7	186.7
add: royalty	19.9	21.0	26.1	27.3	29.7	31.0	32.4	33.9	35.3	36.9	38.4	40.0	41.6	43.3	45.0	46.7	48.5	50.4
Government "Take"	79.0	91.5	119.3	125.4	136.7	143.3	150.1	157.1	164.2	171.6	179.1	186.8	194.7	202.7	211.0	219.5	228.2	237.1
add: production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Tax-paid cost to producer	92.0	104.5	132.3	138.4	149.7	156.3	163.1	170.1	177.2	184.6	192.1	199.8	207.7	215.7	224.0	232.5	241.2	250.1
Foreign Partners' Participation Cost						8.1	7.3	6.6	3.7	4.6	5.2	5.2	5.3					2.9
Producers' margin						29.6	29.6	29.3	29.1	29.8	29.7	30.0	30.0					30.0
Realized f.o.b. export price						194.0	200.0	206.0	210.0	219.0	227.0	235.0	243.0					283.0

/a Under the Teheran Agreement of February 15, 1971 the base postings for the Gulf exporters of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, rising on June 1, 1971 and on each January 1, 1973 - 1975 by 2.5% for inflation plus 5¢ for general escalation. They also rise by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities, plus an additional increase of 1¢ for Iranian Heavy, Arabian Medium and Kuwait Crudes.

/b Under the Geneva Agreement of January 20, 1972 posted prices for the above Gulf exporters were increased that date by 8.49% to compensate for the international currency realignment of December 1971. The increase is close to the revaluation of sterling to the US dollar; sterling is the currency used for oil revenue payments by most Gulf exporters other than Saudi Arabia. The Agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with US dollar; the projections assume no change in the index.

/c The Teheran and Geneva Agreements expire on December 31, 1975. Projections thereafter assume that the same provisions would continue through 1980.

/d Prior to February 15, 1971 the posted price for crude oil exports from the Persian/Arabian Gulf varied by 2 cents per barrel for each full degree API above or below that indicated. Since then, it varies by 0.15 cents per barrel for each 0.1° API for crude oils up to 40.0° and by 0.2 cents for each 0.1° API for crude oils above 40.0°.

HBothwell/JFoster:jl
January 25, 1973

TABLE 6

SAUDI ARABIA: ACTUAL AND FORECAST TAX-PAID COST OF ARABIAN HEAVY CRUDE OIL (27° API), F.O.B. RAS TANURA, 1970-1985

(U.S. Cents per Barrel)

Effective Date of Agreement	Nov 13, 1970	Nov 14, 1970	February 15, 1971/a		January 20, 1972/b				Mission Assumptions /c									
Date of Price Calculation	Jan 1, 1970	Jan 1, 1971	Feb 15, 1971	June 1, 1971	Jan 20, 1972	Jan 1, 1973	Jan 1, 1974	Jan 1, 1975	Jan 1, 1976	Jan 1, 1977	Jan 1, 1978	Jan 1, 1979	Jan 1, 1980	Jan 1, 1981	Jan 1, 1982	Jan 1, 1983	Jan 1, 1984	Jan 1, 1985
Posted price effective since 1968	147.0	156.0	156.0															
add: general increase	-	-	33.0															
freight disparity	-	-	2.0															
gravity adjustment	-	-	5.0															
Base posting			196.0	196.0	206.4	223.9	234.5	245.4	256.5	267.9	279.6	291.6	303.9	316.5	329.4	342.6	356.2	370.1
add: escalation of 2.5%				4.9	-	5.6	5.9	6.1	6.4	6.7	7.0	7.3	7.6	7.9	8.2	8.6	8.9	9.3
additional				0.5														
escalation of 5 cents				5.0	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
supplement of 8.49%				-	17.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Posted price	147.0	156.0	196.0	206.4	223.9	234.5	245.4	256.5	267.9	279.6	291.6	303.9	316.5	329.4	342.6	356.2	370.1	384.4
less: gravity allowance /d	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
percent allowance	5.1	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
marketing allowance	0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
royalty	18.4	19.5	24.5	25.8	28.0	29.3	30.7	32.1	33.5	35.0	36.5	38.0	39.6	41.2	42.8	44.5	46.3	48.1
Deductible costs	37.0	36.1	37.5	38.8	41.0	42.3	43.7	45.1	46.5	48.0	49.5	51.0	52.6	54.2	55.8	57.5	59.3	61.1
Net Taxable Income	110.0	119.9	158.5	167.6	182.9	192.2	201.7	211.4	221.4	231.6	242.1	252.9	263.9	275.2	286.8	298.7	310.8	323.3
	(@ 50%)																	
Income Tax @ 55%	55.0	65.9	87.2	92.2	100.6	105.7	110.9	116.3	121.8	127.4	133.2	139.1	145.1	151.4	157.7	164.3	170.9	177.8
add: royalty	18.4	19.5	24.5	25.8	28.0	29.3	30.7	32.1	33.5	35.0	36.5	38.0	39.6	41.2	42.8	44.5	46.3	48.1
Government "Take"	73.4	85.4	111.7	118.0	128.6	135.0	141.6	148.4	155.3	162.4	169.7	177.1	184.7	192.6	200.5	208.8	217.2	225.9
add: production cost	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Tax-paid cost to producer	86.4	98.4	124.7	131.0	141.6	148.0	154.6	161.4	168.3	175.4	182.7	190.1	197.7	205.6	213.5	221.8	230.2	238.9
Foreign Partners' Participation Cost						7.3	6.3	5.2	2.4	3.3	3.8	3.9	3.8					2.3
Producers' margin						27.7	27.1	27.4	27.3	27.3	27.5	28.0	27.5					27.8
Realized f.o.b. export price						183.0	188.0	194.0	198.0	206.0	214.0	222.0	229.0					269.0

/a Under the Teheran Agreement of February 15, 1971 the base postings for the Gulf exporters of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, rising on June 1, 1971 and on each January 1, 1973 - 1975 by 2.5% for inflation plus 5¢ for general escalation. They also rise by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities, plus an additional increase of 1¢ for Iranian Heavy, Arabian Medium and Kuwait Crudes.

/b Under the Geneva Agreement of January 20, 1972 posted prices for the above Gulf exporters were increased that date by 8.49% to compensate for the international currency realignment of December 1971. The increase is close to the revaluation of sterling to the US dollar; sterling is the currency used for oil revenue payments by most Gulf exporters other than Saudi Arabia. The Agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with US dollar; the projections assume no change in the index.

/c The Teheran and Geneva Agreements expire on December 31, 1975. Projections thereafter assume that the same provisions would continue through 1980.

/d Prior to February 15, 1971 the posted price for crude oil exports from the Persian/Arabian Gulf varied by 2 cents per barrel for each full degree API above or below that indicated. Since then, it varies by 0.15 cents per barrel for each 0.1° API for crude oils up to 40.0° and by 0.2 cents for each 0.1° API for crude oils above 40.0°.

HBothwell/JFoster:cb
January 25, 1973

Saudi Arabia - Kuwait Neutral Zone

6. Onshore production in the Zone is from the Wafra and South Wafaris fields and, since 1968, from the South Umm Gudair field. In 1971 output averaged 187,000 b/d.

7. The Saudi half-interest in this Neutral Zone is held onshore by Getty Oil, which sends its 50% share of production by pipeline to an export terminal and 50,000 b/d refinery at Mina Saud. The refinery throughput was 29,000 b/d in 1971. Both crude oil and products are exported. The Kuwaiti half-interest is held onshore by Aminoil, which exports its 50% share of output via a terminal in Kuwait.

8. The Saudi and Kuwaiti half-interests offshore are both held by the Arabian Oil Company (AOC). AOC is a subsidiary of Japan Petroleum Trading which is a group of about 60 Japanese firms. There are two offshore producing fields (at Kafji, discovered in 1960) and at Hout (discovered in 1963). Crude is delivered by pipeline to an onshore terminal from which it is exported - nearly all to Japan. Loading capacity is 520,000 b/d. Production averaged 357,000 b/d in 1975. Since 1966 AOC has had a 30,000 b/d refinery onstream to provide bunker fuels and products for its local needs. Its throughput was 23,000 b/d in 1971.

Attachment B

PROSPECTS FOR COOPERATION BETWEEN OIL PRODUCERS, MARKETERS AND CONSUMERS: THE ISSUE OF PARTICIPATION AND AFTER

Address of

HIS EXCELLENCY SHAYKH AHMAD ZAKI YAMANI,

MINISTER OF PETROLEUM AND MINERAL RESOURCES,

September 30, 1972

26th Annual Conference

Middle East Institute

WORLD ENERGY DEMANDS AND THE MIDDLE EAST

Middle East Institue
1761 N Street, N.W.
Washington, D.C. 20036

There are these days ever-increasing worries about the not too distant future when the world is expected to face an energy shortage. Such a shortage would not harm the world's economic progress solely but would probably have adverse effects on all aspects of its civilization as well.

Oil is the chief source of energy today, and so long as there are sufficient reserves of it to keep it flowing, it shall continue to be so. However, the rate of increase in world consumption of oil exceeds the rate at which new fields are being discovered. This calls for doubling all efforts in exploration and drilling. Atomic energy provides no comfort, for its part in environmental pollution places serious limitations upon it. Furthermore, the uses to which it can be put are also limited and it cannot therefore be considered a real substitute for oil.

Whenever the energy shortage is the subject of discussion, the Kingdom of Saudi Arabia, as the owner of the largest proved oil reserves in the whole world and of vast unexploited areas where the geological and geophysical tests indicate the presence of huge volumes of oil, emerges as an important factor. It would be no exaggeration to say that Saudi Arabia alone has in its lands as much oil as all the Gulf States, including Iran, Kuwait, and Iraq, put together. It is therefore abundantly clear that the United States of America has a real interest in building as from now an economic bridge linking it with Saudi Arabia. This bridge would become bigger and stronger with time and would aid the United States in meeting the expected energy shortage and perhaps even in solving the balance of payments problem that would be caused by it.

As is well known, there are two new factors that will undoubtedly have an important bearing upon strategy and positions of strength in the oil industry. I have already mentioned the first factor, which is the expected excess of demand over supply. The second factor is the implementation of the principle of Participation, agreement on which has now become a highly probable matter.

Before entering into the details of the subject, allow me to recall certain facts about the oil industry. The parties to the oil industry are three in number: the producers, the consumers, and the producing oil companies. Prior to the sixties, the producers were in a weakened position. The major oil companies on the other hand, had unrestricted freedom of action, and heedless of the interests of the producing countries, they resorted to depressing the prices of oil. They were perhaps pushed into taking this action by pressure from the consumers and also by economic and competitive considerations. But the unjust effects of their action on the revenues of the producing countries were felt and this led the producers to get together and form an organization for the purpose of protecting their interets. That is how OPEC came into being.

The oil companies chose to ignore the new Organization and for over a decade, rejected a basic demand by the producing countries; that is, a few cents increase in posted prices. Posted prices remained at the same level while the prices of commodities imported by the producers went up steadily. This meant, in effect, a reduction in the producers' revenues. When the economic situation began to change, OPEC reacted to the companies' conduct. The Teheran and Tripoli Agreements brought about increases in posted prices to much higher levels than those originally contemplated by the producing countries.

However, a fair price for their oil was not the sole demand by the producing countries. The producers has been made to feel that they were foreign to their own natural resources, with neither control over them nor say in how they were utilized.

When the principle calling for the control of natural resources by the people who own them became firmly established and got world-wide acceptance, and when the winds of nationalization appeared in the horizon, Saudi Arabia started seeking a solution that would be an alternative to nationalization - a solution that would preserve stability in the oil industry and maintain its increasing prosperity. In this we were motivated by our natural dislike for the principle of nationalization which goes against our economic system, and by the fear of the disastrous effects it would have on the oil industry's development. Such adverse effects would damage our interests as well as those of the major oil companies and the consumers. The only alternative to nationalization, therefore, was the principle of Participation.

We started discussing Participation with ARAMCO in 1963, and in 1965 we had further discussions. At those early stages the bases of Participation entailed far less than what we are demanding today. Our call to Participation gained momentum in 1967 and we made it an official demand in 1968. Later it was officially adopted by OPEC despite the fact that some of that Organization's member-countries believe in nationalization as the only route to their right to control their own natural resources.

We are now in the final stage of our negotiations, which we hope will result in a just and equitable agreement. This agreement may cost more and have stricter conditions than what we were asking for in 1963 and 1968, but it will provide real coordination and harmony between the interests of the three parties concerned. These are benefits that would no longer be attainable if we were to wait further and allow the raging storm of nationalization to hit our land. The harmony of interest would be undone and many other evils would befall everyone concerned. Needless to say, we can avoid all these evil effects by the correct implementation of Participation.

It is our belief that the existing oil concessions cannot continue in their present form. The parties concerned must accept a change in the situation. They must accept one of the two alternatives - Participation or Nationalization.

In the case of Nationalization, or conditions of instability and uncertainty, the oil companies would find it difficult to justify significant investments in further exploration and drilling operations. Yet these additional operations are of vital importance and all efforts must be united to maintain them. Here the third benefit to be derived from Participation becomes visible. With participation, a healthy and congenial atmosphere that welcomes investment would be created and, when the time comes, the producing countries themselves would bear 51% of the drilling and development costs.

In view of the limited time available to me, and in order that I may have sufficient time for answering your questions which I consider to be the most important part of my topic today, I shall not go into further details about the benefits of Participation. It suffices me to say that Participation would bring about important changes in the oil industry, strengthening the existing structure and protecting it. The three traditional parties to the oil industry would remain as they are and be joined by our national oil companies as a fourth element which cooperates with the consumers and the oil companies and draws their points of view and that of the producing countries closer to each other.

We are now faced with two problems of unequal importance. The less important problem is that of determining the new oil prices in 1975. The other and far more serious problem is that of the expected shortage of energy supplies in the eighties. Our national oil companies will not be in a position to play a leading role in 1975, for they will still be in the preliminary phases of their development on the international stage. They will, however, be much more effective in the succeeding rounds and will help in resolving differences and bringing views closer to each other.

To return to the price issue in 1975 and after, there is no doubt that it will constitute a problem in the future. It is a fact that the trend of oil prices is going upwards and there is no way of changing it. However, the OPEC countries must make only reasonable demands based on justice. The consumer countries on the other hand must accept an equitable increase in prices and absorb the whole of such increase, so as to leave the oil companies enough profits to enable them to continue their exploration activities and development of producing fields. I cannot visualize the oil industry developing and coping with the energy shortage problem without the support of the major industrial countries. And, after all, the very economies of these industrialized countries

G

CAPITAL SUBSCRIPTIONS TO THE BANK AND RELATED INFORMATION

IBRD Subscription to Capital Stock (Dec. 31, 1972)

Shares	: 1143
Paid in capital	: $12.41 million (1972 dollars)
Uncalled subscription	: $111.69 million (1972 dollars)
Total subscription	: 124.10
% of voting power	: .49%

IDA Subscription to Capital Stock (Dec. 31, 1972)

Initial subscription : $4.02 million (1972 dollars)

Saudi Arabia has not taken up the additional subscription to which it is entitled under the 3rd replenishment; this amounts to $156,500 (1972 dollars).

Two-year Issues of IBRD

Saudi Arabia purchased $5 million in two year bonds due March 1973, $10 million due September 1973, $10 million due March 1974, and $8.08 million due September 1974 -- a total of $33.08 million.

Long-Term Bond Issues of IBRD

In addition to its holdings of two-year bonds, Saudi Arabia has purchased $30 million of long-term U.S. dollar bonds: $15 million of 6½% 26 year bonds of 1968
$15 million of 6-3/8% 26 year bonds of 1968

Prepared January 25, 1973

Existing Projects

Transport Survey

In response to a request from the Central Planning Organization (CPO), the Bank sent a brief mission in May 1971 to review the need for a full-scale survey of the transport sector. At that time, there had been no economic mission to Saudi Arabia for more than ten years, since the Bank had no lending program for the country.

The mission of May 1971 found the transport network in Saudi Arabia to have developed substantially over the previous nine years. The most significant developments took place under a road construction program which accounted for a large share of the investment budget. The mission noted that some projects were of doubtful economic justification and that, while a number of studies of the various transport modes existed, they did not provide a reliable basis for investment recommendations. The mission, therefore, concluded that a transport survey, covering the following topics would be useful:

(a) Coordination between air and road transportation;

(b) Economic evaluation of the planned main road network;

(c) Economic evaluation of planned port investments;

(d) Long-term prospects of the railway;

(e) Road design standards;

(f) Road-user charges;

(g) Organization of the transport sector; and

(h) Regulation of public passenger transport.

Because of the difficulties in assessing whether these topics were the only problems that should be studied, how much work was required on each and, in some cases, what methodology should be used, the Bank mission suggested a two-phased survey. The first phase was seen as a data collection and problem identification phase which would set the scope and direction of the second phase. The Bank's best estimate at that time of the total cost of the survey was about $1.2 million for about 130 man-months of work.

Subsequently, the Government of Saudi Arabia advised the Bank that it was prepared to approach the UNDP for financing in order that the Bank might act as Executing Agency, although the Government could finance the study from its own funds. At the Government's request, the Bank prepared a draft request for a transport survey. In December 1971, this request was forwarded to the Government for its approval and subsequent submission to UNDP. The request was predicated on a total budget for Phases I and II of $1.07 million, of which $.84 million was to be from UNDP funds and $.23 million equivalent as a Government contribution. The application was submitted to the UNDP in February 1972.

Meanwhile, as a background for the study and in response to a request from the Government of Saudi Arabia for assistance on certain well-defined problems, two one-man missions concerned with current port and airport projects visited the Kingdom in May 1972. Brief reports on these were sent to the CPO.

There was some delay because of UNDP's reservations about the form and substance of the Government's request, and a somewhat longer delay in securing Government approval of the proposed short list of consultants. Nevertheless, the Bank was able to invite proposals for Phase I of the study on September 22, 1972. Contract negotiations with the selected Consultants, Hoff & Overgaard/Systan/Norconsult (Denmark/U.S./Norway), were held in the week of December 11, 1972 and a Starting Date of February 15, 1973 for the study was agreed on. However, because of the annual pilgrimage, and at the Government's request, the Consultants sent a traffic engineer and an administrator into the field on January 8, 1973.

The Project Document has been signed by all parties (final signature, UNDP, on January 17, 1973) and we expect to have the contract with the consultants signed in the first week of February 1973.

Relationship Prior to Transportation Survey

As a matter of policy during the past twelve years, the Bank Group has not taken the initiative in developing a relationship with Saudi Arabia, although we have been prepared to respond to any expressions of interest in Bank advice or assistance from the Saudis. Since the last economic mission in 1960, there have been no regular operational missions, but following the Saudis' 1971 request for our help with a transportation survey, five small Bank missions have been mounted. It is possible that, as a result of the intermittent contact, the Saudi authorities do not have a complete understanding of Bank Group policies or procedures, either with respect to Saudi Arabia or to the Arab world generally.

Several approaches have been made to the Bank in recent years, mainly by the Central Planning Organization, but these approaches invariably were not followed up by the government. A request in 1968 for assistance with the preparation of the proposed five-year development plan was not pursued despite Bank interest; instead, the Stanford Research Institute was contracted to help. In 1969 there were several approaches to IFC by private firms interested in petrochemicals, power, grain storage and a caustic soda ash plant, and in establishing a development finance company. IFC had preliminary discussions with the parties concerned in all cases, but the sponsors eventually withdrew. It was only after April 1971 that the transportation survey gave Saudi Arabia and the Bank an opportunity to effectively resume a relationship for the country's development.

January 29, 1973

PROSPECTIVE OPERATIONS

Other than our prospective transport survey, described previously under "Existing Projects", we have no new operations in prospect.

MEMOS OF CONVERSATIONS

The only memo in our files of conversations with Saudi officials is that relating to the visit of Prince Saud Faisal (Deputy Minister of Petroleum Affairs) and Mr. Mohamed Jokhdar (Deputy Governor of Petromin) to the Bank in July 1972. A record of this visit was made in Mr. Dajany's memo to files of August 2, 1972, attached.

Files August 2, 1972

Omar Dajany

Prince Saud Faisal's Visit to the Bank - Saudi Arabia

During his informal visit to Washington last week, H.H. Prince Saud Faisal visited the Bank and had luncheon with Mr. McNamara on Friday July 28. Present were Mr. Mohamed Jokhdar, Deputy Governor of "PETROMIN", and Omar Dajany.

Mr. McNamara had decided before meeting the Prince that he would not discuss the question of fund raising in Saudi Arabia. He merely wanted to get to know the Prince and discuss Middle Eastern questions in general.

The discussion throughout the luncheon was very warm and cordial. It covered the general situation in the Middle East and some aspects of the Bank's operations in the Arab countries with particular reference to Yemen, Syria and Iraq. The Prince was quite interested in our activity in Yemen which he felt needed and deserved every assistance and which, he said, Saudi Arabia was trying to help through bilateral arrangements.

The main discussion centered on the subject of oil. Both the Prince and Mr. McNamara exchanged views regarding present and future energy reserves, future oil prices and the attempts being made at finding alternative energy sources for the future. They also agreed that oil producing countries should endeavour to diversify their economies at an early stage in order not to be totally reliant on oil in the future.

Mr. McNamara told the Prince he was very happy to make his acquaintance and asked him to call on him when he came to Washington next. He also took the opportunity of the meeting to thank the Prince for the assistance he is giving Mr. Dajany in the Bank's fund raising activity in Saudi Arabia.

H

H. UNDP ACTIVITIES

1. The tables following summarize the UNDP's projects in Saudi Arabia, approved as of June 30, 1972.

2. Your attention is directed also to Section G of this country brief. Under the heading "Existing Projects" we have described a UNDP project comprising a transportation survey, for which the Bank will be Executing Agency. This project was approved by UNDP in January 1973.

UNDP

II. COUNTRY PROJECTS

Approved as of 30 June 1972

Project number and title	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent) UNDP	Government counterpart contribution
AGRICULTURE, FORESTRY AND FISHERIES					
SAU-68-005 ANIMAL PRODUCTION AND HEALTH	FAO	11/68	07/72	89,100	
SAU-69-003 RANGE MANAGEMENT	FAO	10/69	10/71	36,000	
SAU-66-518 IRRIGATION DEVELOPMENT IN THE WADI JIZAN	FAO	06/66	04/74	1,069,754	2,774,573
SAU-62-512 PILOT EXPERIMENTAL FARM AND AGRICULTURAL CENTRE	FAO	05/62	01/72	740,874	1,322,927
SAU-67-517 FARM ENGINEERING CENTRE, RIYADH	FAO	06/67	05/74	888,550	1,585,325
EDUCATION					
SAU-68-002 EDUCATIONAL STATISTICS	UNESCO	11/68	05/73	71,700	
SAU-71-001 EDUCATIONAL PLANNING	UNESCO	02/71	01/73	54,000	
SAU-66-515 SECONDARY SCHOOL TEACHER TRAINING COLLEGE, RIYADH	UNESCO	01/66	07/72	838,223	4,622,096
SAU-69-005 GIRLS AND WOMEN EDUCATION	UNESCO	10/69	01/73	30,000	
SAU-71-008 SECONDARY SCHOOL TEACHER TRAINING	UNESCO	01/72	07/74	195,000	
SAU-71-005 ASSISTANCE TO THE ABDUL AZIZ UNIVERSITY	UNESCO	11/71	03/72	5,000	
SAU-68-003 LITERACY	UNESCO	11/68	01/72	11,550	
SAU-69-004 ADULT EDUCATION	UNESCO	10/69	09/71	24,000	
GENERAL ECONOMIC AND SOCIAL POLICY AND PLANNING					
SAU-68-010 ECONOMIC PLANNING	UN	03/69	01/73	30,000	
SAU-68-009 NATIONAL ACCOUNTS AND ECONOMIC STATISTICS	UN	03/69	12/74	111,000	
SAU-71-003 PERSONNEL AFFAIRS	UN	04/71	06/72	2,300	
SAU-71-004 PUBLIC ADMINISTRATION	UN	09/71	03/73	43,000	
INDUSTRY					
SAU-65-514 INDUSTRIAL STUDIES AND DEVELOPMENT CENTRE, RIYADH	UNIDO	06/65	01/74	1,130,351	2,168,674
SAU-70-005 INDUSTRIAL DEVELOPMENT AND POLICY	UNIDO	01/71	01/73	30,000	
SAU-71-006 FERTILIZER INDUSTRY	UNIDO	03/72	04/73	29,600	
SAU-71-002 COOPERATIVE EDUCATION AND TRAINING	ILO	05/71	07/72	15,000	
SAU-69-523 CENTRE FOR APPLIED GEOLOGY, COLLEGE OF PETROLEUM AND MINERALS, JEDDAH	UNESCO	06/69	10/73	890,610	1,519,156
LABOUR, MANAGEMENT AND EMPLOYMENT					
SAU-70-002 MANPOWER ASSESSMENT AND PLANNING	ILO	10/70	06/72	26,500	
SAU-70-009 EMPLOYMENT SERVICES AND STATISTICS	ILO	01/71	04/72	33,700	
SCIENCE AND TECHNOLOGY					
SAU-68-011 METEOROLOGY	WMO	12/68	04/73	115,675	
SAU-70-006 METEOROLOGY	WMO	12/70	09/74	35,400	
SOCIAL SECURITY AND OTHER SOCIAL SERVICES					
SAU-70-007 EDUCATION OF MENTALLY RETARDED PERSONS	UNESCO	11/70	09/72	22,000	
SAU-69-524 REGIONAL AND NATIONAL PHYSICAL PLANNING	UN	01/69	02/75	747,139	1,469,277
SAU-69-519 CENTRE FOR TRAINING AND APPLIED RESEARCH IN COMMUNITY DEVELOPMENT	UN	01/69	07/75	855,071	2,811,686

II. COUNTRY PROJECTS

Approved as of 30 June 1972

Project number and title	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent) UNDP	Government counterpart contribution
TRANSPORT AND COMMUNICATIONS					
SAU-68-001 CIVIL AVIATION	ICAO	11/68	01/73	286,475	
SAU-67-516 TELECOMMUNICATIONS AND BROACCASTING TRAINING CENTRE, YEDDAH	ITU	01/67	01/76	1,111,340	5,755,905