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ABSTRACT

The study aims to analyse the oil revenue, its allocational pattern and impact on economic development in Kuwait, Bahrain, Qatar and the UAE from the commencement of commercial oil production to the end of 1970.

Chapter I, briefly presents the geographical features, discusses the economic activities and fiscal policies of the pre-oil period, and outlines the evolution of the Sheikhdom political system, pinpointing important factors still influencing the utilisation of petroleum resources and oil revenue. Chapter II, discusses the petroleum industry's development, importance, potential, and non-revenue impact on the local economies. Chapter III, assesses the actual oil revenue received, discusses factors influencing it, and explores relevant considerations for an optimum level of oil revenue. Chapters IV-VII, explore the allocational trends and patterns of the oil revenue in each of the Emirates, (the oil revenues examined represent about 88% of the total received in the period studied). A model, built to investigate the allocational patterns provides the basis for deducing the contribution of the oil revenue to different items through assessing the public revenue, expenditure and reserve. Chapter VIII brings together the findings of Chapters IV-VII, confirming an overall allocational similarity. A major and increasing proportion of the revenue goes on current and transfer expenditure. An exploration of underlying influential and determining factors takes up the greatest part of the chapter. Chapter IX examines the desirable relationship between oil revenue and economic development, notes the improvement produced in some aspects of the economies, in the social services, the standard of living and consumption. It also shows the limited impact of the oil revenue on structural change and prospects for sustained development, and discusses some problems impeding progress. In conclusion the need for alternative approaches is discussed together with considerations relevant to a development-oriented approach.

University of Durham

OIL REVENUE OF THE ARABIAN GULF EMIRATES:
PATTERNS OF ALLOCATION AND IMPACT ON ECONOMIC DEVELOPMENT

by
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(GRADUATE SOCIETY)

Thesis submitted for the Degree of
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from it should be acknowledged

To the memory of my mother and sister Fatimah.

CONTENTS

ABSTRACT	
LIST OF FIGURES	
LIST OF TABLES	
APPENDICES (see page 289)	
ABBREVIATIONS	
ACKNOWLEDGEMENTS	i
INTRODUCTION	iii
<u>CHAPTER I - THE PROLOGUE</u>	1
Part One: Geographical Features	1
A - Area	1
B - Natural Resources	2
C - Population	5
Part Two: Economic Activities in the Pre-Oil Period	8
A - Pearling Industry	8
B - Trade and Maritime Transport	10
C - Other Activities	12
Part Three: Fiscal Policies in the Pre-Oil Period	13
A - Introduction	13
B - Bahrain	15
C - Kuwait	20
D - Other Emirates	24
Part Four: The Sheikdom System and its Evolution	26
A - The Stage of Tribal Confederation	26
B - The Autocratic Stage	28
C - Constitutional Sheikdom	32
Notes to the Chapter	34
<u>CHAPTER II - THE OIL INDUSTRY</u>	38
Part One: A Historical Survey	38
A - Historical Background	38
B - The Facts of Location	41
Part Two: Crude Oil	42
A - Producing Oil Fields	43
B - Crude Oil Production	45
C - Crude Oil Exports	47
D - Producing Oil Companies	49
E - Crude Oil Reserves	50

CHAPTER II Contd.

Part Three: Impact of Petroleum Exploitation on Local Economics	52
A - The Refining Industry	52
B - Domestic Consumption of Petroleum Products	59
C - Oil Tankers and Pipelines	60
D - Natural Gas Production and Usage	61
E - Natural Gas Based Industry	63
F - The Impact of the Oil Companies' Local Expenditure	66
Notes to the Chapter	70
<u>CHAPTER III - THE EMIRATES OIL REVENUE</u>	74
Part One: Assessment of the Oil Revenue	75
A - Individual Emirates	75
B - Some Differences	79
Part Two: Factors Determining the Emirates' Oil Revenue	82
A - Cost of Production	83
B - Crude Oil Production	85
C - Financial Terms	92
Part Three: Some Consideration for Achieving the Optimum Level of Oil Revenue	98
A - Alternative Ways of Utilising Petroleum Resources	99
B - The Productive Absorptive Capacity	100
C - International Investment Opportunities	102
Notes to the Chapter	105
<u>CHAPTER IV - BAHRAIN: THE ALLOCATION OF THE OIL REVENUE</u>	107
Part One: Introduction	107
A - Method	107
B - Bahrain	110
Part Two: Bahrain State: Public Revenue, Expenditure and Reserve, 1947-1970	113
A - Public Revenue	114
B - Public Expenditure	115
C - Public Reserve Fund	118
Part Three: The Allocation of the State's Oil Revenue, 1947/48-1970	120
A - Proportional Contribution of Oil Revenue Spent (PCORS)	120
B - The Allocation of the Total Oil Revenue	122
C - The Change in the Allocational Patterns	125
Notes to the Chapter	126

<u>CHAPTER V</u>	<u>- KUWAIT: THE ALLOCATION OF OIL REVENUE</u>	127
Part One:	Introduction	127
Part Two:	The Government Public Revenue and Expenditure, 1952-1970/71	129
	A - Public Revenue	130
	B - Public Expenditure	132
Part Three:	The Kuwait State Reserve Fund	136
	A - Estimated Balance of the Reserve Fund	137
	B - Composition of Kuwait Reserve Fund Investment	139
Part Four:	The Allocation of the Oil Revenue in Kuwait	141
	A - The Proportional Contribution of Oil Revenue Spent (PCORS)	142
	B - The Allocation of Total Oil Revenue, 1952-1970/71	143
	C - Development of the Annual Allocation	145
	D - The Change in the Pattern of Allocation	146
	Notes to the Chapter	147
<u>CHAPTER VI</u>	<u>- QATAR: ALLOCATION OF THE OIL REVENUE</u>	148
Part One:	Allocation of the Oil Revenue, 1950-52 and 1956-65	149
	A - The Period 1950-52	149
	B - The Period 1956-65	151
Part Two:	The Public Revenue, Expenditure and Reserve, 1953-55 and 1966-70	155
	A - Public Revenue	156
	B - Public Expenditure	157
	C - Public Reserve Fund	158
Part Three:	The Allocation of the State Oil Revenue	161
	A - Proportional Contribution of the Oil Revenue Spent (PCORS)	161
	B - The Allocation of the State Total Oil Revenue	162
	C - Change in the Pattern of Allocation	165
	Notes to the Chapter	168
<u>CHAPTER VII</u>	<u>- UAE: THE ALLOCATION OF THE OIL REVENUE</u>	169
Part One:	Introduction	169
	A - Abu Dhabi	169
	B - Dubai	171
Part Two:	Abu Dhabi State: Public Revenue, Expenditure and Reserve, 1967-1970	173
	A - Public Revenue	174
	B - Public Expenditure	175
	C - Public Reserve Fund	177

CHAPTER VII Contd

Part Three. Allocation of the Oil Revenue in Abu Dhabi, 1967-70	178
A - Proportional Contribution of the Oil Revenue Spent (PCORS)	178
B - The Allocation of the Total Oil Revenue	179
C - Structure Change in Pattern of Allocation	182
Notes to the Chapter	184

CHAPTER VIII - FACTORS DETERMINING THE ALLOCATION OF THE OIL REVENUE

Part One: The Allocation of the Oil Revenue: A Comparison	185
A - The Position of the Oil Revenue in the Public Revenue	185
B - The Allocation of the Total Oil Revenues	186
C - Changes in the Allocational Patterns	191
Part Two: Factors which Influenced the Distribution of the Oil Revenues to Individual Allocations	192
A - Factors Affecting the Allocation to Current Expenditure	193
B - Factors Affecting the Allocation to Capital Expenditure	203
C - Factors Affecting the Allocation to the Ruling Families	206
D - Factors Affecting the Allocation to the Land Purchase Schemes	211
E - Factors Affecting the Allocation to the Reserve Funds	213
Part Three: Factors Determining the Broadly-Based Revenue Allocation Policies	216
A - The Social Impact	216
B - Political Impact	222
C - Economic Impact	226
D - Geographical Impact	230
E - Absence of Long-Term Economic Strategy	232
F - The Multiplier Effects (Increasing Dependence)	233
G - The Realisation of the Poor Achievement of Past Policies	234
Notes to the Chapter	236

CHAPTER IX - IMPACT OF THE OIL REVENUE ON ECONOMIC DEVELOPMENT

Part One: Oil Revenue and Economic Development	238
A - The Nature of the Oil Revenue	238
B - Meaning of Economic Development	242

CHAPTER IX Contd.

Part Two: Some Aspects of the Emirates' Economic Development	244
A - Social Overhead Capital	245
B - Direct Productive Activities	249
C - Impact on Health and Education Services	254
D - Effect on the Standard of Living	257
E - The Growth	259
Part Three: Some Problems and Obstacles to Economic Development	261
A - Overwhelming Dependence on Oil Revenue	262
B - Underutilising the Human Resources	263
C - Disconnected Links between Effort and Reward	268
D - Investment Opportunity and Land Speculation	271
E - Social and Political Institutions	272
F - Small Size of Emirates	274
Notes to the Chapter	277
<u>CHAPTER X - CONCLUSION: THE NEED FOR ALTERNATIVE APPROACHES</u>	278
A - Traditional Approaches	278
B - The Need for New Approaches	281
C - A Development-oriented Approach	283
<u>APPENDICES</u>	289
List of Appendices	289
Appendices	293
<u>REFERENCES</u>	324

LIST OF FIGURES

	following page
<u>CHAPTER I</u>	
Fig. 1.1 - Arab Gulf Emirates Location Map	2
1.2 - Gulf Export of Pearls (Selected Years)	10
<u>CHAPTER II</u>	
Fig. 2.1 - The Oil Industry in the Arabian Gulf 1930	42
2.2 - The Oil Industry in the Arabian Gulf 1940	42
2.3 - The Oil Industry in the Arabian Gulf 1950	43
2.4 - The Oil Industry in the Arabian Gulf 1960	43
2.5 - The Oil Industry in the Arabian Gulf 1970	43
2.6 - The Emirates' Crude Oil Production 1935-1970	46
2.7 - Relative Distribution of the Emirates Crude Oil Production 1950, 1960 and 1970	48
2.8 - The Emirates Export of Crude Oil, by destination, 1970	49
2.9 - Oil and Gas Discovered in <u>Sedimentary</u> Basins	51
2.10 - The Emirates Crude Oil Production, Remaining Reserve and Reserve/Production Ratio 1957-70	52
2.11 - Potential Ways of Utilising Natural Gas	64
2.12 - Petrochemical Products from Natural Gas	64
2.13 - Change in Employment in the Emirates' Oil Industry 1950-1970	68
<u>CHAPTER III</u>	
Fig. 3.1 - The Growth Trends of the Emirates' Oil Revenue 1935-1970	80
3.2 - Relative Distribution of the Emirates Oil Revenue, Selected Years and Total	82
<u>CHAPTER IV - BAHRAIN</u>	
Fig. 4.1 - Simplified Form of the Data Computing Model	109
4.2 - Bahrain State. Public Revenue 1947/48-1970	115
4.3 - The Development of Public Expenditure 1947/48-1970	117
4.4 - Development in the Allocation of Available Oil Revenue 1947/48-1970	124
4.5 - The Allocational Pattern of Bahrain State's Annual Available Oil Revenue 1947/48-1970	126

CHAPTER V - KUWAIT

Fig. 5.1	- Development of the Public Revenue 1952-1970/71	132
5.2	- Development of Public Expenditure 1952-1970/71	133
5.3	- The Allocation of Oil Revenue to Current Expenditure 1952-1970/71	146
5.4	- The Allocation of the Oil Revenue (Main Items) 1952-1970/71	146
5.5	- The Allocational Pattern of the Available Oil Revenue 1952-1970/71	147

CHAPTER VI - QATAR

Fig. 6.1	- Public Expenditure on Education and Electricity 1953-1970	154
6.2	- Development of Public Expenditure (by Main Groups) 1953-1955 and 1966-1970	158
6.3	- The Allocation of the Oil Revenue 1953-55 and 1966-1970	164
6.4	- The Allocational Pattern of the State Oil Revenue 1953-55 and 1966-70	167

CHAPTER VII - UAE

Fig. 7.1	- The Allocation of the Annual Available Oil Revenue in Abu Dhabi 1967-70	181
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CHAPTER VIII

Fig. 8.1	- The Allocational Patterns of the Emirates' Total Oil Revenue	187
8.2	- The Trends in the Allocational Pattern of the Emirates' Annual Available Oil Revenue	192

CHAPTER IX

Fig. 9.1	- Qatar: Development of Secondary Education, by Section 1960-1970	269
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CHAPTER X

Fig. 10.1	- The Allocation Pattern of the Emirates Oil Revenue	279
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LIST OF TABLES

CHAPTER I

Table 1.1	- The Emirates' Area	1
1.2	- The Population Development of the Emirates, 1905-1970	5
1.3	- Some Demographic Indicators, 1970	6
1.4	- Percentage Distribution of the Population by Economic Activities, 1970	8
1.5	- Employment and Number of Boats Engaged in the Gulf Pearling Industry, 1907	9
1.6	- The Revenue of the Sheikhdoms by Source, 1905	14
1.7	- Bahrain Sheikhdome's Expenditure, 1905	14
1.8	- Payments to the Civil List in Bahrain, 1924/25-1926/27	16
1.9	- Bahrain State Annual Public Expenditure, 1928/29//1930/31	17
1.10	- Payments to the Civil List in Bahrain, 1927/28//1931/32	17
1.11	- Sheikh Hamed's Allocation from Public Revenue and His Private Income, 1927/28//1930/31	18
1.12	- The Allocation of Kuwait State Public Revenue, 1937	21
1.13	- Allocation of Public Revenue Department in Kuwait, (6/12/1945 - 29/11/1946)	23
1.14	- The Allocation of Kuwait Public Revenue, 1945/46	24

CHAPTER II

Table 2.1	- The Principal Producing Oil Fields - End 1970	44
2.2	- The Emirates Position in World Crude Oil Production, Selected Years	46
2.3	- The Emirates' Share in World Crude Oil Production and Export, 1966 and 1970	48
2.4	- Parent Companies' Gross Share of the Emirates' Crude Oil Production, 1970	49
2.5	- The Emirates' Proved Oil Reserves, 1970	51
2.6	- The Emirates' Refineries, 1970	55
2.7	- Crude Oil Throughput capacity of the Emirates' Refining Industry, Selected Years	56
2.8	- The Emirates' Domestic Consumption of Refined Products and Refineries' Losses, by Emirates and Mains Pattern of Consuming, 1970	60
2.9	- Kuwait Oil Tankers Company: Some Indicators, 1970	61
2.10	- Natural Gas Production, Reserve and Usage by Emirates, 1970	62

CHAPTER II Contd.

Table 2.11 - Selected Oil Fields Associated Natural Gas Average Analysis	63
2.12 - Employment in the Emirates Oil Industry, 1970	67

CHAPTER III

Table 3.1 - Bahrain State: Total Oil Revenue by Source, 1934/35//1970	75
3.2 - Kuwait State: Total Oil Revenues by Source, 1946//1970/71	76
3.3 - Qatar State: Total Oil Revenue by Source, 1950/1970	77
3.4 - Abu Dhabi State: Total Oil Revenue by Source, 1962/1970	78
3.5 - Dubai State: Oil Revenue, 1969-1970	78
3.6 - The Emirates' Receipt per Barrel of Crude Oil Production, Selected Years	80
3.7 - The Emirates' Oil Revenue, 1950, 1960 and 1970	81
3.8 - Emirates' Per Capita Share from Oil Revenue, 1970	82
3.9 - The Production Cost of Oil in the Emirates, Selected Years	84
3.10 - Growth of World Oil Demand, Selected Years	87
3.11 - World Commercial Energy Demand by Source, Selected Years	88
3.12 - Posted Price of Oil, Kuwait and Qatar, 1953-1970	94
3.13 - Oil Revenue: Estimated Increase Resulting from Tehran Agreement, 1971	98

CHAPTER IV - BAHRAIN

Table 4.1 - The Allocation of the State Oil Revenue in Bahrain, 1935//1946/47	113
4.2 - Bahrain State: Total Public Revenues, 1947/48//1970	114
4.3 - Bahrain State: Total Public Expenditure, 1947/48//1970	116
4.4 - The Structural Change in Bahrain State Public Expenditure, Selected Years	117
4.5 - Bahrain State Public Reserve Investment, 1959	118
4.6 - The Proportional Contribution of Oil Revenue Spent, 1947/48-1970	121
4.7 - The Net Allocation of Total Oil Revenue, 1947/48//1970	122

CHAPTER V - KUWAIT:

Table 5.1	- Kuwait State: Finance Department Budget, 1947	128
5.2	- The Public Budget's Total Revenue, 1952// 1970/71	130
5.3	- The Structure of the Public Revenues, Selected Years	131
5.4	- The Total Public Expenditure, 1952//1970/71	133
5.5	- The Structural Change of the Public Expenditure, Selected Years	134
5.6	- Growth of the Transfer Payments, 1964/65- 1970/71	135
5.7	- Estimated Movement of the Kuwait State Reserve Fund, 1952-1964/65	138
5.8	- Change in the Composition of the Kuwait Reserve Fund, Selected Years	139
5.9	- Kuwait State Assets by Source, 31/3/1971	141
5.10	- Proportional Contribution of the Oil Revenue Spent, 1952-1970/71	142
5.11	- Allocation of Total Oil Revenue, 1952//1970/71	144

CHAPTER VI - QATAR

Table 6.1	- Enrolment in the Government Service, 1943/48-1954	150
6.2	- The Government's Liquid Assets, 1950-1952	151
6.3	- The Allocation of the Oil Revenue, 1950-1952	151
6.4	- The Allocation of Oil Revenue in Qatar, 1960	154
6.5	- The State Public Revenues, 1953-55 and 1966-70	156
6.6	- Allocation of the State Public Expenditure, 1953-55 and 1966-70	157
6.7	- The Balance of the Reserve Fund Account, 1971	159
6.8	- Allocation to the Reserve Fund as Percentage of Oil Revenue, 1950/52, 1953/55, 1956/65 and 1966/70	159
6.9	- The State Public Reserve Investments, 1971	160
6.10	- The Investment Profit, 1953-55 and 1966-70	161
6.11	- Proportional Contribution of Oil Revenue Spent, 1953-55 and 1966-70	161
6.12	- Allocation of the State's Oil Revenue, 1953-55 and 1966-70	162

CHAPTER VI - QATAR Contd.,

Table 6.13 - Allocation of the State's Oil Revenue, 1950/52 and 1956/65	165
6.14 - The State Oil Revenue Allocation: Structural Change, 1953/55 and 1966/70	166

CHAPTER VII - UAE

Table 7.1 - Some Social and Economic Indicators in Abu Dhabi, 1965-1968	170
7.2 - Dubai Municipality Budget, 1969 and 1970	172
7.3 - Abu Dhabi State: Total Revenue Received, 1967/70	174
7.4 - Abu Dhabi State: Public Expenditure, 1967/1970	175
7.5 - Abu Dhabi: Structural Change of the Public Expenditure, 1967-1970	176
7.6 - Abu Dhabi State: Estimated Movement of the Public Reserve Fund, 1967-70	178
7.7 - Abu Dhabi: Proportional Contribution of the Oil Revenue Spent, 1967-1970	179
7.8 - Abu Dhabi State: Allocation of Total Oil Revenue, 1967/70	180
7.9 - Abu Dhabi State: Changes in the Allocational Pattern of the Annual Available Oil Revenue, 1967-70	182

CHAPTER VIII

Table 8.1 - The Breakdown of the Emirates' Total Oil Revenue Allocation to Current and Capital Expenditure by Functions	187
8.2 - The Emirates. Allocation from the Oil Revenue to Current Expenditure as a Proportion of Total Current Expenditure, Selected Years	194
8.3 - The Emirates: Proportion Allocated from Annual Available Oil Revenue to the Current Expenditure of the Social Services, Selected Years	198
8.4 - The Emirates: Proportion Allocated from Annual Available Oil Revenue to the Current Expenditure of the Law and Order Services, Selected Years	199
8.5 - The Emirates: Proportion Allocated from Annual Available Oil Revenue to the Current Expenditure of the Public Utilities, Selected Years	200
8.6 - Allocation to the Ruling Families in the Emirates and Selected Countries, 1970	207

CHAPTER IX

Table 9.1 - Basic Infrastructure: Some Indicators, 1970	246
9.2 - Number of Schools, Hospitals and Low Income Houses Built by the Governments, end 1970	247
9.3 - The Emirates: Electricity and Water Production, 1970	248
9.4 - Shuaiba Area Activities, 1970	249
9.5 - Estimated Assets Invested in Direct Productive Activities, 1970	251
9.6 - Selected Emirates' Agriculture and Industry: Some Indicators, 1970	253
9.7 - Selected Emirates' Commercial and Financial Sector: Some Indicators, 1970	254
9.8 - Total Current Expenditure on the Social Services (Period Studied)	255
9.9 - Educational Indicators, 1970/71	256
9.10 - Health Services: Some Indicators, 1970	257
9.11 - Standard of Living Indicators, 1970	258
9.12 - Some Features of the Rapid Development (Index)	260
9.13 - Position of the Oil Sector and Revenues in GDP, Public Revenue and Export, 1970	262
9.14 - Kuwaiti and Qatari Employees as Percentages of Total Economically Active Populations in Some Sectors, 1970	265
9.15 - Economically Active Populations Among Emirates Nationals: Comparative Data, 1970	266
9.16 - Selected Emirates: Distribution Pattern of Students at the Secondary Level, 1970/71	268

ABBREVIATIONS

ADPC:	Abu Dhabi Petroleum Company Limited.
ADMA:	Abu Dhabi Marine Areas Company, Limited.
Al-Batrol wa Al-Sinah:	Ministry of Petroleum and Industry, Abu Dhabi, <u>Al-Batrol wa Al-Sinah fy Abu Dhabi.</u>
AIOC:	Anglo-Iranian Oil Company.
AMINOIL:	American Independent Oil Company Limited.
AOC:	Arabian Oil Company Limited.
API:	The American Petroleum Institute.
APOC:	Anglo-Persian Oil Company.
ARAMCO:	Arabian American Oil Company Limited.
BAPCO:	Bahrain Petroleum Company Limited.
BAYAN:	Ministry of Finance and Petroleum, Kuwait, <u>Bayan Wazir Al-Maliyah Hawal Mashrwa Al-Mizanih Al-Aameh.</u>
BD:	Bahraini Dinar.
B/D:	U.S. Barrel/Day.
BP:	British Petroleum Company Limited.
CFP:	Compagnie Francaise des Petroles.
CONCO:	Continental Oil Company.
CONTINENTAL:	Continental Oil Company.
DPC:	Dubai Petroleum Company.
E.I.U.:	The Economist Intelligence Unit Limited.
ESSO:	Standard Oil Company (New Jersey).
GULF:	Gulf Oil Corporation.
HISPANOIL:	Hispanica de Petroleos S.A.
IBRD:	International Bank for Reconstruction and Development.
IOR:	India Office Records.
IP:	The Institute of Petroleum.
IPC:	Iraq Petroleum Company Limited.
KD:	Kuwaiti Dinar.

KNPC: Kuwait National Petroleum Company Limited.

KOC: Kuwait Oil Company Limited.

KSPC: Kuwait Spanish Petroleum Company.

MEDD: The British Middle East Development Division.

MEED: Middle East Economic Digest.

MOBIL: Mobil Oil Corporation.

PPS: Petroleum Press Service.

P.A.: British Political Agent.

P.R.: British Political Resident in the Gulf.

QDR: Qatar and Dubai Riyal.

QPC: Qatar Petroleum Company Limited.

PARTEX: Participations and Explorations Corporation.

SAB: Statistical Bureau, Bahrain, Statistical Abstracts.

SAK: Central Statistical Office, Kuwait, Statistical Abstract.

SBA: Statistical Office, Abu Dhabi, Statistical Bulletin.

SHELL: Royal Dutch/Shell Group of Companies.

STANCAL: Standard Oil Company of California.

SUNCO: Sun Oil Company

SYNDICATE: The Eastern and General Syndicate Limited.

T.D.S.: Total Dissolve Solid.

TEXACO: Texaco, Inc.

UAE: United Arabian Emirates.

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INTRODUCTION

The Arabian Gulf Emirates (Kuwait, Bahrain, Qatar and UAE) constitute the region that this thesis sets out to study. These small Arabian principalities, Emirates, or as they used to be called, 'Sheikhdoms', are in many respects different from other oil-producing countries, while they have many characteristics in common among themselves. This similarity of character among the Emirates can be seen clearly in a wide range of fields: First, there is a similarity in culture, traditions, the evolution of national governments and external influences; second, a similarity in economic activities and occupations before and during the oil era, third, a similarity in the socio-economic policies implemented during the last quarter of a century; fourth, a similarity in physical conditions and natural resources; fifth, a similarity in size of state, area and population. These similarities among the Emirates, have in turn produced common phenomena and make the task of studying these political units as a single region more meaningful.

For the Emirates 1970 marks the end of an epoch. By this year the traditional relationships in the oil industry were starting to undergo a dramatic change; the Emirates' international status and relations, their political setting, and economic policies, were about to undergo considerable development. Also the energy shortage and the instability of the international monetary market appear to have added new elements and necessitated new approaches to petroleum resources and the oil revenue.

At this juncture of the Emirates' contemporary history, it is worth carrying out comprehensive research into the most important factor in the Emirates' economic growth during the last third of a century, i.e. the oil revenue. This present piece of research aims to assess the actual oil revenue received, to look at the pattern of allocation followed in channeling it back to society, to explore the factors which have been actively influencing and determining the pattern of allocation, and to show something

of the impact it has so far had on economic development.

The study's main interest in analysing the 'oil revenue of the Arabian Gulf Emirates, patterns of allocation and impact on economic development', goes beyond the clarification of the historical facts to assess the efficiency with which the oil revenue has been utilised, with the aim of providing better understanding for the future utilisation of petroleum resources and the oil revenue. Therefore the thesis will attempt to point out some of the strong and weak aspects of the governments' past policies in respect to their impact on economic development. Such an attempt may prove useful, particularly since it comes in 1974, before the new increase in oil revenue has been committed to the traditional channels, or directed to new channels which may not be the most productive possible.

In presenting and analysing the topic, the subject is approached systematically in ten chapters. Chapter I, the prologue, is a very brief presentation and discussion of some of the fundamentals of the Emirates' landscape and society. It summarises their geographical features, economic activities and fiscal policies in the pre-oil period, and outlines the evolution of the sheikhdom political system; this is to present some of the important factors which have greatly influenced the utilisation of petroleum resources and oil revenue. Chapter II, describes the development of the oil industry, particularly crude oil production, looks briefly at its future and shows some of its world wide relationships. It also deals with aspects of the industry's impact, other than through the oil revenue, on the local economies. Chapter III, examines the actual oil revenue received by the states, looks at factors determining its volume and discusses some considerations affecting the achievement of the long-term optimum utilisation of oil resources and proceeds. Chapters IV-VII examine the allocational pattern of the oil revenue in each of the Emirates. The model used in computing the data is described in Chapter IV. Each of the

chapters considers particular problems involved in studying the Emirates under discussion, assesses the state public revenue, public expenditure and public reserve, and finally calculates the net allocation of the oil revenue, at the same time shedding light on the trends shown by the allocational pattern during the period studied. Chapter VIII compares the patterns and trends noted in Chapters IV-VII. It then looks at factors which have encouraged allocation to particular channels. Finally, it explores some of the factors which have determined the broadly-based policies of the Emirates in re-channelling their oil revenue. Chapter IX attempts to give reasons for relating oil revenue to economic development, defines my usage of "economic development" in this context, sheds light on some aspects of the Emirates' economic growth, and finally discusses some problems facing the Emirates' future economic development. In Chapter X, the conclusion, the need for an alternative approach is discussed and some considerations relevant to a development-oriented strategy are brought forward.

A few technical points need to be mentioned in this introduction. This study necessitated the choice of a model to act as a basis for investigating the channelling of oil revenue to different items of allocation. This was not an easy task, particularly since the author has been unable to find any study examining the allocation of such revenue over a period of time and trying to identify its actual channelling to a number of items of allocation and public expenditure. Thus we built a model which could identify the contribution of the Emirates' oil revenue to different items of expenditure and allocation. This model is described fully in Chapter IV. The model gives the basis for deducing the contribution of the oil revenue to different items of allocation, through assessing and presenting the state public revenue by source, public expenditure by economic category and function as far as the available information allows, and finally the net allocation to the reserve fund.

Currencies circulating in the Emirates over the period studied are varied. For most of the period the Rupee was the official currency. Since 1961 Kuwait has been issuing the Kuwaiti Dinar; by 1966 all the Emirates had issued new currencies. This problem, coupled with the problem of currency devaluations, makes it difficult to use one currency throughout the thesis. Therefore, when assessing each of the Emirates' revenue or expenditure, one currency is used to cover the whole period studied; this currency is the one circulating at the end of 1970 in the Emirate concerned. When a comparison of different Emirates is needed, the currency used is the Qatar and Dubai Riyal (QDR). This is mainly because the QDR was equal to the 1965 value of the Rupee, a currency familiar to almost everybody in the Emirates. The Rupee in 1965 = 21.000 US cents. In 1970 QDR = 21.000 US cents, KD = 13 3 QDR, BD = 10 QDR, £ = 11.4 QDR.

The problem of obtaining a series of statistics suitable for comparative purposes almost defeated us. The lack of clarity and the unreliability of some official statistics, such as those concerned with oil revenue, public revenue, public expenditure and public reserves, is considerable. Therefore, we have examined all the available sources to construct as reliable a picture as possible; this is done in particular for the essential data. Thus we have consulted a wide range of first hand documents and sources and have tested findings by all the information available. However, in some chapters of the thesis, particularly Chapter I and IX, the data is laid out in reference form, partly because the difficulty of finding strictly comparable data for all the Emirates requires fairly detailed cross referencing.

All the Emirates for a part or all the period studied have followed the Hijry calendar. We have either converted dates to the Western calendar, or explicitly mentioned the Hijry calendar. When any reference to Hijry calendar is made, this indicates that the Hijry date is the

original one.

Fairly detailed information has been obtained from the data fed to the computer; some of it is presented in the attached appendices. The source for each group of appendices attached to Chapters IV-VII have been stated on the page preceding the group of appendices concerned.

Finally a few terms used in the study need to be mentioned here. Public expenditure is used to include public expenditure in the ordinary sense and the allocation to the Ruling family. Oil reserve is taken to mean published proven oil reserve. Economic development, economic growth, and economic progress are taken to have the same meaning; the different terms were chosen only for the sake of variety.

CHAPTER I

THE PROLOGUE

This chapter, the Prologue, deals with the geographical features of the Emirates, their economic activities and fiscal policies in the pre-oil period, and finally the evolution of the Sheikdom political system. These topics, discussed in the four parts of the chapter, illuminate some of the basic factors determining the way in which the oil revenue is allocated.

Part One: Geographical Features

A - Area

The Emirates consist of Kuwait, Bahrain, Qatar and UAE*, the present political units of the Arabian Gulf Sheikdoms. They occupy approximately 124,162 sq.km., as detailed in the following table:

TABLE 1.1

THE EMIRATES' AREA

<u>State</u>	<u>Area sq.km.</u>
Kuwait	17,850*
Bahrain	698
Qatar	22,014
UAE	83,600
Total	<u><u>124,162</u></u>

Source: MEED, 25th December, 1970, pp.1498, 1500 and 1510.

* including the Kuwait Share of the partitioned zone.

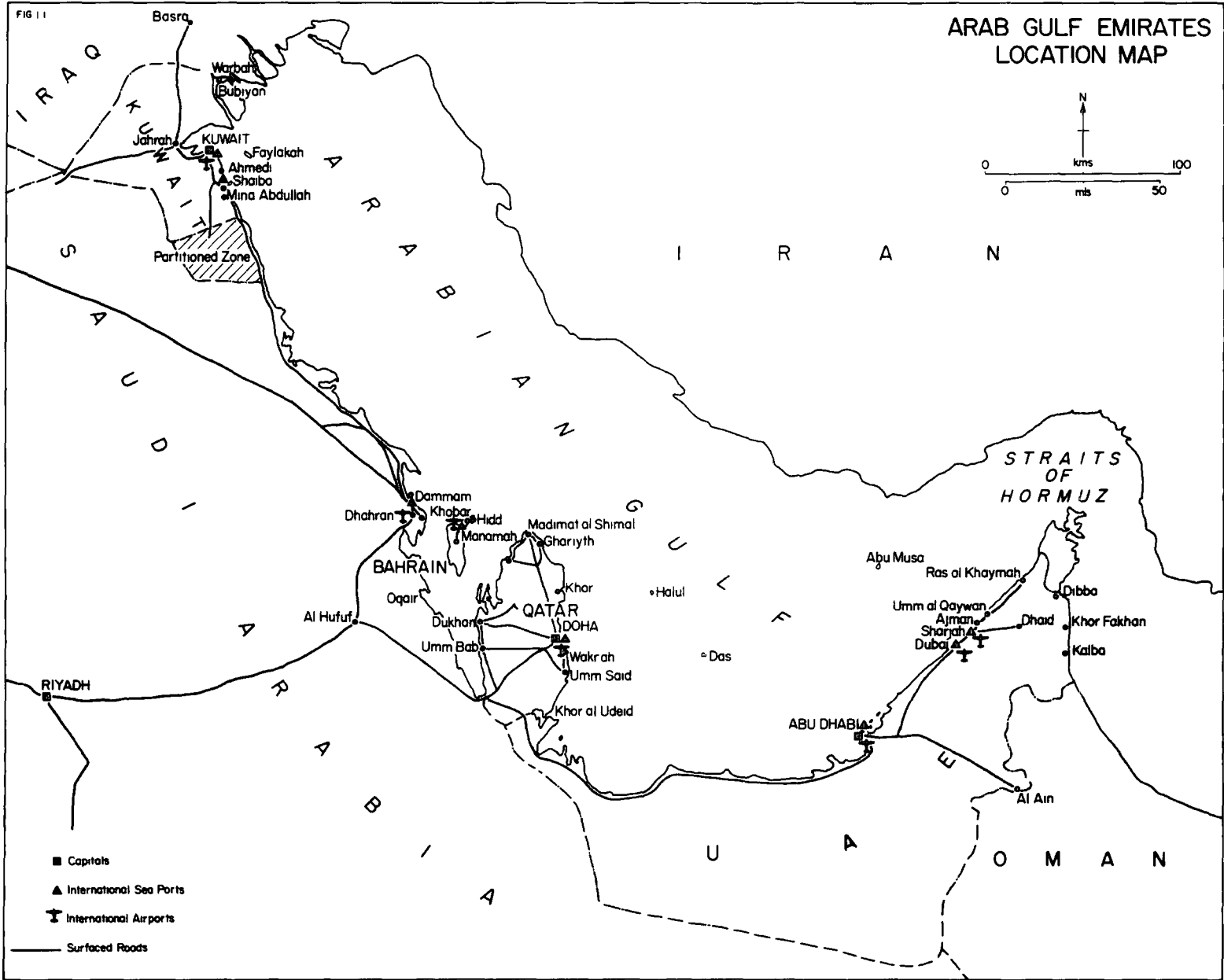
The map of the Emirates (Fig. 1.1) shows the frontiers, the main towns, the principal highways and the International ports and airports.

These four states together with the eastern province of Saudi Arabia form the eastern coastal region of the Arabian Peninsula. This coastal

* UAE (United Arab Emirates) was formed at the end of 1971. The Union consists of Abu Dhabi, Dubai, Sharqh, Ajman, Umm Al-Qawain, Ras Al-Khaimah and Fujarah. The seven Emirates were known as Trucial States or the Oman Coast. In this study we will refer to these seven as UAE for convenience.

FIG 11

ARAB GULF EMIRATES LOCATION MAP



- Capitals
- ▲ International Sea Ports
- ✈ International Airports
- Surfaced Roads

region is described by Professor Fisher as follows:

"The coastal region is everywhere below 200m in altitude and consists for the greater part of an undulating plain, diversified very occasionally by low hills, often anticlinal. Much of the surface is sand-or gravel-covered, and some drifting sand can be traced by its lithology to the regions of origin within various areas of inner Arabia. From this interior reservoir sand is carried by the frequent strong winds towards the east, where it may accumulate in mobile dunes, or as a sheet. Even hillsides may be thinly covered by sand blown from elsewhere. In other areas lie flatter zones of gravel, diversified by shallow wadi beds. These wadis, like the plains, may have local deposits of silt or alluviums;...

The coastline, being one of oscillation (with the current phase one of gentle and irregular subsidence), is fairly shallow, and fringed by extensive coral reefs. Lagoons and spits are also frequent features, with intricate creeks and salt flats; in some localities it is difficult to distinguish sea from land, with a high tidal amplitude through tortuous channels and winding creeks further adding to the difficulty. Sebkahs (saltmarsh), some fed by the sea, others by the evaporation of water that seeps to the surface from underground sources, are another prominent feature;... the Sebkahs are effective factors in isolating one stretch of coast from another."(1)

The Emirates together with the other Gulf States, share the continental shelves of the Gulf which cover an area of about 155,200 sq.km. (2) A considerable part of the shallow water segment belongs to the Emirates. This part provided the Emirates with the best pearl banks in the past and now provides them with their offshore oil fields, in which the scattered islands play an important role.

B - Natural Resources

The Emirates, apart from petroleum resources (see Chap. II), hold very little natural resources. These are mainly sea resources, non-metallic mineral resources and agricultural resources.

B1 - Sea Resources

Among the sea resources, fish is important. The Gulf fish resources, though neither extensively surveyed nor efficiently conserved, nevertheless provide for the area's entire need of fresh fish and produce a surplus for export (shrimps, dried fish). The Gulf fishing industry could extend its activities to the Arabian Sea and the Indian Ocean and perhaps to the other open seas.

After the fish resources, comes the potential production of salt and its derived products from the sea. Such products could be utilized as raw material for a chemical industry. A recent survey in Qatar found that sea salinity at Khor Al-Udiad is 24,000 million T.D.S. and at the Gulf of Salwa 20,000 (3) The production of salt from sea water could be associated with the distillation of the sea water, and could benefit greatly from the utilisation of abundant solar energy.

Among other sea resources, the pearl banks have played an essential role in the economic life of the people (see Part Two of this chapter). The sea banks could still offer a reasonable potential for commercial exploitation. This exploitation could be both by fishing for natural pearls and their shell, and by utilizing the banks for the production of cultured pearls. (4)

Finally, there are two other fields of activity related to the sea. First, the people of the Emirates, having been seafarers in the past, and lacking sufficient productive employment outlets at present, could well benefit from their geographical position and engage in developing their shipping industry and in related activities. At least they are on an equal footing with others at these activities. Secondly, the Gulf, especially some parts of it, could develop a tourist industry. The warm weather of the Emirates in the winter may make it possible to attract tourists to the winter seaside resorts. There are from five to seven months (from autumn to spring) during which the temperature is suitable for sea swimming and related amusements.

B2 - Non-metallic Resources

Among these resources, sand, clay, limestone, Gypsum, and marble are the principal. These materials are very essential for building material industries, from brick making to the cement industry. Their other potential is utilization for industry as in the case of sand material, which can provide raw material for a Glass Industry if its silica content

is very high.* However, a recent geological survey in Qatar found that the silica content in the sand ranged only from 74.4% to 78%.⁽⁵⁾ In view of the large Sebkahs and sandy areas, even limestone is not plentiful everywhere, a factor restricting the prospects of a Cement Industry. Gypsum material is also relatively scarce. As for marble, only Ajman has a definite commercial deposit; the commercial exploitability of a deposit discovered in Qatar has yet to be investigated.

B3 - Agriculture

The Emirates are arid lands and except for a few oases, cultivation is slight. The agricultural potential is greatly restricted by lack of water. No major or minor river exists, and precipitation is insufficient for any form of rainfed cultivation. At Dubai, for example, the 1950-1965 average rainfall was recorded as 112mm per annum with its highest level of 29mm in January.⁽⁶⁾ In the other Emirates the rainfall is not very different from the Dubai average. Suitable agricultural soil is lacking, since Sebkahs, sand and limestone dunes cover most of the area. The hot weather during the long summer also has bad effects on the cultivated land and animal husbandry and herding.

The present area of cultivated land in the Emirates is very small. The largest area is in the south eastern part of UAE, where about 3,500 hectares are reported under cultivation.⁽⁷⁾ Bahrain and Abu Dhabi come next, followed by Qatar and Kuwait. In the UAE, aflaj and springs are utilized for irrigation while in Kuwait and Qatar shallow underground water wells are the only means of irrigation. However, it is noticeable that a considerable waste of the scarce water sources exists:** consequently, if the maximum use is made of the available water, and if research is conducted into the most suitable crops, then the agricultural potential of the Emirates will be somewhat increased.

* I have been told that it should be 99%.

** In 1970 about 25% of the total water extracted from underground resources in Bahrain was used for decorative purposes by Municipalities.

C - PopulationC1 - Development

Prior to the development of oil resources in the last decade the population of the Emirates was employed in the pearling industry, fishing, seafaring, nomadic herding and oasis cultivation. The population in this part has never been stable, its size used to depend on grazing opportunities and the prosperity of the pearling industry. However, there was some permanent settlement, mainly in the coastal towns and villages and the oases. Since the development of the oil industry and particularly since the 1950's, the Emirates' population has increased considerably, mainly owing to immigration. There has been migration between the Emirates as well as immigration from other countries.

The Emirates, with the exception of Kuwait and Bahrain, had no census before the late 1960's. Table 1.2 shows the trend in population numbers.

TABLE 1.2

THE POPULATION DEVELOPMENT OF THE EMIRATES, 1905-1970

<u>Year</u>	<u>Kuwait</u>	<u>Bahrain</u>	<u>Qatar</u>	<u>UAE</u>	<u>Total</u>
1905 ¹	48,000	100,000	27,000	86,200	271,200
1957	206,473 ^c	115,000 ²	50,000 ³	130,000 ³	501,473
1970	733,196 ^c	216,815 ^{c4}	111,133 ^{c5}	300,000 ⁶	1,361,144

c = censuses

1 - 1905: Lorimer, J.G., Dalil Al-Khalij (Geographical Section) estimates; SAK, 1971;

2 - 1957: Bahrain, Cummins, J.W., 'Report of an Inquiry', p.2, estimate;

3 - 1957: Personal estimates;

4 - 1970: SAB, 1971;

5 - Qatar: 1970, MEDD, 'Economic Survey of Qatar', p 5;

6 - UAE: Al-Batrol wa Al-Sinah, 1971, p.14, estimate.

C2 - Demographic Features

The latest censuses give some indication of the demographic features in the Emirates. Table 1.3 overleaf provides the following indicators:

TABLE 1.3
SOME DEMOGRAPHIC INDICATORS, 1970

	<u>Kuwait</u> <u>1970</u>	<u>Bahrain</u> <u>1971</u>	<u>Qatar</u> <u>1970</u>	<u>UAE</u> <u>1971</u>
Population	733,196	216,078	111,184	300,000
Density (per km ²)	42	309	5	3
Estimated annual increase (1965-70)	7.6%	3.5%	8.1%	6.0%
Percentage of citizens to the total population	44.5%	82.4%	40.5%	N.A.
Male percentage	56.8%	53.8%	64.5%	N.A.
Urban population	N.A	78.1%	N.A.	N.A.

Source: Tables 1.1 and 1.2; SAK, 1971; Statistical Bureau, Bahrain, Statistics of the Population Census 1971; MEDD, 'Economic Survey of Qatar', p 5; Fisher, W.B., op.cit., p.255.

From this table we can observe the impact of the development of oil resources on demographic factors. People in particular were attracted by the employment opportunities and higher wages compared with other countries in the Middle East. The immigration to the Emirates has taken place in two stages. The first consisted of normal immigration, i.e. movement from one Emirate to another and the movement from the Arabian Peninsula, Iraq and the western coast of Iran (Hawalah) to or from the Emirates. This type of movement has been noted throughout long history of the Emirates. The second stage becomes noticeable during the present oil era, when people from the rest of the Arab world, Iran, India and Pakistan, and other parts of the world have emigrated to the Emirates. However, this latter stage again subdivides into two phases. The first was during the early phase of construction, when most of the expatriates were unskilled male labourers (Qatar and UAE). In the second phase the immigrants were more settled, a considerable percentage of them white collar and technical workers, and most of them accompanied by their families (Kuwait).^{*}

^{*} In Kuwait I have been told that the Government is considering the possibility of offering free education for non-Kuwaiti children so as to encourage immigrants to bring their families, and thus ease social problems and segregation.

As for population density, although the Emirates are considered arid lands, they have a density comparable with other Middle East countries. Bahrain, for example, has the highest in the Middle East, Kuwait's is almost equal to Turkey's, and Qatar has a greater density of population than Syria and Oman. (8)

C3 - Economically Active Population

The distribution of the labour force of the Emirates among the different economic activities is listed below:

TABLE 1.4

PERCENTAGE DISTRIBUTION OF THE POPULATION BY ECONOMIC ACTIVITIES, 1970

	<u>Kuwait</u>	<u>Bahrain⁺⁺</u>	<u>Qatar</u>	<u>UAE⁺</u> <u>Abu Dhabi^{***}</u>	<u>Dubai</u>	<u>Others</u>
Agriculture and Fishing	1%	7%	4%	16%	9%	42%
Mining, Quarrying and Manufacturing	11%	14%	17% ⁺			
Electricity and Water	2%	3%	N.A.	N.A.	N.A.	N.A.
Construction	9%	17%	16%	40%	17%	17%
Wholesale and Retail	9%	12%	16%	6%	19%	8%
Transport Storage and Communication	3%	13%	7%	7%	17%	10%
Community, Social and Personal Services	29%	30%	13%	15%	15%	15%
Others	35%	4%	27%	13%	17%	6%
Total	<u>232,336</u>	<u>60,301</u>	<u>48,369</u>	<u>29,284</u>	<u>24,014</u>	<u>23,715</u>
% of population	31.4%	28%	48%	63%		36%

+ including electricity and water production.

* 1968.

++ 1971.

*** The proportion of citizens was 44%

Source: Kuwait: SAK, 1973, pp.49-51;

Bahrain: Statistical Bureau, Statistics of Population Census 1971, pp.23-24;

Qatar: Ministry of Economy and Commerce, Al-Aard Al-Eqtsady 1971, p.9;

UAE: Hill, A.G., 'The Gulf States: Petroleum and Population Growth' p.269, MEDD, 'Economic Survey of Northern Trucial States' p.255; SBA, 1969 and 1970, p.1.

Table 1.4 shows the following to be the main characteristics of the economically active population of the Emirates.

- 1 The primary sector in the oil producing Emirates engaged a very small proportion of the economically active population.
2. The primary and secondary sectors in Kuwait and Qatar engaged between one quarter and one third of the population, while the tertiary sector claimed 77% of the total economically active population in Kuwait, 74% in Dubai, 64% in Qatar, 59% in Bahrain, 44% in Abu Dhabi, and 41% in the small Trucial States
- 3 The economically active in some of the Emirates formed a large portion of the total population, reaching as high as 63% in Abu Dhabi, where immigrants are mainly male. However, this high proportion no longer remains if citizens alone are considered (see Chap IX).

Part Two. Economic Activities in the Pre-Oil Period

For some centuries the people of the Emirates have been engaged in the pearl industry and related crafts and services, entrepot trade and shipping, nomadic herding, and the cultivation of the few scattered oases.

A - Pearling Industry

The pearl industry was the leading activity upon which the whole economic life and even the settlement and social life of the Emirates used to depend. Indeed it was the pearling industry which directly and indirectly provided the largest part of the national income, employment and revenue of the sheikhdoms. Thus the fluctuation in this industry's earnings affected the whole life of the area, and during the decline of this industry, which began after the First World War and reached its worst stage at the time of the great depression of 1929, the people of the Emirates experienced very difficult economic crises. (9)

The pearling industry had been one of the principal activities

in the Emirates for centuries. Not only in the first century A.D. but as far back as 2000 B.C. Bahrain or "Dilmun" was famous for her pearls.⁽¹⁰⁾ However, the modern history of the Gulf pearling industry dates back over the last few centuries, and reached its peak by the late decades of the 19th century and the first two decades of this century. During this period the people of the Emirates enjoyed a prosperity reflected in the new coastal settlements and the local architecture, which was much superior to that of the 1930's and 1940's. Bahrain, Lingah, Kuwait and later Dubai were the commercial centres for the pearling industry.

Figure 1.2 illustrates the rise and fall of the Gulf pearling industry from the Eighteenth Century onward.⁽¹¹⁾ As the figure indicates, the industry witnessed its most prosperous days just before the First World War. The average per capita income of people engaged in the Gulf pearling industry at the beginning of this century reached an estimated level of £27 (see Table 1.5 and Fig. 1.2).

All the Gulf states were engaged in the pearling industry but the Emirates were the main active region in this industry. The reasons for this were the lack of alternative employment such as agriculture, and the fact that almost all the known shallow pearl banks were close to them. The following table shows the Emirates' position in this industry.

TABLE 1.5

EMPLOYMENT AND NUMBER OF BOATS ENGAGED IN THE GULF PEARLING INDUSTRY, 1907

<u>Country</u>	<u>Boats Engaged</u>	<u>Persons Employed</u>
UAE (Trucial States)	1,215	22,045
Qatar	817	12,890
Bahrain	917	17,633
Kuwait	461	9,200
Total	<u>3,410</u>	<u>61,768</u>
Al-Hasa Province	167	3,444
Persian Coast	<u>960</u>	<u>8,884</u>
Gulf Total	4,501	74,096

Source: Lorimer, J.G., op.cit., (Historical Section), Vol. VI, pp.3112-3120.

Gulf Export of Pearls(selected years)
value in 000 £

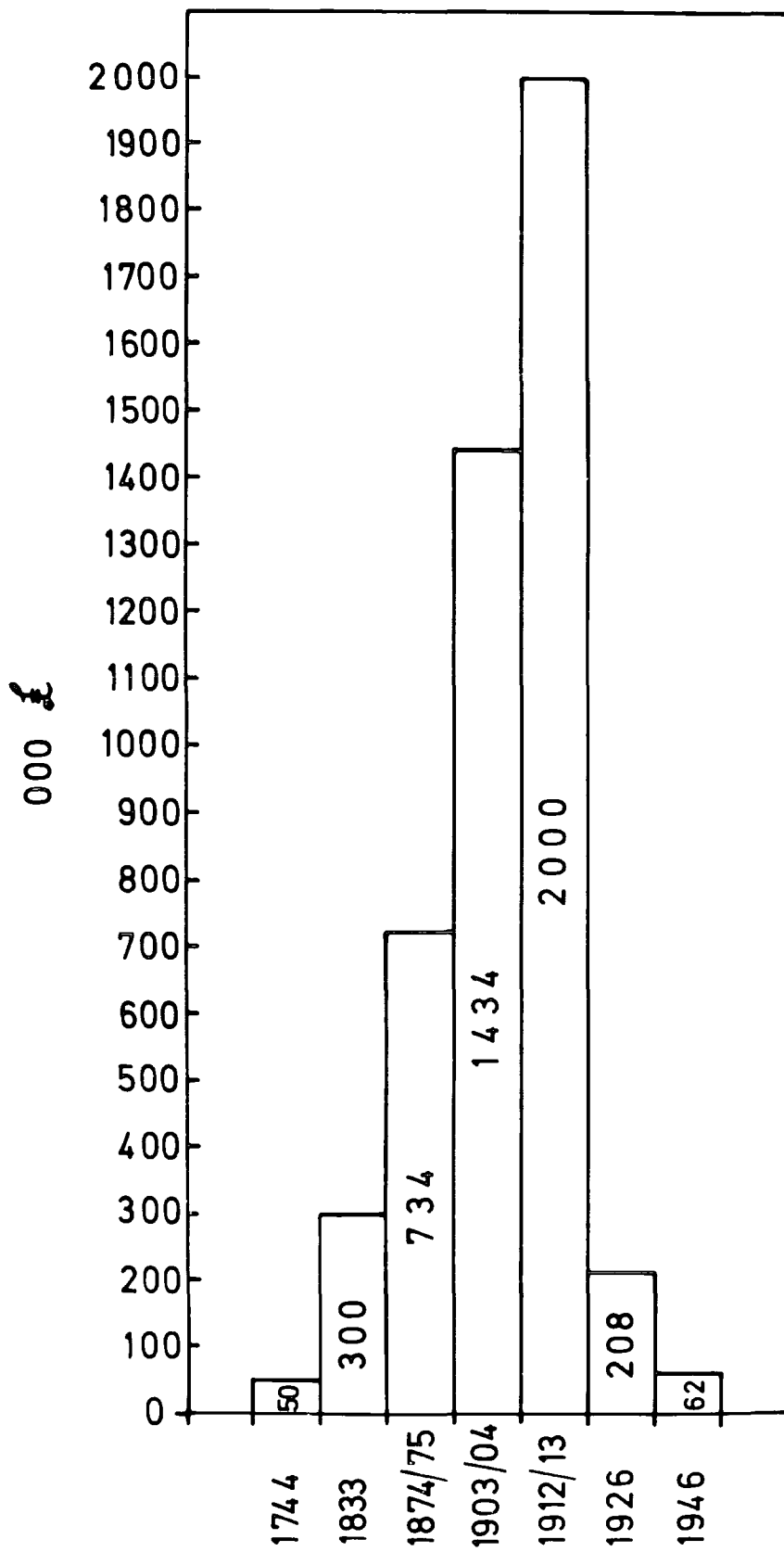


FIG 1.2

From Table 1.5 we may see that 82.4% of the total persons employed and 75.5% of the total boats engaged belonged to the Emirates. We may also see that the men directly employed represented more than 45.0% of the estimated male population of the Emirates (see Table 1.2), or almost every able-bodied man.

The prosperous pearling industry of the Emirates went into decline since World War I when it faced the first important crisis in this century. This was followed by the competition of Japanese cultured pearls, the great depression of 1929, the Second World War and lastly the better employment prospects directly and indirectly caused by the oil industry. These factors reduced the Gulf pearling fleets, and consequently the people engaged in the industry and the economic benefits derived from it. Taking Bahrain as an example we see that the pearling fleet declined from 917 boats in 1907 to 529 in 1928,⁽¹²⁾ 248 in 1938,⁽¹³⁾ 83 in 1948,⁽¹⁴⁾ and 7 in 1969.⁽¹⁵⁾

A detailed account of the pearl industry is out of place here, but two points are important. First, the role of chance in the industry was accepted as a result of traditional practice and religious feeling, for no man desired a fixed income, but accepted his fate, hoping to earn what "God might allow". Secondly, great trust was placed in the pearl merchants and boat captains, or 'Nukhida', who represented the crew during the course of accounting.⁽¹⁶⁾ These administrators were left to decide the price of the pearls and the cost of the voyage, and to allocate to each member of the crew his share of the receipts.

This is in brief the story of the pearling industry. Although it has now left the scene, and the old social structure has changed, it still affects the social attitudes of the people and their understanding of the present (see Chap VIII).

B - Trade and Maritime Transport

The people of the Emirates have had a long history of seafaring and

trade Since the region was a coastal one with few natural resources, the population was forced to look to the sea to meet their essential needs.

Long before the time of the famous Arabian seafarer Ahmed Bin Majid from Julfar (Ras Al-Khaimah today), seafaring and shipping activities were among the principal occupations of the Gulf Arabs. (17) The Gulf Arabs were the principal seafarers between the Gulf and the other parts of Asia and Africa, and they became the most expert in seafaring in these parts of the world. (18)

In the nineteenth century, the Gulf Arabs were faced with the competition of cheap and regular steamer services and consequently their maritime activities became less important. Nevertheless some shipping services were retained between the Gulf ports and with other ports in the Red Sea, East Africa and South-East Asia, and shipping remained the second industry in the Emirates. Bahrain, for example, had about one hundred ships occupied in maritime transport in 1905. (19) During World War I, when the regular steamer services were interrupted, the shipping services provided by the Emirates resumed their old scale. Guide books were edited to help the seafarers in their voyages to African and Asian ports. (20) During this period, Kuwait was the principal country on the Arabian side of the Gulf engaged in transport by sea. By the end of 1920 the Kuwaiti commercial fleet consisted of 150 ships with a load capacity of 40,000 tons. (21) This activity again came to a halt between the two world wars and resumed during the Second World War. (22) One main reason for this elasticity, was that the shipping trade was complementary to the pearling industry. Again, as in the pearling industry, the seafarers practised a sharing system in the distribution of their earnings, with fixed shares but not fixed incomes. (23)

The Gulf Arabs traded not only with neighbouring countries, but also with all the ports they visited in their voyages in East Africa and

South Asia, buying and selling from one port to another. (24)

The main trading centres on the Arabian side of the Gulf were Kuwait in the north, Bahrain in the middle and, from the beginning of this century, Dubai in the south. These three centres supplied the interior parts of the Arabian peninsula, South Iraq, the lower Gulf, and Oman.

C - Other Activities

C1 - Agriculture

Agriculture was one of the principal activities in Bahrain and the interior oases of the UAE, but was very minor in Qatar and Kuwait. The cultivable land in Bahrain in the 1930's was estimated to equal $\frac{1}{20}$ of Bahrain's total area (25) The main crop was dates, of which Bahrain's production in 1905 was 5,200 tons. (26) In addition to date palms, limes, bananas, oranges, tomatoes, onions, melons and a wide range of other vegetables are grown in the Emirates. Also in some eastern areas of the southern region tobacco is also cultivated.

C2 - Boat Building

The Emirates were famous for building all the local craft used in the pearling and shipping industries Bahrain and Kuwait were the main centres for this industry, Bahrain's production amounting to 119 boats in 1926, 74 in 1927 and 89 in 1928. (27) During the 1920's this industry succeeded in applying sea diesel engines to the local craft, and in 1930 succeeded in building a small "tanker" for carrying oil products from Abadan to Bahrain. (28)

In Kuwait the industry was able to build yachts of European design of 65 feet length in 1931 and 80 feet length in 1932. (29)

The weaving of the sails of boats was one of about a dozen other local crafts.

C3 - Herding

Herding in the Emirates was mainly a complementary activity for the

coastal settlements, while it was the principal activity in the interior part. However, nomadic life and the tribes' movements and loyalties played a major part in local politics. Consequently the tribes in the interior were subsidised by local sheikhs and did not depend entirely on their nomadic herding.

Part Three: Fiscal Policies in the Pre-Oil Period

A - Introduction

In the pre-oil era we may distinguish three phases in the Emirates' fiscal policies

The first was the phase during which the concept of Sheikhdom was formed on the basis of tribal alliance. During this phase the Emirates' revenue was dependant on the Sheikhs' private income and any other public revenue, either collected from taxes and levies or given to them by tribes as participation in the public burden. All the public revenues were agreed by the leaders of each tribal alliance and spent on their public affairs. However, all the income was in the hands of Sheikh to utilize as he thought best within the limits of his need for his people's consent to his policies.

The second phase started when strong Sheikhs came to power and tried with the help of nomadic tribes, to impose laws enforcing taxation against the will of the people.⁽³⁰⁾ By this stage a sheikhdom had passed beyond its incipient phase and become an established power system. Bahrain, Kuwait, and Abu Dhabi were among those that reached this phase during the nineteenth century, and by 1905 the revenue of these Emirates was derived from the following sources:

TABLE 1.6
THE REVENUE OF THE SHEIKHDOMS BY SOURCE, 1905

	<u>The Sheikh's Private Income</u>	<u>Public Income</u>	<u>Total</u>
Bahrain Emirate (000 Rs)	89	219	300
Kuwait (000 dollars) ²	125	274	399
Abu Dhabi (000 dollars)	N A.	75	75

² Dollar Marie Theresa in 1905-1906 = between Rs. 1.32 - 1.52.

Source: Lorimer, J.G., op.cit., (Geographical Section), Vol. I, pp.358-9;
Vol. II, p.621, Vol. IV, pp.1767-8.

Public revenue included taxes, custom duties and other fees and dues. The stronger the ruler the greater the proportion of the revenue derived from public sources. However, no distinction whatever was made between the public purse and the ruler's privy purse. Thus the revenue collected in Bahrain in 1905 was spent as shown in Table 1.7.

TABLE 1.7
BAHRAIN SHEIKHDOM'S EXPENDITURE, 1905

(000 Rs)

The Ruler's private expenditure (including the guards' wages)	100
Other private expenditure	30
Ruling Family	100
Administration expenditure	14
Grants and present to the Bedouins	<u>56</u>
	<u>300</u>

Source: Lorimer, J.G., op.cit., (Geographical Section), Vol. I, pp.358-9.

From Table 1.7 we may see that less than 5% of the Sheikhdom's revenue was spent on the administration, while almost threequarters was allocated to the Ruler and his family, with the rest spent on what might be called law and order.

By the 1920's and 1930's the third phase of the sheikhdoms' fiscal policies had begun. More organized national accounts were produced, and the distinction between the privy purse and the public purse was drawn.

This phase also saw an increasing tendency to use part of public revenue to finance the social services and development schemes. The birth of this stage was greeted by strong opposition from the rulers, strong demands from the people, and was encouraged by the British Government representatives in the Gulf.

We may now turn to study those Emirates that reached this phase before 1950, since when the oil revenue had dominated the scene.

B - Bahrain

The administrative and financial reform in Bahrain was important not only because it succeeded in making a clear distinction between the ruler's privy purse and the public purse for the first time in the Emirates, but also because it indicated the British Government's intention to encourage such a policy

The administrative and financial reform in Bahrain dates from the early 1920's. By then the relationship between Sheikh Issa, the aged Ruler of Bahrain, and the Political Agent, was becoming very difficult, while at the same time the competition between Sheikh Issa's sons for the Rulership of Bahrain was reaching a dangerous stage.⁽³¹⁾ Also, in 1922, a strong demand arose, particularly from the Shyiah Sect, to end forced labour and establish a system of rule more acceptable to a changing society.⁽³²⁾

To pave the way for administrative and financial reform and to establish a modern form of Government "the political agent was able to assist a reconciliation between Sheikh Hamed and Abdulla^{*} and an arrangement was arrived at whereby the latter benefited financially from his elder brother and received a promise of further financial assistance in the event of Sheikh Hamed succeeding to the Sheikhdom".⁽³³⁾ By 1924 Sheikh Hamed, the Heir Apparent, assisted by the British Government,

* Sons of Sheikh Issa. Sheikh Hamed was the recognized Heir Apparent.

became the actual ruler of Bahrain, but still in his capacity as the deputy Ruler, while his father "Sheikh Issa Bin Ali .. continued his attitude of passive resistance to all changes made by Sheikh Hamed for the better rule of the island."⁽³⁴⁾ One of the first changes brought by this reform was the fixing of the payment to the ruling family (1924-25) This aroused the opposition of the aged ruler, who was supported by the Al-Khalifah family's refusal to accept the allocation made to him.⁽³⁵⁾ The following table shows the payment to the Civil List in the first three years of the reform.

TABLE 1.8

PAYMENTS TO THE CIVIL LIST IN BAHRAIN, 1924/25-1926/27

(000 Rs)

<u>Year</u> [*]	<u>Public Revenue</u>	<u>Civil List</u>	<u>Percentage</u>
1924/25	900	375	39.7%
1925/26	1138	396	35.0%
1926/27	1200	461	38.0%

* Hijry years 1343, 1344 and 1345.

Source: IOR, R/15/2/1/150, (Finance of Bahrain State) (letter from Bahrain Government Revenue Department to P.A. Bahrain, dated 7/2/1932).

The second step in this reform was the modernisation of the administration. As the revenue of Bahrain State increased, Sheikh Hamed desired to create an efficient administration and lighten the burden carried by the Political Agent during the first years of the reform. With the encouragement of the Political Resident, he sought the appointment of a "British Officer who would come to Bahrain as Financial Adviser or "Vazir".⁽³⁶⁾ In 1926 Mr. C D. Belgrave, later Sir Charles Belgrave, was appointed as Financial Adviser to Sheikh Hamed, and since then a

* "Vazir" or Wazir, in Arabic means Minister and in Islamic tradition the Ruler usually had one wazir who acted as premier. This understanding by Sheikh Hamed of the role of the Adviser may explain the actual role played by Sir Charles Belgrave in the Bahrain Administration.

modern type of administration has been in existence and an annual budget has been produced. For the first three years after the appointment of the adviser, the Bahrain state budget expenditure was allocated as shown in Table 1 9.

TABLE 1 9

BAHRAIN STATE ACTUAL PUBLIC EXPENDITURE, 1928/29//1930/31*

(000 Rs)

<u>Expenditure</u>	<u>Total</u>	<u>Percentage</u>
Ruling Family (including Privy Purse)	1500	42.3%
Social Services	283	8.0%
State Protection (Law and Order)	465	13.1%
Other Capital Schemes	411	11.6%
Administration and others	<u>888</u>	<u>25.0%</u>
Total	<u>3547</u>	<u>100.0%</u>

* Corresponded to 1347-1349 Hijry

Source: Calculated from Bahrain Govt , Actual Budgets: IOR, R/15/2/8/24 (Bahrain Government Annual Report, 1930/31).

The new adviser faced two main problems, the effect of the 1929 depression on the Bahrain state revenue and the arranged Civil List which became the main item of public expenditure, as seen in Table 1.10

TABLE 1.10

PAYMENTS TO THE CIVIL LIST IN BAHRAIN, 1927/28//1931/32

(000 Rs)

<u>Year^h</u>	<u>Public Revenue</u>	<u>Civil Lists</u>	<u>as % of P. Revenue</u>
1927/28	1230	462	37.7%
1928/29	1242	504	40.5%
1929/30	1134	508	45.5%
1930/31	817	488	59.7%
1931/32	509	289	56.5%

* Hijry years 1346-1349.

Source: IOR, R/15/2/1/150 (Letter from Bahrain Government Revenue Dept., to P.A Bahrain, dated 7/2/1932).

The Civil List payment consisted of payments to Sheikh Issa Bin Ali,

the nominal Ruler of Bahrain. In 1932, at the time of his death, the payment was Rs 60,000 per annum.⁽³⁷⁾ Payments were also made to Sheikh Hamed's brothers, other Al-Khalifa family members, and to Sheikh Hamed himself. He received the following amounts:

TABLE 1.11

SHEIKH HAMED'S ALLOCATION FROM PUBLIC REVENUE AND HIS PRIVATE INCOME,

1927/28//1930/31 (000 Rs)

<u>Year*</u>	<u>Allocation</u>	<u>Percentage of p. revenue</u>	<u>Private Income approximately</u>
1927/28	162	13.2%	61
1928/29	162	13.0%	60
1929/30	160	14.0%	83
1930/31	159	19.5%	35

* Hijry years 1346-1348.

Source. IOR, R/15/2/1/150 (Letter from Bahrain Government Revenue Dept., to P.A. Bahrain, dated 7/2/1932).

During this financial crisis the whole question of the Civil List had been raised in an attempt to prevent such a high proportion of the public revenue from going to a few idle people, for Bahrain, like the other Emirates, "has a numerous ruling family who have traditionally lived in idleness at the expense of the State"⁽³⁸⁾

Consequently considerable negotiations between the parties concerned had been going on, and different pressures were brought to bear on the Ruler when his father died in 1932, "to let a large proportion of the allowance,^y if possible the whole, lapse to the State."⁽³⁹⁾ This was an attempt at a long-term policy of reducing the Civil List. At the same time the search for an immediate solution was also going on, meanwhile the Civil List in the first six months of 1351^x accounted for 62% of the total revenue.⁽⁴⁰⁾ The solution to the problem appeared to have been found in the idea that the "Civil List should depend on the revenue"

^y Shaikh Issa allowance.

^x Hijry.

as suggested by the Political Resident in his letter to the Political Agent in Bahrain, to be communicated to the Ruler, where he said:

It would be an excellent thing if some standard for the Civil List could be fixed in relation to the prosperity, or otherwise, of the state. In discussing this point you suggest that a sliding scale for the Civil List, with a maximum and perhaps minimum limit, might be fixed, in preparation to the gross revenue of the state. (41)

This suggestion seems to have been accepted and the adviser wrote to the Political Agent, Bahrain.

From the beginning of next year the Civil List should depend on the revenue of the previous year, and should not be a fixed amount independent of revenue. A maximum should be settled. Or as has been suggested, there should be a fixed amount with something in the nature of a bonus depending on the increase of revenue (42)

This long discussion about what might be called the central question in the internal politics of the Emirates, ended here with the Political Resident's policy as he wrote to the Political Agent, "we should concentrate on the all important question of trying to get the Ruler and the Al-Khalifa to accept a reasonable sliding scale in the Civil List." (43)

However, the Civil List allocation was never willingly accepted by the Ruler and the Ruling family. This made the adviser fear an attack on the state fund when he went on leave. As he wrote at the end of 1933, while proceeding to go on leave

The possibilities which I am afraid of are, an attack on the reserve and attempts to increase the Civil List by reducing other expenses such as education, municipalities, police, etc (44)

The impact of the above mentioned attempts to solve the heavy burden on the state revenue caused by the Civil List, resulted in the policy which has been adopted since 1935. "In 1935 when the Bahrain Government received the first oil royalties, a system of financial administration was settled upon as follows. The oil royalty would be divided into thirds, one third going to the privy purse of the Ruler, one third to non-recurrent capital expenditure and the remaining third

to be invested "(45) The Civil List excluding the Ruler's allocation should be met from other revenue on a fixed basis, which resulted in a considerable proportional reduction. Thus in 1947/48 the Civil List payment was Rs 632,000 or about 6% of the year's total revenue. (46) The corresponding figure in 1929/30 was Rs 342,000 or 26.5% (see Table 1.10 and 1.11). As for the total payment to the Ruling family, the proportion decreased from 43% in 1928/29 to only 20.7% in 1947/48. (47) On the other hand the reform made a great impact by calling into existence organised fiscal accounts and a modern administration interested in social services and development schemes (see Table 1.9 and 1367 Hijry budget)

This in brief was the result of the Administrative and Financial Reform in Bahrain before the 1950's oil agreements resulted in increasing oil revenue so that it became the main source of the public revenue; the Ruler's income also rose again considerably in relation to public revenue. This is perhaps one of the weakest points in the 1930's financial reform, for the Ruler's income was geared directly to the oil income and not fixed to the public revenue, with a maximum limit, as had been suggested. However, the effect of this may be examined later in the study (see Chap. IV).

C - Kuwait

The main forces inducing administrative and financial reform in Kuwait were somewhat different from those in Bahrain. The popular demand in Kuwait was more clear than in Bahrain, while the British played an assisting role. (48) The roots of the Kuwait administrative and financial reform of 1938 date back to 1921 when Sheikh Ahmed Al-Jaber succeeded Sheikh Salim as Ruler. At that time the establishment of an elected council or ('Majlis ashura'), was one of the main ideas (49) However, it was not pressed enough to appear clearly in the agreement between the people of Kuwait and Sheikh Ahmed. (50)

The problems of allocation to the Civil List were a permanent

feature of Kuwaiti fiscal policy. Thus it was not strange for Sheikh Ahmed Al-Jaber to be faced with the problem of scaling the Civil List payment a month or so after his succession in 1921.⁽⁵¹⁾ However, the Ruler seemed to be skilled at the game, and was able to increase his allocation from almost the same as the other senior members of the family in 1921,⁽⁵²⁾ to more than three quarters of the total public revenue in addition to the income from the Al-Sabah family property in 1938 (Table 1 12)

This development, together with the impact of Bahrain's financial and administrative reform and the growing awareness of the people, gave the main impetus to the demand of the Kuwaiti popular movement (1938) for better utilisation of the public revenue.⁽⁵³⁾

In 1937 the public revenue of the Kuwait Emirate was allocated as follows:

TABLE 1 12

THE ALLOCATION OF KUWAIT STATE PUBLIC REVENUE, 1937

<u>Allocation</u>	<u>Rs</u>	<u>Percentage</u>
The Ruler's Privy Purse	589,560	78.9%
Household (the Ruler)	11,000	1.4%
SABAH Family	67,500	9.1%
Administration (Secretaries, Bodyguards, etc)	74,940	10.1%
To Municipality for Education	<u>2,000</u>	0.3%
Total Public Revenue	<u><u>746,000</u></u>	

Source. Calculated from an estimation made by the Political Agent, Kuwait, 10R, R/15/1/45/1, pp.81-82.

The Ruler's additional private income from properties, etc , was estimated at Rs 82,400 (10R, R/15/1/45/1). In effect the ruler regarded the income from the Al-Sabah properties as personal to himself and made an allocation to the Al-Sabah family of Rs 67,500 from the public revenue. It should be noted, however, that this accounting distinction was a theoretical analysis made by the Political Agent. The Ruler was only

engaged with disbursements in traditional terms from total available monies.

The aforementioned way of allocation roused the people's opposition to the ruler and put the Al-Sabah family in opposition to him also. The Al-Sabah agreed to limit their income to the 'family private income' and were consequently inclined to support the notables in imposing their elected 'administrative council' upon the Ruler.

The administrative council, after it was elected by the notables,⁴ established its right to enact the budget law by its declaration of 9th July, 1938.⁵ The declaration said:

Article 2. The administrative council has to establish the following laws:

The Law of Budget, viz. the proper control of all state's income and expenditure and its diversion in a just manner, with the exception of the personal properties of the Al-Sabah, with which the council has no right to interfere (54)

This declaration assumed control of all the State public revenue leaving the income from the Al-Sabah private properties to meet the family allowances (55) This decision reflects the most sound practice of putting a distinct line between the private purse and the public purse. The declaration shocked the Sheikh as the Political Agent wrote:

The president had taken the declaration to His Highness early on the morning of the 9th, but as Sheikh Abdulla as-Salim, the President, explained to the council on his return to them, His Highness, had broken down so completely in the face of this document, which had taken away from him the control of the State's income, that he deferred signature for a few hours. (56)

However, the Ruler of Kuwait accepted the new situation for a while, after a threat of abdication (57) - which he seems to have forgotten about later - and as the Political Agent wrote to the Political Resident:

⁴ The Council idea started as Advisory Council and ended as Administrative Council assuming legislative power. Sheikh Abdulla al-Salim was the President of this council.

⁵ Article 1 of the declaration read: "The people are the source of power, as represented by the Council of their elected representatives".

"... the Sheikh told me that in accordance with the council's inaugural law he had promised that he would at the end of the year, when it is due, transfer the Kuwait Oil Company's cheque, about £7,700 to the council and all the main resources of the country will now go into the council's hand; so that he can't be considered to be screwing any longer" (58)

With this popular policy, the Council seems to have gone far beyond the limit that any Sheikdom would be prepared to accept willingly if the Sheikh had any choice. However, the regime's apparent acceptance was only temporary. Therefore, the Kuwait financial reform rested at what we have called 'the third evolutionary phase of the Sheikdom fiscal system', i.e. organised national accounts with fixed allowances to the ruling families from the public revenue. This was the position in Kuwait shown in the revenue department's accounts for 1946 (in which only 12.3% of the income from oil companies) as follows

TABLE 1.13

ALLOCATION OF PUBLIC REVENUE DEPARTMENT IN KUWAIT,

(6/12/1945 - 29/11/1946)*

(000 Rs)

<u>Allocation</u>	<u>Amount</u>	<u>Percentage</u>
Ruling Family**	616	30.3%
Social Services	280	13.8%
Law and Order	529	26.0%
Public Work	69	3.4%
Administration and others	<u>537</u>	26.4%
Total	<u>2,031</u>	

* Corresponded to 1365 Hijry.

** Including extraordinary grant of Rs 289,031 to Sheikh Abdulla al-Mubarak.

Source. Calculated from Finance Department Budget: 10R, R/15/5/222, (Account of the Kuwait Municipality, Health, Food Supply and Revenue Department), pp.3-4

However, this account dealt only with the Revenue Department (Maliyah).

The other departments whose accounts were not included were: (59)

- i) Education (Income 1% of the value of all goods imported into Kuwait, 30% of the profit of the Landing and Transportation Company and an extraordinary grant of Rs 261,600 from the Revenue Department)
- ii) Public Health. (Income likewise 1% on the value of all goods imported and 30% of the profits of the Landing and Transport Company).
- iii) Municipality: (Income $\frac{1}{2}$ % of the value of imports and a house tax).

From these facts we may re-establish the allocation of the Kuwait Public Revenue as shown in Table 1.14

TABLE 1.14

THE ALLOCATION OF KUWAIT PUBLIC REVENUE, 1945/46^a

(000 Rs)

<u>Allocation</u>	<u>Amount</u>	<u>Percentage</u>
Ruling Family (including the privy purse)	616	21.7%
Social Services ^{b,c}	945	33.0%
Law and Order	525	18.3%
Municipality ^{d,e}	166	5.8%
Administration and others	606	21.2%
Total	<u>2,858</u> ^{f,g,h}	

^a 1366 Hijry

^{b,c} include 2% of all goods imported to Kuwait.

^{d,e} include 0.5% of all goods imported to Kuwait

^{f,g,h} includes in addition to Customs Revenue 2.5% on all goods imported

In Table 1.14 we see the allocational pattern in Kuwait in the last year before the State received oil royalties, which began in 1947. Having in mind the background of the Kuwaiti popular movement, the Kuwait Sheikhdome's succession system and the financial reform in Bahrain, we can recognise the forces that led to such an allocation of the public revenue in 1946.

D - Other Emirates

The other Emirates in the Gulf had not arrived at this third phase

of fiscal policy before oil production started, some attempts at financial re-organisation had been made but were without success.⁽⁶⁰⁾ The reasons for this frozen state of affairs were the lack of education and world-wide contact among the people, the entrenched strength of the existing Governments and the small revenue of the southern Emirates in the pre-oil period.

To recapitulate, the three phases in the development of the 'fiscal system of Sheikhdom' may be characterised as follows:

The First, was the phase when the main revenue of a Sheikhdom came from the Emir's private resources and any other revenue agreed by the allied tribes, and all the revenue was spent to serve the welfare and the security of the allies.

The Second, phase normally began when a strong Sheikh or family dominated the situation, helped by nomadic tribes or strong bodyguards or both, and came to consider the territory of the tribes who they dominated as forming a country and the country almost as a private estate. In this phase the Sheikhdom revenue included the Sheikh's private revenue and other public revenue which was obtained mainly from customs dues and other taxation. All the revenue was allocated according to the Ruler's own will and mainly allocated to himself, his family, and to maintaining the security of his rule, as in the case of grants to nomadic tribes. During this phase no allocation to the social services was made and very little, if any, for administration, which was almost confined to the customs house. This phase was the dominant one until the 1920's and 1930's, when some Emirates (Bahrain and Kuwait) moved to the third phase, while others continued as they were until oil royalties were received or even for some years afterwards.

The Third Phase. This phase is characterised by the production of organised national accounts with fixed payments to the Ruling families, which were proportionally much lower than in the previous phase (although

absolutely larger as oil revenues increased), and by an organised administration with an interest in social services and stable law and order. This phase was a by-product of the popular demand for modern government, the increasing public revenue and the pressure of the British Government for modern administration

These are the three phases of the development of the 'Fiscal System of Sheikdom' in the pre-oil period.* However, as may be noted, the difference between the second and third phases is only in the financial policies and not in the political system, for in both phases the Sheikh is the source of power, but in the latter he seems to have followed British advice and has granted concessions which may lessen any effective opposition to his rule.

Part Four: The Sheikdom System and its Evolution

This part of the study will be concerned with the political evolution of the 'Sheikdom System' and its impact on the use of the public revenue

The 'Sheikdom System' in the East Arabian peninsula evolved in three political stages. These three stages are the tribal confederation, the autocratic and the constitutional stage

A - The Stage of Tribal Confederation (61)

The rulership of almost all the Emirates (except Bahrain) began from this stage. By the 17th and 18th century the seafaring occupations were prosperous on the eastern coast of the Arabian peninsula. This prosperity had attracted most of the local inhabitants to sea occupations and encouraged new movement of nomadic tribes from the interior. Seafaring activities necessitated a way of life more stable and secure than the nomadic. Thus, the demand for peaceful and organised life grew among the

* The fourth phase started in Kuwait with the production of the constitution, where the state public revenue and expenditure is under the control of the National Assembly and the Ruler's allocation is fixed at a certain sum decided by the National Assembly. This practice was followed in Bahrain from 1974

coastal inhabitants. They also desired power to resist external pressures and some authority to represent their interests and deal with community affairs. The oasis settlers also needed a more stable and organised life. The result was the creation of many tribal alliances and consequently a plurality of local powers. This in itself constituted nothing new. Its importance lay in the way it developed under the influence of the economic need for stability and the increasing interests of the organised powers - European, Turks, Wahabis - in the area.

The confederation of tribes or families became the corner stone of the Sheikhdom System in the Emirates. The Qawasimis were the oldest confederation, followed by the Bani Yas in the 18th century,⁽⁶²⁾ and the selection of the Sabah Bin Jaber as head by the settled tribes in Kuwait in 1756,⁽⁶³⁾ and later the Bni Aurbah and other tribes in Zubarah and Bahrain, and lastly the Al-Thani family in Qatar, who were supported by other tribes according to tribal relations or allegiance.

Once the head of a family was selected or recognised as the Chief, his family would claim the right to sovereignty over the Sheikhdom, which sometimes resulted in the emigration of tribes and the establishing of new Sheikhdoms, as in the case of the migrations of the Bni Aurbah from Kuwait to Zubarah and the Al-Bu Flasih from Abu Dhabi to Dubai. In this stage, the tribes had a say in the appointment of the rulers. Those who objected to the appointed ruler or his way of rule had the choice of moving and changing their loyalty, or, if they were strong enough, of changing their loyalty without moving. This explains the importance of tribal loyalty in the Sheikhdoms, and the distinction in mode of government and other matters between the settled inhabitants and the nomadic tribes or settlers of nomadic origin. Early in this phase the Sheikh's rule depended entirely on his personal merits and qualifications in war and peace, and the loyalty of the people who selected him or the tribal confederation to which his family belonged. A ruler was a tribal Sheikh

who would consult his people in public affairs. "A tribal Shaikh is regarded as first among equals and tribal affairs are ordinarily discussed and settled at gathering of tribesmen in his tent "(64) Thus one may say that the first stage ended when the tribesmen lost their influence with the Ruler.

However, although this stage has been left behind by all the Emirates, some aspects still survive² as in the case of the Advisory Council in Abu Dhabi, and in the behaviour of certain tribes, e.g. the emigration of some of the Bani Yas to Qatar in the 1950's, (65) or even more recently the migration of the Al-Mahandih tribe from Qatar to Kuwait in 1964. (66)

B - The Autocratic Stage

The autocratic stage commenced when the confederated tribes or the inhabitants lost their influence and the Sheikh ruled, sometimes with the support of his tribe or family and sometimes even against their will, but with the support of outside parties such as Bedouin tribes or private bodyguards.

The following are the main factors encouraging development to the autocratic stage (67)

1. The privileged and self-perpetuating position gained by the family of the Sheikh in an Emirate, especially when the family had helped to found this position either by supporting his election as first Sheikh or by heading an invasion by allied tribes (the case in Bahrain)
2. The possibility of a Sheikh's securing succession through threats rather than willing acceptance, and the tendency in Islamic tradition to eschew the delegation of power.

* Some of its features still exist even today, for instance, the gathering of every interested person in the Sheikh's 'Majlas', where he can speak with the Sheikh and bring his complaint or suggestion directly to him. However, these gatherings are now no more than a traditional custom, and the people in fact could not say anything which might anger the powerful Sheikhs.

3. The increase in public revenue, the result of growing prosperity and settled power, which enabled the Sheikh to control the settled inhabitants by purchasing the support of Bedouin tribes, mostly from outside the Emirate, or by building up a bodyguard from family members, slaves and foreigners.⁴
4. The conversion of the tribes from a nomadic and military to a commercial and seafaring mode of life made the establishment of autocratic power easier.
5. The British treaties with the Sheikhdoms strengthened the rulers by removing the threat of external invasion and later by holding the promise of help in quelling internal disturbances. Although they encouraged administrative and financial reform, the British did not interfere with the autocratic political structure of the Sheikhdoms, indeed they strengthened it when popular demand went beyond a certain point, as in the case of Kuwait and Dubai in 1938, and Bahrain in 1954 and 1965. The Emirates have sought a more popular type of rule since the 1960's, when the British obligation to the Sheikhdoms ended, or was scheduled to end.
6. The formation of organised police forces in the Sheikhdoms was the last step in breaking most of the links connecting the Sheikhdom system to its first stage of evolution. With organised police forces - which were staffed in most cases from unindigenous persons - the Sheikhs and the ruling families no longer depended on their own tribes to defend their rule.

Especially since the receipt of the oil royalties and increased

⁴ The key factor here is the growth of maritime merchant trade. The channeling of wealth through coastal trading towns made effective taxation a possibility. The customs house became the source of public revenue of a new kind which gave power and wealth to the Ruler.

contact with the outside world, a concept of 'the people' has begun to develop and new social and political forces have been pushing the Sheikhdoms towards their third or 'constitutional' stage of development. However, no political system could last for a long time if it was totally unaccepted by the inhabitants, and the Sheikhdom System was no exception. That the Sheikhdom System lasted for so long in its autocratic stage may be attributed to the following factors:

- a) The Sheikhdom System accorded with old-established tribal relations and the traditional desire of the populace for just rather than democratic government.
- b) The Sheikhdom System always distinguished between persons of tribal origin and other inhabitants. While the Ruler and the Ruling families were autocratic and tyrannical towards the latter, they were careful not to offend the tribes and strengthened relations with them by favouring them in employment and the conferring of other benefits (grants) and by inter-marriage.
- c) The political unawareness of the populace and their ignorance concerning state revenue. Our study of the public finances will give us a clear idea of the limited amount of information published concerning state revenue and expenditure. This, together with the relative prosperity enjoyed by the Emirates during the last two decades has made the populace less interested in politics.
- d) The oil revenue helped to concentrate power in the hands of the Rulers. This concentration preserved the 'status quo' in two ways. First, the Government became the main channel through which the oil revenue was pumped to the country. Consequently, everyone, whether employee, contractor, merchant, or tribal Sheikh had to keep on good terms with the regime if he wanted

d)/ to enjoy an easy income or perhaps accumulate wealth.

Secondly, the Rulers with the help of the oil revenue spent lavishly on propoganda machinery and a large police force and Secret Service. By these means the Rulers decreased effective opposition to a minimum.

These four factors, in my opinion, account for the people's fairly willing acceptance of the Sheikhdum System in its autocratic stage.

From the above we may see the main factors supporting the evolution of the Sheikhdum System to the autocratic rule (where a rulers word is a law) that prevailed in almost all the Emirates⁽⁶⁸⁾ by the beginning of this century and in all the Emirates⁽⁶⁹⁾ by the 1950's. The people offered some sort of resistance; although it was not organised completely on a political basis, it was to some extent reflected in a general tendency to demand some restriction on the powers of the ruler and more public participation in government. Movements making this kind of demand occurred in Kuwait in 1921,⁽⁷⁰⁾ in Kuwait and Dubai⁽⁷¹⁾ in 1938 and in Kuwait, Bahrain and Qatar, and to a lesser extent the other Emirates, during the 1950's and 1960's.

However, with the increasing state revenue, particularly after 1950, the Sheikhdum System departed speedily from its fundamental basis, tribal alliance, and became a more autocratic rule than is generally acceptable at the present time. With the rapid spread of education and world wide contact and transfer of ideas, the people began to favour modern forms of government with more public participation, which might reduce inequality, utilise the oil revenue more productively and modify the old political structure. This increasing demand for more popular rule, although it is for democratic types of government, has nevertheless allowed the practices and forces of the past to play an essential role. This development has guided the Sheikhdum System to the third stage of its political evolution.

C - Constitutional Sheikhdom

Constitutional Sheikhdom constitutes the third stage in the political evolution of the Sheikhdom System. As we have seen, before 1960 no written modern constitution existed in any of the Emirates (apart from the Kuwaiti Elected Administrative Council's Declaration of 1938, which the Sheikh of Kuwait had signed). The Kuwait constitution of 1962 was the first modern constitution in the Emirates. This constitution was approved by the Amir, without alteration on 11th November, 1962 after it has been approved by an elected assembly of 50 members. The 4th article of the constitution said:

Kuwait is a hereditary Amirate, the succession of which is confined to the descendants of the late Mubarak Al-Sabah. The Heir Apparent shall be named within one year of the accession of the Amir. His appointment shall be effected by an Amiri decree upon the nomination of the Amir and the approval of the National Assembly which shall be passed by a majority of its members in a special sitting. If the appointment is not made in the way shown above, the Amir shall nominate for the position of Heir Apparent at least three descendants of the late Mubarak Al-Sabah and the National Assembly shall pledge allegiance to one of them as Heir Apparent.

and Article 6 said:

The system of government in Kuwait shall be democratic, under which sovereignty is vested in the nation, the source of all powers. The sovereignty shall be exercised in accordance with rules prescribed in this constitution (72)

From this statement - 'the nation is the source of all power - we may see the relation between the 1962 constitution and the 1938 Administrative Council Declaration.

Up to 1970, although some Emirates had tried to work a sort of constitution, none of them had arrived at the stage of considering the people and not the Amir or his family to be the source of power.

However, since 1972 Bahrain has started the process of democratising its system of Government and at the end of 1973 the Emir issued a constitution which was approved by a Constituent Assembly, half of whose members were elected. The constitution was similar to that of Kuwait.

The production of the Kuwait and Bahrain Constitutions has considerably changed the structure of the Sheikhdum System. Both constitutions declared that the people (the nation) is the source of power. This declaration followed by an elected National Assembly allowed for wider public participation. However, this change allowed a considerable role to be played by the ruler and the ruling families.

Looking for the effects of the constitutions of Kuwait and Bahrain on fiscal policy, we see the following:

1. The constitutions gave to the National Assemblies the right to fix an annual allocation, to be decided at the beginning of his term of office, to the Emir. In Bahrain as far as the present Emir is concerned, the allocation was left to be decided by an Emiri decree - thus the members of the ruling families will no longer receive any direct allocation from the state public revenue nor will the Ruler's allocation be a proportion of public revenue or oil revenue
2. The Government Budgets show all the state public revenue, not merely part of these revenues. The budgets moreover are now approved by the Assembly and are published.
3. The constitutions instituted the right of a Central Accounting Agency (Diywan Al-Muhasabah) to look after all the state revenue and expenditure and report directly to the assembly.

In this chapter we have described briefly the Emirates' geographical features, we have summarily surveyed the economic and fiscal systems of the pre-oil period, and finally we have outlined the evolution of the political system of Sheikhdum to its present stage. This background information will later be utilised to explain the factors determining the allocation of oil revenue in the Emirates

NOTES - CHAPTER I

- (1) Fisher, W B , The Middle East, p 465.
- (2) Najjar, M W Al-, 'The Geography of Oil in the Persian Gulf', pp 17-18
- (3) Private communication
- (4) Arthur D. Little, Inc , 'Industrial Development Opportunities for Abu Dhabi': Final Report, pp 36-37.
- (5) Private communication.
- (6) Fisher, W B., op.cit , p.467
- (7) MEDD, 'Economic Survey of Northern Trucial States', p.36
- (8) Fisher, W.B , op.cit. , p.255
- (9) For detail see:
India Office Record: IOR, R/15/2/8/5; IOR, R/15/1/19/34; IOR, R/15/2/8/24; IOR, R/15/2/8/13; Dickson's Private Papers, 'Administrative Report of Kuwait Political Agency', (1931 and 1932).
- (10) Bowen, R.L., 'The Pearl Fisheries of the Persian Gulf', p.161.
- (11) Sources of Fig.1.2:
Bowen, R L., op.cit , p.163; Issawi, C., The Economic History of the Middle East, 1800-1914, p 312; Lorimer, J.G., op.cit., (Historical Section), Vol. VI, pp.3105-3106.
- (12) IOR, R/15/2/6/49 (Letter from Customs House to the PA Bahrain, dated 24/10/1928)
- (13) IOR, R/15/2/9/8 (letter dated June 28th, 1938).
- (14) Belgrave, J., Al-Bahrain Turahab Bikum, p.63.
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- (16) IOR, R/15/1/19/34; IOR, R/15/2/8/5; Qutamiy, Issa Al-, Dalil Al-Mihtar fy Alm Al-Bihar, pp 213-214.
- (17) Ibid., pp.187-189; Ansari, M.J.Al-, Lamahat Min Al-Khalij Al-Arabi, pp.40-49
- (18) Ibid., pp.40-49.
- (19) Lorimer, J.G op.cit , (Geographical Section), Vol I, pp.346-348.
- (20) Qutamiy, Issa, Al-, op.cit., pp.15-189.
- (21) Ibid., p.216.
- (22) Ibid., p.217; Bakir, Abdul Rahmam Al-, Min Al-Bahrain ila Al-Manfa, pp 31-40.

- (23) Qutamiy, Issa, Al-, op.cit., pp.225-227.
- (24) Bakir, Abdul Rahman, Al-, op.cit., pp.31-40; Hay, Sir Rupert, The Persian Gulf States, p.52.
- (25) IOR, R/15/2/6/59.
- (26) Lorimer, J.G , op.cit , (Historical Section), Vol. VI, p.3158.
- (27) IOR, R/15/2/8/3 (Letter dated 17/1/1927).
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- (29) Dickson private papers, 'Administration Report of Kuwait', Political Agency, 1930, 1931 and 1932.
- (30) Government of India, Foreign Department, 'Administration Report of the Persian Gulf Agency for 1893-94, p.7.
- (31) IOR, R/15/2/8/13 (1922 Report, pp.1-2).
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- (34) Ibid., (1922 Report, pp.1-3).
- (35) Ibid., (1925 Report, p.1 and 1926 Report, p.1).
- (36) IOR, R/15/2/19/47, (Appointment of Financial Adviser, Bahrain), pp.4-5 and 10-12.
- (37) IOR, R/15/2/2/150 (Letter from Financial Adviser, Bahrain to PA Bahrain, dated 1/1/1933)
- (38) Ibid., (Letter from PR to the Foreign Secretary to the Government of India, dated 30th March, 1933), p.23.
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- (40) Ibid., (Letter from Revenue Department to PA Bahrain, dated 16/11/1932), p.104.
- (41) Ibid., p.136.
- (42) Ibid., p.163 (Letter dated January 11th, 1933).
- (43) Ibid., pp.180-181.
- (44) IOR, R/15/2/19/47 (Letter to the PA Bahrain, dated 16/12/1933).
- (45) Government of Bahrain, Annual Report, 1955, p.4.
- (46) Government of Bahrain, Annual Report, 1368 Hijry (1367 Budget).
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- (49) IOR, R/15/5/180, pp.1, 2 and 9.
- (50) Ibid., p.15.
- (51) Ibid., p.16.
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- (54) Ibid., p 103
- (55) Ibid., p.102, (Letter from PA Kuwait to PR).
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- (60) Said, Resemarie, J., 'The 1938 Reform Movement in Dubai', p.247.
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- (62) Mann, C., op.cit., pp.22-23.
- (63) Qalaji, Q.Al-, Adwa Ala Tarikh Al-Kuwait.
- (64) Hay, Sir Rupert, The Persian Gulf States, p.28.
- (65) In the mid-1950's many tribes of Bani Yas migrated from Abu Dhabi to Qatar after their dispute with Shaikh Shakbut. Among them were, Al-Suwdan, Maharbih, Markhat and others.
- (66) In 1964 the Al-Mahanadah tribe (about 6,000 persons) migrated to Kuwait in protest against the imprisonment without trial of Naser Al-Misnid.
- (67) For detail see:
Belgrave, Sir Charles, Personal Column, p.68; Said, Resemari, J., op.cit., pp.247-263; Lorimer, J.G., op.cit., Geographical Section, Vol. I, pp.353-357, Vol. II, p.621, and Vol. IV, p.1766; Hay, Sir Rupert, The Persian Gulf States, pp.11-18 and 28-33; Richmond, Sir John, 'Government in Kuwait', pp.1-8; Heard-Bey, Franke, op.cit., pp.14-22; Hay, Sir Rupert, Private Papers, 'The Arab Shore of the Persian Gulf'; IOR, R/15/5/230, Internal Administration (Social Reform), Kuwait; IOR, R/15/2/2/117, (Political, Qatar Affairs); IOR, R/15/2/2/20, (Matters affecting the Rulers of Qatar); Baharna, H.M.Al-, The Legal Status of the Arabian Gulf States, pp.1-54.
- (68) Lorimer, J.G., op.cit., (Geographical Section), Vol. I, pp.353-357; Vol. II, p.621; and Vol. IV, p.1766.

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- (70) IOR, R/15/5/180, pp.1, 2 and 9.
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CHAPTER II

THE OIL INDUSTRY

This chapter will discuss the following aspects of the oil industry in the Emirates. First, a historical survey will be given. Second, an attempt will be made to assess the crude oil production of every company operating in each Emirate. This assessment will be utilised to check the oil revenue received by each Emirate. The detailed findings will not be presented in the text, but are contained in the appendices attached to the chapter. Third, the Emirates' position in the international oil industry will be shown together with the relative differences between them. Fourth, the impact on the local economies of the development of the oil resources will be discussed. This discussion will exclude consideration of the industry's payments to the government, which will be reserved for later chapters.

The chapter falls into three parts: a Historical Survey; Crude Oil; and the Impact of Developing the Oil Resources on the Local Economics.

Part One: A Historical Survey

A - Historical Background

The modern petroleum industry in the Emirates dates back to the beginning of this century when the APOC discovered oil in Persia. From that time the Political Agents of Great Britain in the area began to concern themselves with investigating and enquiring about oil seepages and other signs indicating oil-bearing structures. These investigations led them to the Naptha spring near Halul Island;⁽¹⁾ the asphalt deposit at Bahrain,⁽²⁾ the seepage at Burqan;⁽³⁾ and other minor seepages. The result of the pioneer geological surveys was not very encouraging for further geological investigation. APOC, the only oil company which was then operating in the Gulf, was not optimistic about finding commercial oil fields south of Basrah. This belief was based on the assumption that this area was in the region "where sedimentary rocks were thinly

developed and that folding, even if present, would be very gentle."⁽⁴⁾

Major Frank Holmes who had interests in mining and contact with the Middle East during World War I, heard at that time of oil seepages in Arabia and other Middle East countries.⁽⁵⁾ After the war Holmes and others registered the Eastern and General Syndicate Limited in London on 6th August, 1920⁽⁶⁾

With the arrival of Major Holmes at Oqir late in 1922 to seek an oil option for a concession to explore for oil in the Al-Hasa province,⁽⁷⁾ the second stage of the history of the petroleum industry on the Arabian side of the Gulf began. During this stage APOC faced an unexpected competitor and this made it rethink its attitude towards securing oil concessions on the Arabian side of the Gulf. APOC still thought the possibility of finding oil in commercial quantities in that area was low, but tried to secure oil concessions on the Arabian side to avoid any trouble that might arise from a newcomer in the area.⁽⁸⁾ Major Holmes, benefiting from his competitor's low opinion of the commercial potential and his own belief in his ability to understand the local circumstances, made his first moves and secured three options for oil concessions in Al-Hasa province, the Neutral Zone and Bahrain, with an eye to a Kuwaiti option for an oil concession.

The syndicate, lacking oil exploration and exploitation experience, tried to sell the three options to British oil companies but failed,⁽⁹⁾ hampered by Dr Arnold Heim's negative report about the oil potentialities of the Al-Hasa province⁽¹⁰⁾ In the U.S.A. some interest was shown, but the risk was considerable, mainly because the geology of the area was of doubtful promise⁽¹¹⁾ However, later the GULF corporation accepted options on the syndicate rights and signed separate agreements for Bahrain and for the mainland, after seeing an encouraging geological report written by Professor T.G. Madgwick[†] in September, 1926.⁽¹²⁾

[†] Professor T. George Madgwick was the supervisor of the syndicate team drilling for water at Bahrain in 1925.

The American oil interests, first GULF and later Standard Oil of California, went ahead with surveying, exploring and drilling for oil in Bahrain, while Major Holmes, representing the syndicate and working for GULF, concentrated his efforts on securing the mainland oil concessions, most especially the Kuwait territory concession. He was facing a very strong competitor, i.e. APOC, and had to use all his ability in building good relations with all parties concerned in Kuwait and other parts of Arabia.

The 1929 depression came and made everyone reflect about the development of the oil industry. Prior to 1929, the Arab merchants had feared that the potential permanent employment given by the oil industry would affect their own employment needs in the pearling industry.⁽¹³⁾ After 1929, the Sheikhs and other people concerned thought of the oil industry as a remedy for the disastrous situation caused by the depression in the pearling industry.⁽¹⁴⁾

However, although the Sheikhs would have liked to encourage the oil industry by granting oil concessions, they would not hurry the matter by accepting less than the best terms possible; and so negotiation and competition went ahead, while both the competitors were trying to get more information about the geology of the area,⁽¹⁵⁾ and trying at the same time to get rid of each other in one way or another. This competition went on benefiting the Sheikhs and they encouraged it to some extent, until the discovery of oil in Bahrain in 1932 inaugurated the third stage of the history of the oil industry on the Arabian coast.

With the Bahrain discovery everything was changed and ideas about the area, once thought of as not promising for oil, became very different. The existing competition reached its peak in Kuwait in 1933⁽¹⁶⁾ when the competitors realised that it would be better for both of them to compromise. This is what happened in Kuwait, and later on Major Holmes and the APOC or AIOC representative worked together to secure an oil

concession for the Kuwait Oil Company ⁽¹⁷⁾

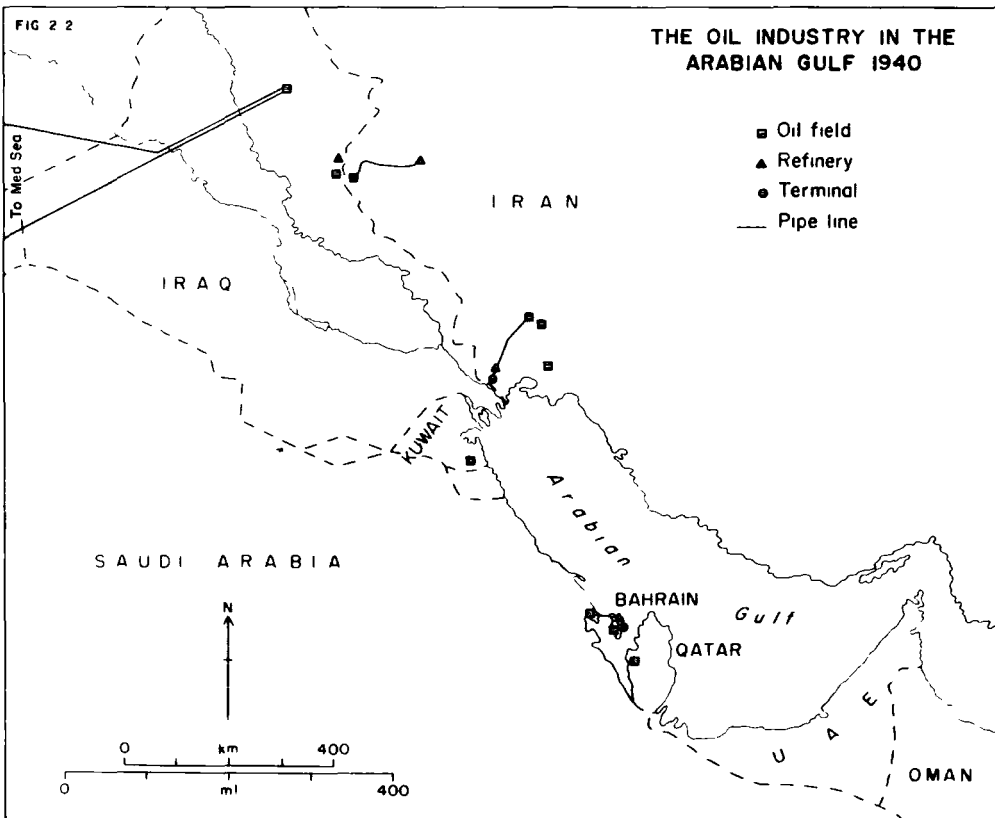
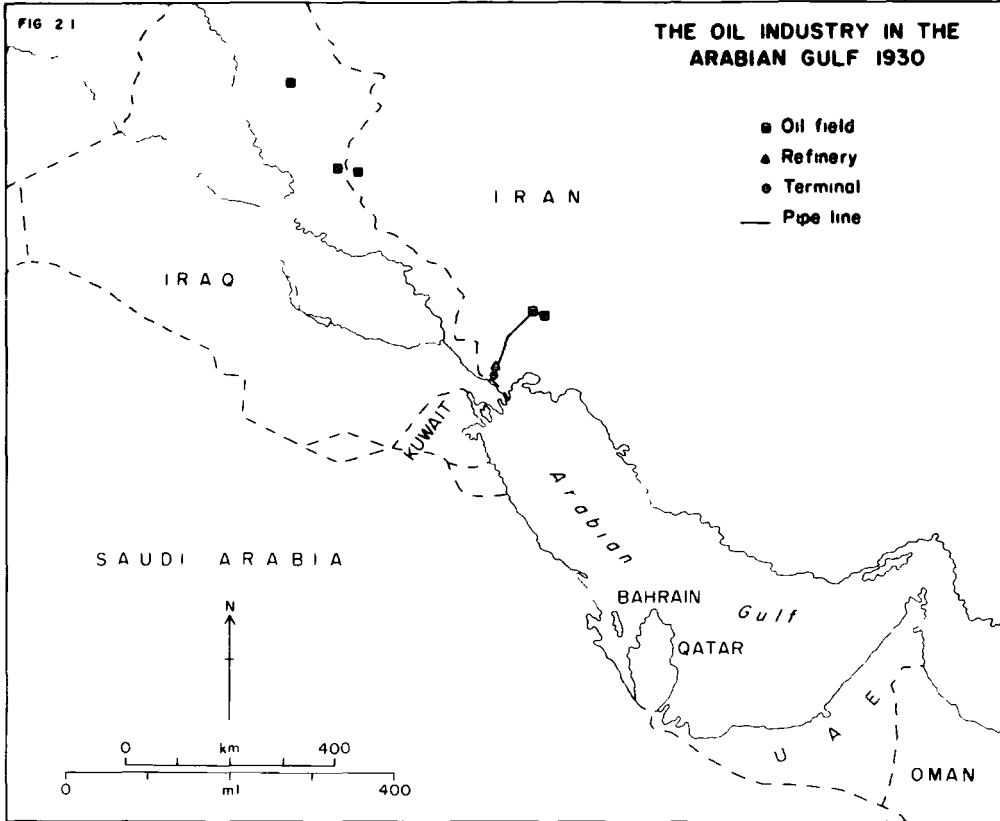
In Saudi Arabia STANCAL and IPC went on competing with each other and the Saudi Government granted the concession to STANCAL mainly because of the better financial terms they offered and partly for political considerations. ⁽¹⁸⁾ In Qatar and the other Emirates in the Gulf AIOC was ahead of any other competitors. AIOC secured the Qatar oil concession in 1935, ⁽¹⁹⁾ and in the same year a two years' option for oil concessions for Abu Dhabi and other Emirates ⁽²⁰⁾ AIOC later transferred its right in Qatar and the other Emirates to IPC. However, although almost all the Emirates were covered by oil concession during the early 1930's, none of them, except Bahrain, produced oil before the end of the Second World War when Kuwait came on stream in 1946.

B - The Facts of Location

The development of the Gulf oil industry, in the last five decades, are here outlined. The five maps overleaf show the remarkable and steady increase of the industry's activities.

To start with Fig. 2.1, which shows the Gulf oil industry's activity in 1930, we see the west side of the Gulf bare of any sign of oil installations. Though by the end of the 1920's an option for oil concessions had been granted to the syndicate and an American company was carrying out a geological survey at Bahrain, and preparing for drilling, no oil well had been drilled by the end of 1930. Iran and Iraq were the only countries in the Gulf with discovered commercial oil fields and only Iran was exporting oil at the time.

Fig. 2.2 shows a remarkable change in the Gulf oil industry. The 1930's were very vital years for the industry. This decade started with the Bahrain oil discovery in 1932, which triggered oil exploration in the region. The decade ended with the discovery of oil in Saudi Arabia, 1936-38, ⁽²¹⁾ Kuwait 1938, ⁽²²⁾ and Qatar, January 1940 ⁽²³⁾ The Bahrain Refinery, the first to be built on the Arabian side of the Gulf, was



completed by the end of the 1930's ⁽²⁴⁾ Four countries, instead of one in 1930, were exporting oil; six countries had discovered oil fields, and almost all the area, except the neutral zone, was covered by oil concession agreements

Fig 2 3 shows considerable change in the Gulf oil industry during the 1940's, this in spite of the interruption caused by the Second World War By the end of 1950, six countries in the Gulf were exporting oil; four had refining facilities; the complete area was covered by oil concession agreements; and exploration for oil was going on in almost every country

The map for 1960 (Fig. 2.4) shows the remarkable development in off-shore exploration and the development of oil fields. This achievement together with the concentrated effort to develop the discovered oil fields of the 1930's and 1940's, resulted in increasing the oil production of the Emirates from 20 million metric tons in 1950 to 96 million in 1960 This put the Emirates' share of the world oil production at about one tenth of 1960 compared with only 4% in 1950. During this period Abu Dhabi and the Neutral Zone joined other countries with known commercial reserves of oil.

Finally Fig. 2.5 indicates the total development of the Gulf industry during this century The Gulf, both on land and off-shore, is now covered with the industry's establishments The Arabian side of the Gulf, once thought of as an unpromising region, has become one of the most important regions for reserves, production and export of oil.

Part Two: Crude Oil

If one searches for a country or a region in the world depending on crude oil production and exports to maintain its very existence and meet the basic requirements of the population, one can find no better example, nowadays than the Emirates Since the decline of the pearling industry the Emirates have depended to a very large extent on the pro-

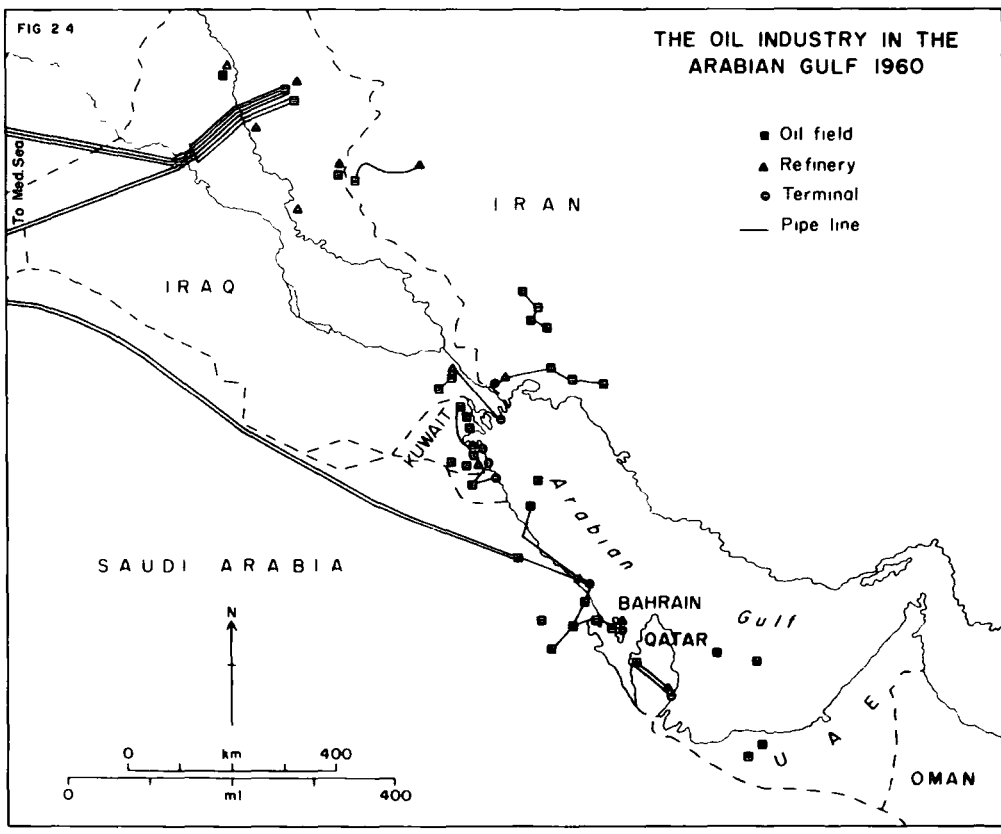
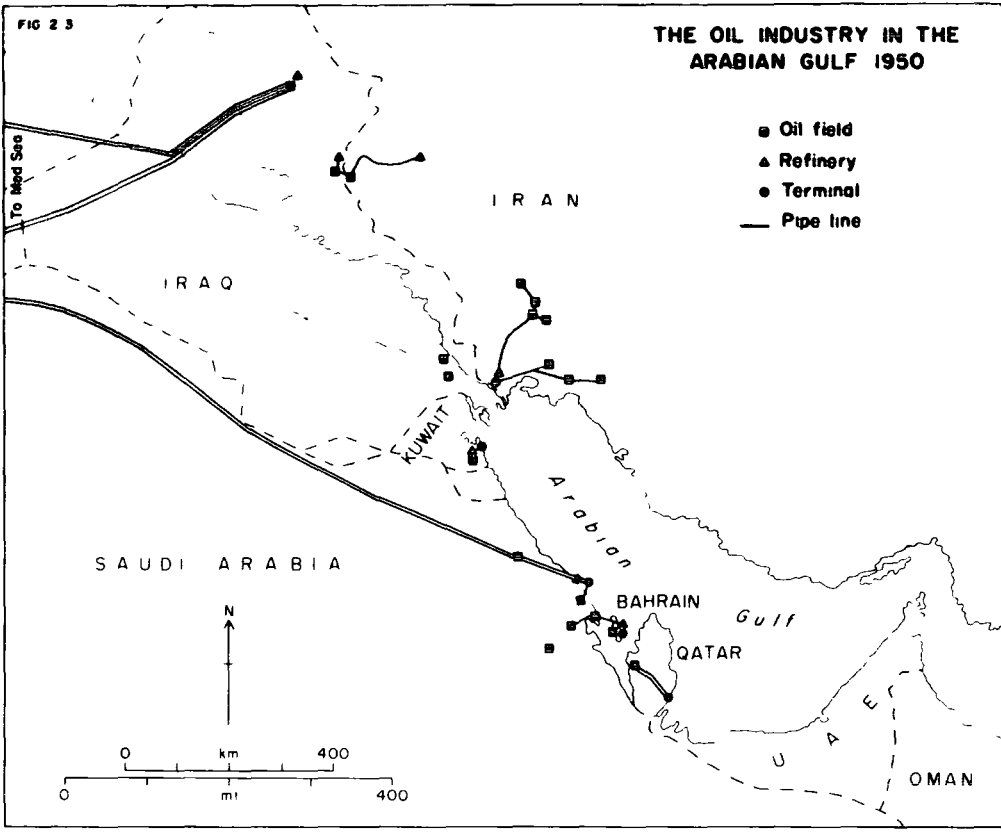
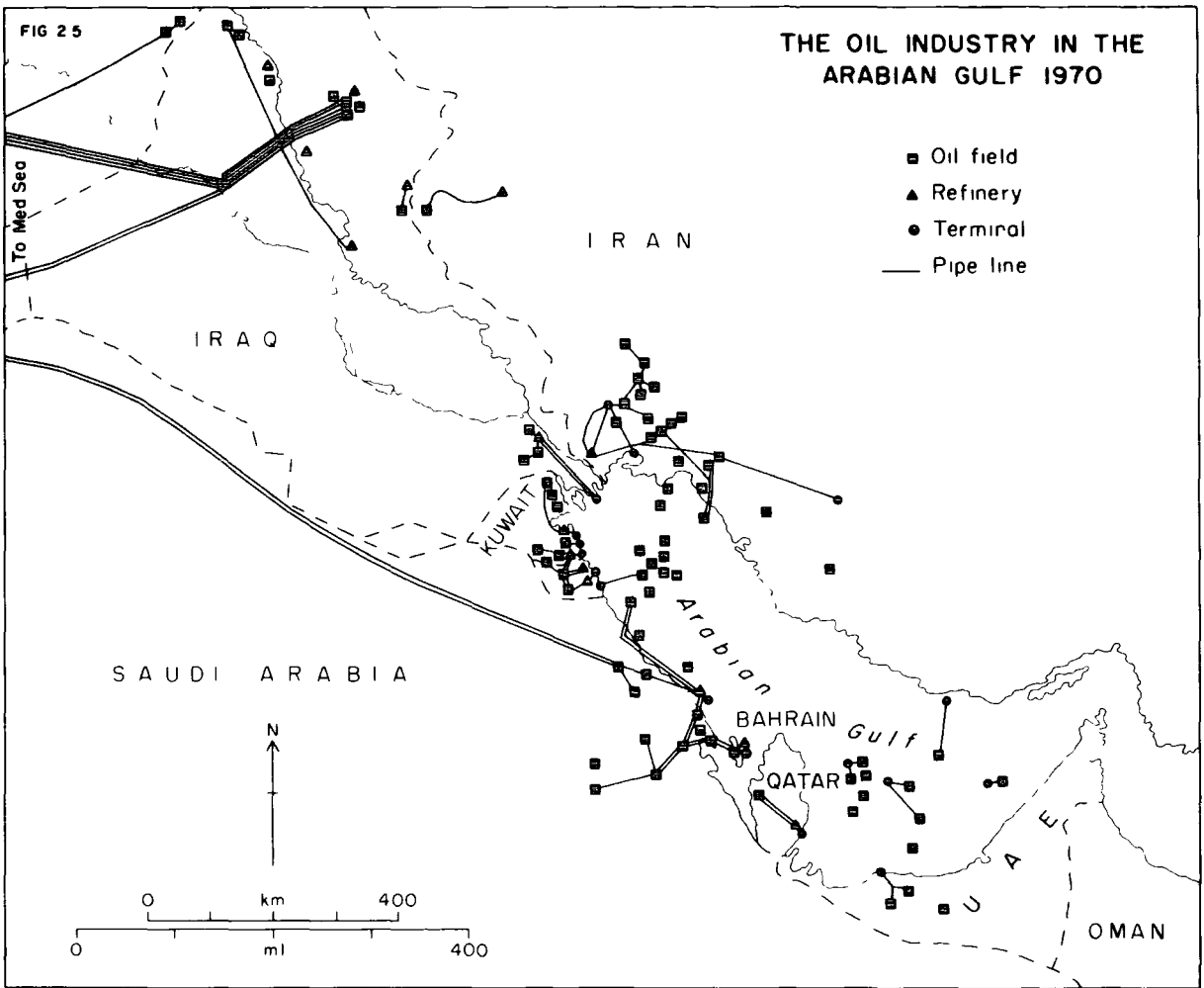


FIG 25

THE OIL INDUSTRY IN THE ARABIAN GULF 1970

- Oil field
- ▲ Refinery
- Terminal
- Pipe line



duction and export of crude oil to provide them directly or indirectly with employment, to activate local markets, and above all to provide the public expenditure with almost its total revenue. Indeed it is oil production and export and the oil reserve that gave the Emirates their present importance in the economics and politics of the world

A - Producing Oil Fields

The 1970 crude oil production of the Emirates came from twenty principal oil fields, twelve of them onshore and eight off-shore fields. All of them, except the partitioned zone onshore oil fields, are flowing ones, with water, gas, or water/gas drive. The total of producing wells was 1,588, with a daily production average from 295 B/D at Wafrah oil field to 17,160 B/D at Fateh oil field. The table shown overleaf shows the principal producing oil fields of the Emirates.

TABLE 2 1

THE PRINCIPAL PRODUCING OIL FIELDS - END 1970

<u>Fields and Country</u>	<u>Operating Co.</u>	<u>Date of Discovery</u>	<u>Prod. 000 B/D</u>	<u>No of Prod Wells</u>	<u>Gas/Oil Ratio[*]</u>	<u>Gravity (API)</u>
<u>BAHRAIN</u>						
Bahrain Field	BAPCO	1932	77	203	714	33.0
Abusafah (a) ϕ	ARAMCO	1963	74	6	N.A.	31.0
<u>KUWAIT (b)</u>						
Burgan	KOC	1938	1887	368	460	30-32
Magwa-Ahmed ϕ	"	1952	372	178	518	30-32
Managish	"	1959	66	14	530	30-32
Raudhatain	"	1955	344	51	890	30-32
Sabriya	"	1957	13	48	855	30-32
Umm Gudair	"	1962	55	31	210	30-32
<u>Partitioned Zone(a)</u>						
Khafji ϕ	AOC	1960	283	62	292	28.1
Hout ϕ	"	1969	-	-	-	-
S. Fawaris	AMINOIL	1962	60	24	N.A.	24.5
S. Umm Gudair	"	1966	56	16	N.A.	23.0
Wafra	"	1953	99	355	N.A.	18.34
<u>QATAR</u>						
Dukhan	QPC	1940	191	80 ^x	1050	41.4
Iddel Sharqi ϕ	Shell Qatar	1960	48	14	1820	35.4
Maydan Mahzam ϕ	"	1963	127	11	570	38.0
<u>ABU DHABI</u>						
Murban	ADPC	1960	425	47	1007	40.5
Umm Shaif ϕ	ADMA	1958	100	28)	1123	37.5
Zakum ϕ	"	1964	259	39)		40.9
<u>DUBAI</u>						
Fateh ϕ	DPC	1966	85.8	5	N.A. ^{**}	31.0

Notes: ϕ offshore

* Number of cubic feet of gas produced with one barrel of oil 1970, Kuwait 1969

(a) Include Saudi Arabia share

(x) Total wells drilled.

(b) Daily production and gas/oil ratio of Kuwait and partitioned zone fields estimated according to 1969 ratio.

** NAFT AL-ARAB, Feb. 1971, p.37, mentioned Dubai's production of natural gas 750 billion. This gives a ratio of 24,190 which is equal to ten times the highest ratio in the other Emirates.

Source: Ministry of Finance and Petroleum, Kuwait, NAFT AL-KUWAIT: Haqaq wa Arqam, 1969; Direct communication with Department of Petroleum Affairs, Qatar; Al-Batrol wa al-Sinah, 1971 and 1972; Dubai Petroleum Company, Dubai, Background Material; BP, Our Industry Petroleum, 1970; Producing Oil Companies' Annual Reports.

Table 2.1 indicates the main feature of the producing oilfields in the Emirates.

1. Burgan field alone produced an average of 1,887,000 B/D or about 44.5% of the total crude oil production in 1970
2. The average daily production of off-shore oilfields is higher than that of the onshore fields and this may compensate for the high cost of developing offshore oilfields
3. The gas/oil ratio is higher in the offshore fields than onshore ones.
4. Most of the onshore oilfields were discovered before 1958, but none of the offshore oilfields were discovered before then.
5. Three fields were discovered between 1932-1940, nine fields between 1952-1960, and seven fields between 1962-1969. Beside these last seven, there are some fields which were discovered in the same period but were not completely developed before the end of 1970 (see Fig. 2.5).

B - Crude Oil Production

The commercial oil production of the Emirates commenced in Bahrain in 1934. However, the importance of their share in world production was realised from the late 1940's onward. That was when the Kuwait onshore oil production started in 1946 and Qatar onshore in 1949, later followed by the partitioned zone onshore in 1954 and offshore in 1961; Abu Dhabi offshore in 1962 and onshore in 1963; Qatar offshore in 1964, Abu Safah in 1966; and Dubai in 1969. By 1970 Kuwait was producing 2,989 thousand barrels per day,* Abu Dhabi 751 thousand B/D, Qatar 358 thousand B/D, Bahrain 114 thousand B/D,** and Dubai 86 thousand B/D.

Each of the Emirates experienced a steady growth in its crude oil production (see Apps. 2.1.1-2.1.5) and as Fig. 2.6 shows, production of

* Including Kuwait's share in the production of the partitioned zone.

** Including Bahrain's share in the Abu Safah oilfield.

The Emirates' Crude Oil Production 1935-1970

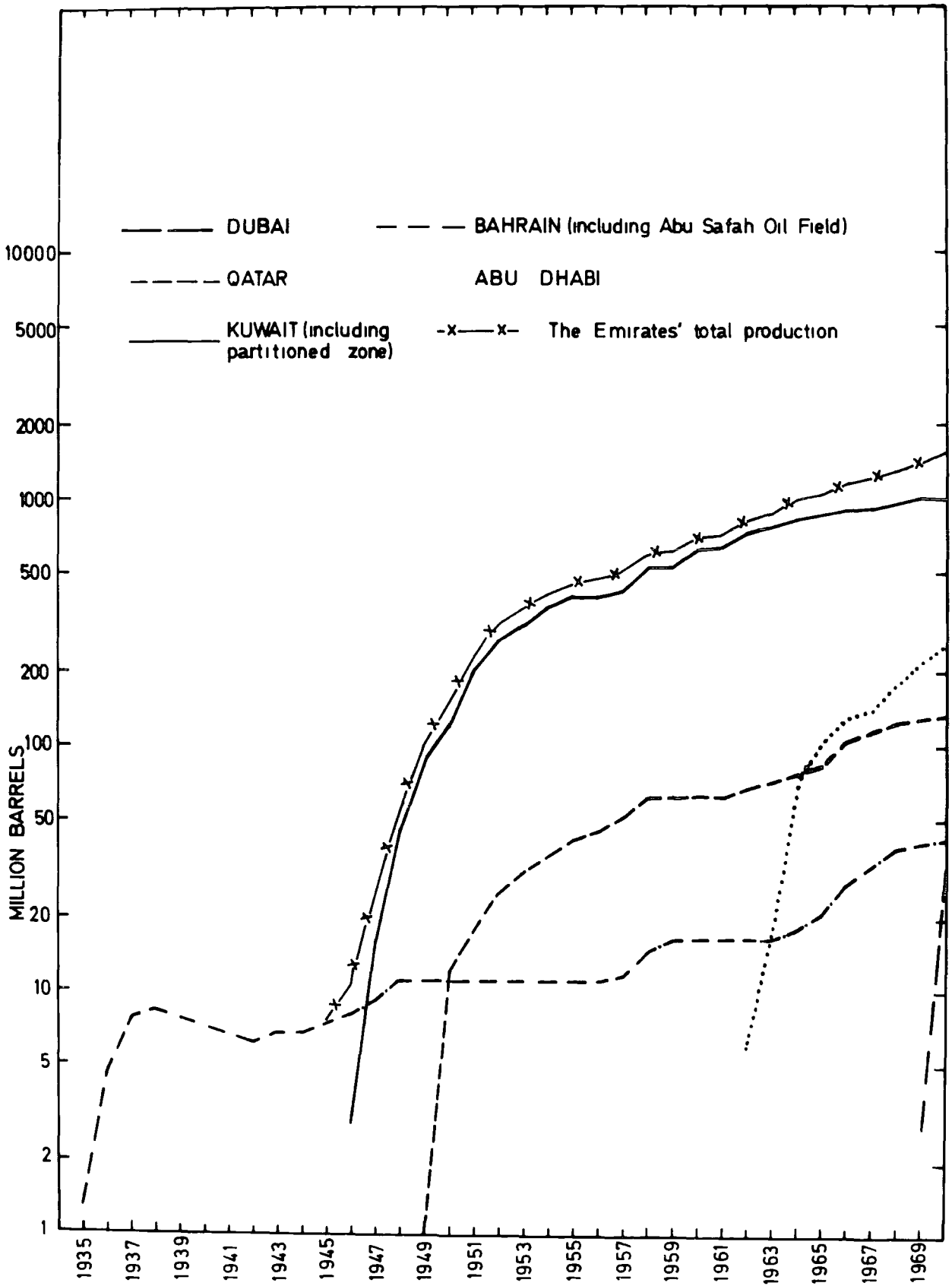


FIG 2 6

the Emirates has been steadily increasing since the early 1940's (App. 2.1.6) The most remarkable increases were recorded between 1945-1955. Dividing the period into two main stages, we see that from 1945 to 1950 production increased more than twenty one times, this was mainly through the impact of Kuwait's production from the Burgan field. Although the rate of growth then slowed considerably, production had nevertheless trebled in 1955 compared with 1950. After that growth continued at a much lower rate, and production took fifteen years to treble again in 1970.

The role played by the crude oil production of the Emirates in Middle East and total world production, is shown below.

TABLE 2.2

THE EMIRATES POSITION IN WORLD CRUDE OIL PRODUCTION, SELECTED YEARS

(PERCENTAGE)

<u>Year</u>	<u>Of M. East %</u>	<u>Of the World %</u>
1935	1.5	0.08
1940	6.8	0.33
1945	3.7	0.28
1950	23.1	3.90
1955	38.4	8.00
1960	36.2	9.10
1965	34.5	9.66
1970	29.0	8.87

Source: Calculated from Appendix 2.1.7

Table 2.2 shows that the Emirates have produced about one tenth of the world's supply of crude oil and about one third of the Middle East's supply since 1955. During the early 1950's the Emirates' share of oil production was increased rapidly to compensate for the stoppage of Iranian oil production.

Since 1955 the Emirates' share in the Middle East's crude oil production has decreased in consequence of the rapid growth of crude oil production, especially in Iran which was trying to regain the share it had

in the 1940's. However, the Emirates' share of the world's total production of crude oil increased until 1965, and only dropped in the period 1966-70.

This drop may be attributed to two factors, the first is the Emirates' decreased share in Middle East production; the second is the increasing share of the new producers outside the Middle East, e.g. North Africa.

Looking to the relative differences among the Emirates themselves, Fig. 2.7 shows that some of the Emirates have changed ranks in the last two decades. However, since 1950 Kuwait alone has had the overwhelming share. This share accounted for 88.6% of the Emirates' total production of crude oil in 1960, but later fell to 70.4% in 1970, reflecting the growth of Abu Dhabi as the second largest oil producer in the Emirates. Qatar kept its share at about 9% of the total crude oil production of the Emirates. Qatar's off-shore production was the main reason for this. Bahrain's share fell considerably from 7.3% in 1950 to just 2.1% in 1960, reflecting the humble potentiality of the Bahrain field; but later, in 1970, Bahrain's share showed a slight improvement due to its stake in the Abu Safah oil field. Lastly Dubai's output in its first complete year of operation was 2.0% of total crude oil production.

C - Crude Oil Exports

The Emirates are one of the most important exporters of crude oil. Abu Dhabi and Dubai exported all their production as crude oil, Qatar almost all its production, and in 1970 Kuwait exported 130 million metric tons out of its total production of 150 million metric tons. Bahrain is the exceptional case in the Gulf region, as it imports crude oil instead of exporting it.

In fact the Emirates are playing a more important role in the international crude oil trade than they do in world crude oil production. Table 2.3 overleaf shows us this important role.

Relative Distribution of the Emirates Crude Oil Production 1950, 1960 & 1970

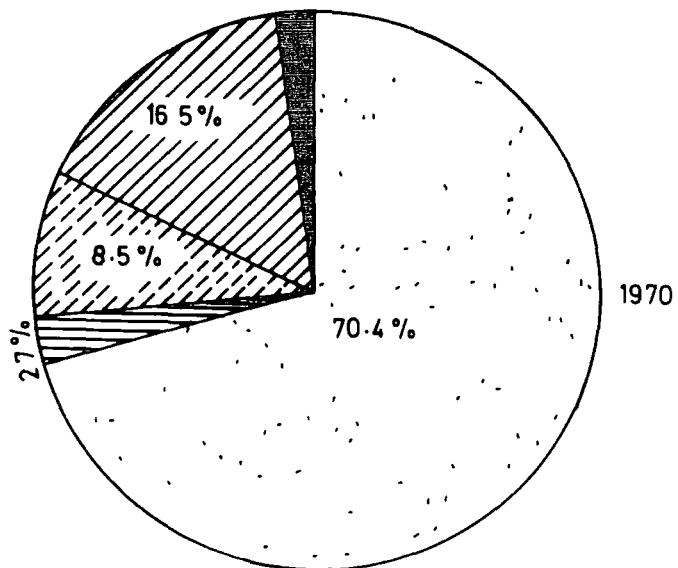
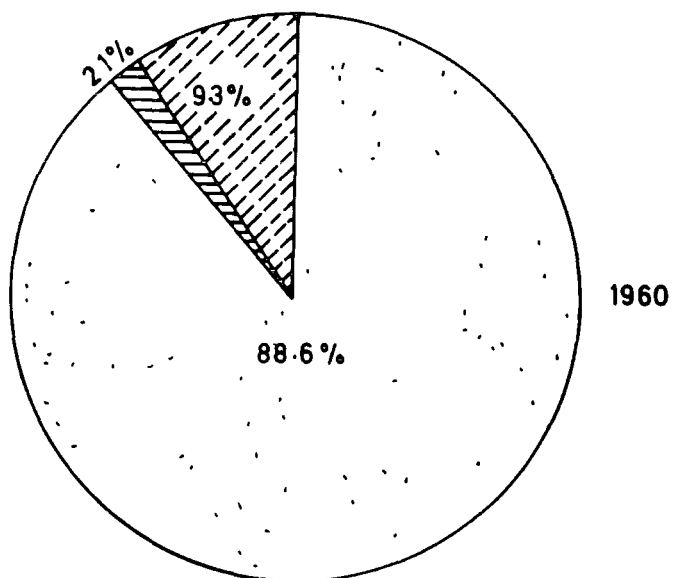
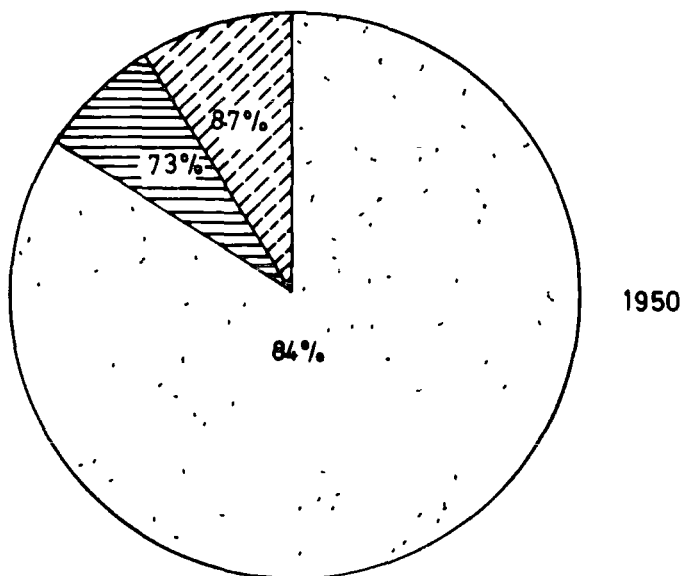


FIG 2.7

TABLE 2.3

THE EMIRATES' SHARE IN WORLD CRUDE OIL PRODUCTION AND EXPORT,
1966 & 1970 (PERCENTAGES)

	<u>1966</u>		<u>1970</u>	
	<u>Prod.</u>	<u>Exp.</u>	<u>Prod.</u>	<u>Exp.</u>
The Emirates	10	23	9	18
Other Middle East Crude Producers	19	36	20	39
Other Crude Producers	71	41	71	43

Source: Calculated from Apps 2.1.7 and 2.2.

This table indicates that the Emirates' share in the international crude oil trade is very much greater than their share in production. They provided the international market with 18% of its needs in 1970, a fall compared with 1966 when it was 23%, this drop reflects the slow growth in the Emirates' production of crude oil and the increase in local refining capacity in the late 1960's.

The reason why the Emirates have an even larger share in trade than in production and reserves are on the one hand their relatively small domestic consumption - a result of small population, lack of industry, and abundant supplies of natural gas, and on the other the preference of consuming countries for obtaining crude oil rather than refined products.

The relationship between the crude oil production of the Emirates and their small local markets for petroleum products, together with the variations in this respect between the Emirates, will provide a subject for later consideration.

The geographical distribution of the crude oil exports of the Emirates is shown in Fig. 2.8⁽²⁵⁾ As the figure indicates, Western Europe is the main importer with a 59.7% share of the Emirates total export. This equalled 794 million U.S. Barrels in 1970 out of Europe's total import of 3,976 million barrels,⁽²⁶⁾ or about one fifth of its needs. The second important destination is Japan and the Far East, which absorbed 25.8% of the Emirates'

The Emirates' Export of Crude Oil, by Destination 1970 (million barrels)

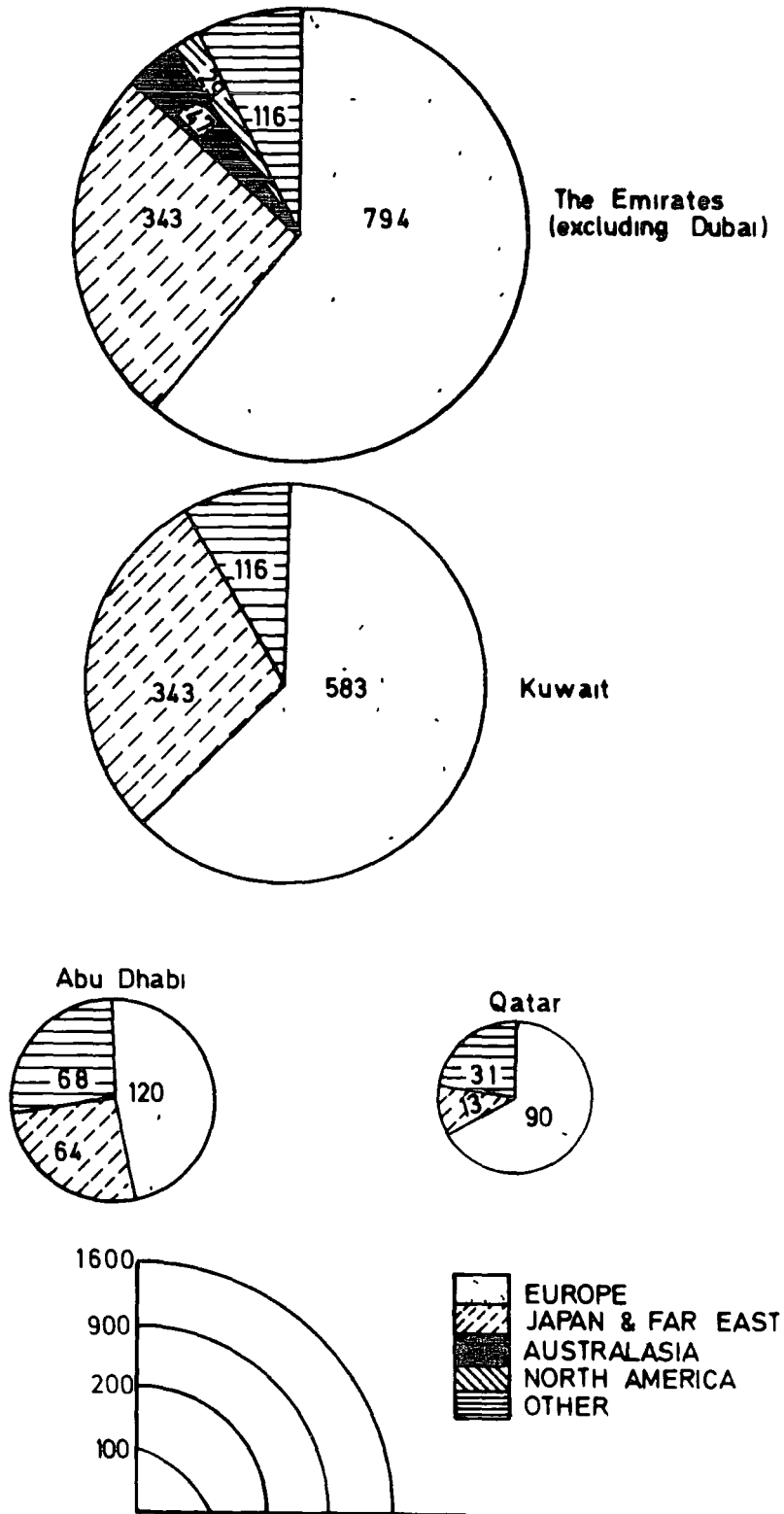


FIG 2 8

total export in 1970. Australasia imported 3.5%, North America 2.2%, and the rest of the world imported the remaining 8.7%.

D - Producing Oil Companies

To complete our presentation of the crude oil activities in the Emirates we give the following table the share in production of the producing oil companies in 1970

TABLE 2.4

PARENT COMPANIES' GROSS SHARE OF THE EMIRATES' CRUDE OIL PRODUCTION, 1970

<u>Company</u>	<u>THOUSAND BARRELS DAILY</u>			
	<u>Share</u>	<u>% of the Emirates' Production</u>	<u>Total Company Production (Global)</u>	<u>Emirate Share of Total Global Production (%)</u>
<u>Majors</u>				
Gulf Oil Corporation	1566	36.6	3242	48.3
BP	1493	35.1	3994	37.3
Shell Dutch/Shell	318	7.5	5135	6.2
Standard Oil Company (New Jersey)	84	2.0	6093	1.4
Mobil Oil Corporation	77	1.8	2083	3.4
Texaco, Inc.,	60	1.4	3252	1.8
Standard Oil Company (California)	49	1.1	2558	1.9
Total Major	<u>3647</u>	<u>85.8</u>	<u>26357</u>	
<u>Others</u>				
CFP	256	6.0		
Other International Oil Companies	305	7.2		
Local Government and National Oil Cos.	<u>35</u>	0.8		
Total	<u>4248</u>			

Source: App. 2.3; Royal Dutch/Shell groups, Group and other Major Financial Results Compared, p 5

Table 2.4 indicates that 85.8% of the Emirates' crude oil production in 1970 was produced by the seven Majors; two of them, Gulf and BP - the owners of KOC - accounted for more than two thirds. This at the same time represented about half of the Gulf Oil Corporation's production from all

sources and 37.3% of BP production in 1970.

Shell and CFP came next with 7.5% and 6.0% respectively. The independent companies accounted for 7.2%, while the government and national oil companies' share in 1970 was 0.8%. However, this has changed since the beginning of participation era in 1973 and now (1974) most of the Emirates own a stake of about 60% in the operating companies' capital.

E - Crude Oil Reserves

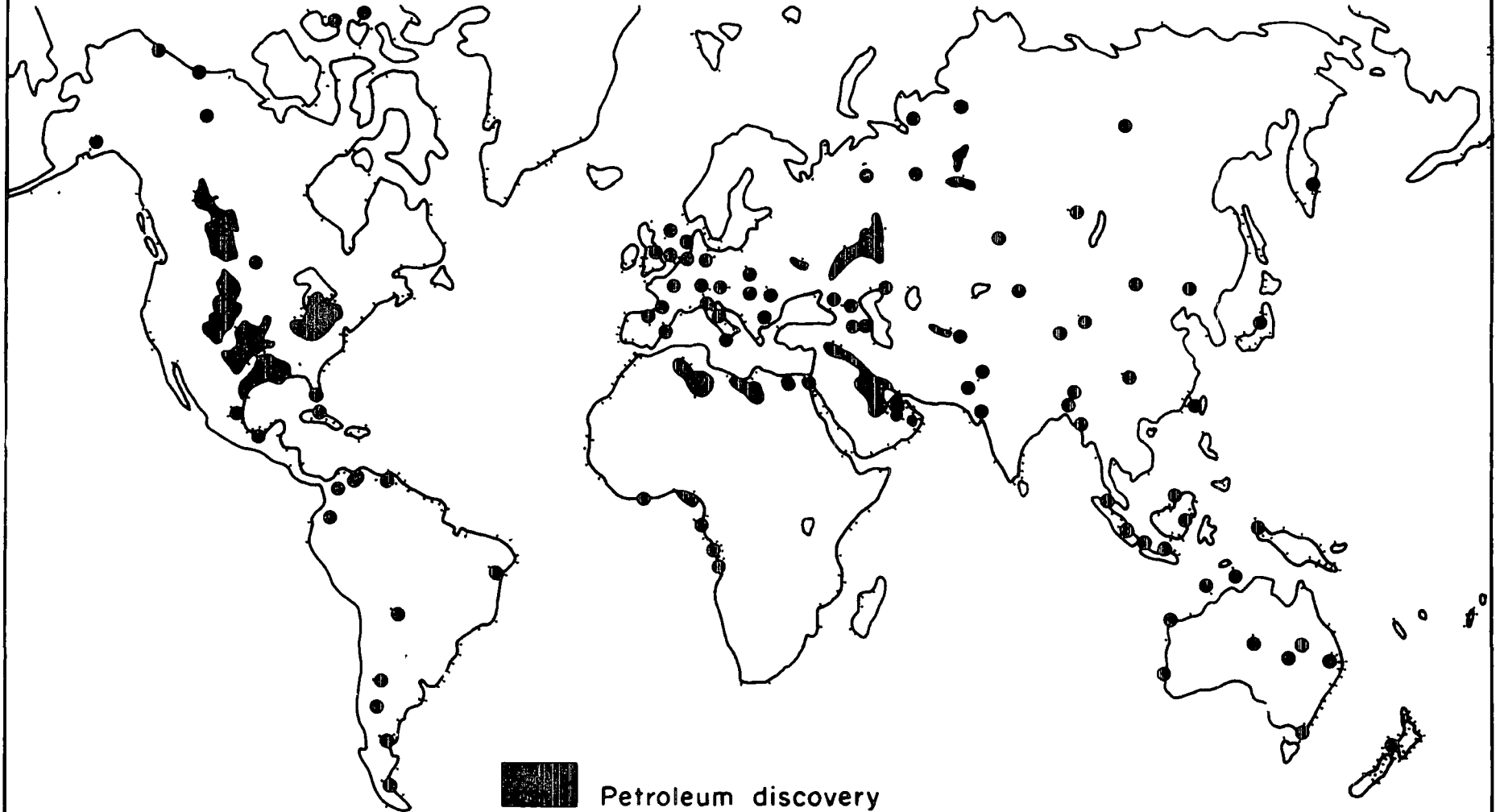
It is stating the obvious to say that the oil reserves are the fundamental base for the oil industry. The first step in the activities of the oil industry is the search for oil deposits, upon which future development is entirely dependent. The first pre-requisite if an area is to be considered promising as regards oil deposits is its location inside the sedimentary basins where all the known petroleum reserves have been found (Fig. 2.9). These sedimentary basins are now known to extend over most of the earth's land surface and the continental shelves. (27)

As Fig. 2.9 shows, all the Emirates' onland and off-shore areas lie in the sedimentary basin within an area containing the largest oil fields in the world. (28)

The regular exploration for oil in the Emirates started about 1930 and since then an increasing reserve has been discovered. In 1944 the Emirates' Oil Reserve was estimated as follows: (29) Kuwait 9,000 million barrels; Qatar 1,000 million barrels; and Bahrain 300 million barrels. This equals 16.2% of the world's total reserve. After the accelerated exploration for oil which followed the Second World War the Emirates' reserve was estimated at 51,884 million barrels in 1957. This was equal to 21.4% of the world's total reserve of oil (App. 2.4). In 1970, the proven oil reserve was estimated at 98,784 million barrels or about 16% of the world's total. This indicates that though the Emirates reserves have been increasing, their proportional share in the world's reserve has fallen.

FIG 2 9

OIL AND GAS DISCOVERED IN SEDIMENTARY BASINS



Petroleum discovery

Sedimentary basins

*Source SHELL, Exploration
and Production*

As for the reserve/production ratio in the Emirates, a steady decrease has been experienced since the late 1950's. Fig. 2.10 shows us that, although the remaining quantity of the Emirates' proven reserves increased almost every year, the reserve/production ratio fell from 109 in 1958 to just 64 in 1970, with the sharpest part of the fall in the period 1966-1970. This reflects the fact that the Emirates had already been extensively explored for oil, and any new discovery of oil fields was bound to be minor compared with previous discoveries. Moreover, production had steadily increased. However, in spite of all this, the Emirates still enjoyed a better position than the world as a whole, for the world reserve/production ratio in 1970 was only about 38. (30)

The relative position of the separate Emirates with regard to oil reserves and the reserve/production ratio is given below in Table 2.5

TABLE 2.5

THE EMIRATES' PROVED OIL RESERVES, 1970

(MILLION BARRELS)

<u>Emirate</u>	<u>1970 Reserve</u>	<u>Share of Reserve</u>	<u>Share of 1970 Production</u>	<u>Reserve/Production Ratio</u>
Kuwait	79950	80.9	70.4	73
Abu Dhabi	11800	11.9	16.5	47
Qatar	4300	4.4	8.5	33
Bahrain	1751	1.8	2.7	42
Dubai	983	1.0	2.0	31
Total	<u>98784</u>			

Source: See Apps. 2.4 and 2.16.

Kuwait has an 80.9% share of the reserves compared with only 70.4% of production. Its reserve/production ratio is also the strongest, with 73 years to go at the 1970 level of production. Abu Dhabi ranks second with a share in the reserve (11.9%), smaller than that in production, while the reserve/production ratio was 47. Bahrain's reserve/production ratio was 42. This is explained by Bahrain's share in the Abu Safah oil field. However,

The Emirates Crude Oil Production, Remaining Reserve
and Reserve/Production Ratio 1957-70

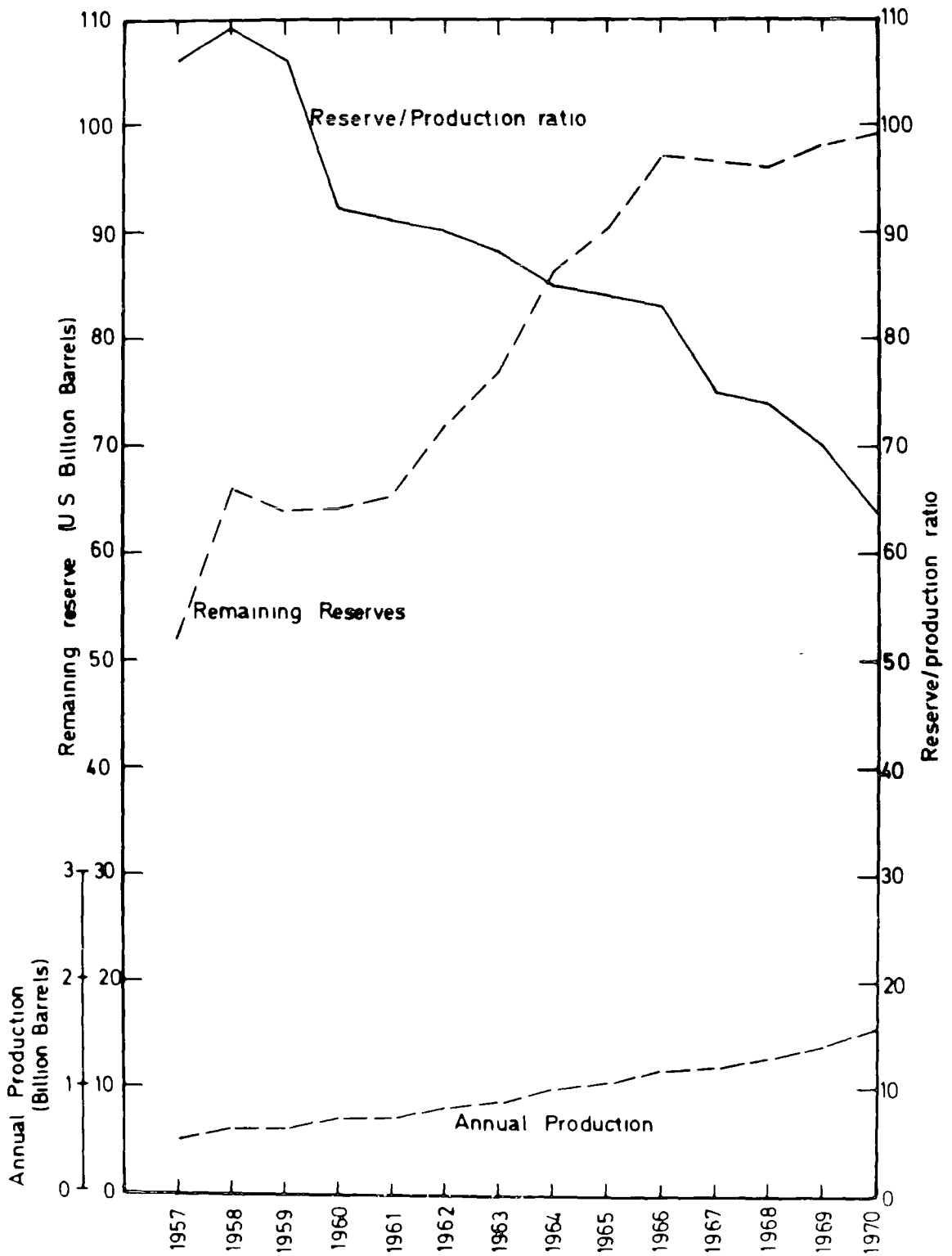


FIG 2 10

It should be noted that as far as the Abu Safah field, is concerned, Saudi Arabia is the dominant partner. The reserve/production ratio for Qatar and Dubai was 33 and 31 respectively, the lowest among the Emirates. Dubai's low reserve/production ratio springs partly from the fact that the Al-Fateh oil field is a new one and it is early yet to assess its potential. However, the figures for Qatar's reserves may be more accurate, for most of Qatar's oil fields have been producing long enough to assess their proven capacity.

Part Three: Impact of Petroleum Exploitation on Local Economics

In this part we will look at some aspects of the impact made on the local economics by the exploitation of oil resources. We exclude the impact of the oil companies' payments to the governments, which will be discussed in detail in the following chapters. Our concern is to see the development in the refining industry, in the domestic consumption of petroleum products, in activities centering on oil tankers and pipelines, in natural gas production and usage, in natural-gas-based industry, and finally the impact of the local expenditure of the operating oil companies. During our presentation we may discuss some of the problems, and the prospect these activities hold of accelerating the technological and economic development of the region.

A - The Refining Industry

The Emirates' refining industry started in Bahrain, where the first oil refinery on the Arabian coast of the Gulf was built. Plans for it were drawn up in 1934. The first plan was for a refinery with a capacity of 10,000 B/D. This was completed by 1937. Later the capacity was increased to 25,000 B/D.⁽³¹⁾

The Bahrain refinery was first thought of as a solution for the difficulties facing BAPCO in marketing Bahrain crude oil,⁽³²⁾ however, afterwards the Bahrain refinery played an important role in the Second World War by supplying petroleum products to Allied Forces in the Middle

and Far East, particularly after Japan's attack upon the United States, by which time a decision had been taken to increase the Bahrain refinery capacity to 65,000 B/D. (33)

A1 - Change in Refinery Locations

Prior to the Second World War, the location of refineries in general was resource orientated. In 1939 almost 60 million tons out of a total capacity of 85 million tons (excluding North America and the Communist world) was in the producing countries. (34) The Middle East up to the immediate post-second World War years was exporting the bulk of its output as refined products. (35) At that time Middle East refineries were the largest in the world. (36) This historical trend has changed since the end of the World War II, and the Middle East became mainly an exporter of crude oil. The ratio of crude oil delivered for refining to the total crude oil production of the Middle East declined from 66 per cent in 1937, 55 per cent in 1949, 21 per cent in 1960, (37) to only 14 per cent in 1970. (38) As for the Emirates, they have changed from being crude oil importers until 1946, when Bahrain was the only producing Emirate, to exporting 89 per cent of their output as crude oil in 1970 (Apps. 2.1 7 and 2 2).

The shift of the refining industry from producing countries, to the consuming countries, particularly after the Second World War, may be attributed to a number of considerations. Some of the principal ones have been summarised in these terms.

For Western Europe and Japan political and strategic considerations, as well as the impact of national economic policies, have strongly reinforced the probable, though unquantifiable, economic advantages of locating refineries at the market rather than at the point of production.

The second main trend in the post-war location of the refining industry can be explained, however, principally in terms of political and economic nationalism. (39)

The development in size of the crude oil tankers and the decline in the wastage rates of the refining industry has produced considerable economies and has consequently reduced the theoretical economic advantages

of locating the refineries near the producing rather than near the consuming centres.

The transition period, and particularly the late 1950's and 1960's witnessed a growing demand in the producing countries for a local integrated petroleum industry. This demand aimed at securing more added value from the oil industry for the producing countries. To meet this demand several attempts were made to increase the output of the local refineries. The national oil companies in the producing countries consider this to be one of their main aims. Pollution problems in the industrial countries are an additional recent factor favouring the refining of oil in the producing countries.

Another new factor has emerged since the early 1970's and particularly since the October War of 1973. This factor is the era of the seller's market. The oil-producing countries have very little competition in the products market, and this will encourage them to increase their refining and marketing activities. However, the power of this trend will be restricted by the technological capacity of the producing countries and by the problems it poses for the consuming countries which are already facing balance of payment difficulties.

A2 - The Refining Industry of the Emirates

The main refineries in the Emirates are in Kuwait and Bahrain. Table 2.6 shown overleaf shows the main features of these refineries:

TABLE 2 6
THE EMIRATES' REFINERIES, 1970

<u>Emirate</u>	<u>Ownership</u>	<u>Location</u>	<u>Capacity 000 B/D</u>	<u>Throughput 000 B/D</u>	<u>Percentage of Crude throughput to Capacity</u>
Kuwait	KOC	Mina Al-Ahmad	250	237	95
	AMINOIL	Mina Abdulla	144	77	54
	KNPC	Shuaiba	95	92	96
Bahrain	BAPCO	Sitrah	205	254	124
Qatar	Govt.	Ummsaid	<u>0.7</u>	<u>0.7</u>	100
Total			<u>695</u>	<u>667</u>	

Source: OPEC, Annual Statistical Bulletin, 1970, KOC, Annual Report, 1970; ANIMOIL, Annual Report, 1970; KNPC, Annual Report, 1970; BAPCO, Annual Report, 1970.

From the table we see that Kuwait's share of the total refining capacity was about 72 per cent, but its share of the throughput was only 60 percent; Bahrain almost accounts for all the rest, since Qatar's share was negligible. The other Emirates had no refineries at the end of 1970; but since then and under pressure to meet the local demand of the inland market, a 15,000 B/D refinery has been planned for Abu Dhabi together with a new 6,000 B/D refinery for Qatar (40)

The refining industry of the Emirates has been affected by the general trends in the oil industry. Bahrain began its production at the time when the establishment of refineries near the producing centres was the general policy of the producing companies, while other parts commenced their production during the shift from this policy. Certain other factors have also affected this development, such as the need to meet the demand for bunker fuel, the inland local consumption needs; the lack of international downstream facilities for some producing companies; the marketing difficulties facing heavy crude; cheap refinery fuel and hydrogen; and the national demand for a more integrated national oil industry. All these factors have affected the development of the Emirates' refining industry as illustrated overleaf:

TABLE 2 7

CRUDE OIL THROUGHPUT CAPACITY OF THE EMIRATES' REFINING INDUSTRY,SELECTED YEARS (000 B/D)

<u>Year</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Total</u>
1937	25	-	-	25
1940	33	-	-	33
1945	65	-	-	65
1950	155	25	-	180
1955	185	30	-	215
1960	186	220	0.7	406.7
1965	205	342	0.7	547.7
1970	205	489	0.7	694.7

Source: Longrigg, S.H , op.cit , p.103; WORLD PETROLEUM (Annual Refinery Issue), 1945, p.76, 1953, pp.88-93, 1955, p.136, OPEC, Annual Statistical Bulletin, 1970, pp.43 and 52; Al-Petrol Wa Al-Gas Al-Arabi, March 1966, p.35; App.2.5.

The markets for the Emirates' refined products differ greatly from those for crude oil. In addition to local markets and bunkering, the Emirates' refined products are exported to South Asia and the Far East, the Arab countries, and Europe. But the main markets are South Asia and the Far East which in 1970 absorbed 60% of the total export of refined products from Kuwait, while bunkering accounted for 21%, and the Arab countries, Europe and America accounted for only 19% (41)

The prices of refined products from the Emirates kept in line with those of the Western Hemisphere until 1957. (42) More recently they have dropped behind slightly, although remaining closer than their crude oil equivalents. (43) This may reflect the advantage which the Emirates have over other competitors in the markets of South Asia, the Far East, the Arab countries and other Eastern countries. However, this market is a relatively small one, and there is a growing tendency to establish local refining industries.

A3 - Some Problems of the National Refining Industry

What is meant here by 'National Refining Industry' are refineries

owned by Governments or citizens of the Emirates. In this sense the only important refinery is the KNPC refinery at Shuaiba, the other plant is the Qatar Government Topping Plant at Umm-Said, which the Government bought from QPC in 1968 at \$59,520.⁽⁴⁴⁾ However, this plant with its 680 B/D is producing for the monopolised local market and buying the crude at cost price from QPC,⁽⁴⁵⁾ hence no major problems have existed up to now. The KNPC refinery at Shuaiba with its 95,000 B/D capacity was the first to use hydrogen in all downstream process units,⁽⁴⁶⁾ and it is this refinery which concerns us here.

The KNPC refinery's problems may be summarised as the problems of an inexperienced wealthy newcomer to a completely new field, a newcomer motivated by national considerations as well as commercial ones. Thus the KNPC refinery was established to fulfil one of the main aims which it has in fact been trying to achieve, i.e. an integrated oil company.⁽⁴⁷⁾ The KNPC consider the going onstream of Shuaiba refinery in 1968 as "a landmark in the further expansion of the Kuwait National Petroleum Company in the international oil business."⁽⁴⁸⁾ So the corner stone in establishing this export orientated refinery may be found in the national policy of the Kuwait Emirate. A second factor at the time was the problems which were facing Kuwait in marketing some of its heavy crude in 1965.⁽⁴⁹⁾ The second factor worked together with the third, the national desire to utilise wasted natural gas; as Fasil Mazidi put it in his paper, "the fact that we can make extremely large quantities of cheap hydrogen is of interest to the refinery development which we are considering,"⁽⁵⁰⁾ These last two factors affected the refining technology chosen by KNPC, and this in turn combined with other circumstances to cause the main problems of the KNPC refinery at Shuaiba. The main problems may be listed as:⁽⁵¹⁾

- a) Up-to date advanced technology in an under-developed country.
- b) Lack of experienced labour to run this sort of refinery and deal with its technical problems. This lack affected the

- b/ refining cost as well as restricted the range of products.
- c) The fact of its being the first national heavy industry in a small country importing everything (except crude) affected the cost of running the industry as well as the fixed cost and caused a considerable delay in the construction period.
- d) On the commercial side, being an export-orientated industry with a single refinery, competing with well established competitors, it was faced with marketing difficulties.
- e) Short run problems in adjusting the refinery to be able to refine heavy crude and extract more expensive light products (it has an advantage in producing these over other types of refinery) These difficulties were caused by technical problems and to a lesser extent by the change in the cost of shipping caused by the closing of the Suez Canal.

These are the main difficulties which have faced the KNPC refinery at Shuaiba and caused heavy losses to the company.⁽⁵²⁾ These losses may be attributed to three main reasons.

First: The high fixed cost - the capital investment per daily barrels of intake was £676⁽⁵³⁾ while the corresponding cost of refinery facilities of a not too complex nature built by SHELL in the same period was between £250-£350;⁽⁵⁴⁾ and the high running cost⁽⁵⁵⁾

Second The refinery failure in processing the heavy crude for which it had been designed led to it being used as an ordinary refinery for lighter crudes; an under use of capital and more expensive stock.

Third: The lack of managerial, technical and marketing experience.

These difficulties fall into two broad categories. The first is short term difficulties which usually face a new export orientated industry in its first years; the severity of these difficulties depends on the country concerned, its stage of industrial development, and its marketing experience. The second is that of difficulties inherent in the new and advanced

technology chosen. New techniques need a longer period of adaptation to reach the stage where their main problems are known and solved.

However, the KNPC refinery at Shuaiba has already successfully solved a great many of its short term difficulties and gained considerable experience in adapting the new refining technology ⁽⁵⁶⁾ Two main results on the technical side have been achieved; the first was the refinery's success in refining 25% of its throughput from Umm-Gudair heavy crude in 1971, ⁽⁵⁷⁾ compared with less than 1.5% in 1970. ⁽⁵⁸⁾ The second was the rise of the throughput to an average of 120,000 B/D without involving the addition of any processing units at the refinery, ⁽⁵⁹⁾ compared with 92,290 B/D in 1970. ⁽⁶⁰⁾ On the marketing side considerable experience has also been gained, and regional marketing companies have been established. However, the difficulties of the Shuaiba refinery have affected the development of the national refining industry in the Emirates, as may be seen from the decisions of Abu Dhabi and Qatar to build small refineries instead of following their previous intention to establish export-orientated refineries. These refineries, although they will obtain their crude needs at cost price from the producing companies, will be faced with the economic disadvantages ⁽⁶¹⁾ of small-scale industry and these may offset the advantage of cheap crude.

B - Domestic Consumption of Petroleum Products

Domestic consumption consists of inland local consumption, refineries' losses and bunkering. The Emirates with its small population and abundant cheap natural gas has little need for refined products. The main consumers of the refined products are the oil tankers and other visiting steamers.

Table 2.8 shows the Emirates' domestic consumption:

TABLE 2.8

THE EMIRATES' DOMESTIC CONSUMPTION OF REFINED PRODUCTS AND
REFINERIES' LOSSES, BY EMIRATES AND MAINS PATTERN OF
CONSUMING, 1970 (000 B/D)

<u>Country</u>	<u>Locally Ref. Product</u>	<u>Imported</u>	<u>Refineries Losses</u>	<u>Total Inland Consumption</u>	<u>Bunkers</u>	<u>Total</u>
Kuwait	14.7	0.2	9.5	24.4	80.8	105.2
Bahrain	2.3	N.A.	11.2	13.5	19.2	33.7
Qatar	2.1 ϕ	N.A.	-	2.1	17.0e	19.1
Abu Dhabi	-	2.6	-	2.6	35.0x	37.6
Other Emirates	-	2.6e	-	2.6	17.0e	19.6
Total	<u>19.1</u>	<u>5.4</u>	<u>20.7</u>	<u>45.2</u>	<u>169.0</u>	<u>214.2</u>

Notes: ϕ Include imported refined products.
 x Bundering at Das Island alone was 17,200 B/D.
 e Estimation according to the number of visiting ships or population.

Source: OPEC, Annual Statistical Bulletin (1970); Al-Batrol wa Al-Sinah 1971; Department of Petroleum Affairs, Qatar, Private communication, Apps. 2.6.1 and 2.6.2.

From Table 2.8 we may see that bunkering alone accounts for 79% while refinery losses account for 9.6% and local consumption for about 11.4%. In 1970 the Emirates' domestic consumption accounted for more than 32% of the year's refinery throughput.

C - Oil Tankers and Pipelines

The only international oil pipeline is the Saudi Arabia/Bahrain pipeline. In the other Emirates there are no pipelines to transport the oil outside any of them. All the existing pipeline systems are field/export terminals or refinery connectors (Fig. 2.5).

As for oil tankers, Kuwait Oil Tankers is the only national oil tanker industry in the Emirates. Kuwait Oil Tankers Company was established in 1957 by the Kuwait private sector. As in Table 2.9 overleaf, the company's Annual Report of 1970 shows the following indicators.

TABLE 2.9KUWAIT OIL TANKERS COMPANY· SOME INDICATORS, 1970(KD MILLION)

<u>Capital and Reserve</u>	<u>Net Profit</u>	<u>Fleet Tonnage</u>
17.8	2.8	800,000 Tons

Source: Kuwait Oil Tanker, Annual Report (1970).

However, a growing demand for an integrated national oil industry has been noticeable recently, a desire to enter the oil tankers' market has also been expressed through participating in OAPEC

D - Natural Gas Production and Usage

The term "natural gas is applied to gas produced at the surface from underground accumulation of wide composition which may or may not be directly associated with accumulation of oil."⁽⁶²⁾ Natural gas consists mainly of hydrocarbons, of which Methane is the essential component. Associated gas may be found in solution with the crude oil or as gas-cap gas.

In the Emirates natural gas production is mainly of associated-solution gas, the production of which depends entirely on crude oil production. For this reason, plus the absence of sufficient local needs for natural gas, and the difficulties in transporting natural gas economically to the industrial centres of the world, the flaring of natural gas was inevitable.

However, although the greater part of natural gas production in the Emirates is still being flared, it is playing an essential role in reducing production costs by offering natural drive for crude, and solving some of its sulphur content problems, as well as providing the Emirates with cheap fuel for electrification, water distillation and the refining industry. Natural gas also provides the petro-chemicals industry with its raw materials and, through gas injection schemes, is used to maintain reservoir pressure in the oil fields. Table 2 10, shown overleaf, gives the Emirates'

natural gas production, reserve and usage.

TABLE 2.10

NATURAL GAS PRODUCTION, RESERVE AND USAGE BY EMIRATES, 1970

(000 MILLION CUBIC FEET)

<u>Country</u>	<u>Oil Companies Use</u>	<u>Govt. Use</u>	<u>Flared</u>	<u>Total Production</u>	<u>Reserve</u>
Kuwait	135	53	382	570	41000
Qatar**	24	5	121	150	10000
Bahrain***	39	5	-	44	1000
Abu Dhabi	26	13	227	266	10000
Dubai	N.A.	N.A.	N.A.	N.A.	700
Total	<u>224</u>	<u>76</u>	<u>730</u>	<u>1030</u>	<u>62700</u>
Usage percentage	21.8	7.4	70.8	100	

Notes: * Include field injection.
 ** Almost all the companies' need for gas was for running pumping stations and all of it was flared after use.
 *** BAPCO only.

Source: SAK, 1971, p.130; Ministry of Education, Qatar, Annual Report, 1970/71, p.17; Direct contact with the Ministry of Petroleum and Industry, Abu Dhabi; ADPC, Annual Report, 1970; BAPCO, 'Bapco and Bahrain'; BAPCO, Annual Report, 1970; Reserve in 1/1/1970; NAFT AL-ARAB, April, 1971, p.41

Though the proportion of used natural gas production has been increasing during the last decade,⁽⁶³⁾ it is still less than one third. Among the Emirates Bahrain is the only one which has no wasted gas, and to supply the Aluminium Bahrain Company (ALBA), BAPCO had to drill for unassociated natural gas from the Khuff Zone.⁽⁶⁴⁾ Other Emirates differ in their proportion of utilised natural gas; Kuwait is the leading one, followed by Qatar and Abu Dhabi. The oil companies utilised 21.8% of the natural gas produced in 1970, using a considerable part for field injection. All the gas utilised was onshore, while offshore gas is almost totally flared.

The 1970 production was about 1.63% of the year reserves, and if we take into consideration the fact that almost all the gas discovered in the Emirates has been associated gas, we may realise the potential importance of the Emirates for future natural gas supplies.

There are many schemes for utilising natural gas in industrial development as well as for export. The increasing demand for natural gas, the development in the technology of gas liquidification and transportation, and the development in the petro-chemical industry will all open up wider possibilities for utilising the Emirates' gas output. Together with field injection needs, the potential ways of utilising the Emirates' natural gas may be seen in Fig 2.11.

The analysis of some of the natural gas is shown in Table 2 11 below.

TABLE 2 11

SELECTED OIL FIELDS ASSOCIATED NATURAL GAS AVERAGE

ANALYSIS (WEIGHT %)

		<u>Burgan</u> <u>(Kuwait)</u>	<u>Dukham</u> <u>(Qatar)</u>
Methane	C H ₂	47.5	57.0
Ethane	C ₂ H ₄	22.5	15.0
Propane	C ₃ H ₆	19.0	10.0
Butane	C ₄ H ₈	11.0	2.3
Pentane	C ₅ H ₁₂ plus		3.0
H ₂ S			3.5
CO ₂			8.0

Source: Burgan: Mazidi, Faisal, Natural Gas Utilisation in Kuwait, p.3;
Dukhan: MEDD, 'Economic Survey of Qatar', p.64

E - Natural Gas Based Industry

E1 - Potential Utilisation of Natural Gas in Industry

Beside the possibility of successfully liquifying the natural gas to LPG and LNG for export and local needs, there is a great potentiality for the use of natural gas for the needs of industry. We may distinguish in the first instance, three broad categories of industry which might utilise nature gas. The first is the chemical industries where "90% of the world production is petroleum derived and this share is still increasing."⁽⁶⁵⁾ In this industry natural gas may be used as the raw material with a very wide range of potential products (Fig. 2.12).

Potential ways of Utilizing Natural Gas

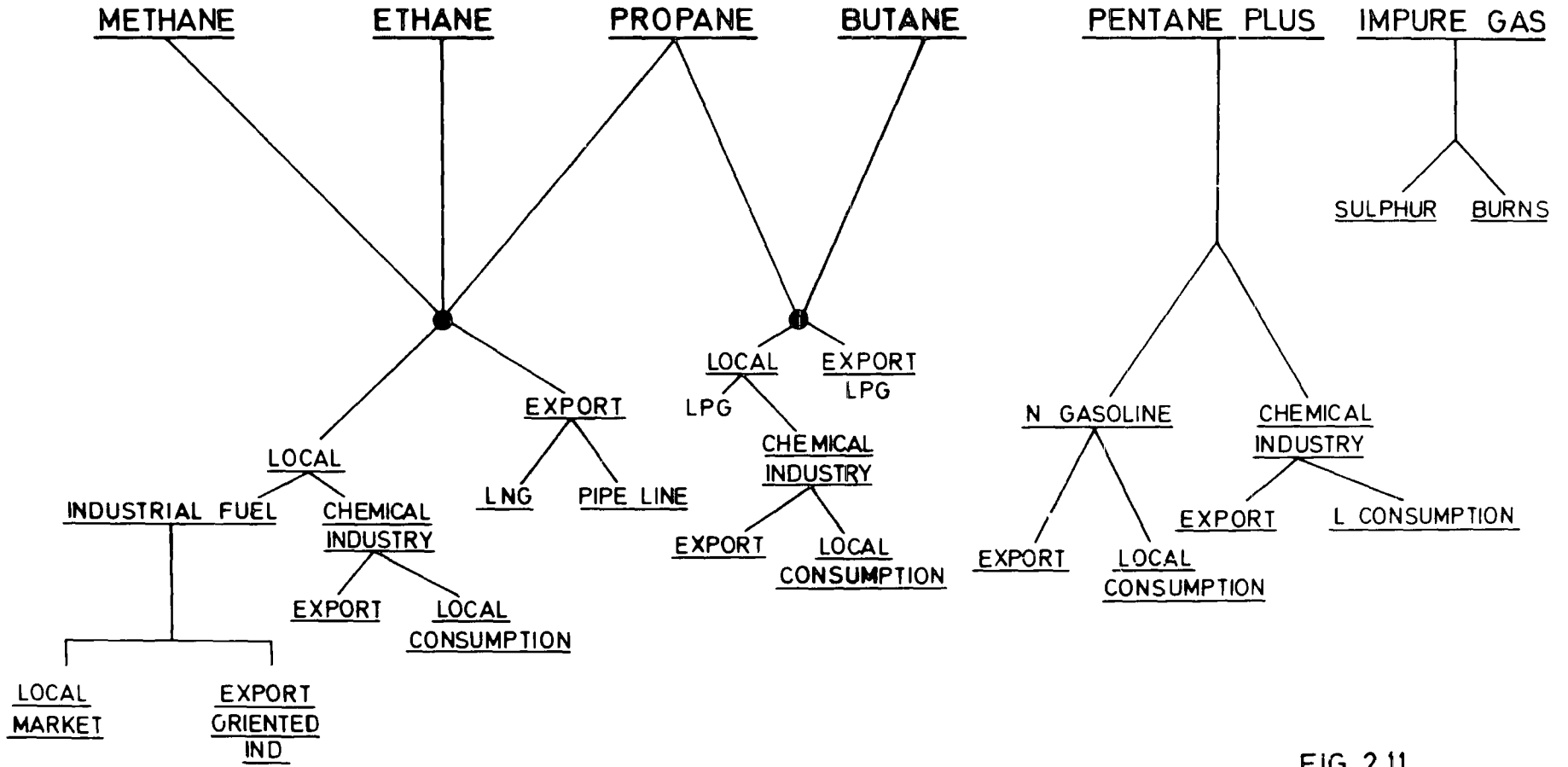
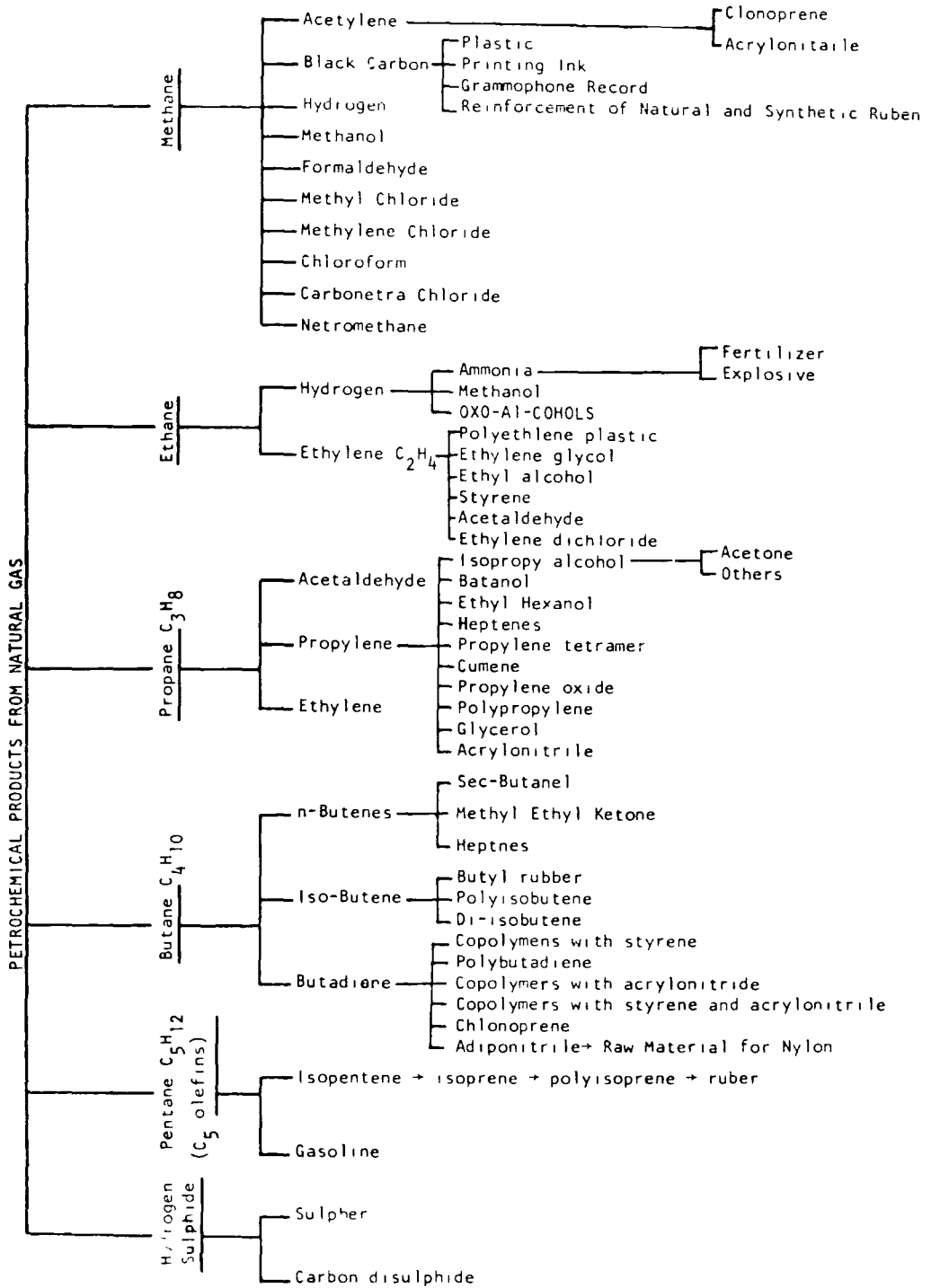


FIG 2 11

Figure 2.12



The most important of these in terms of world production are:

Ammonia, Urea, Ethylene, Propylene, Methanol, Butadiene, Alcohols, Acetylene, Black Carbon, Carbon Disulphide and Sulphur. (66) This industry with its rapid growth, technological development and increasing range of products, is an important field for utilising natural gas. The second is the base-energy industries, where gas is used mainly for under-boiler steam raising, e.g. cement works and thermal power plants. The third use is as fuel for industry, particularly those industries which need clean and high thermal fuel, e.g. Metallurgical, Glass, China, Glazed tiles and Biscuits and Bread industries.

E2 - Geographical Distribution of Natural-Gas-Based Industry

Kuwait. In Kuwait natural gas is used in many industries, especially the fertiliser plants, power stations and refineries. Kuwait Petro-chemical Industries Ltd., was established in 1963 with a major share of 80% held by the Kuwait Government and a capital of KD 16 million. After an unsuccessful joint venture, the company together with British Petroleum and Gulf Exploration and Development, established the Kuwait Chemical Fertilisers Company Limited (KCFC). KCFC production in 1970 was, Ammonia 120,000, Aluminium Sulphate 71,000 and Urea 162,000 metric tons. (67) In 1970 the Kuwait petro-chemical industry began to construct a new fertiliser plant designed to produce Ammonia 96,000 metric tons and Urea 123,000 metric tons per annum. (68) The company later in 1972 doubled its capital to reach KD 32 million. (69)

Another industry utilising natural gas in Kuwait is the refining industry; the gas is used as fuel and also to produce hydrogen and extract sulphur and sulphuric acid. (70) The third important field for utilising natural gas locally was the using of the natural gas as fuel for the power stations upon which the water distillation plants are entirely dependent.

Bahrain: The industrial utilisation of the natural gas in Bahrain up to 1970 was confined to the BAPCO Refinery and the government power

station at Juffer

Aluminium Bahrain (ALBA) was incorporated as a company in August 1968. The Bahrain Government owned 19% of the capital and the rest was owned by six foreign partners. The company began production in May 1971 and planned to use 100 million cubic feet of natural gas a day to produce 120 thousand tons of aluminium per annum ⁽⁷¹⁾ ALBA is the first metallurgical project in the Emirates and the largest single consumer of natural gas. Natural gas is also used in power stations and the refining industry

Qatar. The industrial utilisation of natural gas in Qatar up to 1970 was confined to the power station plants, upon which water distillation is dependent, and the Umm-Bab Cement factory.

The Qatar Fertilizer Company (QAFCO) was founded in Doha on June 29, 1969. Its purpose is to build and operate a 900 metric tons/day ammonia and a 1,000 metric tons/day Urea plant. The Qatar Government holds a 63% share in the company capital. ⁽⁷²⁾ The plant at Umm-Said will use 50 MCF a day of Dukhan natural gas as raw material and its only source of energy. ⁽⁷³⁾ The plant was scheduled to commence production in 1972.

Abu Dhabi: Up to 1970 the only industrial utilisation of natural gas was the capital's power station and water distillation plants.

E3 - The Problems of Utilising the Associated Solution Natural Gas

Together with the technical problems, caused by the contents of the solution gas, which contains a high percentage of impure gases, there is a major problem on the supply side.

The associated-solution gas is produced with crude oil, and so its daily production depends entirely on the need for crude oil and the limited storage facilities. Since the crude and refined products depend on international demand and weather conditions, the daily production differs from one day to another. Thus in Kuwait in 1970 the daily production differed from a maximum of 1,860 MCF a day to only 746 MCF a day ⁽⁷⁴⁾ This sort of problem is unlikely to occur with the daily supply of unassociated gas. To solve

this problem the parties concerned are asked to carry out wide research on the short-term underground storage of natural gas. This is not an utter impossibility, and it is worth engaging in research in this field since almost all the Emirates drinking water, electricity, industry and LPG and LNG export plants are dependent on associated-solution natural gas.

Even more than in the case of crude oil, the production and utilisation of natural gas raises several problems relating to the 'best' policies for the Emirates.

The full and direct utilisation of natural gas resources is dependent on other types of production. Here each of the Emirates is to some extent uniquely situated, although it remains true that the capital derived from petroleum and gas sales is the only relatively plentiful production factor in the region as a whole. This in addition to the nature of the local market - size and cultured characteristics - is of great importance to later discussion of income and expenditure

F - The Impact of the Oil Companies' Local Expenditure

The contribution of the oil industry to the gross national products of a country consists of that part of the 'value added' by the industry that remains in the given country. These contributions are reflected in the payments to the governments, operating expenditure and capital formation by the oil companies. For example, the oil production's direct contribution to Kuwait 1969/70 GDP was 56.7%.⁽⁷⁵⁾ In this part of the study, however, we are going to refer to certain aspects of the industry's contribution to the local economies, mainly through employment, local purchase, and local contractors, leaving the companies' payments to the government to be discussed in detail in Chapter III

F1 - Employment

The oil industry is a capital intensive, not a labour intensive industry. Nevertheless, the oil industry, particularly at the beginning provided the Emirates with considerable and badly needed employment. Thus

the oil industry in 1953 provided employment for 50% of Qatar's active population, and 19% of Kuwait's active population in 1958. ⁽⁷⁶⁾ This contribution was mainly due to the small population of the Emirates. Although this contribution has decreased, the oil industry still provides significant employment opportunities in the Emirates as compared with other oil producing companies. Table 2.12 below shows the employment in the Emirates oil industry.

TABLE 2.12
EMPLOYMENT IN THE EMIRATES OIL INDUSTRY, 1970

	<u>Citizens</u>	<u>Non-Citizens</u>	<u>Total</u>
Kuwait	1794	5353	7147
Bahrain	3630	448	4078
Qatar	1569	454	2023
Abu Dhabi	572	808	1380
Dubai(e)	200	700	900
Total	<u>7765</u>	<u>7763</u>	<u>15528</u>

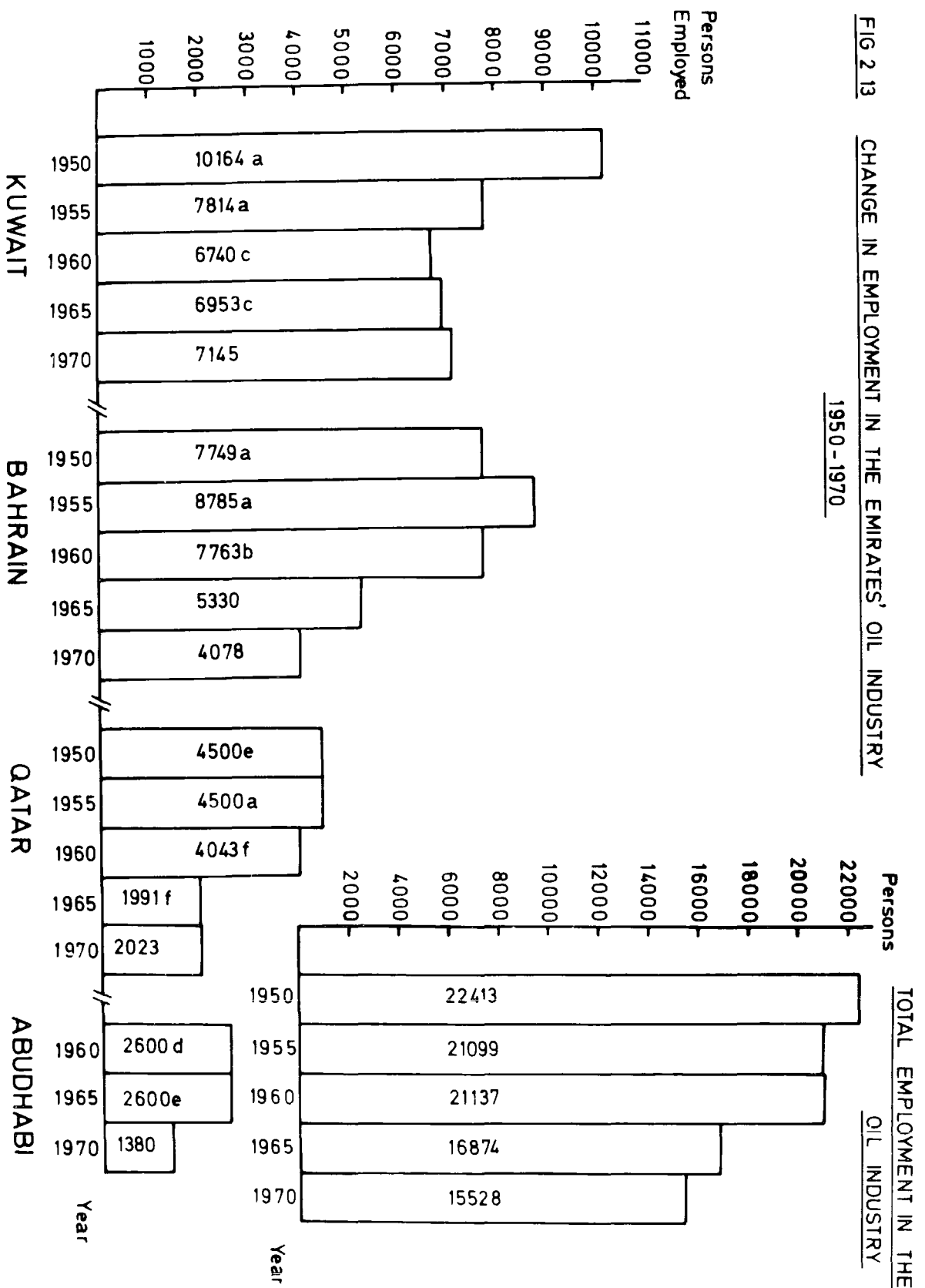
(e) Estimation.

Source: Apps. 2.7.1-2 7.3; BAPCO, Annual Report, 1970; BAPCO, Bapco and Bahrain

From Table 2.12 we see that the oil industry provided jobs for 15 thousand persons almost equally divided between citizens and expatriates. This percentage in fact depends upon two factors: one is the availability of experienced labour and the other is the opportunities in other employment. In this employment, estimated wages and salaries may reach \$58 million a year. ⁽⁷⁷⁾ However, the impact of this expenditure depends on the part that is spent in the local economy.

Employment in the Emirates' oil industry has declined (Fig. 2.13) ⁽⁷⁸⁾ in consequence of the stage of development reached in exploration and production. The other influential factor has been the advanced technology used by the companies and their dependence on the local economy to provide some goods and services which the companies had previously provided for themselves. We can detect the effect of the exploration and drilling in

FIG 2 13 CHANGE IN EMPLOYMENT IN THE EMIRATES' OIL INDUSTRY



TOTAL EMPLOYMENT IN THE EMIRATES' OIL INDUSTRY

Abu Dhabi during the late 1950's in the increased labour force in 1960, and we can also note the part played by the development of the refining industry and the Dubai oil industry in slowing down the decrease in employment in the late 1960's

F2 - Local Purchase and Local Contractors' Services

The operating oil companies contributed to the local economies through local purchasing and local contractors' services. In Kuwait, for example, in 1970 KOC's expenditure on local purchase amounted to \$8.4 million and its expenditure on local contractors' services was \$12.9 million;⁽⁷⁹⁾ AMINOIL's expenditure amounted to \$4.5 million and \$8.0 respectively;⁽⁸⁰⁾ and AOC's expenditure in both Saudi Arabia and Kuwait was \$8.4 million for local purchase and \$23.0 million for the local contractors' services.⁽⁸¹⁾ In Bahrain, the Bahrain Petroleum Company's expenditure for both local purchase and services was \$5 million.⁽⁸²⁾ The Qatar, Abu Dhabi and Dubai oil companies have not announced any figures to show their contribution to the host economies in terms of their expenditure on local purchase and local contractors' services. However, one can estimate their contribution as comparable to those in Kuwait and Bahrain. The oil companies' contribution to the local economies in terms of local purchase and services usually decreased after the company reached the stage of completing its exploration, drilling and production facilities. For example, KOC expenditure in this field fell from \$24.0 million in 1958⁽⁸³⁾ to \$22.3 million in 1970, and this was in spite of the increasing general contribution to the local economy from the companies' total expenditure.

The oil industry's contribution in fact exceeds the contributions mentioned earlier, e.g. to the field of training, which has increased manpower productivity. Moreover, the industry with its advanced technology has affected technological development in the area.

These are in brief some of the important effects made on the local economies by the development of the oil resources of the Emirates. However,

the most important impact comes from the companies' payments to the governments. These payments, and the policies channelling them, are the subject of the remaining chapters.

In this chapter the basic background to oil and gas production and sales has been given. The connection between these facts and income and expenditure in the Emirates is a two-way relationship. The rate of exploitation, the proportion of crude export to refining, etc., is increasingly affected by the Emirates' policies regarding income and expenditure, although until recently their power to influence decision in this global industry was fairly limited. Succeeding chapters will examine some of the changing relationships which are now developing

NOTES - CHAPTER II

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- (2) Ibid., (report dated 25th November, 1910).
- (3) IOR, R/15/5/236, (Report dated 7th May, 1913).
- (4) Ward, Thomas E., Negotiation for Oil Concessions in Bahrain, El, Hasa (Saudi Arabia), The Neutral Zone, Qatar and Kuwait, p.21.
- (5) Ibid., p.11.
- (6) Ibid., p.12.
- (7) Ibid., p.12.
- (8) Ibid., p.20.
- (9) Longrigg, S.H., Oil in the Middle East, p.101.
- (10) Ward, Thomas E., op.cit., p.15.
- (11) Longrigg, S.H., op.cit., p.101.
- (12) Ward, Thomas E., op.cit., p.35.
- (13) Ibid., p.21.
- (14) IOR, R/15/2/8/24, (Letter from PA Bahrain to PR, dated 28/6/1931; Dickson private papers, op.cit., (1931 Report, p.21).
- (15) Dickson private papers, op.cit., (1931 Report, p.20; 1932 Report, pp.33-34); Ward, Thomas E., op.cit., p.164.
- (16) Ibid., pp.226-227; Dickson private papers, op.cit., (1932 Report, pp.33-35).
- (17) Makdashi, Zuhayr, A Financial Analysis of Middle East Oil Concessions: 1901-1965, p.81; Longrigg, S.H., op.cit., p.111.
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- (19) Ibid., p.105.
- (20) Mann, C., op.cit., p.85.
- (21) WORLD PETROLEUM, June 1939, p.49.
- (22) Ibid., Sept. 1954, p.61.
- (23) Ibid., Sept. 1954, p.66.
- (24) Ibid., Sept. 1939, p.48.
- (25) Sources of Fig. 2.9 are:
BAYAN, 1971/72, p.26; SAB, 1969 and 1970; ADPC, Annual Report, 1970;
 Direct communication with the Department of Petroleum Affairs, Qatar.

- (26) OPEC, Annual Statistical Bulletin, 1970, p.81.
- (27) Warman, H.R., 'The Future of Oil', pp.289-290.
- (28) Royal Dutch/Shell Group, Exploration and Production, p.5.
- (29) PETROLEUM TIMES REVIEW (Middle East Oil), June 1948, p 4.
- (30) Warman, H.R., op cit , p.291
- (31) WORLD PETROLEUM (Annual Refinery Issue). Vol. 16, 1945, p 76
- (32) Longrigg, S.H , op.cit., p.103.
- (33) WORLD PETROLEUM (Annual Refinery Issue), Vol. 16, 1945, pp.76-77.
- (34) Odell, P.R., An Economic Geography of Oil, pp 109-110.
- (35) Issawi, C. and Yeganeh M., The Economics of Middle Eastern Oil, p.12.
- (36) WORLD PETROLEUM (23rd Annual Refinery Issue), 1953, p.88.
- (37) Issawi, C. and Yeganeh M., op.cit., p.12; see also Royal Dutch/Shell Group, The Pattern and Economics of Refining, App. 2.
- (38) OPEC, Annual Statistical Bulletin, 1970, pp.41 and 51.
- (39) Odell, P.R., An Economic Geography of Oil, p.122; see also Royal Dutch/Shell Group, The Pattern and Economics of Refining, p.2.
- (40) Private communication.
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- (44) Private communication
- (45) Private communication
- (46) WORLD PETROLEUM (First oil Hydrogen Refinery now operating in Kuwait, 'Annual Refining Review', 1968, p 32.
- (47) NAFT AL-ARAB, July 1971, p.14.
- (48) KNPC, Annual Report, 1968, p.5
- (49) NAFT AL-ARAB, July 1971, p 15; Al-Najar, M.H., op.cit., p.161.
- (50) Mazidi, Fasel, Natural Gas in Kuwait and its Utilisation, p.9.
- (51) For details see:
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- (52) (These losses were KD 4 8 million, KD 8.6 million, and KD 5.5 million for 1968 (half year); 1969 and 1970 respectively); NAFT AL-ARAB, July 1971, p 21.

- (53) ibid., p.17.
- (54) Royal Dutch/Shell Group, The Pattern and Economics of Refining, p.4.
- (55) In 1970 KNPC reduced its labour force at the refinery. KNPC, Annual Report, 1970, p 9
- (56) NAFT AL-ARAB, July 1971, p.21; KNPC, Annual Report, 1970; E.I.U., Quarterly Economic Review, Oil in the Middle East, (Annual Supplement, 1972), p.11.
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- (62) Kruisinga, The Potential Contribution of Gas with Special Reference to Natural Gas, p.5.
- (63) BAYAN, 1971/72, p.9; (The used gas in 1960 was 91 MCF per day out of a total production of 793 MCF per day).
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- (68) ibid., p.13.
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- (70) NAFT AL-ARAB, Feb. 1971, p.22.
- (71) ALBA, Aluminium Bahrain, pp.1-8.
- (72) Qatar Fertilizer Company, Qatar Fertilizer Company (S.A.Q.), p.6.
- (73) Private communication.
- (74) BAYAN, 1971/72, p 9
- (75) SAK, 1971, p.103.
- (76) Issawi, C. and Yeganeh, M., op.cit., p.152.
- (77) Estimation on the assumption that the average salary is QDR 1,500 per month.

- (78) a) Issawi, C. and Yeganeh, M., *op cit.*, p.97 (1955 figures is for 1956).
 b) BAPCO, 'Bapco and Bahrain'.
 c) Kuwait employment was as follows: calculated from the companies Annual Reports.

<u>Company</u>	<u>1960</u>	<u>1965</u>
KNPC	-	571
AMINOIL	450	650
KOC	6100 (1962)	5300
AOC (half the labour force)	190	432
	<u>6740</u>	<u>9953</u>

- d) Estimation: ADMA in 1958 had 1,600 workers; see Mann, C., *op.cit.*, p.103.
 e) Estimation.
 f) Department of Labour and Social Services, Qatar, Annual Report, 1964 and 1965, Table 2 11.

- (79) KOC, Annual Report, 1970.
 (80) AMINOIL, Annual Report, 1970.
 (81) AOC, Annual Report, 1970.
 (82) BAPCO, 'Bapco and Bahrain'.
 (83) Issawi, C. and Yeganeh, M., *op cit.*, p 193.

CHAPTER III

THE EMIRATES OIL REVENUE

This chapter falls into three parts; an assessment of the total oil revenue received; an exploration of the factors determining the revenue, and a discussion of some of the considerations relevant to achieving an optimum level of oil revenue.

Our assessment will cover the period from the first year of the commercial production of oil in each of the Emirates until 1970. Our aim is to clarify the statements of the actual revenue received during these periods, the data being derived from the governments' official sources (published and unpublished), as well as those of the international oil industry and the specialised periodicals. The data has also been checked by the oil production figures, (Apps. 2.1.1-2.1.6).

In this chapter as in the other parts of this thesis, oil revenue is taken as meaning all revenue received by the states from all aspects of oil exploration, exploitation, and refining. As further noted in sub-section C, in Part Two of this chapter, these receipts appear under different headings, i.e. royalty, income tax, and other payments, e.g.

Bonus: The initial payment at the time of signing oil concession agreement, or payments paid according to some other conditions such as level of production, discovery of oil etc.

Rent: Payment paid annually in accordance with the concession agreement.

Import dues: Duty on imported crude oil as in Bahrain (see App. 3.1).

Others: Payments for education, police, jetties rent and government representatives allowances, etc.

It must be noted that this chapter is concerned with the period before serious discussion of participation and other new approaches

* Retroactive and other payments, where possible, are allocated to the year received, rather than to allocated dates

to the oil industry had been made.

Part One: Assessment of the Oil Revenue

A - Individual Emirates

In this part we present briefly the actual revenue received by each Emirate giving the detailed figures in the appendices attached to the chapter (Apps 3.1 - 3.4). These detailed figures will be utilised later in the next four chapters, where they form the backbone for our investigation concerning the allocational pattern of the oil revenue.

A1 - Bahrain

Bahrain State was the first of the Emirates to receive oil revenue. The first payment from the oil companies was received in 1926 and during the period 1926-1934 Bahrain State received a total of £6,800. The oil revenues of Bahrain State from 1934/1935, the year during which the commercial production of crude oil commenced, up to 1970 were BD 171.7 million (QDR 1,717 million). This sum was received from the following sources.

TABLE 3.1

BAHRAIN STATE: TOTAL OIL REVENUE BY SOURCE, 1934/35//1970

(000 BD)

	<u>Amount</u>	<u>Percent of total</u>
<u>BAPCO</u>	160463	93.4
Production*	146019	85.1
Crude oil Import's Duties	<u>14444</u>	<u>8.3</u>
Others	<u>11259</u>	<u>6.6</u>
Total	<u>171722</u>	<u>100</u>

* Production and associated activities.

Source: Appendix 3.1.

As the table shows 93.4% of the total revenue came from the activities of the Bahrain Petroleum Company and 6.6% came from other sources, of which

Bahrain's share on the Abu Safah oilfield^{*} accounted for 90%. The table also indicated that 85.1% of the total oil revenue received came from Bapco's crude oil production, while the government's receipt from duties on imported crude was 8.3%.

A2 - Kuwait

The oil revenue of Kuwait State from the commencement of commercial production in 1946 to the end of the financial year 1970/71, amounted to KD 3,458 million (QDR 45,986 million). This total includes KD 242 million which was received from the oil companies but kept in an independent account to be used in financing the 1971/72 public budget.^{**}

Table 3.2 shows the total oil revenue received

TABLE 3.2

KUWAIT STATE: TOTAL OIL REVENUES BY SOURCE, 1946//1970/71

<u>(000 KD)</u>		
<u>Source</u>	<u>Amount</u>	<u>Percent of total</u>
KOC	3,298,859	95.4%
AOC	91,373	2.7%
AMINOIL	56,357	1.6%
Others	11,003	0.3%
Total	<u>3,457,592</u>	<u>100%</u>

Source: Appendix 3.2

The table indicates that KOC alone contributed 95.4% of the total

* All the available information indicates that Bahrain's share in this field equals one half. However, the Bahrain State average receipt per barrel for the period studied was about 45 cents; this in spite of the fact that the Saudi Arabian Government's average receipt for the same period was about 88 cents per barrel (see Appendix 3.1).

** The Kuwait State Budget's annual oil revenue comes from the years oil royalties and the previous year's income tax from the operating oil companies. This together with the fact that all the retroactive payments appear in the year in which they are collected, causes differences between Kuwait Government sources and other sources concerning the sum received annually from the oil companies. After a thorough examination, the reason appeared to be 'time lag'. However, the difference almost equals the KD 241 million which represent the income tax due for 1970/71.

oil revenue received by the State of Kuwait during the period studied. AOC accounted for 2.7%, AMINOIL 1.6%, and the non-producing companies 0.3%, this last fact representing Kuwait Shell bonuses and rental payments.

A3 - Qatar

Qatar's commercial oil production started at the end of 1949. In a period of twenty-one years Qatar State received a total of QDR 5,748 million as shown in Table 3.3.

TABLE 3.3

QATAR STATE: TOTAL OIL REVENUE BY SOURCE, 1950/1970

(MILLION QDR)

<u>Source</u>	<u>Amount</u>	<u>Percent of Total</u>
QPC	4,707	81.9%
SHELL QATAR	1,016	17.7%
Others	25	0.4%
Total	<u>5,748</u>	<u>100%</u>

Source: Appendix 3.3.

Table 3.3 shows that QPC's share in Qatar's total oil revenue accounted for 81.9%, Shell Qatar for 17.7%, and the other operating companies for 0.4%. However, though Shell Qatar contributed less than one fifth of the total oil revenue in the period studied, the company has shown signs of rapidly increasing its participation (see App. 3.3), and it has overtaken the QPC's share in the annual oil revenue by 1973.

A4 - Abu Dhabi

In Abu Dhabi crude oil production commenced in 1962, and since then an increasing oil revenue has been received by the state. However, the delay in amending the old oil agreements to bring them in line with those of other producers in the Gulf, was the reason for the very low average receipt per barrel, which was 50.9 cents, 36.4 cents, 18.2 cents, and 32.5 cents in 1962, 1963, 1964 and 1965 respectively. By the end of 1965 and 1966 Abu Dhabi had obtained the same financial terms as those operating in the OPEC member countries. This resulted in raising the

per-barrel receipt to 75.3 cents in 1966. ⁽¹⁾

The total oil revenue received by the state up to 1970 amounted to BD 396 million (QDR 3,959 million) as shown in Table 3.4.

TABLE 3 4

ABU DHABI STATE: TOTAL OIL REVENUE BY SOURCE, 1962/1970*

(000 BD)

<u>Source</u>	<u>Amount</u>	<u>Percent of Total</u>
ADPC	258,206	65.2%
ADMA	137,703	34.8%
Total	<u>395,909</u>	<u>100%</u>

* Excluding the payments from non-producing companies, estimated at BD 6 million by the end of 1970 (see App. 3.4).

Source: App. 3.4

Table 3.4 shows that of the total oil revenue received by the state, two thirds came from ADPC, while ADMA's share was 34.8%. This is in spite of the fact that ADMA had started two years earlier.

A5 - Dubai

The commercial production of crude oil from Dubai commenced in 1969. However, Dubai had received annual payments from oil companies since the late 1930's. These payments increased during the 1960's and reached QDR 1.9 million per annum in 1965 and 1966 and QDR 3.1 million per annum in 1967 and 1968. ⁽²⁾ The total oil revenue received by Dubai state in 1969/70 was QDR 154 million, as shown below in Table 3.5

TABLE 3 5

DUBAI STATE: OIL REVENUE, 1969-1970

(000 QDR)

<u>Year</u>	<u>Revenue</u>
1969	17,196
1970	137,146
Total	<u>154,342</u>

Source: Rent and Bonus see: MEDD, 'Economic Survey of the Northern Trucial States', pp. 89-90; PPS, Feb. 1970, p.67; Royalty and tax estimated according to production (App. 2 1 5) and averaged payment per barrel PPS, Sept. 1972, p.332

A6 - Growth of the Emirates' Oil Revenue

The growth trends in the Emirates' oil revenue are clearly revealed in Fig. 3.1 (see Apps. 3.1 - 3.4). They are rising trends. The main causes are the following: First: the output of crude oil increased very rapidly during the first few years of production (approximately the first five). This may be seen from App. 2.1.6 also; the trend is common to all the Emirates, as shown in Fig. 3.1. Second: the increase in the early 1950's may be explained mainly by the introduction of an income tax system, which increased the Emirates off-take per barrel considerably, as will be shown later in this chapter. However, this reason is combined with the rapid increase in production in Qatar and Kuwait. Third: the increasing revenue in the late 1960's stems from the agreement between the oil companies and OPEC members to consider the royalty payment as part of the cost of production paid to the states as the owners of the resources, while income tax was to be calculated on the estimated net profit. This agreement, known as 'expensed royalties', will be discussed later in the chapter. In this period other factors also played an essential role in the growth of the revenue. In Bahrain the share of the revenue coming from the Abu Safah oilfield was an important factor. In Qatar the commencement of production by Shell Qatar, and in Abu Dhabi the applying of the financial terms prevailing in the OPEC member countries to the original oil concessions of ADMA and ADPC, similarly had an important impact.

B - Some Differences

The various Emirates differ in such matters as the per barrel receipt, the share of total oil revenue, and the per capita income from oil revenues.

B1 - Receipt per Barrel

The receipt per barrel differs to some extent in each of the Emirates, these receipts have also been increasing rapidly over the last two

The Growth trends of the Emirates' Oil Revenue 1935-1970

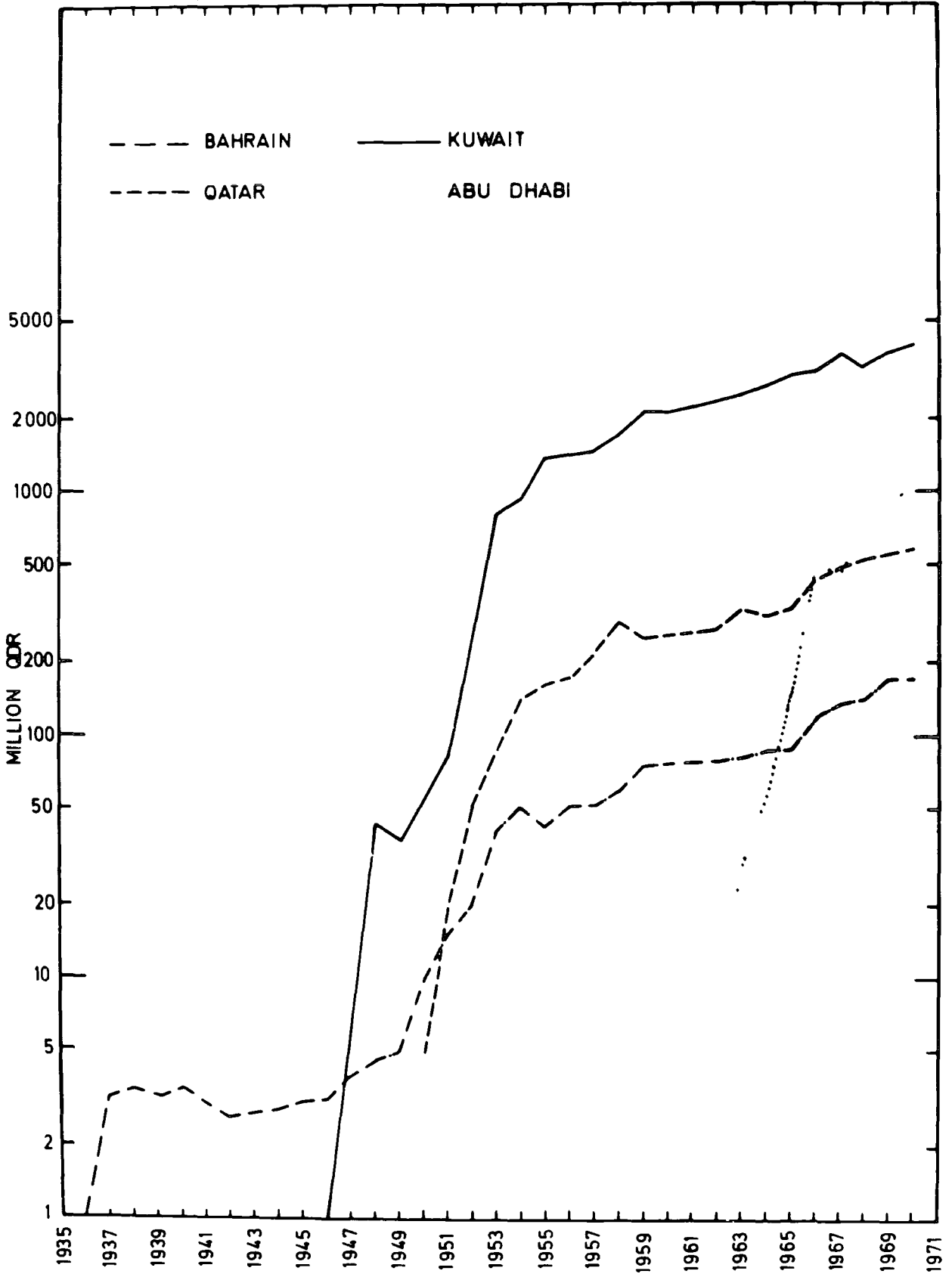


FIG 3.1

decades,^{*} as shown in Table 3 6.

TABLE 3 6
THE EMIRATES' RECEIPT PER BARREL OF CRUDE OIL PRODUCTION,
SELECTED YEARS
US CENTS/BARREL^{*†}

<u>Year</u>	<u>Bahrain</u> [∅]	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
1950	17.9	8.6	8.2	-
1955	81.8	76.7	83.6	-
1960	79.3	76.5	86.4	-
1965	80.3	78.9	83.2	32.5
1970	83.5 [*]	82.8	91.5	92.0

∅ BAPCO production only

* Average receipt for Bahrain, OMAN and Dubai

*† For the purpose of comparison, the average is based on the payment obligation for the year shown.

Source: 1950: Apps. 2.1 1 - 2.1 5 and 3.1 3 - 3.4; 1955-70: Petroleum Information Foundation, op.cit., pp. 1-5.

The differences may be attributed to three main factors: First: the crude gravity, in which Qatar and Abu Dhabi are relatively well placed. Second: the financial terms obtained by each Emirate. This difference may be noted in the case of Bahrain's 1950 receipt, which was Rs 10 per ton, while the other Emirates were receiving Rs 3 in the same year; this may also be seen in Abu Dhabi's average receipt in 1965. Third: cost of production (see Part Two of this chapter), as in the case of Kuwait's average receipt for 1960, which dropped because of the high cost of crude produced by AMINOIL from the partitioned zone, and Qatar's average receipt for 1965 which dropped because of the high production costs of Shell Qatar Company at that time.

* The receipt per barrel since 1973 has shown an enormous increase. Thus by the end of 1973 the Emirates' receipt per barrel reached about US \$8, and in 1974 with the participation agreements running at 60% of the operating companies' capital, these receipts may reach US \$10 per barrel.

B2 - Each Emirate's Share of the Total Oil Revenue

Prior to 1946 Bahrain was the only Emirate which had reached the commercial production stage, but since then other Emirates have come on stream, Kuwait in 1946, Qatar in 1949, Abu Dhabi in 1962 and Dubai in 1969. Each Emirate's position has changed during the last two decades (Fig 3.2). Table 3.7 shows each Emirates' share of the total revenue.

TABLE 3.7

THE EMIRATES' OIL REVENUE, 1950, 1960 and 1970

(MILLION QDR)

<u>Year</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>	<u>Dubai</u>	<u>Total</u>
1950	9	55	5	-	-	69
1960	77	2,109	260	-	-	2,446
1970	174	3,959	582	1,106	137	5,958
Grand*						
Total	<u>1,717</u>	<u>45,986</u>	<u>5,748</u>	<u>3,959</u>	<u>154</u>	<u>57,742</u>

* The totals represent each state's oil revenue since the beginning of commercial production.

Source: Apps. 3.1 - 3.4 and Table 3.5.

With the increase in the number of Emirates producing, the rank of each one has altered. This change can be seen from Fig. 3.2, where we see Bahrain ceding its 1950 place (as second in rank) to Qatar in 1960, and the latter ceding this rank to Abu Dhabi in 1970. Kuwait has, since 1950, been in the first place, far ahead of any other Emirates. However, Kuwait's share in the Emirates' oil revenue dropped considerably from 86% in 1960 to 66% in 1970. This was almost equal to Abu Dhabi and Dubai's share in the 1970 total oil revenue. Therefore, in 1970, while Qatar and Bahrain almost kept their 1960's share, the drop in Kuwait's share was absorbed by the newcomers.

Another inference that can be drawn from these figures are the difference between an Emirate's share in production (Fig. 2.7) and its share in revenue. These differences have been explained in the discussion

Relative Distribution of the Emirates Oil Revenue
Selected Years and Total.

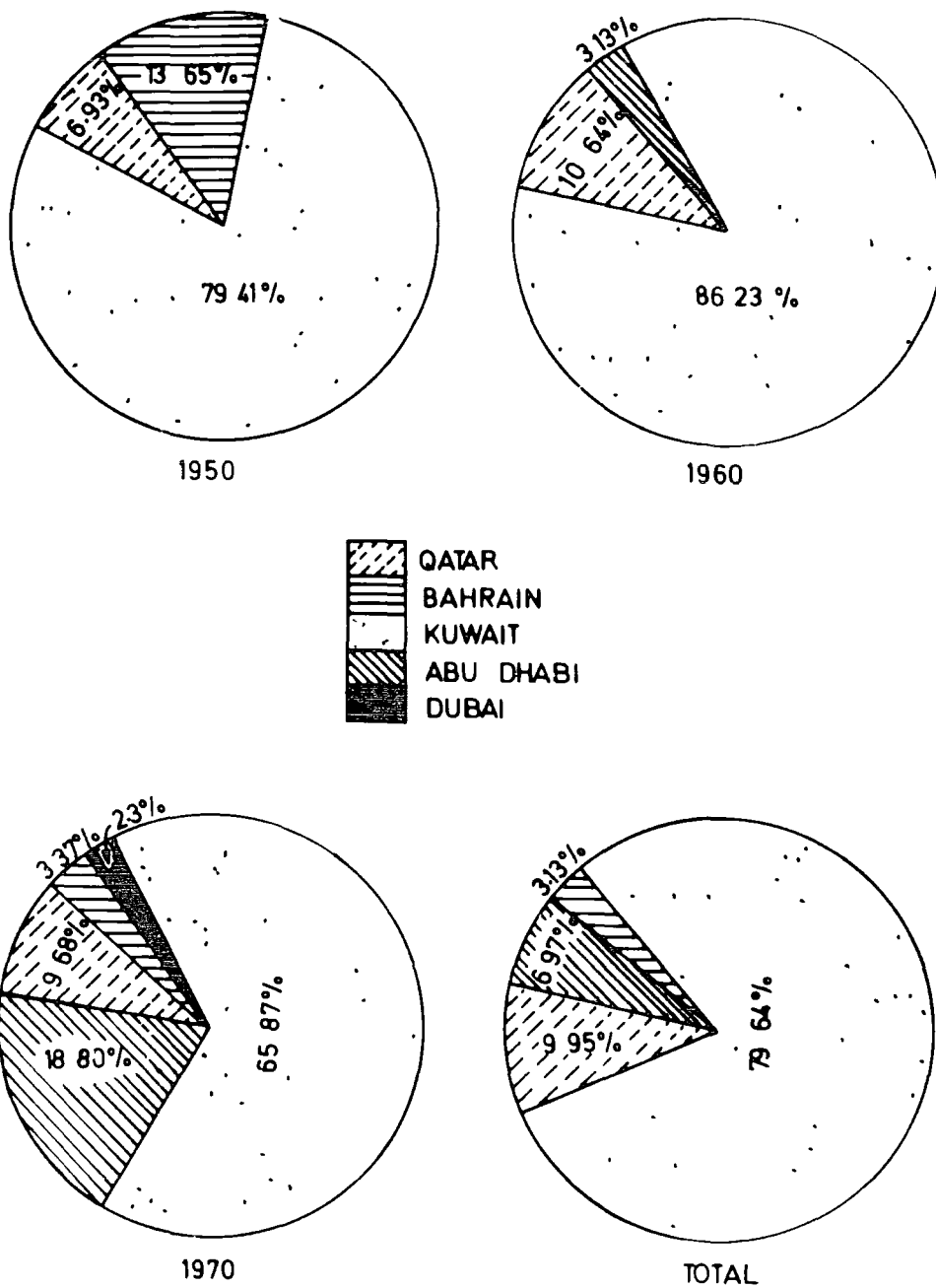


FIG 3 2

of the per barrel receipt in each of the Emirates

B3 - Per Capita Share from Oil Revenue

The third aspect in the comparison between the individual Emirates, is the per capita share of the state's oil revenue. This is shown in

Table 3.8

TABLE 3.8

EMIRATES' PER CAPITA SHARE FROM OIL REVENUE, 1970

(QDR and US \$)

<u>Emirates</u>	<u>Population (000)</u>	<u>Rev. (Million)</u>	<u>Per Capita</u>	
			<u>QDR</u>	<u>\$</u>
Kuwait	733	3,959	5,401	1,134
Qatar	113	582	5,150	1,082
UAE	300	1,243	4,143	872
Bahrain	216	174	816	172

Abu Dhabi and Dubai only

Source: Table 1.2 and Table 3.7.

From Table 3.8 we saw that although Kuwait oil revenue in absolute terms was far ahead of any other Emirates', in relative terms it had grown closer to that of the other Emirates, and if we consider the importance of the oil revenue in the Emirates' National Income we realise how meaningful this comparison is.

Part Two: Factors Determining the Emirates' Oil Revenue

The factors determining the Emirates' oil revenue fall under three broad headings, viz the level of crude oil production, the cost of production, and the financial terms applicable. These factors are closely interrelated in determining the volume of oil revenue received by any producer. It is difficult to say which one of them is the prime factor. However, we may consider a relatively low cost of production to be an important factor, since it provides the operating companies with an incentive to increase crude oil production, and affords the Emirates a

better chance of getting favourable financial terms from the concessionaires. These three factors have, in fact, been generally discussed in almost every book or article concerned with oil economics. Our treatment here will be confined to the examination of the way in which these factors have affected the Emirates' oil revenue.

A - Cost of Production

The cost of producing any commodity is an important factor in determining the future level of production of this commodity. It is certain that, in a commercial sense, no commodity will be produced if its cost of production will exceed its current price in the market: it is certain also that a producer of a relatively low cost commodity will try to increase his production capacity and output as long as his profits are maximizing. A producer or producers who enjoy a relatively low cost of production may obtain an economic rent in addition to normal profits. This economic rent may last as long as the marginally competitive producers needed in the market are producing at higher cost.

This situation may be noted clearly in Middle East Crude Oil production. The Middle East produces oil at a relatively low cost if compared with other producers outside the region and consequently its price contains a certain element of "economic rent". The relation between different costs of producing oil and the creation of economic rent has been recognised by economists, and in a lecture delivered in February 1971, Mr. F. S. McFadzen, a managing director of the Royal Dutch/Shell Group of Companies, said:

Were wells are prolific and shallow, costs can be less than 10 cents a barrel: at the other extreme, in the North Sea and the USA for example costs can be ten or twenty times greater and there are all sorts of variation between the two. These wide differences in costs, therefore, produced fairly substantial economic rents in certain areas. (3)

We may now look at the cost of production in the Emirates and see to what extent this cost has affected the Emirates' oil revenue.

TABLE 3.9

THE PRODUCTION COST OF OIL IN THE EMIRATES, SELECTED YEARS(US CENTS PER BARREL)

	<u>1950</u>	<u>1960</u>	<u>1970</u>
<u>Kuwait</u>			
KOC	12 g(1)	8 g(1)	6(1969) g(1)
AMINOIL	-	N.A	29(1971) g(2)
AOC	-	-	N A
<u>Bahrain</u>			
BAPCO	10(1951) e(4)	15(1959) e(4)	N A
<u>Qatar</u>			
Onshore	35 e(4)	28(1959) e(4)	N.A.
Offshore	-	-	N.A.
<u>Abu Dhabi</u>			
Onshore	-	-	13.6(1971) g(3)
Offshore	-	-	24.0(1971) g(3)

* No royalty is included.

g Government sources.

e Estimate

N.A Not Announced

- Source:
1. The Planning Board, The Kuwait Economy, 1969/70, p.96.
 2. Al-Seyassah, 9/2/1973, p.3 (A parliamentary reply by the Minister of Finance, Kuwait).
 3. An interview with the Head of the Economic Division, Ministry of Petroleum and Industry, Abu Dhabi, April, 1972.
 4. C. Issawai and M. Yeganeh, op.cit., p.117.

From Table 3.9 we saw the level of the Emirates' oil production costs. These costs differ from 6 cents a barrel for KOC's production, by far the largest producer in the Emirates, to 29 cents a barrel for the smallest producer, AMINOIL, which produced the heaviest oil in the area and used the most expensive technique of production, i.e. pumping technique, because of lack of sufficient natural drive. All the other producers' costs in the Emirates lay between these two extremes. We realise the relatively low costs for the Emirates and other Middle East producers if we compare them with other producers outside the Middle East. Recently, the Middle East Economic Digest (16/6/1972, p.664) wrote:

"The average well in the US produces 14 barrels a day at a cost of about \$2 50 a barrel, in the Middle East the average well produces over 5,000 barrels a day at a cost of about 20 cents a barrel."

With the absence of accurate studies and published data on this subject, one cannot be sure of the exact variation of this cost in the different producing areas. But what nobody disputes is the relatively low cost of Middle East oil production compared with costs in other producing areas; and since this part of the study is confined to the effect of the cost of production on the Emirates' oil revenue, we need not proceed to explore the extent of these variations.

The relatively low cost of producing the Emirates' oil has affected their oil revenue in three ways. These are by providing the producers with strong incentives to increase their production of the Emirates' crude oil, by allowing for high profits and consequently high revenue from income tax, and at the same time by providing the base for better financial terms to the States, not only from the new concessionaires but also from the existing concession holders. The changing conditions in the Middle East oil industry during the last two decades could not have been achieved if there had been no "economic rent" caused mainly by the relatively low cost of production in the region. Thus the relatively low cost of production has affected and is still affecting the oil revenue of the Emirates, and of other producers in the Middle East.

B - Crude Oil Production

The Emirates' oil revenues have been greatly affected by the quantity of crude oil produced. The Emirates' oil revenues were almost completely related to the volume of production in the pre-1951 period; and since then, although other factors have been brought in, i.e. cost of production and financial terms, there is a close link between the oil revenue and the volume of oil produced. Clearly the changing oil resources, the pattern of oil exploration and the granting of concessions as outlined in Chapter II are also of major importance.

In addition to the cost of production, crude oil output also depends on other important factors. These are the crude oil reserve, the world demand for oil, the policies of the operating oil companies and the oil policies of governments. We will attempt to clarify the effects of these factors on the crude oil production of the Emirates and consequently on their oil revenue.

B1 - Crude Oil Reserve

It is the crude oil reserve which provided the industry with its base and determined its future development. The quantity of the reserve as well as its quality has affected crude oil production. In 1970, although each Emirates' share in production differs from its share in the reserve, each Emirate nevertheless held the same rank in reserve, production (Fig. 2.7) and revenue (Fig. 3.2). As for the effects of the quality of the oil reserve, we may refer to the marketing difficulties which were facing some of the KOC's heavy crude in the late 1960's, and the higher price paid for lighter crude. With increasing pollution problems the quality of the reserve may play a more important role in the future production of crude oil. However, as far as the foreseeable future is concerned the world hunger for oil will certainly reduce any marketing difficulty facing the heavy crude with high sulphur contents.

B2 - World Demand for Oil

The world demand for oil was a determining factor in the development of the Emirates' oil resources and their increasing oil production. Moreover, the Emirates have also been affected by the increasing world demand for imported oil, which has not only replaced other domestic fuels in most consumer countries but also partly replaced the indigenous oil supplies of some of them, e.g. the USA.

The increasing world demand for oil during the last twenty-five years is shown overleaf in Table 3.10.

TABLE 3.10
GROWTH OF WORLD OIL DEMAND, SELECTED YEARS

<u>Year</u>	<u>Demand</u>	<u>(000 BD)</u>	<u>Increase over previous period</u>
1946	7,773		-)
1950	10,968		41.0%)
1955	16,213		47.5%
1960	21,993		35.6%
1965	31,040		45.6%
1970	46,260		48.9%

Source: 1946-1960. WORLD OIL, August 15, 1958, p.39, (including natural gas liquids); 1965 and 1970: BP, Statistical Review of the World Oil Industry, 1971, p.21.

The world demand for oil during the last twenty-five years has increased rapidly. This demand more than doubled every decade. Another factor which affected the Emirates' oil production was the ever more rapidly increasing demand for imported oil, which achieved an increase of 10.7% per annum for the period 1961-1971, while the total demand for oil increased by 7.8% per annum for the same period.⁽⁴⁾ This trend of depending on imported oil to meet domestic demand seems to be increasing and the USA, which consumes one-third of the whole world's energy, will, it is estimated, import more than half of its petroleum needs by 1980, compared with only twenty-five per cent in 1971. The Middle East's exports to the USA are expected to rise tenfold - to 6 million barrels per day during this decade.⁽⁵⁾

However, the world demand for oil depends on the ability of oil to compete with other sources of primary energy and on the degree of economic development.

As for the ability of oil to compete with other sources of primary energy, we may refer to the historical competition and the future outlook as shown in Table 3.11 overleaf.

TABLE 3.11

WORLD COMMERCIAL ENERGY DEMAND BY SOURCE, SELECTED YEARS*

<u>Year</u>	<u>Solid Fuels</u>	<u>Petroleum Fuels</u>	<u>Natural Gas</u>	<u>Hydro Electricity</u>	<u>Nuclear Electricity</u>	<u>Total (10⁶b/d o.e.)^x</u>
1920	86%	9%	2%	3%	-	16.6
1930	81%	14%	3%	2%	-	18.0
1940	69%	21%	6%	4%	-	22.2
1950	52%	32%	10%	6%	-	28.6
1960	36%	41%	16%	7%	0.03%	40.9
1970	22%	53%	18%	6%	1%	69.5
1980	15%	55%**	17%	6%	7%	115.0
1985	14%	54%**	16%	6%	10%	145.0

* Excluding USSR, Eastern Europe and China.

** This estimation was made before the sharp increase in the price of oil, which may considerably change the pattern of energy demand.

x o.e.: oil equivalent.

Source: Royal Dutch/Shell Group, The Energy Outlook, p.2

As Table 3.11 shows, the oil share in world commercial energy has increased substantially during the last half century. The increasing share of natural gas in the world's commercial energy may provide another source of income for the Emirates, particularly with the improving technology for liquifying natural gas and with the increasing environmental pollution problems caused by other fuels.

The other factor which has affected the demand for energy is the degree of economic development. The higher the per capita income the higher the per capita energy consumption. (6)

B3 - The Oil Companies' Policies

Besides the general economic justification for the companies' production schemes, there are other policy considerations that may also push forward or hold back production. We may recall here that about 86% of the total oil production in the Emirates in 1970 was produced by the seven 'Majors', and together with CFP the share was about 92% (Table 2.4). These companies are international integrated oil companies, and their policies

are affected by their overall interest in all their activities, an interest which may sometimes be at variance with that of the producing country.* Professor Edith T. Penrose noted that:

"The rate at which the international companies made new investments, and the allocation of their investment among the several producing countries, were influenced by several types of consideration

In the first place, the companies are so large that each had to consider the political consequences of its actions, not only in the distribution of offtake among the several producing countries but also in the rate of importation into some of the consuming countries. . .

Secondly, the size and world-wide scope of the operations of the companies led them to put great weight on the availability of crude oil from a wide variety of sources..."(7)

The effects as far as the Emirates are concerned, of this type of influence on policy, may be noted in the following examples.

First: "When Iran closed down in 1951, Kuwaiti production was stepped up considerably."(8) Kuwaiti annual production increased 63% in 1951 and 33.4% in 1952. In this example, although the Kuwait oil-field potentiality was the base for this increase, the shut down of the Iranian oilfield was the important factor behind this sharp increase compared with that of 1950. (App. 2.1.2).

Secondly: In Abu Dhabi, ADPC's exploration activities went slowly until 1958, and then in October 1958 drilling was stepped up and concentrated in the Murban area, where the first well had been completed in 1954 and the company had "found hopeful but not convincingly commercial traces of oil."(9) During the early 1960's a heightened pace of exploration and drilling was sustained and in consequence Abu Dhabi crude oil production commenced in 1962 and increased rapidly. In this example, although prior to 1958 we may see the effect of the Saudi claim

* The existence of such conflicts may explain the producing countries demand to have a more powerful say in the plans made by the operating oil companies. This demand led to the participation talks of the early 1970's.

to certain areas of Abu Dhabi, we may also notice certain elements of the oil companies' policy. Although the potentiality of the Abu Dhabi oil-field was once again the base for the rapid increase in production after 1958, the dispute between the Iraqi Government and IPC was also taken into consideration by the IPC parent companies in their decision to step up their activity in Abu Dhabi.

B4 - Government Policies

The governments of the Emirates had very little effect on oil production before the 1960's, but since then these governments, like those in other producing countries, have tried to increase their role in planning the production schemes for their oil resources. Up to 1970 almost all the governments of producing countries had urged the companies to increase their oil production. This policy was adopted by all the producing countries. This was in spite of the OPEC policy of getting its members to agree on pro-rationing the output scheme to prevent another drop in the posting price like that of the late 1950's. However, the organisation has failed entirely on this issue.⁽¹⁰⁾ Such a policy is impractical and even unnecessary when demand is increasing faster than the supply, which was the case during the late 1960's and early 1970's. Another factor making this kind of programme unnecessary was the policy pursued by the companies during the 1960's, of avoiding any dramatic confrontation with the producing countries, for an excess of supply over demand would almost inevitably lead to decreasing posted price and consequently a confrontation.

Nevertheless, the governments adopted a policy of increasing their own role in their oil industry by forming the national oil companies, and by increasing their control of the producing companies. Moreover, the new agreements carry stringent requirements concerning the size and speed of exploration and development undertaken by the companies. These governmental policies have affected the size of oil production and

consequently the states' oil revenue.

In the early 1970's a new trend began. This trend was born in the Kuwait National Assembly and became the official policy of the Kuwaiti Government, when "the joint owners of KOC, British Petroleum and Gulf Oil, have been told by the Kuwaiti Ministry of Finance and Oil, to limit production in 1972 so that it will be substantially the same as the 1971 average."⁽¹¹⁾ That was about three million barrels daily. This governmental restriction was a conservation measure as well as an indication of the country's lack of productive capacity to absorb the additional oil revenue. This restriction was based on the idea that Kuwait's oil revenue should be correspondent to the state's need for revenue for both current and capital expenditure. This idea also reflected the uncertainty of the Kuwaiti National Assembly about the state oil reserve⁽¹²⁾ on one hand, and on the other the risks which have faced the state reserve fund invested abroad. In later parts of this thesis the feed-back affects of governments' financial and development policies on their oil production policy will be further considered.

So far we have presented some of the policies of the producing countries that have affected oil production. The governmental policies of the consuming countries also require attention.

This group has affected oil production by their protecting tariffs, by restricting imports from some sources, and by other policies which have ultimately affected the total demand for oil or the demand for certain kinds of crude. Thus both oil producing countries and consuming countries have affected the total supply and demand for oil.

From the above we can see the effect of a country's crude oil reserve, of world demand, of the policies of operating oil companies, and of governmental policies on crude oil production, and consequently on the state's oil revenue.

C - Financial Terms

The financial terms applied to the production and sale of the Emirates' oil have been changing considerably since the early 1950's when the tonnage royalties basis changed, and all the oil concessions in the Emirates - as elsewhere in the Middle East - were amended to allow for the profit sharing era. The second important amendment was royalty expensing during the mid-1960's. In this part of the study we will examine the main financial factors which have affected the receipt per barrel and consequently the total oil revenue of the Emirates. We will not concern ourselves with the factors behind the financial terms, for these lie beyond the scope of this brief account.

C1 - Royalties

The oil royalty payments to the Emirates have been arrived at by three main methods of calculation. Tonnage royalty, unexpensed royalty and expenses royalty.

a) The Tonnage Royalty

In all the pre-1950 oil concessions in the Emirates, the royalties were dependent on quantity produced regardless of the price of oil or any other factor. The royalty was fixed per ton produced. This royalty was Rs 3½ in Bahrain (BAPCO); Rs 3 (KOC), and \$2.5 (AMINOIL), in Kuwait; Rs 3 (QPC) in Qatar;⁽¹³⁾ and Rs 3 in Abu Dhabi.⁽¹⁴⁾ All the Emirates' royalty prior to 1950 was tonnage royalty and paid in "Gulf" rupees, while although other producers in the Middle East, particularly Saudi Arabia and Iraq, were receiving tonnage royalty, their royalties were calculated in gold value and consequently their receipt per ton was higher.⁽¹⁵⁾

b) Unexpensed Royalties

After the amendment of the concessions agreements in the early 1950's the Emirates' oil royalties were fixed as a percentage - 12½% of the tax-reference price - posted price - to form part of the 50% income tax due to the governments from the operating companies profits as calculated

according to the tax reference price.

c) Expensed Royalties

The producing countries in their 1962-64 negotiations asked for a separate payment of royalty from the oil companies before assessing their income tax obligations. Royalty would then be shown as an operating cost in the same way as other expenses, e.g. wages and salaries, and deducted before arriving at taxable national profits as defined by OPEC - "namely, imputed sales proceeds on the basis of posted or tax-reference prices, less operating cost inclusive of royalty."⁽¹⁶⁾ All the OPEC members have since 1964 begun to receive an expensed royalty, Qatar and Kuwait since 1/1/64 and Abu Dhabi since November 1966. However, a certain discount from the tax-reference price had to be allowed for, but later in 1968 most of these discounts were reduced. The OPEC members' additional revenues from the 1968 agreement ranged between 4.8 and 9.0 cents per barrel, over and above the increases in revenue of 3.5 to 5.5 cents per barrel obtained at the end of 1966 ⁽¹⁷⁾

This in brief summarises the three stages which the royalty payment has passed through. However, in some of the 1960's oil concession agreements, the royalty payment was higher than 12.5 per cent of the tax reference price. In Abu Dhabi, for example, the Middle East Oil Company will pay up to 14% of the posted price as royalty, and this percentage will reach 16% in the Pan Ocean Corporation's concession ⁽¹⁸⁾

C2 - Crude Oil Price

The Middle East Crude Oil price is a subject that has engaged a considerable part of the works of the oil economists.⁽¹⁹⁾ However, our concern here will be confined to the posted prices which have prevailed since 1950. How these prices came into effect or what the right price should be, are not going to be discussed here. Since exploration of this would necessitate detailed discussion beyond the scope of this work. However, we cannot proceed without casting at least a glance at the

prospects for oil prices as these were seen in 1970 and 1971.

Since the early 1950's the Emirates' oil revenue has been closely affected by the posted price, on the basis of which the net profits, calculated from the tax reference price (the posted price minus any discount agreed on), and the royalties have been determined. The Emirates' posted price of crude oil has been changed as follows:

TABLE 3.12
POSTED PRICE OF OIL, KUWAIT AND QATAR, 1953-1970

(\$ PER BARREL)

	<u>Kuwait (Al-Ahmedi)</u> <u>API 31.0° - 31.9°</u>	<u>Qatar (Umm-Said)</u> <u>API 41.0° - 41.9°</u>
1953 (April)	1.50	-
1953 (July)	1.72	2.08 (40.0 - 40.9)
1956 (Dec)	-	2.10
1957 (May)	1.85	2.23
1959 (Feb.)	1.67	2.05
1960 (August)	1.59	1.95
1970 (Nov.)	1.69	-
End 1970	1.69	1.95

Source: OPEC, OPEC Annual Statistical Bulletin, 1970; see also PPS Sept. 1971, pp. 326-327.

From Table 3.12 we may see the change in the posted price since the early 1950's. The Kuwait and Qatar onshore crude oil price gives us an idea of other crude prices, since each API gravity degree counts for 2 cents.

We also see the rise in price for the crude oil up to May 1957, while in February 1959 and August 1960 the price dropped below that of 1953. This drop in price affected the Emirates' receipt per barrel - as it did that of other producers in the Middle East. These two reductions resulted in the formation of OPEC, which tried to undo these reductions, an aim only achieved in the last quarter of 1970 and successfully held since 1971, when the prices drove ahead. However, because of the 1959 and 1960 reduction and the stable oil price during the 1960's "the

1971 increase in posted prices and the realignment of prices to take account of dollar devaluation; Petroleum Intelligence Weekly has calculated that 'real import costs' to Europe and the USA are lower than their 1957 level "(20)

Since the posted price is considered in most cases as the tax reference price, its effect on revenue was clearly noticeable, and any change would affect the states' receipt per barrel. In 1959 and 1960 the oil companies lowered the posted price, and in doing so shocked the producing countries into a realisation of the variability of their revenues; this in turn led to a determination to change the relation between the companies and the producing states radically.

However, the price of crude oil, like any other commodity price was affected by the equilibrium of supply and demand, although in the case of crude oil there were also other factors affecting this price; no commodity, in the long run, can depart far from this economic law in such a wide market. Thus when the reductions took place they were an expression of the fast increasing supply during the late 1950's which had not met with enough demand to absorb it; and when the prices were driven upward in 1971 they too were an expression of the increasing demand for petroleum during the 1960's (see Table 3.10) and the estimated demand for the 1970's (see Table 3.11). The world reserve/production ratio was also steadily falling. This ratio fell from about 64 in 1960 to 52 and 37 in 1965 and 1970 respectively. (21) This led Mr. H.R. Warman, Chief Geologist of British Petroleum, to come to the following conclusion in a recent paper about 'The Future of Oil':

"Perhaps the most obvious conclusion is that the pressures of shortage and changes of sources will inevitable lead to continued price increases." (22);

However, we may think of the increasing price of oil as not only

This article was written before the 1973 increase.

arising from the pressure from the producing countries, although there is a considerable pressure, but as also indicative of the increasing scarcity of commercial energy and the high cost of developing these sources to meet world needs. Thus a price increase would normally balance the supply of a scarce commodity with demand by increasing supply as well as by reducing demand.* However, any price chosen will have its long-term consequences on both the producers and the consumers, and it will be in the long-term interests of both to allow the economic price of oil to express itself.**

C3 - Rate of Income Tax

The rate of income tax has affected the Emirates' oil revenue by allotting to them a part of the operating oil companies' profits. Income tax payable on negotiated and agreed tax-reference oil prices was introduced in the Emirates - as elsewhere in the Middle East - during the early 1950's. A profit-sharing agreement was concluded in Kuwait in December 1951 with effect from January, 1951, in Bahrain in 1952 with effect from January, 1952, Qatar with effect from 2nd September, 1952,⁽²³⁾ and Abu Dhabi onshore 19th September 1964 and offshore November 1966.⁽²⁴⁾ The 50% income tax concept was prevalent in the Middle East during the 1950's and 1960's. A new method of expensing royalty was adopted in 1964. This in fact raised the actual income tax paid in principle, from less than 50% (after royalty payments) to 50% in addition to royalties. The second change in the income tax rate was achieved during the last quarter of 1970, raising the income tax to 55% in addition to royalties with effect from 14th November, 1970. This increase in the rate of income tax should lead directly to an increase in the Emirates' oil revenue. In 1971 this

* Demand may be reduced by an improvement in the technology of using the scarce commodity, which will be encouraged by higher prices.

** If any commodity were sold below its economic price this could hinder the development of other alternative commodities, while it is also true that an over-priced commodity would encourage the development of alternatives and risk losing its previous position.

increase was estimated per barrel of output as follows: Kuwait 6.68 cents, Abu Dhabi 7.90 cents and Qatar 8.19 cents (Table 3.13)

C4 - Other Factors

Almost all the oil concessions in the Emirates provided the states with bonuses, rental and other small payments. These payments although not large sums, were important when they were received before the oil was produced in commercial quantities. However, although bonuses and other payments have recently been considerably larger than those of the 1930's, they represent a very small proportion in the Emirates' current oil revenue. In addition to the payments associated with production there is another sort of payment associated with refining activities (Bahrain and Kuwait). The discounts allowed for the operating companies from the posted price have also affected the states' oil revenues.

C5 - Other Factors Affecting the Real Income

The real income is dependent upon the purchasing power of the monetary income. In this respect the real income of the Emirates is affected by the world-wide inflation and in the pre-1950's, when the royalties were paid in rupees, it was affected by the devaluation of the rupee in the 1930's and 1949. However, the current revenue, which depends largely on the posted price, was adjusted on account of currency devaluation, and an annual increase of 2.5% to compensate for inflationary effects has been made since the 1971 Tehran Agreement

From our survey of the effects of the financial terms on the Emirates' oil revenues, we can see how important these factors have been in determining the Emirates' oil revenue. The improvement in these financial terms increased the receipt per barrel. For example the Qatar receipt per barrel increased from 8.2 cents in 1950 to 86.4 cents in 1960 and 91.5 cents in 1970 (Table 3.6). The estimated increase from the 1971 Tehran Agreement was estimated as can be seen in Table 3.13.

TABLE 3.13

OIL REVENUE: ESTIMATED INCREASE RESULTING FROM TEHRAN AGREEMENT, 1971(CENTS PER BARREL)

<u>Emirates</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>V</u>	<u>Total</u>
<u>Kuwait</u>						
15/2-31/5/1971	27.22	6.68	2.79	1.67	0.86	39.2
1/6-31/12/1971	32.82	6.68	3.36	1.67	0.86	45.4
<u>Abu Dhabi</u>						
15/2-31/5/1971	19.53	7.90	1.97	2.07	1.84	33.3
1/6-31/12/1971	25.35	7.90	2.59	2.07	1.84	39.8
<u>Qatar</u>						
15/2-31/5/1971	19.25	8.19	1.97	2.14	2.10	33.7
1/6-31/12/1971	25.19	8.19	2.58	2.14	2.10	40.2

I - Increase of posted price

II - Increase of income tax.

III - Increase in royalty payments.

IV - Elimination of expensing royalty discount.

V - Elimination of marketing and gravity discount.

Source: NAFT AL-ARAB, March 1971, pp.22-23

The actual increase in the average per barrel receipt in 1971 over 1970 was 32.2 cents in Abu Dhabi, 34.9 cents in Qatar, 36.7 cents in Kuwait, with 28.0 cents as the average for Bahrain and Dubai. (25)

These are the effects of the financial terms on the Emirates' oil revenue, which together with crude oil production and low cost of production resulted in increasing oil revenue to such an extent that these countries, although considered underdeveloped, enjoyed one of the highest standards of per capita income in the world.

Part Three: Some Consideration for Achieving the Optimum Level of Oil Revenue

The most obvious fact about petroleum resources, is that they are irreplaceable. Any country's production will lead to the depletion of its

deposit once the equivalent quantity has been produced.* Therefore, a far-sighted policy to achieve the optimum utilisation of the petroleum resources must be adopted if considerable waste is going to be avoided. This policy should aim at maximising the benefits a society derives from the exploitation of its petroleum resources, taking into consideration the well being of future generations as well as of the present one. Thus, such policy would not always aim at maximising oil production and oil revenue when it is possible; nor would it necessarily aim to distribute production over a longer period of time.

There is no ready answer to the question. The problem should be left for the country concerned to solve in the light of its economic capacity to utilise its petroleum resources and the revenue derived from them in the most efficient way, taking into account anticipated future benefits. However, light can be shed on some relevant considerations.

A - Alternative Ways of Utilising Petroleum Resources

Petroleum resources, at the present time, may be exported as crude to the international market where a considerable demand exists or utilised as a base for domestic industry and other fields of economic activity. In the Emirates the oil industry is crude-export-oriented, as shown earlier in Chapter II. The Emirates should compare the long-term benefits which might be derived from these resources by either way of utilisation, i.e. the benefits derived from activities based on utilising the petroleum resources as fuel and raw material, and the benefits derived from the utilisation of the export proceeds. In practice it is not a simple either-or choice. Rather it is a question of finding the best combination with which to achieve the maximum possible benefit. The right combination is, however, not easy to find. If they decided to

* We mean the recoverable reserve in the light of present and future technology, not merely the proved reserve.

use their petroleum resources as a base for industry and other economic activities, the Emirates would require a long period of preparation before their policy became viable. They would need to gain technological know-how and adapt their economies to grapple with the export difficulties facing manufactured products. Moreover they would need to follow completely new approaches to a number of questions, such as employment policies, economic incentives, and even the question of the economic and political unification of the Emirates and their economic integration into some form of larger regional co-operation (see Chaps VIII and IX). Thus, such a choice may serve as a long-term guideline rather than an immediate alternative to the present policy.

B - The Productive Absorptive Capacity

Since petroleum is an exhaustible resource, the estimation of the local need for its export proceeds should take into consideration the capacity of the domestic economy to absorb the proceeds economically. Otherwise these proceeds will be directed to items of expenditure which do very little to increase the productive capacity of the economy. Moreover, a level of revenue which exceeds the economic needs may even prove destructive by encouraging waste of the national resources and producing the wrong incentives through such things as a disconnection of the link between effort and reward (see Chap IX).

The present productive capacity of the Emirates will be insufficient to absorb the present levels of the oil revenues with even moderate efficiency and even in the medium term ⁽²⁶⁾. For example, Qatar oil revenue in 1974 may be estimated at more than \$1,500 million (per capita income about \$11,000) compared with a government local expenditure in 1970 of less than \$150 million. However, in other exporting countries the case is not so. Though none of them will be able in the short term (1-5 years) to develop their productive capacities to absorb the increasing oil revenue; some of them, such as Iran, Algeria, Nigeria and

Iraq have the potential natural and human resources to increase their absorptive capacity to match the increasing oil revenue in the medium term.

Nevertheless there are some possibilities which may help the Emirates to increase the absorptive capacity of their economies, First: establishing new industries in the fields of energy-based refining and petrochemical industries; establishing and expanding investment companies and financial institutions to enter the external markets, expanding the local fishing industries, animal husbandry and other agricultural activities when they are economically viable; developing shipping and related industries. Second: through economic and political unification of the Emirates. Such unification could provide larger markets for industry, release a considerable proportion of the educated civil servants to work in the other fields of the economy, and provide a larger economy for planning and specialisation. The problem of the smallness of the Emirates will be discussed later in Chap. IX. Third: integration into some form of wider regional economic co-operation such as the Arab Common Market, will allow the Emirates as a part of the region to enjoy their comparative advantages, e.g. their petroleum production and petroleum-based industry, financial potential, shipping and other maritime activities. These opportunities may provide the Emirates with a wider range of productive outlets which may absorb some of their oil revenue.

However, we must emphasise again that the Emirates need to develop their social, economic, and political institutions.* The full realisation of the danger of over-dependence on one exhaustible resource, and the recognition of the variable nature of their present day prosperity may well be considered pre-requisites for any effective increase in the productive capacity and consequently the absorptive capacity of the

* The Emirates have in fact already started the process of reshaping their institutions.

Emirates' economies

C - International Investment Opportunities

The third consideration which should be explored fully when planning for oil production and revenue is the expected benefits to be derived from international investment opportunities, compared to the anticipated benefits of keeping the petroleum resources in the ground. The Emirates and other producers can decide to produce more oil and receive revenue in excess of their local economic needs. This is a reasonable course if the international market is secure enough for their investment. This could indeed be a far-sighted policy, from the producers' point of view, if we consider the economic rent element in the present structure of the price of oil. This economic rent may be decreased or even eliminated by a considerable development in energy technology and the production of other sources of energy at a cheaper price (see Chap. IX).

In view of the recent size of the oil revenue surpluses, the available international investment opportunities are not adequate. So far the producing countries' surpluses have been invested in short-term financial assets. "But they have enough already both from their own point of view, and probably from the point of view of the stability of the world monetary system, which would become dangerously liquid if all future surpluses were held in the form of money or near money."⁽²⁷⁾ As Professor Little and Mr. Mabro pointed out: "Apart from searching for oil and for substitutes, there is one thing that the Western World and Japan can do to help themselves: improving the longer-term Arab investment in their countries."⁽²⁸⁾ These investment prospects are mainly long-term government and international agency bonds, equities, and real estate.

Long-term bonds: given present-day uncertainty about the future rate of acceleration of inflation, the Emirates could ask for a real

rate of interest for long-term loans, if they are going to produce oil in excess of their absorptive capacity needs. This rate should take future inflation into account. They then should ask for 'indexed bonds'. "Since the oil producers would be investing essentially to secure future imports, when their oil exports have peaked out, the bonds should be indexed on some international bundle of goods and services which these countries anticipate wanting to import "(29) It may be recognised also, that the producers could fear default on the part of some borrowing governments. Utilising the International Monetary Fund (IMF) as intermediary may help to ease this fear.

Equity and Real Estate: The other two forms of long-term investment that might suit the oil producing countries are investment in real estate and equity in the international market. The prospects for such investment should be wider if the world needs more oil than the producing countries can produce while absorbing the proceeds. However, such investment opportunities are restricted in most countries and are always subject to legislation. Thus though it is understandable that no country will allow foreign countries to dominate its economy, it is also necessary for the investors to have reasonably secure opportunities if they are going to invest. Therefore the investors may ask for guarantees against the expropriation of holdings and property, and the imposition of discriminatory or excessive taxes (30)

These sorts of investment, in addition to other present day forms may provide the necessary incentive for the producers to continue to export oil and receive revenues in excess of their local economic needs. Thus, the consuming countries should explore the possibility of offering the producers a combination of acceptable assets in exchange for oil, which will cost the consumers less than doing without the oil. (31)

However, unless the Emirates are reasonably sure that the future value of their assets invested in the international market will at least

equal the predictable future value of their produced petroleum resources, it would be unwise for the Emirates to produce oil and receive revenue in excess of their local absorptive capacity. This is, of course, a judgement based on economic considerations. Nevertheless, the economic considerations are not the only active forces in the real world.

The need to relate oil production and export to the available productive opportunities of its proceeds seems to be gaining understanding not only from producing countries but also from consuming countries as well. This is indicated by the various bilateral agreements aiming to assist in expanding the absorptive capacity of producing countries in return for their supplying consuming countries with oil. In a recent comment on a high rank Saudi Ministerial delegation to the USA, the US Ambassador to Saudi Arabia, Mr. James Akins, said:

"that from the American point of view 'the purpose of the operation is to show the Saudis that it is worth producing the oil rather than keeping it in the ground.'"(32)

In this chapter we have presented the individual Emirates' oil revenues, looked at the factors determining the sums received, and discussed some considerations which may help in planning oil production and oil revenue. The oil revenue of the individual Emirates will form the back-bone of our discussion in the following chapters. Our consideration of ways of achieving the optimum oil revenue will also help our discussion in the remaining chapters of the thesis.

NOTES - CHAPTER III

- (1) Receipt per barrel: see PPS, Sept. 1972, p 332; Oil Agreements: see Al-Batrol wa Al-Sinah, 1972, pp.59-66.
- (2) MEDD, Economic Survey of the Northern Trucial States, pp.89-90.
- (3) McFadzean, F.S., 'Energy in the Seventies' (Second Lecture), p.7.
- (4) BP, Statistical Review of the World Oil Industry, 1971, p.21.
- (5) Royal Dutch/Shell Group, The Energy Outlook, p.3.
- (6) Odell, P.R., An Economic Geography of Oil, p.72; BP, Statistical Review of the World Oil Industry, 1971, p.9.
- (7) Penrose, E.T., The Large International Firms in Developing Countries, p.172; see also Frank, H.J., Crude Oil Prices in the Middle East, pp.178-186; Odell, P.R., An Economic Geography of Oil, pp.29-35.
- (8) Odell, P.R., Oil and World Power, p.85.
- (9) Longrigg, S.H., op cit., pp.317-318; see also Al-Batrol wa Al-Sinah, 1972, pp.132 and 150; Al-Batrol wa Al-Gas Al-Arabi, April, 1966, p.43.
- (10) Odell, P.R., Oil and World Power, p.92.
- (11) MEED, 14th April, 1972, p 416.
- (12) Ibid., 25/2/1972, p 216 and 14/4/1972, p.416.
- (13) Shuqyir, M.L. and Dhab, S., op cit., Vol. II, pp.11, 95, 113, 31.
- (14) Al-Batrol wa Al-Gas Al-Arabi, April, 1966, p.44.
- (15) Mikdashi, Zuhayr, A Financial Analysis of Middle East Oil Concessions: 1901-1965, pp.82-83.
- (16) Mikdashi, Zuhayr, The Community of Oil Exporting Countries, p.142.
- (17) Ibid., p.145.
- (18) Al-Batrol wa Al-Sinah, 1972, pp.71 and 78.
- (19) This subject is discussed in detail by the following writers: Leeman, W.A., op.cit., Frank, H.J., op.cit.; Mahdi, Mohdammad Sadiq Al-, The Pricing of Crude Oil in the International Market: Search for Equitable Criteria.
- (20) MEDD, 16th June, 1972, p 664.
- (21) Warman, H.R., op.cit., p.297.
- (22) Ibid., p.297.
- (23) U.N. Review of the Economic Condition in the Middle East, 1951, pp. 60-61.

- (24) Al-Batrol wa Al-Sinah, 1972, pp.66 and 133.
- (25) Petroleum Information Foundation, Inc., op.cit , pp.1-10
- (26) Mallakh, Ragaei El-, The Absorptive Capacity of the Arab World and Investment Policies, p 3.
- (27) Little, I M.D. and Mabro, R E., 'Coping with the Arab Billions' p.21.
- (28) Ibid., p.21.
- (29) Ibid., p.21
- (30) Ibid., p.21; Saba, Elias S , The Role of Arab Funds in the Money and Capital Market of the World, pp.7-8.
- (31) Little, I.M.B. and Mabro, R.E., op.cit., p.21.
- (32) THE FINANCIAL TIMES, May 29, 1974, p.21.

CHAPTER IV

BAHRAIN: THE ALLOCATION OF THE OIL REVENUE

This chapter falls into three parts. First: An Introduction. This will deal with two different subjects: A) An account of the method by which the available data concerning the allocation of the oil revenue in all the Emirates will be analysed; B) A brief introduction concerning Bahrain. Second: Bahrain state public revenue, expenditure and reserve. Third: Bahrain state oil revenue allocational pattern.

Part One: Introduction

A - Method

This chapter as well as the following three will examine the allocational pattern of the oil revenue in the individual Emirates, i.e. Bahrain, Kuwait, Qatar and United Arab Emirates. One model will be utilised for computing the available data for each of the Emirates.

The oil revenue is taken to mean all the payments received by the states from the working oil companies, e.g. income tax, royalties, bonuses, rent and import duties (see Chap. III, p.74). In examining the allocation of these revenues we have to know the practices and procedures adopted by each Emirate in allocating its oil revenue. Therefore we cannot depend entirely on any one source, such as a government's closed accounts of budgets, unless it shows all the oil revenue received; in other cases we will have to consult all sources available and search for any information which may throw light on the actual practice in any particular Emirate. Such a situation arises in many of the Emirates, when the allocation to the privy purse of the Rulers is made before the remaining oil revenue is entered to the government budgets.

The expenditure of the oil revenue will be considered under five main headings: Current Expenditure, Capital Expenditure; The Allocation to the Ruling Family (sometimes called the Privy Purse); Expenditure on Land Purchase Schemes; and finally Allocation to the Reserve Fund. At the same time we will try to breakdown each of the main items into their

functional allocations, e.g. the current expenditure on social services, the current expenditure on public utilities, etc. We will also show the structural change and development of the public revenue, public expenditure and the public reserve and will indicate the role played here by the oil revenues.

In the following paragraphs and with the help of Fig. 4.1 we will explain the model used in computing the data, but first the following terms require definition:

Annual Oil Revenue: All the revenue received by the states in one fiscal year.

Oil Revenue Spent: The annual oil revenue minus any allocation to the reserve fund; or plus any sum withdrawn from the reserve fund to finance public expenditure.

Annual Available Oil Revenue: Annual oil revenue plus any sum withdrawn from the reserve fund to finance public expenditure.

Net Allocation of Total Oil Revenue: The final actual allocation of the total oil revenue received in the period studied.

Gross Deficit: Total deficit caused by the failure of the self-revenue of any particular group of services to cover their expenditure.

Total Gross Deficit: The total deficit on all public services and other allocations reckoned against their total internal revenue.

Proportional contribution of Oil Revenue Spent: The proportional contribution of the oil revenue spent, to meeting the gross deficit of the public services and allocations, expressed as a percentage of total gross deficit.

The model is built as follows (see Fig. 4.1):

Set One: Revenue

1. All the revenue is divided into groups, e.g. oil revenue, revenue from social services, revenue from public utilities, etc.

Simplified Form of the Data Computing Model

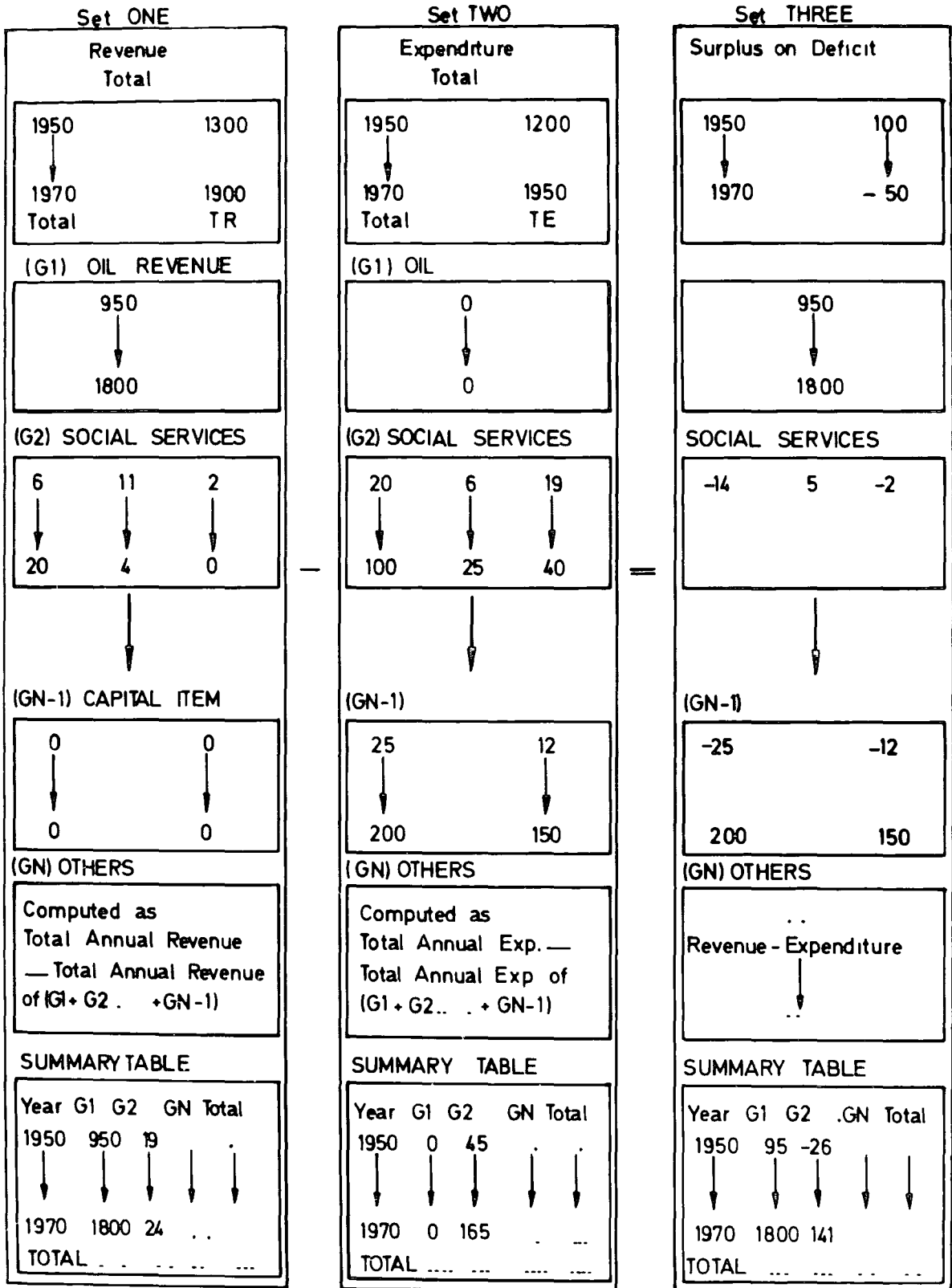


FIG 4 1

2. Every group is divided into sub-groups, e.g. social services are divided into Education, Health, Social Affairs, etc.
3. We feed the computer with all the revenue information available about every sub-group, starting with the total public revenue received in any fiscal year.
4. From the information noted in 3 above we calculate the following:
 - a) The total revenue received by any group of services.
 - b) The revenue of the administration and others, computed as follows: the revenue of the administration and others = total public revenue - (The total revenue of Group 1 + Group 2 + ... + Group n-1).
 - c) A summary table including the totals of all groups and the grand total.

Set Two: Expenditure

1. We organise expenditure by the same method as that used for organising revenue, i.e. we divide it into groups and sub-groups (Set One, 1-3).
2. We compute the group totals, the total for the administration and others, and the summary table as we did in Set One 4 (a, b and c).
3. We then compute the following:
 - a) Oil revenue spent = annual oil revenue minus allocation to or plus withdrawal from the reserve fund.
 - b) Allocation to the reserve fund = annual oil revenue minus oil revenue spent.

Set Three:

1. Set Three = Set One minus Set Two (1 and 2 as mentioned in Set Two).
2. From the summary table in Set Three we compute the following:
 - a) Gross Deficit: Gross deficit on each group of services' self

2. a) / revenue.
- b) Total Gross Deficit: The total of the gross deficits of all the groups.
3. Proportional contribution of oil revenue spent to meet all services' deficit expressed in percentage

$$\frac{\text{Oil Revenue Spent}}{\text{Total Gross Deficit}}$$

4. The allocation of oil revenue spent =
Proportional contribution of oil revenue spent x Gross Deficit
5. The allocation of annual available oil revenue is the allocation of annual available oil revenue to items of expenditure and reserve.
6. Net allocation of total oil revenue: Actual allocation of all the oil revenues received during the period studied. At this stage we may regard the reserve fund as an intermediary account where oil revenue is kept until need arises (see Chap. VIII). Thus when presenting the structural change in the oil revenue allocational pattern structure we should note that though in most years the annual available oil revenue equals the annual oil revenue, it could be larger when public expenditure is additionally financed from the reserve.

B - Bahrain

"In 1935, when the Bahrain Government received the first oil royalties, a system of financial administration was settled upon as follows: The oil royalty would be divided into thirds. One third going to the privy purse of the Ruler, one third to non-recurrent capital expenditure and the remaining third to be invested. It was also decided that the current expenses of the government should be met out of the government's other revenues."⁽¹⁾

This was the policy of the Government of Bahrain when the oil

revenues in respect to oil production were received. However, although this differentiation between the oil revenue and other sources of revenue may be considered as a theoretical one, a study by the government claimed that this policy was also followed successfully in practice during the period 1935-1955 (2)

The oil revenue in 1935 represented only 42% of the state's total revenue. This, together with the problems facing the Government of Bahrain during the financial crisis of the 1930's and its attempts to overcome some of its financial and administrative difficulties, such as the allocation to the Ruler's privy purse and the civil list (see Chap. I, pp.15-20), provided the main reasons for the policy adopted

Since the late 1950's oil revenues have increased and there have been changes in Bahrain's administration and policies. Consequently the Bahrain public budget has also changed in two respects, first in the system of financial administration, and secondly in the degree to which budgets show the whole position of the state revenues and expenditure. Thus, the government budgets after 1959 no longer show all the revenue received by the state or its allocations. The budget, in fact, shows only two thirds of the state's oil revenue, while the remaining third is reserved for the Ruler and allocated to him directly before budgeting. (3) This practice was followed until 1965. When the Abu Safah oilfield revenues started to be received in 1966, these were also allocated to the privy purse of the Ruler in addition to the one third reserved for him from the BAPCO payments, while the government budgets' oil revenues continued to be two thirds of the BAPCO payments only. This assumption, i.e. that all Abu Safah oilfield revenue was allocated to the privy purse of the Ruler is made for the following reasons: *

* However, in the 1974 budget, Abu Safah oil revenue has appeared for the first time together with the BAPCO total estimated oil revenue. Also for the first time since 1960 the allocation to the Ruler has appeared in the budget.

1. Since the Government of Bahrain's budgets, especially those of the last five years, have met their deficits by drawing from the reserve fund, it is difficult to believe that all the revenue coming from the Abu Safah field was allocated to the reserve.
2. During the period 1960-1970, although the Government of Bahrain's annual reports (statement of revenue and expenditure) gave all the information affecting the reserve fund account (for example, the setting up of a special account in 1960, the loss resulting from the sterling devaluation in 1967, and all withdrawals from this account to meet the budget deficits), nothing at all is mentioned about the Bahrain state's half share of the Abu Safah oil revenue.
3. All attempts to get an explanation about this matter from officials in Bahrain have failed, in spite of their valuable help in providing any other information. Since 1966 the Government of Bahrain Annual Reports and all the official publications, as far as I know, seem to ignore the Abu Safah field.
4. All oil revenues received by the state and not appearing in the budget were allocated to the privy purse of the Ruler (compare the BAPCO payments - 1961-1970 - with the budget oil revenue - App. 3.1). Therefore, on the basis of this assumption, the state oil revenue (App 3.1) and the actual budgets, we may reassess Bahrain's public revenue and expenditure in a form which will help us to examine the allocation of the Bahrain state oil revenue.

The Government of Bahrain had produced an annual budget for some years before receiving the oil royalties in 1935 (see Chap. 1, pp.15-20) and this practice has continued since then. We have been able to obtain

detailed budgets for the years since 1947 (1367 Hijry). All of these budgets, except the one for 1962, were actual budgets or closed accounts of the budgets. As for the period 1935-1946/47, we have not been able to obtain detailed budgets, but as we mentioned earlier, the oil revenue was divided into three thirds, one to the privy purse of the Ruler, one to capital expenditure, and one to the reserve fund. Thus, on this basis, and knowing the net allocation to the reserve fund, we may estimate the allocation of the state oil revenue as shown in Table 4.1.

TABLE 4.1

THE ALLOCATION OF THE STATE OIL REVENUE IN BAHRAIN, 1935//1946/47

(000 B/D)

	<u>Amount</u>	<u>Percentage</u>
<u>Total Oil Revenue (1935-1946/47)</u>	<u>3201</u>	
Reserve Fund*	1564	48.9
Privy Purse**	1067	33.3
Capital Expenditure	670	18.8

* The balance of the reserve fund and cash on hand at the beginning of the fiscal year 1948/49 was BD 1,781,000. The 1947/48 surplus was BD 217,000.

** Excluding allocation to the civil list.

Source. Government of Bahrain, Annual Report (1378 Hijry) p 74, and 1955 pp.4-6.

Having presented the historical background and examined the allocation of the state oil revenue for the period 1935-1946/47, for which no detailed information about the breakdown of public expenditure has been obtained, we will now turn to a discussion of Bahrain's public revenue and expenditure in Part Two. This will provide a basis for our examination of the allocation of the state oil revenue in Part Three of this chapter.

Part Two: Bahrain State: Public Revenue, Expenditure and Reserve, 1947-1970

This part of the study covers the period 1947/48-1970 during which approximately 98% of the total oil revenue (1935-1970) was received.

A - Public Revenue^{*}

Bahrain's public revenue during the period studied is indicated in Table 4.2 below:

TABLE 4.2BAHRAIN STATE: TOTAL PUBLIC REVENUES, 1947/48//1970(000 BD)

<u>Source</u>	<u>Amount</u>	<u>% of Total</u>
Oil Revenue	167,030	75.8%
Social Services	664	0.3%
Law and Order	2,879	1.3%
Public Utilities ^x	-	-
Transport and Comm.	2,453	1.1%
Grant from the Ruler	250	0.1%
Administration and others	46,969	21.3%
Customs revenues	36,640	
Interest on investment	2,712	
Others	<u>7,616</u>	
Total	<u>220,245</u>	<u>99.9%</u>

x Operated as independent public bodies.

Source: Apps. 4.1 and 4.4.

As Table 4.2 shows, Bahrain's total public revenue during the period 1947/48-1970 amounted to BD 220 million. The oil revenue accounted for 75.8% of these revenues, followed by customs at 16.5%, while all other revenues accounted only for 7.7%. The public revenue has shown a considerable rate of growth as may be seen from Fig. 4.2 (App. 4.1). The public revenue increased from about one million Bahraini Dinars in 1947/48 to twenty-two million Bahraini Dinars in 1970. As for the structural change of these revenues, we may refer to App 4.1 from which we see that the oil revenue's share of the state's annual public revenue rose from 44.4% in 1947/48 to 60.9% in 1950, 71.4% in 1955, 75.0% in 1960, 77.5% in 1965

* Excluding revenues of public bodies and interest on the reserve fund 1961-1970.

000 B D

Bahrain State Public Revenue 1947/48 - 1970

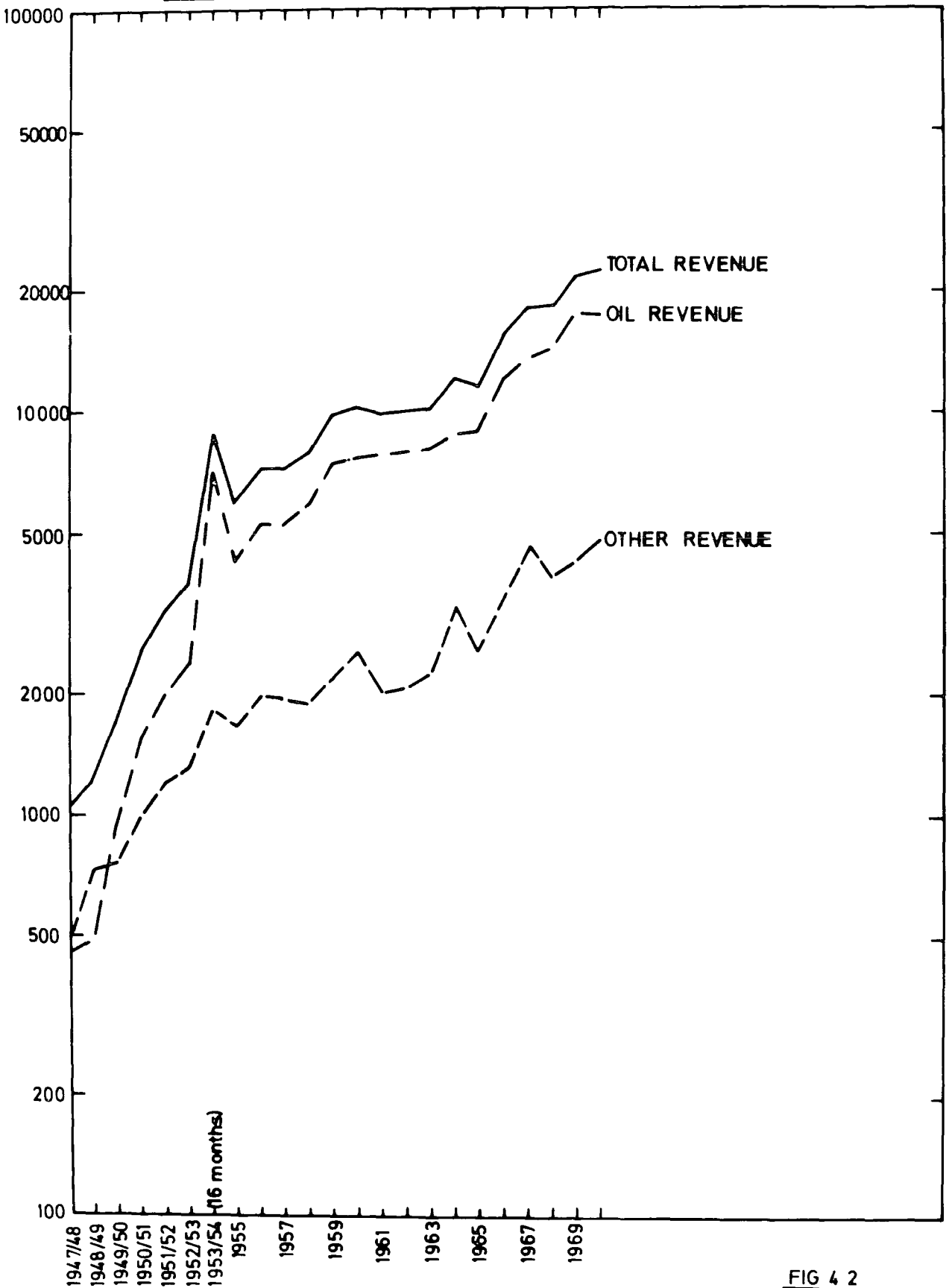


FIG 4 2

and to 78.1% in 1970. Thus, while non-oil revenue accounted for 55.6% in 1947/48, its share dropped to only 21.9% in 1970. Most of this revenue was derived from customs duties which, as the annual closed accounts of the budgets showed, decreased from 44.4% of the total public revenue in 1947/48 to 15.4% in 1960 and 14.3% in 1970 (App. 4.4). The proportional share of all other public revenues, excluding these two main sources, also decreased from 11.2% in 1947/48 to 9.6% in 1960 and only 7.6% in 1970.

B - Public Expenditure

Bahrain state's total public expenditure during the period studied is broken down in Table 4.3. From it we can see that the overall total public expenditure amounted to BD 216.6 million, less by only BD 3.6 million than the total revenues received. 51.7% of this expenditure was current expenditure and 28.9% went to the privy purse of the Ruler. The remaining 19.4% was capital expenditure.

From Fig. 4.3 (App. 4.2.7) we can see the growth of public expenditure over the period studied. The annual public expenditure of the state rose from less than one million in 1947/48 to BD 26.5 in 1970. Thus, the growth of public expenditure, particularly in the 1960's, was ahead of the growth in the public revenues, and consequently increasing sums were drawn from the reserve fund to finance public expenditure. Allocation to current expenditure and the privy purse showed the highest rate of growth, followed by capital expenditure. In the early 1960's the allocations to capital expenditure were around the 1960 level, but later dropped considerably below that level. Thus, while total expenditure in 1970 increased more than twenty-six fold over the 1947/48 level, the allocation to capital expenditure increased only eight fold in the same period.

TABLE 4.3

BAHRAIN STATE: TOTAL PUBLIC EXPENDITURE, 1947/48//1970

(000 BD)

<u>Allocations</u>	<u>Amount</u>	<u>% of Total</u>
<u>Current Expenditure</u>	111,590	51.7%
Social Services	56,675	26.1%
Law and Order	25,618	11.8%
Public Utilities	1,287	0.5%
Transport and Comm.	4,884	2.2%
Agriculture	1,176	0.5%
Administration and others	21,950	10.1%
<u>Capital Expenditure</u>	<u>42,179</u>	<u>19.4%</u>
Public Works*	13,615	6.0%
Public Utilities	10,754	4.6%
Social Services**	6,995	3.0%
Transport and Comm.	7,610	3.2%
Others	3,205	1.4%
<u>Ruling Family</u>	<u>62,789</u>	<u>28.9%</u>
Privy Purse	62,602	28.8%
Other Members***	187	0.1%
Grand Total	216,558	100.0%

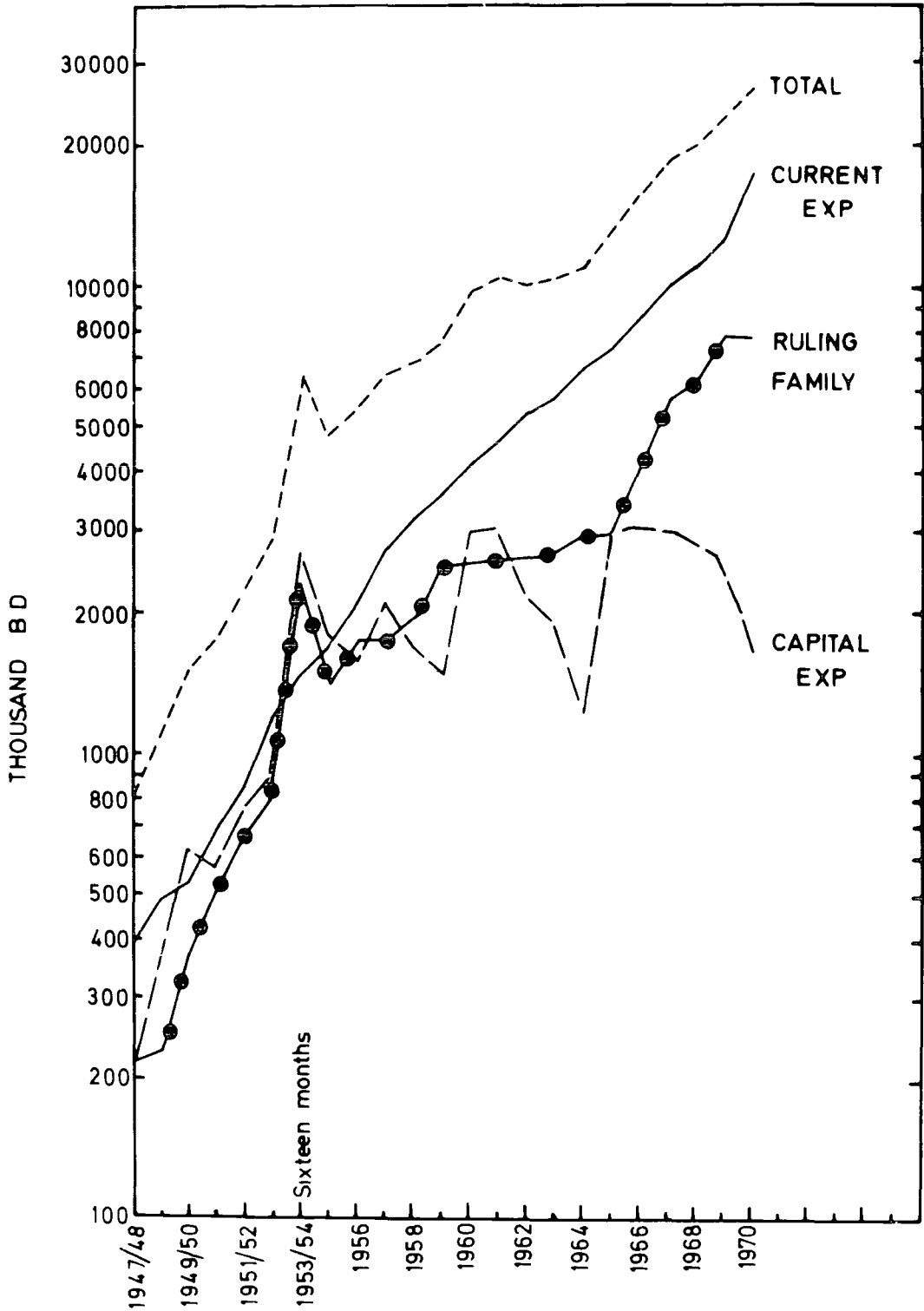
* Including the capital expenditure on Education, Law and Order services, Roads and Drains, and Administration.

** Housing only 'Issa Town'.

*** Since 1950/51 paid by the Ruler from his allocation.

Source: Apps. 4.2.6 and 4.2.7.

FIG. 4.3
THE DEVELOPMENT OF PUBLIC EXPENDITURE 1947/48 - 1970



The structural change in public expenditure can be seen in the following table:

TABLE 4.4
THE STRUCTURAL CHANGE IN BAHRAIN STATE PUBLIC EXPENDITURE,
SELECTED YEARS (PERCENTAGES)

<u>Year</u>	<u>Current Expenditure</u>	<u>Capital</u>	<u>Ruling Family</u>
1947/48	48.0	25.6	26.4
1950/51	38.7	32.5	28.8
1955	33.2	37.3	29.5
1960	43.0	30.7	26.3
1965	55.4	22.3	22.3
1970	64.4	6.3	29.3

Source: App. 4.2.7.

As shown in Table 4.4 a considerable change in the structure of public expenditure was noted. This change at first benefited capital expenditure when its proportional share rose from about one quarter in the 1940's to about one third in the 1950's. Later in the 1960's current expenditure returned to its position of the 1940's and even enjoyed an increasing proportion of the total public expenditure, rising to about two thirds in 1970. The allocation to the privy purse of the Ruler, as mentioned earlier, was fixed at one third of the state's oil revenue up until 1965, which made its proportion of the total expenditure increase with the increasing importance of the oil revenue. However, since 1966 this allocation has no longer been confined to only one third of the state's oil revenue, but has also included all revenues received from the Abu Safah oilfield, which means that its proportional share has again increased considerably from 1966 up to 1973.*

The functional allocation of annual public expenditure, excluding

* According to the 1973 constitution of the State of Bahrain, the allocation to the privy purse will be a fixed sum and no longer a porportion of the state's total public revenue. This sum is fixed at BD 6 million per annum as mentioned in the 1974 budget.

the privy purse for which no functional breakdown is available, may be seen in detail in App. 4.2.7 or in brief in Table 4.3.

C - Public Reserve Fund

This fund was created in 1935. Its main aim was to provide the state with a reserve to secure the state's future public revenue in times of crisis, such as the 1929 depression which affected the Bahrain pearling industry and, consequently, the state public revenues (see Chap. 1, pp.15-20), or the anticipated problems when Bahrain's oil production comes to an end.

The Bahrain government and the Political Agent at Bahrain at an early stage thought of some local industrial projects in which to invest some of the state reserve fund. However, none of these projects came into existence, and except for the Bahrain government's share in the Gulf Aviation Company, which in 1956 was BD 20,445,⁽⁴⁾ almost all the Bahrain State public reserve up to 1960 was invested in foreign securities and deposited with the banks. In 1959, the last year in which the breakdown of the reserve fund contents were available, the reserve fund was invested as follows:

TABLE 4.5
BAHRAIN STATE PUBLIC RESERVE INVESTMENT, 1959
(000 BD)

	<u>Cash Value</u>
Indian Stock	
3% Government of India Loan 1963/65	1,086
2½% " " " "	100
British Stock	
3% British Saving Bonds 1955/65	803
3% " " " 1960/70	5,725
3% " " " 1965/75 (regd.)	1
3% Transport Stock Guaranteed 1978/88	689
4% Funding 1960/70	796
Medium Term Deposit, Eastern Bank Ltd., London.	2,100
Total	<u>11,300</u>

Source: Government of Bahrain, Annual Report, 1959 (Statement of Revenue and Expenditure, 1959).

At the beginning of 1961 it was announced that the "Bahrain Government Reserve Fund amounting to Rs 136 million (£10.2 million) invested in securities and medium term deposit has been transferred to a separate account."⁽⁵⁾ From 1961 up to the end of 1970 nothing was added to this account except its estimated interest, and after allowing for the withdrawal and losses debited from it, the reserve fund at the end of 1970 (excluding the fund's investment profits 1961-1970) may be estimated at BD 5.3 million.⁽⁶⁾ However, knowing that this account balance at the beginning of 1961 was BD 13 6 million, and a total of BD 8.1 million was debited to it between 1961 and the end of 1970,⁽⁷⁾ we may calculate a balance amounting to BD 5.5* million, which is very close to the estimated one.⁽⁸⁾

The breakdown of the Bahrain state public reserve investment at the end of 1970 was not obtainable, but we may anticipate from the available information that the government invested in some commercial and industrial projects, such as ALBA, together with the previous types of investments. As for the investment profits, although the government regarded these profits as public budget revenue up to 1960, between then and 1970 nothing was mentioned about them except that they were going to be added to the reserve fund directly. The interest earned in 1960 was equal to 3.15% of the total investment.

From the afore mentioned survey, together with Table 4.1 and Table 4.6, we can see that although Bahrain State had allocated a considerable proportion of its oil revenue to building a public reserve fund in the early periods, government policy changed in the 1960's - particularly the late 1960's - and increasing sums were withdrawn from this account to meet the increasing deficit on the budget.

* The balance of the 1970's Statement of Revenue and Expenditure was in debit of BD 172 thousand.

Part Three: The Allocation of the State's Oil Revenue, 1947/48-1970

After discussing the state public revenue, public expenditure and the public reserve, we shall now examine the allocation of the state's oil revenue. The method to be used here has been described in the introduction to this chapter. This part will cover three points. The first of these is the proportional contribution of oil revenue spent to cover the gross deficit in the main items of expenditure. The second concerns the allocation of the total oil revenue received, while the third will examine the changing pattern of oil revenue allocation.

Before starting our discussion in this part of the chapter we should explain that the allocation to the privy purse, though taken directly from oil revenue, has been treated like any other items of expenditure. Therefore, we consider the part allocated to it from the oil revenue as equal to the proportional contribution of oil revenue spent to cover the gross deficit of the non-oil revenue used to meet state public expenditure. Thus, while the total allocation to the privy purse, during the period studied, amounted to BD 62.8 million (Table 4.3), the part considered as allocated from oil was equal to BD 53.8 million only (Table 4.7). Therefore, a sum equal to BD 9 million was considered as having been allocated from the non-oil revenue. This treatment will be followed in all our discussions of the allocation of the Emirates' oil revenue as far as public expenditure (including the allocation to the Ruling family) is concerned.

A - Proportional Contribution of Oil Revenue Spent (PCORS)

The PCORS to cover the gross deficit of the budget's non-oil revenue is shown in Table 4.6 overleaf

TABLE 4.6

THE PROPORTIONAL CONTRIBUTION OF OIL REVENUE SPENT, 1947/48-1970

(000 BD) AND PERCENTAGES

Year	Annual Oil Revenue (1)	Budget Surplus or Deficit (2)	Spent Oil Revenue (1 ± 2)=3	Total Gross Deficit (4)	PCORS $\frac{3}{4}$ %
1947/48	459	217	242	684	35
1948/49	492	148	344	908	37
1949/50	938	185	753	1,341	56
1950/51	1,534	747	787	1,544	50
1951/52	2,010	938	1,072	1,993	53
1952/53	2,404	857	1,547	2,381	64
1953/54	6,993	2,363	4,630	6,183	74
1955	4,255	1,151	3,104	4,272	72
1956	5,252	1,823	3,429	4,704	72
1957	5,256	707	4,549	5,823	78
1958	5,933	1,013	4,920	5,990	82
1959	7,545	2,186	5,359	6,623	80
1960	7,668	514	7,154	8,756	81
1961	7,817	-486	8,303	9,222	90
1962	7,949	-112	8,059	8,868	90
1963	8,068	21	8,047	9,228	87
1964	8,784	1,357	7,427	9,465	78
1965	8,855	-1,800	10,655	11,838	90
1966	12,091	-210	12,249	13,763	89
1967	13,514	-805	14,317	16,086	89
1968	14,332	-1,802	16,030	17,615	91
1969	17,473	-1,076	18,518	20,575	90
1970	17,410	-4,249	21,659	21,659	100
Total	167,030	3,687	162,686	189,530	85.8

Source: Computed from Apps. 4.1, 4.2.7 and 4.3.2.

As Table 4.6 shows, the total gross deficit in the non-oil revenue amounted to BD 189.5 million. A sum of BD 167 million was allocated from oil revenues. This sum was equal to 85.7% of the total gross deficit. The oil revenue spent was about 97% of the total oil revenue received in

the period studied. A steadily increasing trend has been noted in the proportional contribution of oil revenue spent to meet the gross deficit in the non-oil revenue. This percentage increased from only 35% in 1947/48 to 50% in 1950/51, to 72% in 1955, 81% in 1960, 90% in 1965 and to 100% in 1970. This change, in fact, indicated the decreasing proportion of revenues from the non-oil sources, particularly the customs revenues, as mentioned earlier in Part Two of this chapter. Therefore, Bahrain State, which was recognised for a long period as not being totally dependant on the oil revenue, no longer retains this position, but joins the other Emirates by depending 100% on the oil revenue to cover the deficit in the self-revenue of its different departments.

B - The Allocation of the Total Oil Revenue

The net allocation of the total oil revenue received in the period studied is indicated in the following table:

TABLE 4.7

THE NET ALLOCATION OF TOTAL OIL REVENUE, 1947/48//1970

(000 BD)

<u>Allocation</u>		<u>Amount</u>	<u>% of Total</u>
<u>Current Expenditure</u>		74,067	44.4%
Social Services	48,766		
Law and Order	19,828		
Public Utilities	1,161		
Transport and Comm.	2,129		
Agriculture	1,017		
Administration and others	<u>1,168</u>		
<u>Capital Expenditure</u>		34,795	20.9%
Public Works	11,231		
Public Utilities	8,872		
Social Services	5,771		
Transport and Comm.	6,278		
Administration and others	<u>2,643</u>		
<u>Ruling Family</u>		53,820	32.4%
<u>Reserve Fund</u>		<u>3,687</u>	2.3%
<u>Grant Total</u>		<u>166,369</u>	

Source: Apps. 4.2.6, 4.3.5 and 4.3.6.

Table 4.7 shows the structure of the net allocation of total oil revenue, while Fig. 4.4 shows the development in the allocations of the annual available oil revenue's. From the afore mentioned table and figure, and with the help of the detailed Apps 4.3.3, 4.3.4, 4.3.5 and 4.3.6, we may briefly discuss the allocation of the total oil revenue, and the development in the annual allocation as follows:

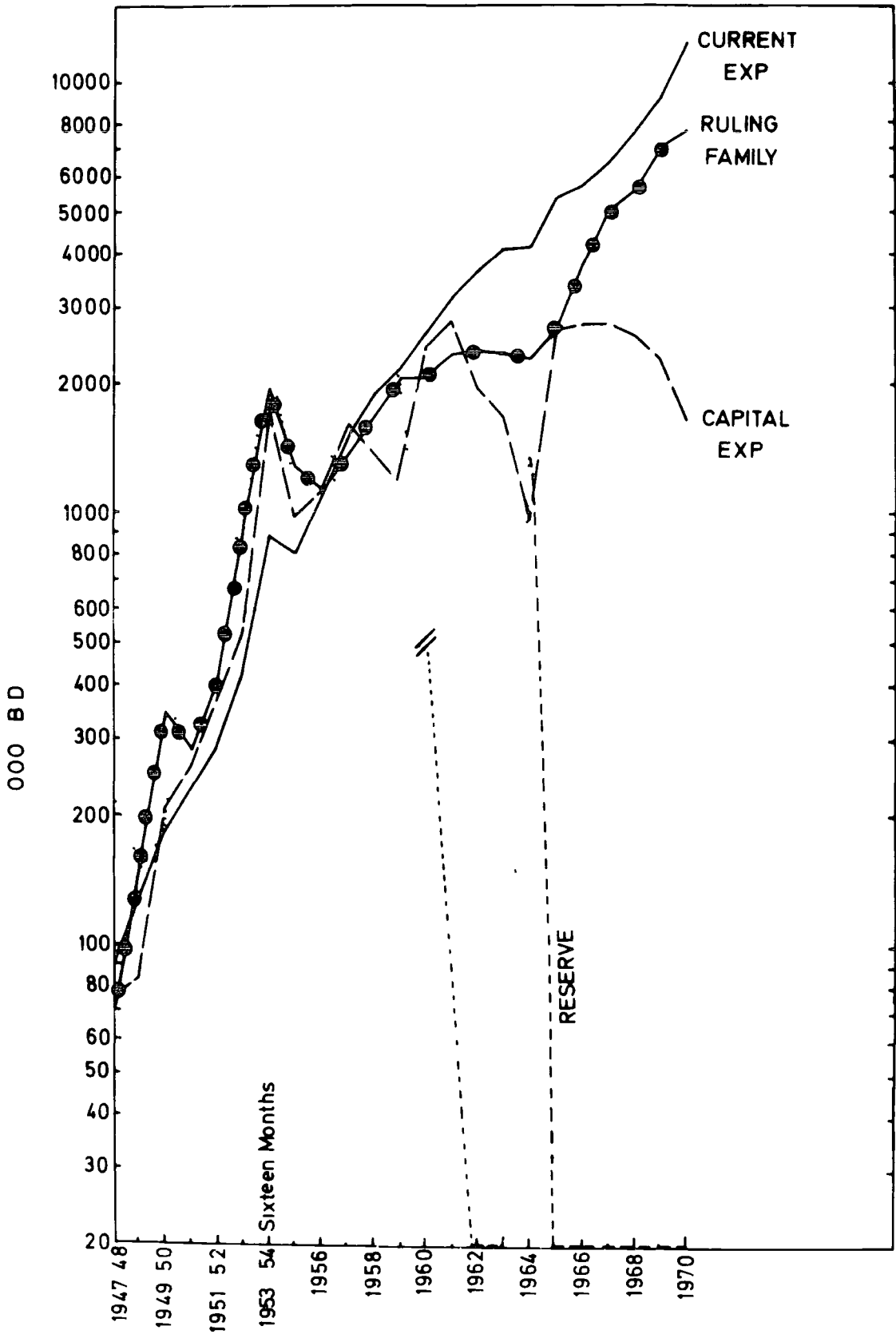
1. Total Allocation: In the period studied a total of BD 166 million received from the oil industry was allocated to the different items of expenditure. Of this amount 44.4% was allocated to current expenditure, 32.4% to the ruling family, 20.9% to capital expenditure and 2.3% to the reserve fund. The sum available for these allocations increased from less than half a million Bahrani Dinars in 1947/48 to four million in 1955, nine million in 1965, and more than twenty one million Bahrani Dinars in 1970 (App. 4.3.4).

2. Current Expenditure: As mentioned earlier this item of expenditure accounted for more than two-fifths of the total allocation. This ranked it first among the allocations. The functional allocation of current expenditure was as follows: social services accounted for about two thirds (65.7%); law and order services more than one quarter (26.7%); transport and communications 2.9%; administration and other services, public utilities and agriculture about 1.5% each. The development of the allocation to current expenditure shows the highest rates of growth and its 1970 allocation was about one hundred and thirty five times that of 1947/48. Its allocation increased from BD 91 thousand in 1947/48 to BD 800 thousand in 1955, BD 5.3 million in 1965 and to BD 12.2 million in 1970.

3. Capital Expenditure: Capital expenditure accounted for more than one-fifth of the total oil revenue. It ranked third among the four main allocations. Its functional allocation was as follows: public works 32.2% or about one-third (this department executes construction works for most

FIG 4 4

Development in the Allocation of available Oil Revenue 1947/48 - 1970



of the other departments, particularly Education, Health, Law and Order Services, Roads and Drains and Public Buildings); public utilities, more than one quarter (25.4%); housing 16.5%; ports 17.9%, others 7.5%. The development of this allocation showed two trends. The first was a relatively high rate of growth, particularly up to 1961. During this period the allocation to capital expenditure most frequently ranked second behind the allocation to the reserve fund, but for several years of the period it surpassed the reserve fund allocation. The second trend has been apparent since 1961, when this allocation dropped from BD 2.75 million in 1961 to BD 2.66 million in 1965 and finally to BD 1.68 million in 1970.

4. The Allocation to the Ruling Family: This allocation accounted for about one third of the total oil revenue received, and ranked second to current expenditure. The main recipient of this allocation was the privy purse of the Ruler, which accounted for 99.7% of the total amount allocated to the Ruling Family, while the other members of the Ruling Family accounted directly for only 0.2%. This, in fact, represented the payment to the civil list in the late 1940's, while since then the Ruler has paid for the civil list from his own allocation. This item showed a very high rate of growth in the period 1966-70. Its share of 1970 annual available oil revenue was more than a hundred times that of 1947/48. As may be seen from Fig. 4.3, this allocation ranked third among the main allocations for most years of the period, up until 1958 when its rank became second. From then up to 1970 it has maintained this position among the main groups of allocations.

5. Reserve Fund: The allocation to the reserve fund accounted for the principal share of the state oil revenue up to 1956, but since then its share has dropped considerably, and in 1961, 1962 and 1966-70 the saving on this account was used to finance the government's budget. The net savings of this account for the period 1947/48//1970 were only BD 3.7

million, which equalled 2.3% of the oil revenue received during the period.

C - The Change in the Allocational Patterns

The change in the allocational patterns of annual available oil revenues as plotted in Fig. 4.5 shows that the long-term trend in these revenue allocations favoured the allocations to the ruling family^{*} and to current expenditure against the allocations to capital expenditure and the reserve.

Thus, the allocation of the annual available oil revenue (annual oil revenue plus any sum drawn from the reserve fund) in 1947/48 was as follows: current expenditure 20%, ruling family 16.5%, capital expenditure 16.0% and the reserve fund 47.5%. The corresponding allocations in 1960 were 34.3% current, 27.2% ruling family, 31.8% capital and 6.7% the reserve fund, and in 1970, 57.3% to current expenditure, 36% to the privy purse and 7.7% to capital expenditure.^{**}

Having examined the public revenue and expenditure of Bahrain, and the allocation of its oil revenue, we will reserve the factors affecting these patterns of allocation and their impact on the economic development of Bahrain for discussion later in the study.

* As from 1974 the annual sum allocated to the privy purse will be fixed at BD 6 million and as far as the state oil revenue is increasing the proportional allocation to this item will decrease.

** However, it should be noted that we have dealt here with the allocation of annual available oil revenue, which in 1970 was 24.4% above the annual oil revenue. This is because the state drew BD 4.2 million to cover the budget deficit (see App. 4.3.5). In fact the annual oil revenue was not even sufficient to cover allocations to current expenditure and payments to the privy purse, which were both about BD 20 million compared with an annual oil revenue of BD 17.4 million (App. 4.3.6).

The Allocational Pattern of Bahrain State's Annual Available Oil Revenue 1947/48 - 1970
 (percentages)

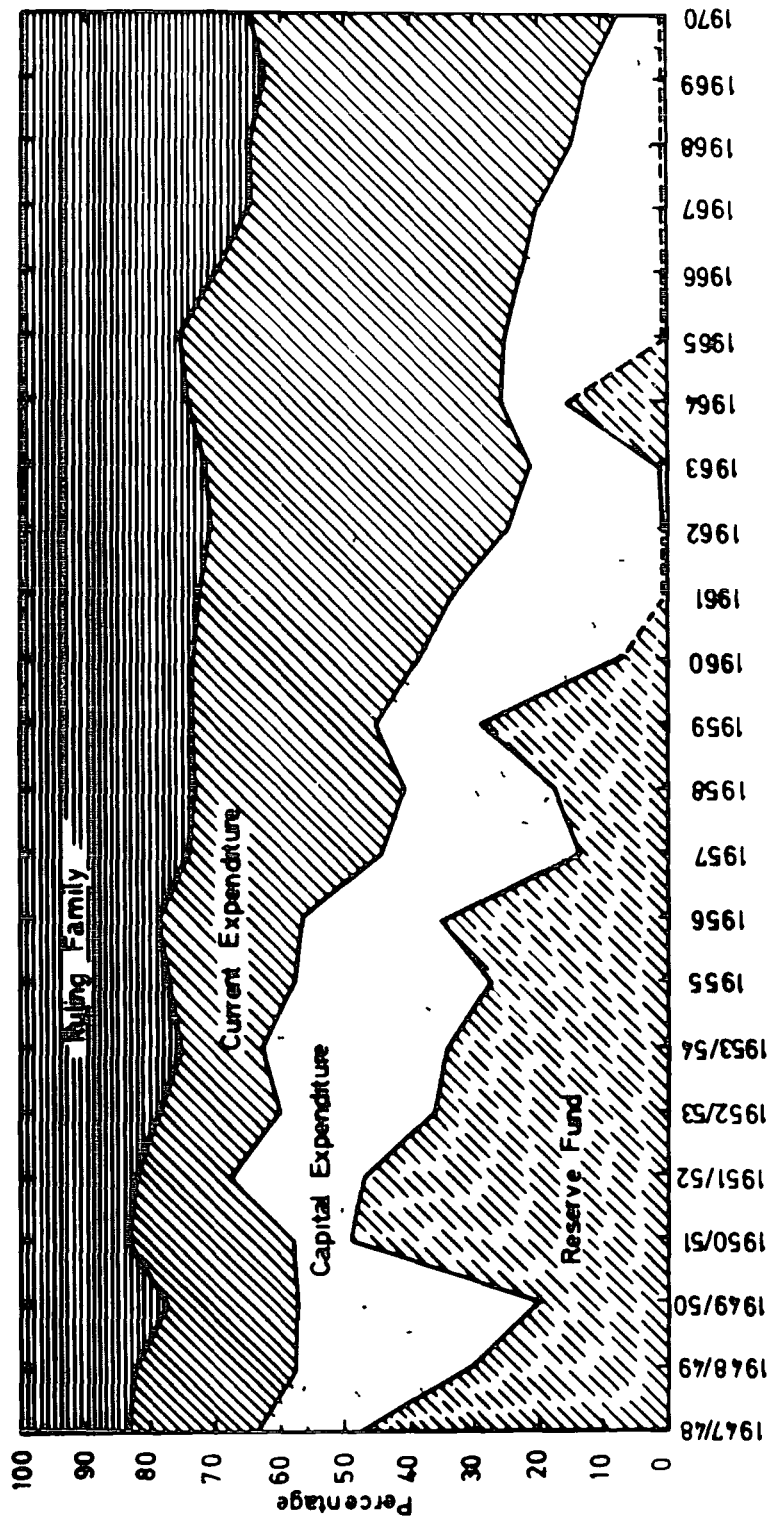


FIG 4.5

NOTES - CHAPTER IV

- (1) Government of Bahrain, Annual Report, 1955, p.4.
- (2) Ibid., pp.4-6.
- (3) Two further points of information indicated that although the Ruler obtained a part of the oil revenue during this period, these allocations no longer appeared in the budget.
 First: Government of Bahrain, Annual Report, 1959, p.9 ('Statement of Revenue and Expenditure') mentioned that the government oil revenue excluded one third assigned to the privy purse. Second: MEDD, An Economic Survey of Bahrain, 1965, said when discussing Bahrain's oil revenue, "under the present arrangements the government receives a fixed proportion of the oil revenue paid to the state", p.26.
- (4) Government of Bahrain, Annual Report, 1956, p.110.
 All the previous statements mentioned the advanced loan from the government to the company, but nothing about the share.
- (5) Government of Bahrain, Annual Report, 1960, p.1.
- (6) 1935//1946/47 = BD 1,564 thousand (Table 4.1)
 1947/48//1970 = BD 3,687 thousand (Table 4.6)
 Total = BD 5,251 thousand.
- (7) Total of withdrawal and 1967 sterling devaluation loss: Annual Statement of Revenue and Expenditure, 1966-70.
- (8) However, one important limitation on this estimation lay in the unpublished closed account of the 1962 budget.

CHAPTER V

KUWAIT; THE ALLOCATION OF OIL REVENUE

This chapter falls into four parts: Introduction; Public Revenue and Expenditure; The Public Reserve; and the Allocation of the Oil Revenue

Part One. Introduction

The first published budget in Kuwait, as far as we know, was produced in 1946. ⁽¹⁾ The second published budget was produced in 1947 when the first oil royalty from KOC was received. ⁽²⁾ In both budgets there was no fixed appropriated allocation of the state oil revenue or any other source of public revenue. ⁽³⁾ All the oil revenues were received by the Shaikh himself, and as the Political Resident in the Gulf wrote, all the KOC royalty payment "is paid to the Imperial Bank of Iran in London and transmitted to their Kuwait branch in the name of the Ruler of Kuwait. In Kuwait it is kept in the Shaikh's name, separately from the finance department's account. Only the Shaikh can operate on it." ⁽⁴⁾ However, as far as the 1947 oil royalty and other payments are concerned, the 1947 budget and all other available information indicated that 'the Ruler' transferred almost all the oil revenues he received from oil companies to the Kuwait finance department. ⁽⁵⁾ The Ruler transferred these payments in spite of the fact that the non-oil revenue available to the finance department was more than enough to cover its expenditure (including allocation to other departments) as shown overleaf in Table 5.1.

TABLE 5.1

KUWAIT STATE: FINANCE DEPARTMENT BUDGET, 1947

(000 KD)

<u>Section</u>	<u>Revenue</u>		<u>Expenditure</u>		<u>Surplus or Deficit</u>
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	
Social Services [*]	-		213	42.8	-213
Law and Order	10	0.3	55	11.1	-45
Ruling Family	-		55	11.1	-55
Public Works [*]	-		132	26.4	-132
Administration & others	559	17.1	42	8.4	+517
Total	<u>569</u>		<u>497</u>		<u>72</u>
Oil Revenue ^{**}	2,688	82.5	-		2,688
Grand Total	<u>3,257</u>		<u>497</u>		<u>2,760</u>

* Net allocation.

** In App. 3.2 the bonuses payment paid by AMINOIL taken to the 1948 income not to the 1947.

Source: IOR, R/15/5/222.

However, this budget, as far as one can tell, was the last budget published in Kuwait during the period 1947-1951, and it was not until 1952 that a summary of Kuwait's finances appeared publicly. The discontinuity in publishing the budget and making it available to parties concerned may be seen as a sign of a change in the way the oil revenues were directed in 1947. This change may be seen in a clearer light if we note. (a) the public criticism against the Sheikh and government of Kuwait, and (b) the British Government's concern about the way in which the social and administrative reform was handled in the late 1940's.⁽⁷⁾ Owing to this change, no government budget or any other central account of public revenue and expenditure in Kuwait is available for the period 1948-1951. This lack of information makes any attempt to estimate the state public revenue and expenditure extremely difficult. However, fortunately, this period's total oil revenue represented only about 0.4% of the state's total oil revenue received during the period 1947-1970/71

(see App. 3.3). Consequently we will exclude the period prior to 1952 from our examination of the allocation of oil revenue in Kuwait.

The financial administration in Kuwait in the pre-constitutional period, was directed solely by the Ruler and for most of the period he was his own Minister of Finance. "In Kuwait the Ruler is the state and it is for him to allocate this revenue as he thinks best" (8) Consequently there was no fixed policy of financial administration in Kuwait unlike the situation in Bahrain at the time. The Ruler allocated a considerable part of the revenue to the various departments and kept the rest in a reserve fund, in his own name for investment. However, the Ruler transferred the balance of this account to the finance department in September 1964 (9) (See Part Three of this chapter), and since then all the state revenues has been received directly by the Ministry of Finance, which became responsible for fiscal policy. Since the establishment of the National Assembly the public budget has been sent to it annually for approval and so has the closed account of the budget.

Part Two: The Government Public Revenue and Expenditure, 1952-1970/71

In this part we will be concerned with the structure and development of the Kuwait state budget's upon which our examination of the allocation of oil revenue in Kuwait is based

The first public financial statement published since the 1947 budget was a summary of the receipt and expenditure of the Kuwait state for 1952. (10) This account, with the actual capital expenditure of the state of Kuwait 1953-1956, the education department budgets, the social affairs department budgets, and the 1956 estimated budget, were the main sources for our estimation of the 1952-1956 public revenue and expenditure. All data used since 1957 were derived from the closed account of the budgets. The first systematic general budget in Kuwait was prepared in

* oil revenue

1956.⁽¹¹⁾ The 1956, 1957, 1958 and 1959/60 budgets were produced before the Kuwait budget law came into force on February 9, 1960.⁽¹²⁾ These budgets did not differentiate between current and capital expenditure, but since then all budgets have been presented in two separated accounts, the ordinary budget and the construction budget.

A - Public Revenue

91.8% of the Kuwait state budget's total revenues* during the period 1952-1970/71 (excluding extraordinary revenue drawn from the reserve fund) were derived from oil.

The development and the structure of the state budget's total revenues during the period studied, are shown in Table 5.2, Table 5.3 and Fig. 5.1.

TABLE 5.2

THE PUBLIC BUDGET'S TOTAL REVENUE, 1952//1970/71

(000 KD)

<u>Source</u>	<u>Amount</u>	<u>Percentage</u>
Oil Revenue	3,197,568	91.8%
Social Services	1,842	0.1%
Law and Order	12,500	0.3%
Public Utilities	53,294	1.5%
Post, Telephone and Telegraph	26,562	0.7%
Re-sale of Land	35,658	1.0%
Administration and others	152,597	4.3%
Total	<u>3,480,021</u>	<u>99.7%</u>

Source: App. 5.1.

From Table 5.2 we can see that the oil revenue represented more than nine-tenths of total revenue received by the state. The remaining one-tenth came mainly from customs and ports duties and fees, the re-sale

* Excluding the investment revenue which was added to the reserve fund directly and excluding also the other public revenues from public bodies and the municipality.

of land and the revenues of other government departments. As for the development of the budget revenue, Fig. 5.1 shows us that the non-oil revenues were increasing faster than the other revenue up to 1959/60, but since then they have increased more slowly. The oil revenue's rate of growth was higher in the early 1950's and late 1960's than in the period which lies between. The Kuwait budget's total revenues increased annually during the whole period studied, except for one year or so. The budget's total revenue in 1970/71 increased to about 17 times that of 1952. However, there was little change in the budget's revenue structure as may be seen in Table 5.3.

TABLE 5.3

THE STRUCTURE OF THE PUBLIC REVENUES, SELECTED YEARS

(PERCENTAGES)

<u>Source of Revenue</u>	<u>1947</u>	<u>1952</u>	<u>1957</u>	<u>1960/61</u>	<u>1965/66</u>	<u>1970/71</u>
Oil Revenue	82.5	96.4	95.2	91.7	92.0	86.5
Law and Order	0.3	N.A.	N.A.	0.1	0.4	0.4
Re-sale of Land	-	-	0.7	1.0	1.1	0.4
Public Utilities	-	-	1.1	2.0	1.6	2.0
Post, T. & Telegraph	-	-	0.1	0.3	0.6	1.6
Administration & others	17.1	3.5	3.1	4.7	4.0	8.7

Source: App. 5.1 and Table 5.1.

Table 5.3 indicates the overwhelming dependence of the budget on oil revenues since the first oil royalty was received in 1947. The oil revenue was about 95% of the budget's total revenue during the 1950's, and except for 1970/71 the oil revenues' share has always been more than nine-tenths of the total. The decline in the 1970/71 share may be explained by an un-named item which appeared in the finance department revenue (Administration and others in Table 5.3). This item was called 'other revenue' and amounted to KD 17 million. The estimated revenue under the same item for 1971/72 and 1972/73 was only about KD 200 thousand. This indicates its temporary nature. Nevertheless, it inflated the non-oil

Development of the Public Revenue 1952 - 1970/71

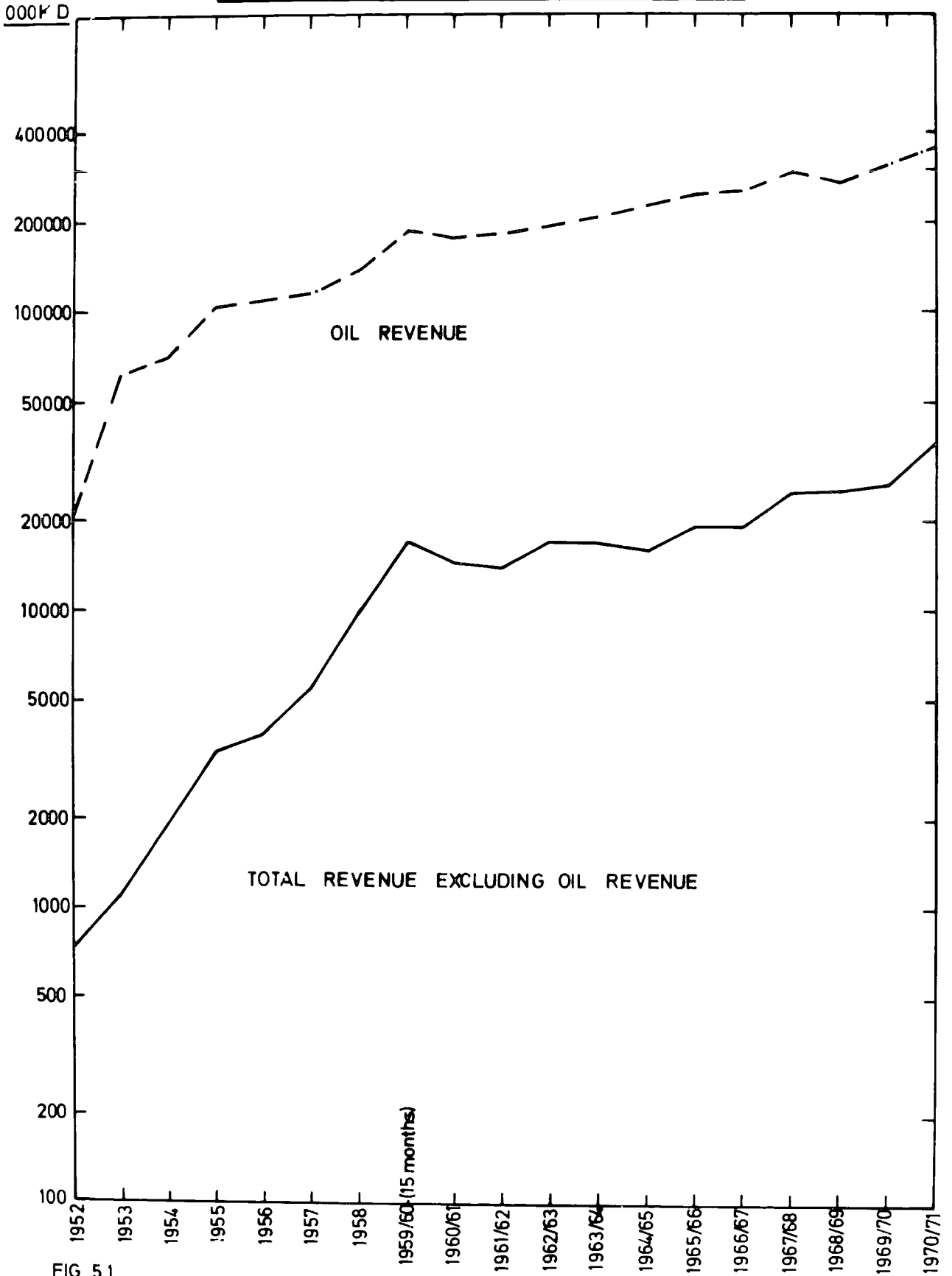


FIG 51

revenue and consequently affected the structure of the budget, bringing the oil revenues' share down to 86.5%. However, since the oil share in the revenue of the 1971/72 budget was KD 332 million out of a total of KD 360 million, i.e. more than nine-tenths of the total⁽¹³⁾ we may consider the proportional decrease in the oil revenue in the 1970/71 budget as an isolated event which does not indicate any change in long-term fiscal policies.

It should be noted that the government has not considered the return on the reserve fund investment budget revenue, as it was considered in Bahrain and is still considered in Qatar. This policy has affected the relative importance of the state's non-oil public revenues, which, had they included the return on the reserve fund, would have amounted to about 10% during the 1960's (see Part Three of this chapter).

B - Public Expenditure

As already mentioned, Kuwait's public budget expenditure followed more than one accounting practice during the period studied. There were two main practices. The first prevailed during most of the 1950's, during which time the expenditure was made available to the different departments without differentiation between capital and current expenditure. The second has prevailed since the 1960's, during which time there have been two budgets; the ordinary budget and the construction budget. This difference is reflected in the structural change in the public budget expenditure (see Fig. 5.2). However, although this difference in accounting methods does affect the allocation to the social services and public utilities, during the late 1950's, its general effect is largely counterbalanced by the classification of both the capital and the current expenditure of the Public Works Department as capital expenditure. The Public Works Department's current expenditure in 1959/60 was Rs 64 million while the capital expenditure for other departments was Rs 106 million.

Development of Public Expenditure 1952-1970/71

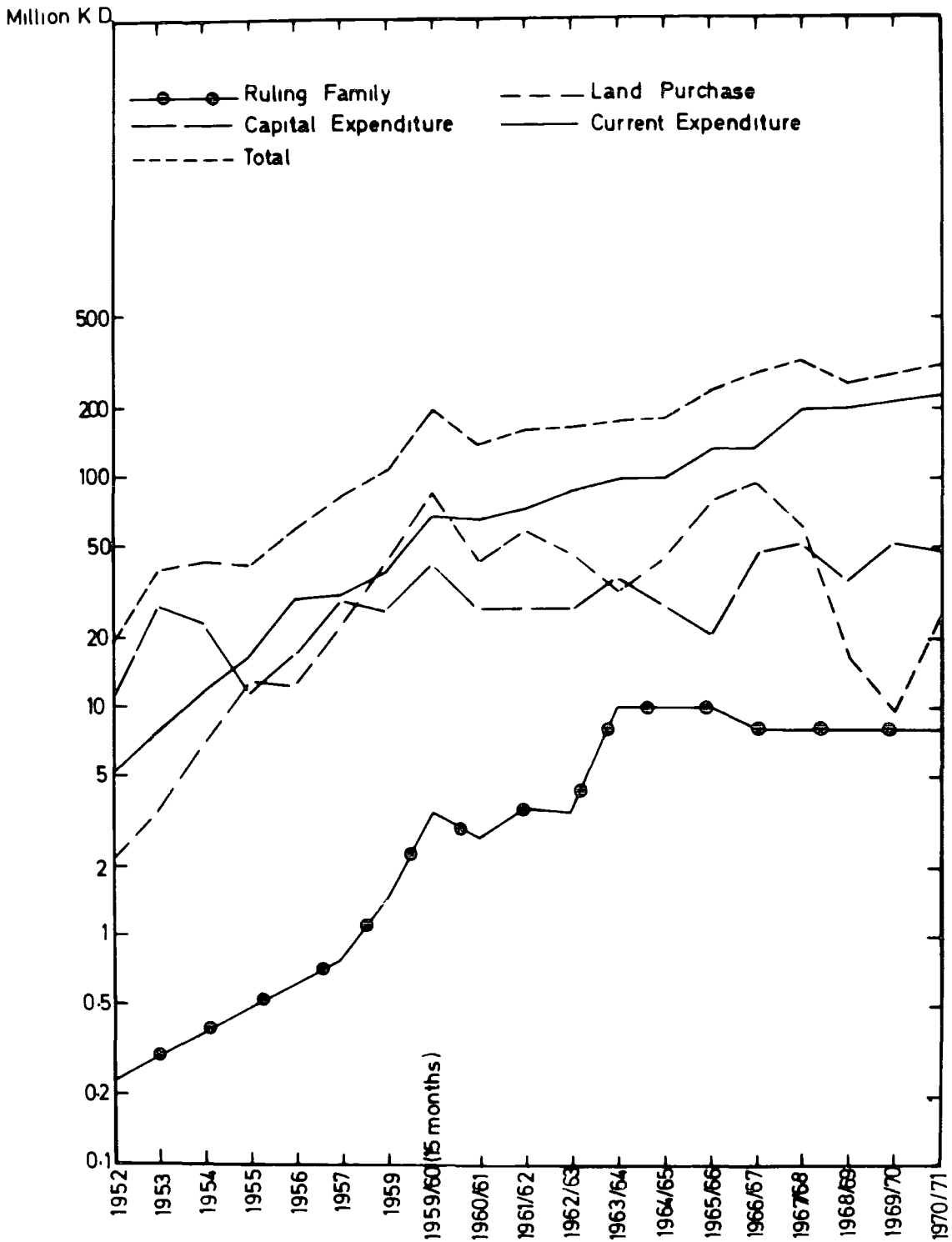


FIG 52

Another difficulty that has faced us has been the functional allocation of the expenditure. For example, the expenditure of the Ministry of Public Works was difficult to allocate on a functional basis. This Ministry executes work for almost all the other ministries (education, ports, health, communication, public buildings, etc) and at the same time administers other departments such as the Department of Agriculture.

Having dealt with these matters we may now turn to the allocational pattern and growth of public expenditure in Kuwait. Table 5.4 shows the allocation of the public expenditure of the Kuwait government during the period studied.

TABLE 5.4

THE TOTAL PUBLIC EXPENDITURE, 1952//1970/71

(MILLION KD)

<u>Expenditure</u>	<u>Total Amount</u>	<u>% of Total</u>
<u>Current</u>		
Social Services	480	15.3%
Law and Order	356	11.4%
Public Utilities	102	3.2%
Post, Telephone, Telegraph	41	1.3%
Administration and others	769	24.6%
<u>Total Current Exp.</u>	<u>1,748</u>	<u>55.8%</u>
<u>Capital</u>		
Public Works	329	10.5%
Others	259	8.3%
<u>Total Capital Exp.</u>	<u>588</u>	<u>18.8%</u>
<u>Land Purchase</u>	<u>697</u>	<u>22.3%</u>
Ruling Family	<u>87</u>	<u>2.7%</u>
<u>Grant Total</u>	<u>3,120</u>	<u>99.6%</u>

Source: Apps. 5.2.6 and 5.2.7.

Current expenditure accounted for 55.8% of the total followed by expenditure on the land purchase scheme, which accounted for 22.3%, then came capital expenditure with 18.8% and the allocation to the ruling family of 2.7%. The development trends of these expenditures over the period studied is shown in Fig. 5.2, (App 5.2.7) The structural change in public expenditure is also shown in Table 5.5.

TABLE 5.5

THE STRUCTURAL CHANGE OF THE PUBLIC EXPENDITURE, SELECTED YEARS

(PERCENTAGES)

<u>Expenditure</u>	<u>1947</u>	<u>1952</u>	<u>1957</u>	<u>1960/61</u>	<u>1965/66</u>	<u>1970/71</u>
<u>Current Expenditure</u> **						
Social Services	42.8*	13.5	18.8 [∅]	13.5	13.4	18.0
Law and Order	11.1	2.2	2.6 [∅]	11.8	10.2	15.2
Public Utilities	-	-	4.4 [∅]	3.4	2.8	3.1
Post, T. & Telegraph	-	-	0.9 [∅]	1.0	1.3	1.7
Administration & others	8.4*	12.0	10.8 [∅]	18.0	26.6	35.4
Total Current Exp	<u>62.3</u>	<u>27.7</u>	<u>37.5</u>	<u>47.7</u>	<u>54.3</u>	<u>73.4</u>
Capital Expenditure	26.4*	59.1	34.7 ^{∅∅}	19.1	8.6	15.7
Ruling Family	11.1	1.2	0.9	1.9	4.1	2.6
Land Purchase	-	11.6	26.4	30.9	32.7	7.9
Grand Total	<u>99.8</u>	<u>99.6</u>	<u>99.5</u>	<u>99.6</u>	<u>99.7</u>	<u>99.6</u>

* Sum allocated from the finance department

** Including transfer expenditure.

[∅] Including capital expenditure.

^{∅∅} Including current expenditure of public works department

Source: App. 5.2.7 and Table 5.1.

From the Table, Fig. 5.2, and App 5.2.7 we may note the following:

Total Expenditure

The public expenditure of the Kuwait government showed a very high rate of growth. The total increased from less than half a million Kuwait Dinars in 1947, to more than three hundred million in 1970/71. However, since 1952 the growth of public expenditure has been less than in the previous period. The budget expenditure in 1970/71 was about 17 times

that of 1952.

Current Expenditure

This item shows a very high rate of growth, and at the beginning of the 1960's it became the first item of public expenditure after being second in the rank in the early 1950's. Its allocation increased from KD 5 million in 1952 to KD 224 million in 1970/71. The growth in this expenditure was affected by two main factors: the increasing of the Government Ministries, agencies and departments, and the allocation of a considerable part of public expenditure under this head to help some of the Arab States, particularly U.A.R. and Jordan. This factor may be seen clearly from the growth in the transfer payments as shown in Table 5.6

TABLE 5.6

GROWTH OF THE TRANSFER PAYMENTS, 1964/65-1970/71

(MILLION KD)

<u>Year</u>	<u>Amount</u>	<u>As % of Total Exp.</u>
1963/64	2.3	1.3%
1964/65	8.9	4.9%
1965/66	26.3	10.5%
1966/67	18.3	6.3%
1967/68	68.3	21.0%
1968/69	56.1	21.2%
1969/70	62.6	21.8%
1970/71	67.1*	20.8%

* Budget estimation.

Source: BAYAN, 1967/68, p.38, 1970/71, p.46 and 1971/72, p.42.

Capital Expenditure

This item accounts for most of the budget's expenditure during the early 1950's. Its share reached 70% in 1953. However, since the late 1950's expenditure on capital items has tended to fall compared with other expenditure. In 1965/66 it realised the lowest level of only 8.6% of

total public expenditure, but since then expenditure on capital items has returned to its standard of the early 1960's

Land Purchase

Expenditure on the land purchase scheme was one of the main features of public expenditure in Kuwait. This item of expenditure began in 1952 and was given an increasing proportional allocation up to 1959/60, when it accounted for 42% of total expenditure. The land purchase scheme accounted for an average of between 20% - 36% in the period 1960/61 - 1967/68, and dropped to less than 10% in the last three years, reaching its lowest point since 1952 in 1969/70, when its share was only 3.3%.

Ruling Family

The allocation to the Ruling family through the state budget ranged between about 1 and 6%. However, the allocation to the privy purse of the Ruler (if any) during the period prior to 1963/64 was not allocated through the budget, or discounted from oil revenue before budgeting. The Ruler in fact had access to the unspent oil revenue which was kept in his personal name. However, this point will be discussed later in Part Three of this chapter. The allocation to the privy purse since 1963/64 has been fixed by the National Assembly¹⁴ and consequently its proportional share has dropped from 5.6% in 1963/64 to 2.6% in 1970/71.

Part Three: The Kuwait State Reserve Fund

The allocation of part of the oil revenue to investment has been one of the main features of the Emirates' financial policies. In Kuwait this policy has been followed since 1950 and the I.B.R.D.'s report states: "The 1961 Mission estimated that about 25 percent of the oil revenue earned since 1950 had been so invested."⁽¹⁴⁾^{**} The allocation of part of

* The allocation to Sheikh Abdulla Al-Salen was KD 10 million and to the present Ruler KD 8 million. Part of this allocation is paid to the Ruling family by the Ruler. This amount was said to be KD 2 million.

** Meaning allocated to the reserve fund account.

the oil revenue to be kept as a state reserve fund was not started regularly until 1950.⁽¹⁵⁾ Moreover, this account was kept under the Ruler's name until September, 1964, when he arranged for it to be registered in the name of the finance department

Our discussion in this part will concern two main points. The first is an estimation of the reserve fund balance on 31/3/1965, to find out the difference between the estimated balance and the actual one. The second is the structural change in reserve fund investment

A - Estimated Balance of the Reserve Fund

The corner stone upon which our estimation is based was the known investment profits for 1951, which appeared as part of the government revenue during 1952.⁽¹⁶⁾ We have estimated the reserve at the end of 1951, from this known interest, on the basis that the interest was equal to 3.5% of the total investment. We chose this rate since it was the prevailing average rate for Bahrain Investment abroad.⁽¹⁷⁾ Our complete estimation of reserve fund movement is shown in Table 5.7.

TABLE 5.7

ESTIMATED MOVEMENT OF THE KUWAIT STATE RESERVE FUND, 1952-1964/65

(000 KD)

<u>Year</u>	<u>Year's Beginning Balance</u>	<u>Net Profit or Loss</u>	<u>Budget Surplus or Deficit</u>	<u>Year's end Balance</u>
1952	2,370 (a)	83(b)	1,985(c)	4,438
1953	4,438	155(a)	22,707(c)	27,300
1954	27,300	955(a)	29,023(c)	57,278
1955	57,278	2,005(a)	62,032(c)	121,315
1956	121,315	4,800(b)	48,880(c)	174,995
1957	174,995	6,940(b)	33,011(c)	214,946
1958	214,946	8,880(b)	29,746(c)	253,571
1959/60	253,571	9,660(b)	-14,339(c)	248,892
1960/61	248,892	9,520(b)	35,110(c)	293,522
1961/62	293,522	12,110(b)	19,143(c)	324,775
1962/63	324,775	12,300(b)	24,674(c)	361,749
1963/64	361,749	19,662(b)	31,083(c)	412,494
1964/65	412,494	22,763(e)	39,998(c)	<u>475,255</u>
Actual Balance				<u>460,302(d)</u>

(a) Estimate: the interest earned on reserve fund investment = 3.5%.

(b) Actual.

(c) Budget revenue minus expenditure (see Apps. 5.1 and 5.2.7.)

(d) Ministry of Finance and Petroleum, 'Closed Account of the Budget', 1964/65.

(e) Estimated as follows: $412,494 \times \frac{19,662}{361,749} = 22,763$

Source: Royal Institute of Foreign Affairs: op.cit., (2nd ed, 1954), p.125, SAK, 1964, p.62; IBRD, op.cit., p.172; Ministry of Finance and Petroleum, 'Al-Hisab Al-Khitamy Lil Mizameh', 1963/64.

From Table 5.7 we estimated the reserve fund account balance at KD 475 million. The actual balance was KD 460 million. This difference between the estimated and actual balance may be partly explained by the part which might have been spent by the Ruler himself, since he has no official allocation from the oil revenue, except his allocation as a member of the ruling family. The Ruler, as mentioned earlier, has access

to this account and he may have allocated part of this account to himself. However, the aim of this estimation was the examination of the possibility that the Ruler of Kuwait, during the period 1952-1962/63, had received a proportional allocation of the state oil revenue, as was the case in the other Emirates. From our above mentioned estimation we may suggest that the Ruler of Kuwait during the period studied did not receive a fixed proportional allocation (third or quarter) from the state oil revenue.

B - Composition of Kuwait Reserve Fund Investment

Prior to March, 1961 the Kuwait reserve fund was invested almost totally abroad. In the period 1962-1963 an increasing part of these investments were used to finance government establishments and made available by loan to some of the Arab States. However, the main structural change in the placing of the reserve fund did not begin until the late 1960's as shown in Table 5.8.

TABLE 5.8

CHANGE IN THE COMPOSITION OF THE KUWAIT RESERVE FUND

SELECTED YEARS (PERCENTAGES)

	<u>1961</u>	<u>1965</u>	<u>1968</u>	<u>1971</u>
Government Establishments (incl. KFAED)	-	15.2	20.8	20.8
Investment in Foreign Shares)				
Security and deposit)	100.0	51.1	33.4	32.9
Local companies' shares	-	3.5	6.6	7.8
Deposit and loans (local)	-	6.0	11.4	15.6
Loan to Arab governments	-	21.9	24.4	19.7
Others	-	2.3	3.4	3.2
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Appendix 4.4, IBDR, op.cit , p.81.

From Table 5.8 we can see the structural change in the Kuwait reserve fund. The main change can be seen mostly in the policy to invest in the industry and public establishments of Kuwait itself, and in providing loans to local companies. The second trend has been to lend money to Arab States,

as direct governmental loans or through KFAED investment abroad in deposit accounts, shares and other forms of short and medium-term securities, has been reduced considerably during the last decade. However, there are considerable government assets invested abroad in such outlets. These assets consist of the sum accumulated from income tax paid by some of the oil companies in advance (see App. 4 4), a sum invested under the name of the 'Independent Account' since 1964.

The breakdown of investment profit is not usually given. However, these profits include the interest on the 'Independent Account'. This interest amounted to KD 14 million in 1969/70.

The profits earned from the Kuwait state reserve fund and the investment of the 'Independent Account' is not clear at all, particularly during the 1960's. The IBRD report mentioned that the 1962/63 public investment income was KD 12.3 million, while Dr. El-Mallakh quoted a figure as high as KD 43.3 million for the same year.⁽¹⁸⁾ Another problem that has faced us here is the great difference in the administrative expenses of this account. These expenses amounted to less than one hundred thousand Kuwaiti Dinars in 1967/68 and 1968/69, while they were as high as KD 8.7 million in 1969/70 and KD 2.3 million in 1970/71 (App. 5 4). However, the explanation of this difference goes beyond the scope of this study.

From our previous discussion of the Kuwait state reserve we may see that the Kuwait state assets on 31/3/1971 were derived from the sources as shown in Table 5 9 overleaf:

TABLE 5.9
KUWAIT STATE ASSETS BY SOURCE, 31/3/1971^{**}

<u>(KD MILLION)</u>	
Budgets Surplus (Net)	360
Reserve Fund Investment Profit (Net)	224 [*]
The Independent Account	246
Total	<u>830</u>

* Excluding the difference between the estimated balance of the reserve fund and the actual balance (KD 15 million) and other allocations from the investment revenue which appear as part of its administrative expenses, but were in fact used for other purposes (such was the case with the expenses for 1969/70, which included more than KD 8 million allocated to meet the cost of the "Summit Conference of the Kings and Presidents of Arab States held in Rabat in September, 1969).

** Excluding cash in hand (KD 7 million), stores, stock and fixed assets (public buildings, etc.)

Source: Apps. 5.3.6 and 5.4

Part Four: The Allocation of the Oil Revenue in Kuwait

In the previous parts of this chapter we have been tracing the channels through which the public revenues were used. We have now amassed a considerable part of the information needed to assess the allocation of the oil revenues. However, two further points need to be dealt with. First, the total allocation to the reserve fund was taken as equal to the actual part transferred from the budget, and did not include the revenue generated from the investment of this fund. Second, the allocation to the privy purse raises a problem. a) when it was fixed in the 1963/64 budget, it was more than twice that of the allocation to the ruling family in 1962/63, and hence it is difficult to believe that the Ruler's allocation during the constitutional era was about three times the amount he was receiving in the previous period. And b) when we estimated the reserve fund balance at the end of the 1964/65 fiscal year, the difference was KD 15 million (which is a relatively small sum). However, it was difficult to get a straight-forward answer to the question of what was the actual allocation to the Ruler of Kuwait 1952-1962/63

But if we take into consideration the personal history of Shaikh Abdulla Al-Salem, from his Presidency of the Administrative Council in 1938 (see Chap. I, p.22) to his role in producing the 1946 and 1947 finance department's budget, we might expect him to draw very little of the state's revenue for himself. Therefore, if he did draw any part of the state revenue, this part was certainly relatively small, and to avoid the possibility of error in this situation we may ignore this part and consider it as coming from the reserve fund investment profits and not from the oil revenue.

A 5 The Proportional Contribution of Oil Revenue Spent (PCORS)

The proportional contribution of the oil revenue spent is shown in Table 5.10.

TABLE 5.10
PROPORTIONAL CONTRIBUTION OF THE OIL REVENUE SPENT, 1952-1970/71

Year	<u>(000 KD) AND PERCENTAGES</u>				
	Annual Oil Revenue 1	Budget Surplus or Deficit 2	Oil Revenue Spent (1±2=3) 3	Total Gross Deficit 4	PCORS $\frac{3}{4}$
1952	19,573	1,985	17,588	17,588	100%
1953	60,161	22,707	37,454	37,454	100%
1954	69,302	29,023	40,279	40,279	100%
1955	100,498	62,030	38,468	38,468	100%
1956	104,321	48,800	55,521	55,521	100%
1957	110,437	33,011	77,426	77,426	100%
1958	127,706	29,746	97,960	97,960	100%
1959/60	167,709	-14,339	182,048	182,048	100%
1960/61	159,896	35,110	124,786	124,785	100%
1961/62	166,952	19,143	147,809	147,809	100%
1962/63	173,004	24,674	148,330	148,330	100%
1963/64	190,574	31,083	159,491	159,491	100%
1964/65	206,209	39,998	166,211	166,211	100%
1965/66	225,325	3,327	221,998	221,998	100%
1966/67	231,675	-35,256	266,931	266,931	100%
1967/68	263,097	-36,172	299,269	299,269	100%
1968/69	242,988	4,642	238,346	238,346	100%
1969/70	280,440	20,929	259,511	259,511	100%
1970/71	297,701	39,143	258,558	259,074	99%
Total	<u>3,197,568</u>	<u>359,584</u>	<u>2,838,024</u>	<u>2,838,540</u>	

Source: Apps. 5.1; 5.3.1; 5.3.2 and 5.3.3.

From Table 5 10 we can see that the gross total deficit of the self-revenue of the different items of expenditure in the Kuwait public budgets for the period studied was KD 2,838.5 million, of which KD 2,838.0 million were met from oil revenue. This was almost 100%.

B - The Allocation of Total Oil Revenue, 1952-1970/71

During the period 1952-1970/71 a sum of KD 3,195 million from the state oil revenue was allocated to finance the state budgets and build a public reserve fund

This sum represents 92.6% of the total oil revenue received by Kuwait state for the period 1947-1970/71 (see App. 3 2) The other 7.4% is divided between (a) oil revenue received in 1970/71 but not yet allocated, since according to the usual practice it was going to be utilised to finance the 1971/72 budget. (This amount was KD 242 million (App. 3.2) and represents 7.0% of the total oil revenue received). (b) the rest, consisting of about 0.4%, represents the oil revenue earned during the period 1947-1951, for which an allocational breakdown cannot be made because of insufficient information

The allocation of the total oil revenue received and allocated in the period 1952-1970/71 was as shown in Table 5 11 overleaf.

TABLE 5.11
ALLOCATION OF TOTAL OIL REVENUE, 1952//1970/71

(MILLION KD)

<u>Allocation</u>	<u>Amount</u>	<u>Percentage</u>
1) <u>Current Expenditure</u>		
a) Social Services	477	14.9
b) Law and Order	343	10.7
c) Post, Telephone and Telegraph	15	0.5
d) Public Utilities	48	1.5
e) Administration and others	616	19.2
Total	<u>1,499</u>	<u>46.8</u>
2) <u>Capital Expenditure</u>		
a) Public Works	329	10.3
b) Public Utilities	121	3.8
c) Post, Telephone and Telegraph	36	1.1
d) Administration and others	102	3.2
Total	<u>588</u>	<u>18.4</u>
Total Current and Capital Exp.	2,087	65.2
3) Land Purchase	661	20.7
4) Ruling Family	87	2.7
5) Reserve Fund	360	11.2
Grand Total	<u>3,195</u>	<u>99.8</u>

Source: Apps. 5.2.6, 5.3.5 and 5.3.6.

Total Oil Revenue

Of the KD 3,195 million oil revenue allocated during the period studied KD 1,499 million, or 46.8% of the total was absorbed by current expenditure; KD 588 million, or 18.4% went on capital expenditure; KD 661 million, or 20.7% was allotted to the land purchase schemes; KD 87 million, or 2.7% was paid to the Ruling family, and KD 360 million, or 11.2% went into the reserve fund.

Current Expenditure

The functional allocation of total current expenditure was as follows: the administration and others accounted for 41.1% of the total sum allocated to current expenditure, followed by the social services with 31.8%, law and order services, 22.9%, public utilities, 3.2%, and post, telephone and telegraph, 1.0%

Capital Expenditure

The functional allocation of capital expenditure was as follows. public works absorbed 56.2% of the total. (This department, as mentioned earlier executes work for almost all the departments, especially by constructing road, ports and similar facilities). The public utilities came next with a share of 20.4%, the administration and others claimed 17.3%, and 6.1% of the total capital expenditure was allocated to the post, telephone and telegraph services

C - Development of the Annual Allocation

Figs. 5.3 and 5.4 show the annual growth of the sums allocated from oil to finance the different items of expenditure in the state budgets and provide the allocation to the reserve fund. From Fig. 5.3 we see that allocation to current expenditure has shown steady growth. Expenditure on law and order showed the highest rate of growth, followed by administration and others (including the transfer payments, e.g. payments to Arab states), and the social services. The allocation to cover the current expenditure of the public utilities and the post, telephone and telegraph services showed less tendency to grow and even showed some decrease in the absolute sums allocated since 1966/67. The telephone and telegraph ministry in fact produced a surplus in 1970/71.

From Fig. 5.4 we can see that current expenditure has shown the highest rate of growth among the main items of allocation. The growth has been steady, and the total current expenditure in 1970/71 was 44 times higher than that of 1952. The allocation to the land purchase scheme also

000 K D The Allocation of Oil Revenue to Current Expenditure 1952-1970/71

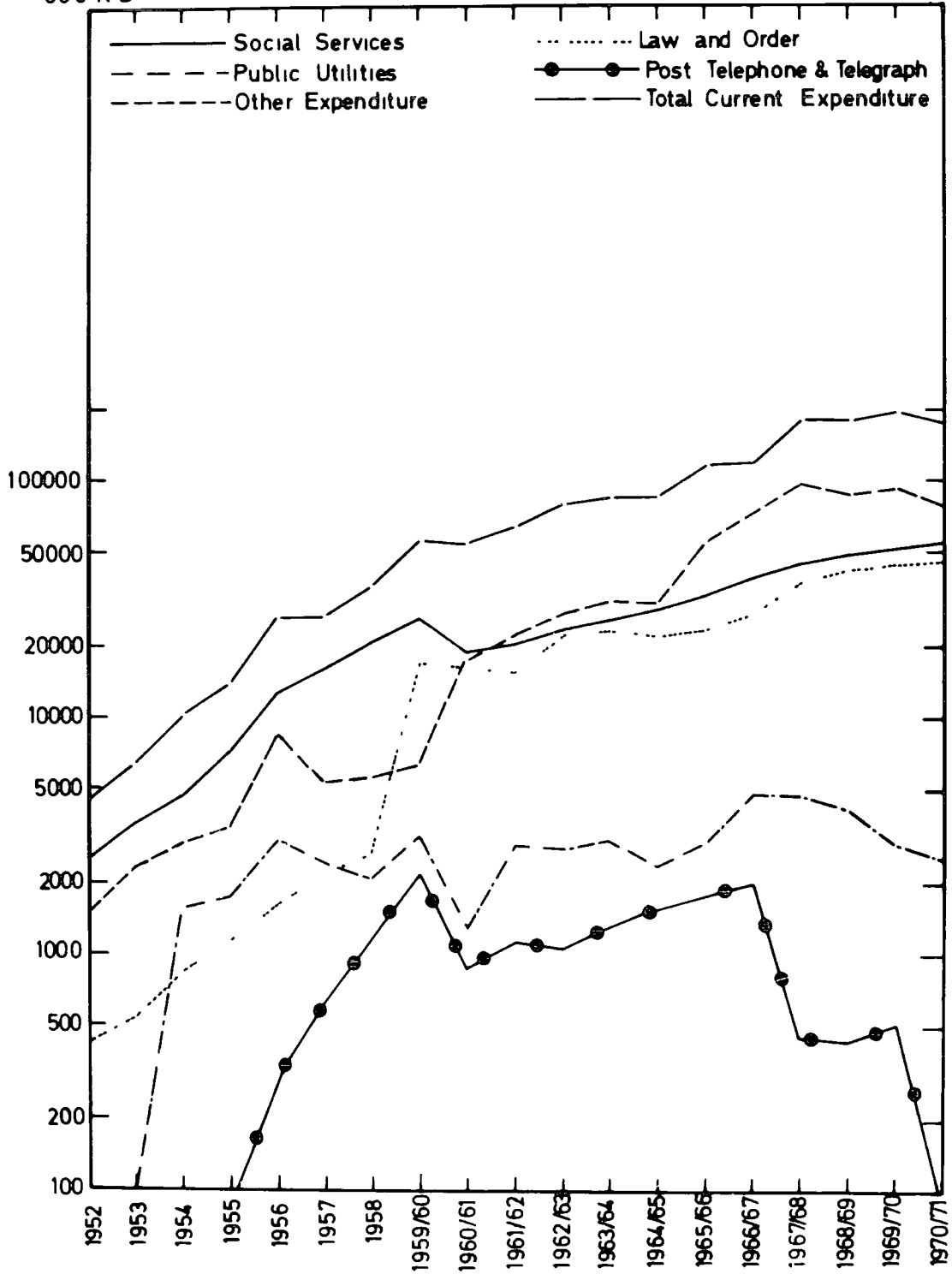


FIG 5.3

The allocation of the Oil Revenue (main items) 1952-1970/71

1000 KD

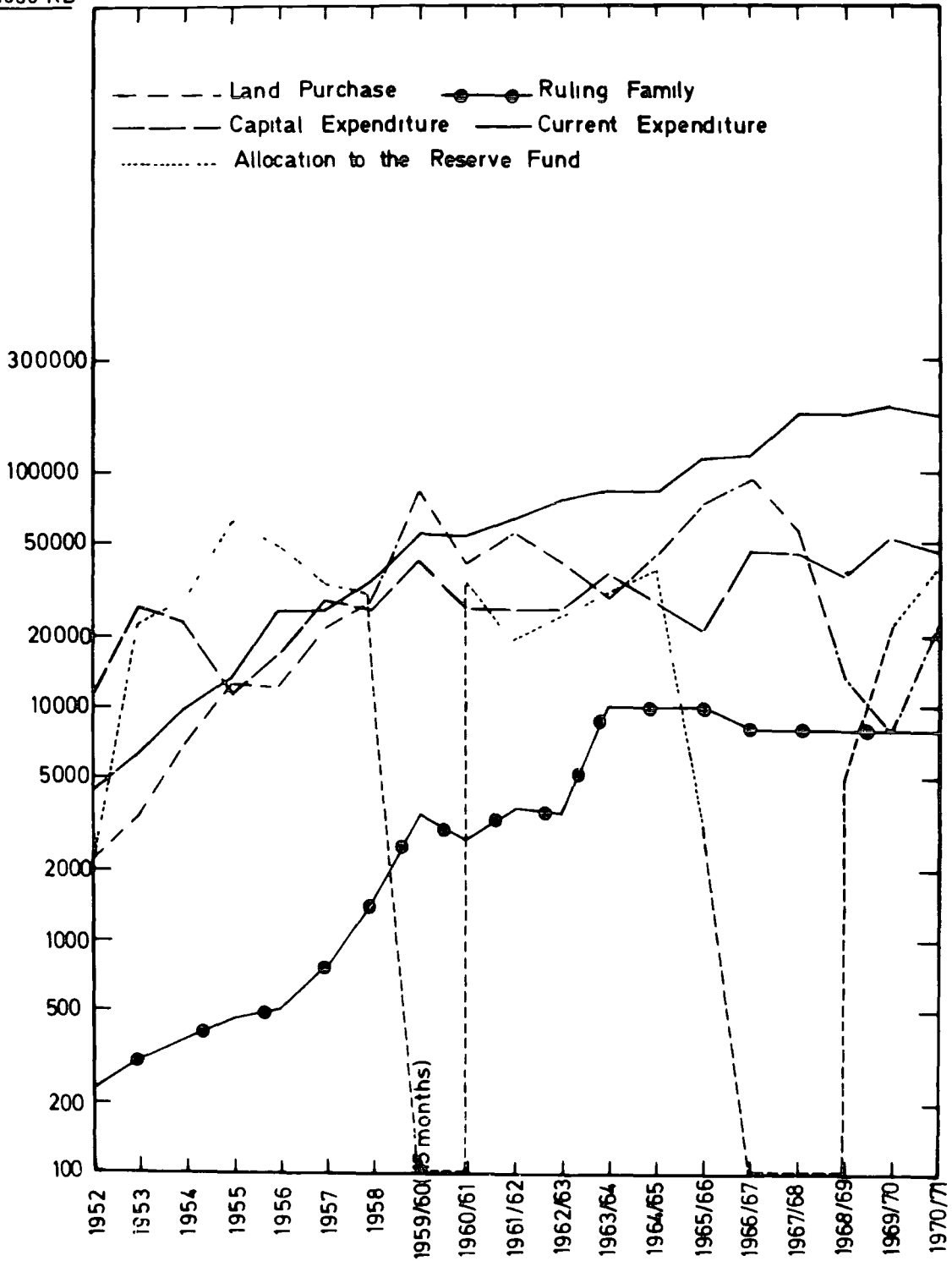


FIG 5.4

showed a high rate of growth, and during the late 1950's and early 1960's it ranked second to current expenditure. However, since the late 1950's, the allocation to capital expenditure has shown changing trends and the rate of growth has been low, the allocation for 1970/71, being only twice that of 1952. The allocation to the reserve fund has not been stable at all and it seems to have been determined by the needs of the budget. The allocation to the Ruling family grew fast until it was fixed in 1963/64; later, in 1966/67, it was decreased from KD 10 million to KD 8 million.

D - The Change in the Pattern of Allocation

The change in the pattern of allocating the annual available oil revenue (the annual oil revenue + any amount drawn from the reserve fund to meet the budget deficit in that year) is shown in Fig 5.5 (App. 5.3.4). The main characteristic of this change is the domination of both expenditure on land purchase and current expenditure. This trend started in 1953, expenditure on land purchase schemes dominating during the 1950's, and current expenditure dominating from the beginning of the 1960's. The allocation to the reserve fund and to capital expenditure has been greatly affected by the above-mentioned trend, and consequently their share fell from 83% in 1953 to 64%, 49%, 11% and 29% in 1956, 1960/61, 1965/66 and 1970/71 respectively.

These are the main points of the allocation of state oil revenue in Kuwait. There are other important points which can be deduced from the detailed appendices attached, and these will be used later in our discussion of the factors determining the pattern of oil revenue allocation in the Emirates, and the impact on their economic development of the uses to which the oil revenue has been put.

The allocational pattern of the Annual Available Oil Revenue 1952-1970/71
 (percentage)

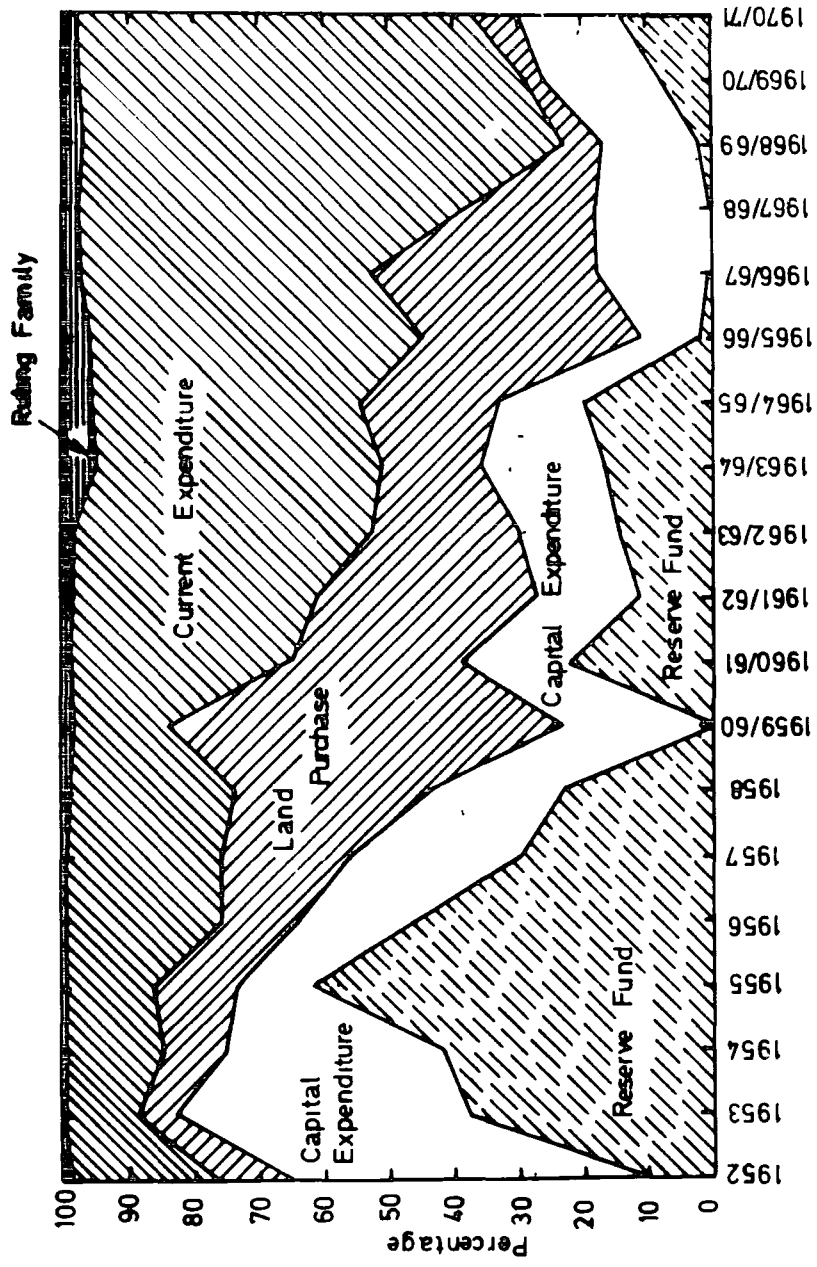


FIG 5 5

NOTES - CHAPTER V

- (1) IOR, R/15/5/222 (letter from PA Kuwait to the Political Resident, dated 15/1/1947); see also in the same file 1946 and 1947 budgets printed in Arabic and translated into English.
- (2) Ibid.,
- (3) Ibid., (letter from the Political Resident to His Majesty's Secretary of State for India, dated 13th March, 1947).
- (4) Ibid., Political Residency, D.O. No. C/60, dated 19/3/1947.
- (5) Ibid., (letter from PA, Kuwait, to the PR dated 13/4/1947). The Political Agent said: "...the Shaikh has just paid the revenue department Rs 1,014,000/- from the oil royalties of Rs 1,024,000/- paid in December last."
- (6) IOR, R/15/5/226 (criticism against Shaikh and government, Kuwait).
- (7) IOR, R/15/5/230 (Internal Administration, Social Reform) (Notes on Mr. Burrow's interview with his Highness, 14/5/1949).
- (8) Hay, Sir Rupert, The Persian Gulf States, p 102; see also: Richmond, Sir John, op cit , p.6; Royal Institute of International Affairs, The Middle East, p.125 (2nd ed 1954).
- (9) Private communication.
- (10) Royal Institute of International Affairs, op.cit., p.125 (2nd ed. 1954).
- (11) ~~The~~ Planning Board, Kuwait, The First Five Years Development Plan, 1967/68 - 1971/72, p.28.
- (12) IBRD, The Economic Development of Kuwait, p.45.
- (13) Ministry of Finance and Petroleum, Kuwait, 'Mashrua Al-Mizaniyh Al-Aameh Lil Dawlih' 1972/73.
- (14) IBRD, op.cit., p.80.
- (15) IOR, R/15/5/230.
- (16) Royal Institute of International Affairs, op.cit., p.125 (2nd ed. 1954).
- (17) Government of Bahrain, Annual Report 1372 Hijry, (Statement of Revenue and Expenditure 1372); see also IBRD, op.cit., p.80.
- (18) IBRD, op.cit., p.81; Mallakh, Regaei El-, Economic Development and Regional Co-operation, Kuwait, p.77 (The source used by Dr. El-Mallakh was the finance department, Kuwait, while the IBRD again depended on the same source).

CHAPTER VI

QATAR: ALLOCATION OF THE OIL REVENUE*

Qatar has produced oil in commercial quantities since 1949 and received oil revenues in respect of this production since 1950. In the early 1950's Qatar state tried to adopt Bahrain's system of financial administration in allocating its oil revenue. However, no budget or any other central account of public revenue and expenditure was published. This policy is still followed and even the Advisory Council of 1972 only has the right to debate the draft budget of the major public projects (the construction budget).⁽¹⁾ We have therefore been faced with difficulties in obtaining the complete series of government budgets and have only been able to obtain budgets for the eight years from 1953-1955** and 1966-1970.*** The state's oil revenues during these eight years represented the financial policy of two rulers in different decades, and included the budgets of the last five years, a period during which more than 45% of the total oil revenue was received. Hence, they present a reasonable sample for analysing the use of the oil revenue in Qatar. To avoid the difficulties and the possibility of great error in estimating the public revenues and expenditure for the missing years, we have chosen to ignore the public revenues and expenditure for the periods 1950-1952 and 1956-1965, instead giving some indication of state policies.

This chapter falls into three parts. The first is concerned with the years for which no central budgets were obtained. The second examines the state public revenues, public expenditure and the public reserve for the periods 1953-1955 and 1966-1970; this examination will provide the basis for analysing the allocation of the oil revenue in Part Three of this chapter.

* All the Hijry years were changed to the corresponding A.D. years:
1370 = 1950 and 1390 = 1970.

** 1373-75 Hijry.

*** 1386-90 Hijry.

Part One: Allocation of the Oil Revenue, 1950-52 and 1956-65

A - The Period 1950-52

Qatar state received the first oil royalty in 1950 and the available information indicates that the state followed a system of financial administration similar to the system prevailing in Bahrain at the time. Thus, a British advisor was appointed and a fixed proportion of the oil revenue was allocated to the Ruler. However, although a sort of central account for public revenue and expenditure was produced in 1950, in which a considerable part of the revenues were allocated to a public reserve fund and "approximately one-quarter of the oil receipts are reserved for the Sheikh."⁽²⁾ "It was not until 1373* (1953) that the first detailed budget was produced in Qatar."⁽³⁾ As Mr. Cummins' report noted, the government consolidated bank accounts in Doha received three-quarters of the oil royalty payments. "The remaining quarter is for the Ruler's account."⁽⁴⁾ "All instructions to the banks involving expenditure or other financial transactions and all cheques drawn on the government's consolidated bank accounts are signed jointly by H.H. the Ruler and the Advisor."⁽⁵⁾ However, though a distinction between the public purse and the privy purse of the Ruler had been drawn as early as 1950, the government departments had to be established before any comprehensive development programme could be commenced. Thus, the framework of a departmental system was taking shape at that time as may be seen from the enrolment of government employees as shown overleaf in Table 6.1.

* Hijry.

TABLE 6.1

ENROLMENT IN THE GOVERNMENT SERVICE, 1943/48-1954^{xx}

(NO. OF PERSONS)

<u>Department</u>	<u>43/48</u>	<u>49</u>	<u>50</u>	<u>51</u>	<u>52</u>	<u>53</u>	<u>54</u>	<u>Total</u>
Adviserate	-	1	1	3	3	2	1	11
Education	-	-	-	3	5	5	6	19
Court	-	4 _x	-	1 _{xx}	-	1	1	7
Customs	1	1	4	1	-	-	-	7
State Engineer's Office [∅]								3
State Electricity [∅]								21
Civil Engineering	-	-	-	2	3	8	5	18
Mechanical Equipment	-	-	-	2	4	7	8	21
Water Department [∅]								10
State Medical Services	-	-	-	2	5	24	7	38
Qatar Police	-	-	2	-	2	5	14	23
	<u>1</u>	<u>6</u>	<u>7</u>	<u>14</u>	<u>22</u>	<u>52</u>	<u>42</u>	<u>178</u>

* The Hijry Year 1374 taken as corresponding to 1954.

x Including Sheikh Ahmed Bin Ali Al-Thani who was appointed as a judge in the Civil Court.

xx Sheikh Khalifa Bin Hamed Al-Thani who was appointed as a judge in the Civil Court

∅ No date of enrolment was given.

Source: Calculated from J.W. Cummins, 'Government of Qatar: Review of Salaries', pp.112-118.

As shown in Table 6.1 the government employees enrolment increased from 14 employees in 1950 to 28 in 1951 and to 50 in 1952. Also, as may be noted from the table, most of the departments were not established before 1951. Thus, because of the lack of channels through which the oil revenue might be used, the government built up considerable liquid assets as shown in Table 6.2 overleaf:

TABLE 6.2
THE GOVERNMENT'S LIQUID ASSETS, 1950-1952

(000 QDR)

<u>Liquid Assets</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
Cash	2,560	14,307	24,683
Investments	-	7,509	7,500
Total	2,560	21,807	32,183
Sundry Debtors	301	114	760
Total	2,861	21,922	32,943
<u>Less: Current Liabilities</u>			
S. Creditors	1,134	660	550
Excess of Liquid Assets over Liabilities	1,727	21,261	32,393

Source: Cummins, J.W , 'Report on the Accounting Establishment and Organisation of the Government of Qatar', pp.3-4.

Assuming that one quarter of the oil revenue was allocated to the privy purse of the Ruler, we may estimate the allocation of oil revenue during the period 1950-1952 as follows:

TABLE 6.3
THE ALLOCATION OF THE OIL REVENUE, 1950-1952

(000 QDR)

	<u>Amount</u>	<u>Percentage</u>
Privy Purse	18,727	25.0%
Reserve	32,393	43.3%
Government P. Expenditures ³	23,774 [*]	31.7%
Total Oil Revenue	<u>74,894</u>	<u>100.0%</u>

* Including allocation to the Ruling family.

B - The Period 1956-1965

During this period of ten years there was a change in the administration and the general economic condition of Qatar. Thus we may distinguish two different stages; the first represented the late years of Sheikh Ali's rule assisted by a British Adviser (1956-1960), and the

second represented the early years of Sheikh Ahmed's rule, assisted by the Heir Apparent and Deputy Ruler, Sheikh Khalifa (1961-1965). (Sheikh Khalifa is the present ruler).

B1 - The Late Years of Sheikh Ali's Rule, 1956-1960

This period consisted of five years, mostly with increasing oil revenue and, consequently, increasing public expenditure. The financial administration and the financial system of allocating oil revenue was similar to the one followed in the period 1953-1955 (see Part Two of this chapter). The Ruler received one quarter of the oil revenue and the remaining members of the Ruling family received their allocation through the Government budget.* The Adviser was the head of all the government departments and responsible directly to the Ruler. All financial transactions concerning government financial accounts were signed jointly by the Ruler and the Adviser.

Although we have no complete information concerning the allocation of oil revenue during this period, we would expect a continuation of the 1953-1955 pattern of allocation, with an increasing allocation to the Ruling family and the government's capital and current expenditure. In 1954, 31.7% of the oil revenue had been allocated to the Ruling family, 37.5% to the reserve, and 30.8% to the government's capital and current expenditure, and it was reported that the allocation of the 1955-56 oil revenues was "one third to the Ruler and his family, one third to state public expenditure and one third to the reserve."⁽⁶⁾ This pattern of allocation may have been preserved, particularly up to 1958. However, when the state oil revenue dropped from QDR 287 million in 1958 to QDR 253 million in 1959 and QDR 260 million in 1960 (App. 3.3) this pattern was no longer able to meet the increasing demand of the government's current and capital expenditure, and the allocation to the Ruling

* In Bahrain the Ruler had been allocated one third of the oil revenue from which he paid the Ruling family's allocations.

family. This change in the economic condition caused some problems for the Ruler and his government, and even paved the way for his abdication of the Rulership on 24th October, 1960.⁽⁷⁾ As far as the government's current and capital expenditure is concerned, the main impact was on education, health, electricity and water. The allocation to both education and electricity had risen considerably during this period as shown in Fig. 6.1 (App. 6.4).

B2 - The Early Years of Sheikh Ahmed's Rule, 1961-1965

Again this period consists of five years for which no government central budgets or any other central account of public revenue and expenditure was obtainable. However, the economic condition prevailing in Qatar at the time was completely different from that of the 1950's. In the late 1950's Qatar Petroleum Company's oil production froze almost at its 1958 level and it was not until 1964 that Shell Qatar's oil production commenced (App. 2.1.3). Consequently, the annual oil revenue did not increase (App. 3.3) and this affected the whole economic situation, even resulting in a change of administration and in the pattern of allocating the state's oil revenue. Thus, at the end of 1960 a new Ruler came to office and the oil revenue was divided equally between the Ruling family and the government.⁽⁸⁾ This change was in demand for some time and a kind of contract was formed to solve the problem of succession caused by the abdication of Sheikh Ali, an event which gave political power to the Ruling family and consequently gave them a more important say in public affairs. By the end of 1960 the allocation of oil revenue was reported as shown in Table 6.4 overleaf:

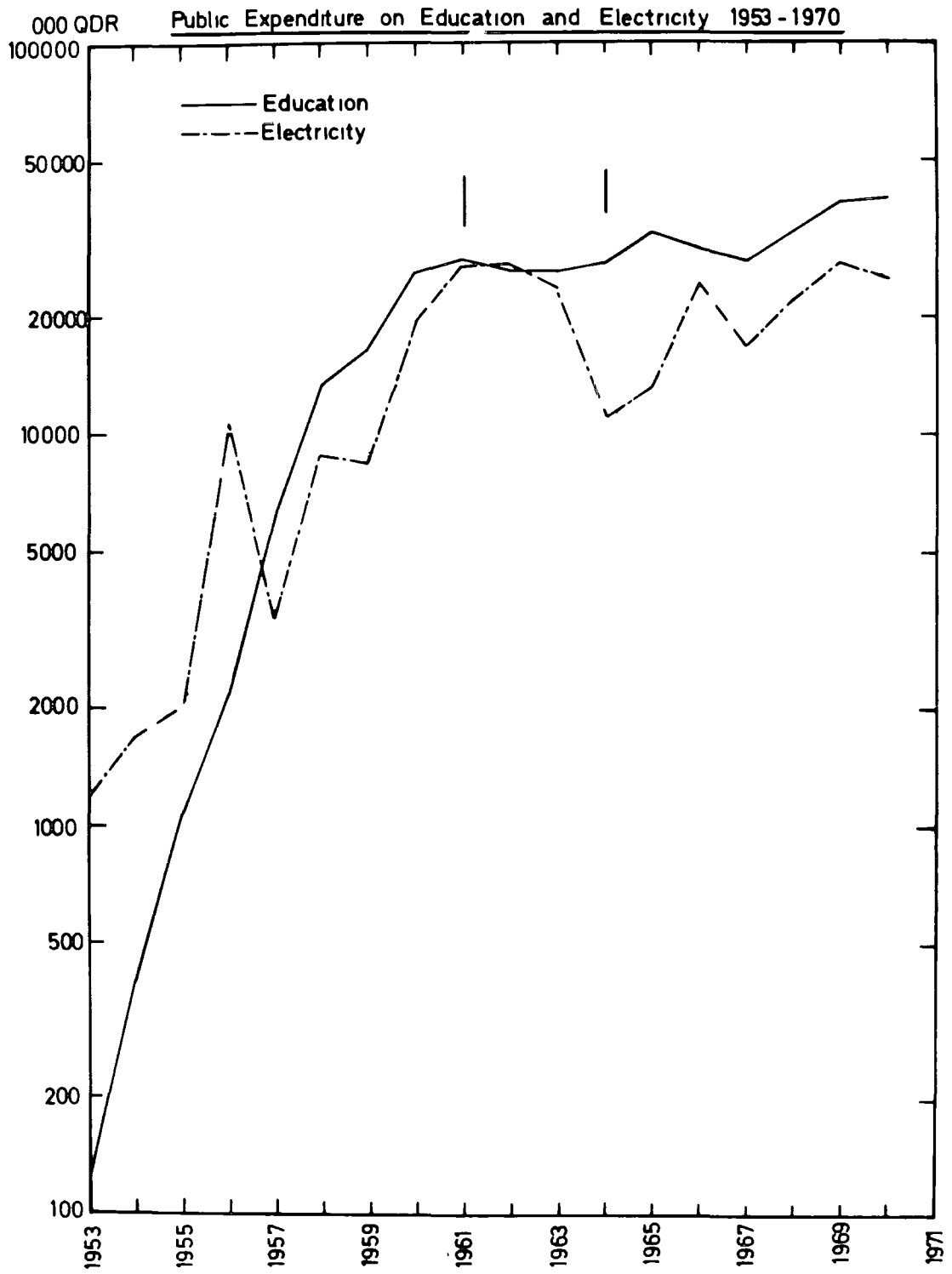


FIG. 6.1

TABLE 6.4
THE ALLOCATION OF OIL REVENUE IN QATAR, 1960
(PERCENTAGE)

The Government	50%
The Ruler	25%
The Heir Apparent	2.5%
Shaikh Ali	2.5%
Other Members of the Ruling Family	20%
	100%

Source: Dabbag, M.M. Al-, Qatar, Madhiha wa Hadhiruha, p 54.

This pattern of allocation was followed until 1963. Such a pattern not only prevented the state from keeping apart a portion of the oil revenue for investment, but moreover resulted in freezing the government's capital, and, to a lesser extent, its current expenditure during this period (see Fig. 6.1 and App. 6.4). This new financial policy and the change in the economic situation interrupted the infrastructure development schemes and stopped any attempt to increase social services, a matter which caused the concern expressed by Qatar's notables during the 1963 popular movement.*

Although the 1963 movement achieved none of its aims directly, it affected future development and provided a reason for the Deputy Ruler's holding of the allocation to the Ruling family at virtually its 1963 level. During this time we may assume that the Deputy Ruler and Heir Apparent was able to persuade the Ruler to limit his allocation to only one quarter of the QPC payments and not to extend it to include one quarter of Shell Qatar Company's payments, which had commenced in considerable sums in 1964. This assumption is based on two points: a) the issuing of a long statement

* This movement started by the end of April 1963, when the government imprisoned about 50 leading citizens, an action that resulted in a general strike for more than a week. However, the movement achieved none of its aims directly, and most of the leaders were exiled, some of them not being allowed to return until 1972.

from the Ruler called 'Explanatory Statement on the Comprehensive Programme for the Advancement of the Country' dated 27th May, 1963. In this statement the Ruler promised to undertake a series of steps in the political, social and economic fields to achieve "a society of justice, quality, stability and production" (translated from Arabic).⁽⁹⁾ b) the point emerging from our examination of the allocation of the oil revenue in Qatar during the period 1966-1970, that the Ruler's allocation was fixed to one quarter of the QPC payments. Thus, while in the early years of this period the allocation of the oil revenue followed the pattern mentioned in Table 6.4, i.e. one quarter to the Ruler, one quarter to the Ruling family and one half to the government, the pattern changed, presumably in 1964, as follows: the Ruler's allocation was fixed at one quarter of the QPC payments, while the Ruling family received an allocation of no fixed proportion through the budget, and the remaining revenue was allocated to the different government departments. As the 1966 budget indicated, the allocation to the Ruling family, excluding the allocation to the privy purse of the Ruler, was QDR 97 million, equal to 22.2% of the total oil revenue received in 1966.

We have thus arrived at a general conception of the allocation of the oil revenue in Qatar during the years 1950-52 and 1956-65, the two main recipients were the government, including the reserve fund, and the Ruling family. The proportional allocation changed considerably, first favouring the Ruling family, and later the government. However, in so far as we have been able to estimate it, the government's share of the 1966 oil revenue was only 60.5%, compared with 69.3% in 1955.

Part Two: The Public Revenue, Expenditure and Reserve, 1953-55 and 1966-70

The main sources for our investigation of the state revenue, expenditure and reserve during these periods are: a) Qatar's actual budgets for 1953 and 1954, its estimated budget for 1955, and the closed account of the budgets 1966-70. b) the state oil revenue (App. 3.3). The allocation

to the privy purse of the Ruler, which did not appear in the budget, has been estimated as equaling the state oil revenue less the government budget oil revenue. The resulting sums almost equal one quarter of the QPC payments, except in 1970 when the allocation fell considerably below this proportion. The only plausible explanation of this drop is that the Ruler re-paid some of his allocation to cover the unexpected expenditure of the Ministry of Health under the administration of his eldest son. The Ministry of Health's 1970 expenditure reached QDR 52 million, compared with QDR 26 million in 1969 and QDR 25 million in 1968. The allocation to the Ruler in 1970 should have been in the region of QDR 90 million, but seems to have been QDR 66 million.

A - Public Revenue

Qatar state public revenue during the periods 1953-55 and 1966-70 is shown in Table 6.5.

TABLE 6.5

THE STATE PUBLIC REVENUES, 1953-55 and 1966-70

(MILLION QDR)

<u>Source</u>	1953-55		1966-70		Total	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Oil Revenue	387	97.5	2,597	91.2	2,985	92.0
Administration and others	6	1.5	211	7.4	218	6.7
Law and Order	2	0.5	2	-	4	0.1
Public Utilities	1	0.3	28	0.9	29	0.9
Transport and Communication	N.A.	N.A.	7	0.2	7	0.2
Total	<u>397</u>	<u>99.8</u>	<u>2,846</u>	<u>99.7</u>	<u>3,243</u>	<u>99.9</u>

* Including investment profit.

Source: App. 6.1.

Table 6.5 shows the total public revenue received and the change in its structure in the two periods studied. As is shown in the table, oil revenue accounted for 97.5% in 1953-55 and 91.2% in 1966-70. The main change noted was the increase of the revenue from customs and the investment

profit in the period 1966-70 (administration and others).

B - Public Expenditure

The allocation of Qatar state public expenditure for the periods studied is given below in Table 6.6

TABLE 6.6

ALLOCATION OF THE STATE PUBLIC EXPENDITURE, 1953-55 and 1966-70

(MILLION QDR)

	<u>Amount</u>	<u>% of Total</u>
<u>Current Expenditure</u>	864	32.0%
Social Services	360	12.7%
Law and Order	144	5.4%
Public Utilities	134	5.0%
Transport and Communication	21	0.7%
Administration and others	<u>205</u>	<u>7.8%</u>
<u>Capital Expenditure</u>	520	19.7%
Social Services	58	2.0%
Public Utilities	114	4.3%
Transport and Communication	74	2.8%
Public Works (Eng.)	162	6.1%
Law and Order	33	1.2%
Administration and others	<u>77</u>	<u>2.9%</u>
<u>Ruling Family</u>	1,068	40.6%
The Ruler	512	17.5%
Other members	<u>556</u>	<u>22.4%</u>
<u>Land Purchase</u>	201	7.6%
Grand Total	<u><u>2,629</u></u>	

Source: Apps. 6.2.6 and 6.2.7.

Fig 6.2 shows the development of the different items of expenditure. Using the figure, Table 6.6 and App. 6.2.7 we will briefly discuss the structure and development of public expenditure in Qatar

Total Expenditure

Total expenditure rose considerably during the periods studied. Expenditure for 1970 amounted to QDR 556 million compared with only QDR 57

Development of Public Expenditure (by Main Groups)
1953 - 1955 & 1966 - 1970

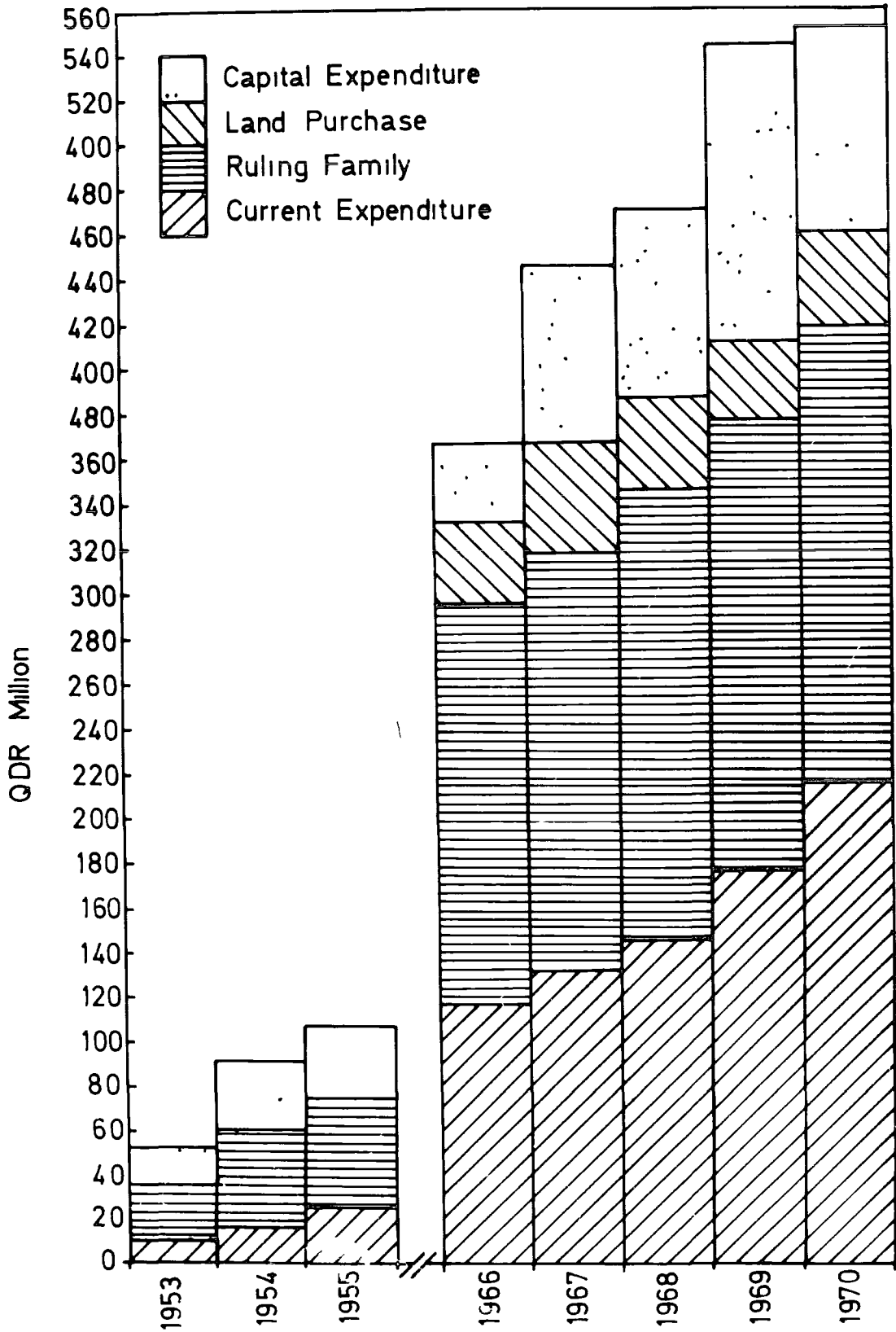


FIG 6 2

million in 1953. However, the development of public expenditure was affected by the slow growth of the oil revenue during the period 1959-1963 (see Fig 6.1 and App. 6.4). Thus Qatar's public expenditure in 1970 was only ten times that of 1953, while Kuwait's expenditure in 1970/71 was more than forty-four times that of 1952

Current Expenditure

The total current expenditure amounted to QDR 864 million or 32% of total expenditure. The proportion of current expenditure increased rapidly and in 1970 it was about 39% compared with only about 17% in 1953. The 1970 expenditure was QDR 216 million or about twenty-two times greater than that of 1952.

Capital Expenditure

Total capital expenditure was QDR 520 million or 19.7% of total expenditure. Its share of the overall total decreased from 38.1% in 1953 to only 20.6% in 1970. However, during the early 1960's this allocation suffered most, and its share in 1966 was as low as 7.5% only. Since then its proportional allocation has improved. The 1970 allocation was QDR 114 million or about six times that of 1953

Allocation to the Ruling Family

This allocation consisted of QDR 1,068 million or about 40.6% of the total. Its share of the overall total decreased to 32.8% in 1970 compared with 44.8% in 1953 and 49.8% in 1955. However, the sum allocated to this item increased from QDR 26 million in 1953 to QDR 182 million in 1970.

Land Purchase

This item of expenditure accounted for QDR 20¹ million or about 7.2%. This item has been one of the main items of public expenditure since the late 1960's.

C - Public Reserve Fund

Our examination of the reserve fund will concern two points, the

balance of the fund at the beginning of 1971, and its investment outlets at that period.

C1 - The Accumulated Balance

From our previous discussion and the available information we may assess the balance of the reserve fund account as follows:

TABLE 6.7

THE BALANCE OF THE RESERVE FUND ACCOUNT, 1971

(000 QDR)

	<u>Net</u>	<u>Amount</u>
1	Government Net Liquid Assets, end 1952	32,393
2	Budget Surplus, 1953-55	141,894
3	Budget Surplus, 1966-70	<u>472,483</u>
4	Total Surplus (1 + 2 + 3)	646,770
5	Loss from Sterling Devaluation	<u>-36,494</u>
6	Total	610,296
7	Net Surplus, 1956-65 (8 - 6)	<u>119,425</u>
8	Actual Balance of the Reserve, 1971	<u><u>729,701</u></u>

Source: Private contact with the Ministry of Finance, Qatar; Table 6.2 and 6.10.

As shown in Table 6.7 the reserve fund balance at the beginning of 1971 was QDR 730 million. This balance had been accumulated over the previous 21 years. The allocation to the reserve fund, expressed as a percentage of the state oil revenue, is shown below:

TABLE 6.8

ALLOCATION TO THE RESERVE FUND AS PERCENTAGE OF OIL REVENUE

1950/52, 1953/55, 1956/65 and 1966/70 (MILLION QDR)

<u>Period</u>	<u>Oil Revenue</u>	<u>Allocation to the Reserve</u>	<u>Allocation as percentage from oil revenue</u>
1950/52	75	32	42.7%
1953/55	387	142	36.7%
1956/65	1,686	119	7.0%
1966/70	2,600	472	18.3%

Source: App. 3.4, Table 6.7.

The table shows that the allocation to the reserve fund was relatively high in the early 1950's, but dropped in the period 1956/65, reflecting the state of oil production at that period and the pressure of the allocations to the Ruling family and to government expenditure. Later in the late 1960's, with the increasing oil revenue from Shell Qatar Company and the expensing of the royalty, the state was able to set aside higher proportions of its revenues for the reserve fund accounts.

C2 - The Reserve Fund Investments

The breakdown of the reserve fund investments is given in the following table:

TABLE 6.9

THE STATE PUBLIC RESERVE INVESTMENTS, 1971

(000 QDR)

	<u>Amount</u>	<u>Percentage</u>
Government Local Current and Deposit Acts.	111,113	15.2
Investment in Qatari and Arabian Companies	108,655	14.9
Investment Abroad (Different currencies)	483,114	66.2
Foreign Bonds	26,819	3.7
	<u>729,701</u>	

Source: Ministry of Finance, Qatar, direct contact.

Table 6.9 indicates that about 70% of Qatar's reserve funds are invested abroad, mainly in bank deposits and foreign securities, while 15.2% is invested with local banks and 14.9% invested in local and Arabian companies shares

The breakdown of the investment profit is not officially given, and it is difficult to analyse the investment revenues. However, the investment profit, as the government budget stated, is as shown overleaf in Table 6.10.

TABLE 6 10

THE INVESTMENT PROFIT, 1953-55 and 1966-70

(000 QDR)

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1953	244	1967 (net loss)	-22,694
1954	1,600	1968	26,969
1955	1,600e	1969	31,244
1966	17,000	1970	33,843

e: budget estimation.

Source: Government Budgets.Part Three: The Allocation of the State Oil Revenue

After assessing the state public revenue, expenditure and reserve, we are in a position to examine the allocation of the state oil revenue: Our discussion will cover mainly the eight years mentioned earlier (1953-55 and 1966-70).

A - Proportional Contribution of the Oil Revenue Spent (PCORS)

The proportional contribution of the oil revenue spent is given in the following table:

TABLE 6 11

PROPORTIONAL CONTRIBUTION OF OIL REVENUE SPENT, 1953-55 and 1966-70MILLION QDR AND PERCENTAGE

<u>Year</u>	<u>Annual Oil Revenue 1</u>	<u>Public Revenue Surplus 2</u>	<u>Oil Revenue Spent (1 + 2) = 3</u>	<u>Total Gross Deficit 4</u>	<u>PCORS $\frac{3}{4}$ %</u>
1953	85	29	56	56	100
1954	139	52	87	87	100
1955	163	60	102	102	100
1966	434	118	319	331	96
1967	490	78	411	411	100
1968	526	104	422	422	100
1969	563	83	480	498	96
1970	582	89	493	505	97
Total	<u>2,985</u>	<u>614</u>	<u>2,371</u>	<u>2,412</u>	<u>98</u>

Source: Apps. 6.1, 6.3.1, 6.3.2 and 6.3.3.

As the table indicates the oil revenue covered 98% of the deficit in the separate departmental accounts. The investment profit and customs revenue provided the remaining 2%.^{*}

B - The Allocation of the State Total Oil Revenue

B1 - Allocation of Total Oil Revenue, 1953/55//1966/70

The allocation of the total oil revenues received during the periods studied is shown in Table 6.12

TABLE 6.12

ALLOCATION OF THE STATE'S OIL REVENUE, 1953/55 and 1966/70

(MILLION QDR)

<u>Allocation</u>	<u>Amount</u>	<u>As % of Total Oil Revenue</u>
<u>Current Expenditure</u>	<u>610</u>	<u>20.5%</u>
Social Services	328	11.0%
Law and Order	136	4.6%
Public Utilities	102	3.4%
Transport and Comm.	13	0.4%
Administration and others	30	1.0%
<u>Capital Expenditure</u>	<u>510</u>	<u>17.1%</u>
Social Services	57	1.9%
Public Utilities	112	3.9%
Transport and Comm.	73	2.4%
Public Works	159	5.4%
Law and Order	32	1.0%
Administration and others	75	2.5%
<u>Ruling Family</u>	<u>1,048</u>	<u>35.1%</u>
The Privy Purse	502	16.8%
Other members	546	18.3%
<u>Land Purchase</u>	<u>197</u>	<u>6.6%</u>
<u>Public Reserve Fund</u>	<u>614</u>	<u>20.6%</u>
Grand Total	<u>2,979</u>	<u>99.9%</u>

Source: Apps. 6.2.6, 6.3.4 and 6.3.5

* However, these surpluses appeared mainly because of the lack of detailed information concerning public revenues for these years, a lack which forced us to classify all non-oil revenue under the head of 'Administration and Others'. Therefore, if the detailed budgets were obtained, almost all the main items of public expenditure including the administration, would be in a state of deficit, as may be seen from their behaviour in 1967 and 1968, where detailed information was obtained.

The table shows the structure of the net allocation of the oil revenue; Fig 6.3 presents the development of the annual allocation. On the basis of the table and the figure, and with the help of App 6.3.4, we will discuss the allocation of the oil revenue in Qatar

Total Allocation

In the periods studied a total of QDR 2,979 million was allocated. 35.1% was allocated to the Ruling family, 20.6% to the reserve fund, 20.5% to current expenditure, 17.1% to capital expenditure, and 6.6% to land purchase.

The total allocation increased from QDR 85 million in 1953 to QDR 579 million in 1970, or about seven fold

Ruling Family

The allocation to the Ruling family was the largest of all the allocations. Its share was 35.1%. This allocation was distributed in the proportion of 47.8% to the Ruler and 52.8% to other members of the family.

This allocation accounted for 30.6% of the total oil revenue in 1970, compared with 30.0% in 1953. The actual sum allocated was QDR 177 million in 1970 or about seven times that of 1953. However, proportionally the allocation shows two trends, the first during the 1950's and early 1960's, when it increased proportionally, the second during the late 1960's when its proportional share of the annual oil revenue decreased. From App. 6.2.5 we can see that in 1953, 78% of the sum allocated went to the Ruler and 22% to the other members of the Al-Thani family; in 1970, about 36% was allocated to the Ruler, while the other members received 64%

Reserve Fund

This allocation accounted for 20.6% of the total oil revenue received during the periods studied. However, its proportional share of the total oil revenue received in 1950-1970 was QDR 730 million (Table 6.7) or only 12.6%.

The Allocation of the Oil Revenue 1953-1955 & 1966-1970

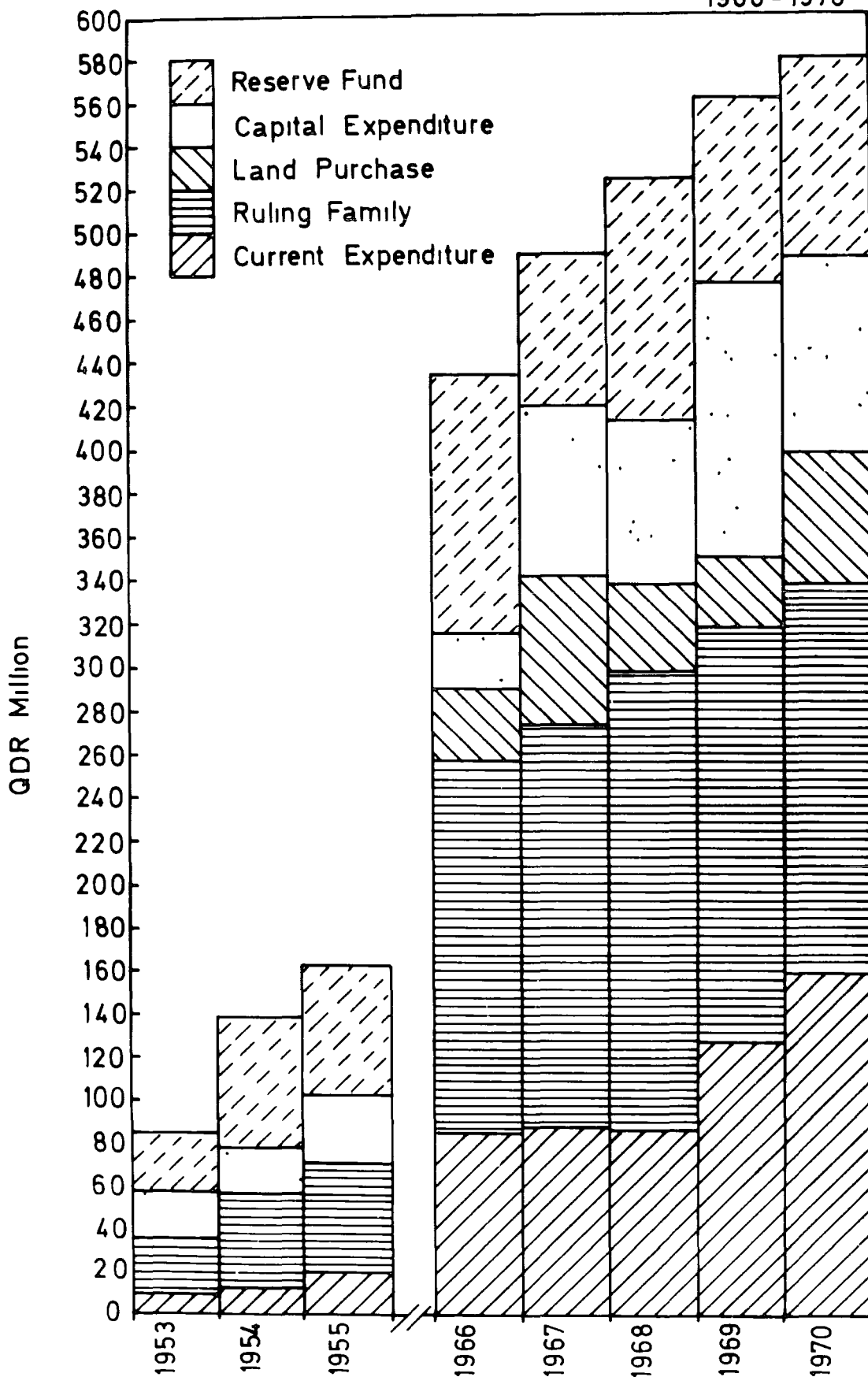


FIG 6 3

Its annual allocation increased from QDR 29 million in 1953 to QDR 89 million in 1970. Nevertheless its proportional share of total oil revenue dropped from 34.1% in 1953 to 15.3% in 1970

Current Expenditure

This item of expenditure accounted for 20.5% of the total oil revenue. Its total allocations amounted to QDR 610 million. The functional allocation of this sum was as follows: Social Services 53.7%, Law and Order Services 22.3%, Public Utilities 15.7%, Transport and Communication 2.0% and Administration and others 6.4%

The sums allocated to this item increased from about QDR 9 million in 1953 to QDR 160 million in 1970, recording the highest rate of growth among the allocations. Social Services in turn recorded the highest rate of growth among the items of current expenditure. Their proportional share in 1970 was more than sixteen times that of 1953, followed by law and order and public utilities

Capital Expenditure

This item accounted for 17.1% of the total. This amounted to QDR 510 million, the functional allocation of which was as follows: Public Works 31.2%, Public Utilities 22.0%, Transport and Communication 14.3%, Social Services 11.1%, Law and Order 6.3% and Administration and others 14.7%

Though the annual sum allocated to capital expenditure was increased in 1970 to about five times the sum for 1953, its proportional share decreased from 25.5% in 1953 to only 5.9% in 1966. Since then, however, this share has improved and in 1970 was 15.3% of the annual oil revenue.

Land Purchase

Finally land purchase accounted for 6.6% of the total, its proportional share being in the region of 7% during the late 1960's.

B2 - Estimated Allocation of the State Oil Revenue, 1950/52 and 1956/65

At this stage we may estimate the allocation of the total oil revenue received during the periods for which no budgets or any other central accounts of public revenue and expenditure were obtained. This estimate will be used as an indication and will not be used for comparative purposes. This estimate is based on assuming the same allocational pattern for oil revenue spent during these periods as the one discovered for 1953/55 and 1966/70. During the latter years the oil revenue spent was allocated as follows. Ruling Family 44.3%, Current Expenditure 25.6%, Capital Expenditure 21.6%, Land Purchase Scheme 8.5% (see App. 6.3.3). The oil revenue received during the period 1950/52 and 1956/65 was QDR 2,763 million (App. 3.3 and Table 6.11). The oil revenue spent was QDR $2,763^* - (32 + 119)^{**} = \text{QDR } 2,612$ million in Qatar and Dubai Riyals. Therefore, on the above basis, we may estimate the allocation of the state oil revenue for these periods as follows:

TABLE 6.13

ALLOCATION OF THE STATE'S OIL REVENUE, 1950/52 and 1956/65

(MILLION QDR)

<u>Allocation</u>	<u>Amount</u>	<u>As percentage of Total Oil Revenue</u>
Ruling Family	1,157	41.9%
Current Expenditure	669	24.2%
Capital Expenditure	564	20.4%
Land Purchase	222	7.9%
Oil Revenue Spent	<u>2,612</u>	<u>94.4%</u>
Reserve Fund	151	5.4%
Total Oil Revenue	<u>2,763</u>	

C - Change in the Pattern of Allocation

The change in the state policy for allocating the oil revenue can be

* Total oil revenue (1950-52 and 1956-65).

** Allocation to reserve (1950-52 and 1956-65) (Table 6.7).

seen clearly in Table 6.14 and Fig 6.4.

TABLE 6.14

THE STATE OIL REVENUE ALLOCATION: STRUCTURAL CHANGE, 1953/55 and 1966/70

(PERCENTAGES)

<u>Allocation</u>	<u>1953/55</u>	<u>1966/70</u>
<u>Current Expenditure</u>	10.6%	21.8%
Social Services	2.0%	12.3%
Law and Order	1.7%	4.9%
Public Utilities	1.6%	3.6%
Transport and Comm.	0.0%	0.5%
Administration and others	<u>5.1%</u>	<u>0.3%</u>
<u>Capital Expenditure</u> ^h	21.8%	16.4%
<u>Ruling Family</u>	30.9%	35.8%
Privy Purse	24.7%	15.7%
Other members	<u>6.2%</u>	<u>20.1%</u>
<u>Land Purchase</u>	0.0%	7.5%
<u>Reserve Fund</u>	36.6%	18.2%
	<u>99.9%</u>	<u>99.7%</u>

^h Details may be extracted from Tables 6.6 and 6.11.

Source: App. 6.3.4.

Table 6.14 and Fig. 6.4 show that the allocational patterns of the state oil revenue changed considerably. The trends of this change again reflected the general tendency to increase the allocations to current expenditure and the Ruling family. These allocations increased from about 40% in 1953 to 43% in 1955 and 67% in 1966. The improvement in the state oil revenue since then has succeeded in keeping these allocations in line with others. However, although the allocation to the Ruling family has shown some decrease in its proportional share, the allocation to current expenditure almost absorbed the results of this change, bringing its proportional share to about 35% of the total oil revenue in 1970 compared with 28% and 29% in 1968 and 1969 respectively.

The allocational pattern of The State Oil Revenue 1953-55 & 1966-70

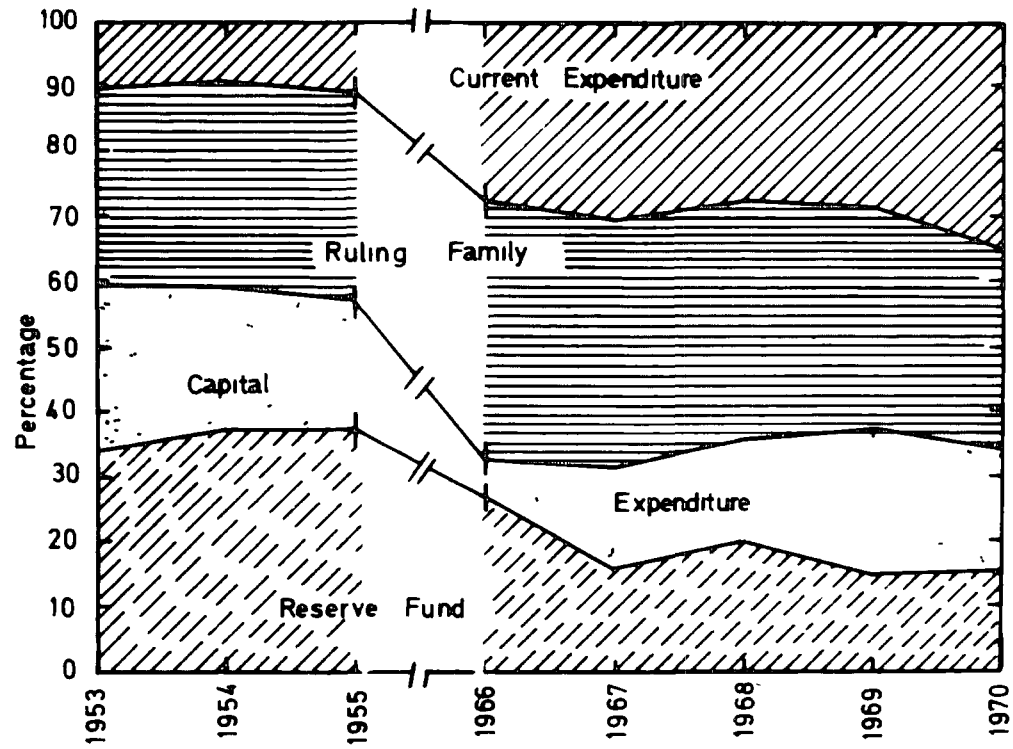


FIG 6 4

This is, in brief, the main finding from our examination of the state oil revenue in Qatar. The factors determining the allocational pattern of this revenue and their impact on economic development will be discussed later in the study.

NOTES - CHAPTER VI

- (1) Government of Qatar, 'Al-Nizam Al-Asassy Ai-Muaqat Al-Muadal', (Article 51 (3)), p.7.
- (2) U.N., Summary of Recent Economic Development in the Middle East, 1952/53, p.63.
- (3) Cummins, J W , 'Report on the Accounting Establishment and Organisation of the Government of Qatar', p 2.
- (4) Ibid , p 2.
- (5) Ibid., p.2.
- (6) Royal Institute of International Affairs, The Middle East, (Third edition), p.139.
- (7) Dabbagh, M M. Al-, Qatar: Madhiha wa Hadhiruha, p.194.
- (8) Ibid.,
- (9) Legal Affairs Department, Qatar, Majmuwaat Qawanin Qatar Hata 1966, pp.614-619.
- (10) MEDD, 'Economic Survey of Qatar', pp.137-140.
- (11) However, although this estimate has been based on reasonable assumptions, some reservations must be made.

The first concerns the allocation to the land purchase scheme and capital expenditure. a) Although the land purchase scheme started in the late 1950's, it was not on a large scale and during the period 1961-1964 very little was allocated to this item. Thus the estimated allocation may be in excess of the actual allocation. b) As for the allocation to capital expenditure, although, during the period 1956-1958 it may have received a proportionally larger allocation, it certainly enjoyed a smaller proportional allocation during the period 1960-1965, as may be seen from the 1966 budget where the allocation to capital expenditure was only 5.9% of total expenditure. Therefore, the allocation to this item may have been less than the estimated one. The second point concerns the allocations to the Ruling family and to current expenditure. a) Although, the allocation to the Ruling family was 30.7% in 1955 and 39.3% in 1966, the allocation during the period 1961-1963 was above the estimated proportional allocation (Table 6.4). b) The allocation to current expenditure, particularly after 1959, when the oil revenue froze at its 1958 level for some years, might also have accounted for a sum in excess of the estimated one. These are the main limitations on our estimate of the allocation of the state oil revenue during the period 1950/52 and 1956/65

CHAPTER VII

UAE: THE ALLOCATION OF THE OIL REVENUE

Of the seven Emirates which comprise the UAE, only two, Abu Dhabi and Dubai produced oil in commercial quantities before the end of 1970. Abu Dhabi has produced oil since 1962 and Dubai since 1969. Other Emirates, however, received payments from the operating oil companies. These payments were small, estimated at £1.6 million in 1969.⁽¹⁾ The UAE was formed in 1971; before that time, although these Emirates had much in common, they did not constitute a state. Therefore our presentation in this chapter will introduce each of the two oil-producing Emirates separately.

As Dubai has neither a central budget nor any other sort of central account for public revenue and expenditure, it is difficult to examine in detail the allocation of oil revenues in this Emirate. Hence, this chapter will be mainly concerned with Abu Dhabi and falls into three parts: an introduction, the public revenue, expenditure and reserve of Abu Dhabi State, and the allocation of the oil revenue in Abu Dhabi.

Part One: Introduction

This introduction will be concerned with the period during which no central account of public revenue and expenditure was produced. This period consisted of five years in Abu Dhabi (1962-1966), and of two years, 1969-1970 in Dubai.

A - Abu Dhabi

Since the commencement of oil production in 1962, the Ruler of Abu Dhabi has received an increasing revenue from this source. The total oil revenue received up to the end of 1970 amounted to BD 396 million, of which 81.9% was received after 1967, the period for which an annual public budget was produced. The period prior to 1967 accounted for BD 73 million or 18.1% of the total oil revenue received (see App. 3.4). This period mostly

represented the Rule of Sheikh Shakhbut, who was succeeded by Sheikh Zaid on 6th August, 1966.⁽²⁾ During 1962-1966 the development of public expenditure did not reflect the revenue available for the Emirate, and except for a few improvements in the public administration and public utilities there was very little change.⁽³⁾ There is very little information which might help us estimate public expenditure during this period. However, information can be given concerning changes in some social and economic indicators whose movement is usually much influenced by public expenditure.

TABLE 7.1

SOME SOCIAL AND ECONOMIC INDICATORS IN ABU DHABI, 1965-1968

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Number of Schools	5	5	9	21
Number of Students	528	808	2223	4900
Number of Teachers	33	46	77	223
Customs Revenue (000 BD)	N.A.	73	239	511
Tonnage Imported (000 Ton)	20	36	144	244
Taxable Imports (000 BD)	N.A.	2934	9556	20471
Allocation to (TSDF)* (000 BD)	266	666	1820	338
Oil Revenue (Million BD)	15.7	47.4	48.6	72.8

* TSDF: Trucial State Development Fund.

Source: SBA, 1969 (pp.34, 40 and 45), 1969 and 1970; Trucial State Council, Report on the Trucial States Development Fund, 1970 p.19.

From the table we can see the change in these indicators in 1967 compared with their level of 1966. Thus, while the oil revenue increased by only about 4%, the number of schools increased by 80%, students by 165%, tonnage imported by 400% and the allocation to the Trucial State Development Fund was about three times greater than that of 1966. The new services supplied by the government after 1967 and the heavy expenditure on capital schemes are also noteworthy. These changes could indicate how low the level of public expenditure prior to 1967 was in comparison with the revenue available to the state. In that case we would expect the

building of a considerable reserve fund; but as government sources revealed, the state reserve at the end of 1967 was only BD 10.5 million,⁽⁴⁾ or a sum equal to less than one quarter of the 1966 oil revenue. The only other recipient of the oil revenue, apart from the government's public expenditure and the reserve fund, is the privy purse of the Ruler

However, accurate knowledge of the allocation of the oil revenue during this earlier period is denied us. In consequence, despite the fact that this period consisted of five out of the nine years during which the oil royalty and taxes were received, and accounted for 18.1% of the total oil revenue received, we have no choice but to ignore it, hoping that our examination of the remaining 81.9% of the total oil revenue received during the period studied will suffice to indicate the allocational pattern.

B - Dubai

Dubai Emirate has produced oil in commercial quantities since September, 1969. The estimated oil revenue was QDR 17 million and QDR 137 million for 1969 and 1970 respectively (Table 3.5). The period is very short and very difficult to examine. However, almost all the Emirates passed through such a period before organising their administrations and establishing new departments through which the oil revenue is channelled. The Rulers, in this transitional period, treated the oil revenue as they were in the habit of treating other revenue such as customs duties. If they had central government budgets, then expenditure would be allocated through these budgets - as was the case in Bahrain and Kuwait (1947 budget) - while if they had no budgets, revenue was considered as private income and very little of it was used for public services, as was the case in Abu Dhabi. No central account of public revenue and expenditure was produced and no grant or other allocation from the Ruler was made available to the Municipality of Dubai in 1969-70, although the Municipality provided the Emirate with almost all the services usually provided by other

departments, as may be seen from the Municipality budget below.

TABLE 7.2

DUBAI MUNICIPALITY BUDGET, 1969 and 1970

(000 QDR)

<u>Expenditure</u>	<u>1969</u>	<u>1970</u>	<u>Revenue</u>	<u>1969</u>	<u>1970</u>
Administration	276	324	Fees and duties	3 133	3,900
Engineering Dept.	1,561	2,648			
Public Health	989	1,377	Public Health	45	59
Public Transport	81	83	Public Transport	106	61
Information and Publishing Services	68	181	Information and Publishing Services	19	89
Fire Services	140	194	Other Taxes	1,143	1,558
Total	<u>3,115</u>	<u>4,787</u>		<u>4,446</u>	<u>5,667</u>

Source: Dubai Municipality, 'Al-Mizanih Al-Aamih' 1969; Dubai Municipality, 'Kashf Al-Mazanih Al-Aameh Al-Taqdiryh', 1970.

As may be seen from Table 7.2 the Municipality in Dubai provided many services and collected fees and taxes in excess of its expenditure needs. As some 85% of the population of Dubai lived in the Municipality, as considerable capital and current expenditure for various services had been provided by the Trucial State Council Development Office,⁽⁵⁾ and since moreover the Emirate revenue from customs in 1969 and 1970 can be estimated at QDR 32.5 million and QDR 34 million respectively, we may assume that very little, if any, of the Emirate's oil revenues were used to finance public expenditure. Therefore until the Ruler set up a modern and central administration and drew the line between the public purse and his privy purse, the oil revenue would have been considered as his private income without any restriction, and it would have been up to him to use it as he thought best, the result depending greatly on his personal attitude.

In this introduction we have tried to give some indication of how the oil revenue in Abu Dhabi and Dubai was used during the periods when no central government account of public revenue and expenditure was produced. However, although up to 1970, Dubai did not publish a budget or

any other information which might indicate the allocational pattern of its oil revenue, Abu Dhabi has produced and published an annual budget since 1967. The examination of these budgets will form Part Two of this chapter.

Part Two: Abu Dhabi State Public Revenue, Expenditure and Reserve, 1967-1970

The main source for our examination will be the budgets, the oil revenue (App. 3.4), and the reserve fund account. However, two main difficulties face us. The first is that the official information does not mention payments received from oil companies other than the producing ones. And consequently the published state oil revenue is always less than the actual oil revenue by the amount paid by non-producing companies. These payments seem to have been received by the Ruler directly and only later were they transferred to the finance department where they are mentioned under the heading 'Grants from H.H. the Ruler'. The second difficulty was that although the published budgets of 1967 and 1968 mentioned an allocation to the Head of the State and also mentioned the total oil revenue received from the producing companies, the 1969 and 1970 budgets mentioned the net oil revenue received by the finance department and nothing was said about the allocation to the Head of State. To overcome these difficulties we assume that all oil revenue received by the state* and not transferred to the budget was allocated to the privy purse of the Ruler. This will be assumed as a gross allocation to the Ruling family, while the net allocation needs to be reduced by the amount granted to the budget by the Ruler. By using this method we arrive at a net allocation to the Ruling family equal to 25.0% of the total oil revenue received during the period 1967-1970. If this is compared with the BD 31 million or 25.6%, allocated to the Ruler out of the BD 121 million

* We have considered only the oil revenue received from the main producing companies and have excluded the estimated payment of other oil companies (see Notes on App. 3.4).

oil revenues received during 1967 and 1968, according to the budgets,⁽⁷⁾ then we realise how close our estimate must be in this case.

Calculated on these premises the public revenue, public expenditure and public reserve of Abu Dhabi state was as follows:

A - Public Revenue

The total revenue received during the period studied, 1967-1970, is shown below in Table 7.3.

TABLE 7.3

ABU DHABI STATE: TOTAL REVENUE RECEIVED, 1967/70

(000 BD)

<u>Source</u>	<u>Amount</u>	<u>Percentage</u>
Oil Revenues	322,869	95.8%
Social Services	47	-
Law and Order	355	0.1%
Public Utilities	782	0.2%
Communications	930	0.3%
Grants from the Ruler	4,460	1.3%
Administration and others	7,252	2.1%
Total	<u>336,695</u>	<u>99.9%</u>

Source: App. 7.1.

The main feature of Abu Dhabi state public revenue as shown in Table 7.3 is the overwhelming dependence on the oil revenue, a dependence even greater than is the case in other Emirates. Total revenue derived from other sources including grants from the Ruler accounted for only about 4% of the total revenue received during the period studied. As for structural change, there was very little. Revenue derived from the government departments as fees, duties, and interest on investment, including oil revenues and grants from the Ruler, amounted only to 2.7% in 1967, 2.9% in 1968, 2.5% in 1969 and 3.0% in 1970 (see App. 7.1).

B - Public Expenditure

During the period studied total public expenditure was allocated as follows:

TABLE 7.4ABU DHABI STATE: PUBLIC EXPENDITURE, 1967/1970(000 BD)

<u>Current Expenditure</u>	<u>Amount</u>	<u>Percentage</u>
Social Services	11,915	3.5%
Law and Order	45,348	13.6%
Public Utilities	5,047	1.5%
Communications and Transport	1,642	0.4%
Administration and others	53,620	16.1%
Total Current Expenditure	<u>117,572</u>	<u>35.4%</u>
<u>Capital Expenditure</u>		
Education	3,289	0.9%
Health	2,691	0.7%
Housing	14,086	4.1%
Social Affairs	420	0.1%
Industry (Public Utilities)	27,319	8.0%
Communications and Transport	38,171	11.2%
Agriculture	6,128	1.8%
Municipality	29,792	8.5%
Administration and others	7,970	2.3%
Total Capital Expenditure	<u>128,866</u>	<u>38.3%</u>
<u>Privy Purse (Ruling Family)</u>	<u>85,320</u>	<u>25.7%</u>
Grand Total	<u>331,758</u>	<u>99.9%</u>

Source: Apps. 7.2.5 and 7.2.6.

Table 7.4 shows the breakdown of the total expenditure allocated to the different services. The structural change of these expenditures over the period studied is shown overleaf in Table 7.5.

TABLE 7.5

ABU DHABI: STRUCTURAL CHANGE OF THE PUBLIC EXPENDITURE, 1967-1970

(PERCENTAGES)

<u>Year</u>	<u>Capital Exp</u>	<u>Current Exp.</u>	<u>Privy Purse</u>
1967	35.9%	35.7%	28.4%
1968	42.5%	34.3%	23.2%
1969	42.4%	33.3%	24.3%
1970	33.3%	38.8%	27.9%

Source: App. 7.2.6.

From Tables 7.4 and 7.5, and App. 7.2.6 we may illustrate the main features and structural changes of the public expenditure of Abu Dhabi state in 1967-70. However, before doing so we must stress the shortness of the period studied and the fact that it was on the whole a boom period which may not indicate clearly the future trends and patterns of public expenditure.*

Total Public Expenditure

A total of BD 332 million was spent during the four years studied. The annual expenditure more than doubled in 1970 compared with 1967. Expenditure rose from BD 44 million in 1967 to BD 100 million in 1970.

Capital Expenditure

Capital Expenditure accounted for the greater part of public expenditure in Abu Dhabi. Its share was 38.3% of the total. In 1967 its share was 35.9%, increasing to 42.5% in 1968 and to 42.4% in 1969, but dropping to only 33.3% in 1970. This last change in the position of this item of expenditure may reflect the long term trend which has been experienced in other Emirates (see Chapter VIII). However, the annual allocation increased from BD 16 million in 1967 to BD 33 million in 1970.

* This early period in Abu Dhabi almost typifies the early period of heavy capital expenditure on infrastructure which we find at the equivalent time in each of the Emirates.

Current Expenditure

Current expenditure accounted for 35.4% of total expenditure during the period studied. The annual allocation increased from BD 16 million in 1967 to BD 39 million in 1970. Its share of the total also increased steadily from 1968 onwards, accounting for 38.8% in 1970, compared with 35.7% in 1967. This change may again indicate the general trend in the pattern of the Emirates' public expenditure.

Allocation to the Privy Purse of the Ruler

The allocation to the privy purse of the Ruler is here taken as the gross allocation without allowing for the deduction of the grant allocated by the Ruler to the state. The net allocation to the privy purse will be shown later in this chapter. Thus the gross allocation to the privy purse of the Ruler accounted for 26.2% of total expenditure. The annual allocation to this item increased from about BD 13 million in 1967 to about BD 28 million in 1970.

C - Public Reserve Fund

Little information has been published about this account, indeed except for the information published in 1969 about its balance at the end of December, 1967 and 1968, nothing has been mentioned about it. We are forced, therefore, to rely on estimates. The shortness of the period and our examination of the public revenue and expenditure, together with the published balance of this account for 1967 and 1968, provide a reasonably sound basis for the estimate given overleaf in Table 7.6.

TABLE 7.6

ABU DHABI STATE. ESTIMATED MOVEMENT OF THE PUBLIC RESERVE FUND, 1967-70

(000 BD)

<u>Year</u>	<u>Opening Balance</u>	<u>Surplus or Deficit</u>	<u>Closing Balance</u>
1967	10,502(a)	7,484(b)	17,986
1968	17,986	- 3,917(b)	14,069
1969	14,069	-12,767(b)	1,302
1970	1,302	14,137	15,439

Source: (a) SBA, 1969, p.59; (b) Table 7.7

The breakdown of the reserve fund account is not available except for 1967 and 1968, where the information indicates that the account balance of BD 13.2 million on 31/12/1968 was invested as follows:

Abu Dhabi Fund Investment Board BD 6 million, loans to foreign governments BD 6 million and local investment BD 1.2 million.

Part Three: Allocation of the Oil Revenue in Abu Dhabi, 1967-70

This part of the chapter will be presented in three sub-sections.

(A) Proportional contribution of the oil revenue spent. (B) The allocation of the total oil revenue. (C) The structural change of the allocational pattern of the annual available oil revenue.

A - Proportional Contribution of the Oil Revenue Spent (PCORS)

The PCORS to cover the total gross deficit resulting from the gap between departmental self-revenue and expenditure is shown overleaf in Table 7.7.

TABLE 7.7

ABU DHABI: PROPORTIONAL CONTRIBUTION OF THE OIL REVENUE SPENT, 1967-1970

(000 BD) AND PERCENTAGES

Year	(1) An. Oil Revenue	(2) Oil Revenue Spent	1-2 = (3) Surplus or Deficit	(4) Total Deficit	PCORS $\frac{3}{4}$ %
1967	48,617	40,737	7,484	41,148	99
1968	72,800	76,717	- 3,911	76,717	100
1969	90,875	103,642	-12,767	103,642	100
1970	110,577	96,440	14,137	96,440	100
	<u>322,869</u>	<u>317,536</u>	<u>4,937</u>	<u>317,947</u>	

Source: Apps. 7.1, 7.3.1, 7.3.2 and 7.3.3.

From Table 7.7 we can see that almost all deficits in the various items of expenditure were met by the oil revenue, which was indeed almost the only source from which the deficit could be made up. The only exception was in 1967, when the communication and transport services produced a surplus over their current expenditure. However, after 1968 none of the main expenditure groupings was able to produce revenue sufficient to cover even its current expenditure (see App. 7.3). Thus out of a gross deficit of BD 317.9 million, BD 317.5 million was met by oil revenue (annual oil revenue plus any sum drawn from the reserve fund). This illustrates the extent of the dependence of all the public services on the oil revenue, not only for their capital expenditure but also for the greater part of their current expenditure.

B - The Allocation of the Total Oil Revenue

The allocation of the total oil revenue received by the state in the period 1967/70 is shown overleaf in Table 7.8.

TABLE 7.8

ABU DHABI STATE: ALLOCATION OF TOTAL OIL REVENUE, 1967/70

(000 BD)

<u>Allocation</u>	<u>Amount</u>	<u>% of Grand Total</u>
<u>Current Expenditure</u>		
Social Services	11,863	3.7%
Law and Order	44,974	13.9%
Public Utilities	4,263	1.3%
Communication and Transport	727	0.2%
Administration and others	46,249	14.3%
Total Current Expenditure	<u>108,076</u>	<u>33.6%</u>
<u>Capital Expenditure</u>		
Social Services	20,450	6.3%
Public Utilities	27,276	8.5%
Communication and Transport	38,161	11.8%
Agriculture	6,108	1.9%
Municipality	28,752	8.9%
Administration and others	7,959	2.5%
Total Capital Expenditure	<u>128,706</u>	<u>39.9%</u>
Ruling Family	80,753	25.0%
Reserve Fund	<u>4,937</u>	<u>1.5%</u>
Grand Total	<u>322,472</u>	

Source: Apps. 7.2.5, 7.3.5 and 7.3.6 and Table 7.7

Fig. 7.1 shows the development of the allocation from the annual available oil revenue to the different items of expenditure and the reserve. From the figure, Table 7.8 and App. 7.3.4, the following features emerge:

Total Allocation

The total oil revenue received during the period studied was BD 322 million. Of the total, capital expenditure claimed the principal share of 39.9%, followed by current expenditure's 33.6% and the allocation to the

The Allocation of the Annual Available Oil Revenue in Abu Dhabi - 1967-70.

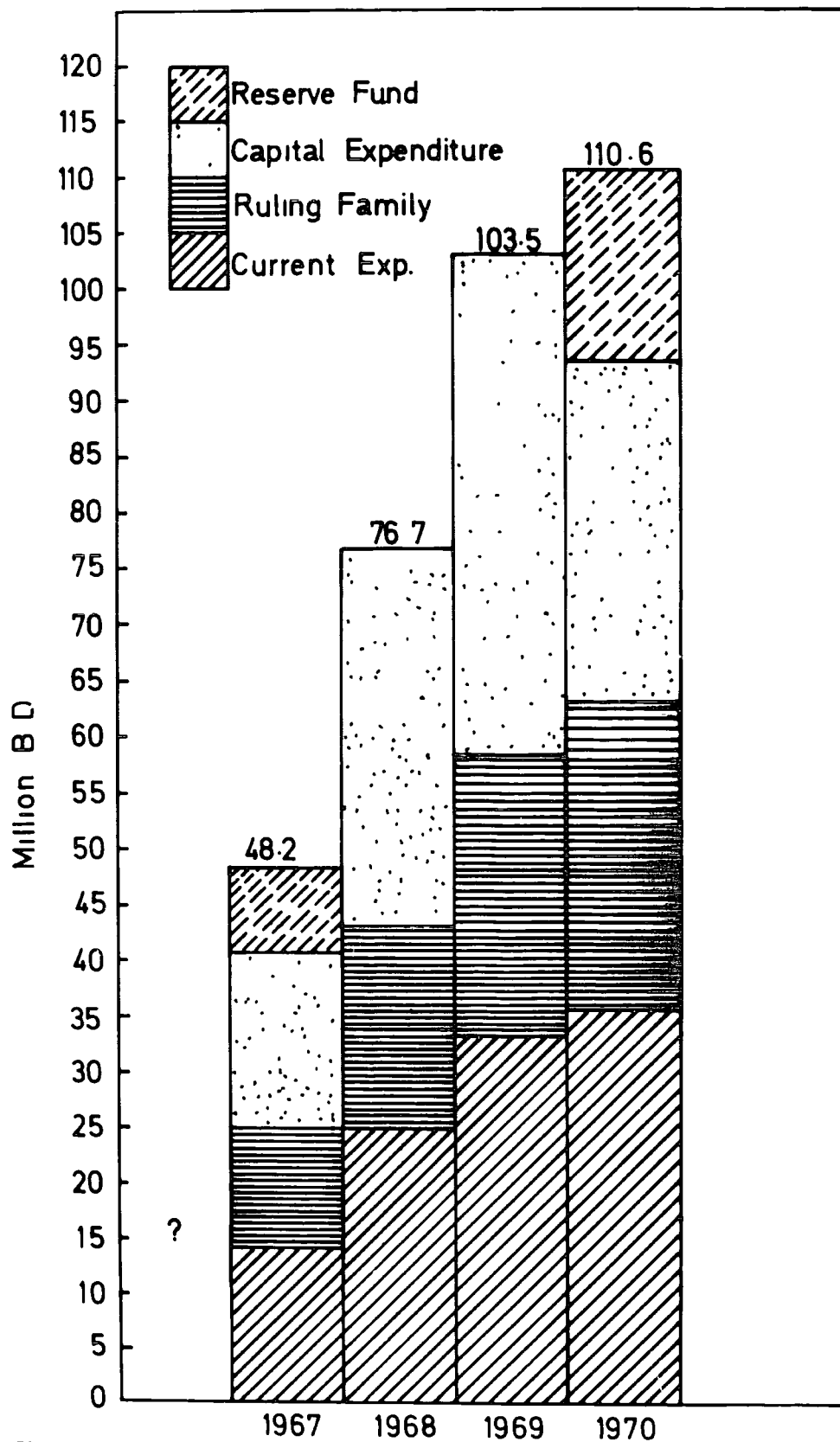


FIG 71

privy purse of the Ruler, which accounted for 25%. The net allocation to the reserve fund was only 1.5% of the total oil revenue received.

The annual oil revenue increased from BD 48.6 million in 1967 to BD 110.1 million in 1970.

Capital Expenditure

The total allocation to this item was BD 129 million. This allocation increased from about BD 16 million in 1967 to BD 45 million in 1969 and later dropped to BD 33 million. Its proportional share was 32.8% in 1967, 43.7% in 1968, 43.3% in 1969, but dropped to 30.1% in 1970. The functional allocation of capital expenditure in Abu Dhabi is given in clear and detailed form compared with the other Emirates. The functional allocation of total capital expenditure for the period studied was as follows: 15.8% to the social services; 21.3% to the public utilities; transport and communication 29.6%; agriculture 4.8%; municipality 22.3% and administration and others 6.2%.

Current Expenditure

The total allocation to current expenditure amounted to BD 108 million. The annual allocation showed a steadily increasing trend, reaching BD 35 million in 1970 compared with BD 15 million in 1967. The proportional share also increased from 29.7% in 1967 to 31.9% in 1970. The functional allocation of current expenditure was as follows: 11.0% social services; law and order 41.6%; public utilities 3.9%; transport and communication 0.7% and administration and others 42.8%.

Ruling Family

The total sum allocated amounted to BD 81 million. The net allocation increased from BD 10.6 million in 1967 to BD 27.9 million in 1970. The net proportional share also increased from 21.9% in 1967 to 25.2% in 1970. The functional allocation of this item is not known. However, this allocation is received by the Ruler, while no other allocation is made through the budget to other members of the Ruling family.

Reserve Fund

The net total allocation to the reserve fund amounted to BD 5 million. This allocation tended to fluctuate. In fact no special attention was given to building a state reserve, and thus the allocation to the reserve fund was determined by the needs of other allocations.

C - Structure Change in Pattern of Allocation

The changing trends of the allocational pattern of the annual available oil revenue are shown below:

TABLE 7.9

ABU DHABI STATE: CHANGES IN THE ALLOCATIONAL PATTERN OF THE ANNUAL
AVAILABLE OIL REVENUE, 1967-70 (PERCENTAGES)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Current Expenditure	29.7	32.5	32.6	31.9
Ruling Family	21.9	23.8	23.1	25.2
Capital Expenditure	32.8	43.7	44.3	30.1
Reserve Fund	15.5	-	-	12.7

Source: App. 7.3.4.

As may be seen from Table 7.9 the change in the allocational pattern of the oil revenue was not steady. The allocation to the reserve fund showed considerable fluctuation. The main clearly discernible trend is the tendency of the allocations to the privy purse and current expenditure to gain an increasing share of the total oil revenue. These allocations accounted for 51.6%, in 1967, while their share in 1970 was 57.1%. While the period studied is very short and it is consequently too early to discover the long term trends, it might be said that the increasing preponderance of the allocation to current expenditure was experienced in almost all the Emirates.

These are the main points concerning the allocation of the oil revenue of Abu Dhabi state. Other important indications may be found in the detailed appendices attached to the chapter.

In this chapter, we have dealt with public revenue, public expenditure and the public reserve, and it is upon these that we have based our examination of the allocation of the oil revenue. The factors determining the patterns of allocation and their impact on economic development will be discussed later in the study.

NOTES - CHAPTER VII

- (1) MEDD, 'Economic Survey of the Northern Trucial States, p.89.
- (2) Al-Batrol wa Al-Sinah, 1972, p 133.
- (3) For details see: Mann, C., op.cit., pp.114-118.
- (4) SBA, 1969, p.59 This balance is considered to represent the account balance in January 1967 for two reasons. First, the balance of this account at the end of 1968 was about BD 3 million more than at the end of 1967, and since we know that the 1968 budget was in deficit and must have drawn from this account to cover its deficit, we may assume that the sum mentioned as representing 31/12/1967 also represents the opening balance of the account for 1967. Second, since the payment of the oil revenue for the last quarter would not have been received before March 1968, in accordance with usual practice, the budget surplus would not be realised at the end of 1967. Therefore, the balance of the account at the end of 1967 should be approximately the same as the opening balance of the year with exception of the interest gained during the year.
- (5) Trucial State Council, Report on the Trucial States Development Fund, 1970, pp.19-30. See also: Trucial State Council 'The Official Bulletin of the Development Office', Dec. 1971, p.3.
- (6) Estimated according to the 1966 custom revenue/import value ratio. See MEDD, 'Economic Survey of the Northern Trucial States' p.6; Ports and Customs Department, Dubai, Statistical Report, 1970, p.21.
- (7) SBA, 1969, pp.57-58.

CHAPTER VIII

FACTORS DETERMINING THE ALLOCATION OF THE OIL REVENUE

This chapter falls into three parts 1) a summary and comparison of the findings of Chapter IV to VII, i.e. of the allocational patterns of the oil revenue; 2) a discussion of the factors which tend to channel the oil revenues towards particular items of expenditure, and 3) an attempt to explore briefly the factors determining the fundamental policies underlying the allocation of the revenue in the Emirates.

Part One: The Allocation of the Oil Revenue. A Comparison

A - The Position of the Oil Revenue in the Public Revenue

The oil revenue provides the Emirates with the greater part of their public revenues. Ever since the oil revenue started, it has constituted a very high proportion of the total public revenue. In Bahrain, when the first oil royalties were received in 1935, the oil revenue then amounted to 44.2% (App. 4.4) of the total public revenue. In Kuwait, in 1947, this proportion was 82.5% (Table 5.1). In the other Emirates the proportion was more than 90%. Since then, this source of revenue has assumed an increasingly important position. In 1970 the share of the oil revenue in the public revenues of each of the Emirates was as follows: Bahrain 78%; Kuwait 91.4% (1969/70); Qatar 90.1%; and Abu Dhabi 96.9%. The overall percentages for the entire periods studied in each of the Emirates were as follows: Bahrain 75.8% (1947/48//1970); Kuwait 91.8% (1952//1970/71); Qatar 92.0% (1953/55 and 1966/70); and Abu Dhabi 95.8% (1967/70).

Some of the Emirates have been trying to diversify the sources of their public revenue and increase the proportional contribution of the non-oil revenue. This has been the case particularly when the growth rate of the oil revenue has decreased or when a government has tried to lessen its over dependence on the oil revenue. However, despite

these attempts, none of the Emirates has been able to alter its overwhelming dependence on the oil revenue. In fact this dependence has increased. Taking Bahrain, which has tried hardest, as an example, we find that the proportional contribution of the oil revenue increased from 60% in 1950 to 75% in 1960, and by 1970 it had increased again to 78% (App. 4.1). There are two main reasons for this: a) the rapid growth of the oil revenue during the period studied; b) the necessity of dramatic change if the economic price of the goods and services produced by the public sector were to be recovered, and taxation of the national economy were to be introduced. These changes might well affect the policy governing allocations to the Ruling families, the land purchase schemes, and even some of the transfer payments and the policies controlling employment in the public sectors.

B - The Allocation of the Total Oil Revenues

The pattern according to which each of the Emirates has allocated its total oil revenue during the periods studied is shown in Fig 8.1.

From this figure the following major differences can be noted:

B1 - Current Expenditure accounted for about 47% and 45% of the total oil revenue received in Kuwait and Bahrain respectively; about 34% of the revenue received in Abu Dhabi, and about 20% of the revenue received in Qatar. The allocation to current expenditure was the largest of all the allocations made in Kuwait and Bahrain; in Abu Dhabi it ranked second to capital expenditure; while in Qatar it ranked third, preceded by allocations to the Ruling family and the reserve fund. The breakdown of current expenditure in each of the Emirates is shown overleaf in Table 8.1.

The Allocational Patterns of the Emirates' Total Oil Revenues

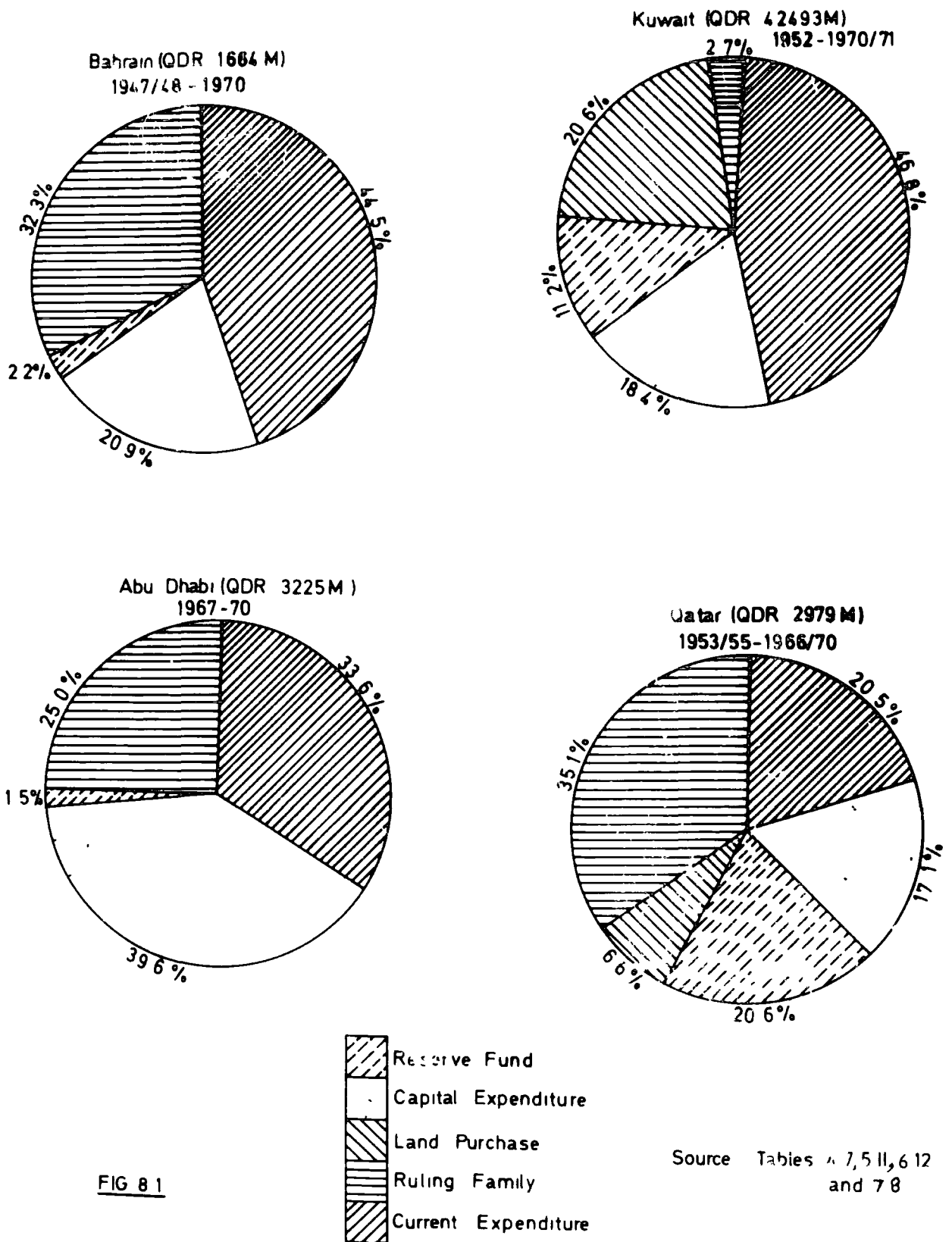


FIG 8 1

Source Tables A 7, 5 II, 6 12 and 7 8

TABLE 8.1

THE BREAKDOWN OF THE EMIRATES' TOTAL OIL REVENUE ALLOCATION TO
CURRENT AND CAPITAL EXPENDITURE BY FUNCTIONS^x

(MILLION QDR) AND PERCENTAGES

<u>Allocation</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
<u>Current Expenditure</u>	<u>741</u>	<u>19,937</u>	<u>610</u>	<u>1,081</u>
Social Services	65.7%	31.8%	53.7%	11.0%
Law and Order	26.7%	22.9%	22.3%	41.6%
Transport & Comm.	2.9%	1.0% [∅]	2.0%	0.7%
Public Utilities	1.6%	3.2%	15.7%	3.9%
Administration & others	<u>3.1%</u>	<u>41.1%</u>	<u>6.3%</u>	<u>42.8%</u>
<u>Capital Expenditure</u>	<u>349</u>	<u>7,820</u>	<u>510</u>	<u>1,287</u>
Public Works ^{xx}	32.2%	56.2%	31.2%	-
Public Utilities	25.4%	20.4%	22.0%	21.3%
Social Services	16.5% [*]	**	11.1%	15.8%
Transport & Comm.	17.9%	6.1%	14.3%	29.6%
Others	<u>7.5%</u>	<u>17.3%</u>	<u>21.0%</u>	<u>33.3%</u> ^{∅∅}

x For the periods studied.

xx Including all or part of social services, law and order, transport and communication and administration's capital expenditure.

* Housing only.

** Included in public works expenditure.

∅ Excluding current expenditure on ports.

∅∅ Including expenditure on the municipality, agriculture and the administration.

Source: Tables 4.7, 5.11, 6.12 and 7.8.

The Emirates also differ clearly in the detailed allocation of the oil revenue allotted to current expenditure.

Bahrain, for example, uses this portion of its oil revenue mainly to finance the current expenditure of the social services (65.7%) and the services maintaining law and order (26.7%). The pattern in Qatar is similar, except that Qatar has allocated a considerable proportion to make-up the deficit caused by the current expenditure of the public utilities. The

proportion of the revenue allotted to this was at its highest in this Emirate, where it reached 16.6%, compared with only 1.6% in Bahrain, 3.2% in Kuwait, and 3.6% in Abu Dhabi.

In Kuwait, though the allocation to the social services represented about one third, it was exceeded by expenditure on 'Administration and others', which accounted for 41.1% of the allocation to current expenditure. The allocation to the services for maintaining law and order (22.9%) was very much lower than the proportion allocated in Abu Dhabi, and approximated to that of Bahrain and Qatar.

Abu Dhabi devoted the greater part of its current expenditure to financing the 'Administration and others' (42.8%). This proportion was higher than in any of the other Emirates. Another important finding in this breakdown is that Abu Dhabi devoted a very high proportion of its current expenditure to the services for maintaining law and order (including defense, as in the other Emirates). This proportion was 41.6% compared with 26.7% in Bahrain, 22.9% in Kuwait and 22.3% in Qatar.

B2 - The Allocation to Capital Expenditure represented about one fifth of the oil revenue in the three Emirates which produced oil before 1950. These Emirates were Bahrain 20.9%, Kuwait 18.4% and Qatar 17.1%. Abu Dhabi allocated 39.9% of its oil revenue to capital expenditure, which made her capital expenditure/oil revenue ratio the highest among the Emirates, reaching nearly twice that of the other Emirates. The breakdown of this expenditure is made difficult by the absence of information concerning the functional allocation of public works department expenditure^{*}

* One can trace the breakdown of expenditure through examining the public works department's budgets, but though this is possible for some years, it is very difficult to find all the information needed concerning the functional allocation of public works department expenditure for most of the years (particularly the 1950's). However, in all the Emirates, except Abu Dhabi, capital expenditure on education, health, services maintaining law and order and public buildings were included in this item. In Kuwait roads, ports and housing were also included, while in Qatar and Bahrain roads were included.

in most of the Emirates, as the budgets and closed accounts of the budgets show. However, as Table 8.1 has indicated, all the Emirates allotted between two fifths and one quarter of their capital expenditure to the public utilities. As for the functional allocation of other capital expenditure we may give the following brief account (Table 8.1):

Bahrain allocated 17.9% of its capital expenditure to transport and communications, with the sea port as the main recipient. Housing accounted for 16.5%, and public works, including capital expenditure on education, health, public buildings and roads, accounted for 32.2%.

Qatar allocated 11.1% of its capital expenditure to the social services, including housing. Transport and communications which included the sea port and the airport but did not include roads, accounted for 14.3% of total capital expenditure. Public works, including roads, sewage and other engineering projects and equipment, accounted for 31.2%. Administration and others accounted for 21.0%.

Kuwait, more than half the capital expenditure in Kuwait was concentrated in the public works department, which was responsible for the construction not only of roads, but also schools, hospitals, houses, ports, airports and many other construction works. The allocation to transport and communications represented mainly the capital expenditure of the post, telephone and telegraph ministry.

Abu Dhabi, capital expenditure is allocated on a functional basis. Thus no independent allocation was made to the public works department. However, as shown in Table 8.1 the administration and others item (mainly public buildings and the municipality works) received 33.3%, transport and communications (mainly roads, ports and airports) received 29.6% and social services, including housing, received 15.8%.

B3 - Allocation to Land Purchase, only Kuwait and Qatar among the Emirates allocated considerable sums to this item. Kuwait is the pioneer in this field. It started in 1952, and by 1970 more than one fifth of its oil

revenue was channelled through this item of expenditure. Qatar has followed suit, particularly since the late 1960's, when an annual sum was allocated to land purchase schemes. During the period studied Qatar allocated 6.6% of its oil revenue to this item of expenditure.

B4 - Ruling Families, allocation to the Ruling families accounted for a considerable proportion of the states' oil revenue. During the period studied Bahrain and Qatar each allocated about one third of their oil revenue to the Ruling family, Abu Dhabi allocated one quarter, while Kuwait allocated the lowest proportion to the Ruling family - only 2.7% of the total oil revenue. However, the functional allocation of this item of expenditure in the various Emirates is not known. As our discussion has shown earlier, in Bahrain and Abu Dhabi it was allocated to the privy purse of the Ruler, while in Qatar it used to be divided between the privy purse of the Ruler and the other members of the Ruling family. As Table 6.12 has shown, about 48% of the sum allocated in Qatar went to the privy purse of the Ruler, while 52% was distributed among the other members of the Al-Thani family.

In Kuwait prior to 1963/64 the allocation was made to the Ruling family as a whole and, according to the closed account of the budgets, there was no fixed allocation to the Ruler. However, since 1963/64 an annual allocation to the Head of the State has been specified.

B5 - Allocation to the Reserve Fund, as Fig. 8.1 shows Qatar allocated the highest proportion to the reserve fund* (20.6%). Kuwait allocated 11.2%, Bahrain 2.2% and Abu Dhabi 1.5%. Almost all the Emirates except Abu Dhabi allocated higher proportions to the reserve fund in the early years of their oil production, particularly during the early 1950's. However, in the late 1960's a very low proportion of the oil revenue was

* However, if we consider the total liquid assets belonging to the Kuwait government at the end of 1970 as completely allocated from oil revenue, the reserve fund account will represent 24.1% of the total oil revenue received (Table 5.9 and App. 3.2).

allocated to the reserve funds in most of the Emirates and some of them even started to draw on what they had saved in the 1950's, almost all the public reserve funds in the Emirates were invested abroad, mainly in bank deposit accounts and other foreign financial investments. Since the beginning of the 1960's Kuwait has been trying to invest some of its reserve funds locally, and by 1970 most of the Emirates were also trying to invest in the shares of local companies and other types of investment available in the local financial and industrial markets.

C - Changes in the Allocational Patterns

As mentioned earlier the oil revenues in each of the Emirates were divided into four or five principal allocations. The first three of them are in the nature of current and transfer expenditure. These are the governments' current expenditure, allocations to the Ruling family and to the land purchase schemes. The second category included the allocations to capital expenditure and the reserve fund. Fig. 8.2 shows that the long-term trend in the allocational patterns of the Emirates was almost steadily against capital expenditure and the reserve funds. This trend occurs despite the ever-increasing oil revenues of these Emirates. For some years, particularly the late 1960's, even these increasing oil revenues were not enough to cover public expenditure in some of the Emirates and the need arose to use the state reserve fund to balance the governments' budgets. The main features of this trend were the increasing proportion allocated to current expenditure and the decreasing proportion allocated to the reserve fund. These two features were noted in all the Emirates (see Fig. 8.2 and our detailed presentation of the change in the allocational pattern in each of the Emirates, Figs.4.5, 5.5, 6.4 and Table 7.9).

The allocation to capital expenditure decreased also, and in the late 1960's the proportional allocation to capital expenditure was below that of the early and mid 1950's. The allocations to the Ruling families

The Trends in the Allocational Pattern of the Emirates' Annual Available Oil Revenue (Percentage)

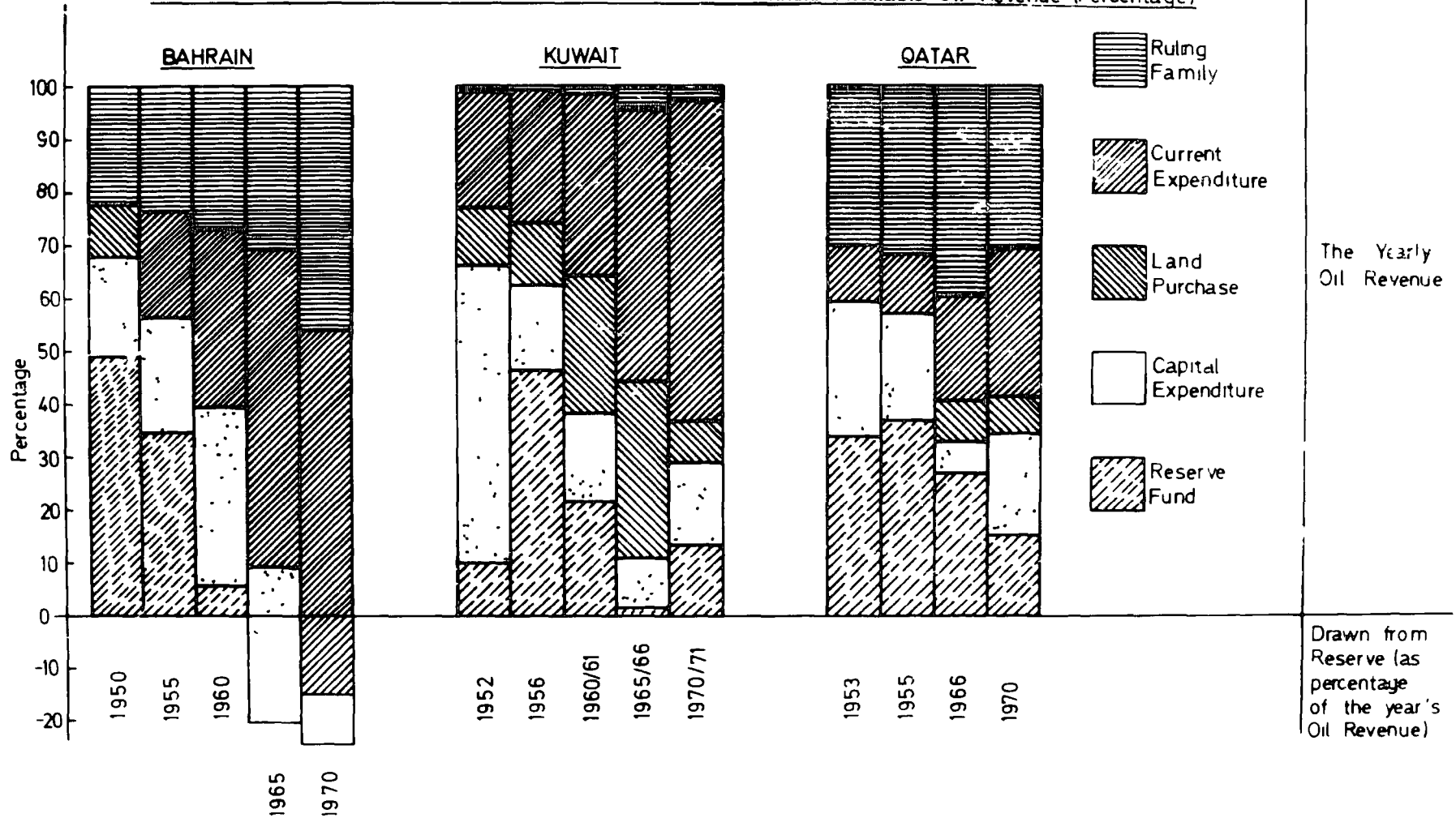


FIG 8 2

and to the land purchase schemes have shown an overall increase in some of the Emirates compared to those of the early 1950's. However, there was a proportional decrease during the late 1960's towards the very end of our period of study, particularly in Kuwait and Qatar.

Before ending this part of the chapter, it is worth mentioning some notable statistical evidence of correlation between annual oil revenue and total annual allocation to each item of the main public expenditure and reserve. These correlations expressed in terms of correlation coefficient 'r' for Bahrain (23 years) and Kuwait (18 years) are shown below.

	<u>Current Exp.</u>	<u>Capital Exp.</u>	<u>Ruling Family</u>	<u>Land Purchase</u>	<u>Reserve</u>
Kuwait	0.95	0.80	0.72	0.45	-0.22
Bahrain	0.96	0.66	0.99	-	0.06

These findings again prove the very high correlation between the oil revenue and the current expenditure and the weak correlation between the oil revenue and the allocation to the reserve fund accounts. Also they indicate some differences between the two exemplified Emirates, which can be explained by social and political developments in each of them. The significance of these correlations is referred to again in Chapter X.

These are the main findings of the detailed studies presented in Chapters IV-VII. We next look to the factors which have influenced allocation to the different items of expenditure and the reserve fund.

Part Two: Factors which Influenced the Distribution of the Oil Revenues to Individual Allocations

In this part of the chapter our discussion will be concerned with the factors which have affected the share allocated from the oil revenue to the principal items of public expenditure and the reserve funds. These factors, in fact, are closely inter-related, and are consequent upon the main factors which have determined the broad-based financial policies of

the Emirates.

Before proceeding with our discussion of these factors it is necessary to emphasise that what is discussed here is not the allocations from the total public revenue, but only the distribution of the state oil revenue among the individual allocations. Since the oil revenues in most of the Emirates accounted for about 90% of the total public revenues, it is of minor accountancy significance to differentiate between allocations made from oil revenue and from total revenues, because almost all allocations are met mainly and many entirely from the oil revenue. However, it must be remembered here that it is normal for any single state to subsidise some sectors of the economy and provide many public goods and services at a price below their cost of production, below their variable cost, or even completely free. What then appears as significant are the differences between one state and another in the goods and services chosen for subsidy, the sectors subsidised, and the source of revenue used to finance these subsidies. These differences reflect the economic, social and political policies of states.

A - Factors Affecting the Allocation to Current Expenditure

As has already been noted, the current expenditure of the Emirates has engrossed a considerable and increasing proportion of their public revenues. Therefore, with the decreasing or static proportion drawn from non-oil sources, the allocation from oil revenue has played an essential and increasing role in financing current public expenditure. This is indicated by Table 8.2 shown overleaf:

TABLE 8.2

THE EMIRATES: ALLOCATION FROM THE OIL REVENUE TO CURRENT EXPENDITURE
AS A PROPORTION OF TOTAL CURRENT EXPENDITURE, SELECTED YEARS

<u>Year</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u> [*]	<u>Abu Dhabi</u>
1947	23.3%	0.0%	-	-
1952	37.0%	85.7%	89.7%	-
1957	57.6%	83.3%	81.1%	-
1962	68.4%	86.7%	N.A.	-
1967	63.4%	89.8%	74.5%	90.4%
1970	71.4%	88.7% ^{**}	74.1%	91.1%
Total	<u>63.8%</u>	<u>86.0%</u>	<u>72.7%</u>	<u>92.0%</u>

* Qatar 1953, 1955, 1967 and 1970.

** 1969/70.

Source: Calculated from Apps.

The importance of the oil revenue in financing current expenditure has tended to increase, particularly during the 1960's. Therefore, not only has the proportional allocation from oil revenue to current expenditure increased, but the relative role which this allocation has played in financing current expenditure has become more important also. This in fact reflects both the increasing demand for this type of expenditure and the governments' lack of success in producing any significant rise in the proportion of the total revenue stemming from non-oil sources.

We will now turn to the factors which have affected the growth of current expenditure and the Emirates' dependence on oil revenues to finance this growth.

A1 - Overstaffing in the Public Sectors

The Emirates' employment policies have been one of the principal reasons for the soaring current expenditure. Most of the Emirate governments have felt obliged to secure a job in the public sector for every citizen who wanted one. Consequently employment in the public sectors

was not geared to real needs, but was instead used to solve the problem of the lack of competitive employment opportunities in the private sector. However, while this policy is found in all the Emirates* during all or part of the periods studied, the situation is by no means identical in all of them. Kuwait suffered most and as early as 1965 it had realised the existence of this problem and the need to solve it.⁽¹⁾ The problem of the overstaffing of the public sectors in Kuwait therefore became a matter of study for many committees. In one of these studies, as Mr. David Hirst reported in the Guardian, February 25, 1972: 'A productivity study has revealed the astonishing fact that, though a top few work hard, the 45,000 Kuwaiti employees have a per capita output of 15 minutes for every six hours' work.'^{**} This has become a major problem not only because of its effect in directing human efforts away from the most productive work and increasing disguised unemployment in the public sector, but also because of its part in increasing the proportional demand made by current expenditure on available revenues. This problem is still worrying the financial and planning authorities in Kuwait and a recent committee, headed by Mr. Jassin Al-Qutamy, was formed by the planning board to study it and to suggest a solution.

The committee's report, after mentioning the previous committees formed for this purpose, suggested that the problem needed no more reports and theoretical solutions, but required certain actions capable of striking at its roots.⁽²⁾ The committee found that the employment policy depended on social and local political considerations more than the actual needs of the administration.⁽³⁾ It has resulted in increasing the allocation to wages and salaries from KD 48 million in 1962/63 to KD 164

* Except Bahrain, particularly before the late 1960's.

** In an interview with Mr. Ali Musa, the Head of the Manpower Planning Department in the Planning Board, I enquired about this study. The answer was that, as far as he knew, no such study had been carried out.

million in 1972/73. This increased the proportion of total public expenditure allocated to this item from 27.2% in 1962/63 to 39.9% in 1972/73.⁽⁴⁾ The main reason for this increase was the number of those employed in the government services. This increased, for example, from 73 thousand in 1964/65 to 101 thousand in 1971/72.⁽⁵⁾

The committee suggested some solutions to solve the problem of overstaffing, in the short and long term. As for the short term, the main suggested solutions are: the freezing of the allocation to wages and salaries at its present level; the gearing of future employment to the actual needs of the administration; an investigation into the manpower surplus in the administration; and the transferring of some of the government departments to a public corporation run on a commercial enterprise basis.⁽⁶⁾ Later the committee recommended the separation of the ports authorities from the customs department, and its transfer to a public corporation.⁽⁷⁾

In Qatar and Abu Dhabi the existence of the problem does not seem to have been realised yet. This is due to the small populations and indigenous labour forces. However, this problem does exist and must be faced sooner or later, particularly with the increase in the number of graduates from secondary schools and universities and with the entrance of women to the government service. In Qatar, for example, the allocation to wages and salaries from the public revenues increased from 15.3% in 1966 to 16.5% in 1970.⁽⁸⁾

All this clearly illustrates the effect of the overstaffing of the public sectors in the Emirates on the soaring trend of the proportion allocated from the oil revenue to finance current expenditure.

A2 - Transfer Payments

As noted in our discussion in the last four chapters, we have not distinguished between current and transfer expenditure, but we included both of them under the one heading 'current expenditure'. The reason

for this treatment was the lack of distinction between current and transfer expenditure in the Emirates' budgets, with the exception of Kuwait during the 1960's. The increasing allocation to transfer payments, at home and abroad has clearly, however, been affecting the increasing trend of current expenditure. For example, these payments in Kuwait not only increased current expenditure but also played an essential role in raising the proportional allocation to current expenditure, for the allocation to transfer payments increased from only 1.3% of total public expenditure in 1963/64 to 10.5% in 1965/66 and to about 21% in the period from 1967/68 to 1970/71 (Table 5.6). In the other Emirates the major portion of the transfer payments was made to social allowances at home. They have also been used to aid some of the poorer Emirates and some of the other Arab countries. In Qatar the government introduced a social allowance scheme in 1962, and the allocation to this item of expenditure has risen rapidly since then.⁽⁹⁾ In Abu Dhabi also, allocation to the social affairs department has increased considerably and the department's current expenditure has risen from only BD 23,000 in 1967 to BD 275,000 in 1970 (App. 7.2.1). Thus the allocation to transfer payments has played a considerable role in driving current expenditure upwards, and since there is no policy in any of the Emirates to finance these transfer payments from new sources of revenue the burden of providing funds for these allocations has lain completely on the oil revenues.

A3 - Increasing Demand for Social Services

Together with the social allowances mentioned earlier, there has been an increasing demand for education and health services. As a result of the governments' policy of not taxing the local economies (excluding the oil industry), the oil revenue has been the only source from which funds for these services could be provided. Therefore the allocation to the current expenditure of the social services has taken an increasing proportion from the oil revenues, as shown overleaf in Table 8.3.

TABLE 8.3

THE EMIRATES: PROPORTION ALLOCATED FROM ANNUAL AVAILABLE OIL REVENUE TO
THE CURRENT EXPENDITURE OF THE SOCIAL SERVICES (SELECTED YEARS)

(PERCENTAGES)

<u>Year</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u> [*]	<u>Abu Dhabi</u>
	%	%	%	%
1947	11.6	0.0	-	-
1952	12.8	12.7	0.9	-
1956	13.6	12.1	2.7	-
1960	22.3	11.7	N.A.	-
1965	36.3	14.3	11.5	0.9 ^{**}
1970	30.9	18.2	16.0	4.2

* 1953, 1955, 1966, 1970.

** 1967.

Source: Apps. 4.3.4; 5.3.4; 6 3.4; 7 3.4.

This expenditure shows an almost monotonous increase. We noted also that Bahrain, with the lowest per capita income from the state oil revenue (see Table 3.8), allocated the highest proportion among the Emirates. This perhaps indicates that there is no limit below which these items of expenditure may be kept, for the current demand for such services is great and there seems to be no limit to its potential growth.

A4 - Law and Order Services

Current expenditure on law and order services (including defence) has received an increasing proportional allocation from state oil revenue.

TABLE 8.4

THE EMIRATES: PROPORTION ALLOCATED FROM ANNUAL AVAILABLE OIL REVENUE TO
THE CURRENT EXPENDITURE OF THE LAW AND ORDER SERVICES, SELECTED YEARS

(PERCENTAGES)

<u>Year</u>	<u>Bahrain</u> %	<u>Kuwait</u> %	<u>Qatar</u> [*] %	<u>Abu Dhabi</u> %
1947	7.6	0.0	-	-
1952	4.8	2.1	1.5	-
1956	7.3	1.5	1.9	-
1960	10.3	10.1	N.A.	-
1965	11.1	10.4	3.9	3.7 ^{**}
1970	14.5	15.1	6.4	17.8

* 1953, 1955, 1966, 1970.

** 1967.

Source: Apps. 4.3.4; 5.3.4; 6.3.4, and 7.3.4.

Table 8.4 shows that the increase in the proportional allocation to the current expenditure of the services for maintaining law and order was one of the main reasons for the soaring current expenditure of the Emirates. The proportion allocated to this item of expenditure increased with the era of political independence. The allocation to this item may rapidly increase in the future because of the withdrawal of British Military Forces from the Gulf and the arms race building up in the area.

A5 - Policies Concerning the Pricing of Public Goods and Services

The policies followed in pricing goods and services produced by the public sectors have affected the sum allocated from oil to subsidise the production of these goods and services. Almost all the goods and services produced by the public sectors in the Emirates are subsidised mainly from oil revenue. As an example of the Emirates' policies in this respect we may look into the subsidy allocated from oil revenue to meet the deficit in the public utilities, viz. electricity and water (see Table 8.5 overleaf.)

TABLE 8.5

THE EMIRATES: PROPORTION ALLOCATED FROM ANNUAL AVAILABLE OIL REVENUE TO
THE CURRENT EXPENDITURE OF THE PUBLIC UTILITIES (SELECTED YEARS)
 (PERCENTAGES)

<u>Year</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u> [^]	<u>Abu Dhabi</u>
	%	%	%	%
1947	0.0	0.0	-	-
1952	0.0	0.0	1.2	-
1956	0.0	2.9	1.8	-
1960	0.5	0.8	N A.	-
1965	0.9	1.2	3.1	0.4 ^{**}
1970	1.0	0.8	4.2	1.3

* 1953, 1955, 1966, 1970.

** 1967.

Source: Apps. 4 3.4; 5 3.4; 6.3.4; and 7 3 4

Electricity and water were priced below the level needed to meet current expenditure and this necessitated the use of oil revenue to cover the deficit, hence this policy affected the sum allocated from oil revenues to current expenditure.^x

A6 - The Increasing Expense of Maintenance

With the building of considerable physical capital, the expense of maintenance has increased annually. To give an indication of the increase of maintenance expenses we may refer to the costs of maintenance in some of the Emirates. In Bahrain maintenance expenses for roads, drains, public buildings and bridges, all of them items for which the public works department is responsible, increased from BD 43,900 in 1950 to BD 65,600 in 1960 and to BD 528,500 in 1970. Another example may be found in the maintenance cost of the electricity department in Qatar, which has risen

^x Table 8.5 indicate trends, its worth mentioning the 0.8% of AAOR allocated to the current expenditure of public utilities in Kuwait in 1970/71 represented 22.6% of their total current expenditure.

from an annual average of about QDR 1.5 million in the early 1960's to an annual average of about 3.5 million in the late 1960's.⁽¹⁰⁾ In the other Emirates these maintenance expenses are not separated from other items of current expenditure, but as these Emirates have already built a considerable physical infrastructure we would expect an increasing allocation to maintenance expenses.

A7 - The Share of Non-Oil Revenue in the Public Revenue

This factor affected the allocation from oil revenue to all items of expenditure and in our model it has an important impact on current expenditure. We deducted the internal revenue of any department from its current expenditure and later used the surplus of all departments, together with the oil revenue, to cover the deficits in non-oil revenue. Therefore, as the proportional contribution of the non-oil revenue decreased, the deficit in the departments' non-oil revenue increased, and consequently the oil revenue was called upon to fill the gap.

This effect may be noted in the increasing or decreasing role played by the oil revenue in financing current expenditure, when the proportional share of the non-oil revenue decreased or increased. This may be exemplified by the part allocated to current expenditure from the oil revenue in Kuwait in 1970/71. In this year the sum allocated from oil revenue was only KD 178.4 million out of a total allocation to current expenditure of KD 224.4 million. This compares with KD 191.9 million allocated from oil revenue to cover the total needs of the current expenditure of KD 216.3 million in 1969/70 (Apps. 5.2.7 and 5.3.6). The main reason for this change was the improvement in the non-oil revenue in 1970/71 compared with 1969/70. The percentage contributed by the non-oil revenue rose from 8.6% in 1969/70 to 13.5% in 1970/71 (App. 5.1), and therefore the sum allocated from the oil revenue dropped from KD 192 million in 1969/70 to KD 178 million in 1970/71. The proportion dropped from 89% in 1969/70 to 79% in 1970/71.

Since the 1950's the Emirates have been receiving an increasing oil revenue in excess of their need for physical capital projects. At the same time there is an increasing pressure to expand social services, develop public utilities, improve the standard of living and distribute the oil revenue more widely among the inhabitants. The governments have been quite content with the relative stability and reduced social tension realised only with the help of the increasing oil revenue, and they have sought no fundamental change in the status quo; oil has financed the essential public services, considerable transfer payments have been made at home and abroad, and most of the Emirates have managed to employ every citizen in the public services. Thus the governments have been able to increase current expenditure without needing to raise the proportional contribution of the non-oil revenue, or even to maintain its level (see Table 8.2).^{*}

A8 - The Socially Pervasive Nature of Current Expenditure

Current expenditure, being mainly wages, salaries, maintenance expenses, and transfer payments, is difficult to decrease without causing great disturbances throughout society as a whole. The problem with this expenditure is that once it has reached a certain level or maintained a certain rate of growth, it will be counted on by large sectors of society and it becomes fundamental to the standard of living and other aspects of social wellbeing. Consequently there are dangers in reducing it or even curtailing its growth trend. However, there is room for more efficient use and some economy, but it should be noted that even to cut the waste may anger some sectors of a society and such a cut may need to be accompanied by fundamental changes in the whole public fiscal policy and perhaps in wider fields. Therefore the allocation to this item of expenditure has shown the most consistent growth of any item

* This is not true of Bahrain financial administration policy up to the early 1950's, it was then that current expenditure ceased to be met mainly from the non-oil revenue.

of the allocations, as may be noted from Figs. 4.4 and 5.2. This item of expenditure is the last allocation to be affected by change in the public revenues and thus it has continued to grow in spite of fluctuations in public revenue; these have had a far greater effect on the allocations to the reserve fund and to capital expenditure. Thus the nature of current expenditure and the absence of any effective policy to raise the non-oil revenue so as to meet the increasing needs of current expenditure have jointly resulted in increasing its dependence on the oil revenue.

A9 - Other Factors

Among other factors which have affected the increasing current expenditures in the Emirates are the establishment of new ministries and government agencies, such as ministries of foreign affairs, planning boards, and similar services. In addition, the take-over of existing services which were once operated by private concerns, usually but not always for valid technical reasons, has resulted in an increase in the deficit in the budgets of these services and has necessitated the use of oil revenue to cover-up these deficits. Examples of such services are electricity and ports handling services in Kuwait, and the postal, telephone and telegraph services in almost all the Emirates.

B - Factors Affecting the Allocations to Capital Expenditure

As we noted in our previous discussion in Chaps. IV - VII, all the Emirates, except Bahrain, have met almost all their capital expenditure from their oil revenues. For example, 100% of the capital expenditure of Kuwait in the period studied (KD 588 million) was allocated from oil revenues (see Tables 5.4 and 5.11). In Abu Dhabi the proportion was also 100% (Tables 7.4 and 7.8), and in Qatar 98.2% (Tables 6.6 and 6.12). Bahrain was the only Emirate in which the non-oil revenue provided a significant proportion of capital expenditure, 17.3% over the whole period studied. However, the proportional share of the oil revenue in financing the capital expenditure of the Bahrain Government rose from about 35% in

1947/48 to 81.0% in 1960 and 100% in 1970 (Apps. 4.2.7 and 4.3.4). Thus the financing of capital expenditure in the Emirates is almost totally dependent on the oil revenues, whose allocation to capital expenditure was affected mainly by the following factors.

B1 - The Need to Build up the Physical Infrastructure and Develop the Public Utilities

The need to build up the basic infrastructure by constructing such things as roads, ports, airports, public buildings, and the need to develop the public utilities have greatly affected the allocation to capital expenditure. Thus this expenditure received the highest proportional allocation at the early stage of economic development in each of the Emirates. The scope of this expenditure, i.e. whether it is to be confined to the basic infrastructural projects or widened to include housing, industrial estates, etc., has also influenced this item of expenditure.

B2 - The Pressure from other Allocations

The allocation to capital expenditure has been affected by the pressure from other allocations, particularly those to current expenditure and the Ruling families. Thus the fluctuation in capital expenditure allocations has been greater than that in allocations to current expenditure and the Ruling families. Therefore, a decreasing proportional allocation to capital expenditure was noted when a low rate of growth or stagnation was experienced in the oil revenue. When high growth in the oil revenue has been achieved, the allocation to capital expenditure has usually enjoyed a higher rate of growth than any other item of public expenditure, as was the case in Qatar in the late 1960's. These fluctuations in the proportional allocation may reflect the nature of this expenditure, which, although important, may be delayed for some years without causing great disturbances to society (as was the case in Qatar in delaying the building of Doha Port and the housing scheme, and even

in postponing until the late 1960's the construction of first class roads connecting the peninsula to the mainland.) There have also been major changes in the individual Emirates' policies in allocating their oil revenue, and in the priority given to any group of allocations

B3 - The Need for Planning

Capital expenditure needs to be planned for some years in advance and the execution of certain capital projects may take several years. Thus while increases in the allocations to current expenditure, the Ruling families, land purchase schemes, and especially the reserve fund may be implemented as soon as the relevant decisions have been made, the allocation to capital projects may need to be planned and the projects studied for a year or more before it is possible to decide whether they should be carried out or not. Therefore, although the need for some capital projects may exist and the pressure from other allocations may be lightened by reason of a high rate of growth in the oil revenue or by changes in the policy of allocating the oil revenues, it is still necessary to carry out viability and feasibility studies and commit allocations to capital expenditure some time in advance, or incur considerable waste of investment.

B4 - The Absorptive Capacity of the Construction Sector

The capacity of the construction sector to undertake and execute physical capital projects is limited. Any expansion of this capacity needs some time to be realised. This is so even if there is no cash problem, and the need for certain projects exists.* Therefore, the allocation to capital expenditure depends on the absorptive capacity of the local

* The Ruler of Qatar, when discussing the 1974 state budget urged the Minister of Public Works to execute the planned capital projects in six months' time, and he would then be willing to allocate another equivalent sum for the remaining six months. The sum allocated was about QR 600 million. This is more than the state oil revenue in 1970, but still represents only an estimated 12% of the oil revenue of 1974.

construction sector. This capacity in turn depends on the availability of a balanced combination of sufficient entrepreneurs, manual and technical manpower, capital equipment, material, and managerial and administrative skills. The development of such a combination takes a considerable time, and may not always keep pace with the sharp and sudden jumps of the oil revenue, as was the case in the early 1950's and early 1970's; unfortunately such periods are the most favourable for increasing capital expenditure, since the pressure from other items of expenditure is lightened by the sharp increase in the oil revenue. Thus in the short-term the absorptive capacity of the local economy may limit increases in the allocation to capital expenditure. This problem may be reduced by increasing dependence on foreign enterprise, imports and immigration.

C - Factors Affecting the Allocation to the Ruling Families

The allocation to the Ruling families in the Emirates has accounted for considerable proportions of their public expenditure. These proportions, as mentioned earlier, reached 40.6% in Qatar, 28.9% in Bahrain, 25.7% in Abu Dhabi and 2.7% in Kuwait. The proportions of the Emirates' total oil revenues allocated to the Ruling families during the period studied were 32.1% in Bahrain, 35.1% in Qatar, 25.0% in Abu Dhabi and 2.7% in Kuwait (Fig. 8.1). The high proportional allocation to this item of expenditure, which illustrates one of the main features of the financial policies in the Emirates, has been affected mainly by the following factors.

C1 - The Influence of History

The pattern has been affected by the allocation of the state public revenue in the pre-oil period. As already indicated in Chap. I, pp.13-26, the public revenue in all the Emirates in the pre-oil period was either considered as the private income of the Ruler (Qatar, Abu Dhabi and Dubai) or a considerable part of it was reserved for the Ruling families (Bahrain and Kuwait). This practice has affected later policies of allocation to

the Ruling families. The immediate effect was that, in the first place, those Emirates which used to produce a budget of which a part was allocated to the Ruling families continues to do so. Secondly, those Emirates which had not produced a public budget in the pre-oil period continued to consider the oil revenue as the private income of the Ruler, as was the case in Abu Dhabi in the early 1960's. The long-term effect has been that the pre-oil practice of allocating part of the public revenue to the Ruling families has continued for a long time despite the various pressures brought on the Rulers and the Ruling families to decrease their proportional allocation and if possible the sum allocated to them. This long-term effect may be considered as one of the main reasons why the Emirates still allocate such a high proportion of their revenues to their Ruling families, compared with other countries, as indicated below:

TABLE 8.6

ALLOCATION TO THE RULING FAMILIES IN THE EMIRATES AND
SELECTED COUNTRIES, 1970 (MILLION £)

	<u>Amount</u>	<u>as % of Total Expenditure</u>
Abu Dhabi	24	25.7%
Bahrain	7	29.3%
Qatar	16	32.8%
Kuwait	9	2.6%
U.K. (1971/72)	0.8	0.005%
Saudi Arabia (1971/72)	16	12.0%
Libya (1967/68)	2	0.8%
Brunei (1970)	0.3	0.7%

Sources: Apps. 4.2.7; 5.2.7; 6.2.7 and 7.2.6.

Libya: Rawley, Farley, Planning for Development in Libya, pp.210-211.

Saudi Arabia: MEED, 1st Sept. 1972, p.1007.

U.K.: Daily Telegraph, 3rd Dec. 1971; Chancellor of Exchequer, U.K., Financial Statement and Budget Report, 1971-72, HMSO, p.18.

Brunei: State of Brunei, 'Estimates of Revenue and Expenditure for the Year 1972', pp.15-19. (The amount was B\$ 1.6 million. In 1973 the £ sterling = 5.837 - see The Financial Times, 21/11/73, p.4.

Table 8.6 shows that the Emirates have allocated very high proportions of their public expenditure to their Ruling families, and some of them still allocate higher proportions than any other country. This comparison may give us an indication of how strong the effect of the Emirates' pre-oil practices remains in their public revenue

C2 - Limits on the Ruler's Absolute Power

Although the Emirates' rulers may, in principal, be considered as having been absolute Rulers in the pre-constitutional periods (see Chap. 1, pp.26-31), in actual fact there are certain limitations on their power, particularly in the field of public financial administration. These restraints may be imposed directly, as in the case of the British government's advise and its policy of encouraging the Rulers to fix their allocations as a proportion of the oil revenue, or indirectly by pressure from the Rulers' own subjects or even from the outside world. One of the effects of this pressure has been to cause some of the Emirates to allocate a proportion of the oil revenue to Ruling family before budgeting, as was the case in Bahrain from 1959 to 1973.

Such direct and indirect pressure has affected the proportional allocation to the Ruling family by decreasing it, as was the case in Bahrain in 1935, and in Abu Dhabi in the late 1960's, when the proportional allocation to the Ruler was fixed. Such was also the case of Qatar when the allocation to the privy purse of the Ruler was fixed at one quarter of QPC payments, a proportion not to be extended to include one quarter of Shell Qatar payments. However, though these direct and indirect pressures have affected the allocation to the Ruling families by decreasing it, on the other hand similar pressures have been exercised by the Rulers and the Ruling families to increase their allocations. We may refer to a statement by Sir Rupert Hay, the Political Resident in the Gulf, about the Ruling families and their pressure to be allocated more and more of the state oil revenue. He wrote:

Although a Ruler may have little trouble with his people, his relations are often a thorn in his flesh. There may be a few who are of real assistance to him, but the rest may be divided into two classes, those who want both money and power and those who want only money. The former can be compared to the barons of the Middle Ages and their activities are encouraged by the present system of succession. The latter class is far more numerous. There are a multitude of shaikhs who refused to do any work and some of them lead debauched lives. They clamor continuously for increased allowances and make a Ruler's life a burden to him. He finds it difficult to resist their appeals and when he gives way usually has to face a protest from the Political Resident on the squandering of State revenues in payments to useless drones. (11)

To illustrate this statement we may refer to the pressure exerted by the Ruling family in Qatar in 1960 to increase their allocation from the state oil revenue (see Chap. VI, pp.151-156). As for some of the Rulers' attempts to increase their own allocation from the state oil revenue, we may refer to the recent event in Bahrain, when the Ruler added the whole revenue obtained from Bahrain's share in the Abu Safah oilfield to his previous allocation, which was fixed at one third of BAPCO payments. Thus, the Ruler increased his proportional allocation of the state oil revenue at a time when the state was facing a financial crisis and when funds to finance capital schemes were badly needed.*

C3 - The Effect of the Constitutional Stage

The transition of any of the Emirates to a modern type of government with a democratic constitution and institutions naturally affects the allocation to the ruling families, and has wider consequences for the whole of public financial policy. As mentioned earlier (see Chap. I,

* See MEDD, 'An Economic Survey of Bahrain', Vol. 1, 1965. The MEDD Commission when discussing the sources needed to finance Bahrain State capital schemes said: "Under the present arrangements the government receives a fixed proportion of the oil revenues paid to the state. Our projections have been based on the assumption that this arrangement will continue, but the possibility of change which would increase the share of revenue going to the budget should not be excluded. This raises wide issues which lie beyond the scope of this report. Our purpose in mentioning it here is to draw attention to the fact that this would be a relatively simple method of financing part of the investment programme."

pp.32-33), when such a development has taken place the whole oil revenue has been considered, in principal and actual fact to belong to the state, and not to be the joint property of the Ruler and the government. The direction of public revenue and expenditure is discussed freely, has to be approved by the national assemblies, and is no longer left to the sole decision of the Rulers. No direct allocation is made to the members of Ruling families. The Ruler's allocation has nothing to do with the oil revenue, but is instead fixed at the beginning of a Ruler's term of office.

Kuwait was the only Emirate to reach the constitutional stage before 1970. Since 1963/64, the allocated sum and proportion to the Ruler have been decreased. The amount allocated decreased from KD 10 million in 1963/64 to KD 8 million in 1970/71. The proportion of the total oil revenue decreased from 5.2% in 1963/64 to 2.6% in 1970/71 (App. 5.3.5).

Bahrain was the next Emirate to adopt the path of Kuwait when a constitution was produced in 1973. The allocation to the Ruler aroused violent controversy between most of the elected members of the Constituent Assembly and the appointed ones. It took several secret sessions of discussion. Thus the article concerning the allocation to the privy purse was not approved until the last working session of the Assembly. This article (Article 33i) determined an annual fixed allocation to the Ruler from the public revenue.⁽¹²⁾ The allocation has been fixed at BD 6 million in the 1974 budget. This equals only 18% of the state's estimated oil revenue.⁽¹³⁾ However, the actual oil revenue, in the light of the increase in the posted price of oil in December 1973⁽¹⁴⁾ is likely to be double the budget estimate. This will result in decreasing the proportional allocation to the Ruler to about 9% of the total oil revenue.

C4 - The Peculiarity of the Source of Oil Revenue

Oil is not a traditional source of revenue. The oil revenue has been earned from the exploitation of natural resources, and has been

collected from one or a few international companies. This has on the one hand allowed the Rulers to keep secret the amounts they have received, on the other it has meant that the collection of these revenues has not been felt by their subjects in the same way as taxes on the local economy would be felt. There has therefore, been little pressure from the people, and consequently the Ruler and the Ruling families have felt that it is easy for them to increase their allocation from this source of revenue.

D - Factors Affecting the Allocation to the Land Purchase Schemes

Kuwait is perhaps the only country in the world which has allocated 22.3% of its total expenditure during the last two decades (1952-1970/71) to the purchase of land from the private sector (App. 5.2.7). This allocation amounted to KD 697 million. Of this amount only KD 36 million was recovered from the re-sale of land, the remaining KD 661 million being allocated from the oil revenue. This amount equalled 20.1% of the total oil revenue received during the period studied. The only other Emirate to allocate a considerable part of its oil revenue to this item of expenditure was Qatar, which allocated 6.6% in the periods studied.

The following factors have affected the allocation to the land purchase schemes:

D1 - The Availability of Large Surpluses

The availability of considerable sums as surpluses from public revenue, after financing all the fields of public expenditure, encourages some of the Emirates to channel a part of these sums to their indigenous population. The importance of this factor becomes apparent if we consider the great surpluses which were accumulated in Kuwait in the early 1950's, the state surplus revenues before allocation to the land purchase schemes were 21% of the total oil revenue received in 1952, 43% in 1953, 51% in 1954, 74% in 1955, 63% in 1956, and 50% in 1957 (App. 5.3.6). Thus the accumulation of a great and continuous monetary surplus in a state almost controlled only by the decisions of one man, and

the lack of a well defined strategy or long-term plans for economic and social development, have affected the decision to direct a part of the oil revenue into this new channel. A Ruler may decide that it is desirable for social, political and economic reasons to share some of his enormous wealth with his people.

D2 - The Pressure from Influential People

The pressure from influential people, particularly the members of the Ruling families and of the merchant class, has affected the allocation to this item of expenditure in many ways. The means by which this pressure has been exerted include: (a) The acquisition of large areas of desert-land around the old cities; this land was claimed as private property to be sold later to the state.⁽¹⁵⁾ (b) The inflating of the price of land.⁽¹⁶⁾ In Kuwait for example, the price paid by the government for land purchased has increased from KD 4 per sq.metre in 1952 to KD 129 in 1960. (c) The inducing of the government and even the National Assembly to vote for an increase in the allocation to land purchase schemes, as happened in 1966 when the National Assembly in Kuwait voted to add KD 85 million to the sum projected in the budget (see closed account of the budget, 1966/67). In this year the sum allocated to the land purchase schemes reached its all time high, a value of KD 93 million.* (d) The using of this item of expenditure by the government to obtain the support of influential people, particularly in times of crisis, e.g. during the dispute between Kuwait and Iraq on the border question in 1959/60, when this allocation accounted for 45% of the total oil revenue spent, including KD 14 million drawn from the reserve fund to meet the budget deficit (App. 5.3.6; see also IBRD Report, p.4).

D3 - Re-development of the Old Cities and Increasing Urbanisation

One of the principal aims of the land aquisition scheme, especially

* This sum alone equals about 64% of the total oil revenue received by Bahrain State during a quarter of a century.

as envisaged in the early 1950's in Kuwait and later in Qatar, was the modernisation of the old cities, particularly so as to make them suitable for modern means of transportation. Although important at first, this aim became less important in time, and the scheme was directed to buying land to be used by the government or distributed to the public.

With the rapidly increasing demand for land caused by an increasing population and the need for large areas of land to accommodate housing schemes, schools, hospitals, power stations, sea water distillation stations, and commercial and industrial estates, the government found it necessary to acquire increasing areas of land. The prevailing system of land-ownership in Kuwait and Qatar made the purchase of land for urbanisation unavoidable

D4 - Government Land Registration Policy and Actual Practice

In Bahrain and in Abu Dhabi particularly in the time of Shaikh Shakhbut,⁽¹⁷⁾ all the land was considered government property and consequently nobody could lay claim to land previously unowned. In Kuwait and Qatar, however, there have been official land registration regulations since the early 1950's, but these do not apply to the influential people who may obtain land merely by 'staking their claim'. Therefore, the degree of restriction placed on ownership claims to free land has affected the purchase of land by the governments

E - Factors Affecting the Allocation to the Reserve Funds

The portions of the oil revenue which remained unspent, i.e. the net allocation to the reserve funds in each of the Emirates, stood as follows at the end of 1970. (a) In Bahrain there remained 2.1% of the total oil revenue received during the period studied, a sum equal to only 12.5% of the state's total expenditure in 1970. (b) In Kuwait the proportion was 11.2%, approximately equal to about the sum spent by the

* Excluding the reserve fund investment profit, 1961-70.

state in 1970.* (c) in Qatar the proportion was 20.6%, again approximately the sum spent by the state in 1970. In Abu Dhabi the proportion was 1.5% or only about 5% of the state's total expenditure in 1970.

The factors which affect the allocation to the reserve fund are in brief the following:

E1 - Government's Financial Administration Policy

The government's financial policies in keeping a part of their oil revenue in their reserve fund accounts was one of the main factors which affected the accumulation of a relatively large proportion of the Emirates' oil revenue in the early years of oil production. Bahrain was the pioneer in this respect and about one third of its revenue was allocated to the reserve fund. The reason for this policy in Bahrain has been given by Sir Charles Belgrave, who wrote in his 'Personal Column' (p.166) that:

"It was the Shaikh's and my policy to add a certain proportion of the revenue each year to the reserve fund, which was invested in England in government stock so as to build up a fund which would supplement the revenue when the income from oil decreased. This was not a popular idea, and since I left Bahrain I see that the plan for saving money has been given up."

Sir Charles's observation was absolutely true, and this allocation, which was running at about one third of the oil revenue to the early 1950's, has dropped since 1957 to only 13.4%. Moreover, the saving in this fund was heavily drawn on in the 1960's (App. 4.3.5). In the early 1950's, Qatar also followed a financial policy similar to Bahrain's. Kuwait too followed a similar line at that time, though it was not so clearly planned. Thus it was official financial policy to allocate a certain proportion of the state oil revenue to a reserve fund. When this policy was given up, the annual allocation was left to be decided by other factors. However, the allocation of a fixed proportion of the oil revenue to the

* Excluding the reserve fund investment profit and the prepaid income tax.

reserve fund is still thought of as a proper financial policy. In 1972 the Kuwait National Assembly debated a law under which all oil royalties will be allocated to the state reserve. (18)

E2 - The Pressures from other Items of Expenditure

The increasing need to finance other items of expenditure, particularly current expenditure, greatly affected the public revenue surplus. For some years public revenue was insufficient to cover current public expenditure, and it was therefore necessary to draw upon the unspent oil revenue to fill the gap.

E3 - The World Monetary Crisis

In recent years, particularly subsequent to the devaluation of the pound sterling in 1967, the Emirates have become worried about their savings, which were mainly invested abroad in financial assets. With increasing world-wide inflation and the international trend towards currency devaluations (particularly of the US dollar and the pound sterling), they have become more cautious about the long-term future of their reserve funds, particularly in view of the investment pattern of these funds. However, this factor has been realised by the Emirates only recently, and has therefore had little effect on the allocation to the reserve fund in the past, although it may affect it in the future. Moreover, it might not only affect the allocation to the reserve fund, but also the Emirates' economic incentive to increase their output of oil, (19) unless, of course, they can invest their surplus revenue more securely.

E4 - The Poor Achievement of the Reserve Fund Investments in the Past

Due to failures of administration and to the lack of internal investment opportunities, the achievement of the reserve funds has been very limited. Neither the amount of money saved in them (at best equal to one year's expenditure), nor their investment income (at best about 10% of 1970's revenue) represents a good achievement or encourages a greater allocation to them.

These are the main factors which have influenced the financial policies of the Emirates and the allocation to each item. The factors, as mentioned earlier, are inter-related and are products of the major factors which have determined the financial policies and consequently the allocational pattern of the Emirates' oil revenues. These determining factors will be the subject of the next part of this chapter.

Part Three: Factors Determining the Broadly-Based Revenue Allocation Policies

The factors that have played the essential role in determining the pattern in which the oil revenue has been allocated are common to all the Emirates, though they may have differed in importance in the various Emirates during each stage of their contemporary history. These factors reflect the social, political, economic and geographical facts of the Emirates societies.

The following seven points will briefly discuss each of these factors:

A - The Social Impact

Societies in their evolutionary processes are affected by their past experience and ideas. No society can be cut off completely from its roots and turned into a different society with a new attitude, social characteristics and cultural notions. Thus the present social, political and economic practices of any society are the result both of its heritage from the past, and of its capacity to adopt new notions and practices which have already emerged from human experience elsewhere. The dynamic characteristics of a society, its knowledge of contemporary science, and its broad contacts with the outside world are all important in moulding its present stage of development, but its cultural institutions and the attitudes of its citizens nevertheless remain a synthesis of its sociological evolution through the entire length of its organic existence. (20)

The societies of the Emirates, being parts of Islamic society, have been influenced by the teaching and traditions of Islam. Also, since most of the indigenous population are descendants of nomadic and semi-nomadic Arabian tribes, these societies have also been affected greatly by tribal mentality and culture. Although it is a considerable time since most of the tribes of the Emirates abandoned their wandering life and settled in their coastal towns and villages, they still retain much of their tribal organisation as well as many of their tribal attitudes. The other factor shaping the present day social mentality of the population of the Emirates is their experience of seafaring occupations.

Thus, when the oil revenue began to be received, the people could not differentiate between it and any wealth they might obtain during a good pearling season, a successful voyage, a good herding season or even as tribal booty. Therefore, though part of the oil revenue was used for capital formation at a national level, a considerable part of it was shared almost directly by the indigenous people, as if it were income earned from the old sources, rather than from a new source which by its nature allows greater inequalities in the distribution of wealth.

However, although the exploration of the sociological and psychological factors influencing the allocational patterns of the Emirates' oil revenue is important, these factors are too peripheral to this study to warrant an exhaustive consideration. Thus our treatment will briefly deal with only some aspects of the economic behaviour and past practices of these societies in so far as they may affect the attitude of the people towards the utilisation of the oil revenue. These factors are: 1) Belief in chance. 2) The concept of sharing wealth and income, and 3) The educational status of the people and their failure to understand the nature of the oil revenues.

A1 - Belief in Chance

The people of the Emirates believe in chance to a great extent.

Their prosperity or otherwise in the pre-oil period has been greatly affected by forces beyond their control. The economic life of the mass of the people depended either on herding and other nomadic activities, or on the seafaring occupations, among which the pearling industry was the main (see Chap. 1, pp.8-12).

The earnings of the nomads from herding and related activities depend on precipitation, which varies from one year to another for reasons beyond their control and in a way they cannot forecast. Precipitation affects grazing opportunities and other aspects of nomadic life. Thus, for nomads, a rich or poor season depends in the first place on chance and a good or bad rainy season.

In the pearling industry, chance also played an essential role in the prosperity or otherwise of the people. The luck of a good catch inspires everybody in the industry. The chance of finding a large jewel (Danih) forms the core of expectation for every man employed when opening every oyster with his unsharpened knife. In the large boats the expectation of this possibility even necessitated engaging guards to watch the men during the course of opening the oysters. Besides this, other aspects of the industry also depended on chance, the chance of a high price for pearls, the chance of suitable weather and the avoidance of disastrous events, and so on and so forth. Thus it is not strange that grandmothers in the Emirates keep telling tales about poor people grown suddenly rich because God has granted them a very large jewel, or rich men who have lost their riches and joined the sea folk after some disaster.

Belief in chance, indeed, forms the theme of Arab folk tales, quite apart from the experience of those Arabs in the peninsula who have seen and felt its effects on their daily life. As Professor Bowen-Jones wrote:

"One of the most profound remarks made by Professor Arberry was his comment that in Arab folk tales there is no question of reward following merit, but only of heaven-sent fortune or disaster."(21)

Thus, people with such a strong feeling for good luck and belief in chance may be expected to give little care for the future. They tend to enjoy what they have at present, their happiness unspoiled by worrying, thriftiness, and hard work. This is reinforced by the nomadic tradition of hospitality and lavish consumption when the nomads can afford it. A true nomad finds it difficult to economise, and although he may be forced by nature to live a very hard life at subsistence level, when he can afford to spend he will apparently forget the hard days. This behaviour may be explained partially by the fact that nomads have usually experienced great fluctuations in their standard of living caused by forces beyond their control. Thus, 'when supplies are plentiful, the Bedawin eat copiously, because the time and scale of the next meal may be uncertain.'⁽²²⁾

A2 - Concept of Sharing Incomes and Public Wealth

The peoples of the Emirates are generally accustomed to having equal opportunities to benefit from their countries' natural resources. They have equal right to the pearl banks, fish resources, pasture, and other resources. This right of equal opportunity is based on traditional practices as well as the religious tradition that people are sharers of water, pasture and fire.⁽²³⁾ However, these rights have been restricted by custom to the people of a region or a sheikhdom, or even to members of a tribe. Nevertheless the concept of sharing natural resources remains strong and an exclusive monopoly of these resources by individuals has not been accepted.

Therefore, the people's claim for a share of the oil revenue is not unappropriate, nor is it unprofound. In the people's mind the oil resources are national wealth. Consequently benefits derived from them should be shared. Moreover the people, influenced by their previous seafaring and other traditional activities (see Chap. 1, pp.8-11) prefer a sort of

direct distribution of the return. They conceive of the outpouring of oil wealth as if it were the wealth of a lucky pearling season, booty or tribute paid to a tribe.

The people's own belief in their right to share in the oil wealth, being influenced by the nomadic conception of the role of government, makes them ask for a sort of direct distribution of the oil revenue. The nomads do not think of a state as an institution concerned with the long-term social and economic development of a country, or of government as an instrument by which a society insures the wellbeing and welfare of present and future generations, something which not only gives to individuals but also takes from them as well. The nomadic mentality rather expects direct subsidies, grants and preferential treatment from a state if the loyalty and support of the people is to be maintained. (24)

However, though the concept of sharing wealth and income is deep-rooted in the Emirates, it permits considerable differences in the size of the shares. These differences could not be explained purely on the basis of effort and reward. The differences rather reflect tribal tradition and customs. These differences have become greater since the start of the oil revenue. The reason for this is the nature of the oil revenue. This revenue had little or nothing to do with the efforts of the people and in the early years, in particular, they knew very little of its scale, let alone its future.

A3 - The Educational Status

As has already been said, the economic behaviour of a society at any given time depends on its social attitudes. These, in turn, depend on its past experience and heritage on the one hand, and on its capacity to invent and adapt new methods to deal with its economic affairs on the other. Thus, the educational status of a society is an important factor in determining its level of understanding and its ability to solve its economic problems. When wealth from oil began to pour into the state

purses of the Emirates, this was very different from the traditional sources of income. It was thus incomprehensible to the people, who had not the necessary contemporary knowledge to understand its nature. For example, when the oil revenue (commercial production stage) began to be received in each of the Emirates, there were no modern schools above the elementary level.⁴ Thus we may certainly say that few, if any, of the indigenous population could understand the nature of the oil resources. Nor did they have the advanced economic knowledge upon which to base an efficient policy of sustained and real economic development able to assure the economic future of the present generation as well as future ones. All they could think about at that time was how they might secure for themselves and possibly for their relatives or tribes the highest proportion of this wealth, so that they could enjoy it, consume it and wait for God to provide new wealth.

This backward educational status was general when the oil revenue was received, and it was years before a considerable proportion of the people were able, as a result of increasing education and world-wide contact, to realise the nature of the oil revenue and possibly to think about better economic policies to utilise the income obtained from the exploitation of their resources.

In summary, the social attitudes and mentality of the people of the Emirates has been one of the main factors in determining the pattern by which their oil revenues were allocated. Their belief in chance, their tendency to lavish consumption, their concept of sharing natural wealth, their concept of the state's role in economic life, and their educational status have all been active factors pushing governments in a certain direction in their channeling of the oil revenue.

⁴ Except Dubai, which had a secondary school when the state started to receive oil royalties and taxes in 1969.

B - Political Impact

The nature of the political system in any country, as well as the internal and external pressures exerted on it, play an essential role in shaping the social and economic policies of that country. In the Emirates these factors have naturally influenced the allocation of the oil revenue.

BI - Nature of the Political System

During the period studied two different types of government have existed in the Emirate, a patriarchal and autocratic type, and a democratic type. Both types have had their impact on the allocational pattern of the oil revenue.

As we have seen earlier in Chap. I, pp.26-31, the shaikhdom system evolved from a tribal alliance into a sort of autocracy. This stage was undergone by all the Emirates for all or a considerable part of the periods studied. Consequently the nature of this stage has determined some of the channels through which the oil revenue is disbursed. The effects may be seen in the following practices:

First: The reserving of a considerable proportion of the state oil revenues for Ruling families. This proportion, as indicated in Fig. 8.1, ranged from about 3 to 35 percent of the total oil revenue.

Second: Beside their direct allocation from the oil revenue, the Ruling families have enjoyed a very special position in the administration. This is very clear in most of the Emirates* in the pre-constitutional stage. Taking the administration of Kuwait in the pre-constitutional stage as an example, we may see the special position the Ruling family occupied and its consequences on the utilisation of the state oil revenue. Sir Rupert Hay, the Political resident in the Gulf, described the system of government in Kuwait at that time in these words:

* The special position of the Ruling families in Bahrain and Qatar was less marked when the British Advisers were at the head of the administrations than it became later.

The system of government is patriarchal and the high offices of state are held by members of the Ruling family, each of whom conducts the affairs of the department entrusted to him with the minimum of financial or any other control by any central authority. In fact, each of these shaikhs is a law unto himself, and there is much in the administration which depends on their relations with each other, their presence or absence from the state or the willingness of the Ruler to control their activities. (25)

Another British diplomat in the Gulf, Sir John Richmond, confirmed this special position when he wrote.

"previously the heads of the departments who were then almost all members of Al-Sabah, though responsible to the Ruler, enjoyed a considerable degree of autonomy. Their position could be compared to that of the medieval privy council and their departments to the fiefs of its members." (26)

This special position has not been confined to the senior members of the families, but has in most of the Emirates extended to the other members, though it has differed in degree. Most of the members have their private teachers, secretaries, body-guards (Akhwia), and household servants paid for by the state.* Most of their holidays abroad are paid for by the Ministries of Health under their schemes for treatment abroad. All this is in addition to their privileged position regarding the ownership of land, and their right to duty-free imports.

The need to reduce such privileges and "the need to provide a strong central control over the semi-autonomous policies of the departments" (27) in Kuwait, is considered by Sir John Richmond, to be one of the main reasons for Sheikh Abdulla Al-Salim's decision to grant the constitution in the early 1960's

Third: The nature of the system necessitated the channelling of a considerable proportion of the oil revenue in such a way as to obtain and retain the political acceptance of the indigenous population. Therefore current expenditure, and expenditure on such things as land purchase have

* Considered government employees, these men in fact occupied positions entirely in the private service of the Ruling families. The members of the Ruling family of Bahrain enjoyed a much less privileged position.

been widened so as to absorb most of the opposition to the governments

Thus expenditure on the acquisition of property for development purposes becomes mainly a means of channelling oil revenue to certain sectors of the people. As Professor Bowen-Jones noted: "Revenue is released into the private sector selectively because the channels are controlled by the nature of previous land ownership..."⁽²⁸⁾ Moreover, the price paid for land is usually an inflated one. This is all because the government feels the need for support from certain sectors (see Chap. VIII, p.212).

Next comes the increasing proportional allocation to current expenditure, caused by over-staffing the public sector, reducing the price of public goods and services, or by transfer payment. All these channels have been affected in part by government policies to obtain and retain the political acceptance of the indigenous population. Therefore the government of Bahrain, which was prevented by the smallness of its oil revenue from solving the unemployment problem by over-staffing the public sector, from lowering the price of public goods and services, and from making considerable transfer payments, has gained less political acceptance than the governments of the other Emirates^{*} and has faced more opposition.^{**}

Greater democracy and increasing public participation in governments have changed the allocation of the oil revenues. At this stage direct allocation to the members of the Ruling families no longer exists (Chap. I, pp.32-33), and the proportional allocation to the Rulers is considerably reduced. Also the privileged position of members of the Ruling families is greatly decreased, as is the semi-autonomy of government departments. However, although the political effects are reduced, they have by no means

^{*} This was the case before the production of the 1973 constitution.

^{**} The high standard of education and political awareness in Bahrain is an important factor in this opposition.

disappeared, and in fact still play a considerable role. Moreover, the social impact and the people's conception of the oil revenue and how it should be spent acquire greater weight through the National Assemblies, and the allocation to current expenditure in Kuwait for example, has in consequence increased considerably

B2 - External Pressure

The external pressures which have affected the channels through which the oil revenue has been allocated may be illustrated by the pressure from the British Government and to a lesser extent pressure from the Arab world.

The British Government concluded special treaties with the Rulers concerning their defence and international relations. It did not restrict its influence to these matters, but extended it to internal matters when the Ruler asked for advice, or when the British Government felt it desirable to advise the Rulers on internal policies. We may refer to the British policies in Bahrain and Kuwait during the 1920's and 1930's (see Chap. I, pp.13-26), and in Qatar and Kuwait in the late 1940's and early 1950's. In Kuwait, for example, Mr. Borrowes of the Foreign Office advised Sheikh Ahmed Al-Jaber on the use of the state oil revenue, recommending him to step up administrative and social reform and to put part of the state oil revenue into a reserve fund to be kept for the future. (29)

The influence of the British Government on the allocational pattern of the state oil revenue may be seen in the following ways. a) Its policy of encouraging the Rulers to distinguish between the privy purse of the Ruler and the public purse and the attempts to limit their allocation to a fixed sum or proportion (Bahrain, Qatar, Abu Dhabi). b) Its advice that a part of the oil revenue be kept as a reserve fund. c) Its encouragement of the development of the infrastructure schemes

As for the pressure from the Arab world, one may consider the criticism which rises sometimes in the press and in political circles,

particularly during times of internal uprising. This type of pressure has affected the allocation of the oil revenue mainly in the following ways. a) By putting the governments under a certain pressure to improve social services, diminish unemployment and make considerable transfer payments at home b) By inducing a sort of Pan-Arab attitude and hence necessitating considerable transfer payments to the Arab world. This is beside expenditure on public relations designed to reduce criticism in some quarters.

B3 - Internal Pressure

Internal pressures have greatly affected all the channels through which oil revenue is allocated. These pressures come from different sectors of society and are exerted in quite different directions. Members of the Ruling families are pressing to keep or even increase their allocations and privileges, the landlords to increase the allocation to the land purchase schemes, and the general public for easy well-paid governmental jobs, cheap public goods and services, and increasing social transfer payments. However, with increasing education, democracy and world-wide contact internal pressure seems to favour social and economic policies designed to utilise the oil revenue in more productive ways (see this part, G).

C - Economic Impact

Economic factors have played an essential role in determining the channels through which the oil revenue of the Emirates has been allocated. These factors, as well as the social and political factors mentioned earlier, have provided the input resulting in the social and economic policies implemented during the periods studied. The economic impact results from the limited resources of the Emirates, the economic consequences of their small size, and the excess oil revenues.

C1 - Natural Resources and Investment Opportunities

The Emirates, being arid zones with a great scarcity of water

resources, have little potential for agricultural development. In addition to this the Emirates also lack commercial deposits of mineral resources other than petroleum (see Chap. 1, pp.2-4). In fact, apart from petroleum, the Emirates have very few natural resources. This lack of varied natural resources has limited opportunities to utilise the oil revenue or the petroleum resources locally, for there is too narrow a scope either to integrate petroleum resources into local production or to invest the proceeds of oil exports in the development of other natural resources.

In addition to this, national investment in the petroleum industry is very limited. This is because the production and associated activities of the oil industry are mainly financed by foreign capital and the oil is exported as crude rather than in the form of products, consequently narrowing local investment opportunities.

C2 - Small Population

The Emirates are mini or micro-states not only because of their small area, but essentially because of their small population (see Tables 1.1 and 1.2). In 1970 only Kuwait had a population of about three quarters of a million, while Qatar's population was only one hundred and thirteen thousand.

A small population may be considered a handicap to the economic development of a country. It restricts the production capacity of that country, limiting the supply of skills and the availability of entrepreneurs, administrators, technicians, and even unskilled labour.

The problem in the Emirates exceeds the normal handicap impeding countries with a small population. First, the Emirates not only have small populations, but virtually the smallest in the world. Second, during the major part of the periods studied the indigenous population above twenty years of age was mostly uneducated. Third, the prevailing economic incentives discourage people from engaging in the most productive

activities (see Chap. IX, Part Three). Fourth, the naturalisation laws have greatly restricted the opportunity of immigrants to settle and obtain local nationality,⁽³⁰⁾ thus ruling out one important way of overcoming a deficiency in population

Apart from limiting manpower, a small population has important effects on the local market. A small population means a small market, though in the Emirates, the purchasing power is very high indeed. However, this high purchasing power is offset by the small number of buyers and their custom of choosing from goods of a very high standard from all over the world. This small market narrows the opportunity for economies of scale, which are very important for any country wishing to industrialise. In view of the limited natural and human resources available as a basis for competition in the international export market, it is easy to see how this small local market affects productive activities in the Emirates.

C3 - The Excess Oil Revenue

The Emirates are well known for this relatively considerable surplus of foreign exchange and financial resources. This is due to the lack of opportunity for internal productive investment on the one hand, and to the excess of oil revenue available to the governments on the other. Thus the local economies were not able or ready, socially, politically, or economically to absorb the revenue obtained from exploiting oil resources in a more productive and economic way than they have done.

The behaviour of countries in economic matters is not very different from that of individuals. Differences between countries are analogous to differences between individuals in their personalities, experiences, foresight and ability to utilise their resources. Thus we might expect that a socially backward, uneducated and inexperienced person who inherited wealth would squander a considerable part of it on lavish consumption and luxury with little thought of the future and possibly little respect for

the effort needed to accumulate it. In similar circumstances a state may be expected to behave similarly. A continuing surplus achieved with little effort on the part of a state may open the door wide for sorts of expenditure which not only do not promote long-term economic growth, but may even place obstacles in the way of the sound economic behaviour of the people and affect their productivity. An example is the link between effort and reward which may be considered the fundamental mechanism in every human society, and to which little consideration was paid in the Emirates.

C4 - The Small Size of a Country and Foreign Influence

Small countries are usually easily influenced by great powers. This problem, though it is political rather than economic, has implications for the internal economic policies and the freedom of economic action in small countries. Mr. Keesing from Stanford University, noted that one obvious difficulty impeding national development in small countries,

"is the political-military weakness of any small country and its vulnerability to interference and manipulation by the larger powers, with little opportunity to reciprocate in kind. This may be, in its own right, a crucial obstacle to development, if the great powers stand actively opposed to the type of internal policies and leadership that are essential for successful development."(31)

A small country may even be dominated by one of the big multi-national firms, not only in its economic life, but even in its political administration for the big companies may extend their influence in order to prevent measures threatening their profitability or position, even if such measures are in the interests of the country concerned and of its economic future. The small size of the Emirates thus may render them vulnerable to pressure from abroad when they attempt to utilise their oil resources in ways unpalatable to the oil companies or the oil-consuming countries.

These are the main economic factors affecting the allocational

patterns of the Emirates' oil revenues. The lack of natural resources, the small size of the populations, and the small markets limit the opportunities to attract the income derived from the exploitation of the petroleum resources. Receipt of oil revenues above the level which the local economies can productively absorb makes it easy for the government to use these revenues to satisfy all demands from various sectors of the society, even when such demands are economically unproductive.

D - Geographical Impact

The characteristics of the location and surrounding region of the Emirates have had two major effects on the allocational pattern of the oil revenue.

The first effect springs from the Emirates' resource base and the degree of regional differentiation. The Emirates' main resource base is petroleum, as it is in almost all the surrounding countries, a fact which may be seen very clearly from the Gulf petroleum industry maps (see Figs. 2.1 - 2.5). This regional similarity in resource base has reduced to a minimum or even precluded opportunities for comparative advantage which might be grasped if the other countries in the region were lacking in petroleum resources. Thus none of the Emirates has been in what might be called a privileged or preferable position as far as its petroleum resources are concerned. They all have oil, surplus natural gas, and considerable financial resources; conversely, as mentioned earlier, they all lack any considerable variety of natural resources, a fact which has minimised the possibility of integrating the production of petroleum resources with other sectors of the economies.

The second effect may be related to locational factors. Among these factors the main are the relative cultural isolation and the macro-regional absence of perceived or obvious opportunities for investment.

Despite considerable contact with other people, particularly during the last two or three centuries, the culture of the people of the Emirates

has undergone little change, and this is particularly true of the period up to 1950. Their contact with foreigners has been purely formal and has not deepened into social interaction. They have scarcely appreciated and adopted the institutions of other cultures, or criticised and abandoned any of their own. They have lived in relative cultural isolation, avoiding cultural interactions and holding to their own institutions. It may be noted that no institution could be easily changed by the action of the people to whose social system it belongs; it is only by interaction, pressure and perhaps some sort of clash, necessarily involving foreign cultural influence, that cultural stagnation can be avoided.

The people of the Emirates have, during their recent and contemporary history, lived in relative cultural isolation not only from non-Islamic cultures, but also from other Islamic cultures, such as those of the northern Arab countries. To exemplify this we may refer to tribal caste systems, the lack of respect for certain types of work, and to inter-marrying. Tribal caste is still an important factor in the Emirates, although it differs in strength from one Emirate to another, it nevertheless plays a considerable role in social, political and economic life. People are divided into low caste men and high caste men, instead of being divided on their own merits. The social respect for certain types of work is indeed very low, though it is not the same in all the Emirates. Craftsmen such as carpenters, smiths, and even farmers and fishermen may be regarded by a considerable portion of people at the top of society as following low caste occupations. Inter-marriage between sectors of the societies of the Emirates is one of the most difficult of undertakings. People live, work, and worship together, but when it comes to inter-marrying they seem as conservative as their fathers and grandfathers.

This relative cultural isolation asserts itself in all socio-

economic policies and has up to now exerted considerable pressure to make development an extension of traditional practices and prevent it from accommodating new concepts which would render it more effective and relevant to present-day world-wide development.

The other locational factor which has affected the allocational pattern of the Emirates' oil revenue is the macro-regional absence of perceived or obvious investment opportunities. The Emirates and to a lesser extent other surrounding countries lack any obvious opportunity for investment. All the potential investment opportunities are of a type which requires highly sophisticated experience and know-how which the Emirates mostly lack. Opportunities such as those offered by world-wide financial institutions, service sectors, and export-oriented manufacturing, are among the ones that the Emirates' financial resources permit, but their entrepreneurial, administrative, managerial, and technical capacity deny.

E - Absence of Long-Term Economic Strategy

The Emirates have passed most of the period studied without adopting long-term plans through which they could define the most important economic and social goals they aim to achieve by using their oil revenues. In fact they have been faced, almost every year, with a revenue that has probably exceeded their expectations. Thus the governments have been more concerned with ways of channelling the revenues from their national resources than with maximising the potential of the whole economy in the long-term by using the money for productive investment designed to ensure the rapid and sustained growth of their economies.

The Emirates' oil revenues offered golden opportunities for the governments to avoid one of the main problems in the process of economic development, i.e. the problem of the mobilisation of financial resources for purposes of productive investment. But due partly to the lack of long-term strategies for economic and social development, the governments

failed to produce the necessary plans to allow the productive channelling of these resources, and the absence of such guide lines also led to considerable waste.

In countries such as in the Emirates, where the government may be considered as the central dynamo of the economy, the absence of a clear and well-defined long-term strategy for social and economic development is a serious hindrance, not only because of the waste it causes to a considerable part of the society's scarce resources, but also because of the long-term effect of encouraging wrong practices and creating wrong economic incentives.

F - The Multiplier Effects (Increasing Dependence)

While the social, political, economic geographical and administrative factors are the basic determinants of the pattern by which the Emirates have allocated their oil revenue, there have also been certain multiplier effects. The above-mentioned factors have allowed the indigenous population to depend on the state not only to provide social services, for which no tax is collected from the local economy (except tax from the international oil companies), but also to supply them with electricity, water and other public services at prices below the current cost, and to provide employment in the public sector for every indigenous person who required it even if there were no need for his work. This dependence has made it possible for almost every indigenous person to rely on the government to provide many services free of charge, and has bred into him the custom of expecting the government to increase its free gifts. At the same time, he has himself been given an excuse for not supporting the public purse even to the extent of covering its current expenditure (see Tables 8.1 and 8.2).

This dependence is now spreading. To take Qatar as an example, it includes a free housing scheme; electricity and water free of charge (the people have refused to pay for these amenities); a gift of about £2,500

for every university graduate together with a free piece of land, and an additional interest-free loan of about £13,000; and extension of the national health service to include treatment abroad on a larger scale than before, a facility usually used more by holidaymakers than by those actually in need of treatment abroad. Many other aspects of the increasing dependence of the indigenous population on the state may be noted in all the Emirates, while there is no effective policy to decrease this tendency.

G - The Realisation of the Poor Achievement of Past Policies

A realisation of the poor achievement of past policies has been developing, particularly since the 1960's, not only among the more educated sector of society but also in the government organisations and political institutions, such as the Kuwait National Assembly and The Planning Board. In 1965 the Kuwait Minister of Finance and Industry, introducing the public budget to the National Assembly, said in his statement (translated from Arabic):

The state budget in the past expressed the government's policy which aimed to provide the maximum possible number of free services for all citizens and to secure an acceptable level of education, health, and living standards for all Kuwaitis. It is time now for the state budget to express the government's long-term policy to achieve the aims of economic and social growth, for it to lay the foundation of this growth on a sound scientific basis, and for it to transfer us gradually from the path of giving aids and allowances to the path of offering opportunities of productive work to every able-bodied citizen. (32)

When speaking at the third session of the Kuwaiti National Assembly in October, 1972 Shaikh Jaber Al-Ahmed, the Kuwaiti Heir Apparent and premier said (translated from Arabic):

God has granted us wealth. This wealth has made it easier for us to live free and dignified lives. We have taken from it for ourselves and others, an aid and support (Sanad); but we must not forget the right of future generations to share in this wealth; we must not let selfishness control our attitude lest we devour (Naab) it by different means and leave future generations to live in an all-enveloping darkness. (33)

The realisation of any problem may be considered the first step towards its solution, but an effective and balanced policy is still required to produce the alteration necessary to minimise the long-term effects of such a problem. However, those who are the decision-makers in the Emirates have only recently begun to recognise the problem. The first effect of their realisation has been a restraint on the growth of certain allocations such as the Kuwaiti land purchase scheme. Moreover it has raised some questions such as the overstaffing of public sector and its effect on economic development.

These are in brief the principal factors which have determined the broadly based policies of allocating oil revenue in the Emirates. The summary exploration of these factors has shed light on their underlying causes, causes which must be understood and dealt with in a proper way if any alteration of the prevailing pattern of oil revenue allocation is to be effected.

NOTES - CHAPTER VIII

- (1) BAYAN, 1965/66, p.15
- (2) Lijnat tanizm Al-Jihaz Al-Wazify Al-Hikomy, Kuwait, 'Medakarah an Tasawir Al-Lijnh Liabaad Mashkilat tanzim Al-Jihaz al-wadify Al-Hikmy', p.1.
- (3) Ibid., p.3.
- (4) Ibid., p.5.
- (5) Ibid., p.6.
- (6) Ibid., pp.9-11.
- (7) Lijnat tanzim Al-Jihaz Al-Wazify Al-Hikomy, Kuwait, 'Miswadat Al-Lijnat bishan Al-Jamarik wa Al-Mawany', pp.1-5
- (8) Ministry of Finance and Petroleum, Qatar, private communication.
- (9) Department of Labour and Social Affairs, Qatar, Annual Report, 1964, Appendix 6.2.1.
- (10) Electricity Department, Qatar, private communication
- (11) Hay, Sir Rupert, The Persian Gulf States, p.30.
- (12) For a clear picture of the discussion see: SADA UL-USBQUA, from January-May 1973, Al-Seyassah, 28th May, 1973, pp. 1 and 11.
- (13) Ministry of Finance and National Economy, Bahrain, 'Al-Mizanih Al-Aameh lil Dawlih', 1974 (the budget issued on 5th Dec. 1973).
- (14) The Financial Times, 24/12/73, p 1.
- (15) For an interesting discussion about this matter see AL-SEYASSAH, 27/5/1973, p.2.
- (16) For a clear idea of the sharp increase in the price of land in Kuwait, see: Hill, A.G., 'Aspects of the Urban Development of Kuwait', pp.140-148 and 238-240.
- (17) Mann, C., op.cit., p.115.
- (18) MEED, 15th Sept 1972, p.1448.
- (19) The Financial Times, July 10th 1973, p.8, July 13th 1973, p.48; December 27th 1973, p 21.
- (20) Speiser, E.A., 'Cultural Factors in Social Dynamics in the Near East', p.22.
- (21) Bowen-Jones, H., 'Urbanisation and Economic Development', p.104.
- (22) Fisher, W.B., op.cit., p.133.
- (23) Ibn Hanbal, Al-Amam Ahmed, Al-Misnad, p.364.

- (24) For some aspects of Bedowin life and culture see: Lutfiyya, A.M., and Charchill, C.W., Reading in Arab Middle Eastern Societies and Cultures, see in particular Awad, M., 'Living conditions of Nomadic, Semi-Nomadic and Settled Tribal Groups', Fisher, W.B., op.cit., pp.130-136.
- (25) Hay, Sir Rupert, The Persian Gulf State, p.101.
- (26) Richmond, Sir John, op.cit., pp.4-5.
- (27) Ibid., p.11.
- (28) Bowen-Jones, H., op.cit., p.94.
- (29) IOR, R/15/5/230.
- (30) Sabah, Yousef Fadel Al-, 'Some Problems of Monolistic Economy with Capital Surplus', p.10.
- (31) Keesing, Donald B., 'Small Population as a Political Handicap to National Development', p.53.
- (32) BAYAN, 1965/66, p.8.
- (33) Al-Seyassah, 25/10/1973, p 3.

CHAPTER IX

IMPACT OF THE OIL REVENUE ON ECONOMIC DEVELOPMENT

In this chapter we will assess the impact of oil revenue on the Emirates' economic development. The attempt will necessarily be brief, avoiding statistical details and concentrating only on the most important features. The chapter falls into three parts: 1) Oil revenue and economic development. 2) Some aspects of the Emirates' economic development. 3) Some problems and obstacles to economic development.

Part One: Oil Revenue and Economic Development

This part will attempt to answer the two following questions: first, what is the nature of the oil revenue, and what is the role that it should play in economic development, second, the meaning of economic development for the purpose of this study.

A - The Nature of the Oil Revenue

The oil revenue has three clearly identifiable characteristics. First, the greater part of it is in the nature of an economic rent. Second, it is collected in return for depleting and irreplaceable natural resources. Third, it is the principal national benefit derived from an export-oriented industry.

A1 - Economic Rent Element

The difference between the production cost of crude oil and its price (posted and realised) is very high (see Chap. III, pp.83-85). This difference is accounted for mainly by the high cost of producing oil in other areas, as well as by the cost of producing other competitive sources of energy. This difference in the cost of production has resulted in the Emirates' oil industry earning over and above the necessary supply price of the factors of production, or in economic terms, 'economic rent'.

Since the 1950's the governments of the Emirates have joined other exporting countries in obtaining an increasing part of this surplus. Thus

their off-take per barrel has increased about eight fold in the last two decades (Table 3.6)*. The character of the Emirates' oil price structure was the principal reason for the Emirates' high off-take per barrel and consequently for their continually increasing oil revenue.

Having in mind this important element of 'economic rent' and its role in these revenues, we cannot but remember the potential possibility of discovering oil or other competitive resources in other parts of the world, or of making a new scientific breakthrough which would significantly reduce the cost of producing competitive sources of energy. Such a discovery, or technological breakthrough would consequently reduce the dependence on the Emirates' oil and decrease its price and the obtainable economic rent. Though such a possibility is not in sight in the near future (and despite the fact that the present energy shortage has its effect on increasing the economic rent), the possibility of a considerable decrease or even elimination of this element should be always borne in mind. This danger, therefore, threatens the level of the revenue obtained by the Emirates and consequently their national income. Thus, in addition to the dangers of a single resource economy, the presence of the economic rent element in the oil revenues renders vulnerable the present-day prosperity of the Emirates. Consequently this calls into question the Emirates' present-day practice of utilizing a considerable proportion of their oil revenue to maintain a very high standard of consumption. Moreover, it supports the case for investing the oil revenue in productive fields which should widen the productive capacity of the economies and diversify the sources of the national income.

Such an emphasis on cultivating the oil revenue rather than spending it on current consumption is further necessitated by the fact

* This is before allowing for the increasing price of crude oil since 1971 onward. The per barrel governmental receipt in 1974 may reach as high as eight fold that of 1970.

that the economic rent is an element of a highly sensitive nature, likely to deteriorate long before the supply price of the factors of production are affected. A deterioration of this sort might follow not only from technological development in the field of energy, though this will remain the principal potential cause, but also from economic and political pressure exerted by the consuming countries.

Hence any undue reliance on the oil revenue to support the present high standard of living could have very dangerous consequences. Investing it in productive activities so as to increase the absorptive capacity of the economies and diversify the source of national income would on the contrary in the long-term serve not only to enlarge and diversify productive capacity, but also indirectly to support and even raise the standard of living. Such an investment-oriented policy, when the prosperity of a country depends on so variable a revenue, has in its own right a strong case, even when the resource in question is not a depleting one.

A2 - A Society's Return for Depleting Irreplaceable Natural Resources

The second characteristic of the oil revenue is its function as society's return for the extraction of irreplaceable resources, i.e. petroleum resources. This fact indicates the temporary nature of these revenues. Even if the petroleum resources continued to be in demand, or even if they became more scarce as a source of energy or a raw material commanding a highly priced seller's market and producing a considerable economic rent, there still are two facts which must be realised. First, their production cannot go on for ever. Second, though their cost of production is not high, they have a social cost represented in their potential future utilisation.

These facts necessitate the cultivation of these revenues in widening the productive capacity of the economy and compensating for the cost incurred by the society in the depleting of its natural resources.

Such compensation should be in the form of building national assets equal to if not exceeding the predictable future benefits of these resources. The danger of utilising a considerable proportion for current consumption is the short-sighted waste of valuable natural resources, and the consequent removal of the Emirates' most important resource-base for future development. This danger was stressed in the United Nations Conference on the application of science and technology for the benefit of less developed areas:

"As one conference paper pointed out, funds derived from the sale of high grade resources should be converted to other forms of capital, which are of equal or greater value, particularly into basic industrial installations - and into power, transportation and communication systems ...The conversion of high-grade resources asset into current living expenses by means of export can lead to tragedy."(1)

A3 - Proceeds of Export-Oriented Production

If the exploitation of irreplaceable natural resources supports local production in other fields of a society's economy, then the revenue derived from the exploitation is not the main-spring of this economy, since these resources are utilised to support overall economic expansion by injecting energy or raw materials. Thus the producing country's main benefit lies in the impact produced by these resources on the productive capacity of the local economy; but, when these resources are exported as primary products, such as crude oil, then their main benefit to the economy lies in their proceeds, and their long-term impact lies in the purposes that these proceeds have been directed to. If these proceeds are used for direct consumption, then their effects will be limited to that purpose (particularly in an under-developed and open economy), while if they are invested to widen the productive capacity of the economy, then their impact will be more lasting and the economy will be able to develop other resources and build new national assets from the proceeds of the national asset which has been exported.

The Emirates' oil revenue represents the main advantage accruing to the national economies from the proceeds of crude oil exports. Thus these revenues represent the greatest part of the benefits derived from exploiting their natural resources, i.e. petroleum resources; the other benefits derived from the oil industry are minor if compared with its export proceeds. This fact directs our attention to the role that we expect the oil revenue to play; which is not only to raise the standard of living of the people of the Emirates for a short time, but also to assist in building national assets to replace the natural resources lost.

B - Meaning of Economic Development

In this study economic development is taken to mean an increase in real per capita income associated with structural changes as to produce self-sustaining growth forces in the economy. In this study we agree with Professor Gerald M. Meier, who defined economic development, "as the process whereby the real per capita income of a country increases over a period of time."⁽²⁾ However, one point should be made clear, that while Professor Meier considers that two or three decades is long enough to indicate development, this study - examining growth caused by exporting a single irreplaceable natural resource - must stress the importance of identifying economic development with structural change of the economy, and the generating of forces which can sustain growth.

While the increase in the real per capita income as an indication of economic development has been stressed by almost every student of economic development and need not be discussed here,⁽³⁾ structural change and the prospect of sustained development need brief clarification.

B1 - Structural Change and Sustained Growth

An increase in real per capita income may occur from exporting a single or a few primary commodities which enjoy a high demand abroad without causing significant change in other sectors of the home economy. A recent study of the Liberian Economy notes:

"Except in already developed countries, rapid growth may occur for a short time in response to isolated incidents such as the establishment of one or two new factories or the development of a few oil wells or iron mines. Spurts of this kind do not indicate the capacity of an economy to sustain high rates of growth. Neither do they necessarily indicate structural change inducing development in complementary activities."(4)

Thus structural change in a one-resource economy may be considered the only means by which such an economy can lay the basis for continuous progress.

"For development of a national economy really means that all the sectors - whether goods - producing or service-producing - and all regions become technologically progressive, although not necessarily at the same rate. For development means change and the incidence of change in the economic field is always uneven. But at the same time it remains true that development, if it means anything, means that production-functions are constantly changed and that capital is being constantly accumulated in all sectors and all regions. This is why an enclave economy - even one which yields a high level of per capita income and consumption to its inhabitants cannot be considered truly developed."(5)

A sustained and rapid economic development can be achieved only through structural change in an economy, permitting the utilisation of all the existing and potential resources of the society in any sector, and not encouraging dependence on any one sector at the expense of neglecting or hindering an exploitation of the potentiality of others. The structural change that is required cannot be confined to economic areas alone, but must also extend to social, political and cultural areas, for such a wide-ranging change is necessary to enable a society to utilise all its resources efficiently and productively, and thus raise its per capita income in the short term while at the same time sustaining long term growth.

One of the crucial steps in sustaining economic development, apart from increasing capital formation and modernising social institutions, consists in preparing and mobilizing human resources, and selecting economic incentives to direct human efforts to the fields where they are most

needed in order to promote economic development. This enables man to fulfil his function as a positive factor in the production process

So far we speak of sustaining economic development in a political unit. However as Mr. Demas has pointed out in his study The Economics of Development in Small Countries:

"To some extent even in transformed small economies the national economy may not in many important respects be the really important unit of economic activity, and economic regionalism may be an important means of such economies achieving a more self-sustaining pattern of growth."(6)

This directs our attention to the possibility of a wider framework through which small countries, such as the Emirates, may overcome one of their essential obstacles, i.e. the smallness which has restrained their prospects for structural change and sustained growth.

Part Two: Some Aspects of the Emirates' Economic Development

In the past three decades or so, the Emirates' economies have undergone a considerable change. The main cause of this change has been the development of the petroleum resources, which has affected the Emirates' economic progress in two ways. First, the oil industry has had a direct impact on the local economies, providing employment, increasing capital-formation and supplying the domestic market with cheap fuel and raw materials (see Chap. II, pp.52-68). Secondly, the industry has provided revenue for the governments. Since the early 1950's this revenue has been by far the most important factor in the economic development of the Emirates. From it has come all the existing social overhead capital. Almost all public and private assets have been accumulated from it. Also all the improvements in education, health, and the general standard of living have been directly supported by the oil revenue.

In this part we will assess the impact of the oil revenue on the development of the Emirates' economies. This assessment will entail a brief examination of certain aspects of the economic development of the

Emirates.

A - Social Overhead Capital

One of the most important effects of the oil revenue on the Emirates has been their investment in the basic infrastructure and the public utilities projects. The government of Bahrain, the first Emirate to receive oil revenue, decided to channel one third of its oil revenue into building up social overhead capital, a policy followed successfully in practice for two decades, 1935-1955. Since the early 1950's Kuwait and Qatar have also shown keen interest in building social overhead capital. Finally Abu Dhabi has joined the other Emirates since the late 1960's.

By 1970 each of the Emirates was spending between one fifth and two fifths of its total oil revenue on constructing ports, airports, roads, power stations, water distillation plants, hospitals, houses, public buildings and other construction works connected with the basic infrastructure and public utilities and services (see Fig. 8.1 and Table 8.1.). The impact of this expenditure on the local economies is indicated by the growth of facilities and encouragement of production.

A1 - Development of the Basic Infrastructure

Basic infrastructure projects, including the building of roads, sea ports, airports and administrative buildings are constantly in progress in each of the Emirates. Thus by 1970 all the Emirates had built a reasonable network of roads, linking all the main regions and towns as well as connecting the Emirates with other Arab countries (see Fig 1.1). The Emirates' dependence on imports has made it necessary for them to develop modern sea ports, provided with dredged approach channels for large vessels and with large berths and good handling equipment. The airports have also been developed, and each of the Emirates possesses a modern airport able to accommodate all the largest jets in commercial operation. Finally, they have constructed a number of modern administrative and official buildings. The table overleaf gives some indication of the facilities for the local

economies provided by the basic infrastructure projects:

TABLE 9.1

BASIC INFRASTRUCTURE: SOME INDICATORS, 1970*

<u>Service and Indicator</u>	<u>Unit</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
<u>Roads</u>					
Paved Road Networks	KM	100e	1,518	800	200
No. Vehicles in use	000	13	149	N.A.	10
<u>Sea Ports</u>					
Large Vessels (called) ^x	No.	551	2,417	276	204
Import Value	Million QDR	801	2,960	305	352
DWT (Import)	000 Ton	323	N.A.	N.A.	221
Export and Re-Export ^{**}	Million QDR	252	351	15 ^{xx}	27 ^{xx}
<u>Airports</u>					
Aircraft Movement	No.	14,088	16,098	N.A.	9,966
Cargo Imports	M. Tons	2,707	7,233	N.A.	2,247
Cargo Exports	M. Tons	1,764	2,831	N.A.	574
Passenger Arrivals	000	N.A.	231	N.A.	50
Passenger Departures	000	N.A.	207	N.A.	50
Passenger Transit	000	98	94	N.A.	47

e: estimation.

*: Dubai has not been included because almost all the infrastructure facilities existing in 1970 had been developed before receiving the oil money.

** : Excluding foreign oil companies exports.

x: All large vessels excluding oil tankers.

xx: Figures for six months of 1971 only.

Source: SAK, 1971; SAB, 1971; SBA, 1969-1971; Customs Department, Qatar, Yearly Bulletin of Imports, 1970 and 1971; Government of Qatar, 'Background Features'.

A2 - Social Infrastructure

After the basic infrastructure it is the social infrastructure that has benefited most from construction schemes. Schools and hospitals were among the first development projects in the Emirates, which have provided free education and health services for every inhabitant. The housing

schemes were introduced later. Every Emirate has developed its own project in this field. Kuwait was the first to start large scale housing schemes in the mid 1950's, followed by the other Emirates in the late 1960's.

The following table shows the impact of the oil revenue on the construction of the social infrastructure projects.

TABLE 9.2

NUMBER OF SCHOOLS, HOSPITALS AND LOW INCOME HOUSES BUILT BY THE
GOVERNMENTS, END 1970

<u>Sector and Indicator</u>	<u>Unit</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
<u>Schools and Educational Institutions</u>					
No. of Schools (Govt. property)	No.	50	230	85	24
No. of Classes	No.	711	4,644	640	N.A.
<u>Hospital and Health Centres</u>					
Hospitals	No.	3	11	3	N.A.
Others	No.	17	321	10	N.A.
Beds	No.	907	3,557	581	N.A.
<u>Housing</u>					
Low Income Houses	No.	1,385	11,845	1,000	1,346
as % of Total Houses	%	4.5%	11.4%	7.7%	13.6%

Source: SAK, 1971; SAB, 1971; Ashir, A.E., Bahrain Trade Directory, 1971, p.139; MEDD, 'Economic Survey of Qatar', Education Department, Qatar, Annual Report, 1970/71 and 1971/72.

A3 - Public Utilities

The investment of oil revenue in the public utilities, and particularly the supply of water and electricity, has been a major concern of the governments of the Emirates. Thus the construction of power stations, sea-distillation plants, gas pipelines, and the development of means of distributing water and power were often given top priority. The postal, telephone and telegraphic services were also developed by government expenditure in some of the Emirates, but the only government to spent

considerable sums on these has been the government of Kuwait, which took these services over from a private firm in the late 1950's (see Table 8.1).

The impact of capital expenditure on developing the capacity to produce electricity and water is shown in Table 9.3.

TABLE 9.3

THE EMIRATES: ELECTRICITY AND WATER PRODUCTION, 1970^x

<u>Sector and Indicator</u>	<u>Unit</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
<u>Electricity</u>					
Installed capacity	Mega-watt	80	1,096	75	28
Units produced	Million KWH	243	2,213	279	N.A.
No. of consumers	000	46	N.A.	19	N.A.
<u>Water</u>					
Total production	Million Gallon	N.A.	12,438	2,300	(1)
Distillated Water	" "	=	5,935	1,168	(1)

x Public sector only.

- (1) Figures for water production have not been obtained. However, by 1970 the government was able to construct a water pipeline to pump water from the interior to Abu Dhabi town. Also a distillation plant was constructed with a capacity of six million gallons per day.

Source: SAK, 1971, The Planning Board, Kuwait, The Kuwait Economy, 1969/70, p.43; SAB, 1971; Ministry of Electricity and Water, Qatar, Direct contact.

A4 - Industrial Estates

In addition to government capital expenditure on the infrastructure and public utilities, Kuwait has also established an industrial estate to accommodate heavy industry in one area and provide it with all the necessary facilities. An Emiri Decree issued in 1964, established the Directorate General of Shuaiba Industrial Corporation (later changed to 'Shuaiba Area Authority'). The Area Authority provided industry with a suitable site, constructed roads and sewers, provided natural gas, constructed specialised sea ports (mainly for export) and provided fire-fighting and other similar services. In addition to this the area provided industry with electricity and water. The Authority prepared specialised studies to promote and

attract industry to the estate. The following table shows some of the Shuaiba Area activities:

TABLE 9.4

SHUAIBA AREA ACTIVITIES, 1970

	<u>Unit</u>	
Area (total) (1972)	Million Square Meter	6
Used Area (1972)	" " "	2
Roads (1972)	KM	18
Cooling water pumped	Million Square Meter	772
Natural gas consumed	Million Cubic Meter	1,039
Sea ports	No.	3
Export	000 Million Tons	4,221
Import	000 Million Tons	100
Electricity (consumption)	Million KWH	438
Drinking water	Million Cubic Meter	2.6
Employment	Person	2,602
No. of industry accommodated (1972)	No.	10

Source: Shuaiba Area Authority, Mantaqat Al-Shuaiba Al-Sinayih, 1973.

Bahrain and Qatar considered establishing similar estates, but none was constructed before the early 1970's, when Qatar decided to develop Umm-Said Area as an industrial estate and Bahrain chose the Sitra Area as a site for heavy industry.

B - Direct Productive Activites

The impact of oil revenue on the capital formation of the Emirates in the direct productive activities is considerable. The only sector not supported by the oil revenue is the petroleum sector (production and to a lesser extent refining).^{*} The capital invested in this sector is either foreign capital or a re-investment of oil companies profits. Apart from this instance the oil revenue has played an essential role in providing the capital accumulated and invested in all the direct productive

* The only exception up to 1970 was the 10% of AOC capital owned by the Government of Kuwait, and the capital invested in the national oil companies.

activities. The effect has been both direct and indirect. The allocation of part of this revenue to investment (the reserve fund) has had a direct impact, while the impact of government public expenditure (the channelling of the oil revenue) and the re-investment of public and private sector profits, have had an indirect influence.

To assess the role played by the oil revenue in the capital-formation and production of the direct productive activities, we will try to establish the total assets invested in this sector and we will examine some indicators of its productive capacity.

B1 - Estimated Total Assets Invested in the Direct Productive Activities

The estimated total assets held by the public sectors are given in the reserve fund accounts and its investment outlets. The assets invested in the private sectors are difficult to assess. However, the following table attempts to establish these assets in so far as the published sources of information make this possible.

TABLE 9.5

ESTIMATED ASSETS INVESTED IN DIRECT PRODUCTIVE ACTIVITIES, 1970

(MILLION QDR)

<u>Sector and Investment</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
<u>Public Reserve Fund</u>				
Public Establishments	N.A.	1,596	N.A.	N.A.
Local Company Shares	N.A.	598	107(3)	N.A.
Local Loans and Deposits	N.A.	1,330	111	N.A.
Loans to Governments	N.A.	1,529	-	N.A.
Investment Abroad	N.A.	2,820	510	N.A.
Others	N.A.	3,748(1)	-	N.A.
Total Public Sector Assets	<u>53</u>	<u>11,052</u>	<u>728</u>	<u>154</u>
<u>Private Sectors^x</u>				
Joint Stock Companies	N.A.	910(2)		N.A.
Limited Liability Cos.	N.A.	271(2)	329(4)	N.A.
Joint Liability Cos.	33(5)	373(2)		N.A.
Deposit of the Residents with Commercial Banks	375	4,356	278	192
Total Public & Private Assets	<u>461</u>	<u>16,962</u>	<u>1,335</u>	<u>346</u>

(1) The independent account.

(2) The authorised capital of the companies registered with the Ministry of Finance, Kuwait. 20% was added to the authorised capital of 1968 to make up the estimated capital at the end of 1970.

(3) Including shares in Arab companies.

(4) Total capital invested in Trade and Industry excluding capital owned by foreign oil companies, but including government shares in the authorised capital of joint stock companies.

(5) 31/12/1969. The capital paid up in 55 industrial companies (out of 145 registered in 1969).

x The private assets does not include the private sectors' direct investment abroad. Assets invested in farms, local crafts and small businesses are also excluded.

Source: App. 5.4; The Planning Board, Kuwait, Kuwait Economy, 1968/69, pp.98 and 100; Kuwait Chamber of Commerce and Industry, op.cit., p.58; Table 6.9; Ministry of Economy and Commerce, Qatar, op.cit., pp.96 and 122; (Chap. IV, p.119); SAB, 1971, p.42; Mulla, A.A.K. Al-, op.cit., p.13; SBA, 1969 and 1970.

The table shows the public assets, and gives a rough idea of the proportion of private assets invested in commercial and industrial

enterprises or deposited with the local commercial banks. The estimated Kuwaiti total assets invested in productive activities was KD 1,276 million or about 37% of the total oil revenue received by the state, 1947//1970/71.

B2 - Agriculture and Manufacturing Industries

The impact of the oil revenue on industrial and agricultural development, compared with its impact on other fields of the Emirates' economies, is not very significant. This is mainly for two reasons, the low absorptive capacity of the local economies and the lack of sufficient economic strategies from the governmental side.

The establishment of small factories in the construction and food industries started in the 1950's, or perhaps earlier. However, the establishment of large modern industries did not begin before the mid-1960's. By this time Kuwaiti public and private capital had begun to be invested in heavy industry; later Qatar and Bahrain followed suit. By 1970 a number of heavy industries were in production and others were under construction.

In agriculture and fisheries, development was also moderate, and the most distinguished event was the growth of cultivated land in Qatar, where the area under cultivation increased from 1,570 Donum in 1960 to 13,488 in 1970.*

The economic impact of the development of manufacture and agriculture is shown in the following table:

o

* Recently I have been told that the area of cultivated land in 1972 had dropped below that of 1970 and 1971.

TABLE 9.6

SELECTED EMIRATES' AGRICULTURE AND INDUSTRY: SOME INDICATORS, 1970

	<u>Kuwait</u>	<u>Bahrain</u>	<u>Qatar</u>
<u>Employment as % of economically Act. pop.</u>			
Manufacture	13.7%	6.9 ^x	11.0% [*]
Agriculture and Fisheries	1.7%	6.6	4.0%
<u>Contribution to the GDP as %</u>			
Manufacture	3.5%	N.A.	N.A.
Agriculture and Fisheries	0.4%	N.A.	N.A.
<u>Other Indicators</u>			
No. of public share-holding companies within Manufacturing Ind	10	2 ^{xx}	2 ^{**}
Cultivated Land (Donum)	5,297	N.A.	13,488
Import of Machinery and Transport Equipment as % of total Import	35.9%	7.2%	47.1% [∅]
Import of Crude Materials & Inedibles as % of T. Import	1.5%	1.4%	0.2% [∅]

* Including public utilities.

** Qatar Cement Company and Qatar Fertilizer Company.

x Excluding oil refining.

xx ALBA and Bahrain Flour Mills Company.

∅ Representing 1972, the first year when the customs statistics have classified on international comparative bases.

Source. Kuwait Chamber of Commerce and Industry, op.cit., pp.34 and 70; The Planning Board, The Kuwait Economy, 1969/70, p.128 and 1970/71-1971/72 (in Arabic) p.120; Statistical Bureau, Bahrain, Statistics of the Population Census 1971, p.23; Statistical Bureau, Bahrain, Foreign Trade, 1970, pp 6-9; Ministry of Commerce and Economy, Qatar, op.cit., p.9; Al-Kuwari, Sultan R., Al-Tharwah Al-Ziraayih, p.19; Customs Department, Qatar, op.cit., 1972.

B3 - Financial and Commercial Sector

The commercial and financial sector has developed rapidly in the last two decades. Commercial activity was mainly centered on the import trade, except in Bahrain where re-exporting is quite important (see Table 9.1). In the financial sector the Commercial Banks and Insurance Companies are the main interest. Very little attention has been given to specialised banks, e.g. for industry, agriculture or fisheries. Only Kuwait established

saving and credit banks in the 1960's to provide low interest loans for real estate, industry and agriculture.* The effect of this sector on the Emirates' economies is indicated below:

TABLE 9.7

SELECTED EMIRATES' COMMERCIAL AND FINANCIAL SECTOR: SOME INDICATORS, 1970

<u>Indicator</u>	<u>Kuwait</u>	<u>Bahrain</u>	<u>Qatar</u>
Employment as % of Economically Active Pop.	14.0%	12.4%	18.3%
Participation in the GDP (% of 1969/70 GDP)	8.6%	N.A.	N.A.
No. of National Commercial Banks	4(1)	1	1
No. of Specialised Banks or Currency Board	2	1	1
No. of National Insurance Companies	3(1)	1	1
No. of Investment Companies (Joint Stock)	2(1)	-	-

(1) 31/12/1969.

Source: Kuwait Chamber of Commerce and Industry, Kuwait, op.cit., p.34; The Planning Board, Kuwait, Kuwait Economy, 1969/70, p.128; Statistical Bureau, Bahrain, Statistics of the Population Census, 1971, p.23; Ministry of Commerce and Economy, Qatar, op.cit., p.9.

C - Impact on Health and Education Services

The oil revenue has been utilised not only to provide capital for this sector but also to support current expenditure. Together with wages and salaries, and the associated goods and services, this expenditure also covers the cost of free medicine, the cost of treatment abroad, and the cost of books and other materials needed by the students.

The Emirates utilise a major or part of their current expenditure for the support of education and the health services. Table 9.8 shows the current expenditure on the social services (mainly education and health) as a proportion of the total current expenditure and the total oil revenue during the period studied in each Emirate.

* The Saving and Credit Bank in Kuwait had loaned KD 25.9 million on 31/3/1971. 89% to real estate, 5% to industry, 3.8% in social loans, 0.2% to agriculture, and 2% - other loans.

TABLE 9 8

TOTAL CURRENT EXPENDITURE ON THE SOCIAL SERVICES (PERIOD STUDIED)(MILLION QDR) AND PERCENTAGES

<u>Emirate</u>	<u>Total</u>	<u>% of Total Current Expenditure</u>	<u>% of Total Oil Revenues</u>
Kuwait (1952-70/71)	6,365	31.8%	14.5%
Bahrain (1947-1970)	489	65.7%	26.1%
Qatar (1953/55&66/70)	328	53.7%	11.0%
Abu Dhabi (1967-1970)	119	11.0%	3.4%

Source: Apps. 4.1, 5.1, 6.1, 7.1, 4 2.1, 5.2.1, 6.2.1, and 7.2.1.

C1 - Education

All the Emirate governments have shown a keen interest in education. Bahrain and Kuwait had subsidised the schools established by the merchant communities even before they received the oil revenue. However, the massive development of education started in the early 1950's. Since then all the governments, especially those of Kuwait and Qatar, have encouraged education, not only by running sufficient schools to accommodate every child of school age, but also by running schools in every village, providing free meals, free transport and all school materials, and in Qatar a salary was also given to every student starting from his first school year. This policy encouraged the people to send their children to school and in Qatar even made the parents insist on sending their daughters to boys' schools when no school for girls was established. The following table shows some indicators of educational achievement in the Emirates.

TABLE 9.9
EDUCATIONAL INDICATORS, 1970/71

<u>Indicator</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u> <u>(69/70)</u>
No. of Students	47,106	138,747	18,531	6,972
No. of Students as % of Total Pop. ^r	21.8%	19.9%	15.4%	13%
Pupil/Teacher Ratio	1:24	1:15.3	1:17.3	1:20
Passing Exam.-General Primary Level	4,869	N.A.	1,110	N.A.
" " " Secondary Level	982	N.A.	276	N.A.
" " " Technical Level	39	N.A.	21	N.A.
" " " Commercial Level	55	N.A.	25	N.A.
University Graduates	38 ^x	446	15 ^{xx}	N.A.
Government Scholarships Abroad	N.A.	533	290	380
Cost per Student (QDR) ^{**}	777	2,867	2,063	3,647

x The total of university graduates up to 1970 was 303 students

** Current expenditure only (1970).

N.A. Not available.

* The low percentages in Kuwait, Qatar and Abu Dhabi may be explained by the distortion of the age structure of the population by the high proportion of male immigrants (see Table 1.3).

xx The total of Qatari graduates was 59 students.

Source: SAB, 1971, Ministry of Education, Bahrain, Annual Report, 1970; SAK, 1971; Ministry of Education, Qatar, Annual Report, 1970/71; SBA, 1969 and 1970; Apps. 4.2.1, 5.2.1, 6.2.1 and 7.2.1.

C2 - Health Services

The Emirates have expended a considerable proportion of their oil revenue on the health services.

In addition to financing the building of reasonably well equipped hospitals, the money allocated has permitted a heavy current expenditure, covering wages and salaries, free medicine and the major expenses involved in sending some patients abroad for medical treatment. To show the situation of the health services in the Emirates, we refer to the following indicators:

TABLE 9.10

HEALTH SERVICES: SOME INDICATORS, 1970^x

<u>Emirates</u>	<u>People/Bed Ratio +</u>	<u>People/Doctors Ratio</u>	<u>Per capita cost¹ of Health Services (QDR)</u>
Bahrain	227	2,333	118
Kuwait	207	1,087	290
Qatar	193	1,876 ^{xx}	436
Abu Dhabi	620	N.A.	283

x Government only.

xx 1969.

Source: SAB, 1971; SAK, 1971; SBA, 1969 and 1970; Guani, F., Nahdat Qatar Al-Sihiyeh.

In addition to the expenditure on education and the health services, the Emirates, particularly Kuwait and more recently Qatar, have introduced schemes for social security.

D - Effect on the Standard of Living

The effect of oil revenue in raising the standard of living is very significant indeed. This revenue has been the main factor in increasing the national incomes and the per capita income, which is not only the highest in the third world but in many cases is even higher than in many advanced countries, if indeed it is not the highest of them all.* To demonstrate the high standard of living in the Emirates, we refer to the following table.

*

It is certain now that in 1974 the per capita income in most, if not all of the Emirates will be very considerably higher than in any of the advanced industrial states. This is only because of the high increase in the price of crude oil.

TABLE 9.11

STANDARD OF LIVING INDICATORS, 1970

<u>Indicator</u>	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>	<u>Abu Dhabi</u>
Per capita income, \$ ^x	844(1)	3,016(2)	N.A. ³	N.A. [*]
Per capita income from oil revenues, \$	196	1,134	1,082	888
Per capita imports, \$	767	847	573	810
Net per capita imports (food and live animals), \$	87	123	110	93
Net per capita import of Electrical Machinery, Apparatus and Appliances, \$	46	83	N.A.(3)	83
Private car/people ratio	1:16(4)	1:5.6	N.A.	N.A.

* Estimates suggest a level approximately the same as in Kuwait.

x In 1969 the GNP per capita income in the USA was \$3,603; U.K. \$1,610, Turkey \$290, U.A.R. \$137, India \$90 and Haiti \$65.

(1) 1968 per capita gross national products at market price.

(2) 1969/70 per capita national income at factor cost

(3) 1970 was the first year in which Qatar state published a foreign trade statistics. The Bulletin was not classified on a comparative basis

(4) Total of registered vehicles

Source: Table 1.3 and 3.8; SAK, 1971; Statistical Bureau, Bahrain, Foreign Trade, 1970; Matter, S.A., 'A Preliminary Estimate of Gross Products of Bahrain for 1968', p.4; SAB, 1970; Customs Department, Qatar, op.cit., 1970; SBA, 1969 and 1970.

As the table shows the Emirates' standard of living may be compared with many advanced countries and is much better than that of the third world. The net import of food alone is well above the per capita income of many countries.

However, the problem with the 'on the average' indicators is its generality. Nevertheless, though indicators such as per capita of national income, oil revenue and total import may say very little about the distribution of income and welfare, the net per capita import of food stuff and electrical equipment and the car/people ratio may provide more reliable indications of the level of consumption and welfare.

E - The Growth

So far we have surveyed the impact of the oil revenue on some aspects of the society and economies of the Emirates. Here we will show very briefly how rapid the development has been and its effect on the structural balance of the Emirates.

To speak of any sort of progress achieved in the Emirates, apart from the production of oil itself, is clearly to speak of the effects of the oil revenue. This revenue changed the Emirates from poor, completely underdeveloped countries, lacking in almost every aspect of modern life to countries graded among the most advanced nations of the world by many social and economic indicators, such as the per capita income, health and education facilities and welfare services. Whereas before they received oil revenue the Emirates had few students who completed even the elementary level of education, each of them now has hundreds of students every year who complete their secondary education or graduate from universities. The benefits of the production of electricity and distillation of sea water are enjoyed by every inhabitant, solely as a result of this revenue, and all the innovations of modern technology, from luxury cars to transistor radios and diesel engines, as well as all sorts of food, clothes and other products have been imported to the Emirates only because of this revenue.* The following table cites only a few indications of the continuation of this development even after the early years of receiving the oil revenue

* However, though every inhabitant in the Emirates has so far enjoyed the fruits of this change, inequality is considerable and the distribution of these fruits has not been proportionate to the productivity of the people or their role in economic development.

TABLE 9.12

SOME FEATURES OF THE RAPID DEVELOPMENT (INDEX)

<u>Indicator</u>	Base Year = 100	<u>Bahrain</u> <u>1970</u>	<u>Kuwait</u> <u>1970</u>	<u>Qatar</u> <u>1970</u>
Students in the Government School	1,956	626	683	1,300
Electricity Production KWH	1,956	1,140	2,573	3,883
Import Value	1,959	307	239	N.A.
Export Value*	1,959	232	377	N.A.

* Excluding crude oil and products exported by international oil companies.

Source: SAK, 1971; SAB, 1971; Ministry of Education, Bahrain, Educational Statistics 1961-1971; Statistical Bureau, Bahrain, Foreign Trade, 1970; Hamer, A.M. Al-, Development of Education in Bahrain 1940-1965, pp.44-45; Ministry of Education, Qatar, Annual Report, 1970/71, Ministry of Water and Electricity, Qatar, Direct contact.

However, although these indicators are true in absolute and relative terms, as far as the whole period studied is concerned, relative to the 1960's alone they are not necessarily accurate. In Kuwait, for which the GDP and GNP have been calculated, since the early 1960's, the per capita GDP between 1965 and 1970 fell by about 4.5% annually. This fall has been noted in a recent study by Dr. Riad El-Sheikh where he writes:

Between 1965 and 1970, population growth averaged 11.6% annually. This is slightly ahead of the annual growth rates of consumption (10%), GNP (11%) and national income (10.7%), thus indicating a slight fall in per capita income and consumption. ...GDP grew by only 6.7% which implies that per capita GDP fell by 24.6% over a period of five years or by about 4.5% annually.(7)

Nevertheless one would even welcome such a trend if it were the result of a planned policy to put more emphasis on the non-oil sectors so as to achieve a structural change in the economy. This was not so, and the reason was only the marketing difficulties which had been facing Kuwaiti crude oil during the late 1960's. These difficulties slowed the rate of growth in crude oil production (App. 2.1.2). This indicates the extent of variability in the growth trends of the Emirates and

demonstrates the difficulties likely to face the Emirates' economies when there is a drop in the market price for oil, or a change in the pattern of demand, or when the oil resources are depleted. This is so in spite of the fact that the recent increase in the price of oil will easily double the per capita income in most of the Emirates this year (1974).

Without discussing in depth the effect of the oil revenue during the last two decades (1950-1970) in inducing structural change in the Emirates' economies,⁽⁸⁾ one can see from the many aspects of its influence discussed throughout this thesis, that it has had only a limited impact on productive capacity, and on the mobilisation of internal forces and the creation of internal factors necessary for sustaining economic development. Taking Kuwait as an example, we see that in 1970/71 the contribution to the GDP by the primary and secondary sectors excluding oil was only 3.9%, and their share of total employment was 15.4% (Table 9.6). In addition to this the allocational policies for the oil revenue pursued by the Emirates during the period studied have not aimed primarily at sustained development and structural change. In actual fact, as noted earlier, these policies have in some cases even produced negative results and created new problems. These problems, added to the unsolved problems of the past, are actively hindering the Emirates' achievement of structural change and sustained growth. These problems are the subject of the next part of this chapter.

Part Three: Some problems and obstacles to Economic Development

While oil revenue has played a very significant role in developing many aspects of the Emirates' economies, its impact differs greatly from one field to another. The main stress has been on channelling the oil revenue to the household sector, rather than investing it in productive activities. It has been directed to consumption rather than production. This policy has failed to solve some of the problems and overcome some

of the obstacles facing the Emirates. It has even raised new problems which, if unsolved, will hinder structural change and sustained development. In this part we will discuss briefly some of these problems and obstacles.

A - Overwhelming Dependence on Oil Revenue

The Emirates' high per capita income, their prosperity, indeed every aspect of their social, economic and administrative life, is mainly supported by this revenue. Thus, if anything happens to decrease this revenue considerably, a not unlikely prospect, the whole economic structure will inevitably collapse completely unless new alternative sources of national income can be rapidly developed.

That the Emirates' growth and prosperity is overwhelmingly dependent on the oil revenue is beyond dispute. However, to show the degree of this dependence we refer to the following table:

TABLE 9.13

POSITION OF THE OIL SECTOR AND REVENUES IN GDP, PUBLIC REVENUE,
AND EXPORT, 1970

	<u>Kuwait %</u>	<u>Bahrain %</u>	<u>Qatar %</u>	<u>Abu Dhabi %</u>
Oil Sector share in the GDP	60 [*]	50 ^{xx}	N.A.	N.A.
Oil Revenue share in the Public Revenue	91 ^x	80.5	90	97
Oil and Oil Products share in the Total Export and Re-Export	95 ^x	74 ^{xx}	N.A.	N.A.

x 1969/70.

xx 1968.

* 1970/71.

Source: Apps. 4.1; 5.1; 6.1 and 7.1; Kuwait Chamber of Commerce and Industry, Kuwait, op.cit., 1971, p.82; Central Bank of Kuwait, Second Annual Report, 1971, p.27 (in Arabic); Matter, S.A., op.cit., p.34.

This overwhelming dependence constitutes a great danger, particularly, when we realise the temporary nature of this source of income. The governments of the Emirates have done little to solve this problem; their

dependence on this source of revenue for consumption purposes has even increased; and an increasing proportion of the oil revenue has been diverted from capital expenditure and the reserve fund to current and transfer expenditure (Table 8.2 and Fig. 8.2). It was not until the late 1960's that the Kuwait government realised the full implications of this problem and started thinking about re-channelling some of its oil revenue (Chap. VIII, pp.234-235). The government succeeded in increasing the contribution of the non-oil sector in the GDP from 36.9% in 1965/66 to 39.7% in 1970/71.⁽⁹⁾ However, there was another reason for this change. This was the low rate of growth in Kuwait crude oil production. Nevertheless the share in the GDP of the primary and secondary sector (excluding crude oil and gas production) only increased from 3.6% in 1965/66 to 3.9% in 1970/71.⁽¹⁰⁾

Though all the Emirates have experienced the problem at different stages of their development and have tried to adopt policies to reduce the danger involved, to judge by the state of the Emirates' economies in 1970 the problem remains as important as ever. A search for a solution and for effective means of diversifying the economies and ensuring sustained growth should be the main concern of both governments and people. They should take advantage of the golden opportunities they now possess before it is too late.

B - Underutilising the Human Resources

The Emirates, with their capital-surplus economies and lack of varied natural resources, should concentrate on the development and full utilisation of their human resources. These resources are the most precious of all resources in any society. They are the only positive factor in production and hence their development and effective utilisation in productive activities will be the pre-condition for structural change and sustained development. The development of these resources is so

outstandingly important that F.H. Harbison concluded in his book Human Resources as the Wealth of Nations, "that a nation which is unable to develop and utilise its labour force effectively will be unable to develop anything else."⁽¹¹⁾

The role of human resources in economic development is considered by increasing numbers of economists to be one of the most important factors. H.W. Singer, taking the view that the capacity to create wealth resides essentially in the people of a country, wrote:

"The fundamental problem is no longer considered to be the creation of wealth, but rather the creation of the capacity to create wealth. Once a society has acquired this capacity to create wealth, the creation of wealth itself becomes almost incidental; it follows quasi-automatically."⁽¹²⁾

The Emirates' policies for developing and utilising their human resources have failed to create the skills and develop the talents most needed for economic development and have failed to utilise existing skills in efficient productive activity. Indeed their policies have even resulted in a great waste of these resources, for they have resulted in a diversion of nationals from the most productive activities to well paid disguised unemployment in the public sectors and they have caused some groups to be offered sources of income that make them reluctant to join the labour force.

B1 - Disguised Unemployment

Disguised unemployment in the public sectors is a very clear phenomenon in Kuwait, Qatar and Abu Dhabi (see Chap. VIII, pp.193-203), where every citizen is entitled to a job in this sector whether his work is needed or not. This problem was not serious to begin with, but later, in addition to imposing a financial burden on the government budget, it diverted considerable numbers of citizens from the private sector to the public sector, where production is lowest. Thus it is not strange that the Kuwaiti and Qatari employment percentages were very low in some

sectors, while they were highest in the government services, as the following table shows:

TABLE 9 14

KUWAITI AND QATARI EMPLOYEES AS PERCENTAGES OF TOTAL ECONOMICALLY ACTIVE POPULATIONS IN SOME SECTORS, 1970

	<u>Kuwait</u>	<u>Qatar</u>
Total Economically Active Population [*]	234,356	48,390
Nationals as Percentage of Total	<u>25.4%</u>	<u>17%</u>
Agriculture and Fisheries	19.9%	4.3%
Construction	6.5%	2.6%
Banking and Commerce	25.1%	11.3%
Government ^{xx}	47.8%	22.5% ^x

* Nationals and expatriate

x Excluding public utilities.

xx Total employment in the government services, 1970 was 93,531 or 39.9% of total economically active population

Source: Qatar: MEDD, Economic Survey of Qatar, p.5.

Kuwait: Kuwait Chamber of Commerce and Industry, op.cit., 1971, p.34; Lijnat tanzim Al-Jihaz Al-Wazify Al-Hikumy, 'Mudakarah An Tasawar Al-Lijnh Liabaad Mushkilat tanzim Al-Jihaz Al-Wadify Al-Hikumy', p 12

This table gives some indication of the strong preference of the nationals of the Emirates for government employment; in Kuwait about 58.5% of the total economically active Kuwaiti population were employed in the government services; * in Qatar the proportion was about 30% (see the same source as Table 9.14) In Bahrain under-employment exists in agriculture and the local fishing industry both of which are still operated almost in traditional ways.

B2 - Economically Active Population

The economically active population among the Emirates' nationals are the lowest in the world, as may be seen from the comparative table overleaf.

* The 58.5% of Kuwaiti citizen labour force or the 39.9% of total economically active population engaged in the government services, is very high indeed by any standard. The correspondent figure in 1969 for U.K. was 11.9%, Venezuela 12.4% and Bolivia 4.4% (1970) (See Finance and Development, March 1974, p.31).

TABLE 9.15

ECONOMICALLY ACTIVE POPULATIONS AMONG EMIRATE NATIONALS:COMPARATIVE DATA, 1970 (PERCENT OF TOTAL POPULATION)

Kuwait ^x	17.2%
Bahrain ^x	21.8%
Qatar ^x	18.1%
Libya	25.6%
Iraq	39.6%
USA	40.9%
UK	46.7%
Japan	49.8%

x Excluding expatriate populations.

Source: Kuwait: Kuwait Chamber of Commerce and Industry, op.cit., 1971, pp.27-34; Statistical Bureau, Statistics of the Population Census 1971, pp 6 and 25; MEDD, 'Economic Survey of Qatar', p.5.

The table indicates that the proportion of Emirate nationals engaged in economic activities was lowest even when compared with other Arab countries where social conditions are not very different. The main reasons for this low proportion are:

- (a) The social conditions which prevent women from seeking economically active employment outside their homes.
- (b) The high birth rate prevailing since the 1950's, consequently increasing the section of the population aged under twenty. Free education also encouraged young people to continue their formal education and raised the school population.
- (c) Though unemployment in the strict sense is low^{*} another sort of unemployment exists. This includes many people who have left their traditional occupations and live on social security

* However, during the 1960's Bahrain seemed to be faced with increasing unemployment. This was caused by the increasing number of school leavers and the lack of employment opportunities. This problem was eased during the late 1960's when considerable numbers of educated persons emigrated to Abu Dhabi.

(c)/ allowances, and the members of the Ruling families and considerable numbers of their relatives and dependents.

These three reasons account for the Emirates' low percentages in the table, and the differences among the Emirates themselves as well as the differences between the Emirates as a group and other countries in the world

B3 - Education: Orientation and Motivation

The Emirates have done little to orient education and encourage training in the skills most needed to promote economic development. The choice of subject and the type of study were left to the students who were assured, no matter what they studied, of a job, by right of birth, in the public sector (Bahrain excluded). This has directed most students from science and technology to "softer" subjects, which are not only easier to study but may also secure white-collar jobs with high prestige later on. Thus most students choose to go into the general section of secondary education instead of going into the specialised sections - Teacher Training, Commerce and Technical Schools - even if they plan to leave school after this level.^{*} Such a preference is clear in all the Emirates, as is demonstrated by the following table which shows the pattern of education at the secondary level.

* In Qatar some graduate students from technical secondary schools found it much better to have a clerical job than the jobs they were trained to do.

TABLE 9.16

SELECTED EMIRATES: DISTRIBUTION PATTERN OF STUDENTS AT THE
SECONDARY LEVEL, 1970/71*

<u>Level</u>	<u>Number</u>		
	<u>Bahrain</u>	<u>Kuwait</u>	<u>Qatar</u>
General Section	5,242	15,997	911
Commercial Section	490	489	66
Teacher Section	289	2,103	237
Technical Section	439	1,565	59
Total	<u>6,460</u>	<u>19,154</u>	<u>1,273</u>
General Section as % of Total	81.1%	83.5%	74.6%

* Excluding religious studies.

Source: Bahrain: Ministry of Education, Educational Statistics, 1961-1971.
Kuwait: SAK, 1971.
Qatar: Ministry of Education, Qatar, 'Annual Report,' 1970/71

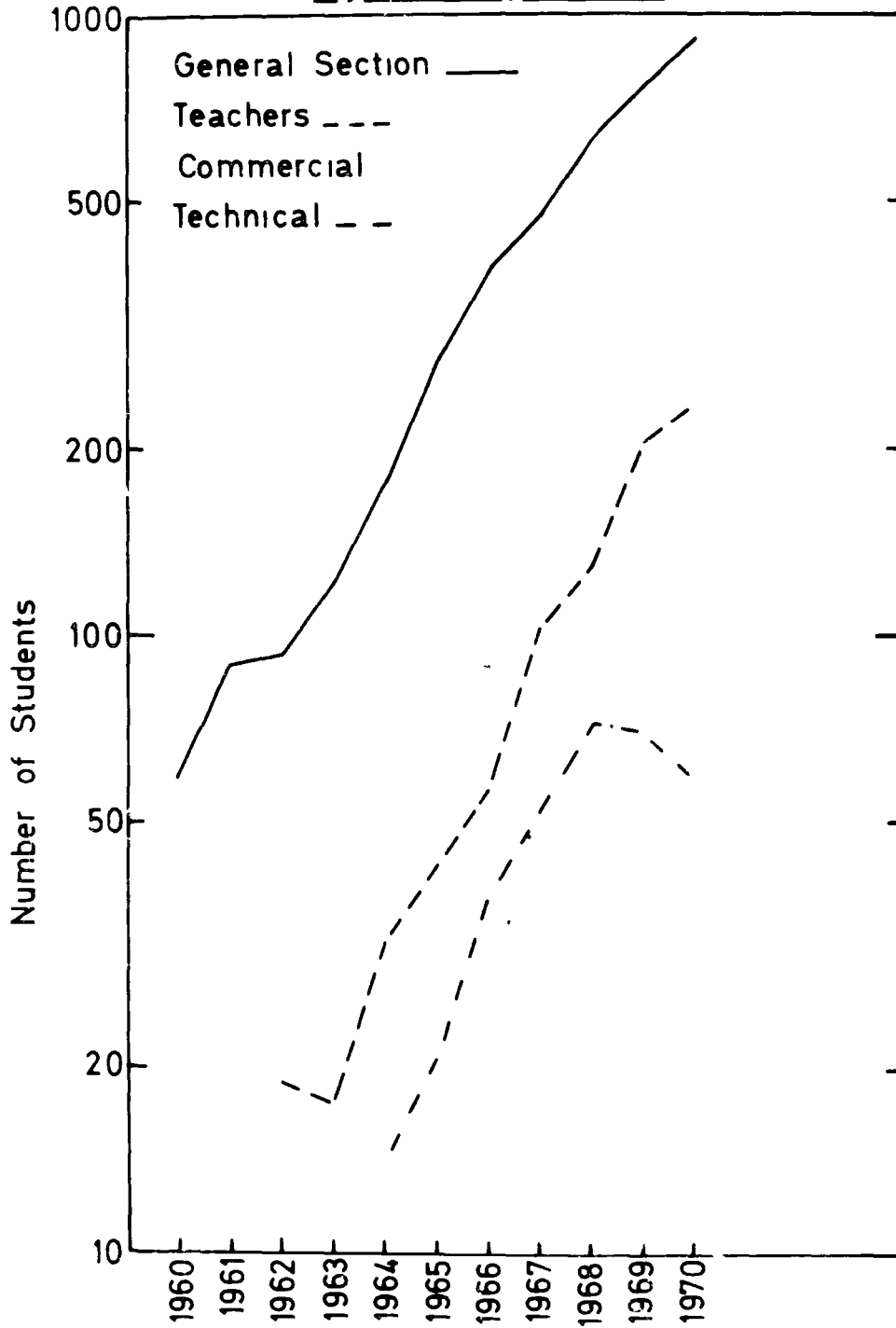
As the table shows about 80% of the students enter the general section of secondary education. Qatar has the highest percentage in specialised education at the secondary level. The reason for this high ratio lay in the high salaries paid to the students in the Commercial, Teachers' and Technical schools during their period of study. However, the numbers dropped after the first qualified students completed their courses and left the commercial and technical schools (Fig 9.1). The Teachers' Secondary School shows no drop in its total number of students because about one half of them are girls who have little choice but to work as teachers. This trend in Qatar may explain why students in the Emirates prefer the General Section of Education; quite simply it gives them better career prospects than other types of education.

C - Disconnected Links between Effort and Reward

Economic development is the result of human effort. It occurs when people engaged in economic activities direct their attention towards

FIG 91

Qatar Development of Secondary Education,
By Section, 1960-70



Source Ministry of Education, Qatar, Annual Report
1970/71

increasing the yield of given effort or resources, or towards reducing the cost of a given yield. "The greatest growth occurs in societies where men have an eye to the economic chance, and are willing to stir themselves to seize it."⁽¹³⁾ Thus societies develop only when their members seek out and exploit economic opportunities. Therefore, one of the main types of difference among societies in their course of development is "differences in the extent to which institutions encourage effort, either by removing obstacles in its way, or by ensuring to the individual the fruit of his effort."⁽¹⁴⁾

One of the most important means of encouraging people to participate in economic activities is the connection between effort and reward. People will be most willing to give their effort, where effort is the only means of reward. On the other hand most people will be reluctant to exert themselves if they are assured that they will be rewarded no matter what their efforts are. In this case people will give very little consideration to economic activities and will continue to be the spoiled children of society, doing very little to support progress and demanding a great deal to enjoy and consume.

This dangerous situation of a disconnection between effort and reward prevails for most or some citizen groups in all the Emirates. The Emirates, with their fantastic oil wealth, not only find it easy to exempt their citizens from taxes and levies, but also find themselves in a position to channel some of this revenue to their citizens by one way or another no matter what their efforts are, and no matter whether this channelling helps or hinders structural change and sustained development. Thus the Ruling families and influential people were rewarded through direct allocations from the state revenue, land purchase schemes and many other modes of preferential treatment, while other groups profit mainly through employment in the public sector, free or cheap public goods and services, and social security allowances, which are by no means confined

to the disabled, the old, the orphans and widows.

This aspect of the situation in Kuwait was summarised by Dr. Yousef Fadel Al-Sabah as follows:

"The Kuwait society suffers from a disconnected link between effort and reward. This is mainly because of the distribution of a large part of oil revenue to the population which was uneven and unable to stimulate productive domestic investment."(15)

The disconnection between effort and reward was also enforced by the nationality bar, whereby the expatriates, who are the most active group of the population, are not only denied the opportunity to integrate into the society and make the Emirates their home, but are also taxed by the individual nationals. This occurs when the laws governing commerce demand that expatriates shall enter into partnership with a national, who is usually a sleeping partner, reaping a share of the profits, but contributing nothing other than the right to register the business in his name.

The expatriates are also discriminated against by other means than the commercial laws, for the easy and well paid jobs are reserved for the citizens. This is the case in most of the Emirates, and in Kuwait, for example, as Dr. Al-Sabah noted: "The Kuwaitis are usually paid more than the market price. This is one of the political devices to make people loyal to the government, a kind of discrimination demarcated by a nationality bar."(16)

Kuwait, Qatar and Abu Dhabi are similar in this respect, though there is a difference in the degree of preferential treatment granted to the citizens. Bahrain is different in that less preference is given to nationals except in the case of the Ruling family.

This disconnection of effort and reward in the Emirates has a serious effect on their economic development. It is unreasonable to expect a man to give his best effort to economic activities if he is best rewarded for adding to the number of his sons, or can gain by hanging onto

desert land and selling it later at a fantastic price, or by allowing companies to be registered in his name in return for part of the profits. It is also strange to ask a man to work very hard if he will be rewarded anyway. Thus the Emirates' policies in channelling their oil revenues, beside being far from equitable, are actually destroying one of the most important mechanisms necessary for any society that wishes to develop and sustain its growth, i.e. the relation between effort and reward. "For unless we match differential effort with differential reward, men are unlikely to take the trouble to develop their talents and resources to the utmost of their capabilities."⁽¹⁷⁾

D - Investment Opportunity and Land Speculation

Increasing urbanisation and the governments' expenditure on land purchase schemes have increased the price of land very rapidly. This increase, coupled with the lack of sufficient investment opportunities, makes the purchasing and selling of land the most profitable activity in the Emirates.

This activity has attracted most of the private money invested in the Emirates and diverted it from other fields of their economies. Many people have left their previous jobs and confine their activities to this field, and many merchants and government employees, particularly in Kuwait and Qatar, have borrowed money from banks and invested it in land.

This problem is a serious one. First, it is diverting effort and capital from productive activities to these transfer activities. Secondly, most of the proceeds of these activities go to the rich landlords, who spend a considerable part of their profit on consumption, while reinvesting most of the rest in the same activities; thus the price of land is pushed higher and higher and everybody else is attracted to the business of buying and selling it. Therefore, while trying to increase opportunities for investment in productive activities, the Emirates should at the same time restrict land speculation

This may be achieved by restricting the land purchase schemes, taxing land speculation punitively, and preventing people from claiming public land.

E - Social and Political Institutions

Though they have undergone considerable change in some of the Emirates (see Chap I, pp.32-33), the social and political institutions still in many respects lag behind what is needed for development (see Chap. VIII, pp.216-235). In fact, in some of the Emirates they form one of the main constraints on economic development.

Economic development, being a complicated process and not a simple one, "depends not merely on economic circumstances but on social structure and the attitudes to life as a whole."⁽¹⁸⁾ Thus the social and political structures are important factors which need to change progressively and continuously if they are not to form an obstacle in the way of progress. Societies may be compared to individual human beings; their economic power may be compared to energy and the muscles of men, their social attitudes to human behaviour and habits, and their political institutions and leadership to a man's brain power and experiences. Thus unless these three important aspects are developed together, the society will face a bottleneck problem which will inevitably cause considerable waste

Social and political institutions may promote economic progress in many ways, the principal being these: by associating effort with reward; by maintaining respect for productive work, manual or intellectual, by encouraging contempt for idleness; by linking status with individual achievement rather than family connections; by encouraging belief in cause-and-effect relations; by discouraging ways of life which put a great premium on current consumption rather than provision for the future; by fostering an abhorrence of corruption in general, and in the public administration in particular; by allowing scope and freedom for public participation in public affairs; and by freeing economic policies from

undue political considerations

Some of the Emirates, such as Kuwait and later Bahrain, have achieved considerable change in their political institutions. Nevertheless, with their tribal traditions, and their history of paternal government, the Emirates are still facing many social and political problems which are hindering structural change and the prospect of sustained growth. The Emirates lack most of the characteristics enumerated in the last paragraph.⁽¹⁹⁾ As has been shown throughout this study, they are faced with the problems of a disconnection of effort and reward, a tendency towards lavish consumption, a reluctance to engage in productive work, and the overwhelming importance given to political considerations instead of economic considerations in their financial and economic policies.

Social and political restraints on development are not easy to overcome and probably constitute the most difficult of all developmental problems. Therefore it is true to say that development, "depends on able and intelligent political leadership, above all, on an appropriate and vigorous use of public fiscal resources and other instruments of public social and economic policy."⁽²⁰⁾ Such leadership implies exceptional courage and foresight. "It is important to observe that promoting development requires some extremely difficult decisions, involving personal sacrifices, hard work, unpopularity, and even (in almost general case) 'class traitor' behaviour."⁽²¹⁾ However, although such historic leadership may be considered the core hope of every country in the world, it is not always obtainable, particularly in the underdeveloped countries. Nevertheless it remains true that the role of political leadership is a very important factor in the development process. Thus a more rapid and steady social and economic development, together with the prospect of real stability, may be achieved, if only a country's political and social institutions can be evolved gradually but continuously, so as

to discourage favouritism, corruption, and the domination of private interest on the one hand, and on the other hand to encourage productive activities, and a scientific approach to society's problems, and to allow wider public participation in public affairs

F - Small Size of Emirates

The Emirates are small states by any standard (see Chap I, pp.1-8). This smallness has its economic consequences on every aspect of the economies, whether it be a question of natural resources, human resources, large scale economies or military and political weakness (see Chap VIII, pp 228-229). All these deficiencies have restricted structural change in the Emirates and reduced their prospect of sustained growth. In addition to all this, their small size, coupled with their huge oil wealth, makes it possible for almost every citizen to have a personal stake in the prevailing situation, no matter how small or large his interest is. Thus everybody becomes more interested in maintaining the newly drawn political boundaries, and opposed to any real economic or political integration with other neighbours. This opposition is common to virtually every citizen in the Emirates, from the members of the Ruling families down to the merchants and most of the ordinary citizens, though of course, it differs in strength according to the interest of each particular group.

The problems arising from the small size of the Emirates together with other problems, obstruct attempts to transform and develop their economies, e.g. the problem of the lack of varied natural resources has prevented any real diversification of the economy. The problem of a small population affects the supply of entrepreneurs and other manpower requirements, and has restricted specialisation of manpower and production, limiting the local market, and decreasing the opportunities for large scale economies in the private and public sectors.

Thus, the impact of the Emirates' small size is most serious. In this world of large economic and political blocks, large and powerful states find it necessary to integrate into larger communities in order to sustain their economic development and assure their national security. Such integration, e.g. of the U.K. in the Common Market, was not seen by the majority of people in Europe as against their interest, but rather they saw it as a transformation necessitated by changes in politics and technology. Therefore, if the changing conditions of our contemporary world have made it necessary for these great states to integrate with other states in order to obtain better opportunities for growth, then small states, such as the Emirates, should think deeply and quickly of integration for the sake of their very survival.

This problem seems to be very difficult to solve unless the governments and the people are willing to give their long-term future the consideration it needs. They should realise the vulnerability of their present prosperity and recognise the urgent need to utilise their oil wealth in the best way possible and they should be ready to sacrifice some of their individual short-term interest for the sake of coming generations and for the long-term interest of their country and people.

However, it should be realised that the economic and political integration of the Emirates alone will provide only limited new investment opportunities, since all of them are in a similar position as far as their resources-base is concerned, they do not complement each other. Nevertheless such integration should provide reasonable opportunities for rationalising and widening the scope of planning policies. This should result from wider home markets, from reducing the wasteful practice of duplicating development projects, from achieving more economies of large scale in the public administration, similar opportunities elsewhere consequent upon a larger economy.

The other opportunity, which should be regarded as completing the

Emirates' economic and political integration, lies in their integration as one region, with countries which possess different resources, such as other Arab countries. An integration of this type will provide the Emirates with larger and varied opportunities to utilise their oil revenue. However, policies of integration require a very strong political will⁽²²⁾ not only from each of the Emirates or all the Emirates, but also from all parties concerned. Also, if it is going to be effective in the long-term, integration needs to be built up gradually, consistently, and continuously on the clear and common interests of all the peoples and countries concerned.

NOTES - CHAPTER IX

- (1) United Nations, Science and Technology for Development, p.97.
- (2) Meier, Gerald M , Leading Issues in Economic Development, p.7.
- (3) Ibid., p.6; Sametz, A.W., 'Production of Goods and Services: The Measurement of Economic Growth', pp.77-96.
- (4) Clower, R.W., and others, Growth without Development: Economic Survey of Liberia, p.25.
- (5) Demas, William G., The Economics of Development in Small Countries with Special Reference to the Caribbean, p.14.
- (6) Ibid., p.38.
- (7) Sheikh, Riad El-, KUWAIT: Economic Growth of the Oil State, p.124.
- (8) Two recent studies have discussed some aspects of structural change in the Kuwait Economy. They are:
Kaja, Mohd. Tawfeq Al-, Al-Khasayis Al-Mumayizah Lil Eqtisad Al-Kuwaiti, Sheikh, Riad El-, op.cit.
- (9) The Planning Board, Kuwait, Kuwait Economy 1970/71-1971/72 (in Arabic) p.121, Central Bank of Kuwait, op.cit., 1971, p.24.
- (10) Ibid.; The Planning Board, Kuwait, Kuwait Economy 1970/71-1971/72 (in Arabic) p.121.
- (11) Harbison, Fredrick H., Human Resources as the Wealth of Nations, p.157.
- (12) Singer, H.W., 'Education and Economic Development', p.55.
- (13) Lewis, W. Arthur, Theory of Economic Growth, p.23.
- (14) Ibid., p.13.
- (15) Sabah, Yousif Fadel Al-, op.cit., p.10.
- (16) Ibid., p.11.
- (17) Lewis, W. Arthur, op.cit., p.58.
- (18) Habakkuk, J., The Entrepreneur and Economic Development, p.38.
- (19) Most of these problems have been clearly identified by many writers concerned with the social and economic development of the Emirates. See: Sabah, Yousif Fadel Al-, op.cit.; American Universities Field Staff, The Changing Balance of Power in the Persian Gulf; Shehab, Fakhri, 'Kuwait: A Super-Affluent Society', pp.461-474.
- (20) Keesing, Donald B., op.cit., p.55
- (21) Ibid., p.55.
- (22) For a general idea of the Emirates' political will in this respect see: Rayis, Riad N. Al-, Siraa Al-Wahat wa Al-Naft.

CHAPTER X

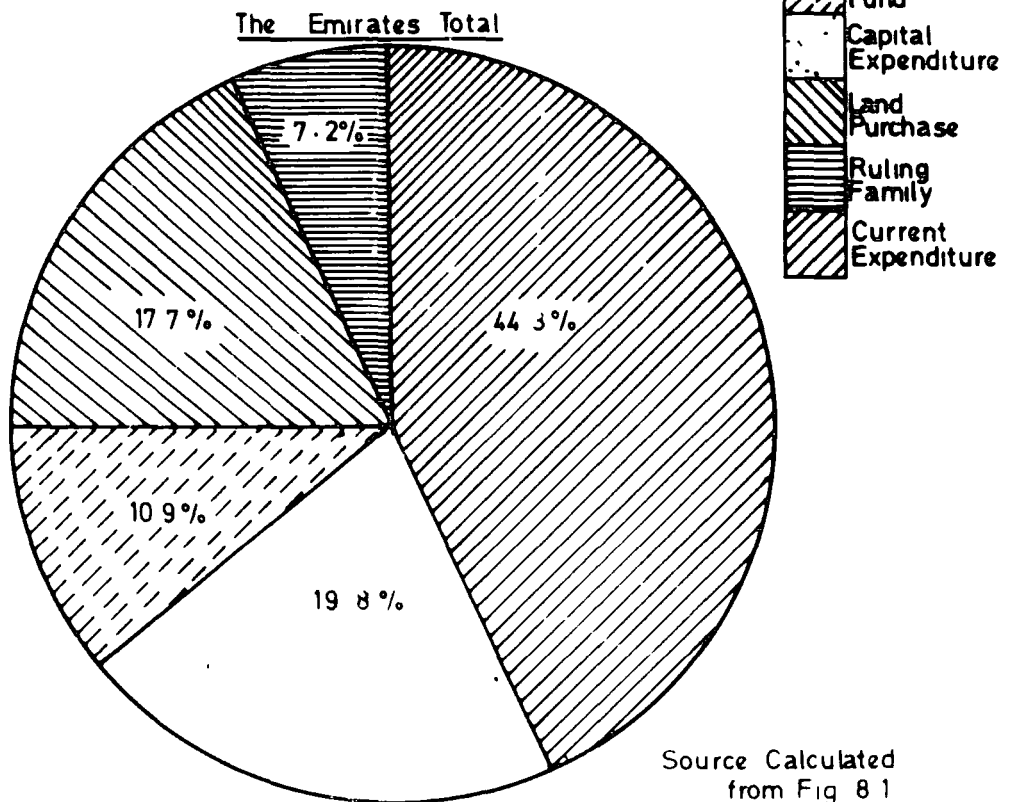
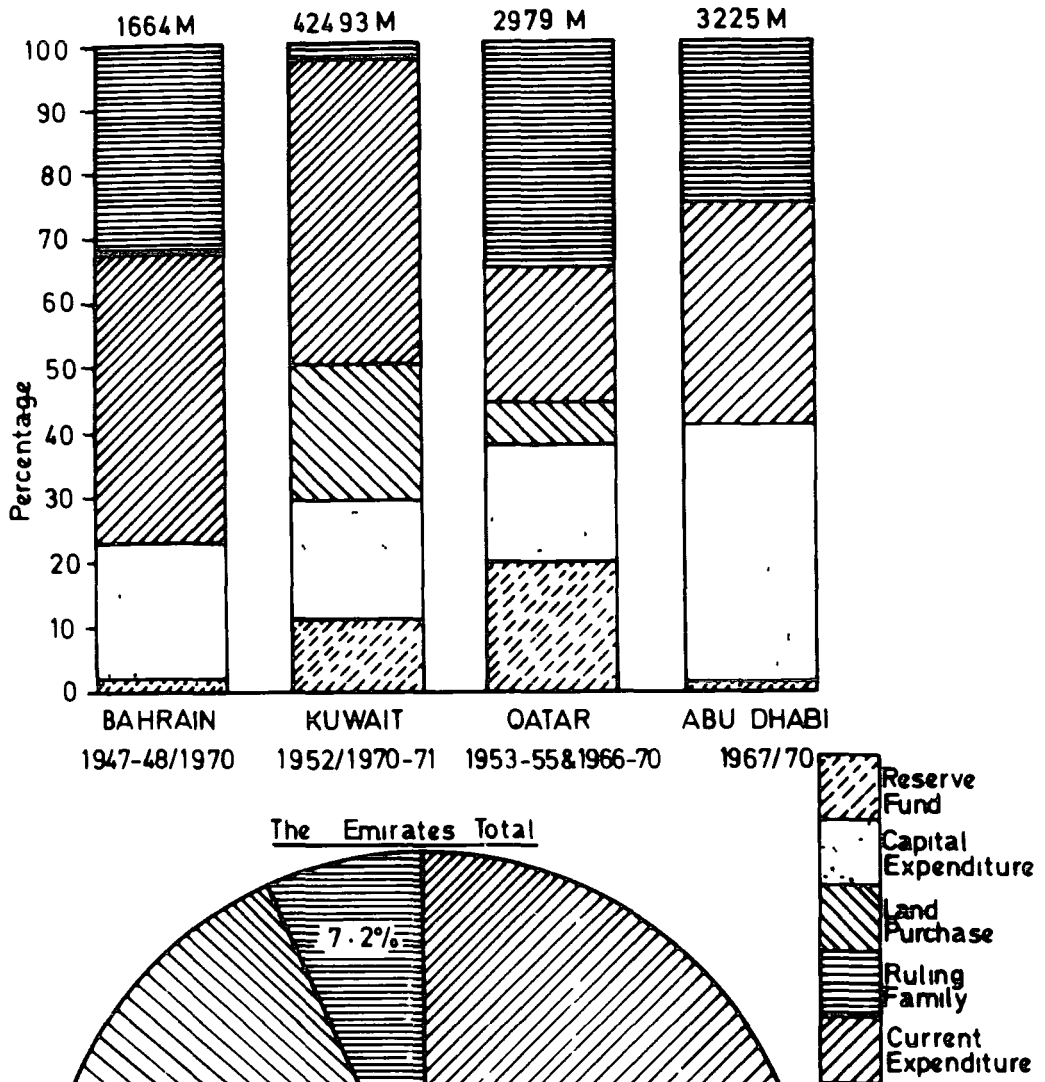
CONCLUSION: THE NEED FOR ALTERNATIVE APPROACHES

A - Traditional Approaches

Throughout the study an attempt has been made to analyse the 'oil revenue of the Arabian Gulf Emirates: pattern of allocation and impact on economic development'. As shown earlier the pattern of allocating oil revenue and the impact on economic development has been fairly uniform in all the Emirates. The few differences may be explained by 'time lag' as each Emirate in turn reached a particular stage of development in its social, economic and political institutions.

The pattern of allocations, as indicated in Fig. 10.1, shows that the part of the oil revenue received during the period studied (about 88% of the total oil revenue received) has been allocated essentially to current and transfer types of expenditure. This expenditure accounted for more than 69% of the total, leaving less than 31% to be directed to capital expenditure or accumulated in the reserve funds. The correlation coefficient between oil revenue and different types of allocation was very high in the case of current expenditure, reaching 0.96 in Bahrain and 0.95 in Kuwait, and in the case of the allocation to the Ruling family it reached 0.72 in Kuwait and 0.99 in Bahrain. In Qatar and Abu Dhabi the situation must have been similar, since the allocation to this item is a proportion of the oil revenue. On the other hand the coefficient in the case of capital expenditure was 0.66 in Bahrain and 0.8 in Kuwait, and in the case of the allocation to the reserve fund was 0.22 in Bahrain and -0.06 in Kuwait. The long-term trend as shown in Fig. 8.2 seems to favour current and transfer types of expenditure as against allocations to capital expenditure and reserve funds. The two latter dropped to about 8% in Bahrain in 1970 compared with about 64% in 1947/48 (Fig. 4.5); in Kuwait they dropped to about 29% from about 66% in 1952 (Fig. 5.5); and in Qatar they dropped to about 34% compared to 59% in 1953 (Fig. 6.4).

The Allocation Patterns of the Emirates' Oil Revenue
(Million QDR)



Source Calculated from Fig 8.1

FIG 10.1

The factors determining the allocation pattern of the oil revenue are traditional and political forces, rather than economic considerations. The allocational pattern of the oil revenue followed the pattern of allocating public revenue in Bahrain and Kuwait in the years just before the commencement of oil royalties, as may be seen by comparing tables 1.9 and 1.13 to Apps. 4.3.4 and 5.3.4.

Except for the few differences explained earlier and mainly necessitated by political development and excessive oil revenue, the traditional channels of expenditure were simply widened rather than altered. The oil revenue has been substituted for ordinary public revenue and been allocated with little consideration for its special nature and the need to use it differently from other revenue and even the one channel thought of as a basis for supplementing future public revenue, i.e. the reserve fund, proved unsuccessful, not only through lack of adequate investment opportunity but also because the allocation to and savings in this fund have been openly pressured by the unlimited demands of current and transfer expenditure.

The impact on economic development has been mixed. First, a part equalling about one fifth of the total oil revenue received during the period studied was utilised to construct social overhead capital, which provided the Emirates with an advanced system of transport and communication, and to develop very considerable public utilities, to build and equip the social infrastructure, and in the 1960's to construct estates for heavy industry. Also a considerable part has been utilised to provide and greatly improve education and health standards, to raise the standard of living and consumption very considerably, and to help to finance direct productive activities. Secondly, while the improvements achieved by utilising oil revenue are obvious, the impact on prospects for long-term sustained growth is questionable. The impact on structural change has been very limited. Taking Kuwait as an example, after a quarter

of a century since first receiving oil royalties, its primary and secondary sectors, excluding crude petroleum production have contributed only about 4% of the GDP and provide employment for about 15% of the total active population. The commercial and financial sectors contributed about 9% to the GDP and 14% to employment (Table 9.6). The rate of growth in the Emirates is overwhelmingly dependent on a high growth of oil revenue; thus when Kuwait's oil revenue did not grow very fast in the late 1960's the per capita income accordingly dropped by 4.5% per annum in the period 1965/66-1970/71 (Chap. IX, pp.259-261). The same pattern may be expected in the other Emirates which have not yet produced an official estimate of GDP, or national income. In spite of the huge sums channelled to each society, the estimated public and private assets invested in productive activities or deposited at the end of 1970 were relatively small, amounting to only 37% of the total oil revenue received by Kuwait State, while in Bahrain the proportion was 27%, in Qatar 23% and in Abu Dhabi 9% (Table 9.5 and Apps. 3.1-3.4). All this indicates the limited impact the oil revenue has had on productive activities compared with its impact on consumption. At the same time the traditional approaches followed in allocating the oil revenue of the Emirates have failed to solve the essential problems hindering their prospects for sustained development, and have produced new types of problems which will add a heavy burden and could impede future development. Thus the Emirates at the end of 1970 were overwhelmingly dependent on oil revenue, underutilising their human resources, following practices which disconnect effort from reward, and encouraging unproductive speculative activities. They have also fallen short of achieving the necessary development of social and political institutions and have not adequately faced the problem of smallness which has impeded structural change and sustained development.

In this thesis we have shown the mechanism by which the traditional approaches of the fiscal system of the immediate pre-oil period in Bahrain

and Kuwait were extended to the utilisation of the oil revenue, and we have seen how this led to the creation of a very high level consumer society depending almost entirely on export of an irreplaceable asset and distributing the proceeds in a quasi-direct manner. This fact pinpoints the likely danger facing the Emirates' economies and highlights the vulnerability of their present-day prosperity, should their receipts from this source be decreased or eliminated before the alternative capacity to produce wealth and sustain development has been created.

B - The Need for New Approaches

In the early 1970's, the Emirates' oil revenue has been increasing enormously; the per-barrel receipt for 1974 will reach an average of eight US dollars compared with less than one dollar in 1970. As production has risen above the 1970 level, the revenue in 1974 will easily have increased more than tenfold. However, unless the Emirates alter their traditional approaches, the huge increase will be expended through widening the existing channels. Moreover, it may encourage the opening of new transfer or consumption-oriented channels, perhaps not very different from the channels invented in Kuwait in the 1950's (land purchase), when oil receipts gave a similar jump and great surpluses remained unspent after all the existing demands of public expenditure had been satisfied. The likely prospect, if the Emirates do not change their traditional approaches for a development-oriented approach, will be the accumulation of a very high monetary surplus in the reserve fund, reaching a proportion near or above that of the early 1950's (see Figs. 4.5 and 5.5), but within a few years, if the oil revenue grows at a moderate rate, the unlimited demands of transfer and current expenditure will quickly absorb the surplus. Moreover, their demands may exceed the revenue available and necessitate drawing on the surpluses accumulated, as was the case in some of the Emirates in the 1960's. This type of expenditure, boosted by excessive oil revenue, will thus in turn necessitate an increase in production and the further growth

of the oil revenue.

Therefore, the fantastic increase in the oil revenue and the danger of continuing the traditional mode of spending it provide the second important reason for changing priorities and approaches in utilising oil wealth, the first reason of course being the failure of the traditional approaches to induce structural change and generate forces capable of sustaining the Emirates' development. Thus, the need and the opportunities for alternative approaches exist. The Emirates can now easily avoid pouring the new increase into the endlessly growing channels of transfer and current expenditure, and can alter their traditional approach to a development-oriented one. They are asked to grasp this opportunity and reform their financial policies to promote production instead of subsidising consumption. They need to integrate their allocational policies in the pattern of production instead of current consumption.

Although the need for an alternative approach is apparent, the Emirates need to pass through a transitional period before being able to adopt approaches which will affect their present economic way of life. This transitional period could be started by preventing the recent increase in oil revenue from being committed to current and transfer expenditure, then freezing the sums allocated to this expenditure and later decreasing them. The aim would be to direct the greater part of the oil revenue to the types of allocation which could most promote and sustain economic development.

This transitional period should also aim to improve popular understanding in the Emirates of the concept of economic development, to decrease the effectiveness of the wrong economic incentive created in the economy, and to prepare the Emirates' economic, social and political institutions to be more relevant to the task of economic development. This transitional period may take a decade or so. Bearing in mind the present economic, social

and political structure of the Emirates and the relatively short period during which they have received oil revenue (hardly more than the expected life span of a person in the area), one does not expect radical change, but asks for a reasonably rapid evolution which could allow the Emirates to take advantage of their present economic potential and to set themselves on the right way to development.

C - A Development-oriented Approach

A need for a development-oriented approach to utilise oil wealth is apparent, if the Emirates are going to sustain economic development. The aim of such an approach will go beyond providing a temporarily prosperous life, to creating the capacity which can sustain the prosperity in the long-term. This can be achieved only by realising the vulnerability of the present prosperity and recognising the need to utilise the oil wealth in a way which can best develop other sources of national income as rapidly as possible. However, the projection of such strategy needs more than this thesis can provide. It is the function of the planning authorities in each Emirate to draft its plan and define its strategy for achieving structural change and sustained growth. Nevertheless some relevant considerations noted in the course of this study can be brought in here.

1 - Petroleum Resources as Base for Economic Development

In the past, the governments' main concern was with oil revenue rather than petroleum resources. In fact, up to 1970 the Emirates urged the companies to increase their production whenever possible and were willing to receive as much oil revenue as possible no matter what their productivity happened to be at the time. Such a policy should be altered to serve the long-term prospects of economic development. The emphasis should be put on all the benefits that can be derived from petroleum resources, including their export proceeds, rather than merely upon the oil revenue. Therefore, the planning programme for the production of oil should take into consideration the productive use of the anticipated export

proceeds at the time together with other local benefits which can be derived from the produced petroleum resources, compared to the anticipated future benefits of the petroleum resources. The production of petroleum resources can serve economic development best if it is viewed in the light of an overall economic strategy aiming to realise the full potential possessed by the resources, and not merely to provide a source of revenue.

However, while it is a nation's undisputed right to conserve its natural resources for the benefit of its people, at the same time it has an obligation towards the international community. Therefore, the development approach should take into consideration the international community's need for oil and do the utmost to avoid interrupting the development efforts of other nations. Instead the Emirates should co-operate with the consuming countries so as to find the course which will secure their interest without hindering the consuming countries' development. Nevertheless, harmony of interest is a hard thing to achieve and thus the Emirates should be well aware of this and prepare for the task.

2 - Distinguishing Oil Revenue from Ordinary Public Revenue

Oil revenue is extraordinary public revenue derived from the export of irreplaceable natural resources which happen to be in great demand in the international market. It is not an indication of the productive capacity and economic activities of the local economy as a whole, but only a return for an exhaustible national asset, a material source which must come to an end at a certain time. Adding to this the present oil price structure, which is very sensitive to technological change (Chap. IX, pp. 238-242) we can realise the nature of the oil revenue. Therefore not only should policies governing the mobilisation of oil revenue be different from those for mobilising ordinary public revenue, but moreover, the policies concerned with its allocation should differ as well. Since the oil revenue is non-recurrent public revenue it would be dangerous to depend on it to support current consumption and the ordinary financing of the

administration. Such a danger supports the argument for utilising the revenue received from exporting national assets to build instead new national assets, equal to if not exceeding the value of those lost. Thus, a policy of channelling the oil revenue into activities according to their potential productivity should replace the present-day policies of allocating oil revenue according to the demands of each different allocation, no matter what its productivity happens to be.

To make the application of such criteria more visible, it would perhaps be of help to establish a new public economic agency to receive and allocate oil revenue, instead of relying on the fiscal authorities. It need hardly be mentioned that such an agency is nothing other than a part of public administration created to indicate the necessary emphases and separate fiscal problems from economic ones. The agency's activity should be integrated into and co-ordinated with the whole governmental machinery.

3 - An Investment Fund Instead of Reserve Fund

A reserve fund, to which a part of the oil revenue is allocated, has existed in each of the Emirates since the early years of the oil royalties. The fund's aim is to supplement public revenue in the future. However, as noted earlier, the reserve fund has in the past been regarded as a pool of liquid capital which could be drawn on at anytime. Hence, whenever the rate of growth of the annual oil revenue slowed and the pressure of other items of expenditure increased, the reserve fund, which is invested mostly in short call 'monetary' investment, was brought in to bridge the gap. In keeping with the importance of oil wealth in the economies of the Emirates, what they need is not a reserve fund to supplement public revenue in the future, but an investment fund which can invest the major part of oil revenue in long-term national and international investment. The aim of these investments should be the creation of direct productive activities which can best diversify the source of national income and sustain develop-

ment. This can be done in both directions, local and international. Thus, first the reserve fund, whose main objective is to settle the fluctuation of the public budget, should be attached to the fiscal authorities and should be different from the fund which is assigned to investment; second, the investment authorities should be separated, and should create the necessary specialist organisations and have the efficiency and expertise to carry out their difficult task; third, the activities of the fund should be integrated into the economic strategy of the country concerned and should play an essential role in developing its productive capacity; fourth, the sum and proportion allocated should not be fixed on ad hoc bases but decided on the productivity of the fund's activities compared to other recipients.

4 - Public Expenditure

After a transitional period, preferably lasting no longer than the medium term, current and transfer expenditure, and perhaps most public expenditure, will have to be financed from other ordinary public revenue, which could be mobilised according to the economic capacity of the country concerned and its social and economic policies. Thus the governments need gradually to run down their policy of subsidies, to recover a reasonable price for the services rendered by government departments, and to cut the waste element and lavish public spending. Meanwhile the fiscal policies should make people contribute to the public burden, as is done in every other country in the world, instead of depending on the extraordinary return to society for the export of irreplaceable natural resources to do the job. Therefore a plan for maintaining an equilibrium between ordinary public expenditure and ordinary public revenue should be adopted, not only because it is sound fiscal policy, but also because it can serve to eliminate the wrong economic incentive created in the Emirates by past policies.

5 - Enlarging the Productive Absorptive Capacity

Enlarging the productive absorptive capacity should be the core of the Emirates development strategy. The Emirates' economies, supported by the fantastic financial resources derived from oil export, have solved one of the essential development problems facing the third world. However, money alone could not initiate development unless matched by other factors of production, all together leading to an increase in the production capacity. Thus the widening of the Emirate capacity to absorb the oil revenue productively requires the assessing of all the resources available, most important of all human resources, and the adopting of the measures necessary to allocate resources efficiently. The problem of smallness, which is a serious one, should be given the consideration it deserves. Consequently the question of unifying the Emirates should be gone into more deeply than it has been up till now, and the Emirates together can seek regional economic integration with other Arab countries. Moreover the Emirates can establish mutual relations with developed and under developed countries, where they can provide oil and money and in return have technology, know-how, capital goods, raw materials and reasonably secure opportunities for investment and thus forward their long-term objectives of diversifying the economy and sustaining development.

The essential effort for all this must come from the Emirates themselves. They should think, decide and act in the way that seems most to suit their interests, and they should see to what extent their interests can be integrated with the interests of other parties.

6 - Comprehensive Strategy for Economic Development

Achieving and sustaining growth needs more than scattered administrative decisions, it needs rather a comprehensive strategy that can indicate the goals and provide the means for achieving them. Such a strategy should be consistent in its emphases and clear in the policies

it advocates. It must be prepared with a full awareness of the problems and importance of creating and sustaining economic development and must be based on an open-minded approach as little fettered by traditional and political restraints as possible. However, such a strategy, together with its pre-requisites, is not an easy thing to achieve; it needs a number of years before the Emirates could assess the opportunities open to them reasonably, prepare to grasp them, and start facing what all the other countries in the world are facing, the normal problems of a productive society.

A comprehensive strategy for economic development is the only way the Emirates can harmonise their policies and direct their society's scarce resources, of which human resources and oil wealth are the most important, so as to improve development prospects and call into action forces capable of sustaining growth.

The Emirates have in the past lacked a comprehensive strategy for economic development, therefore their efforts and policies for utilising oil wealth have fallen short of preparing their economies for the hard path of development. Their policies have even induced wrong economic incentives which, if not firmly dealt within reasonable time, will hinder future development. Thus unless the Emirates produce a comprehensive strategy able to alter the pattern of utilising oil wealth from being principally consumption-oriented to becoming development-oriented, then their efforts will be dissipated and their different policies will hinder each other, losing their effectiveness; in that case the Emirates will have lost their golden opportunity for real and sustained development.

LIST OF APPENDICESII

2.1.1	Bahrain: Crude Oil Production, by Companies, 1932-1970	293
2.1.2	Kuwait: Crude Oil Production, by Companies, 1946-1970	293
2.1.3	Qatar: Crude Oil Production, by Companies, 1949-1970	293
2.1.4	Abu Dhabi: Crude Oil Production, by Companies, 1962-1970	294
2.1.5	Dubai: Crude Oil Production, 1969-1970	294
2.1.6	The Emirates: Crude Oil Production, by Countries, 1934-1970	294
2.1.7	Crude Oil Production, Emirates, Middle East and World, 1934-1970	294
2.2	The Emirates' Crude Oil Export, 1966-1970	295
2.3	Parent Companies' Estimated Gross Share of Crude Oil in the Emirates, 1970	295
2.4	The Emirates proved Oil Reserve, by Emirate, 1957-1970	295
2.5	Bahrain Refinery's Crude Throughput, by Source, 1946-1970	296
2.6.1	Kuwait Domestic Consumption of Refined Products and Refineries Losses, 1970	296
2.6.2	Bahrain: BAPCO Sale of Refined Products and Refinery Losses, 1970	296
2.7.1	Employment in Abu Dhabi Oil Industry, by Nationality, 1971	296
2.7.2	Employment in Qatar Oil Industry, by Nationality, 1970	296
2.7.3	Employment in Kuwait Oil Industry, by Nationality, 1970	296

III

3.1	Bahrain State: Oil Revenue, by Source, 1926/34-1970	297
3.2	Kuwait State: Oil Revenue, by Source, 1935/45-1970/71	298
3.3	Qatar State: Oil Revenue, by Source, 1935/49-1970	298
3.4	Abu Dhabi State: Oil Revenue, by Source, 1939/61-1970	298

IV - BAHRAIN

Source:	Appendices Attached to Chapter IV (4.1 - 4.3.6)	299
4.1	The State Public Revenues, by Source, 1947/48-1970	300
4.2.1	Social Services Current Expenditure, 1947/48-1970	300
4.2.2	Law and Order Services Current Expenditure, 1947/48-1970	301
4.2.3	Public Utilities Services Current Expenditure, 1947/48-1970	301
4.2.4	Transport and Communication Services Current Expenditure, 1947/48-1970	301
4.2.5	Allocations to the Ruling Family, 1947/48-1970	301
4.2.6	Expenditure on Capital Items, 1947/48-1970	302
4.2.7	The State Public Expenditure, by Groups, 1947/48-1970	302

	290	
4.3.1	Deficit or Surplus of Revenue over Expenditure, by Groups, 1947/48-1970	303
4.3.2	Gross Deficit of the Non-Oil Revenue in Respect to Individual Groups of Expenditure, 1947/48-1970	303
4.3.3	Allocation of Oil Revenue Spent, by Groups, 1947/48-1970	304
4.3.4	Allocation of the Annual Available Oil Revenue, by Groups, 1947/48-1970	304
4.3.5	Net Allocation of Total Oil Revenue, by Groups, 1947/48-1970	305
4.3.6	Net Allocation of Total Oil Revenue, by Main Groups, 1947/48-1970	305
4.4	Bahrain Government Budget Public Revenue, by Source, 1935-1970	306

V - KUWAIT

Source:	Appendices Attached to Chapter V (5.1 - 5.3.6)	307
5.1	The Public Revenue, by Source, 1952-1970/71	308
5.2.1	Social Services Current Expenditure, 1952-1970/71	308
5.2.2	Law and Order Services Current Expenditure, 1952-1970/71	309
5.2.3	Public Utilities Services Current Expenditure, 1952-1970/71	309
5.2.4	Post, Telephone and Telegraph Services Current Expenditure, 1952-1970/71	309
5.2.5	Allocation to the Ruling Family, 1952-1970/71	309
5.2.6	Expenditure on Capital Items, 1952-1970/71	310
5.2.7	Public Expenditure, by Groups, 1952-1970/71	310
5.3.1	Deficit or Surplus of Revenue over Expenditure, by Groups 1952-1970/71	311
5.3.2	The Gross Deficit of the Non-Oil Revenue in Respect to Individual Groups of Expenditure, 1952-1970/71	311
5.3.3	The Allocation of the Oil Revenue Spent, by Groups, 1952-1970/71	311
5.3.4	Allocation of the Annual Available Oil Revenue by Groups, 1952-1970/71	312
5.3.5	Net Allocation of Total Oil Revenue, by Groups, 1952-1970/71	313
5.3.6	Net Allocation of Total Oil Revenue, by Main Groups, 1952-1970/71	313
5.4	Kuwait Government Assets: Amount and Composition (Reserve Account) 31.3.1965-31.3.1971.	314

VI - QATAR

Source:	Appendices Attached to Chapter VI (6.1 - 6.3.5)	315
6.1	The State Public Revenue, by Source, 1373-1375 and 1386-1390 Hijry	316

		291
6.2.1	Social Services: Current Expenditure, 1373-1375 and 1386-1390 Hijry	316
6.2.2	Law and Order Services: Current Expenditure, 1373-1375 and 1386-1390 Hijry	316
6.2.3	Public Utilities: Current Expenditure, 1373-1375 and 1386-1390 Hijry	316
6.2.4	Transport and Communication: Current Expenditure, 1373-1375 and 1386-1390 Hijry	316
6.2.5	Allocation to the Ruling Family, 1373-1375 and 1386-1390 Hijry	316
6.2.6	Capital Expenditure, 1373-1375 and 1386-1390 Hijry	317
6.2.7	The State Public Expenditure, by Groups, 1373-1375 and 1386-1390 Hijry	317
6.3.1	Deficit or Surplus of the Revenue over Expenditure, 1373-1375 and 1386-1390 Hijry	317
6.3.2	Gross Deficit of the Non-Oil Revenue with respect to Individual Groups of Expenditure, 1373-1375 and 1386-1390 Hijry	318
6.3.3	The Allocation of Oil Revenue Spent, by Groups, 1373-1375 and 1386-1390 Hijry	318
6.3.4	Net Allocation of Total Oil Revenue, by Groups, 1373-1375 and 1386-1390 Hijry	318
6.3.5	Net Allocation of Total Oil Revenue, by Main Groups, 1373-1375 and 1386-1390 Hijry	318
6.4	Public Expenditure of Some Department of Qatar Government, 1956-1965	319

VII - UAE

Source:	Appendices Attached to Chapter VII (7.1 - 7.3.5)	320
7.1	Abu Dhabi: The State Public Revenue, by Source, 1967-70	321
7.2.1	Abu Dhabi: Social Services' Current Expenditure, 1967-70	321
7.2.2	Abu Dhabi: Law and Order Services' Current Expenditure, 1967-70	321
7.2.3	Abu Dhabi: Public Utilities' Current Expenditure, 1967-70	321
7.2.4	Abu Dhabi: Transport and Communication Current Expenditure, 1967-70	321
7.2.5	Abu Dhabi: Capital Expenditure, 1967-70	322
7.2.6	Abu Dhabi: Public Expenditure, by Groups, 1967-70	322
7.3.1	Abu Dhabi: Deficit or Surplus of Revenue over Expenditure, by Groups, 1967-70	322
7.3.2	Abu Dhabi: Gross Deficit of the Non-Oil Revenue with respect to Individual Groups of Expenditure, 1967-70	322
7.3.3	Abu Dhabi: Allocation of Oil Revenue Spent, by Groups, 1967-70	323

	292
7.3.4 Abu Dhabi: Allocation of the Annual Available Oil Revenue, by Groups, 1967-70	323
7.3.5 Abu Dhabi: Net Allocation of the Total Oil Revenue, by Groups, 1967-70	323
7.3.6 Abu Dhabi: Net Allocation of the Total Oil Revenue, by Main Groups, 1967-70	323

APPENDIX 2 1 1

BAHRAIN CRUDE OIL PRODUCTION, BY COMPANIES, 1932-70

(000 BARRELS)

Year	BAPCO	ARAMCO*	Total
1932	1	-	1
1933	31	-	31
1934	285	-	285
1935	1265	-	1265
1936	4645	-	4645
1937	7762	-	7762
1938	8298	-	8298
1939	7589	-	7589
1940	7074	-	7074
1941	6794	-	6794
1942	6241	-	6241
1943	6572	-	6572
1944	6714	-	6714
1945	7309	-	7309
1946	8010	-	8010
1947	9411	-	9411
1948	10915	-	10915
1949	10985	-	10985
1950	11016	-	11016
1951	10994	-	10994
1952	11004	-	11004
1953	10978	-	10978
1954	10992	-	10992
1955	10982	-	10982
1956	11015	-	11015
1957	11691	-	11691
1958	14873	-	14873
1959	16473	-	16473
1960	16500	-	16500
1961	16444	-	16444
1962	16446	-	16446
1963	16503	-	16503
1964	18000	-	18000
1965	20788	-	20788
1966	22521	5885	28406
1967	25370	7326	32696
1968	27598	11014	38612
1969	27774	11956	39730
1970	27973	13661	41634

* Bahrain share in Abu Safah production

Source BAPCO, Annual Report(s), ARAMCO, Annual Report 1966 and 1968
 WORLD PETROLEUM, July, 1938, p 67, Issawi, C and Yeganeh, M.,
 op cit, Private communication (Abu Safah)

APPENDIX 2 1 2

KUWAIT CRUDE OIL PRODUCTION, BY COMPANIES, 1946-1970

(000 BARRELS)

Year	KOC	AMINOIL	AOC*	Total
1946	5928	-	-	5928
1947	16228	-	-	16228
1948	46547	-	-	46547
1949	89930	-	-	89930
1950	125722	-	-	125722
1951	204910	-	-	204910
1952	273433	-	-	273433
1953	314092	-	-	314092
1954	347319	2975	-	370294
1955	398494	4335	-	402829
1956	399874	5821	-	405695
1957	416045	11581	-	427626
1958	509383	14687	-	524070
1959	504855	21140	-	525995
1960	594278	28579	-	622857
1961	600226	29284	3551	633061
1962	669284	34357	11044	714785
1963	705471	35563	23978	765012
1964	774814	35533	31630	841977
1965	791903	36516	32846	861496
1966	830537	29597	46105	906619
1967	836719	24774	50601	912417
1968	886125	15262	54752	956552
1969	940040	12895	58844	1011780
1970	998110	29860	62636	1090605

* Kuwait share only

Source Ministry of Finance and Petroleum, Naft Al-Kuwait Haqq wa Arqam, 1969, SAR, 1970

APPENDIX 2 1 3

QATAR CRUDE OIL PRODUCTION, BY COMPANIES, 1949-1970

(000 U.S. BARRELS)

Year	QPC	SMELL	Total
1949	750	-	750
1950	12268	-	12268
1951	18009	-	18009
1952	25255	-	25255
1953	31025	-	31025
1954	36450	-	36450
1955	41983	-	41983
1956	45300	-	45300
1957	50793	-	50793
1958	63910	-	63910
1959	62197	-	62197
1960	63908	-	63908
1961	63787	-	63787
1962	67474	-	67474
1963	70270	-	70270
1964	68571	8956	77527
1965	69742	13062	83040
1966	69996	36199	106195
1967	69787	46809	116596
1968	70954	53589	124543
1969	73761	56536	129897
1970	69590	63813	133403

Source C. Issawi, and M. Yeganeh, op cit, Department of Petroleum
 Affairs, Qatar, Private communication

APPENDIX 2 1 4
 ABU DHABI CRUDE OIL PRODUCTION, BY COMPANIES, 1962-1970
 (000 BARRELS)

Year	ADPC	ADMA	Total
1962	-	5998	5998
1963	481	17591	18072
1964	46796	22436	69232
1965	69727	33168	102896
1966	93180	38099	131279
1967	94092	45322	139414
1968	115196	67165	182360
1969	129897	88900	218798
1970	155091	98140	253231

Source Calculated from Al-Batrol wa Al-Sinah 1971

APPENDIX 2 1 5
 DUBAI CRUDE OIL PRODUCTION, 1969-1970
 (000 BARRELS)

Year	DPC Production
1969	3800
1970	31317

Source 1969 - World Oil, 15 August, 1970
 1970 - Calculated from E I U, Oil in the Middle East (Annual Supplement 1971)

APPENDIX 2 1 6
 THE EMIRATES' CRUDE OIL PRODUCTION, BY COUNTRIES, 1934-1970
 (000 BARRELS)

Year	Bahrain	Kuwait	Qatar	Abu Dhabi	Dubai	Total	Daily Average
1934	285	-	-	-	-	285	1
1935	1265	-	-	-	-	1265	3
1936	4645	-	-	-	-	4645	13
1937	7762	-	-	-	-	7762	21
1938	8298	-	-	-	-	8298	20
1939	7589	-	-	-	-	7589	19
1940	7074	-	-	-	-	7074	19
1941	6794	-	-	-	-	6794	19
1942	6241	-	-	-	-	6241	17
1943	6572	-	-	-	-	6572	18
1944	6714	-	-	-	-	6714	18
1945	7304	-	-	-	-	7304	20
1946	8010	2928	-	-	-	10938	30
1947	9411	16228	-	-	-	25639	70
1948	10915	46547	-	-	-	57462	157
1949	10985	89930	750	-	-	101665	278
1950	11016	125722	12268	-	-	149006	408
1951	10994	204910	18009	-	-	233913	641
1952	11004	273433	25255	-	-	309692	848
1953	10978	314092	31025	-	-	356095	976
1954	10992	370294	36450	-	-	417736	1144
1955	10982	402829	41983	-	-	455794	1249
1956	11015	405695	45300	-	-	462010	1266
1957	11691	427626	50793	-	-	490110	1343
1958	14873	524070	63910	-	-	602853	1652
1959	16473	525995	62197	-	-	604665	1657
1960	16500	622857	63908	-	-	703265	1927
1961	16444	633061	63787	-	-	713292	1954
1962	16446	714785	67474	5998	-	804703	2205
1963	16503	765012	70270	16072	-	869857	2383
1964	18000	841977	77527	69232	-	1006736	2758
1965	20788	861496	83040	102896	-	1172499	2927
1966	28406	906619	106195	131279	-	1201123	3291
1967	32696	912417	116596	139414	-	1302067	3567
1968	38612	956552	124543	182360	-	1404005	3847
1969	39730	1011780	129897	218798	3800	1548170	4242
1970	41634	1090605	131383	253231	31317	16092251	
Total	465834	13047460	1422560	1121280	35117	16092251	

Source Apps 2 1 1 - 2 1 5

APPENDIX 2 1 7
 CRUDE OIL PRODUCTION, EMIRATES, MIDDLE EAST AND WORLD, 1934-1970
 (000 METRIC TONS)

Year	Kuwait	Parti- tioned Zone	Bahrain	Abu Safah	Qatar	Abu Dhabi	Dubai	Total Emirates	M East	World
1934	-	-	39	-	-	-	-	39	8992	210322
1935	-	-	173	-	-	-	-	173	11674	228611
1936	-	-	635	-	-	-	-	635	13239	247916
1937	-	-	1061	-	-	-	-	1061	14997	279500
1938	-	-	1133	-	-	-	-	1133	16088	273200
1939	-	-	1038	-	-	-	-	1038	16064	239300
1940	-	-	967	-	-	-	-	967	14123	292100
1941	-	-	929	-	-	-	-	929	11546	304815
1942	-	-	853	-	-	-	-	853	15784	286526
1943	-	-	899	-	-	-	-	899	16511	318024
1944	-	-	918	-	-	-	-	918	21139	353585
1945	-	-	999	-	-	-	-	999	26976	351400
1946	800	-	1095	-	-	-	-	1895	35558	375700
1947	2200	-	1287	-	-	-	-	3487	42308	414000
1948	6400	-	1492	-	-	-	-	7892	57741	468600
1949	12378	-	1502	-	-	-	-	13880	71040	466400
1950	17291	-	1506	-	1636	-	-	20433	88440	522900
1951	28226	-	1503	-	2370	-	-	32099	97227	593300
1952	37637	-	1505	-	3297	-	-	42439	105707	623500
1953	43270	-	1501	-	4062	-	-	48833	121673	659900
1954	47723	434	1503	-	4778	-	-	54438	137268	690700
1955	54756	642	1502	-	5876	-	-	62338	162500	773900
1956	54982	854	1506	-	6648	-	-	67234	178000	886500
1957	57286	1701	1599	-	8222	-	-	82648	214700	909700
1958	70217	2175	2034	-	7993	-	-	82885	231200	906600
1959	69536	3104	2252	-	8212	-	-	95979	265200	1053900
1960	81867	3644	2256	-	8382	-	-	98102	283800	1121900
1961	82715	4749	2256	-	8808	-	-	110060	311900	1216100
1962	92177	6826	2249	-	9095	2483	-	119412	334201	1305100
1963	97202	8376	2256	-	10136	9003	-	137930	374200	1409500
1964	106719	9611	2461	-	10961	13539	-	146061	423600	1511400
1965	109045	9674	2842	-	113845	17313	-	160628	472100	1641200
1966	114354	11221	3079	816	15479	18125	-	164341	506100	1758700
1967	115175	11077	3469	1016	16363	24006	-	179105	571500	1990400
1968	121975	11461	3773	1527	17341	28761	500	193044	633700	2145000
1969	129548	11934	3798	1657	17300	33288	4300	206822	712100	2330300
1970	137500	13000	3800	1934	17300	33288	4300	206822	712100	2330300

* Kuwait share
 ** Bahrain share

Source UN, Statistical Year Book BP, 'Statistical Review of the World Oil Industry'
 E I U Middle East Oil and the Arabian Peninsula E I U Oil in the Middle
 East Apps 2 1 1 - 2 1 5.

APPENDIX 2.2
THE EMIRATES' CRUDE OIL EXPORT, 1966-1970
(MILLION METRIC TONS)

Country	1966	1967	1968	1969	1970
Kuwait	113	114	120	123	130
Qatar	14	15	16	17	18
Abu Dhabi	17	18	24	29	33
Dubai	-	-	-	0.5	3
Total	144	147	160	170	184
M East Total	372	408	474	509	587
World Total	625	694	806	905	1033

Source: BAYAN 1968/69 p 28, 1970/71 p 30, 1971/72 p 26, Al-Batrol
wa Al-Sinah 1971 IP, OIL World Statistics 1967-1971
Private communication (Qatar)

APPENDIX 2.3
PARENT COMPANIES' ESTIMATED GROSS SHARE OF CRUDE OIL IN THE EMIRATES, 1970
(000 BD)

	BP	CFP	ESSO	GULF	MOBIL	SHELL	STAN- CAL	TEXACO	GOV'T or OIL Cos	JAPAN	AMIN- OIL	PARTAX	HISPAN OIL	SUNCO	CONCO	TOTAL
Kuwait	1168	-	1566	-	-	-	-	-	-	-	-	-	-	-	-	2734.0
Partitioned Zone	-	-	-	-	-	-	-	-	35	138.2	81	-	-	-	-	254.2
Abu Dhabi	280	190	51	-	51	101	-	-	-	-	-	21	-	-	-	694.0
Qatar	45	45	22	-	22	217	-	-	-	-	-	10	-	-	-	361.0
Bahrain	-	-	-	-	-	-	38.3	38.3	-	-	-	-	-	-	-	76.6
Abu Safah	-	-	11.1	-	3.7	-	11.1	11.1	-	-	-	-	-	-	-	37.0
Dubai	-	21.4	-	-	-	-	-	10.7	-	-	-	-	21.4	5.3	27.9	86.7
Total	1493	256.4	84.1	1566	76.7	318	49.4	60.1	35	138.2	81	31	21.4	5.3	27.9	4243.5

Source: Apps 2.1.1 - 2.1.5 OPEC Annual Statistical Bulletin 1970 pp 38-39

APPENDIX 2.4
THE EMIRATES' PROVED OIL RESERVE BY EMIRATES, 1957-1970
(MILLION BARRELS)

Year	Bahrain		Kuwait		Qatar	Abu Dhabi	Dubai	Total	
	BAPCO	Abu Safah	KOC	P Zone				Emirates	World
1957	200	-	50000	184	1500	-	-	51884	237484
1958	230	-	58000	6250	1425	-	-	65905	264393
1959	220	-	58000	3560	2500	-	-	64280	291614
1960	220	-	58000	3300	2500	-	-	64020	272700
1961	220	-	59000	3000	2500	-	-	64720	294439
1962	240	-	61000	3500	2700	5000	-	72440	315976
1963	245	-	62500	4250	2700	7300	-	76995	331121
1964	250	-	65000	7500	3500	10000	-	86250	417761
1965	250	1200	65000	7500	4000	12000	-	89550	446481
1966	250	-	70000	7500	4000	14000	-	96950	482589
1967	375	1200	70000	6000	3600	8000	1000	90175	399490
1968	425	1167	71210	6250	3880	12000	1000	95932	496230
1969	427	1131	70500	6250	3900	15000	1000	98208	526791
1970	634	1117	67100	12850	4300	11800	983	98784	617342

Source: WORLD PETROLEUM REPORT Supplement 1971, p 2 1958-1967 WORLD OIL Private communication (Abu Safah) 1968-1969 E I U OIL IN THE MIDDLE EAST (Annual

APPENDIX 2 5

BAHRAIN REFINERY'S CRUDE THROUGHPUT BY SOURCE, 1946-1970

(000 U S BARRELS)

Year	Imported		Bahrain Crude	Total
	S Arabia	Others		
1946	26757	-	7309	34066
1947	37865	-	8010	45875
1948	45463	-	9412	54646
1949	45145	-	10915	56060
1950	45915	-	10985	56900
1951	54762	-	11016	65778
1952	58978	-	10994	69972
1953	61585	227	11044	72856
1954	67141	227	10779	78148
1955	63269	-	11024	74293
1956	58459	2317	10941	71717
1957	44291	10796	11785	66872
1958	48668	6733	14828	70229
1959	50549	2018	16390	68957
1960	59463	974	16493	75931
1961	63239	-	16494	79733
1962	71982	-	16488	88470
1963	66450	-	16598	83048
1964	56975	-	17911	74886
1965	49648	229	20793	70670
1966	49397	-	22516	71913
1967	62445	-	25311	87756
1968	55877	-	27543	83420
1969	58159	14	27813	85987
1970	63518	-	27941	91451

Source BAPCO Annual Report(s) WORLD PETROLEUM, Sept, 1954

APPENDIX 2 6 1

KUWAIT DOMESTIC CONSUMPTION OF REFINED PRODUCTS

AND REFINERIES LOSSES, 1970

(000 BD)

Local refined products consumption	14 7
Imported refined products consumption	0 2
Total inland consumption of refined products	14 9
Bunkers	80 8
Total consumption of refined products	95 7
Refineries Losses	9 5
Total consumption	105 2

Source OPEC, Annual Statistical Bulletin, 1971, SAK, 1970
BAYAN, 1971/72 p 27 KOC, Annual Report 1970 AMINDIL
Annual Report 1970

APPENDIX 2 6 2

BAHRAIN BAPCO SALE OF REFINED PRODUCTS AND REFINERY LOSS, 1970

(THOUSAND BD)

Inland refined products consumption	2 3
Bunker fuel	19 2
Total refined products consumption	21 5
Refinery loss	11 6
Total	33 1

Source BAPCO, Annual Report 1969 and 1970

APPENDIX 2 7 1

EMPLOYMENT IN ABU DHABI OIL INDUSTRY BY NATIONALITY, 1970

Nationality/ Company	U A E		Other Arab	British	Jap- anese	In- dian	Pakis- tani	U S	Others	Total
	OMAN	\$ Gulf								
ADMA	404	11	115	-	272	100	-	4	906	
ADPC	92	13	90	-	99	9	3	13	319	
Philips Petroleum Co	1	1	-	-	6	3	9	1	21	
Middle East Oil Co	75	-	9	5	4	1	-	6	100	
Abu Dhabi Oil Co (Japan)	-	1	2	24	6	-	-	-	33	
Pan Ocean Oil Co	-	-	1	-	-	-	-	-	1	
Total	572	26	217	29	387	113	12	24	1386	

Source Al-Batrol wa Al-Sinab, 1971, p 15

APPENDIX 2 7 2

EMPLOYMENT IN QATAR OIL INDUSTRY, 1970

	QATAR		Total
	QATARI	NON-QATARI	
Qatar Petroleum Co	876	328	1204
Shell Qatar Company	332	367	699
Qatar Oil Company	3	17	20
National Oil Distribution Co	90	10	100
Total	1301	722	2023

Source QPC Department of Petroleum Affairs 'Oil Industry in Qatar', p 23
QOC Private communication
Shell Qatar and KDOC Estimation

APPENDIX 2 7 3

EMPLOYMENT IN KUWAIT OIL INDUSTRY, 1970

	KUWAIT		Total
	KUWAITI	NON-KUWAITI	
KOC	1283	2567	3850
AOC*	101	658	759
AMINDIL	180	613	793
KMPC	230	1515	1745
Total	1794	5253	7047

* One half of the manpower

Source KOC Annual Report 1970 KMPC Annual Report, 1970 AMINDIL
Annual Report, 1970 AOC, Annual Report 1970

APPENDIX 3 I
BAHRAIN STATE OIL REVENUE BY SOURCE, 1926/34-1970
(000 BD)

Year	BAPCO		Total	Others*	Total
	Production	Refining			
1926/34	-	-	9 0	-	9 0
1935	56 8	-	56 8	-	56 8
1936	69 2	-	69 2	-	69 2
1937	316 5	-	316 5	-	316 5
1938	354 5	-	354 5	-	354 5
1939	323 5	-	323 5	-	323 5
1940	355 2	-	355 2	-	355 2
1941	296 6	-	296 6	-	296 6
1942	262 1	-	262 1	-	262 1
1943	271 1	-	271 1	-	271 1
1944	278 8	-	278 8	-	278 8
1945	302 6	-	302 6	-	302 6
1946	310 9	-	310 9	-	310 9
1947	390 1	-	390 1	-	390 1
1948	459 2	-	459 2	-	459 2
1949	492 2	-	492 2	-	492 2
1950	938 3	-	938 3	-	938 3
1951	1383 9	150 0	1533 9	-	1533 9
1952	1410 1	600 0	2010 1	-	2010 1
1952/53	1558 4	845 8	2404 3	-	2404 3
1953*	1555 0	188 5	1743 4	-	1743 4
1954	4408 8	841 5	5250 3	-	5250 3
1955	3464 6	790 9	4255 5	-	4255 5
1956	4492 8	759 7	5252 5	-	5252 5
1957	4567 5	688 6	5256 1	-	5256 1
1958	5240 5	692 5	5933 0	-	5933 0
1959	6888 1	657 1	7545 2	-	7545 2
1960	6912 9	755 5	7668 4	-	7668 4
1961	7026 3	790 5	7816 8	-	7816 8
1962	6947 2	899 8	7947 0	-	7947 0
1963	2737 5	830 6	8068 2	-	8068 2
1964	8071 8	712 2	8784 0	-	8784 0
1965	8231 8	623 5	8855 2	-	8855 2
1966	11159 2	617 5	11776 6	1314 0	12090 6
1967	10861 4	780 6	11642 0	1872 0	13514 0
1968	11460 1	698 5	12158 6	2173 0	14331 6
1969	13765 1	727 2	14492 3	2981 0	17473 0
1970	13697 8	794 0	14491 8	2919 0	17410 0
1935/70	146018 6	14444 1	160462 8	11259 0	171721 8

Notes x From 11/9/53 - 31/12/53

* 90% of which represents the Abu Safah oilfield revenue

However checking these given figures with the Bahrain share of production we found that the average was very much below the Saudi government receipt per barrel even if the total sum indicated did come from ARAMCO These differences are shown overleaf

Year	Receipt		Production 000 Barrel	Cents per Barrel	Saudi Arabia receipt cents per barrel ¹	Estimated Bahrain Government Revenue 000 BD
	000 BD	000\$				
1966	1314	2737	5885	46	83	2337
1967	1872	3900	7326	53	85	2959
1968	2173	4527	11014	41	88	4605
1969	2981	6210	11956	52	87	4959
1970	2919	6081	13661	44	88	5745
Total	11529					20615

* See PPS September 1971 pp 326-327

General Notes

- For the period 1961-1970 there was a slight difference between the estimated Bahrain state revenue figures and those of BAPCO's cash payments to the Government These differences are shown below

Year	000 BD		
	State Oil Rev **	BAPCO Payment	Difference
1961	7817	7818	- 1
1962*	8115	7947	+ 168
1963	8068	8051	+ 17
1964	8784	8746	+ 38
1965	8855	8509	+346
1966	11777	12048	-271
1967	11642	12153	-511
1968	12159	11894	+265
1969	14492	14405	+ 87
1970	14492	14368	+124
			93

* Budget estimation

** Government actual budget oil revenue + the estimated allocation to the Privy purse

- Bahrain's budget and financial statement used to mention all the oil revenues received by the state until 1959 when the practice changed and the Privy purse's third was excluded
- After comparing BAPCO's actual payment with the oil revenue in Bahrain's budget we found the latter represented only a sum approaching two thirds of the former, and nothing was mentioned in the budget about the Abu Safah field oil revenue This practice continued until the 1974 budget which shows all the state oil revenue (BAPCO and Abu Safah) and at the same shows an allocation of BD 6 million to the Ruler

Source BAPCO, 'Bapco and Bahrain Government of Bahrain Annual Report, 1955 p 5, 1956-61 and 1963-66 (Statement of Revenue and Expenditure) Ministry of Finance and National Economy 'Statement of Revenue and Expenditure , 1966-70 Private communication (Abu Safah)

APPENDIX 3 2

KUWAIT STATE OIL REVENUE BY SOURCE, 1935/46-1970/71*

(000 KD) and MILLION QDR

Year	KOC	AMINOIL	ADC	SHELL	KHPC	Total	Total 000 QDR
1935/45	172	-	-	-	-	172	2288
1946	75	-	-	-	-	75	997
1947	530	-	-	-	-	530	7049
1948	1250	1969	-	-	-	3219	42813
1949	2600	156	-	-	-	2756	36655
1950	3800	223	-	-	-	4103	54570
1951	6120	223	-	-	-	6343	84362
1952	19350	223	-	-	-	19573	260321
1953	59938	223	-	-	-	60161	800141
1954	69079	223	-	-	-	69302	921717
1955	100098	400	-	-	-	100498	1336623
1956	103626	695	-	-	-	104321	1387469
1957	109175	986	-	-	-	110161	1465141
1958	125554	1841	1072	-	-	128467	1708611
1959/60**	154736	3651	1430	-	-	159817	2125566
1960/61	147408	3305	893	7000	-	158606	2109460
1961/62	161810	3348	893	1000	-	167051	2221778
1962/63	164820	4245	2935	1000	-	173000	2300900
1963/64	181135	4940	2499	2000	-	190574	2534634
1964/65	195295	5217	5695	-	-	206207	2742553
1965/66	212381	6010	6935	-	-	225326	2996896
1966/67	217905	5186	8584	-	-	231675	3081277
1967/68	257369	3839	11734	-	-	272942	3630129
1968/69	227580	2870	12537	1	1	242988	3231740
1969/70	265119	1926	13394	1	1	280440	3729852
1970/71	281265	1801	14635	1	1	297702	3959437
Total	3068270	53500	83236	11000	3	3216009	42772920
1970/71**	230589	2857	8137	-	-	241583	3213054
Total	3298859	56357	91373	11000	3	3457592	45985974

Notes * Excluding educational security and representatives' reimbursements. All payment appeared as taken into fiscal accounts

† 15 months

** Income tax due for the fiscal years 1970/71 which was kept in a special account to be used in financing the 1971/72 budget after the transfer of its investment profit to the Reserve Fund

Sources Ministry of Finance and Petroleum, Kuwait direct contact, Ministry of Finance and Petroleum, Kuwait 'Al-Mudhakarrah Al-Tafsiryh Lil Mizanyh 1972/73' BAYAN 1971/72 pp 4-5

APPENDIX 3 3

QATAR STATE OIL REVENUE BY SOURCE, 1935-1970

(000 QDR)

Year	QPC	SHELL	QOC(Japan)	Others	Total QDR
1935/49	4075	-	-	-	4075
1950	4762	-	-	-	4762
1951	19048	-	-	-	19048
1952	47619	3465	-	-	51084
1953	85714	1000	-	1000	87714
1954	138095	1000	-	-	139095
1955	161905	1000	-	-	162905
1956	171429	1000	-	-	172429
1957	214286	1000	-	-	215286
1958	285714	1000	-	-	286714
1959	252381	1000	-	-	253381
1960	259200	1000	-	-	260200
1961	257400	1000	-	-	258400
1962	268900	1000	-	-	269900
1963	326752	1000	-	-	327752
1964	294294	11400	-	3214	308908
1965	311422	18578	-	3214	333214
1966	312172	121400	-	3214	436786
1967	323200	163200	-	3214	489614
1968	323429	202500	-	-	525929
1969	324000	228000	13347	-	563347
1970	325000	256200	480	-	581680
Total	4706722	1015743	11827	13856	5748148

Sources Shuqir M and Dhab S, op cit Vol 11, p 31 WORLD PETROLEUM, September 1962 Longrigg S M, op cit p 231 Government of Qatar, Budget Estimate 1973-1975, Department of Petroleum Affairs Qatar Direct contact (1960-70) Petroleum Information Foundation, op cit, PPS, September 1972 p 322 Government of Qatar, Qatar INTO 'the Seventies' pp 87-88, QPC and QOC, Direct Contact

APPENDIX 3 4

ABU DHABI STATE OIL REVENUE BY SOURCE, 1939/61-1970*

(000 BD)

Year	ADPC	ADMA	Total
1939/61	280	100	380
1962	20	938	958
1963	20	3048	3068
1964	1921	3919	5840
1965	9952	5831	15783
1966	37429	9962	47391
1967x	36287	12330	48617
1968	47747	25053	72800
1969	55565	35310	90875
1970	69265	41312	110577
1962/70	258206	137703	395909

* These revenues exclude the non-producing oil companies operating in Abu Dhabi. The estimated payment of these companies indicated by their concession terms are shown below (000 BD)

Year	PHILIPS	ADOC	MIDDLE EAST CO	PAN OCEAN	Total
1967	1476	24	-	-	1500
1968	48	500	821	-	1369
1969	48	952	36	-	1036
1970	52	-	1155	1238	2445
Total	1624	1476	2072	1238	6350

These payments were transferred to the ruler directly. However since these payments are relatively small and some of the operating companies may be exempted from paying them as was the case in Qatar in the same period we have excluded them from the state's total oil revenue

x ADPC E20 513 982 paid on 14 October 1967 and £7898019 due on 13 January 1968 ADMA's payment equalled U S \$25892172

Sources Otobin, M Al- Equisadyat Abu Dhabi, pp 139 and 144 Otobin M Al-OPEL pp 55 and 174 Al-Batroli wa Al-Sinah 1971 PPS September 1971 pp 326-327

SOURCE: APPENDICES ATTACHED TO CHAPTER IV (4.1 - 4.3.6)

Government of Bahrain, Annual Report(s), (Budgets and Statements of Revenue and Expenditure);

Direct communication, Ministry of Finance and National Economy, (Statement of Revenue and Expenditure);

Appendices 3.1 and 4.4.

Estimation: The allocation to the Privy purse of the Ruler, 1960-1970. This was estimated as The State Oil Revenue minus The Government Oil Revenues.

- Notes: 1. In the years before 1955 the government fiscal accounts were produced according to the Hijry years. The 1367 Hijry corresponded to 1947/48.
2. The years 1947-1953 should be read as 1947/48 ... to 1953/54.
3. 1953 represents 16 months.
4. Where the word 'other' appears in the appendices it means 'Administration and Others'.
- 0: Nil or not available.

APPENDIX 4 3 1
DEFICIT OR SURPLUS OF REVENUE OVER EXPENDITURE BY GROUPS 1947/48-1970
 (000 BD)

<u>SUMMARY TABLE</u>											
	1	2	3	4	5	6	7	8	9	10	11
1947	455	-1*2	-100	C	-4	-3	-216	C	-209	442	217
1948	492	-190	-129	C	-3	-3	-228	C	-355	564	148
1949	936	-218	-121	C	-3	-4	-377	C	-621	588	185
1950	1534	-253	-131	C	-10	-16	-511	C	-575	757	747
1951	2010	-382	-152	C	-4	-16	-670	C	-765	921	938
1952	2404	-478	-180	C	-13	-14	-801	C	-855	834	857
1953	2953	-646	-259	C	-11	-14	-1001	C	-1063	1583	232
1954	3502	-834	-348	C	-15	-18	-1266	C	-1338	2023	307
1955	4051	-1022	-437	C	-19	-23	-1530	C	-1602	2413	362
1956	4600	-1210	-526	C	-23	-28	-1794	C	-1866	2803	437
1957	5149	-1398	-615	C	-27	-33	-2058	C	-2130	3193	492
1958	5698	-1586	-704	C	-31	-38	-2322	C	-2394	3583	547
1959	6247	-1774	-793	C	-35	-43	-2586	C	-2658	3973	602
1960	6796	-1962	-882	C	-39	-48	-2850	C	-2922	4363	657
1961	7345	-2150	-971	C	-43	-53	-3114	C	-3186	4753	712
1962	7894	-2338	-1060	C	-47	-58	-3378	C	-3450	5143	767
1963	8443	-2526	-1149	C	-51	-63	-3642	C	-3714	5533	822
1964	8992	-2714	-1238	C	-55	-68	-3906	C	-3968	5923	877
1965	9541	-2902	-1327	C	-59	-73	-4170	C	-4222	6313	932
1966	10090	-3090	-1416	C	-63	-78	-4434	C	-4486	6703	987
1967	10639	-3278	-1505	C	-67	-83	-4698	C	-4748	7093	1042
1968	11188	-3466	-1594	C	-71	-88	-4962	C	-4910	7483	1097
1969	11737	-3654	-1683	C	-75	-93	-5226	C	-5174	7873	1152
1970	12286	-3842	-1772	C	-79	-98	-5490	C	-5438	8263	1207
167030	-56011	-22739	-1287	-2431	-1176	-62539	C	-42179	25019	3687	

- 1 = CIL REVENUE
- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMM
- 6 = AGRICULTURE
- 7 = RULING FAMILY
- 8 = LAND PURCHASE
- 9 = CAPITAL ITEMS
- 10 = OTHERS
- 11 = NET SURPLUS OR DEFICIT (RESERVE)

APPENDIX 4 3 2
GROSS DEFICIT OF THE NON-OIL REVENUE IN RESPECT TO INDIVIDUAL GROUPS OF EXPENDITURE 1947/48-1970
 (000 BD)

<u>SUMMARY TABLE</u>											
	2	3	4	5	6	7	8	9	10	11	
1947	-152	-100	C	-4	-3	-216	C	-209	C	-684	
1948	-190	-129	C	-3	-3	-228	C	-355	C	-906	
1949	-218	-121	C	-3	-4	-377	C	-621	C	-1341	
1950	-253	-131	C	-10	-16	-511	C	-575	C	-1544	
1951	-382	-152	C	-4	-16	-670	C	-765	C	-1993	
1952	-478	-180	C	-13	-14	-801	C	-855	C	-2381	
1953	-646	-259	C	-11	-14	-1001	C	-1063	C	-3183	
1954	-834	-348	C	-15	-18	-1266	C	-1338	C	-4272	
1955	-1022	-437	C	-19	-23	-1530	C	-1602	C	-5164	
1956	-1210	-526	C	-23	-28	-1794	C	-1866	C	-5856	
1957	-1398	-615	C	-27	-33	-2058	C	-2130	C	-6548	
1958	-1586	-704	C	-31	-38	-2322	C	-2394	C	-7340	
1959	-1774	-793	C	-35	-43	-2586	C	-2658	C	-7932	
1960	-1962	-882	C	-39	-48	-2850	C	-2922	C	-8524	
1961	-2150	-971	C	-43	-53	-3114	C	-3186	C	-9116	
1962	-2338	-1060	C	-47	-58	-3378	C	-3450	C	-9708	
1963	-2526	-1149	C	-51	-63	-3642	C	-3714	C	-10300	
1964	-2714	-1238	C	-55	-68	-3906	C	-3968	C	-10892	
1965	-2902	-1327	C	-59	-73	-4170	C	-4222	C	-11484	
1966	-3090	-1416	C	-63	-78	-4434	C	-4486	C	-12076	
1967	-3278	-1505	C	-67	-83	-4698	C	-4748	C	-12668	
1968	-3466	-1594	C	-71	-88	-4962	C	-4910	C	-13260	
1969	-3654	-1683	C	-75	-93	-5226	C	-5174	C	-13852	
1970	-3842	-1772	C	-79	-98	-5490	C	-5438	C	-14444	
139530	-6656	-3563	-269	-321	-161	-7798	C	-1681	-1168	-21655	

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMM
- 6 = AGRICULTURE
- 7 = RULING FAMILY
- 8 = LAND PURCHASE
- 9 = CAPITAL ITEMS
- 10 = OTHERS
- 11 = TOTAL DEFICIT

APPENDIX 4 3 3
ALLOCATION OF THE OIL REVENUE SPENT BY GROUPS 1947/48-1970
(000 BD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10	11
1947	53				1	1	7A		7D	225
1948	71	40			1	1	64		171	336
1949	122	46			2	3	215		748	751
1950	147	66			4	8	256		288	772
1951	202	81			7	15	355		408	1056
1952	306	115			12	24	519		573	1524
1953	428	161			17	34	725		813	2076
1955	565	211			23	46	985		1098	2826
1956	709	264			31	62	1255		1404	3624
1957	959	354			41	82	1677		1887	4824
1958	1230	455			53	106	2185		2454	6228
1959	1362	502			67	134	2815		3156	7992
1960	1690	605			84	168	3505		3912	9936
1961	2235	817			111	222	4545		5064	12936
1962	2618	941			144	288	5645		6216	15816
1963	2904	1044			183	366	6345		7020	17856
1964	2986	1074			234	468	6545		7224	18336
1965	3075	1102			297	594	6745		7428	18816
1966	4126	1363			387	774	8145		8976	22896
1967	4613	1534			504	1008	10545		11616	29616
1968	5131	1705			663	1326	13445		14832	37632
1969	5552	1876			870	1740	14645		16044	40644
1970	6658	2263			1143	2286	17745		19652	49656
	48766	16828			1161	2322	57822		74752	162686

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMM
- 6 = AGRICULTURE
- 7 = RUL INC FAMILY
- 8 = LAND PURCHASE
- 9 = CAPITAL ITEMS
- 10 = OTHERS
- 11 = TOTAL

APPENDIX 4 3 4
ALLOCATION OF THE ANNUAL AVAILABLE OIL REVENUE BY GROUPS 1947/48-1970
(000 BD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10	11	12	
1947	53	3A	G		1	1	76		77	0	217	456
1948	71	48	F		1	1	84		131	0	146	464
1949	122	66	C		2	3	209		348	0	185	576
1950	147	66	F		4	8	256		288	0	747	1515
1951	202	81	C		7	15	355		408	0	528	1654
1952	306	115	F		12	24	519		573	0	857	2361
1953	428	161	C		17	34	725		791	0	1023	2838
1955	565	211	C		23	46	985		1098	0	1391	3888
1956	709	264	F		31	62	1255		1386	0	1823	5210
1957	959	354	C		41	82	1677		1848	0	2407	6745
1958	1230	455	F		53	106	2185		2424	0	3156	8796
1959	1362	502	C		67	134	2815		3156	0	3912	10752
1960	1690	605	F		84	168	3505		3912	0	4716	12936
1961	2235	817	C		111	222	4545		5064	0	6216	17136
1962	2618	941	F		144	288	5645		6216	0	7428	20256
1963	2904	1044	C		183	366	6345		7020	0	8424	22896
1964	2986	1074	F		234	468	6545		7224	0	8736	23520
1965	3075	1102	C		297	594	6745		7428	0	8976	24336
1966	4126	1363	F		387	774	8145		8976	0	10896	29616
1967	4613	1534	C		504	1008	10545		11616	0	14316	38832
1968	5131	1705	F		663	1326	13445		14832	0	18645	49656
1969	5552	1876	C		870	1740	14645		16044	0	20118	53832
1970	6658	2263	F		1143	2286	17745		19652	0	24659	65856

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMM
- 6 = AGRICULTURE
- 7 = RUL INC FAMILY
- 8 = LAND PURCHASE
- 9 = CAPITAL ITEMS
- 10 = OTHERS
- 11 = RESERVE
- 12 = TOTAL

SUMMARY TABLE(PERCENTAGES)

	2	3	4	5	6	7	8	9	10	11	12
1947	11.60	7.60	C.00	C.30	0.20	16.50	0.00	16.70	C.00	47.40	100.00
1948	14.50	9.80	F.00	C.20	C.20	17.40	C.00	27.10	C.00	30.50	100.00
1949	13.00	7.20	F.00	C.10	C.20	22.30	C.00	37.10	C.00	19.70	100.00
1950	9.60	4.30	C.00	C.10	C.40	17.00	C.00	24.00	C.00	49.10	100.00
1951	10.10	4.30	C.00	C.10	C.40	17.00	C.00	24.00	C.00	49.10	100.00
1952	12.80	4.80	C.00	C.30	C.30	21.40	C.00	24.70	C.00	34.60	100.00
1953	9.00	3.10	C.00	C.20	C.20	24.80	C.00	28.40	C.00	34.60	100.00
1954	13.30	4.50	C.00	C.10	C.30	23.40	C.00	30.50	C.00	27.20	100.00
1956	13.80	3.70	F.00	C.10	C.30	23.40	C.00	21.80	C.00	34.60	100.00
1957	17.30	4.70	C.00	C.20	C.40	24.00	C.00	25.40	C.00	37.00	100.00
1958	20.80	3.70	C.00	C.40	C.40	27.30	C.00	27.40	C.00	37.00	100.00
1959	18.10	3.60	C.00	C.40	C.20	26.80	C.00	31.60	C.00	29.10	100.00
1960	22.30	3.60	C.00	C.50	C.30	27.20	C.00	31.80	C.00	26.70	100.00
1961	24.90	3.60	C.00	C.40	C.40	26.20	C.00	33.10	C.00	26.70	100.00
1962	32.80	11.70	C.00	C.60	C.40	25.00	C.00	24.30	C.00	26.70	100.00
1963	36.00	11.70	C.00	C.50	C.40	25.00	C.00	25.40	C.00	26.70	100.00
1964	33.50	9.70	C.00	C.50	C.30	24.10	C.00	27.40	C.00	26.70	100.00
1965	30.30	11.10	C.00	C.50	C.30	24.50	C.00	24.90	C.00	26.70	100.00
1966	33.60	11.10	C.00	C.50	C.30	24.50	C.00	24.90	C.00	26.70	100.00
1967	33.20	11.10	C.00	C.50	C.30	24.50	C.00	24.90	C.00	26.70	100.00
1968	32.00	12.40	C.00	C.70	C.40	24.70	C.00	24.90	C.00	26.70	100.00
1969	31.10	12.90	C.00	C.70	C.40	24.70	C.00	24.90	C.00	26.70	100.00
1970	31.40	12.40	C.00	C.70	C.40	24.70	C.00	24.90	C.00	26.70	100.00

APPENDIX 4 3 5
NET ALLOCATION OF TOTAL OIL REVENUE BY GROUPS 1947/48-1970
 (000 BD)

	2	3	4	5	6	7	8	9	10	11	12
1947	53	36				77		77		17	456
1948	7	-8		1	1	84		111		146	48
1949	122	-2		3	3	79		144		186	73
1951	147	46			8	35		246		247	1519
1952	232	21		7	7	356		477		578	3454
1953	316	115		8	9	513		673		757	4381
1954	626	271		16	15	1725		1471		157	7381
1955	505	701		23	21	684		1791		2483	4438
1956	714	184		17	7	1117		1135		1151	4227
1957	934	511		118	11	1367		1616		1823	5210
1958	1236	895		51	21	1672		1347		2184	6265
1959	1362	832		31	22	712		1197		113	4425
1961	1494	765	42	46	23	2173		2472		2184	7492
1961	2235	857		36	33	2345		2753		514	7814
1962	2618	941		61	47	2384		1944		-488	7814
1963	2336	945	64	44	43	2336		1462		-112	8045
1964	2966	854	111	166	67	2384		952		21	8740
1965	3875	1197	158	112	67	2357		2667		-1800	8854
1966	4126	1363	62	136	85	1374		2727		-213	12330
1967	4613	1734	164	243	97	512		2717		-213	13811
1968	5131	2070	162	321	131	6549		2585		-1807	14227
1969	5592	2657	148	365	145	731		2280		-1076	13442
1971	6698	3563	264	371	161	7798		1691	1168	-4249	17411
	48766	14828	141	2129	1717	57870		34795	1168	3687	166369

- 2 = SOCIAL SERVICES
- 3 = LAB & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSP. & COMM
- 6 = AGRICULTURE
- 7 = RUL INC FAMILY
- 8 = LAND PURCHASE
- 9 = CAPITAL ITEMS
- 10 = OTHERS
- 11 = RESERVE
- 12 = TOTAL (ANNUAL OIL REVENUE)

PERCENTAGE TABLE

	2	3	4	5	6	7	8	9	10	11	12
1947	11.60	7.63	1.00	1.30	0.21	16.50	1.00	16.00	0.00	47.50	100.00
1948	14.50	9.80	1.00	0.20	0.20	17.40	1.00	27.10	0.00	30.50	100.00
1949	13.30	7.21	1.00	0.10	0.20	22.70	1.00	37.10	0.00	19.70	100.00
1951	9.60	4.31	0.60	0.50	0.50	16.80	1.00	18.40	0.00	49.10	100.00
1952	12.30	4.30	0.60	1.10	0.80	17.80	1.00	25.40	0.00	47.00	100.00
1953	9.30	3.11	1.00	0.20	0.20	24.80	1.00	28.40	0.00	34.00	100.00
1954	13.30	4.50	1.00	1.50	0.40	23.30	0.00	30.50	0.00	27.20	100.00
1955	13.60	7.31	1.00	1.30	0.30	21.40	0.00	21.80	0.00	34.90	100.00
1957	17.30	5.70	0.00	2.20	0.40	26.00	0.00	37.70	0.00	13.40	100.00
1958	18.30	1.00	1.00	1.80	0.30	27.30	1.00	23.40	0.00	17.00	100.00
1959	18.10	0.00	0.00	0.00	0.20	26.80	1.00	15.60	0.00	29.10	100.00
1961	22.30	10.30	1.50	1.50	0.30	27.20	1.00	31.80	0.00	6.70	100.00
1961	28.50	11.40	1.00	0.40	0.40	31.00	1.00	35.20	0.00	-6.20	100.00
1962	33.20	11.90	1.00	1.40	0.50	30.20	0.00	24.70	0.00	-1.00	100.00
1963	36.10	11.70	1.10	0.50	0.40	25.10	1.00	23.60	0.00	0.20	100.00
1964	33.90	9.70	1.10	1.50	0.70	26.10	1.00	10.80	1.00	15.50	100.00
1965	43.70	13.40	1.10	1.20	0.70	31.00	0.00	25.10	0.00	-20.30	100.00
1966	34.20	11.30	1.00	1.10	0.50	31.30	1.00	22.50	0.00	-1.70	100.00
1967	34.10	5.80	1.30	1.80	0.70	37.80	1.00	23.10	0.00	-9.50	100.00
1968	36.30	14.00	1.10	2.20	0.90	47.00	1.00	18.10	0.00	-12.60	100.00
1969	32.10	16.70	1.00	2.70	0.80	41.30	0.00	13.00	0.00	-6.10	100.00
1971	38.40	21.40	1.50	1.80	0.90	44.70	1.00	9.40	6.70	-24.40	100.00

APPENDIX 4 3 6
NET ALLOCATION OF TOTAL OIL REVENUE BY MAIN GROUPS 1947/48-1970
 (000 BD)

	LAND PURCHASE	RUL INC FAMILY	CAPITAL ITEMS	RESERVE	CURRENT	TOTAL
1947		76	77	217	91	456
1948		84	131	148	121	484
1949		209	348	144	154	735
1951		256	204	747	220	1515
1952		156	42	638	73	1994
1953		513	573	857	438	2381
1954		1725	1071	2363	861	6338
1955		645	1291	1751	8	4277
1956		1117	1130	1723	1131	5711
1957		1007	1616	77	1444	4344
1958		1626	1387	113	1672	4938
1959		212	1107	216	767	2422
1961		77	427	814	21	1339
1961		246	753	-256	311	754
1962		2346	1544	-112	366	3994
1963		2335	1667	21	4127	5360
1964		2284	647	1177	4147	8358
1965		2657	2613	-116	5338	9532
1966		774	721	-71	784	1706
1967		5120	717	-85	62	14511
1968		468	2585	-117	774	16277
1969		711	2211	-177	6217	17642
1971		770	1411	-446	1213	17411

APPENDIX 4 4
BAHRAIN GOVERNMENT BUDGETS' PUBLIC REVENUE BY SOURCE 1935-1970a
(000 BD)

Year*	Customs	Interest	Other Rev	Total	Oil Rev	Grand Total
1935	69	-	8	77	57	134
1936	87	-	8	95	69	164
1937	106	3	8	117	316	434
1938	100	10	10	120	354	474
1939	103	16	15	134	323	457
1940	87	22	26	135	355	490
1941	78	40	28	145	297	443
1942	88	30	18	136	262	399
1943	140	27	33	200	271	471
1944	204	28	39	271	279	550
1945	245	53	39	339	300	639
1946	273	30	53	356	311	667
1947	352	50	75	477	390	867
<u>1935/47</u>	<u>1932</u>	<u>316</u>	<u>360</u>	<u>2608</u>	<u>3590</u>	<u>6189</u>
1947/48	459	45	69	573	459	1032
1948/49	590	62	75	727	492	1219
1949/50	604	57	100	761	938	1699
1950/51	816	66	105	987	1534	2521
1951/52	973	90	133	1196	2010	3206
1952/53 ^ø	1389	148	204	1741	4148	5889
1954	1065	192	163	1420	5250	6670
1955	1222	234	648 ^c	2104	4255	6359
<u>1935/55^m</u>	<u>9050</u>	<u>1210</u>	<u>1857</u>	<u>12117</u>	<u>22676</u>	<u>34793</u>
1956	1289	293	4016	1983	5252	7235
1957	1380	335	267	1982	5256	7238
1958	1274	351	280	1905	5933	7838
<u>1935/58</u>	<u>12993</u>	<u>2189</u>	<u>2805</u>	<u>17987</u>	<u>39117</u>	<u>57104</u>
1959 ^e	1442	406	367	2215	5030	7245
1960 ^{de}	1584	433	365	2382	5287	7669
1961 ^e	1684	-	327	2011	5211	7222
1962 ^e	1500 ^f	-	590 ^f	2090	5410	7500
1963 ^e	1900	-	350	2250	5379	7629
1964 ^e	2085	-	342	2427	5856	8283
1965 ^e	2115	-	450	2565	5903	8468
1966 ^e	2269	-	1232	3501	7851	11352
1967 ^e	2431	-	2207	4638	7761	12399
1968 ^e	2593	-	3307 ^h	5900	8071	13971
1969 ^e	2818	-	2550 ^j	5368	9661	15029
1970 ^e	3184	-	5491 ^k	8675	9612	18287
<u>1935/70</u>	<u>38598</u>	<u>3028</u>	<u>20383</u>	<u>62009</u>	<u>120149</u>	<u>182158</u>

Notes

- a - Excluding revenues of public bodies
- b - Including His Highness the Ruler's grant of BD 200 thousand
- c - Includes His Highness's grant to public protection (BD 50 thousand) and a drawing from the reserve fund (Annual Report, 1955, p 90)
- d - This is the last year in which the Bahrain Budget included the reserve fund interest
- e - Oil revenue excluding the allocation to the privy purse
- f - Budget estimation
- h - Includes BD 2 million transferred from the reserve fund to meet the budget deficit
- j - Includes BD 11 million transferred from the reserve fund to meet the budget deficit
- k - Includes BD 38 million transferred from the reserve fund to meet the budget deficit.
- m - Annual Report, 1955, p 5
- * - Until 1952 the Bahrain Government Budget was assessed according to Hijry calendar
- ø - 16 month

Source Government of Bahrain, Annual Report, 1955, p 5, 1956-61 and 1963-65, Ministry of Finance and National Economy, Bahrain, Direct Communication

SOURCE: APPENDICES ATTACHED TO CHAPTER V (5.1-5.3.6)

1957-1970/71: Ministry of Finance and Petroleum, Kuwait, 'Al-Hisab Al-Khitamy Lil Mizanih Al-Aamah';

1952-1956: Royal Institute of International Affairs, op.cit., p.125 (2nd ed. 1954);
U.N., Economic Development in the Middle East, 1958-1959, p.116;

Other Sources, concerned individual departments.

Land Purchase: SAK, 1967, p.139,

Social Affairs: Social Affairs Dept., Annual Report, 1955, p.69 and 1956, p.73;

Education Department: Education Department, Annual Report, 1956/57, p.1.

Estimation: For the years 1952-1956, a few departmental items of expenditure were estimated at a fixed rate of growth.

Notes: 0: Nil or Not Available.

1959: 15 months.

- All the years 1959-1970: should be read as 1959/60 - 1970/71;

- For some departments items of expenditure in the years 1957-1959 include both capital and current expenditure.

- Others: where the word 'others' appears it means 'Administration and Others'.

APPENDIX 5 1
THE PUBLIC REVENUES, BY SOURCE, 1952-1970/71
(000 RD)

SUMMARY TABLE									
1	2	3	4	5	6	7	8	9	10
1952	19973	0	0	0	0	0	0	728	20301
1953	67161	0	0	0	0	0	0	1117	61278
1954	69372	0	0	0	0	0	0	1901	71202
1955	100498	0	0	0	0	0	0	3417	103910
1956	104321	0	0	1330	0	0	0	2540	108200
1957	106377	67	58	1300	167	0	242	3458	115949
1958	127766	40	40	1734	343	0	736	4430	137538
1959	167709	49	157	3416	660	0	707	9311	184600
1960	150886	85	220	3538	588	0	1939	8195	174368
1961	166982	24	482	2354	787	0	1306	6896	180793
1962	173004	25	787	2904	640	0	4000	6004	189814
1963	190974	38	872	3431	1022	0	7916	8505	207420
1964	206200	107	954	4247	1214	0	977	8444	222154
1965	229129	115	1117	4247	1510	0	2915	9860	244829
1966	231672	113	1861	3907	1634	0	2100	10572	251205
1967	263997	104	1767	4003	3647	0	4253	10927	287808
1968	262988	278	1562	4450	3937	0	3399	11750	268295
1969	280440	378	1224	6264	4295	0	1667	12341	306531
1970	297751	441	1407	6947	4758	0	1397	10057	343818
	3197968	1842	12900	53794	24562	0	35658	0	152597
	91.80	0.00	0.40	1.50	0.70	0.00	1.00	0.00	4.30

- 1 = OIL REVENUE
- 2 = SOCIAL SERVICES
- 3 = LAW AND ORDER
- 4 = PUBLIC UTILITIES
- 5 = PCST TEL & TELEGRAPH
- 6 = RAILING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = GRAND TOTAL

SUMMARY TABLE (PERCENTAGES)

1	2	3	4	5	6	7	8	9	10
1952	96.40	0.00	0.00	0.00	0.00	0.00	0.00	3.50	100.00
1953	97.10	0.00	0.00	0.00	0.00	0.00	0.00	1.80	100.00
1954	97.30	0.00	0.00	0.00	0.00	0.00	0.00	2.60	100.00
1955	96.70	0.00	0.00	0.00	0.00	0.00	0.00	3.20	100.00
1956	96.40	0.00	0.00	1.20	0.00	0.00	0.00	2.30	100.00
1957	95.70	0.00	0.00	1.10	0.10	0.00	0.20	3.90	100.00
1958	92.80	0.00	0.00	1.20	0.20	0.00	1.70	5.00	100.00
1959	90.80	0.00	0.00	1.80	0.30	0.00	1.00	4.70	100.00
1960	91.70	0.00	0.10	2.00	0.30	0.00	1.80	3.80	100.00
1961	92.30	0.00	0.20	1.30	0.40	0.00	2.60	2.80	100.00
1962	91.10	0.00	0.30	1.50	0.50	0.00	1.40	4.10	100.00
1963	91.80	0.00	0.40	1.60	0.50	0.00	0.40	3.80	100.00
1964	92.80	0.00	0.40	1.60	0.60	0.00	1.10	4.10	100.00
1965	92.00	0.00	0.40	1.60	0.60	0.00	0.80	3.80	100.00
1966	92.20	0.00	0.70	1.30	0.70	0.00	1.40	4.30	100.00
1967	91.40	0.00	0.50	1.60	0.80	0.00	1.70	4.00	100.00
1968	90.50	0.00	0.30	2.00	0.80	0.00	0.50	8.70	100.00
1969	91.40	0.00	0.30	2.00	0.80	0.00	0.40	0.00	100.00
1970	86.50	0.10	0.40	2.00	1.60	0.00	0.40	0.00	100.00

APPENDIX 5 2 1
SOCIAL SERVICES/CURRENT EXPENDITURE 1952-1970/71
(000 RD)

Education	Health	Social Services	Social Allowances	University	Others	Total
1782	707	0	0	0	0	2490
2406	1128	0	0	0	0	3534
2792	1880	0	0	0	0	4672
3835	2158	167	0	0	0	7160
4858	3404	442	0	0	0	12699
5725	5104	700	26	0	0	14456
6297	6467	1213	36	0	0	21057
6180	8314	2044	64	0	0	26772
8028	7772	1781	452	0	0	18813
9022	7624	2078	1785	0	0	20879
10768	8721	2386	2741	176	0	23852
12279	9809	2629	600	556	0	25682
13744	10642	2068	807	514	0	28763
15784	11509	2682	1228	72	100	32395
18627	12888	3822	1640	0	800	38123
22350	14490	5050	0	2144	0	43143
26274	16246	6754	0	2711	0	47989
27028	19760	8171	0	2979	0	51847
29911	16040	8726	0	2880	0	55077
251478	167561	43130	8380	12822	900	479540
93.30	34.00	8.90	1.70	2.60	0.10	% OF GROUP TOTAL
0.00	5.20	1.10	0.20	0.40	0.00	% OF GRAND TOTAL

(000 KD)

Interior	Judicial	Defence	M Guard	Total
414	0	0	0	414
652	0	0	0	652
637	0	0	0	637
1128	0	0	0	1128
1579	0	0	0	1579
2027	157	0	0	2223
2326	240	0	0	2645
6375	212	10380	0	17067
9559	231	7516	0	16444
7021	201	2320	0	14011
8660	507	13160	0	22427
10021	828	12478	0	24327
11393	454	10444	0	22703
12874	970	10837	0	24681
14552	140	12887	0	28579
16226	140	21082	0	38448
18210	1377	23000	1000	43587
18305	1357	24688	1000	45440
19233	1254	28000	1000	46589
141355	11612	179865	3000	355833
45.30	2.70	50.90	0.00	% OF GROUP TOTAL
5.10	0.70	5.70	0.00	% OF GRAND TOTAL

APPENDIX 5 2 3

PUBLIC UTILITIES SERVICES/CURRENT EXPENDITURE 1952-1970/71

(000 KD)

Elec	Water & Gas	Water Directorate	Chlorine Factory	P. S. Shuwalkh	P. S. Shuabih M	P. S. Shuabih S.	Total
0	0	0	0	0	0	0	0
75	0	0	0	0	0	0	75
1579	0	0	0	0	0	0	1579
1729	0	0	0	0	0	0	1729
4361	0	0	0	0	0	0	4361
3252	0	0	0	411	0	0	3723
3312	0	0	0	475	0	0	3810
5855	0	0	0	564	0	0	6527
4187	0	0	0	574	0	0	4843
4648	0	0	0	596	0	0	5244
5134	0	0	27	671	0	0	4793
5662	0	0	62	706	0	0	6526
5713	0	0	97	822	0	0	6622
5974	0	0	89	849	0	0	6912
6821	0	0	106	882	768	0	8077
7232	0	0	124	942	345	0	8643
7161	0	0	132	940	387	0	8620
7569	0	0	163	975	529	0	9236
7842	0	0	180	1004	386	121	9533
98106	294	0	976	10341	1915	121	101854
86.50	0.30	0.00	0.90	10.10	1.80	0.10	% OF GROUP TOTAL
2.80	0.00	0.00	0.00	0.70	0.00	0.00	% OF GRAND TOTAL

APPENDIX 5 2 4

POST TEL & TELEGRAPH SERVICES/CURRENT EXPENDITURE 1952-1970/71

(000 KD)

Tel & Telegraph	Post	Civil Aviation	Airport	Total
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
0	0	0	0	0
301	0	0	0	301
809	0	0	0	809
1190	328	0	0	1518
2226	589	0	0	2809
1008	441	0	0	1449
1237	519	0	0	1756
1330	520	152	0	1902
1550	431	148	0	2074
1738	739	284	0	2761
2144	773	313	0	2930
2151	846	495	0	3492
2404	998	698	0	4100
2487	1005	756	118	4366
2819	1079	901	0	4799
3083	1198	961	0	5242
26476	9661	5033	118	41288
64.10	23.30	12.70	0.20	% OF GROUP TOTAL
0.80	0.30	0.10	0.00	% OF GRAND TOTAL

APPENDIX 5 2 5

ALLOCATION TO THE RULING FAMILY 1952-1970/71

(000 KD)

Ruler	Ruling Family	Total
0	226	226
0	301	301
0	376	376
0	451	451
0	602	602
0	780	780
0	1449	1449
0	2457	2457
0	2470	2470
0	2612	2612
0	2644	2644
10000	0	10000
10000	0	10000
9959	0	9959
8000	0	8000
8000	0	8000
8000	0	8000
8000	0	8000
8000	0	8000
8000	0	8000
8000	0	8000
65545	7174	72739
80.00	2.00	% OF GROUP TOTAL
2.20	0.50	% OF GRAND TOTAL

APPENDIX 5 2 6
EXPENDITURE ON CAPITAL ITEMS 1952-1970/71
 (000 KD)

Public Works	Electricity & Water	P. T. & Telegraph	Education		Others	Total
1120	0	0	0	0	8777	10942
5414	0	0	0	0	21980	27293
9449	0	0	0	0	13934	29083
17174	0	0	0	0	804	11887
47984	0	0	0	0	2552	14847
24102	0	0	0	0	4654	28914
24676	0	0	0	0	1464	26142
79913	0	0	0	0	8457	41370
0	0	0	0	0	26728	24728
16928	7264	1008	272	0	970	26776
14925	7444	2714	77	0	547	26798
24924	9111	1411	0	0	0	26844
19942	7481	190	0	0	0	28013
12956	5020	1170	0	0	2117	20872
27457	11987	2807	0	0	4804	47055
20744	17099	4156	0	0	816	52825
19997	16183	4061	0	0	738	36939
22826	20714	7877	0	0	1114	51732
18433	19135	8842	0	0	1216	47016
320167	120959	94617	761	0	101832	587936
54.90	70.50	6.00	0.00	0.00	17.30	% OF GROUP TOTAL
10.90	3.80	1.10	0.00	0.00	1.20	% OF GRAND TOTAL

APPENDIX 5 2 7
PUBLIC EXPENDITURE BY GROUPS, 1952-1970/71
 (000 KD)

SUMMARY TABLE

1	2	3	4	5	6	7	8	9	10	
1952	0	2499	414	0	0	226	2142	10842	3204	18316
1953	0	3934	524	74	0	301	3431	27293	3412	38571
1954	0	4667	827	1570	0	376	6877	23083	4818	42180
1955	0	7160	1128	1729	0	451	12684	11880	6848	41880
1956	0	12699	1979	4361	301	602	12140	16842	10877	59400
1957	0	19656	2271	3773	809	780	21972	28816	8998	82938
1958	0	21097	2645	3810	1818	1449	40154	26142	11016	107792
1959	0	26772	17067	6427	2800	2452	85352	41370	15598	198948
1960	0	18811	16446	4843	1440	2670	43130	76729	25170	149258
1961	0	20429	18011	5244	1908	2613	58849	26346	25250	161650
1962	0	23932	29907	9797	7024	2655	46474	26798	44238	165140
1963	0	29482	24227	6526	2376	10000	32010	36854	38852	176337
1964	0	28761	22703	6622	2761	10000	44497	28013	38297	182156
1965	0	32944	24662	6912	3230	9959	79166	20872	64306	241502
1966	0	38121	28874	8077	1996	8000	95000	47055	58035	286461
1967	0	43143	38668	8647	4100	8000	62000	42825	106601	323980
1968	0	47989	43977	8620	4766	8000	17000	47557	26363	36363
1969	0	51847	44440	9236	4799	8000	9673	51732	104975	285602
1970	0	95077	46589	9533	5242	8000	24553	47916	107965	306675
0	479940	355833	101854	41288	8733	697287	587936	768072	3120438	
0.00	14.30	11.40	3.20	1.30	2.70	22.30	18.80	24.60		

- 1 = OIL REVENUE
- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
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- 5 = POST TEL & TELEGRAPH
- 6 = PUL NG FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = GRAND TOTAL

SUMMARY TABLE (PERCENTAGES)

1	2	3	4	5	6	7	8	9	10	
1952	0.00	13.50	2.20	0.00	0.00	1.20	11.60	59.10	12.00	100.00
1953	0.00	9.10	1.30	0.10	0.00	0.70	8.40	70.70	8.80	100.00
1954	0.00	11.00	1.90	3.70	0.00	0.80	16.20	44.70	11.40	100.00
1955	0.00	17.00	2.60	4.10	0.00	1.00	30.20	28.30	16.30	100.00
1956	0.00	21.30	2.60	7.30	0.50	1.00	70.40	28.30	18.30	100.00
1957	0.00	18.80	2.60	4.40	0.90	0.90	76.40	34.70	10.80	100.00
1958	0.00	19.50	2.60	3.40	1.40	1.20	37.20	24.20	10.20	100.00
1959	0.00	13.80	8.50	2.20	1.40	1.70	49.00	20.70	7.80	100.00
1960	0.00	15.50	11.80	2.40	1.00	1.90	30.90	15.10	18.00	100.00
1961	0.00	12.60	9.90	3.70	1.10	2.20	36.40	16.20	18.00	100.00
1962	0.00	14.40	11.60	3.50	1.20	2.00	28.10	14.20	20.70	100.00
1963	0.00	14.40	13.70	3.70	1.30	5.60	18.10	20.80	22.00	100.00
1964	0.00	14.70	12.40	3.60	1.40	5.40	24.70	15.20	21.00	100.00
1965	0.00	13.40	10.20	2.80	1.30	4.10	32.70	8.60	26.60	100.00
1966	0.00	13.30	9.90	2.80	1.20	2.70	33.10	14.40	20.20	100.00
1967	0.00	13.30	11.90	2.60	1.20	2.40	19.10	14.70	32.00	100.00
1968	0.00	14.20	16.50	2.20	1.60	2.00	6.40	13.90	27.00	100.00
1969	0.00	14.10	14.40	3.20	1.60	2.90	3.30	18.10	36.70	100.00
1970	0.00	14.00	14.20	2.10	1.70	2.60	7.90	15.40	35.40	100.00

APPENDIX 5 3 1
 DEFICIT OR SURPLUS OF REVENUE OVER EXPENDITURE BY GROUPS, 1952-1970/71
 (000 KD)

SUMMARY TABLE

	1	2	3	4	5	6	7	8	9	10
1952	10974	7480	414	0	0	224	747	10847	-1474	1084
1953	4014	3584	4	78	0	70	-147	2720	-720	2720
1954	4072	4447	0	0	0	374	1477	1477	0	1477
1955	106408	7160	-128	1570	0	40	1	84	1	84
1956	106791	7600	-470	1071	0	67	1	47	1	47
1957	10417	14888	-3144	2474	447	780	277	20014	8720	13011
1958	27776	7718	-7607	7074	1174	440	37918	76147	8486	70744
1959	87700	-24797	14000	-1177	1440	1443	47745	-47747	-47747	14110
1960	50096	10729	14717	1300	864	7290	47707	24720	-14074	14
1961	46957	20044	1848	2800	1127	1613	84443	76774	-27344	10143
1962	177074	7417	21707	2700	-1084	7444	-41383	24709	27244	24674
1963	100574	74444	73744	7000	1207	10700	70004	-74884	-74747	71007
1964	706200	-74844	21740	7374	1444	-10000	44070	70017	-74883	70000
1965	25124	-12280	-23840	3077	700	0000	-74751	30777	-54444	3327
1966	71476	-74010	24714	-4777	1802	0700	07000	-47747	-47747	38244
1967	247007	-47000	74071	-4440	487	-8700	47747	-47747	-47747	74177
1968	742987	-47341	4004	4170	420	0700	13401	34810	07007	4647
1969	707440	-47417	44718	-3477	-804	0000	7011	-47747	-47747	70710
1970	707731	-54474	44187	-2484	414	0700	27086	47014	-77008	70147
1952-1970	7107568	474899	741337	48460	74724	-87777	-641474	-487074	414775	74554

- 1 = TEL DEPT
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- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = NET SURPLUS OR DEFICIT (RESERVE)

APPENDIX 5 3 2
 THE GROSS DEFICIT OF THE NON-OIL REVENUE IN RESPECT TO INDIVIDUAL GROUPS OF EXPENDITURE, 1952-1970/71
 (000 KD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10
1952	2489	414	0	0	-224	-747	-10842	-1474	-17489
1953	454	524	-74	0	-70	-747	-2700	-720	-3744
1954	-4642	0	-1470	0	374	-4877	-2700	-2917	-40774
1955	7160	1128	-1729	0	-481	-17484	-11880	-1474	-18468
1956	-12499	1570	-301	-301	-407	-12140	-14842	-4328	-44421
1957	-14598	2165	-744	-442	-780	-21711	-28816	-77474	-77474
1958	-21018	7594	-2074	-1175	-1440	-37018	-26142	-4486	-97060
1959	-7672	-14600	-1112	-2140	-7443	-82045	-41370	-4288	-182048
1960	-18728	-16717	-1305	-864	-2470	-41300	-26774	-16075	-124786
1961	20404	14829	-2800	-1171	-3613	-84857	26336	22364	-14700
1962	-23817	-21740	-2700	-1084	-1444	-41383	-26708	-27244	-148430
1963	-74444	-21744	-3007	-1207	-10000	-24004	-74844	70747	-154491
1964	28650	-21740	-2374	-1445	-10000	-44020	-28013	20853	-160711
1965	22880	-23845	-2074	-1720	-0000	-74291	-20872	-44446	-221009
1966	-38010	-74714	-4777	-1062	-8000	-97000	-47005	-47417	-266031
1967	-43039	-74001	-4640	-487	-8000	-97447	-32825	-08664	-209260
1968	-47801	-42724	-760	-420	-8000	-13401	-36000	-88002	-278446
1969	51543	-44215	-2472	-804	-8000	-7011	-51732	-42674	-248411
1970	-44576	-45192	-7584	0	-8000	-22086	-47014	-77008	-258074

- 2 = SOCIAL SERVICES
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- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = TOTAL DEFICIT

APPENDIX 5 3 3
 THE ALLOCATION OF THE OIL REVENUE SPENT BY GROUPS, 1952-1970/71 (000 KD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10
1952	2489	414	0	0	224	747	10842	1474	17489
1953	454	524	74	0	70	747	2700	720	3744
1954	4642	0	1470	0	374	4877	2700	2917	40774
1955	7160	1128	1729	0	481	17484	11880	1474	18468
1956	12499	1570	301	301	407	12140	14842	4328	44421
1957	14598	2165	744	442	780	21711	28816	77474	77474
1958	21018	7594	2074	1175	1440	37018	26142	4486	97060
1959	7672	14600	1112	2140	7443	82045	41370	4288	182048
1960	18728	16717	1305	864	2470	41300	26774	16075	124786
1961	20404	14829	2800	1171	3613	84857	26336	22364	14700
1962	23817	21740	2700	1084	1444	41383	26708	27244	148430
1963	74444	21744	3007	1207	10000	24004	74844	70747	154491
1964	28650	-21740	-2374	-1445	-10000	-44020	-28013	20853	-160711
1965	22880	-23845	-2074	-1720	-0000	-74291	-20872	-44446	-221009
1966	-38010	-74714	-4777	-1062	-8000	-97000	-47005	-47417	-266031
1967	-43039	-74001	-4640	-487	-8000	-97447	-32825	-08664	-209260
1968	-47801	-42724	-760	-420	-8000	-13401	-36000	-88002	-278446
1969	51543	-44215	-2472	-804	-8000	-7011	-51732	-42674	-248411
1970	-44576	-45192	-7584	0	-8000	-22086	-47014	-77008	-258074
1952-1970	477452	747481	48474	14247	8744	641404	407487	414404	2480010

- 2 = SOCIAL SERVICES
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- 5 = POST TEL & TELEGRAPH
- 6 = PUL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = TOTAL

APPENDIX 5 3 4
ALLOCATION OF THE ANNUAL AVAILABLE OIL REVENUES BY GROUPS, 1952-1970/71
 (000 KD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10	11
1952	2400	414	0	0	224	3142	10842	1476	1585	19572
1953	2834	524	75	0	301	2471	7729	2294	2707	80161
1954	4662	827	1470	0	376	4837	23083	2017	25023	69307
1955	7160	1128	1729	0	441	12684	11880	2434	6700	104408
1956	12699	1470	1071	301	602	12140	16842	8328	48800	104331
1957	13588	2165	2424	642	780	21711	28816	5300	37011	110437
1958	21018	2595	2076	1175	1449	37918	26142	5586	28746	127706
1959	26722	14900	2112	2140	3452	82045	41370	6288	0	182048
1960	18728	16717	1305	964	2870	41300	26728	16975	35110	159806
1961	28404	14428	2890	1121	2812	56553	26336	22364	19147	144987
1962	23817	21790	2700	1084	2452	41387	24799	27244	24674	173004
1963	25444	23364	4008	1201	10000	20004	36854	10747	21083	140574
1964	28656	21740	3375	1544	10000	44070	38013	29852	20008	206200
1965	32780	23549	2025	1720	9000	76251	20872	44446	3327	225325
1966	48010	26714	4777	1962	9000	92900	47065	47812	0	261921
1967	43039	36001	4640	452	8000	57747	52825	95644	0	259245
1968	47781	42824	4170	429	8000	12601	26535	88802	4647	242988
1969	51543	44215	2972	504	8000	7911	51732	82634	20929	280440
1970	53981	46730	2560	0	7920	22724	47427	77129	29142	255622
	477553	342881	48224	15242	87253	661395	587457	615596	445221	3281260
	14.50	10.49	1.40	0.40	2.60	20.10	17.90	18.70	13.50	100.00

- 2 = SOCIAL SERVICES
- 3 = LAW AND ORDER
- 4 = PUBLIC UTILITIES
- 5 = POST TEL & TELEGRAPH
- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

SUMMARY TABLE PERCENTAGES

	2	3	4	5	6	7	8	9	10	11
1952	12.70	2.10	0.00	0.00	1.10	10.90	55.30	7.50	10.10	100.00
1953	5.80	0.80	0.10	0.00	0.40	8.70	45.30	2.80	37.70	100.00
1954	6.70	1.10	2.20	0.00	0.50	9.80	33.30	4.20	41.80	100.00
1955	7.10	1.10	1.70	0.00	0.40	12.60	11.80	3.40	61.70	100.00
1956	12.10	1.50	2.40	0.20	0.50	11.60	16.10	7.90	46.70	100.00
1957	14.10	1.90	2.10	0.50	0.70	19.60	26.00	4.70	29.80	100.00
1958	16.40	2.00	1.60	0.90	1.10	29.60	20.40	4.30	27.20	100.00
1959	14.60	9.20	1.70	1.10	1.80	45.00	22.70	3.40	0.00	100.00
1960	11.70	10.10	0.80	0.50	1.60	25.80	16.70	10.60	21.90	100.00
1961	12.20	9.30	1.70	0.60	2.10	32.20	18.70	13.70	11.40	100.00
1962	13.70	12.50	1.60	0.60	1.90	23.90	15.40	15.70	14.20	100.00
1963	13.30	12.20	1.60	0.60	5.20	15.20	19.30	15.90	16.30	100.00
1964	13.80	10.50	1.10	0.70	4.80	21.30	13.50	14.40	19.30	100.00
1965	14.30	10.40	1.20	0.70	4.40	33.80	9.20	24.10	1.40	100.00
1966	14.20	10.00	1.70	0.70	2.90	24.80	17.60	17.70	0.00	100.00
1967	14.30	12.30	1.50	0.10	2.60	19.20	17.60	31.90	0.00	100.00
1968	19.60	17.20	1.70	0.10	3.20	5.50	15.00	35.30	1.90	100.00
1969	18.30	15.70	1.00	0.10	2.80	2.80	18.40	33.00	7.40	100.00
1970	18.20	15.10	0.80	0.00	2.60	7.60	16.00	26.00	11.20	100.00

APPENDIX 5.3.5
NET ALLOCATION OF TOTAL OIL REVENUE BY GROUPS, 1952-1970/71
(000 KD)

	2	3	4	5	6	7	8	9	10	11
1952	2490	414	0	0	224	2147	10842	1476	1985	19573
1953	2534	526	75	0	301	3431	27293	2204	27707	60161
1954	4462	877	1779	0	376	6837	23084	2017	29023	69702
1955	7160	1128	1759	0	451	13484	17880	2431	62730	100498
1956	12699	1730	3031	0	602	32140	36847	4828	48800	104321
1957	14488	2144	2424	0	780	21711	39814	4300	33011	110437
1958	21018	2595	2074	1174	1440	37019	26142	5586	26746	127706
1959	26722	3609	3112	245	3453	82045	41370	6280	-14330	167709
1960	18728	16217	305	864	2670	41300	26728	16975	14110	159896
1961	20404	15528	2890	1121	3413	45447	26736	23364	10147	166957
1962	23817	21750	2700	1084	3454	41383	26798	27244	24674	173004
1963	25444	23364	2700	1203	10000	29094	36854	30347	31083	190574
1964	29456	21749	2374	1444	10000	44020	28013	29853	39988	206209
1965	32280	23445	2624	1770	9950	76251	20872	44444	3327	223325
1966	38010	26714	4777	1962	4700	92900	47855	47513	-35256	231679
1967	43039	34501	4440	444	8000	92747	42924	49564	-36172	263047
1968	47781	42074	4170	470	8000	13401	36830	95802	4642	262988
1969	51443	44215	2972	504	8000	7911	31732	9234	39020	280440
1970	52981	44730	2560	0	7920	22724	47437	27120	39143	294628
	477553	342881	48534	15242	87253	661395	487457	615594	349984	3195493

- 2 = SOCIAL SERVICES
- 3 = LAND AND ORDER
- 4 = PUBLIC UTILITIES
- 5 = POST TEL & TELEGRAPH
- 6 = RUL ING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

PERCENTAGE TABLE

	2	3	4	5	6	7	8	9	10	11
1952	12.70	2.10	0.00	0.00	1.10	10.90	95.30	7.90	10.10	100.00
1953	5.90	0.80	0.10	0.00	0.40	5.70	44.30	3.80	37.70	100.00
1954	6.70	1.10	2.20	0.00	0.80	9.80	33.30	4.20	41.80	100.00
1955	7.10	1.10	1.70	0.00	0.40	12.60	11.80	3.40	61.70	100.00
1956	12.10	1.50	2.90	0.20	0.50	11.60	16.10	7.90	46.70	100.00
1957	14.10	1.90	2.10	0.50	0.70	19.60	26.00	4.70	29.80	100.00
1958	6.40	2.00	1.60	0.90	1.10	29.60	20.40	4.30	21.20	100.00
1959	15.50	10.00	1.80	1.20	2.00	48.90	24.60	3.70	-8.50	100.00
1960	11.70	10.10	0.80	0.50	1.60	25.80	16.70	10.60	21.90	100.00
1961	12.20	9.30	1.70	0.40	2.10	34.20	15.70	13.60	11.40	100.00
1962	13.70	12.40	1.60	0.60	1.90	23.90	15.40	19.70	14.20	100.00
1963	13.30	7.20	1.60	0.40	5.20	15.20	19.30	15.90	16.30	100.00
1964	13.80	10.50	1.10	0.70	4.80	21.30	13.90	14.40	19.30	100.00
1965	14.30	10.40	1.20	0.70	4.40	33.80	9.20	24.10	1.40	100.00
1966	16.40	11.50	2.00	0.80	3.40	40.00	20.30	20.50	-15.20	100.00
1967	16.30	14.00	1.70	0.10	3.00	21.90	20.00	36.30	-13.70	100.00
1968	19.60	17.20	1.70	0.10	3.20	5.90	15.00	35.10	1.90	100.00
1969	18.30	15.70	1.00	0.18	2.80	2.80	18.40	33.00	7.40	100.00
1970	18.20	15.10	0.80	0.00	2.60	7.60	16.00	26.00	19.70	100.00

APPENDIX 5.3.6

NET ALLOCATION OF TOTAL OIL REVENUE BY MAIN GROUPS, 1952-1970/71
(000 KD)

	LAND PURCHASE	RUL ING FAMILY	CAPITAL ITEMS	RESERVE	CURRENT	TOTAL
1952		2147	226	10842	1985	19573
1953		3431	301	27293	22707	60161
1954		6837	376	23083	29023	69702
1955		17684	451	11880	62010	100499
1956		12140	602	16842	48800	79037
1957		21711	780	28816	35011	26119
1958		37019	1440	26142	29746	27459
1959		82045	3453	41370	-14330	5181
1960		41300	2677	26728	35110	54088
1961		45447	3413	26336	10147	67307
1962		41383	3454	26798	24674	76694
1963		29094	10000	36854	31083	94543
1964		44020	10000	28013	39988	114018
1965		76251	9950	20872	3327	206709
1966		92900	8000	47855	-35256	274374
1967		47747	8000	42924	-36172	263047
1968		13401	8000	36830	4642	242988
1969		7911	8000	31732	20929	280440
1970		22724	7920	47437	39143	294628

APPENDIX 5.4

KUWAIT GOVERNMENT ASSETS: AMOUNT & COMPOSITION (RESERVE ACCOUNT) 1965-1971

(000 KD)

<u>Investment</u>	<u>31/3/65</u>	<u>31/3/66</u>	<u>31/3/67</u>	<u>31/3/68</u>	<u>31/3/69</u>	<u>31/3/70</u>	<u>31/3/71</u>
Govt. Establishments	70,551	90,134	105,237	105,237	108,912	113,912	120,162
International "	6,961	7,950	8,268	8,734	8,872	9,372	12,769
K.I.B. Reserve	138,208	116,989	76,090	62,986	37,872	41,789	36,045
First National City Bank, New York	45,777	44,611	37,135	42,333	38,409	52,444	62,897
Foreign Stock	6,933	8,063	5,394	7,718	18,527	20,322	29,364
Foreign Shares	7,854	80,180	8,199	8,100	11,491	14,230	23,880
Local Companies Shares	15,963	26,684	33,177	33,177	40,395	41,045	45,048
Deposit & Loans (Local)	27,068	40,235	56,796	58,024	65,574	78,095	91,066
Loans (to Govts.)	100,874	124,314	129,816	125,770	122,620	119,369	114,868
Loans (External)	3,454	1,013	512	512	512	512	-
Deposit (External)	35,883	61,329	65,067	47,526	45,057	43,127	39,578
Real Estate	-	1,786	1,839	2,525	6,191	6,750	6,991
Other Outstanding Accs.	777	774	774	774	1,715	774	774
Total Reserve Fund	<u>460,302</u>	<u>531,900</u>	<u>528,305</u>	<u>503,416</u>	<u>506,249</u>	<u>541,742</u>	<u>583,441</u>
Independent Current Acc.	<u>N.A.</u>	<u>N.A.</u>	<u>N.A.</u>	<u>171,509</u>	<u>209,354</u>	<u>221,017</u>	<u>245,996</u>
Gross Profit*	-	-	25,172	28,072	24,146	39,792	34,179
-Administration Exp.	-	-	-	74	84	8,660	2,358
-Others	-	-	-	28,958 ^x	-	-	-
Net Profit			<u>25,172</u>	<u>- 960</u>	<u>24,063</u>	<u>31,132</u>	<u>31,821</u>

* Includes interest from 'The Independent Account', London.

x Loss resulted from the sterling devaluation in 1967.

K.I.B. Kuwait Investment Board.

Source: Ministry of Finance and Petroleum, Kuwait, 'Al-Hisab Al-Khitamy Lil Mizanih Al-Aamah', 1964/65-1970/71.

SOURCE: APPENDICES ATTACHED TO CHAPTER VI (6.1 - 6.3.5)

1373: Cummins, J.W., 'Report on the Accounting Establishment and Organisation of the Government of Qatar', p.3.

1374-75: Government of Qatar, 'Budget Estimates, 1375, State Budget'.

1386-1390: Ministry of Finance, Qatar, 'Closed Accounts of the Budget', Direct communication.

- Notes:
1. The Hijry years 1373 correspond to 1953 and 1390 to 1970.
 2. 0: Nil or Not Available.
 3. Others: where the word 'others' appears it means 'Administration and Others'.

APPENDIX 6 1
THE STATE PUBLIC REVENUE FY SOURCES 1373-1375 & 1386-1390 HIJRY
 (000 QDR)

SUMMARY TABLE									
1	2	3	4	5	6	7	8	9	10
1373	45442	0	531	30	0	0	0	170	86482
1374	13775	0	780	40	0	0	0	2000	142543
1375	15275	0	870	50	0	0	0	3347	167641
1386	435786	0	0	5386	0	0	0	3445	476626
1387	480516	0	1220	670	2040	0	0	0	23177
1388	25920	0	1030	5582	3745	0	0	0	274452
1389	693407	0	0	5107	0	0	0	0	620500
1390	581590	0	0	4767	0	0	0	0	665516
2994338	0	0	4403	26543	6613	0	0	0	217989
6900	0	0	0	0	0	0	0	0	670

- 1 = TTL REVENUE
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- 5 = TRANSPORT & COMMUN
- 6 = PUL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = GRAND TOTAL

SUMMARY TABLE (PERCENTAGES)

1	2	3	4	5	6	7	8	9	10
1373	99.97	0.00	0.60	0.30	0.00	0.00	0.00	0.10	100.00
1374	97.30	0.00	0.50	0.20	0.00	0.00	0.00	1.50	100.00
1375	97.17	0.00	0.50	0.20	0.00	0.00	0.00	1.90	100.00
1386	91.60	0.00	0.00	1.10	0.00	0.00	0.00	7.20	100.00
1387	93.50	0.00	0.20	1.20	0.50	0.00	0.00	4.40	100.00
1388	91.50	0.00	0.00	1.10	0.60	0.00	0.00	6.40	100.00
1389	89.90	0.00	0.00	0.80	0.00	0.00	0.00	9.20	100.00
1390	90.10	0.00	0.00	0.70	0.00	0.00	0.00	9.10	100.00

APPENDIX 6 2 1

SOCIAL SERVICES CURRENT EXPENDITURE, 1373-75 & 1386-90 HIJRY
 (000 QDR)

Education	Public Library	Health	Social Affairs	Training Centre	Total
125	0	697	0	0	822
431	0	2368	0	0	2769
1063	0	1305	0	0	4448
28912	474	20395	2130	614	52528
27080	251	23230	2370	633	53564
32718	0	25050	2703	652	61132
46000	0	26708	2937	1150	64896
38236	409	42428	3267	1514	95952
163134	1135	143770	13407	4565	336011
48.50	0.30	45.70	3.90	1.30	% OF GROUP TOTAL
6.20	0.00	5.80	0.50	0.10	% OF GRAND TOTAL

APPENDIX 6 2 2

LAW & ORDER SERVICES CURRENT EXPENDITURE, 1373-75 & 1386-90 HIJRY
 (000 QDR)

Public Security	Courts	Total
1800	97	1897
2877	136	3013
3919	140	4064
17737	141	17928
19142	140	18322
20942	196	20236
19421	215	19616
38366	240	38606
142284	1400	143684
99.00	0.90	% OF GROUP TOTAL
5.40	0.00	% OF GRAND TOTAL

APPENDIX 6 2 3

PUBLIC UTILITIES CURRENT EXPENDITURE, 1373-75 & 1386-90 HIJRY
 (000 QDR)

Electricity	Water	Total
1177	210	1387
1635	1231	2916
2076	1392	3468
8601	11164	19765
9963	15388	24951
10381	13927	23408
11131	17321	28152
11717	19291	30008
56631	77424	134055
42.20	57.70	% OF GROUP TOTAL
2.10	2.90	% OF GRAND TOTAL

APPENDIX 6 2 4

TRANSPORT & COMMUNICATION CURRENT EXPENDITURE 1373-75 & 1386-90 HIJRY
 (000 QDR)

Ports	Post	Total
0	0	0
0	0	0
0	0	0
2727	1344	4071
1858	1336	3194
2067	1213	3280
3124	1586	4710
3452	1688	5140
13278	7740	21018
63.00	36.90	% OF GROUP TOTAL
0.50	1.20	% OF GRAND TOTAL

APPENDIX 6 2 5

ALLOCATION TO THE RULING FAMILY 1373-75 & 1386-90 HIJRY
 (000 QDR)

Ruler	Other Members	Total
20200	5000	25700
34774	2334	44108
40728	2334	50062
81920	9762	179082
95444	0	179082
91697	108318	186342
91628	103551	200014
66090	115749	182939
512881	556046	1069427
47.40	52.00	% OF GROUP TOTAL
19.40	21.10	% OF GRAND TOTAL

APPENDIX 6 2 6
CAPITAL EXPENDITURE 1373-75 & 1386-90 HIJRY
(000 QDR)

	Education	Health	Training Centre	Social Affairs	Electricity	Water	Ports	Engineering	Security	Others	Total
1373	0	0	0	0	0	0	0	0	0	21850	21850
1374	0	0	0	0	0	0	0	0	0	30690	30690
1375	1880	16180	0	0	4800	0	0	7650	1500	0	32010
1386	513	162	0	2245	11135	689	1630	9751	NA	964	27089
1387	583	962	0	4500	12116	3271	18938	18097	1988	7531	77986
1388	190	526	0	5500	7811	6421	34403	21698	2308	4812	83669
1389	3010	65	1914	9023	17042	15770	11469	55679	12550	5271	131793
1390	1175	2378	865	6791	13886	11529	7346	49472	14913	6373	114728
Total	7351	20273	2779	28059	66790	47680	73780	162347	33259	77491	519815
	1.4%	3.9%	0.5%	5.3%	12.8%	9.1%	14.1%	31.2%	6.3%	14.9%	% of Group Total
	0.02%	0.7%	0.1%	1.0%	2.5%	1.8%	2.8%	6.1%	1.2%	2.9%	% of Grand Total

APPENDIX 6 2 7
THE STATE PUBLIC EXPENDITURE BY GROUPS 1373-75 & 1386-90 HIJRY
(000 QDR)

SUMMARY TABLE

	1	2	3	4	5	6	7	8	9	10
1373	0	922	1897	1387	0	25770	0	21850	5603	57259
1374	0	2760	3013	2916	0	44109	0	30690	7247	90743
1375	0	4448	4064	3468	0	50062	0	32010	13115	107168
1386	0	52528	17929	19765	3971	179382	35747	27089	22650	358980
1387	0	53664	19322	24951	3104	186342	48311	77986	32467	445139
1388	0	61132	20239	23406	3780	200015	40056	83669	37069	470263
1389	0	44966	39616	28152	4710	200279	34003	131793	34681	543130
1390	0	25852	38666	30008	5340	182839	42783	114728	46211	556395
Total	0	336111	143664	134055	20995	1068427	200920	519815	205173	2629077
	0.00%	12.77%	5.40%	5.00%	0.70%	40.60%	7.60%	19.70%	7.80%	100.00%

- 1 = CIL REVENUE
- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMMUN
- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = GRAND TOTAL

SUMMARY TABLE (PERCENTAGES)

	1	2	3	4	5	6	7	8	9	10
1373	0.00	1.40	3.30	2.40	0.00	44.80	0.00	38.10	9.70	100.00
1374	0.00	3.00	3.30	3.20	0.00	48.60	0.00	33.90	7.90	100.00
1375	0.00	4.10	3.70	3.20	0.00	46.70	0.00	29.80	12.20	100.00
1386	0.00	14.60	4.90	5.50	1.10	49.80	9.90	7.50	6.30	100.00
1387	0.00	12.00	4.10	5.60	0.70	41.80	10.80	17.50	7.20	100.00
1388	0.00	12.90	4.30	4.90	0.80	42.50	8.50	17.70	8.00	100.00
1389	0.00	11.90	7.20	5.10	0.80	36.80	6.20	24.20	7.30	100.00
1390	0.00	17.20	6.90	5.30	0.90	32.80	7.60	27.60	8.30	100.00

APPENDIX 6 3 1
DEFICIT OR SURPLUS OF THE REVENUE OVER EXPENDITURE BY GROUPS 1373-75 & 1386-90 HIJRY
(000 QDR)

SUMMARY TABLE

	1	2	3	4	5	6	7	8	9	10
1373	85442	-922	-1367	-1087	0	-25700	0	-21850	-5433	29223
1374	130095	-2769	-2234	-2516	0	-44109	0	-30690	-4579	52200
1375	162905	-4448	-3175	-2968	0	-50062	0	-32010	-5760	40473
1386	436786	-52528	-17928	-14379	-3971	-179382	-35747	-27089	-11604	117646
1387	482614	-53664	-19322	-18440	-3104	-186342	-48311	-77986	-9292	78257
1388	525929	-61132	-19200	-16826	-35	-200015	-40056	-83669	-907	104089
1389	563347	-44966	-39616	-23045	-4710	-200279	-34003	-131793	-19365	83370
1390	581680	-25852	-38606	-25241	-5340	-182839	-42783	-114728	-12810	89121
Total	2984439	-336011	-143664	-134055	-14382	-1068427	-200920	-519815	-12819	614379
	46.8%	-5.1%	-2.1%	-1.9%	-0.5%	-15.3%	-3.0%	-7.8%	-0.2%	9.2%

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- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = NET SURPLUS (RESERVE)

APPENDIX 6 3 2
GROSS DEFICIT OF THE NON-OIL REVENUE WITH RESPECT TO INDIVIDUAL GROUPS OF EXPENDITURE 1373-75 & 1386-90 HIJRY
(000 QDR)

	2	3	4	5	6	7	8	9	10
1373	-922	-1367	-1087	0	-25700	0	-21850	-5433	-5259
1374	-2756	-2733	-2516	0	-44108	0	-30690	-4579	-4665
1375	-4448	-3175	-2968	0	-50062	0	-32010	-9769	-10243
1386	-62528	-17028	-14379	-3071	-179082	-34767	-27089	0	-33744
1387	-53564	-17096	-18440	-326	-184342	-48311	-77986	-9292	-41157
1388	-51132	-19200	-16826	-35	-200015	-40056	-83669	-907	-42184
1389	-46826	-37616	-23046	-4710	-273279	-34003	-131753	0	-49942
1390	-95852	-38676	-25241	-5340	-182835	-42783	-114728	0	-46438

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMMUN
- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = TOTAL DEFICIT

APPENDIX 6 3 3
THE ALLOCATION OF OIL REVENUE SPENT BY GROUPS 1373-75 & 1386-90 HIJRY
(000 QDR)

	2	3	4	5	6	7	8	9	10
1373	922	1367	1087	0	25700	0	21850	5433	5259
1374	2756	2733	2516	0	44108	0	30690	4579	4665
1375	4448	3175	2968	0	50062	0	32010	9769	10243
1386	50427	17211	13804	3812	171919	34336	26005	0	31754
1387	53564	17096	18440	326	186342	48311	77986	9292	41157
1388	61132	19200	16826	35	200015	40056	83669	907	42184
1389	62300	38031	22123	4522	192268	32643	126521	0	478408
1390	92976	37448	24484	5180	177354	41500	111286	0	490227
	328438	135761	102248	13875	1047767	196846	510018	29980	2364933

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMMUN
- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = TOTAL

APPENDIX 6 3 4
NET ALLOCATION OF TOTAL OIL REVENUE BY GROUPS 1373-75 & 1386-90 HIJRY
(000 QDR)

	2	3	4	5	6	7	8	9	10	11
1373	922	1367	1087	0	25700	0	21850	5433	29223	85482
1374	2769	2233	2516	0	44108	0	30690	4579	52200	139005
1375	4448	3175	2968	0	50062	0	32010	9769	60473	162905
1386	50427	17211	13804	3812	171919	34336	26005	0	117646	435160
1387	53564	17096	18440	326	186342	48311	77986	9292	78257	489614
1388	61132	19200	16826	35	200015	40056	83669	907	104089	525929
1389	62300	38031	22123	4522	192268	32643	126521	0	83370	561778
1390	92976	37448	24484	5180	177354	41500	111286	0	89121	579348
	328438	135761	102248	13875	1047767	196846	510018	29980	614379	2079311

- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMMUN
- 6 = RULING FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

PERCENTAGE TABLE

	2	3	4	5	6	7	8	9	10	11
1373	0.30	1.50	1.20	0.00	30.00	0.00	25.50	6.30	34.10	100.00
1374	1.90	1.60	1.80	0.00	31.70	0.00	22.00	3.20	37.50	100.00
1375	2.70	1.90	1.80	0.00	30.70	0.00	19.60	5.90	37.10	100.00
1386	11.90	3.70	3.10	0.80	39.80	7.80	5.90	0.00	27.00	100.00
1387	10.90	3.70	3.70	0.80	38.00	9.80	15.90	1.80	14.90	100.00
1388	11.60	3.70	3.10	0.80	34.00	7.60	15.90	0.10	19.70	100.00
1389	11.90	6.70	3.90	0.80	34.20	5.80	22.50	0.00	14.80	100.00
1390	15.70	6.70	4.70	0.80	30.60	7.10	19.20	0.00	15.30	100.00

APPENDIX 6 3 5
NET ALLOCATION OF THE TOTAL OIL REVENUE (BY MAIN GROUPS) 1373-75 & 1386-90 HIJRY
(000 QDR)

	LAND PURCHASE	RULING FAMILY	CAPITAL ITEMS	RESERVE	CURRENT	TOTAL
1373	0	25700	21850	29223	8709	85482
1374	0	44108	30690	52200	12097	139005
1375	0	50062	32010	60473	20360	162905
1386	34336	171919	26005	117646	85244	435160
1387	48311	186342	77986	78257	42714	489614
1388	40056	200015	83669	104089	6810	525929
1389	32643	192268	126521	49370	126521	561778
1390	41500	177354	111286	41121	111286	579348

APPENDIX 6.4

PUBLIC EXPENDITURE OF SOME DEPARTMENTS OF QATAR GOVERNMENT 1956-1965

(000 QDR)

<u>Year</u>	<u>Education</u>	<u>Electricity</u>	<u>Social Affairs</u>	<u>Health</u>	<u>Ports</u>	<u>Water Dept.</u> [*]	<u>Water Dept.</u> ^{**}
1956	2,185	10,760	-	N.A.	N.A.	N.A.	N.A.
1957	6,436	3,405	-	N.A.	N.A.	N.A.	N.A.
1958	13,420	8,892	-	N.A.	N.A.	N.A.	N.A.
1959	16,390	8,511	-	N.A.	N.A.	N.A.	N.A.
1960	25,881	19,554	116	N.A.	N.A.	N.A.	N.A.
1961	27,790	27,259	147	16,712	N.A.	N.A.	13,300
1962	26,354	29,941	1,016	15,785	N.A.	5,400	8,800
1963	26,059	23,540	1,870	15,850	N.A.	3,400	10,500
1964	27,798	11,142	3,489	13,385	4,340	3,800	13,100
1965	32,536	13,061	N.A.	16,451	13,550	1,600	12,600

* Capital Expenditure. ** Operating Expenditure.

Source: Ministry of Education, Annual Report(s), Electricity Dept., Qatar, Direct Contact; Social Affairs, Qatar, Annual Report, 1964, p.19; Guani, F., op.cit., p.99; MEDD, 'Economic Survey of Qatar', pp.114, 120 and 121.

SOURCE: APPENDICES ATTACHED TO CHAPTER VII (7.1 - 7.3.5)

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Notes: 0: Nil or Not Available.

Others: Administration and others.

APPENDIX 7 1
ABU DHABI THE STATE PUBLIC REVENUE BY SOURCE 1967-1970
 (000 BD)

SUMMARY TABLE

1	2	3	4	5	6	7	8	9	10	
1967	46617	1	21	65	171	2007	0	0	1202	82018
1968	72800	6	23	70	161	0	0	0	1500	74955
1969	90875	17	120	191	253	2400	0	0	1700	94954
1970	110977	23	141	452	335	0	0	0	2460	114724
	222865	47	255	767	570	4460	0	0	7252	36647
	95.80	0.00	0.10	0.30	0.20	1.30	0.00	0.00	2.10	

- 1 = CITI REVENUE
- 2 = SOCIAL SERVICES
- 3 = LAW & ORDER
- 4 = PUBLIC UTILITIES
- 5 = TRANSPORT & COMMUNIC
- 6 = ALL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL TRNS
- 9 = OTHERS
- 10 = GRAND TOTAL

SUMMARY TABLE (PERCENTAGES)

1	2	3	4	5	6	7	8	9	10	
1967	93.40	0.00	0.00	0.10	0.10	3.80	0.00	0.00	2.70	100.00
1968	97.10	0.00	0.00	0.00	0.20	0.00	0.00	0.00	2.40	100.00
1969	94.90	0.00	0.10	0.10	0.20	2.50	0.00	0.00	1.70	100.00
1970	96.90	0.00	0.10	0.30	0.20	0.00	0.00	0.00	2.10	100.00

APPENDIX 7 2 1

ABU DHABI SOCIAL SERVICES CURRENT EXPENDITURE 1967-1970
 (000 BD)

Education	Health	Social Affairs	Total
129	120	23	4721967
658	1289	131	20781968
1090	2966	282	44581969
2049	2943	270	4867 1970
4486	6710	711	11915
37.60	56.30	5.90	% OF GRAND TOTAL
1.30	2.00	0.20	% OF GRAND TOTAL

APPENDIX 7 2 2

ABU DHABI LAW & ORDER SERVICES CURRENT EXPENDITURE 1967-1970
 (000 BD)

Police	Intelligence	Justice	Defence	Others	Total
642	0	22	1219	0	1891 .. 1967
1903	39	71	5607	0	72221968
2128	77	137	13398	200	15940 .. 1969
3122	0	351	16819	0	20252 1970
7395	116	494	20043	200	45340
16.30	0.20	1.30	41.60	0.40	% OF GRAND TOTAL
2.20	0.00	0.10	11.10	0.00	% OF GRAND TOTAL

APPENDIX 7 2 3

ABU DHABI PUBLIC UTILITIES CURRENT EXPENDITURE 1967-1970
 (000 BD)

Electricity	Water	Total
146	106	2521967
467	367	8341968
1008	919	20071969
1272	677	19441970
2993	2054	5047
10.50	41.40	% OF GRAND TOTAL
0.60	0.00	% OF GRAND TOTAL

APPENDIX 7 2 4

ABU DHABI TRANSPORT & COMMUNICATION CURRENT EXPENDITURE 1967-1970
 (000 BD)

Civil Aviation	Ports	Post	Telegraph	Total
40	0	0	0	401967
126	220	87	6	445 .. 1968
166	141	110	12	429 1969
276	0	170	0	4461970
560	477	445	20	1482
35.50	14.10	27.30	1.50	% OF GRAND TOTAL
0.10	0.00	0.10	0.00	% OF GRAND TOTAL

APPENDIX 7 2 5
 ABU DHABI CAPITAL EXPENDITURE 1967-1970

(000 BD)

Education	Health	Housing	Social Affairs	Public Utilities	Transport & Communication	Agri- culture	Municip- ality	Admin- istration	Total
77	395	519	0	2278	8821	14	3835	72	16011
1326	502	4422	28	2533	13142	257	8313	3013	33536
1204	1319	7180	302	11253	9468	2432	9979	2857	45994
682	475	1965	90	11255	6740	3425	6665	2028	33325
3289	3691	14086	420	27319	38171	6128	28752	7970	128866
2 5%	2 0%	10 9%	0 3%	21 1%	29 6%	4 7%	22 3%	6 1%	% of Group Total
0 9%	0 8%	4 2%	0 1%	8 2%	11 5%	1 8%	8 6%	2 4%	% of Grand Total

APPENDIX 7 2 6
 ABU DHABI PUBLIC EXPENDITURE BY GROUPS 1967-1970

(000 BD)

SUMMARY TABLE

1	2	3	4	5	6	7	8	9	10	
1967		47	1850		44	1005		11	1170	448
1968		278	722	754	44	1824		1275	717	312
1969		440	1554	207	67	2628		654	120	1000
1970		487	2252	1544	444	2735		700	1110	557
		1103	4440	2402	1044	7267		2639	2411	217

1 = OIL REVENUE
 2 = SOCIAL SERVICES
 3 = LABOUR
 4 = PUBLIC UTILITIES
 5 = TRANSPORT & COMMUNICATION
 6 = FULL INC FAMILY
 7 = LABOUR PURCHASE
 8 = CAPITAL ITEMS
 9 = OTHERS
 10 = GRANT TOTAL

APPENDIX 7 3 1
 ABU DHABI DEFICIT OR SURPLUS OF REVENUE OVER EXPENDITURE BY GROUPS 1967-1970

(000 BD)

SUMMARY TABLE

1	2	3	4	5	6	7	8	9	10	
1967	46617	-471	-1076	-23	15	-10005		-1011	-1160	766
1968	72600	-2070	-7197	-724	-264	-10224		-750	-1000	-512
1969	50325	-4401	-15847	-1810	-314	-3572		-6554	-11240	-10007
1970	110517	-4844	-20141	-1457	-105	-27875		-700	-800	1410
	24669	-11803	-4450	485	-712	-20507		-100	-400	457

1 = OIL REVENUE
 2 = SOCIAL SERVICES
 3 = LABOUR
 4 = PUBLIC UTILITIES
 5 = TRANSPORT & COMMUNICATION
 6 = FULL INC FAMILY
 7 = LABOUR PURCHASE
 8 = CAPITAL ITEMS
 9 = OTHERS
 10 = RESERVE

APPENDIX 7 3 2
 ABU DHABI GROSS DEFICIT OF THE NON-OIL REVENUE WITH RESPECT TO INDIVIDUAL GROUPS OF EXPENDITURE 1967-1970

(000 BD)

SUMMARY TABLE

1	2	3	4	5	6	7	8	9	10	
1967	-471	-1854	-23		-1005					
1968	-2070	-7197	-724	-264	-10224		-750		-1000	
1969	-4401	-15847	-1810	-314	-3572		-6554			
1970	-4844	-20141	-1452	-105	-27875		-700		-1100	
										377947

1 = OIL REVENUE
 2 = SOCIAL SERVICES
 3 = LABOUR
 4 = PUBLIC UTILITIES
 5 = TRANSPORT & COMMUNICATION
 6 = FULL INC FAMILY
 7 = LABOUR PURCHASE
 8 = CAPITAL ITEMS
 9 = OTHERS
 10 = RESERVE

APPENDIX 7 3 3
ABU DHABI: ALLOCATION OF OIL REVENUE SPENT BY GROUPS 1967-1970
 (000 BD)

	2	3	4	5	6	7	8	9	10	11
1967	466	1856	231	C	10576	C	15651	11754	4077	
1968	2072	7157	724	284	16244	C	32324	14220	76117	
1969	4461	15822	1816	314	27572	C	45554	11245	103646	
1970	4644	20141	1452	125	27875	C	33224	8670	58441	
	11863	44574	4223	727	60723	C	128706	46245	17276	

- 2 = SOCIAL SERVICES
- 3 = LAB & CREW
- 4 = PUBLIC UTILITIES
- 5 = TRANSFERT & COMMUNIC
- 6 = RLL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

APPENDIX 7 3 4
ABU DHABI: ALLOCATION OF THE ANNUAL AVAILABLE OIL REVENUE BY GROUPS 1967-1970
 (000 BD)

SUMMARY TABLE

	2	3	4	5	6	7	8	9	10	11
1967	466	1856	231	C	10576	C	15651	11754	7464	46220
1968	2072	7157	724	284	16244	C	32324	14220	C	16711
1969	4461	15822	1816	314	27572	C	45554	11245	C	103646
1970	4644	20141	1452	125	27875	C	33224	8670	14137	110777
	11863	44574	4223	727	60723	C	128706	46245	21621	35156
	240	1220	120	C20	220	C20	720	120	60	100

- 2 = SOCIAL SERVICES
- 3 = LAB & CREW
- 4 = PUBLIC UTILITIES
- 5 = TRANSFERT & COMMUNIC
- 6 = RLL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

SUMMARY TABLE (PERCENTAGES)

	2	3	4	5	6	7	8	9	10	11
1967	C 50	3 80	0 40	C 00	21 50	C 00	32 80	24 70	14 50	170 00
1968	2 70	5 30	C 50	0 30	23 80	C 20	43 70	15 00	C 00	100 00
1969	4 30	14 20	1 70	C 20	27 10	C 00	44 70	10 80	C 00	100 00
1970	4 30	18 20	1 30	C 10	25 20	C 00	C 10	7 60	12 70	100 00

APPENDIX 7 3 5
ABU DHABI: NET ALLOCATION OF TOTAL OIL REVENUE BY GROUPS 1967-1970
 (000 BD)

	2	3	4	5	6	7	8	9	10	11
1967	466	1856	231	C	10576	C	15651	11754	7464	46220
1968	2072	7157	724	284	16244	C	32324	14220	-3617	72600
1969	4461	15822	1816	314	27572	C	45554	11245	-12767	50676
1970	4644	20141	1452	125	27875	C	33224	8670	14137	110777
	11863	44574	4223	727	60723	C	128706	46245	4537	322472

- 2 = SOCIAL SERVICES
- 3 = LAB & CREW
- 4 = PUBLIC UTILITIES
- 5 = TRANSFERT & COMMUNIC
- 6 = RLL INC FAMILY
- 7 = LAND PURCHASE
- 8 = CAPITAL ITEMS
- 9 = OTHERS
- 10 = RESERVE
- 11 = TOTAL

PERCENTAGE TABLE

	2	3	4	5	6	7	8	9	10	11
1967	C 50	3 80	C 40	C 00	21 50	C 00	32 80	24 30	14 50	100 00
1968	2 60	5 80	C 50	0 30	25 10	C 00	46 00	20 00	-3 30	100 00
1969	4 50	17 40	1 50	C 30	26 30	C 00	50 80	12 30	-14 00	100 00
1970	4 30	18 20	1 30	C 10	24 20	C 00	30 10	7 80	-12 90	100 00

APPENDIX 7 3 6
ABU DHABI: NET ALLOCATION OF THE TOTAL OIL REVENUE, MAIN GROUPS, 1967-1970
 (000 BD)

SUMMARY TABLE

	LAND PURCHASE	RLL INC FAMILY	CAPITAL ITEMS	RESERVE	CURRENT	TOTAL
1967	C	10576	15651	7464	14307	46220
1968	C	16244	32324	-3617	24877	72600
1969	C	27572	45554	-12767	33676	60676
1970	C	27875	33224	14137	22726	110777

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