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# **Petromin: the Slow Death of Statist Oil Development in Saudi Arabia**

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## **Abstract:**

The paper recounts the history of Saudi Arabia's first national oil company, Petromin, which was originally supposed to take the place of foreign-owned Aramco. As a result of Petromin's inefficiency and personal rivalries among the Saudi elite, however, Petromin was progressively relegated to the sidelines in favour of a gradually "Saudiized" Aramco. As a result, the organization of the Saudi oil sector today is very different from – and more efficient than – that of most other oil exporters in the developing world. The paper concludes with a tentative taxonomy of national oil companies, based on the circumstances of nationalization.

**Keywords:** Saudi Arabia, Aramco, Petromin, national oil companies, political economy, oil, rentier state, Fahd, Yamani, industrialisation, nationalisation, state-building

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## **Introduction**

National oil companies are not cut of one cloth. Many NOCs are politicized, bureaucratic, and hardly capable of even maintaining their current production levels. Some are just shells for employing foreign contractors or joint venture partners. An even smaller group of NOCs is technologically capable, well-managed, and run along economic criteria. By the judgment of most people in the industry, Saudi Aramco, the largest oil company in the world, is one of the latter.<sup>1</sup>

Although Saudi Arabia is not a country most observers immediately associate with lean and clean management, Aramco's role as the kingdom's greatest modern institution seems unassailable. Hardly a Saudi and practically no foreigner today is aware that Aramco is what it is because of a number of historical decisions which could have been taken differently – and which many contemporaries expected to be taken differently, much to Aramco's detriment. Saudi Arabia was close to taking a course which many other oil exporters took, entrusting its upstream oil assets to an opaque, politicized local institution that was supposed to replace foreign-created Aramco.

In October 2005, a small note appeared in the local paper Arab News announcing that the government-owned General Organization of Petroleum and Minerals, Petromin, would be dissolved and its assets taken over by Aramco.<sup>2</sup> No further explanation was given. Petromin at the time had long ceased to play an active role in Saudi economic development, its last visible presence being faded signs in the vicinity of some old petrol stations. But as incidental as it appeared, the little note indicated the closing of the last act in a long and twisted saga which was at the very core of Saudi state-building, a saga in which Petromin once was the lead actor, and Aramco its main antagonist. At stake was

nothing less than which organisation would become Saudi Arabia's national oil company, and – more importantly – who would control it.

It turned out to be a battle to death. The outcome was uncertain for many years, but as readers will have guessed, Aramco eventually won. This paper tells the story why, recounting it from forgotten Petromin's perspective,<sup>3</sup> an organisation that was meant to be national champion of industrialisation, a truly national oil company, and an international refining giant – great ambitions which were, one by one, thwarted. The fates of Aramco and Petromin differ from those of most other NOCs in a way that is very instructive to comparative historians.

The paper is part of a larger project that analyses how conflicts and coalitions among a small number of princes and commoners shaped the modern Saudi state as we know it today.<sup>4</sup> The Petromin story is yet another reminder of how contingent the shape of the modern Saudi state is, and how many of its features are consequences – often unintended – of personal rivalries and ambitions at earlier historical junctures.

At the same time, this paper is a contribution to the comparative literature on NOCs, a long neglected field which has recently seen a number of significant publications.<sup>5</sup> Saudi Arabia's peculiar situation of having had two parallel NOCs makes the kingdom an especially interesting object of comparison. I take Aramco and Petromin as two radically different, but typical representatives of a larger universe of NOC cases. Combining my case research with the growing literature on other NOCs, I outline a classification and a causal model of NOC development in large oil exporters of the developing world.

The paper will first introduce the main actors involved with Aramco and Petromin. It will then briefly recount the history of the latter's expanding ambitions and role from 1962 to 1975, the age of King Faisal. I will then engage with the crucial juncture of 1975/76 in more detail, analysing how and why Petromin was cut to size to the benefit of a host of new actors sponsored by Crown Prince Fahd. The subsequent section will describe Petromin's enduring ambitions and political entanglements, leading to its eventual fall from grace between 1983 and 1986. The remainder of the paper will adumbrate the tortuous mopping up operations undertaken in 1988-93 from which Aramco emerged as the unchallenged national monopolist in oil production, refining and distribution. I will conclude with comparative observations on NOC development.

### **The Actors**

Like the history of many other parts of the Saudi state, the story of Petromin is to a large extent the history of a few crucial members of the Saudi elite, both royals and commoners. Ever since the creation of modern bureaucracy in Saudi Arabia, princes and the commoners around them have been linked through patron-client relations: long-term, deep and unequal links of fealty. Royals provide access to power, resources and status, whereas the commoners provide loyalty and defend the interests of their patrons in state and society.

These ties have been keeping elites with seemingly divergent interests – princes and technocrats – tightly knit together for more than half a century. In their diversity, these links are reaching deep into the state apparatus. As sticky as they tend to be in Saudi Arabia, however, they are seldom simple “dyads”, but rather part of more complex

networks of patronage in which clients themselves are patrons for actors further down in the hierarchy, clients can have several patrons, and links can shift over time, changing their utility as the context changes.

As we will see, the unmaking of a patron-client relationship can have dramatic consequences. As I have argued elsewhere, the Saudi rentier regime was under few social and political constraints when deciding how to shape its rapidly expanding state between the 1950s and 1980s. Shifting individual interests and coalitions in the elite therefore were the main force determining how state institutions would grow and change.<sup>6</sup> Institutional change often reflected power shifts among a select few princes and technocrats.

The most senior among the select few in the Petromin saga is Faisal bin Abdulaziz, Saudi prime minister from 1962 and both king and prime minister from 1964 on until his assassination in March 1975. No other king after him has centralized power as decisively in his own hands and wielded as much authority over the state apparatus. A conservative by nature, Faisal was careful not to rush economic development in the kingdom, in the process also putting a break on Petromin's expansion.<sup>7</sup> Distrustful and solitary, Faisal relied on a limited number of long-term advisors. One of them was long-term oil minister (and ex officio chairman of the Petromin board) Ahmad Zaki Yamani,<sup>8</sup> whom Faisal groomed as lead technocrat after having read his sympathetic newspaper commentary on administrative reform in the kingdom.

Yamani was born in 1930 as scion of a Mecca notable family, trained as a lawyer in Egypt and was one of the first Saudis to study in the US. In August 1958 Yamani became legal advisor to the Council of Ministers, then controlled by Faisal as prime

minister. In July 1960, having gained Faisal's trust, he was promoted to Minister of State without portfolio. After Faisal had prevailed in his power struggle with King Saud, Yamani became Minister of Petroleum and Mineral Affairs in March 1962 as successor of Abdullah Tariki, a vocal progressive who had fallen out of favour with Faisal.<sup>9</sup>

In contrast to Tariki, Yamani was a middle of the road player, described as suave and personable, with an 'aptitude for backing down gracefully when faced with opposition from his superiors'<sup>10</sup>. His smooth demeanour and media savvy would make him the face of Saudi Arabia in the international arena. By all accounts, he had great respect for his 28 year older royal patron Faisal whom he described as 'wily fox', albeit being privately critical of his reluctance to delegate authority.<sup>11</sup> A rich man thanks to Faisal's paternal real estate gifts, Yamani managed to maintain an image of probity in office for many years.<sup>12</sup>

Yamani as trusted Minister of Petroleum had large patronage resources of his own, grooming his own following on senior levels of the ministry. His most important client there was arguably Abdulhadi Taher, born in 1930 in Medina to a family of limited means.<sup>13</sup> His father died when Taher was a teen. Smart and ambitious, Taher nonetheless managed to obtain a B.A. in Commerce in Cairo while having to work to supplement the family income. In the mid-50s he was employed by the Directorate General of Petroleum and Mineral Affairs as assistant accountant, and soon started to move up its hierarchy.

The Directorate was then headed by Abdullah Tariki, who was to become the first Minister of Petroleum in 1960, converting the agency into a full ministry. At the time, Taher worked on a PhD at Berkeley about 'Petroleum and Natural Gas Accounting and its Effects in Saudi Arabia'<sup>14</sup>. After Tariki was ousted, Yamani recognized Taher's

talents and appointed him governor of the newly-formed General Organization of Petroleum and Minerals. While ranked possibly the smartest figure among Yamani's technocrats, Taher was a more secretive and taciturn character than his boss.<sup>15</sup> Yamani however consistently trusted him<sup>16</sup> and delegated considerable responsibility to him.<sup>17</sup>

Yamani inherited another promising young technocrat from Tariki: Hisham Nazer, from a leading Jeddah notable family that had been close to Faisal when he was vice-regent of the Western Province under his father King Abdulaziz.<sup>18</sup> Nazer was born in 1932, attended the exclusive Victoria College in Alexandria, and went on to obtain a B.A. in international relations and an M.A. in political science at UCLA in 1957 and 1958 respectively.<sup>19</sup> He was subsequently reared as oil technocrat by Tariki, who made him assistant director general of the Petroleum and Minerals Directorate in 1958 and sent him to Venezuela in 1960 to learn about international oil matters.<sup>20</sup>

In the early 60s, Nazer was reported to harbor progressive political attitudes, having expressed strong sympathies for Nasser. He managed to keep his head below the parapet when Tariki and other liberals were taken out, however. Some still suspected Nazer of being sympathetic to Tariki, and at least for a while he seemed to hedge his bets by being not too close to the royals. He managed to quickly gain new minister Yamani's trust, however, who decided to make him his deputy in 1962.<sup>21</sup>

Nazer was described as an impressive figure, but with a tendency to be boorish and overbearing.<sup>22</sup> Already under Tariki, young guns as Taher, Nazer and Mohammad Joukhdar (Nazer's successor as director general of the Ministry in 1962) competed for positions in the energy administration.<sup>23</sup> There is no record of serious acrimony between



them however. As we will see, competition would become more antagonistic under a new royal patron:

It was only when Fahd bin Abdulaziz, a half-brother and senior ally of Faisal,<sup>24</sup> emerged as driver of economic policy in the early 1970s that rapid industrialisation became a government priority. Fahd, though not politically progressive, was a much more avid modernizer than the king, opening vast new opportunities for Saudi technocrats. At the same time, in the aftermath of the 1973 oil shock and of nationalisations in other oil producing countries, national participation in the upstream oil industry became a serious option in Saudi Arabia, creating new opportunities in the core of the Saudi oil sector.

Fahd, reported to be alert, but a more insecure character than Faisal, had his own ideas of how to organize the Saudi energy sector, however. He insisted to Faisal to be made chairman of the Supreme Petroleum Council in 1973, telling Western friends at the time that Yamani had too much power.<sup>25</sup> As importantly, he would bring clients of his own into the growing state apparatus to administer industrialisation. But this is already part of the history which that will be recounted in more detail, and in chronological order, in the coming pages.

### **Critical Junctures in Petromin's History: Yamani and Faisal**

1962 was the most important year in the history of the modern Saudi state: King Saud and his allies were marginalized and a coalition of senior princes under Faisal gained control over the state apparatus. The most senior of them started to build their own

institutional power bases; all of which have lasted until today, marginal shifts in personnel notwithstanding.

Among commoners, Yamani was arguably the biggest winner of 1962, having banked on Faisal as patron. Within Yamani's Ministry of Petroleum and Minerals (MOPM), Nazer was the biggest gainer, becoming his deputy at 29 years of age. He was not the only one to move up the ranks, but others were far less happy with their advancement.

A royal decree of 22 November 1962 established Petromin,<sup>26</sup> an organisation that was apparently based on plans first adumbrated by Tariki.<sup>27</sup> When Abdulhadi Taher was made its governor, he was dejected: He complained to friends that Yamani had unfairly favored Nazer, who was his junior.<sup>28</sup> Taher would receive deputy ministerial rank, but only after Nazer.<sup>29</sup>

Senior personnel of Aramco, the large US-owned oil concessionaire in the kingdom, consoled Taher: after all, the Petromin charter gave the new organisation an extensive mandate.<sup>30</sup> It would be responsible for all exploration, refining, and distribution of all petroleum and mineral resources in the kingdom that were not in the domain of then US-controlled oil concessionaire Aramco.<sup>31</sup> In line with Tariki's nationalist vision, a future role as national oil company was explicitly envisaged.<sup>32</sup>

Petromin was supposed to become a governmental equivalent of Aramco – the implicit idea being that it could one day take its place.<sup>33</sup> These were the days of budding NOC ambition across the developing world: The Indonesian government had created national oil distribution and exploration companies in 1957 and 1961 respectively (later

to be merged into national oil giant Pertamina);<sup>34</sup> Venezuela set up its Corporación Venezolana de Petróleos in 1962,<sup>35</sup> and the Algerian regime created Sonatrach in 1963.<sup>36</sup>

Different from most other oil states, Petromin was not set up in an atmosphere of feverish nationalism. Its inception rather came at a point of time when Faisal had clamped down on progressive Arab nationalists in the Saudi government, ushering in an era in which the conservative state dominated the anemic public politics of the kingdom.<sup>37</sup> Yet, Petromin itself looked much like its peers in socialist-progressive oil exporters, following the statist development paradigm of the day: run as a state agency rather than an incorporated company, with a government-approved operating budget rather than its own capital basis.<sup>38</sup>

Taher, who remained on close terms with Yamani, warmed up to Petromin's promise. He was given considerable leeway by the minister and interpreted the institution's mandate very broadly.<sup>39</sup> The organisation became the main vehicle of Saudi industrialisation efforts for the coming decade. Its activities included minerals projects,<sup>40</sup> oil and gas exploration in areas relinquished by Aramco,<sup>41</sup> and distribution of gas and refined products within the kingdom.<sup>42</sup> Petromin also started its own oil shipping operations.<sup>43</sup>

Even more ambitiously, Taher initiated a raft of heavy industry ventures, recognizing that the local merchants and contractors were in no shape to undertake industrialisation of any significant scale by themselves. Petromin started petrochemical projects,<sup>44</sup> oil refineries in Saudi Arabia and abroad,<sup>45</sup> glass<sup>46</sup> and steel<sup>47</sup> plants as well as power generation projects.<sup>48</sup> Although projects usually involved foreign partners, the

Petromin shares were 50 per cent or more.<sup>49</sup> Needless to say, Aramco at the time was 100 per cent US-owned, and Tariki's talk of participation had been quashed by Faisal.

As Petromin was under the umbrella of the Faisal-Yamani partnership, it also got to take care of Faisal's most promising son, Saud Al-Faisal, who had returned from the US with a Princeton B.Sc. in economics in the mid-60s. Yamani reportedly thought it good idea to 'teach him business',<sup>50</sup> and he joined Petromin as liaison officer to the Ministry in June 1966.<sup>51</sup> In February 1970, having established an impeccable reputation as smart and humble,<sup>52</sup> he became the institution's deputy governor. He moved on to become Yamani's deputy in June 1971. His brother Sa'd Al-Faisal became his successor in Petromin, further underlining the close links of the Yamani system to the Al Faisal.

Whatever Petromin's virtues in readying Faisal's progeny for higher office, in its industrializing plans, it seemed to have bitten off more than it could chew. With national infrastructure badly underdeveloped and an acute lack of qualified manpower, most of its projects seemed to come too early in Saudi development to be viable.<sup>53</sup> Moreover, Taher, Petromin's unquestioned supremo, seemed to pursue an idiosyncratic recruitment policy.<sup>54</sup> Many Petromin employees appeared underqualified.<sup>55</sup>

It has been speculated that the governor, who was 'jealously guarding his own preserve',<sup>56</sup> would not tolerate subordinates who were too smart. In any case, despite rapidly growing employment, Petromin's administrative structure remained ill-defined, with Taher maximizing control over operations.<sup>57</sup> The organisation's development reflected a general pattern of politicized or cronyist recruitment in the majority of developing country NOCs which, depending on the system, tended to serve the political needs of military elites, ruling family cronies, or powerful oil workers' unions (in the

extreme case of Mexico's PEMEX leading to the sale of jobs by union bosses, known as "vendeplazas").<sup>58</sup>

While Petromin managed to build up modest domestic refining capacity, many other ventures tended to go nowhere, or worse, end in disputes. Numerous projects greatly announced in the 1960s were never heard of again. Exploration results were disappointing, and most minerals projects never took off. When Ed Awad, a chemical engineer Taher had poached from Occidental, started petrochemicals planning in the early 1970s, he did so on a very basic level with practically no data. A petrochemicals joint venture with Philips (negotiated by Awad) went nowhere, as did petrochemicals negotiations with Hercules.<sup>59</sup> SAFCO, a fertilizer venture with Occidental, ended in arbitration in the International Chamber of Commerce.<sup>60</sup>

At the same time, another player with a claim to planning national industrialisation emerged: the Central Planning Organization. Although extant on paper since 1964, the CPO had been dormant until King Faisal appointed Taher's former colleague Hisham Nazer as its president in 1968.<sup>61</sup> Aramco analysts soon detected a potential rivalry between the CPO and Petromin.<sup>62</sup> As head of CPO, Nazer reportedly had direct access to the king, and soon started working on the kingdom's first development plan, which had a considerable industrial component.<sup>63</sup> Nazer also started rearing his own protégés, sending senior CPO staff Faisal Bashir and Fayeze Badr to the US to get their PhDs.<sup>64</sup> At the same time, he successfully recruited Stanford Research International experts to help him in assembling his plan.<sup>65</sup> Yamani, although still on good terms with Nazer, supposedly did not share all MOPM information with him.<sup>66</sup>

The CPO threat, if any, remained diffuse: as the organisation was responsible only for indicative planning and inter-agency coordination, it did not dictate project specifics to Petromin. Yamani's status as arbiter of oil-related issues remained unchallenged, protecting Petromin by association.

With the 1973 oil boom, Petromin's ambitions only increased, as the kingdom's unprecedented riches left space for different institutions to grow rapidly in parallel.<sup>67</sup> In 1970, it already had more than 3000 employees in 1970;<sup>68</sup> making it an unrivalled industrial behemoth in a still deeply underdeveloped country. After 1973, refining and petrochemical plants in the billion dollar range were negotiated with Mitsubishi,<sup>69</sup> Shell,<sup>70</sup>, Dow and Mobil.<sup>71</sup> Large steel mills were planned with BHP and Marcona,<sup>72</sup> and a gigantic gas gathering and liquefaction project was envisaged for the Eastern Province.<sup>73</sup> Plans for a trans-Arabian oil pipeline to a new industrial complex at the Red Sea port of Yanbu were agreed with Mobil in 1974.<sup>74</sup>

Petromin also undertook the marketing of growing amounts of crude made available by Aramco in the course of "participation" negotiations.<sup>75</sup> The latter seemed to move the organisation closer to an ambition it had developed after the regional climate had become decidedly anti-Western in 1967: a direct stake in upstream operations, that is in Aramco's core turf – arguably Petromin's original *raison d'être*. Soon after the June war, Yamani had announced that Petromin was seeking a stake in Aramco.<sup>76</sup>

King Faisal, the main restraining force on unbridled development spending, was surprisingly killed by a nephew in March 1975. With him out of the picture, Saudi Arabia seemed to be headed for a development rush under zealous modernizer Fahd, who became Crown Prince and was given wide administrative leeway by new King Khaled. In

January 1975, the Petromin board had approved a 13 billion dollar development program for the 1975-1980 period.<sup>77</sup> Its detailed development plan for the period was cheekily announced one week before the Council of Ministers ratified the CPO's five year plan in May.<sup>78</sup> Unsurprisingly, the numbers bandied about by Fahd, Yamani and Nazer were at variance, as MOPM, Petromin and CPO operated with little coordination.<sup>79</sup>

The Petromin plan tackled every conceivable sector of industry: refining, gathering and liquefaction of gas, mining, petrochemicals, fertilizers, iron, steel, aluminium manufacture for local and export markets, as well as transport and distribution of various petroleum products. The flagship projects were three (potentially four) large export refineries, and up to seven ethylene-based petrochemical plants, mostly on joint-venture basis.<sup>80</sup>

In practice, Petromin still had not got far by the mid-70s.<sup>81</sup> Its international negotiation partners pointed out that most of the large ventures would only be marginally economic. Petromin seemed to have no conception of the magnitude of potential problems and bottlenecks and relied on a faulty assumption of unlimited gas supplies.<sup>82</sup> Shipping refined products would be expensive – an issue Petromin planners never seemed to come to grips with – and Petromin lacked capital to build up distribution networks in consumer countries.<sup>83</sup>

### **Turn of the Tide in 1975**

None of this was worse than the teething problems of other national oil companies, which have tended to be overambitious, politicized and lacking in administrative capacity. Nonetheless, Petromin had to stomach its first big political defeat soon after the

announcement of its five year plan. Faisal's death would accelerate economic development, but it also led to a significant shift of political forces in the technocracy.

In October 1975 Fahd helped to engineer a massive cabinet reshuffle in which the number of ministries grew from 14 to 20 and numerous personnel were reshuffled. While Yamani protégé Saud Al-Faisal became Minister of Foreign Affairs, Nazer's CPO was upgraded to ministerial status. Yamani, himself for a while rumoured to become Minister of Foreign Affairs, stayed on as oil minister.

More importantly for Petromin, however, the new government contained a Ministry of Industry and Electricity (MOIE) which was patched together from various pre-existing government entities. The MOIE claimed responsibilities previously held by Taher's sprawling Petromin empire. An official government information website explains: 'There was the caution that Petromin, with all its potential, should not encroach into fields already within the authority of other government bodies or ministries, but should integrate its planning with theirs.'<sup>84</sup>

The statement is remarkable for its relative frankness, but also for getting history the wrong round. It is true that Petromin was a rather impenetrable fiefdom, but its mandate and large-scale industrialisation plans had predated the MOIE by more than a decade.

When the new portfolios were negotiated, Yamani lobbied for keeping the responsibility for petrochemicals with Petromin.<sup>85</sup> Fahd disagreed. Convinced that Yamani and his clients had become too powerful, he was determined to realign the boundaries. He had chosen an aggressive young man, Ghazi al-Gosaibi, as Minister of Industry and Electricity, who pushed for maximizing his purview.<sup>86</sup>



The Higher Committee of Administrative Reform was called upon to decide which sectors of industry would remain with Petromin. The Committee was presided by Prince Sultan, Fahd's full brother and ally. It decided that refining would stay with Petromin, whereas petrochemicals and mining would be assigned to the new ministry, with all projects transferred accordingly. Petromin, the budding champion of national industrialisation, was now effectively restricted to marketing, refining, and distribution of oil.<sup>87</sup> It had gone through a similar wing-clipping as Indonesia's Pertamina, which lost its non-oil business in the second half of the 1970s after incurring spectacular losses.<sup>88</sup>

Ghazi al-Gosaibi later complained about Petromin's (read: Yamani's and Taher's) obstinacy, which was not ready to surrender anything to another ministry and was the main obstacle in setting up the MOIE.<sup>89</sup> The flipside of the story is that Gosaibi represented a new group of young clients Fahd had been nurturing and who represented a threat to administrators fostered by Faisal. Abrasively expanding his turf in a system in which ministers generally are very careful not to encroach on each other's territory, it comes as little surprise that Gosaibi never developed much of a rapport with Yamani.<sup>90</sup>

Like several other new functionaries under Fahd, Gosaibi was from an old family of Najdi origin.<sup>91</sup> Fahd had actively combed universities and sought ministers' advice to find bright young administrators-to-be, rearing the next generation of technocratic clients<sup>92</sup> which would be closer to him than either Yamani or Taher.<sup>93</sup> Gosaibi was 8 years younger than Taher, which considering the Saudi system's obsession with seniority probably made for additional bad blood.<sup>94</sup> He had been secretary of the Supreme Petroleum Council, a cabinet committee which had served as Fahd's control lever over the energy sector and in which Taher was not represented.<sup>95</sup>

Adding insult to injury, Gosaibi made Ahmad Tuwajri, previously a Petromin functionary (and also a Najdi) deputy minister in the MOIE.<sup>96</sup> Soon piles of project proposals were transferred from Petromin to the Ministry, where they were assessed with the help of the Industrial Studies and Development Center under the direction of its deputy director general Abdulaziz Zamil, another descendant of a Najdi notable clan. All projects as conceived by Petromin were eventually abandoned or renegotiated,<sup>97</sup> as the new team deemed them uneconomic or ‘much too ambitious’<sup>98</sup>.

The MOIE would move on to establish the Saudi Arabian Basic Industries Company (SABIC) in 1976, with Gosaibi as chairman and Zamil as CEO. SABIC, capitalized at 2.8 billion dollars, took over the operational responsibility for petrochemicals and other heavy industry projects.<sup>99</sup> SABIC was set up with a rather lean managerial structure and incorporated as company; 30 per cent of it were subsequently sold off.<sup>100</sup> Gosaibi and Zamil patently wanted to build up a counterexample to sluggish and statist Petromin. The latter gets a good drubbing in an official 2001 SABIC company history as ineffective and obstructionist, while all other actors involved in the creation of MOIE and SABIC (including Yamani) are lauded as cooperative<sup>101</sup> – a very explicit condemnation by Saudi standards, indicating the animosities that must have existed.

The newly created Royal Commission for the Industrial Cities in Jubail and Yanbu provided SABIC with land and infrastructure.<sup>102</sup> Fahd was chairman of the Royal Commission.<sup>103</sup> His vice-chairman was none other than Hisham Nazer,<sup>104</sup> who was instrumental in setting up the Commission,<sup>105</sup> thus significantly expanding his role in matters of industrialisation at Taher’s expense.<sup>106</sup> Neither Yamani nor Taher were members of the Commission.<sup>107</sup>

Nazer had once again astutely repositioned himself throughout a royal power shift, this time as a confidant of Fahd.<sup>108</sup> He had developed close relations with gatekeepers around Fahd such as Adnan Khashoggi and Ghaith Pharaon,<sup>109</sup> and soon became known as 'Hisham Abdul Fahd'<sup>110</sup> among his detractors. Nazer clearly had grown out of being a client of Yamani, who himself had lost his main patron through Faisal's death. Yamani, who had once favoured Nazer over Taher when he appointed him deputy, did not take ascendancy of the ebullient planning minister lightly. The dislike grew so intense that the two could not be invited to the same parties anymore.<sup>111</sup>

Taher's and Nazer's rivalry had also badly escalated by the mid-70s,<sup>112</sup> as Nazer had contributed to cutting Petromin to size. As Petromin remained with the MOPM, Taher remained close to Yamani. Perhaps to compensate for his losses, Taher became increasingly active in private business, setting up the Aal Taher Group together with his brother which would over the years engage in lubricants, chemical manufacturing and engineering.<sup>113</sup>

One can still interpret the rearrangement of portfolios in 1975/76 as a mere step of administrative differentiation. Seeing the scale of Fahd's modernizing ambitions, any one organisation would have been hard put to take charge of all industrializing activities. And it was only natural that Fahd would bring some of his own people into government.

Taher still had the hope that the regional trend towards nationalisation would make Petromin the default actor in the Saudi oil upstream, on which it now could arguably concentrate. The Saudi government had started to buy stakes in Aramco from its US

parent companies in 1972,<sup>114</sup> and two years later Aramco appointed its first Saudi vice president. Saudi control over upstream assets seemed in reach.

Ironically, however, the takeover negotiations seemed to be going a bit too well from Petromin's point of view. In lieu of aggressive nationalisation, the Saudi government negotiated for consensual "participation".<sup>115</sup> By ceding company ownership rights, the Aramco parents could evade giving up managerial control over upstream assets. To create a Saudi interest in preserving Aramco's integrity, the company introduced increasing numbers of Saudis into its management, training them for executive positions.<sup>116</sup> Hoping to maintain their leading roles in what was one of the best-run companies in the Middle East, these US-educated Saudis evolved to be the most committed anti-Petromin group in the kingdom.<sup>117</sup> In all of OPEC, this group seems comparable only to the PDVSA oil executives in Venezuela, nationals who had mostly worked in international oil company (IOC) operations before the national champion was created in 1977.<sup>118</sup>

Aramco insiders seemed to feel around 1976 or 1977 that Petromin was unlikely to become the supreme oil company in the kingdom.<sup>119</sup> As the takeover of Aramco ownership was handled relatively smoothly, the threat of building up Petromin as a full-blown national alternative was less and less required. The issue rather became how to organize the coexistence of Petromin and Aramco.

Petromin still made the news regularly, and the scale of its projects continued to grow.<sup>120</sup> Mobil built the Petroline cross-Arabian pipeline for it in the late 1970s, using more than 400.000 tons of pipe.<sup>121</sup> Petromin spent hundreds of millions of dollars on its domestic distribution facilities<sup>122</sup> and expanded its lubricants joint ventures.<sup>123</sup> Three

large-scale export refinery joint ventures were initiated.<sup>124</sup> In July 1978, the governor of Petromin was finally given ministerial status.<sup>125</sup> Formally, Taher had caught up with Nazer. The Petromin expansion happened in parallel with that of other developing country NOCs such as PEMEX, Sonatrach or Pertamina, which expanded to become large fiefdoms in the boom years, usually run by politically well-connected executives.<sup>126</sup>

In the late 1970s, Petromin's international oil sales business was sustained on a high level of between 1.5 and 2 million barrels per day. A flurry of sales deals were negotiated with various states and international oil companies.<sup>127</sup> As much of a success as this was in terms of assuming an NOC role, it is in distribution that Petromin acquired a reputation for large-scale improbity. As the organisation was responsible for contract details, and setting exact prices, leeway for discretion and commission-taking was large.<sup>128</sup> Yamani had previously convinced Faisal to kill 'princely oil'<sup>129</sup>, but several royals re-emerged as middlemen in Petromin deals.<sup>130</sup> Official and actual sales volumes were reported to be at variance.<sup>131</sup>

The international oil sales business at the time was almost uniformly shot through with middlemen and commission payments:<sup>132</sup> Nigerian NNPC, Pertamina, Sonatrach and others, although operating in different political environments, all tended to "cut in" powerful players in their deals.<sup>133</sup> Nonetheless, Petromin's intransparency, and Taher's own increasing wealth, gave ammunition to Petromin's critics. In 1979, Petromin gained international notoriety when it was reported that Italian state oil company ENI agreed to pay a 115 million dollar commission for an oil supply contract. More than half the money was to be paid to Italian politicians and the rest to Saudi officials, among them Petromin functionaries.<sup>134</sup> As a government-to-government contract was at stake, the Saudi

government felt exposed.<sup>135</sup> Similar deals involving other West European customers were rumoured or exposed briefly afterwards. An oil sales deal with West German Avia involved sales of 100.000 barrels/day, and a variety of commissions: 17 cents per barrel for Yamani (who could rely on Taher to flesh out the details), a slightly smaller cut for Taher, and a much larger one – possibly a dollar – for a senior prince.<sup>136</sup>

Although Aramco had its own corruption scandal in 1977/78 – on a gas gathering project originally conceived by Petromin<sup>137</sup> – this came to be seen as an exception, and was dealt with by dumping chairman Frank Jungers. Aramco as organisation had been widely insulated from local politics. Petromin's opacity and its de facto role as slush fund for well-connected players appeared chronic by comparison. Taher's reputation suffered.

### **Defeat in 1983**

It probably caused considerable anxiety among some Saudi Aramcons when Taher announced in 1980 that Aramco would soon be taken over by a national company.<sup>138</sup> By that year, Aramco had four Saudis on its board: Yamani, Taher and two MOPM deputies. More importantly, it had become 100 per cent Saudi-owned.<sup>139</sup> However, 'no one quite knew what that meant',<sup>140</sup> as the company remained incorporated in Delaware and the chairman an American.<sup>141</sup> This gave Taher, opportunity for some blustering. In April 1982, the Middle East Economic Digest reported that he was likely to be named head of a national oil company which would be formed soon, despite considerable resistance in the Supreme Petroleum Council. His chances were rated high as he was the default candidate and a clear alternative plan for reorganizing the oil sector was lacking.<sup>142</sup> Yamani reportedly backed Taher's candidacy.<sup>143</sup>

At the same time, trade journals expressed concern that a merger with Petromin could affect the efficiency of Aramco. Petromin, as was delicately put, had ‘developed along more traditional Saudi lines’<sup>144</sup>. By the early 80s, it had grown to a bureaucratic behemoth, planning to employ a further 12.000 staff by 1985.<sup>145</sup> Most of its operations did not turn a profit, and the completion of its large refinery projects was delayed time and again.

Taher’s moment of near glory was rather brief. In August 1982, speculations were reported that Aramco would be allowed keep more autonomy<sup>146</sup> – which probably had been the (unreported) default scenario since about 1977. Fahd was sitting out the difficult decision of how to concretely organize Saudi control over Aramco, but he was unlikely to have seriously considered giving the supreme job to Taher.

In November 1983, Ali Naimi was appointed president of Aramco, having previously been executive vice president oil and gas affairs.<sup>147</sup> Naimi was a quintessential Aramco-reared oil functionary, having been an employee of the company since the tender age of 11, and having been sent to the US to study on an Aramco scholarship. While American John Kelberer remained chairman and CEO, the Saudization of senior ranks within Aramco allowed the Saudi government to sustain its structure as enclave institution.<sup>148</sup> Further questions of reorganisation were effectively postponed. Different from many other oil states, in politically quiescent Saudi Arabia there was no public pressure towards nationalisation, making the cocooning of Western corporate structures politically palatable.

It is likely that senior Aramco management would have created a political crisis if the company had been forced to swallow the ‘poison pill’ of merging with Petromin, or

of ceding any control over company strategy.<sup>149</sup> Saudi Aramcons worked as a domestic lobby group similar to the “Agropet” association of Venezuelan oil managers that successfully fought for a conservation of IOC managerial structures at the inception of PDVSA in 1977 (a victory that would prove less permanent than in the Saudi case).<sup>150</sup>

Although the eventual shape of Aramco as national Saudi oil company remained unclear, by 1983 everyone with a more than fleeting interest in Saudi oil recognized that Petromin was, once again, out of the game.

Having benefited from ever growing development budgets during the oil boom decade, Petromin remained a vast organisation. Although Aramco also operated a large refinery at Ras Tanura, Petromin still was supposed to be the main Saudi refiner and marketer. Three huge export refineries with a total capacity of 1.3 million barrels/day were being built with Mobil, Shell and Greek Petrola.<sup>151</sup> Due to a restrictive petroleum pricing policy, Petromin also had to step in as the main operator of Saudi gas stations (opening another avenue for Taher’s own business interests).<sup>152</sup>

The oil crunch after 1982 by default increased Petromin’s share in the international marketing of Saudi oil. Public diplomat Yamani and his technician Taher remained personally involved. During the lengthy OPEC meetings of the early 80s, Yamani reportedly concluded oil sales deals with advance knowledge of newly agreed prices, operating through a company registered in Gibraltar called “Evergreen”. Together with a second-generation royal, Yamani and Taher were major stakeholders in the Saudi-European Bank in Paris, which was used mainly for recycling oil rents.<sup>153</sup> Taher, who



through his managerial position was more involved in the nitty-gritty of rent-seeking than Yamani, was also known for hiring barges to transport unaccounted oil to tankers waiting offshore (a practice still widespread in Nigeria).<sup>154</sup>

Much of this might have been tolerated as royals were often involved to gain political cover – or would even initiate oil sales deals as in the case of the oil for planes swap in 1984, when Petromin was ordered to sell 34 million barrels of oil to pay for 10 Boeing 747s.<sup>155</sup>

But there were other areas in which the smaller size of oil exports and income made itself felt more painfully: with declining oil revenues, Petromin faced problems in its expensive refining ventures, where enduring problems of waste and politicized planning became glaringly obvious. Petromin's refinery project with Petrola at the Red Sea port of Rabigh in particular became an 'extremely expensive mess'<sup>156</sup> and an emblem of everything that can go wrong in state-led industrialisation.

The main player on the Greek side was Petrola owner John S. Latsis, who had a history of business with Taher<sup>157</sup> and was reported to enjoy privileged access to him.<sup>158</sup> Shipping magnate Latsis also made sure to woo Fahd, who became king in June 1982, by designing large private yachts for him. Rabigh would become Fahd's 'pet project'<sup>159</sup>. Among industry insider, Rabigh was generally considered a 'lousy deal', with Latsis overcharging for a technologically unsophisticated plant.<sup>160</sup> The refinery suffered from endless construction delays and cost overruns and would not start production until 1990.<sup>161</sup> Against the background of oil crash-induced austerity in the mid-1980s, it killed Petromin's credibility as refining company. The output of refined products had only

increased from 226,000 to 349,000 barrels per day between 1970 and 1984, a negligible increase compared to the resources poured into Petromin.<sup>162</sup>

The collapse of the oil price in 1985/86 also killed something else for good: Zaki Yamani's career. Fahd, long trying to circumscribe the oil minister's influence, took Saudi Arabia's failure to maintain OPEC discipline as reason to relieve him of his duties on 29 October 1986. Yamani learned of his dismissal on TV.

### **Cleaning Up: 1986-93**

Fahd's loyal client Hisham Nazer had been rumoured as Yamani's successor as early as 1983.<sup>163</sup> In 1986 his turn had come. Abdulhadi Taher's long-time patron was replaced by one of his worst rivals. Nazer had become Taher's boss.

Nazer initially was appointed on an interim basis, which led some observers to speculate that Taher might actually be in the ascendancy.<sup>164</sup> In December however, in the middle of an OPEC meeting, Taher was sacked. Nazer got his permanent appointment briefly afterwards.<sup>165</sup> In April 1987, both Yamani and Taher were removed from the Aramco board.<sup>166</sup> Taher was succeeded by his deputy Jamal Jawa, who himself resigned a few months later.

After oil price had somewhat stabilized, Nazer tackled the tortuous reorganisation of the oil sector which would finally lead to the death of Petromin. The meandering path the remake took is testament to the stickiness of institutions in Saudi Arabia, even those which have outlived their political purpose.

In November 1988, a royal decree finally created "Saudi Aramco", which was to own and operate the former Aramco assets.<sup>167</sup> Nazer became its first Saudi chairman.<sup>168</sup>

The king also set up a Supreme Council for the company, chaired by himself, which would approve the Saudi Aramco's 5-year plans and annual reports as well as appoint the company's president at the recommendation of its board of directors.<sup>169</sup>

Next to senior Saudis, the board still contained former US oil executives and bankers, in effect preserving most of Aramco's existing setup – a unique structure among large non-Western NOCs.<sup>170</sup> Headed mostly by Saudis who had been reared into American-style management, Saudi Aramco retained extensive operational autonomy. Any deeper bureaucratic intervention, the bugbear of Aramco's Saudi management, was averted.<sup>171</sup> Aramco structures had been definitely cocooned under the king's and Nazer's supervision. The process is most comparable to the smooth phasing in of PDVSA in Venezuela through 'service agreements' with the old IOCs, which allowed their main upstream ventures to be preserved within PDVSA. Aramcos tend to say that their company was 'purchased commercially', not 'nationalized'.<sup>172</sup>

1988 also saw the formation of Petrolube and Luberef under the MOPM, which consolidated Petromin's diverse lubricants businesses. Briefly afterwards, the Saudi Arabian Marketing and Refining Company, Samarec, was created as a shell for reorganizing Petromin's 'Byzantine'<sup>173</sup> refining operations (previous attempts to engineer a privatisation of Petromin had faltered, as the company proved impossible to value commercially<sup>174</sup>).<sup>175</sup> Petromin continued to formally exist as SAMAREC's holding company.

Petromin had become a practically headless entity headed by an interim governor. Nonetheless, its sprawling apparatus was not easily reorganized, and Nazer – its ex officio chairman – was unable to position his people as swiftly as he wished. The

restructuring was hampered by a shortage of skilled manpower, mid-level resistance and the sheer size of Petromin's badly inefficient operations.<sup>176</sup> Samarec and Petrolube proved to be only intermediate steps of restructuring, a kind of temporary scaffolding for the eventual dismantlement of the Petromin legacy.

While Samarec lasted, however, Nazer seems to have used it to build his own empire. A Hijazi client of his, Hussain Linjawi, was put in charge of the new body and started spending large amounts on salaries, offices and office services (in one deal alone, Samarec reportedly rented 600 Lexuses).<sup>177</sup> As Samarec was incorporated as company, it actually had even more independence in hiring and spending than Petromin.<sup>178</sup> A bloated apparatus itself, it failed to streamline Petromin assets or turn a profit. A 'cold war' between Samarec and Aramco set in, as Aramco was opposed to a politicized downstream entity that would provide negative returns on its oil.<sup>179</sup> Samarec lingered.

The 1990/91 Gulf war accelerated developments. Saudi Arabia's contribution to the allied war effort consisted to a significant degree of jet fuel provided to the US for free, produced by Samarec refineries.<sup>180</sup> In the meantime, domestic fuel was sold for hardly more than production costs, preventing Samarec from turning a profit.

Nazer begged the king to raise fuel prices so that Samarec could become viable. After the war, however, cautious Fahd encountered organized political opposition for the first time in his tenure. He was in no mood to squeeze Saudi consumers. In a traditional gesture of paternal largesse, he instead lowered domestic gasoline and utility prices in 1992.

Samarec was effectively bankrupt, owing Aramco large amounts of money for the crude the latter had supplied to its refineries.<sup>181</sup> It could not even cover its operating

costs. As a consequence, in June 1993, Fahd decreed that the Samarec mongrel – which had never been formally incorporated – be dissolved and its assets taken over by Aramco.<sup>182</sup> This elegantly solved the debt problem<sup>183</sup> and made Aramco what Petromin was originally meant to become: the sole actor in the Saudi oil sector.

As per Fahd's decree, Saudi Aramco's absorption of Samarec was to be complete before mid-1994. Until then Samarec's 12,000 staff members would either receive standard Aramco employment contracts, after passing tests, or be discharged.<sup>184</sup> Aramco was given a mandate to clean up.

How much the company had been allowed to take over the oil sector's management became obvious in 1995: Rather unexpectedly, the ostentatious Nazer himself was replaced as minister by Ali Naimi, the quintessential Aramco technocrat. One of the reasons apparently was the involvement of Nazer's son in a refining project with Mobil in 1993 that never got off the ground.<sup>185</sup>

Naimi continued the mopping up operations: In 1996, Saudi Aramco took full control of Luberef and Petrolube. Petromin's remaining mining assets were converted into the national mining company Maaden in 1997, with Naimi as chairman. Only after King Fahd's death, however, was Petromin as legal entity formally dissolved.

### **Conclusion: Histories of the Saudi State**

The Petromin story illustrates what old Saudi hands know, but many political scientists theorizing about 'rentier states' and the 'resource curse' seem unable to recognize:

Different parts of an oil state can function very differently. The expansion of the Saudi oil

state in the 1970 allowed for the parallel growth of a very diverse array of institutions: the Americanized Saudi management in Aramco, the progressively ossified bureaucracy of Petromin, as well as the lean, but local management of SABIC. How these different institutions evolved, and which ones emerged on top, was not predetermined. Absent powerful political forces outside of the regime core, it rather was contingent on the quirks of a small section in the Saudi elite – their personalities, their patronage relations and their more or less petty conflicts.

Relatively minor decisions could have great consequences further down the road. Nowhere is this clearer than in Fahd's impact on the Saudi state qua his build-up of a technocratic clientele. Faisal-Fahd comparisons are popular in Saudi Arabia and tend to work out in favor of the great patriarch Faisal. Fahd is seen as a less imposing ruler who tended to dither in crises and was more lenient on corruption. What often goes unrecognized is the institutional legacy he left through his knack for co-opting bright young administrators and protecting islands of efficiency in the state.

Whatever the political motivations involved, it was clients of Fahd who built SABIC, which nowadays is a large and highly profitable player on the international petrochemical markets. It managed to turn Petromin's loss-making and scandal-ridden SAFCO into a profit-making enterprise<sup>186</sup> and has emerged as the most impressive industrial concern in the Middle East. Similarly, the Royal Commission for Jubail and Yanbu is nowadays widely seen as a success story, having enabled swift and large-scale industrialisation, and avoiding the sluggishness of the Saudi bureaucracy at large.<sup>187</sup> It stands in marked contrast to the politicized heavy industries in places as diverse as Algeria, Kuwait and Mexico.

Finally, Saudi Aramco remains a unique institution thanks to Fahd's decisions to effectively shield it from the rest of the Saudi state. It still is by far the most important career vehicle for bright and ambitious young Saudis, its meritocracy unmatched by any other organisation in the kingdom. For what it is worth, Aramco also remains an enclave of American corporate culture, allowing women to drive in its compounds, and both genders to mix at the workplace.

Aramco has been more consistently insulated from political pressures than any other OPEC NOC – including PDVSA, which went through a similarly smooth transition to national ownership, but was fiscally undermined by the Andres Perez government in the early 1980s and has recently been stripped of its managerial autonomy by Hugo Chavez.<sup>188</sup> Different from many other OPEC NOCs, Aramco has kept control over its operating revenue.<sup>189</sup> The company remains accountable most of all to the king, whose role as guarantor of the company's autonomy seems peerless in OPEC (only akin perhaps to that of the Malaysian Prime Minister vis-à-vis national oil champion Petronas<sup>190</sup>).

Although commoners below him fought out important details, Fahd also took the ultimate decisions in 1975-6, 1982-3 and 1988 which slice by slice consigned Petromin to history; a great project of autonomous national development which turned out to be deeply flawed. If Petromin had been allowed to take over the oil sector, Saudi Arabia would look very different today. This is not a merely academic point: While the Saudi regime abandoned Petromin, its other NOC peers by and large have lingered until today, controlling much of their countries' upstream sectors.

### Patterns of NOC history in major developing world oil producers

	High conflict nationalisation	Low conflict nationalisation	<i>Outcome</i>
Politically Insulated	--	Aramco (Saudi Arabia) ADNOC (Abu Dhabi) PDVSA (Venezuela) at times	<i>High efficiency</i>
Politicized	KPC (Kuwait), NIOC (Iran), PEMEX (Mexico), Sonatrach (Algeria)	Petromin (Saudi Arabia) PDVSA (Venezuela) at times Pertamina (Indonesia) NNPC (Nigeria)	<i>Low efficiency</i>

In addition to sources already cited, this table draws on: Brumberg and Ahram, *NIOC*; Heard, "Development of Oil"; Khan, *Nigeria*; Brown and Knight, eds., *Mexican Petroleum Industry*; Tetreault, *Kuwait Petroleum Corporation*; Mommer, *Governance of Venezuelan Oil*.

Where are Aramco and Petromin located in the larger universe of NOCs? The table above classifies NOCs of major developing country oil exporters on which sufficient information is available. Based on the case history of the two Saudi NOCs, combined with the literature on other cases, I argue that two major questions determine the shape of the nationalisation process and of the resulting NOC: First, is the relationship with incumbent IOCs antagonistic – usually driven by resource nationalism and populist ideologies –, or do IOCs and governments cooperate in the transfer of upstream assets? Secondly, is the NOC that takes over politically insulated or shot through with social and political interests?

As the empty upper left corner shows, a conflict-ridden nationalisation seems to prevent the emergence of an insulated NOC organisation: Resource nationalism politicizes the upstream sector – moving cases to the lower left corner so to speak – and tends to give stakes in the new entity to unions (PEMEX, Sonatrach) or populist political groups (KPC, NIOC). This reinforces the above point that the preservation of Aramco's



American managerial structures would not have been thinkable in a nationalistic political environment.

Conversely, however, low nationalism does not guarantee insulation: Petromin was created by a conservative, authoritarian state that suppressed populist and nationalist ideologies very effectively; resource nationalism was muted. Similarly, Venezuela, Indonesia and Nigeria avoided an all-out clash with IOCs. In all these cases, however, NOCs have been politicized (intermittently in the case of Venezuela, consistently in the other cases).

The two bottom corners contain very different entities. Being “politicized” for our purposes indeed can mean very different things: elite cronyism, fiscal exploitation, political capture by unions, all-out corruption, populist attacks by the regime etc. But the bottom line is that the company is shot through by social interests. As a result, efficiency tends to suffer.

It is only in cases in which nationalisation was a cooperative process *and* the new NOC has been politically insulated that reasonable degrees of efficiency have been reached. Aramco is the ideal type case. PDVSA in its early years comes pretty close, as does Abu Dhabi’s ADNOC (which however is a shell company for joint ventures with IOCs rather than an operationally autonomous organisation<sup>191</sup>). PDVSA and Aramco are generally rated among the most efficient NOCs, considerably above their OPEC peers.<sup>192</sup> Thanks to its inherited capacities, the reluctantly nationalized Aramco nowadays ironically is the one NOC that does not have to *denationalize* by letting IOCs back into the upstream. Alone among NOCs, it is capable of managing upstream capacity expansion by itself.

Saudi Arabia could not have built up an Aramco-like organisation from scratch – when it tried to build local structures through Petromin, it failed. The low level of resource nationalism however allowed it to preserve the foreign assets in the nationalisation process. As the cases in the bottom right corner show, this was not an automatic outcome: Political interventions in NOC budgets, prices, investment, appointments etc. are common also in cases in which nationalisation was not accompanied by anti-IOC populism. Nationalism is not the only cause of politicisation. In many cases, the rent-seeking interests of small elites undermined institution-building, be it shifting coalitions of military rulers and senior bureaucrats in Nigeria, or the long-lasting alliance of Suharto and Pertamina's Dr. Ibnu Sutowo in Indonesia.<sup>193</sup>

The crucial role of elite decisions in the very different Saudi story is all the more striking, in particular Fahd's moves on Aramco and Petromin. There was nothing that determined the preservation of the former and the demise of the latter other than the vagaries of a few princes and technocrats, in a variable mix of jealousy and administrative acumen.

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## Notes

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<sup>1</sup> Hartley et al, *Empirical Evidence*; Marcel, *Oil Titans*, 36, 68; various interviews with oil business representatives.

<sup>2</sup> "Petromin to be merged with Saudi Aramco", *Arab News* 25 October 2005.

<sup>3</sup> Aramco's story is to some extent at least covered in existing literature; cf. Vitalis, *America's Kingdom*; Lippman, *Inside the mirage*; Yergin, *The Prize*.

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<sup>4</sup> [reference to my own work]

<sup>5</sup> Cf. Marcel, *Oil Titans*, as well as the papers written for a conference on NOCs in March 2007 at the Baker Institute's Energy Forum at Rice University: <<http://www.rice.edu/energy/publications/nocs.html>>

<sup>6</sup> [reference to my own work – article]

<sup>7</sup> [reference to my own work,] 91-103.

<sup>8</sup> Mulligan Papers (Georgetown University), Biographical sketch of Ahmad Zaki Yamani, March 1962, , Box 1, Folder 67.

<sup>9</sup> Lacey, *The Kingdom*, 339-340; Vitalis, 233-234.

<sup>10</sup> Mulligan Papers, Biographical sketch of Ahmad Zaki Yamani, March 1962, Box 1, Folder 67.

<sup>11</sup> Mulligan Papers, Biographical sketch of Ahmad Zaki Yamani, March 1961, Box 3, Folder 6.

<sup>12</sup> Phone interview with former US Aramco functionary, January 2007.

<sup>13</sup> Middle East Economic Digest (MEED) 23 April 1982, 49.

<sup>14</sup> Mulligan Papers, Biographical sketch Abdul Hady Taher, December 1962, Box 1, Folder 69.

<sup>15</sup> Phone interview with Marcello Colitti, former chairman of Enichem, December 2006.

<sup>16</sup> Phone interview with former Saudi Aramco functionary, December 2006; phone interview with former Gulf banker, December 2006.

<sup>17</sup> Phone interview with former US Aramco functionary, January 2007.

<sup>18</sup> Huyette, *Political Adaptation*, 96. His uncle Fuad Nazer was head of royal protocol; other close relatives were in the military or important lawyers; Public Record Office (PRO) series FO 371/113896 ES1471/3.

<sup>19</sup> Mulligan Papers, Biographical sketch Hisham Nazer, January 1964, Box 1, Folder 69.

<sup>20</sup> Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid; various discussions with former consultants working for Nazer in London and Riyadh.

<sup>23</sup> Phone interview former US Aramco functionary.

<sup>24</sup> On family alliances between 1953 and 1962 cf. Yizraeli, *The Remaking of Saudi Arabia*.

<sup>25</sup> Phone interview former US Aramco functionary.

<sup>26</sup> Royal decree 25, 25/6/1382 (hijra calendar); MEED 7 December 1962, 549.



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- <sup>27</sup> Mulligan Papers, Robert L Headley, Saudi Arabian Government: General Petroleum Organization, 23 August 1960, Folder 1, Box 3.
- <sup>28</sup> Phone interview former US Aramco functionary.
- <sup>29</sup> Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
- <sup>30</sup> Phone interview with former US Aramco functionary.
- <sup>31</sup> Aramco then was owned by Standard oil of New Jersey (later Exxon), Standard oil of New York (Mobil), Standard Oil of California (Chevron) and Texaco.
- <sup>32</sup> MEED 7 December 1962, 549.
- <sup>33</sup> Phone interview former Saudi Aramco functionary.
- <sup>34</sup> Barnes, *Indonesia*, 11-12
- <sup>35</sup> Boue, *Venezuela*, 12.
- <sup>36</sup> Aissaoui, *Algeria*, 67.
- <sup>37</sup> Vitalis, 244-246.
- <sup>38</sup> Goldberg, *Saudi Arabia and Aramco*, 27.
- <sup>39</sup> Mulligan Papers, Malcolm Quint, General Organization of Petroleum and Minerals, 26 February 1964, Folder 20, Box 3.
- <sup>40</sup> MEED 21 March 1969, 389.
- <sup>41</sup> <<http://www.unitedworld-usa.com/reports/saudiArabia/thesearch.asp>>; MEED 8 October 1965, 452; 7 September 1967, 614.
- <sup>42</sup> MEED 20 April 1967, 304; 27 July 1967, 527.
- <sup>43</sup> MEED 5 June 64, 261; 2 October 1970, 1159; 4 December 1970, 1417.
- <sup>44</sup> Mulligan Papers, Faysal's policy statement: an eight-month review, supplement for the period 31 July-21 October 1963, Folder 11, Box 3; MEED 29 November 1963, 538; 1 January 1965, 9; 5 August 1966, 366.
- <sup>45</sup> MEED 23 July 1965, 343; 1 July 1966, 304; 11 May 1967, 351; 9 February 1968, iv ff; 8 August 1969, 1006.
- <sup>46</sup> MEED 29 July 1966, 351.
- <sup>47</sup> MEED 22 May 1964, 235; 2 July 1965, 308; 23 September 1966, 457.
- <sup>48</sup> <<http://saudinf.com/main/d21.htm>>

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- <sup>49</sup> Petromin Handbook, 135-294.
- <sup>50</sup> Phone interview former US Aramco functionary; interview with Western oil industry source, Riyadh, January 2007.
- <sup>51</sup> <<http://www.saudi-us-relations.org/articles/2006/special-reports/061212-turki-background.html>>.
- <sup>52</sup> Phone interview former Gulf banker; PRO, FCO 8/1733 JB Armitage to R McGregor Esq, 31 July 1971.
- <sup>53</sup> Phone interview former Saudi Aramco functionary.
- <sup>54</sup> Phone interviews former Gulf banker, former Saudi Aramco functionary.
- <sup>55</sup> Ibid; Phone interview Colitti.
- <sup>56</sup> Holden and Johns, *House of Saud*, 391.
- <sup>57</sup> Phone interview with former Gulf banker.
- <sup>58</sup> Grayson, *Politics of Mexican Oil*, 33.
- <sup>59</sup> *The SABIC Story*, 28.
- <sup>60</sup> MEED 16 October 1970, 1218; 12 July 1976, 2.
- <sup>61</sup> Ministry of Communications: General Report and Recommendations (prepared by JL Jacobs and Company), August 1964, Ford Foundation archive, Institute of Public Administration, Riyadh.
- <sup>62</sup> Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
- <sup>63</sup> PRO, FCO 8/1742, Morris to Alec Douglas-Home, 3 February 1971.
- <sup>64</sup> Huyette, 75.
- <sup>65</sup> PRO, FCO 8/1742, Morris to Alec Douglas-Home, 3 February 1971.
- <sup>66</sup> Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
- <sup>67</sup> [reference to my own work], 110-148.
- <sup>68</sup> MEED 2 October 1970, 1159.
- <sup>69</sup> Middle East Economic Survey (MEES) 42/1974, 4-5
- <sup>70</sup> MEES 27 June 1975, 3.
- <sup>71</sup> MEES 23 May 1975, 6.
- <sup>72</sup> Ibid; 49/1974, 7.
- <sup>73</sup> MEES 31 May 1974, 4.
- <sup>74</sup> MEES 29 August 1975, 2.

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- <sup>75</sup> MEES 26 July 1974, 1f; 15 November 1974, 1; MEED 7 May 1971, 501.
- <sup>76</sup> MEED 7 June 1968, 525.
- <sup>77</sup> MEES 24 January 1975, 3.
- <sup>78</sup> Holden and Johns, 396.
- <sup>79</sup> MEED 9 January 1975, 6.
- <sup>80</sup> MEES 16 May 1975, 1-3.
- <sup>81</sup> Holden and Johns, 391; MEED 16 August 1974, 930-931.
- <sup>82</sup> Mulligan Papers, Saudi government industrialization plans, June 1974, Folder 12, Box 6; Saudi Arabian Government Gas Program, June 1976, Folder 12, Box 5.
- <sup>83</sup> Phone interview former Saudi Aramco functionary.
- <sup>84</sup> <<http://saudinf.com/main/d22.htm>>.
- <sup>85</sup> *SABIC Story*, 29-30.
- <sup>86</sup> Phone interview former US Aramco functionary.
- <sup>87</sup> MEES 5 December 1975, 5f; MEED 12 December 1975. Petromin's core budget in 76-77 was 13.4 million dollars, down from 44.3 million dollars the year before, indicating the scale of cuts; MEES; 12 July 1976, 2. At the same time, the number of employees in Petromin's marketing operations increased from 1139 in 1976 to 1610 in 1977; *Petromin Handbook*, 209.
- <sup>88</sup> Barnes, 150-152.
- <sup>89</sup> *SABIC Story*, 29.
- <sup>90</sup> Phone interview former US Aramco functionary.
- <sup>91</sup> Cf. Field, *The Merchants*, 217-239.
- <sup>92</sup> Discussion with senior Saudi businessman, London, July 2005.
- <sup>93</sup> Phone interview former US Aramco functionary.
- <sup>94</sup> Huyette, 78.
- <sup>95</sup> MEED 12 December 1975.
- <sup>96</sup> *SABIC story*, 30.
- <sup>97</sup> *Ibid*, 61; MEES 13 September 1976; 21 February 1977, 3.
- <sup>98</sup> *SABIC Story*, 35.

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- <sup>99</sup> MEES 13 September 1976, 3.
- <sup>100</sup> It is generally deemed the best-managed indigenous Saudi company; discussions in Riyadh 2003-2005.
- <sup>101</sup> *SABIC Story*, 29-30.
- <sup>102</sup> *Ibid*, 31.
- <sup>103</sup> MEED 19 December 1975, 17.
- <sup>104</sup> *SABIC Story*, 42.
- <sup>105</sup> Lippman, 236; Samore, thesis: 363.
- <sup>106</sup> APS Review Downstream Trends, 27 September 1993.
- <sup>107</sup> Royal Commission for Jubail and Yanbu, various annual reports.
- <sup>108</sup> Phone interview former US Aramco functionary.
- <sup>109</sup> *Ibid*.
- <sup>110</sup> Holden and Johns, 333, 395-396.
- <sup>111</sup> Phone interview former US Aramco functionary.
- <sup>112</sup> Holden and Johns, 396.
- <sup>113</sup> <<http://www.unitedworld-usa.com/reports/saudi-arabia/aaltaher.asp>>
- <sup>114</sup> Goldberg, 34-38.
- <sup>115</sup> Yergin, 584-585.
- <sup>116</sup> Jaffe, *Saudi Aramco*, 45.
- <sup>117</sup> Phone interview former Saudi Aramco functionary.
- <sup>118</sup> Boue, 17-21.
- <sup>119</sup> Phone interview former US Aramco functionary.
- <sup>120</sup> MEED Special Report Saudi Arabia, August 1978, 20-21.
- <sup>121</sup> <<http://www.saudiaramcoworld.com/issue/198206/foundations-the-underpinning.htm>>; MEED 14 January 1977, 24; 7 July 1978, 46.
- <sup>122</sup> MEES 12 December 1975, 3.
- <sup>123</sup> MEES 27 April 1977, 4.
- <sup>124</sup> MEES 12 December 1975, 3.
- <sup>125</sup> Mulligan Papers, Petromin organigram, 14 August 1978, Folder 1, Box 9.

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- <sup>126</sup> Cf. Hertzmark, *Pertamina*; Entelis, *Sonatrach*; Barnes; Grayson.
- <sup>127</sup> MEES 4 October 1976, 3; MEED 1 June 1979; MEED Special report Saudi Arabia 1981, 3.
- <sup>128</sup> Phone interview Colitti.
- <sup>129</sup> Interview former US Aramco functionary.
- <sup>130</sup> Holden and Johns, 509; Platts 10 July 1975.
- <sup>131</sup> MEED 18 January 1980, 37. My interviewees have been unanimous that the Petromin corruption problem was severe.
- <sup>132</sup> Phone interview Colitti.
- <sup>133</sup> Cf. Nwokeji, *The NNPC*; Onoh, *Nigerian Oil Economy*; Entelis; Barnes; Hertzmark.
- <sup>134</sup> NYT 6 December 1979; MEED 23 November 1979, 43-44.
- <sup>135</sup> Phone interview Colitti.
- <sup>136</sup> Interview with former US embassy officer, New York, May 2007.
- <sup>137</sup> *SABIC Story*, 29; phone interview former US Aramco functionary.
- <sup>138</sup> Taher also explained, however, that the step would imply no immediate operational changes; MEED 23 May 1980, 3.
- <sup>139</sup> Wall Street Journal 7 August 1980.
- <sup>140</sup> Phone interview with former Saudi Aramco functionary.
- <sup>141</sup> It was not even clear how and how much exactly the Saudis had paid; one explanation is that oil tankers were topped up with extra crude which the Aramco parents did not have to pay for; Phone interview with former Gulf banker.
- <sup>142</sup> MEED 23 April 1982, 49.
- <sup>143</sup> MEED 18 November 1983, 43.
- <sup>144</sup> MEED Special Report Saudi Arabia, August 1982, 70.
- <sup>145</sup> MEED Special Report Saudi Arabia 1981, 3.
- <sup>146</sup> MEED Special Report Saudi Arabia, August 1982, 21.
- <sup>147</sup> <<http://www.saudiaramcoworld.com/issue/199305/saudi.aramco.at.sixty.htm>>; <<http://saudinf.com/main/c5121.htm>>.
- <sup>148</sup> Phone interview former Saudi Aramco functionary.

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- <sup>149</sup> Phone interview Colitti.
- <sup>150</sup> Baena, *Policy Process*, 43-44.
- <sup>151</sup> <<http://countrystudies.us/saudi-arabia/41.htm>>.
- <sup>152</sup> Phone interview former Saudi Aramco functionary.
- <sup>153</sup> Interview with former deputy minister, Riyadh, February 2007.
- <sup>154</sup> Ibid.
- <sup>155</sup> Wall Street Journal 31 July 1984.
- <sup>156</sup> Montagu, *The Private Sector of Saudi Arabia*, 14.
- <sup>157</sup> Phone interview former US Aramco functionary.
- <sup>158</sup> MEED 8 August 1980, 34.
- <sup>159</sup> MEED 23 April 1982, 49.
- <sup>160</sup> Phone interviews former US Aramco functionary, Colitti.
- <sup>161</sup> Oil and Gas Journal, 21 June 1993.
- <sup>162</sup> Ministry of Finance, *Statistical Indicator 1985*, 89.
- <sup>163</sup> Robinson, *Yamani*, 385.
- <sup>164</sup> Platt's Oilgram News 10 December 1986.
- <sup>165</sup> The Globe and Mail 17 December 1986, 26 December 1986.
- <sup>166</sup> Wall Street Journal 16 April 1987.
- <sup>167</sup> <<http://saudinf.com/main/d23.htm>>.
- <sup>168</sup> Financial Times 7 April 1988
- <sup>169</sup> Oil and Gas Journal 16 August 1993.
- <sup>170</sup> Jaffe, 45.
- <sup>171</sup> Phone interview with former Saudi Aramco functionary.
- <sup>172</sup> Marcel, 51.
- <sup>173</sup> Montagu, 14.
- <sup>174</sup> Personal communication with Michael Gillibrand, former consultant to the Saudi government, May 2007.
- <sup>175</sup> <<http://countrystudies.us/saudi-arabia/41.htm>>.

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- <sup>176</sup> Platt's Oilgram News 31 May 1988.
- <sup>177</sup> Interview former deputy minister.
- <sup>178</sup> Interviews former deputy minister, Western oil industry source.
- <sup>179</sup> Ibid.
- <sup>180</sup> The full contribution supposedly was equivalent to 56 billion US\$; phone interview with former Saudi Aramco functionary.
- <sup>181</sup> The numbers remain confidential; phone interview with former Saudi Aramco functionary.
- <sup>182</sup> <<http://www.un.int/saudiarabia/sachvmt1.htm#5petro>>.
- <sup>183</sup> Montagu, 14.
- <sup>184</sup> APS Review Oil Market Trends 30 August 1993.
- <sup>185</sup> Interview former deputy minister.
- <sup>186</sup> MEED Special Report Saudi Arabia, August 1982, 9.
- <sup>187</sup> Interviews with Western businessmen in Riyadh, 2003-2005.
- <sup>188</sup> Mares and Altamirano, *Venezuela's PDVSA*.
- <sup>189</sup> Jaffe, 46.
- <sup>190</sup> Von der Mehden and Troner, *Petronas*, 16-17.
- <sup>191</sup> Heard, 48-51; Marcel, 11-12.
- <sup>192</sup> Eller and Hartley, 19-20.
- <sup>193</sup> Nwokeji; Barnes, 150-151.