OIL INDUSTRY IN KUWAIT: A GENERAL SURVEY

DISSERTATION
Submitted for the Award of the Degree of Master of Philosophy
in West Asian Studies (COMMERCE)

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DEDICATION
To

the memory of my loving father,
(Late) Mr. S. M. Amin
ACKNOWLEDGEMENTS
ACKNOWLEDGEMENTS

The mere mention of Kuwait conjures up mental image of oil and abundance of wealth. The economy of this small state has now completely transformed from the outdated modes of economic activity, i.e., pearling, fishing and boatbuilding atmetra to the modern ones. One of the most deserted states of Middle East, within a short stretch of time, turned to be one of the affluent countries of the world. The economy of Kuwait is entirely dependent on oil sector. Though, the life span of Kuwaiti oil industry is not long enough but it has, within a short period of time brought about tremendous change in the economy. Greater dependence on its depleting source inevitably stores problems for future. Vulnerability of the economy exists in the varying oil prices and their uncertain future. However, oil is an increasing need of the expanding industrialization but the discoveries of new fields and inducement of substitute energies, i.e., nuclear, solar and other sorts are the factors responsible for these fluctuations in prices.

The present study is a modest attempt to disclose the facts about the development of oil industry and its pivoting role in the economy of Kuwait. The study has been entirely based on secondary data that is available from various sources published by the government of Kuwait in particular.
For the completion of the study I owe to Dr. Nazim Ali, Reader, Centre of West Asian Studies for supervising the work. His inspiring figure proved to be a driving force to me for bringing out the present work in due time. It was because of his encouragement and guidance that it became possible for me to complete the work in the present form.

I am highly indebted to Prof. M.A. Saleem Khan, Director, Centre of West Asian Studies, Emeritus Professor S. Maqbul Ahmad, Prof. Mahmudul Haq, Prof. M.R.K. Nadwi and all the members of teaching staff for their kind attitudes and encouragements.

I also extend my thanks to the library staff of the Centre who tirelessly assisted me by providing books, journals and other related materials during my study.

My appreciations and thanks are also for Mr. Mohammad Tausif who helped me in the cartography of figures and Mr. S. M. Ali who worked long patiently for typing the manuscripts.

I also wish to pay thanks to my colleagues and friends specially Dr. M. Idris and Mr. Shakesel Ahmad for their kind co-operation and encouragement.

SYED MOHAMMAD OVAIS
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CHAPTER I

INTRODUCTION
INTRODUCTION

(1) GEOGRAPHICAL AND HISTORICAL SETTING:

Kuwait stretching over an area of about 17,818 square km. (including 2,590 square km. of partitioned or Neutral zone), lies in the north-west coast of Persian Gulf.\(^1\) It lies between the latitudes 28° and 30°N and between the longitudes 46° and 48°W. On the north and west it is bounded with 240 km with Iraq, and to the south and south-west it shares its borders of 255 km, with Saudi Arabia. To the east it has a coastline of 290 km, along the Gulf.\(^2\) A large portion of its coastline of 199 km, lies along the "Kuwait Bay".\(^3\) In addition, there spread a number of islands extending the Kuwaiti territory. Of these islands, Bubiyan, Warba, Failakha, Umm Al-Maradim, Umm An-Namil, Rubbar, Miskan and Qaru are famous for different reasons.\(^4\) Failakha is the most populated and beautiful while Bubiyan is the largest and mostly uninhabited.

Kuwait has hot and dry climate and observes relatively cold winters with low average rainfall. There is wide fluctuation in

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temperature varying between 45°C in July and 8°C in January. The
desert climate features a high rate of evaporation and an inter-
mittent rainfall. The average annual rainfall is 115 mm. Frequent sandstorms which are common in summer cause much inconve-
nience.

Kuwait having an old history of its inception, the written
accounts of which are scarce. According to Laurence Lockhart,
the entire history of Kuwait can be divided into five stages, viz.,
(i) ancient (ii) early Islamic (iii) medieval (iv) modern, and
(v) present dynasty.

The record of the establishment unfolds that the history of
ancient times begins with the Greek settlement around B.C. 600. This can be inferred from the Greek writings inscribed on a stone
found in 1937, in the wall of a building situated in south-east
of the village of As-Zur on north-west coast of Failakha island in
Kuwait. The early period of Islam is ascribed to A.D. 633 with
the victory of a Muslim General Khalid ibn Walid over Arab
hostiles to Islam and the Sasanian dynasty. He had camped at
Kasama which turned to be the battleground of the Muslim

Arabs and the Persians. The victory of Arabs brought about the conversion of the Persians to Islam which later expanded up to the Far East. Portuguese are said to have profitted by their good anchorage in Kuwait Bay and constructed a fort in the island "Al-Qurain" (the littlehorn). The name of Kuwait is a diminutive of the Arabic word "al-Kout", which means a house built in the form of a fortress and surrounded by the smaller houses.

The history of modern Kuwait dates back to A.D 1716 when many families of Al-Ain tribe migrated from north-central Arabia and settled down on the southern shore of Kuwait Bay, predominantly called Ras al-Ajuza (the cape of old woman). The present dynasty was founded by these migrants when they decided to choose their ruler one Sabah Abu Abdullah as their Sheikh in 1756. The town was reported to have a some of 10,000 prosperous inhabitants, possessing about 800 vessels to carryout fishing and pearling to earn their livelihood.

Kuwait is reported to have come into contact with British in 1776 when the war between Turkey and Persia (presently known as Iran) broke-out, and Basra (in Iraq) was captured by the Persians and

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8. Lockhart, Laurence, op. cit., p.263
9. Al-Sabah, Y.S.F., op. cit., p.1
10. Lockhart, Laurence, p.263.
11. Ministry of Information : Kuwait; op. cit
12. Lockhart, Laurence, op. cit., p.263.
remained under their control till 1779.\textsuperscript{13} The British came into contact with Kuwait through their East India company which stretched their south-eastern mail rout to Aleppo via Kuwait instead of Basra and much of the trade of Basra was directed to Kuwait.\textsuperscript{14} Thenceforth, the sheikh of Kuwait Sheikh Abdullah was said to have become very attach with British when temporarily transferred their agency from Basra to Kuwait.\textsuperscript{15}

The Geographical location of Kuwait made it an ideal place of the Arabian peninsula and later turned to be a significant trade centre for the desert caravans carrying various goods across this region to Europe through Aleppo and other ports. The geographical position gave it a political significance in the eyes of major powers.\textsuperscript{16}

Where Kuwait had its significance in the strategic and geographical terms on the one hand, it was thought to have vast mineral resources beneath its earth on the other. The discovery of oil in Persia snatched the attention of the big powers which later exploited the entire region. Kuwait, afterward, turned to be the veritable bone of contention amongst Britain, Turkey, Russia and Germany. As a result of clashes in the interest of these powers,

\textsuperscript{13} ibid., p.264.
\textsuperscript{15} Lockhart, Laurence, \textit{op. cit.}, p.264.
\textsuperscript{16} Al-Sabah, Y.S.F., \textit{op.cit.}, p.2.
Britain had to inclined to sign a treaty with Kuwait on January 23, 1899, in order to safeguard her interests in this region. Under the treaty, the sheikh of Kuwait was bound not to cede or lease otherwise dispose of any part of his territory to anyone else except the British government, nor to enter any relationship with a foreign government without their consent. By this treaty it appears that not only British were afraid of losing their ground in this region due to the increasing interest of other powers but Kuwait was also afraid of being merged in the Turkish suzerainty. To avoid such a vulnerable situation and nullify the impact of other powers, both the governments inclined to join their hands. In turn, British promised to give their protection to Kuwait. Thus, the treaty was signed and proved to be the base of Oil Concession Agreement which was signed between the two countries as far back as on 23rd December 1934. Others also began to take keen interest in getting oil concessional rights from Kuwait as they emerged meanwhile. But due to the treaty of 1899 and British stronghold, they could not get success in their mission except joining their hands with British. American interest through their Gulf Oil Corporation (G.O.C) showed the same intention of putting their steps in this region. British government, in order to keep the area under their control, had appointed their Political Agent in Kuwait, responsible to mediate between the Kuwait and the British government through her Political Resident, stationed at Bushire.

Since the oil prospects were known in this region, British, through their Anglo Persian Oil Company (APOC) had initiated negotiating with Kuwait to get oil concessional rights. Their negotiations went on throughout the period from 1911 to 1934. The arrival of Major Frank Holmes of Eastern and General Syndicate (EGS) a subsidiary of Gulf Oil Corporation, interrupted the negotiations going on between British and Kuwait for oil concessional rights.

EGS not only began negotiations separately with the Sheikh of Kuwait but put him in a dilemma. Their involvement created an atmosphere of strong bargaining between Kuwait and British and Sheikh's position afterward became strong. Ultimately British had to arrive a consensus with EGS and revived their negotiations for oil concessions with their hands joined with them. On 23rd December 1934, joint efforts of British and Americans through their equally shared Kuwait Oil Company (KOC) proved fruitful when an Agreement of Oil Concessional Rights was signed between Kuwait and KOC.

On June 19, 1961, the treaty of 1899 was terminated and Kuwait became an independent state. The Sheikh of Kuwait took the new title of "Amir" and the state was admitted as a new member of League of Arab Nations. Thenceforth, a constitutional monarchy is hereditarily descending in Kuwait with an alternatively taken over as Amir from one of the two lines of Al-Sabah family. The present Amir is Sheikh Jabar Al-Ahmad Al-Sabah, who had succeeded

the late Amir Sheikh Sabah Al-Salim in December 1977. The heir-apparent takes over as Crown Prince and Prime Minister who presently is Sheikh Saad Abdullah Al-Salim Al-Sabah.\textsuperscript{20} The first election held in 1963, two years after the independence, on a very limited franchise for the 50 members National Assembly. However, the Assembly was a rubber stamping body until 1976 when the opposition groups became stronger and the Assembly was disbanned for five years.\textsuperscript{21} In this way, the legislative authority is vested in Amir, while executive power is vested exclusively in the Amir and his Council of Ministers.\textsuperscript{22}

Kuwait, since the discovery of oil and mineral resources, has turned to be a rich state of the Gulf. The huge oil revenues have brought a tremendous upsurge in the economy. Profoundly outflow of oil is abundantly inflowing revenues against it. The huge oil revenues steered the entire state to be well advanced. The society has turned to be an open one and is enjoying every sophistication of up-to-date scientific and technological inventions and rolling in wealth. Means of transportation and communication are of high standard. Though there is lack of railways but the inducement of latest designed motor vehicles has never made it think towards that side. Communication system is highly technologically

\begin{itemize}
\item \textsuperscript{20} Economist Intelligence Unit, \textit{quarterly Statistical Review}, Kuwait, \textit{op. cit.}, p.3.
\item \textsuperscript{21} \textit{ibid.}, p.3.
\item \textsuperscript{22} Ministry of Information : Kuwait, \textit{Op. cit.}, p.36.
\end{itemize}
equipped and can compete with almost every western system. It has, no doubt, created an atmosphere of intimacy among the Kuwaitis and people all around. Kuwait is properly linked with the outer world through its high standard airline, marine line and communication network. Hospitals and health centres are well equipped with latest implements and equipments to take the health care of the people. To improve the literacy rate of the state, the government has established a number of institutions including a University which provide education from Kindergarten to the higher level. Education is totally free in Kuwait. Thus, people enjoy every sophistication of the modern era.

(ii) DEMOGRAPHIC CHARACTERISTICS:

Prior to the year 1957, there had never a census been conducted in Kuwait. In the first census, as it is evident from the table that the population was estimated at 2,06,851, out of this there were 1,13,622 (55 per cent) Kuwaitis population increased by 55.48 per cent upto 1961, 45.3 per cent upto 1965 and 58 per cent upto 1970. The number of Kuwaitis declined to 50 per cent in 1961, 47.1 per cent in 1965 and 47 per cent in 1970 against the number of expatriates which increased to 53 per cent of the total in 1970. Population increased tremendously due to the increasing oil revenues which in turn created employment opportunities in all the sectors of the economy. Total labour force of the country stood at 17,300 in 1965, out of this figure, 80.7 per cent were non-Kuwaitis. However, the number of Kuwaiti workers increased marginally which further dropped to 18.7 per cent.
### TABLE - 1.1

**Total Population and Labour-Force of Kuwait: 1957-1985**  
(Distribution by Nationality)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population</th>
<th>Kuwaiti Population</th>
<th>Non-Kuwaiti Population</th>
<th>Total Labour Force</th>
<th>Kuwaiti Labour Force as % of Total</th>
<th>Non-Kuwaiti Labour Force as % of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>1,625,700</td>
<td>113,622</td>
<td>2,251,078</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1965</td>
<td>2,209,743</td>
<td>220,059</td>
<td>247,743</td>
<td>173,000</td>
<td>19.3</td>
<td>80.7</td>
</tr>
<tr>
<td>1970</td>
<td>2,997,392</td>
<td>347,396</td>
<td>3,649,996</td>
<td>2,421,000</td>
<td>32.7</td>
<td>67.3</td>
</tr>
<tr>
<td>1975</td>
<td>3,963,377</td>
<td>472,088</td>
<td>4,491,289</td>
<td>3,045,000</td>
<td>30.6</td>
<td>69.4</td>
</tr>
<tr>
<td>1980</td>
<td>4,985,792</td>
<td>565,613</td>
<td>5,420,179</td>
<td>4,840,333</td>
<td>35.6</td>
<td>64.4</td>
</tr>
<tr>
<td>1985</td>
<td>6,951,288</td>
<td>679,601</td>
<td>6,271,687</td>
<td>6,625,888</td>
<td>39.0</td>
<td>61.0</td>
</tr>
</tbody>
</table>

**Sources:**  
in 1985. The total population of Kuwait was estimated at 16,95,128 in 1985 and the total number of workers were 6,62,588, out of which 81.2 per cent were non-Kuwaitis. It can be observed from the table that the total workforce has ever been increasing. Though the foreign labour force have always over numbered the locals but increased with slight variations. Dependence on expatriates still continues. This leads to a conclusion that the foreign labour force is the result of lack of indigenous skilled workers and huge investments and industrial expansion which happened only due to the abundant oil resources in the country.

(iii) ECONOMIC SIGNIFICANCE:

Within a span of four decades since the discovery of oil, the Kuwaiti economy has transformed itself and is considered as one of the most affluent country in the world. It has skipped from the traditional modes of production and communication to the up-to-date ones. The Kuwaiti economy has been reckoned as one of the top per capita income economies in the world. However, the structure of the economy is typical and exhibits many features of an under developed society like high per capita income accompanied with skewed income distribution, lack of developed financial institutions and high rate of illiteracy etc. Therefore, on account of sectoral and factorial imbalances the economy suffers from economic dualism. Broadly speaking, the Kuwaiti economy is divided into two sectors (i) 'Oil sector and (ii) 'Non-oil' sectors. It is mainly dependent upon 'oil' sector because of its greater
The oil-sector is not only an engine of growth, but it is destined to be a leader among the sectors activating the process of development. It is the oil-sector that is the principal dynamic of development in the case of Kuwait. No other sector occupies such a dominant position and influences as strongly and widely.\(^{23}\)

The 'non-oil' sectors combines different sub-sectors such as Agriculture and Fisheries, Manufacturing, construction, Electricity, Gas and water, Wholesale and Retail Trades, Transport, Storage and Communication, Financial Institutions and Insurance. Among these, Agriculture which generally happens to be the primary sector in developing countries, constituted with Fisheries merely 0.66 per cent of the G.D.P. in 1985, due to the scarcity of arable land. Fishing, Pearlimg and Boat-building all have suffered from the increased wage rates induced by the growth of oil industry, modern Services Sector, Commerce and Government. Services sector absorbs over 80 per cent of the total man-power while Commerce and Construction sectors employ moderately. The 'oil sector' is a

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Sector</th>
<th>% share in G.D.P</th>
<th>Non-oil sector</th>
<th>% share in G.D.P</th>
<th>Total G.D.P</th>
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<tbody>
<tr>
<td>1970</td>
<td>618.8</td>
<td>60.3</td>
<td>407.5</td>
<td>39.7</td>
<td>1026.3</td>
</tr>
<tr>
<td>1971</td>
<td>906.7</td>
<td>65.6</td>
<td>475.1</td>
<td>34.4</td>
<td>1381.8</td>
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<tr>
<td>1972</td>
<td>913.5</td>
<td>62.3</td>
<td>550.5</td>
<td>37.7</td>
<td>1464.0</td>
</tr>
<tr>
<td>1973</td>
<td>994.1</td>
<td>61.9</td>
<td>610.0</td>
<td>38.1</td>
<td>1604.1</td>
</tr>
<tr>
<td>1974</td>
<td>3020.0</td>
<td>79.2</td>
<td>792.9</td>
<td>20.8</td>
<td>3812.9</td>
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<tr>
<td>1975</td>
<td>2456.6</td>
<td>70.4</td>
<td>1030.4</td>
<td>29.6</td>
<td>3487.0</td>
</tr>
<tr>
<td>1976</td>
<td>2519.7</td>
<td>65.6</td>
<td>1320.0</td>
<td>34.4</td>
<td>3839.6</td>
</tr>
<tr>
<td>1977</td>
<td>2477.3</td>
<td>61.0</td>
<td>1579.6</td>
<td>39.0</td>
<td>4056.9</td>
</tr>
<tr>
<td>1978</td>
<td>2527.3</td>
<td>59.3</td>
<td>1733.1</td>
<td>41.7</td>
<td>4260.4</td>
</tr>
<tr>
<td>1979</td>
<td>4417.91</td>
<td>65.7</td>
<td>2305.8</td>
<td>34.3</td>
<td>6723.8</td>
</tr>
<tr>
<td>1980</td>
<td>5059.23</td>
<td>66.9</td>
<td>2696.61</td>
<td>33.1</td>
<td>7555.84</td>
</tr>
<tr>
<td>1981</td>
<td>4117.76</td>
<td>59.6</td>
<td>2785.94</td>
<td>41.4</td>
<td>6903.70</td>
</tr>
<tr>
<td>1982</td>
<td>2805.56</td>
<td>45.7</td>
<td>3328.29</td>
<td>54.3</td>
<td>6133.85</td>
</tr>
<tr>
<td>1983</td>
<td>3089.29</td>
<td>49.1</td>
<td>3202.38</td>
<td>50.9</td>
<td>6291.66</td>
</tr>
<tr>
<td>1984</td>
<td>3425.66</td>
<td>52.1</td>
<td>3149.03</td>
<td>47.9</td>
<td>6574.69</td>
</tr>
<tr>
<td>1985</td>
<td>2983.16</td>
<td>50.2</td>
<td>2951.74</td>
<td>49.8</td>
<td>5934.90</td>
</tr>
</tbody>
</table>

Sources: (i) Central Bank of Kuwait; The Kuwaiti Economy, 1980-1984, p.155
capital intensive and absorbs a marginal workforce. There are very few items which are manufactured in the country and the Manufacturing sector constituted only 6.47 per cent of the total G.D.P. in 1985.

Heavy dependence of the economy on 'oil' sector which accounted 50.2 per cent of the G.D.P. on the one hand and the progress of 'non-oil' sectors which constituted the remaining 49.8 per cent of the G.D.P. in 1985, mainly depending directly or indirectly on 'oil' on the other hand, are the indicators of sectoral imbalances. Absorption of expatriates and greater reliance on foreign workforce, abundance of capital, scarcity of industrial raw material, low infrastructure, lack of domestic market for the indigenous products and lack of conducive industrial atmosphere show the signs of under-development.

Though the 'oil' sector is the key determinant of progress of the economy but the 'non-oil' sector has also made some progress recently. It can be ascribed from its share of 54.3 per cent of the G.D.P. held in 1982 at current prices while surpassed oil sector's share. This shows that despite being dependent on oil revenues, the 'non-oil' sector has proved viable to become self-sustained to some extent. Inducement of oil revenues and growing nationalism have put 'non-oil' sector in a position that it holds a share of 49.8 per cent in G.D.P. at current prices but its contribution to the country's export was only 9.7 per cent of the total in 1985. Of the 'non-oil' sectors, Wholesale and Retail
DISTRIBUTION OF GDP BETWEEN OIL AND NON-OIL SECTORS
(Share in Percentage)

Year

% Share
trades held a share of 6.98 per cent of the G.D.P., followed by the Manufacturing with 6.47 per cent, Financial Institutions with 3.7 per cent, Transport, Storage and Communications with 4.36 per cent, Insurance with only 0.32 per cent and Construction with 3.57 per cent of the G.D.P. Thus, the sub-sectors of the 'non-oil' sector even as a whole constitute less than the share of 'oil' sector which still remains as the backbone of the economy. The development and growth of 'non-oil' sector as a whole depends upon the progress of 'oil' sector.

(iv) IMPORTANCE OF OIL SECTOR:

There seems nothing sceptical that the transformation of the economy is the outcome of the discovery of oil and its vast utilization as the main source of revenue to the state. It is a non-renewable source of energy which has destined the state within a short period of time. The exploitation of oil downs the levels of reserves beneath the earth and increases its scarcity. Oil industry has transformed the economy of Kuwait in such a way where the people used to travel on camel's back across the wideflanged desert are now moving in Rolls Royce and the society demonstrates all characteristics of affluence. Oil dominates a separate sector in Kuwaiti economy constituting a share of more than 50 per cent in the Gross Domestic Product and more than 90 per cent in the country's total export earning even today. The 'oil' sector has encouraged the other sectors of the economy to survive. Owing to the abundant oil revenues, the economy has moved in upward
direction. This sector is the backbone of the economy and it has enabled the state to absorb a large amount of foreign labour-force and meet every requirement either by producing indigenously or by importing. The capacity of the state to invest within itself or in foreign lands has highly improved. Through its vast oil revenues, Kuwait has been successful in establishing and maintaining socio-economic and political affairs with the outer world. Thus, oil is the central figure of the economy and requires attention of everyone.

(v) PLAN OF STUDY:

In this study, an attempt has been made to evaluate the importance of oil sector and expose the values of the oil revenues which have brought about a drastic change in the economy and transformed the state in its present status. It is undisputable that it had become possible only after the discovery of oil. The upstream operations of oil has outflowed oil revenues through downstream operations. After the discovery of oil and natural gas, there emerged a separate 'oil' sector, which had proved to be a stimulator in the overall development of the economy. The socio-economic plans and programmes have brought the country in a strong and reputable condition primarily because of inflow of oil receipts. The oil sector is the key determinant of economic activities and is the nucleus of the economy that every sector revolves around it.

The study has been divided into five chapters dealing with different aspects of the oil industry in the country.
The first chapter reviews the geographical and historical significance of the Kuwaiti economy as also deals with the economic characteristics of the country. It also highlights the role of the oil sector to provide the basis for further investigations.

In the second chapter an effort to reappraise the historical background to the long drawn negotiations for oil concessional rights has been undertaken so that the importance of the oil sector is understood in a proper perspective.

The third chapter examines the development of oil industry since its inception in terms of various indicators and norms. On the basis of the analysis we have arrived at some relevant conclusion.

The fourth chapter draws the attention towards the main period of the development of oil industry, during which the prices of oil witnessed sharp fluctuations in the international oil market. A detailed analysis of entire developments in the oil market during the scope of the study has been undertaken. The roles of OPEC and OAPEC have also been highlighted in this respect. Our approach to the problem has been statistical. In the last chapter, we sum-up the main finding of the study.
CHAPTER II

OIL DISCOVERY AND EMERGENCE OF MODERN KUWAIT
(i) A BRIEF HISTORY OF OIL INDUSTRY

(a) Growing British Interest:

British interest in the state of Kuwait stretches back to 1976 when it came under the Persian influence, the trade and the inhabitants had diversified from Basra to Kuwait. It was none but the British East India Company which made Kuwait instead of Basrah, their south-Eastern desert mail-route to Aleppo, an arrangement that lasted for a number of years. By this means the British first came into contact with Kuwait and its rulers. Since then the Sheikh of Kuwait had become "very attached" to the British. In 1792, the contact between the two countries (Kuwait and Britain) became even closer, when the East India Company, in consequence of the vexatious behaviour of Turkish authorities, temporarily transferred its agency from Basrah to Kuwait.¹ Thus, the location of Kuwait was first considered of much strategic significance.

Later in 1862-63 the importance of Kuwait increased further when a British tourist "Palgrave" boasted its values as it was being ruled by "Isa" a prudent ruler, administration and the policy were

good, import duties were low, better anchorage and skilled mariners were available. Inhabitants being Muslim Arabs, tolerant to other anti-Wahabis were strong enough for intruders. In its mercantile and political aspect, this town formed a sea-outlet.²

Apart from stepping in the state, there were some other factors also which motivated British to take much interest in it such as the growing German interest as it had covetous eye over the state to establish a railway, running across the region (particularly over Kuwait) from Berlin to Baghdad, which clashed with the British interest. By reasons of its geographical situation, Kuwait became a veritable bone of contention between Turkey, Russia, Germany, and Great Britain and it was also directly involved in the great struggle for supremacy between the rival houses of Saud and Ibn-Rashid who had covetous eyes over the port of Kuwait to use it for their trade purposes.³ Later in 1898 the same interest developed in Russians who were said to have covetous eye over Kuwaiti ports as their coaling stations, and wanted to establish a railway from Mediterranean coast to Kuwait. This threat of Russian intrusion added to the British concern about Kuwait. But ultimately in September 1897, the situation turned in favour of British government that after being much entangled, the ruler of Kuwait Sheikh Mubarak asked for British protection because of the

². Ibid., p. 267
³. Ibid., p. 268
growing dangers, but the British government urged him to remain under the Turkish suzerainty. The same request was made even after a year but met with the same reply. But events soon occurred which turned British government to change its view and these threats resulted in her concluding a treaty with Kuwait on January 23, 1899, whereby the ruler of Kuwait undertook never the cede or lease any portion of his territory to any foreign government or national except with the express authorization of the British government. In return, Sheikh was assured of British protection in case of need.

Afterward, the treaty proved to be fruitful for the British government when in 1900 a party of railway engineers under Herr Stemrich, the German Consul-General accompanied their military attache at Constantinople, who was to report on strategic matters, arrived Kuwait to carry out a survey of the route to be traversed by the Baghdad Railway to the Persian Gulf. They were courteously received by the sheikh but the treaty proved to be of much favour in Britain as the Sheikh mindful of his treaty obligations to Great Britain and distrustful of Germany's motives disregarded the lavish promises, he politely but firmly refused the offer. This shows much of his loyalty towards the British government and Sheikh's firm decision making attitude. Thereupon, undeterred Germany by this rebuff, incited her ally Turkey to seize Kuwait.

4. Ibid., p. 268
5. Ibid., p. 268
6. Ibid., p. 268 ff.
Sheikh Mubarak, defeated by Ibn Rashid, was not in a position to resist. But the British kept their promises alive by sending her cruise in the Bay of Kuwait as received the warning of Turkish intentions and later Turkey had to withdraw as the troops steamed into Kuwait Bay in their cruiser. This was another defeat of foreign interests in Kuwait and the success of British stronghold over it. Thereafter, a few other attempts too were made abortive and thus the Great Britain could succeed in nullifying the foreign impacts but not to ultimate extent.

(b) British Policy Towards Kuwait:

The growing British interest never detached from its pace because of wide flanged British colony across the region and the state of Kuwait. The British government never ignored the priority of their interest and keeping the matter into consideration. Thus, the viceroy of India, Lord Curzon in November 1903 was sent to this region who included in Kuwait his visit. On his return to India, he arranged for the appointment of a Political Agent in Kuwait, a step that led to an ineffectual protest by Turkey. The policy was well enunciated by Lord Lansdown, the Secretary of State for India, in his speech in the House of Lords on May 5, 1903. True to his views as:

7. Ibid., p. 269.
8. Ibid., p. 270.
"It seems to me that our policy should be directed in the first place to protect and promote British trade in those waters. In the next place, I do not think that those efforts should be directed towards the exclusion of legitimate trade of other Powers. In the third place— I say it without hesitation— we should regard the establishment of naval-base or of a fortified port in the Persian Gulf by any other Power as a very grave menace to British interests, and we should certainly resist it with all the means at our disposal".

With the British attitude, Germany made no further endeavour to obtain a foothold in Kuwait and Turkey abandoned her plans. In 1907, Russia concluded an agreement with Great Britain in regard with their respective spheres of interests in the region. Later, the negotiations were started between Turkey and Britain which resulted into a treaty (29 July 1913), which provided with the recognition of British treaty with Kuwait, territories of the Sheikh were to be autonomous, Turkey would not extend Baghdad Railway to the South of Basra without British consent. But this agreement was not ratified owing to the out-break of war between the two countries. Situation further aggravated with the outbreak of World War I. It made the region as a whole "a bone of contention" amongst the Big Powers, because of its strategic location. The experience of world War I clearly demonstrated the strategic importance of the region and the decisiveness of oil in the prosecution

9. ibid., p. 270.
10. ibid., p. 270
of a war, a clash between the British and Americans for the fruits of the victory in the form of oil. In this grim situation, the protection of the small states could only be possible while remained under the British superemacy which ultimately succeeded in turning the table in her favour by having a firm grip over a larger part of the region. The British position alived until the states became independent in different stages of time. Kuwait remained as British protectorate until 1961 when it became an independent state. The treaty of 1899 lasted till 1961.

(c) Oil Prospects and Background to Concession Agreement:

The prospects of oil in Kuwait had been known in the beginning of the century and its importance and need always increased day by day. Since the time British began to take interest in the Middle-Eastern region in general and the Gulf in particular, a series of negotiations were undertaken, for the oil concessions. Anglo Persian Oil Company (APOC) at that time, the sole owner of the Persian concession and joint owner of the Iraq Petroleum Company (IPC), was the prime mover in obtaining the Kuwait concession. APOC, predicting of oil resources along the coast of Gulf, on November 3, 1911, asked the British Political Resident at Bushire, Sir Percy Cox, whether an oil concession was obtainable from the Sheikh of Kuwait. If this were the case, it wished to apply for a prospecting licence on behalf of the company. But the Political Resident replied that the conditions in the Persian Gulf were full of menace for such an application to be
But in 1912 when the situation turned peaceful and favourable, the Political Agent in Kuwait had again approached the Sheikh on the same lines, who gave his consent to make a survey. Receiving the favourable response from Kuwait, Sir Winston Churchill, as Head of the Admiralty, appointed a Commission named "Slade Commission" headed by Admiral E.J.W. Slade. This Commission visited Kuwait in November 1913, consisted of well-known Geologists, among them there was one Mr. James of APOC.

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12. ibid., p.12

The First Kuwait Oil Concession Agreement:

This document is a written record of the negotiations taken place between 1911 and 1934, amongst the Oil Companies, British government and the Sheikhs of Kuwait. All the informations regarding Kuwait Oil Concession in this document, divided into three parts:

i. Chronology: All the events are in chronological order (Year-wise)

ii. Record: All the records of events are based on four chapters as:

(a) Chapter - 1: (November 1911 to June 1923)
(b) Chapter - 2: (July 1923 to May 1932)
(c) Chapter - 3: (June 1932 to February 1934)
(d) Chapter - 4: (February 1934 to December 1934)

iii. Notes: It consists of 159 notes.
The commission also met Sheikh Mubarak as-Sabah. The Commission made a preliminary survey of seepages of bitumen. In its report, the Commission assessed the area's oil chances as highly speculative though on the whole 'not favourable', and recommended the central plain of Burgan as the best site for test drilling. However, in 1914, APOC sent a geologist to Kuwait to inspect the seepages at Burgan and Bahra, but owing to the outbreak of the World War I, it was not until 1917 that the company was granted permission by Sheikh Salim (successor of Sheikh Jaber 1915) who had succeeded Sheikh Mubarak early in 1917, because of their deaths) to make its first geological survey in Kuwait. Though, in accordance with the 1899 treaty, APOC had to seek permission to negotiate for oil rights in Kuwait, but due to the difficult war conditions, the Political Resident (Bushire) advised postponement. With the passage of time, the situation turned calm and peaceful and it allowed the APOC to apply to the British foreign office, which was dealing the affairs for the oil concession, covering entire oil deposits. But the resettlement and the peace treaties in the Middle East prevented any progress with this application until APOC reminded the British Foreign Office in May 1921 of their application which received a brief acknowledgement in June of the same year, stating that a further communication would follow in due course and it needed another reminder from APOC. APOC sent another reminder in

13. ibid., p.3.
14. ibid., p.3.
15. ibid., p.4.
October 1921. In its response in December, the British Colonial Office informed APOC that the negotiations would be in due course arranged by the Political Resident. Taking the advantage at first hand, the British Admiralty through its Political Agent in Kuwait, initiated negotiations with the Sheikh in January 1923. APOC had not any prior information of submitting application by the Political Agent on behalf of the Company. The terms were proposed by the Admiralty included a payment of Rs. 10,000 (Approx. £ 750) for a two-years exploration licence, covering all Kuwaiti territory, followed by a two years prospecting licence for a similar payment, covering selected areas, followed by a mining lease, covering a maximum of 100,000 acres in not more than 3 blocks, for a period to be negotiated during which a royalty would be payable of Rs. 3,8 per ton of crude oil produced with a minimum of Rs.30,000 p.a. This royalty would be subject to review after ten years. Imports necessary for operating the concession were to be free of all taxes and custom duties for the first ten years only. 16

The Sheikh initially favoured APOC for its exploration and prospecting licences but not to the mining lease for which the Company had proposed Rs.3 Annas 8 per ton royalty on crude oil, he did not like, but suggested instead 25% royalty on net crude oil. 17

16. ibid., p.91.
17. ibid., p.5.
Insipite of her representation by the Political Agent, APOC had some objections in the proposed draft concession and these proposed terms remained under discussion between APOC and Her Majesty's Government (H.M.G.) and the Political Resident in the Gulf, and also between the Political Agent and Sheikh Ahmad in Kuwait. On March 8, 1923, the Company (APOC) provided the Political Agent with a draft concession agreement as a basis of further negotiations including all his proposed modifications except his suggested alteration in the royalty basis. The draft of the oil concession proposed by APOC, consists of 17 articles, presented to the Sheikh in June 1923, who in his response, informed the Political Resident that the terms of the APOC draft concession were entirely unacceptable to him and his people. There was a reason of this unacceptance, nothing but intermittent appearance of Major Frank Holmes on behalf of Eastern and General Syndicate Ltd. (EGS), and presentation of his draft concession for the same which, of course, was better in monetary terms than APOC's. Thereafter, the bargaining position of the Sheikh had become stronger while the competition existed between the interest of two Companies. Looking the situation turning from their favour, British colonial office, on September 21, 1923, despatched letters to the Political Resident, EGS and APOC separately, conveying British government's

18. ibid., p. 91. ff.
19. ibid., p. 7.
Policy regarding negotiations for oil concessions in the Gulf in general and Kuwait in particular, according to which the priority was to be given to APOC. The APOC was correspondingly disappointed but remained confident because of their long and close connection with Kuwait and Sheikh's assurance of keeping the treaty alive. Meanwhile, there was silence from the Sheikh but the reports from Political Agent revealed that the Sheikh's opinion was evenly balanced. Later, APOC replied to the colonial office's letter of 21st September, agreeing its proposed procedure for the Kuwait negotiations including the revision of its existing draft. Sheikh Ahmad informed the Political Agent in January 1924, that his views on APOC's draft concession terms would not be ready for at least six months. Found the Sheikh disinclined, in March 1924, APOC decided to outmatch the terms proposed by Holmes (EGS) and invite the Sheikh to visit their oil operations in Persia, believing his first sight of such operations in actual progress and their very impressive scale of development, would influence him in their favour.

Sheikh Ahmad accepted the invitation and subsequently visited the Persian oil fields from 25th to 29th July and Abadan Refinery on 14th August 1924, expressed great interest in all he saw, during talks with APOC officials. Despite his visit to the APOC's oil fields the Sheikh didn't show his consent to either company and the matter was delayed. Meanwhile, the APOC's prior

20. ibid., p.99 ff.
21. ibid., p.11.
rights of negotiations lapsed on 31st March 1925. However, EGS found their position in Oil Concessions in neighbouring states, offered to sell their Bahrain, Hasa, Neutral Zoni and Kuwait interest to APOC but the latter rejected them all.

The rights of APOC to negotiate for the oil Concession in Kuwait were renewed by the colonial office and APOC sent their geologists to Kuwait in January, who submitted their reports on February 13, 1926, reached the discouraging conclusions on the Kuwait oil prospects. But the matter remained undecided on the part of the Sheikh as he was double minded due to the competition between the two Companies. Having received no favourable response from the Sheikh, the Political Agent, receiving the direction from H.M.G., informed the Sheikh on 29th November, 1928 that the British government required, in any oil Concession agreement with


Neutral Zone : The Neutral Zone is an area of about 2,500 square miles adjoining the Southern boundary of Kuwait, its other boundaries being the Gulf coast to the east and Saudi Arabia to the West and South. This area was demarcated and agreed on December 2, 1922 at the Ojair (Oquair) Conference (Note -22) as one in which Kuwait and Saudi Arabia would have equal rights. Since 1970, following agreement between the two countries each to have sole jurisdiction over half the area (Kuwait the northern half, Saudi Arabia the southern), it has been known as the Divided or Partitioned zone.
Sheikh, a British Nationality clause, which, undoubtedly was in favour of APOC. Despite a big favour and pressure from the British government for APOC, the Sheikh was not easily ready to give them Concession. He had at least achieved a strong bargaining position. Another APOC's team of geologists arrived Kuwait in February 1932 which carried-out their survey.

Mr. A.H.T. Chisholm of APOC presented another draft Concession to Sheikh Ahmad, on August 16, 1932. But the Sheikh's attitude was to postponing both APOC's and E.G.S's negotiations with him for nearly five months. After five months pause, E.G.S. and APOC negotiations with Sheikh Ahmad were authorized by H.M.G. Sir John Cadman, Chairman of APOC, visited Sheikh Ahmad in March 1933 and offered very substantially improved terms. But these terms were, too, below the Holmes's offer as Sheikh Ahmad informed APOC in April. Sheikh Ahmad not only disinclined to accept these terms but also decided to suspend the further negotiations. Sheikh Ahmad's suspension of negotiations on 14th May 1933 suddenly changed the scene and two contenders in the field had to be united to propose a joint draft concession for the same.

(d) Eastern and General Syndicate (E.G.S.):

While the revised draft of APOC was under consideration of the Political Resident and as it was to be presented to the Sheikh

23. ibid., p.16.
24. ibid., p. 142; ff.
25. ibid., p. 163; ff.
26. ibid., p.33.
Ahmad, an unexpected telegraphic message received on May 9, 1923 by the Sheikh from Major Frank Holmes of Eastern and General Syndicate Ltd. (EGS) stating that he had just obtained King Ibn-Saud's oil concession and advising the Sheikh not to grant any oil concession before considering his own company's (EGS) terms which favourably impressed the Sheikh. 27

It was incorporated in London on 6th August, 1920, and the company's principal shareholders were -- the Chartered and General Exploration and Finance Co. Ltd., Allen and Henbury's Ltd., and Mr. B.M. Messa Company was previously to deal with concessions in Arabia, with which object Major Frank Holmes had proceeded to Arabia. The company was opened in Aden. 28

Major Frank Holmes was interested in getting and selling concessions wherever oil might be found, and his hunting ground covered much of the Persian Gulf area. He was a mining and metallurgical engineer of world-wide practical and managerial experience, having worked for various companies in many countries. Before looking into the APCC's Abadan Oil refinery, he had no acquaintance with the oil industry. He formed E.G.S along with some other merchants in 1920 with the object to establish business related with oil industry in Arabia. He, eventually on May 6, 1923,

27. ibid., p.5.
28. ibid., p.95.
succeeded in getting Concessions for oil explorations and mining in the province of El-Hasa of Arabia from King Ibn-Saud. There, he came to know about Kuwait oil prospects and the British efforts for them. He, then, after a telegraphic communication, rushed to Kuwait on 23rd May, with an interpreter and an introductory letter both to the Sheikh and several prominent Kuwaitis who were close associates of the Sheikh. As a friend of King Ibn-Saud and having introductory letters, he was well received by the Sheikh, before whom he outlined the terms, more generous and of much monetary values than of APOC. Meanwhile, Holmes received information from the British Political Resident defining British government's policy regarding negotiations for oil Concessions in the Gulf. However, it was made clear that APOC's application with regard to Kuwait be given priority. Despite all the hinderances, Holmes did not leave any stone unturned but kept negotiating for the Concession for which he could be succeeded in getting Sheikh Ahmad's permission for undertaking a geological survey of Kuwait and of Neutral-zone fields. For the same, a renowned geologist Dr. Arnold Heim, a Swiss subject, came to Kuwait and began his survey of Kuwait and the Neutral Zone and Hasa fields in January 1924 and submitted his report. On September 5, 1924, the report stated that there was some earth impregnant with oil at the Bahra seepage. Heim found that Kuwait was a country of some oil possibility, but not of high promise. In regard with the Neutral Zone, he stated in his report that there was no seepage, and that he could not

29. *ibid.*, p. 103; ff.
recommend it, and in his view, drilling anywhere on the Arabian side of the Gulf would be a pure gamble. While this report did not discourage EGS in their efforts in Kuwait, it did make it difficult for it to interest other parties in the oil possibilities.

Found the things difficult, EGS had approached APCC on February 23, 1926, offering to transfer their Bahrain, Hasa and Neutral Zone Concessions together with any Kuwait Concession they might obtain, in return for reimbursement of all their expenditure on obtaining and validating them to date, but the APCC in the light of their geologists' unfavourable opinion, refused their offer. Simultaneously EGS's efforts proved successful in obtaining oil concession in Bahrain in May 1932. It revolutionized the previous geological theories of oil possibilities in Arabia, that Holm's optimistic efforts and success accelerated the tempo of negotiations in Kuwait. It highly boosted Holmes's morale and his reputation.

EGS Taken Over by Gulf Oil Corporation:

Having the reports of EGC's successful negotiations and oil rights in the region, Gulf Oil Corporation (GOC) of Pennsylvania (U.S.A.) took over the Concessions in the Gulf in November 1927. After having taken over his Concession rights by the Gulf, Holmes informed the Sheikh that he would shortly offer a better terms for an oil agreement and that his Company had American backing. But after protracted discussions, Sheikh Ahmad rejected Holmes's (EGS/Gulf) terms as inadequate. Later, Holmes obtained an agreement for better terms from the Gulf Oil Corporation and
discussed with Sheikh Ahmad. Meanwhile, he was informed by the Political Agent that the British government then required, in any oil Concession with Sheikh, a 'British Nationality clause'. Thereafter, the oil Concession in Kuwait became the subject of negotiations between the American and the British representatives. In February 1932, while the result of the negotiations seemed bleak, the American government formally requested the British government that their "Open Door Policy" for American oil Companies already existing in Iraq and Bahrain, should also be applied in Kuwait. This request was granted by the H.M.G. in April of the same year. After having received the support from American government, on 26 May 1932, Holmes presented the Sheikh a renewed draft for consideration.

Sheikh Ahmad later received a renewed draft from APOC also. But he refused to negotiate further with either party in this regard and informed the Political Resident with his disapproval. Receiving such disinclined response from the Sheikh and getting the hopes of oil Concession dim, both the parties had to come to negotiate for a joint venture and opened discussions.\(^3^0\) They eventually arrived at unanimous decision on 14th December 1934, whereby they (APOC and Gulf Oil Corporation) signed two agreements which were the basis of their partnership and the formation of Kuwait Oil Company (KOC).\(^3^1\) It provided for the formation of a

\(^3^0\) ibid., p.118.

\(^3^1\) ibid., p.188; ff.
joint Company "Kuwait Oil Company Limited", equally owned and controlled by both the parties, to obtain and operate a Kuwait Oil Concession, and regulate the manner in which its negotiations expenses, finances and operations were to be conducted.

(e) Joint Efforts (Unity of Interests between the Two Parties):

The joint Company, Kuwait Oil Company Ltd., (KOC) provided for, in the Principal Agreement of December 14, was incorporated in London on 2nd February 1934, with an initial issued capital of £ 50,000, owned equally by APOC and Gulf. Of its six Directors, three were APOC and three Gulf appointees, the Chairman had no casting vote and was to be appointed annually in rotation by APOC and Gulf. In accordance with this provision of negotiation provided in this Agreement provision neither party could carryon negotiations for oil Concessions directly or alone and neither party would go ahead in regard with the oil rights without having other's assent.

Later, the British government reached at an agreement with KOC on March 5, 1934, in order to regulate APOC's and Gulf's relations with herself in connection with the KOC's later negotiations with the Sheikh.32 Thereafter, the British government instructed the Political Resident at Bushire about her assent over the invitations of negotiations between the Sheikh and KOC,

32. ibid., p. 189; ff.
and to inform it to the Sheikh. Under the Agreement, there was a provision that the Company would be a British Company. The Concession, in case if obtained, was not to be transferred without the HMG's consent. Major Holmes and Mr. A.H.T. Chisholm were later appointed "joint negotiators" by the KOC on February 5, 1934. Both the negotiators described the background and formation of KOC to the Sheikh who appreciated it and welcomed the formation of the new Company. After their conversation with Sheikh Ahmad, Holmes and Chisholm presented their first joint draft proposal on behalf of KOC's joint negotiators. Later they came to know that Sheikh Ahmad had summoned his lawyer from Basra to assist in scrutinizing the proposed draft by KOC. After having gone through the draft and tallying the financial terms with the previous terms presented separately by Holmes and Chisholm, the Sheikh rejected it as it was below his expectations. The Sheikh responding to the KOC, in March 1934, explained his main concern over the monetary terms which were yet to be altered. Afterward, the Sheikh on March 12, sent a written statement requiring the renewed terms. Meanwhile, Sheikh Ahmad informed KOC that he had received another British Company's offer for the oil concession which was ready to give better terms but in its response he was reminded by the Political Agent of treaty obligations and his commitment of 1913 with H.M.G. to not give any concession other

33. ibid., p. 195.
34. ibid., p. 196, ff.
than British subject and without H.M.G's permission in this regard.

Negotiations were kept on, the terms after terms were kept revised and new clauses included or replaced the old ones until both the parties KOC and the Sheikh reached on an Agreement which was signed on December 23, 1934.

(11) BASIC PROVISIONS OF FINAL CONCESSION AGREEMENT OF DECEMBER 23, 1934

The final Concession agreement was signed on December 1934 between H.E. Sheikh Sir Ahmad al-Jabir as-Sabah, the Sheikh of Kuwait on his own behalf and in the name of and on behalf of his heirs and successors, and Maj. Frank Holmes and Mr. A.H.T. Chisholm on behalf of the Kuwait Oil Company in the presence of Lt. Col. H.R.P. Dickson, the British Political Agent. This draft Agreement included favourable terms covering the entire area of Kuwait of about (17,918 sq. km) or 6,000 square miles, the period of seventy five years, the initial payments of £470,000, the annual dead-rent of £95,000 and the royalty of £3 per ton with an annual minimum of £2,50,000. All taxation was committed for a payment of £4 per ton. These payments, trivial by comparison with those current in Iraq, were in 1934 of rare value to the ruler and public of Kuwait and was to be increased by the money spent locally and the employment given in the course of the

35. ibid., p. 242; ff.
Company's operations. The original concession which provided that the Kuwait Oil Company (KOC) would pay $0.13 per barrel whereas, the Governments of Iran, Iraq and Saudi Arabia were being paid $0.22 per barrel.

Borgen discovery proved to be a boon for Kuwait, which opened the door of wealth wide-apart. But it could not remained for a short interval between 1942 and 1945 due to the grave situation of the World War II. As soon as the danger wiped out and the flames of war quenched on the termination of World War, the operations in the oil field resumed on a massive-scale. Increased production of crude encouraged the company's efforts and it further proved to be helpful in establishing the relations between the Company and the Kuwaiti government more closer. Rapid development in Company operations insisted the Sheikh to enter into a further Agreement with the Company in 1951. The new Agreement extended the term for another 17 year.

(iii) IMPORTANCE OF OIL IN THE ECONOMY:

The structure of the Kuwaiti economy had underwent a radical change after the emergence of oil. Prior to the discovery of oil, the economy of Kuwait mainly depended upon commerce, navigation, pearling, fishing and boat-building. The stage of economy

turned to be modernized in the later part of 1945 with the beginning of export of crude and refined oil and their by-products since 1946. Oil industry has transformed the economy on the part of its sectoral distribution. There are two main sectors namely 'oil' and 'non-oil' sectors. Oil sector includes the production, export and indigenous consumption of crude, refined oil, other by-products, and natural gas. The Kuwaiti economy has gained an unprecedented rate of growth over a considerable period of time primarily due to oil sector alone. The oil sector has positively influenced the rest of the economy though the financial linkages increased aggregate demand and imports at a considerably higher rates.

**Share of Oil Sector in National Income:**

Kuwait has very limited non-oil resources. Oil sector has always held a greater share in the Gross Domestic Product. It has held a share of KD 906.7 million, a 65.6 per cent of the G.D.P. in 1971 which increased to its peak of KD 3020 million, (79.2 per cent of the G.D.P) in 1974. The 'non-oil' sector held as its highest share of KD 3328.29 million (54.3 per cent of the G.D.P.) in 1982. Though the highest figure of KD 5059.23 million was estimated as the revenues of oil sector but its share in the G.D.P. remained 66.9 per cent in 1980 which is less than the share of oil sector in the G.D.P. in 1974. The share of oil sector has, however, been fluctuating between 1970 and 1985, but the revenues continued increasing from KD 618.8 million in 1970 to KD 2983.16
million in 1985 baring in 1971 when it slightly declined. The share of oil sector in the G.D.P. was estimated at its least figure of 45.7 per cent in 1982. Its share in the G.D.P. has declined from 60.3 per cent in 1970 to 50.20 per cent in 1985 whereas the share of non-oil sector has increased from 39.7 per cent in 1970 to 49.8 per cent in 1985. During 1970s, the share of 'oil' sector in the Gross Domestic Product G.D.P. never dropped below 60 per cent baring in the year 1978 when its rate of growth was slightly negative. However, the increasing oil revenues and the conservationist policy adopted by the government did not allow Kuwait to accelerate its production. But the early years of 1980s recorded a tangible decline in Kuwaiti oil revenues mainly due to the decline in the world oil demand, and the marketing difficulties faced by the Kuwait's oil exports. The oil exports continued to fall for three consecutive years i.e., 1980 to 1982. This ultimately resulted in a drop in the share of oil sector in the G.D.P.

**Growth Rate of Oil Export**

Where the oil sector contributed as its share in the G.D.P. varying between 50 to 80 per cent the rate of growth of its export has also been varying between 82 and 96 per cent of the total exports value. It's export increased from KD 527 million in 1969 to KD 2847.7 million in 1985 with its peak of KD 4960.8 million in 1980. The oil sector has contributed its highest share of 96.3 per cent of the total export value in 1974 whereas its lowest
figure of 82.7 per cent of the total export value was estimated in 1982. The oil exports playing an important role in the economic activities of Kuwait since it is the main source of revenues to the country. The oil exports continued in an upward trend throughout the period from 1961 to 1972 barring in 1965 when it registered a negative growth rate. This period was of world economic recovery and industrialization which created a substantial demand for oil in the world market.

During the period from 1973 to 1985, there had been widespread fluctuations in oil exports and it decline by 64.29 per cent. The reasons which resulted the decrease in oil exports were drastic increase in oil prices up to 1981 and then its downward trend followed by world recession and the decrease in oil production as a result of OPEC's decision taken at intervals. Moreover, world oil market during 1980-85 observed negative growth rate in the demand for oil which had been the outcome of deceleration in consumption in industrial countries, substitution of sources of energy for consumption, decreased in the OPEC's quota of world demand and the discoveries of oil in North Sea and Alaska were also the factors which contributed in a decline of production which followed by a decrease in oil exports.

The non-oil sector has contributed in the export a very marginal share say between 3.7 per cent to 17.3 per cent of the total export value between the period of 1969 and 1985. There has been generally a negative growth in the crude oil export but
the rate of growth of refined oil off and on went in an upward trend during the last decade and a half. It was taken into account because of the diversion of attention from crude oil sales to refined products sales through which the government might earn a lot and the attempts of establishing indigenous industrial base could be made.

**High Propensity to Import:**

With the increasing oil revenues due to the substantial export of oil the value of imports has also improved. The total import of KD 223.3 million in 1970 improved to its highest figure KD 2384.6 million in 1982, thereafter, it declined to KD 1784.7 million in 1985. The increasing value of oil and its products exports created a situation of increasing government revenues and per capita income which in turn improved the propensity to import. Kuwait imports various items of luxury, machinery, foodgrain and so many other things by exporting its only source of revenue i.e. Oil. By having a cursory look of the table, it may be observed that the trade balance has improved by 764.2 per cent between 1969 and 1974. Within the same span of time, it increased from KD 319.3 million to KD 2759.6 million. It was a remarkable improvement which came only because of the increasing oil prices which improved the oil revenues. The oil prices, within the same period, increased by 625.7 per cent whereas the trade balance improved with a little higher rate say by 764.2 per cent. This shows that the increasing oil prices pushed up the export of oil.
and its products which brought higher revenues and in turn the import also increased substantially. Trade balance, thereafter, indicated a negative growth. It declined from KD 2759.6 million in 1974 to KD 1600.2 million in 1978, due to the deceleration in export of oil. The highest rate of trade balance was observed in 1979 when it was of KD 3651.5 million. Thenceforth, it reduced to only KD 771.8 million in 1982, but resumed improving and was estimated at KD 1367.2 million in 1985. These fluctuations in the trade balance were observed as the result of variations in the value of exports and imports during the same period of 16 years.

Employment Opportunities:

Oil industry employs technology and is capital intensive. It absorbs a marginal skilled manpower. Though, it does not directly opens the door for a greater absorption within itself but it has created employment opportunities in the non-Oil sectors; among which the Services sector absorbs the greatest number of personnels. Since the establishment of oil industry in Kuwait, the employment opportunities have been increasing due to the absorption in the non-Oil sector. The total labour force in 1965 was estimated at 17,300, it was merely 3.70 per cent of the total population of the country. As the oil industry developed and the oil revenues increased due to the increase in oil prices, the non-Oil sector improved simultaneously and the absorption of labour force also improved. In 1970, the total active population was estimated at 2,42,100, it increased to 3,04,500 in 1975 and further 4,84,033 in 1980. It has indicated a substantial increase
of 39.03 per cent improving from 3.70 per cent over a period of 20 years. The total number of workers in 1985 was estimated at 6,62,588. This really shows a remarkable achievement of the economy which could be made possible only in the wake of the developments of oil-industry.

The importance of oil industry in the economy is not only due to its increasing revenues to the government but also because of its great push up to the other sectors of the economy of which existence could be possible after its formation. It has changed the entire scene of the economy through the transformation.

Owing to the inception of the Oil sector, the economy has skipped from its reliance on the outdated sort of revenues to the modern ones. The greater dependency on merely navigation, ship-building, pearling and fishing has shifted to the industrial based economy. Thus, the Oil sector has its significance in economy not only due to its high revenue potentials but its greater assistance in the establishment of infrastructure of the non-Oil sectors also.
CHAPTER III

DEVELOPMENT OF OIL INDUSTRY: 1938-1969
DEVELOPMENT OF OIL INDUSTRY: 1938-1969

(1) INFRASTRUCTURAL DEVELOPMENTS:

In the previous chapter, the history of negotiations to the first oil agreement between Kuwait, British and American Companies were dealt at length. It has been clearly highlighted in that chapter how the Sheikh of Kuwait played the role of statesman so adroitly on behalf of the country when faced such superior powers. The analysis of the long drawn history of negotiations itself portrays how intelligently the Sheikh tackled both the negotiators and turned the table in his own favour at last. The chapter closes at the consensus of both the parties when an agreement for oil concessionary rights was signed between the Sheikh of Kuwait and KOC in 1934.

The present chapter portrays the application of the agreement with the fruitful drilling of oil in 1938. In this chapter, it has been striven to elaborate through what stages the oil industry passed on and attained the present state of developments. An attempt has been made to analyse the trends in oil production, exports and revenues taking into account the pricing structure, policy adopted by the companies and the government of Kuwait. Impact of the formations of OPEC and OAPEC on the Kuwaiti oil industry have also been assessed.

Though, the first fruitful drilling of oil in 1938 was considered as the foundation of oil industry in Kuwait but the
actual development began with the resumption of upstream operations and the first oil shipment for export after the world war II. About Kuwait, the record of events from 1942 to 1945 seems to be similar, though, both the oil field and the scale of current development were greater. Early in 1942, however, all operations ceased and work was not commenced again until the war was reaching its close in 1945. But the Kuwait operations were half American in ownership and had reached a stage in advance of those of Qatar. There reinstatement, therefore, had a decisive priority and it was ordered early in 1945 as part of the Allied programme of increasing available supplies both for Japanese war, and for the oil-thirsty early years of peace. The country's growth since then has largely mirrored the smooth and swift exploitation of its vast oil reserves. Within a span of no more than fifteen years its population came to enjoy living standards normally considered the prerogative of the most developed among the industrialized countries. The pattern of growth that Kuwait has experienced since 1946, the development of its infrastructure that has evolved is unparalleled in modern history. Because in such a short span of time of only four decades, a wide gulf between the stage of traditional modes and the modern economy is seemed difficult to bridge-up.

For a desert country where there had been an ever-present need for water, it was only natural to give top priority to solving this acute problem. Kuwaitis had depended for centuries on the salt brackish water of the desert wells, collected rain water and irregular supplies from Shattal-Arab by boat.
The supplied water was much costly and often contaminated. The government immediately started looking for alternative sources of supply. The first desalination plant with a capacity of one million gallons of water per day from the sea, was commissioned by the government in 1953.\(^1\) Supply of water had continued to enjoy the highest priority in all government plans. The growth of this activity is truly phenomenal, increased from about 250 million gallons in 1957 to 2.2 billion in 1964 and 6.6 billion in 1970.\(^2\)

For the expansion of oil industry in Kuwait, the government had to undertake the plan of development of infrastructure. Fahaheel, as it was made the country's first export terminal was provided with gathering-lines, gas-separators, storage tanks and pipelines linked with the oilfields.\(^3\) Further development took place in 1949 when a 327 feet tank landing craft was acquired, converted equipped, provisioned and anchored off the Neutral-Zone coast to act as base depot and floating camp near Wafra, in the centre of the zone.\(^4\)

A small drilling camp was established, another for the locally

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2. Ibid., p.29.
4. Ibid., p.215.
Improvised labour force was formed near the base ship's anchorage, water for these and for all field parties was brought by tankers lorry from Kuwait city.

Gathering Centres:

Production of oil was on its rising scale because of the new discoveries of oil-fields and there was a need of gathering centres and tank farms to store the crude exploited from these fields. In order to reserve the oil exploited from Magwa field, the extension of Burgan field, a gathering-centre, a gas separation plant and a pumphouse was erected there. A pipe-line was laid from Magwa to the tank-farm at Ahmadi. The Ahmadi tank-farm contained, by the middle of 1953, twenty-five 139,000 or 168,000 barrel tanks, with one more, under erection. Kuwait Oil Company had 16 gathering centres in operation, 12, of which are situated in Burgan field, are near Magwa, to serve the Magwa and Ahmadi fields. A gathering-centre is located in north-Kuwait and serves the Randhatain, Sabriyah and Bahra fields and another is located in Minagish and was commissioned in 1962. There was also a small gas separator and oil pumping plant in Umm-Gudair.

Pipelines, Tankage and Loading Facilities:

A net of pipelines connect the various gathering centres with two tank farms at Ahmadi. The longest of these pipelines is

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5. ibid., p. 223.
a 30 inches diameter transit line, over 60 miles in length which connects the north-Kuwait fields with the north-Ahmadi tank farm. This line is also connected with the south-Ahmadi tank farm by a 4 mile transit line comprised of 30"/32"/34" pipes.\(^7\) The 12 gathering centres in the Burgas field, in south-east Kuwait are connected with the Ahmadi distribution manifold through 4 transit lines of 20", 20"/22", 30"/34" and 34"/36" diameter respectively.\(^8\) The 20" transit line is used for returning surplus refinery products (gas oil and light distillations) back to the field where they are injected into 4 holes especially prepared for the purpose. From the Ahmadi distribution manifold, three lines (of 20", 22", 39") go to the south Ahmadi tank farm filling manifold. Two other 34" lines run to the north-Ahmadi tank farm.\(^9\)

One 16" main line connects the Magwa gathering centre with the south Ahmadi tank farm. The Minagish field is connected with the south Ahmadi tank farm through a 30 mile transit line of 22/24/26 inches diameter pipes. In addition to these, main lines, there extends a net of flow lines connecting each of the 16 gathering centres with its surrounding wells. The flow of oil into any storage tank is regulated from the control room located in Ahmadi. The oil from both north and south-tank farm flows to the

\(^7\) ibid., p.27
\(^8\) ibid., p.27
\(^9\) ibid., p.27
loading terminals by force of gravity without any help of pumps. The south-tank farm comprises a total of 35 tanks with nominal total capacity of 3,612,000 barrels. The north-tank farm contains 15 tanks with the total nominal capacity of 3,872,000 barrels.\textsuperscript{10}

The Kuwait Oil company had transferred its field headquarters from Magwa to the new town of Ahmadi in July 1950, leaving the former, both as an incipient production centre and as the site of the Company's main hospital and of its training Centre.\textsuperscript{11} The new headquarters emerged as a modern oil centre capable of unlimited development on model-lines. The company made roads running through the whole system and joined it with the capital. The main power station was erected at Mina al-Ahmadi and there had also been erected the all important water distillation plants. Mina al-Ahmadi named after the late ruler, was designed as Company's port and loading terminal, and after 1949, it took place of the limited installations constructed in the same area then known as 'Fahahil', named after the nearby village.\textsuperscript{12} The port (Mina al-Ahmadi) included tankage to serve terminal purposes and a dredged small craft harbour. The great pier, one of the largests of its type in the world, was erected there. The "T" head, with 8 tankers or cargo berths, lay at the end of a 4,150-foot cause-way, carrying

\textsuperscript{10} ibid., p. 28

\textsuperscript{11} Longrigg, Stephen Hemsley, \textit{op. cit.}, p. 224.

\textsuperscript{12} ibid., p. 224.
vehicles and pipes, about 3 million barrels of oil per day could be loaded from it. The north-pier can handle the largest tankers afloat. Mina al-Ahmadi is considered one of the largest oil exporting ports in the world. Both piers are equipped to provide the tankers with fuel.

(ii) TRENDS IN OIL PRODUCTION, EXPORT AND REVENUES

Operations in Kuwait showed no delays. Eighteen months from the date of the concession sufficed for the preparation of all staff, labour, equipment, vehicles, and services adequate for the commencement of drilling; and on 31 May 1936, a day of violent sandstorm, the first well was spudded in Bahra in the presence of Sheikh Ahmad and a large concourse, encountered no horizon capable of commercial production and was abandoned. The next stage was to cover nearly the whole territory during the winter of 1936-37, which led to the selection of the second drilling location near the bitumen seepage in the Burgan area, twenty-eight miles south of Kuwait city and fourteen inland from the coast. Drilling, here, began on 16 October 1937. But the

13. ibid., p. 224.
14. ibid., p. 112.
<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>(Annual Increase %)</th>
</tr>
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<tbody>
<tr>
<td>1946</td>
<td>5.9</td>
<td>-</td>
</tr>
<tr>
<td>1947</td>
<td>16.2</td>
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<tr>
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<td>1965</td>
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<tr>
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<td>5.2</td>
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<td>1967</td>
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<td>0.6</td>
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<tr>
<td>1968</td>
<td>956.6</td>
<td>4.8</td>
</tr>
<tr>
<td>1969</td>
<td>1011.7</td>
<td>5.7</td>
</tr>
</tbody>
</table>

success came in the way in the night of 23rd - 24th February 1938, when Burgan No.1 well struck oil. With the discovery of oil, drilling was undertaken with increasing efforts. But the operations had to be ceased for a short span of time in 1942 due to the outbreak of World War II, when the situation worsened. In this unavoidable precedent, wells had to be plugged with cement and the fields were left unexplored.

After the termination of war, when the things settled down, operations were resumed in the mid of October 1945 as the danger of the war eliminated. Staff and materials were reassembled and buildings reconditioned. The production of crude and buildings reconditioned. The production of crude oil could be made possible on a large scale. The year 1946 is a turning point in the history of Kuwait oil industry. Production of crude on a commercial scale was actually started in 1946. Production in Kuwait, as table shows, amounted in this year to 5.9 million barrels, in 1947 and 1948 to 16.2 million barrels and 46.5 million barrels respectively. Figure turned to an increase of 174.5 per cent within one year from 1946 to 1947 which further increased with 187 per cent over

Kuwaiti oil industry kept a pace continuously and produced crude with increasing quantity year by year. Production rose from 89.9 million barrels in 1949 to 125.7 million barrels in 1950 and 204.9 million barrels in 1951. It further increased to 273.4 million barrels 314.6 million barrels and 349.8 million barrels in the years 1952, 1953, and 1954 respectively. However, there had been an upward trend in the production of crude oil in Kuwait right from the beginning but there were slight fluctuations in annual average increase. Production which, with an increase of 92.9 per cent in 1949 over the figure of preceding year, rose further with an increase of 40.1 per cent, in 1950, 61 per cent in 1951, 25 per cent in 1952, 15 per cent in 1953, 11.1 per cent in 1954 and 15.1 per cent in 1955 respectively over the preceding years. Production of oil remained on an increasing scale further too. It reached from 402.8 million barrels in 1955 to 405.5 million barrels in 1956, 424.8 million barrels in 1957, 522.4 million barrels in 1958 and 525.9 million barrels in 1959 respectively.

In spite of a continuous increase in production, the rate of increase always kept fluctuating. It varied as 0.6 per cent in 1956, 4.7 per cent in 1957, 22.9 per cent in 1958 and 0.6 per cent in 1959. There had been certain other factors also which driven ahead the production of oil since its commercial exploitation in 1946, such as - need for oil to be used as main source of energy in the western world for the recovery of war hit economies. It had created a great demand for oil which turned
Kuwait as one of the exporters. The reasons, which diversified Kuwait from crude oil export to products' export, were increasing indigenous demand for oil and its products, establishment of indigenous refinery in 1949, and the discoveries of new fields such as Neutral Zone and others. The increasing rate of production of oil since 1946 was mainly due to the low cost of production in Kuwait, and as oil production increased the unit cost decreased, which led to great economies of scale. Owing to the price reductions in 1959 and again in 1960, the Oil Companies suffered losses in terms of their revenues to solve this problem, they begin to increase oil production in the big oil-producing countries to offset the losses they suffered from price reductions. During the early years of 1960s, the oil production increased on a fairly large scale because of expropriation of areas of concession under the Iraq Petroleum Company (IPC) which in turn suspended oil production temporarily. This led KOC to increase its production in Kuwait. The other reason of an increase of oil production was reflow of oil to the boycotted nations at the end of Arab-Israel War.

The year 1960 was a milestone in the history of oil-producing countries, particularly Kuwait. In this year Organisation of Petroleum Exporting Countries (OPEC) was formed and Kuwait was one of the five founding members, including Iran, Iraq, Saudi Arabia

19. ibid., 0.48.
and Venezuela. 20

OPEC did not come out of blue but was formed after a series of events and forces unleashed both by the oil companies and by the producing countries. Before the emergence of OPEC, the production, exports and pricing of oil were under the control of oil companies operating in the producing countries. These companies were the only decision makers on oil operations through the system of oil Concessions whereas the oil producing countries remained no more than tax collectors. The Companies were having sovereignty over the national oil resources and misuse of their power continued by reducing the price of oil at the expense of the economic and social developments of the producers was the direct cause of the establishment of OPEC. 21 The formation thus fulfilled the aims and objectives of the oil producing countries and boosted up the production of oil. One year after the establishment of OPEC, the treaty of 1899 was terminated and the state of Kuwait became independent in 1961. 22 It provided Kuwait an encouragement and self-reliance and strengthened its position of bargaining with

the operating companies for the revenues. The establishment of OPEC and independence of the state revolutionised the oil market and boosted up prices which ultimately increased the production of oil. Since 1960, the production of oil remained increasing. It jumped from 619.2 million barrels in 1960 to 633.3 million barrels in 1961, 714.6 million barrels in 1962, 765.2 million barrels in 1963 and 842.1 million barrels in 1964. Within five years the production of oil increased from 861.4 million barrels in 1965, 906.6 million barrels in 1966, 912.4 million barrels in 1967, 956.6 million barrels in 1968 and 1011.7 million barrels in 1969. During a span of 9 years from 1960 to 1969, there was an increase, in the production of crude oil, of 63.3 per cent with varied annual averages of 17.7 per cent in 1960, 12.8 per cent in 1962, 10 per cent in 1964, 5.2 per cent in 1966 and 6.7 per cent in 1969 over their preceding years. Supply and demand situation in the world oil market during the period beginning from early fifties to the late sixties was characterized by substantial and constant surplus of oil world oil production of crude oil, following the increased oil discoveries, recorded continuously escalating rates for beyond the high rates of oil consumption. In the sixties the world overall production of crude oil increased by an annual average

rate of 8 per cent, whereas the world oil demand (excluding socialist countries) increased by an annual rate of 7.5 per cent.  

Thus, we can observe the situation of a continuous upward trend right from the year 1946 to 1969 with slight variations in the annual average increases over their preceding years. There had been some other factors also as mentioned above. For example, increase in the production level, such as newly adopted formula of 50-50 Profit Sharing in 1953, the formation of Organization of Arab Petroleum Exporting Countries (OAPEC) in 1968 also supported the oil industry. Besides the increased production, taking into consideration the factors contributed to it, there had been certain reasons which interrupted the continuity of constant increase were: Arab-Israel conflict followed by the closing of Suez Canal in 1956, price cuts in 1959 and in the early period of 1960 and the policy of limited oil production of the member countries of OPEC.

Over the period of 24 years (1946-69) since the oil production began in Kuwait, total production of crude oil reached 11931.5 million barrels for the whole period. Annual increases were highest immediately after the war, reaching 187.0 per cent

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in 1948. Other high rates of annual increases occurred in 1951 (63%), 1958 (23%), 1960 (17.7%) and 1961 (12.6%). The rate of increase dropped, however, over 1960's in general and in second half of the decade in particular. As has been mentioned, this phenomenal increase in the production of crude oil in Kuwait followed by the rapid shortage in oil production in the United States of America and the Western Hemisphere, a clear picture of the trend in the oil production of Kuwait can be drawn by calculating average annual production for a period of five years and changes therein as Table 3.2 shows.26

Quite apart from the exceptionally high rates of annual increases in the earlier years of the period, the figures point out a steady fall in the rate of annual increase over the 1960's (from 10% for 1960-64 to 3.76% for 1965-69). Increase in oil production during the period 1960-64 was attributed to the implementation of expropriation of concessional areas under IPC and temporary suspension of oil production there led KOC to increase its production in Kuwait. In 1962, the Arabian Oil Company entered its second year of oil exporting in Kuwait and its rate of growth was highest in 1962. The decline in production of oil during 1965-69 was mainly due to the oil supply from Libyan and Nigerian fields and the Arab-Israel war.27

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Annual Production (in Million Barrels)</th>
<th>Average Annual Increase</th>
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</thead>
<tbody>
<tr>
<td>1946-49</td>
<td>39.6</td>
<td>-</td>
</tr>
<tr>
<td>1950-54</td>
<td>253.7</td>
<td>32.5</td>
</tr>
<tr>
<td>1955-59</td>
<td>456.3</td>
<td>8.8</td>
</tr>
<tr>
<td>1960-64</td>
<td>714.0</td>
<td>10.0</td>
</tr>
<tr>
<td>1965-69</td>
<td>929.4</td>
<td>3.76</td>
</tr>
</tbody>
</table>
Export of Oil and Revenues:

The discovery of oil in a profound quantity could make the production possible on a commercial scale. After the termination of war and its recovery, production began in the mid of 1945 and reached the level of 5.9 million barrels in 1946. The rehabilitation and completion of wells and buildings made it possible to inaugurate the export of oil from the temporary marine terminal at Fahahil on the last day of June 1946. This occasion marked not only the end but the beginning of the company's post-war achievements. Pipelines were laid down from the oil fields to the export terminals. The port-included tankage to serve terminal purposes and a dredged small craft harbour. The transformation of economy could be made possible only through the earnings of oil revenues against the export of crude. Oil revenues has changed the situation favourably. There was a severe need of oil to be used as a source of energy in the European countries whose economies were just released from the effect of war and they were striving hard to their recovery. Middle east oil producing countries particularly Kuwait, were at great advantage of supplying them their oils. They could earn huge revenues through this non-renewable source to change their economies.

There had been great emphasis on the export of crude oil since the beginning of transhipment of oil in 1946 from the Fahahil

29. Ibid., p.223
terminal. As table shows, the export of crude oil, thence on, had been on an increasing scale. The revenues of the government through the sales of crude oil increased from $0.76 million in 1946 to $11.52 million in 1949 with an annual average increase of 172.8 per cent in 1947, 187.4 per cent in 1948 and 93.6 per cent in 1949. They had been an upward trend in the export of oil and the oil revenues. Most of oil produced within the country, exported to various countries like United Kingdom, United States of America, Germany, Japan, Italy and so on. The oil revenues further increased from $16.09 million in 1950 to $57 million in 1952 within an annual average increase of 39.6 per cent, 11.8 per cent, and 216.6 per cent in 1950, 1951 and 1952 respectively. The new discoveries of the oil fields and diversification of the economy from traditional trading activities of the oil developments which is, of course, the main source of the government's revenues. The development of the other sectors of the economy could only be made possible after the development of oil industry and having achieved the present stage of the industry. There had been tremendous increase in the export of oil and their revenues which jumped to $169 million in 1953 with an annual average

### TABLE 3.3

**OIL REVENUES TO THE KUWAITI GOVERNMENT: 1946-1969**  
*(in Million U.S Dollars)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Revenues</th>
<th>% Annual of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>0.76</td>
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<tr>
<td>1947</td>
<td>2.07</td>
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<td>1948</td>
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<td>93.6</td>
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<tr>
<td>1950</td>
<td>16.09</td>
<td>39.6</td>
</tr>
<tr>
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<tr>
<td>1969</td>
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**Sources:**  
increased of 195.6 per cent within only one year. It further stretched to $194.20 million in 1954, $281.70 million in 1955, $356 million in 1958 and $419.40 million in 1959. It further went on in an upward trend due to many reasons such as the increasing efforts of the country towards gaining control over the oil rights and the formation of OPEC. The change in the payment system as from royalty to 50-50 profit sharing through which the government had started earning just half of the profit of the Companies' oil revenues. The Kuwait Oil Company exported oil of about $445.80 million in 1960, $484.40 million in 1962, $554.40 million in 1964, $598.30 million in 1966 and $690.20 million in 1969. All these show that the export has ever been in an upward trend and so the revenues too. The oil company which exported more than 7000 tons of crude oil in 1946 increased it to about 85000 tons in 1963.\(^{31}\)

The slowdown in the rate of growth of demand for oil during the years 1960 to 1967 was due to the recession in the United States of America, Western Europe and Japan. This situation later improved and the rate of growth went up. One of the factors which caused the sluggishness in the demand for oil, was an increase in the demand for natural gas, which is an important substitute for fuel oil in Western Europe, as a result of the increase in the

prices of oil products and because natural gas is not an air pollutant. The Middle East crisis of 1967 had its repercussions on the geographical distribution of exports of refined products; the ratio of exports to Western Europe decreased from 19.6 per cent in 1966 to 11.1 per cent in 1967 and further to 10.5 per cent in 1968 and 6.6 per cent in 1969.  

Meanwhile, the ratio of exports of refined products to markets East of Suez increased from 42.8 per cent in 1966 to 47.5 per cent in 1967 then to 47.7 per cent in 1968 and to 57.5 per cent in 1969.  

The economics of transport are considered a decisive factor in determining the markets of refined products since products are shipped by small tankers where transport cost per ton is relatively high as compared with the cost of transport by large tankers, especially for long distances. The cost of transportation of crude oil by large tankers, and of refining it near its consumer markets, is much less than that of refining oil in the producing countries and then shipping it to these markets.

The government revenue per barrel of exported crude oil has been fluctuating during the years 1953-1968. Although, a

33. ibid., p.14.
50-50 profit sharing formulae was applied, the revenue was 81.7 U.S. cents per barrel in 1958. The high level of revenues at that time was due to the high posted-price of Kuwaiti crude, which was 180 cents in 1957 and 185 in 1958. Later on, the posted-price declined to merely 159 cents per barrel. At the same time, the posted-prices were on the decline for crude oil with various gravities, but then, OPEC interfered in 1961 to prevent further cuts in posted prices. Posted price for Kuwaiti crude reached its highest level in 1959 (185 cents per barrel, after which it fell to 159 in 1965-69). Thus, payments to Kuwait over 1946-1950 totalled $13 million. If we calculate the payments to the country over the period 1946-1969, it reached to 7840.79 million U.S. dollars. Thus, Kuwait has been enjoying the oil revenues as its main source of income and it has brought about a significant change in the economic structure.

(iii) Pricing Structure and Oil Policy:

Pricing Structure:

Prior to the World War Second, the price of oil was determined by the oil companies on the basis of their price in the

34. ibid., p.15.
36. ibid., p.47
United States of America, which until the World War II, was the major oil supplier in the world market. Looking into the history of oil-pricing, the following three stages are discernible:

(1) The domination of the major oil companies in the world oil market until 1950.

(2) Entrance of the Soviet Union in the world oil market after 1950, which forced the Majors to lower prices, and

(3) The emergence of OPEC in 1960 and its efforts to organize the oil exporting countries and to formulate the pricing and production policies.

The Domination:

It is substantiated by the fact that the first fifty years in the history of the oil industry, which developed almost exclusively in the United States, covering the period between 1859 and 1909, were marked by the domination of John D. Rockefeller, who was much concerned about gaining income from a monopoly situation. He took almost complete control and established a monopolistic position. Standard oil of California (SoCal) turned to be a cartel under Rockefeller's monopolistic position. They gradually set up enormous commercial network covering Europe, China, Africa and Australia. A new group of companies such as Shell Transport

and Trading Company, entered the oil business and began to transport oil products by sea, after having built the first oil tanker in 1892, and lately bought a share of Gulf Oil's production. Later, they linked-up with Royal Dutch (Shell). They widened their sphere of market all over the world, thereby reducing the cost. By that time the Middle East had begun to play an important role. William Knox d'Arey was awarded the Persian Oil Concession in 1901, oil field was discovered in 1908 at Masjid-i-Salaiman and D'Arcey founded the Anglo Persian Oil Company (APOC) later known as British Petroleum (B.P.).

With the passage of time, some other competitors jumped into the field of oil to market the product. The seven Majors i.e. Standard Oil of New Jersey, Mobil Oil, Gulf Oil, Texaco, Socal, British Petroleum (B.P.) and Shell had dominated the world oil market up to the end of World War I. The importance and the need of oil had been well judged during the war days. The prices of crude were based on American Oil prices, for United States being the largest oil producer in the world. The United States' oil prices have been steadily increasing or maintained at a high level through the prorationing or production restriction. The prices

38. ibid., p.16.  
39. ibid., p.16.  
40. Jenkins, Gilbert; Oil Economists' Handbook, London, 1977, p.58; Prorationing is a measure to limit the crude oil production to eliminate drastic competition amongst crude oil sellers. In U.S.A., voluntary prorationing was first introduced in 1914.
of oil in the world were set in accordance with the "Basing-Point" or "Gulf-Plus" system under which 'Gulf of Mexico' was supposed to be the only oil producing centre, regardless of the actual source of origin. These prices were also called 'Posted Prices'. The concept of 'Posted Prices' was first developed in the United States oil industry. It appears that: "It simply means that any refiner or agent wanting crude oil posts a price at which he is willing to buy oil from a specified field, from operator in that field, who may number in dozens". It also included gathering costs, pipeline charges, and oil losses. The origin of the 'Gulf-Plus' pricing system, first came into use in 1927 by the logical method for pricing oil under the prevailing supply conditions and industrial structure prior to the World War II. As is evident from the following.

(i) The United States Oil Industry was largest in the World.

(ii) United States oil exports from the Gulf of Mexico Coast covered a large part of the world, whereas the western Hemisphere and the Middle East supplies were still in the process of rapid expansion and development.

42. ibid., p.49
43. ibid., p.
The Gulf of Mexico was the only place where imports could obtain supplies and spot cargos on the open market to cover any likely requirement.

These conditions had prevailed since 1880 when Rockefeller had decided to widen the operations of his Standard Oil Company all over the world while the other companies of Eastern Hemisphere were not able to supply oil shipment in unlimited quantity, as the United States' Gulf could. It is also substantiated by the fact that "The existence of a multiplicity of producers did make it necessary for the company as leading refiner and transporter to 'Post' prices at which it stood ready to purchase crude at the wellhead, so that numerous transactions occurred constantly at published market quotations". Even after the breakup of old Standard Oil Company in 1911, this system of Posted Prices remained continued. Under the system of 'Gulf Plus' which was costly to the importers or the consuming countries of the Eastern Hemisphere, the main beneficiaries were the international oil companies which charged much fictional-cost of tanker transport from the Gulf of Mexico. But this system lost its contrive logic by the eve of the World War II, when the Persian Gulf became known as the source of this non-renewable source of energy for Europe and Asia.

45. ibid., p.11.
46. ibid., p.11.
that during the World War II it was anomalous for the American and British navies to take deliveries of oil at Abadan and other places in Persian Gulf, at a price equivalent to the price prevailing in Texas port, plus a phantom freight charges, Texas-Abadan.  

Prior to the World War II, the trade of oil was to make out its by-products or refined products which were more costly and useful and the less waste material remained after its processing. It was generally more economical to process oil near its source in big refineries. The refineries were mainly established in the United States.

Therefore, the big American Oil Companies were in utmost advantage of having high oil prices. This led British government to object in 1944 to purchase bunker oil at these high prices. It was so because the British government was trying to expand her naval command over the region and that needed huge quantity of fuel oil. Discussions were started among the British and the major oil companies. As is evident from the fact that "It was set off by an investigation by the British Auditor General of the prices paid by the Ministry of War Transport for fuel oil at ports in the Indian Ocean and the Middle East". It is further mentioned that

"Under such a "single basing point" system the buyer (in this case, the British Government) had no control over the origin of the oil shipment". The Auditor General, henceforth, deemed it fit to raise objections during wartime which permitted such an inefficient utilization of vital shipping space.

There was second objection too, that the bulk of Middle East oil exports had gone to Europe and under this 'Gulf-Plus' system the net return on shipment had generally been below the United States price, thus, offsetting the higher realizations on sales in the east of Suez area.

Moreover, the continuation of such policy, when Allied governments were receiving large quantities of oil, was specially objectionable. Under the old pricing system, comparatively small freight charges on exports were offset by higher charges on others. However, later these appeared to be no longer justifiable on the grounds of unity. However, the pre-war pricing method was out-dated since the role of Middle East in the world oil trade underwent a fundamental change. In contrary, the position of Western Hemisphere had deteriorated while its large oil resources had already been chunked by the war and the efforts were made to discover new oil fields.

51. ibid., p.21.
52. ibid., p.22
When the demand for oil tremendously increased after the war and the control over prices vanished in the United States, the crude oil prices at the United States' Gulf began to increase until they reached $2.75 per barrel. The prices in the Middle East increased too, but proportionately at a lower rate. It is further substantiated from the fact that "As a result, "the Centre of gravity of world oil production was shifting from the Gulf of Caribbean to the Middle-East Persian Gulf area and was likely to continue to shift." The Middle East was bound to play a far greater role in the world oil market than it had before the war. It is evident that "The interesting dimension of the post-war American policy is that American administration's European Recovery Programme, and European Cooperation Administration (ECA) were also prepared keeping the oil strategy in mind. The strategy was to increase Europe's dependence on those industrial or resource sectors in which U.S. possessed comparative advantage or controlling strength. One of these sectors was oil."  

Discussion continued long enough and thus concluded into an agreement to modifying the "Gulf Plus" system. There an

55. Asopa, Sheel K., Oil, Arms and Islam in the Gulf, Printwell, Jaipur (India), 1986, p.43
agreement reached on "Persian Gulf" as a "Second-Basing Point" in 1947, thus, aligning the prices f.o.b. Persian Gulf on the prices f.o.b. Gulf of Mexico eliminating the phantom freight charges. 56 Although, this new system of 'Dual Basing Point' decreased in the revenues of oil companies which had been receiving out of the selling price and the production costs in the Middle East, remained considerable. Taking into account the new system, the neutral point was laid somewhere between the Gulf of Mexico and the Persian Gulf, i.e., the Mediterranean. At this point, the price of oil was at the same. countries situated on the east side of the point obtained supplies from the Middle East and the others from the Gulf of Mexico and Venezuela. 57 Price in the Gulf of Mexico was under the competition amongst the small private concerns which even affected the prices in the international market but at low pace despite the imposition of prorationing by the government of United States. Major oil producing companies are managed to reduce Middle East oil prices as they could be succeeded in capturing the European market by supplying that the cheap Persian Gulf crude. It is true to the Adelman's view that the price of the American crude was determined by the multitude of small producers outside the Majors and they did not compete with

57. Ibid.
each other and calculated the Middle East prices as they liked.\footnote{Chevalier, Jean-Marie., \textit{Op. cit.}, p.19.} It was in their interest that American prices should be high and to reduce the Middle East prices so as to capture the European market and penetrate the American market.\footnote{Adelman, M.A., \textit{The World Petroleum Market}, Johns Hopkins, Baltimore and London, 1972, p.150.} With other things, the major oil companies had striven well to conceal the real cost of production of oil and even managed to keep the exact wordings of their operating concessions in order to carry on their profits for a long by keeping them free from the discontinent of the oil producing countries. It is true to the fact that in 1947, even the British government could not seek out the real cost of oil in the Middle East despite having her representation on the board of directors of Anglo-Iranian Oil Co. (AIOC).\footnote{Chevalier, Jean-Mariey, \textit{Op. cit.}, p.154.} In this process, the producing countries were the ultimate losers as were being exploited by the operating Majors.

At the eve of World War II, the situation took a slight turn in favour of the producing nations. The governments began to seek out the direction of company's policy in order to bring forth the fact before the eyes of public. This unreasonable and irrational pricing structure gave way to the economic and oil nationalism in which the government of the producing nations put
their demand before the oil operating companies for the revision of prices to be in their favour. The producing countries realized that they should have had some of the profits of the Majors.

Entries of New Independent Companies and the Drop in the Prices:

Many new independent companies entered the oil market which further deteriorated the price structure of the Middle Eastern oil with their competitions. Russian entry as a free supplier in the oil market had further flooded the market which led to further decrease in prices. It is even substantiated by the fact that "Venezuela has played a vital role in shaping the oil policies of the producing countries. When General Eleazar Lopez Contreras, came to power after the death of Gomez, he pressured the international oil companies to increase their taxes paid to the government. The government of Venezuela could be able to introduce 50-50 profit sharing formula by making an arrangement with the Companies between 1950-52. The formula of 50-50

50-50 Formula: This formula (50-50 profit sharing) was based on equal division of the national production profit, i.e., difference between posted prices and cost, with royalty payments (usually 12½% of the Posted Prices value of output, taken in cash or oil at the government's choice) offset against the tax due to the state.

63. ibid., p.60.
Profit sharing was established in the Middle East, except in Iran. Under this system, the government of producing countries got 50 per cent of the total profits of the company. In this way, the producing countries had an enormous profit for which they had never thought earlier. The refusal of oil companies operating in Iran for the 50-50 profit sharing principle led the producing nation to revolt against them. Iran's annoyance over British invasion in the country coupled with her animosity over oil companies' attitude. But the company tried to compensate it by guaranteeing Iran that the government's revenues accruing from the profits would not decrease below £4 million a year. Though, Iran was offered 50-50 profit later by the companies following their agreement with Saudi Arabia yet it was late enough to be accepted. Thereafter, the Royal Assent was given on May 1, 1949, to the nationalization. 64

It is substantiated from the fact that "Mossadegh, by a stroke of pen, had proclaimed the nationalization of the Iranian assets of British Petroleum (the former Anglo-Iranian)." 65 Iran was the first of Middle Eastern oil exporting countries which nationalized its oil industry. But owing to the Majors' control over tankers and refineries all over the world, Iran had to face

problems. Despite shutdown in Iranian oil production and its supply, there was not felt shortage of oil as the British Petroleum had accelerate its production in other Middle-Eastern countries, notably Saudi Arabia, Kuwait and Iraq (where B.P. had a half share of the concession). The situation of world oil market rather than of the Majors, operating in this region, deteriorated after the Soviet entry. It had evaded the monopolistic position of the Majors in maintaining the market oil prices. It seemed difficult to control the overflow of oil in the market despite keeping the prices up in 1957. The importing countries also exerted pressure on the Companies to reduce the price. The oil Companies used to transport crude oil to their parent countries on lower prices and import the refined products from them on a higher rates which caused further losses to the producing countries. The oil Companies cut Persian Gulf oil prices in 1959 and again in 1960 to reflect the weakening market prices. The Iranian Agreement of 1957 with the foreign oil Companies provided the country with 75 per cent profit through the increased income tax. It encouraged Kuwait and Saudi Arabia (who have equal sharing over Neutral Zone) to gain their profits from 50 per cent to 57 per cent

66. Ibid., p.5.
from the Company concerned. But the Suez Canal crisis and some other reasons caused the Majors to drop in the prices which cultivated a deep concern among producing nations and ultimately they created Organization of Petroleum Exporting Countries (OPEC) in order to make their collective efforts to fight with the upsurging power of Majors.

Kuwaiti Oil Policy:

A widespread weakening of the price structure took place in 1959 and again in 1960 when the operating Companies, without consultation with the producing countries, lowered posted prices on crude oil. As the national income of the producing countries depended heavily on oil revenues, cutting the prices of this vital commodity affected their economies. Consequently these price cuts exposed them to untold dangers stemming from the fact that reducing the prices would lead to deficiencies in the revenues. Reacting to these price cuts which were not approved by the producing countries, the government of Kuwait, in participation with Iraq, Iran and Saudi Arabia, protested against this one-sided action by the Majors. These countries in participation with Venezuela, founded Organization of Petroleum Exporting Countries (OPEC) in


September 1961 to further strengthen the position of the oil exporting nations. The Organization serves as an important step towards a joint study of oil problems and the preparation of a unified oil policy. Kuwait, thus, like OPEC, adopted a policy to conserve its non-renewable source of energy by demanding a return to the prices in effect before 1959/1960 cuts. The government of Kuwait presented a memorandum to all the operating Companies within Kuwaiti territory, which clarifies the Kuwait's oil policy on certain points related with. 72

(1) Engagement of Employees
(2) Purchases by the Companies
(3) Pension for Kuwaiti labourers and working hours
(4) Arabization of the Company
(5) Payments to the country and
(6) The prices of oil

Under the first point, this policy restricted the number of foreign workers in the Company and directs the Company to increase the number of Kuwaiti workers and provide them with the facilities to encourage them to work with the Company.

If the number of Kuwaiti applicants for employment is insufficient, other Arab citizens might be employed.

(c) Foreign workers might be employed only for special required jobs.

(d) Special qualification holder foreign workers might renew their contracts.

Under the second point, this policy restricted the Company to purchase the commodities through direct imports rather than the Company was bound to purchase the commodity from within the local market. If the commodity were not available the Company could get them imported through the local registered merchants.

Company was allowed to directly import some of the heavy machinery which they needed for their drilling and exploration work and which Kuwaiti merchants could not import.

Kuwaiti government had to appoint a representative to attend the opening of all tenders made by the Company.

Contractors who worked as technical or designing consultants for an oil Company were not allowed to take any contract.

Regarding the pension for Kuwaiti labourers and their working hours, the oil policy directed the Company to have a pension scheme for their employees and the workers especially for Kuwaitis.

The policy further directed the Companies to reduce the working hours without reducing their wages and salaries.
Government evidently asked the oil Companies to train
Kuwaitis in all branches of their activities.

The government of Kuwait was concerned in having strong
and fruitful relations established between the Companies and the
local commercial circles, and to have these Companies deal with
Kuwaiti merchants to activate local trade and cut down the ratio
of Companies' purchases from abroad. The government was also
interested in having the oil Companies entrusted their construction
operations to local contractors.

The significance of the oil resources to Kuwait made the
government extremely interested in the proper reservation of this
natural wealth, and thenceforth, request the concerned oil Companies
to employ the most up-to-date scientific methods in their explora­
tions of oil.

Government through this policy, by restricting foreign
labours, encouraged Kuwaiti workers and gave a new direction towards
Arabization of the Company. The government intended to encourage
Kuwait National Petroleum Company to pioneer into the field of
exploration and production rather than confining its operations
to local marketing. It also aimed at participating in the operations
of transporting both crude and refined oil on national oil tankers.
Kuwaiti government had decided to set up a Kuwaiti share Company
for carrying-out work relating to oil drilling and exploration
within and outside the territory. To this venture, Kuwaiti government
had also invited all reputed and experienced international Companies
which were interested to go along with the Kuwait as a partner. 73

Thus, Kuwait had tightened her grip over the control of oil industry by formulating this policy and picked up the advantage of being a free state after becoming independent in 1961. But later in 1972 after reaching her oil production at its peak, had adopted a strict 'Oil Conservationist Policy' to check the decline in the oil prices due to the falling oil supply.

**Oil Conservation Policy**:

The concept of optimization of profit can be materialized only when one attains the highest possible level of its set of objectives, subject to a given set of constraints. Since the objectives of economic and political agents in oil industry differ, an optimum price policy will be interpreted differently by different economic units. Three interests are at play in the world oil arena. First are the producing exporting countries which would like to obtain the highest possible price at the lowest rate of production. Second are the foreign oil Companies whose interests are to maximize return on their investment and lastly the oil consuming countries are interested in maximum access to crude oil at the lowest possible cost to them.

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73. *ibid.*, p. 66.
FORMATION OF OPEC AND OAPEC AND THEIR IMPACT ON VARIOUS FACETS OF OIL INDUSTRY

We may now very briefly mention and the reasons for analyse the formation of Organization of Petroleum Exporting Countries (OPEC) and Organization of Arab Petroleum Exporting Countries (OAPEC) and their efforts in maintaining prices and control over the production of oil for the member states. Petroleum market was controlled by the oil companies, and the oil producing countries were confined to offering the petroleum companies 'area' for exploitation against the payment of royalties. They did not participate in any meaningful way in the determination of production or of price level.

The postwar period since 1945 onwards was very profitable to the Seven sisters. Between the years from 1913 to 1947, the total net profit to the oil companies from this region was $2.2 billion; only $425 million of this was reinvested in the area while $1.7 billion was transferred abroad as profit.  The oil industry is legendary for its high profits and allegedly high risks. In the Middle East, the profits are higher and the risks lower than any place else. The basis for the fantastic profits is the incredibly low cost of producing Middle East Oil, combined

with the artificially high price structure of the world oil industry. The average cost of maintaining and expanding production in the Middle East was 16 cents per barrel, while average Venezuelan costs per barrel were 51 cents and U.S costs were $1.73. Profits, crudely speaking, represent the difference between costs and prices. The prices of oil have been controlled by the international Companies on the basis of the prices generally in the U.S.A. Any pricing system based on actual costs would have forced prices downward. The post-war economic reconstruction of Europe and Japan required unprecedented amounts of petroleum. Transportation with the rise of automobile and the change in the rail-roads from coal to diesel fuel came to depend almost exclusively on petroleum products. In contrast, the United States of America, Japan and the Europe were almost relied upon source of oil the bulk of which was controlled by the American Companies. Thus, most of the oil produced in the Middle East by the big giants was being chunked by these industrial countries. The duration of various concessions originally awarded before the World War II were long enough say 75 years and some of them were for a century. These long durations were useful to the Companies in order to establish firmly in the field. Area covered were also vast, sometime almost the entire territory (Kuwait-Iraq and Qatar). There was no provision in concession to relinquish them; and

75. ibid., p. 58.
neither these areas were relinquished by the concessionaires nor explored or exploited. When the producing countries put pressure on Companies, there existed an ill feeling.

Despite the significance of the revenues due to oil, the producing countries felt that they were not having enough armoury to control the activities of the oil Companies. The greater importance of the oil sector for the national economy and absence of the effective control by the national authorities over the behaviour of this sector was made very clear when the oil Companies unilaterally reduced the oil prices, first in 1959 when per barrel revenue declined from 84.6 Cents in 1958 to 75.6 Cents and again in August 1960. 76 Venezuela was the main sufferer due to these price falls, because the cost of production of its oil is the highest among the oil exporting countries, about 3 to 4 times greater than the Middle East. Moreover, the Venezuelan oil reserves are far less than the Middle Eastern countries. 77 However, there were a few strong reasons which forced the Companies to reduce their prices. First, because of the enforcement of import quotas in the U.S.A. This created a significant surplus in the world oil, but the surplus made a telling effect on the price structure. Second the entrance of the Soviet in the world oil market who

77. Ibid., p. 51.
sold its crude to Italy in November 1960 at the rate equivalent of $1.00 per barrel f.o.b. Black Sea was the equivalent of 75 cent f.o.b. Persian Gulf Ports which was actually lower than the total of lifting costs plus governmental taxes and royalty charges incurred by the typical Middle East producers. Thirdly, the home countries of the oil companies brought pressure on them to reduce the prices due to the increase in foreign exchange cost of the oil imports. Meanwhile the political tensions and the aspirations of the Arabs made their impact on the oil industry. Thus Arab League first took direct interest in oil at the time of the Palestine War in 1948. The shipment of oil through pipeline from Iraq to Haifa refinery was suspended. It also put pressure on oil companies to stop their oil marketing in Israel. Arab League, in 1951, set up an 'Oil Experts’ Committee’ and subsequently a decision was taken in 1954 to make a permanent organisation to look into oil affairs. Within the Arab League most of the ideas of pan-Arab policies for oil took shape. Here if we look into the deep concern of Kuwait in regard with its growing need to intensify the movement to organise OPEC, it would be found a justifiable step of Kuwait. For instance, Royalty payments in 1950 to the neighbouring countries, i.e. Iraq, Iran and Saudi Arabia amounted to 22 cents per barrel, while Kuwait received the equivalent of 13 cents a barrel. This was a direct

78. ibid., p.51 ff.
advantage to both APOC and Gulf acting jointly rather than in competition. This, clearly shows that the financial terms obtained by Kuwait were certainly less favourable than those obtained by neighbouring countries. It was because of Kuwait being a British protectorate under the treaty of 1899 which was terminated in 1961 and Kuwait became an independent state.

Therefore, in short, growing oil needs in the industrialized world which almost entirely dependent upon Middle Eastern oil, their efforts to lowering down the crude oil prices to safeguard their own economies and substitute energy sources, restriction imposed by the United States of America on the importing of crude led to price cuts in 1959 and 1960 by 18 cents per barrel and 10 cents a barrel respectively, decreased the huge oil revenues of oil exporting countries. Iran's abortive efforts in 1951 to nationalize its oil industry and the stoppage of Iranian oil production between 1951 and 1954, closure of Suez canal in 1956 and the use of oil as a weapon by putting an embargo on export to U.S.A and Israel by some Middle Eastern oil producing countries and some other political reasons were the factors creating a unity amongst Middle Eastern oil exporting countries to establish the Organization of Petroleum Exporting Countries (OPEC). These oil exporting countries had a consciousness for oil since they found themselves to have a control over their own valuable source. They were confined to merely the recipient of royalties against their valuable source of energy. Thus, they could no longer stayed merely as watcher of the game. Ultimately they had to unite to
organise the Cartel (OPEC). Five big oil producers: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, formed the "Organisation of Petroleum Exporting Countries (OPEC) in September 1960. These five founding member countries passed a resolution in Baghdad conference, in regard with the oil policies, and functions of the organization. 31

Organization of Petroleum Exporting Countries (OPEC) was the idea of combining, within the framework of such an organisation, was not a thought which came overnight. It had occupied the minds of experts and politicians in the oil exporting countries for several years before. OPEC was founded to safeguard the interests of the petroleum exporting countries in the face of companies which controlled prices and had lowered them several times. 32 The prime objectives of OPEC were: to pursue a common policy and strategy in dealings with the oil companies; secondly, to get the posted prices restored to the level prevailing before 1959 and 1960 reductions made by the oil companies, and thirdly, to get the oil companies to notify OPEC and its members of any price change in future. 33 Further meetings of OPEC followed in quick succession. They had the effect amongst other things, of holding the still newborn organisation together against any internal and external attempts to break up the joint front.

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During the sixties, the Companies resorted to number of tactics to prevent the newly formed OPEC from realizing its aim of adjusting posted prices upward. The Companies were of the following arguments:

1. There was an increasing surplus of oil in the world.
2. Independent oil Companies were giving tough competition and forcing prices down.
3. Pressure of Soviet exports on Majors to cut down their prices.

However, to have the new capacities, the story of surplus proves odd for the Companies investing in the North Sea, Alaska and elsewhere. In any case, the Companies not only turned the taps on and off to meet exactly the quantities consumed but also developed surplus capacities to pressurise one country or the other. During sixties, they were pressurising the entire OPEC. The reality is that production capacity has always been a part of the oil industry without resulting in over-supply. Soviet oil was never thought of being a threat as it came very slowly increasing from 16 million tons of oil exported outside the socialist countries, to about 30 million tons in 1956. Independent oil Companies never made prices in the situation that existed at that time, but rather followed the Majors in pricing decisions as marginal producers normally.

85. Ibid., p. 21.
Meeting after meetings held at different places, January 1961 saw a meeting in Caracas (Venezuela) and later in October of the same year a further meeting was held in Tehran. A fourth meeting and, perhaps, more important than of 1961 meetings, was held at Geneva in June 1962. By this time, the OPEC had gained some experience of mechanics of working together and of the reactions of the oil companies to this new threat to their virtual monopoly of the international petroleum trade and industry. The Geneva meeting adopted a number of resolutions, while calling for the immediate initiatives to be taken by the OPEC, of negotiations with the companies to restore the price reductions of 1960. Two further resolutions called upon OPEC members to formulate their own long-term policy for petroleum prices, and the prices index of goods imported by the OPEC members to be made important factor in future price levels for petroleum. The export of oil was stressed because of bringing huge revenues to these countries which heavily relied on the prices of crude for their income rather than on the sales of finished products. Qatar joined OPEC in 1961, Indonesia and Libya in 1962, Abu Dhabi in 1967, Algeria in 1969, Nigeria joined in 1971, and Equador in 1973. Kuwait, being a founder member, ever played an important role in OPEC, and its membership commenced prior to the cessation of the agreement with


Britain. In fact, the first Secretary of OPEC was a Kuwaiti national and the development of OPEC with Kuwait as a member was an important aspect of Kuwait's appearance in the international politics.  

**Increase in Revenues:**

Even though, OPEC's endeavour to restore posted prices failed, but the Organization, merely by its continued existence and potential power, did succeed in preventing any further cuts in the face of continually declining oil prices on the European market. Posted crude prices remained at $1.59 a barrel in Kuwait for many years. Owing to the constant prices for some time, the crude oil production remained increasing with slow pace and so as to its revenues. Kuwait produced 619.2 million barrels at the rate of 1.69 mb/d in 1960. It increased to 861.4 million barrels at the rate of 2.3 mb/d in 1965. These figures could make Kuwait possible to earn $445.80 millions in 1960 which increased to $554.40 million in 1965 so as to its revenues. The prevention of further price cuts resulted in the earnings of 50 per cent of the total profits of the Company to the producing countries. But there was still no formal recognition of OPEC's existence on

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88. Ibid., p.
the part of the Companies, or of the principle of collective bargaining.

Relinquishment of the Area:

It is also substantiated that "one of the most notable changes was the relinquishment of over half of the original Concession area in 1962." This area, then came under the control of the Kuwait National Petroleum Company (KNPC) which was established in 1960 with the Kuwaiti government's subscription of 60 per cent of the original shares. Kuwait Oil Company (KNPC) was involved only with the local marketing of Kuwait Oil Company's (KOC) refinery products until KOC relinquished about 9262 square kilometres of its Concession area. As is evident from this "A schedule of progressive and more accelerated relinquishment of acreage of present contract areas shall be introduced. In any event, the government shall participate in choosing the acreage to be relinquished, including those cases where relinquishment is already provided for but left to the discretion of the operator." However, OPEC has been proved a cartel in real sense for some time until the control of oil was slipped off its hands. It

has really provided a lot to the oil exporting countries after 1971 when the prices jumped high. But it appears that "During 1960s, however, OPEC found it difficult to exert collective pressure directly on the oil companies. The companies refused to treat with OPEC as a legitimate spokesman for the member nations and insisted on negotiating with each nation individually". In 1962 OPEC had delegated its Secretary, the authority of negotiation with the companies regarding the matters such as royalty expanding but the oil producing nations had to deal individually with them as the companies had already refused to negotiate with OPEC collectively.

Formation of OAPEC and its Impact:

1967 Arab-Israel conflict fuelled the fire and the most of the OPEC members put an embargo on, their export to, Israel and its allies. The crisis of 1967 was more severe than of 1956 account of the following basis:

(i) Only Saudi Arabia and Kuwait had enough resources of funds to cope with the situation of shutdown for more than 60 days. But

96. *ibid.*, p. 40
97. *ibid.*, p. 43.
total shutdown of installations was quite reversed.

(ii) The United States of America and European nations had already experienced of the shortfall in oil despite increased prices owing to the high transportation cost, on account of the long sea rout was being used via Africa Coast instead of Suez Canal. Sizeable reserves were laid down by the importing nations in 1956 Suez Crisis and it was estimated that the European nations could have survived on their reserved stocks for at least 6 months.

(iii) In 1967, the U.S.A. by using its reserve stock (inventories), and increasing domestic production, not only satisfied its indigenous requirements but was also in the position to transport more than 23,5 thousand barrels per day to Europe.

(iv) In 1967, Iran and Venezuela produced an additional 8,50,000 barrels of oil per day which further deteriorated the price structure.

(v) Finally, the Russia and its allies’ production had come to its previous level which had improved the oil market situation in favour of importing nations.

**Effects of 1967 Crisis:**

(1) The oil embargo and cut-down in production seriously deteriorated the financial situation of Arab States.98

98. ibid., p.43.
The government of these nations were hit by the situation which resulted in the severe need of finance to revive its damaged condition and hoped to withhold oil from friendly nations. Its capabilities were damaged.

Having such a bitter experience of crisis of financial resources owing to the embargo and production cut, the Arab oil exporting nations, decided to recover their damages, and agreed upon to seek out a suitable solution for which there were two approaches came out in their meetings held in 1967.

**1st Approach:**

Iraq, having support of United Arab Emirates, (UAE), Syria and Algeria, proposed the following remedial measures to cope with the existing situation:

(i) Complete embargo on Arab oil export to the United States of America, Britain, Israel and its allies which aimed at stoppage of flow of oil to the Zionist and imperialists.

(ii) Complete embargo on the flow of oil flowing through pipelines across the Arabian States' territory.

(iii) Complete closure of Suez Canal.

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Thus, the following results could possibly have been achieved by adopting such hard-core policy or approach:

(i) Arab reliance on W. t could have been alleviated or minimised.

(ii) There could have been a short-fall in the foreign exchange.

In this way, the results seemed much bleak.

Second approach:

This approach, rather moderate and lenient, was proposed by Kuwait, Saudi Arabia and Libya which was observed to be more favourable.

These countries proposed as:

(i) Oil shipment should be resumed.

(ii) Participation of Arab nations in the oil industry should be on larger scale.

(iii) Higher oil prices should be demanded.

(iv) Funds in the forms of oil profits and increased tax should be spent by the prosperous nations on reconstruction of war-hit Arab states.

(v) It was proposed that the moderate step should be taken through negotiations.
The establishment of Organization of Arab Petroleum Exporting Countries (OAPEC) was proposed with the restricted entry of Arab states whose main source of revenue was petroleum exports.\(^{100}\)

There had been some other factors also which led Arab-oil producing nations to establish OAPEC such as it is evident from that "In the past and during the 1967 crisis the non-oil producers were usually the most vociferous in regard to calling for the use of the oil weapons. The 1967 embargo had seriously crippled the economies of the large producers."\(^{101}\)

Thus, the moderates who proposed the second approach, won ultimately. The partial embargo was lifted in September 1967 and Middle East Oil pattern came back to normal but the transportation was still unusual due to the continued closure of Suez Canal.

It is substantiated from the fact that Libya, Saudi Arabia, and Kuwait participated in the signing of the Organization of Arab Petroleum Exporting Countries (OAPEC) Agreement on January 9, 1968, but without any representative from Iraq.\(^{102}\) There were three reasons of Iraqi absence and its split with others. First, Iraqis

100. ibid., P.44
101. ibid., P.44.
102. ibid., P.46.
were of the view that the OAPEC's exclusiveness might occur intra-Arab division. They were opposed of not allowing all the Arab nations, but others were in favour of allowing only those Arab countries whose main source of revenue was oil. Second, Iraq was at odds with OAPEC, because of the level of independence OAPEC enjoyed from its members states, particularly as reflected in the provision for an OAPEC court to arbitrate disputes among the members. Third and final reason of Iraq's opposition, was of the location of OAPEC headquarters in Kuwait rather than in Baghdad. 103

Kuwait, was the venue of its first conference, which held on September 9-11, 1968. The admissions of the members were approved but Iraq and Algeria did not join because of their political differences with the founding members. After 1967, a short lived, ill concieved - it was opposed by Saudi Arabia - embargo on petroleum going to the U.S.A., West Germany and the U.K. had failed to have any impact (because the U.S.A. Oil import was only 3,00,000 barrels per day and because the oil Companies increased their rate of output in Venezuela and Iran), the oil producing countries decided that the best way to use oil as a "weapon" was to transfer some of the oil revenues to the so-called 'confrontation states' of Egypt, Jordan, and Syria. 104. As a matter of fact, OAPEC had very little impact on the world petroleum marker prior to October 1973. Though, OAPEC had certainly strengthened the position of Arab Oil Countries and their products.

103. Ibid, p.47.
104. Ibid., p.47.
CHAPTER IV

OIL INDUSTRY DURING 1969-1985
OIL INDUSTRY DURING - 1969-85

In the preceding chapter, the level of development since the inception of oil industry was assessed. The economy transformed only after the first exploration and upstream of oil. Export of oil has improved the capacity to absorb the imported goods to a larger extent through its abundant inflow of revenues. Expansion of oil industry, the development of its infrastructural setup, improvements in production of oil and increase in oil revenues through changing financing structures and policies have already been reflected in the preceding chapter.

Here, in this chapter, an analysis is made to know the further developments of oil industry. An attempt has been made to analyse the world oil situation, trend in oil prices, revenues and production. Changing OPEC's, OAPEC's and others' policies in regard with the oil supply, demand and prices have also been included in the study. An assessment of downstream operations in Kuwait and its oil prospects has been made.

(1) World Demand For and Supply of Oil:

With the emergence of oil in the world energy market, it has become the focus of world attention within a span of time, the need for oil has been considerably ascending because of its utmost
usefulness. This non-renewable source of energy has proved to be the 'engine of growth'. It has been severely needed in the time of war and peace both. The experience of two world wars clearly demonstrated the significance of oil. Sometimes it became the bone of contention between the two rivals, sometimes it became the source of friendship among the rivals. Since its emergence, oil has replaced the most important source of energy i.e., coal. The consumption of oil had continuously increased, from 5.3 per cent in 1925-50 to 7.6 per cent in 1950-65 and 8.5 per cent in 1965-70, with an average of 6.5 per cent. Oil consumption rose sharply uninterrupted in USSR in 1965 onwards. It was the result of the increasing rate of production. World oil supply and demand can be categorized in following three stages as suggested by the Central Bank of Kuwait.

1. First Stage -- 1945 -- 1960
2. Second Stage -- 1960's
3. Third Stage -- 1970's

In the first stage, supply of oil remained substantially and constantly increasing. The supply side was strong enough and surpassed the demand. It was the period when the new oil fields were being discovered, and due to the explorations, oil overflowed in abundance to meet the growing world demand in order to

recover the damages and blows of the World War II. During the period 1945 and 1959, the prices of oil in the world market remained increasing. However, the two price cuts in 1959 and 1960 deteriorated the producing countries but encouraged the importing countries. Even after the establishment of OPEC, the prices of oil remained unchanged and this situation did not affect the consumption.

In 1950, the world oil production was estimated at 3791.1 million barrels at the rate of 10.38 million barrels per day, it rose to 7674.4 million barrels in 1960 at the rate of 21.02 million barrels per day by an increase of 102.4 per cent over a decade's period. During the same two decades, the demand for oil in the world (excluding socialist countries) increased by an annual average rate of 7.5 per cent. This is substantiated by the fact that "The highest rates of growth in oil consumption were recorded in Japan and Western Europe, 20 per cent and 11 per cent per annum respectively". The rate of consumption of oil in the world increased during 1950s and 1960s on account of the fast development and industrialization all round. The production of oil rose sharply owing to the increase in the rate of explorations and new discoveries.

3. Ibid., p. 23.
In the third stage starting from 1970 onwards, the production of oil rose steadily from 47.14 million barrels per day in 1970 to 63.2 million barrels per day in 1979, barring in 1974 and 1975, in which the drop of about 50 per cent over the year 1973 was recorded. The overall production from 1970 to 1979 increased by 34 per cent. The year 1979 was observed as the peak year by the world oil production point of view. In this way, the world oil market situation remained balanced during this span of time. But the price war favoured the producing countries and they earned a lot even by cutting their productions. The overall situation of the supply side in the world, showed a negative growth from 1979 onwards. It dropped by (-1.8 per cent) to 62.04 million barrels per day in 1980, and further decreased by 6.5 per cent to 58 million barrels per day in 1981. Decrease in the rate of production of oil was an outcome of the decline in rate of annual oil discoveries. The drop in the rate of consumption of oil in the world was mainly due to the all around economic stagnation in industrialized countries, the applicability of oil conservation policy in the industrialized world owing to the shortage of oil supply and inadequacy in future oil supplies.

If we look into the situation beginning from 1979 onwards, we find that the sluggishness in economic activities in

5. ibid., p.25.
6. ibid., p.25.
industrialized nations and rationalized utilization of energy particularly of oil, led to a drop in the consumption.\textsuperscript{7}

(ii) Trends in Prices, Revenues and Production:

Price of Oil:

The most significant development of the period between 1969 and 1985 was in regard with the price of oil on account of which the oil-producing/exporting countries of the Middle-East could have controlled their economies. The development in crude oil prices enabled the exporting nations to have control over their indigenous non-renewable mineral resource. The prices of oil remained almost unchanged or stagnant at $1.59 per barrel since the establishment of Organization of Petroleum Exporting Countries (OPEC) in 1960 up to the first half of the year 1970. But the Arab-Israel war in 1967 caused severe below to the position of the Majors, operating in the Middle East. However, the Suez Canal crisis did not directly affect the western European nations, even in the situation of short of oil supply to them because of the imposition of embargo by the Middle Eastern oil exporting nations. But it rather caused a shortage of vessels which ultimately turned the tide in favour of oil exporting nations as the high cost of transport resulted in the increase of oil prices.

\textsuperscript{7} ibid., p.25.
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<td>1985</td>
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Sources: Computed on the basis of:

(i) El-Mallakh, Ragaei, Economic Development Cooperation: Kuwait Chicago, USA, 1988, p. 54


The price of Kuwaiti crude of 31° API went on in an upward trend since 1970. Price of oil which had been stagnant at $1.59 per barrel since the establishment of Organization of Petroleum Exporting Countries (OPEC) in 1960 increased to $1.68 per barrel on 14 November, 1970. The position of the economy further strengthened when price rose to $2.085 per barrel on 15 February 1971, $2.188 per barrel on 1 June, 1971 and $2.48 per barrel on 1 January, 1973. It is substantiated from the fact that "Three sets of causes, connected with the slump in supply, the increase in demand and costs and the unbalanced energy situation in America, help to explain what triggered off the 1970-73 crisis and what sustained it". Apart from these facts, there were some efforts too, made by OPEC in regard with the adjustment of the prices of oil for its members during seventies. With the increase in its oil prices, Kuwait accelerated the production which reached its peak at 1201.6 million barrels at the rate of 3.28 million barrels per day in 1972. These increases were reflected by the change in the OPEC policy which occurred in its agreement signed on 14 February 1971, in Tehran. Under this agreement,


the minimum rate of taxation was increased from 50 per cent to 55 per cent. Uniformity of Posted Prices and an increase of 33 Cents per barrel from all Gulf countries were agreed upon.\(^\text{12}\) Quality differential was set up according to which oil of above 40° API was to be sold with 2 Cents per barrel per degree in addition to the price of oil of less than 40° API with the decrease of 1.5 Cent per barrel in its price. All the discounts were eliminated. Other things which included in the 'Tehran Agreement' were: an annual increase of 2.5 Cents per barrel in Posted Prices to cover inflation on imported goods, an additional increase of 5 Cents per barrel of oil because of the increase in the prices of oil products, and in order to remove the differential of transport costs there was an increase of 2 Cents per barrel. And, lastly, a period of five years, was taken into account to stabilize the taxes and basic Posted Prices.\(^\text{12}\) Two agreements at Geneva in January, 1972, and June, 1973 gave boosts to the Posted Prices by 8.49 per cent and 11.9 per cent respectively, followed by the devaluation of American dollar.\(^\text{13}\) Owing to these to pushes, the OPEC prices of oil reached $4.82 per barrel in October 1973.\(^\text{14}\)

\begin{flushend}
12. ibid., p. 52.
13. ibid., p. 53.
The prices of oil increased substantially as is evident from the fact that "the more important development in the seventies was OPEC's decision on 16 October 1973 to assume the responsibility for fixing the Posted Prices for crude oil, and to tripple these prices between October 1973 and January 1974. This adjustment came as a radical modification in the oil markets' price structure. The inflationary trend was the contributory factor to the increase of Posted Prices by 70 per cent in October, 1973 and again by 10 per cent in October 1975. Thus, the official sales prices of Kuwaiti oil of 31° API reached $11.54 per barrel on 1 January, 1974, $11.30 per barrel on 1 October, 1975 and $11.23 per barrel on 1 June 1976. Above all, increase in the prices of exports of developed countries by 12 per cent in 1978, stressed OPEC to set a gradual increase of oil prices averaging 10 per cent with effect from 1979. In accordance with this increase, the OPEC prices of oil jumped up from $15.80 per barrel in April 1979 to $19.49 per barrel in July 1979 and further increased to $25.50 per barrel in November 1979.

16. ibid.; P.27.
17. Pal: A. & Arab World File; No,1591, May 21, 1980, III-K7
Even though, the Posted Prices were increasing continuously, yet the official sales prices of Kuwaiti crude of 31° API were fluctuating during the years preceding 1978. As it is evident from this "After the 1976 price-freeze, Kuwait and ten other OPEC members raised their oil prices by 10 per cent effective 1 January 1977, and maintained this arrangement up to the end of the first half of that year when it was agreed to align all OPEC prices on the basis of 10 per cent increase".  

It is further substantiated by the fact that "In 1978, no price increases were effected by OPEC, but Kuwait reduced the price of its crude 31° API by around 15 cents/barrel. Considering the oversupplies in World oil markets in 1978, and acting on an advance approval from OPEC, Kuwait and some other members decided to give the purchasers two incentives: one in the form of a 5 cent discount per barrel and the other in the form of an additional 30-day credit period (over and above the traditional one), which equals a discount of around 7-8 cents per barrel".  

According to OPEC resolutions of its Abu Dhabi Conference, held in December 1978, calling for a quarterly increase averaging 10 per cent annually over the 1978 prices, Kuwait Oil prices were brought up to $ 12.8 per barrel. Under this new pricing system, the gravity based differential

21. ibid., p.38.
between the Kuwaiti crude of 31° API and the Arabian Light was raised to 5 cents per barrel. At that time, while the 'Spot-Market' prices were at a substantially high level of $ 17.00/barrel, the official sales-price of Kuwaiti crude were at $ 12.83 per barrel. This substantial rise in the 'Spot-Market' prices encouraged the Kuwaiti government to decide its 'Official Prices' to take high at $ 14.03 per barrel with an increase of 9.35 per cent (in the form of $ 1.20 per barrel surcharge) against $ 19.20 per barrel at 'Spot-Market'. The OPEC decision of July, 1979 bound the members not to exceed the price ceiling. Owing to the lack of unanimity in agreement in a unified price increase in Caracas in December 1979, OPEC liberalized its members to fix up their prices reflected by the conditions of the world market. In accordance with this arrangement, three levels were set i.e. (i) high level, covering prices of $ 28.00 and above, included the countries - Iran, Libya, Nigeria and Algeria, (ii) low level, covering the prices of $ 24 and (iii) intermediate level, with the prices ranging between $ 24.90 to $ 27.56 per barrel, which included the countries - Iraq, UAE, Qatar, Venezuela and Indonesia. Kuwait joined the third level by increasing its oil prices by 19 per cent reached $ 25.50 per barrel (including a gravity differential cut of 50 cents per barrel out of $ 26.00). Thus, the Kuwaiti Official Sales Prices rose by 108.7 per cent

22. ibid., p.38
in late 1979 over the price in late 1978. The year 1979 was much favourable to the Kuwaiti economy that the Kuwaiti oil prices jumped from $12.83 per barrel to $25.50 per barrel within a year. The prices of the Kuwaiti crude kept accelerating until they reached up to $35.50 per barrel on 1 January 1981. Prices increased from $25.50 per barrel in November 1979 to $27.50 per barrel in January 1980, $29.50 per barrel in May 1980, and $31.50 in July 1980. Price fluctuations remained continued even in 1980s. After having reached their peak at $35.50 per barrel, the prices of Kuwaiti oil began to decline. They fell to $33.50 per barrel in November 1981 and further shrunk to $32.30 per barrel in January 1982, and $28.30 per barrel in February 1983. Shrinking of prices continued until they fell to $27.10 per barrel in July 1984. These prices with marginal fluctuations, remained unchanged at $27.10 per barrel July 1986. However, the OPEC crude oil prices had started declining afterward which caused a severe below to the revenue side of the member countries.

There were the reasons of variations in crude oil prices which were reflected by the Arab-Israeli conflict in 1971, and then in 1973, increasing demand for oil in European countries and Japan, increasing cost of production, production cut which further

24. Ibid., p.28.
PRICES OF KUWAITI CRUDE OIL OF 31° API: 1955-1985
(U.S. Dollar Per Barrel)
increased the demand for oil, increase in the 'Spot-Market' prices which had risen tangibly in 1974 and 1979 fell in 1983 by 14 per cent as OPEC cut down these prices in March 1983 by $5.00 per barrel. These prices, however, increased in the first half of 1983 because of the increase in the world demand for oil and its products.

**Oil Revenues:**

Since the establishment of Organization of Arab Petroleum Exporting Countries (OAPEC) and afterward the two Geneva Agreements in 1972 and 1973 respectively, in which Organization of Petroleum Exporting Countries (OPEC) could establish its position, gave a boost to the oil prices, which resultantly, increased the revenues of the member countries. During seventies, the oil sector of the Kuwaiti economy witnessed the significant development under such agreements and arrangements of OPEC, on the levels of oil prices, production and the relations between OPEC members and oil companies. Revenues from the sales of oil and its products during sixties did not increase substantially due to the stagnation of oil prices at $1.59 per barrel until November 1970.²⁵ Thenceforth, owing to the increase in oil prices from $1.59 per barrel to $1.68 per barrel, revenues from oil sector began to increase.

tremendously and strengthened the economy. In 1969, the oil revenues were estimated at KD 527.0 million which increased by 9.11 per cent to KD 564.5 million in 1970. But the revenues increased tremendously by 52.2 per cent in 1971 when they reached to KD 859.4 million. This was due to the increase in the prices of oil from $1.59 per barrel to $1.68 per barrel. This indicates that mere 5.6 per cent increase in the prices of oil per barrel could be of immense help to the Kuwaiti economy as it pushed up the revenues by more than 52 per cent in a year. However, the prices of oil increased by 29.7 per cent in June 1971 when they reached to $2.18 per barrel but the revenues increased at proportionately low rate due to the devaluation of U.S dollar in December 1971. Again in February 1973, the devaluation of U.S. dollar had a blow on the revenue side of the economy while they increased by merely 6.7 per cent over the previous year. In 1972, revenues increased from KD 931.7 million to KD 994.13 million in 1973. This minor increase was due to the sluggishness in the rate of production of oil as it is quoted that “During 1973 some western and industrialized countries fell under total embargo; Kuwait, along with other Arab producers, reduced output during the embargo period following Middle East War in October of that year, and this accounts for sudden drop in 1973 exports and brisk

27. Ibid., p.15
TABLE - 4.2

KUWAIT OIL REVENUES : 1969-1985
(Million Kuwaiti Dinars)

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<td>1985</td>
<td>2983.16</td>
<td>-12.9</td>
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revival in 1974 after oil trade resumed normal patterns.\textsuperscript{28} Therefore, the revenues increased by a bumper figure of 203.7 per cent reaching KD 3020.05 million in 1974. But the deceleration in crude oil production in Kuwait again in 1975, 1977 and early 1978 caused negative growth in oil revenues.\textsuperscript{29} Revenues shrunk to KD 2456.56 million by 18.7 per cent in 1975. However, the figure of revenues increased from KD 2519.67 million in 1976, an increase of mere 2.5 per cent over the previous year, again hoped by 1.6 per cent to KD 2477.32 million in 1977. But again with the recovery of the rate of oil production in the later part of 1978, there was an increase in revenues of 2 per cent by which the figure again went up to KD 2527.31 million. The revenues increased tremendously during 1974/75 due to the quadrupling of prices which increased to $10.85 per barrel on 1 January 1974 and $11.30 per barrel on 1 October 1975.\textsuperscript{30} But again, the increase by 10 per cent in prices during 1979 varying between $14 per barrel and $24 per barrel pushed the economy for ahead. The revenues again jumped high, reaching to KD 4417.91 million by a high increase of 74 per cent over the previous year. It further increased by 14.5 per cent.


\textsuperscript{29} Central Bank of Kuwait : Economic Report, 1969-79, p.34.

KUWAIT OIL REVENUES: 1969-1985
(Million Kuwaiti Dinar)
reaching to KD 5059.23 million in 1980. The revenues kept accelerating during seventies but with minor fluctuations meanwhile. These fluctuations never wiped away as the revenues dropped again in 1981 by 18.6 per cent when they shranked to KD 4117.76 million and further by 31.6 per cent in the next year, while the revenues dropped again to KD 2805.56 million. This situation was experienced by the Kuwait economy on account of the production ceiling imposed by OPEC under which the total production had to be kept less than 18 million barrels per day and Kuwait was allotted the quota of 0.65 million barrels per day.\(^{31}\) The position improved again slightly while the revenues increased by about 10.1 per cent in 1983 reaching KD 3089.28 millions and further increased by 10.8 per cent in 1984 while the figures increased to KD 3425.66 millions. However, there was a marginal increase over the previous years during early 1980s but it was a tangible decline of about 32 per cent in 1984 over the year 1980, mainly due to the drop in world demand for oil and the resultant marketing difficulties.\(^{32}\)

Despite an increase in oil prices which reached their peak in 1980/81 at $35.50 per barrel there remained fluctuations in the revenues. Prices dropped even in 1985 by 12.9 per cent when the revenues were estimated at KD 2983.16 million.

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\(^{31}\) Asopa, Sheel K., Printwell, Jaipur (India), 1986, p.38.

Production Trends:

The production of oil in Kuwait remained accelerating continuously during the 1960s and in 1972, it rose to its peak at 1201.6 million barrels, at the rate of 3.28 million barrel per day. OPEC's production increased to its highest level of 30.98 million barrel in 1973 of which Kuwait held a share of 9.7 per cent. In the same year, total world oil production was estimated at 56.97 million barrel in which Kuwait shared 5.3 per cent. The table reveals that the oil production continued to increase on account of rising world oil demand. It also appears that, in case of Kuwait, total oil production continuously declined from 1972 to 1984 barring the years 1978 and 1979, in which total production improved slightly. It began to decline from 3.28 million barrel per day in 1972 to 3.02 million barrel per day in 1973 and further from 2.54 million barrel per day in 1974 to 2.08 million barrel per day in 1975. This was a drastic decrease in oil production that in a short span of three years from 1972 to 1975, the production declined by 36.6 per cent. Decleration during these years can be attributed to the strict conservationist policies adopted by Kuwait since its oil production reached an all-time high in March 1972. It was for the first time that production limit of 3 million barrel per day was imposed in 1972 and further it was reduced to 2 million barrel per day in 1975.33 This

<table>
<thead>
<tr>
<th>Year</th>
<th>Kuwait's Daily Prod.</th>
<th>Change</th>
<th>OPEC's Daily Prod.</th>
<th>% Change</th>
<th>World's Daily Prod.</th>
<th>% Change</th>
<th>Kuwait's % Share in OPEC</th>
<th>Kuwait's % Share in World</th>
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<td>1983</td>
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<td>15.60</td>
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<td>14.00</td>
<td>-20.1</td>
<td>36.12</td>
<td>0.7</td>
<td>5.6</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source:
(3) Arab Oil and Gas Directory, 1972
(4) Central Bank of Kuwait: 1975
policy was adopted keeping in mind several implications as is evident from this "First, the timing of the production restriction in 1972 might have contributed significantly to the increased bargaining position of OPEC since at that time Kuwait shared with Saudi Arabia the responsibility of making up the difference between world demand and supply of crude. Second, given estimated reserves of 67 billion barrels in 1977, the country's oil resources can last about ninety years, the longest life span of any producing country's crude oil reserves". The conservationist policy, further helped in creating demand for higher prices in normal circumstances. Thus, Kuwait played an important role in the determination of OPEC oil prices. If we take the figures of production from the year 1975 onward, it slightly improved in 1976 when the production rose to 785 million barrel at the rate of 2.14 million barrel per day by an increase of mere 2.8 per cent over the previous year. But again it fell by 8.4 per cent reducing the figures to 718 million barrel in 1977 when the production of oil was at the rate of 1.96 million barrel per day. However, the world oil annual average production showed generally an upward trend with 248 million barrel during 1971-80, owing to the 64 per cent increase in socialist countries and 27 per cent increase in other parts of the world.

34. ibid., p.19.
CRUDE OIL PRODUCTION IN KUWAIT
(Million Barrels Per Day)
At the end of 1979, world oil production increased by 33 per cent over its level in the beginning of the year. Production of oil in Kuwait marginally improved by 3.5 per cent and 4 per cent in 1978 and 1979, when it reached 776.9 million barrel and 911 million barrel respectively. Increase in the production of oil during seventies was the result of the recovery in the industrialized nations and discontinued growth of oil in United States and Japan in 1978. During the period beginning from 1980 onwards, production figures in Kuwait showed a downward trend. The rate of production fell by 34 per cent in a year from 2.50 million barrel per day in 1979 to 1.65 million per day in 1980. It further decreased by 32 per cent in 1981 and 26.7 per cent in 1982 when the production fell to only 0.82 million barrel per day. The year 1979, can be observed as the peak year in which the world oil production was ever highest at 63.2 million barrels of which Kuwait held a share of 3.9 per cent. There has been an overall decline in world oil production since 1979 and thus, Kuwait followed suit. This deceleration in production was mainly due to the over supply in the world oil market.

36. ibid., p. 34.
(iii) Kuwait and World Oil Development:

By having a cursory look of the table, it can easily be understood that the developments in the oil industry in Kuwait took place simultaneously with the development in the world oil market. The demand for oil in the world remained continued in an upward trend from 22.64 million barrels per day in 1969 to 34.13 million barrel per day in 1973 with an average of 12.2 per cent in 1970, 7.3 per cent in 1971, 10.3 per cent in 1972 and 13.4 per cent in 1973. Same was the trend of oil export of the world. It improved from 20.78 million barrel per day in 1969 to 23.43 million barrel per day in 1970 with an average improvement of 12.7 per cent to 25.54 million barrel per day, an increase of 9 per cent in 1971 to 27.95 million barrel per day by an increase of 9.4 per cent in 1972, and 27.95 million barrel per day by an increase of 12.9 per cent in 1973. More or less, same was the case of Kuwait. Export of Kuwait oil improved from 2.44 million barrel per day in 1969 to 2.92 million barrel per day in 1972. Kuwait held a share of 13.4 per cent of the total export of OPEC of 18.08 million barrel per day in 1969. The total production of the world remained accelerating until 1979 reaching from 43.7 million barrel per day in 1969 to 63.2 million barrel per day with an overall increase of 44.62 per cent over a period of 10 years. OPEC's share in the production also improved with the same pace but minor fluctuations occurred meanwhile. It increased from 20.90 million barrel per day in 1949 to its peak 30.98 million barrel per day in 1973. Thenceforth, it began to decline.
### TABLE 4.4

**EXPORT OF CRUDE OIL; 1970-1985**  
(Million Barrels)

<table>
<thead>
<tr>
<th>Year</th>
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<th>% Change</th>
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<tbody>
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<td>1013.0</td>
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</tr>
<tr>
<td>1985</td>
<td>173.7</td>
<td>-27.86</td>
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</table>

**Source:**  
marginally. It dropped to 15.93 million barrel per day in 1985. Kuwait's share in world production reached its highest level at 6.4 per cent in 1971, and in OPEC's production it was estimated at its peak 13.2 per cent in 1969. However, Kuwait's production was at its top in 1972 at 3.28 million barrel per day. Though, the figures of export of oil were estimated at their highest levels of 33.83 million barrel per day of the world in 1979, 27.64 million barrel per day of OPEC in 1977 and 2.92 million barrel per day of Kuwait in 1972. But the years 1977, 1973 and 1971 are remarkable for the world, OPEC and Kuwait respectively.

Kuwait has been able to improve its revenues from KD 527 million in 1969 to KD 5059.23 million in 1980, a net increase of 860 per cent over a period of 16 years while the quantity of its export declined from 2.44 million barrel per day in 1969 to 1.63 million barrel per day in 1980. It really indicates a tremendous improvement in oil industry. The free world demand for oil increased by 50.7 per cent between 1969 and 1973 but it declined by 2.3 per cent in 1974 and 9 per cent in 1975. It again improved by 46.3 per cent and 8.1 per cent in 1976 and 1977 respectively. It remained escalating onwards barring the years 1978 and from 1980 to 1982. The total free world demand for oil reached 58.46 million barrel per day in 1985. The requirements for oil in the free world declined during 1979 to 1982 due to the fall of consumption in the industrialised countries such as western Europe, U.S.A, and Japan.

KUWAITI EXPORT OF CRUDE AND REFINED OIL

(Million Barrels)

Crude Oil
Refine Oil

Exports (m.b.)

1970 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85

(Year)
But the case was reverse in the developing states where the consumption of oil improved marginally. The demand for the oil products fell as a result of the decline in consumption. The fall in the prices was mainly due to the depressing demands for oil. It further put the consuming countries in a stage of conserving their oil for future purposes and taking a shift from the use of oil to the other sort of energy. Owing to the continuous pressure on oil prices in the early 1983, United Kingdom and Norway had to reduce their Official Prices by $3.50 to 4.00 per barrel. OPEC also did the same by curtailing its official prices for Arabian light by $5.00 per barrel to $29.00 per barrel and fixed a production ceiling at 17.5 million barrel per day. The year 1985, observed a decline in the world demand for oil due to the decline in economic growth rates in the advanced countries and their adoption of policies aiming at the conservation of energy. It resulted in a shift from oil to the other energy sources such as atomic and solar etc. In the same year, world market also

38. ibid., p.17
39. ibid., p.17
41. ibid., p.
### Table 4

**Value of Exports and Imports, 1969-79**

<table>
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<tr>
<th>Year</th>
<th>All Exports</th>
<th>Current Year in Total Export</th>
<th>Non-All Exports</th>
<th>Current Year in Total Export</th>
<th>Total Exports</th>
<th>Total Amount</th>
<th>Trade Balance</th>
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<td>516,1</td>
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</table>

*Figures Estimate*

**Source:**
witnessed the widespread reduction in the transactions of oil for goods and the increasing importance of Spot Oil Market from where a long term supply can be had. The Oil sector shows a tremendous growth rate in the Gross Domestic Product upto 1973, but its share declined to 52.1 per cent in the GDP in 1985.43 It was the result of the diversion of emphasis from oil to non oil sector. However, the credit of the development of non-oil sector goes to the oil sector because the revenues earned from the sales of oil and its products are being used in the development of non-oil sector.

In this way, the oil sector is entirely responsible for the overall development of the economy. This has been the result of the development of oil industry. It has expanded not only within the country but it holds shares in foreign projects also.

(iv) Impact of OPEC and OAPEC:

Until the formation of Organization of Petroleum Exporting Countries (OPEC), the Kuwaiti oil industry could not achieve that place of its development which it presently has. Prior to the advent of OPEC, different pricing techniques were adopted for crude oil but they were all adopted the oil companies without any consultation with the oil producing countries' government. Through this

way of fixing up the prices, the oil producing countries had to lose a lot in terms of oil revenues. They were paid merely royalties for their oil. Price cuts in 1959 and 1960, which totalled an average of 27 Cents per barrel, heavily reduced the revenues of the oil producing countries. Such steps taken by the oil companies antagonised the producing countries which established OPEC in September 1960.

Though, the OPEC could not be of immense help to the producing countries, but put a check on further price cuts. Raising the revenues of oil producing countries being OPEC's primary objective, it made all of its efforts in this direction. As revenues are determined by prices and production, the Organization of Petroleum Exporting Countries expanded its efforts to control these two elements of oil market. Inspite of making every thing in favour of oil producing countries, the Organisation could be of lesser help in 1960s. But in 1970s, it has brought about a tremendous change in the oil market with the help of its unanimous decision of using oil as a 'weapon' during 1973 Arab-Israel conflict and the producing countries earned a lot of revenues by keeping the price high. The quadrupling of prices was the result of OPEC's decision of determining the prices by itself. It is also substantiated by the fact that "On the price front, as a result of the October 1973 Arab-Israeli war, OPEC decreed that from then on its member countries world no longer negotiate over prices with the oil Companies but would fix the prices themselves". 44

44. F.M.A. & Arab World File; No.1508, 13 February 1980, General 1820/1.
In connection with the production of oil, OPEC adopted a policy of government participation in oil companies' activities.\textsuperscript{45} This led to the 100 per cent participation or the takeover of the oil companies in most of the countries. Thus, the OPEC could be proved of greater help during 1970s since the control over production and prices of oil went into the hands of producing states.

On the same line, the Organisation of Arab Petroleum Exporting Countries (OAPEC) was formed on 9 January, 1968. But the difference is of membership which confined to the Arab States producing oil on commercial scale as being it their main source of revenues. The main objectives of OAPEC were as follows.\textsuperscript{46}

\begin{enumerate}
\item to establish cooperation among its members in all aspects of economic activities in oil industry.
\item to take steps for reconciling the legal systems applied within the member countries.
\item to make efforts in exchanging informations and expertise among members and create training and employment opportunities
\item promote cooperation among members to overcome any problem created in oil industry
\end{enumerate}

\textsuperscript{45} ibid., p.1820/1.
\textsuperscript{46} ibid., p.1820/1.
v. founding joint projects in member countries by
benefitting from their resources and capabilities.

Under the shadow of OPEC and OAPEC, Kuwaiti oil industry
since 1970 made the following developments. The price of oil of
31\degree API were raised to $ 1.68 per barrel on 14th November 1970.\footnote{47}
These prices improved at a greater scale reaching their peak
at $ 35.50 per barrel in January 1981.\footnote{48} Owing to such tremendous
increase in oil prices, oil revenues jumped from KD 527 million
in 1969 to KD 2983.16 million in 1985, meanwhile reaching their
peak at KD 5059.23 million in 1980.\footnote{49} Production also went under
the control of the producing country, Kuwait, through its conserva-
tionist policy, which adopted after reaching its production to
1201.6 million barrel in 1972, controlled over the outflow of oil.
Production was kept on reducing scale baring few years. It
dropped to 718.1 million barrel in 1977 and further reduced to
299.3 million barrel in 1982. Kuwait produced oil at the rate
of 0.90 million barrel per day in 1984 and 1.01 million barrel per
day in 1985.

In this way, the main objectives of OPEC fulfilled by
improving the revenues through the control over production and

\begin{footnotes}
\footnote{48} Central Bank of Kuwait: \textit{Quarterly Statistical Bulletin}, 1986
\textit{Vol. 13, No. 2, p. 28.}
\end{footnotes}
prices. In order to put a step ahead towards the development of its oil industry, Kuwait signed an agreement with the Company for its 60 per cent participation in the Kuwait Oil Company's on January 29, 1974. Kuwait concluded a similar agreement with Arabian Oil Company (AOC), operating in the Neutral Zone area and it also acquired 85 per cent participation in American Independent Oil Company (Aminoil), in the same year. Through its participation, Kuwait achieved 10 per cent takeover of Kuwait Oil Company in March 1975 and of Aminoil in September 1977.

Thus, Kuwaiti oil industry could achieve all that which might not be had in the absence of these two Organisations; OPEC and OAPEC. Through the policies of these Organisations, Kuwait made appreciable efforts in the line of making cordial relations with other members of these two. It has developed a better industrial atmosphere by establishing non-oil industries also. Downstream activities have also improved a lot. Kuwait has been investing much of its capital in foreign projects. Through the OAPEC policy of providing skill and expertise to the oil industry of other members, Kuwait has been successfully absorbing the foreign labourers particularly Arabs. Exchange of information related with oil matters is frequent with other Arab Oil states and the members of OPEC and OAPEC.

52. Ibid., p. 1841/1
53. Ibid., p. 1841/1
Kuwait has been proved successful in achieving the stage of present development through adoption of the policies of OPEC and OAPEC. Beneath the umbrella of OPEC and OAPEC, Kuwaiti Oil Industry is running fruitfully. These two organisations have provided a line of progress to the Kuwaiti Oil Industry which has a fantastic impact of OPEC and OAPEC.

(v) **Downstream Oil Operations**

All those activities which are undertaken after the exploration and exploitation of oil, are called downstream operations. It may also be substantiated by this fact that "The utilization of these raw materials in the production of final products and/or inputs is what has been described in the literature as downstream operations". The rationale behind it, is to utilize indigenous raw material such as oil, to the optimum capacity of the industry in order to divert entire reliance on crude oil exports to industrialization and export of refined oil, liquified gas, petrochemicals and fertilizers etcetera by making use of indigenous sources of transportation such as pipelines and tanker fleets.

The Kuwaiti oil Policy also provides for extending into services concerned with such activities. Kuwait has been making efforts to expand downstream operations through the following

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activities:

i. Oil Refinery

ii. Petrochemical industry, essentially Fertilizers

iii. Oil and Gas Transportations through pipelines and tanker fleets.

Oil Refinery:

With the rapid strides of the economy, indigenous oil consumption tremendously increased. The planners, therefore, paid much attention towards refining aspect of the oil industry. It enabled the country to utilize the oil resources at home and to export the surplus of crude along with refined products, liquified petroleum gas, petrochemicals and fertilizers etcetera. Kuwait has been more successful in processing raw materials for export. Therefore, on these lines, there have been established three oil-refineries in Kuwait; Mina al-Ahmadi, near northeast of Burgan, was established in 1949, with a capacity of 25000 barrels per day and was operated by Kuwait Oil Company (KOC), second refinery was installed and operated by American Independent Oil Company (Aminoil) in 1958, near Wafra, with a capacity of 30,000 barrels per day, and the third refinery was installed at Shuaiba, near the city of Kuwait, in 1968, with a capacity of 200,000 barrels per day. Kuwait National Petroleum Company (KNPC) was set up in 1960.\(^{55}\) Since its

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establishment, KNPC is engaged in oil refining and its distribution in domestic and world markets. These refineries produce kerosene, gasoline, gas oil, aviation fuel, diesel, naphtha and distillates etcetera. Kuwait has been more successful in these lines. By having a cursory look of the table, it is clear that the production of refined oil has tremendously increased from 147.5 million barrels in 1970 to 206.7 million barrels in 1985. It shows an increase of 203.1 per cent over a span of 15 years. If we take the figures of export of refined oil, we find that it rose from 141.8 million barrels in 1970 to 170.6 million barrels in 1985 registering an increase of 20.3 per cent over a period of 15 years. However, the production of refined oil increased substantially but the gradual fluctuations affected the trend. In 1971, production increased by 1.6 per cent, but thereafter, it declined by 10.4 per cent. It again improved marginally by 1.2 per cent in 1973 but decreased by 3.8 per cent up to 1979 with a little improvements meanwhile. It again began to decline by 18.2 per cent in 1980 and further fell by 16.3 per cent in 1981. But since 1981 onwards it never declined.

Same has been the process of export which began to increase from 1970 with gradual variations meanwhile, and increased fairly well. The export trend shows a decline by 7 per cent in 1971, 12 per cent in 1974, 19.18 per cent in 1975, 1.5 per cent in 1977, 5.3 per cent in 1979, 17.1 per cent in 1980, and 16.2 per cent in 1981 over their preceding years. Within a period of mere 5 years
from 1970 to 1975, export of refined oil declined by 33.1 per cent. The years 1975 and 1981 indicate the lowest figures of export as 94.8 million barrels and 93.2 million barrels respectively. The figure from 1981 onwards never shows declining. The total export of refined oil out of the total production of crude increased from 13.52 per cent in 1970 to 56.07 per cent in 1985. It shows that within a span of 15 years period, Kuwait has been able to improve its capacity of refining the crude. This also shows that the capacity of refineries improved a lot within this period.

The fall in the production and export of refined oil caused by various factors at different stages. In 1972, the production dropped on account of the adoption of oil conservationist policy which resultantly regulated the export of crude and refined products. Arab-Israel conflict caused a decline of 5.5 per cent in total crude oil production which naturally affected the refinery production and the future exports. Kuwaiti refineries faced deterioration in their production in 1980 and 1981 because of deceleration in their demands. With a recovery in demand for Kuwaiti refined products, the rate of production of refined oil increased by 48.8 per cent in 1982, 12.7 per cent in 1983 and further 2.0 per cent and 17.1 per cent in 1984 and 1985 respectively.

Other parameter of measuring the development of Kuwaiti refineries is their increased capacities by about 42 per cent.

### TABLE - 4.6

**PRODUCTION AND EXPORT OF REFIND OIL**

(Million Barrels)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>% change</th>
<th>Export</th>
<th>% change</th>
<th>% of export in total crude oil production</th>
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</thead>
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<td></td>
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<td>1970</td>
<td>147.5</td>
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<td>-</td>
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<tr>
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<td>17.1</td>
<td>170.6</td>
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PRODUCTION OF REFINED OIL
1969-1985
(Million Barrels)
from 4,55,000 barrels per day in 1970 to 6,45,000 barrels per day in 1986. In this way, Kuwait has achieved a better position in world oil product market. It has further been supported by the thrust of the five-year oil plan of Kuwait, beginning from 1976 and ended in 1980, which as its objectives, consisted of: the expansion, development and utilization of oil resources along with raising the capacities of existing refineries, additional explorations for refining.57

Capacity of refining is one of the measures to scale the development of downstream operations. Refining capacity of Kuwait has achieved progress with the rapid strides. It was estimated at 4,55,000 barrels of oil per day in 1970. In 1985, the capacity was estimated at 0.6 million barrels per day of which 0.08 to 0.1 million barrels per day consumed locally.58 Thus, the improvement in the capacity of refining support the development of overall oil industry.

Petrochemical Industry:

The petrochemical industry in Kuwait is focused on the production of fertilizers. Table shows an increasing production trend which is one of the outstanding features of the downstream operations. Among fertilizers, Urea and Ammonia have registered

a remarkable growth in their productions. The production of Urea increased by 309.1 per cent from 162,3 thousand tons in 1970 to 664 thousand tons in 1978. It remained in an upward trend throughout the period barring in 1974 and 1976, in which it declined marginally. Output of Ammonia and Urea declined from 5,23,000 tons and 6,64,000 tons in 1978 to 3,57,000 tons and 5,49,000 tons during 1983-84 respectively.\(^{59}\) It was a decrease in production of Ammonia and Urea by 31.7 per cent and 17.3 per cent respectively, over the year 1978. Sales of Ammonia also declined to 58,000 tons in 1983-84, compared to 96,000 tons in 1982-83.\(^{60}\) Owing to the sluggishness in the demand for sulphuric Acid, its sales declined from 4,050 tons in 1982-83 to 3,650 tons in 1983-84.\(^{61}\) Production of Chlorine, Caustic Soda and Salt, marginally improved from 34,000 tons in 1982-83 to 38,000 tons in 1983-84.\(^{62}\) The production of fertilizers declined in 1983-84 from their previous marks due to the continued shortage of natural gas supply.

60 Ibid., p. D-3.
61 Ibid., p. D-3.
Natural Gas

Production of natural gas in Kuwait is closely associated with the production of oil. Variations in the rate of production of oil affect the rate of production of natural gas. As its close association with the production of oil, the production of natural gas also fluctuated during seventies. Simultaneously, the production of oil and gas went high in 1979 when the production of gas was estimated at 647.8 billion cubic feet whereas the production of oil peaked at 1201.6 million barrels in the same year. With the gradual decline of oil production, the production of natural gas also declined. It decreased from 647.8 billion cubic feet to in 1972 to 382.4 billion cubic feet in 1975, by about 41 per cent. Thereafter the production improved by 3.45 per cent in 1976. It further improved from 395.6 billion cubic feet in 1976 to 960.4 billion cubic feet in 1979 baring in 1977, when it plunged to 362.6 billion cubic feet.

In 1979, Kuwait's natural gas reserves were estimated at 33,800 billion cubic feet. With this figure, Kuwait remained at fourth highest place among the Arab countries in OPEC after Algeria, Saudi Arabia and Qatar. In this way, the annual natural gas production varied according to the changes in crude oil production. It fell by 55.2 per cent from 460.4 billion cubic feet in 1979.

64. Ibid., p. 11-K10.
<table>
<thead>
<tr>
<th>Year</th>
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<th>% change</th>
<th>Utilization</th>
<th>% to Production</th>
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<td>581.1</td>
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<td>265.1</td>
<td>45.6</td>
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<td>86.8</td>
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</table>


PRODUCTION AND UTILIZATION OF NATURAL GAS
1969 - 1985

(Billion Cubic Feet)

Production
Utilization
to 205.9 billion cubic feet in 1985. The significant feature of the natural gas sector is, the rate of its utilization in Kuwait. The utilization of natural gas in its total production was merely 33 per cent in 1970 which tremendously increased to 89.6 per cent in 1982, thereafter, it decline to 86.8 per cent in 1985. By the utilization point of view, 1982 was observed as peak year. There has been a continuous rise in the trend of utilization throughout the period from 1970 to 1985 baring a marginal declines in 1983 and 1985. The overall situation indicates the capacity of Kuwait to absorb much of the quantity of natural gas, produced, for the development of its oil industry.

**Transportation of Oil and Gas:**

By the object of transportation of oil, its products and liquefied petroleum gas, Kuwait, founded "Kuwait Oil Tanker Company (KOTC), in 1957, with an initial capital of KD 13,288,095 (KD 13.2 million) by private Kuwaiti interests. It is an oldest Arab Maritime Petroleum Transport Company (AMPTC). The capital were raised by 95.18 per cent to KD 25,936,605 (KD 25.9 million) in 1976, of which Kuwaiti government held a shares of 49 per cent of about 3.45 million. In 1974, Kuwait purchased a Methane Tanker from French La Ciotat. The KOTC was nationalised in the

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summer of 1979, raising its capital to KD 200 million. Thus KOTC became 100 per cent government owned company as had Kuwait Petroleum Corporation (KPC), Petro-chemical Industry Company (PIC) and Kuwait National Petroleum Company (KNPC). The supreme petroleum council assumed the role of general assembly.\textsuperscript{67}

KOTC comprised total 5 tankers in 1969, 6 in 1970, 7 in 1975, 8 in 1976, 10 in 1977 and 12 in 1979 with a total estimated capacity of 585 thousand metric tons in 1969 which increased to 2310,000 metric tons in 1979.\textsuperscript{68} The total number of vessels increased to 18 in 1980, of which 14 vessels were crude oil and 4 LPG carriers.\textsuperscript{69}

Later in 1980, KOTC was merged with Kuwait Petroleum Corporation but retained as an autonomous body.\textsuperscript{70} It consisted its tanker fleets which as on January 1, 1980 composed of the vessels as follows.\textsuperscript{71}

\begin{itemize}
\item \textsuperscript{68} Central Bank of Kuwait : Economic Report, 1969-79, p.41.
\item \textsuperscript{69} Meri Report : Kuwait: Op. cit, p.74.
\item \textsuperscript{71} ibid., p. 111 - K13.
\end{itemize}
Oil Tanker Fleets:

Crude Oil Tankers:

Warbah - capacity 60,190 dead weight tonnage (November, 1964)
Al-Sabbiyah " 60,186 dead weight tonnage (1965)
Al-Arabiyyah " 208,907 dead weight tonnage (1969)
Al-Badish " 208,777 dead weight tonnage (1970)
Al-Andalus " 357,230 dead weight tonnage (1975)
Al-Raudhatain " 316,379 dead weight tonnage (1976)
Al-Riqqah " 395,000 dead weight tonnage (1977)
Al-Faiha " 261,000 dead weight tonnage (1977)

Total capacity in early 1980 was 18,67,671 dead weight tonnage.

In 1980, KOTC signed an agreement with two Japanese Shipyards to construct four oil tankers of 80,000 dead weight tonnage capacity each.

Oil Products Fleet:

It composed of 19 chartered vessels of the capacity of 11,53,000 dead weight tonnage in 1976.

Liqurified Petroleum Gas Fleet:

KOTC consisted of the following vessels in its LPG fleet:

Gas al-Rawait - capacity - 71650 (March 1978)
Gas Burgan - capacity - 71650 (1979)
Gas al-Ahmadi - capacity - 71650 (September 1979)
Gas al-Minaquish - capacity - 71650 (December 1979)
Since the sales of oil products increased in the world market, Kuwait raised its product tankers' capacity to 2.5 million dead weight tonnage (dwt) in 1981.\(^72\)

In 1985, KOTC comprised a total of 23 tankers which transported 80 per cent of its L.P.G production, 37 per cent of its petroleum products and 18 per cent of its crude oil.\(^73\) Out of 23 tankers, there were 7 crude oil carriers, 15 (MSPC) Medium size Oil Product Carriers of 8,000 dead weight tonnage to 28,000 dead weight tonnage capacity and a (VCPC) Very Large Product Carrier "al-Funtas" of 285,502 dead weight tonnage capacity.\(^74\)

By establishing KOTC, Kuwait has made a tremendous effort to anchor a tanker filet in the Gulf to transport its main source of revenue. KOTC has put Kuwait on top among Arab Petroleum Exporting Countries in their line of transport of oil and its products through sea route.

Hence, in the line of its downstream operations, Kuwait has made its position strong enough as a substantial producer and exporter of oil products and LPG within a short span of time. Kuwait

\(^{73}\) MEES : 28:27, 1985, p. D-3
increased its refined oil production from 147.5 million barrel in 1970 to 206.7 billion barrel in 1985. Its export of refined products jumped from 14.8 million barrels in 1970 to 170.6 million barrel in 1985. It has also achieved success in the utilization of natural gas which improved from 33 per cent of its total production of 570.4 billion cubic feet in 1970 to 86.8 per cent of 205,941 billion cubic feet in 1985.

In the line of production of its petro-chemicals and fertilizers, Kuwait has got a better concentration of consumers. So many new plants have been established and a number of foreign investments have also been made through which the government of Kuwait earned a lot and bettered its economy.

KOTC is one of the most encouraging line which gave a boost to the economy of Kuwait. The number of vessels have increased from 6 to 23 within 15 years period.

Thus, with these concrete evidences, it seems easy to measure the development of Kuwait in the line of its downstream operations.

(vi) Future Prospects:

The future prospects of oil industry in Kuwait can be well judged by having a cursory look at its past developments. Kuwaiti oil industry has attained the present stage of development
by gone through two main stages. The first stage reflects its growth since the establishment further added with many installations such as of refineries and terminals, and formation of OPEC and OAPEC. In the first stage, the production of oil improved tremendously from 5.9 million barrels in 1946 to its peak 1201.6 million barrels in 1972. Price during this entire period remained below $ 2 / barrel but were checked from declining below $ 1.59/barrel. The government always kept gaining on revenues, first due to the loosing ground by the operating oil Companies after the formation of OPEC and seemingly owing to the increasing production. The capacity of refineries and tanker fleets were improved and, this, the export of oil too. But the big changes occurred after 1972 when a strong conservationist policy was adopted and the production of oil began to decline.

Drastic change in oil prices and revenues reflects fantastic developments achieved by Kuwait oil industry. The share of oil sector in the G.D.P. increased from 60.3 per cent in 1970 to 79.2 per cent in 1974. The non oil sectors were also developed because of the influx of oil revenues.

Therefore, Kuwait has experienced an increase in the growth of her economy. Despite a big amount of imports the balance of trade due to the greater exports remained favourable.

On the basis of all the past experiences, present situation of oil in the world market and the growing interest of super powers
in this region and continuing Iran-Iraq and Arab-Israel war situation reflect the blurred picture of oil prospects. The sudden drop in the prices in 1986 and then again their recovery and present scale highlight the prediction of better future prospects of oil industries.
CONCLUSION

The aims of this chapter is not only limited to summarize the entire study but also to highlight the salient features of the oil industry, its problems and prospects, and significance in the economy. It has been emphasised throughout the study that the economy of Kuwait is heavily dependent upon its oil sector. The Kuwaiti economy has achieved a rapid economic growth since the discovery of oil and the oil sector plays a dominant role in augmenting the remaining sectors of the economy.

The study clearly reveals that the oil concession agreement was the outcome of a long-drawn negotiations between the Sheikh of Kuwait and British and American Oil Companies jointly. British were the prime mover of this picture who had initiated to incline towards Kuwait by signing a treaty in 1899. Kuwait having geographically and strategically strong position attracted not only British but other powers also. Disposition of its vast oil resources magnetised Americans also who, later, became equal and joint shareholder of Kuwait Oil Company with British as their counterpart. The first Kuwait Oil Concession was signed in 1934 between Kuwait on the one side and British and American Oil Companies jointly on the other. The exploration proved fruitful in 1938 with the upstream of oil in the Burgan area of Kuwait which entirely changed the fate of the state and destined it with
vast oil and gas resources.

The study highlights the major developments of oil industry as by dividing the entire life span into two parts. The first half covers the period from 1938 to the year 1969, in which Kuwait oil industry remained mostly under the stronghold of the operating Companies. Though, oil was first struck in 1938 but due to the outbreak of world war II, the expansion of oil industry could be made possible only since 1946 with the delivery of first oil shipment for exports. In the first half, prior to the formation of OPEC, the operating Majors were the sole determinants of level of production, its distribution and price. They kept the price of oil very low that they could sell it to their parent countries without putting any burden upon them. Oil was exploited in Kuwait and sent to the countries concerned with the companies. This situation stressed the host governments to remove the control of Majors from their own resources and finally the decision of formation of OPEC was taken in 1960. OPEC was the result of over exploitation of producing countries and it ultimately relieved them from the web of Majors. Most of the areas were relinquished and control of Majors over the supply of oil and its price reduced to minimum. Upto 1969, Kuwait oil industry did not flourish to the extent to which it expanded thereafter. Because up to the formation of OPEC and OAPEC, the control of production of oil, its prices and distribution was entirely in the hands of operating Company. Kuwait did not even have its sovereignty over the area under concession until it was relinquished by the Company.
Production of oil was, however, kept accelerating by the company as it remained in an upward trend right from the year 1946. It began to increase from 5.9 million barrels in the same year and reached its peak at 1201.6 million barrels in 1972 baring slight fluctuations in the average daily production meanwhile. Revenues to the government which were estimated $465.2 million in 1960 increased with slow pace as reached $895.1 million in 1971. It was due to the low oil prices which remained below $1.59 per barrel till 1970. Export of oil also increased from 608 million barrels in 1960 to 990 million barrels in 1969.

In the second half which began from 1969 to 1985, oil industry developed rapidly. The production of oil peaked in 1972 but thereafter it declined owing to the adoption of conservationist policy by Kuwait. Price of oil increased manifolds which in turn increased the revenues to the government. In the second phase, the production of oil began to decline as shrunked from its peak 1201.6 million barrels in 1972 to its lowest figure 299.3 million barrels in 1982 thereafter it again improved to 368.6 million barrels in 1985. The exports of oil and revenues also improved at an accelerating scale. Oil exports which brought about KD 527 million to the country in 1969 increased to its highest figure KD 4960.6 million in 1980 and kept the trade balance in country's favour. But afterward it declined to KD 2847.7 million in 1985 with low variations as a result of oil glut, economic recession prevailing in the industrial countries and low world oil demand.
To sum up, oil by far the basic factor of production in modern Kuwaiti economy still dominates the central figure and this sector contributes more than 50% of the GDP and above 90% of the total exports earnings. Oil being a non-renewable source, its production declining curve has not expressed an increasing marginal cost but in a steady fall in the rate of annual production indicating a rather conservationist policy. Oil revenues which dominates the public account have generally kept pace with the growth of oil exports. The rate of increase does not depend entirely on oil production but is influenced by the prevailing world oil prices. Price of Kuwaiti oil is not determined only by the government itself but it is the result of the decision taken by OPEC and the supply and demand situation in the world oil market. The capacity of Kuwaiti economy to absorb much of its oil revenues is limited mainly due to the small size of the country, its population and market. Small size of population does not alone determine the market size. Though, the oil industry has also a limited capacity to absorb the manpower but it creates employment in the other sectors of the economy. However, the non-oil sector is progressing shoulder to shoulder with oil sector but ultimately has to depend on it. Within this short span of time however, the Kuwaiti economy has transformed itself from the old modes to the modern ones, but the process towards diversification is slow. Agriculture is still lagging sector and contributes an insignificant share in the GDP. The government of the other non-oil sectors depend upon the progress
of oil sector. Therefore, the oil sector has a positive influence on the economy. It has increased aggregate demand of the country for exports.

The oil industry which had suddenly met the situation facing declining world oil prices and continued economic slowdown soon recovered the satisfactory stage. World oil demand decreased tremendously with a result of prevailing necessary trend in most of the industrial countries had decelerated the oil demand. Other factors due to which oil industry had to face a decreasing oil supply were the discovery of oil in the North-Sea and Alaska and substitution of other sources of energy, i.e., nuclear and solar etc. But ultimately the hard days gone away and the oil industry once again got a chance of progress and expansion.

Although other sources of energy have been induced in utilization though the future, of oil, due to its low cost of production and vast reserves, is not so bleak.
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