

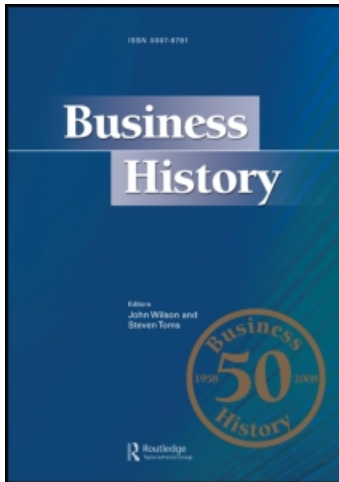
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### Petromin: The slow death of statist oil development in Saudi Arabia

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## **Petromin: The slow death of statist oil development in Saudi Arabia**

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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 'Saudiised' Aramco. As a result, the organisation 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 nationalisation.

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

### **Introduction**

National oil companies are not cut of one cloth. Many NOCs are politicised, 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. In the judgement of most people in the industry, Saudi Aramco, the largest oil company in the world, is one of the latter (Hartley, Medlock, & Eller, 2007; Marcel, 2006; Victor, 2007; various interviews with oil business representatives).

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 most other oil exporters took, entrusting its upstream oil assets to an opaque, politicised 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 ('Petromin', 2005). 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

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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 the death. The outcome was uncertain for many years but, as readers will have guessed, Aramco eventually won. This paper tells the story from forgotten Petromin's perspective. It is the story of 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 (Hertog, forthcoming). 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>1</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.

Studies on NOCs have shown us that compared to private companies, the majority of state oil companies are inefficient and many suffer from corruption problems – Petromin being a typical example. Yet there are a few well-functioning and managerially autonomous outliers – of which Aramco is by many standards the most remarkable one. The existing literature consists mostly of descriptive single case studies which do not contain a general classification of NOCs, not to speak of a cross-case explanation of NOC development that could account for the variation in outcomes. Drawing on the rich descriptive material provided by existing research, this article suggests the outline of a general explanation against the background of a within-case comparison of the two Saudi oil companies.

Despite its erstwhile position as the centrepiece of Saudi development ambitions, there is no academic literature on Petromin. There however are some pieces dealing with Aramco from a variety of perspectives. Its role in Saudi domestic politics has recently been discussed from contrasting points of view (Brown, 1999; Lippmann, 2004; Vitalis, 2007). However, with the partial exception of Brown's journalistic and descriptive account, this literature has not engaged in detail with Aramco's corporate structures or the 'participation' negotiations that have led to Aramco's takeover by the Saudi government and determined its relationship to Petromin. Shorter pieces that deal with Aramco as a company (e.g. Marcel, 2006; Jaffe & Ellass, 2007) describe its managerial insulation and efficient structures but also do not have much to say about the political decisions that gave Aramco the supreme position it enjoys today. An unpublished paper by Ellis Goldberg (n.d.) is the only piece I am aware of which is mainly concerned with the crucial 1970s negotiations between Aramco and the Saudi government. However, it contains no discussion of Aramco's relationship to Petromin or the government's decisions on

Petromin, which almost by definition would also concern Aramco's future. Goldberg argues that the Saudi government's gradual takeover of Aramco was a rational strategy that induced Aramco's US parent companies to continue investing in the Saudi upstream. Although this is a useful observation, it cannot be the full story. Goldberg's account begs the question why so many other host governments behaved in a more aggressive fashion towards their foreign concessionaires and tried to supplant them with national companies. It also is not clear why the Saudi leadership decided to continue protecting Aramco's managerial structures even after the takeover. Other factors – be they political context or quirks of the leadership – must have played a role.

The paper will first introduce the main political 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 trace the tortuous mopping up operations undertaken in 1988–1993 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 primary sources for the article are archival documents from the Mulligan Papers held at Georgetown University (which are mostly from Aramco's Government Affairs Department), Petromin-related documents from the Institute of Public Administration in Riyadh and the University of Durham's Middle East Documentation Unit, a variety of trade journal and newspaper sources as well as interviews with senior Saudis and Westerners who had been involved with Aramco and Petromin. Most of the latter have been anonymised on the request of the interviewees. Without this, I would effectively have had no access to the sensitive information and frank assessments that my interviewees shared with me and that I am deeply grateful for. Anonymity of sources is a price one often still has to pay for researching Saudi politics.

### **The actors**

Like the history of many other parts of the Saudi state, the story of Petromin is to a great 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 (Hertog, 2007). 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 until his assassination in March 1975. No other king after him has centralised 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 (Hertog, forthcoming). 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>2</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 notable Mecca 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 (Lacey, 1981; Vitalis, 2007).

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>3</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 older (by 28 years) royal patron Faisal whom he described as 'wily fox', albeit being privately critical of his reluctance to delegate authority.<sup>4</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 (Phone interview with former US Aramco functionary, January 2007).

Yamani as trusted Minister of Petroleum had large patronage resources of his own, grooming his own following at 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 (*Middle East Economic Digest* (MEED), 23 April 1982). His father died when Taher was a teenager. Smart and ambitious, Taher managed to obtain a BA in Commerce in Cairo while having to work to supplement the family income. In the mid-1950s, 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 was working on a PhD at Berkeley about 'Petroleum and Natural Gas Accounting and its Effects in Saudi Arabia'.<sup>5</sup> After Tariki was ousted, Yamani recognised Taher's talents and appointed him governor of the newly formed General Organization of Petroleum and Minerals. While ranked as possibly the most intelligent among Yamani's technocrats, Taher was a more secretive and taciturn character than his boss (Phone interview with Marcello Colitti, former chairman of EniChem, December 2006). Yamani however consistently trusted him (Phone interview with former Saudi Aramco functionary, December 2006; phone interview with former Gulf banker, December

2006) and delegated considerable responsibility to him (Phone interview with former US Aramco functionary, January 2007).

Yamani inherited another promising young technocrat from Tariki: Hisham Nazer, from a leading Jeddah family that had been close to Faisal when he was vice-regent of the Western Province under his father King Abdulaziz (Huyette, 1985).<sup>6</sup> Nazer was born in 1932, attended the exclusive Victoria College in Alexandria, and went on to obtain a BA in international relations and an MA in political science at UCLA in 1957 and 1958 respectively.<sup>7</sup> He was subsequently reared as an 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>8</sup>

In the early 1960s, Nazer was reported to harbour progressive political attitudes, having expressed strong sympathies for Nasser. He managed to keep his head below the parapet when Tariki and other liberals fell, though. 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. However, he quickly managed to gain the trust of new minister Yamani, who decided to make him his deputy in 1962.<sup>9</sup>

Nazer was described as an impressive figure, but with a tendency to be boorish and overbearing.<sup>10</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 (Phone interview with former US Aramco functionary). 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>11</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 moderniser 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 organise the Saudi energy sector. He insisted on being made chairman of the Supreme Petroleum Council in 1973, telling Western friends at the time that Yamani had too much power (Phone interview with former US Aramco functionary). As importantly, he would bring clients of his own into the growing state apparatus to administer industrialisation. But this is 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 by some accounts the most important year in the history of the modern Saudi state (Vitalis, 2007; Hertog, forthcoming): King Saud and his allies were marginalised 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>12</sup> an organisation that was apparently based on plans first adumbrated by Tariki.<sup>13</sup> When Abdulhadi Taher was made its governor, he was dejected: he complained to friends that Yamani had unfairly favoured Nazer, who was his junior (Phone interview with former US Aramco functionary). Taher would receive deputy ministerial rank, but only after Nazer.<sup>14</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 (Phone interview with former US Aramco functionary). 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>15</sup> In line with Tariki's nationalist vision, a future role as national oil company was explicitly envisaged (MEED, 7 December 1962).

Petromin was supposed to become a governmental equivalent of Aramco – the implicit idea being that it could one day take its place (Phone interview with former Saudi Aramco functionary). 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) (Barnes, 1995); Venezuela set up its *Corporación Venezolana de Petróleos* in 1962 (Boue, 1993), and the Algerian regime created Sonatrach in 1963 (Aissaoui, 2001).

Different from most other oil states, Petromin was not set up in an atmosphere of feverish nationalism. Its inception rather came at a 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 anaemic public politics of the kingdom (Vitalis, 2007). 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 (Goldberg, n.d.).

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>16</sup> The organisation became the main vehicle of Saudi industrialisation efforts for the coming decade. Its activities included minerals projects (MEED, 21 March 1969), oil and gas exploration in areas relinquished by Aramco,<sup>17</sup> and distribution of gas and refined products within the kingdom (MEED, 20 April 1967; 27 July 1967). Petromin also started its own oil shipping operations (MEED, 5 June 1964; 2 October 1970; 4 December 1970).

Even more ambitiously, Taher initiated a raft of heavy industry ventures, recognising that the local merchants and contractors were in no shape to undertake industrialisation of any significant scale by themselves. Petromin started petrochemical projects,<sup>18</sup> oil refineries in Saudi Arabia and abroad (MEED, 23 July 1965; 1 July 1966; 11 May 1967; 9 February 1968; 8 August 1969), glass (MEED, 29 July 1966) and steel (MEED, 22 May 1964; 2 July 1965; 23 September 1966) plants as well as power generation projects.<sup>19</sup> Although projects usually involved foreign partners, the Petromin shares were 50% or more (Petromin, 1978). Needless to say, Aramco at the time was 100% US-owned, and Tariki's talk of participation had been quashed by Faisal. Yet in the course of the 1960s Taher became an eager spokesman of NOCs' developmental potential and their role as partner for international oil companies (IOCs), touting both at numerous international occasions.<sup>20</sup>

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 BSc in economics in the mid-1960s. Yamani reportedly thought it a good idea to 'teach him business' (Phone interview with former US Aramco functionary; interview with Western oil industry source, Riyadh, January 2007), and he joined Petromin as liaison officer to the Ministry in June 1966.<sup>21</sup> In February 1970, having established an impeccable reputation as intelligent and modest,<sup>22</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 family.

Whatever Petromin's virtues in readying Faisal's progeny for higher office, in its industrialising 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 (Phone interview with former Saudi Aramco functionary). Moreover, Taher, Petromin's unquestioned supremo, seemed to pursue an idiosyncratic recruitment policy (Phone interviews with former Gulf banker, former Saudi Aramco functionary). Many Petromin employees appeared under-qualified (Phone interviews with former Gulf banker; former Saudi Aramco functionary; Colitti).

It has been speculated that the governor, who was 'jealously guarding his own preserve' (Holden & Johns, 1982, p. 391), would not tolerate subordinates who were too smart. In any case, despite rapidly growing employment, Petromin's administrative structure remained ill-defined, with Taher maximising control over operations (Phone interview with former Gulf banker). The organisation's development reflected a general pattern of politicised or cronyist recruitment in the majority of developing country NOCs which, depending on the system, tended to serve the political needs of military elites, cronies of the ruling family, 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') (Grayson, 1980).

While Petromin managed to build up modest domestic refining capacity, many other ventures tended to go nowhere, or, worse, end in disputes. Numerous projects 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) never got off the ground, nor did petrochemicals negotiations with Hercules (SABIC Americas, 2001). SAFCO, a fertiliser venture with Occidental, ended in arbitration in the International Chamber of Commerce (MEED, 16 October 1970; 12 July 1976).

At the same time, another player with a claim to planning national industrialisation emerged: the Central Planning Organisation. 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>23</sup> Aramco analysts soon detected a potential rivalry between the CPO and Petromin.<sup>24</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>25</sup> Nazer also started rearing his own protégés, sending senior CPO staff Faisal Bashir and Fayez Badr to the US to gain their PhDs (Huyette, 1985). At the same time, he successfully recruited Stanford Research International experts

to help him in assembling his plan.<sup>26</sup> Yamani, although still on good terms with Nazer, supposedly did not share all MOPM information with him.<sup>27</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. Yamani was the undisputed manager of the relationship between the Saudi government and Aramco, and of the oil diplomacy between Saudi Arabia and consuming countries, including the US.

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 (Hertog, forthcoming). In 1970, it already had more than 3000 employees (MEED, 2 October 1970; Petromin, 1969), making it an unrivalled industrial behemoth in a still deeply underdeveloped country. Only Aramco itself was bigger, with a payroll roughly three times as large (Aramco, 1969). After 1973, Petromin negotiated refining and petrochemical plants in the billion dollar range with Mitsubishi (*Middle East Economic Survey* (MEES), 42/1974), Shell (MEES, 27 June 1975), Dow and Mobil (MEES, 23 May 1975). Large steel mills were planned with BHP and Marcona (Ibid.; 49/1974), and a gigantic gas gathering and liquefaction project was envisaged for the Eastern Province (MEES, 31 May 1974; Petromin, *Progress Report 1969–70* (n.p.)). 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 (MEES, 29 August 1975).

Petromin also undertook the marketing of growing amounts of crude made available by Aramco in the course of 'participation' negotiations (MEES, 26 July 1974; 15 November 1974; MEED, 7 May 1971; OPEC, 1978). The income from participation crude increased from \$261 million in 1973 to \$2155 million in 1976 (OPEC, 1978). Participation 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 (MEED, 7 June 1968).

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 moderniser Fahd, who became Crown Prince and was given wide administrative leeway by the new King Khaled. In January 1975, the Petromin board had approved a 13 billion dollar development programme for the 1975–1980 period (MEES, 24 January 1975; OPEC, 1978). 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 (Holden & Johns, 1982). Unsurprisingly, the numbers bandied about by Fahd, Yamani and Nazer were at variance, as MOPM, Petromin and CPO operated with little coordination (MEED, 9 January 1975).

The Petromin plan tackled every conceivable sector of industry: refining, gathering and liquification of gas, mining, petrochemicals, fertilisers, 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 a joint-venture basis (MEES, 16 May 1975).

In practice, Petromin still had not got far by the mid-1970s (Holden & Johns, 1982; MEED, 16 August 1974). While its domestic ventures such as the Jeddah steel mill and the

Jeddah and Riyadh refineries produced on a small scale (OPEC, 1978), its international negotiation partners pointed out that most of the large internationally oriented ventures would only be marginally economic. Petromin planners seemed to have no conception of the magnitude of potential problems and bottlenecks and relied on a faulty assumption of unlimited gas supplies.<sup>28</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 (Phone interview with former Saudi Aramco functionary).

### 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 over-ambitious, politicised and lacking in administrative capacity. More important, 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 reorganisation of the cabinet 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>29</sup> The statement is remarkable for its relative frankness, but also for getting history exactly the wrong way 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 to keep the responsibility for petrochemicals with Petromin (SABIC Americas, 2001). 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 to maximise his purview (Phone interview with former US Aramco functionary).

The Higher Committee of Administrative Reform was called upon to decide which sectors of industry would remain with Petromin. The Committee was presided over 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 (MEES, 5 December 1975; MEED, 12 December 1975).<sup>30</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 (Barnes, 1995).

Ghazi al-Gosaibi later complained about Petromin's (read: Yamani's and Taher's) obstinacy, as it was not ready to surrender anything to another ministry and was the main obstacle in setting up the MOIE (SABIC Americas, 2001). 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 (Phone interview with former US Aramco functionary).

Like several other new functionaries under Fahd, Gosaibi was from an old family of Najdi origin that had come to riches in the kingdom's Eastern Province (see Field, 1984). Fahd had actively combed universities and sought ministers' advice to find bright young administrators-to-be, rearing the next generation of technocratic clients (Discussion with senior Saudi businessman, London, July 2005) which would be closer to him than either Yamani or Taher (Phone interview with former US Aramco functionary). Gosaibi was eight years younger than Taher, which considering the Saudi system's obsession with seniority most likely made for additional bad blood (Huyette, 1985). Before his ministerial appointment, 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 (MEED, 12 December 1975).

Adding insult to injury, Gosaibi made Ahmad Tuwajiri, previously a Petromin functionary (and also a Najdi), deputy minister in the MOIE (SABIC Americas, 2001). 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 Centre 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 (SABIC Americas, 2001; MEES 13 September 1976; 21 February 1977), as the new team deemed them uneconomic or 'much too ambitious' (SABIC Americas, 2001).

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, capitalised at \$2.8 billion, took over the operational responsibility for petrochemicals and other heavy industry projects (MEES, 13 September 1976). SABIC was set up with a rather lean managerial structure and incorporated as company; 30% of it was subsequently sold off to the public.<sup>31</sup> Gosaibi and Zamil patently wanted to build up a counter-example 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 (SABIC Americas, 2001) – a very explicit condemnation by Saudi standards, reflecting 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 (SABIC Americas, 2001). Fahd was chairman of the Royal Commission (MEED, 19 December 1975). His vice-chairman was none other than Hisham Nazer (SABIC Americas, 2001), who was instrumental in setting it up the Commission (Lippman, 2004; Samore, 1983), thus significantly expanding his role in matters of industrialisation at Taher's expense (*APS Review Downstream Trends*, 27 September 1993). Neither Yamani nor Taher were members of the Commission (Royal Commission for Jubail and Yanbu, annual reports).

Nazer had once again astutely repositioned himself throughout a royal power shift, this time as a confidant of Fahd (Phone interview with former US Aramco functionary). He had developed close relations with gatekeepers around Fahd such as Adnan Khashoggi and Ghaith Pharaon (*ibid.*), and soon became known as 'Hisham Abdul Fahd' (Holden & Johns, 1982) 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 apparently 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 no longer be invited to the same parties (Phone interview with former US Aramco functionary).

Taher's and Nazer's rivalry had also badly escalated by the mid-1970s (Holden & Johns, 1982), 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>32</sup>

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

Even after the trimming, Petromin still had an estimated staff of over 4000 through its refining, marketing and exploration ventures, and expected to employ a further 5000 during the five years after 1978 (OPEC, 1978). 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 (Goldberg, n.d.), and two years later Aramco appointed its first Saudi vice president. After the Saudi government's share in the company increased to 60% in 1974, Petromin was reported to be 'looking after' the participation interest (OPEC, 1978). 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. Despite deep US–Saudi tensions, notably over American support for Israel in 1973 and 1974 (Brown, 1999),<sup>33</sup> the Saudi government negotiated for consensual 'participation' in lieu of aggressive nationalisation (Yergin, 1991). In this process the Aramco parents agreed to cede company ownership rights, but evaded 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 (Jaffe & Ellass, 2007; Brown, 1999). Ali Al-Naimi joined Faisal Al-Bassam as second Saudi vice president in 1975, and in 1979 Aramco created a 'Saudi Arab Manpower Committee' that encompassed a number of senior executives under Naimi's chairmanship to further integrate Saudis on senior management levels (Pledge, 1998). By 1981, Aramco supported 905 Saudi college students in Saudi Arabia and abroad, compared to 283 in 1975 and 100 in 1972 (Aramco, *Annual Reports* 1975, 1981, 1972). Hoping to maintain their leading roles in what was one of the best-run companies in the Middle East, US-educated Saudi Aramcons evolved to be the most committed anti-Petromin group in the kingdom (Phone interview with former Saudi Aramco functionary). Among all OPEC states, this group seems comparable only to the PDVSA oil executives in Venezuela, nationals who had mostly worked in IOC operations before the national champion was created in 1977 (Boue, 1993).

Around 1976 or 1977 Aramco insiders seemed to feel that Petromin was unlikely to become the supreme oil company in the kingdom (Phone interview with former US Aramco functionary). 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 organise the coexistence of Petromin and Aramco.

Petromin still made the news regularly, and the scale of its projects continued to grow (MEED Special Report Saudi Arabia, August 1978). Mobil built the Petroline cross-Arabian pipeline for it in the late 1970s, using more than 400,000 tons of pipe.<sup>34</sup> Petromin spent hundreds of millions of dollars on its domestic distribution facilities (MEES, 12 December 1975) and expanded its lubricants joint ventures (MEES, 27 April 1977). Three large-scale export refinery joint ventures were initiated (MEES, 12 December 1975). In July 1978, the governor of Petromin was finally given ministerial status.<sup>35</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 (see Barnes, 1995; Entelis, 1999; Grayson, 1980; Hertzmark, 2007).

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 (MEES, 4 October 1976; MEED, 1 June 1979; MEED Special Report Saudi Arabia 1981). 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 (Phone interview with Colitti). Yamani had previously convinced Faisal to kill 'princely oil' (Interview with former US Aramco functionary), but several royals re-emerged as middlemen in Petromin deals (Holden & Johns, 1982; *Platts*, 10 July 1975). Official and actual sales volumes were reported to be at variance (MEED, 18 January 1980).<sup>36</sup>

The international oil sales business at the time was almost uniformly shot through with middlemen and commission payments (Phone interview with Colitti): Nigerian NNPC, Pertamina, Sonatrach and others, although operating in different political environments, all tended to 'cut in' powerful players in their deals (see Barnes, 1995; Entelis, 1999; Hertzmark, 2007; Nwokeji, 2007; Onoh, 1983). 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 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 (*New York Times*, 6 December 1979; MEED, 23 November 1979). As a government-to-government contract was at stake, the Saudi government felt exposed (Phone interview with Colitti). 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, it appears, 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 (Interview with former US embassy officer, New York, May 2007).

Although Aramco had its own corruption scandal in 1977/78 – on a gas gathering project originally conceived by Petromin (SABIC Americas, 2001; Phone interview with former US Aramco functionary) – this came to be seen as an exception, and was dealt with by dumping chairman Frank Jungers. Aramco as an 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>37</sup> By that year, Aramco had four Saudis on its board: Yamani, Taher and two MOPM deputies. More importantly, it had become 100% Saudi-owned (*Wall Street Journal*, 7 August 1980). However, 'no one quite knew what that meant' (Phone interview with former Saudi Aramco functionary), as the company remained incorporated in Delaware and the chairman an American.<sup>38</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 reorganising the oil sector was lacking (MEED, 23 April 1982). Yamani reportedly backed Taher's candidacy (MEED, 18 November 1983).

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' (MEED Special Report Saudi Arabia, August 1982). Its ambitions were unbridled: it planned to employ a further 12,000 staff between 1981 and 1985 alone (MEED Special Report Saudi Arabia 1981). Yet most of its operations did not turn a profit, and the completion of its large refinery projects was delayed time and again.<sup>39</sup>

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

In November 1983, Ali Naimi was appointed president of Aramco, moving up from his position as executive vice president of oil and gas affairs.<sup>40</sup> Naimi was the 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 Saudisation of senior ranks within Aramco allowed the Saudi government to sustain its structure as enclave institution (Phone interview with former Saudi Aramco functionary). By 1984, 18 of 31 executive positions were held by Saudis (Pledge, 1998).

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. As in the rest of his foreign policy, Fahd could afford a pro-US course in oil negotiations (Interview with former US embassy officer, New York, May 2007).

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 (Phone interview with Colitti). 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) (Baena, 1999). 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 recognised 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>41</sup> Due to a restrictive petroleum pricing policy that made it difficult for private petrol station owners to turn a profit, Petromin also had to step in as the main operator of Saudi petrol stations (opening another avenue for Taher's own business interests) (Phone interview with former Saudi Aramco functionary).

The oil crunch after 1982 by default increased Petromin's relative 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 1980s, 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 (Interview with former deputy minister, Riyadh, February 2007). 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) (Ibid.).

Much of this might have been tolerated as royals were often involved to gain political cover – or would even initiate oil sales deals themselves 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 ten Boeing 747s (*Wall Street Journal*, 31 July 1984).

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 politicised planning became glaringly obvious. Petromin's refinery project with Petrola at the Red Sea port of Rabigh in particular became an 'extremely expensive mess' (Montagu, 1994, p. 14) 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 (Phone interview with former US Aramco functionary) and was reported to enjoy privileged access to him (MEED, 8 August 1980). 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' (MEED, 23 April 1982). Among industry insider, Rabigh was generally considered a 'lousy deal', with Latsis overcharging for a technologically unsophisticated plant (Phone interviews with former US Aramco functionary, Colitti). The refinery suffered from endless construction delays and cost overruns and would not start production until 1990 (*Oil and Gas Journal*, 21 June 1993). 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 (Ministry of Finance, 1985). This stands in stark contrast to its mid-1970s plans for aggregate production of a million barrels per day or more (OPEC, 1978) – and to Aramco's own achievements at its Ras Tanura refinery, which had already reached an output level of 536,000 bpd by 1970 (Aramco, *Facts & Figures 1981*).

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: 1986–1993

Fahd's loyal client Hisham Nazer had been rumoured as Yamani's successor as early as 1983 (Robinson, 1988, p. 385). 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 (*Platt's Oilgram News*, 10 December 1986). In December, however, in the middle of an OPEC meeting, Taher was sacked. Nazer got his permanent appointment soon afterwards (*Globe and Mail*, 17 December, 26 December 1986). In April 1987, both Yamani and Taher were removed from the Aramco board (*Wall Street Journal*, 16 April 1987). Taher was succeeded by his deputy Jamal Jawa, who himself resigned a few months later.

After the oil price had somewhat stabilised, 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>42</sup> Nazer became its first Saudi chairman (*Financial Times*, 7 April 1988). The king also set up a Supreme Council for the company, chaired by himself, which would approve Saudi Aramco's five-year plans and annual reports as well as appoint the company's president at the recommendation of its board of directors (*Oil and Gas Journal*, 16 August 1993).

Next to senior Saudis, the board still contained former US oil executives and bankers, in effect preserving most of Aramco's existing set-up – a unique structure among large non-Western NOCs (Jaffe & Ellass, 2007). 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 (Phone interview with former Saudi Aramco functionary). Aramco structures had been definitely cocooned under the king's and Nazer's supervision. Again, 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. Aramcons tend to say that their company was 'purchased commercially', not 'nationalised' (Marcel, 2006).

1988 also saw the formation of Petrolube and Luberef under the MOPM, which consolidated Petromin's diverse lubricants businesses. Soon afterwards, the Saudi Arabian Marketing and Refining Company, Samarec, was created as a shell for reorganising Petromin's 'Byzantine' (Montagu, 1994) refining operations (previous attempts to engineer a privatisation of Petromin had faltered, as the company proved impossible to value commercially) (Personal communication with Michael Gillibrand, former consultant to the Saudi government, May 2007).<sup>43</sup> Petromin continued to formally exist as Samarec's holding company.

Petromin had become a practically headless entity run by an interim governor. Nonetheless, its sprawling apparatus was not easily reorganised, 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 (*Platt's Oilgram News*, 31 May 1988). Samarec and Petrolube proved to be only intermediate steps of restructuring, a 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) (Interview with former deputy minister). As Samarec was incorporated as a company, it actually had even more independence in hiring and spending than Petromin (Interviews with former deputy minister; Western oil industry source). 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 politicised downstream entity that would provide negative returns on its oil (Ibid.). 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>44</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 organised 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>45</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>46</sup> This elegantly solved the debt problem (Montagu, 1994) 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 (*APS Review Oil Market Trends*, 30 August 1993). Aramco, which by then had grown to over 40,000 employees itself, was given a mandate to clean up (Pledge, 1998).

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 (Interview with former deputy minister).

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 theorising about 'rentier states' and the 'resource curse' seem unable to recognise: 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 Americanised 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. In the absence of 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 favour 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 unrecognised 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 (MEED Special Report Saudi Arabia, August 1982) 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 (Interviews with Western businessmen in Riyadh, 2003–2005). It stands in marked contrast to the politicised 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 is still 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 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 (Mares & Altamirano, 2007; Hulst, 2007). Different from many other OPEC NOCs, Aramco has kept control over its operating revenue (Jaffe & Ellass, 2007). 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 – Von der Mehden & Troner, 2007).

Although commoners below him fought out important details, Fahd also took the ultimate decisions in 1975/76, 1982/83 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.

Where are Aramco and Petromin located in the larger universe of NOCs? Figure 1 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

	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>
Politicised	KPC (Kuwait) NIOC (Iran) PEMEX (Mexico) Sonatrach (Algeria)	Petromin (Saudi Arabia) PDVSA (Venezuela) at times Pertamina (Indonesia) NNPC (Nigeria)	<i>Low efficiency</i>

Figure 1. Patterns of NOC history in major developing world oil producers.

Sources: In addition to sources already cited, this figure draws on: Brown & Knight, 1992; Brumberg & Ahram, 2007; Entelis, 1999; Heard, 1998; Khan, 1994; Mommer, 1998; Tetreault, 1995.

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 bureaucratically 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 politicises 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).<sup>47</sup> 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 politicised (intermittently in the case of Venezuela, consistently in the other cases).

The two bottom corners contain very different entities. Being 'politicised' for our purposes indeed can mean quite 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 with social interests unrelated to its operational targets as an upstream oil company. 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) (Heard, 1998; Marcel, 2006). PDVSA and Aramco are generally rated among the most efficient NOCs, considerably above their OPEC peers (Hartley, Medlock, & Eller, 2007). Thanks to its inherited capacities, the reluctantly nationalised Aramco nowadays ironically is the one NOC that does not have to *denationalise* by letting IOCs back into the upstream. Alone among NOCs, it is capable of managing upstream capacity expansion by itself.

It is unlikely that Saudi Arabia could have built up an Aramco-like organisation from scratch. The low level of resource nationalism however allowed Saudi Arabia to preserve the managerial structure of the foreign assets in the nationalisation process. As the cases in the bottom right corner of Figure 1 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 (Barnes, 1995; Nwokeji, 2007).

The case of Indonesia also shows that a pro-capitalist outlook and close alliance with the IOC home country are not sufficient to prevent predation in the resource sector.<sup>48</sup> Although Saudi Arabia's special relationship with the US certainly helped to smooth the transition from Aramco to Saudi Aramco, the negotiations over the company's assets happened not between governments, but largely between the Saudi government and the Aramco parent companies – and for many years it was unclear what the outcome would be.<sup>49</sup> The spectre of a Petromin takeover loomed large and was feared by both local players and international commentators. The preservation of IOC management structures, however rational it might appear in hindsight, is the exception rather than the rule. A low-conflict nationalisation makes the preservation of managerial structures possible, but does not predetermine it. It rather seems to open a wider range of options for elites to choose from, both predatory and managerially efficient.

Against this background, elite conflicts and royal choices seem to have played a uniquely large role in the history of Petromin and Aramco. Largely autonomous from broader political forces, personality, jealousy and administrative acumen among a small set of royals and technocrats seem to best account for the crucial junctures of 1975/76, 1982/83 and 1988, during each of which Saudi Arabia went against governance trends in other oil exporters. Fahd's ambition to install his own clients, as well as his more pronounced interest in technocratic development, worked in favour of Aramco and SABIC and against Faisal's old clients Yamani and Taher. One can plausibly imagine Petromin taking over Aramco if Faisal had not been assassinated in 1975, given his complete trust in Yamani and his limited interest in industrial modernisation.

Given Fahd's success at picking and incentivising the administrators of the Royal Commission and SABIC, one might speculate whether a more efficient Saudi NOC could have been set up in the 1960s if the country's leadership had picked a different team with a more focused mandate. Although it appears clear that the scale of Petromin's failure had much to do with Taher's decisions and lax oversight under Faisal and Yamani, it appears unlikely that the kingdom would have been able to build up upstream capacities on the scale of Aramco under the best of circumstances: qualified Saudis were scarce, and experience with large-scale organisations non-existent, while Aramco ran the largest oil operation in the world. However, as SABIC later on demonstrated, the setting up of successful mid-scale heavy industry ventures in refining, petrochemicals or steel arguably would have been possible – and it was Petromin's failure in these areas that contributed to its sagging credibility as would-be NOC.

There is no example of a completely 'indigenous', efficient NOC in any developing country. What matters for this article is that the real Petromin *did* grow along the lines of a typical developing country national oil company. But different from most other places, it was not allowed to go all the way, but was stopped in its course not only one, but three times.

In international comparison, the fates of both Aramco and Petromin are exceptional. And it seems that 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.

## Notes

1. See Marcel (2006), 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> (accessed 6 July 2008).
2. Mulligan Papers (Georgetown University), Biographical sketch of Ahmad Zaki Yamani, March 1962, Box 1, Folder 67.
3. *Ibid.*
4. Mulligan Papers, Biographical sketch of Ahmad Zaki Yamani, March 1961, Box 3, Folder 6.
5. Mulligan Papers, Biographical sketch Abdul Hady Taher, December 1962, Box 1, Folder 69.
6. 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.
7. Mulligan Papers, Biographical sketch Hisham Nazer, January 1964, Box 1, Folder 69.
8. Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
9. *Ibid.*
10. *Ibid.*; various discussions with former consultants working for Nazer in London and Riyadh.
11. On family alliances between 1953 and 1962 see Yizraeli (1997).
12. Royal decree 25, 25/6/1382 (hijra calendar); MEED, 7 December 1962, p. 549.
13. Mulligan Papers, Robert L Headley, Saudi Arabian Government: General Petroleum Organization, 23 August 1960, Folder 1, Box 3.
14. Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
15. 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.
16. Mulligan Papers, Malcolm Quint, General Organization of Petroleum and Minerals, 26 February 1964, Folder 20, Box 3.
17. <http://www.unitedworld-usa.com/reports/saudi-arabia/thesearch.asp> (accessed 6 July 2008); MEED, 8 October 1965, p. 452; 7 September 1967, p. 614.
18. 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, p. 538; 1 January 1965, p. 9; 5 August 1966, p. 366.
19. <http://saudinf.com/main/d21.htm> (accessed 6 July 2008).
20. Middle East Documentation Unit (Durham), Abdulhadi Taher, 'Survival of the International Petroleum Industry', address given at the Saudi Ministry of Petroleum seminar on 10 April 1967; Taher, 'Determinants of a Producer Country's Oil Policy', speech given at Seminar on the Economics of Eastern Hemisphere Oil, Centre for Middle Eastern Studies, Harvard University, 7 May 1969; Taher, 'National and International Oil Companies and the Participation Issue', speech given at the Offshore Exploration Conference, Athens, December 1968; box 51/4/Industry/Extractive/Oil.
21. <http://www.saudi-us-relations.org/articles/2006/special-reports/061212-turki-background.html> (accessed 6 July 2008).
22. Phone interview former Gulf banker; PRO, FCO 8/1733 J.B. Armitage to R. McGregor Esq., 31 July 1971.
23. Ministry of Communications: General Report and Recommendations (prepared by JL Jacobs and Company), August 1964, Ford Foundation archive, Institute of Public Administration, Riyadh.
24. Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
25. PRO, FCO 8/1742, Morris to Alec Douglas-Home, 3 February 1971.
26. *Ibid.*
27. Mulligan Papers, Biographical sketch Hisham Nazer, n.d., Box 1, Folder 70.
28. Mulligan Papers, Saudi government industrialisation plans, June 1974, Folder 12, Box 6; Saudi Arabian Government Gas Program, June 1976, Folder 12, Box 5.
29. <http://saudinf.com/main/d22.htm> (accessed 6 July 2008).
30. Petromin's core budget in 1976–77 was \$13.4 million, down from \$44.3 million the year before, indicating the scale of cuts; MEES; 12 July 1976, p. 2. At the same time, the number of

- employees in Petromin's marketing operations increased from 1139 in 1976 to 1610 in 1977 (Petromin, 1978, p. 209).
31. It is generally deemed the best-managed indigenous Saudi company; discussions in Riyadh 2003–2005.
  32. <http://www.unitedworld-usa.com/reports/saudi-arabia/aaltaher.asp> (accessed 6 July 2008).
  33. Nor did the Israeli issue disappear after Faisal's death (Brown, 1999, p. 314).
  34. <http://www.saudiaramcoworld.com/issue/198206/foundations-the.underpinning.htm> (accessed 6 July 2008); MEED, 14 January 1977, p. 24; 7 July 1978, p. 46.
  35. Mulligan Papers, Petromin organigram, 14 August 1978, Folder 1, Box 9.
  36. My interviewees have been unanimous that the Petromin corruption problem was severe.
  37. Taher also explained, however, that the step would imply no immediate operational changes; MEED, 23 May 1980, p. 3.
  38. 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.
  39. The OPEC Information Department reprinted essentially the same project details in its Petromin reports in 1978 and 1980, only shifting deadlines backwards. Cf. OPEC Information Department 1978; OPEC Information Department, *Petromin* (Supplement to OPEC Bulletin Vol. 11, no. 8), 25 February 1980.
  40. <http://www.saudiaramcoworld.com/issue/199305/saudi.aramco.at.sixty.htm>; <http://saudinf.com/main/c5121.htm> (both accessed 6 July 2008).
  41. <http://countrystudies.us/saudi-arabia/41.htm> (accessed 6 July 2008).
  42. <http://saudinf.com/main/d23.htm> (accessed 6 July 2008).
  43. <http://countrystudies.us/saudi-arabia/41.htm> (accessed 6 July 2008).
  44. The full contribution supposedly was equivalent to US\$56 billion; Phone interview with former Saudi Aramco functionary.
  45. The figures remain confidential; Phone interview with former Saudi Aramco functionary.
  46. <http://www.un.int/saudi-arabia/sachvmt1.htm#5petro> (accessed 6 July 2008).
  47. A similar process was arguably underway in Malaysia in the mid-1970s when national oil company Petronas under Tengku Razaleigh Hamzah put increasing pressure on US oil companies, which among other things led to an investment strike of Exxon. The confrontational policy was abandoned in 1976 however, and the oil sector subsequently was developed in a cooperative fashion through production sharing agreements (Gale, 1981). Petronas has evolved into one of the most effective NOCs. It is different from the other OPEC NOCs discussed here however in that it is heavily involved in overseas operations.
  48. If anything, the Arab–Israeli conflict meant that the US–Saudi relationship was more problematic in the 1970s than the US–Indonesian relationship.
  49. The US government traditionally did not interfere much in Aramco's relationship with the Saudi regime. In fact, Aramco rather than Washington often also took the lead on broader bilateral diplomatic issues (see Citino, 2002).

### Notes on contributor

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