

ABSTRACTS

The following abstracts are short synopses of articles appearing in the Arabic half of the Review. They are summarized here for the benefit of those who cannot read Arabic. In a like manner, each major English or French article is presented as a short résumé in the Arabic section.

THE ECONOMIC IMPORTANCE OF MIDDLE EAST OIL

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This subject has two aspects, so it shall be divided, for the sake of simplicity and clarity, into two sections. The first one shows the importance of Middle East oil in the European Economy. The second deals with the importance of that oil to the Middle East itself.

Middle East Oil in the European Economy.

Mexico was the main source for Europe's oil during the first twenty years of this century¹, then Venezuela. In the 1930's came the biggest discoveries of all – in the Middle East. These countries – the major producers are Kuwait, Saudi Arabia, Iran, and Iraq – account, in 1965, for nearly one quarter of the total world production of 1500 million tons a year. Because of the relatively small requirements of these countries themselves, they are by far the greatest exporters of oil to Western Europe, which has very little oil of its own. They provide 80% of Europe's oil imports. This shows the extent of European dependence on Middle East oil to sustain its economy, while it is also true to say that the Middle East is just as dependent on oil exports for its economic growth.

In analysing Europe's growing oil needs, one should keep in mind three factors: the relationship between economic development and the consumption of oil, Europe's refining capacity, and transportation facilities. With regard to the first, an obvious casual link exists between

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1. Bryan Cooper and T.F. Gaskel, *Northern Sea Oil - The Great Gamble* (London : William Heineman, 1966), p. 9.

European industrial production and the consumption of oil. Industrial production has been growing in the postwar period at a rate of 6.1% a year. This has been reflected in the increased consumption of all forms of energy at a rate of 5% a year. Within this total picture, oil accounted for a 13% increase a year.

Europe's increasing oil consumption was accompanied by a spectacular growth in refining facilities. In 1948 crude oil refined in Europe amounted to less than 20 million tons; in 1955 it reached 103 million tons, about 90 per cent of Europe's needs. In 1959 the capacity of European refineries rose to 120 million tons. This expansion represented a total investment of between \$ 1,750,000,000 and \$ 2,250,000,000. Refineries necessitate auxiliary installations which increases the investment some \$ 500,000,000. The general trend in the postwar period has been to construct the refineries close to the centers of consumption and away from the sources of production. This trend was accentuated after 1951, (i.e., after the nationalization of oil in Iran and the resulting shutdown of the Abadan refinery) and thence it was increased.

This marked increase in European refining capacity has had a doubly beneficial effect on Europe's economic position. First, it has permitted Europe to realize considerable savings in foreign exchange, a large portion of which had hitherto had to be spent on higher-priced imports of refined products. Second, it has rendered Europe more independent of political uncertainties in the producing and transit areas.

Transportation is another vital factor in Europe's demand for oil. Two elements have to be taken into account: one is the existence and serviceability of transit routes for Middle Eastern oil and the other is the availability of adequate tanker tonnage. The oil for Europe is shipped by two major routes: the Suez Canal, and the pipelines of the Iraq Petroleum Company and Tapline (Trans-Arabian Pipeline Co.,). There is now a great tendency to increase the tanker tonnage, because if kept fully loaded, large tankers not only are less expensive than small tankers, but also compete with the existing pipelines.

The adequacy of present tanker tonnage to supply the needs of Europe constitutes the second major aspect of the transportation picture. Steadily rising world production and consumption of oil will necessitate further increases in tanker tonnage in the years to come, regardless of new pipeline construction.²

It is clear that the increasing dependence of Europe on oil imports necessitates expenditure of foreign exchange, thus affecting the totality of European payment balances. The O.E.E.C. Oil Committee has estimated that the total cost of delivered oil for member nations was \$ 2,050,000,000 in 1955, and \$ 3,150,000,000 in 1960, and will be \$ 8,000,000,000 in 1975.

Oil in the Economy of the Middle East.

To understand this importance we must begin with the volume of production. In 1965 the Middle East was producing oil at the rate of 408.9 million tons a year, which represented about 26.4 per cent of the world total, while the production in 1958 was 215 million tons.

The steadily increasing production, combined with the larger share in company profits obtained by the producing countries after 1951-1952, had its effect on the rise in government revenues.

Seven producing countries in the Middle – Kuwait, Saudi Arabia, Iran, Iraq, Qatar, Abu Dhabi, and Bahrain – received about \$ 2,300 million in income tax and royalties in 1965.³ About 95 per cent of the total went to the first four. Payments were nearly 10 per cent higher than in 1964 and more than double the total eight years ago. Receipts have risen each year during the past twenty years – even following the 1960 cut in posted price, which was offset by the production of larger volumes and by the reduction in operating costs.

These revenues are used to raise the standard of living; to provide education, medical and social services; and to build roads, communi-

2. A Study of the Organization for European Economic Co-operation (O.E.E.C.).

3. Petroleum Press Service, Sept., 1966, p. 6.

cations, and harbours. This contributes to the social and economic stability of the area. The revenues of Iran represent a substantial advance (representing 51% of total revenue in 1957), over the pre-Mossadegh period when Iran's revenues from oil oscillated between one-eighth and one-fifth of all government revenues. Since the conclusion of the Consortium agreement, oil money has become an ever-greater proportion of the Iranian state budget.

In addition to the above mentioned direct payments, the producing countries obtained a number of other financial benefits stemming from local purchases by the operating companies, payroll expenditures, local spending by the companies' foreign personnel, payments of customs duties for the companies' dutiable imports, and certain other payments such as contributions to social insurance schemes.

Among the advantages the growing oil industry was bestowing upon the Middle East was development of the areas' refining capacity. By 1965 the aggregate capacity of the Middle East was 83 million tons – being 75 by 1958. Another by-product of the oil industry in the Middle East was the stimulation it gave certain countries to develop their own tanker fleets. To this should be added the labourers employed by the local contractors for jobs connected with the oil industry. Local distributing operations, frequently conducted by different marketing organisations, gave employment to thousands of workers. These employees, and labourers because of their high purchasing power – which is substantially higher than that of most people in the area – acted as a considerable stimulus to the local economy.