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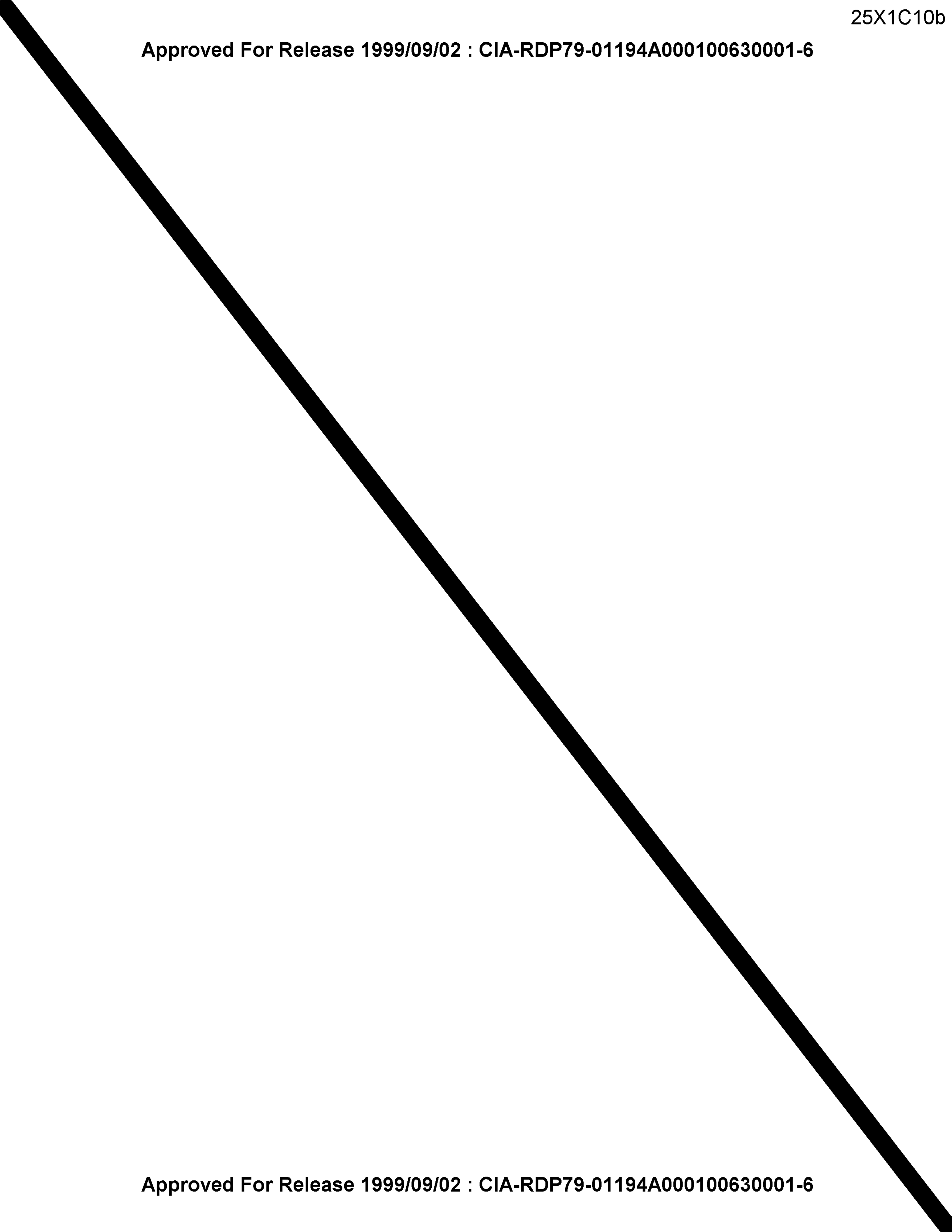

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UNITED ARAB EMIRATES

Richest state seeks more than oil

CPYRGHT

by Peter Hopkirk

The richest country in the world today, in per capita income, is the small desert shaikhdom of Abu Dhabi on the lower Persian Gulf, or Arabian Gulf as the Arabs prefer it to be called. With an annual income from its oil wells of more than £3,000 a head of population, it eclipses Kuwait, Saudi Arabia and even the United States.

Largest of the seven neighbouring shaikhdoms, which in 1971 joined forces to form the United Arab Emirates, Abu Dhabi has risen in a remarkably short time from an impoverished fishing community to a world economic power.

Its Ruler, Shaikh Zayed bin Sultan al Nahayan, is the first President of the United Arab Emirates, and his capital is that of the federation which includes Dubai, Sharjah, Ajman, Umm al Qaywayn, Al Fujayrah and Ras al Khaymah.

Yet only 15 years ago Abu Dhabi was a small fishing village of mud and palm-frond dwellings, surrounded by endless desert and sea, and exposed to one of the harshest climates on earth. Few people had ever heard of it, and even fewer had ever been there. There was little to go there for.

Economic activity in the Trucial States—as these seven, fragmented family estates were then known—was centred on Dubai, 100 miles down the Gulf. Since the turn of the century this had been the main port of the region, and today it continues to monopolize the entrepôt trade of the Gulf.

Then, in the summer of 1958, in the warm green waters off Abu Dhabi, prospectors found oil. After centuries of poverty, Abu Dhabi had struck the twentieth century jackpot. Thus began what is perhaps the most remarkable rags to riches story of modern times.

In the past 10 years, Abu Dhabi's income from oil—and it has no other — has soared from a few thousand pounds in 1963, to an expected £1,500m this year. The tripling of the price of crude oil in the last quarter of 1973 has brought amazing extra wealth to a country already overloaded, if not actually embarrassed, by riches.

Today this former fishing village is the El Dorado of the lower Gulf. It is besieged by foreign bankers and businessmen, expatriate advisers, and armies of skilled workers from neighbouring countries, all hoping to win a stake in the Abu Dhabi miracle.

Because of this invasion, the hotel crisis in this Arabian boom town is so acute that visitors have to double up, sometimes three executives sharing a room. But no one complains—not even at the harrowing prices charged—for all eyes are on the crock of gold. Moreover, everyone is anxious to be clear of the Gulf before the crushing summer heat starts. Even in the spring the temperature can reach 100° F.

Under the constitution, Abu Dhabi was to act as the federal capital for the first five years only. Meanwhile a permanent capital would be built in the desert astride the border between the emirates of Abu Dhabi and Dubai, the two dominant members of the UAE. It now seems unlikely that the new capital will ever be built.

The fast-growing Abu Dhabi, with its high-rise office blocks, its embassies, federal ministries, international airport and cascading municipal fountains, seems to have staked a permanent claim to the title.

After all, Shaikh Zayed's oil wealth provides most of the funds for the federal administration and the development of the smaller emirates, where no oil has yet been discovered. Ajman, Ras al Khaymah, Umm al Qaywayn and Al Fujayrah would today be as poor as Abu Dhabi was before its windfall were it not for the generosity of Shaikh Zayed.

The visitor to Abu Dhabi today can almost watch it growing, like one of those exotic plants which open before your eyes. In the great open spaces just back from the dual carriageways, huge roundabouts and futuristic architecture, it is one vast construction site. Out of the sand, as far as the eye can see, rise half-completed buildings. This year alone more than 50 are due to be finished.

Among the new tenants are the international banks, and wherever you look they are putting up their name-plates. A few years ago there was only one bank, a branch of the British Bank of the Middle East. But today the capital's fiscal arrangements have advanced a long way since the previous Ruler, ousted only in 1966, used to store the emirate's entire revenue in a cupboard in his palace, until it was discovered that rats had gnawed through several cubic yards of bank notes.

To cope with this feverish activity, both in his emirate and in the federal administration, Shaikh Zayed has had to import a large foreign work force, and today more than 7,000 civil servants wrestle with the mountains of paper work and other problems. They come from the surrounding Arab countries, including Iraqis, Palestinians, Egyptians, as well as from Europe. Two of Shaikh Zayed's key advisers are Britons: Mr John Butter and Dr K. G. Fenelon, experts on finance and statistics respectively.

It would be possible for a foreign visitor to spend a week in Abu Dhabi without so much as meeting one native-born Abu Dhabian. Foreigners account for a high proportion of the emirate's population, which has all but trebled since the last census of 1968. It is now estimated at about 120,000, largely spread between the capital and the inland oasis town of Al Ain. A more detailed census of the [illegible] UAE is to be carried out next year, which should also see the publication of the first national plan for the seven emirates.

Abu Dhabi has been built entirely on oil. Unlike Dubai, and despite its new port, Abu Dhabi has no entrepôt trade worth speaking of. Only about 2.5 per cent of its imports are reexported, against 50 per cent or more of Dubai's. Were someone to find a source of energy to replace oil, then Abu Dhabi could virtually disappear overnight.

The perils of a single product economy are something that Shaikh Zayed and his advisers are well aware of. They have not forgotten what happened to their pearling industry in the late 1920s and early 1930s when Japanese ingenuity flooded the world market with cultured pearls. The Gulf pearl industry, which had replaced piracy as its main source of income, collapsed, bringing poverty once more to the region.

But then economic interdependence is one of the basic purposes of the federation. If one of the emirates is struggling, as the northern ones are at present, then the others help out. It is Abu Dhabi's turn to help out today, and it is showing considerable generosity towards the poorer states. It could be Dubai's turn tomorrow, with its lesser dependence upon

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oil

"Oil to us is a bonus, albeit a very large one", a Dubai businessman told me. "We would still be rich without it, being less vulnerable than most to nuclear power, tar sands, oil shale, coal liquefaction or anything else the scientists may come up with."

It has been suggested that once Abu Dhabi's oil wealth begins to pile up, the emirate's tiny population could live comfortably off its investments in the West and elsewhere if the demand for oil ever fell off. At present Abu Dhabi's surplus wealth is modest because of heavy spending on development and generous aid to others. However, there should soon be a considerable surplus for investment outside the UAE.

Living off savings or investments is not seen by Shaikh Zayed as the answer for Abu Dhabi, which he more than anyone hopes to see as part of a closely knit federation with each emirate making its contribution. An eager search to find exports besides oil and petrochemicals is being pursued in Abu Dhabi, as well as throughout the United Arab Emirates. But just what the Shaikh has to offer the world besides oil it is hard to see.

Tourism, that international cure-all, is being spoken of enthusiastically, although because of the extreme heat and humidity of the Gulf, this would have to be confined to the winter months. A really modern fishing industry, with quick-freeze facilities aboard the mother vessels, is another export possibility. Already it is the major occupation of the inhabitants of the two smallest emirates, Umm al Qaywayn and Ajman.

Meanwhile work has started on a cement plant in Al Ain which will use locally quarried materials. Initially for domestic consumption, it is hoped that when the present pace of development has levelled out, there could be a market elsewhere in the gulf for Abu Dhabi cement. However, there is a danger of the Gulf region ending up with an embarrassing surplus of cement. In the UAE alone there are two other cement factories going up.

One, being built by Richard Costain of London in Dubai at a cost of £9m, will yield 500,000 tons of cement annually when completed next year. The other, financed by Abu Dhabi, is being built in Ras al Khaymah, northernmost of the emirates. In other countries around the Gulf, including Iran and Iraq, there are now cement industries, all of which, moreover, hope to export once their domestic requirements have levelled off.

A number of new oil-based industries with export hopes are planned for Abu Dhabi. These include a petrochemicals complex yielding such products as PVC and caustic soda, a chemical plant to produce chlorine and ozone, a small sulphuric acid plant with an output of about 50 tons a year, and a plant producing organic residue. In addition, Abu Dhabi is to sell three million tons of liquefied natural gas to Japan a year.

Trade prospers in smugglers' creek

Half an hour by air up the desolate coast from Abu Dhabi—or 100 minutes by the fast new desert road—lies Dubai, the Hongkong of the Gulf. This flourishing city state, astride its famous Creek, is the second wealthiest of the United Arab Emirates.

It too, with its entrepot trade and its oil revenue, is breaking world monetary records. At something like £10,000 for every man, woman and child in the emirate, Dubai's external trade figures show the highest annual per capita movement anywhere in the world.

Whereas Abu Dhabi is distinctly *nouveau riche* Dubai's wealth is several generations old. Its low tariffs and liberal policies have attracted trade for many years, and today it is the supermarket of the Gulf, with a monopoly on the entrepôt trade of the whole region.

Its real leap forward into the twentieth century began in the late 1950s, when its Ruler saw that if the Creek were not improved Dubai might lose ground to other Gulf ports, as Sharjah had before it. Since then its growth has been remarkable, culminating in the completion of the splendid new deep-water harbour.

Dubai's merchant prince, Shaikh Rashid, more entrepreneur than just conventional Ruler, has further ambitions for the emirate. The 15-berth port, which some people thought would prove to be a white elephant, is to be enlarged. A huge dry dock for the supertankers of the Gulf is being built alongside Port Rashid and soon Dubai is to become a free port, hoping thus to attract new industry and investment.

Just as Abu Dhabi is built on oil, the prosperity of Dubai is largely built on gold. Smuggled gold, one should add; although, for the time being, this traffic has dried up, being replaced by other profitable lines like watches.

The gold was bought openly in London and Geneva and flown to Dubai. There it was sold to others who smuggled it into India and Pakistan, both traditional markets for this metal, in swift, diesel-powered dhows. It was all quite legal—in Dubai, at least, where Shaikh Rashid keeps restrictions on private enterprise to the absolute minimum.

Just as fortunes were, until recently, made out of gold, today they are being made from watches, razor blades, medicines, textiles, arms and other desirable goods which leave Dubai in the holds of her dhow fleet. At least 50 per cent of goods imported into the emirate are subsequently reexported, largely to India, Pakistan and Iran.

A high proportion of these goods evade, by various traditional and mysterious means, customs officials at the delivery end. Not for nothing has Dubai been called a "smugglers' supermarket".

Of course the Dubai authorities have no part in the smuggling, and no Dubai laws are broken. As one Dubai merchant explained it to me: "What a man does with the goods he buys in a supermarket is no concern of the management. If he chooses to take them away and smuggle them into another country then that's his risk."

Evading customs means not merely the evasion of duty in India, or wherever the goods are destined, but also the evasion of prohibition laws on luxury goods. The profits are often very considerable on those goods, which are thus doubly desirable.

Not all Dubai's reexported goods become contraband. Large quantities—especially building materials, household goods and foodstuffs—are carried overland to Muscat, for instance, while other goods travel quite legally to Iran. Some of the goods which found their way to Abu Dhabi by road, however, are now shipped there direct and unloaded at Port Zayed.

which was opened in 1972.

However, the day I left Dubai there were long faces among the dhow crews busily loading their shapely craft along the Creek. Word had just come through that a Dubai dhow had been seized by Indian customs men with its cargo of 27,000 Swiss watches. For the watch has largely replaced bullion as the smugglers' favourite. It represents a lot of money concentrated into one small, easily obtainable easily marketable object.

Three million watches are flown into Dubai every year, sufficient for every man, woman and child to own 50. Ninety per cent of them are shipped straight out again by dhow for the black markets of the Indian subcontinent. Because the dhows of Dubai are indistinguishable from the local coastal vessels of India and Pakistan it is not difficult for them to lose themselves in the crowd on arrival. The best hope of the customs inspectors, who are now equipped with high-speed hovercraft, is to catch them red-handed transferring the contraband to local vessels, or to intercept the goods once landed.

The vast majority of the smuggling trips are successful, such is the skill of Dubai's skippers, many of whom have pirate blood in their veins. A modern dhow, no longer dependent on the fickle winds of the Indian Ocean, can sail to Bombay at 15 or 20 knots with a cargo of 100 tons in five days. No payment is made at the rendezvous, for Dubai's merchants do not want rupees. Instead, settlement is usually made through a complicated and highly illegal system involving the diverting of the remittances sent home by Indians and Pakistanis living in Britain: the money merely ends up in Dubai rather than Delhi. Sometimes, however, payment is made in Indian silver.

With the rise in silver prices in the West a new traffic has begun in this "poor man's gold" between India and Dubai. The dhows which take watches and razor blades eastwards now bring back Indian silver in payment. In one Dubai bank I watched a glittering pile of silver bricks being prepared for air transport to Switzerland. The mud of India was still adhering to many of the bars. With each one worth £2,000, I calculated that the

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pile before me was worth more than £100,000.

One bored-looking soldier with a Lee-Enfield stood over this emir's ransom. I asked a senior bank official whether they were not afraid of a bullion robbery. He shook his head: "Where could they take it? There's the Empty Quarter to the south, and if they tried to ship it out by sea we would have them in five minutes. Anyway, it's so heavy that each man could only carry one bar."

The Indian Government has now legalized this traffic in silver, so the only risk to the investor is of a dhow foundering in a storm. But a man who likes to gamble can still try his hand at armchair smuggling by putting money into a smuggling syndicate. Moreover, he can do it with a clear conscience, and certainly with no risk of breaking any law — except those he is safely out of reach of. If his vessel gets through he will probably receive a telephone call informing him that "Aunt Fatima has arrived safely". The rewards, moreover, can be considerable, and are untaxed.

In addition to its reexports and its oil, Dubai has a small portfolio of other exports, including dried fish, which largely goes to Ceylon, and dates to Muscat, Ethiopia, Iran and Somalia. It also exports nearly £50,000 worth of the oriental delicacy sharksfin, most of which goes to Singapore.

Peter Hopkirk

Expanding economy will bolster region's importanc

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by Dr K. G. Fenelon

In some countries, notably Britain and Japan, the basis for successful economic survival has been summed up in the slogan "export or die"; for the United Arab Emirates the slogan might well be "import and live". In Abu Dhabi practically all requirements, whether consumer goods, consumer durables, motor vehicles, machinery, building materials or oilfield requirements, have to be imported. For Dubai, import and subsequent reexport is the lifeblood of her economic existence.

Fortunately for the emirates, there is no balance of payments problem, nor is there any shortage of foreign exchange. Crude oil exports provide abundant foreign exchange and are the mainspring for the development of the economy. Abu Dhabi was the first and is by far the most important exporter of crude oil but now oil is flowing also from Dubai, though in much smaller quantities. Soon Sharjah will join the ranks of oil exporters and several of the other emirates live in hope of oil discovery.

Dubai is unique among the Gulf States as her wealth and economic prosperity were built up by trade long before her oil exports began in 1969 and her predominant activities are still trade, commerce and transport. The difference between the two richest emirates is clearly shown by comparing their import patterns. In Dubai about 43 per cent of the imports consist of consumer goods such as foodstuffs, textiles, household requirements or watches and something like 60 per cent of these imports, including practically all the watches, are reexported. In Abu Dhabi about 70 per cent of imports consist of constructional materials, machinery, oilfield supplies, and motor vehicles but only a small fraction, amounting in 1973 to 2.5 per cent, are reexported.

Imports into the federation as a whole amounted in 1972 to about £250m and in the following year they soared to some £370m. There has been a great surge forward in Abu Dhabi's constructional activities which gathered momentum in the second half of 1972 and have continued ever since.

Prosperity in Dubai also leaped forward during these years, partly because of her new-found wealth from oil and partly because of increasing activities in surrounding countries which called for her reexports. Sharjah now has begun to bound ahead as a result of the activities involved in developing the oil find off Abu Musa Island. The remaining four emirates of Ras al Khaymah, Ajman, Umm al Qaywayn and Fujayrah are benefiting both directly and indirectly from the prosperity of their neighbours and from the economic and financial aid extended to them by Abu Dhabi. They have some agricultural and fishing potential though their production is too small to meet anything like the full needs of the federation.

The value of imports per head is high, notably in Abu Dhabi and Dubai. Though the population of the federation is a little over 340,000 it is a rich and expanding market. In 1973, imports per head into Dubai reached the high rate of about £240 a month, but more than half of these were reexported. For Abu Dhabi the corresponding figure was about £90 per head a month but practically all the imports were retained.

Britain retains leadership

Imports into the United Arab Emirates are drawn from more than 70 different countries, but for many years the main suppliers have been the United Kingdom, Japan and the United States with about half the total supplies coming from these three countries. The United Kingdom has retained leadership in Abu Dhabi over the years but has had to be content with third place since 1972 in Dubai, where the import pattern is somewhat different.

The United Kingdom leads in machinery, chemicals, cosmetics, stationery, alcoholic beverages and arms and ammunition. Japan has built up a commanding position as a supplier of cars and motor cycles and leads in textiles, building materials, electrical goods and photographic goods. Import of motor vehicles has been a growth market and the percentage provided by Japan has increased steadily over the years from 60 per cent in 1969 to 94 per cent in 1973.

By 1972 Japan had captured 96 per cent of the market for motor cycles. It is now becoming a somewhat unusual sight on the roads throughout the federation to see a car or motor cycle of recent vintage which is not Japanese. Japan, however, has not made any serious inroads into the market for heavy duty and specialized motor vehicles.

The United States is well ahead in oilfield supplies and runs the United Kingdom very close in machinery imports. Among other suppliers there is a considerable degree of specialization. Switzerland, for example, has carved out a large market for her watches, worth about £10m a year. Australia does well in foodstuffs and Iran in refined oil products due to the proximity of her refineries.

China in 1973 came into the top 10 importers into Dubai with a trade of some £8m though in the previous year it had been less than £5m. Her specialities are foodstuffs and stationery. The statistics quoted follow the usual practice and relate to countries of provenance (the immediate suppliers) and these are not necessarily the country of original manufacture or production. British imports therefore may be a little higher than those given in the tables as some commodities such as books may be listed as coming from Lebanon or other countries to which goods are transhipped, though manufactured in Britain. The amounts involved however are not large.

In the accompanying statistical tables the trends in the import pattern can be seen over the past five years. As practically all requirements in Dubai, Abu Dhabi and Sharjah have to be imported, the volume of imports is naturally geared to the degree of economic activity in the area. The year 1969 was a boom year in Abu Dhabi when constructional activities forged ahead and this accounts for the high level of imports that year.

Activity fell off in 1970 and it was not until 1972 that the earlier level was overtaken. Dubai weathered the doldrums in better shape as she was concerned in reexporting consumer goods over a wide area rather than building materials and constructional goods. Nevertheless she felt the effects of Abu Dhabi's relapse as that emirate was among her important markets and the rate of increase of her trade slowed down.

Standards of living are now rising rapidly throughout the federation especially among the native-born population. Concurrently the demand for labour has increased and wages of unskilled labourers have more than doubled over the past 18 months in Abu Dhabi. There is an acute shortage of houses, flats and office

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accommodation and many multi-storeyed buildings are being constructed to meet the demand.

The rising standards of living have already led to a greater demand for all kinds of imported products and this trend is continuing. These rising standards of living, the increasing population augmented by the immigration of expatriate labour and large-scale development activities such as a new refinery or the liquefied natural gas plant on Das Island make it reasonable to predict that the UAE will become even more important as a market in the coming years. Activities are likely to spill over to the less developed emirates, especially when the new road systems linking the Batinah Coast with the Arabian Gulf Coast are completed and the planned connexions are made with the new roads of Oman. These developments should open up new channels of trade and increase the demand for imports of all kinds.

Table 1
Dubai's imports. Leading countries of provenance
(million dirhams)

Year	Total Imports	Share provided by Japan	United States	United Kingdom	Switzerland	Hongkong	W Germany	India
1973	2341	529	329	281	104	98	85	77
1972	1475	308	200	191	110	58	43	54
1971	1059	182	127	186	94	36	36	47
1970	960	163	88	197	83	32	32	56
1969	922	179	76	161	106	29	39	42

In 1973 other importers in the top ten were Iran (DH 82m), China (DH 81m) and France (DH 58m). China had risen from DH 47m in 1972 and France from DH 33 m.

Table 2
Abu Dhabi's imports. Leading countries of provenance
(million dirhams)

Year	Total Imports	Share provided by United Kingdom	United States	Japan	W Germany	France	The Netherlands	Australia
1973	1019	280	203	126	72	64	29	15
1972	758	181	104	118	44	56	21	14
1971	469	145	107	26	21	10	16	11
1970	333	144	51	16	18	8	10	10
1969	593	200	115	14	37	17	24	7

Table 3
Main commodities imported into Abu Dhabi and Dubai (million dirhams)

Abu Dhabi	1972	1973	Dubai	1972	1973
Machinery	279	402	Machinery	250	400
Transport equipment	84	156	Textiles and clothing	215	389
Foodstuffs	69	79	Household goods	274	346
Iron and steel goods	62	99	Foodstuffs	199	283
Textiles and clothing	28	22	Building materials	153	326
Refined oil products	25	35	Oilfield supplies	165	273
			Fuel and oil	84	121

In 1973 some of Abu Dhabi's imports, such as textiles, were recorded under Dubai's imports.

Development of services

With increasing wealth and higher standards of living, there is bound to be a considerable development of tertiary industries, that is those concerned with services, education, health, distribution, finance, insurance, entertainments and leisure occupations. The growth of such activities will require imports of the necessary equipment and supplies as well as building-up trade in "invisibles".

Banking services are a case in point. Considerable expansion has taken place in the provision of banking and financial services and at present 65 banks, not including sub-branches, are operating within the federation. Well known banking names from the United Kingdom, the United States, Pakistan, Iran and France are already represented and there are several Arab and locally-established banks. Several new banks are about to open. Last year the newly formed Currency Board established a forward exchange market and now operates clearing houses in Abu Dhabi and Dubai.

Other financial institutions are making their appearance, such as the Sharjah Insurance Company, and there has been a considerable development in the provision of specialized services for ocean-going oil tankers operating in the Gulf. These include such services as arranging for crew changes to and from moving oil tankers, work-boat facilities for off-shore oil rigs and air taxi services. Soon there will be a dry dock in Dubai capable of servicing the largest oil tankers afloat or likely to be built in the future.

It is hardly necessary to state that businessmen wanting to open up trade with the UAE should visit the area. A great number are already doing so and almost every week trade missions or Chamber of Commerce and Industry teams arrive in Dubai and Abu Dhabi.

During recent months there have been three Chamber of Commerce missions from the United Kingdom and teams have come from Australia, Hungary, the United States, Japan, France, Romania, South Korea and many other countries. During the first four months of this year 15 trade missions have been received by the Abu Dhabi Chamber of Commerce and there have been several hundred individual inquiries.

Most visitors favour the cool season from October to May but last summer there were an unusually large number of visitors even during the hot months of June to September. Hotel accommodation is scarce despite the opening of several large hotels of international standard in Abu Dhabi, Dubai and Sharjah. In consequence it is often difficult to arrange hotel bookings at short notice.

Politeness and patience are the two great virtues for the exporter, contractor or consultant working in the Middle East. Many of the merchants, importers or senior government officials whom the visitor may meet are well-travelled and accustomed to western modes of life and behaviour but even with the most sophisticated, politeness and an understanding of local customs are highly regarded and never come amiss.

Dr Fenelon is author of The United Arab Emirates *(Longmans) and statistical expert to the Government of Abu Dhabi.*

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Fortune turns benign for Sharjah after series of reversals

CPYRGHT

by Ralph Izzard

Driving north along the fast tarmac highway from Dubai, there is an endearing roadside boundary sign: "Smile: you are now entering Sharjah". This state of 1,000 square miles within the United Arab Emirates has seen a series of reversals of fortune during the present century but now has much to be happy about. Once more it is living in expectation of an assured income from oil.

Sharjah is the third largest state in the union and has a population estimated at 60,000. With three enclaves at Daba, Fakkan and Kalbah on the Gulf of Oman, it is the only emirate to have access to the sea on both sides of the Musandam peninsula. It is the only emirate to have a common boundary with each of the six others. On the western shore, its territory entirely encloses that of its northern neighbour, the tiny state of Ajman.

At the beginning of the century Sharjah had more wealth than all its neighbours as the many fine mansions of the pearl merchants, still standing in the old town, testify. It was also a prosperous entrepot doing livelier business than Dubai, its neighbour nine miles to the south.

But hard times came in the late 1920s with the collapse of the pearling industry. Traders also lost heart. The creek which had enabled goods to be unloaded straight into the *suk* was allowed to silt up. Coastal dhow traffic moved on to Dubai, and the merchants followed them.

In recent decades Sharjah has struggled on with no very visible means of support. There was a modest income from the export of red oxide which is used for lipsticks and other cosmetics. This amounted to about 16,000 tons a year, most of which went to the Golden Valley Company of Bristol, England, but the amount dropped off when continuous burrowing in the mines rendered them unsafe.

In the 1930s, Sharjah became a staging point for the flying-boats of Imperial Airways. The RAF arrived in 1942 and established a base which gradually grew in size, yielding substantial revenues, until it was finally abandoned when the British forces withdrew from the Gulf in December, 1971.

Over the years various companies unsuccessfully drilled for oil both on shore and offshore, but it was not until last July that these efforts were finally rewarded when Buttes Gas and Oil of California made a promising strike beside Sharjah's Gulf island of Abu Musa.

An agreement had been reached with Iran in 1971 to share the island and also to share on a fifty-fifty basis, any oil which might be found in a 12-mile belt around it. Iran has agreed to pay Sharjah £1.5m a year until Sharjah's oil revenue reaches £3m.

With these modest riches—which have been augmented to an undisclosed amount by grants from Abu Dhabi—it is astonishing that Sharjah not only survives, but to all outward appearances, thrives.

The modern section of the city shows every sign of prosperity. The main street is lined with fine commercial buildings and multi-storey office blocks. The avenues are broad with roundabouts filled with flowers and with central fountains. The telephone exchange which opened in 1967 with 100 lines now has 2,000 lines with another 1,000 soon to be added. There are as many as 15 banks.

The capital has a fine modern cinema and two first-class hotels, the Sheba and the Sharjah Carlton. The latter, just opened at the seaside suburb of Al Khan, has 170 rooms, some luxury suites, and offers yachting, a swimming pool and sea bathing.

Sharjah is fortunate that it has an energetic and able administrator in its Ruler, Shaikh Sultan bin Muhammad al Qasimi. Shaikh Sultan works very long hours and has a habit of dropping in, without warning, on any government department he feels may be under pressure. He is the only one of the union's seven rulers who speaks fluent English, an advantage for foreign businessmen.

Development plans are now being worked out with the help of a consultants firm and a report should be ready in three months. If Shaikh Sultan keeps in character there will be no reckless outflow of funds, but steady, planned progress within the state's financial capacity.

In one respect Shaikh Sultan's planning has already started, with the expansion of the port on which he is especially keen. In 1965, work began on a 2,000ft jetty with two berths for ships of up to 10,000 tons, now known as Port Khalid, after the last Ruler, who was assassinated in 1972. A £15m project is now being carried out to increase its capacity so that it can take six ships of up to 12,000 tons. The construction of warehouses and storage facilities has begun, and the whole project will take four years.

A second port so near Dubai's magnificent facility may seem an anachronism, but Shaikh Sultan is convinced it is necessary as part of his oil industry's infrastructure and to cope with the upsurge in prosperity that an oil income will bring.

A smaller project is also being carried out in the Creek, and the depth is being increased to 19ft. The British firm, Tarmac Construction, started on the first phase of a £1m scheme in 1969 to cut the sandspit forming the outer wall of the creek and opening up the lagoon, enabling cargo-carrying dhows to berth alongside the waterfront once more.

Light industries have lagged in Sharjah so far. There is a small fish processing plant near the capital and now the Indian firm of Gokaldas is entering into a joint venture to produce caustic soda and hydrochloric acid. Other enterprises may soon follow.

Shaikh Sultan is well aware that there are possibilities for the development of agriculture in Sharjah which has so far been held up through lack of funds. The state's enclaves on the Gulf of Oman—known as the Batinah Coast—have good fertile land and adequate water derived from the mountain range which forms the spine of the peninsula. To the west of the mountains there are flourishing oases at Adh Dhayd and Milaiha where there are experimental farms.

Sharjah may well have considerable tourist potential, particularly at the little port of Fakkan, on the Batinah Coast, where the mountains reach the sea and cradle a small, deep bay. There is no hotel there yet and this must wait until construction of the mountain section of the road linking Sharjah's east and west coasts is completed.

Smaller partners' future lies in fishing and farming

CPYRGHT

by Tim Owen

Of the seven emirates comprising the Federation of the UAE little is known or heard of Ajman, Umm al Qaywayn, Al Fujayrah and Ras al Khaymah, the four smallest partners in terms of population and wealth, so much are they overshadowed by the infinitely more prosperous emirates of Abu Dhabi and Dubai.

In most cases the problems arising from the sparseness of their populations and lack of natural resources are further aggravated by fragmentation of their territories.

This situation has arisen from the fact that sovereignty in the past has been based on tribal allegiances rather than control of territory.

It is unfortunate for the four minor partners that no oil has been found in any of them. All fields established so far are in the three larger emirates, Abu Dhabi, Dubai and Sharjah. Exploration both onshore and offshore continues in Ras al Khaymah, where there are high hopes of success.

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Apart from the possibility of the discovery of oil the greatest scope for the expansion of the economies of the four smaller emirates lies in the development of fisheries and agriculture.

For this their larger and more prosperous partners will be able to provide financial backing, as indeed they are doing in the development of roads and other forms of communications, as well as port and harbour facilities. It is perhaps ironic that entry into the UAE has eliminated two sources of revenue for the minor emirates, the issue of passports and the sale of postage stamps.

Ras al Khaymah, the largest and most populous of the four, with a land area of 650 square miles and a population of 50,000, has the most substantial and varied natural resources, and it is the only one which at present has any significant export trade. Its principal resource and source of export is agriculture, and there is potential for considerable expansion.

Construction of Ras al Khaymah's Union Cement Factory is well under way. The plant is expected to go into production in 1975 with a capacity of 250,000 tons a year. It will be the largest of its kind in the UAE and should do much towards boosting exports.

Dried fish has been exported from Ras al Khaymah for many years, and with improved and modernized fishing methods this trade is capable of considerable expansion. Another minor industry is marble quarrying.

As a necessary basis for the increased exploitation of its resources, Ras al Khaymah has improved its public utilities, a power station has been built providing electricity for towns and villages, water supplies have been laid on, the creek at Ras al Khaymah town has been dredged and wharfage and port facilities constructed.

Al Fujayrah is next in size, with a land area of 600 square miles and a population of 10,000. Unlike the other six emirates, Al Fujayrah lies entirely on the seaboard of the Gulf of Oman. Its territory is divided into two main segments separated by a wedge of Sharjah land.

Al Fujayrah was the last of the Trucial States to be recognized by Britain, and its backwardness derives from its isolation from the other emirates. Communications are its greatest problem, and agriculture and fisheries are the mainstays of the economy.

Development of the fisheries are the main hope for expansion although hopes are still entertained for the discovery of offshore oil. The natural harbour at Khawr Fakkan in neighbouring Sharjah territory is developing into an important fishing centre, and it is a likely site for a fishmeal plant in which Al Fujayrah would have a share.

Umm al Qaywayn, with a land area of 600 square miles and a population of 5,000, lies entirely on the Persian Gulf. The only centre of population is Umm al Qaywayn town at the head of a shallow creek. It is entirely a desert region, and the only foreseeable outlet is its fisheries, apart from the possibility of offshore oil.

It now has good road communications with the rest of the UAE, and a power station has been built. Plans exist for developing Umm al Qaywayn as the centre of an industrial fishing project for the UAE as a whole.

Finally there is Ajman, smallest of the UAE emirates with a land area of 300 square miles and a population of 5,000. Even with this small area its territory is fragmented—the major portion is an enclave on the Persian Gulf coast surrounded by Sharjah land.

Ajman is entirely barren except for a small segment near the foothills of the Hajar mountains. Its only productive occupation is fishing, in which it can usefully contribute to the industrial fishery project in neighbouring Umm al Qaywayn.

Abu Dhabi reluctant to restore full production after cutback

CPYRGHT

by Roger Vielvoye
Energy Correspondent

CPYRGHT

Like all fairly small producers along the Gulf coast, Abu Dhabi is anxiously awaiting the outcome of long and complex negotiations between the international oil companies and the Governments of Kuwait and Saudi Arabia over the host government's participation in the companies' valuable concessions in those countries.

The Abu Dhabi Government has opened preliminary talks with the two big producers on its territory, the Abu Dhabi Petroleum Company (ADPC) and Abu Dhabi Marine Areas (ADMA). But it is thought that little progress has been made and meetings between the two sides have merely been to keep in touch with developments in Saudi Arabia and Kuwait.

Uncertainty also arises from the Abu Dhabi Government's militant stand over the use of the oil weapon against Israel's supporters. While other Gulf states have been preparing to restore production to the levels before the output restrictions were imposed last October, Abu Dhabi has shown a marked reluctance to give the operating companies permission to get back to normal.

Serious doubts have arisen over whether the Government will allow the long-term production plans of the ADPC and ADMA to go ahead as planned or will instead impose its own, less generous, production schedules.

The future course of the Abu Dhabi oil industry is of vital importance for the main oil-consuming areas of the world. It is one of the newer producing nations and its 21,500 million barrels of known reserves would allow output to be dramatically increased. In addition, Abu Dhabi's oil is of high quality with a low sulphur content that makes it particularly attractive to Japanese companies facing growing demands from environmentalists to reduce the sulphur content of atmospheric emissions by industrial oil consumers.

In 1964 Abu Dhabi's output was just over nine million tons a year. By 1970 it had risen to more than 33 million tons a year while last year, despite the production cuts, it was about 62,300,000 tons.

Before the outbreak of the war between Israel and the Arabs last October, production in Abu Dhabi was running at an average of 5,300,000 tons a month. Had there been no interruption in production this rate would have provided an annual total of more than 64 million tons.

The companies, faced with an ever expanding demand for crude, had planned to increase output to three million barrels a day by 1978 and five million barrels a day by 1980. It now seems unlikely that these targets will be reached on the time schedule envisaged by the companies and there is a good chance that production will never be allowed to attain these high levels.

Government's new attitude

The most significant indication of the changed attitude of the Government to production increases came during a recent visit to Abu Dhabi by Mr Geoffrey Stockwell, managing director of Abu Dhabi Petroleum and the Iraq Petroleum Company.

The Ruler, Shaikh Zayed, told Mr Stockwell that production cuts would be lifted but output would not rise to a level above the national interests of the country. This is very much in line with the attitude to oil that emerged during the supply crisis. Abu Dhabi was the first state to impose an embargo on deliveries to the United States and has taken a hard line in the counsels of the Organization of Arab Petroleum Exporting Countries (OAPEC) on the restoration of production levels.

While it may take several months for the situation regarding future production levels to become clear, it will also be some time before the question of state participation is settled. The two matters are linked since the Government will find it difficult to pronounce on production levels until it knows the size of its shareholding in the production companies.

Under the terms of the participation pact agreed in 1973, the Government acquired a 25 per cent stake in both companies which would have risen to 51 per cent in stages by 1982. The government stake in Abu Dhabi Petroleum was acquired at the expense of Shell, British Petroleum, Compagnie Française des Petroles, the Near East Development Corporation (a joint subsidiary of Exxon/Mobil) which held 23.75 per

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cent of the company each with the remaining 5 per cent held by the Gulbenkian interests.

The situation in Abu Dhabi Marine Areas is more complex. For many years the company was two thirds owned by British Petroleum and one third by CFP and produced oil from the offshore Zakum field that was piped to loading and storage facilities on Das Island. But BP, partly because of a need to raise large amounts of capital to finance developments in other parts of the world, decided to sell off some of its excess crude oil capacity in the Middle East.

Abu Dhabi Marine Areas was chosen as the vehicle for this partial divestment and in 1972 talks began with Deminex, the German overseas oil exploration consortium. At the time, the Germans were anxious to acquire their own sources of crude oil and lessen the country's dependence on the foreign oil groups for its vital supplies. But after lengthy negotiations the deal was shelved mainly because of the lack of financial support from the West German Government and also because of resistance to the acquisition by Veba Chemie, one of the members of the consortium.

It was not difficult for BP to find a replacement bidder. A consortium of Japanese companies grouped together to form the Overseas Petroleum Corporation and bought a 45 per cent interest in BP's two-thirds holding. The final stages of the negotiations coincided with the first round of participation talks in which the Abu Dhabi National Oil Company acquired a 25 per cent holding in the concession.

From January 1, 1973, the shareholdings in ADMA have been BP 27.5 per cent; CFP 25 per cent; Abu Dhabi National Oil Company 25 per cent; and Overseas Petroleum Corporation 22.5 per cent.

The Japanese paid £320m for their stake in ADMA and in the light of subsequent developments this has proved to be an expensive deal. Production has not moved forward as quickly as the Japanese had hoped and they are now faced with the prospect of the Abu Dhabi Government increasing its stake in the company to a minimum of 60 per cent and paying compensation on the basis of the updated book values of the assets rather than on the value of the oil in the ground—the terms of the settlement with BP.

Just how badly the Japanese are affected will depend on the negotiations now in progress in Kuwait and Saudi Arabia. Kuwait upset the original participation schedule when its National Assembly refused to ratify the agreement that gave the Government a 25 per cent stake.

New talks began with British Petroleum and Gulf, the joint owners of the Kuwait Oil Company on revised terms. All the other Gulf States, including Abu Dhabi, at this point told the oil companies that they reserved the right to renegotiate their own participation agreements in the light of any revised terms acquired by the Kuwaitis.

After nearly a year BP, Gulf and the Kuwait Government drew up an outline agreement that gave the Kuwait National Oil company a 60 per cent share in KOC with the right to revise the agreement by 1979. But these terms have already come under fire from members of the National Assembly and there continues to be a demand for 100 per cent takeover of the production facilities.

The situation in Saudi Arabia is far less clear since preliminary talks between the Aramco consortium and the Government have been conducted in secret. However, it is thought that the Saudis have suggested an Iranian type solution to the problem—the Saudis would take over the entire concession areas held by the Americans in return for a long term—probably 20 year—supply contract.

There is a growing feeling that this will be the best way out of the confused participation situation, particularly since this formula has worked so well in Iran. Abu Dhabi could then find itself completely in control of its own oil, and offering the international companies supplies under long-term contracts.

Even the conclusion of an agreement for a 60 per cent stake would make the country considerably richer. The recent agreement between Qatar and Shell Qatar and Qatar Petroleum confirmed that 93 per cent of the posted price is the most likely level at which the oil companies will buy back the oil acquired by the governments as a result of participation. In Abu Dhabi this would add between $2 and $3 to the value of each barrel bought from the Government. A lump sum payment would have to be made to cover all participation oil lifted since January at the old buying back rate—a sum that could run into hundreds of millions of dollars.

Whatever happens Abu Dhabi can be assured of a continuing market for any amounts of oil it can produce mainly because of the low sulphur content. The quality of the oil is reflected in present posted prices, unilaterally fixed by Abu Dhabi after the October meeting of the Organization of Petroleum Exporting Countries that revolutionized the world pricing system.

Abu Dhabi had for many years considered that its supplies were underpriced and even before the October meeting had been pressurizing the oil companies for the introduction of a sulphur premium. In terms of government receipts, in cents per barrel, up to 1972, revenues from oil were among the lowest in the Gulf. Posted prices fixed from January 1 make Abu Dhabi oil among the most expensive in the area.

Oil from the Umm Shaif field (37 to 37.09 degrees API gravity) shipped from Das Island commands a posted price of $12.086 a barrel. The higher quality Murban crude (39 to 39.09 degrees API) shipped through Jebel Dhanna has a posted price of $12.636 a barrel and Zakum crude from Das Island (40 to 40.09 degrees API) is fixed at $12.565 a barrel.

Valuable spin-offs for latecomer in oil stakes

For oil men the state of Dubai remains a haven of calm in the Gulf, free at present from the complex and seemingly never-ending negotiations over government participation in the companies' concessions. Visiting company executives from other parts of the Gulf are often surprised to find that the main object in the oil life of Dubai is to exploit existing discoveries and continue the search for new reserves.

Compared with its neighbours in the Gulf, Dubai is a newcomer to the oil-producing business and its exports are well below those of the more established producers. But the state's long history as a trading area is producing valuable results in other directions.

Not only the oilmen but the representatives from the companies that provide all the equipment needed to find the oil, put it into production, and then maintain the flow, relish the freer atmosphere in Dubai. Visas are easy to come by and there is an atmosphere, starting from the top, that encourages the establishment of new trading ventures.

As a result of this favourable climate, nurtured in the days before oil was found and Dubai had to trade to survive, the Creek is fast becoming the centre for the oil servicing industry on the southern coast of the Gulf. New companies are moving in regularly to join those that have used the area for many years. J. Ray McDermott, the American rig and platform builders, have a well established yard on the banks of the Creek and are making offshore production platforms—an area of the oil business that is destined to expand in the Gulf as more attention is paid to the exploitation of offshore reserves.

Dubai's only major source of oil revenue is from the Fateh field, about 60 miles off the coast, which was discovered in 1966. Production had been running at about 300,000 barrels a day but a serious fire last year has slashed output to between 265,000 and 270,000 barrels a day. The offshore concession is held by the Dubai Petroleum Company, in which Continental Oil (Conoco) holds a 30 per cent stake and is the operator, carrying out the exploration, production and trading operations.

While there has been no official move by Dubai to copy the participation demands made by its neighbours, many people in the oil industry think that a state shareholding will come once this delicate question has been finally settled in the surrounding oil producing states. Nobody believes that Dubai will be able to resist the pressures for acquiring a stake in the industry at least equal to those

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of the other Gulf states.

The greatest of these pressures could come from within the United Arab Emirates itself. Dubai is not a member of the Organization of Petroleum Exporting Countries (OPEC) but recently Abu Dhabi transferred its membership to cover the whole of the UAE. Abu Dhabi is committed to a policy of participation in the concessions of the major producing companies. This comes at a time when there has been a quickening in the pace of the gradual moves to coordinate oil operations throughout the UAE. Although Dubai was not a member of OPEC it gained the full benefits from the decision of the major producers to set prices unilaterally. Posted prices for output from the Fateh field have now risen to more than $11 a barrel.

High hopes of cash flow

Dubai, like all the Gulf shaikhdoms during the late 1950s and early 1960s, had high hopes of striking a real cash flow from oil. As Kuwait, Abu Dhabi and Qatar began to grow rich on oil, exploration in other parts of the Gulf proved less successful. Intensive exploration work onshore in Dubai failed to uncover a commercial field. At this stage Dubai Petroleum took on an offshore concession covering the whole of the waters under Dubai's control.

Conoco, operating on behalf of Dubai Marine Areas (jointly owned by Compagnie Française des Pétroles and Hispanoil, the Spanish oil group, and holding 50 per cent of equity), Delfeze Dubai Petroleum, a subsidiary of the West German Wintershall Co (5 per cent), Dubai Sun Oil (5 per cent), and Deutsche Texaco (10 per cent) hit the Fateh field in 1966.

A decision was taken not to construct a pipeline to the shore where a conventional tanker loading terminal and storage facilities could be built. Continental decided to go ahead with the first really large-scale offshore direct loading system, to take advantage of the deep water in which the oil had been discovered. Tanker loading buoys were installed close to the producing platforms and oil pumped directly into the tankers.

Offshore loading techniques are well developed but if the field is to maintain a regular rate of production considerable storage is necessary so that oil can continue to flow when the weather prevents the tankers from coupling to the loading buoy. While the field was in the initial stages of development and volumes were only about 100,000 barrels a day an old tanker was converted to act as a floating storage unit. But if production was to be raised to the hoped for 450,000 barrels a day a different method of storage was needed.

A completely new type of offshore storage unit was designed and built by the Chicago Bridge Co. Three steel tanks were built in the shape of inverted champagne glasses and each capable of holding 500,000 barrels of oil. The tanks, known locally as the *khazzans*, sit on the sea bed with the neck of the "glass" protruding through the water and having a production deck on top. As oil is pumped into the tank sea water is forced out through vents in the bottom. The oil and water do not mix and the system, despite some earlier doubts on the part of environmentalists, has not proved a pollution hazard.

There is no limitation on the size of tanker that can use the facilities at Fateh. Many large tankers from other parts of the Gulf, unable to take on a full load because of the water depth at other terminals, fill up their tanks in Dubai on their way out of the Gulf. However, the bulk of the oil is lifted directly by the members of the consortium.

Production was seriously affected last October when there was a major fire on one of the production platforms. Two wells were completely destroyed and another had to be shut down for safety reasons. Replacement wells are being drilled, but production is still below the 300,000 barrels output before the fire.

Better output expected

In addition to drilling new production wells, Dubai Petroleum has installed a six-pile platform on the field to house facilities to inject 340,000 barrels of water into the structure each day. A substantial improvement in output is expected once the water injection facilities are working at full capacity.

Dubai Petroleum, under the terms of its concession, has relinquished about 25 per cent of the offshore area. So far there has been no attempt by the Dubai Government to reallocate this.

A new field has been located by Dubai Petroleum about 15 miles south-west of the Fateh field. It was found during a wildcat drilling programme in October 1973, but work on plotting the exact size of the discovery has been hampered by the acute shortage of offshore drilling rigs in the Gulf. With offshore areas in other parts of the world making considerable demands on the available drilling equipment, there is a waiting list of about 18 months for the rigs that are operating in the Gulf.

Dubai Petroleum has named the new find the Delta prospect, and has hopes that it will prove to be a commercial find worth linking into the Fateh production network. The size of Dubai's known reserves could also be expanded as the result of an intensive seismic survey of the entire offshore area by Dubai Petroleum. Seismic techniques have improved considerably since the last survey and there are high hopes that new prospects will emerge.

Sharjah is the latest of the emirates to become an oil producer. A group led by Buttes Oil and Gas of the United States found oil off the island of Abu Musa, owned jointly by Sharjah and Iran. Exports began early this year and are scheduled to reach 200,000 barrels a day by the end of the year. Oil is being loaded directly into tankers and a barge capable of storing 580,000 barrels of oil has been floated in. There are plans to build a permanent production and storage complex on Abu Musa.

Legal action against buyers of oil from the Abu Musa find has been threatened by Occidental Petroleum which has been unsuccessfully disputing the ownership of the concession. Occidental holds concessions off Umm al Qaywayn and Ajman. In Ras al Khaymah the Vitol group of Holland has started an exploration programme after successful prospecting efforts by Shell and Union Oil.

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