GULF STATES

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The Gulf States conjure up visions of both oil and openness. The small monarchies seem light years removed from the regimes surrounding them as their growing upscale tourist industry demonstrates. Dubai itself seems the gleaming dynamo of the region and accounts for some 70% of the Emirates' non-oil trade; its many projects exemplify the attempts at diversification the oil economies are trying to achieve and it has just opened an international financial centre that is expected to be in business by the end of 2002. While the traditional rulers remain often remarkably popular and democracy doesn't appear to be a burning issue in a land of comfortable subsidies and increasing longevity, there are some concerns. With burgeoning populations and 60% under the age of 25, unemployment is one, with foreign workers often being replaced by local ones and the native workforce will double by 2020; defence is another as these virtual city-states need to foster more co-operation amongst themselves in a volatile region that affects the international scene the Gulf contains probably a third of the planet's future fossil-fuel supplies and by 2020 will be supplying over half the world's oil needs.

United Arab Emirates

The United Arab Emirates consist of a federation of seven including Abu Dhabi, Dubai, Sharjah, Ajman, Fujairah, Ras al-Khaiman, and Umm al-Qaiwain. Abu Dhabi is the most politically powerful; it and Dubai provide over 80% of the UAE's income. After reaching 7.9% in 2000, real growth in GDP was projected at 4% for 2001 as oil price fluctuations took their toll. Diversification has helped and non-oil sectors account for more than two thirds of total GDP and 30% of total exports thanks to aluminum production, tourism aviation, re-export commerce, and telecommunications.

Although Iran is one of Dubai's major trading partners, the UAE and Iran are at loggerheads over the ownership of three islands in the strategic Strait of Hormuz; Iranian troops have occupied them since 1992. The border between the UAE and Saudi Arabia has also caused some stress since Saudi developed the Shaybah oilfield with its estimated reserves of 14 billion barrels of crude oil in the jointly claimed territory.

The UAE contains proven crude oil reserves of 97.8 billion barrels, just less than a tenth of the world total; Abu Dhabi accounts for 94% with some 92.2 billion barrels followed by Dubai (4 billion barrels), Sharjah (1.5 billion barrels) and Ras al-Khaimah (100 million barrels of oil). Abu Dhabi joined OPEC in 1967, but Dubai did not. The UAE's total capacity is 2.65 million bbl/d and its OPEC production quota effective September 1, 2001, is 2.03 Mbbl/d; production quotas were cut three times in 2001. The Abu Dhabi National Oil Co. (ADNOC), is planning a limited opening of UAE upstream oil production to foreign business and the first asset sale will involve 28% of the offshore Upper Zakhum field, currently producing some 500,000 bbl/d. ADNOC also operates two refineries; the Ruwais one underwent a US$100 million upgrade in 1995 to a capacity of 145,000 bbl/d and a US$1.2 billion second phase expansion. When it is completed by 2003, total capacity will be about 415,000 bbl/d. There are four smaller refineries and a 40,000 bbl/d second hand gasoline unit owned by ISO Octane opened near Jebal Ali in May 2000.

Natural gas reserves in the UAE are 212,000 billion ft^3, the world's fifth largest, and 196,100 billion ft^3 are located in Abu Dhabi where the non-associated Khuff natural gas reservoirs and Abu al-Bukhush oil fields are among the world's largest. Increased consumption and demand have prompted increasing use of natural gas and the development of natural gas fields results in increased production and exports of condensates which are not subject to OPEC quotas. There has been a multi-billion dollar programme of investment in the natural gas sector; the second phase of the onshore natural gas development programme at the Habshan complex was finished in early 2001; a third phase of expansion is planned and engineering and design bids were sought in September 2001.

The Asab natural gas development project was completed in 1999 and processes some 830 Mft^3/d of associated wet natural gas and up to 100,000 bbl/d of condensate for processing at the Ruwais refinery. Natural gas consumption in Dubai alone is anticipated to increase by 7% annually through 2005. The US$8-10 billion Dolphin Project, which will allow the export of non-associated natural gas from the huge offshore North Dome field, will develop links between the natural gas infrastructures of Qatar, the UAE, and Oman and possibly the Indian subcontinent with natural gas supplies starting in late 2005.

Dubai itself, with its Internet City, seems like a boomtown and has tried hard to diversify. Dubai Aluminium Co. (DUBAL) founded in 1975 accounts for 2% of the world's aluminium production or some 536,000 t/y, and incorporates a power generating capability of over 1,400 MW and a seawater desalination plant capable of providing over 25 Mgal/d of potable water. It has expanded three times and considers itself the largest single-site smelter in the Western world and the largest non-oil foreign exchange earner in the UAE. With a workforce of 2,700, it is the world's largest supplier of foundry alloy to the automotive wheel industry in Asia and a significant supplier of billet for extrusion products. The UAE has one of the best developed desalination systems in the world, which has helped transform its shoreline and foster construction.

Other metal and mineral activities include: chromite mining in Fujairah; Ahli Steel Co. which has a 70,000 t/y steel plant for reinforcing bars in Dubai; Solo Industries Ltd with a 800 t/y lead refinery for scrap recycling in Sharjah; and Lucky Recyling Ltd, a copper scrap facility in Dubai.

ADNOC subsidiary, National Chlorine Industries, produces caustic soda, chlorine, and salt at its Umm Al-Nar plant. Silica sand demand is increasing with a glass bottle factory in Dubai where there are also ten cement factories. Expansions have occurred at Fujairah Cement Industries and at the Ras al-Khaimah Co. for white cement and construction material; cement is also manufactured in six of the seven emirates. High- quality rockfill and aggregate are quarried near Fujairah's port and Ras al Khaymah where rockwool factories using doleritic feedstock have been operating.

Abu Dhabi Fertilizer Industries (ADFERT) has helped make the emirates self-sufficient in that area. Established in 1997, it is one of the fastest growing business conglomerates in the UAE. Adfert was established by ITT Emirates, one of the largest agricultural firms engaged in the marketing of fertiliser in the Gulf region, and has an association with SQM Corp., the Chilean nitrate and potash producer. The two companies co-operated to set up an NPK chemical fertiliser plant with two production lines (water soluble, granular NPK compound fertilisers) and the first trial production run was done in July 1997 with commercial production starting the next month. Expansions have continued with eight new production lines by the end of 2000.

Qatar

Qatar has also seen the need to diversify and has invested heavily in projects for the export of liquefied natural gas and petrochemicals. It contains the third largest natural gas reserves and the largest non-associated gas field in the world and is emerging as a major exporter of liquefied natural gas. The government feels that the country's economic future lies in developing this impressive gas potential. Real GDP grew at an annual rate of 12% in 2000 and the projected real GDP for 2001 is 5.8% and about 5.9% after 2002, based largely on anticipated increases in the production and exports of natural gas. Debt servicing is a significant concern and the government has focused on it rather than increasing public expenditures. Like the UAE, Qatar has had a border issue and in March, 2001 the International Court of Justice awarded sovereignty over the Hawar Islands to Bahrain, while Qatar kept the neighbouring ones of Zubarah and Janan.

Proven and recoverable oil reserves are 13.2 billion barrels with the onshore Dukhan field being the largest producing one. There are also six offshore fields. In 2000, Qatar produced 863,000 bbl/d of liquids (including crude oil, natural gas liquids, and condensate) and as of June 2001, monthly crude oil production was averaging 700,000 bbl/d. Lease condensate and other natural gas liquids are also produced and not included in OPEC quotes. Qatar has been trying to encourage foreign oil companies such as Chevron to improve oil recovery and exploration with improved contract terms and production sharing agreements. BP Amoco operates al-Rayyan, one of the newer oil fields, which has been producing some 25,000 bbl/d recently and BP Amoco and its consortium partners agreed in April 2001 to develop it further, which will almost double its capacity. The National Oil Distribution Co. (NODCO), is upgrading its refinery at Umm Said to increase capacity from 57,500 bbl/d to 137,000 bbl/d. A 30,000 bbl/d condensate refining unit came onstream in July 2001 with more upgrades finished at the end of the year. A US$400 million, 80,000 bbl/d condensate refinery at Ras Laffan is due for completion this year as is a US$1.1 billion petrochemical plant, Q-Chem, to produce 500,000 t/y of ethylene and 467,000 t/y of polyethylene, including high-density and linear low-density polyethylene (Phillips Petroleum Co. holds 49%, QGPC 51%). Natural gas proven reserves stand at 3,900 billion ft^3 mostly in the North Field. The Dolphin project will provide an integrated gas pipeline grid for Qatar, UAE, and Oman, and Kuwait may also buy Qatari gas from ExxonMobil's North Field.

Bahrain

Bahrain, comprising a group of islands off Saudi Arabia, is also very oil dependent, but has diversified strongly into banking and financial services. It will hold elections to restore parliament on October 24 (an elected parliament makes it unique in the Gulf). The head of state, Sheikh Hamad bin Issa al-Khalifa, has proclaimed Bahrain a kingdom and himself king, albeit a constitutional monarch; a national charter for constitutional reform was endorsed by referendum and approved in February 2001. Under the amended constitution, women will have the right to vote as well as stand for election. Real GDP grew by 5% in 2000 and is projected at 4.7% for 2001.

Aluminium Bahrain's smelter has been one of the largest in the Middle East with a 460,000 t/y capacity; aluminum has accounted for about a quarter of total exports and has fostered new downstream industries.

Bahrain's oil reserves of only 148 million barrels are in the Awali field, the first developed in the Gulf and producing about 35,000 bbl/d of crude oil. Texaco and Chevron are exploring and the resolution of the Hawar Islands dispute will encourage more; Texaco and Petronas were awarded blocks offshore in September 2001. Bahrain does have a significant refinery south of Manama with a capacity of 248,900 bbl/d, and a US$800 million modernisation programme should be finished in 2004. Financing problems have delayed a further 500,000 bbl/d refinery by Petroma. The government merged the upstream Bahrain National Oil Co., Banoco, into Bapco, the Bahrain Petroleum Co., and the physical consolidation should be finished this year. Natural gas reserves are some 3,900 billion ft^3 and all production is consumed locally.

Kuwait

Kuwait boasts 96.5 billion barrels of proven oil reserves, about 9% of the world's total, and so is one of the world's leading oil-producing states as well as depending heavily on the commodity. It shares the Neutral Zone with Saudi Arabia and half its 5 billion barrels of reserves. When oil prices increase, Kuwait experiences budget surpluses and vice versa. Real GDP growth for 2000 was estimated at about 5.5% with forecast real growth of 4% for 2001.

Kuwait has begun a privatisation programme outside the oil sector in order to reduce subsidies, a move spurred by low oil prices in 1998 and 1999. In March 2001 an economic reform package was introduced which eased restriction on foreign banks as well as providing protection to foreign investors against nationalisation or confiscation and eliminating the need for a Kuwaiti sponsor. While there is no foreign ownership of Kuwait's mineral resources, the government is looking into foreign investment in upstream oil development and fees to foreign firms per barrel rather than production sharing agreements, but opposition in parliament has hampered this move.

Most of its reserves are in the Greater Burgan area which produces about 1.6 Mbbl/d. In November 2000, the discovery of significant amounts of light crude oil at Sabiryah was announced. There has been controversy with Iraq over the Ratqa field despite a UN survey team ruling in Kuwait's favour. Kuwait Petroleum Corp. has also been doing seismic survey work on Bubiyan island near Iraq. Kuwait has concentrated on building new gathering centres, all of which were damaged or destroyed during the war. There have been some construction delays but two new ones were finished in early 2001 and a 330,000 bbl/d water-injection system is being installed which will be finished in the middle of 2002 at Minagish by Snamprogetti of Italy. Mina al-Ahmadi, the main port for crude oil export and destroyed during the war, has undergone major renovations and a new terminal is planned for Bubiyan Island.

Kuwait hopes to increase its oil production capacity from 2.5-2.6 Mbbl/d to 3 Mbbl/d by 2005 and 3.5 Mbbl/d by 2010 under Project Kuwait, a US$7 billion 25-year plan entailing controversial help from foreign companies. Kuwait's three domestic refineries have a combined capacity of approximately 772,800 bbl/d. An explosion and fire in 2000 at the Mina al-Ahmadi refinery reduced production capacity by over 100,000 bbl/d and in December of that year a US$300 million contract was awarded to Fluor Daniel and Sunkyong to rebuild it; as of July 2001 it was operating at around 300,000 bbl/d.

Kuwait plans to upgrade its three other refineries and wishes to hasten development of its modest petrochemical sector; Petrochemical Industries Co. manufactures urea, ammonia, and fertiliser for export and is beginning to produce higher value products. It may increase production at its polypropylene plant by 20% to 120,000 t/y if prices warrant. The Equate joint venture with PIC and Union Carbide (with 10% held by Boubyan Petrochemical Co.) is a US$2 billion industrial complex at Shuaiba which includes a 650,000 t/y ethylene cracker, two polyethylene units and a 350,000 t/y ethylene glycol plant. In April 2001, a US$2 billion plan was approved to construct Equate II to produce olefins.

Kuwait also plans to increase its use of natural gas. At present, it produces only a modest quantity, mostly associated gas from oil production. Exploratory drilling is going on at the Rawdhatain oilfield. In July 2000, Saudi Arabia and Kuwait concluded an agreement on the offshore Dorra gas field that calls for equal sharing of the gas resources; Iran also has a claim on it and negotiations continue.