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Folder Title: Travel briefs, Kuwait (01/02/1973-03/03/1973)

Folder ID: 1772670

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4540S

Series: Travel briefings

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: May 16, 2013

To cite materials from this archival folder, please follow the following format:
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Washington, D.C.

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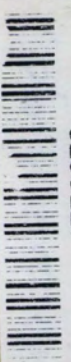
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Amount Fund for Arab Gen Dev.
Arab Fund for Econ + Soc Dev.
Arab Dhabi Fund

A

P R O G R A M M E

Mr. Robert S. McNamara

SUNDAY, 11th February 1973 President

International Bank for Reconstruction and Development

8:30 AM - Visit to the Washington, D.C. the Handicapped

10:30 AM - A call on His Excellency Sheikh Jaber
Abdulla Al-Jaber Al-Sabah, the Governor
of Ahmadi

SATURDAY, 10th February 1973 Display Centre and the oil
installations in Ahmadi

9:30 AM - Audience with His Highness the Emir

2:00 PM - Lunch at the Gazelle Club

10:30 AM - A call on His Highness the Prime Minister
and Crown Prince, Sheikh Jaber Al-Ahmad
Al-Sabah

12:30 AM - A meeting with His Excellency Abdul Rahman
Salim Al-Ateeqy, the Minister of Finance
and Oil

2:00 PM - Lunch at the residence of His Excellency
Abdul Rahman Salim Al-Ateeqy, the Minister
of Finance and Oil

5:00 PM - The signature ceremony of the Underwriting
Agreement of the World Bank KD Bond Issue
at the offices of the Kuwait Investment
Company

5:30 PM - A visit to the Arab Fund for Economic and
Social Development

6:00 PM - Reception in honour of Mr. McNamara and his
associates held by the Kuwait Investment
Company at the Sheraton Hotel

8:00 PM - Dinner at the residence of Mr. Abdlatif
Al-Hamad, Director-General of the Kuwait
Fund for Arab Economic Development

SUNDAY, 11th February 1973

- 8:30 AM - Visit to the Institute for the Handicapped
- 10:30 AM - A call on His Excellency Sheikh Jaber Abdulla Al-Jaber Al-Sabah, the Governor of Ahmadi
- 11:00 AM - Visit to the Display Centre and the oil installations in Ahmadi
- 2:00 PM - Lunch at the Gazelle Club
- 8:00 PM - Dinner given in honour of Mr. McNamara and his associates by His Excellency Abdul Rahman Salim Al-Ateeqy, Minister of Finance and Oil, at the Hilton Hotel

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B

REMARKS AT AIRPORT UPON ARRIVAL IN KUWAIT

It is just over three years since I last came to Kuwait. Much has happened in that time in this country, particularly in the field of economic development -- an instrument to improve the quality of life of the people. I am keenly looking forward to learn more about your goals and strategy for further economic diversification.

As a partner in the cooperative endeavor towards development, we in the World Bank have taken a special interest in Kuwait's development. The current visit will provide me with an opportunity to discuss with your leaders the problems and prospects for development in the region and ways to further improve the effectiveness of assistance for such development.

We are particularly proud of our long association with the Government of Kuwait and the Kuwait Fund for Arab Economic Development. I look forward to similar cooperation with the newly established Arab Fund for Economic and Social Development in this endeavor.

The year 1972, in a sense, is a landmark in the growing relations between the Arab World and the Bank Group. Our lending to the Arab countries in the Middle East and North Africa reached a record level of \$210 million in that year. It was more than 6 times our annual lending average in the years 1964-68. Increase in our lending in the area has been accompanied by notable changes in the scope and complexity of our operations -- changes designed to contribute most to development. It was the first year which brought to fruition many years of efforts to establish

an active relationship with the Arab countries. I am confident that within our overall lending program, we will continue to move forward in the years ahead.

In the past, Kuwait has performed a great service for the cause of the development of the Arab World. In addition, your country has chosen the World Bank as a medium to assist global development efforts. I have no doubt in my mind that Kuwait will continue to provide leadership in the future in efforts directed towards meeting the great challenge of all mankind -- ending poverty and want through the process of economic development.

C



STATE OF KUWAIT

BACKGROUND NOTES

Population: 750,000 (1971 est.)
 Capital: Kuwait

The State of Kuwait is located in the north-eastern corner of the Arabian Peninsula. It is bounded on the north and west by Iraq, on the south by Saudi Arabia, and on the east by the Persian Gulf. With an area of about 7,780 square miles, it is slightly smaller than New Jersey.

The country consists largely of sandy, riverless desert interspersed with small hills. Vegetation is sparse. The climate is intensely hot, summer temperatures reaching as high as 130° F. in the shade. Rainfall averages less than 4 inches annually.

Kuwait's flag consists of three horizontal stripes (green, white, and red from top to bottom) joined at the staff side with a black trapezoid.

THE PEOPLE

According to a 1971 estimate, Kuwait had a population of 750,000 with an annual growth rate of about 1.8 percent. Kuwait City serves as the country's capital, major port, and commercial center. More than half of the country's population live in this city and its immediate suburbs.

Kuwaitis are primarily Arab in origin but less than half are indigenous. Large numbers of Arabs from nearby states have settled in Kuwait, especially since oil production began to bring prosperity in the late 1940's. There is also a sizable Iranian community. Most of the labor force is employed by the Government and private commerce firms, as well as the construction and oil industries.

The native Kuwaitis are Sunni Muslims. Arabic is the official language, but English is known on a fairly wide scale. The literacy rate, estimated at more than 50 percent, is one of the highest in the Arab world. This is due in part to the Government emphasis on Kuwait's educational system. Public-school education is free, and the Government sends qualified students abroad for university study.

HISTORY

The State of Kuwait's modern history began with the founding of the city of Kuwait around 1740 by members of the Uteiba section of the Anaiza tribe, who wandered northward from the region of Qatar. Its first definite contact with other states was between 1775 and 1779 when the

British-operated Persian Gulf-Aleppo Mail Service was diverted from Persian-occupied Basra (in Iraq) to go through Kuwait.

During the 19th century Kuwait at different times tried to obtain British support to maintain its independence from the Turks and various powerful Arabian Peninsula tribal movements, including the Ibn Rashids and the Wahabis.

In 1899 Shaikh Mubarak, surnamed "the Great," signed an agreement with the United Kingdom pledging himself and his successors neither to cede any territory nor to receive agents or representatives of any foreign power without British Government consent. The British in return agreed to grant an annual subsidy, to support the Shaikh and his heirs, and to afford them the United Kingdom's offices. From then until 1961 Kuwait enjoyed special treaty relations with the United Kingdom whereby foreign affairs were handled by the British. There was stability of rule, with Shaikh Ahmad governing from 1921 until his death in 1950 and Shaikh Abdullah from 1950 to 1965. By early 1961 the British had withdrawn their special court system, which handled the cases of foreigners resident in Kuwait, and the Kuwait Government commenced the exercise of legal jurisdiction over all persons under new laws drawn up by an Egyptian jurist.

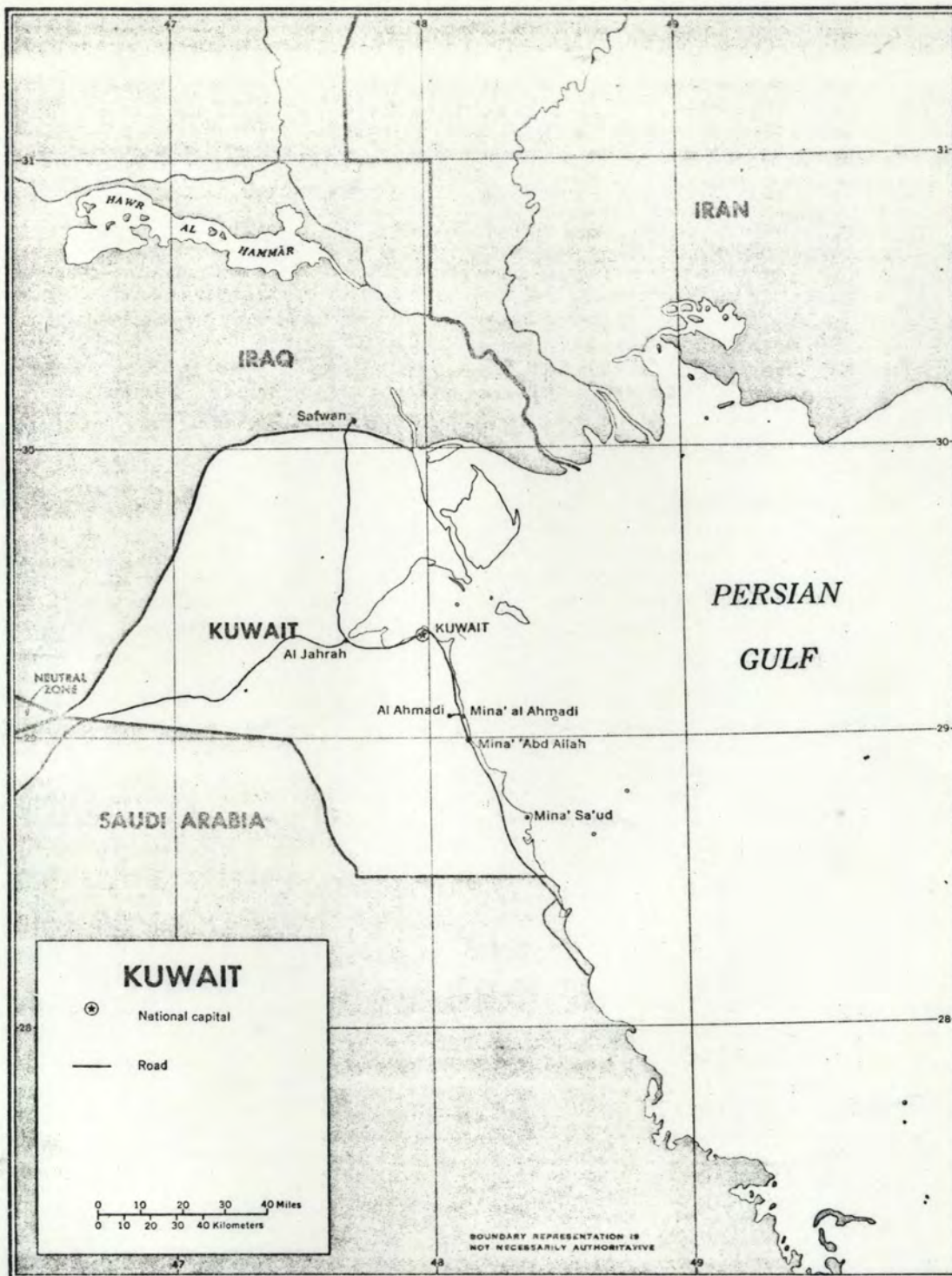
On June 19, 1961, Kuwait became fully independent by virtue of an exchange of notes with the United Kingdom.

On December 18, 1969, Kuwait and Saudi Arabia signed an agreement formally dividing the Neutral Zone and demarcating a new international boundary between the two countries. Prior to that date the Neutral Zone was an area of about 2,000 square miles adjoining the southern border of Kuwait proper. Both countries continue to share a joint interest in the former Neutral Zone's mineral resources.

GOVERNMENT & POLITICAL CONDITIONS

Kuwait is a constitutional monarchy. The present Constitution was promulgated on November 12, 1962.

The Amir (ruler) is selected by and from members of the Mubarak lineage of the Al-Sabah family, the ruling family of Kuwait. He has great personal authority as Chief of State and Head of Government, and is assisted in his rule by a



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Council of Ministers (cabinet), which he selects. The Prime Minister is appointed directly by the Amir. He holds no portfolio and is the liaison between the Amir and the National Assembly.

The 50-member National Assembly provides a considerable measure of representative government. Members are elected to 4-year terms and represent 10 electoral districts. The franchise is restricted to adult males. The Constitution provides substantial powers to the National Assembly.

Although it can be dissolved at any time by the Amir, to date this has not occurred.

The judicial system in Kuwait is based essentially on Islamic jurisdiction. In 1959 it was reorganized by the promulgation of a law which established courts of law and adopted modern codes to cope with the new necessities of modern society.

Political parties in the Western sense do not exist in Kuwait, although the members of the

National Assembly reflect a variety of political outlooks. A 1964 law authorized formation of labor unions under detailed government regulation.

Kuwait has experienced an unprecedented era of prosperity and well-being under the able guidance of Amir Shaikh Sabah al-Salim Al-Sabah and his late brother, Amir Abdullah al-Salim Al-Sabah, who died in 1965 after ruling for 15 years. The country has undergone a remarkable transformation into a highly developed welfare state with a free economy.

ECONOMY

In 1937 the Shaikh of Kuwait granted an oil concession to the Kuwait Oil Co. (KOC), ownership in which is shared equally by the British Petroleum Co. and Gulf Oil Corp. (a U.S. firm). Oil was discovered in 1938, but no significant production took place until after World War II. Kuwait is presently the third largest oil producer in the Near East and currently is surpassed in the world only by the United States, the Soviet Union, Venezuela, Saudi Arabia, Iran, and Libya.

Kuwait is in the enviable position of having enormous oil wealth in relation to its population (annual per capita income exceeds U.S. \$3,700). In 1971 crude oil production in Kuwait and in its share of the former Neutral Zone's production averaged almost 3.5 million barrels per day. The Government's revenues from this oil totaled about \$1.5 billion. Prospects are good for continued receipts of increasing magnitude, with Kuwait processing one of the world's major oil deposits (KOC's Burgan field) and estimated oil reserves of more than 78 billion barrels (which include Kuwait's share of the former Neutral Zone), or 15 percent of the world total. Gross national product (GNP) was estimated to exceed \$3 billion in 1971.

There are four oil operators in the country in addition to KOC. Kuwait Shell Petroleum Development Co., wholly owned by the Royal Dutch/Shell group, holds a Kuwait offshore concession granted in 1960. In the former Neutral Zone's onshore area, oil production has been carried out since 1954 by the American Independent Oil Co. (AMINOIL), acquired a few years ago by R. J. Reynolds Co. The Japanese-owned Arabian Oil Co. has produced oil since 1961 from a former Neutral Zone offshore concession. The Kuwait-Spanish Petroleum Co. (51 percent owned by the Kuwait National Petroleum Co.) has exploration rights in onshore areas relinquished by KOC.

A myriad of social welfare, public works, and development plans have originated under government auspices due to the oil wealth. These have modified greatly the previously austere lives of the inhabitants. Kuwait's broad range of government social services perhaps surpasses that of the Scandinavian countries in sheer scope and paternalism. Among the features are free medical services and education at all levels for residents of the State.

Owing to the abundance and low cost of natural gas in Kuwait, this resource is considered the

basic element in the country's industrialization program. Existing industrial activities include water distillation plants (the largest in the world), two oil refineries, an ammonia plant, a desulfurizing plant, fertilizer production, brick and concrete block and cement production, bottling plants, and various light industries. Current development plans provide for further airport expansion, electrification, and municipal road construction. The construction industry remains an important part of the economy. There is no formal economic development plan, but the Kuwait Planning Board, an autonomous organization created in 1962, has introduced the concept of central planning and coordination.

Agriculture is relatively unimportant owing to a lack of arable land and sufficient water. Fish are plentiful in territorial waters, but commercial exploitation by modern means has only recently begun.

The Kuwait dinar, equivalent to \$3.05, is a strong currency backed 100 percent by gold and foreign exchange holdings. The Kuwait Government's budget for the fiscal year ending March 31, 1972, estimated revenues at more than \$1 billion.

Imports include foodstuffs, automobiles, building materials, machinery, and textiles. Total imports in 1970 were valued at \$651 million. Japan was the leading supplier, accounting for 17 percent of the total, followed by the United Kingdom, the United States, and the Federal Republic of Germany. The U.S. market share was 10 percent. Exports, other than petroleum, have consistently been of minor significance, but large oil exports have permitted a consistently favorable balance of trade. Kuwait's balance-of-payments surplus was about \$300 million in 1971.

Kuwait has been a source of economic assistance to other Arab states since 1960, even prior to its full independence. Project development loans totaling \$300 million were pledged in the period through 1971 by the Kuwait Fund for Arab Economic Development (KFAED), an autonomous state institution patterned after Western and international lending agencies. Beneficiaries included Algeria, Morocco, Jordan, Sudan, Tunisia, and Egypt. At the same time the Kuwait Government has bestowed even larger sums in loans and grants to a number of Arab states: Algeria, Iraq, Jordan, Lebanon, the United Arab Emirates, Egypt, and Yemen Arab Republic. This aid, including payments to Egypt and Jordan agreed upon after the June 1967 war, is entirely separate from KFAED loans and has amounted to more than \$1 billion. A large portion has been in the form of subsidies to Saudi Arabia and Jordan since the 1967 war, but since late 1970 payments to Jordan have been suspended.

FOREIGN RELATIONS

Since independence Kuwait has been evolving its own international identity. It joined the Arab League and a number of U.N. specialized agencies, including the International Bank for Reconstruction and Development (IBRD) and the International

Monetary Fund (IMF), and was accepted into membership in the United Nations in May 1963.

In foreign policy Kuwait is closely oriented to the other Arab states in the defense of general Arab interests. The Government and people reflect strong support for Arab causes. Conduct of its program of economic and financial assistance for other Arab countries serves to promote the State's basic objective: the preservation and strengthening of its sovereign independence. Kuwait has also played an active role in promoting the economic development and political stability of the smaller Arab Emirates in the Persian Gulf.

The State's main foreign relations problem in its early years of independence was Iraq's claim to the Shaikhdom following the June 1961 announcement of Kuwait's independence. Owing to fear of an Iraqi military occupation, the Kuwait Amir requested British assistance in defending his country. The British complied by dispatching troops. Kuwait presented its case before the United Nations and successfully preserved its sovereignty. The British forces were later withdrawn and replaced by troops from certain of the Arab League countries, which in turn were withdrawn at Kuwaiti request in January 1963. Pressures from Iraq for annexation of Kuwait moderated with the overthrow of the Iraqi regime in February 1963, and the succeeding Iraqi Government signed an agreement in October 1963 recognizing Kuwait's independence.

Kuwait established diplomatic relations with the Soviet Union in 1963, and in November 1964 the two countries signed an agreement for economic and technical cooperation.

Kuwait's trade orientation, which is almost entirely toward the West, reinforces its friendly relations with Western nations.

U. S. POLICY

The United States supports Kuwait's independence and orderly development and is interested in the security of free-world petroleum sources in Kuwait. Kuwait has played a constructive role in the Persian Gulf and shares U.S. views that states in the gulf should work closely together for their own security. There has been no U.S. economic or military assistance to Kuwait other than Export-Import Bank loans in support of commercial transactions.

A U.S. Consulate was opened at Kuwait in October 1951 and elevated to Embassy status at the time of Kuwait's independence 10 years later. U.S. interest in Kuwait has been reflected by the visits in July 1971 of Vice President Spiro Agnew and in July 1972 by Secretary of State William P. Rogers.

PRINCIPAL GOVERNMENT OFFICIALS

Amir—His Highness Shaikh Sabah al-Salim Al-Sabah

Prime Minister; Crown Prince; Minister of Information and Guidance (Acting)—Shaikh Jabir al-Ahmad Al-Sabah

Minister of Awqaf and Islamic Affairs—Rashid 'Abdallah al-Farhan

Minister of Commerce and Industry—Khalid Sulayman al-'Adasani

Minister of Defense; Minister of Interior—Sa'd al-'Abdallah al-Sabah

Minister of Education (Acting)—Jasim Khalid al-Marzuq

Minister of Electricity and Water Resources (Acting); Minister of Posts, Telephone, and Telegraph—'Abd al-'Aziz Abdallah al-Sar'awi

Minister of Finance and Oil—'Abd al-Rahman Salim al-'Atiqi

Minister of Public Health—'Abd al-Razaq Mishari al-'Adwani

Minister of Foreign Affairs—Jabir al-Ahmad al-Jabir Al-Sabah

Minister of Justice—Jasim Khalid al-Marzuq

Minister of Public Works—Hamud Yusif al-Nusif

Minister of Social Affairs and Labor—Hamad Mubarak al-Ayyar

Minister of State for Cabinet Affairs—'Abd al-'Aziz Husayn

Ambassador to the U.S.—Shaikh Salim al-Sabah al-Salim Al-Sabah

Ambassador to the U.N.—Abdulla Al Bishara

Kuwait maintains an Embassy in the United States at 2940 Tilden Street, N.W., Washington, D.C. 20008.

PRINCIPAL U. S. OFFICIALS

Ambassador—William A. Stoltzfus, Jr.

Counselor of Embassy—Walter M. McClelland

Public Affairs Officer (USIS)—George Wishon

The U.S. Embassy in Kuwait is located at the capital city.

READING LIST

These titles are provided as a general indication of the material currently being published on this country; the Department of State does not endorse the specific views in unofficial publications as representing the position of the U.S. Government.

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Busch, Briton C. Britain and the Persian Gulf, 1894-1914. Berkeley: University of California Press, 1967.

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El Mallakh, Ragaei. Economic Development and Regional Cooperation: Kuwait. Chicago: University of Chicago Press, 1968.

Freeth, Zahra. Kuwait Was My Home. London: Allen and Unwin, 1956.

Hay, Sir Rupert. The Persian Gulf States. Washington, D.C.: Middle East Institute, 1959.

D

KUWAIT

CABINET

AmirSabah, Sabah al-Salim al-
Prime MinisterSabah, Jabir al-Ahmad al-
Min. of Awqaf & Islamic AffairsFarhan, Rashid'Abdallah al-
Min. of Commerce & IndustryAdasani, Khalid Sulayman al-
Min. of DefenseSabah, Sa'd al-Abdallah al-
Min. of EducationMarzuq, Jasim Khalid al-
Min. of Electricity & Water Resources.....Ghanim, Abdallah Yusif al-
Min. of Finance & OilAtiqi, 'Abd al-Rahman Salim al-
Min. of Foreign AffairsSabah, Sabah al-Ahmad al-Jabir al-
Min. of Information & Guidance(Acting).....Sabah, Sabah al-Ahmad al-
Min. of InteriorSabah, Sa'd al-'Abdallah al-Salim al-
Min. of JusticeHamad, Muhammad Ahmad al-
Min. of Posts, Telephone & TelegraphSar'awi, 'Abd al-'Aziz'Abdallah al-
Min. of Public HealthAdwani, 'Abd al-Razaq Mishari al-
Min. of Public Works.....Nusif, Hamud Yusif al-
Min. of Social Affairs & Labor.....Ayyar, Hamad Mubarak al-
Min. of State for Cabinet AffairsHusayn, 'Abd al-'Aziz

January 8, 1973
Source: EMENA Region

BIOGRAPHIC SKETCH

STATE OF KUWAIT

Shaikh Sabah al-Salim al-Sabah

Amir of the State of Kuwait

(Shake Sabah al-Salim al-Sabaa)

The Amir was born in Kuwait in 1918. He is the youngest son of Shaikh Salim al-Mubarak al-Sabah who was the Amir from 1917 to 1921. The Sabah Family has ruled Kuwait in a continuous line of succession from 1756 until the present. The current Amir was educated in Kuwaiti schools and privately tutored. He entered public service at a young age and worked in the Departments of Public Security, Public Health and Public Works during the important formative years of 1946 to 1961 when large oil revenues began to flow in and while Kuwait was still under British tutelage. When Kuwait achieved full independence in 1961, Shaikh Sabah al-Salim was given responsibility for foreign affairs and was named Foreign Minister in the first Cabinet in 1962. In late 1962 he was named Crown Prince. In early 1963, he relinquished the Foreign Affairs portfolio and was named Prime Minister. He headed Kuwait's delegation at the time Kuwait was admitted to the United Nations in 1963. He succeeded to the position of Amir upon the death of his elder brother, Shaikh Abdullah al-Salim al-Sabah in November, 1965.

Shaikh Sabah al-Salim has had valuable years of experience in government and is a patriotic, courageous man with a genuine interest in seeing his country progress.

Personally the Amir is an amiable man who likes a good joke and loves to tell stories. His handling of human relationships is characterized by tact and cleverness. Although he, like the other members of his family, is a person of great wealth he avoids ostentation.

January 8, 1973

Source: US State Department

KUWAIT

CROWN PRINCE AND PRIME MINISTER

Jabir al-Ahmad al-Jabir al-Sabah

Shaikh Jabir al-Ahmad al-Jabir al-Sabah was named Crown Prince on May 31, 1966. He has been Prime Minister in two successive cabinets since late November 1965. Since 1969 he has held a series of posts which have enabled him to play a significant role in the nation's growing economy. Jabir is a strong advocate of industrialization in Kuwait, and is particularly interested in the establishment of a large petrochemical industry. He has also instituted a number of money-saving governmental reforms.

Jabir al-Ahmad was born in Kuwait in 1926, the third son of the late ruler, Shaikh Ahmad al-Jabir al-Sabah, by his first wife, a sister of the present Amir. He is thus connected by blood to both major branches of the Sabah family. He received his education from a private tutor, extensive travel, and experience in government service. In 1949 he was appointed chief of public security in Ahmadi, the major oil region, with additional responsibility for Neutral Zone affairs. He was made responsible for day-to-day contacts with the Kuwait Oil Company in 1956 and proved himself to be energetic and astute. A government reorganization in 1959 brought Jabir to the head of the newly-formed Department of Finance. During the next two years, with the Amir's support, he successfully introduced a system of budgets for governmental departments.

When the current form of government was established in 1962, Jabir became Minister of Finance and Industry. He was given the additional portfolio of Commerce in 1965. When Amir 'Abdullah died in November 1965, Jabir al-Ahmad was named Prime Minister. In the cabinet he formed in December 1965 he turned over the Foreign Ministry to his brother Sabah and relinquished the Commerce Ministry to a distant cousin 'Abdullah al-Jabir al-Sabah. Several months later he was designated Crown Prince.

Jabir enjoys traveling and has done so extensively. In the summer of 1961 he made a goodwill tour of Arab capitals and led the delegation to the 1961 Arab League meeting, at which Kuwait was made a member. He led delegations to meetings of the IMF/IBRD in Washington, D.C. in 1962 and 1965. In 1964 he attended both Arab summit meetings and the non-aligned conference in Cairo. He toured the United States unofficially in 1953, has traveled extensively in Europe and has visited the Far East twice. He attended the Arab Prime Ministers' meeting in Cairo in March 1966. Since 1969, he has made very few trips out of Kuwait.

Shaikh Jabir is a rather handsome man of medium height and build. He is an avid sportsman who excels in horseback riding, swimming, and rifle marksmanship. He is married and has four sons. Shaikh Jabir speaks some English, but prefers to have an interpreter at official meetings.

January 8, 1973

Source: US State Department

BIOGRAPHIC SKETCH

STATE OF KUWAIT

Abdul Rahman Ateeqi

Minister of Finance and Oil

(Abdul Rahman Ateeki)

Mr. Ateeqi was born in Kuwait in 1926 to a prominent middle-class family. He received a secondary level education in Kuwait. He originally worked for the Kuwait Oil Company and then entered government service in 1950 with the Department of Public Security, and later worked with the Department of Public Health. After Kuwait became fully independent in 1961, Mr. Ateeqi joined the Foreign Ministry and came to this country in the dual capacity of Ambassador to the US and Permanent Representative to the UN. In 1963 Mr. Ateeqi was brought back to Kuwait to be Under Secretary in the Ministry of Foreign Affairs. In 1967 he was named to his present position of Minister of Finance and Oil. It is significant that he was the first non-member of the Sabah Family to hold a top Cabinet post. This fact is indicative not only of his ability, but also of the trust with which he is regarded by the Ruling Family. He is generally conceded to be one of the very ablest Kuwaiti Government officials.

Mr. Ateeqi is a quiet, sensitive man who values his prerogatives as a native Kuwaiti. He is active in the Islamic Guidance Society and made the pilgrimage to Mecca several times. He has travelled extensively in the Middle East, India, the US, UK and USSR, and was a member of the delegation to the second Arab Summit Conference in 1964. Travel and reading are his chief interests.

Mr. Ateeqi is married and has seven children. Mr. Ateeqi speaks excellent English, as well as Arabic, and loves to joke.

January 8, 1973

Source: US Department of State

BIOGRAPHIC SKETCH

STATE OF KUWAIT

Shaikh Sabah al-Ahmad al-Jabir al-Sabah

Minister of Foreign Affairs

(Shake Sabaa al-Achmad)

Shaikh Sabah al-Ahmad was born in Kuwait in 1929. He is one of the eight sons of the Amir of Kuwait, Shaikh Ahmad, who ruled from 1921 until 1950. He is the half-brother (by a different mother) of Shaikh Jabir al-Ahmad who is now Crown Prince and Prime Minister of Kuwait. The two boys did not receive formal education, but were privately tutored in Kuwait and abroad.

His first important position was that of Minister of Information. In 1963 he became Minister of Foreign Affairs. He has the reputation for being a serious, hardworking official. He cooperates closely with his half-brother, the Crown Prince.

Shaikh Sabah is basically friendly toward the West, although sharply critical of the US and the UK on the Palestine issue. He believes that Kuwait's interests are directed toward the Afro-Asian world, despite her close relationship with the West. He is firmly committed to a policy of non-alignment -- a posture he regards as essential for a small nation. ←

Shaikh Sabah is a slightly built man who enjoys outdoor exercise. He is especially fond of horseback riding, spear-fishing, boating and tennis. Intelligent, friendly and loquacious, he is a pleasant conversationalist who is willing to listen to the views of others. He is a Sunni Muslim, and has a reputation for moderation -- even abstemiousness -- in his personal habits. A keen gardener, he likes to work in his garden with his own hands. He is married and has several children. Shaikh Sabah speaks and reads English, in addition to his native Arabic.

Shaikh Sabah has visited the United States on numerous occasions.

January 8, 1973

E

KUWAIT

Topics for Discussion

Topics Which Mr. McNamara May Wish to Raise

Introduction. The situation in Kuwait has not changed much since Mr. McNamara's last visit in 1969. The same officials are influential and there is a more favorable understanding of the Bank's role. Mr. Ateeqi, Minister of Oil and Finance, and Mr. Al-Hamad, Director General of the Kuwait Fund still are the key men in Kuwaiti investment activities. Also, Sheikh Jabir the Crown Prince and Prime Minister is a kind of 'god-father' to Kuwait-Bank relations.

A general discussion with the Amir will be very pleasant. Mr. McNamara may wish to touch the Bank's long relations with Kuwait and titles of the projects which have been jointly financed by the Bank and Kuwait Fund in the other Arab countries. Also, Mr. McNamara may wish to mention the Bank's projects in Egypt, Iraq, Syria, Sudan and the Yemens.

1. Bank Advice on Use of Kuwait's Surplus Funds Available for Investment. The dialogue on this issue was started with Mr. McNamara's letter of June 2, 1972 and Mr. Ateeqi's answer dated June 6, 1972 (both attached). A subsequent memorandum by Mr. Dajany dated June 28, 1972 (also attached) gives details of his discussion with Mr. Ateeqi and provides a background for Mr. McNamara to reopen this discussion as he sees fit.

2. Increased Bank Lending in Arab Countries. Mr. Dajany suggests the following self-explanatory approach to Sheikh Jabir on this subject:

When I met you last time (in 1969) you pointed out that you did not feel that there was enough Bank lending in the Arab countries. I already sensed that myself and I promised you that within the coming two fiscal years the Bank would lend approximately 50% more than the total of what it has done in the preceding 23 years of its history. I am happy to say today that we have done better than my promise because our lending in the Middle East and North Africa reached a level of \$210 million in 1972 and this represents more than 6 times our lending average in the years 1964-68. I wish I had made a bet with you when I made this promise; and I am open-minded for another bet right now.

3. Scarcity of Concessionary Funds. The above being said, Mr. McNamara may wish to stress the scarcity of IDA funds and raise some of the topics suggested for all countries in the Gulf Region with Sheikh Jabir and also with Mr. Ateeqi.

4. Extension of Kuwaiti Financing to Islamic Countries Outside the EMENA Region. This is a subject which might be raised with Mr. Ateeqi.

Establish a Foundation - Ford + Bank help

Topics Which Country May Raise

1. Planning. Kuwait has now had more than a decade of experience in development planning, but in the next year will be starting to prepare a longer term development plan, to be completed by 1975. The Planning Director in Kuwait, Dr. Ahmad Duaij, told Mr. Upper informally in November 1972 that he thought Kuwait might request Bank assistance in this effort. There had been some discussions with the Government of a possible visit by Mr. Waterston, but no mutually convenient time for his visit was found before his retirement.

Suggested Answer: The Bank's resources are very limited in this area but in principle this is the type of assistance we would be glad to give.

2. EDI Training. The Kuwait Fund has requested that a regional course be conducted at the UN sponsored Kuwait Development Institute.

Suggested Answer: Due to the heavy demand in the region, both in the Middle East and North Africa, it would probably be most efficient to centralize such training in Beirut where facilities are available at the UNESOB offices and for participants from both the Middle East and North Africa (French speaking). However, sponsorship and assistance from the Kuwait Fund and the Arab Fund for the financing of these courses would be most welcome.

3. Middle East Office. The request for a Bank office has been raised by the Minister of Finance and Petroleum, Mr. Ateeqi, and the Managing Director of the Kuwait Fund, Mr. Al-Hamad. This request may be raised again.

4. Bank Assistance to the Arab Fund. Mr. Jaroudi spent two weeks in the Bank as the guest of Mr. Shoaib in October after the Annual Meeting and in acquainting himself thoroughly with the Bank's operations by discussions at various levels about possible Bank assistance to his organization. One Bank staff member, a power engineer, has been seconded and a second candidate was dropped by mutual agreement. Mr. Upper supplied Mr. Jaroudi with a list of possible candidates from outside the Bank prepared by the Bank's Personnel Department during his visit in November. Mr. Jaroudi may be asking for further assistance in the recruitment of personnel.

5. Industrial Financial Institutions. The report on the Promotion of Manufacturing in Kuwait which was prepared by a mission headed by Harold Larsen and sent to the Government in November 1971 contained as its principal recommendation the establishment of an industrial development bank. The Government is reported to be considering the early establishment of such an institution and may ask for Bank assistance in its formation.

Suggested Answer: Some assistance might be provided by our DFC specialists. However the staff constraint on such specialists should be noted.

6. Kuwait Fund Cooperation. The cordial and effective working relationship developed between the Bank Group and the Kuwait Fund in the past two or three years has resulted in three joint financing operations -- the Tunisia gas pipeline project (FY 1971) to which the Bank has contributed \$7.5 million and the Kuwait Fund \$2.5 million, the Yemen Arab Republic (YAR) economic advisory team (\$200,000 grant each in FY 1971), and the Highways Project in the YAR (FY 1972). The two former operations are proceeding satisfactorily; the third became effective on January 15, 1973. There are a number of additional projects for which joint Bank-Kuwait Fund financing is being considered. These include a Tihama Irrigation Project in the YAR, a Power Project in Jordan, the Rahad Irrigation Project in Sudan and possibly a highway project in Yemen, P.D.R. Details of operations in particular countries are included in the Kuwait Fund brief. Continuing cooperation in various forms may be requested.

Suggested Answer: These joint operations are very welcome and we would be happy to have many more.

EMENA Region
Division 1D
January 26, 1973

June 2, 1972

Dear Mr. Ateeqy:

I have recently learnt that as a result of your assessment of Kuwait's exploitable oil reserves your Government is now considering the appropriate measures to ensure the continuation of the prosperous growth of Kuwait. To this end, it is my understanding, that the Government is considering legislation whereby Kuwait's receipts of royalty payments from oil companies would be allocated to the State's general reserve commencing in April 1972.

While I am in complete agreement with you regarding the need for broadening the base of your economy and diversifying your investments both overseas and at home I believe that the Bank can be of great help to you in attaining these goals. As you know the Bank is planning on a substantial annual lending program for the years 1973-1978 which requires gross borrowings during the period of approximately \$12.8 billion. We would be very interested to explore various possibilities in which a part of your general reserves could be utilized to the mutual benefit of Kuwait and the Bank.

I should like also to reconfirm to you the Bank's willingness to help by providing technical assistance and exploring other channels of diversification to ensure the growth and productivity of Kuwait.

I have discussed this matter with my most senior associates here in the Bank and we all feel there is a good possibility of great mutual interest which should be explored further. For this reason I have asked Dr. Omar Dajany to carry this letter to you and to obtain your views on how best we could be of assistance to you and how we might cooperate in this highly important matter.

no substantial response

With warm regards,

Sincerely,

(Signed) Robert S. McNamara

His Excellency
Abdel Rahman Salem Al-Ateeqy
Minister of Finance and Oil
Kuwait, Kuwait

ODajany/EHRotberg:dlh

Clearances and cc: Messrs. Aldewereld, Shoaib, Rotberg, Benjenk, Dajany

COPY



وزارة المالية والنفط

JUN 12 REC'D

مكتب الوزير

الكويت في June 6, 1972

اشارة

Dear Mr. McNamara:

Thank you for your letter of June 2, 1972 which was carried to us by a dear friend. We very much appreciate your keen interest in the continuation of growth and prosperity of Kuwait and your initiative in proposing that the World Bank assist this country in developing and diversifying its economic resources to achieve this end.

On behalf of Kuwait, I welcome the opportunity to explore with you the various possibilities available for the best utilization of resources and closer cooperation to the mutual benefit of Kuwait and the Bank. We feel that the opportunities the Bank can make available to this country whether in the technical or the financial spheres will provide us with the valuable experience of a development agency respected for its success and achievements. This will, no doubt, be of great help in clarifying our thinking about the various avenues open to us to maintain and improve the standard of living of our people.

Looking forward to a close cooperation between us in this respect,

With warmest regards,

Sincerely,

Abdul Rahman Salim Al-Ateeqi

Mr. Robert S. McNamara
President
International Bank for Reconstruction &
Development
1818 H Street, N.W.
Washington, D.C. 20433
U. S. A.

Mr. Mohamed Shoaib

June 28, 1972

Omar Dajany

Kuwait -- IBRD Investment Proposal

On June 5, 1972 I delivered Mr. McNamara's letter of June 2nd to Mr. Abdul Rahman Salim Al-Ateeqi, Kuwait's Minister of Finance and Oil. Present also was Mr. Abdlatif Al-Hamad, Director General of the Kuwait Fund for Arab Economic Development.

Mr. Ateeqi was quite moved by the warmth and tone of Mr. McNamara's letter and throughout our meeting repeated periodically how touched he was by the spirit of the letter and the initiative taken by the Bank to assist Kuwait in developing and diversifying its economic resources to ensure the continuation of its growth and prosperity. Mr. Ateeqi promised to give me a quick reply to Mr. McNamara's letter and he did so the following day.

In discussing the Bank's proposal several avenues for Bank/Kuwait cooperation in this direction were explored and I made it clear that we have no specific suggestions to make at this time regarding the utilization of their general reserves for 1972 or the years to come. At this stage the Bank merely wanted to know if Kuwait would be interested in principle in working with us. I said that if their reply was in the affirmative, then subsequent meetings between them and us would have to take place in order to discuss the various possibilities in the light of Kuwait's needs and requirements.

Mr. Ateeqi said that the reply is definitely in the affirmative. He asked me to tell Mr. McNamara that he sincerely appreciated the initiative in his letter and that ~~they would welcome~~ establishing a new kind of relationship with the Bank in the form of a continuous consultative arrangement. He was suggesting this method because the Bank's proposal covers a long period of some twenty-five years and Kuwait's needs and investment requirements may vary from time to time. He pointed out that in some years it may be advantageous to invest substantial portions of their reserves in World Bank bonds whereas in other years it may be wise to diversify by investing in other fields. He was sure that the Bank realizes that the value of money in future years may not be what it is now and therefore in some years it may just be advantageous to simply keep the oil in the ground because it may appreciate more than money. These are matters that must be discussed with the Bank continuously in the light of existing circumstances at the time and the international monetary situation. He welcomed the fact that the Bank is now providing them with the opportunity to obtain advice from the best source. To that end he suggested that a mission from Kuwait should come to Washington to initiate discussions with the Bank and organize the kind of consultative relationship to be established for this purpose.

June 28, 1972

I told Mr. Ateeqi that the Bank would welcome such a mission and suggested a timing that would be before or after but not during the Annual Meeting. He seemed in favor of sending such a mission before the Annual Meeting but wanted to discuss the matter more thoroughly with his associates.

In the afternoon I met with Mr. Khaled Abul Saoud, Undersecretary of the Minister of Finance who told me that Mr. Ateeqi had already discussed our proposal with him.

Mr. Abul Saoud, originally a Palestinian, is the most trusted person in Kuwait next to Abdlatif Al-Hamad when it comes to investing government funds. In addition he is solely in charge of managing and investing the personal money of Sheikh Jaber, the Crown Prince and Prime Minister; and Sheikh Saad, the Defense Minister whose wealth is estimated at several hundred million dollars.

Mr. Abul Saoud was initially skeptical about our proposal and I had the impression that he felt we were encroaching upon his territory and naturally resented it. After a lengthy discussion in which I outlined our objective and assured him that it was confined to government resources he reversed his position and agreed that it would be useful for Kuwait to obtain the Bank's advice periodically on their future investments. He was seeing Mr. Ateeqi later in the day and promised to tell him that he supported our proposal.

The following day Mr. Ateeqi handed me his reply to Mr. McNamara's letter and invited me to fly to Beirut with him. On the plane I read the letter and asked him why it did not mention his suggestion regarding the mission he proposed. He said he did that deliberately because he felt this was a matter to be discussed between us and not at Mr. McNamara's level. He hoped I would stay in touch with him in order to plan and organize the time of such a mission or alternately a meeting between us in Washington, Kuwait or elsewhere.

Having obtained this favorable reaction to Mr. McNamara's letter I suggest that a meeting be held among those concerned in the Bank to discuss and propose where we go from here.

ODajany:dhl

cc: Mr. Aldewereld
Mr. Rotberg
Mr. Hartwich

COPY

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KUWAIT

Political Situation

Effective political power has long been and still is, in the hands of the Sabah family, the ruling dynasty dating from about 1760. This was reinforced by treaty agreement with Great Britain in 1899. The Sabah family is tribally related to the other ruling families of the Gulf and Saudi Arabia. All important cabinet positions are normally held by members of various branches of the family; in recent years the custom has been for the Minister of Finance to step up to Prime Minister and Heir Apparent, and thence to Ruler. The only recent exception has been the present Finance Minister, Ateeqi, who is not a Sabah, but holds the position because of the Crown Prince's confidence in his competence and loyalty. The present Crown Prince, Sheikh Jabir is also Prime Minister and effective leader of the Government, while his elder cousin, Sheikh Sabah, sits as Ruler and titular Head of State. Although the form of government has been strict family rule, it has also been consistently benevolent at least since World War II, while successive rulers have sought to transfer the benefits of oil affluence to the citizens; Kuwait now has what are probably the most comprehensive welfare services in the world for its citizens.

The ruling family has also recognized the need for political evolution, holding in December 1961 elections to a 20-member constituent assembly which drafted a constitution under which elections were held to a 55-member National Assembly in January 1963. This Assembly is the only one in the Arab world other than Lebanon. It is a mechanism through which discontent can become vocal and be identified, in preference to the possible alternative of street violence. At the same time, it has become an increasingly powerful force in opposing government policy, as may be the case with the recent oil participation agreements.

The Assembly, in fact, is limited to Kuwaiti citizens -- less than 50 percent of the total. Only they can vote, and only second generation Kuwaiti citizens can hold high office in the administration. The disenfranchised non-Kuwaiti majority of the population, without whose services the economy could not function, could represent a latent but potentially explosive political force for the future. Nevertheless, their views are often felt in the National Assembly, e.g. in the cutting off of aid to Jordan in 1970, and this arrangement does not appear entirely unsatisfactory to them.

Kuwait became a fully independent state in June 1961, through termination of an 1899 Agreement with the UK, and joined the Arab League in 1961 and the UN in 1963. Its foreign relations with the Arab world have stabilized since a confrontation in 1961 with Iraq, which claimed sovereignty over the territory, and agreement with Saudi Arabia regarding

delination of oil rich border territories. Kuwait has frequently played a neutral and conciliatory role among the Arab countries. Relations with Western countries have been friendly, and diplomatic relations have been maintained with the USSR and the People's Democratic Republic of China.

EMENA Region
Division 1D
January 24, 1973

KUWAIT

Economic Situation

In Kuwait, gross savings greatly exceed gross investment (in 1969/70, 46.4 percent and 20.2 percent of GNP respectively). This, of course, is not surprising, given the scale of oil revenues in relation to the size of population (830,000, of whom less than half are Kuwaitis) and of territory (virtually only one urban cluster). The result, equally not surprising, is that Government is in an affluent financial situation, since all oil revenues accrue to it in the first instance.

In FY 1971/72, government oil income amounted to US\$1.52 billion, of which 66 percent was allocated to the budget, and provided 91 percent of total budget revenues of US\$1.09 billion. These supported current budget expenditures of US\$805 million, development expenditures (projects and acquisition of property) of US\$274 million and an allocation to reserves of US\$14 million. The use of oil revenues as reflected in the balance of payments is shown in Annex I.

In the 1972/73 budget, a 57 percent increase of budget income from oil is foreseen, lifting total budget revenues to almost US\$1.63 billion. On the expenditure side, the significant feature is that, of the revenue increase of US\$540 million, US\$377 million is transferred to State General Reserve, despite an increase of over 17 percent in current expenditures and 13 percent in development outlays. This feature, plus the oil revenues which accrue to Government but are not allocated to the published budget (almost US\$430 million in 1971/73), indicates that Kuwait has a large annual flow of "surplus" resources, exceeding any realistic likelihood of need for future domestic government expenditures.

The main forms of Kuwait's official foreign assistance which are disclosed in the balance of payments are inter-governmental grants and loans, and development loans and portfolio investment through the Kuwait Fund for Arab Economic Development (KFAED). In total this amounted to US\$153 million gross and US\$114 million net in 1971/72. (It may be noted that in that year private transfers abroad amounted to US\$198 million -- US\$132 million current and US\$66 million capital.) Government grants, which are principally for budgetary support to Egypt, were in 1971/72 US\$117 million. No government loans were made that year; instead, US\$22 million was repaid. KFAED's net loan disbursements were US\$13 million, and its portfolio investments US\$10 million in 1971/72. KFAED's new loan commitments amounted to US\$30 million on 7 projects in 1969/70, and to US\$34 million on 5 projects in 1971/72.

A memorandum on the contribution of oil and gas to the economy is attached.

KUWAITUse of Oil Revenues, 1971/72 ^{1/}US\$ million
equivalentReceipts

Government oil income	1,522	^{2/}
Other earnings from oil sectors	83	
	<u>1,605</u>	

Payments

<u>Government</u> - grants		114
- loans (net)	-	22
KFAED - loans (net)		13
- investments		9
Sub-total : official assistance		<u>114</u>
Investment income	-	91
Sub-total : Government net		<u>23</u>
<u>Private</u> - transfers	132	
- capital outflow	67	
- investment income	- 239	
Sub-total : private financial (net)		- 40
Trade and non-factor payments (net)		655
Increase of exchange reserves		<u>765</u>
Residual - unknown transactions		<u>202</u>
		<u>1,605</u>

^{1/} March years^{2/} of which, \$1,095 million appropriated for budget.HLarsen/sr
January 23, 1973

OFFICE MEMORANDUM

TO: Files

DATE: January 26, 1973

FROM: John Foster

SUBJECT: KUWAIT - Contribution of Oil and Gas to the EconomyConcessions

1. The most important concession in Kuwait is the original one granted onshore to the Kuwait Oil Company (KOC - owned 50:50 by BP and Gulf Oil). Its first discovery was the Burgan field in 1938 which it brought into production in 1946. Its largest and earliest producing fields are onshore at Burgan and Magwa/Ahmadi. It has a second group of fields in the north at Raudhatain, Sabiriyah and Bahrah, and a third in the west at Minagish and Umm Gudair.
2. In 1960, Kuwait granted to Shell a concession to all the off-shore area. Kuwait has the option to acquire a 20% interest if commercial oil is found. However, drilling was suspended in 1963 pending demarcation of offshore boundaries.
3. In 1967, a concession was awarded jointly to the Kuwait National Petroleum Company (KNPC - 60% held by Kuwait) and the Spanish company, Hispanoil for an onshore area relinquished by KOC. Up to 25% of the Spanish market would be reserved for imports of any oil discovered and produced by the partners. Exploration work continues.

Reserves

4. Proven recoverable reserves of oil at end-1972 are generally reported at about 65 billion barrels, equivalent to 10% of the world's reserves and to 65 years of Kuwait's production at the current rate of offtake. However, the size of reserves is a controversial issue in Kuwait. In February 1972, two deputies of the Kuwaiti National Assembly stated that they were closer to 24 billion barrels. The Government then commissioned an independent consultant's study, whose conclusions have not been announced. In March 1972, the Government asked KOC to limit output to 2.95 million b/d, i. e. at about its 1971 output, by reason of oil conservation; and in an address to the National Assembly on October 24, the Ruler stressed that Kuwait is taking steps to conserve oil resources and to diversify sources of income to lessen its dependence on oil. The National Assembly's Financial and Economic Committee now estimates reserves at 27 billion barrels which would have only 25 years at current rates of offtake.

Kuwait - Saudi Arabia Neutral Zone

5. The agreement between Saudi Arabia and Kuwait formalising the Neutral Zone was signed in 1969. The Kuwait half-interest in the Neutral Zone is held onshore by the American Independent Oil Company (Aminoil) which was acquired in 1970 by the Reynolds Group. The Saudi half interest onshore is held by Getty Oil which sends its 50% share from the above fields to an export terminal in Saudi Arabia. Production onshore is from the Wafra and South Fuwaris fields and since 1968, from the South Umm Gudair field. In 1971, output onshore averaged 187,000 b/d. Aminoil's share of output is sent by pipeline to a refinery (144,000 b/d) and export terminal at Mina Abdulla, Kuwait. Part of the output is desulphurized from 4.2% to under 1% content in a 35,000 b/d unit which thereby produces 100,000 tons yearly of sulphur.

6. Both the Saudi and Kuwaiti half-interests offshore are held by the Arabian Oil Company (AOC). AOC is a subsidiary of Japan Petroleum Trading which is a group of about 60 Japanese firms. There are two offshore producing fields at Khafji, discovered in 1960, and at Hout, discovered in 1963. Crude is delivered by pipeline to an onshore terminal from which it is exported, nearly all to Japan. Loading capacity is 520,000 b/d. Production averaged 357,000 b/d in 1971. Since 1966, AOC has had a 30,000 b/d refinery onstream to provide bunker fuel and products for its local needs; throughput was 23,000 b/d in 1971.

Kuwait National Petroleum Company

7. In addition to its above partnership with Hispanoil, KNPC is sole distributor of products in the domestic market (about 11,000 b/d in 1971). It operates a refinery at Shuaiba, whose capacity has recently been raised to 120,000 b/d. It has established marketing companies for Europe and the Far East. It has an 80% share of Kuwait Aviation Fuelling Company (20% BP) which took over aviation refuelling from BP; a 5% interest in the Umtali refinery in Rhodesia; and a 5% share of Kuwait Petrochemical Industries Company. The last company holds a 60% interest in Kuwait Chemical Fertilizer Company which has an export plant at Shuaiba.

Natural Gas

8. All natural gas in Kuwait is produced in association with oil. Current use of gas has reached about 40% of gas production and is expected to exceed 60% when projects under implementation are put into full operation. Gas is used mostly locally by Kuwait for water distillation and power generation, by Kuwaiti industrial establishments, and by KOC for its internal operations; a little is used by KOC for production of liquefied petroleum gas (LPG - propane and butane) for export.

9. In July 1971, the National Assembly rejected a \$35 million LPG project which would have been a 50:50 joint venture of the Government and KOC. In line with the National Assembly's recommendation, in January 1972, the Government reached agreement with KOC that the Government would have the right to obtain any quantity of natural gas produced in the concession, for use within Kuwait or for export. The Government thereupon drew up a report on policy for use of Kuwaiti natural gas, which was approved in January 1972 and given to the National Assembly for information. It concluded that gas utilization projects under study, such as an aluminum production project and a liquefied natural gas (LNG) project, would need gas exceeding estimated production in 1975. Priority should be given to domestic use. Projects for the export of LPG rather than LNG were more suitable for Kuwait for several reasons: in particular there is a ready export market; their capital cost is far less; they are less risky and more profitable; they can be implemented more quickly; and sufficient propane and butane are clearly available in gas production to support an LPG export scheme.

Government Revenues, 1955-1970

10. Oil revenues accruing to Kuwait rose from US\$ 307 million equivalent in 1955 to \$895 million in 1970, an average increase of 7.4 percent yearly. This essentially reflected growth in export volumes, as government revenue per barrel increased little.

Teheran Agreement and 1971 Revenues

11. However, following upon the increases in September 1970 of posted prices (i. e. tax-reference prices) and tax rates of crudes exported from the Mediterranean and Nigerian ports, tax rates of crudes exported from the Arabian Gulf including Kuwait were raised from 50 to 55 percent effective November 14, and postings from some medium and heavy crudes there were raised by a few cents per barrel. That for Kuwait crude oil (31° API) was increased by 9 cents to become \$1.68 per barrel. Government "take" per barrel rose from 82.5 cents to 95.3 cents per barrel (see Table 1).

12. The Teheran Agreement, effective February 15, 1971 between governments of six countries including Kuwait and oil companies for crude exports from the Arabian Gulf, resulted in a major increase in posted prices and consolidated tax rates at 55%. The Kuwait crude posting became \$2.085 and Government revenue \$1.231 per barrel, an increase of 29%. The agreement was to constitute a final settlement of Government "take" per barrel and companies' financial obligations until end-1975 and provided for contractual escalation of posted price during this period of 2.5% for inflation and 5 cents per barrel for general escalation on June 1, 1971 and each January 1, 1973-75. Thus Government oil revenue was \$1,395 million equivalent in calendar 1971^{1/} an increase of 56% over 1970.

1/ \$1.53 billion for FY 1971/72.

Geneva Agreement and 1972 Revenues

13. Effective January 20, 1972 posted prices in these six countries were again increased by 8.49% under the Geneva Agreement in compensation for the international currency realignment of December 1971. The agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with the US dollar; the index has not yet been brought into use. The posted price of Kuwait crude thereby rose to \$2.373 per barrel, and Government revenue per barrel to \$1.403 per barrel, an increase of over 17% over the weighted average for 1971. Crude oil exports are estimated at over 159 million tons in 1972 (3.15 million b/d) which is no increase over 1971. Thus Government revenue is estimated at \$1,619 million in 1972, up by 16% over 1971.

14. Before taking into account the additional income from "participation" (see below), Government revenue is foreseen to rise about 5.4% yearly to reach 4.5 billion by 1980 and perhaps 3.0 billion by 1985 (Table 2). This assumes that by 1975 Kuwait may relax its current policy of restricting output on conservation grounds and may allow moderate growth in output through 1980, levelling off thereafter (Table 3), and that Government revenues per barrel may rise after 1975 on the lines of the then expired Teheran and Geneva Agreements, i.e., an increase of about 4.3% yearly. This seems the minimum likely increase, given the evident strength of producing versus consuming countries in the determination of prices. There could instead, for example, be a quantum jump in 1976, followed by yearly escalation tied in some way to terms of trade with developed countries.

Benefit to Kuwait of Participation

15. In October 1972, a framework accord was concluded in New York on behalf of Arab States, including Kuwait, for government participation in crude oil production facilities of companies operating in these countries. The accord was subsequently embodied in the General Agreement on Participation, which Kuwait signed on January 8, 1973 with the foreign partners BP and Gulf Oil. The framework accord, General Agreement and status of negotiations between governments and foreign companies are summarized in Attachment A to the memorandum on OPEC oil projections (in the Gulf Region section). Regarding Kuwait, the Government representatives and foreign companies had already reached agreement on November 25, 1972 on the prices and lifting arrangements during 1973-75 for Kuwait 31° crude which they would now have to buy back from the Government's share of output. Buy-back prices after 1975 would be negotiated together with posted prices upon expiry of the Teheran Agreement. However, the Kuwait Council of Ministers disapproved the negotiated price formula, and Kuwait did not sign the General Agreement on December 20, the date when Saudi Arabia and Abu Dhabi signed.

Government representatives subsequently negotiated a more favorable formula which was acceptable to the Council of Ministers. Kuwait accordingly signed the Agreement on January 8, 1973. The Agreement is due to be referred to the Kuwaiti National Assembly for approval before it can be ratified; it is expected to receive opposition there.

16. The purchase price for Kuwait's initial 25% participation in the crude oil production facilities of KOC would be \$149 million. This was calculated on the basis of the updated book formula in the General Agreement.

17. The revised formula for the prices, at which foreign partners would buy back the Government's share of output, is understood to follow the lines envisaged in the General Agreement. The formula is reported in the oil press, but is not yet officially announced. The foreign partners have indicated their intention to pass on to customers the additional cost incurred in buying back such crude, which had been available to them at tax-paid cost prior to January 1, 1973. Their average cost of oil liftings - including their own crude, bridging crude and phase-in crude is calculated to rise about an average 8-9 cents per barrel (Table 1). This increase is additional to that of just under 7 cents per barrel also on January 1 resulting from escalation under the Teheran Agreement.

18. The revenue to Kuwait from selling its share of output - to foreign partners as bridging and phase-in crude, to its own refinery and the initially small balance to third parties for export - is estimated at about 10 cents per barrel of total output during 1973-1977 additional to what it would obtain in any event as royalty and taxation. This additional revenue looks likely to increase about double by the early eighties. The gross annual benefit to Kuwait from participation is hence estimated at about \$110 million p. a. during 1973-1977, increasing to about \$220 million by 1980 and \$260 million by 1985.

19. Assuming payment for Kuwait's equity participation over 3 years, the indicated installments in 1973-1975 would present no more than about half the gross yearly benefits from participation in those years. After payment for its equity participation, Kuwait's net benefit from participation appears to be about \$60 million p. a. in 1973-1975, rising thereafter to perhaps \$260 million p. a. by 1985 (see Table 2).

cc: Messrs. Stern, Hayes, Tims, Price, Varon
C. Thompson, Karaosmonoglu, Asfour, Larsen, Maiss
Upper/Nijhof/Ali

TABLE 1

KUWAIT: ACTUAL AND FORECAST TAX-PAID COST OF KUWAIT CRUDE OIL (31.0° API) F.O.B. MENA-AL-AHMADI 1970-1985
(U.S. cents per barrel)

Effective Date of Agreement	To:	Nov 13,	Nov 11,	February 15,		January 20, 1972/b				Mission Assumptions/c										
		1970	1970	1971/a		Jan 20,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	Jan 1,	
Dated of Price Calculation		Jan 1,	Jan 1,	Feb 15,	June 1,	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	
Posted price effective since 1968		159.0	168.0	168.0																
add: general increase		-	-	33.0																
additional		-	-	1.0																
freight disparity		-	-	2.0																
gravity adjustment		-	-	4.5																
Base posting		-	-	208.5	208.5	218.7	237.3	248.2	259.4	270.9	282.7	294.8	307.2	319.9	332.9	346.2	359.9	373.9	388.2	388.2
add: escalation of 2.5%		-	-	-	5.2	-	5.9	6.2	6.5	6.8	7.1	7.4	7.7	8.0	8.3	8.7	9.0	9.3	9.7	9.7
escalation of 5 cents		-	-	-	5.0	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
supplement of 8.49%		-	-	-	-	18.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Posted price		159.0	168.0	208.5	218.7	237.3	248.2	259.4	270.9	282.7	294.8	307.2	319.9	332.9	346.2	345.9	373.9	388.2	402.9	402.9
less: gravity allowance/d		1.8	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
percent allowance		5.6	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
marketing allowance		0.5	0.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
production cost		6.0	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
royalty		19.9	21.0	26.1	27.3	29.7	31.0	32.4	33.9	35.3	36.9	38.4	40.0	41.6	43.3	45.0	46.7	48.5	50.4	50.4
Deductible costs		33.8	32.9	32.1	33.3	36.2	37.5	38.9	40.4	41.8	43.4	44.9	46.5	48.1	49.8	51.5	53.2	55.0	56.9	56.9
Net Taxable Income		125.2	135.0	176.4	185.4	201.1	210.7	220.5	230.5	240.9	251.4	262.3	273.4	284.8	296.4	308.4	320.7	333.2	346.0	346.0
	(@ 50%)																			
Income Tax @ 55%		62.6	74.3	97.0	102.0	110.6	115.9	121.3	126.8	132.5	138.3	144.3	150.4	156.6	163.0	169.6	176.4	183.3	190.3	190.3
Add: royalty		19.9	21.0	26.1	27.3	29.7	31.0	32.4	33.9	35.3	36.9	38.4	40.0	41.6	43.3	45.0	46.7	48.5	50.4	50.4
Government "Take"		82.5	95.3	123.1	129.3	140.3	146.9	153.7	160.7	167.8	175.2	182.7	190.4	198.2	206.3	214.6	223.1	231.8	240.7	240.7
Add: Production cost		6.0	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Tax-paid cost to producer		88.5	101.3	129.1	135.3	146.8	153.4	160.2	167.2	174.3	181.7	189.2	196.9	204.7	212.8	221.1	229.6	238.3	247.2	247.2
Foreign Partners' Participation cost							9.1	8.2	7.4	6.4	5.7	7.0	7.7	8.4	9.2	9.7	8.4	7.8	7.2	7.2
Producers' margin							35.5	35.6	35.4	35.3	35.6	35.8	35.4	35.9	36.0	34.2	36.0	35.9	35.6	35.6
Realized f.o.b. export price							198.0	204.0	210.0	216.0	223.0	232.0	240.0	249.0	258.0	265.0	274.0	282.0	290.0	290.0

a/ Under the Teheran Agreement of February 15, 1971 the base postings for the Gulf exporters of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, rising on June 1, 1971 and on each January 1, 1973 - 1975 by 2.5% for inflation plus 5¢ for general escalation. They also rise by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities, plus an additional increase of 1¢ for Iranian Heavy, Arabian Medium and Kuwait Crudes.

b/ Under the Geneva Agreement of January 20, 1972 posted prices for the above Gulf exporters were increased that date by 8.49% to compensate for the international currency realignment of December 1971. The increase is close to the revaluation of sterling to the US dollar; sterling is the currency used for oil revenue payments by most Gulf exporters other than Saudi Arabia. The Agreement includes a parity index, designed to compensate for another major realignment in average exchange rates for currencies of nine industrial countries with US dollars; the projections assume no change in the index.

c/ The Teheran and Geneva Agreements expire on December 31, 1975. Projections thereafter assume that the same provisions would continue through 1980.

d/ Prior to February 15, 1971 the posted price for crude oil exports from the Persian/Arabian Gulf varied by 2 cents per barrel for each full degree API above or below that indicated. Since then, it varies by 0.15 cents per barrel for each 0.1° API for crude oils up to 40.0° and by 0.2 cents for each 0.1° API for crude oils above 40.0°.

Table 2

KUWAIT: FORECAST OF EXPORT RECEIPTS AND GOVERNMENT REVENUE, 1973-1985

	1973	1974	1975	1976	1977	1978	1979	1980	1985
	----- (US\$ million) -----								
Gross Export Receipts <u>a/</u>	2178	2244	2310	2454	2591	2756	2918	3100	3625
Government Revenue from Royalties and Taxes <u>b/</u>	1616	1691	1768	1906	2035	2170	2315	2468	3009
<u>Government Benefit from</u>									
Additional gross revenue <u>c/</u>	113	111	108	105	108	134	163	194	260
Less purchase price of share <u>d/</u> (including interest)	<u>45</u>	<u>60</u>	<u>56</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>21</u>	<u>32</u>	<u>-</u>
Net benefit	68	51	52	105	108	125	142	162	260

a/ This is product of projections of output in table 2 and realised f.o.b. export price in table 1 . It ignores crude sold to local market.

b/ This is product of projections of output in table 2 and Government revenue per barrel in table 1 .

c/ This is product of projections of output in table 2 and additional gross revenue in table 1 .

d/ Purchase prices for initial and subsequent shares are assumed to be paid each in three annual installments and to carry interest at $7\frac{1}{2}\%$ p.a.

KUWAIT: FORECAST OF CRUDE OIL PRODUCTION, 1973-1985

Table 3

	1973	1974	1975	1976	1977	1978	1979	1980 [*]	1985
	----- (million metric tons) -----								
Total output	152	152	152	157	161	164	168	172	173
	----- (million b/d) -----								
Total output <u>a/</u>	3.00	3.00	3.00	3.10	3.18	3.25	3.33	3.40	3.42
	----- (million barrels) -----								
Total output	1100	1100	1100	1136	1162	1188	1216	1245	1250
<u>Partners' share in output</u>	----- (barrel of output <u>b/</u>) -----								
Foreign share	0.75	0.75	0.75	0.75	0.75	0.70	0.65	0.60	0.49
National share	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.30</u>	<u>0.35</u>	<u>0.40</u>	<u>0.51</u>
- bridging	0.1875	0.125	0.0625	-	-	-	-	-	-
- phase-in <u>b/</u>	0.0375	0.075	0.1250	0.175	0.1625	0.195	0.21	0.2225	0.1495
- retained <u>b/</u>	0.0250	0.050	0.0625	0.075	0.0875	0.105	0.14	0.1775	0.3605
<u>Foreign partners' liftings</u>	----- (barrel of output <u>c/</u>) -----								
KOC:	<u>0.975</u>	<u>0.95</u>	<u>0.9375</u>	<u>0.9195</u>	<u>0.904</u>	<u>0.880</u>	<u>0.84</u>	<u>0.797</u>	<u>0.622</u>
- own share	0.75	0.75	0.75	0.75	0.75	0.70	0.65	0.60	0.49
- bridging crude	0.1875	0.125	0.0625	-	-	-	-	-	-
- phase-in crude <u>c/</u>	0.0375	0.075	0.1250	0.170	0.154	0.180	0.13	0.197	0.132

a/ Conversions assume 7.24 barrels per metric ton of Kuwait crude (31.00°).

b/ General Agreement on Participation expressed the phase-in and retained parts of its share of output after 1975 purely in terms of 1975 output.

c/ The foreign partners lift (i) their own share and (ii) the bridging and phase-in parts of the national share of output. It is all, including that lifted after 1975, expressed in terms of output in the year in question.

K U W A I T

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Introduction

In December 1961, the Kuwait Fund for Arab Economic Development (KFAED) was established. It is an autonomous agency of the Kuwait Government charged with the allocation and administration of development assistance to the Arab countries. This means that it works within the framework of an important limitation, namely, the volume of resources that the KFAED is able to devote to the assistance of the Arab development. Moreover, the Fund is not the sole channel through which Kuwait provides official aid to the Arab countries. A significant part is administered by another body, the General Authority for the South and the Arabian Gulf, which disposes of an annual budget of around KD 2 million. A much more important portion -- around KD 60 million per year -- has also been granted directly by the Government since the 1967 war. This, as a matter of fact, is the main reason which explains why the Fund's statutory capital of KD 200 million has not yet been attained.

Despite these limitations, however, the Fund has been able to grow at a reasonably regular pace. Its total assets have recently passed the KD 100 million mark.

By adhering to strict lending policies, based on an assessment of the economic and technical soundness of the project due for financing, it is able to raise additional financing resources on the international capital markets if need be. No loan granted for any project may exceed either 15 percent of KFAED's prescribed capital or 50 percent of the total financial requirements of the projects concerned. The terms of the loan take into account conditions set by other sources of finance utilized and the earning prospects of the project itself. In general interest rates are below the prevailing market rates in the borrowing countries. Easy terms are applied to loans for irrigation, agricultural projects, and small industrial projects financed through the intermediary of industrial development finance organizations.

Up to now, 33 loans have been made totalling KD 94 million. The Kuwait Fund has made itself a good reputation in the Middle East and in the Bank for prompt and independent action.

Mr. Abdlatif Y. Al-Hamad has been Director General of the Kuwait Fund for Arab Economic Development since 1963. He is also Managing Director of the Kuwait Investment Company.

1) Why haven't we done more of projects in the past & why aren't we planning on more in the future
do they have a 5 1/2 funding program
←

Relations with the Kuwait Fund

The cordial and effective working relationship developed between the Bank Group and the Kuwait Fund has resulted in three joint financing operations -- the Tunisia gas pipeline project (724 TUN) to which the Bank has contributed \$7.5 million and the Kuwait Fund \$2.5 million, the Yemen Arab Republic economic advisory team (\$200,000 grant each), and the Highways Project in the YAR. These two former operations are proceeding satisfactorily; the third became effective on January 15, 1973. There are a number of additional projects for which joint Bank-Kuwait Fund financing is being considered. These include a Tihama Irrigation Project in the YAR, a possible Highways Project in the People's Democratic Republic of Yemen and a Power Project in Jordan.

The countries are listed alphabetically, but the most important operations are in Yemen Arab Republic, Tunisia, and Jordan.

Algeria

The Kuwait Fund has been asked by Algeria to participate in the El Paso/Sonatrach venture, if even for a nominal amount.

Jordan

1. Irrigation

The Kuwait Fund is providing JD 5 million for the construction of a dam on the Zarqa river, (one of the main tributaries of the Jordan Valley) as the first stage of the development of the Jordan Valley.

Under a recently modified agreement, the Kuwait Fund agreed that its finance would go entirely for the dam, thus freeing the on-farm development portion for a possible other donor. Subsequently, USAID has agreed to finance the canalization and on-farm development, including housing, of the Zarqa region. The Bank has identified a \$7.5 million irrigation and rural development project covering the area between Zarqa and the Yarmouk river at the Syrian border. The Germans are considering financing irrigation and rural development south of Zarqa, near the Dead Sea.

2. Zarqa Thermal Power Project

The Government of Jordan has requested IDA, along with the Kuwait Fund, to finance the foreign exchange requirements of a Project comprising a 66-MW steam electric station at Zarqa near Amman. This project was previously appraised in June 1971 shortly after the civil disturbances which rocked the country at the end of 1970. The effect of these disturbances on development and consequently on the electricity market was at that time still highly uncertain. By the middle of this year it appeared that the market had recovered and that a sustained high growth rate of demand for electricity could be expected barring further disturbances. There has been no previous Bank Group lending for power in Jordan.

The project was re-appraised in November /December 1972, with Kuwait Fund officials participating in the concluding discussions with the Jordanian Government. Total cost of the project is \$20 million, including a foreign exchange component of \$16.8 million, to be financed jointly and pari passu (\$8.4 million each) by the Kuwait Fund and IDA. The Green Cover Appraisal Report is expected to be ready by March/April and would be sent to the Kuwait Fund, as they have requested, after clearance by our Loan Committee. The Kuwait Fund loan is envisaged to be signed by May, and the Bank credit in June or July.

In order to harmonize policy, we have requested the Government and the Kuwait Fund, that the Kuwait Fund loan be relent to the Jordan Electricity Authority at the same interest rate as the IDA credit, i.e., at 7 1/4 percent instead of their proposed 6 percent. We are assuming that this request be granted.

Morocco

Under the Bank's fifth loan to the Banque Nationale pour le Développement Economique (BNDE) a DH 8.4 million sub-loan was granted to the Sucrafor sugar mill. DH 6 million was covered by the proceeds of the Bank loan and DH 2.4 million was financed by the Kuwait Fund. The project is proceeding satisfactorily.

Syria

Euphrates Project

The only project for which joint financing with the Kuwait Fund may be warranted is the Euphrates irrigation in Syria. However, consideration of the project by the Bank is contingent upon agreement between the three riparian countries on preliminary arrangements for water rights (since agreement on the ultimate sharing of waters is likely to take substantial time and is not essential for the implementation of the projects planned in the next few years) as well as on the economic justification for the project. It may therefore be premature to mention this project to the Kuwait Fund, but we should leave it to you to decide on this.

The amounts involved are very large; the first tranche of 50,000 ha for which Government has expressed interest in Bank/IDA financing may cost as much as \$115-140 million in total (including land development, infrastructure and housing). The Kuwait Fund participation in the financing would be useful not only to share costs but also to soften the financing terms as IDA financing in Syria is likely to remain limited.

Tunisia

1. Relations with the Kuwait Fund have always been good. They materialized once in the joint financing of a Gas Pipeline Project for which the Bank lent \$7.5 million and the Kuwait Fund KD 900,000 (about \$2.5 million). Cofinancing arrangements were made smoothly and cooperation was satisfactory. Execution of the project is near completion and the loan has been almost fully disbursed.
2. Until recently, we were planning to enter into a similar arrangement for a second power project; however, the size of the project has been reduced to the installation of two gas turbines and the Kuwait Fund will pick up all the foreign exchange financing of the project. We have agreed to withdraw from this operation.
3. Another project where we may perhaps be asked to consider again cofinancing arrangements with the Kuwait Fund is a fishing ports project. The Tunisians have requested the Kuwait Fund to participate in the financing of three fishing ports (Zarzis, Chebba, and Sfax) and, if the project would be larger than it is now, we may be requested also to contribute to its financing. However, Mr. Al-Hamad recently indicated that if the fisheries project would not cost more than \$10-12 million the Kuwait Fund would be able to finance it alone.

Yemen Arab Republic

Mr. McNamara may want to express his satisfaction with the close working relationship which has been established with the Fund in Yemen. Operational matters of interest are following:

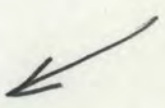
a) Planning Technical Assistance Team

Mr. Hartwich has written to the Chief of mission, Mr. Ghandour, asking for his views on the scope of a second phase of the planning team services. We are prepared in principle to extend the services. The second phase would begin about October 1973.

b) Highway Project (Credit 315)

The project became effective on January 15, 1973 and the Technical Assistance Consultants will arrive on January 20.

c) Tihama Agricultural Development

The Kuwait Fund may ask what is the current situation regarding the processing of this project. The Yellow Cover Appraisal Report was distributed on January 18 and we will be writing the Kuwait Fund shortly regarding the project composition, financial arrangements and the draft consultant's contract on which the Fund asked our comments and approval. The Kuwait Fund participation in the project of about \$5 million might be confirmed. There are several items we would like to add to the consultants terms of reference. Negotiations are tentatively scheduled for the last week of February and we would welcome Kuwait Fund participation. It might also be an appropriate time to sign the consultant's contract if this cannot be done previously. Tipton and Kalmbach will be the project consultants. Legislation establishing the Tihama Development authority will also be discussed during negotiations and agreed. 

The Yellow Cover has taken some seven months to prepare which the Kuwait Fund might (justifiably) comment upon. There are two basic reasons for the delay: (1) we have been awaiting the final ground water test results at Wadi-Zabid to determine whether ground water should be included in the project, and (2) the draft appraisal report prepared in October was considered unsatisfactory by our Agricultural Project Division and has been almost completely re-written.

d) Education

The Kuwait Fund is not really interested, and would leave this sector in YAR to other agencies.

Yemen, People's Democratic Republic of

1. Abyan Delta Project

This project, originally planned for joint financing by the Kuwait Fund and IDA will now be financed entirely by the Kuwait Fund. The reason is that the Kuwait Fund and the Government wanted to move faster than we felt was warranted by the feasibility report. There was notably no uniformity on the cost picture, the consultants advancing a figure of about \$7 million, as against our estimates of close to \$15 million. We hope that Abyan Delta will be a success.

2. Fisheries Project

IDA will be financing a \$3 million fisheries project, on which negotiations are scheduled to start early February. The project will process tuna and develop traditional coastal fishing, while including finance for an agricultural credit survey and identification of a second fisheries project. The Kuwait Fund appears to be interested in such second project, but we have no further details on this.

Oman

Mr. Al-Hamad has confirmed that the Kuwait Fund was interested in a relationship with Oman but that the initiative in his view, was up to the Omanis. Mr. Dajany feels that Mr. McNamara's good offices might be used to bring the two parties together through Mr. Dajany's personal relationship with Sultan Qabus if Mr. Al-Hamad should reconfirm his interest. X

The Arab Fund

The Arab Fund for Economic and Social Development was recently established with headquarters in Kuwait. Mr. Saeb Jaroudi, former Minister of Economic Development in Lebanon and before that Chief Economist of the Kuwait Fund, is Managing Director. The four-man Board of Directors includes Mr. Abdlatif Al-Hamad, Director General of the Kuwait Fund, as well as nationals from Algeria, Egypt and Iraq all of whom took up residence in Kuwait and held their first meetings in November, 1972. Authorized capital is KD 100 million. The membership is composed of Arab League Governments with the exception of Saudi Arabia. Saudi Arabia has stated an intention in principle to join, but has not completed the formalities nor paid in its subscription. Mr. Jaroudi visited the Bank in October after attending the Annual Meeting for two weeks at Mr. Shoaib's invitation.

A Summary of the Agreement of May 1968 establishing the Arab Fund is attached.

*What as their
lending prog - 2.9. Jan 73 74 75
interest in it for with WSK*

Attachment
EMENA Region, 1D
January 25, 1973

SUMMARY OF AGREEMENT OF MAY 1968 ESTABLISHING THE
ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT OF
THE LEAGUE OF ARAB STATES

	<u>Countries</u>	<u>Shares</u>	<u>Countries</u>	<u>Shares</u>
<u>17 Members</u>	Abu Dhabi	500	Morocco	200
	Algeria	400	Qatar	150
	Bahrein	50	Saudi Arabia (to be determined)	
	Egypt	1050	Sudan	150
	Iraq	750	Syria	300
	Jordan	200	Tunisia (to be determined)	
	Kuwait	3000	Yemen A.R.	50
	Lebanon	100	Yemen, P.D.R.	<u>1</u>
	Libya	1200		
			Allocated Shares	8100
			Not Allocated	1900
			Total Shares	10,000

Fund Established The agreement was approved on May 16, 1968 to establish the Arab Fund for Economic and Social Development, a regional Arab Financial Institution, with principal office in Kuwait, and with authority to establish branch offices and agencies elsewhere. The Fund is designed "to build the Arab Economy on a firm basis to meet the requirements of economic and social development in their countries, and to fulfil the purposes of the charter of the League of Arab States."

Functions "The Fund shall contribute to financing projects of economic and social development in the Arab states and countries by:

1. Financing productive investments with easy term loans to governments and to private and public institutions and bodies, with priority accorded to projects vital to the Arab entity and to joint Arab ventures.
2. Encouraging, by direct and indirect means the investment of private and public funds to foster the growth and development of the Arab Economy.
3. Providing technical expertise and assistance in the various aspects of economic development."

Membership and Capital Members of the Fund are (a) those states that are members of the Arab League and that subscribe to the Fund before July 1, 1968, and (b) any other Arab state or country whose admission is approved by the Board of Governors.

The Fund may decide to accept the participation in the Fund's capital of private and public Arab financial institutions and bodies in the Arab states and countries. The authorized capital stock of the Fund shall be one hundred million Kuwaiti dinars (i.e., 304 million U.S. dollars as of January 1973) convertible into convertible currencies. The capital stock shall be divided into ten thousand shares, each of which is worth ten-thousand Kuwaiti dinars (i.e., 30.4 thousand U.S. dollars).

Provisions for Increasing the Capital Stock The Fund may increase its capital stock subject to absolute or three-fourths majority approval, depending on whether or not the country seeking the increase is an original member and the proportion of shares would remain within the existing percentage, etc.

Subscription of Shares The shares of the capital stock of each founding member (to be issued at nominal value) are listed above, with the shares of other members to be determined. Each member shall pay ten percent upon ratification, another ten percent when the agreement comes into force, and the remainder in ten equal annual installments starting one year after commencement of the Fund's operations. Each country joining after ratification shall pay from its assigned share a proportion equivalent to what the other members will have paid. Shares are not transferable except to the Fund.

Capital Resources The capital resources of the Fund shall consist of (a) subscribed capital, (b) reserve funds, and (c) funds raised by borrowing by issuing bonds or "by obtaining credit from private and public Arab institutions, individuals and international institutions." The value of bonds issued shall not exceed at any one time, twice the amount of capital, except by authorization of a majority of two-thirds of the votes of the Board of Governors.

Operations "The Fund shall, in particular, undertake the following operations:

1. Borrowing of funds on the internal and external markets and deciding the appropriate guarantee for that purpose.
2. Guaranteeing papers related to projects in which the Fund has invested, to facilitate their sale.
3. Selling and buying the financial papers it has issued, or guaranteed or invested in.
4. Investing surplus funds which it does not need, as well as its holdings of savings, pension and similar funds, in first class financial papers.
5. Undertaking any other operations relating to the functions of the Fund as set forth under Article 2." (i.e., "Functions" paragraph above.)

Loan Guarantees All lending operations in the interest of a public or private institution or body shall be guaranteed by the Government of the state in which the project is located. Additional guarantees may be required for financing nongovernmental projects.

Limitations on Financing Government approval is required for financing any project in its territory. Funds shall be spent only for the purposes stated. The Fund shall not take part in the management of any project it finances.

Financing terms shall be those the Fund deems appropriate to the project and the risks involved. The Fund itself must first ascertain the viability of each project it proposes to finance. "The Fund must continuously endeavor to invest its resources, and must always seek satisfactory terms". The Fund may float loans in any member country to finance a project after obtaining that country's approval. Where the project is located in another member country, the member in whose territory the loan has been floated shall be obliged to transfer the loan proceeds to the other country.

Provision of Currencies for Loans, Conversion of Currencies, and Repayment of Debts Standard type provisions.

"Prohibition of Political Activity The Fund or its managing staff shall not interfere in political affairs; only economic and social considerations shall be decisive when decisions are taken."

ORGANIZATION AND MANAGEMENT

Structure The Fund shall have a Board of Governnors, a Board of Directors, a Director-General, loan committees and the employees required for undertaking the tasks defined by the Fund's management.

Board of Governnors One Governor and one Deputy Governor appointed by each member for five year terms unless replaced sooner. Chairman of the Board to be designated once a year. The Board of Governnors shall act as a General Assembly for the Fund with all powers of management. The Board may delegate to the Board of Directors any or all of its powers, except the power to admit new members, increase the capital stock, suspend a member, decide appeals on interpretations or applications of agreement, authorize agreements with international organizations, terminate the operations of the Fund and liquidate its assets, and determine the distribution of the net profits. The Board shall meet at least once a year, plus other standard provisions.

Voting Each member shall have two hundred votes regardless of the number of shares held, plus one vote for each share of capital stock held. Except as otherwise provided, all matters shall be decided by an absolute majority of the voting power.

Director-General, Chairman of the Board of Directors and Chief of Staff The Board of Governnors shall appoint a Director-General from outside the Governnors and their deputies and members of the Board of Directors and their deputies. Authority and limitations of his authority defined.

Board of Directors Responsible for directing general operations and exercising all powers delegated to it. Board shall be composed of four fulltime Directors elected by the Board of Governnors, "... Arab persons of high competence and experience and may be reelected." Method of election, duties of Deputy Directors, tenure, quorum and absolute majority vote procedure defined.

Loan Committees To be formed to study projects and loan applications. Each committee to include one expert chosen by the Governor representing the Fund member in whose territory the project is located and one or more members from the technical staff of the Fund appointed by the Chairman of the Board of Directors.

Annual Reports and Financial Statements To be issued annually and transmitted to all members.

Distribution of Profits Ten percent of the net profits shall be allocated to a general reserve account, and the Board of Governors may allocate an additional percentage for a supplementary reserve fund. The remaining profits shall then be distributed to members in proportion to their shares.

WITHDRAWAL

Withdrawal of Members, Suspension of Membership, Rights and Obligations when Members ceases Temporary Suspension and Termination of Operations and Liquidation of Assets are specified in four articles.

STATUS, IMMUNITIES AND PRIVILEGES

Juridical Identity and Authority of the Fund, Immunity of Property and Assets, Treatment of Official Communications, Exemption from Taxation, Immunities and Privileges of Fund, Personnel, and Amendments to the Text of the Agreement are specified in six articles.

INTERPRETATION AND ARBITRATION

Interpretation of the Agreement and Arbitration are specified in two articles.

FINAL PROVISIONS

Ratification, Deposit and Accession are defined in four articles, including the provision that "This Agreement shall enter into force one month after the instruments of ratification belonging to states whose initial total subscriptions ... comprises not less than 45 percent of the authorized capital stock of the Fund."

G

4 issues = 840 million
+ 1/73 issue

BORROWING OPERATIONS IN KUWAIT

The Bank has raised a total of KD ^{840 million} 80,000,000 in the Kuwaiti market. One issue was placed in 1968 and the other three in November 1971 and April and August 1972 respectively. There were plans for one more issue of KD 25,000,000 during the present fiscal year in early February, however the exact timing has not yet been confirmed by our underwriter.

Our underwriter in all these operations was the Kuwait Investment Company (KIC) under its Managing Director, Mr. Ablatif Al Hamad, who is Deputy Governor for the World Bank and Director General of the Kuwait Fund. He is a dynamic personality and the successful placement of our issues should be credited to a great extent to his personal efforts and contacts in the Kuwaiti banking community and in government circles where he is very highly respected.

In the recent series of issues KIC was able to stretch the average life of our issues from 6 years (November 1971) to 6-1/2 years (April 1972) to about 12 years (August 1972). Mr. Al Hamad has claimed that our recent 5 year issue in Lebanon might have made his future efforts in this direction more difficult. He promised to report to us on this question by the end of January.

Treasurer's Department
January 26, 1973

SUBSCRIPTIONS

United Arab Emirates: On September 22, 1972 United Arab Emirates became a member of the Bank, with a subscription of \$12.8 million (128 shares).

Kuwait: The following increase in the subscription of Kuwait to the capital stock of the Bank, became effective on October 25, 1972:

From 667 shares (\$66.7 million)
To 694 shares (\$69.4 million)

Qatar: On September 26, 1972, Qatar became a member of the Bank with a subscription of \$17.1 million (171 shares).

BOND ISSUES

<u>Kuwaiti Dinars</u>	<u>US\$ million</u>
6-1/2% Bonds of 1968, due 1988 (KD 15 million)	45.6
7-1/2% Bonds of 1971, due 1973-81 (KD 30 million)	91.2
6-3/4% Bonds of 1972, due 1975-82 (KD 20 million)	60.8
7% Bonds of 1972, due 1977-91 (KD 15 million)	45.6
	<hr/> 243.2

<u>Lebanese Pounds</u>	
6-7/8% Bonds of 1973, due 1978 (LP 75 million)	24.9

<u>Libyan Dinars</u>	
8% Bonds of 1970, due 1975 (LD 10 million)	30.4

Saudi Arabia
Saudi Arabia has purchased bonds of 6-1/2% (\$15 million) and of 6-3/8% (\$15 million) both due in 1984.

30.0

} * 328
74
402
75+ 1/73

477+
ygr 74

EMENA Region
Division 1D
January 26, 1973

PURCHASERS OF LAST FOUR TWO-YEAR ISSUES OFFERED BY IBRD
(Expressed in millions of United States Dollars)

	5.20% of 1971 due March 15, 1973	6-1/2% of 1971 due Sept. 15, 1973	5.30% of 1972 due March 15, 1974	5-7/8% of 1972 due Sept. 15, 1974	Total
Abu Dhabi	\$.500	\$ 2.000	\$ 2.000	\$ 1.000	\$ 5.500
Kuwait	\$ 1.000	\$ 4.000	\$ 1.500	\$ 3.500	\$ 10.000
Libyan Arab Republic	\$ 10.000	\$ -	\$ 7.000	\$ 8.080	\$ 25.080
Qatar	\$.100	\$.200	\$.200	\$.100	\$.600
Saudi Arabia	\$ 5.000	\$ 10.000	\$ 10.000	\$ 8.080	\$ 33.080

Extract from a statement of:
Treasurer's Department
Securities Division
September 5, 1972

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October 5, 1972

MEMORANDUM FOR THE RECORD

KUWAIT: Meeting of His Excellency Sheikh Abdul Rahman Salim Al-Ateeqy, Minister of Finance and Oil With Mr. McNamara During the Annual Meeting

Mr. McNamara met with His Excellency Sheikh Abdul Rahman Salim Al-Ateeqy, Kuwait Minister of Finance and Oil, on Thursday afternoon, September 28, at 2:50 p.m. Messrs. Shoaib, Benjenk, Dajany and Upper attended.

Mr. McNamara greeted Sheikh Al-Ateeqy and said that in his view Kuwait had several alternatives for the use and development of her oil resources: leave them in the ground, diversify the economy, invest in productive enterprise abroad and invest in liquid securities. Among the last he hoped, of course, that Kuwait would continue to consider World Bank bonds.

Sheikh Al-Ateeqy responded that he was taking all factors into account in determining the level of oil production, including the interests of the companies involved, and that he was not in favor of accumulating liquid funds for their own sake. Taking Kuwait's expanding budget over the next 3-4 years into account, he did not foresee any great liquidity problem. He looked forward to future World Bank issues in Kuwaiti dinars as part of his investment program.

He then invited Mr. and Mrs. McNamara and Mr. and Mrs. Shoaib to Kuwait and inquired whether February or March would be convenient. Mr. McNamara said he would look at his schedule and confirm this.

Sheikh Al-Ateeqy commented on the good relations between the Bank and the Kuwait Fund, and Mr. McNamara noted with satisfaction the various joint projects which have been approved and the four which are under preparation. He also thanked Sheikh Al-Ateeqy for his help in improving relations with several countries, particularly Iraq, Yemen, Egypt and Sudan and reviewed briefly how lending to Arab countries had increased five-fold over the past five years.

Jack L. Upper
Division Chief

Cl. with and cc: Mr. Benjenk
cc: Mr. McNamara (2)
Mr. Knapp, Mr. Aldewereld, Mr. Shoaib,
Mr. Rotberg, Mr. Votaw, Mr. Dajany

Europe, Middle East and North Africa Region
Division 1D

Files

October 7, 1971

Adi J. Davar

KUWAIT: Meeting With Mr. McNamara During the Annual Meeting

On September 30, Mr. McNamara met with Finance Minister Al-Ateegy and Mr. Al-Hamad, Director of the Kuwait Fund. Messrs. Knapp, Shoaib, Benjenk, Dajany and I also attended.

Mr. McNamara expressed his great satisfaction with Kuwait's support to the recent bond issue, and thanked the Minister Al-Ateegy for the personal help that he had extended in moving Egypt towards quickly resolving its debt rescheduling problem with the U.S. He believed that Egypt and the U.S. were very close to a settlement, and he therefore urged Minister Al-Ateegy to persuade the Egyptians to finalize matters and sign an agreement with the U.S. before they left Washington. He indicated that he was most anxious to help in the development of such an important country like Egypt, with a population of nearly 35 million. The Bank Group could help not only with about \$40 million of IDA financing a year, but also with technical advice and assistance, and as soon as Egypt became Bank-worthy, with some Bank financing as well. Minister Al-Ateegy stated that knowing Mr. McNamara's intentions, he had used his influence with Egypt to settle the debt question and open its doors for Bank Group lending which it needed, and that he would see what he could do to help further.

*mention
project
had been
in 1968*

Mr. McNamara then expressed his appreciation at Kuwait agreeing to a floating of a Bank bond issue in Kuwait in early 1972. Minister Al-Ateegy indicated that he was now in a position to suggest the floating of an issue much earlier, perhaps in the next month or two. Mr. Al-Hamad stated that on his return to Kuwait, he would communicate with Mr. Shoaib and Mr. Dajany, the most propitious timing for such an issue.

Mr. McNamara then indicated that he wanted to help Sudan with the Rahad project. It however seemed that the foreign exchange component was larger than what the Bank could itself provide to Sudan, and he inquired if the Kuwait Fund would be prepared to participate in the financing of the project. Minister Al-Ateegy and Mr. Al-Hamad indicated their willingness, in principle, to do so.

Mr. McNamara thereafter briefly reviewed recent Bank activities in the Arab world and expressed his particular satisfaction at the resumption of lending activities in Iraq with a \$27.5 million telecommunications loan, and the commencement of lending to new member countries such as Yemen and Democratic Yemen. Minister Al-Ateegy thanked Mr. McNamara for his interest in and help to Arab countries, and promised Kuwait's help with such countries in generating a fuller understanding of the Bank's intentions to help them in their development.

ADavar/llj

cc: Messrs. Benjenk (o/r), Hartwich, Christoffersen, Dajany, Malone, Ritchie (o/r)

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MEMORANDUM FOR THE RECORD

March 16 1971

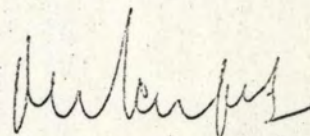
KUWAIT : Visit of Mr. Ablatif Al Hamad with Mr. McNamara

Mr. Al Hamad, Director General of the Kuwait Fund for Arab Economic Development, called on Mr. McNamara on December 14 at the end of his stay in the Bank for consultations on the two organizations' work in the Arab countries. Mr. Al Hamad also participated in the negotiations for the Tunisian gas pipeline project.

Mr. Al Hamad told Mr. McNamara that he was glad to see much activity in the Bank designed to increase the volume of lending in the Arab countries and he was hopeful that this activity would yield good results. He particularly hoped that lending to the UAR could soon take place. This was the reason why Kuwait had made a financial gesture in order to help the UAR pay its debts to the United States and thus remove the stumbling block to Bank lending to Egypt.

Mr. Al Hamad told Mr. McNamara about the Kuwait Fund activities in the Arab countries and expressed the hope that the Tunisian joint operation between the Bank and the Kuwait Fund would be the first of many. In particular he hoped that the Bank and IDA would become more active in Syria and Jordan.

Mr. McNamara said he hoped the UAR would now make a considered proposal to unblock the debt issue. Mr. McNamara said he would be quite happy to see joint projects between the Bank and the Kuwait Fund in both Syria and Jordan.



M.P. Benjenk

cc: Mr. McNamara's office.

President has seen

NOTE ON THE BANK'S REPORT "PROMOTION OF MANUFACTURING IN KUWAIT",
DATED AUGUST 5, 1971

A report was prepared in response to a request from the
Government of Kuwait for suggestions upon the development of manufac-
turing in Kuwait. Accordingly, a mission visited Kuwait in May 1971
and had extensive discussions in both the public and the private
sectors.

EMENA Region
Division 1D
January 26, 1973

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UNDP
 II. COUNTRY PROJECTS
 Approved as of 30 June 1972

KUWAIT

Project number and title	Executing agency	Date approved	Estimated completion date	Estimated project cost (US dollar equivalent)	
				UNDP	Government counterpart contribution
<u>AGRICULTURE, FORESTRY AND FISHERIES</u>					
KUW-70-504 CENTRE FOR VEGETABLE PRODUCTION	FAO	01/72	01/75	197,643	706,500
KUW-68-001 LAND AND WATER DEVELOPMENT	FAO	11/68	01/72	71,100	
<u>GENERAL ECONOMIC AND SOCIAL POLICY AND PLANNING</u>					
KUW-65-501 KUWAIT INSTITUTE OF ECONOMIC AND SOCIAL PLANNING IN THE MIDDLE EAST	UN	01/65	11/72	724,084	7,437,640
<u>INDUSTRY</u>					
KUW-68-002 STANDARDIZATION AND QUALITY CONTROL	UNIDO	01/69	08/72	37,500	
KUW-70-503 SHUWAIKH INDUSTRIAL TRAINING CENTRE	ILO	01/70	04/74	671,700	3,098,160
<u>NATURAL RESOURCES</u>					
KUW-68-502 WATER RESOURCES CENTRE, KUWAIT CITY	UN	01/68	08/73	512,074	1,574,323
<u>TRANSPORT AND COMMUNICATIONS</u>					
KUW-69-001 ELECTRONIC ENGINEER ADVISER	ICAO	12/69	01/72	48,000	

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INFORMATION MEDIA IN KUWAIT

There are around 10 daily newspapers of modest quality in Kuwait. The press in Kuwait is free to a greater extent. No government restrictions except with those which deal with the Arab countries leaders.

AL RA'I ALAM, is the daily leading newspaper.

THE DAILY NEWS, is an English newspaper issued by the same institution. Mr. Yousef Elmsaeid is the chief editor.

ELSIASAH (Politics), is the second daily newspaper. It is anti-Egypt. Ahmed Garallah is the chief editor.

KUWAIT TIMES, is an English newspaper issued by the same institution. Mr. Yousef Alayan is the chief editor.

AKHBAR ELKUWAIT, is pro-Egypt, daily newspaper. Mr. Abd Elaziz Elfoulaig is the chief editor.

The TV and Radio are under the control of the Ministry of Information.

PRESS CLIPPING SHEET

ROUTING LIST	ROOM	FROM H. Larsen	COUNTRY	FILE
1.		One of the following MUST BE CHECKED before returning the attached clipping to Research Files: RETAIN 6 MONTHS <input type="checkbox"/> RETAIN 1 YEAR <input type="checkbox"/> RETAIN (SPECIFY) _____ YEARS DISCARD <input type="checkbox"/>	KUWAIT	
2.			SOURCE	
3.			Financial Times	
4.			DATE	
5.			January 12, 1973	
6. RESEARCH FILES				

Kuwait to order 10 supertankers

BY RICHARD JOHNS, MIDDLE EAST CORRESPONDENT

THE KUWAIT National Petroleum Company said in a brief announcement yesterday that it was planning to order ten supertankers at a cost of \$392m.

It appears that the fleet will form a part of the Arab Oil Tankers Association, whose establishment was approved by a meeting of the Organisation of Arab Petroleum Exporting Countries early this week.

The purpose of the association

is to make the Arab producing states independent in the transportation of the crude which they will be able to dispose of under the participation agreement with the oil companies.

The association will have a capital of \$500m, according to the OAPEC announcement on Monday.

According to tanker market sources, KNPC has been making inquiries about yards which could construct the tankers. It

is said that the company has been talking of carriers in the 250-350,000 d.w.t. range.

Meanwhile, the Government of Qatar has reached agreement with its onshore concessionaire, Qatar Petroleum Company (whose ownership is the same as that of the Iraq Petroleum Company), on the terms of participation. The accord was signed on Wednesday and follows the one with Shell Qatar, the operator of the off-shore producing field.