CHAPTER III


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Saudi Arabia maintains close relations with the United States. And, aside from disagreements over American support of Israel and the oil embargo of 1973, these relations have remained cordial since officially established in 1940. The United States has not always been certain of what it wanted from Saudi Arabia with respect to oil. The list of demands has included high rates of production moderate and predictable prices, development of spare capacity to meet emergencies, and additional production to augment the U.S. Strategic Petroleum Reserve.

The 1973 oil embargo was lifted on March, 1974. After lifting the embargo a set of broad economic cooperation agreements between the US and Saudi Arabia was signed on 8 June, 1974, a few days before President Nixon was scheduled to visit the Kingdom. Among these the most ambitious cooperative programme between the US and Saudi Arabia has been the United States - Saudi Arabia Joint Commissions on Economic and Security Cooperation. The Commissions were established by Secretary of State Kissinger and crown Prince Fahd. Four working groups were also established under the Joint Commission on Economic Cooperation: Industrialization, Manpower and Education, Science and Technology and Agriculture. Through these commissions the governments of Saudi Arabia and United States expressed their readiness to expand cooperation in the fields of economics, technology, and industry, and in the supply of the Kingdom's requirements for defensive purposes. The content of the American - Saudi 'Special relationship' can be summed up as follows; Riyadh put its oil wealth at the disposal of the US and through its policy within OPEC ensured that the black gold never ran short in the industrialized world, and remained reasonably priced. At the sametime, Kingdom used its economic and hence political power to exert a moderate influence in the Middle East. In exchange, Washington guaranteed

2. Ibid.
its allies security, provided military assistance and helped with the Kingdom's accelerated industrial development eff­ort.

Co-operation between the two capitals developed so fast that by June, 1977 the New York journalist Thomas Lippman could affirm that "Saudi Arabia and the United States are heading towards a situation in which they cannot do without each other.'

During President Nixon's visit to the Kingdom on 15 June, 1974 Saudi Arabia continued to tilt toward the US still further. In an unprecedented and undiplomatic manner the Saudi King denounced Nixon's critics at home, saying that anyone who stood against the President was causing "the splintering of the world". In farewell remarks before the President left Saudi Arabia, the King expressed full confidence that Nixon would succeed in removing all the blemishes standing between Arab countries and America. The King said:

And anybody who stands against you, Mr. President, in the United States of America, or outside the United States of America, or stands against us, your friends in this part of the world, obviously has one aim in mind, namely, that of causing the splintering of the world, the bringing about of mischief, which would not be conducive to tranquility and peace in the world.

On leaving Jeddah for Syria President Nixon said that "our friendship... now develops into an active partnership". As part of this new partnership programme the President promised military aid to Saudi Arabia. The President said, "If Saudi Arabia is strong and secure... it

4. Ibid.
5. Ibid.
6. Ibid.
will enhance the chances for peace.” 7

Yet, just the day before, on 14 June, the first day of President Nixon's visit to Saudi Arabia King Faisal told him bluntly, that there would be no lasting peace in the Middle East while Arab lands were occupied. The King said:

There will never be a real and lasting peace unless Jerusalem is liberated and returned to Arab sovereignty... The injustice and aggression which were wrought, upon the Arabs of Palestine and unprecedented in history, for not even in the darkest ages had a whole population of a country been driven out of their homes to be replaced by aliens.8

The King, like his predecessor King Saud, had been a friend of the United States, but he had been uncompromising in his opposition to American policy toward Israel. The successive Saudi monarchs have had special relationships with the United States, which has been institutionalized in many fields, from defense and finance to technology and education.

Although everything is predicated in a settlement of the Arab-Israeli dispute, King Faisal told in an exclusive interview in September, 1974:

We do not want to do anything that will hurt America. But if our new special relationship is to remain viable, the US must not do anything that will hurt us and the Arab world.9

7. Ibid.
8. Ibid., 15 June, 1974.
EVALUATION OF UNITED STATES-SAUDI ARABIAN JOINT COMMISSION ON ECONOMIC COOPERATION

The US-Saudi Arabian Joint Commission on Economic Cooperation (JEC) was established in 1975. Under the agreement both parties looked upon as a key element in their global relationships, US government agencies were to provide technical assistance to their ministerial counterparts in Saudi Arabia in the fields of agriculture and water, labour and manpower, science and technology and industrialization.

If offered a unique economic development challenge - different from that in almost any other country - in two respects.

(i) First, Saudi Arabia was a wealthy, underpopulated country rather than a poor and overpopulated one, the usual operational arena for international development programmes.

(ii) Second, the Saudis were to fund the entire programme, thus freeing the US agencies from many of the budget and legislative constraints that often burden congressional-ly funded foreign aid programmes.

For the United States, the Commission served to broaden its contacts with Saudi Arabia beyond the existing and frequently controversial political and military relationship. It provided a significant opportunity to work closely with the Saudis in recycling their vast surplus of petrodollars while also serving to enhance the US profile with the long and short term goal of maintaining the flow of Saudi oil.

For the Saudis, their willingness to transfer large sums of money to the US Treasury Department to administer on


their behalf constituted a reaffirmation of their confidence in the American connection and in the American's ability to help them. With it they sought the commitment of US government agencies to assist their country's civil service in managing an economy that was growing at an explosive rate.12 Treasury Secretary William Simon was interested in recycling Saudi petrodollars and viewed the Commission as a convenient and positive forum for pursuing this goal.13

The Saudi Minister of Finance and the US Secretary of the Treasury became Co-Chairman of the Commission. The Saudis appointed their co-ordinator, and the Treasury Department's Assistant Secretary for international affairs was made US Coordinator. To implement the agreement the Treasury Department then established Commission offices in Washington and Riyadh headed by a Deputy Assistant Secretary.14 Once Secretary Simon left office and as the importance of Saudi Arabia diminished with the passing of the oil crisis, the involvement of the Secretary and the Assistant Secretary became perfunctory.

12. It has been a consistent Saudi theme to request the services of long-term US government employees. In fact, more than half the American personnel posted in Saudi Arabia have been private-sector contractors or short-term government employees, mainly because many of the special qualifications the Saudis require are not those available in US agencies.

13. The Joint Commission was only one element in the overall rivalry between the State Department and Treasury Department for Control of International Oil policy. In conceding the joint commission responsibility to Secretary Simon, Secretary Kissinger won for the State Department the dominant role in oil policy that it retained.

14. Originally this post was held by Senior Officers transferred from the State Department and much of the organisation was staffed by personnel from AID and other agencies having programme administration responsibilities. Over time, however, Career Treasury Department personnel came to hold most of the commission's top policy jobs.
PROGRAMME AND SCOPE

The JEC has played a key role for more than 23 years in strengthening Saudi Arabia's government institutions and human resources through technical assistance and cooperation with US government agencies.15

In the short time since, measured in economic and technical development terms, Saudi Arabia has achieved a remarkable transformation. A nationwide physical infrastructure has been put in place, Saudi Arabia's human capital has been cultivated and a wide range of services has been expanded and modernized. The JEC has played an important role in this development.

Till 1994-95 forty projects of the commission were initiated. Among the forty, thirty major projects have been implemented in a broad range of fields. They cover areas ranging from agriculture to vocational training and higher education to underground water.16 In those instances where no US government agency was available or willing to undertake a project, the Treasury Department handled it. Thus the department undertook projects as far a field from its sphere of expertise. Eventually, one-third of the projects became the direct responsibility of the Treasury.

Some of the larger projects initiated included: assistance to the Saudi Arabian Central Department of Statistics; provision of economists as advisors; assistance in modernization of the Saudi Arabian Department of customs; curriculum development and on the job training in Saudi Arabia's vocational training centres, assistance to the Ministry of Health in a number of areas including residency training,


16. Unlike agreements written by Agency for International Development (AID) and other international agencies, virtually all Commission project agreements have generalized scopes of work and no time limitations. This lack of definition, combined with the fact that the Commission had not an effective system for annual management and financial planning, was at the root of many of the problems.
hospital administration, and epidemiology; plus projects in agriculture, science and technology and other government services.\textsuperscript{17}

At its peak in the early 1980s, the joint commission had almost 400 US Government and contract personnel on assignment in Saudi Arabia. During 1994-95 there were more than 60 full-time advisors. The Saudi Arabian Government had funded all Joint Economic Cooperation projects except one completed in Solar energy that was equally funded by both governments.\textsuperscript{18}

Total Saudi expenditures during the first 15 years of the Commission's operations approached $1.5 billion, with about $200 million allocated annually during peak years. At the height of the commission activity some 300 US advisers, representing as many as 15 US government agencies and numerous contractors, were living in Riyadh and other cities in Saudi Arabia. The annual projects budget for 1990 was less than $40 million. The decline in the joint commission fortunes was the result of the failed expectations caused by the inadequacies of both sides in coping with the complexities of translating the joint commission concept into a well-managed and effective instrument of technical cooperation.\textsuperscript{19}

\textbf{FIRST PHASE}

During the first phase, lasting from the mid-1970s to the early 1980s, the Commission was overwhelmed by Saudi requirements related to electric power outages, backlogged seaports, and the flood of foreign companies and workers arriving to participate in the economic boom. Not surprisingly, long-term technical assistance, the Commission's

\footnotesize{\textsuperscript{17} "The United States - Saudi Arabian Joint Commission on Economic Cooperation", \textit{Middle East Insight} (Washington DC), Special edition, Vol.XI, No.6, 1995, p.57.}
\footnotesize{\textsuperscript{18} Ibid.}
\footnotesize{\textsuperscript{19} Harbinson, n.11, p.271.}
supposed raison d'etre, was lost in the melee. Instead, the Commission's programme became mostly a purchasing and construction operation with three-fourths of its expenditures and most of its effort going toward activities such as building power plants, vocational training schools, a national park, and even dog kennel facilities. The needs were always reported to be urgent and, in circumstances where the oil money seemed unlimited, were almost as often exaggerated.

Although in theory it was the responsibility of the coordinators to control excessive demands and direct the programme, this did not occur. On the contrary, in this hyperventilated situation, careful planning and well-conceived feasibility studies were neglected, and the primary role of the Saudi coordinator was to prod the joint commission into ever faster action to meet the perceived needs for specific products and services. Thus, while the original stated purpose of the commission may have been to develop human resources capabilities of Saudi Arabia's ministries, it accomplished little to help the Saudis learn to utilize, operate, or maintain what was being provided. Instead, the Commission had become another frenzied participant in the building and buying boom that characterized these years.20

The initial results were not optimal. The Treasury Department and other US domestic agencies showed themselves to be woefully ill-equipped to undertake large-scale construction projects and major capital procurements, which were more the forte of International Conglomerates than of the average US agency. Often the result was Saudi

20. At this time, over 75 percent of the commission's expenditures were for contracts and purchases while most of the US government staff time was spent on administering them. This high proportion of purchases decreased when the Saudi budget situation became strained. During 1990, the Saudi Coordinator required almost all contracts supporting commission activities written by Saudi ministers using their regular operational funds.
dissatisfaction with the Commission for slow and sometimes poor performance. Worse still, many of the activities and the gold plating that embellished them could not be justified in retrospect other than by saying the Saudi counterparts wanted them.

The result was that, during the first phase, the commission's reputation suffered because of its performance and its failure to provide a sound economic development agenda. Instead, it allowed individual Saudi ministries to set the agenda for the Commission's work. For most ministries this involved using Commission advisers as a resource in their ongoing work in much the same way they used contractors and third country nationals. There was no overall planning with the Ministry of Finance and no unifying philosophy about the role of the Commission as a unique resource to improve the Saudi civil service. This mutual failure to develop project goals set a pattern for the Commission's future that continued till 1990. A 1986 Saudi critique of the programme expressed:

The object of the project is not defined on an accurate scientific basis liable to be translated into projects and actions.... The Saudis believe this is the role of Americans... on the other hand the Americans expected the Saudis to define their requirements... and the American role would be to assist in implementing these programmes. 21

SECOND PHASE

During the commission's second phase, about 1981-86, oil prices fell precipitously, and the Saudis suffered a widening budget deficit as the oil boom passed. The oil price collapse in the mid-1980s brought a gradual decline in

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21. "Brief Report on US-Saudi Arabian Agreement on Technical Cooperation" by Hamza Abu Zaid and Mohamed Soliman Al Dalaan, December 1986. This is the only written report the Saudis shared with American side. It contains much criticism and very little praise. Interestingly, the critique was never discussed within the Treasury Department and no action was taken to address the criticism. Treasury Department, Office of Saudi Arabian Affairs, quoted in Harbinson, n.11, p.272.
the construction and capital acquisition activities of the commission. The Saudi budget reductions, however, mainly affected ministry operating budgets for routine purchases and the hiring of personnel. The ministries soon found that by shifting some of their personnel and purchasing expenses from their operating budgets to their project budgets, they could finesse the Ministry of Finance cutbacks.22

The Commission continued to drift away from its original purposes during this period, while project budgets were consistently inflated to meet the operational needs of ministries. In the process, the American staff was increasingly integrated into the ministries day-to-day activities as statisticians, economists, researchers and administrators. What passed for commission projects continued to lack purpose and objectives that would stand up to scrutiny. Rather than strengthening the Saudi ministries, the projects more often than not became a part of them.

Despite these problems, there were many positive achievements in Saudi Arabia's emergency medical services, customs control, and statistical gathering - to name a few - that would not have been possible without the constructive participation of US agencies. Large numbers of Saudis received valuable training in the United States and presumably benefited from working closely with American technicians. Thus, at the project level, both substantive achievement and goodwill frequently resulted.

These positive developments, unfortunately, usually took place despite, rather than because of, the joint commission Umbrella. Neither the Treasury Department nor the Ministry of Finance Coordinators directed events, with the result that positive achievements were serendipitous rather

22. During this period, the hiring of third-country nationals to work within the ministries became the largest item in the commission's logistic support budget. Many projects also became responsible for such mundane tasks as buying ministry supplies and contracting for janitorial services.
than the result of overall commission planning and purpose. Offsetting those projects with positive achievements, moreover, were other showing minimal results; the whole was less than the sum of its parts.

As the Saudi budget restrictions began to felt in the 1981-82 period the Treasury Department belatedly began requiring projects to submit management and financial plans (MFPs) which were supposed to justify annual budget requests. Regrettably, however, these plans almost totally failed to lend direction and substance to the programme because they were not taken seriously by either the Saudi or US side. They became an exercise in paperwork in which the Americans prepared the budgets without any serious involvement of Saudi ministries. Once submitted, the documents received only cursory review and proforma approval from the Treasury Department with essentially no policy guidance. The Saudi coordinator typically did not read the plans at all, but made cuts on a gross percentage basis. Finally, once they were completed, the documents were filed away rather than used to measure the work done during the ensuing year.23

This failure to define the commission's programme and make it more cost effective was only highlighted at biennial joint commission meetings chaired by the minister and secretary. Here senior officials on both sides gathered to pass well-intended resolutions on the implementation of technology transfer and other Long-term goals. Included were resolutions on such relatively obvious matters as establishing criteria for training, evaluation of the projects, and senior level coordination. In no case, however, were these

23. The American joint commission staff pressed to use the MFPs to address obvious problems within the projects. In circumstances when the Saudi Coordinator was not criticizing the projects and the US action agencies might resent Treasury interference, no action was taken by the Treasury's joint commission management. This continued through the 1987 MFPs.
implemented on an operational level. 24

During this time, it became glaringly apparent that the boom days had passed and that the commission needed to establish priorities to distinguish its programmes from other activities in Saudi Arabia or risk their being radically reduced as they soon were.

The failure to address and to improve the functioning of the commission during this period inevitably resulted in an accumulation of problems and, as time went on, increasing dissonance between the two sides. By the end it was evident that drastic measures were needed to relieve the ennui that surrounded the commission's programme. Moreover, it was clear that the United States' dominant position in Saudi Arabia was eroding perceptibly as it lost market share of Saudi imports and Saudi Arabia increasingly turned to the United Kingdom, West Germany and other countries with which they also had joint commission arrangements. 25 Although there was no direct evidence to support their view, many Americans in the Commission took this as a deliberate signal of Saudi dissatisfaction.

On the military side, meanwhile, the Saudis became progressively disillusioned by the congressional controversy that greeted their every request for military assistance, so increasingly they went elsewhere for their security needs, culminating in the purchase of missiles from China and their

24. No convincing explanation was ever given as to why the commission was in the position of having senior officials on both sides agree to substantive resolutions only to ignore them in practice. The one explanation offered by American commission management was to the effect that the Saudi Coordinator did not consider it timely to implement them.

25. Joint Commission were in vogue during the mid-1970s and both the United States and Saudi Arabia established a number of them. The US-Saudi Arabian Commission was unique, however, because it was the only one designed for a high degree of foreign participation in Saudi governmental affairs and the transfer of large sums of Saudi money for the United States to administer.
multi-billion dollar military supply contract with the United Kingdom. By 1986, the Commission was damaged goods in the eyes of the Saudis. At the same time, however, the commission had a more important role in fostering Saudi-American relations in the face of increased foreign commercial competition and reduced military ties.

THIRD PHASE

During the Commission's third phase (1986-89) the Deputy Minister of Finance Soliman Al Mandeel was appointed as the new Saudi Coordinator. This coupled together with the installation for the first time of a complete Saudi staff in the commission's Riyadh headquarters. The Ministry of Finance had reviewed the work of the commission and intended to take an active, if not dominant role in its affairs.

It did not take long for the new Saudi staff to make its presence felt. In its first budget review session for 1988, the US Coordinator was virtually ignored as the new Saudi Coordinator scrutinized each project, told US agencies and Saudi ministries alike what activities they should and should not undertake, and cut the budget by about 20 percent.

During the 1989 budget reviews, US participation in the process was not even sought as the Saudi Coordinator and the Ministry of Finance budget office made programme and funding decisions involving a further 30 percent budget reduction. These budget decisions involved overturning many of the questionable practices that had developed during prior years - such as projects that hired personnel and made routine purchases for the ministries. To top it off, the Coordinator conducted a critical review of the housing and logistic support arrangements that the Treasury Department had developed for US personnel in Saudi Arabia over the years and made abrupt changes that adversely affected their standard of living; simultaneously, arrangements were made for the Ministry of Finance to take over much of the logistic support for US personnel. The net effect of these steps was an unmistakable rebuff to the Treasury Department's stewardship.
of the commission programme.

Many of the steps taken by the Coordinator to tighten the commission were long overdue. That the US staff had not undertaken these changes - or at least tried to undertake them - in previous years showed serious insouciance. Nevertheless, the blitzkrieg approach and the bumptious Saudi presence, taken together, with drastic budget cuts, did nothing to improve the functioning of the commission. On the contrary, most of those within the commission saw the Saudi actions as signalling the demise of the programme - cancelled projects, reduced staffs either by budget decisions or attrition, and no new initiatives on the horizon.

Throughout this difficult period, the Treasury Department was passive. It neither put forward proposals for redirecting the commission nor succeeded in establishing a new equilibrium between the two coordinators. By not doing so, it abdicated the US role as innovator and change agent in assisting the Saudi government to manage its expanding economy. Instead the American role was reduced from that of senior adviser, as originally contemplated, to one more akin to contract technician.

FOURTH PHASE

From the beginning, Commission projects focussed on technical activities. Whether they involved vocational training, statistical collection or agricultural research, these substantive programmes were to be institutionalized within Saudi ministries. During this phase budget and staffs were cut, the projects technical efforts took on an ever-narrowing focus and therefore had less and less impact on the broader problems of the ministries. The commission projects continued with sisyphean task while the focus of Saudi policy makers shifted to resolving the larger issues of duplication, inefficiency, and budget deficits that afflicted the government's effectiveness and Saudi Arabia's
development.\footnote{26}

According to 1986-87 Annual Report of the Saudi Arabian-United States Joint Commission on Economic Cooperation, published in conjunction with the February 1987 biennial joint commission meeting, the commission did not initiate any new project since 1985. This meant that the commission did not deal with Saudi Arabia's emerging priorities. The Commission had been in a nether world, struggling interminably with outdated projects while becoming irrelevant to the future. More than half of the projects lacked sufficient impact or relevance to Saudi needs to justify continuation beyond, perhaps consultative arrangements. The shortcomings of the Commission are mentioned in the following issues. These issues were of primary concern to Saudi policy makers on which US could provide expertise.

**PUBLIC HEALTH AND WELFARE**

Although Commission projects in consumer protection, emergency medical services, and epidemiology stressed on these aspects, Saudi Arabia was generally slow to set and enforce standards affecting the health and welfare of citizens. The Commission lacked the assistance to allocate responsibility for health and welfare activities to develop procedures and tests and achieve a level of coordination between government ministries in Saudi Arabia closer to that achieved in the United States.\footnote{27}

\footnote{26. The different between the annual revenues to the government and its expenditures reached about 20 percent which was substantially more than the percentage deficit of most other countries. Meanwhile a large part of the Saudi budget was spent on the maintenance of the infrastructure and programmes that developed willy-nilly during the boom years.}

\footnote{27. The Commission made a preliminary report to the Ministry of Health on health and welfare issues in May 1986. The Commission did not, however, seriously follow up the report's recommendations with the ministry and consequently only limited co-operation existed.}
SYSTEMS TO ELIMINATE WASTE AND DUPLICATION

During the boom years of the late 1970s, numerous inefficiencies and anomalies became institutionalized in Saudi Arabia as economic growth outpaced the government's ability to handle it. These included such things as inadequate systems for routine purchases of goods and services, personnel management, ministerial budgeting, and interministerial coordination. The original purpose of the commission was to assist the Saudi government in rationalizing these problems but it was used as a vehicle to avoid them. For the Commission to be successful in its final stages, this approach required change. 28

ORGANIZATIONS AND CONSULTATION

Till 1989-90 the Commission went on with paucity of guidance from the Treasury Department and the Ministry of Finance and lack of consultation between them on programme issues. As deserved by a management consulting firm which reviewed the US side of Commission operations expressed:

Several unresolved policy issues lead to considerable management tentativeness. Among these issues are the nature of technology transfer and institutional development, the scope of training and the balance of 'advising' versus 'doing' that is appropriate for USG [US Government] involvement. Another external problem is the ingrained perception of most action agencies that Treasury lacks the standing to act in major areas of programme management. Internally, Treasury lacks a defined strategy. Some Treasury procedures are deficient, substantial ambiguity exists in responsibilities of the two Treasury offices... and communications

28. The Commission's taking responsibility for such activities as hiring and procurement for the ministries during the early 1980s often allowed the Saudis to avoid their institutional manpower and training problems. When this was abruptly terminated by the new coordinator the effectiveness of the project suffered because the ministries had difficulty picking up this support responsibility.

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are flawed.  

Most of those on the American side of commission, whether working for the Treasury Department or the action agencies, would agree with this diagnosis. The failure by the Treasury Department to coordinate with the Ministry of Finance in implementing and periodically updating the basic management tools for directing the commission's programme virtually assured that it would become obsolete with changing circumstances.

This failure of coordination, however, was only half the problem. The other half was that as the commission waned in importance, the policy making levels of the US agencies involved increasingly ignored it. Project team leaders and staff were left to deal with the ministries on their own. With neither the benefit of guidance from Treasury and the Ministry of Finance, nor the policy-making levels in their own agencies, those at the project working level had been overmatched by Saudi deputy ministries and other officials who outrank them. The result was that they came to be viewed as technicians rather than senior policy advisers by ministry officials at the very time when Saudi

29. "Organizational and Management Analysis of the United States-Saudi Arabian Joint Commission Programme", Booz Allen & Hamilton Inc., Washington DC, 21 May 1987. Quoted in Harbinson, n.11, p.280. As a result of this study, the Treasury Department reorganized bureaucratic responsibilities between its Washington and Riyadh offices.

30. The Saudis attribute this to the Treasury Department. One of the first meetings of Treasury's Riyadh staff with the new Saudi Coordinator resulted in a telefax to Washington reporting that the Saudi Coordinator did not seem to think that the US counterparts were not very good managers. More to the point, the Dalaan-Abu Zaid critique of Treasury's joint commission office in Riyadh said, that the conclusion reached was the Treasury Department which was encumbered with problems and burdens could not correct the channel for supervising and monitoring the technology transfer process.
interests turned towards broad policy questions.  

A solution to this problem required a major organizational restructuring of the commission and the way the Treasury related both to the Ministry of Finance and participating US agencies.

First, after 15 years of operation, patterns have been established and prejudices developed that make structural changes in the commission extraordinarily difficult. Management of the programme involve not only the Treasury Department and the Ministry of Finance, but also other Saudi ministries and US agencies. Changing the organizational culture of the Commission can only be accomplished by a major policy level effort on both the Saudi and American sides.

Second, the Treasury Department lacks the experience or bureaucratic depth necessary to manage a programme such as that of the joint commission.  

JOINT PLANNING

The commission never had a joint programme planning capability at the Ministry of Finance Treasury level. Indeed, because this programme was outside Treasury's mainstream activities, the department lacked the capability for

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31. As a result, Saudi officials were increasingly seeking to eliminate the project team leader and other senior advisory positions as budgets were reduced in favour of technical specialists to do the routine work of the ministries. This of course further diminished the ability of projects even to deal with broader policy issues.

32. Problems include these examples: Treasury does not have a roster of specialized consultants as do other foreign aid agencies to assist with specific tasks and certainly does not have the required expertise within its ranks; personnel assigned to Riyadh are generally new hires and go there with minimal knowledge of the programme and as a policy matter, Treasury has decided not to evaluate joint commission project formally on the theory and this would imply Treasury responsibility for them.
such comprehensive planning. From 1990 onwards the Ministry of Finance has permanent staff assigned to the commission, however, it has the capability to undertake such an effort.

**TREASURY RESPONSIBILITY**

During the commission’s 15 year existence, the role of the Treasury Department and the action agencies has never been defined, with the result that Treasury had only minimal control over project activities. This requires change if Treasury and the Ministry of Finance are to implement joint plans. A step in this direction can be achieved by grouping projects that emphasize health and welfare, cost effectiveness and institutionalization of training so that they can be managed comprehensively rather than as separate and distinct projects.

The US-Saudi Arabian Joint Commission has served both as a unique enterprise and as an important political link between United States and Saudi Arabia. To maintain its position as a positive political tie between the two, however, presupposes that the commission will adapt to Saudi needs. The evidence both from Saudi policies and the numerous studies done of the commission programme indicates that this change has not been made. Instead, as the situation and needs of Saudi Arabia have changed, the Commission programme has remained static.

To alter the picture, however, requires that the commission shift its focus away from the mundane activities to larger policy and institutional problems that challenge Saudi Arabia. Achieving such a fundamental change in the

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33. On the subject of Treasury control of the projects the Booz, Allen report, pp.1-10. Quoted in Harbinson, n.11, pp.281-82 says also hampering this programme management performance is the ingrained perception of action agencies expressed in many interviews with the study team that Treasury lacks the standing to act in many areas of the programme management.... This view is grounded in the assertion that Treasury lacks the requisite technical expertise, and its authority to intervene or control has never been spelled out explicitly.
commission's programme requires a level of coordination and high level attention on both the Saudi and American sides.

ACCOMPLISHMENTS: FROM INFRASTRUCTURE DEVELOPMENT TO MANPOWER DEVELOPMENT AND TRAINING

The Joint Economic Cooperation has experienced a remarkable evolution over the years, from more rudimentary assistance in developing Saudi Arabia's physical capital, to progressively more sophisticated assistance in developing its human capital.

From its inception, the chief objective of the Joint Commission has been to assist in technology transfer and the development of Saudi Arabian government human resources. In its early years however Joint Economic Cooperation projects often contained large-scale construction and equipment components, with considerable efforts focussed on assistance in building Saudi Arabia's physical infrastructure. Examples of Joint Economic Cooperation's accomplishments in this area include the following:

* Development of a 25 year plan for electrification of the country, including assistance in implementing electric power projects.

* Development of a solar energy research and development infrastructure in Saudi Arabia and joint development of rural, urban and industrial applications for solar energy that were instrumental in advancing the state of the art in both Saudi Arabia and the United States.

* Development of a national vocational training system, complete with buildings.

* Establishment of an economic analysis and information center for the Ministry of Finance and National Economy.

* Development of a Saudi Arabian National parkland in the southern region.

Joint Economic Cooperation's assistance during 1975-1995 was characterized by large numbers of American advisers and large scale procurement of goods and services from American companies, which was the first introduction to the Saudi Arabian market for many of them.

Till 1994-95, as the country's infrastructure progressed, projects re-focused on the Joint Economic Cooperation's original objective by emphasizing improved productivity and skills of some Saudi Arabian Government personnel, enhanced operations and maintenance capabilities and increased efficiency of government activities. The highest priorities of each project emphasised to help the respective Saudi Arabian ministry to build its technical and management capacity through the transfer of technology, and to develop its human resources through a wide range of professional development programmes some of the successful projects are:

* The statistics and data processing project developed the capability of the Saudi Central Department of Statistics (CDS) to perform sophisticated demographic surveys and other statistical studies of the primary characteristics of the Saudi Arabian economy, supported by a complete data processing capability in these areas. The CDS has completed canvassing for the first comprehensive economic and demographic census of Saudi Arabia since 1974, an effort conducted almost entirely by Saudi personnel.

* Assistance in customs administration has resulted in the development of a world class customs operation in Saudi Arabia, through the introduction of the latest in computer and inspection technologies.

* Research, development, and training capabilities have been established in many areas including water desalination, renewable energy, meteorology, environmental protection, other advanced science and technology applications, highway design, construction and maintenance. Most of these have

35. Ibid.
yielded benefits for the United States as well as Saudi Arabia. For example, extensive experience with road materials in Saudi Arabia's harsh climate has been used to improve materials used in road construction in the United States.

* An emergency medical services project established a network of regional training centers across Saudi Arabia and developed a cadre of Saudi instructors providing various levels of emergency medical service training.

* A disease surveillance and control capability established in the Ministry of Health which includes responsibility for the annual Haji (pilgrimage) to Mecca. The epidemiological study of pilgrims from all over the world get important benefits for the research efforts of the US and other countries in this area.

Thousands of Saudi Arabians have received training both in Saudi Arabia and in the United States since the Joint Commission's inception. This opportunity gives them first hand experience with US systems and broad contact with Americans, which over the long term promote familiarity with US products and services. Many of the Saudi officials trained under Joint Commission on Economic Cooperation projects replicate what they have learned by training other Saudi Arabians. The result in many cases has been the establishment of a self-sustaining capability within the Saudi ministry, with Saudi Arabians replacing American advisers who have transferred their knowledge and skills.

Till 1994-95, more and more of the training provided through the Joint Commission has been at advanced levels, much of it in the United States, reflecting the growing capabilities of the Saudi Arabian counterpart institutions. Development of Saudi Arabian institutions and the skills of their employees continue to be the pre-dominant concern of the Joint Commission in the coming years.

The International Energy Agency (IEA)

Following responses in the wake of the 1973 Arab oil embargo, the industrial oil consuming countries pulled themselves together and agreed to establish what was essen-
tially a new "Atlantic" organization, the International Energy Agency (IEA). According to its proponents, the IEA was an act of creative American leadership, perhaps equivalent to the Marshall Plan aimed at reshaping Western energy policies, reducing dependence on OPEC, and preventing the spreading of dislocations in the West.

Haunted by the spectre of Western alliance disintegration, a possible West European "tilt" toward the Arabs, and the need to deal with the embargo and increasing oil prices, secretary of State Henry Kissinger in his speech to the Pilgrims Society in London in December, 1973 proposed that the countries of North America, Europe and Japan form an Energy action group and develop plans for collaboration in all areas of the energy problem with the objective of assuring required energy supplies at reasonable cost.

A short time later, in February, 1974 the United States convened the Washington Energy conference of consumer countries, which produced an ambitious communique calling for a comprehensive action programme to conserve energy and develop new energy sources, prepare emergency oil allocation plans for future oil crisis, and launch collaborative research and development efforts. There was also a pledge to avoid competitive depreciations or new trade restrictions and to seek new credit facilities to ease the balance of payments impact of higher oil prices.

The real accomplishment of the conference was the establishment of the Energy coordinating group (ECG) headed by senior officials from all key consumer countries (except France) to take steps to implement the action programme working intensively through the spring and summer of 1974 under Co-Chairmen Thomas Enders, US Assistant Secretary of State for economic affairs, and Vicomte Etienne Davignon, political director of the Belgian Foreign Office, the ECG produced in the early autumn the agreement on an interna-

tional energy programme. That document became the foundation of the new International Energy Agency.

The Washington conference thus resulted in the establishment of a working group of 12 countries, which, in turn eventually produced a potentially significant agreement. This was the energy-sharing plan; the new International Energy Agency was established in November, 1974 under the auspices of the organization for Economic Co-operation and Development (OECD) in Paris.37

This agency was formed with 15 members when Sweden, Switzerland and Austria joined the original group. A weighted system of voting, based on oil consumption, was established. The members agreed to conserve oil to build up their stockpiles, to engage in joint research for alternative energy sources, and to share their oil in case of an emergency. The sharing provisions were to go into effect automatically when any country's imports dropped by more than seven percent. France and Norway declined to join the International Energy Agency.

Secretary Kissinger wanted to prevent the west Europeans from taking sides with the Arabs, an eventuality that could have had serious negative consequences for his Middle East peace negotiations. Moreover, Kissinger saw the need to establish a consumer country solidarity and to take certain protective measures to reduce dependence on Middle East oil before trying to persuade or force OPEC to reduce oil prices.

The secretary was also worried about the disruptive effects of higher oil prices on western economies, which might turn countries inward and threaten what was left of the postwar liberal international economic order. And finally, the energy issue came along just as United States was having difficulty in reasserting its leadership in the 'Year of Europe' exercise clearly exploiting Europe's new

vulnerability and relative American strength, the United States saw an opportunity to revive Atlantic Solidarity and reassert US influence through the IEA, which made America in effect, a guarantor of western alliance economic security.

West European attitudes toward the American initiative were mixed. At the Washington Energy Conference, France openly refused to participate in the ECG. Led by its outspoken Foreign Minister Michael Jobert, the French opposed the formation of a closed consumer bloc that might foster confrontation between oil-consuming and oil producing countries. A number of its European partners were also wary on this point, but Jobert's principal concern seemed to be the rejection of what he saw as a new Atlantic structure designed to link French and European economic Security to the United States, thus opening the way for renewed American hegemony over the continent. Recognizing that so for the EC (European Community) had not produced an effective energy policy, the other members of the community led by West Germany decided to join the American initiative. As Henri Simonet, the EC Commission Vice President, later explained:

The political motive behind the decision of the member states of the community to accede to the IEA lies in the realization of their predicament. Faced with the success of the organization of the oil producing countries in establishing a cartel for a commodity, the vital character of the which was forcibly demonstrated by the embargo and ensuring price boosts, they concluded that the only safe course was to rally behind the United States in the latter's bid to build up a counter-vailing power to OPEC. In doing this, they expressed their preference for American strategy over the French strategy of shunning any formal agreement among the industrialized countries.38

However, a short time thereafter the members of the EC called for an organized Euro-Arab dialogue as well.

Structure of IEA

The IEA has a governing board chaired by an Ambassador and composed of ministers or their delegates from each of the member countries. It has a management committee of senior representatives from each participating country and standing groups on each of the four areas of the concern: emergency questions, the oil market, long term cooperation and relations with producer and other consumer countries. 39

The heart of the IEA was an oil allocation scheme in case of a new oil embargo. Members were committed to stockpile oil supplies sufficient to sustain consumption for sixty days with no net oil imports (later increased to ninety days). They were also to prepare contingent oil demand restraint measures which could be activated in an emergency to reduce consumption. In the event of a cut off of oil supplies to any one or more member countries, the other members agreed to share the burden. There was an automatic procedure under which emergency oil allocation and demand restraint measures would take effect whenever one or more of the members sustained, or was about to sustain, a seven percent reduction in its oil supplies as mentioned earlier. If a country was affected, it must first reduce its own consumption by seven percent. Any additional shortfall would be made up by the other members, according to predetermined formula from their own consumption or emergency reserves. If the cut in supplies becomes so severe as to use up half or more of the emergency reserves of the member countries, new measures would be proposed by the governing board. Emergency procedures were to be effected in cooperation with the oil companies. 40

Other activities of the IEA included the gathering of information on and the monitoring of the international oil market within a framework of consultation with the oil companies. The IEA also developed a long term programme of

40. Ibid, p. 250.
energy co-operation, including research and development, cooperation with oil producers and with oil consuming countries in the North-South dialogue.

Alongside the emergency oil sharing scheme, the second principal accomplishment of the IEA was the Long Term Energy Programme adopted in January, 1976. The purpose of this programme was to encourage consumer countries to reduce excessive dependence on imported energy, thereby diminishing their vulnerability to a future OPEC embargo and price rises.

In the October, 1977 meeting of IEA energy ministers were told that without strong action on the part of their membership, the IEA members oil imports could reach 32 m.b.d. (about 1,600 million tons of oil equivalent per year) by 1985 unless the US meets its import target of 6 million barrels per day for that year.41 The ministers learned that serious energy imbalances could occur by the early part of the next decade unless vigorous conservation measures are implemented and alternative energy sources are developed and expanded, specifically, increased coal usage and nuclear power production.

The other parts of the Long Term Energy Programme included a framework to facilitate joint investment projects in domestic energy sources and research and the development of alternative sources.

The United States thinking that OPEC would soon break down, sought to apply maximum pressure, this was a major reason for forming the IEA. On 18, November, 1974 the International Agency officially came into being. It was composed of the original 'group of twelve' plus Turkey, Spain, Austria and Sweden. The IEA was to operate as a specialised agency of the OECD (organization of Economic Co-operation and Development) based at Paris.

The creation of the IEA was immediately greeted with hostile reactions from OPEC. Hardly surprising since, long before the formation of the agency, when the idea of a front of consumer nations was first launched, the producing nations had strongly condemned it.

On 19 February, 1974, Yamani vehemently criticized the plans to set up a United front of consumers to oppose OPEC. On 26 March, OPEC itself warned of the 'negative effects' that the creation of such an alliance would have on 'the world energy situation'.

A few days later, however, the American expert Walter Levy declared that there was 'an extremely urgent need for a common energy policy among the three leading oil consuming areas-America, Europe and the Far East. Levy recommended the creation of what he referred to as an 'International Energy Council'.

New protests from OPEC and new polemics ensued, right up to creation of the IEA in November, 1974. Right from the start, the creation of a United front of consumers had been presented in the context of a confrontation between producers and consumers. The attempts made by the IEA to open a dialogue with OPEC met with the latter's categorical refusal even to recognize the Agency, just as the oil companies had once refused to recognize OPEC's existence.

POST KING FAISAL ERA

The year 1975, and especially the final quarter, marked a definite turning point. The great harmony characterizing relations between Washington and Riyadh in oil matters since that date is striking. Indeed from 1975-76 onwards each OPEC conference was preceded by a Senior American officials visit to Riyadh, and each of these visits culminated in a Saudi or American declaration bearing directly upon topics featuring on OPEC's agenda.

It was in 1975, at the Algiers Summit that OPEC missed its historic opportunity to go beyond mere corporatism and to cement its ideological and political cohesion by becoming the spearhead of the 'Third World' in the North-South dia-
logue. Three weeks after that summit King Faisal was assassinated on 25 March, 1975 by his nephew Prince Faisal Ibn Mussaed. The Arab world had lost a convinced nationalist and muslim monarch who could on occasion, say no to the United States. Khaled Ibn Abdul Aziz succeeded to the throne of Saudi Arabia.

After Faisal's death, Fahd was in sole command of Saudi oil policy and could put his threats into action. His hold on policy was such that Yamani did not dare take any initiatives of his own and was reduced to consulting the prince on every matter of any importance. Previously, the oil minister could appeal to Faisal's arbitration, as one of his proteges. After the assassination of the old monarch, it was even feared that Fahd would sack Yamani and replace him with somebody from his own entourage. But the Prince eventually decided to retain the minister, on condition that he defer to him in everything.

Faisal's death put an abrupt end to the privileged relationship between Boumedienn's Algeria and Saudi Arabia. These relations, which had often served to pull OPEC out of a tight corner, were to be brought into play just one last time, in September, 1975. OPEC was discussing prices and, once again, Saudi Arabia was resisting increase demanded by Iran and other member countries. Yamani threatened to 'reconsider' Saudi Arabia's attitude towards the organization. To avoid a break-up, Boumedienn sent an emissary to Paris to find Prince Fahd. The latter let his hand be forced somewhat, doubtless in memory of the late King's affection for the Algerian President. He accepted the proposed compromise. On 27 September, 1975, in Vienna, during OPEC's forty-fifth meeting, prices were raised.

"The conference considered the report of the Economic Commission Board and decided, with regard to crude oil prices, to increase the present price of the Arabian Light marker crude by only 10% bringing it to $11.51 per
The new price was to be effective from 1st October, 1975 and was to be maintained until 30th June, 1976.

The Iranian delegation during the conference launched a full-scale offensive demanding a 20% increase in oil prices, Yamani was forced to run off to London in the middle of a plenary session to get new instructions from Fahd, who ordered him to prepare a communique in which Saudi Arabia declared it would disassociate itself from its partners in OPEC should they back the Iranian demands. It was only at the very moment due to intervention of Algeria that Fahd accepted a compromise a 10% increase in two stages and gave new instructions to his minister, thereby serving OPEC from a perilous situation.

However, Saudi policy could work both ways. After the abrupt increase in prices during 1973, world demand for OPEC crude stagnated in 1974 and actually fell by 12% in 1975, putting serious pressure on prices. OPEC was thus forced to cut production to mop up the oil glut. Saudi Arabia willingly shouldered the heaviest burden at this point, taking on 40% of the overall cut in production required, thereby saving the post-October, 1973 price, structure from an almost certain collapse. In doing so, the Saudis gave spectacular confirmation that oil prices were neither too high nor too low to suit their powerful American allies, who did not interfere in any way. Initially President Ford expressed dismay. But in fact the price increase exceeded by only 29 cents a barrel the figure which the US Petroleum Research foundation had deemed 'adequate' compensation for inflation some three weeks before the OPEC meeting. Washington remained as consistent as ever.

A new strategic triangle had emerged on the international scene - OPEC at the mercy of Saudi Arabia, Saudi Arabia aligned with the US, the United States committed to

the protection of Riyadh and OPEC was to remain a prisoner of this triangle throughout the following years, escaping only thanks to exceptional and ephemeral circumstances.

Saudi Arabia could only implement this oil policy because of the exceptional position it enjoyed within OPEC. It had at its disposal colossal oil reserves and its population was less than 7 million. It could thus cut its production by half and content itself with the remaining revenue to meet all its domestic needs. Its margin for manoeuvre was thus immense. The Wahhabite Kingdom's sub-soil contained 22,000 barrels of proven oil reserves per inhabitant, a ratio three times higher than the corresponding figure for Iraq, ten times higher than for Iran, fifty times higher than for Algeria and 200 times the ratio for Indonesia. Only Kuwait and the United Arab Emirates came close to Saudi Arabia in this respect. These two countries held relatively important oil reserves and their populations were small. But their combined production was less than half that of Saudi Arabia, so they could not have anything like Riyadh's influence on the oil market.

Saudi Arabia was hence forth a 'swing producer' within OPEC. In 1976, world demand for crude took off again, increasing by 13% compared to 1975. The countries arguing for a price increase therefore took up the cudgels within OPEC again, led by Iraq and Libya. Their case was by no means weak.

To begin with, inflation had hit OPEC hard, whilst oil prices had not increased since January, 1974. In many cases, the member countries depended entirely on imports for their food and industrial needs. The OPEC secretariat had calculated that the cost of goods imported from the OECD (Organization for Economic Co-operation and Development) countries by OPEC members had increased from an index of 100 in 1973 to an index of 221 in 1976 oil prices would have to be increased by 35% at least if they were to recover their
Then there was the problem of the new sources of energy called upon to replace oil in the long term. The price of the latter had to be sufficiently high to allow a gradual evolution towards other sources of energy. Of the five most promising alternative energy sources—tar sands, shale-oil, Coal-gas, coal derived methanol and liquified coal—none could be commercially viable at prices lower than $24 to $27 a barrel of oil equivalent, at 1975 constant prices. At a price of $11.51 a barrel for crude oil it was thus impossible to encourage the development of these new sources of energy.

When OPEC met in Bali, Indonesia, on 27 May, 1976, a substantial majority of members felt strongly that oil prices should be increased from 1 July, onwards; the prices fixed in September 1975 in Vienna were in any case due for review by 30 June, 1976. The organization's economic commissions estimated that a 20% increase was necessary to compensate for the effects of inflation between 1 October, 1975 and 1 July, 1976. Eight out of the 13 countries represented at the conference were in favour of the increase, namely Iraq, Libya, Nigeria, Iran, Gabon, Qatar, Indonesia and Ecuador. But Saudi Arabia and the UAE opposed any increase and called for a freeze on all prices until the end of the year, in order to let the economies of the developed countries maintain their growth. Oil prices in general remained frozen till the end of 1976.

During the weeks that followed the Bali conference, proponents and opponents of the price increase conducted a vigorous polemic in the press. As December, 1976 and the next OPEC conference approached, the tone became more aggressive and the declarations more and more threatening.


'OPEC can raise prices without Saudi Arabia. It can even function without Saudi Arabia, declared the Libyan Petroleum Minister, Ezzedine Mabrouk, thereby bringing into the open a possibility that everybody within OPEC had been discussing privately. For his part the Shah of Iran announced that he would accept nothing less than a 15% increase for January, 1977. The Libyans and the Iraqis insisted on 25%. Not more than 5% retorted Yamani.

THE DOHA DECISION

At the OPEC meeting in Doha, Qatar, in December, 1976 most OPEC members called for an immediate 10 percent price increase, to be followed in mid 1977 by another 5 percent boost. Eleven countries within the conference, decided to increase the price of $11.51 per barrel to $12.70 per barrel as of 1st January 1977 and to $13.30 as of July 1st, 1977. Saudi Arabia, joined only by the United Arab Emirates, held out for only a 5 percent increase. By mid 1977, the Saudis agreed to raise their prices by an additional 5 percent to restore price unity, in return for which the other OPEC members agreed to freeze prices for the rest of the year. To back their position, the Saudis kept production high through 1977, averaging about 9.2 million b.p.d. This helped to produce a soft market in 1978.

The Saudis wanted both movement on the Palestinian issue and positive responses to their arms requests. They were also anxious to involve the new administration more actively in the Horn of Africa to counter Soviet incursions. Alongside these political concerns was a desire to exercise leadership in OPEC and to allow for a period of economic recovery in the western economies on which the Saudis were heavily dependent. In this case politics and economics led

45. Ibid.
46. Ibid.
47. OPEC, Officials Resolutions and Press releases, n.42, p. 144.
to the same policy of high production and relatively moderate prices. Part of the Saudi behaviour in this period seems to have been aimed at winning support from the new Carter administration.

Before leaving Doha, Yamani in a Press Conference could not find words harsh enough for the 'gang of eleven':

In the past they used to decide for the Saudi crude oil price and we accepted. Now we refused. So they are deciding for their own crudes and we decide for our own crude... we will remove the production ceiling of 8.5 million barrels a day. We will damp the market it means the whole structure of prices will collapse all over the world. There will be no structure of prices if they do not accept the price of the Saudi market crude' he threatened. 48

These words aroused indignation and anger in the other OPEC countries. Yamani was considered as a traitor to the Arab world and to the third world in general. The Iraqi oil minister, Tayeh Abdul Karim accused Saudi Arabia of being in the service of 'Imperialism and Zionism' and of 'a reactionary cell within and without OPEC against the interests of the producing countries and the other developing countries'. Even Abdesselam who had sought to calm things down, declared that if Saudi Arabia increases its oil production, Algeria will take it as a political aggression against OPEC. And according to the Shah, it would be an aggression against Iran.

But Yamani remained undaunted and sought to capitalize on the position adopted by his country at Doha to win favour in the west. He declared that by limiting the increase in oil price, Saudi Arabia had helped the ailing economies of the industrialized countries.

It is important to remember that in the 1970s everybody thought of Saudi Arabia's oil production capacity as truly enormous. In 1976, the country produced nearly 8.4 million barrels of crude oil a day, but in Washington there was even

48. Terzian, n.44, p. 244.
talk that Saudi production could be brought up to 20 million barrels a day by 1980, a total almost equivalent to the combined production of all other OPEC countries put together.

All these hypotheses were based on a single source, Aramco, which alone knew exactly what the Saudi sub-soil contained. In 1976, Aramco had stated officially that Saudi Arabia's production capacity was 11.8 million barrels a day, 3 million barrels a day more than the Saudis had produced in December of that same year, when the split occurred in Doha. Fahd and Yamani could thus reasonably assume that by suddenly increasing production by 3 million barrels a day they could apply the 'short sharp shock' which would force the 'gang of eleven' to a compromise. The very next day after the conference they therefore ordered Aramco to start pumping at full capacity and to flood the oil market.

On 15 April, 1979 the US Senate Sub-committee on International Economy published a shattering report, entitled, 'The future of oil production in Saudi Arabia'. The revelations it contained aroused a storm of protest in Riyadh and within the Aramco companies. The Senators were accused of having made public information which the Aramco directors had confided in them on the understanding that they would keep it strictly secret. The information made public was as follows:

When the Saudi government ordered Aramco to start producing at full capacity in December 1976, it became evident that the company's maximum capacity was only 9.3 million barrels a day, not the 11.8 million that it had boasted of. According to the American report, Riyadh ordered the company to 'do everything in its power' and told them that 'all technical limits were temporarily suspended', so as to bring the country's capacity up to 11.8 million barrels a day as soon as possible.49

A second complication came along to compound the effects of the first. The storms raging in the Gulf region

49. Ibid., pp.245-46.
made it impossible for ships to land at Saudi port of Ras Tanura to load the oil. As a result, instead of increasing Saudi production actually fell from 8.8 million barrels a day in December 1976 to 8.4 million barrels a day.\textsuperscript{50}

In February, Aramco managed to raise the country's capacity to 9.6 million barrels a day and to produce 9.5 million barrels of crude a day. During the next two months they added 0.2 million barrels to this capacity. But in April, Aramco doubtless anxious to redeem itself in the eyes of Saudi leaders, who were still pressing for more and more oil to be put on the market, made the mistake of pushing production up to 10 million barrels a day although effective capacity was still at 9.8 million barrels. Surface installations experienced breakdowns', the Senate sub-committee report reveals. Unable to cope with the increased throughput, two pipelines exploded in the Abqaiq region, resulting in major fires and a drop in production to 8.3 million barrels a day in May.

The two fires had only just been brought under control when it was discovered that over-production had caused a sudden drop in pressure in the sub-soil and that the entire oil-bearing structures had therefore been invaded by water. This time, it was a real disaster. The US Senate reports that the Saudi government realized that over production in some fields had caused irreparable damage and reduced ultimate recovery late of oil in places'. The losses were incalculable. Production from the Ghawar oil field, the biggest in the world, was immediately reduced, as was that of the Abqaiq and Berri fields. In early June, the government abandoned its target of 11.8 million barrels a day and asked Aramco to aim for 10.8 million barrels a day. But the company announced that even this was too much; it could not do better than 10.4 million barrels a day. At this point, Riyadh threw in the towel and sought some compromise with other OPEC countries.

\textsuperscript{50. Ibid.}
The Saudis had done everything they could to impose their diktat on the overwhelming majority of the organization's members, and had inflicted considerable damage on their own oil fields in the process. In January, they had even asked the United Arab Emirates to follow their example and to increase production. But the President of the Federation, the wise Zayed Ben-Sultan al Nahyan, refused categorically, estimating that he had already done enough by holding the price increase at 5%.

Riyadh, well and truly cornered, sought an honourable way out. In late April the Venezuelan President, Carlos Andres Perez was on a tour of the Gulf and proposed a possible compromise to the Saudis: the 'eleven' would give up the further 5% increase scheduled for 1 July 1977. Saudi Arabia and the UAE would then align their prices with those of the other producers. The whole package would be sealed by an OPEC Summit conference perhaps in Caracas in 1978, Andres Perez suggested.

At the time the Saudis turned a deaf ear. But when things began to go wrong in their oil fields, they accepted. They only needed an appropriate ideological pretext to make the outcome appear truly honourable and understandable. The failure of the North-South dialogue, in June 1977, provided that pretext. Without losing a moment, the Saudis let it be known that the industrialized countries had shown themselves incapable of appreciating their conciliatory gesture in Doha and no longer deserved such sacrifices on their part. They informed the other OPEC countries that they were prepared to accept the Venezuelan compromise.

In the second half of 1977 amidst the euphoria of recovered unity, nobody was keen to advance the second hypothesis. But everybody was fully aware that after having deliberately provoked the crisis, Saudi Arabia only accepted a compromise because it was technically incapable of maintaining sufficient pressure on the other members. Riyadh had opted for unity reluctantly.

It seems unwise to argue that neither OPEC nor any of its individual members were noticeably harmed by the 1977
conflict. The US Senate report quoted above spoke of 'irreparable damage' to the Saudi oil fields and of 'a reduction of the ultimate rate of recovery of reserves. The three Saudi oil fields most seriously damaged by over-production contained some 90,000 million barrels, a fall of just 1% in the ultimate rate of recovery' could represent a loss of some, 2,400 million barrels, representing half the total reserves of a country like Qatar or $ 30,000 million at 1977 prices.51

Truly colossal values and amounts of oil were put at stake through the decision of a very few Saudi princes, even leaving aside the loss of revenue inherent in the 5% gap between OPEC prices and those of Saudi Arabia and U.A.E. which represented some $ 1,158 million at the time. For OPEC as a whole, the loss resulting from the failure to increase prices by a further 5%, as initially scheduled for July 1977 amounted to $ 3,400 million for the period July-December 1977 alone.52

Simply repairing the damage caused by the two mid 1977 fires at Abqaiq apparently cost tens of millions of dollars. A Commission set up by the US General Accounting Office (GAO) went to Saudi Arabia in October and November 1977 to prepare a report for congress. According to the report:

'We visited the various parts of the Abqaiq oil installations where serious fires had occurred in May and June 1977... Although production was completely back to normal within six weeks the damage caused by the fires was extensive and the

51. The figures given here for the three oilfields - Ghawar, 70,500 million barrels; Berri 11,100 million barrels; Abqaiq, 7,400 million barrels - 90,000 million barrels in all, were established by Aramco on the basis of a 38% rate of recovery of 'oil in place', which would thus amount to some 237,000 million barrels. A 1% drop in the ultimate rate of recovery thus represents a drop in recoverable reserves of 2,370 million barrels.

52. Terzian, n.44, p.248.
repairs had cost more than $100 million.  

The unity of OPEC, so loudly proclaimed at Saltsjobaden in July 1977, was just a facade. Saudi Arabia in fact continued to produce at a high level, and justified its conduct by referring to commercial undertakings given in the early 1977. By doing so, Riyadh worsened the glut on the world oil market and discouraged any hopes for an increase crude oil prices amongst its OPEC partners.

However, as the December 1977 conference, which was to be held in Caracas drew nearer voices within the organization were raised to demand some adjustment of prices to take account, even if only partially, of world inflation. The conference considered the question of a price re-adjustment but the Member Countries were unable to reach a common consensus on this issue. Furthermore, the conference discussed the situation created by the weakening position of the US dollar and expressed also its deep concern since oil prices are determined in that currency. The Venezuelan Minister of Hydrocarbons, Valentine Hernandez-Acosta, embarked on a tour of member countries and expressed his government's hope that prices could be raised by between 5% and 8%. It was then that OPEC's whole deck of cards was once again thrown up into the air by a major development.

**SHAH'S VISIT TO WASHINGTON**

In mid-November 1977, the Shah of Iran arrived in Washington on an official visit and spent many hours with President Jimmy Carter. Following this visit, during a press conference the Shah announced that he was ready to be 'sympathetic and understanding' towards the American desire

53. General Accounting Office, report no. ID-78-32, 12 May 1978. This report is one of the most important ever published by the US government on Saudi Arabia. Its aim was to study the essential factors affecting the country's oil decisions.

for a freeze of crude oil prices and that he would do everything in his power, including may be even 'pulling out his gun' to impose the freeze on OPEC. The Shah further added that since Iran and Saudi Arabia were agreed on the need for a price freeze, this approach would prevail within OPEC, since Saudi Arabia and Iran accounted for nearly 48% of OPEC's total production at the time, it was indeed easy for them to impose their point of view on the rest of the organization.

From one day to the next, Iran which had been one of the most vociferous proponents of oil price increase since 1971, reversed its position and declared itself in favour of a freeze. In exchange, the Shah hoped to get into the good books of the Carter administration and to ensure that his orders for armaments would be honoured. The Iranian sovereign had arrived in Washington with a long shopping list and needed all the support the American government could give him to secure congress' assent. He wanted 250F-18L aircraft, 221 Phantoms, 140F-16S and 3AWACS radar planes. With the new Iranian position out in the open, the US began to put pressure on OPEC.

On 24 November 1977, following a meeting in Mexico with the President of Venezuela, Carlos Andres Perez, at Macuto, a seaside resort not far from Caracas, the US Secretary of State Cyrus Vance, did not hesitate to ask for a freeze on the oil prices. He agreed on everything except on the price of oil.

The fiftieth OPEC conference took no decisions on prices; in other words it kept them at their previous level. The final communique published the following day recognised that the member countries were unable to reach a consensus on the price issue.55 Yamani declared that Saudi Arabia would take the responsibility of fixing prices.56

55. Ibid.
These events marked the beginning of the Saudi-Iranian hegemony over OPEC. Saudi Arabia now felt that the time was ripe to give some institutional substance and long-term bearing to its position of strength within the organization. This was the origin of the idea of a 'long-term strategy' for prices, aimed at avoiding any repetition of the upheavals of the 1970s and at guaranteeing a harmonious evolution of pricing right up to the end of the century. There were in fact many factions which led the Saudi leaders to promote such a strategy.

First and foremost, there was the issue of oil reserves. Here the gap between the Saudis and their OPEC partners was fundamental: Riyadh's reserves were immense and on an altogether different scale from those of the other producers. Other OPEC countries based their calculations on the likelihood that their reserves would be exhausted around 2000-10, Saudi Arabia thought in terms of 2035-40. Riyadh, unlike its partners, had no immediate interest in maximizing their oil revenues as soon as possible.

On the contrary, the Saudi leaders feared that a sharp increase in the price of oil would encourage the development of alternative sources of energy which would replace oil. Too rapid a replacement of oil by other sources of energy would not only handicap Saudi Arabia's development efforts, it would ruin the basis of the country's influence in the Middle East and in the world. An abrupt increase in oil prices might also hold back western economic growth, or even bring it to a stand still, thereby bringing about political upheavals that the Saudis were very anxious to avoid given their relations with the industrialized countries. Such an outcome would in any case only accentuate their monetary surplus and the devaluation of the currencies in which the surplus was held. 'Income exceeds development needs' and this factor had an undoubted influence on the country's oil

57. This alliance was to last for a year, until the outbreak of the Iranian Revolution and the overthrow of the Shah.
The Saudi's had every reason to fear that there would be an oil price explosion in the 1980s, following the emergence of an oil-supply shortfall in the world market. At the time countless reports and studies were being published nearly all predicting a major energy shortage between 1980 and 1990. Amongst the dozens of organizations who published such reports one might mention the Central Intelligence Agency (CIA), the US congress, the OECD, world Bank, Stanford Research Institute, the University of California, the Chase Manhattan Bank, Exxon, Mobil, Gulf oil, Irving Trust, ITC and the Petroleum Industry Research foundation.

The most prestigious of these studies, published by the workshop on Alternative Energy Strategies (WAES) and drawn up by 75 international experts, with the help of 100 top organizations and companies, appeared in 1977. The initial conclusions of the report was that after two years' study, it was safe to conclude that world oil production would level off, perhaps as early as 1985, and that alternative fuels would have to meet the growing demand for energy. Oil supplies would be insufficient to meet demand before the year 2000, most probably sometime 1985 and 1995.

For the Saudis, the message was clear. They had to act before it was too late. Right from the first months of 1978, Yamani got into contact with his OPEC colleagues to propose a meeting to deal specifically and exclusively with the long-term fundamental problems. The Saudi idea was to index oil prices against various parameters of the international economy, so as to ensure a slow and orderly increase of prices. Saudi Arabia which had for years opposed any suggestion of indexation, suddenly became the most ardent champion of the concept.

It was also in 1978 that the 'orderly' evolution of crude oil prices first appeared on the agenda in Washington, in circles close to President Carter and his adviser, Zbigniew Brzezinsky. Indeed the Trilateral Commission adopted the idea and made it one of the main planks of its report.
Energy: Managing the Transition drawn up under the direction of John Sawhill and published in June 1978. The same John Sawhill was soon to become one of the US government's principal oil officials. The report recommended a series of specific measures to facilitate the transition and to ensure that oil price should gradually and smoothly rather than suddenly and dramatically. It argued that it was sudden and unexpected increase which affected economic growth and stability, rather than price increases per se.58

The Trilateral Commission deemed that the 'Special relations' between the US and Saudi Arabia were an adequate basis on which to implement this strategy and that they were definitely worth cultivating'. The report stated quite explicitly that these special relations were useful adjuncts to the pursuit of the Trilateral Commission's policies and that they should be pursued and encouraged. 'Strategy' was thus already the vogue world the informal inter-ministerial OPEC conference met on 6 May 1978 in Taif, the Summer residence of the Saudi leaders, situated about 60 kilometres south east of Mecca in a mountainous region. A ministerial committee of six members the five founders of OPEC (Saudi Arabia, Venezuela, Iraq, Iran and Kuwait) plus Algeria, was set up, with Yamani as President.

Its task was to draw up OPEC's long term strategy; which, it was hoped, could be approved and formally adopted in autumn 1980, when OPEC would celebrate the twentieth anniversary of its foundation with a summit conference. The rumour in oil circles was that, once this had been accomplished, Yamani would retire, having fulfilled his life mission.

58. The Trilateral Commission was set up in the early 1970s on the initiative of David Rockefeller, the banker. It served as a forum for the 'ruling elites' of America, Europe, and Japan and its membership had included Jimmy Carter (for whom it provided an 'apprenticeship' in international affairs, with Brzezinsky as his tutor), Vice-President Walter Mondale, Secretary of State Cyrus Vance, Treasury Secretary Blumenthal etc. in short 18 members of the Carter team.
In the meantime, OPEC was faced with far more pressing problems. The US dollar, the currency in which crude oil was paid for, was depreciating rapidly against all the other major currencies. The forty-fourth meeting of the conference of the OPEC held in Libreville, Gabon reaffirmed its decision of December, 1974 to maintain crude oil prices at their present level until 30th September, 1975.\(^{59}\)

However, in view of increasing inflation, the depreciation in the value of the dollar and the consequent erosion of the real value of the oil revenues of member countries, the conference decided to readjust crude oil prices as from 1st October, 1975. With regard to the protection of purchasing power of oil revenues on account of the dollar fluctuation the conference decided to adopt the use of the SDR (Special Drawing Rights) as a unit of account and that it will define the practical modalities for the implementation of the SDR at its next extraordinary meeting.\(^{60}\) The drop in US dollar began in July, 1977 and continued throughout 1978, reaching alarming proportions. The member countries thus felt that some readjustment of prices was necessary.

None the less in mid April, the US Secretary of Treasury, Michael Blumenthal, called on the producing countries to freeze oil prices at least till the end of 1978. A few days later, his words were echoed by Prince Fahd of Saudi Arabia, who went on to assert that the dollar would rise by next month. In June, during the consultations leading up to OPEC's ordinary biannual meeting, Saudi Arabia let it be known that it was categorically opposed to any price increases before the end of the year.

In a declaration made on 23 August, Fahd, insisted that the dollar would recover by the end of the year. Two months later, Yamani announced in London that existing oil prices

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60. Ibid.
were almost fair. Nicholas Sarkis the Lebanese expert accused Saudi Arabia of playing Don Quixote to protect American interests even if it means sacrificing its own national interests and those of its partners. He further said that OPEC was not set up to be a subsidiary of the US State Department, but to defend the interests of a group of under-developed countries.

It was at this time that the revolution really began to take off in Iran, notably in the oil sector. The oil workers launched a series of strikes which dramatically cut Iranian crude oil production. In late October, 1978 two-thirds of Iranian oil was off the market, creating an unforeseen shortfall of more than 4 million barrels a day. Saudi Arabia immediately declared itself willing to step into the breach. In early November, Aramco was ordered to increase production from 7.6 million barrels a day to 10 million barrels a day. It was in this extremely tense atmosphere that the fifty-second OPEC conference met on 16 December, 1978 in Abu Dhabi. A few weeks after the conference, Iranian oil exports were cut off completely, provoking an unprecedented panic on the international market.

CONCLUSION

Saudi Arabia maintained close relationship with United States during 1973-79. After the embargo was lifted back in March, 1974 Saudi Arabia emerged as a major world oil power. During this period US dependence on the foreign oil had increased to nearly fifty percent and it was unable to meet its requirements from the domestic sources. It looked towards Saudi Arabia to fulfill its requirements. This led to the signing of "Special relationship" between Saudi Arabia and US.

Further the US with other oil consuming countries pulled together to establish a new "Atlantic" organization, the International Energy Agency. It was aimed to reshape western energy policies, reducing dependence on OPEC and preventing the spreading of dislocations in the west. This agency was formed with 15 members. The members agreed to conserve oil to build up their stockpiles, to engage in
joint research for alternative energy sources and to share their oil in case of an emergency.

The year 1975 was a turning point in Saudi US oil relationship. King Faisal was assassinated in 1975. After Faisal's death Prince Fahd was in sole command of oil policy. From 1975-76 onwards each OPEC conference was preceded by a senior American official visit to Riyadh and these visits culminated in a Saudi or American declaration bearing directly upon topics featuring on OPEC's agenda.

At the OPEC meeting in Doha, Qatar, in December, 1976 most OPEC members called for an immediate 10 percent increase in the price of oil. This was to be followed by another five percent boost by mid 1977. Saudi Arabia, joined only by the United Arab Emirates, held out for only a five percent increase. By mid 1977, the Saudis agreed to raise their prices by an additional five percent to restore price unity, in return for which the other OPEC members agreed to freeze prices for the rest of the year. To back their position the Saudis kept production high through 1977, averaging about 9.2 million b.p.d. This helped to produce a soft market in 1978. The Saudis did all this to get support from the new Carter administration on Palestine issue and for positive response to their arms requests. The Shah too was in favour of freezing the oil price.

In the meantime OPEC was faced with far more pressing problems due to depreciation in the value of dollar since it was the currency by which payment was done for crude oil. The forty-fourth meeting of OPEC held in Libreville, Gabon decided to adopt Special Drawing Rights (SDR). Yamani announced that existing prices were fair. It was during this period revolution in Iran began to take off.