CHAPTER VI

GULF CRISIS AND ITS IMPACT ON OIL RELATIONS OF SAUDI ARABIA AND US

6.1 Gulf Crisis
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The Iraqi invasion of Kuwait on 2 August 1990 to the ceasefire operations on 28 February 1991 has rightly been dubbed as the first serious crisis of the post cold war era. Between the Iran-Iraq war's end in August 1988 and its invasion of Kuwait two years later, Iraq brought up a series of issues that together created the crisis. These were (i) the Iraqi-Kuwaiti border dispute, (ii) the Israeli-Palestinian issue, (iii) the US presence in the Gulf area; (iv) the Soviet Union's decline in the West Asia, (v) Iraqi demands for debt forgiveness, (vi) financial aid from the Gulf Arabs, and (vi) disputes over oil prices and production quotas.

The fusing of these questions in Iraqi thinking and propaganda was a step by step process. And while there are indicators that the Iraqi leadership had been toying with the idea of invading Kuwait at least since 1988, only gradually did Baghdad came to see such an invasion as the situation for all its problems.

CAUSES OF THE GULF CRISIS

IMPEDIMENTS IN THE DEVELOPMENT OF IRAQ'S ECONOMY DUE TO IRAN - IRAQ WAR

In the years following the nationalization of the Iraq Petroleum company in 1972 and the 1973 oil price explosion, Iraq focussed its attention on the development of its infrastructure, its oil sector, and its goods producing sector. It also invested in modernizing and expanding its military.

The pattern of spending on these projects could not be sustained once Iraq's oil exporting capacity was damaged, which resulted in a sharp decline in oil exports. Such a decline in conjunction with inflation, a rise in import prices, the depletion of foreign reserves, the increase in the size of armed forces, the closure of the Iraq pipeline to Syria, and the shift of the war front to Iraqi soil forced the government to adopt policies of austerity and economic retrenchment.

These policies were reflected in the decision not to start new projects, a drastic reduction in non-defence related spending and reductions in agricultural and industrial investment and imports, restrictions on foreign travel to conserve

2. Ibid.
foreign exchange, and the curtailment of foreign aid.\(^4\)

After the cessation of the 1988 hostilities, the Iraqi government discovered that Kuwait had taken advantage of Iraq's involvement in the war and extracted more oil from the Rumaila field with a view to depleting the field and thus harming Iraq economically.\(^5\)

It was the problem of how to stabilize or raise its oil income which led Iraq to its economic confrontation with Kuwait.

In order to arrive at a fuller understanding of the cost of the Iran-Iraq war, three elements have to be taken into consideration:

1) Military expenditure  
2) Lost oil revenue  
3) Lost gross National Product.

For the period 1980-85, military expenditures amounted to 94 billion, lost oil revenue was estimated to be $55.5 billion, and lost GNP was estimated to be $26.2 billion. The combined cost of these three elements amounted to $175.7 billion. Relating the cost of war to Iraq's GNP during the period, it was found that the annual cost of the war amounted to 87 percent of Iraq's GNP. To put the total cost of the war in another perspective, suffice it to say that it exceeded Iraq's cumulative oil revenue from the time it became an oil exporter in 1931 to 1985.\(^6\)

In short, Iraq emerged from its war with Iran with a devastated economy. Its infrastructure was extensively damaged; oil exporting facilities were out of commission, its basic industries were destroyed, its goods-producing sectors were heavily damaged. Whatever success along the road of economic diversification was achieved prior to 1980 had been stopped and reversed by the long war. Iraq's reliance on food imports increased; its planning policy was disorganised and lacking in investment funds; its reliance on the oil sector increased; the large number of workers im-

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6. For a detailed analysis of these see Karman Mofid, The Economic Consequences of the Gulf war (London, Routledge 1990)
ported during the war had become a burden on a smaller economic base; inflation was rampant; privatization was not proceeding according to declared plans and intentions; Arab and foreign capital was not flowing for investment in the economy according to expectations, foreign debt service was constituting a major portion of a declining level of oil income; and multinational capital for the development of already discovered oil fields was not being made available.

Moreover, soon after the war ended, Iraq opted to focus on the development of its domestic arms industry and an extensive rearmament programme which was given a priority claim over the country's limited economic resources. But this claim on resources was in conflict with government promises made during the war that more civilian goods would be made available and higher living standards would be made possible in the post-war period.

In addition to these difficulties, policy makers had to face a number of other problems. One such vexing problem was the ever rising inflation rate. War shortages, the low post-war level of oil income and therefore, imports, privatization's lack of success, and a stagnant non-military domestic industry were among the factors which contribute to the higher post-war inflation rates.

**ISSUE OF DEBT**

The war with Iran had practically driven Iraq to bankruptcy. It owed 35-40 billion dollars to its Gulf benefactors. In so far as its rich gulf neighbours now refused to help finance Saddam Hussein's plans, Baghdad was practically unable to obtain credit abroad. With OPEC'S oil price around 15 dollars a barrel in 1988, Iraq's petroleum industry was generating a revenue of about 12 billion dollars annually, hardly sufficient for a nation of 17 million people with ambitious economic and enormous foreign debt. Thus, the Iraqi leader opted to maximise his country's revenue by expanding its oil production and export capacity and by increasing its oil prices.

The significant economic change in this period was the transformation of Iraq from a creditor country to a debtor country, as it was forced to enter the international financial markets as a borrower to meet its foreign exchange requirements to prosecute the war. Iraq was also compelled to devalue the dinar, enlarge the scope of private sector activity, reschedule debts to foreign contractors and increase its borrowings from Gulf states mainly Kuwait and Saudi Arabia.

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The debt in Iraq was owned by three countries: First, there was debt to Arab countries which varied between $40-50 billion, most of which was owed to Saudi Arabia and Kuwait. Second, there was the debt owed to the west, which was estimated at $35 billion by the end of 1989. Another $11 billion was owed to the Soviet Union and Eastern Europe.8

Given Iraq's low level of oil income and the multiplicity of claims on this income, the question of trying to make arrangements for low service payments became an important one because of the implications of debt payments for the economy as a whole. Any decline in oil revenue would affect Iraq's ability to meet its debt obligations and its ability to reschedule debts and raise new credits. Iraq complained of the burdens of repaying the Gulf countries for assistance it received in the early stages of war with Iran. From the Iraqi perspective, such loans or debts should have been cancelled for at least three reasons:

(1) First, Iraq maintained that the objective of its war with Iran was not only to defend its own sovereignty but also to defend the eastern flank of the Arab World and particularly the Gulf region. According to Iraq, this view had been confirmed by the leaders of the Gulf themselves in the strongest of the terms.

(2) Second Iraq maintained that Kuwait had benefitted financially from the war because it was able to sell oil at higher prices.

(3) Third, the length of the war and therefore its cost had not been foreseen. The military hardware which Iraq had purchased and used in the war had amounted to $102 billion in addition to other enormous military and civilian expenditures.

SADDAM'S REGIONAL ASPIRATIONS
Saddam Hussein emerged from the war with enormous prestige and self confidence and a powerful and seasoned army. Still devoted to the Baath Party's Pan-Arab ideology, the Iraqi President aspired to establish Iraq's hegemony in the Gulf, if not in the Arab world as a whole. Hence, he strove to rehabilitate his country's economy quickly and was determined to strengthen further his military power and political clout through the rapid expansion of Iraq's conventional and unconventional weapon's industry and arsenal.

8. Ibid, 1 March 1991
Saddam Hussein spoke of the damage inflicted upon the Iraqi economy as a result of lower oil prices. He claimed that a decline of every dollar a barrel in oil prices resulted in a drop of one billion dollars in Iraq's annual revenue. The price of oil declined by 33 percent between January and June 1990, from nearly $20 per barrel to $13.67 per barrel. This decline triggered a series of reactions by Iraq.

Certain Arab oil regimes, Saddam added were co-operating with America, who wishes to control Arab oil and buy it as cheaply as possible and thus undermine Arab Capability and power. The US, which will need to import increasing quantities of Arab oil, is striving to ensure its flow to it ... and to increase its strategic oil reserve. That would guarantee its position as a super power able to control the instigation of wars... and when and how to impose stability ....

IRAQ'S GRIEVANCES

Iraq emerged militarily victorious from an eight year intermittent confrontation with Iran. But in reality, Iraq was no less exhausted than Iran and gained but little in territory and frontier modifications at an enormous cost in human and material resources.

Iraq find itself burdened with a heavy debt to foreign countries and was obliged to postpone or abandon several development projects because the war lasted much longer than expected.

By contrast, Iran was able to purchase most of its military requirements by cash. At the outset almost all the Iraqi oil industry was interrupted.


10. Following the war with Iran, the Iraqi leadership declared that all projects for economic developments would be implemented; but later when the war did not end as soon as it was expected, only some of the projects that were absolutely necessary were implemented.
because Iran had destroyed its southern oilfield and blocked its export trade through the Gulf. Iraq's access to Gulf waters has primarily been through the Shatt al-Arab which it shares with Iran and which has become inadequate for the country's commercial requirements.\footnote{Before 1975, the Iraq- Iran water, border was the eastern bank of the shatt al- Arab, but under the frontier accord of 1975, the thalweg (median line) of the shatt was established as the water-border between the two countries.}

Small wonder that Iraq had been concerned about the security of its maritime trade which could be exposed at any moment to Iranian threats. Nor did Kuwait respond to Iraq's request to develop a maritime port in a suitable area for navigation.

Unable to persuade Kuwait and other Arab Gulf countries to contribute substantial funds for reconstruction, Iraq was bound to fall back on its own income from oil. But the income from oil was dwindling, because some of the Arab Gulf countries, including Kuwait had indulged in over-production that caused a fall in world oil prices. To resolve this problem, Iraq sought to persuade the Arab Gulf oil producing countries to agree on a higher level of price by reducing overproduction.

Iraq proposed three subjects for discussion with Kuwaiti foreign minister :-

- (1) the frontier dispute
- (2) fluctuation in world oil prices
- (3) Request for a loan of ten billion dollars for reconstruction and economic development.

The Kuwaiti foreign minister had expected to discuss only the frontier dispute, he was now faced with other complicated issues. Iraq pointed out the proposals about oil and loan were very urgent. The Kuwaiti foreign minister maintained that these two proposals would have first to be submitted to the Kuwait cabinet for approval before he could enter into such negotiations.

THE OIL DIMENSION OF THE IRAQ - KUWAIT DISPUTE

The oil factor as a source of the dispute between Iraq and Kuwait centered on two issues:-
(1) The Rumaila oil field which straddles the border between the two countries and
(2) Kuwait's production policies.

In the dispute over the Rumaila oil field, Iraq accused Kuwait of taking advantage of Iraq's pre occupation with its war with Iran to use diagonal drilling to extract oil from that part of the oil field which is located in Iraq. This issue was basically a technical one that was transformed into a political dispute. It would almost certainly not have been difficult to make a technical formulation of what belonged to each country.

The second and the far more serious dispute between the two countries centred on the production policy of Kuwait and the UAE. In 1986 OPEC experiment with unrestrained production ended up in price and financial disaster far all countries. To put an end to that policy it was decided to re-establish a reference price of $18 per barrel. In order to stabilize this price the system of quotas was re-introduced. Yet member countries failed to adhere to their quotas and produced above their assigned shares, causing prices to remain below the agreed upon reference level.

KUWAIT'S POSITION ON OVERPRODUCTION
Kuwait was overproducing oil and excused its excessive production by claiming that its quota was not in the correct proportion to its reserves and production capacity. Yet, when it again over-produced at the beginning of 1990, Kuwait's petroleum minister Sheikh Khalifa insisted that lower oil prices would over time benefit producers with large reserves. At the end of May Kuwait and the UAE continued to exceed their quotas significantly. Subsequently, OPEC's oil price declined in June to about 14 dollars a barrel.

The dispute between Iraq and Kuwait took a decisive turn, escalating as Iraq expanded its list of grievances against Kuwait. In addition, to the subjects of levels of production and oil pricing, Iraq raised the issue of burden of repaying its debts arising from loans made to it by Kuwait during the Iran - Iraq war; Iraq also accused Kuwait of establishing military and police establishments on the Iraqi side of the border.

IRAQ'S TERRITORIAL DEMANDS
Iraq revived its territorial claims against Kuwait, particularly concerning Bubyan and Warba, at the beginning of 1989 and even more forcefully in the second part of the year and also requested a 10 billion dollar loan. Kuwait on its part decided to build a town
on Bubyan and connect it to Kuwait proper by a cause way in order to establish its sovereignty over the island.

In a letter to the Arab League's Secretary General on 16 July 1990 which was immediately released to the Iraqi media, Tariq Aziz, Iraq's foreign minister, mentioning Kuwait and the UAE, by name, asserted that they had deliberately undermined Iraq's economy by exceeding their OPEC quotas and thereby depressing oil prices. He also claimed that Kuwait had encroached on Iraq's territory and its Rumaila oil field and stolen from it 2.4 billion dollars wealth of oil, and that Kuwait refused to write off the sums it had lent to Baghdad during the war. 'We register,' continued Tariq Aziz, 'Iraq's right to get back the stolen amounts... Things have developed to a level which we can no longer ignore.12

Iraq described this as a planned operation to flood the oil market with excess production. The Iraqi memorandum accused Kuwait of far more serious acts than mere overproduction. In short:

As far as the Kuwaiti government is concerned, its attack on Iraq is a double one. On the one hand Kuwait is attacking Iraq and encroaching on our territory, oil fields and stealing our national wealth. Such action is tantamount to military aggression. On the other hand, the Government of Kuwait is determined to cause a collapse of Iraqi economy during this period when it is confronting the vicious imperialist zionist threat, which is an aggression no less than military aggression.13

Reflecting Iraq's economic plight as a result of the war with Iran, Saddam Hussein said that a few billion dollars could solve much that had been at a standstill or postponed in the life of the Iraqi population. He went to say that the new policy of lower oil prices was intended to benefit the United States, which had been increasing its imports of Arab oil to help it to control the destiny of oil producers.

Critical of Kuwait's oil policy, Baghdad began in mid 1989 to exert pressure on the former to stop exceeding its OPEC quota. Kuwait did not hide the fact that its over-production was an outcome of its long-range policy aimed at blocking any rise in oil prices, had resulted from growth in demand. Hence, the Emirate and the

13. Quoted in Alnasrawi, n.2 P.53
United Arab Emirates (UAE) again exceeded its production in the first months of 1990, causing prices to decline sharply. Iraq's conquest of Kuwait was thus prompted by the latter's manipulation of oil prices, its refusal to lend Baghdad 10 billion dollars which it badly needed, and rejection of Iraq's territorial demands concerning Bubyan and warba. More fundamentally, Baghdad had always considered Kuwait part of historical Iraq and coveted its wealth. Saddam Hussein was concerned with the price of oil and much broader financial and political aims that had to do with his pan-Arab aspirations.

**KUWAIT'S RESPONSE**

Responding to the Iraqi letter, Kuwait on 19 July not only rejected the Iraqi claims but accused Baghdad of repeatedly violating its territory. The Kuwaiti government called for Arab League mediation between it and Iraq. Subsequently, Shazli Klaybi, the League's Secretary General visited both Kuwait and Baghdad.

In a memorandum to the Arab League dated July 18, Kuwait rejected Iraq's assertions. The memorandum maintained that Kuwait had a good record in offering aid to Arab states, and that aid which it had already offered to Iraq was indisputable.

Perhaps the effective and powerful role played by the various Kuwaiti financial institutions since Kuwait's independence is the best proof that Kuwait has been eager to push the development process forward to meet the legitimate ambitions and interests of the Arab Nation. It is known in this respect that Kuwait is at the top of world nations whose aid constitutes the largest percentage of its national revenues. This lion's share of this aid goes to the fraternal Arab states.... Everyone is aware of Kuwait's support for sisterly Iraq.

The memorandum also added that Kuwait had suffered substantial material damage during the Iran-Iraq war, when it was exposed to direct aggression that were targeted against its sons, territory, oil installations, oil tankers and trade interests. It rejected

14. Abir, n. 9, P 170
16. Quoted in Alnasrawi, n.3, P-54.
responsibility for the decline in oil prices, which the memorandum, stated was caused by a world problem, to which producers consumers, OPEC and non-OPEC member are parties.

The Kuwaiti government also rejected Iraq's accusations that it had established military and economic installations on Iraqi territory asserting instead that Iran had violated Kuwaiti territory. On the Iraqi claim that Kuwait had extracted oil from the southern part of the Rumaila oil field the Kuwaiti memorandum asserted that Kuwait drilling had been in the part of the field which exists inside the Kuwaiti territories.

Regarding the issues arising from the lack of a border agreement between Kuwait and Iraq, the memorandum proposed that the matter should be referred to an Arab arbitration committee whose members will agree to decide on the issue of border demarcation on the basis of the charters and documents between Kuwait and Iraq. King Fahd and President Mubarak telephoned the Iraqi and Kuwaiti rulers on 20 July urging them to settle their differences amicably. Yet, on the same day the Iraqi government controlled press viciously attacked Kuwaiti rulers for supporting American and Zionist conspiracies against Iraq.17

In addition to exorbitant financial demands from Kuwait as compensation and writing off the Iraqi debt, Baghdad insisted on the acceptance of all its territorial demands. The Kuwaiti's were willing to writing off the Iraqi debt. They were also ready, they later claimed to lease warba island to Iraq, but not Bubyan. Rather than continue the negotiations, the Iraqi delegation immediately left for Baghdad and Suddam's army invaded Kuwait on the following day.18

Desperately in need of funds Iraq was hoping to benefit from both OPEC's increasing market share and higher oil prices. Frustrated in a speech delivered on 2 April 1990 Saddam Hussein accused certain Gulf regimes of being impli-

cated in a powers (i.e. the US) Conspiracy\textsuperscript{19} to undermine Iraq's economy and stabbing it in the back. Iraq advocated that adoption by OPEC of a reference price of 25 dollars a barrel, which it claimed was economic as far as the industrial countries were concerned.\textsuperscript{20} Baghdad began in the third week of July, to move military forces to Kuwait's border.

**ZERO SUM GAME THEORY**

A military victory was a first objective for the Iraqis. But if a 'military defeat' is regarded as merely a second order objective rather than a zero-sum type loss, out of which does come some benefit for Saddam Hussein and the Ba'athist regime, then that puts rather a different gloss on the Iraqi behaviour.

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19. The Gulf crisis according to the conspiracy theory was mainly designed to destroy Iraq's military and industrial potential. The Kuwaiti government enticed Iraq to take military action by trying to harm Iraq's economy through decreasing the price of oil by pumping more oil into the international oil market and by pressing the issue of delineating the borders.

The US government according to Ambassador April Glaspie did not have a position concerning border disputes between the Arab Countries. This statement was confirmed by the US Assistant secretary of State for Near East affairs just two days before the Iraqi invasion of August 2, 1990.

According to the proponent of the conspiracy theory the United States even encouraged Saddam Hussein to enter Kuwait to trap him there and to destroy Iraq's military and industrial potential otherwise they could have suggested a method for peaceful settlement of the dispute, including a request for intervention by the security council before the invasion.

20. Iraq suggested that if such a price were achieved the Arab oil countries should donate one dollar per barrel to fund projects in the Arab world.
Table 6.1: Iraqi outcome priorities for the Gulf crisis

<table>
<thead>
<tr>
<th>Outcome Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best outcome:</td>
<td>Military victory; remain in Kuwait (aa,1)</td>
</tr>
<tr>
<td>Worst best outcome:</td>
<td>No war: remain in Kuwait (presumably under a regime of UN sanctions) (a,1b)</td>
</tr>
<tr>
<td>Best worst outcome:</td>
<td>War: military defeat; ejection from Kuwait by force (ab,1)</td>
</tr>
<tr>
<td>Worst outcome:</td>
<td>Non-violent Iraqi withdrawal from Kuwait (b,1b)</td>
</tr>
</tbody>
</table>


If in Saddam’s model of reality war with the United States was not the disaster that it would be in a western model of reality then there would be less incentive or less urgency for him to avoid it. In this case it can be seen that (unlike the model of western pacifists) war was not necessarily the ‘worst’ option or the worst outcome to be avoided at all costs. For Saddam in this post-invasion situation, war did not represent a zero-sum game. In other words, military defeat did not come at the bottom of his priority list of objectives in the crisis (see Table 6.1).

Thus if military defeat appeared higher on his list of possible outcomes than a non-violent withdrawal from Kuwait then war was not necessarily an unmitigated disaster. He could drop from the image of all conquering hero with the fourth largest military machine in the world to that of a small weak, underdeveloped third world country valiantly confronting a rapacious Super power even though the odds were stacked against it. That could be portrayed as a victory of sorts.

It is worth pointing out here that a non-violent withdrawal from Kuwait (b,1b) was only the worst case outcome for the Iraqi side on the premise that losing face humiliation, avoiding the battle were outcomes that were not tolerable in the ‘macho’ Islamic/Arab culture or at least in Saddam Hussein’s set of values. It was because it was more difficult to present Iraqi withdrawal as a victory for Saddam Hussein that he was forced by his own logic to remain in
Kuwait - even though in effect it would have been precisely that - that was a victory.

If this outcome \((b,b)\) is looked at from the allied perspective then it can be seen as the worst plausible outcome and one over which Saddam Hussein actually had control. In the coalition outcome matrix it can be seen that military defeat with all that entails would have been the worst, but also the least plausible, outcome. The so-called ‘nightmare scenario’ for United States and the United Nations (UN) would have been a strict compliance with Security Council Resolution 660\(^{21}\) and a withdrawal of Iraqi troops to their position as at 1 August 1990 - that is, just across the border in Iraq. Saddam’s military might would have remained intact and essentially invulnerable to coalition attack; and his presence there could have held the United States and the coalition in a state of suspended confrontation almost indefinitely. For the coalition this would have been politically and militarily unsustainable.

It was the inability, imposed by Saddam Hussein’s own hierarchy of values, to set the costs to himself of such an outcome against the costs to the coalition that really entailed his own defeat. It was a sort of ‘fatal attraction’ of the self-image of fearless warrior over that of wily politician that in the final analysis brought his defeat and indeed may well bring his final downfall and even demise.

Thus it is not that cost-benefit calculation does not take place prior to war but that very often the criteria by which costs and benefits are judged are not necessarily obvious and not themselves necessarily susceptible to ‘rational analysis’. Additionally it is found that the assumptions and perceptions of the situation upon which such calculation is based is not necessarily accurate and indeed many be subject to distortion due to psychological, ideological, cultural and idiosyncratic factors, and so on.

So investigating the nature of the assumptions and perceptions upon which decisions for war are taken can be a very complex process. It is not clear whether Saddam Hussein made a positive decision to go to war with the coalition forces or whether he merely failed to make the decision not to. It is more likely to have been the latter than

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21. This resolution was passed on 2 August 1990. It defines the existence of a breach of international peace and security. Condemns Iraq’s invasion of Kuwait, demands Iraq withdraw forces to position occupied on 1 August 1990; calls upon Iraq and Kuwait to begin negotiation for resolution of their differences.
the former. There is a good deal of evidence to suggest a degree of confusion, indecision, lack of clarity and inconsistency on the Iraqi side. It is at this distance difficult to determine the nature of the Iraqi decision-making structure during the crisis. Much of the information that is available suggests that the process was entirely autocratic, which implies presumably not only the bypassing of bureaucratic structures of foreign policy making - the Foreign ministry and Defence ministry - but also the total intimidation of the inner ruling group by Saddam Hussein. Clearly the more power and freedom of action an individual has in the decision-making structure the more that idiosyncratic factors such as personality, psychology, intelligence personal, history and so on will have an impact on policies pursued and decisions taken.

Table 6.2: Possible Outcomes

<table>
<thead>
<tr>
<th>US (Coalition)</th>
<th>War</th>
<th>No War</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remain in Kuwait</strong></td>
<td>a1</td>
<td>a,b</td>
</tr>
<tr>
<td><strong>Iraqi military</strong></td>
<td>I</td>
<td>Iraq remains in</td>
</tr>
<tr>
<td><strong>victory</strong></td>
<td>R</td>
<td>Kuwait under</td>
</tr>
<tr>
<td><strong>Iraq++</strong></td>
<td>A</td>
<td>sanctions</td>
</tr>
<tr>
<td><strong>Iraq</strong></td>
<td>Q</td>
<td>a,b</td>
</tr>
</tbody>
</table>

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Notes: The choices facing the respective sides were:

**Iraq:**

a1 - to stay in Kuwait
b1 - to leave Kuwait

**US (UN Coalition):**
a - to use force
b - not to use force
aa₁
a₁b₁  all ostensibly zero sum outcomes
b₁b₁

ab₁  The actual outcome was non zero sum in that the Iraqi 'loss' did not equate with US 'gain' because there was an Iraqi political 'gain' to be set alongside this military loss in the short to medium term at least, or a political or psychological gain for Saddam.

Table 6.2 Matrix of possible outcomes in the Gulf conflict.


The decision for war was, probably Saddam Hussein's own decision and that it is plausible proposition that rather than make a positive decision for war was probably his and that it is a plausible proposition that rather than make a positive decision for war with the UN coalition, he merely refrained from doing anything strenuously to avoid it, in the belief that whatever happened he and his ruling group would survive and that the United States would not have the political will to pursue the matter to a military conclusion, or that they would get enmeshed in a quagmire which would redound to the benefit of Saddam himself. In other words for Saddam Hussein (as argued above) war was not the worst outcome in his calculation of costs and benefits.

It is, however, necessary to make a distinction between the Iraqi state as a player and Saddam Hussein himself as a player. Thus for Iraq the consequences of defeat were very great - indeed devastating. But for Saddam Hussein the consequences of defeat could be better than the consequences of leaving Kuwait without a fight for him a military defeat that could be presented as a brave and honourable one was better that the humiliation of withdrawal. But it can be seen once again that it is the balance of costs that determines the option chosen rather than the reconciliation of costs and benefits.

The hierarchy of preferred outcomes that on the face of it might be expected for the United States/UN coalition is shown in the figure mentioned below. This assumes that the best outcome was on Iraqi withdrawal short of war. On this pattern of outcomes the coalition achieved the worst of the best outcomes as opposed to Saddam
Hussein's best of the worst outcomes. This can be explained by the asymmetry of the relationship. For the coalition the consequences of defeat were truly enormous but could be risked because of its very small likelihood. In fact, however, as has been discussed above, an Iraqi withdrawal short of war would really have been the nightmare outcome for the coalition. For Saddam Hussein the personal costs of a humiliating withdrawal short of war were greater than the cost of a defeat in a war against a vastly more powerful enemy. To put it more succinctly, for the United States coalition the certain costs of not going to war were far greater than the remote possibility of incurring the costs of defeat. Thus the use of force was the choice of the United States coalition and the outcome was its preferred outcome.

Table - 6.3

US/Coalition outcome - priorities for the Gulf Crisis

<table>
<thead>
<tr>
<th>Best outcome:</th>
<th>No war; Iraq leaves Kuwait (b,b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worst best outcome:</td>
<td>War; Iraq leaves Kuwait (ab,)</td>
</tr>
<tr>
<td>Best worst outcome:</td>
<td>No war; Iraq stays in Kuwait (albeit under sanctions) (a,b)</td>
</tr>
<tr>
<td>Worst outcome:</td>
<td>War; Iraq wins and stays in Kuwait (a,a)</td>
</tr>
</tbody>
</table>

Source: Same as that of table 6.1 and 6.2, pg.224.

IMPACT ON WORLD OIL SITUATION

Since the Iraqi invasion of Kuwait the oil market was in turmoil. The volume of crude oil and natural gas liquids (NGLS) lost to the world market as a result of the embargo follows as:

Table 6.4

<table>
<thead>
<tr>
<th></th>
<th>Crude Oil Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq</td>
<td>3.29 m.b.d.</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1.50 m.b.d.</td>
</tr>
<tr>
<td>Sub-total</td>
<td>4.79 m.b.d.</td>
</tr>
<tr>
<td>Natural Gas</td>
<td></td>
</tr>
<tr>
<td>Liquids</td>
<td>0.11 m.b.d.</td>
</tr>
<tr>
<td>Total</td>
<td>4.90 m.b.d.</td>
</tr>
</tbody>
</table>

Less domestic Consumption 0.40 m.b.d.
Loss of exports 4.50 m.b.d.


The immediate impact of the Gulf crisis was to deprive the world market of between 4.5 and 5.01 m.b.d. of oil. This was a very significant quantitative loss. Naturally it caused oil price to rise. Crude oil prices reached a peak on 26 September.23 The price of oil escalated from $23 per barrel to $35 a barrel after the bellicose statement made by Saddam Hussein.24 The invasion posed a serious challenge to the world oil market because two oil producers equivalent to at least 4 million barrels a day or about 7 percent of world demand had been extracted. However, a number of countries were in a position to increase their production to make up for the lost supply in order to stop prices rising.25

25. Ibid.
IMPACT OF GULF CRISIS ON OIL RELATIONS OF SAUDI ARABIA

After Iraq's invasion of Kuwait, King Fahd said in an address to the nation relayed by the Kingdom of Saudi Arabia T.V. (Riyadh) on 9th August that the Iraqi invasion of Kuwait on 2nd August was "the most vile aggression known to the Arab nation in its modern history." Saudi Arabia expressed its "profound displeasure" with Iraq's move, as well as with the measures taken and declarations issued (in Kuwait) which the Kingdom categorically rejected. Saudi Arabia demanded a restoration of the situation that applied before the Iraqi invasion, and the return of the ruling family led by the Emir of Kuwait, Sheikh Jabir al-Ahmad Al Sabah, and his government.

In the immediate wake of the Gulf crisis over four million barrels per day of Iraqi and Kuwaiti oil production closed down by international sanctions, crude oil prices nearly doubled creating a substantial wind fall profit for the remaining producers. The shortage of 4 m.b.d. oil from the world market could not be covered up by Saudi Arabia alone according to Hisham Nazir the then Saudi Oil minister. He said what was happening in the oil market had nothing to do with supply and demand, but was a result of the fear caused by the Gulf crisis and expressed his hope that the market situation would settle down after the crisis.

At a news conference Nazir said that OPEC countries had agreed at their last meeting on a daily production ceiling of 22.9 m.b.d., which could not be achieved due to a shortage of 4 m b.d.. The members had also agreed on a price of 21 dollars per

27. Ibid.
29. Prior to the full OPEC meeting in July 1990, the five principal Gulf oil producers had met in Jeddah and agreed to curb over production, thus facilitating the agreement that was reached in July. Prices had increased by about $2 per barrel as a result of Jeddah meeting. Demand for OPEC crude petroleum was forecast at more than 22.5 m.b.d. for the second half of 1990, and it was hoped that restrained OPEC production would allow surplus supplies to be absorbed.

An emergency meeting of OPEC was duly held in August 1990, at which it was agreed to allow members to increase production rates above the quotas fixed in July. Iraq and Libya were absent from the meeting, and Iran refused to endorse the agreement.
barrel, which could not be achieved because the prevailing prices had reached 29 dollars per barrel. The minister pointed out that as a result of the fact that these two points, production ceiling and prices, had not been observed, some instability occurred in the oil market. Nazir stressed that the instability was not a consequence of market factors but of the Iraqi aggression against Kuwait, and for this reason Saudi Arabia had called for the convening of a meeting of OPEC to examine this crisis. He stressed that Saudi Arabia was a sovereign state which cared for its own interests, as well as the interests of the third world states which suffered most due to escalation in oil prices. Nazir further said that if OPEC failed to show interest in these issues, the member of states should protect their own interests.

In the meeting of the Council of Ministers, chaired by King Fahd, Nazir explained the situation in the oil market and said:

Despite the fact that the Kingdom of Saudi Arabia acted, in co-ordination with the states with which it co-operates, to convince the other OPEC states about raising production to cover the shortfall in production from the Republic of Iraq and the state of Kuwait.

He pointed out that the Kingdom of Saudi Arabia had increased its production by over 2 m.b.d. and that it would soon raise that production further at regular intervals without affecting the capacities of its oil fields.

Before 2 August 1990 Iraq and Kuwait provided less than 7% of world oil supplies. Their exports covered less than 4% of US oil consumption. After the invasion Saudi Arabia quickly rammed through OPEC the authorization to increase its produc-


31. Ibid.

tion by almost four million barrels per day. Saudi Arabia along with other oil exporting countries easily absorbed the loss of Iraqi and Kuwaiti production. Every additional barrel of oil pumped in Saudi Arabia represented a barrel not produced in either Iraq or Kuwait.  

The most significant production occurred in Saudi Arabia and the United Arab Emirates (UAE). Saudi Arabia's oil production increased by more than 1 million barrels/day every month in the first three months of the conflict. By the end of 1990 Saudi Arabia was producing more than 9 million barrels/day and the UAE 2.4 million barrels per day. The loss of Iraqi and Kuwaiti output was almost entirely compensated for by these major increases in output in Saudi Arabia and the UAE and small increases in a host of other countries both within and outside OPEC.  

The costs incurred by the Saudis in the Kuwait conflict were even greater than their revenues. Saudi oil export revenues in 1990-91 averaged $41.5 billion annually compared to $24 billion in 1989. The combined hard currency and budgetary costs of the conflict were about $60 billion, however forcing the government to take the politically painful step of increasing foreign borrowing for the shortfall.  

By mid 1990 Saudi Arabia's economic slump had well exceeded the biblical limit of seven lean years. Official Saudi holdings abroad were in the range of only one quarter of their level early in the 1980's. The oil price spike and the large increase in production gave the Saudi treasury a windfall increase of about $15 billion in the last five months of 1990, but the Saudi government made some $30 billion in additional financial commitments as a result of the crisis continued heavy emergency spending in early including a further $13.5 billion commitment to offset US costs in Desert Storm, significantly increased by the Saudi budget deficit and sent the kingdom to international banks for the first time in over two decades for loans to help cover the short fall.  

34. Mabro, n. 23, P. 248.  
The Gulf crisis combined with shifts in the global strategic balance following the demise of the cold war, had a significant impact upon the West Asian region and forced an introspective review of Saudi Arabian foreign policy goals and interests. Iraq's invasion of Kuwait and the subsequent threat posed to the Saudi Arabian oil fields forced the kingdom to review its previous foreign policy and re-evaluate its objectives in the post Gulf and post Cold war world.\(^\text{38}\)

Saudi foreign policy has traditionally pursued three primary objectives: Security, Islamic solidarity and Pan-Arabism. Oil revenue has provided the means through which these objectives have been pursued. Oil revenue helped to generate extensive aid programmes that provided linkages with countries throughout the Islamic world, and these ties provided some indication that Saudi policy was successful.\(^\text{39}\)

The kingdom has spent billions of dollars to buy advanced and sophisticated weaponry, but with the hindsight of the Gulf war, such weaponry did not guarantee security. When Iraq threatened Saudi territory in 1990, there was little chance that the kingdom could defend itself, and so the reliance on other friendly states was exposed. Unless Saudi Arabia develops such a potential, there can be no absolute security without some external support.

Islamic solidarity has been a continuous theme of foreign policy but has a variable record. Saudi Arabia's central importance to Islam as guardian of the two holy mosques in Mecca and Medina and its good fortune in possessing one-quarter of the world's proven oil supplies have provided both the religious and economic bases for it to be the protector and supporter of Islam around the world.

Massive foreign aid from Saudi Arabia to Islamic States and movements has not, in some cases at least, translated into what was anticipated to become significant political influence. This was most spectacularly displayed during the Gulf war, and when three of the main recipients of Saudi financial largess, namely Iraq, Jordan and the Palestinian Liberation Organization (PLO) turned against Saudi Arabia.

Pan Arabism has always been an elusive concept, and one perceived differently by different leaders. The Gulf war shifted the ground of debate on Arab unity and forged new alliances, albeit possibly temporarily in the West Asian affairs.

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39. Ibid
IMPACT OF GULF CRISIS ON OIL RELATIONS OF US

Oil was one of the powerful factors which triggered the rapid United States reaction to Iraq's invasion of Kuwait. Immediately after the invasion President Bush declared that "there is no place for this sort of naked aggression in today's world and called for immediate and unconditional withdrawal of all Iraqi forces." He ordered immediate freezing of the assets of Kuwait and Iraq and likened Saddam Hussein's invasion to the actions of Adolf Hitler before world war II and explained that US military forces were being sent to defend Saudi Arabia which was important to the US because of the kingdom's oil resources. Daniel Yergin describes succinctly US massive dependence on oil:

"Today, we are so dependent on oil, and oil is so embedded in our daily doings that we hardly stop to comprehend its pervasive significance. It is that oil that makes possible where we live, how we live, how we commute to work, how we travel—even when we conduct our courtships. It is the life blood of suburban communities, Oil (and natural gas) are the essential components in the fertilizer on which would agriculture depends; oil makes it possible to transport food to the totally non-self sufficient megacities of the world. Oil also provides the plastics and chemicals that are the bricks and mortar of contemporary civilization."  

The US involvement in the Gulf crisis stemmed from one simple objective defined by President George Bush as protecting the American way of life. In other worlds, the US objective in the Gulf is to guarantee the continuous supply of oil to the west and to deny any regional power the opportunity to control such supplies. This, it is argued, has been dictated by the fact that since the 1950's Gulf oil had become indispensable to maintaining the structure of western economies and the lifestyles they support.

42. Mohamed Rabie, "The Politics and Economics of Oil" Middle East Policy (Washighton DC) Volume1, Number 1, 1992, P. 97
Numbering 5% of the world's population, the US accounts for 25% of world oil consumption. The economic stock of the Gulf crisis produced a host of domestic problems in the US. Several major airlines were crippled by the sudden combination of higher fuel costs. The entire economy in the North America moved deeper into recession as various industries—from the manufacture and sale of automobiles to the travel and resort business—experienced significant slow downs. Economic uncertainty was evident throughout the market place as consumer spending on non-essential items slowed markedly. By Christmas 1991, even the most optimistic economic pundits in the Bush administration acknowledged that the country was in a recession.

In response to the Gulf crisis, the Bush administration unveiled a non energy plan in 1991. The letter accompanying the plan, from Energy Secretary James Watkins to the Speaker of the House of Representatives, was explicit:

... as events in the Persian Gulf have demonstrated so aptly, we must reduce our dependence on imported oil from unstable regions. This will require both reducing our, overall dependence on oil particularly the transport sector and increasing domestic production in an environmentally sound manner.43

The backbone of the plan comprised a scheme to open up 1.5 m acres of the Arctic National wildlife refuge to the oilmen. In addition to loosening legislation affecting the domestic hydrocarbon sector, the eventual form of the policy appeared likely to include consumption - reducing measures although the indications were that the administration wished to limit these as much as much as possible.

The impact of the Gulf crisis provided the first occasion for testing the usefulness of policies guiding the release of oil from the Strategic Petroleum Reserves and activating emergency programmes of the International Energy Agency. The loss of Iraqi and Kuwaiti oil combined together amounting to 4.3 million barrels of

oil per day from the world market led to the increase in landed cost of imported oil. The average landed cost of imported oil went up from $17.65 per barrel to $31.50 per barrel. At the outset, oil markets were concerned that any replacement of crude oil would be markedly heavier than the lost Iraqi and Kuwaiti supplies. That loss, which amounted to about 7 percent of a world supply that was just over 60 million barrels a day, was nominally sufficient to activate the International Energy Agency's emergency programmes for restraining demand and sharing oil, which triggered by a 7 percent loss of world supplies.45

However, in the succeeding months, Saudi Arabia and other countries increased their sales significantly, and by November 1990, had completely offset the supply lost as a result of the boycott both in volume and quality. From their peak in early October 1990, oil prices fell progressively through the winter and spring of 1991 even before the start of air and ground wars. The beginning of the end for the oil crisis came with the mounting success of the allied air campaign which began on January 16, 1991. The United Nations forces declared a unilateral ceasefire on February 28, 1991. With the United Nations cease fire the Gulf crisis came to an end.

CONCLUSION
The Gulf crisis has rightly been dubbed as the first serious crisis of the post cold war era. Oil assumed a significant role in the Gulf crisis. The invasion itself put Iraq in control of some 20 percent of the world's known reserves and led to another major political disruption of the oil market in August 1990. Oil prices soared from $18 to almost $40 per barrel, but stabilized in the range of $20 per barrel as a coalition opposed to Iraqi occupation took shape. After the expulsion of Iraqi troops from Kuwait, they quickly fell again. Saudi revenues soared during the brief price hike. The kingdom expanded production in part to keep price stable but mostly to recover market share lost during the 1980s.

The absence of Iraq and Kuwait oil production was to deprive the world market of between 4.5 and 5.01 m.b.d. of oil. It caused price to rise. Saudi Arabia and other Arab producers not only compensated the loss of Kuwait/Iraqi oil from the market by subsequently increasing the production but

44. Landed cost includes purchase price and transportation costs.
also deliberately kept the production levels high to keep the prices down. This ensured an uninterrupted flow of oil at reasonable prices. The saudis enjoyed both greater production and higher prices.

The economic shock of the Gulf crisis produced a host of domestic problems in the US. Several major airlines were crippled by the sudden combination of higher fuel costs. The entire economy in the North America moved deeper into recession as various industries from the manufacture and sale of automobiles to the travel and resort business-experienced significant slowdowns. Economic uncertainty was evident throughout the marketplace as consumer spending on non-essential items slowed markedly.

In response to the Gulf crisis, the Bush administration unveiled a new energy plan 1991. The backbone of the plan comprised a scheme to open up 1.5 m acres of the Arctic National wildlife refuge to the oilmen. The impact of the Gulf crisis provided the first occasion for testing the usefulness of policies guiding the release of oil from the strategic Petroleum reserve and activating the emergency programmes of the international Energy Agency.

The beginning of the end for the oil crisis came with the mounting success of the allied air campaign which began on January 16, 1991. The United Nations forces declared a unilateral ceasefire on February 28, 1991. With the United Nations cease fire the Gulf crisis came to an end.

The Gulf crisis underlined the special relationship between Saudi Arabia and the United States which has existed for more than two decades. That this relationship is largely conditioned by concerns for oil is impossible to deny. Saudi Arabia has enough oil reserves to continue exporting for several decades to come. On the other hand the US has a growing need to continue importing oil for decades to come. This means that both groups have compelling reasons to work together to construct a mutually acceptable system of production and pricing to meet short-term needs and serve long term interests of producers and consumers alike.